

Competitive Poland

How to advance
in the Global
Economic League?

Recommendations



**COMPETITIVE
POLAND
How to Advance
in the Global Economic League?
Recommendations**

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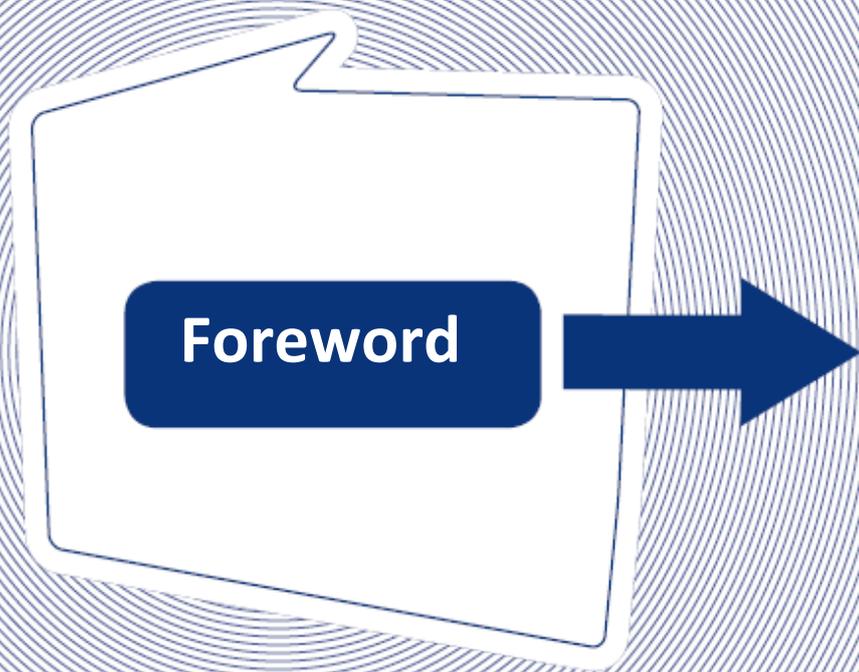
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Foreword



Foreword

In June 2013, a Report entitled “Competitive Poland. How to Advance in the Global Economic League?” was published. It was elaborated under the direction of Jerzy Hausner by a team composed of: Tomasz Geodecki, Aleksandra Majchrowska, Krzysztof Marczewski, Marcin Piątkowski, Grzegorz Tchorek, Jacek Tomkiewicz, Marzenna Weresa. The report was presented during the Innovative Economy Congress organised by the Polish Chamber of Commerce. The debate was conducted in the course of numerous conferences and seminars, two of which were prepared by the Chancellery of the President of the Republic of Poland. The question of competitiveness of the Polish economy was broadly discussed in the media. Participants of the debate could also express their views via a website which was created especially for that purpose. It was already at that time that we announced to be willing to use the stands and opinions of the debate’s participants to elaborate the 2nd part of the Report, in which we would present detailed recommendations and which would constitute a kind of Action Plan aimed at increasing the competitiveness of the Polish economy. We began to work on the foregoing publication at the turn of 2013 and 2014, after having thoroughly analysed all conclusions formulated in the course of the debate. Moreover, at the last stage of the preparation of the document, we benefited from remarks of Grzegorz Baczewski, Marzena Chmielewska, Justyna Dyduch, Andrzej Guła, Daria Kulczycka, Adam Michalik, Michał Spiechowicz and Wojciech Szymła, whom we would hereby like to thank for their contribution.

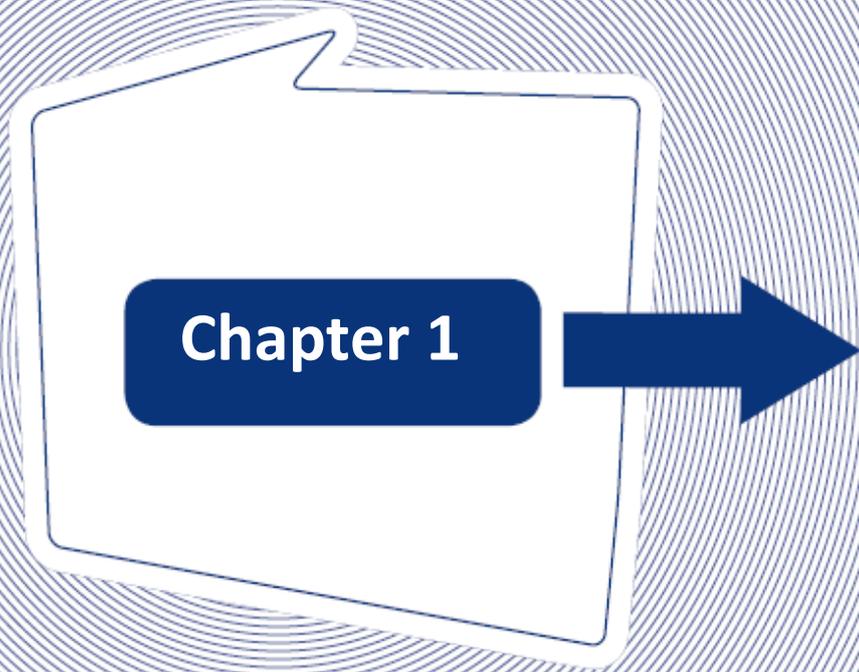
We intended to elaborate such a study which could constitute a subject of dialogue between entrepreneurs and government representatives. In one of the recommendations included in the Report, we suggest the establishment of a Council for the Competitiveness of the Economy chaired by the Prime Minister. We believe that the present set of recommendations constitutes a good foundation and an initial work agenda for such a Council, the creation of which we consider to be necessary.

Therefore, we hand the 2nd part of the Report over to entrepreneurs in the certainty that they will publicly convey it to the President of the Council of Ministers together with request for prompt establishment of the Council and for initiation of a practical dialogue devoted to an increase in the competitiveness of the Polish economy.

We are aware of the fact that many recommendations we present constitute a subject of governmental work. If we include them in the present publication despite of the foregoing, it is not in order to force an open door, but to comprise all important proposals – regardless of their authors and the degree to which they have already been prepared to be implemented – in one document. The reason for that is the fact that it is the only way to create a complete and coherent action plan.

We are thankful to Polish Confederation Lewiatan for the indispensable support in the elaboration of the study.

Authors



Chapter 1



I. Why and how the policy of increasing the competitiveness of the Polish economy should be conducted?

In the report entitled “*Competitive Poland. How to Advance in the Global Economic League?*” (Report), we stated that the discussion devoted to the question of the competitiveness of economies have over time led to the introduction and consolidation of concepts of institutional competitiveness and competition state. The former is understood as the ability of a given state to achieve a socio-economic success as compared to other countries thanks to economic and cultural institutions of the state. As for the competition state, it constitutes an alternative for the traditional welfare state. It does not treat domestic productive forces in a protective way, but takes care for their productive use in the conditions of open economy as well as international and global competition. At the same time, numerous advocates of the “competition state” do not reject the idea of the “welfare state”. They express themselves in favour of its form defined as an active and activating welfare state, interventions of which stimulate and promote the prolongation of working life, and they don’t imply social compensation for job loss and exit from the labour market. Generally, in many countries, there is an ongoing discussion concerning the formation of a new model of state which would be able to stimulate the socio-economic development and influence the maintenance of balance between the effectiveness and fairness.

We think that economists do not argue whether a state is supposed to create conditions favouring the development of enterprises. The dispute regards the term “conditions”. Some of the economists understand it only as the formation of general conditions for the functioning of markets and free market economy. They are definitely not adherents of structural policy, including in particular the new industrial policy. We believe that the state cannot be responsible only for general conditions, but also – in a manner which is adequate for a given economy – for specific conditions corresponding to particular structural weaknesses and the most important sectors. The heart of the problem is the distinction between three types of actions of the state: “enabling”, “facilitating” and “delivering” [see Table 1]. Actions of the state should, first of all, consist in “enabling”, and for some people it would probably be sufficient. In our view, it is also advisable to indicate actions of the second type and, in some cases, it is admissible to undertake also actions of the third type. It is not enough to only eliminate barriers for the development of enterprises and to allow them to grow. It is also necessary to support their ability to compete – to help them grow, i.e. to conduct the new industrial policy and, to be more precise, sectoral and regional policy based on unique resources, knowledge, innovation and relationship networks. Activity of the state should not be only horizontal – a policy adjusted to the specificity of high potential sectors, in the case of which it is necessary to create appropriate conditions for growth, conducted also at the regional level is often more effective. This thesis is adopted more and more often. However, what constitutes a problem is the conduct of such a policy in practice and its inclusion in the agenda of the economic policy. An instrument which

makes it possible to combine the horizontal, vertical and regional approach is the so-called smart specialisation. On the basis of unique regional resources, this tool allows to stimulate economic growth by developing such forms of organisation of enterprises as clusters and networks, facing them with challenges related to grassroots mobilisation by means of contests and grants, while providing them at the same time with institutional and financial support.

Table 1. Classification of industrial policy instruments

Action of the state	Free market Policy	Industrial policy – horizontal	Sectoral policy – vertical	New industrial policy
enabling	*		*	*
facilitating		*	*	*
delivering			*	*

* means the occurrence of a given feature.

Source: own work

The dominance of free market rhetoric blocked the understanding of the fact that market economy requires institutional setting, which is neither universal nor eternal. It is also crucial to notice that the casing exercises various functions: it blocks or restrains certain actions and, at the same time, facilitates and clearly favours other actions, encourages to undertake them. On the one hand, it is a question of ensuring collective security, which could easily be threatened if real economic activities were liberated from all restrictions. Nobody questions that food products that are to be launched on the market undergo rigorous controls. In the light of this principle – of collective security – we should not avoid similar procedure in the case of financial products. The awareness of the foregoing would not allow to issue toxic and “worthless” securities. Financial engineering cannot remain uncovered by public regulation, while the latter applies to construction engineering.

Market economy functions in a cyclical manner, by means of economic fluctuations. Within it, independent oscillatory processes take place; it also includes automatic economic situation regulators. That is the reason why interventions with regard to this dimension of the functioning of the economy may be relatively effective, but they must be cautious and well-considered – in order not to interfere with the natural economic cycle for no significant reason. Such a reason is generally a serious disruption of the current balance, mainly the macroeconomic one, which may lead to a deep economic downturn.

Currently, economic policy is a policy consisting in the mitigation of economic fluctuations. Its principal task is not only to stimulate the economy, but also to decrease its fluctuations which disturb the economy's naturally cyclical functioning and represent a threat to its self-steering. Thus, the aim of economic policy should be considered rather as a negative one – preventing certain conditions, which may be defined with the use of parameters. A positive aspect of such a policy consists in ensuring that the economy maintains a necessary level of stability in the conditions of international openness and globalisation of flow of production factors.

Of course, a policy oriented towards economic stability cannot be separated from its other dimensions and objectives, including in particular structural policy – although in this case the aim and the way of acting are different. Only while appropriately fulfilling its principal objective, i.e. while ensuring the stability of the economy, the business cycle policy may favour the achievement of other goals of the economic policy, e.g. enhance the economic growth. If it is directly subordinated to those other objectives, the economic stability is often disrupted and the objectives are eventually not fulfilled.

At present, the structural dimension of the economic policy becomes more significant than the business cycle dimension. As far as this dimension is concerned, in order to be effective, the economic policy must generally take place in the institutional and not in the operational order. It means that aims of the structural policy are impossible to achieve as an effect of actions within the stimulus-response scheme. They cannot be provoked directly – they result from much more complex relations, including interactivity, i.e. a process in the case of which communication, interpretation and reflective learning are very important. The process leads to a transformation in the identity of participants of the economy, and only then do the desired and expected economic changes really take place. These are developmental and not oscillatory changes – they are not automatically reversible and they shift natural business cycle equilibrium points.

If the economic policy does not refer to the institutional order, it lacks a strategic foundation and it is not able to respond to structural challenges even if it recognises them correctly. It is obviously possible to try to bring about structural changes by the sole adjustment of economic parameters, but it is doomed to failure. If we do not introduce appropriate institutional (system) changes, participants of the economy will be adjusted to the modification of parameters in a passive and conservative manner: they will try to act in such a way to gain additional benefits or minimise losses without changing their conduct. They will try to play a little bit differently, but according to the same rules.

If we want participants of a given social system to behave in a really alternative manner, strive for something different in a different way, we need to modify institutional rules of the system. Structural changes in the functioning of universities will not take place only thanks to a decrease or increase in the public funding (although in Poland it should be considerably increased) or a slight modification of the algorithm for the award of grants and of journal scoring criteria. What is needed are institutional solutions which will cause a change in relations between various groups of stakeholders of such a structure (organisation) as a university.

