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RECOVERING ECONOMY OF A REGION IN TRANSITION – the case of Łódź Industrial Agglomeration (Poland)

Abstract: The paper presents the dynamically changing economic situation of the second largest city of Poland and its metropolitan area whose traditional prosperity relied on the textile industry and accessibility of the Soviet Union market. The region of Łódź was the first one strongly affected by dismantling of the communist bloc. At the end of the 1980s and at the beginning of the 1990s politicians and economist could not find any reasonable measures to support the recovery of textile factories undergoing bankruptcy. The unemployment rate reached 1/4. However, as this study shows, the agglomeration of Łódź and its citizens have had internal capacity to overcome the crisis by spontaneous privatisation of state enterprises and dynamic development of small businesses. This process of regeneration and recovery of the local economy is described and reasons for this phenomenon are investigated. In conclusion the authors summarise the experiences from the case of Łódź and give some recommendations for local and regional economic policies which could be useful for other regions with similar problems in a period of economic transition.

Key words: regional economy, economic transformation.

1. INTRODUCTION

Nearly a decade has passed since the process of radical socio-economic changes was initiated in Poland at the beginning of the 1990s. The transformation from a centrally planned to a market oriented economy involved vast changes over time and space affecting various spheres of life, such as the regulatory and administrative system, ownership structure, system of management, finance,

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organisation and development of land, as well as alterations in mentality, patterns of behaviour, value systems, etc. The experience accumulated over the past few years allows us to draw certain conclusions, make judgements and predict future developments in post-communist countries.

A fair assessment of this experience should be helpful in future avoidance of mistakes already committed and in developing new, more effective solutions, so as to accelerate economic growth, both at the national and regional scale.

This paper addressing socio-economic transformations in the 1990s focuses attention on analysis of causes and effects of changes occurring recently and attempts to identify present forces behind the development of the Łódź region and the reasons for its current upward trend and growing importance on the economic map of Poland.

It should be noted that economic breakdown in the Łódź region in the first phase of the transformation was so severe that official government documents and other publications declared it as a depressed, problem area. It was predicted that for many years it would lose its former leading economic position. Chief growth centres were pointed out to be such cities as Warsaw, Poznań, Cracow, Wrocław, Szczecin or Gdańsk – the list did not include Łódź. Its future looked bleak in the early 1990s.

Reality proved quite different than the pessimistic forecasts. The case of Łódź supports the thesis that economic success depends largely on the initiative and entrepreneurship of the local community (Porter, 1997).

2. TRANSFORMATION PROCESSES AND ECONOMIC DEVELOPMENT IN THE ŁÓDŹ REGION IN THE 1990s

The process of transition to a market economy, initiated in 1989, progressed at a different pace in the various regions of country. Some regions adapted to new economic rules fairly quickly, while in others the negative tendencies which occurred in the early 1990s persisted. There are also regions which, after the initial period of economic depression, are gradually overcoming their difficulties and strengthening their positive tendencies as it is in the case of Łódź.

The boundaries of the Łódź region are delineated in different ways in the geographical literature. For the purposes of this analysis, however, it seems useful to accept that the area of the Łódź region covers roughly the urban agglomeration, whose boundaries coincide with the boundaries of the voivodship

(i.e. province) as it existed in 1975.¹ The agglomeration has a monocentric character and is dominated by the central city of Łódź – Poland's second largest city in terms of population. It is inhabited by 820 thousand people, which constitutes nearly 3/4 of the region's total population (1.1 million). The agglomeration comprises some minor centres: Pabianice (75 thousand), Zgierz (59 thousand), Ozorków (22 thousand), Aleksandrów (20 thousand), Konstantynów (18 thousand), Głowno (16 thousand) and Stryków (4 thousand), which rely heavily on Łódź (cf. figure 1). The area of the Łódź voivodship covers 1523 km², which is merely 0.48% of the country's area, while it accounts for 2.89% of total population of Poland (*Rocznik statystyczny województwa łódzkiego*, 1997). Its population density is 736 persons per km².

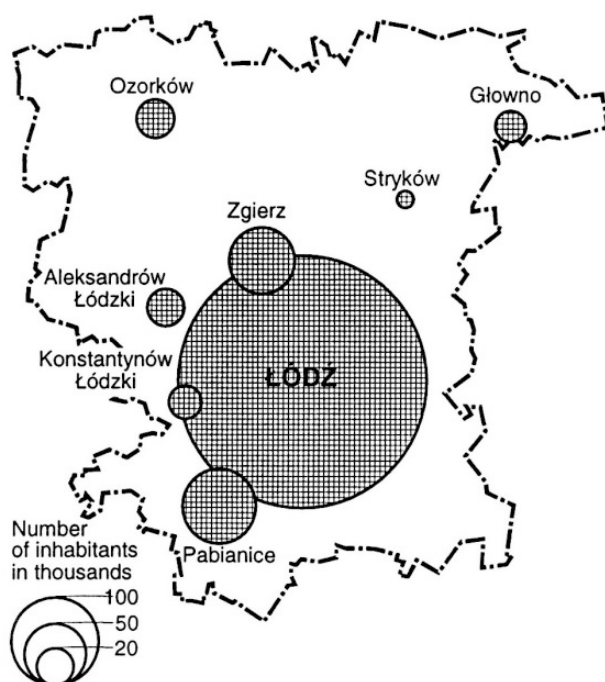


Fig. 1. Łódź agglomeration (1997)

