OUR EUROPE: 15 YEARS OF POLAND IN THE EUROPEAN UNION

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OUR EUROPE: 15 YEARS OF POLAND IN THE EUROPEAN UNION

Values, institutions, freedoms, sectoral policies, problems and key challenges

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CASE – CENTER FOR SOCIAL AND ECONOMIC RESEARCH

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INTRODUCTION

European integration is the peaceful answer of European states to the dramatic events of the 20th century: bloody wars and the extermination of entire nations. At first, integration involved economic cooperation as part of the Coal and Steel Community, which brought about measurable and swift benefits, leading to the creation of the European Economic Community by France, West Germany, Italy, Belgium, the Netherlands and Luxembourg. Over time, other countries joined the European Economic Community and established the single market; in the 70s, it was Denmark, Ireland and the United Kingdom; in the 80s: Greece, Spain and Portugal; and in the 90s: Sweden, Finland and Austria. Its development required establishing European institutions and regulations to ensure the required freedoms throughout the Community.

As integration progressed along with globalisation, economic cooperation increased and paved the way for further political cooperation. This is expressed in the Maastricht Treaty of 1992, which announced the creation of the Economic and Monetary Union, and formally transformed the European Economic Community into the European Union (EU). Building integration on the grounds of economic freedoms, innovation and efficiency, the EU has increasingly stood up for human rights, civil liberties, rule of law, equality and the social foundations of people's lives. It implemented the values of solidarity and territorial cohesion, directing funds towards stimulating the development of neglected regions, as well as towards revitalising European cultural heritage. It promoted dialogue and agreement between all members, requiring that joint arrangements be respected and applied in domestic practice and establishing supervisory institutions and procedures. This closer integration was expressed in the 2007 Treaty of Lisbon.

In the early 21st century, countries from Central and Eastern Europe joined the EU after freeing themselves from the custody of the crumbling Soviet Union; they established democratic political systems and transformed their centrally planned economies into market economies. At the same time, they prepared their legal systems for accession. Poland signed its Association Agreement on 16 December 1991 and formally joined the EU on 1 May 2004.

For many compatriots, the Europeanness of Poland is obvious; for them, it is difficult to even imagine the fate of our country without participation in European integration. In particular, the young generation treats the great civilizational progress we have achieved thanks to our participation in the EU as something given and natural. However, we should be continuously aware of our starting point, of our journey, its benefits, and of how EU activities have contributed to it. Without this awareness, careful verification of facts and appreciation of our achievements, we are at a risk of falling prey to the unexamined arguments of opponents of European integration and making irreversible mistakes. This report was prepared for those who wish to know these facts. It attempts to assess the 15 years of Poland's membership from the perspective of experiencing the integration process along with its barriers and successes, as well as future challenges.

This report is the result of the joint work of a number of experts from various fields who have been—for many years—analysing the multidimensional effects of EU institutions and cooperation with Member States pursuant to European values and mechanisms. The authors summarise the benefits of Poland's membership in the EU based on facts; however, they do not hide their own views and reflections. They also demonstrate the barriers and challenges to further European integration.

This report was prepared by CASE, one of the oldest independent think tanks in Central and Eastern Europe, utilising its nearly 30 years of experience in providing objective analyses and recommendations with respect to socioeconomic topics. It is both an expression of concern about Poland's future in the EU, as well as the authors' contribution to the debate on further European integration.

Editorial team

PART I

EUROPEAN VALUES, FREEDOMS AND INSTITUTIONS

CHAPTER 1

JERZY WILKIN

VALUES, INSTITUTIONS AND MECHANISMS OF EUROPEAN INTEGRATION

ABSTRACT

Poland's membership in the EU should be viewed as a civilizational and developmental leap, as well as a reinforcement of the institutional foundations of the economy, state and civil society, the construction of which began along with the post communist transformation in 1989. The intense process of creating new institutions has always taken into account the EU's legislative body of work *(acquis communautaire)* and the consistent adjustment of domestic institutions to Community rules.

European civilization, the backbone of which is the EU, shaped all the properties and values that are highly esteemed by almost all democratic societies: numerous individual freedoms; strong democratic foundations, including respect for minority rights; international commonality and solidarity; openness to others; cultural, economic, environmental and social diversity; and striving for territorial, economic and social cohesion, as well as many others. This is a great civilizational achievement that can make Europeans proud. No one and no international group have been able to achieve this before.

Despite this achievement, the continued process of European integration has not been an easy one. Formal institutions have become compatible, but informal ones linked to cultural differences and national aspirations have started to threaten further integration. Therefore, it is more difficult for the Community to commence the next stages of integration, which are related to common defence and foreign policy as well as to the full membership of Member States in the Monetary Union.

VALUES, INSTITUTIONS AND MECHANISMS OF EUROPEAN INTEGRATION

Introduction

European integration, which began shortly after World War II, is the most ambitious and successfully executed civilizational project in history. It is a project largely based on the idea of institutional constructivism while maintaining democratic procedures. The success of European integration and its speed, scope and effects have depended on the possibility and ability to reconcile, harmonise and achieve developmental synergy between the institutional foundations of the European community that have been constructed from scratch and the extant, deeply rooted and extremely diverse formal and informal institutions within Member States. Importantly, this process is completely voluntary for participating states, and consensualism forms the basis for shaping the institutional order of the European community. The set of tools constituting the axiological foundation of European integration is the starting point for establishing this basis. A community of values is both a condition and road sign for creating all other dimensions and forms of the European community.

With its accession to the European Union (EU) in 2004, Poland became a member of the Community in an institutionally advanced form. On the one hand, this required launching a complex adjustment procedure, which resulted from, among other things, the wealth of EU acquis and the need to create domestic institutions that are compatible with EU institutions. On the other hand, it enabled Poland to take advantage of the wealth of EU ways of supporting the economy, society, culture and education of Member States. This process of adaptation was implemented efficiently in the country and brought many benefits. German sociologist Ulrich Beck thus spoke about Poland's accession to the EU: "The fact that Poland is a member of the European Union constitutes a historic achievement for both parties, one whose value is difficult to overestimate. There is no doubt that the European Union reinforces Poland, both its government and citizens, and does not limit Polish sovereignty, enriching it instead" (Beck, 2009).

Poland's membership in the EU constituted an important stage as well as an impulse for the next phase of institutional transformation that began with the systemic reforms of the late 1980s and early 1990s. In short, this could be called an expansion of freedom in all major spheres of political, economic and social life. Thanks to integration, civil freedoms guaranteed by EU legislation were increased and reinforced; the scope of economic freedoms has grown significantly thanks to participation in the European single market; and the opportunities for social institutions constituting the third sector with non governmental organisations as its foundation have increased. As a result of these institutional transformations, Poland has found itself at a new, much higher level of democracy, market economy and civil society. This civilizational and developmental leap is not properly appreciated, protected and reinforced in Poland, and symptoms of regress in the spheres of political, economic and social life have become noticeable in the last several years.

Box: Primary values of the EU

European states that voluntarily enter the EU declare that they will respect and observe the fundamental values that govern the lives of people, state organisations, social relations, relations between EU states, and the competence of EU institutions. Respect for human dignity, is a core value; it involves such rights as the right to life, the right to bodily integrity, respect for private life, the right to a trial (right of defence), and the protection of personal data. These rights are natural and inalienable. They place people in front of "authority" and sometimes in opposition to it.
Core values also include freedom, i.e. the self determination of a person expressed through freedom of speech, freedom of conscience, and freedom of belief and religion, expressed in a limited unity with "freedom from fear and freedom from want".

Two values are key in state organisation:
Democracy, which consists of making decisions over public matters as a result of open discussion and majority decision while respecting minority rights and observing the same right to vote and the same fundamental freedoms of all citizens.
Rule of law, which means the authority of law and—in a broader sense—the custom and legitimisation of the observance of law. In the European Commission's prescription, this means "a transparent, accountable, democratic and pluralistic process for enacting laws; legal certainty; prohibition of arbitrariness of the executive powers; independent and impartial courts; effective judicial review including respect for fundamental rights; and equality before the law".
Values concerning social relations include:
Equality, before the law, non discrimination, tolerance of otherness and equality of women and men.
Justice, which in relation to: 1) shaping socio political life means using objective criteria for assessing rights and obligations, merits and faults along with criteria that are identical for all citizens and social groups. It means impartiality in the operation of statutory, administrative, governmental, prosecutory bodies and law enforcement. In relation to 2) the sphere of labour, it means adapting the requirements in accordance with labour standards, which protects workers' rights, ensures safe working conditions and the right to information and development, and guarantees appropriate remuneration.
Solidarity means the variable—depending on the wealth of a given Member State—participation in expenditures for operations aimed at the common good of EU citizens, while accepting the variable benefits (preferences for poorer countries and regions) intended to achieve cohesion in the conditions of life. This is particularly visible in agricultural policy, regional policy, and the development of the EU's social policy.
Subsidiarity defined as maintenance of complete individual freedom along with responsibility for decisions concerning matters that are closest to the lives of citizens, i.e. matters they can and should manage themselves, as well as the delegation of decision making concerning more remote matters that require joint and public actions to other institutionalised branches. The principle of subsidiarity also involves the division of public finances and economic policy, and it translates to the requirement of own contribution when supporting (subsidising, sponsoring) individuals and economic entities.
Freedom of assembly and association mean that everyone has the right to freely and peacefully assemble and associate at all levels, especially in political, union and civil matters, which means that everyone has the right to create and join unions to protect one's interests.
Social dialogue constitutes an obligation to consult and negotiate matters that are decided upon by various entities, primarily by social partners (trade unions and grassroots organisations, unions and associations of employers) and governments, to reach an understanding and to continuously observe it, particularly with respect to labour relations and matters concerning the actions of local authorities. Social dialogue is a platform for social participation in decision making regarding public matters.
Also of significance for the EU as an economic community are economic values, the objective of which is to provide prosperity to citizens based on the freedom of establishment and the rules of effective management. They include:
Right to property, which is both an expression of freedom and an economic right at the same time. It means that everyone has the right to own, use, dispose and bequeath his or her lawfully acquired possessions. The use of property can be subject to statutory arrangements to the extent it is necessary due to the legally defined general interest and for compensation.
Freedom of establishment allows for the opportunity to establish, run, suspend and close businesses. It is a condition of entrepreneurship. It also guarantees individuals and enterprises an unbounded opportunity to choose the seat of their business within the EU.
Freedom to provide services confers the right to provide services by an entity seated in one of the states of the EU to entities from other Member States without the need to own any permanent establishment, subsidiary or agency in these states.
Competition and combating monopolies ensure the effectiveness of the market mechanism through regulations on equal access to information, credit facilities, labour resources and other economic assets, as well as equal opportunities of distribution and sales. Competition is protected by law as a public interest. In economic practice, we introduce institutions that provide conditions for the effective operation of competition as part of antitrust policy.
State aid is the principle where the state supports economic activity in Member States as a kind of activity that is regulatorily directed by the EU while being limited.
Sustainability of public finances constitutes a requirement for Member States to balance public spending and revenue according to EU fiscal rules (the Maastricht criteria), which involves reducing public debt and the budget deficit. This principle has been written into the Polish constitution— Article 216, item 5 states that the public debt cannot exceed 60% of the annual gross domestic product.

In its catalogue of values, the EU also emphasises the grounds for relations between states. They include:
Integration while maintaining national and cultural diversity, in keeping with the motto "united in diversity". The EU respects the national and regional identity of Member States.
The principle of mutual trust between the Member States.
Freedom of movement and residence of citizens of the EU and their families within the EU constitutes the basis for EU citizenship. Freedom of movement was adopted as part of a directive (2004/38/EC) after the gradual abolition of internal borders under the Schengen Agreement.
Territorial cohesion, the objective of which is to ensure the harmonious development of European countries by bridging the differences that exist between individual regions and by reducing the disadvantage of less developed regions.
The EU operates based on the principle of its limited competence, which has its origin in the Treaties.
EU institutions are obligated to observe the principles of proportionality, subsidiarity, loyal cooperation and inter-institutional equilibrium.

Author: Stanisława Golinowska

Main stages of institutionalisation of European integration

Since the first founding treaties of the EU, the construction of the institutional structure of European integration was based on the philosophical and praxeological principles of subsidiarity. Chantal Millon-Delsol (1996) explains these principles of a normative nature as follows: "In Latin subsidium means help, support, reinforcement. The very concept contains a certain purpose assigned to political authority that appears not to continue maintaining a higher order, or to make some moral idea a reality, but to help members of society attain their own goals. (...) In fact, the principle of subsidiarity assumes the existence of a socio-political organization wherein competences or capacity for action are first attributed to social actors. If actions of these actors prove insufficient, then these competences and capacities are transferred to more complex higher instances, to finally—if no social initiative proves effective—become a responsibility of the state." Let us add: after creating the European Community, to also become the partial responsibility of the Community's bodies, as per the aforementioned principles.

Another institutional issue that has lately become a source of political dispute and controversy is the issue of the competences of the bodies of Member States and the Community and of the sovereignty of these states in light of EU legislation. The Treaty on the European Union clearly covers these issues in Article 5, paraFigure 2: "The Union shall act only within the limits of the competences conferred upon it by the Member States in the Treaties to attain the objectives set out therein. Competences not conferred upon the Union in the Treaties remain with the Member States." According to Robert Grzeszczak: "Conferring competences upon EU bodies is a limitation of the execution of sovereignty, not a limitation of sovereignty itself. EU bodies can exercise these competences precisely because states have authorized them to do so. They do not have the attribute of sovereignty themselves" (Grzeszczak, 2017).

Institutionalisation of the process of European integration in its first phase focused on creating the foundations of the economic community. It is not a coincidence that the most important founding treaty, the 1957 Treaty of Rome, adopted the name "Treaty establishing the European Economic Community". Article 2 of this treaty states: "It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States." The primary institutional endeavour of the European Economic Community (EEC) was the customs union. Abolishing customs and the quantitative limitations within the Community and establishing a system of undisturbed competition on a common market became the main objective of this first stage of integration. Naturally, this required the substantial harmonisation of the domestic legislation of Member States. It was assumed that the creation of a common market would take 12 years. Furthermore, it was decided to establish institutions that allow the execution of community policies, the most important of which was the common agricultural policy. This treaty also stipulated the creation of the European Social Fund and the European Investment Bank. Common interests, particularly economic ones, were deemed by the founders of the EEC and two other communities (European Atomic Energy Community and the 1951 European Coal and Steel Community) the most effective integration platform in Europe. The correctness of this direction has been confirmed by the subsequent stages of European integration. Today both “old” (EU 15) and “new” (EU 13) Member States commonly perceive the economic benefits of integration as the most significant.

This direction and basis for European integration were not so obvious for its “founding fathers”. They emphasised the weakness of the cultural and ideological foundations of integration, which was made apparent later, after accepting 11 post socialist countries into the EU. Bronisław Geremek, enthusiast and committed participant of the integration of these countries with the EU, wrote: “It would seem that Central European countries situated in the periphery of the West stand out with their European aspirations primarily because their European calling and association had been continuously questioned. Indeed, there is a dramatic dissonance between the unwavering desire to bond with European values and the spiritual weakness of the European idea. It is said that the founding father of the European structure, Jean Monnet, declared near the end of his life that if it were possible to begin anew the composition of European community, he would like it to begin with culture” (Geremek, 1995).

The scientific literature on the significance of institutions in the operation and development of societies distinguishes between two basic groups of institutions: formal and informal. The former, formal groups, primarily include legal standards established by public authorities, state institutions created to regulate political, economic and social life, as well as organisations created to implement the interests of various groups operating in a given country, including economic organisations. The latter, informal, are largely associated with broadly defined culture. This includes traditions, moral and ethical norms, religion, shaped behavioural patterns, observance of law, and many other things. While formal institutions can be changed substantially and relatively quickly, as shown by Poland’s systemic transformation during the first few years after 1989, adaptation of its legislation to EU criteria following its accession to the EU, and lately (after 2015) the dismantling of important public institutions, the latter are much more permanent. Informal institutions typically form over long periods and are deeply rooted in human minds, which means they change slowly. Many experts on institutions assign a much higher significance to informal institutions than to formal ones. In this context, J. Monnet’s opinion might be correct. For the institutional system upon which a given state relies—or an international formation such as the EU—to be stable, effective and efficient, a melding of formal and informal institutions must take place in a manner that is as harmonious and comprehensive as possible. It is one of the conditions for achieving the dynamic institutional equilibrium. Many social issues such as corruption, failure to respect the law, low quality of governance and intolerance, among others, particularly in new Member States, stem from the weakness, inconsistency and immaturity of the institutional system. While this system has been expanded and reinforced upon Poland’s accession to the EU, the symptoms of corruption of important public institutions in Poland intensified after the 2015 elections.

The Maastricht Treaty which established the EU was adopted in 1992. It was a milestone in the history of shaping the institutional foundations of European integration. The EU became the legal successor of the three European Communities that preceded it. The fundamental significance of this treaty comes from the establishment of the EU, which is a legal and institutional entity that constitutes the next stage of integration; however, it also launched the Economic and Monetary Union, formulated convergence criteria and established EU citizenship. It systematised the organisational and institutional structures of the Community by reshaping the European Council, the Council of the European Union, the European Commission and the European Parliament and by reinforcing its institutions of control: the European Court of Justice and the European Court of Auditors. The Maastricht Treaty paved the way for the next stage of integration—the Monetary Union of EU Member States.

The development of the EU as the largest international formation based on the principles of universal and widening integration required the creation of institutional foundations of a constitutional nature. One attempt to create such a document was made in 2001-2004, the result of which was the adoption of the Treaty establishing a Constitution for Europe. However, this treaty was not accepted by two Member States—France and the Netherlands—and thus did not enter into force. This persuaded the EU to work on creating a less controversial constitutional treaty (one which did not include “constitution” in its name). The result this time was the 2007 Treaty of Lisbon. Among other things, this treaty introduced the positions of the President of the European Council and the High Representative of the Union for Foreign Affairs and Security Policy. It also systematised many other issues, including the possibility of withdrawing from the EU, the significance of the European Parliament, the number of Members of European Parliament (MEPs) and of commissioners, among others. The 2007 Treaty of Lisbon enabled the EU to ascend to a higher level of integration and facilitated the operation of the Community's bodies. Subsequent stages of integration that require forming institutional foundations include, in particular, establishing a common foreign policy and creating the foundations of European defence policy. The monetary integration of Member States also needs to be completed.

European integration relies on the creation of institutions that conform to the principle of subsidiarity, improve the prosperity and quality of life within the Community, facilitate the improvement of spatial, social and economic cohesion, and enable us to fully realise the values that form the axiological foundation of the European community. This is what the broadly defined added value of European integration means.

The advantage of good, efficient institutions is that, among other things, they reduce transaction costs. This not only makes economic transactions easier, cheaper and faster, but it also makes the daily lives of EU citizens more comfortable. This relationship can be demonstrated using three examples. The first is the Schengen Agreement (1985) which abolished border checks between the member countries of the agreement. The agreement was signed by 26 countries, including four outside the EU. Thanks to this, travel across Europe is now much more comfortable and does not require as many bureaucratic procedures (visas, border checks, passports etc.), which saves travellers time. The second example: "In 1987, a single administrative document (SAD) was introduced, which replaced 70 different forms and established a system of codes instead of text records. In 1993, it allowed countries to gradually abolish border checks and customs offices. It eliminated 50-60 million customs forms per year and reduced employment by approximately 130 thousand customs officers, which resulted in saving many billions of euro each year" (Michałek and Wilkin, 2019). The third example: after almost ten years of attempts made by the European Commission, roaming charges (for mobile phone connections and data transfer) were abolished within the EU, which made telecommunications services cheaper by over 90%. Other examples abound.

Institutional threats and EU development dilemmas

The violation of the rule of law by certain Member States has been one of the largest institutional threats that has occurred in the EU over the last few years. The majority of these issues have taken place in Poland and Hungary. According to Jan Barcz, the EU has been encumbered with the need to build a "system of protection" against the actions of non law abiding Member States: "The Union must also think about maintaining its own cohesion and efficiency, especially if lawlessness in a Member State begins to take a permanent and irreversible form. There is no place for a lawless state in the structure of European integration. The process of integration is linked with the democratic regime of participating states, whereas nationalism and populism involve disintegration; they are the antithesis of integration" (Barcz, 2019).

Polish (since late 2015) and Hungarian governments, in seeking increased control over all key areas of social, economic and cultural life, have been calling for limiting the competences of EU bodies and increasing the institutional autonomy of Member States, thus weakening integration. These governments have been accentuating the economic benefits of the EU (the common market) while ignoring the other values, goals and benefits of European integration. The aforementioned countries question the need to fulfil the treaty obligation (contained in the accession treaties of new Member States from 2004) to join the euro area. They also express aversion to commencing the subsequent stages of integration, such as the political union and ultimately the defence union.

The eurozone already includes 19 Member States. After the United Kingdom's withdrawal from the EU, only eight countries will remain outside this zone, three of which (Bulgaria, Romania and Croatia) have expressed the desire to adopt the euro as soon as possible. Among the post communist countries that joined the EU in 2004, only Poland, Hungary and the Czech Republic have declared an express reluctance to join, effectively becoming European integration critics and an obstacle for further integration. At the same time, it has become increasingly obvious that membership in the eurozone is essential in order to take full advantage of the benefits of EU membership.. This can lead to an institutional disintegration of EU (a two speed Europe, the creation of new institutions only for members of the eurozone, and others).

European civilization, whose backbone is the EU, shaped all the properties and values that are highly esteemed by almost all democratic societies: individual freedoms; strong democratic foundations, including respect for minority rights; international commonality and solidarity; openness to others; cultural, economic, environmental and social diversity; territorial, economic and social cohesion; and many others. This is a great civilizational achievement that can make Europeans proud. No one, and no international group, has been able to achieve this before.

Europe is defined by a sense of community, historical heritage and cultural distinctiveness, not by its territorial boundaries. Territorial boundaries in Europe have changed frequently, and the boundaries of the EU itself also change. One of the most important features of Europe is its "unity and sense of community in diversity. [...] the entire history of Europe tells us that unity can be created only on the basis of the diversity of nations. The European geoFigureical and historical diversity that we should respect requires the existence of complementary structures that protect the wealth and diversity of each of its components. This diversity has characterized Europe for a very long time" (Le Goff, 2006). A stronger and more integrated EU is not a threat to this diversity.

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CHAPTER 2

JOANNA KONIECZNA -SAŁAMATIN

MIROSŁAWA MARODY

MAJA SAWICKA

EUROPEAN VALUES THROUGH POLISH EYES

ABSTRACT

Three dimensions of attitudes towards the European Union were analysed: general attitudes toward Poland's membership in the EU, changes in attitudes and values constituting the axionormative core of the EU and the penetration of the daily lives of Poles by Europeanness. According to the analysis, Poles have been expressing a high degree of satisfaction with Poland's membership in the EU for many years; there is also a relatively high level of trust in this institution.

Changes in attitudes and values recorded in the period between 1990 and 2017 show a significant increase in the appreciation of democracy as a form of governance and gender equality; in recent years, freedom related aspirations have also increased, as well as the level of tolerance for minority groups.

