

# BTI 2010 | Poland Country Report

<b>Status Index</b>	1-10	<b>8.86</b>	# 10 of 128	
Democracy	1-10	9.00	# 11 of 128	➔
Market Economy	1-10	8.71	# 9 of 128	➔
<b>Management Index</b>	1-10	<b>6.55</b>	# 18 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	38.1	HDI	0.88	GDP p.c.	\$	16089
Pop. growth	% p.a.	-0.1	HDI rank of 182	41	Gini Index		34.9
Life expectancy	years	75	UN Education Index	0.95	Poverty <sup>2</sup>	%	<2
Urban population	%	61.4	Gender equality <sup>1</sup>	0.62	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

The coalition between Law and Justice (PiS), Samoobrona and the League of Polish Families (LPR), which governed from May 2006 to August 2007, proved to be a difficult alliance to maintain due to personal quarrels and political power games. After dismissing Vice Premier and Agrarian Minister Andrzej Lepper (Samoobrona) in July 2007, accusing him of corruption, Prime Minister Jaroslaw Kaczynski dissolved the coalition one month later. PiS continued to rule as a minority government, but early elections were discussed among the political elite and finally agreed upon for October 2007. Before these elections, PiS pushed through several “electoral presents,” increasing tax exemptions for people with children and raising the minimum wage about 18%. Other more important reforms were not undertaken during the two years of government. PiS neglected the increasingly pressing reform of the health care system and of public finances. Instead, it profited from the economic improvement induced by Poland’s EU membership, without supporting the further development of the country by rational policy-making. Rather, the PiS government created a very tense and polarized climate as a result of its uncooperative political style, the priority given to nationally oriented politics and its fight against the Third Republic.

The Civic Platform’s (PO) Donald Tusk became prime minister in November 2007, forming a coalition with the Polish People’s Party (PSL). This coalition operates fairly smoothly and has focused particularly on renewing social trust and confidence. Because of this rather soft approach, important reforms were at first put to the side, and the government started to increase its activity only after being criticized for postponing important tasks. Near the anniversary of its first year in office, the government presented about 140 bills aimed at initiating further reforms. But in several cases the state president (PiS) interfered, vetoing several laws after parliamentary passage. As the government does not hold the three-fifths parliamentary majority necessary to overturn the president’s veto, it has been forced to cooperate with the remaining members of the Left and Democrats (LiD) faction that had dissolved itself in March 2008. Thus, the Tusk

government found itself with little maneuvering room. By the close of the review period, it was not yet clear whether the government would be able to succeed with its reforms, or how the power struggle between prime minister and state president would end.

## History and Characteristics of Transformation

In retrospect, the starting point of Poland's post-1989 transition was the implementation of martial law on 13 December 1981. This measure was introduced after the government failed to silence the opposition movement under the leadership of the independent trade union *Solidarnosc* (Solidarity). After the political dissent became even more coherent and the economic situation more dire, the ruling Polish United Workers Party (PZPR) finally agreed to hold round-table talks with the opposition. The Catholic Church moderated these negotiations, which took place from February to April 1989. Both sides agreed on economic reforms, the re-legalization of *Solidarnosc*, decisive revisions to the constitution and the institution of semi-free elections. Although PZPR reserved 65% of the seats in the parliament (Sejm) for itself, the opposition candidate was elected as prime minister with the votes of the so-called bloc parties. The new government, led by Tadeusz Mazowiecki, introduced further political and economic reforms, and the PZPR finally lost its power. With a program of shock therapy, Minister of Finance Leszek Balcerowicz managed to decrease the country's high foreign debt, the budget deficit and the inflation rate and to induce economic growth.

While the stability-oriented path of economic policy was not really debated in the first years, the direction of political reforms led to intense struggles among the political elite. In consequence, a new constitution was long in coming. Political parties were unable to find acceptable compromise on the competences of political institutions and the relation of state and church. In 1992, the Sejm passed a provisional Small Constitution, which was replaced by the New Constitution in 1997. This constitution, legitimized by a referendum, more precisely defined the roles of the state president, government and parliament within the semi-presidential system, and firmly established political pluralism.

After concluding an association agreement with the European Union in 1991, Poland introduced its application for accession in April 1994 and negotiated this basis from 1998 on. The subsequent years were marked by intense efforts to implement EU provisions into Polish law. This process was accompanied by conflicts initiated by national-conservative and clerical parties, which questioned whether and to which extent these conditions matched Poland's national interests and those of the many small Polish farmers. The accession treaty was signed on 16 April 2003; in June 2003, 58.85% of all eligible voters took part in a referendum on the treaty, with 76.9% of them voting in favor. Poland entered the European Union in May 2004.

One of the most prominent shifts in this transition process was represented by the 2005 parliamentary election, and the government that subsequently took office. The new political leadership, state President Lech Kaczyński (serving since October 2005) and his twin brother Jarosław Kaczyński (prime minister from May 2006 to October 2007), took advantage of the political cleavages of a political elite still split on the socialist past, and introduced a populist and conflict-oriented way of policy-making. Their party, Law and Justice (PiS), operated from an anti-communist, anti-corruption and national-conservative orientation in internal affairs, promising to distribute economic growth more equally and stressing national interests in foreign affairs. However, society at large, despite being exceedingly alienated from politics and partly irritated by the loosening of traditional social ties, remained more pragmatic and EU-friendly than the regime. After the coalition of PiS, the League of Polish Families (LPR) and Samoobrona broke up in August 2007, PiS served as a minority government until all parliamentary forces decided to hold early elections in October 2007. The new prime minister, Civic Platform (PO) candidate Donald Tusk, returned to a pro-European stance and to the more liberal politics of former Polish governments.