The Łódź voivodship is among the regions where economic recession in the early 1990s was very deep with severe consequences for the local population. In the years 1989–1990 employment in the region dropped by some 15% (the

¹ The introduction of a new administrative division in 1999 changed the boundaries of voivodships in Poland. The new boundaries of the Łódź voivodship go far beyond the area of the urban agglomeration of Łódź.

corresponding rate for the whole country was 7%). In industry, which is the main sector of the economy of the region, the decrease in employment was even worse – during these two years employment fell by 19%. The situation for the labour market worsened rapidly – at the end of 1993 the unemployment rate exceeded 20%, with the average national rate at 15%. Already at the beginning of 1992 the number of unemployed persons was above 100 thousand (*Informacja o sytuacji społeczno-gospodarczej w województwie łódzkim*, 1993). The decree of the Council of Ministers of 24 August 1993 listing communes threatened with particularly high structural unemployment designated all communes of the Łódź voivodship as belonging to this group (cf. “Dziennik Ustaw”: 82, item 385).

A sharp drop in the sales of industrial products and services in the early 1990s gives an indication of the scale of economic recession in the region – revenues from the sale of industrial goods and services decreased by 13.2% from 1990 to 1992. The most serious drop was in the oil and power industry (33.2%) and textile, clothing and leather industries (16.8%).

The liberalisation and stabilisation of the Polish economy initiated in 1989 caused significant changes in the economic conditions under which Polish enterprises operated. Most prices were established by free markets and most subsidies to state firms were abolished. Domestic producers very soon began to experience falling demand. Due to the liberalisation of foreign trade and the inflow of foreign goods, competition in goods markets became still tighter. All these factors added to the substantial changes in principal economic indicators.

Net profitability rates² in major industries in Łódź, (the textile, clothing and leather industries) in 1990 ranged from +3.9% to +10.7%. They went down rapidly during the next three years (1991–1993) to reaching negative values. In the clothing industry the situation was not so drastic, but in the textile and leather industries net profitability in the years 1991–1993 was in the region of 16% to 46% (*Informacja o sytuacji społeczno-gospodarczej w województwie łódzkim*, 1990–1994). Beginning from 1994 this indicator has steadily moved upwards, reaching +5.1% for all of Łódź industry in the first half of 1998, with slight differences in different industries; namely +5.5% for weaving, +2.4% for clothing and +8.7% for the leather industry (cf. “Wojewódzki Biuletyn Statystyczny”, 1998).

The unfavourable financial situation of enterprises in the early period necessarily led to declines in output and employment. Total employment in the Łódź voivodship fell by almost 70 thousand persons (i.e. ca 15%) between 1990

² Net profitability rate is a relation between the net financial return and total cost of production of goods sold.

and 1992. Employment in the Łódź voivodship since 1995 has stayed at about 400 thousand (cf. figure 2).

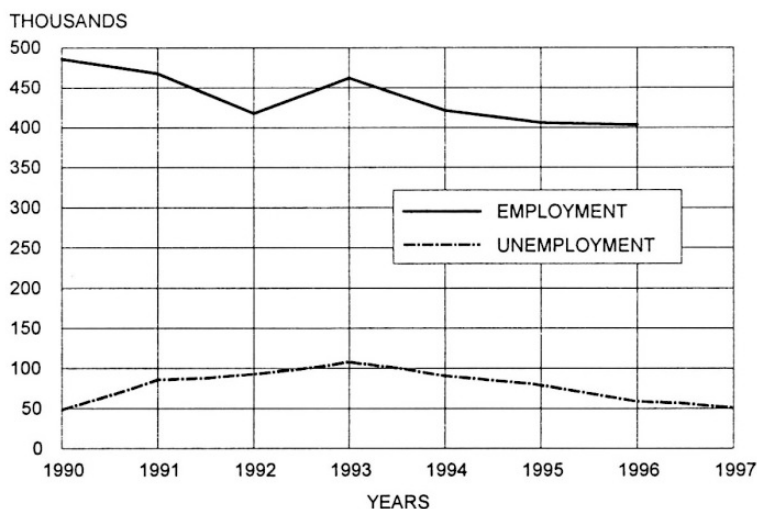


Fig. 2. Employment in the Łódź agglomeration in 1990–1997

Source: Author's research based on *Rocznik statystyczny województwa łódzkiego* (1991–1998)

Employment in industry in Łódź, which in 1990 was over 200 thousand people, decreased in 1992 by more than 1/4 to stabilise in the second half of the 1990s at a level slightly above 140 thousand. The role of industry as an employer decreased in this period: in 1990 its share in total employment was 41%; in 1996 it was only 35%.

Employment in the primary sector (agriculture and forestry) was also declining – in 1994 it was 17.1% lower than in 1989 and in 1996 the share of agriculture and forestry in total employment was merely 6%. As far as employment in the tertiary sector is concerned, there was a general upward trend. Employment in this sector increased by about 24% between 1989 and 1994. In the second half of the 1990s services accounted for more than half of total employment in the economy of the Łódź region, and this proportion was growing. The upward trend resulted mainly from a very fast rise of employment in trade, finance and insurance.