Experiences (direct or mediated) of life in EU countries have been increasingly often viewed as a frame of reference through which people assess their own lives and the operation of state institutions. These assessments impact the expectations raised with respect to the Polish state and the shaping of Polish identity.

EUROPEAN VALUES THROUGH POLISH EYES

Introduction

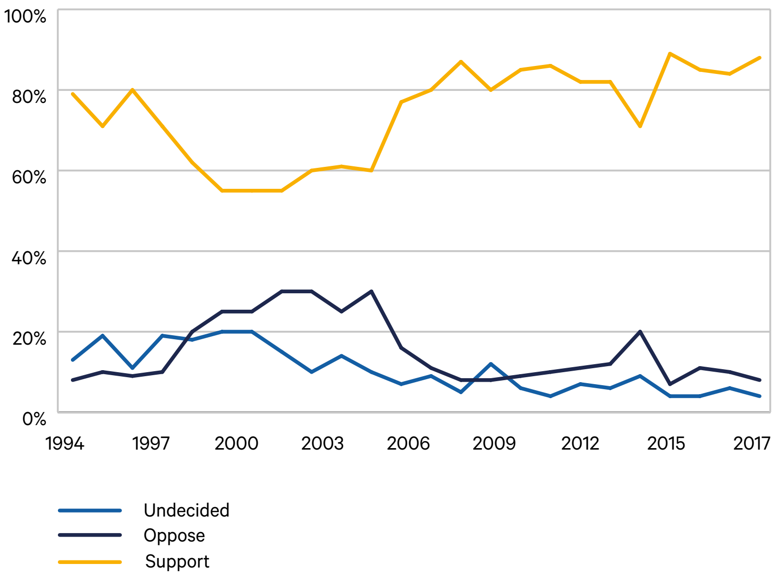
Poland has been a member of the European Union (EU) since 2004; however, the actual process of its integration with the EU began ten years earlier in 1994 when its membership application was filed. From the beginning, mentioning the economic and political benefits of EU accession has been accompanied by a discussion on European values. This axiological dimension of the EU has been gaining significance again due to the deepening of the political crisis within the EU itself and within its Member States. European values will be crucial in solving this crisis; these values include both the general perception of the EU and acceptance of the individual normative assumptions that form the basis of European integration, as well as the perception of the Polish situation in relation to Europe[1].

Attitudes towards the European Union

In light of the results of many years of public opinion research, we can state that Poles are significantly pro European. Since Poland's accession to the EU in 2004, studies have constantly shown a very high percentage of supporters of Poland's membership in the EU, with figures oscillating around 85% (Figure 1). At the same time, the analysis of trends shows that the pro European attitudes of Poles were somewhat affected by both the intensification of anti EU sentiments in Polish political discourse (e.g. during 1998-2004, the years preceding accession) and by negative economic events within the EU itself (e.g. the 2013 Cypriot financial crisis). Nonetheless, even in these cases, the percentage of supporters of Poland's membership in the EU did not drop below 50%.

Figure 1. Attitude of Poles toward Poland's membership in the European Union

Source: CBOS, Survey report No. 50/2017.



1 This analysis is based on data collected as part of the National Science Centre funded project No. 2016/21//B/HS6/03199, which involved the preparation of the Polish version of the international European Values Study (EVS). The EVS was conducted in Poland four times: in 1990, 1999, 2008 and 2017, which allows us to analyse changes in the values of Polish society.

Data from the European Values Study (EVS) from late 2017 demonstrate that Poles currently think of themselves, in general, as Europeans: almost three-fourths (73%) stated that they feel a connection to Europe (and for 22%, this relationship is a very close one) and nearly one-half trust the EU (and 9% trust it a great deal). However, the more important matter is that this relationship is not just a declaration made in response to a question directly stated in the survey. Analyses of available data demonstrate that differently understood Europeanness is connected to accepted values and that these values are different depending on how one perceives Europe and Europeanness.

From a citizen's perspective, the EU is an institution that impacts public life, and trust in institutions is an important part of social capital. Within the last 30 years in Poland, we have been observing a continuous rise in negative attitudes—as measured by a decrease in social trust—towards nearly all institutions of the system, both those strictly political and those that comprise the broader state infrastructure. The Sejm lost the most in these assessments—trust in the Sejm dropped from 67% in 1990 to 22% in 2017. Political parties were ranked the worst; in 2017, only 10% of interviewees declared trust in them. State administration bodies and the police are exceptions, recording increased trust[2].

Table 1. Trust in the EU and Polish system institutions (in %)*

Data source: EVS 1990, 1999, 2008, 2017.
* Summed percentages of answers "a great deal" and "quite a lot."
n.a.: not asked

Institution	1990	1999	2008	2017
Government	n.a.	n.a.	23	26
Sejm (lower house of the parliament)	67	33	20	22
Civil service	37	33	31	41
Political parties	n.a.	n.a.	12	10
Education system	80	81	71	72
Police	34	55	58	62
Social security system	41	39	27	36
Health care system	n.a.	57	44	47
Justice system	53	42	44	37
European Union	59	43	56	49

Compared to this, trust in the EU is characterised by relative stability. Its highest level was recorded at the beginning of the transformation period (nearly 60%); in the pre–accession period, it dropped to 43%, only to rise to 56% upon Poland's accession to the EU and then drop to 49% in 2017. Between 2008 and 2017, the structure of its links to other components of social capital also changed. In 2008, people trusting the EU also tended to trust other public institutions, both domestic and international, whereas people distrustful of the EU declared a lack of confidence in all other institutions as well. In 2017, changes took place—people trusting the government tended to distrust the EU. At the same time, trust in the EU began to relate to a more general attitude of trust to other people, expressed in the acceptance of the sentence "most people can be trusted." Among people accepting this statement, as many as 63% declared trust in the EU, while only 44% of people stating that "you can't be too careful in dealing with people" declared trust in the EU. When closely analysing the changes in attitudes towards the EU within the last ten years, we can state that the drop in the level of trust between 2008 and 2017 was the most noticeable among people born in 1968-1990, i.e. in the category that can be termed the middle generation. This is particularly visible among people born in 1981-1990: ten years ago, this age category demonstrated the highest percentage of trust in the EU; today, this value dropped by 16 percentage points. In the youngest age category (people born in 1991-2000), the percentage of people trusting the EU is slightly higher than that of those who don't trust the EU.

2 This can relate to the perceived increase in the professionalism of their operation.

In 2008-2017, the level of trust in the EU decreased across all education categories, but the highest drop (from 66% in 2008 to 46% in 2017) was identified in the group of people with a bachelor's degree and (a slightly smaller drop by 16 percentage points) among people with secondary vocational education. As a result of these changes, in 2017, people with master's or doctorate degrees were the only education category where people trusting the EU outnumbered those who do not. No significant relationship was identified between trust in the EU and the affluence of citizens—small differences between income groups did not form any consistent pattern.

Attitudes toward European values

The EU is not just a powerful international institution. It is also a specific set of values that inform the political and economic solutions adopted by the EU. Article 2 of the Treaty on the European Union states that "The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail"[3]. Poland's accession to the EU should therefore result in the increased acceptance of the values listed in this article.

A review of results from four EVS surveys conducted in Poland shows that this is, in fact, true (Table 2). Let us begin with the fact that, between 1999 and 2017, the percentage of people who believe that a democratic system is a very good way of governing our country more than doubled[4]. In 2017, the combined answers of "very good" and "fairly good" amounted to over 90%; only 8% of surveyed people believe this system is unsuitable. A significant correlation was identified between the strength of conviction that democracy is an appropriate system of government for our country and the level of trust in the EU[5]. Of note here is the fact that people distrustful of the EU are simultaneously more inclined towards valuing a political system based on the authority of a strong leader who does not have to bother with parliament or elections[6].

The attachment to democracy as a method of governance should correlate with the desire to take advantage of the possibilities offered by this system, i.e. with the expectation of an increasingly larger participation of citizens in governance. In the EVS, this desire is termed freedom aspirations, and it is measured by the frequency of choosing as the most important or next important responses that indicate "protecting freedom of speech" and "giving people more say in important government decisions" as the most important goals for the country[7]. According to the data in Table 2, freedom aspirations measured in this manner increased significantly between 2008 and 2017; the number of respondents for whom this parameter equals 0 dropped from 37% to 20%.

3 https://eur-lex.europa.eu/legal-content/PL/TXT/?uri=CELEX:12012M/TXT [last accessed 8.07.2018]

4 In the survey, respondents were asked to assess various systems of governance and indicate whether they believe a given system to be a very good, fairly good, fairly bad or very bad way to govern our country.

5 Spearman's rank correlation coefficient is 0.158 ($p < 0.001$).

6 Spearman's rank correlation coefficient is -0.13 ($p < 0.001$). The correlation is negative, i.e. people with a higher level of trust in the EU are more inclined to view a strong leader system as unsuitable for our country and vice versa—those distrustful of the EU are inclined to support such a system.

7 The two remaining answers to this question are "maintaining order in the nation" and "fighting rising prices". The freedom aspiration index can take values from 0, when the respondent does not select any "freedom" opinion as the first or second response; 1, when they select one of them as the second most important response; 2, when they select one of them as the most important response; and 3, when they select both of them.

Table 2. Changes in European values (in %)

n.a.: not asked
[a] Question added to the EVS in 2017. Percentages for 1999 and 2008 come from 1995 and 2005 World Values Survey.
[b] "agree strongly + agree"; in prior versions of the questionnaire, there were only two answers: "agree" and "disagree".

OPINION	RESPONSES	1990	1999	2008	2017
Method of governance: Having a strong leader who does not have to bother with parliament or elections	very good +	n.a.	8	4	2
	fairly good		22	21	14
Method of governance: Having a democratic political system	very good +	n.a.	24	24	45
	fairly good		64	86	91
Freedom aspiration index	3	9	7	7	25
	3+2	32	31	33	52
When a mother works for pay, the children suffer	agree strongly	59	24	13	14
A job is alright, but what most women really want is a home and children		41	25	13	11
On the whole, men make better political leaders than women do[a]		n.a	25	11	4
When jobs are scarce, men have more right to a job than women	agree	56	35	22	24[b]
Would not like to have as neighbours:					
· Jews		18	26	18	10
· homosexuals		71	55	53	30
· immigrants		10	25	18	21
· Muslims		20	25	25	35
· people of a different race		17	18	12	8
Mean number of rejected groups		1.34	1.49	1.22	0.98
There is only one true religion		n.a.	n.a.	30	24

Note the fact that the level of freedom aspirations in the analysed period increased more or less similarly in all generational categories. The change from the perspective of the citizens' level of education was the most spectacular: although all education categories involved an increase in these aspirations, it also turned out that the higher the education level, the larger the growth of the percentage of people with the highest freedom aspirations (index value = 3); among people with a master's degree, the level increased by 30 percentage points (from 9% in 2008 to 39% in 2017), while among people with primary education, it increased by 9 percentage points (from 4% to 13%). It was also observed that the high level of freedom aspirations is clearly linked (Spearman's rank correlation coefficient r = -0.231) to the lack of satisfaction with the operation of the political system in Poland.

The most significant changes took place in attitudes concerning the equality of women and men. As an index of attitudes in this area, the EVS adopted a ratio of statements describing traditional gender roles. According to the data in Table 2, within the last 30 years, the percentages of absolute approval for all of these opinions have dropped sharply. It was observed, however, that the indices of traditionalism related to the sphere of family life have no relation to Poles' attitudes towards the EU—they are not correlated with the level of trust in the EU. In other words, it seems that the potential Euroscepticism of certain Poles does not stem from their attachment to the traditional model of family and traditional gender roles, nor does the positive attitude towards the EU correlate with the rejection of traditionalist attitudes.

Another fundamental value for both democracy and the construction of a true European community is tolerance of otherness. In the EVS, this issue was studied by asking respondents who, among representatives of different groups, they would rather not have as neighbours. For the purpose of this analysis, a simple rejection index was created including people of different races, foreign workers, Muslims, homosexual people and Jews. This index could take values from 0, if the respondent did not exclude anyone as a potential neighbour, to 5, if they excluded representatives of all of these groups. Between 1990 and 2017, the rejection level for the aforementioned five groups slightly decreased from 1.34 to 0.98. We should point out here that this change took place despite the significant rise in the rejection of immigrants and Muslims as potential neighbours, with a similarly significant drop in the rejection of the representatives of the remaining groups (Table 2).

At the same time, this index has become meaningful in the context of pro–European attitudes. In 2008, it was not correlated with the level of trust in the EU. Nine years later, the correlation between the level of aversion to the nearby presence of different races, immigrants, Muslims, homosexual people and Jews and trust in the EU turned out to be significant[8] (more tolerant people are simultaneously inclined to trust the EU). The level of this trust decreases with decreasing levels of tolerance. Also of note is the fact that the tolerance index discussed here is negatively correlated with trust in the government as well, which was not observed before—people trusting the government exhibited a lower level of tolerance and vice versa.

Another tolerance index that is of particular significance for Poland as a highly religious country was the question about the position of the respondent's religion in relation to other religious systems. Contrary to expectations, Poles selected the option "there is only one true religion" relatively rarely, typically allowing other religious systems to contain certain basic truths. Moreover, between 2008 and 2017, the frequency of selecting "there is only one true religion" dropped from 28% to 23%.

Europe and the EU as a frame of reference

The satisfaction with integration, trust in the EU and sense of closeness with Europe identified in the quantitative research are certainly important findings; however, one could suspect them of some declarativity because these reactions may have been caused by directly asking the survey's questions. Therefore, conclusions from qualitative research[9] seem much more important and show that Europeanness has permeated the daily lives of Poles, becoming a frame of reference for assessing surrounding situations. It is a significant change because the time of the Polish People's Republic was typically this frame of reference in the early period of the system transformation. Currently, European countries and even Europe as a whole have become a model or even benchmark which people use to assess their own lives and the operation of the Polish state.

The primary basis for this change (other than the obvious generational change) is one of the key freedoms guaranteed by EU treaties—the freedom of movement between Member States. Our respondents often recalled their own experiences from living abroad or tales told by their friends who were there. According to expectations, a higher quality of life and a better social security system were pointed out relatively often. However, a similarly common thread in these statements was contemplation on the differing quality of the operation of institutional structures and interpersonal relationships, especially those characterised by an asymmetry of knowledge and/or power.

During our group interviews, we had the opportunity to listen to a number of stories based on this theme. For example, we heard about an interviewee's friend who was hospitalised in Belgium due to a spinal disc herniation and two hours later his surgery was finished. An account of a trip to the Netherlands where a drunken friend sitting on stairs was approached by a police officer who asked if they were all right and if they needed any help. Memories of a visit to a clinic, also in the Netherlands, during which the physician left his office, greeted the patient by shaking hands and explained everything carefully. All of these tales were mentioned in the context of similar but negative situations encountered in Poland.

8 Spearman's rank correlation coefficient is 0.227 ($p < 0.001$).

9 Our project covered—in addition to the EVS questionnaire—12 focus groups and an analysis of selected social media.

Such daily closeness of Europe is a new experience that strongly impacts the expectations raised against the Polish state, which is perceived in this context as less effective, less just and more strongly separated from an average citizen. However, it is also an experience that influences how Poles' identities form, because it imposes comparisons between the realities implemented in Poland and in European countries. The effect of these comparisons is the formation of three generally separate representations of relations that link Polish identity to European identity. The first and most common is the representation of Europe as an "older brother" and the corresponding attitude of "younger brothers," where the dominant feeling is the sense of inferiority. It is accompanied by a perception of Poland as a country that is not as good to live in compared to other European countries and by a perception of Poles as a nation less civilised than other European societies. The second representation places European countries among those who "got lost", abandoning "truly European values", the core of which is the Christian faith. This relationship is fuelled by a feeling of superiority—Poles are presented as "curators of European values". They are also given the right to decide the degree of the Europeanness of individual axiological orientations. Finally, the third representation states that Poland is simply a part of Europe and is linked with it by a relationship of equality and that Poles are simply Europeans. This attitude is not accompanied by any clear emotion; it is characterised by openness to the values and ideas offered by the EU while remaining relatively free of inhibitions and complexes.

These three types of representations together form a symbolic set of thoughts and emotions used by Poles when it is necessary to present their positions on issues raised in public debate.

Summary

- In public opinion research, Poles expressed a high level of satisfaction with Poland's membership in the EU. There was also a relatively high—especially in comparison with domestic institutions—level of trust in the EU.

- Changes in responses were collected between 1990 and 2017 and indicated increased acceptance of the attitudes and values that formed the basis for the Treaty on the European Union. Appreciation of democracy and gender equality increased significantly; freedom aspirations increased sharply and the level of tolerance for minority groups increased as well.

- Changes in attitudes towards the EU and changes in values were impacted by public discourse—both by the existence of anti EU sentiments during certain periods and by the emphasis placed on threats related to the inflow of immigrants and Muslims.

- Daily life in EU countries has been increasingly often used as a type of benchmark through which people assess their own lives and the operation of state institutions. These assessments impacted the expectations raised with respect to the Polish state and the shaping of the Polish identity.


POLSKA

CHAPTER 3

PAWEŁ KACZMARCZYK

FREE MOVEMENT OF LABOUR

ABSTRACT

Although the freedom of movement of labour has been—since the Treaty of Rome—one of the four fundamental principles of freedom upon which the European Union (EU) is built, its practical implementation raised a number of controversies during the negotiations preceding the expansion of the EU around 15 years ago. The key factor was the common belief that combining the very large migration potential of new Member States with high income inequalities between the old and new EU countries would result in a mass migration of workers from the Central and Eastern Europe. And this is precisely what happened.

The increase in labour migration from new Member States has permanently changed the population structure of many Western European countries. It did not, however, pose a threat to the labour markets or social security systems of the host countries. In fact, migration had a positive impact on labour markets, especially in countries that were the first to welcome people from Central and Eastern Europe (i.e. primarily the United Kingdom and Ireland). An assessment of migration, including its impact on public finances and inequalities, is also positive. However, this does not change the fact that the influx of workers from the new Member States had redistributive effects that led to fears on the side of receiving populations that immigrants may limit the welfare state achievements, particularly at the local level.

The effects of migration for countries of origin—including for Poland—are difficult to assess unequivocally, although the net result is rather positive. The hypotheses on “exporting unemployment” or “brain drain” do not fully reflect the effects of the post accession migration. In fact, migration revealed the existence of significant reserves of activity and the bravery of the people who took responsibility for their own future. By entering new and unknown labour markets, they exhibited the ability to adapt to changing conditions, e.g. as shown by their behaviour during the economic crisis of 2008. Even if they didn’t always achieve spectacular success in terms of labour market position or salaries earned, they supported household budgets and were often able to accumulate capital necessary to launch their own businesses.

FREE MOVEMENT OF LABOUR

Introduction

The freedom of movement of labour is one of the four core principles of freedom upon which the European Union (EU) is built and which are intended to guarantee the effective operation of the internal market understood as a space wherein people, goods, services and capital can travel freely in order to increase the welfare of Member States. In the case of the 2004 enlargement (and similarly, in 2007), this freedom raised fears on both sides: for potential "host" (old EU) countries and potential "origin" (new EU) countries. First, differences in the income and conditions of life of citizens from both groups of countries were significantly greater than in the case of previous enlargements. Second, the new Member States, on accession, were all still undergoing socio economic transformations, and their institutions were still far from being fully effective. Third, despite existing historical migration links, migration flows were strictly regulated by migration policies prior to the enlargement. A good example would be Poland-Germany relations: despite the very large migration potential, flows between both countries were generally limited to people with German origin ('ethnic Germans') or to those moving under the bilateral agreement of 1990 (Kaczmarczyk, 2010). Fourth, the population of the EU upon enlargement increased by approximately 25%, which definitely constituted a serious challenge for the single European labour market.

EU law stipulates the possibility of a (temporary) limitation of the freedom of movement of labour, and this solution (transitional arrangements) was introduced when the EU was joined by new countries (in 2004 and 2007), including by Poland. Solutions negotiated with the eight acceding countries on 1 May 2004 and the two which acceded on 1 January 2007 intended to create a kind of space for "controlling" the inflow of "new Europeans", thus reducing the risk of the threats expected in EU-15 countries[1]. These solutions were clearly part of EU and domestic political games; however, they also had a significant practical dimension. They split the integration process with respect to the movement of workers over many years, and in fact, those decisions on opening (or not) certain labour markets could influence changes in migrant directions and strategies[2].

Similarly crucial was the first enlargement, wherein only three countries (Ireland, Sweden and the United Kingdom) opened their labour markets (while maintaining partial control over access to social benefits); however, the scale of migration was so great that the approach applied to Bulgaria and Romania was much more restrictive.

Post accession migrations: new Member States and Poland

Available data indicates that migrants from new Member States became a dominant force in migration flows to EU 15 countries, and this trend lasted until the—short term, as it turned out—refugee/migrant crisis of 2015-2016. In 2008, the peak year with respect to migration from Central and Eastern Europe, the mobility of citizens of new Member States constituted over 60% of total internal EU migration and approximately 20% of all migration flows registered in the EU.

1 Although, the political discourse naturally featured arguments indicating the need to also protect acceding countries, i.e. transitional arrangements observed the principle of reciprocity in all cases.

2 This is a phenomenon called the diversion effect, which suggests that along with the change of the institutional environment, a "diversion" of migration flows to countries with more friendly migration regimes would occur (Brücker et al., 2009). In the case of Polish migration, this phenomenon was questioned multiple times (cf., among others, Okólski and Salt, 2014).

Post accession migrations (from the EU 10) have become so massive that they were perceived as one of the most important mobility processes in modern Europe. Based on Labour Force Survey (LFS) data, it was estimated that citizens of new Member States residing in the EU 15 between 2003 and 2009 tripled, the effect of which was the significant increase in the percentage of mobile Europeans in relation to the populations of both the origin and host countries. Within the first ten years since the 2004 enlargement round, the number of citizens of EU 10 countries residing in "old EU" countries increased from 1.1 million (2004) to over 6.1 million (2014), which translates to the annual (net) influx of approximately 500 thousand people. The majority of changes took place in the years directly following the enlargements (Fihel et al., 2015).

The scale of the described phenomenon is best exemplified by comparing several selected EU 10 countries with countries outside Europe that seem comparable with respect to the level of development and mobility patterns (Figure 1A).

Figure 1A. The pool of migrants from selected EU and non-EU countries in other OECD countries

Source: Own elaboration based on OECD data (Database on Immigrants in OECD Countries – DIOC).