Of course, the market mechanism itself leads to certain structural changes, but these do not need to be changes favourable for the society, economy and the market itself. Its manifestations include a competition leading to monopolisation. It is impossible to introduce structural changes in the economy without the market, but they are also not possible to achieve by means of the functioning of the market only. The market itself may lead to certain conditions of the balance – which need to be considered as unfavourable – petrifying the existing economic structures. Such conditions of the balance are dysfunctional in terms of growth, lead to regression, stagnation, depletion of economic resources. Symptoms of the foregoing may include specific forms of international division of labour consolidating the anti-development dependence of weak national economies. Structural changes which are necessary for the development do not occur in such a case without public intervention, which should consist e.g. in a different institutional regulation of international trade rules.

The reasoning outlined above may be concluded with the following theses:

1. In the global market economy, not only companies compete, but also states. Their role in this field consists, above all, in creating an appropriate institutional order ensuring favourable conditions for entrepreneurship.
2. States are also active participants of the economy. By these means, they exercise their structural and developmental functions, e.g. they conduct the (new) industrial policy, which appropriately combines the sectoral and horizontal approaches, in order to promote the innovativeness of business entities.
3. A state cannot effectively conduct such a policy without entering into a partnership cooperation within the framework of horizontal networks of coordination of economic activities.
4. Participation in such networks should be confided primarily to specialised, professional, autonomous, flexible and innovative public agencies with staff at the world's highest level.
5. Without effective actions oriented towards increasing the competitiveness of the national economy, a state risks falling into the “middle income trap”.

The “middle income trap”, about which we wrote more in the Report, may be interpreted as a situation in which a given economy permanently finds itself (gets stuck) in an unfavourable competitive position between poorly developed economies, which base on a mass, standardised and cheap (low costs, low wages) production, and highly developed economies, which base on generating and using high technologies. It is possible to avoid such a trap, but only if a given national economy is able to shift from competing on the basis of the use of available and simple resources, in particular cheap labour, to competing on the basis of the generation of the production potential of knowledge. It may be achieved – as it is proven by the development of a range of economies over the last few decades, e.g. the Finnish or Korean one – on the condition that appropriate mechanisms combining the effective use of a set of various factors of economic growth, and not only single factors, are launched. The reason for that is the fact that it implies a shift from extensive to intensive management, from imports to exports of technologies.

In the case of Poland, the risk of falling into the discussed trap should be connected, in particular, with the following structural features and weaknesses:

- current formula for the development of the Polish economy, based on imitation, production of relatively simple products at low cost is gradually depleting;
- on the demand side, simple consumption growth opportunities (decrease in the savings rate and increase in debt) deplete;
- domestic savings remain low;
- demographic situation will deteriorate and labour resources will decrease;
- low effectiveness of the system of public support for R&D innovation and low innovativeness level of enterprises;
- education system still in some small part educates staff for knowledge-based economy and is insufficiently open to the world;
- high level of consumption of fixed capital and low level of enterprises’ capital investment;
- exports are still characterised by a low level of geographical diversification and low share of high-tech products;
- low level of labour market openness for highly qualified immigrants, lack of smart policy for attracting foreign human capital;
- chronic instability of legal solutions, which causes considerable uncertainty concerning the value of fiscal burden and basic components of cost accounting;
- low efficiency and unhelpful attitude of public administration towards business entities, which causes an increase in the economic risk and transaction costs.

It becomes more and more urgent to place the question of the economy's competitiveness high in the agenda of the Republic of Poland, considering the global economic crises and deep changes it triggers. A new economic architecture of the world and a new power balance within its framework are developing. Economies which will now lose their dynamics of growth will become marginalised, dependent and devoid of subjectivity attributes.

It is important that, at the same time, it seems that the crisis has not yet burnt out. Actions undertaken in developed countries within the framework of monetary policy is, to a considerable extent, like "sailing on uncharted waters". In various markets, it leads to the accumulation of new speculative bubble and, thus, to the creation of potential for new crises. The process of coming out of the present monetary expansion will be difficult and turbulent. A dynamic and competitive economy together with a good macroprudential policy constitute the best security measure against that threat.

Poland needs well-thought-out, ordered and decisive actions aimed to increase the potential, capacities and competitive position of the economy. At the same time, it is necessary to be aware of the fact that actions in selected areas of the socio-economic system may not be sufficient – the more areas there are in which actions are undertaken, the bigger is the chance to reach critical mass allowing to reverse unfavourable trends.

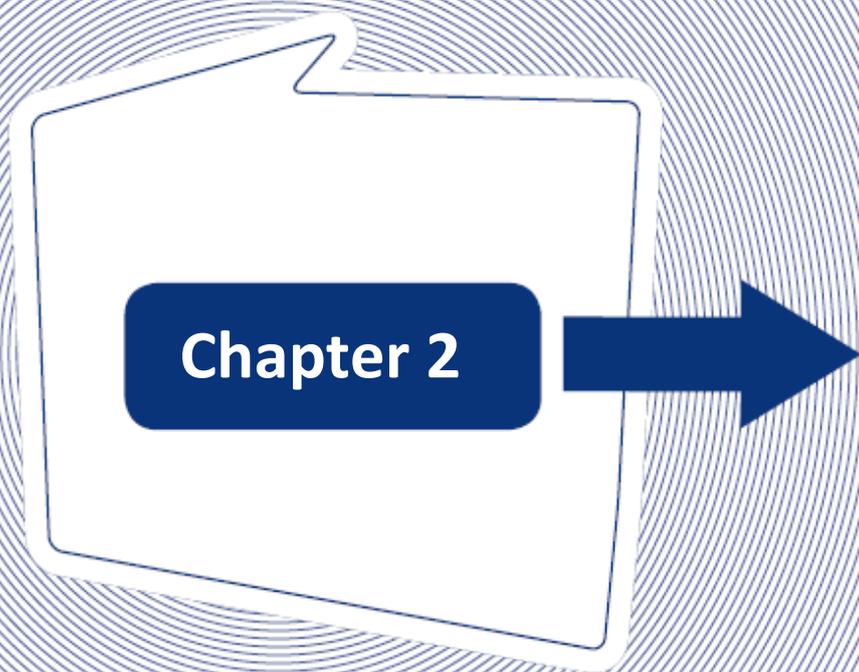
The Report we had elaborated and presented in mid-2013 was widely recognised as a good foundation for such actions. Now, we complement it with a set of specific recommendations following a debate inspired by the publication of the Report. They are grouped in eight thematic areas, which cover together almost the entire range of factors which are crucial for the achievement of a favourable competitive position by the Polish economy [see Figure 1].

Figure 1. Eight thematic areas of recommendations regarding actions favouring the competitiveness of the Polish economy



Source: own work

1. Warunki dla przedsiębiorczości i nowa polityka przemysłowa	1. Conditions for entrepreneurship and new industrial policy
2. Proinnowacyjna i cyfrowa reorientacja gospodarki	2. Pro-innovation and digital reorientation of the economy
3. Strukturalna przebudowa rynku pracy i rozwój zasobów ludzkich	3. Structural reconstruction of the labour market and development of human resources
4. Considerable increase in the level of domestic savings	4. Considerable increase in the level of domestic savings
5. Umiedzynarodowienie przedsiębiorstw krajowych i promocja eksportu	5. Internationalisation of domestic enterprises and promotion of exports
6. Nowoczesna administracja, sprawne państwo	6. Modern administration, efficient state
7. Partnerstwo rozwojowe i zmiana formuły dialogu społecznego	7. Development partnership and modification of social dialogue formula
8. Nowa strategia integracji europejskiej i prorozwojowe wykorzystanie środków unijnych	8. New European integration strategy and development-oriented use of EU funding



Chapter 2



II. Recommendations

In this chapter, we present key recommendations elaborated on the basis of both the Report and the results of the debate. We classified them in eight major areas, while maintaining, to a large extent, the order adopted in the initial Report. Moreover, in descriptions of given problem areas, we also use excerpts from the Report. However, we update and complement them as appropriate.

1. Better conditions for entrepreneurship and new industrial policy

A. Description of the problem

Competitiveness is a feature of the economy which depends, to the most considerable extent, on the conditions in which enterprises operate and on resources which they have at their disposal.

Factors of key importance for entrepreneurship include stability, simplicity and unambiguity of tax law, as well as certainty in business transactions protected by courts, which guarantee, *inter alia*, fast resolution of commercial and administrative cases. Progress in these two domains cannot be achieved without changing the tax system, including both modification of tax regulations and fundamental reform of tax authorities, as well as of the judiciary. Excessive reporting and controls are still burdensome for entrepreneurs – it concerns the number and scope of operation of control institutions, as well as overlapping inspections.

A definitely beneficial institutional change leading to an improvement in the conditions and climate for entrepreneurship would be to begin to offer all administrative procedures and payments online, as well as to allow to transfer reports in this way.

Modifications in the regulatory environment of enterprises are to result from a comprehensive and systemic view on the economic law. They should not consist in continuous series of amendments to legislation. The core of the system of economic law should be the Act on Freedom of Business Activity, general clauses of which should indicate the orientation of legislative solutions and interpretation of provisions. This fundamental Act should have the nature of a code and cannot be amended too often and too quickly. They may be admitted only after a certain (longer) period of stable application of the Act and after a reliable post-legislative evaluation conducted by independent experts and submitted for discussion to all interested parties.

That is the direction in which the “Better Regulations 2015” programme seems to be heading. However, the core aim is not to present new political and governmental declarations and programmes, but to consolidate a well-considered and good legislative practice – from pre-legislative (diagnostic, conceptual, defining the objectives of regulations and their assumptions) work, through the governmental and parliamentary phrase – conducted with the participation of key stakeholders acting as partners – to the post-legislative phrase (implementation, monitoring, evaluation).

Entrepreneurship is favoured by the development of competitive markets. That is the reason why it is necessary to strive in a decisive manner for further demonopolisation of the economy (e.g. energy industry, wholesale trade), as well as for further integration of markets within the European Union, including in particular the tertiary sector.

The aim of the regulation, as well as of the entire institutional environment of the economy, should be, firstly, to create incentives for entrepreneurship (creation of new companies) and, secondly, to stimulate their growth. Only large companies reach appropriate critical mass in terms of resources, which allows them to compete on a global scale. In the light of the foregoing, it seems reasonable to go beyond the “let’s-allow-companies-to-grow” rule and to conduct policies according to the “let’s-help-companies-grow” rule. Bankruptcy regulations are also important, as they should not lead to an excessive penalisation of entrepreneur’s business failure. At the same time, they should considerably accelerate the bankruptcy process in order to increase the protection of bankruptcy estate, which protects the interests of creditors. The new industrial policy reflects mainly the demand-oriented approach towards the economy. However, the approach is not based on the state acting as an investor or owner, but it assumes the formation of institutional solutions which help enterprises from particular sectors to achieve high productivity and competitiveness. Such policy may be defined as selective and strategically oriented.

A policy of this type requires institutionalised partnership focused on development and structural change. It is clearly different from the classical industrial policy implemented after World War II within the model of state interventionism. That policy was conducted in accordance with corporatist principles (tripartite dialogue: government – employers – trade unions). Its aim was to stabilise the economy and to preserve social peace by protecting interests of dominant economic and working groups. In fact, it was concentrated on the protection of the national economy against international competition. Today, in turn, it is important to support the capacity to compete – in the conditions of open and global economy. It is important not to ignore the fact that such a policy is simple and may easily be lead astray by etatism. Nevertheless, its lack results in the national economy being moved to a peripheral position and becoming subordinate.

The new industrial policy influences selected sectors from the perspective of competitiveness of the national economy as a whole. Energy policy may serve as an example, as it should take into consideration a broadly understood energy security of the entire economy (not only of enterprises, but also of households), including in particular its economic dimension, i.e. provision of energy to business entities for a price making it possible to gain and preserve a competitive advantage over foreign competitors. Elements of this policy should include incentives to save energy addressed both to households and to enterprises. Another example may be a coordinated and coherent policy aimed at spreading digital and innovative solutions in the economy. In addition to specific benefits for particular segments of the digital economy, the development of information and communications technologies should allow to generate a multiplier effect in the entire economy.

The terms “selective” and “strategic” policy suggest that it should be a policy aimed at fulfilling long-term objectives, not temporary ones. Its scope and tools must be clearly defined and determined – they must correspond to the competitiveness strategy adopted in a given economy. As a result, threats related to the new industrial policy may be reduced. Systematic monitoring of implementation of the strategy conducted with the participation of independent experts will make it possible to notice and eliminate erroneous and ineffective actions.

A policy of this type cannot in any way indiscriminately copy actions and experiences of other countries (e.g. Germany, Chile, South Korea, Singapore, Taiwan, Israel, the U.S.). From the very beginning, it must be formed having a given economy in mind, considering its specific features – weaknesses and advantages, as well as its environment, i.e. with whom and for what it currently competes.

The new industrial policy cannot concern only the use of financial and physical capital. It should also stimulate concurrent generation and use of “soft” – human and social – capital (intangible assets).

We believe that one of principal questions regarding the elaboration and introduction of the new industrial policy in Poland should be the analysis of the added value of exports in particular sectors of the economy that we presented in the Report. In our view, the scope of the new industrial policy should absolutely include armament spending, which should also be used to modernise the national productive base.