## Transformation Status

### I. Democracy

#### 1 | Stateness

There is no competition with the state's monopoly on the use of force. Public order and security are fully guaranteed throughout the whole territory.

Monopoly on the use of force

All citizens have the same civic rights, and the status of ethnic minorities is adequately regulated in the constitution. Minorities' political representation in parliament is encouraged by special rules, and they do not have to pass the 5% threshold faced by other parties. With regard to citizenship, the preponderant majority acknowledges the state's constitution.

State identity

The state is defined in principle as a secular order. However, marriages confirmed solely by the church are legal and the clergy still possesses a certain influence on politics and society. Religious dogmas regained considerable influence during the PiS government's time in power, as the government was formed by parties promoting a strict antiabortion policy and conservative family values. Radio Maryja, an influential fundamentalist Christian and anti-Semitic radio station, received special attention by the coalition parties. This changed when the PO-government came into office. Although Poland is still one of the most religious societies in Europe, an overall majority of Poles (89%) thinks the church should be less involved in politics (data from 2007). At the beginning of 2007, the church had to cope with investigations concerning the involvement of several priests in the socialist secret service, but this did not damage the image of an organization that had generally resisted the influence of the socialist state.

No interference of religious dogmas

The administration has a differentiated structure throughout the whole country.

Basic administration

#### 2 | Political Participation

There have been no constraints on free and fair elections since 1990. The parties representing ethnic minorities are even favored in the registration procedure

Free and fair elections

because they have to gather fewer signatures than normal parties in order to be placed on the electoral lists. In the elections they are not bound to the 5% threshold, so the German minority has been represented in the Sejm consistently since 1991.

Elected rulers, government and state president, have the effective power to govern. Populist parties such as Samoobrona have been marginalized, and are no longer represented in the parliament; thus, they are not able to obstruct the policy-making process from within institutions. The clergy too lacks real veto power. However, it is heavily politicized due to Poland's history, and exercised a certain influence on decision-making in the PiS government. Today it is the state president who uses his veto powers excessively.

Effective power to govern

The freedom of association and assembly is unrestricted. The PiS government reversed its decision to abolish a gay-rights parade in Warsaw following international protests and interventions, but still proved unable to cope with political protest. In 2007, the government let the police break up strikes by doctors and nurses demanding higher wages, in several cases with considerable violence.

Association / assembly rights

The freedoms of opinion and of the press are constitutionally guaranteed and principally realized in practice; however, they have been subject to political interference under every government. The PiS government went farther than others in seeking to politicize the state-controlled media. Its influence was visible in newspapers – some of which purposely stirred up anti-European and anti-German sentiments – and in the National Council on Radio and Television (KRRiT). Nevertheless, the daily *Gazeta Wyborcza*, RMF radio and TVN/TVN24 are strong players with substantial market shares and influence, and all pursue responsible and investigative journalism. The government's de-communization law, which came into effect in March 2007, would have forced journalists to declare whether they had cooperated with the communist secret service. A challenge to the law was brought to the Constitutional Court, which ruled these provisions to be unconstitutional in May 2007. In August 2007, it was revealed that Justice Minister Zbigniew Ziobro (PiS) had tapped the phones of journalists critical of the regime. In its 2008 ranking of press freedom, Reporters without Borders put Poland at position 47, which was an increase from position 56 in 2007 but was still one of the worst scores for an EU member; this tied the country with Romania (also at 47), and left only Bulgaria (59th place) behind.

Freedom of expression

### 3 | Rule of Law

There are no fundamental constraints on the basic institutions involved in the separation of powers. Still, mutual checks and balances could function more properly, as there is currently constant dispute between state president and prime minister. These two figures belong to different parties, PiS and PO. The state president frequently uses his veto right for political rather than constitutional

Separation of powers

reasons, which is formally acceptable, but politically obstructive. Under the PiS government, when these two figures were drawn from the same party, PiS tried to expand the competences of the state president and thus also threatened the separation of powers. Justice Minister Ziobro often tried to curtail the competences of the judicial system, and pushed prosecutors to open cases that would burnish his party's public image. As Ziobro was also the prosecutor general, he often held press conferences in which he praised his victories in the fight against crime, and presented the names of suspects to the public as if they were already convicted, as in the case of a hospital doctor whom he accused of being a murderer, but who proved innocent in the end.

The judiciary is established as a distinct profession and operates relatively independently. The mechanisms for judicial review of legislative or executive acts are sufficient, and the Constitutional Court has a good reputation for securing the state of law in Poland. But the functioning of the court system in general is partially hampered by the fact that many judges were active politicians prior to their appointment, and also by corruption. Corrupt persons in the judicial system (judges, prosecutors and court surveyors) seldom face sanctions, because their professional associations handle these cases internally. In addition, cases take too long to finish, and courts work too inefficiently, even though Poland has among the highest number of judges in Europe. As the minister of justice as also acts as prosecutor general, prosecutors are under political control. The PO government has declared its intention to change this regulation.