The dynamics of employment were completely different in the public and private sectors of the economy. While employment in the public sector was falling in the 1990s it was increasing in the private sector. This tendency was mainly connected with the development of private firms. The privatisation of state enterprises also played a considerable role. The dynamics of public and

private employment varied across major sectors of the economy. In 1996 the share of the private sector in total employment in the Łódź region was over 50%. The strongest rise in private employment occurred in industry, where in 1996 the share of the private sector was 65%. In construction and trade these figures were 84% and 87%, respectively (*Rocznik statystyczny województwa łódzkiego*, 1997).

Changes in employment levels reflect some of the adjustments to new economic conditions. The nature of these adjustments can be better described if dynamic changes in output also are taken into account. In the initial period of transition, the fall in employment was smaller than the fall in output, so labour productivity decreased. This suggests that labour hoarding increased in that period, so the rationalisation of employment can not be regarded as a cause of deterioration in the labour market. A survey in state-owned enterprises conducted at the beginning of the 1990s indicates that employers reacted to the fall in output mainly by reducing the number of shifts and overtime hours, as well as by introducing involuntary unpaid leaves rather than by shedding labour (Kwiatkowski, 1993). The situation has changed since 1993. In most industrial branches output started to rise and this tendency has been accompanied by increasing labour productivity.

In the first year of economic transformation, that is 1991, sales in all Łódź industry decreased by 1/5 compared with 1990, but since 1993 industrial production has been growing steadily and in 1996 it went beyond the level from 1990 (cf. figure 3).

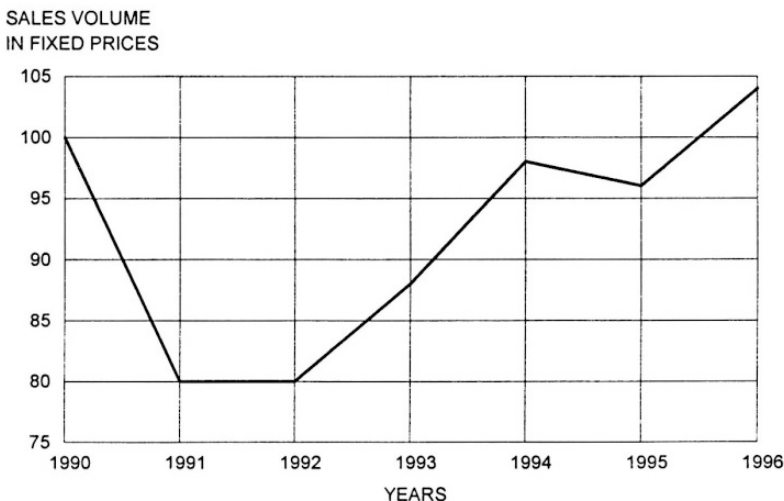


Fig. 3. Sales in industry in the Łódź voivodship in 1990–1996 (fixed prices 1990=100)

Source: Author's research based on *Rocznik statystyczny województwa łódzkiego* (1991–1997)

The sharp decline in employment in the first years of transition had to cause a rise in unemployment. Moreover, some role was also played by the labour supply which was growing continuously despite some decline in labour participation rates (Kwiatkowski *et al.*, 1995).

In the first five years of transformation unemployment in the region more than doubled to reach an unprecedented level of 100 thousand persons in 1994, with an unemployment rate nearing 20%. Since that time the trend has reversed and the second half of the 1990s witnessed a quick, continuous decrease of unemployment. In 1998 unemployment fell to 50 thousand people and the unemployment rate was close to the national average of ca 10 % (cf. figure 2).

Despite these positive tendencies at the end of the period analysed, unemployment is still a serious problem in the voivodship of Łódź. In 1996 the registered unemployment rate was still higher than 16% and almost half of the unemployed were not entitled to unemployment benefits.

In sum, two distinct stages can be distinguished in the process of economic transformation of the region: the first two to three years when the introduction of new economic regulations resulted in rapid collapse of the economy (the recession was more severe than in other regions affected by the transition) and the period after 1993 when, despite earlier pessimistic prognoses, rehabilitation of the economy of the region started and basic economic growth indicators were on the rise. This positive tendency, apart from reflecting the general upward trend in Polish economy, was largely due to regional factors. From the perspective of the late 1990s, the following positive effects of the transition in the Łódź region can be identified:

- development of the private sector;
- increase in output and labour productivity;
- reduction in unemployment;
- development of the service sector and creation of a more mature economic structure;
- diversification of the industrial structure in favour of the clothing, food and chemical industries.

The next section of the paper will discuss both the positive and negative factors which affected the development of the Łódź region in the 1990s.

3. SOME REGIONAL WEAKNESSES

From the economic viewpoint, the Łódź region along with the Wałbrzych and Katowice regions, for many years have been regarded as problem areas on the economic map of the country. These regions were characterised by

monofunctional socio-economic structure, ill suited to adapt to cyclical economic fluctuations (textiles in Łódź, coal and steel in Katowice and coal in Wałbrzych). The main reasons for the unfavourable economic situation in the Łódź region in the early 1990s include:

- strong domination of textiles manufacturing in general;
- strong ties of the Łódź region with markets in the former USSR and countries belonging to the COMECON (organisation for economic co-operation between countries dominated by the USSR);
- relatively high degree of depreciation of productive fixed capital (higher than the national average);
- low level of average pay;
- underdeveloped social and technical infrastructure, inadequate to meet the needs of such a large and economically important agglomeration.