B. Recommendations

- 1.1. The core of the system of economic law should be the Act on Freedom of Business Activity, general clauses of which should indicate the orientation of legislative solutions and interpretation of provisions. This fundamental Act should have the nature of a code and cannot be amended too often and in an inconsiderate manner.
- 1.2. Codification of the legislative process in one legal act. It should provide for the conduct of post-legislative monitoring by expert committees independent from the legislature.

Specific solutions:

- establishment of an independent Regulation Oversight Council (ROC), similar to those existing e.g. in Germany, in the Netherlands or in the Czech Republic, which would assess proposed regulations/amendments in terms of administrative barriers (of costs reporting, forms filling, statistics, etc.);
- introduction of an obligation to prepare a professional regulation impact assessment (RIA), as well as an *ex ante* assessment of benefits and costs (net costs/benefits) of the regulation, including those resulting from changes introduced to the draft regulation within the lawmaking process;

- introduction of an obligation to prepare *ex post* RIA and RCA in order to evaluate the functioning of provisions in practice, i.e. the occurrence of barriers which were not *ex ante* taken into consideration.
 - introduction of an obligation to evaluate bureaucratic costs of the regulation (costs of reporting, form filling, statistics, etc.) within the RIA;
 - introduction of an obligation to conduct thematic and periodic reviews of provisions of (economic) law in cooperation with social partners in order to find any existing barriers;
 - President of the Standing Committee of the Council of Ministers should become responsible for a timely and appropriate implementation of all European provisions into the Polish legal system, as well as preventing “gold plating” attempts, i.e. attempts to introduce additional requirements or procedures while transposing a directive;
 - making it possible for the government to withdraw a legislative proposal at every stage after its transfer to the Sejm if amendments considerably modify key assumptions.
- 1.3. Harmonisation of interpretation of regulations, so that they do not differ depending on the region or public institution and that they do not change over time if the law remains unchanged.
 - 1.4. Consolidation of actions of state control authorities, as well as harmonisation of the control procedure.
 - 1.5. Adoption of a new bankruptcy regulation, which should not lead to an excessive penalisation of entrepreneur’s business failure, and should give the entrepreneur a “second chance”. At the same time, they should considerably accelerate the bankruptcy process in order to increase the protection of bankruptcy estate, which protects the interests of creditors.
 - 1.6. Adoption of a new Tax Ordinance Act ensuring simple and unambiguous tax system as well as consistent observance of a binding interpretation of its provisions.
 - 1.7. Ensuring fast resolution of commercial and administrative cases. It requires a reform of commercial judiciary (electronization of commercial courts, professionalisation of court management, increase in the quality of back-office, introduction of obligatory business training courses for judges).
 - 1.8. Reform of tax authorities. Change in the culture of providing services to entrepreneurs in tax offices.
 - 1.9. Analogous changes are required also in the case of the Social Insurance Institution (*Zakład Ubezpieczeń Społecznych, ZUS*), which should be transformed by law into a corporation governed by public law.
 - 1.10. Simplification of ways to pay taxes by means of a common digitalisation of the tax system.
 - 1.11. Simplification of administrative procedures and offering all administrative procedures online, as well as allowing to transfer reports in this way.

Leading to the usage of online administrative procedures, including in particular those related to starting new companies.

Specific solutions:

- common introduction of electronic mail addresses, simplification and standardisation of documents (applications, requests, notifications, declarations, etc.);
 - simplification of conduct procedures (according to analyses, used procedures comprise on average 13-15 steps, and there should be simplified to 8-11 steps), indication of priority services and, in the first place, their total electronization;
 - ensuring popularisation of trusted profile, including fast introduction of e-IDs as the easiest way of identification and authentication (as well as developing simple and qualified identification and authentication forms, which allow also for trans-European exchange);
 - full condition of improvement of the situation in this field will be the implementation of IT projects in accordance with the rules of the Programme for the Integrated State Informatisation (including: orientation on users and obligation of interoperability), which will allow for a full exchange of information between resources of different registers – it will make it possible to shorten the examination process and to abandon any requirements to provide additional, paper documents.
- 1.12. Providing enterprises with a full access to public information and opening resources – also for their processing and commercial use consistent with appropriate rules and with due regard to copyrights. What is more, stimulating the development of Central Repository of Public Information (CDPI) and favouring the objective to make it full, as far as resources of public institutions are concerned, over a relatively short time (2-3 years).
 - 1.13. Full electronization of the procedure for starting a business and exempting it from all costs (in contrast with the traditional one).
 - 1.14. Striving for further demonopolisation of the economy, i.e. preventing excessive concentration of production and services (e.g. energy industry, wholesale trade), having in mind the scale necessary for further investment in innovative sectors of the economy, as well as supporting further integration of markets within the EU, in particular in the sector of electronic services and trade.
 - 1.15. Implementation of actions aimed to increase energy efficiency – their objective should be not only to fulfil membership obligations, but also to use resources in a more efficient manner and, thus, increase the energy security of the country (what is also important, it will imply an improvement in the quality of air and limit the negative impact on the health of citizens):
 - use of a wide range of allocation instruments in order to increase energy efficiency of Polish enterprises; over a short time, they may increase costs for the budget, which will be compensated with a more effective use of resources and the avoidance of a shock which the Polish economy would get in the case of the adoption of further ambitious goals in the field of reduction of CO₂ emissions;

- favouring the increase in energy effectiveness by means of regulatory instruments that could have a positive impact on attaining higher technological trajectories; when there are no standards, producers of electronic devices are forced to compete in terms of prices, not technology and quality.
- 1.16. Eliminating from trade asymmetrical, from the point of view of the risks involved, sale and purchase agreements regarding products/services, in particular banking products/services, insurance products/services, etc.
 - 1.17. Elaboration and launching of governmental regional programmes of the new industrial policy for at least a couple of productive sectors, also within the framework of the so-called “smart specialisations”.
 - 1.18. Consistent implementation of the policy aimed at limiting and optimally using municipal and industrial waste.
 - 1.19. Adjusting the system of education, in particular the vocational one, to the needs of particular sectors and industries of the economy, especially those included in the new industrial policy programme.
 - 1.20. Allocating funds to ICT investments by the possibility to issue treasury bonds with such an aim addressed to investment funds, including pension funds.
 - 1.21. Strengthening of economic incentives for enterprises and households which undertake to conduct an energy-efficient modernisation.
 - 1.22. Implementation of new regulations concerning transmission corridors, as well as obligations and rights in the field of electricity network management,
 - 1.23. Prolonging the period of operation of special economic zones and improvement of the process of extending the boundaries of special economic zones (SEZ), as well as adjusting investment incentives to the level of R&D expenditure. Investments in the SEZ should favour technology transfer and inclusion of the Polish economy into technologically advanced global economic value chains.
 - 1.24. Identification of key clusters of international potential and integrating their activity them into actions undertaken within the framework of smart regional specialisations.
 - 1.25. Launching of a governmental programme for the development of industrial design in cooperation with universities and interested companies, also with the participation of the Patent Office and the Institute of Industrial Design.
 - 1.26. Reform of the Farmers' Social Security Fund (*Kasa Rolniczego Ubezpieczenia Społecznego*, KRUS) – favouring an effective inclusion of agricultural land into trade. The KRUS reform should be connected with a reform of the taxation of agriculture.

Additional notes:

The specific position of agriculture in the Polish economy and its structural deficits weaken the competitiveness of this sector. Nevertheless, it has a comparative advantage, in particular in comparison with the EU market. The advantage is related to agri-food products and constitutes, to a considerable extent, an effect of a fast development of modern food industry, which took place thanks to, *inter alia*, foreign investment and the necessity to adjust to norms and standards applicable in the EU. Over the last decade, the production of the food industry was growing in Poland twice as fast as agricultural production, and three times as fast as the domestic demand for food and beverages. It favoured a fast (in particular since 2003) increase in exports of agri-food products.

The distance between the level of productivity of the Polish agriculture as compared to the European one is lower than in the case of other sectors of the economy. Agriculture, in particular food industry, may attract foreign investors. In the case of Polish exports of food products, the added value is high. However, further growth in the production of agri-food articles and in their exports may be restrained by an excessively slow increase in the domestic agricultural production.

In order to benefit from economic opportunities lying in agriculture, it is necessary to conduct serious structural and institutional transformations. In particular, it is important to gradually move away from the protectionism. As far as agriculture is concerned, it is possible to observe two types of protectionism – system-related and grant-related protectionism. Farms and rural population are excluded from general systemic rules and, at the same time, they are subsidised in different ways. It clearly constitutes an argument for the preservation of the current structure of agriculture and its systemic, anachronistic distinctiveness. However, in a longer perspective, this model is not beneficial for the rural population, it does not favour the development of rural areas and of the country. Only 10-15% of farms constitute developing farms. At the same time, the long-term trend related to the exclusion of land from agricultural production is consolidating (in the years 1990-2010, over 2 million ha were excluded from agricultural use). Waste of agricultural land is becoming more and more common in the case of small farms, which have no chance for development and effective use of production resources (the situation is favoured by the unreformed KRUS system and the lack of modern agricultural taxation system). The debt level of farms is also increasing. Furthermore, the absence of income tax in agriculture strengthens grey market – since I do not need to “show” costs, I have no motivation to take invoices and to officially hire anyone. We are losing government revenue, and a considerable number of people are losing social security and employee protection.

One of the factors which petrify the insufficiently effective structure of the Polish agriculture, including the maintenance of hundreds of thousands small farms, is the EU Common Agricultural Policy. Poland is one of those Member States which strongly advocate its preservation. A development orientation desired for Poland is modern agriculture in the multifunctional country. This direction requires broader (different) relations between agriculture and socio-economic development to be noticed. It requires reinterpretation and modification of the relation between the country and agriculture and the rest of the economy. Thanks to this process, agriculture should become able to produce and generate many various types of economic goods which determine the effectiveness and competitiveness of other sectors of the economy.

As far as the disposal of food production and exports of food articles are concerned, eastern markets seem to be particularly prospective. At present, as much as 40% of companies in the agricultural sector already are exporters. In 2016, restrictions on the purchase of agricultural land with foreign capital will be removed. If there are no structural changes introduced in the agricultural sector and no reforms eliminating the waste of agricultural land conducted by that time, it may result in changes heading a direction which would be inconsistent with the interest of the national economy. The aim is for Poland to become a supplier of food products and not only of the raw material.

2. Pro-innovation and digital reorientation of the economy

A. Description of the problem

The role of the state does not consist in direct stimulation of innovativeness by means of public interventions, but rather in favouring the creation of various forms of partnership, in particular the one of “enterprises-R&D centres”. It is supposed to ensure an effective transfer of the national R&D thought to business activity. In other words, the general aim is to influence the complementarity of particular social links (entities) of the innovative process and their openness to cooperation as well as to its conduct in practice.

At the same time, it is important whether particular entities participating in the innovative process (in particular, but not only, enterprises and higher education institutions) function in a way which favours the revelation of creativeness of individuals and stimulates it. At many universities, technology transfer offices are being created. However, what is the point of creating them if no applied research is conducted at these universities? We have a more and more developed administrative and office structure, but it does not stimulate innovativeness.

As far as the approach we propose is concerned, the role of the state (public authorities) in the field of innovativeness should be clearly supportive, and it should make it possible for entities which are independent from it to undertake innovative activities by means of: creating favourable legal conditions for conducting research in research entities and settling R&D spending in companies, as well as by deregulating regulations which hinder innovativeness at universities. Such an active and significant role of public authorities and public funds is, however, advisable in the case of education and scientific research that are not subject to direct commercialisation (basic research, humanities).

The foundation of social innovativeness is education. By formulating a model of education which would trigger individual creativity at all levels of the education system and stimulate the cooperation of creative individuals, a state surely contributes to the innovativeness of the economy. In order to achieve that, it is necessary to focus on media education, cultural education and civic education. Therefore, if we justly complain about an insufficient innovativeness, the source of our weakness is, above all, an anachronistic education system which is dominated by a strong concentration on formalised educational achievement of students.

Serial programme changes do not lead to a real educational change. It requires a different teaching formula. Furthermore, it turns out that an insurmountable barrier is a fixed way of functioning of the teacher's corporation, legitimised by the Teachers' Charter and supported by the Ministry responsible for education which acts like an administrative cap and, at the same time, a political representation of corporate interests. For a high quality education, it is necessary to hire excellent teachers, already in kindergartens. Thus, it is necessary to elaborate a policy devoted to the recruitment to the teaching profession, as well as to increase the quality of teachers' education (studies in pedagogy) and ensure a remuneration system which would attract the best candidates to the profession. As for these aspects, Finland may constitute a role model for us.