Independent  
judiciary

As a rule, corrupt office-holders are prosecuted under established laws. Politicians who misuse their public mandate or office can be accused at the state tribunal. Members of parliament have been obliged to publish their income on the parliament's Web site since November 2001. Nevertheless, persons accused of corruption sometimes slip through political, legal or procedural loopholes. In reaction to previous corruption scandals, the PiS government founded the Central Anti-Corruption Bureau (CBA) in July 2006. As it also installed and controlled the personnel, this office did not work fully independently. Still, the office's investigations have been rather successful and an ex-minister, an ex-member of parliament and other public officials have been accused of bribery and arrested. This has resulted in a better score in Transparency International's Corruption Perception Index in 2008 (rank 58) as compared to 2007 (rank 61).

Prosecution of  
office abuse

There are no legal restrictions on civil rights. Violations of human rights under the previous authoritarian regime can be prosecuted in court, and since summer 2000 all citizens have had the right to examine the files of the former security service. Respect for civil rights clearly increased after the last elections, in 2007. Members of the previous government had verbally violated the civil rights of homosexuals, women and refugees, and had failed to provide alternate civic service opportunity for citizens whose religious convictions did not allow military service.

Civil rights

#### 4 | Stability of Democratic Institutions

Poland's ensemble of democratic institutions performs its functions in principle. Political decisions are prepared, made, implemented and reviewed in legitimate procedures by the appropriate authorities. But efficient political governance has been hindered by the unstable political situation: The PiS government was marked by internal political struggles, and by political stalemate between the breakup of the coalition and the early elections. The PO government has to cope with staunch parliamentary opposition and politically motivated legislative vetoes by the state president, which have an obstructive character rather than representing the normal struggle between different political parties. The implementation of laws suffers from a politicized administration.

Performance of democratic institutions

All relevant political players accept the existing democratic institutions in principle. Nevertheless, the legitimacy of individual institutions of the democratic state has been and still is questioned by some politicians. With its slogan pronouncing its regime the "Fourth Republic," the PiS government showed open disrespect for the text of the 1997 constitution, which states in the preamble that it is the constitution of the Third Republic. This government also frequently showed disrespect for the Constitutional Court. This attitude has not changed since the party had gone into the opposition.

Commitment to democratic institutions

#### 5 | Political and Social Integration

The party system in Poland is still unstable and fragile, with shallow roots in society. Since 1989, parties have been trapped in a vicious circle: After a period of consolidation they split up again, and new groupings appear. This fragmentation is connected with a high degree of voter volatility and low turnout. Although there are currently only four parties serving in parliament, which has never been the case before, the two larger parties in particular (PO and PiS) are very antagonistic. There are constant rumors about a breakup of PiS, while the leftist opposition party LiD (Left and Democrats) already split up in March 2008, not long after establishment in June 2007 by former members of the post-socialist Democratic Left Alliance (SLD) and the post-Solidarnosc Freedom Union (UW).

Party system

Poland's network of interest groups is relatively close knit, and has helped promote the growth of participatory democracy in recent years. Many groups demonstrate their independence by openly criticizing the parties in government. Still, there is wide variance concerning their economic viability, with 4% of NGOs accounting for 80% of income in this sector. Trade unions are the largest organizations engaged in civic activities, although in 2007 only 17% of the employed population held membership in a trade union. Other interest groups such as religious groups, charity organizations and sport associations are well functioning.

Interest groups

Consent to democracy has increased significantly. In a November 2007 survey, about 74% of Poles said they believed democracy to be the best form of government, and did not call the constitutional framework into question. These figures were accompanied by a rather high turnout at the last elections (54%), the highest since 1989 and also higher than at the last elections two years ago (41%). Many young people in particular were mobilized by the country's antagonistic political situation.