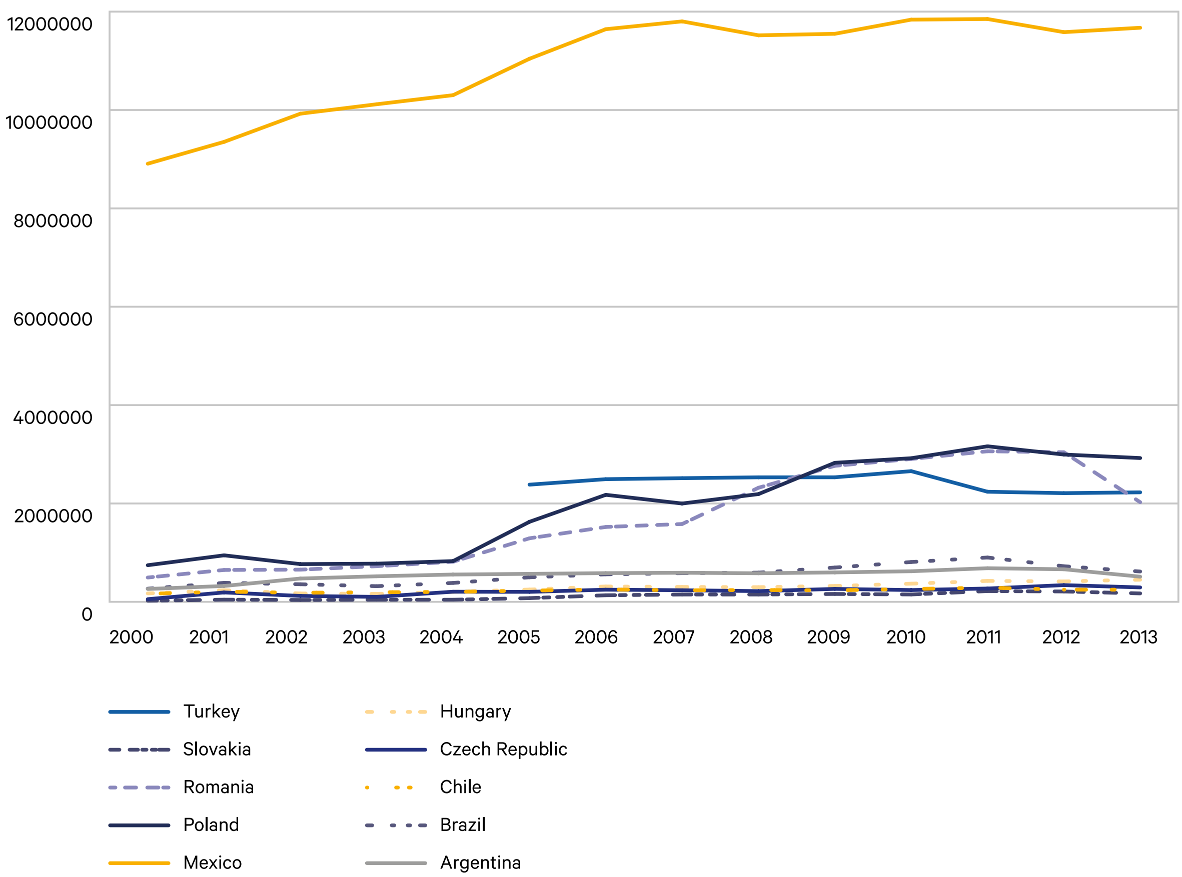
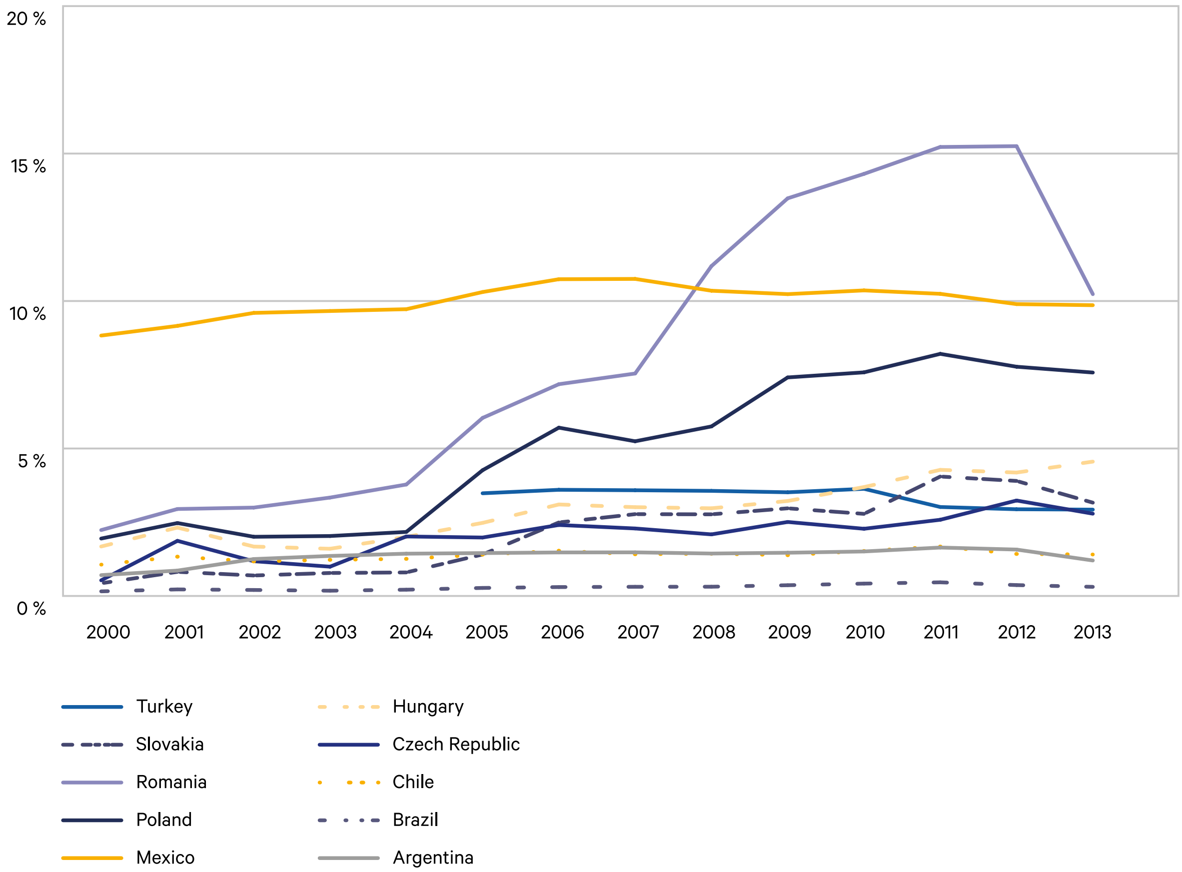


Figure 1B. The ratio of migrating people to the total population (in %)



This picture clearly shows that the scale of post accession migrations from two countries (Poland and Romania) is very large even in absolute numbers (although it is clearly lower than the number of migrants from Mexico, which is one of the global leaders in migration). If we analyse this process in relative terms (Figure 1B), we can conclude that post-accession mobility was spectacular in a global context (this primarily refers to Romania after 2007).

In this context, the case of Poland is particularly inspiring because it is a traditional emigration country with long traditions of mobility that began at least in the middle 19th century. However, modern migrations of the pre accession era were limited quantitatively (excluding several episodes motivated by factors of a political and economic nature, e.g. the mass emigration of the populace of German origin, the "post March" migrations of 1968, the migrations of the martial law era and, finally, the economic migrations in the first phase of transformation) and territorially, and they were highly selective as well. These two latter aspects are of key importance, as the 1990s migrations are often described as the mobility of the "losers of system transformation", but also of the people who had the opportunity to take advantage of the social capital resources (migrant networks) that enable moving abroad. The relative scale of the phenomenon, as well as its socio economic consequences, were very limited.

Along with Poland's accession to the EU, the great migration potential of Poles was released, and Poland itself became a country that could be called a "laboratory of open borders", to use the term coined by Benton and Petrovic (2013).

Although census data (2002) indicated that approximately 800 thousand Polish citizens lived abroad and according to various estimates 1 million Poles did not live in the country in the period directly preceding the accession, these figures changed drastically after May 1st 2004. According to the regularly published estimate of permanent Polish citizens (i.e. people who did not deregister from permanent residence in Poland) that temporarily stay abroad, as early as late 2004, the number of Polish migrants reached approximately 1.45 million, of which 1.2 million stayed in EU countries. Within the next two years, these values increased to 1.95 million (1.55 million in the EU-27) and 2.27 million (1.86 million). This was the phase of the most spectacular changes in the sphere of migration, where certain target countries recorded an increase of over 100 per cent (the United Kingdom) or even 400 per cent (Ireland). Since that time, we have recorded a relative stabilisation of the number of Poles living abroad. Even during the economic crisis of 2008-2010 (a decrease to approximately 2 million, especially due to lower numbers for Ireland and the countries of southern Europe) and after the opening of the German labour market (although this country recorded a significant increase in the presence of Polish migrants in 2012-2014), this figure did not change drastically. In recent years, the estimates of Statistics Poland indicate once more an increasing trend, although its progress is comparable to the period immediately following accession to the EU: by late 2017, the number of Poles living abroad was estimated at 2.5 million, of which 2.1 million were in EU countries (Statistics Poland, 2018.[3]

The scale of this phenomenon is so spectacular that over the last 15 years it has been a regular subject in scientific and media discussions (although, interestingly, very rarely in political discussions). However, the scale of the migration is not the only thing that determines the significance of this topic or explains why there is such a strong interest in it. Post accession migrations were, in many ways, “new”, and this novelty largely informs the assessment of the economic effects of the process.

First, available statistical data expressly indicates that, before accession to the EU, migrations were largely attempted by people who had, above all else, the necessary social capital in the form of migrant networks. In practice, this limited important regions of origin to only a few regions, such as Podlasie, Podhale and Opole. After 2004, this changed significantly. It was caused not just by institutional changes, i.e. the freedom of movement, but also significant reductions in the costs of mobility-related, for example, to the expansion of relatively cheap airlines and the minimisation of risk by popularising the services of intermediaries and temporary work agencies. Thus, post accession migrations lost their exclusivity and became significantly more egalitarian than ever in history. The structure of the places of origin of mobile persons has also changed: compared to the pre accession period when the overrepresentation of people from rural areas was clearly noticeable, people from small and medium cities became dominant (Fihel et al., 2015).

Second, the geography of Polish mobility has changed. While Germany was traditionally the most important target country for Polish migrants (according to the 2002 census, this country was home to almost 40% of Polish migrants; the next was the United States with 20% of migrants), in 2011, this structure was completely different. The domination of the United Kingdom was indisputable (30% of all migrants), next was Germany (22%), the United States (12%), Ireland, Italy and the Netherlands.

The structure of migrants by country of origin is relatively constant over time, regardless of shocks in the form of the financial and economic crisis of 2008-2010 or the opening of the German labour market in 2011. In late 2017, the most important target country was still the United Kingdom (793 thousand), followed by Germany (703 thousand), the Netherlands (120 thousand) and Ireland (112 thousand). The change in the directions of Polish migration after accession to the EU can be explained by institutional changes (particularly the opening of the British labour market) only to a degree. It would rather seem that the decisive arguments were the stereotypical image of the United Kingdom among young people, who perceived the country as a very friendly and liberal place with a positive attitude toward immigrants and as a results entered the stream of migrants en masse, as well as the very advantageous situation of the labour market there (Okólski and Salt, 2014). The data on the target countries of Polish migrants also indicates how important mobile Poles became for several European labour markets, particularly Ireland, the United Kingdom and the Netherlands (and anecdotic Iceland).

Third, considering other important European migration streams, Polish migrants have unique structural features. Mobile Poles are primarily economic migrants: according to census data, this category covers approximately 75% of all migrants (Statistics Poland, 2013); the Polish LFS data (BAEL) states that over 90% of Poles living abroad work there. It is obvious that the stream of post accession migrations includes many people moving for better education, as well as people who are motivated by

3 The most recent data – as for end of 2018 – provides a numer of around 2.155 million of permanent citizens of Poland who are staying temporarily abroad (Statistics Poland, 2019).

criteria related to lifestyle and living conditions (lifestyle migrants); however, their share is not dominant. Next, while the gender structure of migrants is relatively balanced and at the aggregated level approximately reflects the structure of the population of Poland, in relation to age and education, we can clearly see specific patterns of selectivity. And so Polish migrants are typically young people (approximately 83% are of working age), and migrants leaving after 2004 are on average significantly younger than the migrants of the preceding decade. Modern Polish migrants are also relatively well educated. The percentage of people with higher education is about 20%; this is higher than in the general population. Regardless of the fact that, quantitatively, the most important group of migrants have always been people with vocational education, we can observe a clear overrepresentation of people with higher education, especially in the case of particular target locations, e.g. the United Kingdom (Fihel et al., 2015; Grabowska and Okólski, 2009;).

Fourth, the choices and strategies implemented by Polish migrants are exceptionally important. Beginning with the first analyses of this topic, post accession Polish mobility has been perceived as temporary or even circular (Kaczmarczyk, 2010). With time, the flexibility and ambiguity of the migration plans of a large percentage of Poles (not just of those who were living in the most popular United Kingdom) began to be emphasised. This flexibility and ambiguity was naturally the effect of operating under the conditions of freedom of mobility—people staying abroad could successfully follow the socio economic situation in key “migrant markets”, including their country of origin, and adjust their mobility choices accordingly. Importantly, this flexibility began to decrease over time, which was due to the natural “ageing” of Polish migrants who, ten years after the accession, were often 30-40 years old and entering the parenting phase of life, which (particularly when children are already of school age) facilitates making more long term decisions concerning the place of residence. Additionally, some studies suggested that the economic crisis forced certain migrants to make a long term decision concerning their place of residence (White et al., 2018). This phenomenon is also clearly demonstrated by the results of the analysis of Janicka and Kaczmarczyk (2016) who, based on data from the National Bank of Poland, showed a substantial change in the orientation of Polish migrants due, among others, to the global financial and economic crisis of 2008-2010, which resulted in a significant increase in the percentage of migrants expressing a desire to settle and in a decrease in the share of people who would be classified as temporary migrants[4].

The net effects of post accession migration

Conclusions from available studies on the effects of migration from Poland were positive for target countries. The structure of inflowing migrants was very beneficial from the labour market perspective. For all new Member States, migrants were mostly men, young and relatively well educated. Almost one-fourth of migrants from EU-8 countries had a tertiary education diploma. The beneficial features of migrants combined with the strong structural demand for foreign workers resulted in exceptionally positive effects in the labour market: data from countries to which migrants from new Member States travelled demonstrated higher coefficients of professional activity, higher coefficients of employment for migrants than domestic workers (excluding Germany) and a lower risk of unemployment.

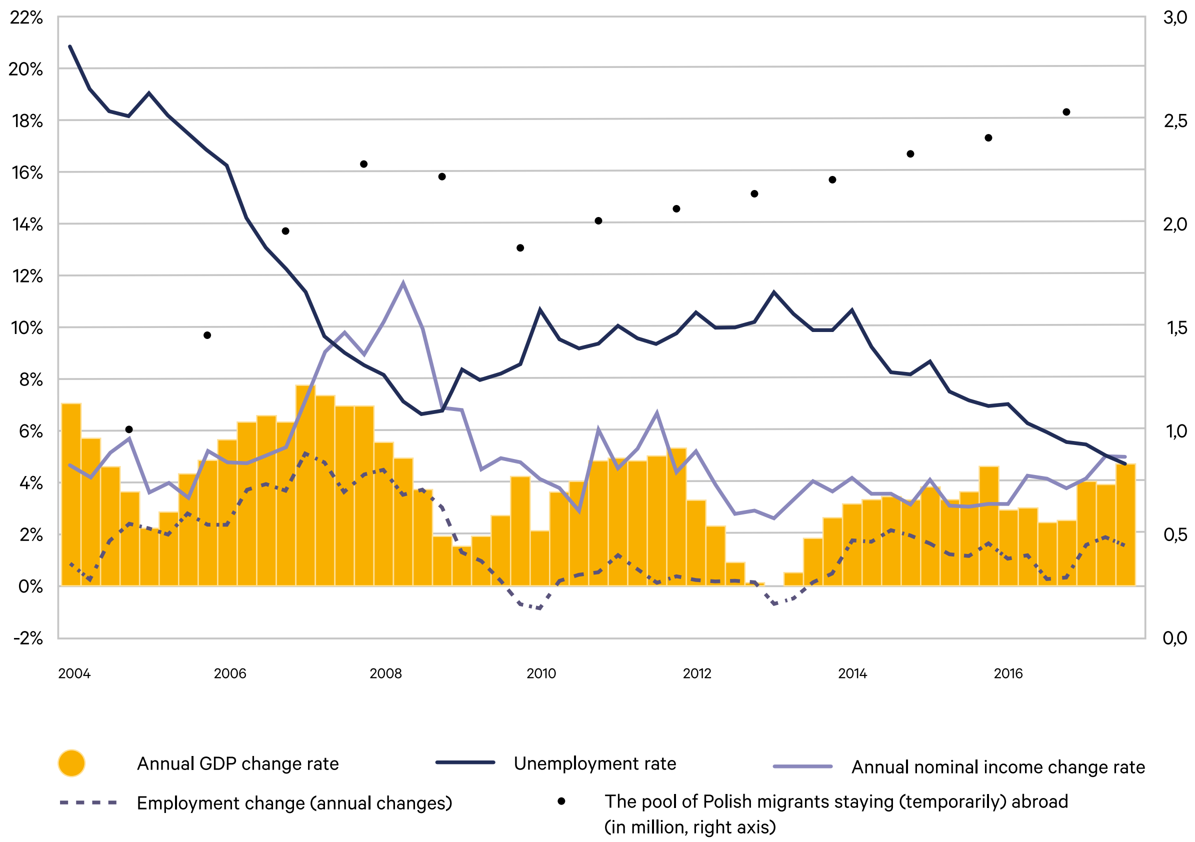
In total, at the aggregated level, we could not identify a negative influence of migration on unemployment or wages. The most symptomatic case was that of the United Kingdom, which saw a positive effect of post accession migration in both the labour market and the social security system.

The beneficial effects of migration in host countries were somewhat expected, taking into consideration the available theoretical concepts and knowledge about the process itself. Much more unclear were the effects of the mass drain of people on the labour markets in migrants’ countries of origin. This also includes Poland where the situation in the labour market was very difficult (for example, unemployment was over 20%). A simple comparison of statistical data on labour pools with the scenario stipulating a lack of post accession migrations would suggest that labour pools decreased by approximately 750-800 thousand people, which resulted in significantly less pressure on the labour market (see Figure 2) and translated into a consistent trend of a decreasing unemployment rate.

4 The latest unpublished analyses further indicate an increasing share of migrants intending to achieve individualistic but family related goals, which can further exacerbate the aforementioned tendencies.

Figure 2. Post accession migrations of Poles and basic data on the Polish labour market, 2004-2018

Source: Kaczmarczyk, 2018, based on Roszkowska et al., 2017.



A comparison of the decreasing unemployment rate and the increasing stocks of emigrants could indicate a strong impact of post accession migrations on the labour market, which would suggest that the common "unemployment exporting" hypothesis is true. However, after accounting for additional variables in the analyses, e.g. the creation of workplaces and the role of economic growth, we see that these factors had a great impact on unemployment in Poland, although the impact of these variables was the clearest during 2004-2007, i.e. before the economic crisis of 2008-2010. This conclusion also concerns the moderate or weak effect of migration on wage levels, which was visible only for select jobs and local labour markets.

This apparent paradox can be easily explained by referring to the other processes that accompanied the mass post accession migration and weakened (or reinforced) its potential effects, such as a decreased labour pool as a result of the increased participation in education of potential employees, increased self employment, the increased inflow of structural funds that generate and reinforce internal demand, a low level of internal mobility and strong structural mismatches. Generally positive change which was the reduction of unemployment in Poland after accession to the EU should be viewed as a consequence of changes in the sphere of the creation (and liquidation) of workplaces, and these were very strong depending on the phase of the business cycle and were reinforced by the inflow of EU structural funds. In fact, these results conform to the analyses conducted abroad using general equilibrium models. In all known cases, the impact of migration on the indices of the Polish labour market was identified as low but positive (Figure 3).

Figure 3. Economic effects of post-accession migrations, target countries (Figure 3A) and selected countries of origin (Figure 3B), changes in %

Source: Holland et al., 2011.

Figure 3A.

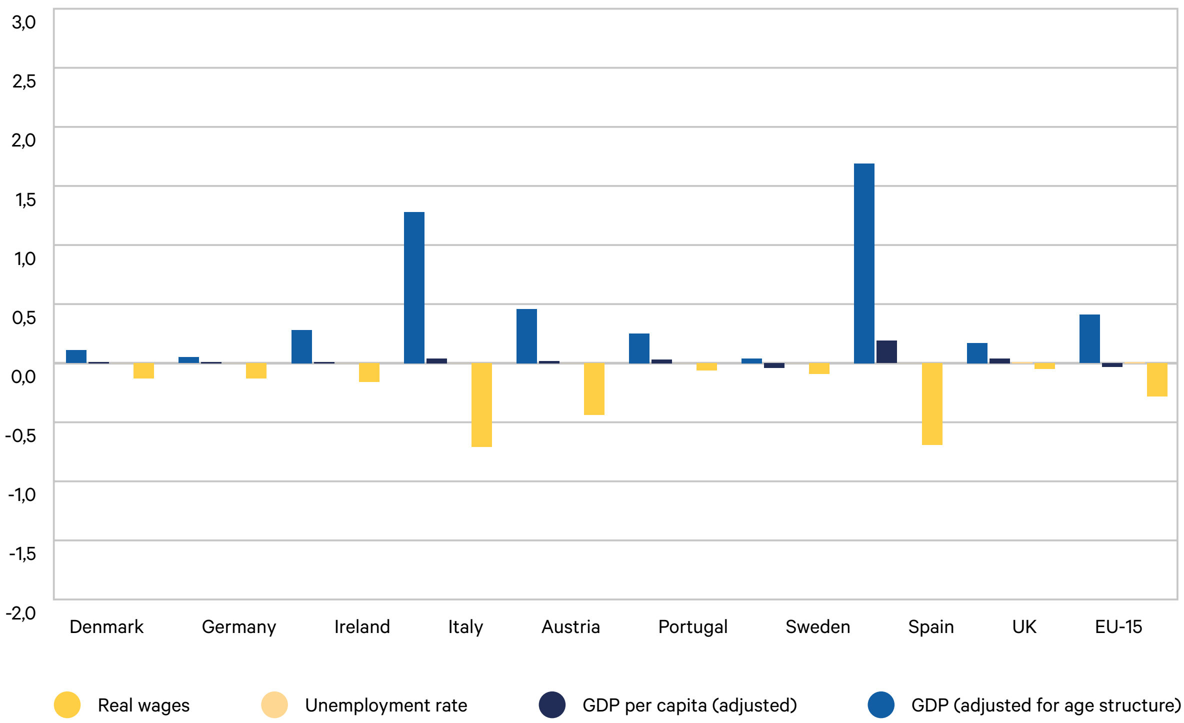
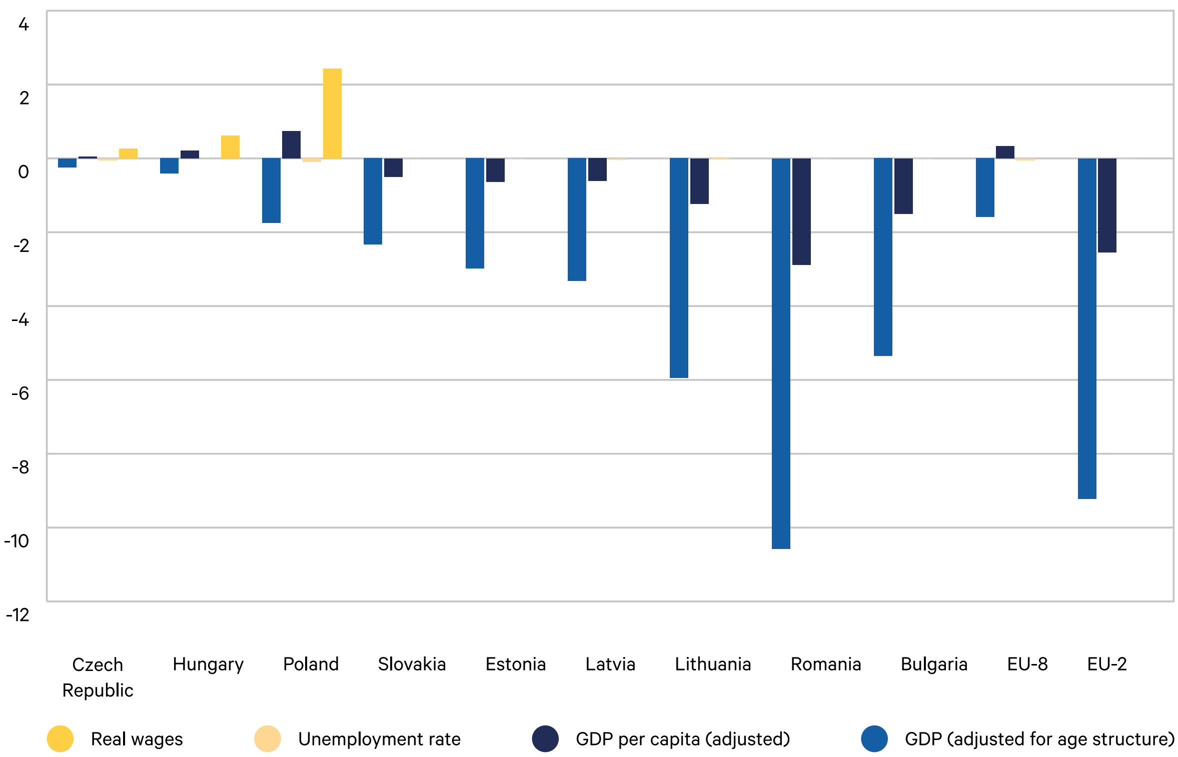


Figure 3B.