In order for universities to actually conduct extensive applied research and be able to commercialise its results, rules for its funding must be changed – the share of funds related to the conduct of studies, including applied and implementation research financed from private funds, must be increased. As a consequence, it will lead to a visible division of higher education institutions into educational and vocational and academic entities. Such classification is necessary and must imply a definition of different sources and rules of funding for the two types of institutions

However, necessary changes in the system of university funding will not be successful if they are not accompanied with fundamental changes in the legal status of universities. We believe that an appropriate form would be a public law corporation.

The social basis for innovativeness may be students. It requires the teaching model of higher education to be modified. Students are to gain knowledge, but also to create it. This could be achieved by focusing university education on entrepreneurship, team project work, solving problems with the participation of practitioners and R&D projects.

Legal solutions should make it possible to create hybrid organisation forms aimed at the commercialisation of research results, joining activities of local governments, research centres and business in this field.

In order to stimulate innovativeness of the Polish economy, it is necessary to introduce new regulations in the area of intellectual property rights. These should be solutions creating incentives to invest in the intellectual capital and, at the same time, favouring its diffusion and hinder its monopolisation. The regulations should comprise a process of management of property rights to the intellectual property from the moment of innovation's creation, through its commercialisation, taking into account also the export of property rights to the innovation. It should include both incentives for organisations (e.g. universities) and for creators (e.g. researchers and scientists). A new and comprehensive regulation, which would make it possible to balance interests of creators, producers and recipients of various symbolic goods and which would not constitute a brake for the commercialisation of new knowledge, is sorely needed. This general rule should be a foundation for the creation of a public domain of intellectual goods, offering all participants a possibility to benefit from it for a low cost and for non-commercial purposes. Another important element is a consciously conducted Poland's policy regarding patents and intellectual rights on the international level. It includes the European Union and World Trade Organisation, within which it is possible to observe activity of developed countries and large corporations from those countries. They promote solutions which are beneficial for

them, and not necessarily for less developed countries, the competitiveness and innovativeness of which may thus be hindered.

In the world, there are diverse solutions concerning intellectual property management, including creation of technology transfer centres, which operate like private entities on behalf of a university and its inventors and search for companies willing to commercialise their inventions. Under a license agreement, these entities obtain irrevocable, unlimited in terms of time and territory and exclusive rights to intellectual property in return for, for example, 5-10% of licensing revenues. Another solution is a model based on the so-called professorial privilege, which gives inventors property rights to their inventions. In both cases, university's internal arrangements specify the distribution of proceeds from the commercialisation of inventions between the university and the research team – it is usually 40% and 60% accordingly.

Both models have advantages and disadvantages. However, the results of patents' commercialisation are considerably better in situations in which inventors are engaged in further work concerning the technology in given commercial entities. In the case of the model based on the so-called professorial privilege, it is possible to expect commercialisation effects to be obtained more quickly thanks to the elimination of the intermediary in the form of technology transfer centre. That is why we recommend this model.

Developed economies of countries being leaders in the field of development of advanced technologies introduce tax arrangements which protect the economy against uncontrolled export of the principal asset of technological start-ups – intellectual property. This type of legal regulations encourage international corporations to develop production in the territory of the country in which a given innovation was created.

Other justified actions enhancing the generation of capital using knowledge refer to such areas of public authorities' impact as the access to information, public databases, public statistics, availability of basic infrastructure and software for the use of the Internet, R&D activity of public institutions, as well as creativity and design centres.

Taking the foregoing postulates into account, it seems reasonable to stimulate such forms of cooperation as clusters, associations, cooperation networks, special economic zones and metropolitan areas. Innovations are generated in such agglomerations thanks to a greater accessibility of resources, higher mobility of human resources, diversity of interactions and, thus, higher level of mutual trust and partnership.

One of indispensable conditions for higher innovativeness is a good use of digital technologies. Choosing a digital future and using the economic and social potential of the digital economy will make it possible to meet many challenges.

A pro-innovative reorientation of the economy often implies considerable investments which require favourable regulatory framework. A specific example of the foregoing are investment needs related to the construction of modern telecommunication networks. They are necessary to build innovative economy based on knowledge and new technologies, as well as for the development of broadly understood information society, which is indispensable for the formation of a knowledge-based economy. In order to support further investment in this sector, it is necessary for public administration bodies to define a new, uniform and consistent approach to competition, which will allow local entities to develop

and reach the scale which is required to make large investments and effectively compete with global players. The constantly growing competition between entities from historically separate sectors, which currently offer more and more substitutive products in the media and Internet market, forces them to make systematic and expensive investments that make it possible them to modernise and develop broadband networks also where profitability is lower.

Today's market and technological reality shows that different technologies compete with each other in a direct manner at the level of retail services provided by satellite, cable, traditional telecommunications, LTE and other alternative operators. That is the reason why it is necessary to adopt such an approach to the market which will allow for sustainable solutions that make it possible to maintain the competition and, at the same time, protect local, innovative and interesting companies.

Such a new approach to the investment scale is promoted by the European Commission – it stems from the draft Regulation on digital single market, the aim of which is to overcome market fragmentation, support effective competition and further private investment thanks to improved, predictable and stable regulatory framework. New sustainable regulations are even more indispensable, as entities which actively invest in local markets are increasingly often forced to compete with global entities (OTT) which offer substitutive services, but do not invest in the infrastructure for their provision.

Better conditions for the digital entrepreneurship are also related to the fiscal policy. That is the reason why the European Commission is already working on this area – at the end of 2013, it created a working group, the objective of which is to elaborate optimal tax framework for the digital economy which would allow to use its potential to the maximum possible extent. Another tax-related activity aimed at supporting the digital economy are works devoted to lower VAT rates for e-books. These works are conducted at the European level, and Poland plays a key role in them.

It is also important to ensure that European financial support resulting from the 2014-2020 financial perspective does not threaten commercial investments that were already made or are planned for the upcoming years. In the context of investment in broadband Internet, rules for providing EU support should clearly state that public funds will be allocated to projects only in those areas in which there already are next generation networks constructed in a purely commercial manner by private entities. Otherwise public support not be used to increase the coverage of the next generation network, but to double infrastructures, which would be built on unequal conditions.

In addition to a modern digital infrastructure, it is necessary to develop education initiatives related to the use of digital tools (in particular in the case of the 50+ age group). Elimination of digital exclusion is the third pillar of the Operational Programme Digital Poland (which is unique in Europe), which will allow – together with Internet access (first pillar of the Programme), English language learning and development of content and digital services (second pillar) – for a broad use of digital potential by the society.

What is also needed are sustainable solutions related to data protection based on trust – their aim should be both to protect citizens' privacy and to allow for an economic use of the potential of "Big Data". To this end, it is necessary to elaborate such an approach

to data protection that would guarantee benefits for all parties and will be based on transparency and final user education. Uniform, pan-European provisions, which constitute a subject of EU works since 2012, should protect the privacy of citizens and, simultaneously, create added value for business.

Moreover, initiatives – not only public, but also private ones – providing for education of companies from the Polish SME sector in the field of the potential of digital solutions for business should be developed. Very small companies often do not have sufficient knowledge and time-tested modes of operation to develop on the basis of innovative digital tools. Such companies should be informed and educated in terms of digital solutions which increase competitiveness as well as the number of opportunities to open up to new markets and exports, which will give them a chance to grow.

On the one hand, Poland's innovative capital is subject to erosion due to a considerable emigration of qualified staff. On the other hand, there is no immigration policy which would position Poland as a Central European hub for innovative entrepreneurs and scientists. Global competition for talents manifests in the creation of economic incentives and institutional facilitations that support processes of immigration of highly qualified managerial and scientific staff. Such facilitations should cover visa regulations, legal assistance, networking and financial instruments making it possible for immigrants to create technological start-ups in Poland. The import of specialists should be focused on sectors which are strategic from the innovative economy's perspective, i.e. ICT, biotechnology, nanotechnology and, in particular, selected and promising technologies, such as graphene, nanoparticles and nanomaterials.

B. Recommendations

- 2.1. Making budget financing of universities more dependent on the economic results of their cooperation with entrepreneurs, including especially the value of revenues obtained from the sale of intellectual property.
- 2.2. Creating a national scholarship fund for Polish students which would make it possible for them to study at the best universities in the world.
- 2.3. Opening competitions for scientific post for researchers from abroad, financing (e.g. from EU funds) scholarship grants aimed to "attract" the best scientists to come to Poland.
- 2.4. Creating a National Knowledge Depository, which would include results of all research projects financed from public funds and implemented by the public knowledge sector, so that the results of these projects have a chance to be used as well as commercialised.
- 2.5. Using funds raised through the auctioning of CO₂ allowances to finance a government modern technologies development programme. It could be e.g. a National Programme for Municipal Electric Bus, which would integrate companies from this industry and our scientific resources in order for us to become a leader in this market (a programme similar to the Brazilian programme for alcohol-powered passenger car).

- 2.6. Connecting Polish actions aimed to increase innovativeness with European actions focused on the creation of the Digital Single Market, as well as elaborating solutions for the protection of online privacy.
- 2.7. Creation of appropriate conditions for increased investment in access to the broadband high-speed 4G Internet and possibly 5G Internet.
- 2.8. Consistently implementing the DIGITAL SCHOOL programme in the field of all dimensions related to the schools' access to appropriate equipment, high-speed networks and educational e-resources.

Specific solutions:

- Preparing teachers to conduct classes in accordance with DIGITAL SCHOOL formats, i.e. to use, among other methods, those forms of teaching, analysing and assessing pupils' knowledge which are possible thanks to new technologies.
 - broad introduction of programming to the curriculum
- 2.9. Regulating the question of data protection in a way that would guarantee benefits for all parties and will be based on transparency and final user education. The key would be to obtain a balance between the need to protect citizens' privacy (that is the purpose of the direct character of giving consent for data processing) and business opportunities – creation of appropriate guarantees for privacy protection and concurrent avoidance of an excess of burdens, which could make all actions related to data processing uneconomic.
 - 2.10. Introducing new tax solutions for the e-economy, including in particular VAT rates for e-books, e-services, so that the European and Polish sector of this economy develop in a competitive manner in global conditions.
 - 2.11. Making public resources related to various domains available, also with the possibility to use them free of charge for commercial purposes, which would favour the development of small businesses.
 - 2.12. Introducing regulations comprising a process of management of property rights to the intellectual property – from the moment of innovation's creation, through its commercialisation, taking into account also the export of property rights to the innovation, adopting the model based on the so-called professorial privilege, as well as implementing tax solutions protecting the economy against uncontrolled export of the principal asset of technological start-ups – intellectual property.
 - 2.13. Improvement of conditions of intellectual property rights' protection, to make various goods, products, ideas, characteristic features of solutions and data generally and legally available on a massive scale. New business models – that respect copyrights and, at the same time, are adjusted to the scale of circulation – are needed,

but they cannot hinder creativity, freedom of information and data processing by too rigorous regulations. The essence of the “wikinomy” is openness and exchange of information, and the new generation is characterised with the primacy of availability and willingness to own something.

- 2.14. Amending the Public Procurement Act to allow for pre-commercial procurement of new technologies.
- 2.15. Making it impossible for universities/research centres to contribute intellectual capital to companies. Intellectual property should not constitute a contribution of fixed value in exchange of shares, but it should be contributed as property rights of variable value. Tax for intellectual assets contributed to a company should not be paid at their contribution, but at the moment of disposal of (all or part of) shares.
- 2.16. Creating a new regulation adjusted to the taxation of sale of intellectual property (specifying the place of supply of services, the recipient and the moment of sale).
- 2.17. Elaborating and implementing – with the use of experience gained thanks to the “Start-up Hub Poland” pilot project and foreign experiences – a programme for attracting to Poland foreign inventors and innovators, especially those conducting research and activities in technologically advanced domains, as well as creating conditions making it easier for them to start businesses in Poland. We should also develop incentives encouraging to transfer foreign, innovative and R&D-oriented SMEs, in particular those inventing and commercialising advanced technologies, to Poland.
- 2.18. Elaborating and implementing business and financial support programmes for research teams – from Poland and from abroad – conducting research aimed to implement new technologies in selected fields. While using this instrument, it is necessary to establish strong centres for research and implementation of the latest technologies, e.g. a centre for research on the use of graphene, centre for research on the use of biotechnology and nanotechnology in selected domains, such as medicine or food production (“Graphen Hub Poland”, “Nanomedicine Hub Poland”, „Biotechfood Hub Poland”).
- 2.19. Defining (by the Office of Competition and Consumer Protection) a new approach towards competition that will make it possible for local entities to develop and to reach the scale which is required to implement large investments and effectively compete with global players. It is crucial for the Polish economy that the Office introduce a sustainable policy allowing both for an appropriate scale do investment and competition protection.

3. Structural reconstruction of the labour market and development of human resources

A. Description of the problem

The labour market in Poland has become segmented. It has become very flexible thanks to contracts for a specified period of time, civil law contracts and system for the adjustment of remuneration to the company's economic situation. Our resources typical for the gray zone has also played its role. As far as business cycle is concerned, it is good for the economy – as a result, it has considerable adjustment capacities that economies of more developed countries do not have at their disposal. Nevertheless, from the structural point of view, the situation is not so good. The persistence of high structural unemployment has led to a considerable economic emigration, in particular of the most entrepreneurial persons, including also those being especially talented and highly qualified. It constitutes not only a labour drain, but also a brain drain. It all results in a significant outflow of human capital and reduction of our potential for development. If the emigration was temporary (thanks to the functioning of mechanisms encouraging migrants to return), it could be beneficial – Poland would welcome people with new experience, qualifications, knowledge of language, etc.