Consent to  
democratic norms

Although there is a web of over 65,000 autonomous, self-organized non-governmental organizations in Poland, only half of them are active. Thus, civil society is less developed than in many other European countries (about five times less than in Scandinavia), and social capital is also comparatively weak. This is accompanied by a rather high level of mistrust towards the political class and towards strangers (i.e., non-family members); regarding strangers, there has been a decrease in distrust from 81% to 72% since 2004. The level of trust in charitable institutions such as the Polish Red Cross, Caritas and the Catholic Church is always above 80%, much higher than that of political institutions or even the police (59%) or press (48%). According to its program, one of the main tasks of the PO government is to overcome this antagonism and to increase the level of trust in the society.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Social exclusion is quantitatively and qualitatively limited, but partly structurally ingrained. The Gini coefficient of 34.5 (2002) indicates a relatively high level of development, similar to the EU average. Less than 2% of the population lives on less than \$2 a day, but about 19.1% of the population is at risk of poverty (2006), and private indebtedness is increasing. Although the HDI (0.875 in 2006) has improved consistently in recent years, there have been no improvements for specific categories such as the juvenile unemployed, families in general and single mothers, who are still the category most threatened by poverty. The GDI of 0.872 (2006) demonstrates a slightly weaker position for Polish women as compared to society as a whole. Inequality between rural and urban regions and thus a different risk of poverty remains, especially in southeast Poland. A quarter of Poles perceive themselves to be reform losers.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	253020.7	303976.2	341670.6	<b>424789.8</b>
Growth of GDP	%	5.3	3.6	6.2	<b>6.7</b>
Inflation (CPI)	%	3.6	2.1	1.1	<b>2.4</b>
Unemployment	%	19.0	17.7	13.8	<b>9.6</b>
Foreign direct investment	% of GDP	5.0	3.4	5.8	<b>5.4</b>
Export growth	%	14.0	8.0	14.5	<b>8.5</b>
Import growth	%	15.2	4.7	15.8	<b>15.0</b>
Current account balance	\$ mn.	-10067.0	-3716.0	-9394.0	<b>-20100.0</b>
Public debt	\$ mn.	34737.8	35093.9	39247.8	<b>43597.7</b>
External debt	\$ mn.	105318.2	108171.9	139033.2	<b>195374.3</b>
Total debt service	% of GNI	14.2	11.7	11.0	<b>11.6</b>
Cash surplus or deficit	% of GDP	-5.5	-4.2	-3.5	<b>-2.0</b>
Tax Revenue	% of GDP	15.7	16.7	17.3	<b>18.3</b>
Government consumption	% of GDP	18.6	19.1	18.6	<b>18.8</b>
Public expnd. on edu.	% of GDP	5.4	5.5	-	-
Public expnd. on health	% of GDP	4.3	4.3	4.3	-
R&D expenditure	% of GDP	0.6	0.6	0.6	<b>0.6</b>
Military expenditure	% of GDP	1.9	1.9	1.9	<b>1.9</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

Market competition is clearly defined both from both a macro- and microeconomic perspective. The state fully guarantees the rules of the game for market competition, and all market participants have equal chances. Despite their protectionist rhetoric, even the PiS government refrained from restricting the activities of economic agents. The informal sector is estimated to contribute about 20% of GDP. The low employment rate also indicates that this sector has an influence on the economic performance of the country. The freedom to set up a business is not restricted, but is

Market-based  
competition

rather complicated due to too much bureaucracy and high costs for setting up a firm. The PO government has already introduced measures to facilitate this process.

There is a coherent and effective anti-monopoly policy, supported by trade policies that are consistent with nondiscrimination principles. The Office for Competition and Consumer Protection works adequately. A 2005 amendment to the Act of 15 December 2000, dealing with competition and consumer protection, brought Polish law into full compliance with EU requirements. In its competition policy for 2008 to 2010, the PO government has developed more appropriate tools to promote competition in the post-monopolistic sectors of the economy, aiming at achieving more deregulation and competition advocacy than has been the case in previous years.

Anti-monopoly  
policy

Foreign trade is mostly liberalized, with uniform, low tariffs. There is no fundamental state intervention, as Poland's trade policy is the same as those of other members of the European Union. Trade barriers with EU countries still exist concerning the import of used cars, advertisements for alcohol, labels for textiles and the law on Polish language. Although both imports and exports have grown (respectively by 18% and 15% compared to 2006), the trade balance is still negative. As a result of EU membership, Poland has been able to increase the inflow of foreign direct investment (FDI) significantly; the average value of FDI doubled between 2001 – 2003 and the period after EU entry, when FDI value reached €12.1 billion (2004 – 2007).

Liberalization of  
foreign trade

The Polish banking system is organized according to international standards, with functional supervision, minimum capital requirements and market discipline. Capital markets are open to domestic and foreign capital, with sufficient resilience to cope with speculative investment. More than 50% of the market is dominated by foreign bank institutions. By the close of the review period, the Polish banking system had proved to be relatively less threatened than its Western counterparts by the international financial crisis, because banks had concentrated their activities on classic products and did not invest in toxic papers.

Banking system

## 8 | Currency and Price Stability

Controlling inflation is a recognized goal of economic policy. Nevertheless, there has been an increase in inflation rates, from 1.2% in 2006 to 2.5% in 2007 and 4.3% in 2008. Some experts hold the president of the central bank, Sławomir Skrzypek, a rather inexperienced economist (but close ally of President Kaczyński) who was installed in January 2007, responsible for this development. However, others stress the growth in prices for food and resources, and controlled prices. The value of the zloty to the euro has decreased: In 2007, €1 was worth PLN 3.83, while by early 2009 this had fallen to PLN 4.5. In October 2008, the government announced that

Anti-inflation /  
forex policy

the introduction of the euro, postponed by the PiS government, is now planned for 2011 – 2012. The finance minister is eager to fulfill the Maastricht criteria rather soon.

Poland has pursued a consistent stability policy supported by institutional (self-)constraints. After the European Union criticized the Polish government in November 2006 for not making efforts to bring the budget deficit below 3% of GDP, as demanded by convergence criteria, this was achieved in 2007 (with a deficit of just 2.0%). This development was enabled not only by a coherent governmental policy reducing state expenditures, but also through higher tax revenues. The government aims to decrease the deficit further to 1% by 2011, but as of the close of the review period, had not yet presented precise measures detailing how it would achieve this. Public debt has been slightly reduced, to 45.4% of GDP (as compared to 47.6% in 2006). Yet even this positive development could have been better used for consolidating the state budget if the country had made better use of EU structural funds. In August 2008, the government introduced a bill aiming to reform public finances. These measures will improve procedures for internal audit and executive control of spending, help to improve the channeling of EU funds, add elements of long-term budget planning, and impose safety triggers limiting the growth of public debt.