For Poland, the effects of the post accession migration were clearly more beneficial than for Baltic countries, Bulgaria and Romania. This stems largely from the fact that the migration process facilitated the release of large labour pool surpluses, the outflow of which turned out to be less negative to the economy than we would assume. Primarily, however, the analyses conducted for both origin and target countries indicate a simple rule: in fact, immigration countries benefit from the inflow of foreign workers; furthermore, the scale of this benefit is correlated with the courage of political decisions in relation to temporary solutions. Thus, in practice, two countries—the United Kingdom and Ireland—became the economic winners of the phenomenon of post accession migration, even if the current political events would suggest something completely different as shown by the outcome of the Brexit referendum.

We should, however, take into consideration the fact that even if the aggregated effect of migration (at the domestic level) is neutral, it can have a critical significance at the regional or local level. The impact of post accession migrations on the size and level of labour resources in Poland is also unclear. Discussions on this topic question the validity of the often mentioned "brain drain" hypothesis. At the same time, the alternative hypothesis on the accumulation of human resources thanks to mobility is being challenged. The experience of Polish migrants in the United Kingdom would rather indicate that the positive effects of migration among well educated people are limited. To a certain extent, this stems from the phenomenon of "brain waste"—which occurs when an individual accepts a job for which they are overqualified—deriving from problems with the transfer of labour resources as well as the strategies implemented by mobile Poles (Brzozowski, 2011; Kaczmarczyk, 2018).

The above-presented assessment of long term effects of post accession migrations does reflect the neoclassical assumptions that, in the long-term, migration phenomena are neutral with respect to the labour market. In fact, this assumption ignores the structural transformations and demographic changes[5] caused by migration, the impact of which can be much higher than simple effects such as changes in the labour market. In this context, the relevant literature suggests the hypothesis that the most recent migration from Poland can contribute in the long term to significant structural changes on the Polish labour market (and substantial reallocation of labour resources), so it may have a certain modernisation potential. It involves the transformation of regions characterised by a large share of subsistence or partially natural economy and surpluses of labour resources that are impossible to absorb into areas capable of joining the competitive global economy. In fact, the very low absorption capacities of local and regional labour markets are responsible for the mass scale of post accession migrations, which involves primarily educated young people often coming from small urban centres where the chances for finding an acceptable job were very small. For the first time in the modern history of Poland, its accession to the EU and the related mass migration created foundations for, on the one hand, the outflow of workforce surpluses in the case of residential migration, and on the other hand, the reallocation of labour in the domestic labour market in the case of temporary and return migrations (for a more in-depth discussion see Kaczmarczyk and Okólski, 2008). The answer to the question of whether post accession migration will provide the expected modernizing effect is not obvious. The outflow of labour surpluses only provides space for introducing well structured public policies whose objectives should be the improvement of the efficiency of labour markets, especially at the local and regional levels. We still do not know whether it is going to happen.

Conclusions

The freedom of movement has contributed to the deepening of European integration and to shaping the new pattern of intra European migrations which changed the population and the social and political processes of both the host and origin countries. Today, 15 years since the accession of Poland and the other countries of Central and Eastern Europe to the EU, the "natural experiment" of opening the borders for millions of workers from less developed parts of the continent can be deemed—at least

5 This chapter pays little attention to demographic changes, which are a derivative of post accession migration; however, the available analyses indicate that—especially at the local and regional levels—their effect will be strong and almost unequivocally negative. Paradoxically, it can be further reinforced by the selective return migrations of older people (Okólski, 2018).

partially—finished. The available data indicate that after a period of mass influx, the scale of changes decreased sharply and “flexible migration” has been increasingly often replaced by strategies focused on finding a residence in countries offering better work and life conditions. From this time perspective, it seems that, contrary to the fears of many observers, opening the borders did not disturb the labour markets in EU countries or lower the standard of living of their residents. Rather, for the countries that opened their labour markets first, the positive effects of the inflow were the strongest. This would mean that the principle of the freedom of movement does not have to constitute a threat to countries that are attractive to immigrants. Furthermore, post accession migrations are ascribed a positive role in the process of eliminating the shock of the economic crisis of 2008-2010.

The assessment of the impact of migration on the Polish economy and the Polish labour market is not so clear cut, although many available analyses view it as rather positive. Arguments that confirm this hypothesis are as follows: first, we should appreciate the choices of Poles that moved abroad—the decision which was multiple times encumbered with a large risk. This activity became a type of symbol of readiness for taking responsibility for oneself and one’s life. Second, many migrating Poles achieved success thanks to this. Migration enabled some of them to pursue professional careers; others were able to find a better place for themselves. For the majority, migration enabled them to finance the consumption of households in the home country that slightly—yet measurably—facilitated a reduction of the scale of poverty in Poland. Third, the mass migration from Central and Eastern European countries proved that the common European labour market exists and that, despite differences in the labour markets and social security systems, it can operate without disturbances even against the significant migration potential of less developed countries. Fourth, people returning from abroad brought new competences and skills with them. Due to the nature of the professional positions taken in EU 15 countries, they were primarily competences of a general or civilizational nature; however, in local contexts, return migrants often became “agents of social change” (Grabowska et al., 2016; White et al., 2018). Finally, the opening of Western European labour markets and the increasingly mass migration processes resulted in the fact that mobility became a generational experience of modern Poles and impacts their identity and their identification with the European Community.

This does not, obviously, mean that this process was not encumbered with risk. It created numerous opportunities but also caused serious challenges, the most important of which is the demographic change. For many years, demographic processes have placed Poland among the countries with the lowest level of demographic dynamics, and the mass outflow of young people in the post accession period exacerbated this trend. Although the temporary reduction of pressure on the labour market can have a significant positive dimension, the drain of labour has negative consequences that require intervention as part of labour market policy (elicitation, removal of market limitations) and the creation of beneficial immigration policy (prudent admission policy, bolder integration policy).

An important component of the discussion on the consequences of introducing the freedom of movement is the return migration of Poles. Today, in 2019, we can state that mass returns did not occur and probably never will. We can, however, expect that generations of post accession Polish migrants will constitute a resource for new solutions within European integration policy as well as Polish foreign policy, the aim of which should be the maximum use of the potential (economic, scientific, political) of the exceptionally large Polish diaspora.

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CHAPTER 4

JAN J. MICHAŁEK

FREE MOVEMENT OF GOODS AND SERVICES

ABSTRACT

The free movement of goods, services and foreign direct investment are major areas of economic integration within the EU. From the creation of the customs union in the late 1950s to the establishment of the truly single market in 1992, as well as in the following years, the EU removed many barriers to the free movement of goods and services, such as customs, customs formalities, border controls and barriers resulting from different standards and regulations.

By acceding to the EU in 2004, Poland has become a member of the European Single Market (ESM). Poland's international trade with Member States demonstrated a great—and noticeably accelerated after 2004—pace of trade flows, having more than tripled. The ESM also increased the EU's attractiveness as a trade partner for third countries and resulted in the increased diversity of goods available to consumers.

In the area of services, domestic markets have opened and prices, such as those for telecommunications services and transport fees, have dropped. Poland is also a quickly developing exports of services.

Moreover, foreign direct investments intensified within the EU and in Poland, where currently over 90% of FDI originates from EU member countries. These changes enabled the integration of the Polish economy within European value chains, which facilitate better specialisation and the diffusion of modern technologies.

FREE MOVEMENT OF GOODS AND SERVICES

Introduction

European Economic Community (EEC) countries, and now EU countries, have pursued the liberalisation of internal trade and the creation of an EU single market not for political reasons but for economic ones. Liberalisation of trade facilitates the development of trade flows where all partners benefit from trade (non-zero game). The profitability of trade can result, for example, from differences in natural resources[1] or relative capital and labour endowment.[2] For example, Germany, which is abundant in capital and the technical knowledge, can competitively manufacture modern cars, while Poland, which has a well educated and cheaper workforce, can efficiently perform more labour intensive tasks such as, manufacturing and assembling car components. Thus Poland can become an important link in European automotive industry value chains (GVC). Such exchanges between Germany and Poland increase welfare in both countries.

Furthermore, significant benefits are generated by intra industry trade, i.e. by trading the same product categories between similar countries[3] (e.g. cars traded between France and Germany). This type of trade is founded on the consumer preference for diversified products ("love for variety"- different car brands), the presence of economies of scale and oligopolistic competition. These benefits from intra-industry trade reveal in the large common single market and encourage the further liberalisation of trade. They lead to the reinforcement of integration between similarly developed countries within the EU.

The knowledge of benefits from international trade expansion contributed to economic integration and the liberalisation of trade after World War II under the GATT (*General Agreement on Tariffs and Trade*). It led also to the creation of regional integration entities such as the EEC. The removal of barriers to the movement of goods, services and factors of production (capital and labour) within the ECC led to increasing the economic efficiency and prosperity of Member States. In 1958, the six founding countries established the customs union, which gradually abolished import customs in internal trade and homogenised trade policy (mainly customs) with respect to third countries. Moreover, the first Treaty of Rome (1957) established a common market involving the freedom of movement of goods, capital and workforce. These actions led to the increased growth of trade between Member States and encouraged stronger integration. Therefore, in 1986, EEC members decided to establish the single market, which removed all barriers to the movement of goods (e.g. customs formalities and border controls) in order to make the import and export of goods (almost) as easy as their sales on the domestic market. In addition, the EU features a common competition policy, which disciplines the anti-competitive actions of enterprises and states (it regulates state aid, for example, in the form of bailouts) and constitutes a fundamental part of the single market—as well as the common agricultural policy. Both of these areas of European economic policy are discussed in other chapters of this report.

1 David Ricardo was the early 19th century author of the theory of trade. He explained why trade is profitable based on the concept of comparative advantage. For example, orange farming is not profitable in Poland because oranges require a warmer climate, otherwise production costs would be very high (greenhouse tree heating). Nonetheless, Poland can efficiently produce and export apples (it has a comparative advantage), which require a temperate climate, while purchasing oranges, for example, from Spain. Such trade is profitable for producers and consumers in both these countries.

2 Eli Heckscher and Bertil Ohlin demonstrated that differences in relative capital and labour pools can constitute a source of comparative advantage.

3 Paul Krugman is seen as the originator of this theory, which became relevant in the 1980s.

Economic effects of the operation of the European Single Market (ESM)

Commodity market

When assessing the economic effects of the integration, we typically distinguish between the short-term trade effects and the long-term consequences of investments and changes in the structure of production and consumption.

In the short-term, we can mainly observe static changes in trade and production. First, there is the beneficial trade creation effect, by which less efficient domestic manufacturers are replaced—thanks to the abolition of customs duties —by more efficient entities from other countries of the customs union. At the same time, we can expect that displaced domestic manufacturers will begin the production of goods or services in which they are more efficient. Second, there is a beneficial increase in consumption and trade expansion between Member States thanks to internal price drops. Third, we could see a disadvantageous trade diversion effect, which involves replacing—due to external protection—more efficient suppliers from the rest of the world with less efficient suppliers from the EU whose goods are not subject to customs duties. Empirical studies conducted in the first period of the functioning of the customs union (the 1960s) in the EEC demonstrated that its establishment resulted in a very strong beneficial effect of trade creation and expansion, while the trade diversion effect was identified only in the agricultural industry (Balassa, 1975). Later studies demonstrated that during 1970-1990, for 12 countries within the EEC, the trade grew more rapidly (their share increased from 6% to 21% of GDP) than trade with third countries (which increased from 6% to 12%), which confirmed the significance of the large common market for the development of trade (Vetter, 2013).

Analyses conducted in the 1980s both confirmed the beneficial effect of integration on the economies of Member States and pointed out to the unused potential of intra-industry trade. In the long-term, integration contributes to a better allocation of capital, i.e. more efficient investments that facilitate specialisation and increase the scale of production (economies of scale), thereby lowering unit costs. These benefits are more easily achieved in the case of a large and integrated market. In addition, integration—through increased competition in the single market—should lead to lower prices and the increased diversity of goods available to consumers. In effect, production and prosperity should increase[4].

The creation of a genuine single market, which took place in 1992[5], meant, among other things, that goods deemed safe in one Member State were authorised for sale throughout the EU[6]. Since that moment, products legally marketed in one State have been guaranteed free access to the market of the entire EU, provided they meet an appropriate safety level imposed by the state exporting these products. Common technical regulations are key in the EU; they result from obligations imposed by the government on producers or other provisions concerning technical specifications, test methods or certificates. As part of the New Approach, harmonisation of standards has been limited to the essential requirements for products in relation to health and life safety, as well as environmental protection.

For example, all children's toys authorised in the European market must meet certain essential technical requirements and safety standards, so as to ensure their safe use by children. These standards concern, for example, mechanical risks, levels of toxicity, flammability, battery usage methods and other elements. Manufacturers must also state the ages of the children who can use the toy[7]. This means

4 For example, according to the well known estimates of Baldwin, Francois and Portes (1997), the accession to the EU of new members from Central and Eastern Europe was supposed to increase the income of the latter in the long term by about 20%. Nonetheless, later verification of such estimates turned out to be rather difficult.

5 In 1985—as part of the execution of the concept of the ESM—the EC published a document proposing a series of actions eliminating technical, physical and fiscal barriers, enabling the EU to connect divided domestic markets (Commission of the European Communities, 1985).

6 The primary principle of operation of the single market is the prevention of the creation of technical barriers, the mutual recognition of goods and technical harmonisation (European Enterprise Network, 2013).

7 Cf. new Directive 2009/48/EC and old Directive 88/378/EEC. For example, in the case of electric toys, the power supply cannot exceed a certain level of voltage, while acoustic ("audio") toys cannot exceed a specified level of volume, or they must be labelled accordingly.

that if we buy a new toy, car or gas heater manufactured in any EU country and equipped with the CE[8] marking, we may rest assured of its safety. Assessments are performed by appropriate public administration entities; however, the manufacturer remains responsible for the product placed on the market, which means that it is legally and financially responsible for defective products. Thanks to this, by observing standards and using the CE marking, a manufacturer can export its products to all Member State markets.

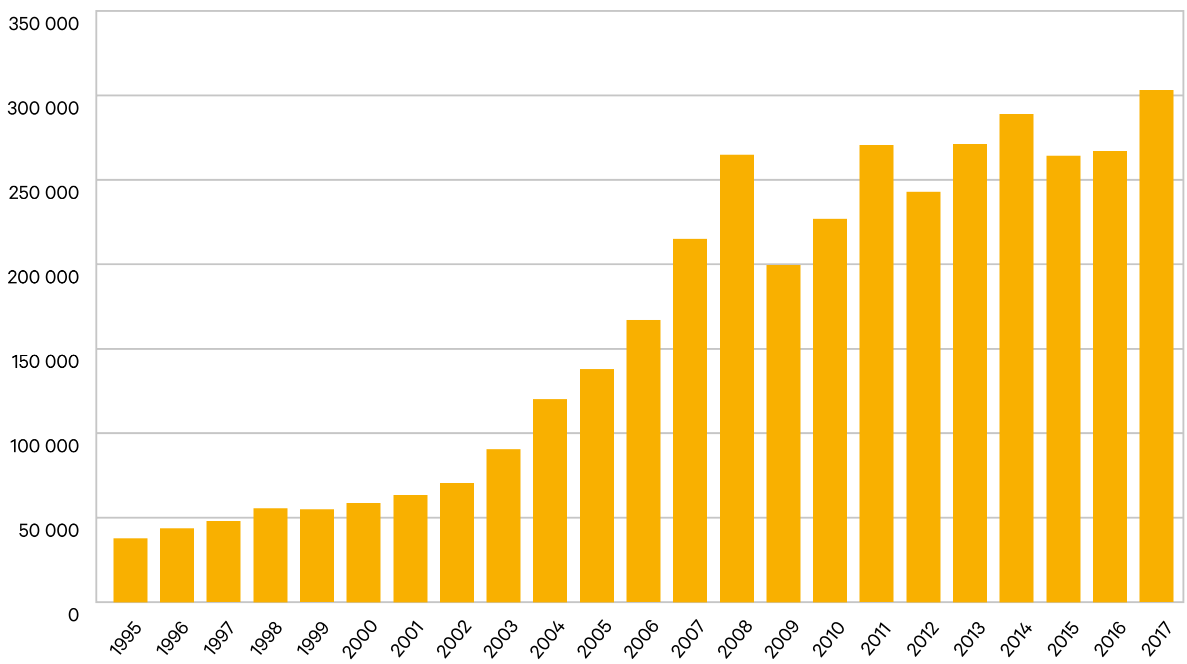
In 1987, a single administrative document (SAD) was introduced as well, replacing 70 different forms and establishing a system of codes instead of text records. In 1993, it allowed countries to gradually abolish border controls and customs offices. It eliminated 50-60 million customs forms per year and reduced employment by approximately 130 thousand customs officers, which resulted in saving billions of euro each year.

By acceding to the EU in 2004, Poland became a member of the ESM. Poland's international trade with Member States demonstrated a great—and noticeably accelerated after 2004—pace of change, having more than tripled. The scale of this phenomenon is shown on Figure 1.

Even before the establishment of the single market, the European Commission commissioned the Cecchini Report (1998), which estimated the potential benefits of its creation. A summary of the results is shown in Figure 2.

Figure 1. Index of Poland's trade (sum of export and import values) with EU countries in EUR million

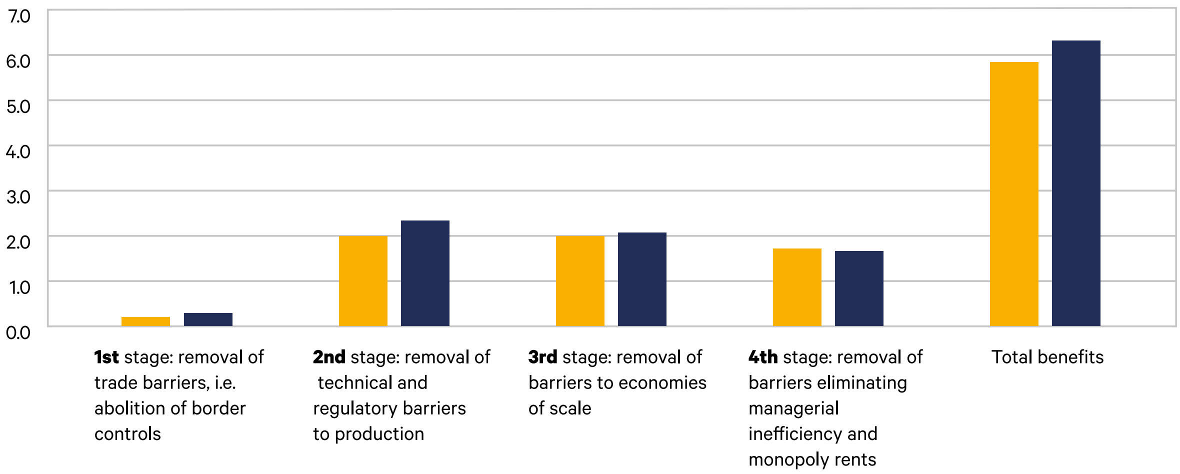
Source: OECD, *Bilateral Trade in Goods by Industry and End-use*.
Note: A drop in the level of trade in 2009 was a result of the accumulation of effects of the global financial crisis.



8 CE marking signify that products sold in the EEA have been assessed to meet high safety, health, and environmental protection requirements.

Figure 2. Benefits of establishing the European Single Market

Source: Cecchini (1988) and Emerson et al. (1988).
Note: Preliminary estimates (ex-ante) of benefits resulting from the elimination of barriers upon the creation of the European Single Market, as a percentage of GDP of Member States; blue bars represent the low estimate, red bars represent the high estimate.



This analysis showed the substantial benefits (up to 6% of Member States' GDP) resulting from the harmonisation of technical regulations for products, the increased production scale and reduced manufacturing costs, increased competition and the efficiency of managers in the single market, and the abolition of border controls. However, in his analysis of the dynamic benefits resulting primarily from investment and innovation, Baldwin (1989) estimated an economic growth rate for Member States of 0.25-1% annually.

A comprehensive verification of these results after the establishment of the ESM (*ex post*) is of great significance for the assessment of economic benefits for Poland; however, it is not easy. Nonetheless, there are numerous studies partially demonstrating the scale of these benefits. For example, the effects of participation in the single market for British trade were estimated: the United Kingdom's trade with EU countries, thanks to the operation of the ESM, was approximately 55% higher during 1992-2010, without harming trade with third countries[9].

Other studies also show that, thanks to the existence of the ESM, the number of varieties of goods available to domestic consumers increased significantly during 1999-2008, which in turn increased the satisfaction of consumers who like diversity, which in turn increased the level of social well-being.[10] These changes were the strongest for new EU members from Central and Eastern Europe (including Poland), whose GDP rose by 1.7% thanks to increased imports of different varieties of products from Member States (Mohler and Seitz, 2010).