Due to the segmentation and increasing flexibility of the labour market, in the case of many employees work is not only poorly remunerated, but it is also not really worth investing in. The level of human capital adjusts to the level of remuneration, and that is followed by possible requirements and justified outlays. It leads to the formation of a mechanism which is beneficial from the point of view of business cycle and detrimental from the structural perspective. We improve our economic position at the expense of our potential. It means that we reduce the potential output and long-term growth rate. On the one hand, such a trend leads to the inhibition of internal growth opportunities in terms of consumer demand. On the other hand, it will suppress our opportunities for export expansion, which will in the longer term be impossible only in the segment of cheap mass production with low added value. In this category, we will be pushed out by emerging economies which are weaker than our economy but have large resources of even cheaper labour. At the same time, the fact that the mobility of labour resources is still limited in the Polish economy is unfavourable for their allocation and hinders training and retraining processes. A low level of “turnover” in a considerable part of the labour market results also in a rigidity of wages, which tend to grow slowly (periodically even below the growth level of productivity or inflation). In turn, in the period of increased labour demand (2006-2008), wages grew unevenly.

It becomes more and more clear that, as far as the labour market policy is concerned, it is necessary to abandon cyclical measures, which are aimed at making the employment maximally flexible, for the benefit of structural measures, the objective of which is to increase the level of human capital, creative and entrepreneurial skills, as well as productive self-employment. In this context it is worth to consider the adoption of a new comprehensive labour code, and not only introduction of partial and temporary amendments.

The process of structural reorganisation of the labour market must be supported by school and higher education. Young people must be educated in such a way to be able and have the possibility to make a choice: I am searching for an employer or I am becoming my own employer and creating a workplace for myself.

The second option must gain significance, and its popularisation depends also on appropriate solutions and financial incentives, including those concerning the construction and rate of social security contributions in the first period of self-employment.

In order to increase the total employment rate, i.e. to improve the effective use of labour resources, it is necessary to, above all, increase the employment of women and of persons with low (lower than secondary) level of education. In these groups, the percentage of working population is the lowest. Obviously it may result in part from illegal employment. If that was true, it would mean that in the economy there is a demand for these persons' work, but the costs of their formal employment are too high and/or incentives encouraging them to take up a job are not sufficient.

In the analysed field, specific issues requiring new solutions or a modification of the current ones include the reduction of labour costs related to redundancies and sickness privileges, as well as the tax wedge, especially in the case of persons with low qualifications and low remuneration.

Considering the expected demographic ageing, the question of development of long-term care for older people is becoming more and more urgent. In Poland, the elderly are usually taken care of by their family members (mainly women), which translates into a decrease in their professional activity. In addition to the development of the current base of day care and residential care centres, the number of geriatrist must increase. It would be a good idea to consider the possibility to obtain financial support from the state for persons who decide to leave their job and take care of an elderly person, as well as to create a separate insurance system covering a risk of long-term care.

At the same time, an increase in the effectiveness of the labour market would be favoured by a policy inciting those Polish citizens who emigrated after 2004 to return, as well as a policy of controlled and selectively addressed immigration. By 2060, Poland should welcome several million immigrants, in particular from culturally similar eastern countries.

The process should be launched right now. We should try to attract as many foreign students to our universities as possible, automatically grant residence cards to graduates and create a transparent perspective of obtaining Polish citizenship.

B. Recommendations

- 3.1. Adopting a new Labour Code and Collective Labour Code with the use of, *inter alia*, projects elaborated previously (2005) by the Labour Law Codification Commission.
- 3.2. Introducing a new type of employment contract, i.e. project contract – concluded for the duration of a project; duration of the contract would not be limited by law, it would be legally allowed to terminate the contract earlier by giving two weeks' notice. Such a contract would constitute an alternative for the contract

for a specified period of time, which in practice is not used due to the lack of legal possibility of early termination.

- 3.3. Introducing individual working time arrangements for employees providing for various hours for starting and finishing work; however, the obligation according to which an employee should have the right to 11-hour period of daily rest should be preserved.
- 3.4. Weakening the OHS requirements in the case of teleworkers' workstand.
- 3.5. Introducing a possibility to exchange – at employee's request – a parental leave (or the right to reduce working time) for employment in the form of telework in the period during which the employee could benefit from the parental leave.
- 3.6. Abandoning the formula of tripartite dialogue and replacing it with an autonomous dialogue between employers and representatives of employees in the field of employment relationship, conducted in particular at the level of a given enterprise and with regard to the collective agreement.
- 3.7. Terminating the reform of public employment services in a consistent manner and increasing the significance of employment services as the basis and the most effective method for reducing unemployment.
- 3.8. Improving the parameters of entrance of graduates into a profession e.g. by means of introducing a voucher for professional start and a migration voucher, as well as the project contract.
- 3.9. Decreasing the tax wedge in the case of the lowest wages by means of increasing the amount of tax deductible expenses.
- 3.10. Creating a comprehensive dual system of vocational and technical education in consultation with employer organisations and entrepreneurs.
- 3.11. Unifying the pension system for all professional groups.
- 3.12. Improving the effectiveness of the pro-family policy by means of limiting tax reliefs only to 2+3 and more families and 1+3 and more families, as well as by introducing a Polish nationwide Big Family Card (2+3 and more and 1+3 and more) ensuring a range of financial (discounts for public transport, Polish National Railways, etc.) and other (special car parks, priority in examining requests, etc.) privileges.
- 3.13. Ameliorating the availability of care services and centre for the elderly.
- 3.14. Conducting active immigration policy.

Specific solutions regarding immigration policy¹:

- creating paths for immigration of selected categories of foreigners², who will be able to take up jobs without the need to prove that there are no Polish or other country's citizens having the right to be employed in Poland who could replace them; in this case, it is possible to mention, among other things, the creation of a special path for highly developed workers from third countries which would be based not only on the right to employment, but also on the possibility to search for a job in Poland without being obliged to previously obtain a job offer from an employer; such an approach is not contrary to the preservation of the complementarity principle as basis for the access of third country citizens to the Polish labour market;
- ensuring a possibility to supplement seasonal staff shortages in a quick and flexible manner; that instrument should be founded on the currently functioning solutions, but at the same time it should to a greater extent prevent abuses, which have negative impact on the situation of foreigners in the labour market;
- elaborating an instrument which would allow to gain access to the Polish labour market to foreigners being able to prove they have been legally employed in Poland ("positive migration history"³); such an instrument would constitute an element of the process of transforming seasonal employment into permanent immigration;
- simplification of regulations regarding the rules for undertaking economic activity in the form of self-employment and running a business by foreigners in Poland; this type of activity should not be treated worse than exercising an activity as an employed person, and it should constitute a justified reason to extend the legal stay of foreigners in the territory of Poland;
- signing bilateral agreements with foreigners' countries of origin which would include rules for the recruitment of foreign employees, so that their inflow be realistically adjusted to the needs of the labour market;
- strengthening the system for the protection of employees' rights of foreigners hired in Poland by means of examining the legality and conditions of their employment; it implies an abandonment of the system penalising migrants in the cases in which they did not contribute to regulations governing employment being violated;
- creating a regulation with regard to employment agencies locating workers abroad; it should increase awareness of conditions for taking up a job, as well as ensure protection to foreign employees arriving to Poland and Poles leaving to other countries.

1 *Poland's migration policy. Rules and recommendations, Chancellery of the President of the Republic of Poland, March 2014.*

2 Wording used in the original.

3 It means that a foreigner is able to prove to have been legally employed for a specific period of time, which did not have to be continuous and in which social security contributions and taxes were paid, as well as that the foreigner have not come into any conflict with the law of the receiving country. In such a situation, the foreigner is granted additional rights, e.g. an unconditional right to search for and take up a job, for the period of a couple of years or even for an unlimited period of time.

4. Considerable increase in the level of domestic savings

A. Description of the problem

A significantly higher domestic savings rate is necessary in the Polish economy in order to finance private investments, in particular those oriented towards an increase in exports in high-value-added sectors. Public investment may help in this case, but only partially. It is worth highlighting that, until now, these have been private savings that have been financing to an overly considerable extent our state's deficit, not investments.

While observing economic transformation in Poland, it has been possible to observe that the economic policy has not been aimed at generating domestic savings. The share of individual consumption in the GDP is the highest in the region (at the expense of households' savings). What is more, net capital imports may now be decreased by the growth in foreign investment of Polish companies.

Mass "production" of mortgage cannot be the only source of long-term investment capital. Open Pension Funds may constitute it in a large and safe part, e.g. by buying covered bonds, which could stimulate the housing market. However, this requires the period of uncertainty related to the future of the capital pillar of the pension system to terminate. Moreover, it is necessary to decrease the costs of functioning (management fee) of Universal Pension Fund Companies. Growth in savings could also be obtained thanks to the creation of significantly stronger tax incentives encouraging making savings in the third voluntary pillar of the system, in particular in the form of employee pension schemes.

Although the decision concerning Open Pension Funds decreased the current level of public debt compared to the GDP by approx. 9 percentage points, it has an entire range of macroeconomic consequences:

- public debt is not gone, but its character has changed – liability of the state towards the future pensioners has become bigger; hidden debt does not directly bear interests, but the indexation of records in the Social Insurance Fund is nothing but interest on the issued debt.
- considerable limitation of transfer to Open Pension Funds related to the introduction of voluntary character of participation implies a limitation of the stream of funds (extorted savings), which could be directed to the capital market and finance the development of the economy.

Due to such a state of affairs, it is necessary to implement instruments which will:

- limit the structural budget deficit;
- favour mobilisation of private savings, in particular long-term ones.

The success of attempts to balance the public finance system depend mainly on the equilibrium of the pay-as-you-go pension system. It means that the following actions are of key nature:

- popularisation of the defined contribution scheme by means of restricting privileges of social groups, such as miners, uniformed services, judges and prosecutors, farmers;
- increase in the employment rate;
- elimination of pathologies consisting in employment abuses based on civil law contracts (use of the latter in the case of employment specified in the Labour Code);
- conduct of detailed, reliable long-term evaluations of public finance stability, consisting e.g. in appointing of a national actuary and a fiscal policy council.

An upward trend towards making savings is desired in Poland, since it constitutes a source of funds for investment. Taking into account limited opportunities to raise capital abroad and, above all, the risk of its uncontrolled and abrupt inflow and outflow, it is indispensable to build a stable foundation for internal funding. There are two problems to solve:

1. Increasing the willingness to save.
2. Extending the period for which funds are invested.

The first problem is related to the households' willingness to save. The key task is to encourage those households to save that currently make little savings. It is possible to achieve only through the implementation of a regular savings system. In this case, both coercive and voluntary mechanisms are needed. The former should be introduced by means of coercive insurance (this segment is poorly developed), and the latter – as products of regular savings, e.g. for additional education, health care, own housing contribution. The system will work after an extra financial – e.g. tax or credit – bonus is provided (accumulated funds authorise to be granted a subsidised credit insured or co-financed from public funds).

The problem connected with the companies' willingness to make savings occurs only in the case of an ineffective financial system, when it is impossible to evaluate risk and manage it. Such a situation leads to risk aversion and exclusion of an entire group of enterprises (especially small ones) from financial services. Thus, this problem will not be solved by low taxes, but rather by an effective sector of financial intermediation. The myth concerning low taxes, which is explained as a necessity to ensure a high rate of return (after tax) on capital has no sense, as the absolute rate of return is not important. It is the relative rate of return compared to the expected interest rate that counts. Therefore it is not fiscal policy but monetary policy – providing for stable low rates (and, as a result, inflation) that would be reliable from the point of view of enterprises – is important in this case (of course assuming that the financial sector is effective).

The extension of the saving period is necessary in order to guarantee stable sources of funding for both housing credits and long-term investments. The lack of such means results in a limitation of long-term crediting, which is determined by the share of rolling short-term bank deposits or capital. Future EU banking regulations will introduce an obligation of having long-term financing, and its lack will

enforce the possession of significant capital. As a result, the rate of return on capital will decline, as will the competitiveness of the Polish banking sector (today, competitiveness is not a problem, as the rate of return in our sector is higher than abroad).

Long-term financing requires the liquidity risk and credit risk premium to be limited. Solving these problems will allow for a relatively low, only slightly higher than the one of treasury securities, cost of long-term financing.

The first problem – low liquidity premium – may be solved only by means of stimulation of secondary trading of long-term certificates of deposits. It is therefore necessary to determine standards of such certificates and of the market maker; at first, the latter may be even a public institution. An additional opportunity is to enrich the existing secondary market with corporate and municipal bonds as well as covered bonds.