The industrial region of Łódź played an important role on the economic map of Poland even in the period of deep crisis. In the early 1990s, the region constituting merely 0.5% of the country's area, with 3.7% of Poland's fixed capital, accounted for 4.3% of total sales in industry and 4.2% of total employment in industry (*Mały rocznik statystyczny*, 1992; *Rocznik statystyczny województwa łódzkiego*, 1992). All principal indicators of economic potential placed the Łódź region in the third place after the Katowice and Warsaw voivodships. An exceptionally high degree of industrial production concentration is not the only distinctive feature of this area. Its other characteristics include an unusually high proportion of people working in industry, a very high percentage of economically active women and predominance of textile and clothing production.

The crucial role of industry in the Łódź region's economy and changes taking place in this sector largely determine the socio-economic situation. Apart from traditional textile and clothing manufacturing, the food-processing, electromechanical and chemical industries have an important role in industrial structure. Economic effects of these branches (whose joint share of total industrial production or employment exceeded 4/5 in the early 1990s) largely determined results for industry as a whole. Textiles and clothing alone accounted for 1/3 of total sales in the region (*Informacja o sytuacji społeczno-gospodarzej w województwie łódzkim*, 1992).

The structure of production was largely dominated by consumer goods (textile and clothing, food-processing and chemical industries). Such structure was the result of both the heritage of the 19th century development of the city and the structure of industrial investment after the Second World War (Marszał, 1995). The monofunctional structure of Łódź industry was its main weakness because in times of economic depression it had an adverse effect on the whole

region. In times of crises, which bring about impoverishment of the population, the demand for consumer goods produced by the industry of Łódź diminished substantially.

One of major problems of the industry of the Łódź region, apart from organisational and ownership changes, was a progressive depreciation of production capital caused by a long-time shortage of money for its replacement, modernisation and development. This resulted in unsatisfactory, substandard quality of products and limited the potential for introducing new product lines.

In the post-war period, Polish industry adapted to the requirements of co-operation within the limit of the Council for Mutual Economic Aid (COMECON). But even in high priority branches in the various countries and regions, investment outlays were insufficient to maintain the European or world level of technological advancement. Goods manufactured by Polish industry in that period were good enough to satisfy the needs of consumers from COMECON countries, but were not competitive in comparison with goods manufactured in developed countries. This also is true of the industry of Łódź. Relatively modern branches of the textile and clothing industry were the knitting, clothing and wool industries.

The changes in the principles governing the functioning of the economy which were introduced in Poland after 1990, and new terms of trade with former COMECON countries had a great impact on the processes occurring in enterprises in the Łódź region. The textile-clothing industry, from among the many branches of the Polish economy, was subjected to validation by market mechanisms the soonest and in a most severe manner. It was in this industry that the greatest decline in the production and sale of goods occurred.

The main causes of this phenomenon included:

- general impoverishment of the population and price-quality competition from foreign manufacturers;
- elimination of nationalised wholesale trade and a slow rate of the reconstruction of this trade;
- collapse of the Eastern markets, especially countries of the former USSR;
- limited access to Western markets;
- uncontrolled imports from Eastern countries of goods competitive with textile-clothing industry in Łódź;
- production of low quality goods from poor quality raw materials;
- inadequate marketing and promotion.

A factor which contributed significantly to worsening the economic situation in the region was a pay level below the national average. Traditionally persons employed in the textile-clothing industry (mainly women) were more

poorly paid than in other industrial branches. This was due to lower than average profitability in this industry.³

The transition to a market economy brought about a rise in the price of those goods and services which represented regular, basic expenditures in domestic budgets, such as rents, electricity, gas, central heating, hot water, transport and food. The share of such expenses in total domestic spending grew considerably, which resulted in reduced spending on such goods as shoes and clothing due to their being semi-durable goods. In consequence, the demand for the products of local industry dropped drastically.

Inadequate technical infrastructure was another reason for the economic recession in the region. Major setbacks responsible for the area's low attractiveness for business, compared with other regions of Poland, were:

- unfavourable location with regard to the railway and road network;
- poorly developed network of inner city roads and long-overdue reconstruction and modernisation of the main railway station of Łódź;
- lack of a sewage – treatment plant capable of satisfying local needs;
- inadequate technical infrastructure in the region.

4. MAIN FACTORS CONTRIBUTING TO ECONOMIC RECOVERY

The first signs of economic recovery in the Łódź region were visible in 1993. The analysis of factors which contributed to this recovery will be limited to local and regional forces, although the impact of national recovery cannot be ignored.

Privatisation of the regional economy was among the main forces behind the economic revival. The share of the private sector increased mainly as a result of the establishment of new private firms, but privatisation of state enterprises also played an important role. Among economic activities where privatisation reached the highest level are trade, construction and the clothing industry. In a region like Łódź the emergence of private clothing companies is of special importance. It was quite natural here since two important production factors were available: raw materials for textile manufacturing and a skilled labour force. The development of private firms contributed significantly to overcoming the crisis as private firms – due to their greater flexibility – were able to adjust better to the new economic environment.⁴

³ To illustrate: average gross pay in the Łódź region in 1993 was more than 10% below the corresponding figure for the whole country.

⁴ The role of business and small firms in the period of economic transformation in Poland is discussed, among others, by Piasecki (1998), p. 119–133.