The creation of the single market has also increased competition and decreased differences between prices of the same products offered in different countries. For example, in 1995-2005, price differences dropped from 39% to 26% (Ilzkovitz et al., 2007). This in turn led companies reducing their margins, which was beneficial for consumers and further reduced prices. Badinger (2007) demonstrates that, in 1981-1999, company mark up dropped by 32% in 18 industrial production sectors.

9 Centre for European Reform, 2016—study conducted using the gravity model.

10 Consumers like to have more choice because it gives them an opportunity to purchase goods that closely match their needs (like in a mall). However, less choice means that the consumer is less satisfied by consuming goods (Dixit-Stiglitz function). This wider choice of better suited and cheaper products, components and materials for production increases the GDP of the Member State.

There are also sector studies analysing economies of scale in Poland. For example, Chilimoniuk-Przeździecka (2012) estimates that this phenomenon occurred in 2004-2010 in the manufacture of paper, coke and petroleum refining products, rubber and plastic products, metal products, computers, electronic and optical products, and cars.

In a wider context, there were estimates of the impact of the ESM on research and development (R&D) expenditure and innovation. Studies conducted by Griffith and co-authors demonstrated that the growth of competition "forced" companies to intensify research and introduce more innovative products or technologies. However, the strength of this effect varied depending on the industry sector.

Services market liberalisation effects

The liberalisation of the services market and the introduction of the single market in the EU progressed much slower than the goods trade liberalisation[11]. The comprehensive, common liberalisation of commercial services took place only in 2006 as part of the Services Directive (2006/123/EC)[12]; however, its implementation has been proceeding gradually (see also Chapter 13 on commercial services). The implementation of this Directive encouraged economists to estimate the potential benefits of the liberalisation of services. For example, the Copenhagen Economics team (2005) estimated that its full implementation should increase the EU services trade by EUR 33 billion and create approximately 600 thousand new jobs. Hagemejer and co-authors (2014) estimated the potential benefits ex-ante of this Directive for Poland. According to their calculations, GDP should increase by 0.2-0.4% depending on the scope of its implementation. The largest growth of Polish exports can take place for construction services (up to 27%), business services (up to 27%), entertainment services (up to 15%), air services and road transport services.

Attempts to estimate the already obtained (ex-post) benefits of implementing the Services Directive have been under way as well. For example, Monteagudo and co-authors (2012), in the study commissioned by the European Commission, estimated the impact of the liberalisation of services on well-being using data beginning in 2006. They calculated that a reduction of service access barriers by 10% increases the productivity (effectiveness) of labour by 1.6%. On the other hand, the complete implementation of the Directive in all sectors would increase services trade by 7.2%, foreign direct investments (FDI) by 3.8% and labour productivity by 4.7%. This in turn would increase the GDP of Member States by 0.8%.

The liberalisation of market access was particularly important for several key sectors. For example, for electronic communication (telecommunications services), a series of directives were introduced in 2002, 2009 and 2011[13] with the objective of increasing competition in the EU market by harmonising rules, facilitating access to infrastructure, creating domestic regulatory bodies, supporting consumer freedom of choice and allowing consumers to benefit from innovative services. In effect, domestic markets have opened, and the prices of telecommunications services have dropped. For example, the "struggle" to abolish roaming in Brussels took ten years. Since 2007, the retail prices of cellular connections in the EU dropped by 92%[14]. SMS prices began to drop in 2009 and have since also dropped by 92%. Thanks to this, a very demonstrable drop in all fees took place, in particular, those for data downloads abroad and making phone calls. It was estimated that these reductions lowered consumer expenses by EUR 9.6 billion annually. This means that business costs for companies have decreased considerably and that tourists can use telecommunications services with essentially no additional costs. This also facilitates the development of trade and service ties as well as tourism. The prices of telecommunications services in Poland have also gradually decreased. For example, the prices of bundled services in Poland are shown in Figure 3.

11 Although the liberalisation of goods and services was already included in the Treaty of Rome, complete liberalisation occurred later and was only partially expanded as part of the single market since 1992.

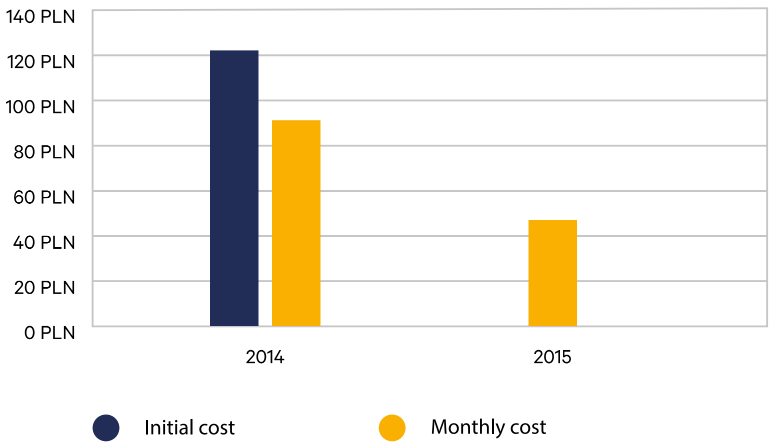
12 It adopted the principle of the country of "origin" and the freedom of providing services to domestic and foreign entities located in a given country (Chapter 3).

13 The following directives were implemented: 2002/20/EC, 2002/19/EC, 2002/22/EC, 2002/58/EC, Regulation No. 1211/2009 and Regulation (EU) No. 531/2012.

14 See: http://biznes.onet.pl/wiadomosci/ue/roaming-w-ue-nowe-zasady-od-15-czerwca-2017/7kezem [last accessed: 20.09.2018].

Figure 3. List of the cheapest bundled telecommunication services (landline + internet) on the Polish market in 2004 and 2015

Source: Błaszczykowski, Ćwikliński (2018).



Another example of a sector which featured a very noticeable liberalisation is the air transport sector. The EU introduced legislative “air packages” in 1987, 1990 and 1992, as well as two packages as part of the Single European Sky in 2004 and 2009.[15] The point of these regulations—broadly speaking—was to increase competition, harmonise domestic regulations, provide access to air infrastructure for European lines, and provide the same high safety standards in air transport and the protection of passenger interests.

The effect of these regulations was a clear increase in the level of competitiveness without decreasing safety standards, and the appearance of many low-cost carriers, which forced domestic carriers (often state-owned) to radically lower prices. Between 2003 and 2011, the share of traditional (state owned) carriers in Poland dropped from 99% to approximately 52%[16]. As a result of competition, the prices of plane tickets in the EU dropped by about 40%, while air travel, previously an elite mode of travel, became a service available to many passengers. For example, in 2004, Polish airports serviced approximately 6 million passengers, while in 2012, this number rose to nearly 22 million, with Poles often taking advantage of low-cost airlines (see Cieślik and Michałek, 2015, Chapter 4). At the same time, the rights of airline passengers improved[17]. Ticket prices in the EU have become much lower compared to tickets in other regions of the world. This facilitated establishing and maintaining direct business contacts, international tourism and the increased mobility of the workforce (migrants).

The final example sector in which EU liberalisation took place is road transport. The introduction of single administrative documents (SAD) and the abolition of border controls as part of the ESM enabled the further development of the road transport of goods, which is the primary form of transport in EU countries. Also in this sector, the EU introduced a range of regulations to harmonise domestic regulations, decrease barriers to the provision of services and increase European competition. Additionally in 2009, cabotage services were adopted within the EU[18]. The accompanying development of road infrastructure, particularly motorways and expressways (often financed using EU structural funds), facilitated the development of international services in Europe.

15 Regulations: EC 549/2004, 550/2004, 551/2004, 552/20014, and EC 1070/2009 and 1108/2009.
16 Lines that appeared in the Polish market include Ryanair, Wizz Air, EasyJet, Germanwings, Centralwings, SkyEurope, and others (see Cieślik and Michałek, 2015).
17 Rights of airline passengers in the EU are listed at https://europa.eu/youreurope/citizens/travel/passenger-rights/air/index_pl.htm, [last accessed: 10.03.2019]. They regulate e.g. matters related to flight cancellation, delay, refused boarding, the sale of more tickets than seats and lost luggage. Similarly, the EU also defines the rights of passengers using other means of transport.
18 Regulation (EC) 1072/2009.

As a result of increased competition and improved infrastructure, we can assume that freight charges in terms of tonne kilometres decreased, which—in combination with the development of logistics centres, facilitated the further development of international trade. It is worth adding that Polish companies benefited from this as well[19]. Beginning with 2012, Polish transport enterprises have had the highest share in European transport of goods[20]. In fact, this very strong competitive position is the subject of certain tensions and may lead to the homogenisation of wages (benefiting the drivers) when providing transport services in another EU country.

Free movement of capital and global value chains (GVC)

The free movement of capital was already included in the Treaty of Rome (1957); however, during the first period of development, it was believed that the movement of capital should mainly support the movement of goods (commercial loans) (see also Chapter 5 on the free movement of capital[21].

The liberalisation concerned both foreign direct investment (FDI), related to the owner's control over capital, and portfolio investments, typically in the form of credit facilities or capital contributions. In the case of Poland, FDI flowing into the country, mainly from other Member States, was more significant. In 2004-2017, FDI inflows amounted to approximately EUR 10 billion per year, which facilitated the execution of many investments in the country[22]. This form of capital inflow is safer because FDI is typically more stable than portfolio investments.

In 1995-2005, following the Maastricht Treaty and the total liberalisation of flows, the significance of FDI inflows to EU countries from other EU countries increased in comparison to total FDI inflows—from 53% to 78%. The study of Flam and Nordström (2007) demonstrates that establishing the single market had a large impact on the intensification of FDI within the EU. By the end of 2016, the majority of FDI (over 90%) in Poland came from EU countries as well. The highest shares were the Netherlands (EUR 33.9 billion), Germany (29.2 billion), Luxembourg (23.5 billion) and France (17.8 billion).[23]

The topic of FDI occasionally provokes strong emotions in Poland and other countries that accept this form of capital. Nonetheless, we need to notice that in an open economy, FDI complements domestic investments, although its cost is sometimes higher (transfer of profits abroad) for host countries than investment expenses financed using domestic savings. In addition, FDI often creates positive external effects (spillovers), mainly through the diffusion of technology and the establishment of ties with local manufacturers.

Theoretical and empirical research further demonstrated that companies that engage in FDI are typically better managed, more efficient, more innovative and have intangible assets (e.g. patents, technologies), which gives them an advantage over competitors. On the other hand, countries that host investors must also have some assets (e.g. an inexpensive workforce, educated employees, raw materials) that will encourage them to invest. An additional argument for companies outside the EU—for example, American or Japanese companies—is the easy access (e.g. from Poland) to the entire EU market. Foreign companies hire local employees, typically offer higher wages, teach modern employee management methods, increase production and often establish direct contacts with local manufacturers. Higher

19 Polish companies are comparatively small. In 2010, 77% of companies had only a single vehicle, while over 97% had less than ten trucks (Cieślik and Michałek, 2015).

20 In 2017, Polish carriers also placed first in the EU (cf. http://ec.europa.eu/eurostat/statistics-explained/index.php/Road_freight_transport_statistics#High_performance_by_Polish_hauliers_as_third_parties_in_country_to_country_flows [last accessed: 20.09.2018]).

21 In the 1980s, however, the further liberalisation of capital flows began. This involved technological innovations, the development of the euro-dollar market, improvement of the balance of payments of EU countries and the low efficiency of regulations limiting capital flows. Its full liberalisation took place only under the Maastricht Treaty (1993).

22 Regular FDI inflow occurred in all years except the crisis period of 2008-2010 when it dropped to about EUR 6-7 billion annually. This data also includes reinvested profits (cf. National Bank of Poland's data: http://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy.html [last accessed: 20.09.2018]).

23 See data: https://www.paih.gov.pl/polska_w_liczbach/inwestycje_zagraniczne [last accessed: 20.09.2018].

employment in turn drives demand and facilitates the development of a given region. These actions generate positive feedback effects that are beneficial to a given region and other sectors of the host country's economy.

In Poland, FDI was concentrated in several sectors of the economy, such as finance and insurance, the services sector and the processing industry—in particular, the automotive industry. In 2016, there were a total of 24,780 entities with foreign capital employing 1.85 million people, and nearly half of this capital was invested in the Masovian Voivodeship (47.4%)[24].

For example, investments in the automotive industry have made Poland an important exporter of cars (Volkswagen, Opel, Fiat, Toyota, Man, Volvo, Isuzu) and car parts. Over 90% of automotive production in Poland is exported (mainly to Germany and Italy, and to other EU countries) and constitutes the most important item (over 16%) in Polish industrial export. Thanks to FDI, professional car repair services have developed and sub-suppliers of car parts have been working with foreign manufacturers, meeting their technological and qualitative requirements. FDI influences economic growth and society's well being, but estimating this impact is not easy[25]. According to the latest estimates (Kosztowniak, 2018), the inflow of FDI into Poland increased its economic growth rate, but the change was relatively small. It can be stated that much stronger growth effects took place in the sectors that attracted the most FDI.

In a globalised economy with strong FDI flows, the direct cooperation of companies within global value chains (GVC) is of great importance (see also Chapter 11 on the processing industry). This means that end products are a result of cooperation between the many subsidiaries of companies that made FDI and the independent sub suppliers delivering components and participating in individual stages or phases of the production process. Not only do companies from different countries trade goods and services, but they also often cooperate as part of vertically or horizontally integrated systems of production, sharing projects and techniques that improve productivity. As a result, GVCs create an opportunity for the accelerated acquisition and transfer of knowledge, faster than in traditional international trade where end goods are objects of transaction. Companies operating in emerging markets not only import parts for assembly in order to sell them in the local market, but they also sometimes absorb modern technology and import inputs, which they process and export as goods, parts, components and services used in subsequent phases of production. As a result, these companies can specialise in a single area of the international production process, reaching a large and efficient scale of production (Cieślik and Michałek, 2017).

A synthetic measure of the commitment of a given economy in a global value added chain is the GVC share index. This index is the sum of two components: demand, which is the foreign added value contained in the net export of a country (backward links), and supply, which is the share of domestic added value contained in the export of other countries (forward links). Out of the 64 countries for which indices were calculated in 2015, Poland was ranked high at 15 (OECD, 2018). This means that Poland not only actively participates in international trade, but is also strongly tied to many manufacturers in Europe and the world.

Summary

Broadly speaking, the overall effect of the single market for EU countries, including Poland, was a significant reduction in transaction costs. This led to the increased trade of goods and services and increased foreign investments, which expanded the revenues of companies and the GDPs of Member States accordingly[26]. The ESM increased the EU's attractiveness as a trade partner for third countries and resulted in the increased diversity of goods available to consumers. It also created at least several million new jobs. The liberalisation of the services market, which began in 2006, has only just begun to gain momentum: estimates suggest that it could increase services trade by EUR 33 billion and create

24 Ibidem. Offices of foreign companies, not e.g. production plants, are often situated in Warsaw.
25 The majority of empirical research confirms the positive impact of FDI on economic growth (see Kosztowniak, 2018, p. 346-350). Occasionally there is also a reverse causal relationship: dynamic GDP growth in a given country attracts FDI there.
26 The ESM increased the GDP of Member States. It is estimated that without the ESM, per capita income in Europe would be lower by 12%.

roughly 600 thousand new jobs. Liberalisation of the services sectors has led to increased competition and a significant reduction in prices for consumers. This has been particularly visible in the telecommunications and air transport sectors.

There have also been attempts to estimate the total economic effects of the changes in GDP of individual countries resulting from membership in the ESM. Such research was conducted by Campos et al. (2014), who attempt to model an alternative reality with no European integration. This research indicates that the presence of the single market increased the well being of all Member States with the exception of Greece[27]. There are also preliminary attempts to analyse the subjective level of well being based on the results of surveys conducted in Member States.[28] This analysis shows that the subjective level of social satisfaction (a proxy for quality of life) increased thanks to European integration.

In conclusion, we should mention the results of a study conducted by the American Chamber of Commerce (2017). Its findings are based on summarised indices of the level of integration of a given country with the EU, which include the level of openness and ties of a given economy (e.g. through FDI) to other EU countries. The summarised integration index for Poland (77.3) was close to the EU average (75.9). The lowest index was identified in Greece (54.3), while the highest (over 88) were identified in the Czech Republic, Ireland and Slovakia. The results of this analysis are presented in Table 1.

Table 1: Differences (concerning GDP per capita, consumption, investment and employment) between the current state (2016) and a situation that would occur without integration under the single market established in 1990

Source: American Chamber (2017), Table 7.

Country	Change in GDP per capita (in %)	Change in GDP per capita (in EUR)	Change in the number of employed (in thousands)	Change in consumption per capita (in EUR)	Investments per capita (in EUR)
Germany	2.39	1668	936	899	178
Czech Republic	2.61	942	129	442	109
Poland	2.04	610	323	358	46
Slovakia	2.65	1066	64	586	89
Hungary	2.37	606	99	298	56
Average or total for the EU 28	1.70	1047	3644	590	95

The presented analysis suggests that Polish GDP was higher by approximately 2% as a result of the single market, in comparison with the situation without integration. In effect, consumption and investment per one resident of the country were also higher. Moreover, employment was also higher by 323 thousand people. It should be noted that such analyses do not consider benefits related to the inflow of budget funds or other effects (e.g. labour mobility) resulting from European integration.

27 Campos et al. (2014) made a composite synthetic index reflecting the characteristic properties of a given country and analysed how its development would proceed without European integration.

28 König (2014) presents an analysis based on survey studies (Eurobarometer) conducted in Member States among 180 thousand respondents in 1999-2012.

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CHAPTER 5

ANDRZEJ HALESIAK

FREE MOVEMENT OF CAPITAL

ABSTRACT

Free movement of capital is one of the four basic freedoms of the single market in the European Union (EU). For Poland, the full liberalisation of capital flows took place between 2002 and 2003. During the first years of Poland's membership in the EU, the free movement of capital resulted in an increase in capital ties with EU countries and the global economy. In the peak period, the net inflow of capital was the equivalent of 7-10% of GDP.

The global financial crisis brought about gradual changes to this, and Poland, following global trends, experienced a decrease in the scale of capital flows.

Over the past 15 years, foreign capital has been continuously adapting to the needs of the Polish economy: right after accession to the EU, direct investments strongly supported the modernisation processes of domestic companies; later (particularly in 2007-2008), foreign capital played a significant role in financing the needs of the banking sector and, after the onset of the financial crisis, in financing fiscal expansion.

Looking to the future, foreign capital can and should be an important source of financing for further necessary structural transformations. Changes in the way we use the factors of production, a shift towards capital and knowledge, should be the primary form of adaptation in a situation of shrinking labour resources. This process can and should involve direct investments that provide funds as well as technology and various types of know how. Alongside the increasing maturity of the Polish economy, one should also expect the greater expansion of domestic capital into foreign markets.

FREE MOVEMENT OF CAPITAL

Introduction

Next to labour and land, capital is one of the basic factors of production. Its broad definition includes the various types of assets used to operate businesses and it takes three forms: financial, tangible (e.g. machinery or buildings used in production) and intangible (e.g. software, copyrights, etc.). In a narrower definition, the concept of capital refers exclusively to its financial form, i.e. contributions made to business entities by purchasing their shares or stocks as well as different forms of credit facilities and loans. Balance of payments statistics differentiate between three main forms of capital: 1) direct investments; 2) portfolio investments; and 3) other investments (mainly credit facilities and loans). This analysis focuses on these three categories.

Free movement of capital means a legal framework which enables it to freely flow between a given country and the rest of the world. Within the European Union (EU) free movement of capital is one of the four fundamental freedoms of the single market. The legal basis which supports this is found in the provisions of the Treaty on the Functioning of the European Union (particularly Articles 63 and 66). In conjunction with the liberalisation of the bank and insurance services market as well as capital markets, the free movement of capital is intended to establish a single market for financial services.

The liberalisation of capital flows can provide significant benefits for the economy, including—in addition to access to funds—the transfer of new technologies related to direct investments. However, the liberalisation process also carries some risks: for instance, it allows for the flow of short-term, often speculative and highly volatile capital with a potentially destabilising effect on the economy.

Right from the very beginning of Poland's systemic transition direct investments as well as purchases of publicly traded securities were allowed for non–residents. At the same time capital export was restricted. 2003 is accepted as the date when the completely free movement of capital was introduced[1]. The liberalisation of capital flows required multi-dimensional preparation related to the creation of a capital market infrastructure. This included establishing of: the legal framework in the form of the Law on public trading in securities Act (1991), the stock exchange (first listing in 1991), and the Central Securities Depository of Poland (1994). Liberalisation required also prior privatisation of the banking sector and extending educational efforts. Due to the continuous evolution of the EU legal framework as well as development of financial services, ensuring the truly free movement of capital requires relentless efforts to remove various barriers, including those relating to tax solutions, the cross-border operation of investment and pension funds, the limited knowledge of individual investors and the functioning of crowdfunding[2].

1 Free movement of capital within the Member States of the EU, the European Economic Area (EEA) and the OECD was formally entered into force in October 2002 (based on the amended Foreign Exchange Law). In relation to other countries, it was introduced in 2007. Transitional periods were in place for certain types of investments (e.g. in real property). A detailed description of the liberalisation process in Poland can be found in: Janicka (2010).

2 A detailed description of the current status and desired changes can be found in the European Commission Report (European Commission, 2017).

Selected aspects related to the liberalisation of capital flows in Poland

Volume of capital flows

After liberalising capital flows in 2003 three consecutive periods can be distinguished (Figure 1):

- till 2010, a period during which the inflow of foreign capital into Poland increased, and the net balance was positive. Nominal outflows (of Polish investments abroad), although showing some inconsistent growth, settled at relatively low levels in subsequent years. In 2007-2010, the net balance of inflowing capital reached particularly significant levels: 7-10% of GDP;
- from 2011 to 2013, the inflow of foreign capital into Poland decreased along with the positive net balance (to 1.2% of GDP in 2013);
- after 2014, the flow of foreign capital began to increase again, but at the same time Polish investments abroad also increased. As a result, in 2015 and 2017, the net balance was negative.

When we consider different types of capital:

- the volume of foreign direct investments in Poland ranged from 0.2% of GDP (2013) to 6.2% of GDP (2006), reaching a peak in 2004-2007. In recent years, the scale of these investments stabilised at 2-4% of GDP;
- the volume of portfolio foreign investments in Poland ranged from -1.1% of GDP (2008) to 6% of GDP (2010), demonstrating relatively strong fluctuations;
- the volume of foreign credit facilities and loans ranged from -2.4% of GDP (2017) to 7% of GDP (2007). The peak of these types of investments was related to acquiring by banks external financing for the so called deposit gap[3].

In relation to the outflow of capital, i.e. the investments of Polish entities abroad, we can state that:

- the volume of foreign direct investments did not show a clear trend. Maximum capital outflows in this form were recorded in 2006 (3.1% of GDP); on the other hand, in 2013, investments amounting to 0.6% of GDP were withdrawn;
- the volume of portfolio foreign investments of Polish entities fluctuated without a clear trend; the largest value was recorded in 2015 (2.3% of GDP), while 2008, 2011 and 2016 saw capital withdrawals from foreign markets;
- with the exception of 2004, the volume of flows related to the credit facilities and loans of Polish entities abroad remained small;

These figures illustrate that the liberalisation of capital flows temporarily increased the stream of foreign capital flowing into Poland. However, the global financial crisis stopped this phenomenon, and in recent years, we have been observing a reduction in certain forms of commitment, in particular other investments[4].