The second problem requires institutional credit collaterals to be introduced. A good example of the foregoing are covered bonds, which are characterised with a high level of security. If such a mechanism cannot be used, it is a good idea to consider a part of credit risk to be insured by a public institution.

Generally, as far as our financial system is concerned, it is necessary to try to increase financing (crediting) of output more than consumption. This remark refers primarily to banks.

The Polish financial markets is characterised with a relatively high potential for growth in the region and a significant share of the Polish zloty in the global foreign exchange turnover. The use of these attributes requires the financial system transformation to be stimulated towards ensuring forms of financing that complement each other. It concerns especially increasing the role of raising capital in the form of corporate shares and bonds. In the case of the banking sector, which dominates in the Polish economy, it seems necessary to keep a strong national supervision over its institutions and to diversify the structure of entities, with an increasing role of domestic intermediaries, including cooperative banks⁴.

B. Recommendations

- 4.1. Launching stronger incentives to allocate funds in the third voluntary pillar of the pension system.
- 4.2. Simplifying regulations and reducing costs of functioning of employee pension schemes.
- 4.3. Preparation of an offer containing financial (treasury) instruments intended for saving for the retirement.
- 4.4. Reducing operating costs and limiting entry barriers for investment fund companies; introducing “reliable and cheap investment fund companies” with uniform documents and low costs, the so-called “investment-related third party insurance”.

⁴ Grzegorz Tchorek, Jarosław Czaja, *Doświadczenia integracji rynków finansowych w strefie euro. Implikacje dla Polski [Experiences related to financial market integration in the euro area. Implications for Poland]*, in: *Wprowadzenie euro w Polsce - za i przeciw [Introduction of the euro in Poland – pros and cons]*, red. Jolanta Adamiec, Biuro Analiz Sejmowych, 2013.

- 4.5. Launching systems for regular savings, e.g. for additional education, health care, own housing contribution, supported with a financial bonus.
- 4.6. Leading to the secondary trade in long-term certificates of deposits.
- 4.7. Expanding the secondary market by means of introduction of corporate and municipal bonds as well as covered bonds.
- 4.8. Introducing an institutional credit collateral, which would be appropriate for our financial system.
- 4.9. Establishing the post of national actuary.

5. Internationalisation of domestic enterprises and promotion of exports

A. Description of the problem

Our model of the economy – which mirrors the German one and is based on remuneration control and cautious monetary policy – requires a constant and strong stimulation from exports in order to maintain the demand on a satisfying level. The exports promotion system should support companies in their placement in dynamic geographic and commodity markets with an offer of a considerable amount of domestic added value.

Globalisation of trade in most market segments is, in fact, its regionalisation. Therefore, while heading non-EU markets, domestic enterprises should focus primarily on geographic markets located close to our country. When thinking about other markets (e.g. from Far East), the best idea is to undertake actions in close cooperation with enterprises which are well-established in those markets. The situation may be different only in the case of large global companies which offer high quality investment goods, and we actually have no such national entities.

It is indispensable to ensure strategic safety to Polish investors by means of, *inter alia*, a considerable increase in the cost-effectiveness of the Polish foreign policy and diplomatic services. Polish diplomacy must serve Polish business entities – provide them with access to economic analyses concerning countries for potential investment or transactions as well as with legal and economic advice, facilitate their entrance to external markets, advocate interests of Polish companies in the political dialogue. A reorientation in the directions of the foreign policy should take the aspect of economic and business benefits into account. Furthermore, Polish export policy should also have a multilevel structure and, thus, proactively promote its interests within the framework of common trade policy of the European Union.

The present export promotion system is composed of financial instruments for export support governed by the Ministry of Finance and BGK, insurance offered by Export Credit Insurance Corporation Joint Stock Company (KUKE S.A.), as well as promotional support instruments managed by the Ministry of Economy and PARP. The national foreign market information network in the form of regional Investors and Exporters' Service Centres is gradually growing. The aforementioned entities must closely cooperate with trade and diplomatic missions abroad and with the EU Directorate General for Trade for such a set of instruments to be effective. It is necessary to establish a centre that would coordinate such cooperation.

Only a small part of Polish exports benefits from insurance coverage offered by KUKE. The main reason for that is a limited demand of exporters for insurance services (a large part of exports takes place within the framework of intra-corporate trade, and a considerable percentage of small and medium exporters conduct no transactions in the form of deferred payment). What's also important is a range of barriers hindering the development of the insurance action. In such a situation, it is desired to enhance KUKE's capacity to act by, *inter alia*, amending the Act of 1994 and adjusting it to the new reality, straightening up the range of available insurances and defining the "Polish origin" of a product, as well as consolidating the guarantee function of the Treasury.

While discussing the promotion of exports, it is impossible to omit the question of branding. Care for the country's brand should constitute, for obvious reasons, mainly the task of public institutions. Nevertheless, these efforts should be made in cooperation and in agreement with the private sector, as products may not only benefit from the reputation of the country, but also influence the image of the latter.

The focus should be on coordination and maintenance of high coherence of different promotional actions, which will bring visible effects even with scarce resources. It is necessary to arrange and introduce a coherent narration with regard to various communication activities conducted by public and private institutions and addressed to international public⁵.

B. Recommendations

- 5.1. Establishment of one competent institution responsible for the promotion of exports and provision of support to domestic entrepreneurs investing abroad.

Specific solutions:

The institution responsible for the promotion of exports and provision of support to domestic entrepreneurs investing abroad (modelled on CzechInvest) ⁶ should:

- operate under the authority of the Minister of Economy;
- coordinate all promotion-related activities and cooperate with appropriate institutions in this field;

⁵ Marcin Piątkowski, *Poland's New Golden Age: Shifting from Europe's Periphery to Its Center*, World Bank Policy Research Working Paper, World Bank, October 2013.

⁶ Many above-mentioned problems were supposed to be solved by the Polish Agency for Economic Promotion, a project of which appeared already in 2003.

- employ staff of the highest quality, with business experience, recruited on the basis of knowledge and personality-related criteria within publically open competitions;
 - create, on the basis of currently existing Trade and Investment Promotion Sections, its foreign branches (in the most important countries from the point of view of Polish exports) which would provide services to entrepreneurs operating or starting to operate in these markets;
 - be authorised to engage in revenue-generating economic activities (conducted especially in foreign markets), up to the amount of costs of undertaken actions;
 - provide entrepreneurs – for a reasonable fee – the following services: elaboration of sector analyses, initiation of business meetings, analyses of competitive products, brands and services, ordering marketing research, assessing the market of a given country in terms of investment opportunities, assistance in searching for recipients/suppliers, analyses of distribution channels, assistance in participation in fairs and economic missions, organisation of stands, assistance in obtaining documents necessary to start to operate in a given market/launching products in a given market, translation of materials and business meetings, etc.; at the same time, it is necessary to elaborate and implement a system for evaluation of satisfaction of customers/entrepreneurs benefiting from services provided by the institution;
 - conduct activities programmed and supervised by representatives of the business community, the participation of whom in the agency should be guaranteed by the law;
 - actively participate in the work of important committees of international institutions which impact the commercial environment of Polish business, such as the European Union, World Trade Organisation, international standards organisations and International Centre for Settlement of Investment Disputes.
- 5.2. Strengthening of the KUKE's capacity to act, in particular in the field of insuring transactions made in the markets of emerging economies.
- 5.3. Simplification of documentation flow and harmonisation of regulations, in particular in the area of documents related to purchase and sale within the EU as well as of deadlines for settlement and for obtaining the documents.
- 5.4. Prevention of protectionism in export markets, which is inconsistent with international agreements.
- 5.5. More efficient fight against smuggling and illegal trafficking.
- 5.6. Promotion of Polish foreign investments.
- 5.7. Supporting European solutions with regard to delegating workers in the framework of the provision of services which are beneficial for Polish employers⁷.

⁷ It refers in particular to the Directive on the enforcement of Directive 96/71/EC.

- 5.8. The use of the mechanism of regional smart specialisations to enhance the potential of internationalisation of small and, above all, medium-sized enterprises with high potential for presenting their offer abroad.
- 5.9. Increasing the use of the potential of Polish emigration in the field of internationalisation as well as social and business “networking” of the Polish economy. Polish community abroad is characterised by a high level of entrepreneurship.
- 5.10. Preparation of a comprehensive and coherent strategy for the country promotion.

6. Modern administration, efficient state

A. Description of the problem

If we expect too much from and entrust too much to the state, we allow its administrative structure to expand in an uncontrolled manner and to store a larger and larger amount of growth resources. It will not trigger effectiveness, creativity and innovativeness, even if some public services may be provided in a more considerable number or present higher quality. It is necessary to change the functional software of public administration, and that may be achieved through a different institutional mechanism for the mutualisation of group interests.

Today, the state does not react on challenges of the future – it ensures a quite effective temporary system and social balance which, however, is achieved at the expense of depletion of development resources and opportunities. Our state may initiate various actions that are declared to be of a pro-developmental and pro-innovation character, but they may not lead to objectives pursued. They will strengthen the existing structures and, thus, cause stagnation.

We consider the main weaknesses of our state to include:

- low quality of political leadership;
- small importance of the public sphere and public discourse concerning fundamental issues related to the development of the country;
- lack of dialogue and partnership with entities and groups that have key development resources at their disposal;
- defective mechanisms for determining strategic goals;
- weak process of formulating and weak instruments for conducting, monitoring and evaluating public policies.

As a result, even well-identified problems are not addressed and described in government documents (cf. *Raport Polska 2030 [Report Poland 2030]* elaborated by Michał Boni, which was well received and constituted a herald of a new approach to development). They constitute a catalogue of “unsolvable” or “self-solving” problems. A good example may be repeatedly diagnosed weaknesses in the regulatory and enforcement sphere.

Creativity and talent develop only in the system of social trust. Our legal and administrative system weakens these resource instead of strengthening them. Distrust and aversion to activity have become its permanent feature. It results in routine and growth of administration instead of socio-economic growth. Innovativeness cannot be ordered nor enforced, but it may be facilitated and supported by means of creation of an appropriate infrastructure for cooperation between entities of institutional partnership.

The most serious and permanently unsolvable institutional problems of the Polish administration include the weakness, or actually rather faultiness, of ownership supervision over assets of the Treasury, in particular state-owned enterprises, and corporate order in the public (state) sector of the economy.

Complaining about the shortage of social capital or (more rarely) human capital makes no sense. The only possible way of multiplying those capitals is their practical use in the course of fulfilling development objectives at each level of the organisation of the state – from a commune to the government.

As far as the discussed area is concerned, we believe that the most important actions include:

- improvement of the law enforcement system;
- conduct of a general modernisation of government administration;
- conduct of the third stage of the reform of local governments⁸;
- establishment of a national centre for strategic studies responsible for designing national development strategies and other strategic studies necessary for programming.

Modernisation of administration and its focus on the conduct of tasks, and not only on mere existence, is of fundamental importance for the further development of Poland. In order to achieve it, it is necessary to define priorities translating into measurable tasks. Unfortunately, as a result of current functioning of administrative structures particular departments operate like silos. For this situation to change, a breakthrough in the field of organisational leadership and a grassroots willingness of departments to cooperate in a horizontal manner are needed. Tasks should be accounted for, but also appropriately remunerated and awarded. It is no longer possible to sanction the “tabloid” nonsense consisting in treating officials as “spongers” – such views destroy the state and it is necessary to stop being afraid to say this. A new role should also be played by general directors – they should not only manage, but also inspire. The Act on Civil Service should be amended to provide for tools that could be used to modernise the state, not create a kind of B labour code for persons in the civil service. Today, the problem is not the fact that political changes cause excessive rotation of teams of public institution employees, but the lack of dynamisation of employees’ actions, as the dominant functioning model is strictly protective.

The essence of effective administrative actions is a transparent public policy. Particular public policies should be conducted as a result of combination of analytical knowledge (evidence based policy), strategic imagination – ability to perceive global, European and national megatrends (with verification of knowledge regarding this field every now and then) – as well as articulation of social needs (important information based on public consultation) and realistic assessment of chances to implement given solutions, taking into account available resources, and to obtain social acceptance.

⁸ *The concept of the third stage of the reform of local governments was presented in the 2nd volume of the Report Narastające dysfunkcje, zasadnicze dylematy, konieczne działania. Raport o stanie samorządności terytorialnej w Polsce [Aggravating dysfunctions, fundamental dilemmas, necessary actions. Report on the state of local governments in Poland], MSAP UEK, Cracow, April 2014.*

In such a model, the rank of responsive character of the state and administration becomes higher – in particular in the presence of network connectivity and of the Internet – which may favour the development of a new, and important from the point of view of the democracy, participatory relationship between the state and citizens. It refers to the approach according to which citizens are treated as a source of solutions – it is possible, if citizens are provided with a full access to sources of information and if a platform for communications and exchange of information is created, i.e. if the requirements of the so-called “open state” are fulfilled.