Macrostability

## 9 | Private Property

Property rights are well defined in terms of acquisition, benefits, use and sale. Some obstacles remain: Foreigners are not allowed to buy land, the judicial system's work is slow and intellectual property piracy is common despite government efforts to improve its protection.

Property rights

Private companies are viewed institutionally as the primary engines of economic production, and are given appropriate legal safeguards. For several years, their share in employment has remained at about 70%. The PiS government neglected further privatization of state enterprises, in sectors such as electricity and petrochemicals, in order to defend "national interests." In some cases, as in the banking sector, it even pursued a course of renationalization, and paralyzed leadership activities by installing its allies on the boards of large state enterprises. Generally Poland's private sector suffers from too much bureaucracy, particularly with respect to taxes and the high costs associated with setting up a firm, which takes on average 31 days. The new government wants to reduce these shortcomings, and has already published a privatization plan containing a financial component of up to PLN 7 billion, with the aim of privatizing 740 enterprises between 2008 and 2014.

Private enterprise

## 10 | Welfare Regime

Social networks are well developed in part, but do not cover all risks for all strata of the population. Considerable portions of the population are still at risk of poverty, and the slogan of the PiS government for a “joint Poland” has failed to produce more solidarity. After fundamental reforms in 1999, the health system remains inadequately funded and functions poorly due to a centralized, inefficient organizational structure. One of the priorities of the current government is health care reform. The pension system, especially its private pillar, is working properly, but reforms of the first pillar were implemented at the end of 2008, reducing costly early retirement options. Expenditures for social policy are close to the European average, though more and more money is spent for contributions to the Social Insurance Institution (ZUS), the central Polish social security organization, while the amount invested for social policy measures is stagnating.

Social safety nets

There are a number of institutions aimed at compensating for gross social differences, but they are insufficient. Women and members of ethnic and religious minorities (94% of inhabitants are Catholics) have near-equal access to education, public office and well-paid jobs. Nevertheless, women earn only about 74% of men’s earnings, increasingly more women than men are unemployed (58.2% compared to 41.8% in 2007), and violence against women is a widespread problem. Poland ranks 39th out of 108 countries on the Gender Empowerment Measure, with an index value of 0.618. Following the PiS government’s dissolution of the government agency for gender equality, no special proactive initiatives for women, the handicapped or socially disadvantaged people were undertaken. Higher education institutions are well developed, but are mostly private with tuition fees required; socially disadvantaged parts of the population are thus excluded. A recent European Commission study found that none of the new EU member states had implemented necessary measures for equal opportunity, with particular gaps in the area of antidiscrimination laws. These deficiencies were exacerbated by the rightist, homophobic speeches of some PiS government members. Former Minister of Education, Roman Giertych even introduced a draft law aimed at excluding homosexuals from teaching positions. The new government has not changed the institutional structure; thus, the Department of Women, Family and Counteracting Discrimination remains a part of the Ministry of Labor and Social Policy.

Equal opportunity

## 11 | Economic Performance

GDP growth in Poland was relatively high until 2008. During the course of 2006, GDP grew by 6.2% and was projected to rise by a further 6.6% in 2007. The GDP growth for 2009 is expected to fall to 0.8% due to the global economic crisis. Still, Poland’s GDP per capita is only about 51.9% of the average GDP per capita in the

Output strength

EU-25. Unemployment rates have clearly decreased, from 12.2% in 2006 to 8.7% in 2007. Juvenile unemployed between the age of 15 and 24 still constitute the largest group without jobs (18.7%), but their share has significantly decreased. One reason is a better, though still insufficient, link between the education system and the labor market. The rate of economically active persons, at 53.7% in 2007 (the employment rate was 48.5%), was the European Union's lowest, due to unemployment and early retirement, and to participation in education and training, illness and family responsibilities. The state budget deficit has fallen, but the budget is still unbalanced; in 2007, the budget deficit totaled 2.0% of GDP, and public debt stood at 45.4% of GDP. Foreign debt increased to 55.2% of GDP in 2007. In the course of winning EU membership, import growth exceeded export growth due to the protracted need for capital goods while modernizing the economy. However, Poland's trade balance has improved, with export growth significantly outpacing import growth. EU countries, mainly Germany, remain the most important trade partners. Inflation has been on the increase, from 1.2% in 2006 to a projected 4.3% in 2008. Interest rates have been rather stable during the last two years. Tax revenue (33.8% of GDP) is below the EU-27 average of 41.2% of GDP (2006).

## 12 | Sustainability

Environmentally compatible growth is taken into account at the institutional level. A Ministry of Environment was introduced in 1999, but is subordinated to economic growth concerns. The principle of sustainable development is provided for by Art. 5 of the constitution, and during its EU accession process, Poland had to implement corresponding legal standards. The PiS government did not set environmental and nature protection as a high priority, culminating in the first major environmental conflict since 1989. In this case, the government wanted to build a part of the "Via Baltica," a highway from Germany to Estonia, through the Rospuda Valley, a protected European nature reserve in the eastern part of Poland. The European Commission sued the Polish government at the European Court of Justice in March 2007. A local referendum on the topic was held in May 2007, but failed because too few people took part. Ultimately, the whole project was abandoned. The December 2008 U.N. Conference on Climate Change, which took place in Poznan, brought renewed attention to the topic.