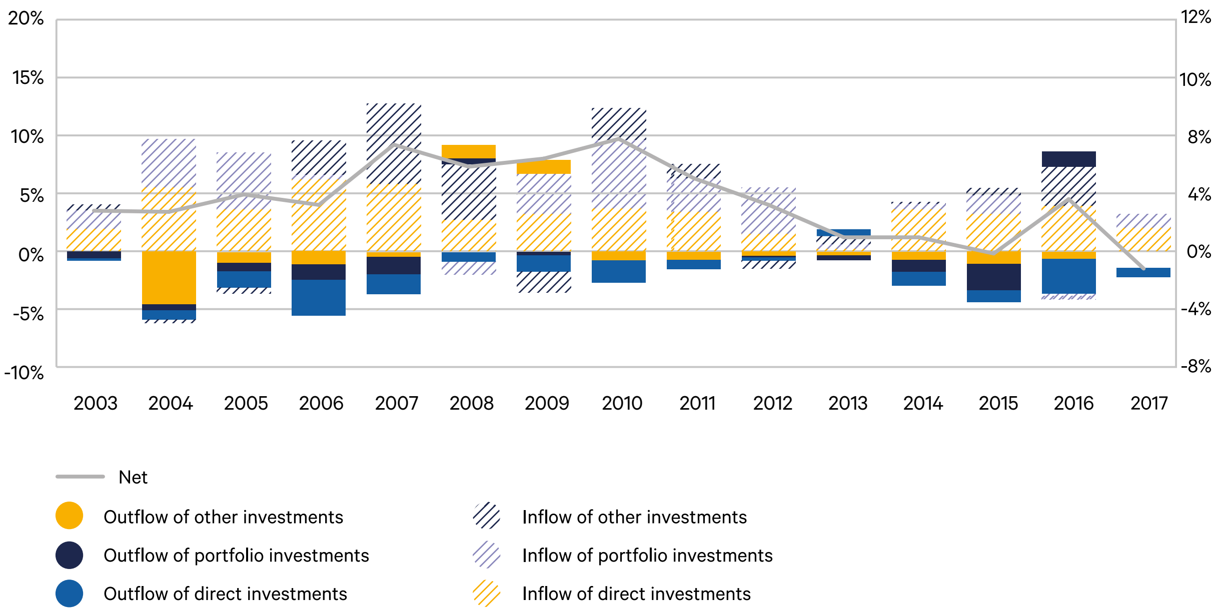
The commitment structure of foreign capital in Poland is dominated by investments from EU Member States. For example, according to Eurostat data concerning direct investments the share of EU countries in the cumulative volume of this type of investment increased from 85% at the end of 2004 to 91% by the end of 2017.

3 The gap appeared as a result of the increasing deficit in current accounts which could not be compensated by the capital and financial flows of the non banking sector. In this situation, to balance foreign flows, the role of a financing institution was taken over by the banking system (an in depth look can be found in: Halesiak, 2012).

4 One of the primary reasons is the repayment of credit facilities raised abroad by the domestic banking sector.

Figure 1. Main financial account flows of the balance of payments after liberalisation. Direct, portfolio and other investments (% GDP)

Note: "Inflow" means the foreign investment balance in Poland, while "outflow" means the net volume of Polish investments abroad (can be positive if the engagement is reduced, i.e. capital returns to Poland).
Source: Own calculations based on the data of the National Bank of Poland (balance of payments statistics).



Selected channels of influence of the free movement of capital on the Polish economy

The liberalisation of capital flows influenced the availability and structure of financing within the economy, thus had an influence on the GDP growth (its rate and structure). The impact of foreign capital was evident in all major sectors of the economy, i.e.: non-financial enterprises, the public sector and households.

Non-financial enterprises sector

In the post accession period, the rise in the volume of foreign direct investments contributed to the increase in the level of corporate investments. This was not a permanent phenomenon. After the global financial crisis, the stream of direct investments shrank and the relative (to the GDP) volume of capital expenditure in the enterprise sector stabilised at a low level (Figure 2).

The enterprises' relatively low level of capital expenditure was accompanied by its high quality (Figure 4). This factor contributed to Poland's GDP growth success story – the country recorded the largest increase in real GDP in the EU in 2004-2018[5]. The improvement of investment efficiency in the post

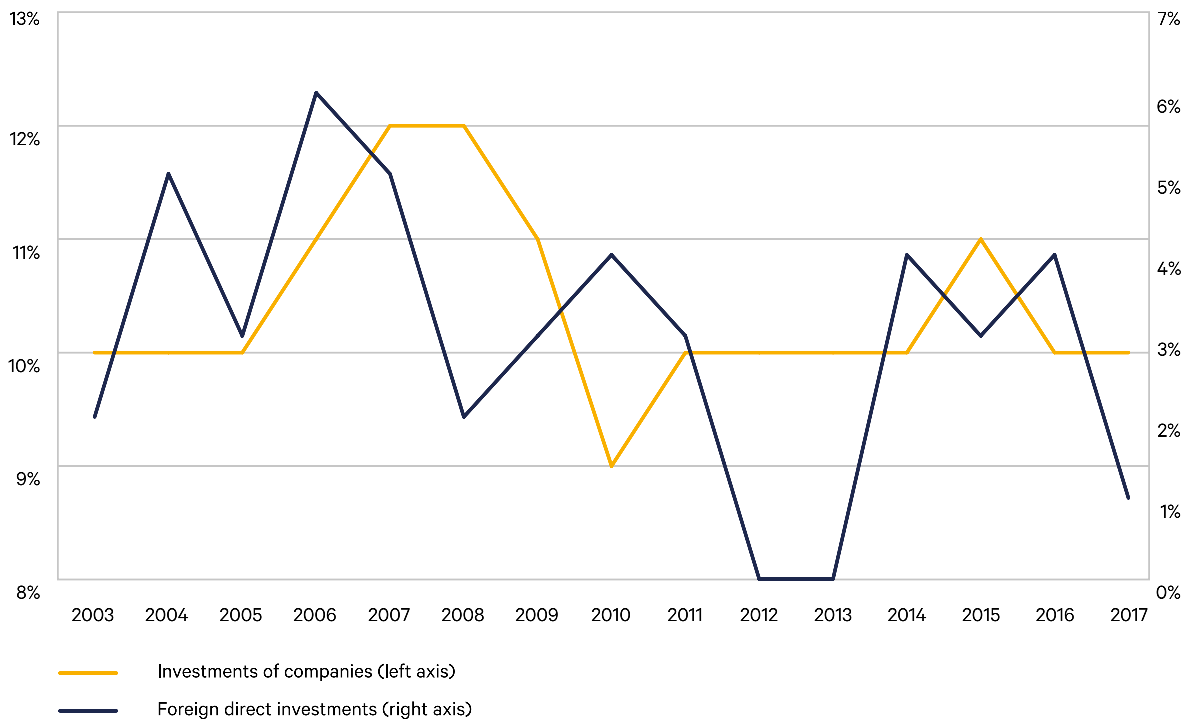
5 By 72%; for comparison, the GDP of the entire EU increased by 21% in this period.

accession period is reflected, among other things, in the incremental capital-output ratio[6], which continued to decrease until 2008. Average asset productivity increased along with the improved efficiency of current investments[7], making Poland one of the top EU countries in this regard. Capital expenditures related to the relocation of production "from west to east of the EU" were key in this process. These investments were characterised by high productivity (building plants from scratch or modernising privatised ones using the latest technologies available). Furthermore, there was a strong pro-export inclination of domestic production, which led to significant economies of scale.

After the financial crisis, along with the decrease in foreign direct investments and increased share of public investments, the general efficiency of investment processes declined. The incremental capital-output ratio increased, which was followed by a drop in productivity of the entire asset base. This trend was finally halted during the last two years.

Figure 2. Investments of companies* and direct investments** in Poland (% GDP)

Note: * Gross fixed capital formation; ** In the enterprise sector.
Source: Own calculations based on the data of Eurostat (national and sectoral accounts, and balance of payments statistics) and the European Commission (Ameco database).



6 I.e. the investment rate in relation to the growth rate: the lower the indicator, the higher the efficiency of current expenditures. In 2008, this indicator dropped below 4. This level means that Poland joined the EU leaders with respect to the efficiency of current investment processes (next to Baltic countries and Ireland).

7 This indicator measures the productivity of all assets accumulated in a given economy (incremental capital-output ratio focuses on the efficiency of current expenditures). More about this topic in: Halesiak, 2017.

Figure 3. Corporate investments in Poland compared to the EU (% GDP)

Note: * Weighted average for Bulgaria, the Czech Republic, Estonia, Lithuania, Latvia, Romania, Slovenia, Slovakia and Hungary.
Source: Own calculations based on the data of Eurostat (national and sectoral accounts and balance of payments statistics) and the European Commission (Ameco database).

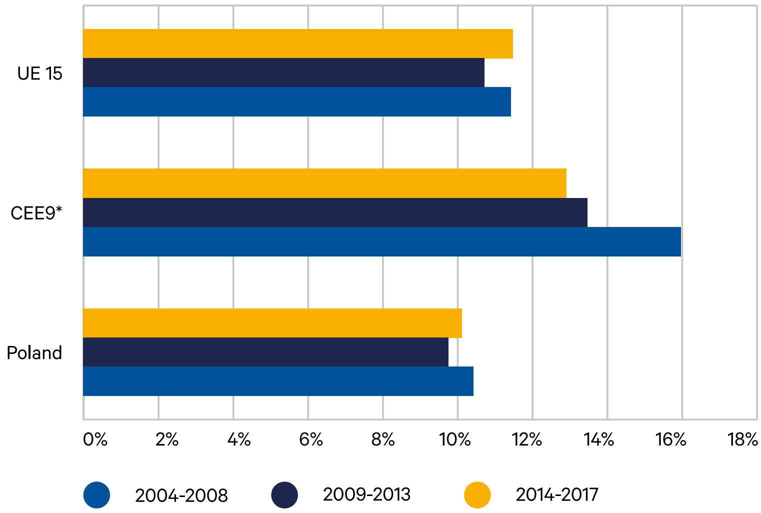
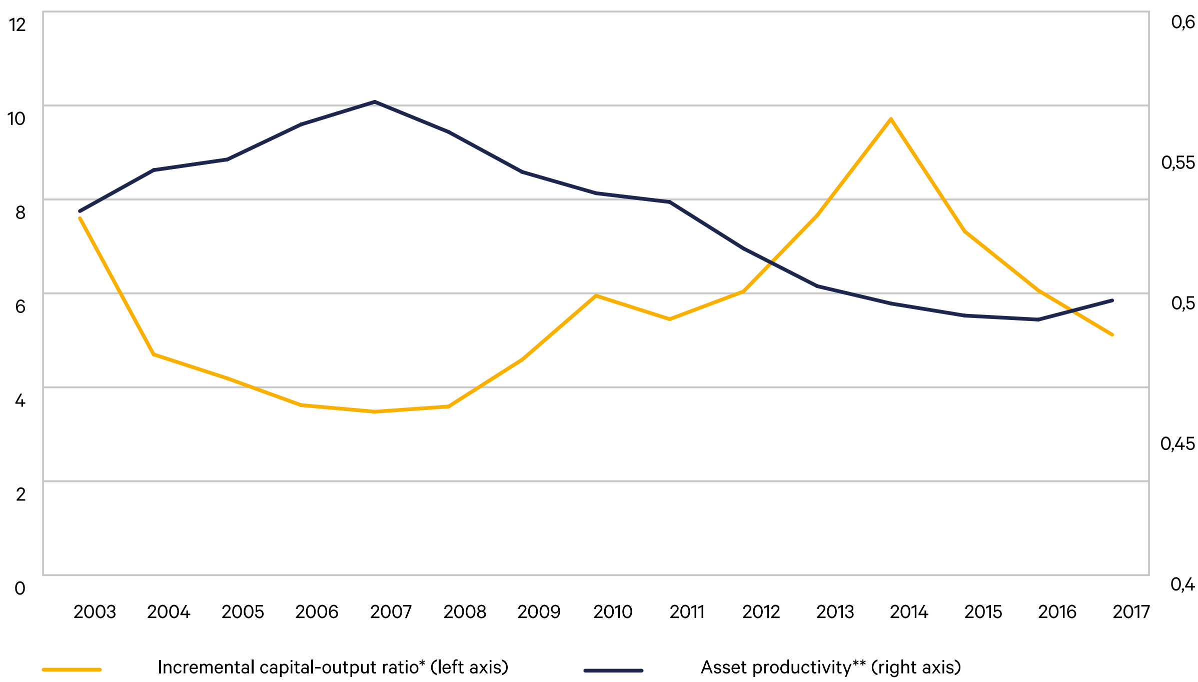


Figure 4. Efficiency of investment expenditure in Poland

Note: * Investment rate in relation to the GDP growth rate (in fixed prices, moving average from 3 years); ** Net GDP in fixed prices per asset unit.
Source: Own calculations based on the data of Eurostat (national and sectoral account, and balance of payments statistics) and the European Commission (Ameco database).



Public sector

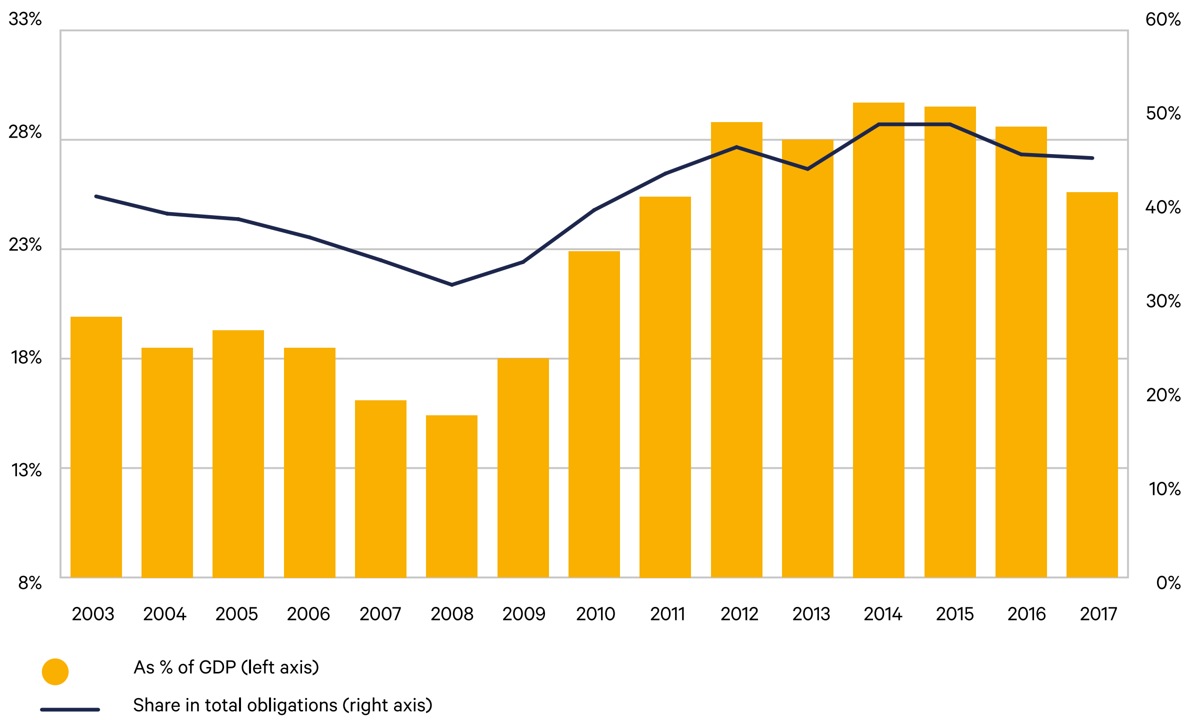
Right after Poland's accession to the EU, the importance of the foreign financing of the public sector[8] declined. From 2003 to 2008, the foreign liabilities of the public sector dropped from 20% to 15% of GDP; in 2003, non–residents accounted for 42% of public sector obligations, while in 2008 they accounted for only 32%. During this time, the structure of foreign liabilities featured an increased share of liquid instruments (debt securities) at the expense of credit facilities and loans (Figures 5-7).

The situation changed in the following years: fiscal expansion during the financial crisis increased the public sector deficit, which was largely financed by foreign investors (particularly in the 2009–2012 period). Over this period, the public sector's liabilities toward non–residents increased to nearly 30% of GDP. Their share in all public obligations amounted to nearly 50%.

The inflow of foreign investors into the market of Polish treasury bonds came about due to relatively attractive rates of return (in a global situation of low rates of return) and the positive assessment of the fundamentals of the Polish economy, standing out on the background of global tensions and disturbances. The inflow of foreign resources undoubtedly reduced deficit financing costs and potential crowding out effects translating into smaller availability of funds for the private sector in a situation where the State Treasury actively competes for them.

Figure 5. Foreign liabilities of the public sector

Source: Own calculations based on the data of Eurostat (balance of payments and financial accounts).



8 The public sector includes entities of the public finance sector (public authorities, local government bodies, budget entities and others). Foreign financing in this sector involves various types of credit facilities and loans from non–residents, as well as their purchases of securities issued by entities of the public sector (mainly the State Treasury, but local governments as well).

Figure 6. Foreign liabilities of the public sector: credit facilities vs. debt securities

Source: Own calculations based on the data of Eurostat (balance of payments and financial accounts).

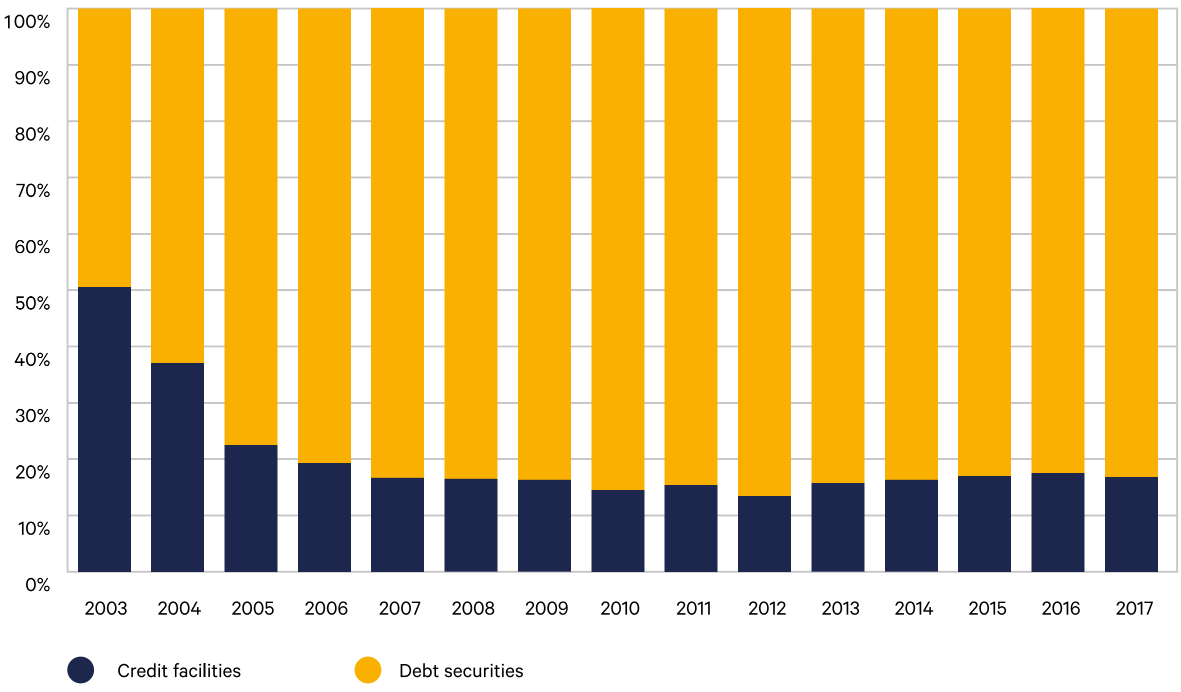
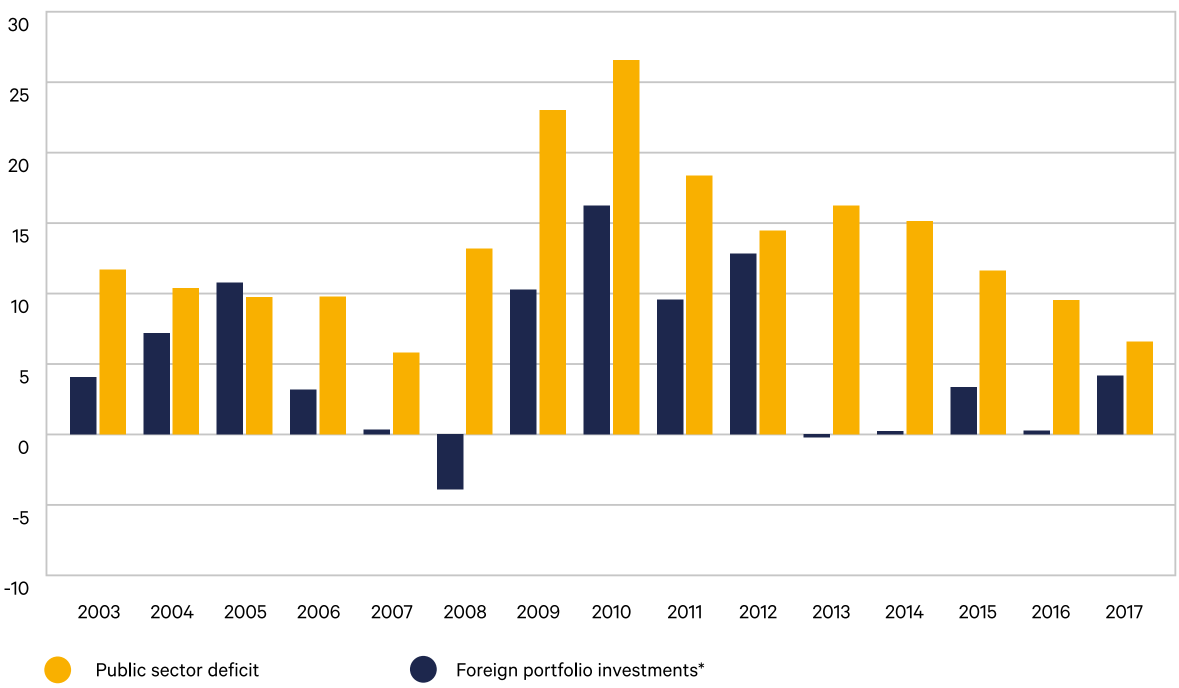


Figure 7. Public sector deficit and inflow of portfolio investments* (EUR billion)

Note: * Investments in debt securities.
Source: Own calculations based on the data of Eurostat (balance of payments and financial accounts).