A. Recommendations

- 6.1. Improvement of processes of data collection, verification, distribution and an analysis, as well as their simplification and harmonisation of the scope of information in public administration.
- 6.2. Modification of approach towards the evaluation of public policy through:
 - introduction of mechanisms that will guarantee independence of evaluators – basing those mechanisms on the principle that evaluation should be ordered and approved by an independent institution that is not covered by the evaluation;
 - introduction of mechanisms that guarantee an ongoing use of evaluation results – approval of recommendations accepted for implementation and periodical reports on progress in the implementation of the recommendations.
- 6.3. Effective introduction of an activity-based budget, which is functioning today in an inappropriate manner: only few people care about its content (objectives, measures), and its elaboration process is “turned upside down” – it comes down to filling tables, and not to strategic management of public institutions.
- 6.4. Reform of the Civil Service system.

As far as Civil Service is concerned, it is necessary to undertake the following actions:

- elaboration of a coherent Civil Service strategic development concept and its consistent implementation;
 - development of the public service ethos;
 - strengthening of the position of the Head of the Civil Service – such action would determine the opportunities for modernisation of the Service;
 - improvement of management mechanisms, in particular in the following fields:
 - elaboration of legislation and regulations,
 - provision of public services (e.g. development of e-government),
 - construction, implementation and coordination of public policies and effectiveness of administrative procedures,
 - openness and transparency of the functioning of public authorities, organisational learning, human resources management, in particular in the field of remunerating and motivating members of Civil Service Corps.
- 6.5. Establishment of a common service centre for the entire government administration and its agencies, as far as finance, accounting and purchases conducted as public procurement are concerned.

- 6.6. Centralisation and electronization of purchases made by the public administration sector (in order to achieve economies of scale/negotiate discounts and eliminate informal links leading to corruption).
- 6.7. Systemic amelioration of the quality of ownership supervision in the public sector:
- effective use of assets possessed by state-owned companies;
 - transparent ownership supervision over state-owned companies;
 - regulation of procedures regarding the choice of corporate bodies;
 - professionalisation of the members of management boards and supervisory boards in state-owned companies.
- 6.8. Systemic improvement in the conditions for the development of public and private partnership (PPP). It is necessary to simplify the legal aspects of the public and private partnership. In particular, it is necessary to resign from limiting current expenditure on the PPP, which often results in a multiplication of costs of the use of the partnership formula. It is also recommended to appoint a dedicated consulting agency for governmental and local government administration, dealing with the development of infrastructure under the public-private partnership scheme, as well as with drawing up and updating the National Infrastructural Plan⁹.
- 6.9. Elaboration and binding adoption of a system-wide metropolitan areas operation concept – as an integral component of the National Development Strategy and of the National Spatial Development Plan.
- 6.10. Elaboration of a pack of systemic changes related to the functioning of local governments (“third stage of the reform of local governments”).

Additional notes:

The globalisation process is inseparably linked to the metropolisation process. It results in the creation of a network of metropolises of the world which are becoming centres of knowledge, innovation, business activity, communications and culture on a transnational scale. If Poland is supposed to be a significant player in the international arena, and its economy is to be competitive, it is necessary to reorient central policies of the state’s authorities towards prometropolitan one. The objective of the latter should be to strengthen the network of Polish metropolises. The network of metropolises must be indicated as a strategic political project. Metropolitan areas should be determined by the parliament and the government.

In the case of this matter, it is possible to notice two basic challenges faced by public authorities. The first one is the development and integration of the metropolitan network on the national scale, which would help to increase the development, creative and innovative potential and, as a result, to improve the state’s position in the globalising world. It must be highlighted, however, that this aspect refers directly to the central, and not to the local or regional policy.

The second challenge concerns the necessity to organise the development of particular metropolitan areas which, in technical and social terms, constitute multifunctional settlement networks. This question is covered also by local policy.

⁹ Detailed recommendations are included in the *Raport o partnerstwie publiczno-prywatnym w Polsce [Report on the public and private partnership in Poland]*, ed. J. Hauser (authors: I. Herbst, A. Jadach-Sepiolo, T. Korczyński, Centrum Partnerstwa Publiczno-Prywatnego, Warsaw 2013).

Elements determining the development of settlement networks in particular metropolitan areas include, on the one hand, elements of technical infrastructure, the construction, modernisation and maintenance of which lies within the competence of government administration and, partially, also of voivodship governments, and on the other hand – elements of social infrastructure, which is managed by both government administration and local governments at different levels.

In a unitary state of polycentric settlement structure, metropolitan policy of the central government may be effectively implemented only in cooperation with local authorities. That is the reason why it becomes necessary to distinguish within the structure of local governments authorities for metropolitan areas (metropolitan regions). On the one hand, these regions must be partners of central state authorities. On the other hand, they should supplement local governments' functions in metropolitan areas.

At present, it is possible to state that we simultaneously have and do not have metropolitan areas. In order to sort this matter out, we need to elaborate the metropolitan areas development concept as an integral component of the National Development Strategy and of the National Spatial Development Plan. A derivative of such a concept will be assumptions of a metropolitan Act. In practice, the lack of metropolitan policy limits opportunities to promote the competitiveness of the economy. It is also a barrier for the improvement of human capital and creative potential.

7. Development partnership and modification of social dialogue formula

A. Description of the problem

It is not possible to conduct an effective policy promoting the competitiveness of the national economy without an effective dialogue with key representations of participants of the economy, in particular entities conducting business activity. What is more, such a dialogue creates a space for communication which favours the development of mutual openness and trust. It also establishes and mutualises knowledge and the ability to analyse and interpret it. Therefore, a dialogue of economic partners is an indispensable mechanism in the process of constant learning, association of interests, mitigation of conflicts and problem solving. It determines the success of each and every structural policy programme. A dialogue understood in the foregoing manner goes beyond traditional forms of information exchange and consultation of projects or programmes. At the same time, it is possible only if certain institutional requirements are met. The said requirements include: (1) emergence of a representation of business entities and their independence from public authorities; (2) their open and effective access to public information; (3) formation of an appropriate arena for dialogue; (4) establishment of a dialogue agenda; (5) admission of representations of all main stakeholders to the dialogue (e.g. in the case of a dialogue devoted to energy security, it is unacceptable to conduct it

only with the participation of representatives of energy producers and distributors, without representatives of various groups of recipients and users).

In the first half of the 1990s, a centralised corporatist dialogue was formed in Poland in the form of the Tripartite Commission for Socio-Economic Affairs. It played a positive role in ensuring conditions of social peace in the period of deep restructuring and privatisation of enterprises. However, it was soon possible to observe a polarisation of the dialogue – trade unions, which were closely related to warring political parties, began to treat the forum as an arena of strictly political battle. At the beginning of the 21st century, the threat of overt polarisation disappeared. However, it was replaced with another risk: social partners – not only trade unions, but also employers' organisations – began to treat the Tripartite Commission as an institution for specification and protection of particular interests, and not for reaching compromises and pacts in the name of common good. To some extent, such a dialogue still played a positive role, as its participants learnt about each other's interests and about what to expect from other partners. It civilised conflicts, but it was far too modest.

It must be added that certain agreements were reached in matters regarding employment relationship. However, they did not concern matters that were fundamental from the perspective of the society and the economy. In 2003, when an attempt was made to launch works on the "Pact for Growth and Jobs", it soon became clear that despite of the initial consent participants of the dialogue were not able to transcend their corporate interests. That is why it was proposed to complement the tripartite dialogue – with the participation of the government, employers' organisations and trade unions – with representations of other social groups (e.g. local government or non-governmental organisations), as well as to launch new forms of broader civil dialogue. Unfortunately, nothing happened. On the contrary, in 2005 a considerable weakening of the tripartite dialogue was noted, and no other forms of dialogue were welcome. In 2009, a chance to overcome narrow particular orientations appeared. When the risk of crisis became real, parties of the dialogue – trade unions and employers' organisations, without participation of the government – agreed to compromise in order to come out of the crisis. It was a sign that in the case of a serious threat there is a chance to go beyond the boundaries of self-centred thinking. Nevertheless, when the direct risk of crisis was gone, the parties began to withdraw from the compromise.

In the face of numerous development challenges, we will not be able to meet them without a fundamental reformulation of the social dialogue. The objective is to shift from the corporatist dialogue – which is conducted between a very limited number of partners and is focused on present issues – to an open dialogue oriented towards strategic questions and development, in particular towards the problem of competitiveness of the economy. The dialogue in the form of the Tripartite Commission should be complemented by the establishment of the National Council for the Competitiveness of the Economy chaired by the Prime Minister and composed of representatives of business environments, organisations of employees and consumers, as well as domestic and foreign experts. The Council should also establish sectoral commissions which would agree on cooperation aimed at promoting competitiveness in those sectors of the economy which will be included in the programme of the new industrial policy.

Such a transformation of the field and agenda of the social dialogue will not be easy, taking into consideration the following factors which currently hinder the conduct of the dialogue:

- lack of openness and readiness of government representative to actually conduct dialogue, as well as lack of understanding of the fact that it constitutes a factor which favours development;

- weakness of trade union in their current form, which leads to a threat of various forms of polarisation and to a change of a substantive dispute – as sharp as a conflict of well-articulated interests may be – into a conflict of political character, in the case of which it is difficult to find motivation to search for common good;
- unclear stand of employers – who seem to be the most open for dialogue and ready to search for common areas and for common good, although both the institutional power and possibility to mobilise social resources are relatively small.

At the same time, it is possible to observe an increasingly considerable need of non-governmental organisations to influence legislative solutions, also by means of mobilising Internet users and of serial activity of citizens in the field of attempts to obtain specific solutions, which seems important and refreshing for the democracy to a greater extent than traditional forms of social dialogue.

A considerable importance for the launching of pro-competitive and pro-innovation factors on a larger scale may be attributed to an increase in the social capital, a growth in confidence. And it refers to the social capital which – without prejudice to Polish acquis in this field (as our history have noted social capital for survival) or transformational achievements (a phenomena was created that could be called social capital for adaptation) – in the changing circumstances would be a developing social capital focused on future, on changes.

B. Recommendations

- 7.1. Establishing the National Council for the Competitiveness of the Economy chaired by the Prime Minister and composed of representatives of business environments, organisations of employees and consumers, as well as domestic and foreign experts. Its task would be to adopt an action plan aimed at increasing the competitiveness of the Polish economy, as well as to monitor its implementation.
- 7.2. Striving to create a common representation of entrepreneurs.
- 7.3. Elaborating a new formula for conducting social dialogue at the national level, which requires an urgent debate and agreement of all partners, in particular those represented in the Tripartite Commission for Socio-Economic Affairs.

8. New national European integration strategy and development-oriented use of EU funding

A. Description of the problem

The European Union “of different speeds” is clearly emerging, although we think that the term “of varying geometry” would be more appropriate. This term refers to the Leo Tindemans’ report that was presented in the mid-1970s. The report foretold that the subsequent expansions of the then European Community, by means of which countries being at a lower development level would be accepted, would result in the formation of several circles of European integration. It was also stated in the report that the individual states would belong, as far as different areas are concerned, to circles characterized by a varying degree of integration. These are practically speaking the objectives of the EU reform proposals consistently voiced by Great Britain. Such an amendment of the Treaty on European Union requires the consent of Poland, which offers an opportunity to correct some of the disadvantageous effects of European Union’s policy in certain strategic areas, such as penalization of CO₂ emissions generated by coal burning, attempts to prevent shale gas mining, or Europeanization of the arms market enabling foreign corporations to take over the considerably sized Polish defense market.

This changes the situation of Poland as far as its relations with the EU are concerned. So far, one could think that we are able - in cooperation with other countries from our region - to prevent the division into the EU of two speeds. Such a division has practically taken place (when the Economic and Currency Union, i.e. the euro zone was created), and the deepening of the current trends is very likely to lead to a gradual materialization of the concept provided for in the Tindemans report.

Hence, we are facing the need to come up with a new Polish strategy for European integration, the formulation of which must consist in solving the dilemma whether we are truly devoted to adopting the common currency and entering the euro zone, or not. This dilemma, however, cannot be solved today without linking it to many other issues concerning contemporary international relations, European integration included. The problem of entering the euro zone cannot be currently boiled down, with all certainty, to the mere satisfaction of the nominal convergence’s formal criteria, and to the date on which the new currency will be adopted.

The debate currently taking place offers some positive aspects, such as the problem of the internal criteria determining the readiness to adopt the common currency that are voiced by some of that debate’s participants. They are considering, *inter alia*, such criteria as: structural consolidation of public finance, flexible labor market, or effective financial supervision on the micro and macro scale. We share such a way of thinking, as it confirms that the entry into the euro zone cannot be interpreted only as an issue of technical, economic and political importance (amendment of the Constitution). Such a step is primarily to be considered as a serious, difficult and rather risky undertaking of structural and economic nature.