Another factor which played an important role in the recovery of the region was the development of institutions which constituted the business environment. Big cities are good places for the development of various supporting services. Among the new services which have been developed recently in Łódź there are consulting institutions, non-profit organisations initiated by local and regional government, various foundations, private schools, financial institutions, insurance companies, etc. The development of these institutions not only created new jobs, but also created a better economic environment for the development of private firms.

When looking at recent economic recovery it is necessary to look at real economic processes taking place in the region, including those which are connected with black market activities. Many of these economic activities are not included in official statistics. Especially in the clothing sector there is a big percentage of unregistered activity. There are no official statistics about the size of this phenomenon. However, two official figures indicate that this activity is significant: the city of 820 thousand citizens has ca 90 thousand business units.

The existence of a black market is connected with the phenomena of a bazaar economy which developed very quickly under favourable conditions (Fuglsang and Storm-Pedersen, 1995). The bazaar economy related to textile and clothing industries is a good case for the analysis of restructuring processes in the cities dominated by textile manufacturing. The case of the city of Łódź surrounded by huge bazaars confirms and proves several principles which should be included in the local and regional policies if we want to restructure a region to achieve a better cost-effect relation. Three bazaars are located along the motorway connecting Łódź with the Silesia region, ca 15–35 km south of the city. The first bazaar is located in Rzgów, the second in Głuchów and the third in Tuszyn. In Głuchów, where there are almost 2 thousand open stalls, the bazaar is fully privately organised and owned. In Tuszyn almost 1 thousand open stalls are in the hands of the local government and 1.6 thousand places are privately organised. In Rzgów there is a park named Ptak (managed by a man of this name) which is organised with ca 4 thousand closed shelters. Some location aspects seem to be important for all three locations. First of all, there is a huge internal potential of people who for years have been involved in trading and clothing production in the city of Łódź and who now have begun to run their own businesses. The small producers really needed a place where within a growing competitive environment they could economise on transportation costs, compare their products and learn business management, look at new patterns and get information on the structure of demand.

In a survey conducted among the tradesmen from the three bazaars the question was asked „what were you doing before you started the activity in the

bazaar?'. The answers were as follows: 61% of the respondents were working in state companies (12% of them were unemployed before starting the bazaar activity), 14% had their own workshops before, 8% ran retail trade shops, 8% ran various kinds of services, 2% had places in the other bazaars, 2% had wholesale shops, 5% did not answer.

A specific feature of the bazaars in the Łódź region is the fact that they are places where direct manufacturers trade. So the three bazaars have first of all the function of the wholesale trade. About 80% of salesmen are from the city of Łódź, but buyers are coming from all of Poland. According to some estimates the two bazaars in Tuszyń and Głuchów involve directly about 100 thousand people (Dziwota *et al.* 1995). Among them 60 thousand come from Łódź. The Ptak Bazaar would add ca 80 thousand people more. Taking these figures into account it is clear how important role in the economic recovery of the region has been played by the bazaar economy. From the political point of view it is no longer possible to ignore the trading function of the city and the region.

It is important to note that the rapid expansion of the small and medium enterprise sector in the Łódź region was not so much the result of its promotion, as the effect of removing the barriers to growth of this sector at the turn of the 1980s and 1990s, thus giving scope for the entrepreneurial spirit and abilities of individuals (Dziwota *et al.* 1995).

The phenomenon of the bazaars in Łódź also confirms the basic assumptions of Weber's location theory. One of the important factors stimulating economic activity in a market economy is good access. If a region increases its accessibility, the chances for its restructuring and development are better. Nowadays the part of the Łódź region where the bazaars are located has better accessibility than the most populated and developed southern part of Poland. Within a few hours buyers from the south can buy products and offer them the same day in their shops or transfer to the western or eastern borders to the other bazaars. The bazaar economy has also another important advantage. It gradually transforms black economy into grey and then into an official one and this is also visible in Łódź.

Another factor contributing to the economic recovery is connected with the regional policies, especially in the field of labour market policies. As a result of the decision taken by the Polish government in 1992 all the local communities of the region of Łódź were recognised as *gminy* (communes) threatened by high structural unemployment and due to this appropriate policy measures were adopted. First, more financial resources were made available for labour market policies. As a result about 60 thousand unemployed could participate in active programmes of training, public works and loans in the first half of the 1990s. Second, more favourable conditions for businesses were established. These

included a special scheme for shorter depreciation periods and increased rates of capital amortisation, tax exemptions for joint-venture with foreign capital and tax reductions for domestic investors who created new jobs. Third, lower interest rates were charged on loans used for investment. This scheme for small and medium size enterprises was financed by the Phare-STRUDER programme.

An important role was played by the change in the geographic structure of exports. The collapse of foreign trade with the former Soviet block countries at the beginning of the 1990s contributed substantially to the economic crisis in the textile and clothing industry. However, firms in the Łódź region managed to adjust to this situation quite fast by exporting more to other countries, including the EU countries. As a result the share of Polish exports of textile and clothing goods to the EU countries was almost doubled during a three-year period (from 39% in 1989 to 70% in 1992). Moreover some efforts were made to win back Eastern markets, especially in Russia and Belarus. These efforts are becoming more and more successful.