Environmental  
policy

State and private institutions for education, training, and research and development are strong, and in some cases are quite advanced. In July 2007, the PiS government established the National Center for Research and Development (NCBiR) as a government-funded agency tasked with supporting Polish scientific institutions and enterprises, and there are tax incentives for enterprises which invest in R&D. No significant increases were reported for the state's expenditures, which still lie at 0.6% of GDP. However, the share of international organizations funding R&D

Education policy /  
R&D

expenditures in Poland increased significantly between 2000 and 2006, from 1.8% to 7.0%. In contrast, state expenditure on education is rather high at about 5.6% of GDP (2007). The government initiated a reform of the science system in 2008, and has discussed a package of five laws that aims to boost R&D spending to 2% of GDP by 2013.

## Transformation Management

### I. Level of Difficulty

Structural constraints on governance are low. The relatively high standard of development, a well-educated work-force, a well-developed infrastructure – except the southeastern parts of Poland, where massive investment remains necessary – and the state of law and institutional stability produce rather favorable conditions for the government. EU membership has fostered the structural framework of governmental activities. Deficits persist concerning the effectiveness of the administration and the court system, and the stability of the party system.

Structural  
constraints

Relatively moderate traditions of civil society have resulted in rather low engagement in public affairs and with NGOs as compared to Western Europe. Correspondingly there is a relatively high level of alienation from politics, paired with low trust in political parties and political institutions. However, these factors do not yet endanger the further consolidation of democracy. These developments have made people more susceptible to the appeal of populist parties, and made it more difficult to create a stable government. But the most recent elections in particular, with the highest turnout since 1989 and the engagement of young, well-educated and overseas Poles, showed many people that political participation could make a substantial difference in the nation's political life. Whether this activity turns into a higher level of long-term political engagement for Polish voters remains to be seen.

Civil society  
traditions

Ethnic conflicts do not exist. But although the government has changed, and the defeat of populist parties such as Samoobrona and the League of Polish Families left only four parties in the parliament – a true novelty in Poland – polarization among the political elite remains. Distributed along the lines of the two blocs represented by PiS and PO, most members of the political elite still differ greatly on social, political and cultural values; this manifests as being for or against European integration, different weight given to religious values, and a variable degree of openness to political reform in general.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The government of Donald Tusk is clearly committed to constitutional democracy and a socially responsive market economy. After his election as prime minister, Tusk presented a list of proposed reforms in his governing coalition's program, including several economic measures such as increasing the employment rate to 60%, the introduction of a flat rate tax and the adoption of the euro by 2012. In a more political respect, a reform of the health system, lowering corruption, fostering decentralization and local government are priorities. What was not yet clear, at least by the close of the review period, was how far these goals could be realized; Tusk's program contained the intention to change things, but no concrete measures detailing how he would proceed.

Prioritization

The government is committed to reforms, but has not so far implemented all the laws that have been passed by parliament. After being criticized for being too passive in this respect, it launched a major reform offensive between October and November 2008. The government then introduced about 140 bills aimed at reducing bureaucratic obstacles, reforming the health care system, decreasing the number of early retirees, decentralizing state administration and simplifying rules for economic activities. However, President Kaczynski regards himself as a constant source of opposition to the government, and has already vetoed several initiatives (as, for example the "chimney bill" of July 2008, which would have removed salary caps for management at state-controlled companies, in an attempt to bring top managers into state-owned companies). Thus, he announced further vetoes on the decentralization of state administration, health care and pension reform, and judicial system modernization (including the separation of the posts of minister of justice and public prosecutor general). The government does not hold the necessary three-fifths majority in parliament to override the president's veto. In addition, the opposition in parliament acts as a veto player; in July 2008, Health Minister Ewa Kopacz (PO) was confronted with and survived a vote of no confidence put forward by the PiS faction, which accused her of failing to introduce any legislation to reform Poland's health care sector. A further obstacle for the implementation of reforms is the influence of interest groups, such as doctor's associations that oppose the government's ideas, or trade unions on the issue of pension reform.

Implementation

The PO government has demonstrated an ability for complex learning, as it has

Policy learning

decided on major, clearly important reforms such as investing in infrastructure and education, and reforming the health and the pension system. These are issues that, unaddressed, have retarded the development of the country in recent years. In this sense, the government also demonstrates an innovative approach to policy-making. But it has yet to prove its flexibility, and has to show whether it can cope with the vetoes of the state president and whether it can find ways to enhance its maneuvering room.

## 15 | Resource Efficiency

The Tusk government generally makes efficient use of available human, financial and organizational resources. So far there have been no reports that the government has engaged in unjustified dismissals of personnel installed by the former government, or that it would increase budget expenses too far. In addition, it has tried to strengthen the administrative organization of regions and local entities rather than to diminish them.

Efficient use of assets

Self-administration was fostered by a 1999 reform which enhanced the functioning of the regional and local levels of government. Poland consists of 16 voivodships, 314 counties (poviats), 65 cities with poviat status, and nearly 2,500 communities (gminas). Despite these changes, the administration is sometimes hampered by too much bureaucracy. In addition, under the PiS government, administration was centralized and the competences of local governing bodies reduced. The current PO government has already introduced a law that would further decentralize and strengthen local self-governing units.