Household sector

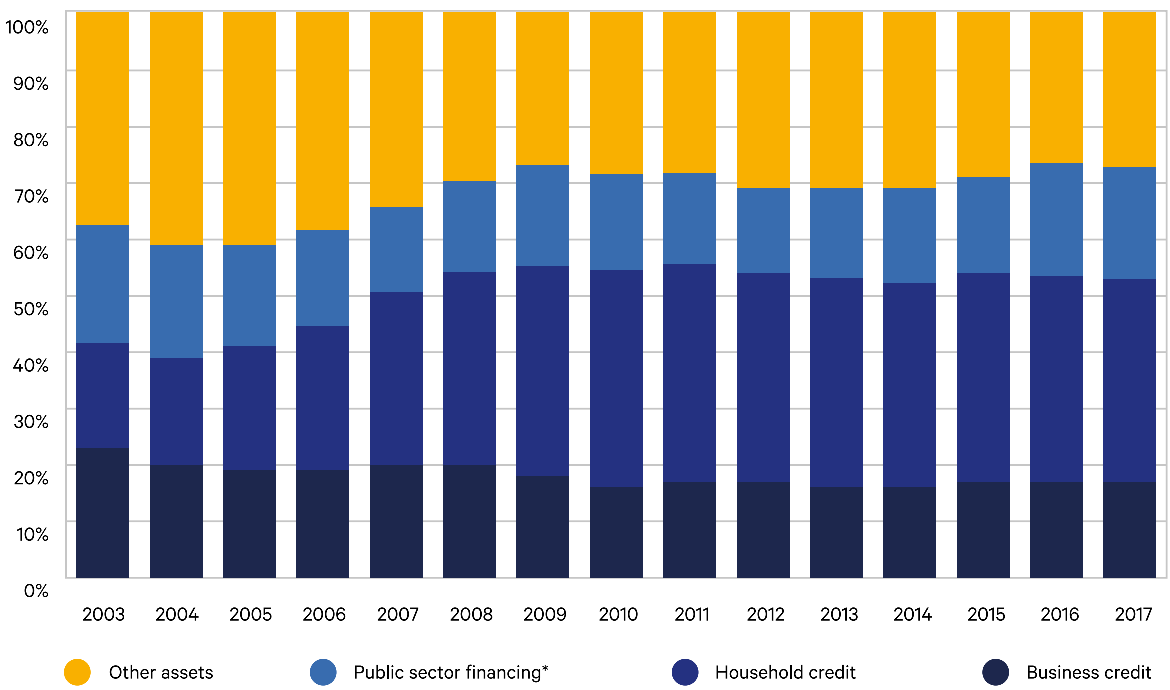
Poland's accession to the EU and liberalisation of capital flows have also affected the functioning of the local banking system, its asset structure and asset growth rate (Figures 8-9). The most important change here is the expansion of credit facilities for households. On the one hand, sustainable reduction in inflation (supported by the appreciation of zloty resulting from the inflow of foreign capital) and interest rates have changed the model of financing big household expenditures; the "save to buy" approach was replaced by the "take a loan, buy and repay" approach[9]. On the other hand, ownership changes in the enterprise sector, related to the inflow of direct investments, limited corporate sector demand for local financing (the financial needs of companies have been increasingly often met by various forms of subordinated loans[10]). Combination of those factors encouraged banks to develop credit offer for the household sector. As a result, in the first years after Poland's accession to the EU, the share of household credit facilities in the banking sector assets increased from nearly 19% at the end of 2003 to nearly 39% in 2009. In subsequent years, it stabilised around 36-38%.

During the post accession period, credit facilities for households increased at the annual average rate of 30% whereas credit facilities for companies increased at a rate of approximately 12%. Mortgages, including for some time foreign currency loans, became the foundation of the bank product portfolio for households. While at the end of 2003 the value of the mortgage portfolio amounted to less than PLN 30 billion (3.5% of GDP), it has recently exceeded PLN 400 billion (approximately 20% of GDP).

We should note that after the global financial crisis began, the quick expansion of credit facilities for households became problematic: when the situation in the labour market deteriorated, some clients could not manage their obligations[11].

Figure 8. Structure of banking sector assets (%)

Note: * Credit facilities and debt securities owned by banks.
Source: Own calculations based on the database of the National Bank of Poland.



9 Among other things, this process demonstrates a drop in the household savings rate; whereas in the beginning of the last decade, it fluctuated around 12-14% of disposable income, after joining the EU, it dropped to 5-6% and currently remains below 5%.

10 Direct loans from foreign parent companies to local subsidiaries. Typically, parent companies were able to obtain (based on their own credit rating) capital cheaper than subsidiaries.

11 The share of impaired receivables in consumer credits temporarily rose to over 18%.

Also CHF denominated mortgages became problematic: due to the appreciation of the franc on international markets, the zloty value of those loans rose sharply (often exceeding the value of a collateral). The banks were also hit by the higher cost of hedging the open FX position of the mortgage portfolio. To reduce the risk of similar events in the future, new regulations became necessary: the processes of credit rating assessment was reinforced and FX loans for households were practically banned.

Figure 9. Annual average rate of growth of selected banking sector asset categories

Note: * Credit facilities and debt securities owned by banks.
Source: Own calculations based on the database of the National Bank of Poland.

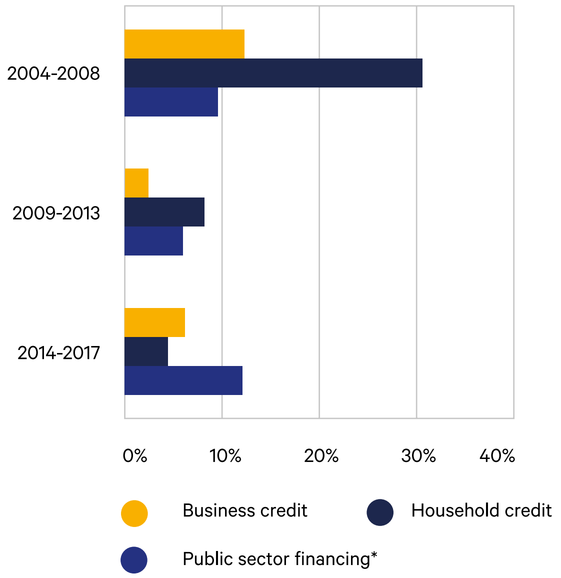
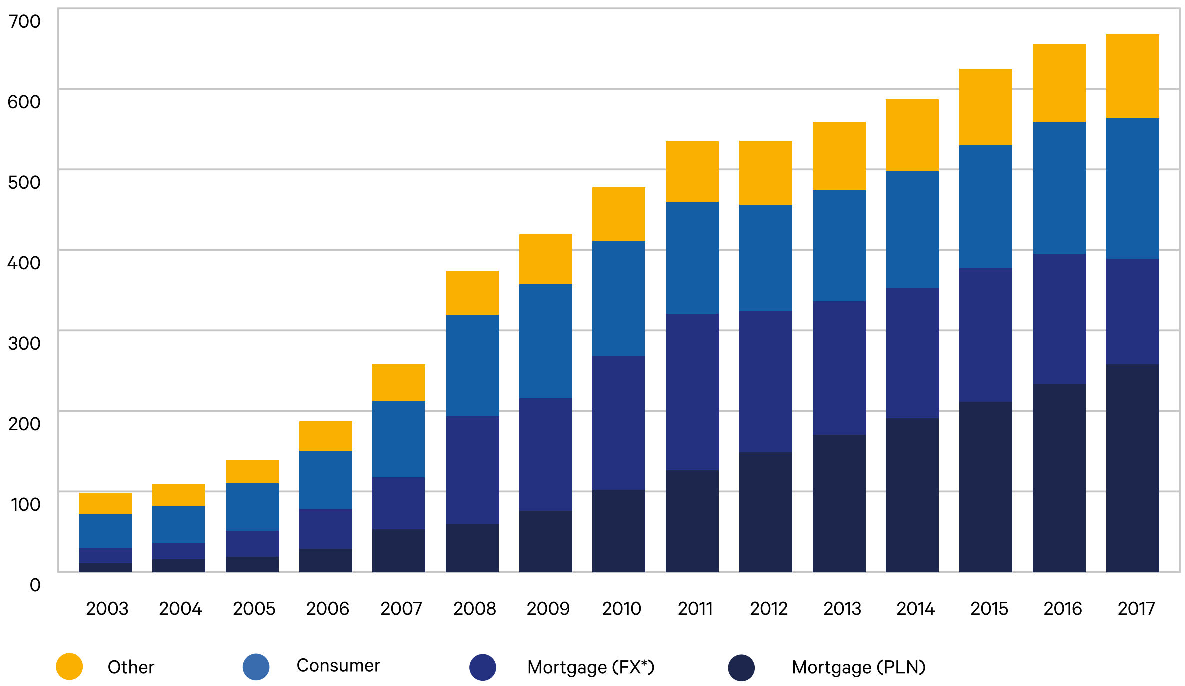


Figure 10. Credit facilities for households (PLN billion); as of the end of the year

Note: * FX means credit facilities in foreign currencies.
Source: Own calculations based on the database of the National Bank of Poland.



Summary and conclusions

The main reasons for introducing the free movement of capital in Poland were: i) requirement to comply with the rules of the single European market and ii) providing access to capital necessary to transform the economy in order to assure its competitiveness on the European market. In the more general context, introducing the free movement of capital in Poland was an element of integration with the western economic system[12].

The freedom of capital flows is the technical possibility for capital to move to and from a given country. Actual flows require the presence of underpinning economic conditions. With regard to Poland's EU accession they were – among other things – related to the following factors:

- Poland's accession to a single market created the opportunity for Polish enterprises to join European production value chains;
- creation of financial market infrastructure that was consistent with European standards (securities law, stock market and related institutions, among others);
- "borrowed credibility" - as a member of the EU, Poland became more predictable for investors;
- relative lack of capital in Poland in comparison with the labour pool.

These underpinning economic conditions caused the formal liberalization of flows to be translated into a much larger scale of actual transactions. Right after Poland's accession to the EU, it was particularly visible in case of direct investments: the possibility of the free movement of goods encouraged foreign investors to build factories in Poland and to include the Polish economy in global value chains to a greater degree. This in turn translated into high efficiency of investment processes in the economy and exceptional economic growth among the EU countries.

In 2007-2008, foreign capital financed the growing deposit gap[13]. In the course of the global financial crisis Poland attracted significant amounts of portfolio investments - under stable economic situation non-residents willingly lent money to the Polish government financing relatively large in that time fiscal gap.

Poland's accession to the EU and the free movement of capital also influenced the financing of households; higher demand (related to the new financing model for large purchases) and supply changes (opening of the banking sector to household financing) resulted in the fast expansion of household liabilities to banks. In 2017, they were over five times greater than in 2003. For comparison, the obligations of companies and the public sector approximately tripled[14].

It is also worth noting that, despite the fact that foreign financing played a significant role over certain periods, the non-residents share in total liabilities remained relatively stable, constituting approximately one-third of the sum of obligations of enterprises, the public sector, households and banks.

Looking to the future, it is worth noting that due to numerous financial crises recent years have brought about some changes in the global thinking about the free movement of capital. Potential threats related to the liberalization of financial flows have been articulated stronger than before, and even institutions like the International Monetary Fund recommend more caution. The main motives for liberalisation are also different and focus on the role of foreign capital in:

- providing specific forms of financing that local financial market is not capable to deliver (e.g. high risk capital and large financing volumes);
- maximizing non financial benefits for the economy (e.g. inflow of technology and know how) resulting from the inflow of foreign capital;
- assuring appropriate level of competition on the financial market, which in turn reduces financing costs and leads to the greater innovativeness of financial agents.

12 We should note that even without membership in the EU, capital flows would probably be liberalised due to Poland's membership in the OECD.

13 If the commercial banking sector was not able to obtain foreign financing, the adjustment would take place by a decrease in the official reserve assets.

14 In the public sector, nominal growth was 2.7 times, although it is undervalued by the redemption of bonds taken over from Open Pension Funds (OFE). Data based on: Halesiak, 2019.

The free movement of capital is and will remain one of the key pillars of the common market. However, circumstances will change. The implementation of the capital markets union and the local Capital Market Development Strategy will change institutional setup. Fundamental factors underpinning actual flows will also evolve. Institutional changes should contribute to the growth of streams of cross-border capital flows and to the increased importance of the capital market (in comparison to financing by the banking sector). The fundamental factors that can impact the intensity and structure of capital flows include:

- balancing domestic investments and savings, which at the net level reduces the needs for foreign financing[15];
- growing maturity of the Polish economy which translates into the convergence of nominal interest rates and rates of return from investments in Poland and developed countries, as well as the capital expansion of local entities;
- potential changes in Poland's attractiveness as a place to locate investments in, in particular in the context of the evolution of industrial activity to the standard of Industry 4.0;
- the risk of a rise in protectionist tendencies in Europe, and tendencies to "prefer domestic markets" in the context of investments and jobs as well;
- the changing nature of investment processes – the increased significance of intangible assets;
- ownership changes in Poland – increasingly often one foreign investor replaces another (which is neutral to net capital flows), or a local entity displaces a foreign one (which results in the outflow of capital);
- fiscal policy, in particular the scale of borrowing requirements.

In this context the most probable scenario seems to be the one of balanced capital flows with a simultaneous reinforcement of capital ties,[16] both in relation to foreign investments in Poland and to Polish investments abroad.

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15 In the last several years the current account was more or less balanced (in 2004-2012 deficits of this account fluctuated around 3-7% of GDP).

16 This reinforcement should be visible in the growth of gross volumes. Since this growth will take place in relation to both capital inflows and outflows, the balance should remain at around 0.

CHAPTER 6

STANISŁAWA GOLINOWSKA

IRENA TOPIŃSKA

SOCIAL AGENDA OF THE EU

ABSTRACT

The European Community began as a primarily economic and political project, not a social one. Over time, in response to the challenges of the labour market, demoFigureic changes and demands for equalising developmental differences, the social component has found its place among the principles shaping the Community. The expanding European Union (EU) began implementing strategies primarily concerning the labour market, but also social security and those combating poverty and social exclusion. However, social policy remains the domain of Member States while the EU influences its directions using "soft" methods, formulating recommendations that promote common values and supporting their implementation using EU funds.

Poland is among the main beneficiaries of EU funds. Their use was tied to the need to select projects in tender procedures, often viewed as too bureaucratic. All in all, they resulted in many positive effects, especially in places where EU priorities were clearly specified, and related financial support was significant. This includes, for example, the development of communal infrastructure and social services, which facilitated the growth of employment, in effect contributing to the reduction of poverty and social exclusion.

SOCIAL AGENDA OF THE EU

Introduction

European actions in the area of social policy cover four main areas: 1) employment and labour conditions; 2) combating poverty and social exclusion; 3) broadly defined education, also treated as a component of social investments; and 4) equalising opportunities of disadvantaged groups and combating their discrimination. On the one hand, these actions answer to the modern social challenges in European countries; on the other hand, they are used to implement European values in the area of equal treatment and combating discrimination with respect to gender, social origin, religion, age, health and sexual orientation.

Challenges of the labour market

The first social actions of the European Union were intended to stimulate job creation. The policy of full employment was not realistic, given the competition on the global labour market and involving economies with different levels of wealth and labour costs. At the same time, in European countries with prior experience of dramatic wars and revolutions, acceptance of a high unemployment rate constituted a threat to the peaceful path to development. In the late 1990s, agreements were concluded on the employment policies, urging governments to establish job creating entrepreneurship programmes and encouraging social partners (employer associations and trade unions) to implement socially accepted forms of enterprise reorganisation programmes. The EU's mode of operation of employment support was institutionalised and expressed in the European Employment Strategy (the Luxembourg process).

In the next decade, the EU's employment policy was slightly modified. It was looking for a way to balance two tendencies: one focused on the needs of producers, so they would be able to react faster to global competition, also by decreasing high EU labour costs, liberalising employment contracts and using more flexible forms of employment; and one focused on employees on non-standard contracts who, as per the labour law, did not have the same level of social protection as their counterparts with traditional full time employment. Achieving such a balance is well reflected by the concept of flexicurity, meaning labour flexibility combined with social security. In 2006, it was adopted by the European Commission as a recommendation for Member States as part of the modified Lisbon Strategy. This idea was in fact implemented, although with more focus on flexibility than on security, and individual countries have used flexible employment forms with various degrees of social security.

Labour issues are not just related to its commodification (as Gøsta Esping-Andersen called it), they also concern changes in its nature. Labour is more and more related to the provision of services and not the production of goods. Jobs require digitalisation and the use of other modern technologies, and the organisation of companies and institutions is characterised by strong variability. The process of adapting employees to changes in the sphere of labour is not automatic. The often suggested lifelong learning strategy as a method of adapting to the highly dynamic rate of changes in labour, despite its successes while institutionalised and actually supported using public funds, is not always sufficient.

At the end of 20th century, poverty and exclusion became a challenging social issue in the EU. The European Commission's response to this challenge was the Combating Poverty and Social Exclusion Strategy (Social Agenda of the Lisbon Strategy). Prepared with the participation of experts from top universities and think tanks, it became the primary EU social policy strategy. It led to the creation of well elaborated databases as well as analysis and forecast models of poverty and social exclusion.

Demographic challenges

With the beginning of the 21st century, European countries have begun to notice the challenge of population ageing, a phenomenon caused, on the one hand, by the beneficial trend of longer life expectancy and, on the other hand, by the drop in birth rates and, in time, depopulation. Simultaneously, family—a basic social institution—has begun to transform. Previously, families were able to deal with major phenomena which were transforming social life, and currently they are not capable of doing it without appropriate support.

In response to these changes, EU strategies have taken several directions. On the one hand, policies for a longer healthy life through the activation of the ageing population in different fields (further work, education and social activities) have been promoted and supported. On the other hand, they have promoted young people, young families, women in various roles and proposed work-life balance programmes.

In relation primarily to the younger population (although not exclusively), the idea of social investment (Hemerijck, 2014) was developed, added to the social agenda for 2014-2020 and accepted for implementation in the Europe 2020 strategy. It was suggested a few years earlier by the team of international experts headed by Gøsta Esping-Andersen (2002). The concept of social investment is discussed at length in the paper based on the Swedish project tackling the issue of the modernisation of European welfare states, edited by a French Swedish team (Morel, Palier and Palme, 2012). The concept of social investment is reflected, for instance, in investing in education at all levels: starting from early childhood education and care that enables labour activation of parents, mainly mothers. The later aspect is particularly important to the European Commission. With respect to the older population, the healthy ageing strategy was formulated. It was based on the concept of Health for All (previously defined by the WHO) and supported by studies on the social determinants of health.

Policy of equal opportunities and combating discrimination

As early as in 1980s, Community programmes were created considering gender equality. They were targeted at employers and politicians, aiming at the increase of women participation in company and public institutions' management. They also tackled the issue of wage equality for employees with the same qualifications doing the same jobs. With time, they also covered equality of women and men involving work life balance, through sharing the childcare responsibilities by both parents and developing social benefits for fathers.

Table 1. Strategies and actions of the EU with respect to social issues

Source: own elaboration.

PERIOD	STRATEGIES	ACTIONS AND PROGRAMMES
1986-1996	Common labour law standards Social Policy Protocol, Maastricht (1991)	Charter of the Fundamental Social Rights of Workers Agreement on Social Policy Minimum standards for safe labour conditions and basic workers' rights Social labour security and social dialogue at the EU level
1994-1996	First concepts of including social issues	Identification of common social issues (Green Paper 1993 and White Paper 1994). Socrates/Erasmus student exchange
from 1997	European Employment Strategy (Amsterdam); more and better jobs	Luxembourg process for increased employment Introduction of a method for joint planning by specifying employment indicators and coordinating employment programmes (OMC) Creation of a database containing situations on the labour market in European countries
2000-2005	Lisbon Strategy: growth and competitiveness, knowledge based economy Social Agenda 2000: combating poverty and social exclusion	Employee participation programmes Programmes that facilitate labour availability for disadvantaged groups: women, people with disabilities, national minorities and older people Vocational training and life long education programmes Extension of OMC to social issues plans
2006 and 2007+	New Lisbon Strategy (influenced by Kok's report) New Social Agenda: continuation of programmes combating poverty and social exclusion	Employment and social solidarity programme (PROGRESS) The principle of flexicurity (flexibility of employment and social security of unemployed) Tripartite social dialogue at the EU level Social services of general interest Operational Programme Human Capital 2007-2013 Actions for youth (Youth in Action) 21st Century Schools
2008+	Renewed Social Agenda	Temporary employment standards Indicating and supporting new skills and professions Patient security and improving the quality of health care services in Member States European health promotion programmes Healthy ageing strategy
2010 and 2011+	Europe 2020 strategy: European strategy for smart, sustainable and inclusive growth New employment strategy Renewed strategy for combating poverty and social exclusion	Youth on the move initiative Social investment package; investments for growth and cohesion aimed at children and youth European Platform Against Poverty and Social Exclusion AGE Platform Europe
2014-2020	Europe 2020: continuation Social Agenda 2020	Social investments Senior activation programmes European Pillar of Social Rights
2019-2027	EU Youth Strategy	Programmes for the young, engaging, connecting and empowering them to shape European integration

Methods of introducing European social strategies in the Member States

Social policy is the domain of Member States. Nonetheless, the EU influences its directions by supporting diagnosing social issues, promoting common values and rules, and advising methods of achieving a higher effectiveness in practice. The EU's impact on national social policies is mainly done using soft methods. In areas such as family, unemployment and housing support, there are no EU legislative provisions that Member States must observe. There are, however, coordination of social security systems and labour laws for migrating employees (e.g. concerning pension insurance). Directives enacted by the European Parliament, which belong to hard methods, concern mainly residence rights, workers' rights, OHS standards, access to education, accepting diplomas, protecting young workers' rights, and gender equality in access to education, employment and professional career.

Table 2: The EU's methods and areas of impact on national social policies

Source: own elaboration.

METHODS	**AREAS**
Joint Declaration of Intent Political actions	General strategies, priorities, funds
Directives	Labour law, OHS standards, combating discrimination
Joint plans as part of the Open Method of Coordination	Employment, education and childcare plans
Social security coordination	Addressed to migrating employees
Common databases of statistical data, banks of good practices	Common methodological basis for assessing poverty (Laeken indicators) and conducting joint studies of income and conditions of living (EU-SILC) Joint studies of people's economic activity (Labour Force Surveys, LFS)
European thematic years: conferences, social campaigns, special grants	1992 European Year of Safety, Hygiene and Health Protection at Work 1996 European Year of Lifelong Learning 2003 European Year of People with Disabilities 2006 European Year of Workers' Mobility 2007 European Year of Equal Opportunities for All 2010 European Year for Combating Poverty and Social Exclusion 2011 European Year of Volunteering 2012 European Year for Active Ageing and Solidarity between Generations
European Semesters	Coordination of financial plans (national reform programmes and convergence programmes)

The European Commission's classic soft method of influencing the implementation of social policy in accordance with EU strategies is the Open Method of Coordination (OMC). It involves common rules for preparing national plans while specifying targets and timeframes, specifying references and indicating good practices, as well as monitoring and jointly assessing the execution of adopted plans.

Soft shaping of social policy also takes place by establishing European Thematic Years, the purpose of which is to increase the level of awareness of social issues, encourage debates and, as a consequence, change attitudes. During a European thematic year, additional funds are awarded to local, national and European projects concerning jointly specified tasks under a given topic. European Years are also a political signal used to obligate governments to include given topics when preparing national strategies. For example, the European Year for Active Ageing and Solidarity between Generations resulted in the establishment of a framework for senior policy in Poland.