Until now foreign capital has not had a big influence on the recovery of the economy. However, some foreign internationally known companies have come to Łódź (ABB, Coca-Cola, Pepsi, Shell, Legler, Statoil, and so on). This gradually improved the image of the city. According to recent research by the Institute of Research on Market Economy in Gdańsk, the Łódź region shifted to the group of most attractive regions for foreign investors in Poland. One of the most important reasons is that Łódź is gaining a strategic location within the system of highways. This program was approved by the Council of Ministers and in the vicinity of Łódź is to be one of the biggest junctions in Central Europe. This attracted a great deal of interest from oil companies, trading companies, transportation firms, etc. Łódź also is one of the main cities in Poland where joint-ventures with foreign capital have located (mainly from Germany, Finland, Denmark, the Netherlands, etc.), especially in the field of clothing manufacturing.⁵

The structure of education in the local community is also a major location factor. An important task is raising the occupational mobility of labour, which in turn improves the functioning of the labour market. Of key importance here is the system of education and professional training (Kryńska, 1998: 30). Availability of skilled labour frequently determines the location of business activity. Educational structure in the Łódź region is composite of secondary and higher education opportunities. The better the educational opportunities, the greater the opportunities for population to acquire the required education and

⁵ The question of foreign investment and its role in the rehabilitation of Polish economy is discussed in an article by Marszał (1997); the role of foreign investment in the early phase of the transformation of the Łódź region was addressed in Marszał (1991a).

skills, and thus be able to find a job or change occupation. The situation in this field is fairly good in the Łódź region. The research and teaching potential in Łódź along with increasing occupational qualifications create a favourable climate for the development of human resources. The Łódź region generally is highly reputed for the availability of skilled labour with a good range of qualifications.

Higher education has a great impact on labour resources. Łódź is a major academic centre of Poland. In the academic year 1996/97 eleven higher educational establishments provided education to more than 40 thousand students, which means that compared to the early 1990s the number of students doubled. The number of higher schools, academic teachers and students indicates the scale of educational opportunities in the region as well as the possibility of directly affecting business activity by academic institutions themselves (higher education institutions – research institutes and centres – designing offices – business entities). The greater the number of people with higher education in a community, the more creative and better adjusted it is to functioning in a market economy. Higher education in the Łódź region is one of the many functions essential for the development of links between the voivodship and other regions in the country and abroad.

In analysing changes taking place in Łódź, one can conclude that the most favourable situation for enhancing growth potential is when the process of privatisation is spontaneous, that is when the economic situation forces people to seek employment or to establish businesses by individually undertaking risky activity. The greatly increased employment in such sectors as knitting, apparel, medical, and food-processing is due to the fact that these are branches where it is relatively easy to undertake individual business activity, that is take the risk of establishing private business. These lines of business do not require high capital outlays – what is needed is knowledge, access to the network of suppliers and customers, good information, commitment, flexibility, and quick decision – making. The great number of persons employed in these sectors in the Łódź region (also in the period of a centrally-planned economy) account for the fact that there were enough enterprising people with abilities and initiative to cause the acceleration effect of growth and thus provide employment opportunities in the dynamically developing private sector.

A characteristic feature of Łódź is a high proportion of women in employment. Private enterprise level in the Łódź region is (contrary to earlier opinions) very high compared to other regions where earnings of men employed in heavy industry determine domestic budgets. The entrepreneurship of women is visible especially in the clothing sector, where many firms are successfully run by women. Also many trading companies (both in wholesale and retail trade) are

run by women. Foundation for Women's Enterprise Development has been established in the region. In this way a factor which was regarded as the region's weakness turned out to be its strength.

Another reason for the positive changes which have taken place in recent years is connected with the past – with the cultural traditions and demographic processes which shaped the community of Łódź. The city itself and the surrounding towns were inhabited by three nationalities before the Second World War: Polish, German and Jewish. Mainly Germans and Jews were owners of factories and capital and thus created the physical foundations of Łódź industry. Apart from developing the manufacturing industry in the region they fulfilled another important role: their activity was based on wide – ranging business ties with other European countries. Owing to these contacts they could draw on the experience of other countries in the field of organisation and technology and could expand their trading. They had more entrepreneurial spirit than the poorer Polish population, which had the beneficial effect of initiating and transferring their business practices to the local area.

After the Second World War the city, although not destroyed by the war, was no more inhabited by German and Jewish communities, and attracted numerous groups of Polish immigrants. This population was quick to make use of the methods and practices introduced earlier by German immigrants and the Jewish community. Even in the period most adverse to private enterprise (the 1950s and 1960s) small private firms were being established and developed. Small business, crafts and private trade survived in the region despite the restrictive policy of communist authorities towards them. Numerous private enterprises growing flowers and vegetables in glass-houses were located in the vicinity of Łódź (mainly in the southern part of the agglomeration). Their owners earned high incomes. After the demand for their products had declined, they transferred their capital to other branches of small business activity. This was and still is a very rich and enterprising group.

In the post-war period handicraft developed and prospered in the Łódź region. The growth of large state enterprises was a factor favourable to the existence of small private firms which constituted a network of regular consumers of remnants from textiles, cotton or wool producing factories. These remnants were used by private owners of small firms as material for making children's clothes, toys, aprons, napkins, etc. The same phenomenon occurred in the case of hosiery: waste knitting yarn obtained from large mills at very low prices was used for making socks and tights. Numerous groups of rural population came to Łódź.