The current government seeks to coordinate conflicting objectives or interests. It shows a coherent approach towards policy reforms among its own party members in the cabinet, but sometimes has to cope with differing ideas from its coalition partner, PSL. As this party focuses on defending the interests and privileges of the rural population, the government has had difficulties with particular issues, such as passage of its pension reform program. Since it became clear that PiS would consistently serve as an obstructive opposition, Tusk has also sought cooperation with LiD in putting through his political reform ideas. But because of the more fundamental leftist orientation of the LiD leader, this attempt at rapprochement has not been very successful so far.

Policy coordination

Most integrity measures exist and function, albeit with limited effectiveness. The relatively high degree of corruption is still one of Poland's major problems. The current government has announced that it will tackle the issue more intensively than did its predecessor. Although the PiS government declared the fight against corruption to be one of its major goals, there are still no adequate and clear legal regulations for lobbying in the parliament. In addition, most employees in the

Anti-corruption policy

public administration are badly paid, and the law on procurements is too weak, thus facilitating irregular public procurement procedures.

## 16 | Consensus-Building

In principle, or at least officially, all major political actors agree on the value of the market economy and democracy. In practice, the cleavage between the two largest parties, PO and PiS, manifests itself in a different understanding of the role of the state (PiS favors a larger involvement of the state in the economy, and a more centralized government) and of the relevance of traditional, national values.

Consensus on goals

Reformers have successfully excluded those actors with antidemocratic, populist or authoritarian views on democracy. In the last elections in September 2007, the two populist and sometimes authoritarian-leaning parties, Samoobrona and the League of Polish Families, lost their parliamentary seats; previously, their approval ratings had fallen dramatically due to their destructive behavior in the former government. The former socialist party, SLD, now in opposition, is currently ruled by a rather leftist and anti-liberal chairman; it has shifted to a more progressive stance than that held in previous years, but is currently weak, and cannot really be described as antidemocratic. Outside the parliament there are no additional groups that could be labeled as antidemocratic.

Anti-democratic  
veto actors

The government depolarizes conflict and expands consensus across political dividing lines. This “offensive of trust” is one of the newly elected government’s most important objectives. It has aimed at reducing the tensions within Polish society that were enhanced during the PiS government. The PiS and its coalition partners stressed moral values, often adopting a simple and aggressive black-and-white vocabulary, and discredited the achievements of the democratic transition by talking about the erection of a Fourth Republic during their time in office. In the end, this government not only failed to take a conciliatory approach itself, but was also shaken by corruption and other scandals. Therefore, in order to reconstruct a political community, PO regards it as indispensable to rebuild public trust.

Cleavage /  
conflict  
management

The political leadership assigns an important role to civil society actors in deliberating and determining policies. All reform proposals thus far introduced by the PO government in the health sector, on science or on economic matters have been discussed with major interest groups in advance. However, the day-to-day involvement of interest organizations in the preparation of laws before the parliamentary stage can often be formalistic and perfunctory. In addition, committee negotiations in parliament are often dominated by a few special interests. The prime minister has a special advisor for socioeconomic affairs and relations to the major economic interest groups, Michal Boni, who is in charge of preparing compromises and agreements with civil society actors. But his work has thus far not

Civil society  
participation

always been successful, as PO has no traditional ties to trade unions. Unions have only recently begun to cooperate more closely amongst themselves, and are united in their negative attitude towards governmental reforms; this makes it difficult for the government to stick to its more deliberative manner of policy-making.

The political leadership has pursued reconciliation for historical acts of injustice, but gives this topic more moderate attention than did its predecessor government. PiS aroused strong conflicts in the society when it passed its lustration law in March 2007, which would have forced different groups of professions to disclose whether they had cooperated with the pre-1989 secret service. After intense protests and a ruling of the Constitutional Court that declared it to be unconstitutional to force journalists and scientists to disclose their past, PiS had to soften the law. PO also supports the existing regulations, under which officials must declare whether they worked as agents for the socialist secret police and intelligence services. Officials are not punished if they admit such activities, and it supports the work of the Institute for National Memory (IPN), which has made the secret service files accessible to the citizenry since 2000.

Reconciliation

## 17 | International Cooperation

The political leadership makes well-focused use of international aid in order to implement its long-term strategy of development. In the Polish case, international aid particularly means EU funding from the Structural Fund. The share of financial assistance coming from the Structural Fund has intensified after Poland's accession. However, Poland has so far shown some problems in using all the monetary means that are available.