One may of course approach the issue in a completely different manner and assume that we are not actually seeking entry to the euro zone. This means that we are strategically making a choice that boils down to leaving Poland out of the core of the future European Union that will be most probably

made of the strongest states of the reformed Economic and Currency Union, with the opportunity to join such a core in the future being severely restricted. And without that, our representation in the EU's decision-making bodies will always be limited.

If the option of staying outside the euro zone was to be adopted anyway, it still needs to be determined how we are going to deal with the competition that Poland will face, especially after 2020, when the next EU budget perspective expires. The notion of our European and geostrategic location needs to be reviewed in the context of the Ukrainian conflict and Russia's imperialistic aspirations.

It would be naive to think that anyone is currently able to foresee how the situation in the euro zone, within the EU and worldwide is going to develop. We are destined to take into consideration several different scenarios. One of them has to be considered to be most likely to materialize. By taking a passive stance and awaiting the events to develop, we are destined to be an object of someone else's actions, instead of being a subject and a cooperating partner. Subjectivity may ensure that we will be able to make strategic choices, take the necessary internal action resulting from such choices, and determine the strategic directions of the Polish foreign policy. That is the only way in which we can consciously and actively join the process of forming a new European Union that operates under the "variable geometry" conditions, and define such a position within the EU that will offer us the potentially most likely economic and political advantages, and, most importantly, will enable us to maintain the competitiveness of the Polish economy.

Introduction of the euro, i.e. giving up the power to determine the exchange rate of domestic currency, means the economy will become more open, and its international correlations will become stronger. This can be very advantageous, but only for an economy that is strong and competitive. A weak economy is doomed to lose out: it will enter the state of perpetual stagnations and will become peripherized with time. Introduction of a conservative fiscal policy will not help in such a case (and only such a mechanism of macroeconomic balancing will be available then). The economy will be vulnerable due to the pressure of the competition it will not be able to cope with.

Each economy within the common currency zone is subject to shocks, especially of external character. Some of them are asymmetrical. They cannot be reacted to, at the integration group level, efficiently and in a manner that is favorable for each of the member states. A proper reaction on the domestic policy level is required. If the exchange rate mechanism cannot be taken advantage of, other economic policy tools, somewhat of business trend-related, but primarily of structural character, need to be used with an even greater intensity. This is possible, but only in a modern and innovative economy. This is currently, in our opinion, the most substantial point of reference in the Polish discussions about entering the euro zone.

We are not advocating the postponement of joining the euro zone. To the contrary - we are in favor of taking decisive, but at the same time comprehensive and well thought-over strategic action. We do not share the opinion of those thinking that blocking the door leading to the euro zone with one's foot in order to prevent it from closing, but failing to enter the room, is enough. The problem is that the door blocked by our foot is currently being removed from the frame and put aside. The "not too early, not too late" principle is, in our opinion, an empty slogan, a proof of abandonment of a long-term strategic approach.

Considering the fact that accumulation equals usually, in relation to the developing countries' total domestic product, 20-30% (up to 40% in the prosperity period), EU funds are a considerable, additional source of investment. In Poland, the value of investment in 2007-2011 equaled between 20-25%,

so annual structural fund allocations of 3% GDP translate into more than ten percent of annual gross accumulation.

The advantageous effect of the introduction of EU funding into our economic system cannot overshadow, however, some of its negative impact on the economy, taking the shape of such phenomena as “chasing the disability pension”, i.e. the beneficiaries’ strive to win the race for subsidies, which is also linked to lowering the level of competitiveness of more efficient companies that were not seeking any subsidies. It is enough to take a look at the training and conference market to immediately become aware of the practical implications of the defunct use of such funding.

Therefore, the so-called “absorption opium”, i.e. the pressure to take advantage of all EU funding available, regardless of the efficiency of spending, is criticized. The national performance reserve created fosters such a race between the individual voivodeships. Moreover, in according to public administration analyses, funds offered under the European cohesion policy become an instrument of practical acquisition and concentration of power.

The point is that the use of EU funding cannot no be an objective in itself, and that it i should be subordinated to the building of the economy’s competitiveness, as once the funding is used up, the economy will have to survive as well.

i That is what we should be prepared for.

It is necessary to perform an in-depth amendment of the Public Procurement Act, so that problems can be avoided in the current budget perspective that were experienced during the motorway construction program. Correction of the relevant solutions is also necessary as far as the area of science and development research is concerned. Defective solutions provided for in the Public Procurement Act hinder the implementation of innovation.

The turn of the 21st century is a period of great expansion of municipal infrastructures - a process aimed primarily at making up for the deficits inherited from the previous system. The process sped up after Poland’s EU accession and after providing access to funding under the cohesion policy. However, a considerable risk of the process slowing down is observed due to the current deterioration of the local governments’ financial standing. The possibility of modernizing and expanding municipal infrastructures will be further hindered by the difficulty in generating the funds required to provide the local portion of the investment costs, in relation to EU funding. In this context, a greater importance attached to public-private partnership schemes is required, which so far plays only marginal a role.

The EU funds are a great opportunity for Poland. The key, however, is to understand that EU’s financial support is to stimulate, not to outpace private investment. The authorities responsible for determining the rules based on which EU support is apportioned need to take into consideration that commercial investment should be always considered a priority. Public aid is justifies and duly used only where private entities are not capable of investing on their own. The practice of the past few years shows that the criteria for offering EU assistance applied so far created such paradoxes that the prices of services rendered with the use of telecommunications infrastructure erected with the use of EU funding are lower than their actual costs.

It is also worth taking the opportunity to assess the general problem of our attitude to European Union membership. The attitude of taking a free ride is commonplace. This means that the basic directions of EU’s policy are supported declaratively, but the accompanying costs are not accepted.

So, we are in favor of combating global warming, but do not back the climate package. Social cohesion is good, but fighting social dumping is not. Yes to healthcare, but to no elimination of some cigarette types. Such attitudes are perceived by our Western European partners as incomprehensible or carefree behaviors. They also exert a demoralizing impact on the domestic public debate.

The climate policy should be considered one of the priorities under the new national EU integration strategy. There is not much that Poland can gain now by casting an isolated vote against the objectives of the EU's 2030 climate policy. From the procedural point of view - because the decisions will be taken by the majority. What is more important, however, is that such an attitude will be contrary to the real economic processes and the strategies that are already being implemented by the EU's leading states and other large economies of the world, aiming to lower the emissions profile of energy and industry sectors. The lack of decisions and relevant regulations paralyzes the Polish energy sector, which will exert, in the long run, a negative impact on industry (it is not clear what to invest in, what the prices of energy will be and whether no *blackouts*) will be experienced. The geographical concentration of oil and gas supplies, as well as the condition of the Polish mining industry, in combination with the local communities' lack of support for mine quarries shows that diversification of fuel sources is very much required. Such diversification needs to be wise and spread over time, so that it does not interfere with the Polish economy's ability to compete. Simultaneously, decisions and regulations related to the consumption side are required (elimination of heat losses in buildings, better energy management relying on ICT, etc.). The EU would like to reach a consensus prior to the global climate conference that is scheduled to take place in December 2015, and would like to declare, on the UN forum, a 40% reduction of emissions compared to 2005 levels. The decision should be made by the EU Council as early as in the fall of this year. This provides Poland with an opportunity to sell its consent for a compromise solution at a good price. A 40% emission reduction is not economically justified in Poland, but we may agree to back the overall EU objective, by offering our lower contribution and demanding compensatory measures instead. The Polish concept of the European Energy Union may serve as a point of departure for the negotiations, as it promotes, inter alia, joint gas purchases (cheaper gas for Poland), additional funding for cross-border connections and internal transmission infrastructure, and continuation of the energy market's integration. This package must be supplemented with instruments (such as, for instance, derogations, energy transformation funds, offset and efficiency boosting mechanisms) that foster/enable transformation of the primary sectors of the economy (energy, heating, industry, construction, transport, agriculture) into sectors characterized by lower emission and energy consumption levels. The establishment of the Climate Analysis Center in 2013 was a step in the right direction, as such a solution offers the possibility to model, in a in-depth manner, the effects of various climate policy scenarios.

B. Recommendations

- 8.1. Ensuring that a Polish representative takes up a position within the EU structures that is of key importance for our interests, i.e. that of the internal market commissioner. Consistent staffing policy (background, stronger representation of Poland in European Commission structures). Cooperation of administration and industry representatives while drawing up and implementing European regulations.
- 8.2. Working out an updated national strategy concerned with Poland's euro zone accession.

- 8.3. Striving to revise the European Union's climate policy, so that it balances, in a better way, the interests of member states having a different energy balance structure. When negotiating the EU's 2030 climate policy, Poland should come up with a positive proposal concerned with its participation in the achievement of the EU reduction target, along with the required compensatory mechanisms to minimize the package's negative impact on the economy. To this end, reliable analyses need to be prepared, and a strategy for the shift into a less emission-intensive economy should be worked out. The objective is to use the EU's energy and climate policy as a tool for supporting Poland's growth until 2030 and beyond.
- 8.4. Working out actual interrelations between industrial, energy and climate policies on EU and domestic levels.
- 8.5. Effective protection of the European industry's competitiveness if no or weak global climate-related agreement is reached and if the unfavorable energy prices between the EU and its global economic competitors persist.
- 8.6. Concluding the *Transatlantic Trade and Investment Partnership* agreement protecting the interests and fostering the growth of the Polish industry and energy sectors.
- 8.7. Adopting general criteria for identifying actions (and projects) within operational programs concerned with the economy, that should be subject to EU intervention. These should include the following:
 - impact of the actions/projects on solving specific, predefined (selected) social and economic problems;
 - ability to succeed globally thanks to the implementation of projects under tasks planned within the framework of the individual operational programs;
 - ability to diffuse the results of the projects implemented.
- 8.8. The management of EU funding should be the responsibility of those entities that have the (verified) institutional capacity to perform such tasks. They should be subject to systematic assessment in observance of the criteria related to the quality of services rendered for applicants and beneficiaries.
- 8.9. The approach to the risk involved in the use of EU funding (and more generally - public funding) earmarked for the implementation of R+D+I projects should be changed. In the case of innovation-oriented, as well as R+D projects, public institutions should accept a higher-than-average risk level, including the risk of failure to meet the target indicators.
- 8.10. Limitation of the scope in which subsidy instruments are offered, and expanding the scope of repayable instruments' application. Subsidies should be used only for supporting projects characterized by higher-than-normal risk levels (normal risk is a risk that is rooted in the nature of economic processes). Normal risk projects should be financed exclusively with the use of repayable instruments.

- 8.11. Repayable instruments should be available for a wide range of beneficiaries, on a continuous basis and without complication application procedures. Otherwise, they will not be a form of encouragement for the potential beneficiaries.
- 8.12. EU funding should be used in a comprehensive manner - they should support projects from the R+D phase, through the protection of intellectual property, to consulting, implementation and internationalization. The financial instruments must be adapted, based on the risk criterion, to each of the "stages" of a given project.
- 8.13. Establishment of a new project assessment system, especially in the field of R+D+I, relying on the best practices of 2007-2013 Operational Programs and other EU programs (7 PR, 2020 Horizon). Such a reconstruction should aim at establishing the conditions that enable the choice of the best projects whose implementation is guaranteed by the management teams possessing the required competencies, but also enjoying sufficient motivation (reaching beyond the willingness to acquire "free" capital).
- 8.14. The (formal) selection criterion applied when choosing the research projects implemented by scientific entities should rely on commercial justification of those projects confirmed by cooperation (formalized declaration) of entrepreneurs and/or investors, including increased risk funds.
- 8.15. Assessment of the commercial potential of research that is to be financed with the use of EU funding may be performed, in many cases, with a tool having the form of a patent study (the type thereof that evaluates the state of technology).
- 8.16. The selection of research and implementation projects performed by entrepreneurs should be based on the criterion of managerial competencies of a given enterprise's management, and on the competence of the team that is to implement the project. A similar criterion should be also applied while evaluating and selecting research and infrastructural projects in the science sector - managerial qualifications of the staff coordinating the project and managing the research infrastructure should be assessed.
- 8.17. The majority of EU funding offered directly to entrepreneurs will be earmarked for SME sector enterprises. It's a reasonable decision, as micro, small- and medium-sized businesses find it difficult to take the investment-related risk when performing R+D+I projects, with their capital- and management-related potential taken into consideration. However, the funds may also flow to SMEs indirectly - via projects implemented by large corporations, in cooperation with SME sector businesses. Smaller entities would be then offered not only a chance to obtain EU financing for projects implemented in cooperation with larger players, but would be also provided with mentors helping them expand their managerial and strategic competence.
- 8.18. Thorough amendment of the Public Procurement Act. Appointment of a specialized consulting agency for governmental and local government administration, dealing with the development of infrastructure under the public-private partnership scheme, as well as with drawing up and updating the National Infrastructural Plan.

- 8.19. Replacing direct financing of training and consulting services (boosting supply) by reimbursement or financing some of the costs borne by entities taking advantage of those services (boosting demand), e.g. by offering training vouchers or by reimbursing some of the expenditures borne.

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