In the 1970s strong migration processes occurred in the Łódź region and other towns of the agglomeration in search of jobs and places to live. These were

young and energetic people. They contributed to the development of ties between the region and areas from which they emigrated. This group also contributed to changes in the socio-economic structure of the Łódź region. The inflow of rural population to towns and their finding employment outside agriculture has resulted in a high urbanisation ratio in the region. Moreover, such social problems as overpopulation, structural unemployment in the country, depopulation of villages or poor accessibility to basic services, so frequent in other regions, do not exist in rural areas of the Łódź voivodship.

After the Second World War Łódź had, besides higher educational establishments, a number of institutions important in terms of introducing organisational and technical changes, such as professional associations, staff training and development centres, designing offices, research institutes, etc. The employees of these institutions played a very important and positive role in the formation of a market environment.

In the context of the above analysis the conclusion may be drawn that specific factors such as capital, raw materials and even procedures are movable and can be imported to a region, whereas competitive advantage arises mainly from local resources understood as a network of various interrelations between local institutions, business entities and organisations. A network of such interconnections was well developed in the Łódź region even in the past. A regional system of highly specialised and mutually related institutions (e.g. firms, suppliers, applied technologies, consultancy firms, training centres, etc.) has always constituted a great strength of the Łódź region conducive to introducing changes and overcoming setbacks. Local intellectual circles also are an important factor in the development of a regional network.

5. DIRECTIONS IN THE RESTRUCTURING OF THE ŁÓDŹ REGION – OPPORTUNITIES FOR GROWTH

The sharp decline of light industry at the end of the 1980s was the reason why the initial attempts at developing rehabilitation programmes for ailing industries as well as comprehensive region development schemes were made in Łódź. The development of programmes for the restructuring of specified branches was a requirement laid down by the Polish Department of Industry for regions applying for funds from the central budget. A number of international consultancy firms expressed interest in preparing such programmes in return for money from foreign financial aid assigned to Poland. Besides, such contracts gave them the opportunity to explore the Polish market and to assess the

condition of Polish industry. In the early 1990s three programmes were formulated for restructuring industrial branches i.e. for the wool, cotton and chemical industries. Only one of these programmes was implemented: the one for wool in Łódź. The others were analysed and discussed extensively, but no authorities undertook systematic action or responsibility for programme objectives.

Identification of the directions of future development of Łódź is related to the basic question: what is the future role of industry, especially of the textile and clothing branch. The development of non-industrial functions in the agglomeration and supra-regional functions in Łódź (although definitely desirable) by itself does not seem sufficient to prevent the occurrence of weaknesses in the economy.

The question arises, then, whether the textile and clothing industry has any prospect of growth and what are its chances of becoming again the motive power for the economy of the region (after introducing appropriate changes, i.e. its restructuring and modernisation). There is no easy, clear-cut answer to this question, although studies and observations seem to suggest that the textile industry of Łódź has good prospects for becoming competitive in world markets. Particularly good is the outlook for the clothing and knitting industry. There are a number of factors which predispose the region for the development of this branch of manufacturing. These include factors both internal and external to the firm:

- there are good prospects for growth of absorptive power on global markets for textile and clothing goods, as indicated by world population forecasts and expected growth of incomes of the population of Third World countries;
- the textile industry of Łódź, with the aid of rational trade policy, is capable of successfully competing on home market with the goods imported from the Far East;
- prospects for further growth of export to Western countries also are good, and the geographical position of Poland and Łódź provides opportunity for the development of this branch of industry, as time-distance of Łódź manufacturers from absorptive markets of Western Europe is fairly short (days or hours). This gives them a competitive advantage over geographically distant suppliers from the Far East or South America, especially as the market segment for fashion-dependent clothing goods is very time-sensitive;
- the Łódź region, with its still great manufacturing potential and long tradition, is a leading textile and clothing centre in Central Europe;
- the growing association with EU countries further enhances the prospects for the development of light industry, especially in view of the fact that textile and clothing production in these countries has declined (Marszał, 1991b).

In order to take full advantage of present opportunities, it is essential for the textile and clothing industry of Łódź to undertake a number of measures as well as to continue those already resulting in positive tendencies, that is:

- re-evaluation of enterprise strategy, placing emphasis on market-oriented activities and careful study of market signals;
- development of small, independent and flexible production units;
- development of pattern designing and marketing, and attracting support from local government for the creation of an institutional environment promoting small business;
- development of a system for machinery modernisation supported through advisory activity and proper credit policy;
- improvement of the quality of production;
- development of co-operation with manufacturing and commercial firms in EU countries;
- development of an efficient wholesale network, which is an essential element in a situation where there are many small manufacturers operating in different stages of the production chain and scattered retail outlets (Marszał, 1993: 43–47).

Additional changes for speeding up the process of economic revival of the region lie in the plans for construction of two international motorways which would intersect in the close vicinity of Łódź and a high speed railway line of international importance. Closeness to Poland's capital and a central location of Łódź on the map of Europe are yet another asset of this region. The sooner the planned investments are realised, the earlier Łódź and the surrounding area will experience further economic recovery.

Numerous programmes of restructuring individual economic sectors or local units in the Łódź region indicate that a number of spheres of economic activity may be identified whose development would enhance prospects for further growth in the whole region in the new socio-economic system and changed external conditions:

- small and medium enterprises in sectors which already have a strong position in the area's economic structure;⁶
- different segments operating in health services, such as preventive treatment, and medical services;⁷

⁶ Characteristic features of the small and medium enterprise sector are flexibility, innovativeness and high employment rise. One of the consequences of the process of adjusting Polish economy to economic structures of developed countries will be a continuously growing role of small and medium enterprises in the labour market, mainly as providers of new job (Kabaj, 1996: 333).