Effective use of support

The government is considered credible and reliable by the international community. Regaining this international credibility was one of the major aims of the new government, as the PiS government had behaved very uncooperatively and erratically. Particularly on the European stage, Poland had acquired a rather negative image, blocking EU decision-making without concrete reasons, just in the interest of demonstrating national strength. Thus, incoming Foreign Minister Radoslaw Sikorski stressed the importance of relations with the European Union and Germany. Prime Minister Donald Tusk's first trips upon taking office took him to Paris, Brussels and Berlin, in order to show the willingness of the new government to reach compromises and agreements with its most important partners in Europe, and to show his government had a special interest in continuing with reforms on the European level. One major issue on which Poland could prove this new approach to European policy was in the debate on the European constitution and the ratification of the Lisbon treaty. While Prime Minister Tusk wanted a quick and positive ratification procedure, the leader of the opposition, Jaroslaw Kaczynski and his brother Lech, the state president – who also has a certain say in foreign

Credibility

policy – wanted to postpone the ratification, or at least its implementation. They were afraid that Poland would have to change some rules concerning homosexual partnerships, abortion and restitution for Germans formerly living in Poland. Thus, the new government's search for credibility and trust has been constantly disturbed by the activities of the state president, who has searched for a proper role for his office in the international arena. Even though the PiS government had negotiated the EU reform treaty, it threatened to dismiss it during the parliamentary ratification procedure. Only after intensive talks with Prime Minister Tusk did the PiS finally agree to ratify the Lisbon treaty in March 2008; as of the close of the review period, only the president's signature was still missing.

As during the years before 2005, the Polish government today actively and successfully engages in and expands as many cooperative international relationships as possible. It particularly promotes regional integration with its eastern neighbors, with Lithuania, Belarus and Ukraine. In order to integrate these countries as well as the Caucasian republics with the West, Poland has jointly published an eastern strategy along with Sweden.

Regional  
cooperation

The PO government has also tried to enhance relations with Germany. Donald Tusk visited Angela Merkel in Berlin directly after coming into office. One of the major conflicts with Germany, or more specifically with the German expellees' organizations, concerns the mode of remembering this period after the Second World War. Ultimately, Warsaw agreed to drop opposition to Berlin's plans for a memorial for the expellees, which would serve as a contrasting action to the Center Against Expulsions initiated by the expellees. It also agreed to cooperate with Germany on several projects focusing on the 70th anniversary of Germany's attack on Poland and the beginning of the Second World War, in 2009. In addition, a history textbook designed for use in both countries was prepared by German and Polish historians.

The country's relationship with Russia has also been high on Tusk's agenda. His visit to Moscow in February 2008 was the first by a Polish prime minister since 2003. Tusk wanted to reach a compromise in the quarrel over a pipeline slated for construction under the Baltic Sea, as well as to reduce Moscow's concerns about the missile defense screen the United States then planned to erect in several Central European locations, including Poland. Despite the war between Russia and Georgia in August 2008, Poland's government tried to keep friendly relations with Russia, while President Kaczynski favored a stricter course against Moscow.

## Strategic Outlook

On the political side, the situation has developed positively in Poland. The current government has a clear and stable majority and is strongly supported by the public. With his reconciliatory approach to policy-making, the prime minister has calmed the polarized political climate, and his latest reform efforts in the health, social security and science sectors demonstrate his awareness of the most pressing problems in Poland.

However, the persisting cleavage between liberals (PO) and national-conservatives (PiS) in practice hinders effective policy-making. This is particularly true as state President Lech Kaczynski (PiS) perceives himself in the role of constant opposition to the government, and persistently tries to counteract its decisions by using his extensive veto rights. Unless this conflict is somehow overcome, it will remain very difficult to continue and implement necessary reforms. In this context, it may be understandable that Donald Tusk is likely to compete for the office of state president in 2010. But some observers worry that this will lead to a further standstill in policy-making, as Tusk seeks to avoid loss of public support by taking unpopular measures; this would further endanger further economic consolidation. An additional negative result of this struggle between prime minister and state president is in the field of foreign affairs, where Poland could again lose its reputation as credible partner if these personal conflicts reach a deadlock situation. The still-missing signature of the state president, necessary to conclude ratification of the Lisbon reform treaty, represents a major hurdle.

In addition to the political necessity of clarifying power relations between government and state president, and the need to calm tensions between the PO and the PiS, further economic initiatives have to be undertaken.

First, the labor market situation has to be improved. The decline in unemployment has been one of the major achievements of recent years, although this was not related to governmental action. Rather, increasing economic growth (above 6%, and thus the best performance since 1990) as an outcome of Poland's EU entry was largely responsible. As this decline did not substantially raise the employment rate, one of the government's major challenges will be to draw more inactive people back into the labor market. In order to increase the employment rate, the tax wedge on low-wage workers should be reduced, because this prices them out of the labor market and offers too few incentives to seek formal employment. A second obstacle to increasing the employment rate is presented by the country's underdeveloped infrastructure and high housing costs, which reduces workers ability to move or commute from high-unemployment regions to low-unemployment regions in the country. That this is not a mental problem for Poles is clearly indicated by their willingness to work abroad.

The second major field requiring action, reform of the science and education system, is closely related to the labor market. Here, the government has already announced some reforms, such as

the intention to raise levels of government funding for research and development, and to better coordinate the transfer of this sector's achievements to industry (and thus to the labor market). In this regard, it is important that the government sticks to its initial plans and improves the conditions for research and development.

Thirdly, the government has announced the aim of introducing the euro as Poland's currency by 2011 – 2012. In order to achieve this, the country has to enter the European Exchange Rate Mechanism (ERM2) in mid-2009. This makes it necessary to accelerate protections for fiscal and monetary stability, including bringing inflation under control and a further reduction of social security spending. The government will also have to achieve political consensus on the topic, since the adoption of the euro requires a constitutional change, which in turn will require a two-thirds majority.