⁷ The Łódź voivodship has the second place in Poland in terms of the number of doctors per total population, the first place – in respect of dentists and beds in hospitals per total population (*Rocznik statystyczny*, 1997).

- textile and clothing industry and other related branches performing service functions for this industry, especially manufacturing of goods meeting world fashion standards (promoting Łódź as a fashion centre);
- sector education comprising all higher education establishments and research institutes which affect the perception of Łódź as a research and higher education centre;
- fair – exhibition – trading sector.⁸

6. FINAL REMARKS

Each voivodship in the transition period follows an individual pattern of transformation, depending on its specifics and circumstances. In the Łódź region the interesting phenomenon was the break-down of trade unions as a result of bankruptcy in a short time within large state enterprises. At the same time 'wildcat' privatisation took place which consisted of setting up private companies using the property of state enterprises. The early, uncontrolled phase of such privatisation was possible because of a lack of pertinent legal regulations. This situation weakened the sector of state enterprises which stopped being a barrier to further ownership changes through elimination of a formerly powerful lobby. Individual employers and employees adapted quickly to the new situation, frequently demonstrating admirable initiative and inventiveness.

The Łódź region is now entering a new stage of market restructuring – a shift in interest to high quality modern products. Technical and technological advances are being given more and more attention by various professional groups. This tendency is most visible in the small business sector (Stawasz, 1997).

All the positive changes and trends which are occurring in the Łódź region do not, however, guarantee smooth development for the future, without problems or crises. There is much to indicate severe problems which can face the community of Łódź. Long-time unemployment rates are still high. The phenomenon of social pathology is on the rise. The process of spatial segregation of society is continuing.

⁸ The growth poles listed above are consistent with proposals contained in *Strategia rozwoju ekonomicznego miasta Łodzi [Strategy of economic development of the City of Łódź]* – a study carried out by a team: T. Markowski, A. Jewtuchowicz, P. Bury, J. Kot, H. Rouba, D. Stawasz, Łódź, August–December 1992, by order of the Municipality of Łódź.

Many years of neglect of modernisation of technical infrastructure and social housing have in consequence led to a situation where repairs require very high capital outlays. The habitually inefficient system of social housing management may result in a need to demolish some of the houses in central areas of the city. Environmental problems of the city are still unresolved: the construction of a waste-treatment plant, which has been going on for twenty years, has not yet been completed, and the location of a new waste disposal site is still an unresolved matter. Despite these shortcomings, the results achieved by the community of Łódź belie the earlier prediction of a bleak future for the Łódź agglomeration.

The working city character of Łódź was long regarded as its evident weakness. But already in the period of real socialism the share of the informal and private sector in family incomes was considerable. That is why the decline of large state enterprises was not so devastating as was the case for miners' families in regions with extractive industries. That is why spontaneous, often uncontrolled privatisation and restructuring was possible, thus facilitating an easier transition to a market economy in Łódź.

Another conclusion which may be drawn from the restructuring processes in the Łódź agglomeration is that of the importance of successful change in the mental and social relations between employers and employees. Łódź seized its chance and came out victorious – old ties and systems were broken and a period of developing new labour relations has begun and a network of new, 'economically sound' social links is being formed.

It seems that leaving the city to manage on its own, using its own resources and strengths turned out to be more advantageous in the long run than attempts to save inefficient industry with central budget subsidies. The revival was possible thanks to the inherent vitality of the local community and the use of its inherent enterprise and inventiveness which were ignored and wasted during the period of a centrally – planned economy.

Making use of the local and regional advantages is very important while formulating restructuring programmes and later on when such programmes are implemented. This is proved in the Łódź region by the development of clothing (based on local textile raw materials and local skilled labour) and the development of big bazaars due to a central location of the Łódź region.

Political consensus between the main political forces in the region is of crucial importance for the effectiveness of regional policies. After the main political parties stopped quarrelling about economic issues and began some co-operation, better effects of regional policy became visible.

It seems necessary to accept initially the existence of a grey economy as an unavoidable and objective phenomenon. On the basis of small private business

development and the incomes generated by people a more ambitious restructuring program should be formulated. It is important to civilise this grey (and also black) economy after some time. The development of various institutions helping and supporting small firms is of importance for that.

As private firms are more flexible, it is important to privatise the economy. On the one hand, state firms should be privatised, and on the other, favourable economic conditions should be created to support the development of new private firms. Some fiscal policy measures concerning taxes are very important in this regard.

The Łódź case study indicates that regions dominated by one industry are very sensitive to business cycles. That is why some weakening of the industrial monoculture by diversification of industry is recommended. The diversification of industry should be an important element of restructuring programmes formulated for regions dominated by one industry. Although some positive changes in this field occurred in the Łódź region, there is still much to be done.

The restructuring processes result in some social and economic costs, connected especially with unemployment. It is important to develop active labour market policies. First of all, three types of policy measures are recommended: training, public works and policy intervention (the last measure is a kind of marginal employment subsidy for firms creating new jobs). All these measures can be of a selective nature so they can be targeted at particular industries.

The inflow of foreign capital can contribute much to the recovery of the depressed regions. In attempting to attract foreign capital marketing the region is necessary. As depressed regions usually are not attractive, special policy measures should be considered (tax holidays, etc.).

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