Recently, the method of European Semesters has also been introduced. It is an annual procedure for coordinating socio-economic and budget policies within the EU, taking into account the need to comply with European strategic goals and maintain the macroeconomic equilibrium. Member States provide the Commission with annual action plans (National Reform Programmes and, possibly, Convergence Programmes), while conclusions from the analysis conducted as part of a European Semester are submitted to Member States in the form of recommendations to be included in national programmes and specific solutions.

Readiness and barriers to adopting European social strategies in Poland

The transformation period was not conducive in Poland nor in other post socialist countries to the acceptance of European social strategies. They seemed like something from another world. In Poland, the proposed methods of activation as part of the active labour market policies used in old Member States and promoted by the European Commission have resulted—under conditions of great transformation related unemployment—in disdain rather than mobilisation to create new institutions. The construction of labour market institutions has begun slowly, beginning with a social security system for the unemployed, albeit a limited one.

The political declaration concerning Poland's accession to the EU (articulated in the European Agreement signed by Poland in December 1992) resulted in numerous programmes that prepared Poland for integration. They mainly concerned the spheres of regulation, personnel education, preparing local governments to use European projects and supporting reorganisation programmes within the economy. They were funded using pre accession European funds: PHARE, SAPARD and ISPA, and amounted to approximately EUR 1.2 billion.

In the pre-accession period, a modern social welfare system was built relatively quickly (also thanks to EU funds), and included a dense network of regional and local facilities. Social workers were trained, and their operation programmes were supported. Numerous non-government organisations supported activities of social welfare centres, and their creation and continuous operation was possible thanks to both EU funds and European cooperation projects, training courses and the observation of good practices in other EU countries.

When Poland became a member of the EU, the main support during 2004-2006 for social issues (EUR 11.4 billion) was given to projects that increased employment and supported mobility of employees. In subsequent programming periods of the EU (2007-2013 and 2014-2020), social programmes were financed both directly and indirectly. The main sources of direct financing were structural funds: the European Social Fund (ESF), the European Regional Development Fund (ERDF), the Cohesion Fund as well as the Fund for European Aid to the Most Deprived (FEAD), which was primarily aimed at financing food aid. The main social programme in 2007-2013 (Human Capital Operational Programme) was financed from structural funds, amounting to approximately EUR 9.5 billion.

The social effects of European integration are a result of not only financing projects directly aimed at social sectors, but also of actions and means aimed at other areas, e.g. the development of rural areas and agriculture, equalising regional development and creating a common market, which also include a social dimension. The programmes and financing of the common agricultural policy are of particular importance in Poland because they improve the living conditions of rural residents and decrease the gap separating them from the residents of cities, particularly large urban agglomerations. These programmes and their effects are described at length in the chapter about changes in agriculture.

In the programming period 2014-2020, Poland is among the largest beneficiaries of the EU's structural funds. The ESF alone finances programmes worth EUR 13.2 billion. They primarily cover tasks involving the implementation of basic social strategies of the EU related to employment and the development of human resources, i.e. increasing qualifications and adapting to changes on the labour market (EUR 5.2 billion). Programmes supporting social protection of groups at risk of poverty or social exclusion are also financed to a significant degree (EUR 4.7 billion). Using EU funds for social projects is not an easy task. In addition to a well elaborated application, one needs own funds (25% for pre accession projects and even more after accession). This rule stems from the principle of financial subsidiarity effective in the EU. It was often the case that the necessary projects had no chance for execution due to a lack of own funds in the local budget.

Educated officers and activists were also needed for the project implementation. Their education has been the focus of numerous education programmes for many years. Support for training administrative personnel took place mainly using funds from the multi-year Operational Programme Human Capital (OP HC 2007-2013), and currently the Operational Programme Knowledge Education Development (OP KED 2014-2020).

Using European competition and tender procedures for the execution of projects and then evaluation procedures at public institutions, local governments and non government organisations, also when Polish beneficiaries considered it excessive or even unreasonable, could have generated an atmosphere of hostility around the EU. Complaints about the bureaucracy and Eurocrats have become common in many communities. Despite these complaints, the absorbtion of EU funds to execute social programmes in Poland was relatively high. Furthermore, thanks to these procedures, labour standards in government and local administrations have significantly improved, and this resulted in better public management on all levels.

Overcoming limitations and benefits of integration

As a result of Poland's accession to the EU the painful social issues caused by the country's transformation into a market economy could have been solved in accordance with the European system of values and as part of the civilised principles of the European social policy. Furthermore, projects tackling these issues could have received support from European funds as an expression of solidarity in equalising living conditions between Member States.

The benefits of Poland's accession to the EU with respect to social issues are not always measurable and do not always exhibit a direct causal relationship. Despite generally soft methods of influence, they have resulted in a civilizational effect that is difficult to overstate. This is visible in many dimensions.

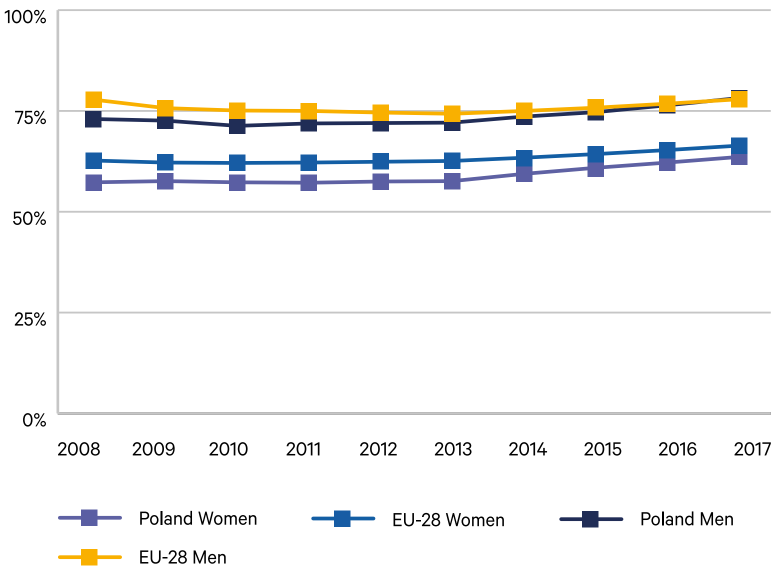
- The EU has included the Member States in a strategic and long term approach to socio economic policies, especially in critical issues such as employment and education policies. As part of programmes financed using European funds, actions were taken and aimed at increasing employment, supporting entrepreneurship and adapting companies to reorganisation. Efficient management and cooperation between public and private sectors were taught. Employees were trained to perform public administration and non governmental tasks. European education programmes covered social workers, nurses, physicians, paramedics and teachers.
- Procedures in place in the EU have contributed to the fact that changes in the labour law require compliance with the directives of EU labour law and the presence of social partners in the decision process. And by promoting the principles of social dialogue, cooperation between different levels of autonomous local governments and government administration has developed, albeit slowly.
- EU programmes in social sectors have provided massive investment support for infrastructure: equipment and the adaptation of rooms at schools and hospitals, welfare facilities, nurseries and kindergartens, integration and social welfare centres, and county employment agencies. Furthermore, EU funds have supported investments that were not strictly social but important for the improvement of living conditions, such as the expansion of water and sewage infrastructure or removing architectural barriers for people with disabilities.

Measurable benefits of Poland's accession to the EU and participation in EU programmes can be clearly seen in these social areas where EU priorities were clearly specified and related financial support was significant.

- Inspired by European values and regulations, even conservative Poland began applying rules concerning the equality of opportunity for women and men on the labour market and in the area of work-life balance. Differences in the wages of women and men working with the same qualifications in the same positions are low in Poland (7.1%), lower than the EU average (16.0%). At the same time, however, the employment rate of women in Poland is still relatively low compared to EU averages.

Figure 1. Employment rate of people aged 20-64 in Poland and the EU, by gender

Source: Eurostat, based on the Labour Force Survey (BAEL).



In the last decade, early childhood education and childcare services – which did not constitute a public programme task two decades earlier – have begun growing in Poland. This change resulted from the social investment package adopted as part of the Europe 2020 strategy, especially its component related to investment in children (Topińska, 2018). As late as 2010, Poland was still far behind most EU countries with respect to pre-school care, especially nurseries. Only 2% of children aged 3 or less used such care, while the EU average was 28% (Figure 2). The execution of recommendations of the European Commission reinforced national policy in this area (among other things, the "Maluch" and "Maluch+" programmes) and provided strong support for the development of infrastructure using EU funds. This, in turn, increased the percentage of children taking advantage of nurseries by over five times, up to 11.6% in 2017, which is clearly closer to the EU average of 34%. The expected effects from the labour activation of women have not yet materialised, while the gap between Poland and EU countries remains significant. Mothers in large families with the right to monetary benefits (the "500+" programme) quite often forgo employment without paying attention to the risk of social security in the future.

The total effect of the EU's social strategies and programmes can be demonstrated using the declining indicator of poverty and social exclusion, which in comparative studies of the EU is defined as a percentage of people living for less than 60% of the national median of equivalent income. It presents in a synthetic manner the effect of implementing the Europe 2020 strategy in the recent years (Figure 3). As late as in 2010, this indicator was 28% for Poland, which clearly exceeded the EU average of 24%. As little as four years later, this indicator for Poland declined so sharply that it practically levelled with the EU average, and recently it has been much lower: Poland 19.5%, EU countries on average 22.5%.

Certainly, the rapid decline of the poverty risk indicator in Poland and the rise of Poland's position in the EU is not just due to EU programmes and funds. Nonetheless, it is worth noting that this decline was largely generated by the better availability of work and social infrastructure, which provided a material improvement to the work–life balance, which was influenced the most by EU funds.

In summary, Poland's membership in the EU, although so far lasting only 15 years, which is a short period from historical perspective, has reduced the gap between the level of well-being in Poland and the European average (currently, Polish GDP per capita is equal to 70% of the EU average, while in 2004 it was 50%) and launched the process of social security convergence, providing a sense of social security, although still lower than in old EU countries to which Poles aspire.

Figure 2. Percentage of children aged 3 and less using nursery care

Source: Eurostat, based on EU SILC data.

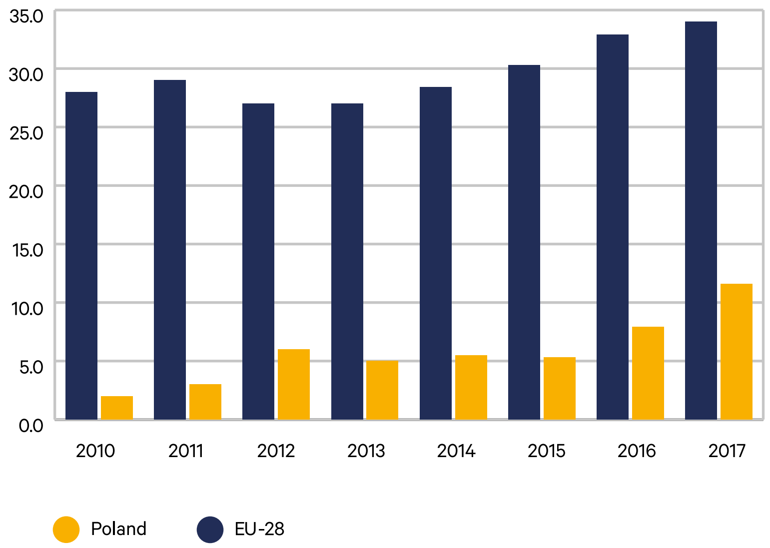
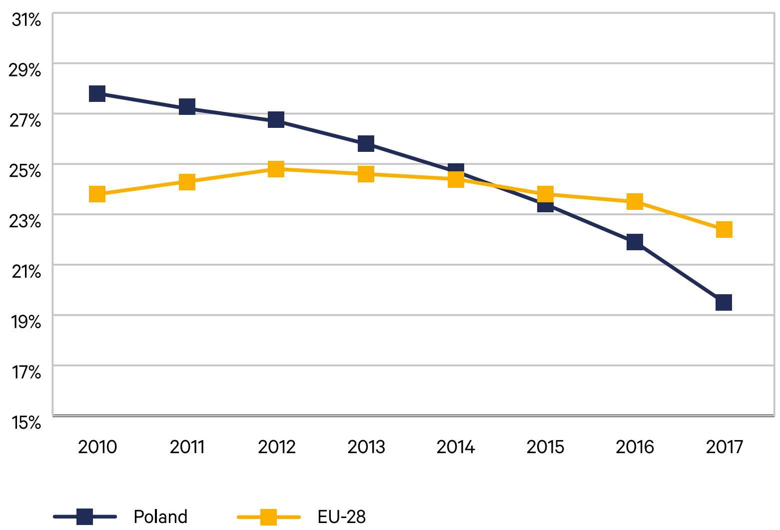


Figure 3. At-risk-of-poverty or social exclusion rate in Poland and in the EU

Source: Eurostat, based on EU SILC.



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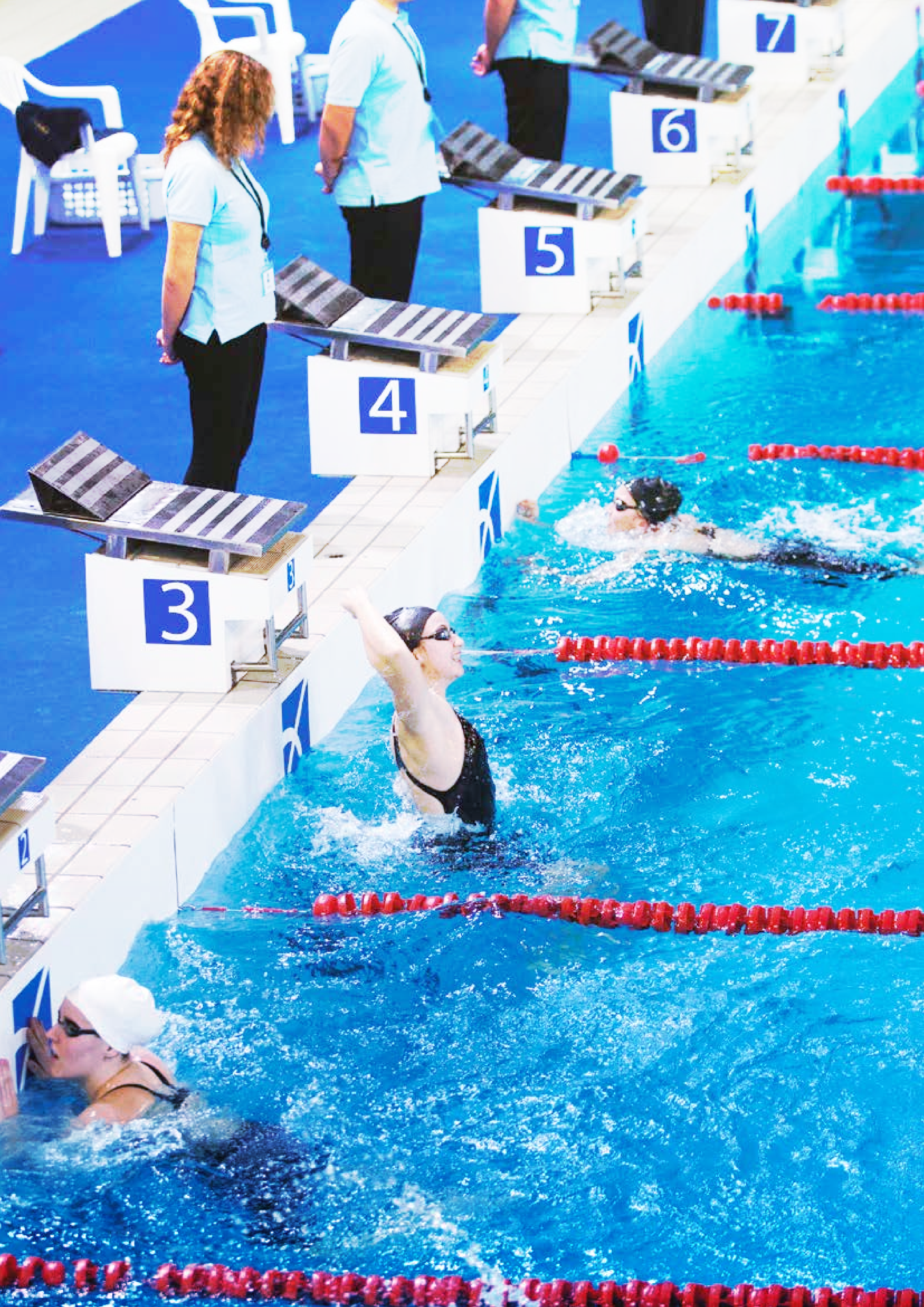
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CHAPTER 7

ANNA FORNALCZYK

COMPETITION AND STATE AID

ABSTRACT

The strategic tasks for Poland after 1989 were the transformation from a centrally planned economy with a monopolised structure of enterprises into a market economy that liberated entrepreneurship and allowed it to address emerging competition in domestic and global markets. At the same time, Poland's European Union (EU) Association Agreement (December 1991) gave momentum to its work in preparing for EU membership (1 May 2004).

There was a reasonable belief that the institutional and legal standards of the EU and its real economy would allow Poland to reach these transformation goals faster. The development and protection of competition purged the economy of inefficient enterprises, while state aid—like in the EU—allowed us to finance restructuring programmes and soften the negative social effects of their implementation.

Prior to 2004, Poland had been adapting its competition and state aid laws to EU standards, and this process has continued after 2004. The institution responsible for the development and protection of competition prior to 2004 was the Antimonopoly Office (AO), while today it is the Office of Competition and Consumer Protection (OCCP), which is also involved in state aid.

Poland's membership in the EU lets us take advantage of the Community's economic freedoms and reduces antitrust risk for Polish enterprises in the large common market.

COMPETITION AND STATE AID

Polish experiences prior to 2004

The demonopolisation of the economy after 1989 was a key task of Poland's economic transformation. Poland inherited a very concentrated economic structure dominated by monopolistic enterprises—this was because the economy had been adapted to the requirements of central planning. Creating the conditions for the development of market mechanisms would not be possible without limiting the monopolistic powers of post-socialist enterprises.

Building a market economy required the development and protection of competition in the Polish market. Means to achieve this goal included: privatisation; the restructuring of enterprises and the whole economy; the elimination of inefficient enterprises; the liberalisation of foreign trade; the opening of the economy to foreign direct investments and preventing price increases; and institutional and legal solutions facilitating the development of competition and protecting it against monopolistic practices. The process took place through administrative decisions made by the AO and the gradual reinforcement of market mechanisms. The more competition grew, the less necessary administrative decisions became.

Economic competition is a process of the rivalry of entrepreneurs operating under the same conditions for access to production assets and sales of goods at prices that ensure the profitability of their business and lead them to market success. Competition mechanisms eliminate inefficient enterprises from the market and state aid is used to mitigate the negative social effects of this process, which is the topic of the third part of this chapter.

Long before Poland's accession to the European Union (EU), the Sejm enacted the Act on combating monopolistic practices, which came into force on 13 April 1990. Under the Act, the Antimonopoly Office (AO), seated in Warsaw, commenced its operation; it was the first competition protection body in post communist countries. In 1990-1991, upon the request of the President of the Office, seven branches were established (Gdańsk, Lublin, Łódź, Katowice, Kraków, Poznań and Wrocław), the purposes of which were to reinforce its operation in local markets[1]. These institutional and legal actions initiated changes in the stereotypical modes of the thought and operation of enterprise and state administration officers—modes that were shaped in a centrally planned economy.

The Antimonopoly Act gave the AO authorisation to influence the organisational structure of the economy (controlling the ownership transformation of enterprises and their concentration as well as exercising the right to break up enterprises, i.e. demonopolisation). This led to the adoption of a structural approach to exercising competition law[2]. It was more efficient to liquidate or limit the causes of monopolistic practices (the demonopolisation of the economy)[3] than to focus on using sanctions for the anti-competitive behaviour of enterprises resulting from their monopolistic position in the market (regulatory approach). In 1996, the AO changed its name to the Office of Competition and Consumer Protection (OCCP), which increased the significance of consumer protection in the Office's operations.

Polish antimonopoly law was prepared by domestic and international experts along with—after signing the Association Agreement between Poland and the EU (16 December 1991)—the helpful assistance

1 Ordinance of the President of the AO of 28 September 1990 on the establishment of branches of the AO and determining their seats, territorial and subject matter jurisdiction (M.P. No. 36, item 294).

2 Such authority was not granted by the Act of 28.01.1987 on combating monopolistic practices in the national economy; the Minister of Finance was the antitrust authority. A. Fornalczyk, *Biznes a ochrona konkurencji*, Oficyna a Wolters Kluwer Business, 2nd extended edition, Warsaw 2012, p. 190-192.

3 TheAO's first demonopolisation actions in 1992 included: assigning landfills in large cities, making them more available to potential competitors; assigning grain warehouses from Polish Grain Plants (PZZ) with the same justification; and preventing cooperative centres from reforming. These actions were the conditions for theAO's approval of ownership transformations. Although these actions had a limited range compared to the entire economy, they indicated the adopted direction of changes in the economic structure.

of experts from the European Commission (EC)[4]. In the early 1990s, it was quite obvious that our objective was Poland's membership to the EU. Since 1 January 1992, works were under way to adapt Polish antimonopoly law to EU standards; this also concerned the policy of exercising it. Cooperation with the EC consisted of short-term internships for employees of the AO at the Competition Directorate of the EC (support under the PHARE fund), and delegates took with them sets of questions and issues related to the operation of the AO in order to learn how such matters are resolved at the EC. We treated the process of adapting Polish antimonopoly law to EU standards as support in building a modern market system of the law. This also concerned the regulation of state aid, which I discuss in part three of this chapter.

Adapting Polish law to EU standards was performed through subsequent amendments and new Acts on competition and consumer protection[5]. Among these Acts, we should emphasise the attempt to secure the independence of the President of the Office with respect to public administration. The President's proceedings and decisions can collide with actions of the government, especially those motivated by political agenda. In the Act of 2000, term limits for this position were introduced (Article 24), but the Act of 2007 (Article 29) removed this provision. The independence of the President can be guaranteed in two ways: through the conformity of actions of the entire public administration focused on supporting development and protecting market mechanisms (this is how it was in the first half of the 1990s) or through statutory term limits with clear criteria for appointing and dismissing the President[6]. Buckling under administrative pressure distorts the operation of the Office and pushes back the effective protection of competition, which can also lead to breaching EU competition law.

Building competitive markets after 2004

The principles of the Polish law on competition protection are compatible with Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU)[7] and concern:

- the prohibition of agreements between enterprises, vertical and horizontal, limiting competition on the market. The former (cartels) are particularly harmful to competition and to consumers because practical observations suggest that the objective and result of a cartel is an increase in the prices of products manufactured by a cartel by 20% on average (Froeb, Koyak and Werden, 1993).

This prohibition excludes *de minimis* agreements—those having a negligible impact on the market, which concern:

- abuse of an enterprise's dominant position in the market by imposing prices or other detrimental conditions on counterparties and consumers, discriminating against trade partners and limiting production, technological progress or sales in order to limit competition in the market.

4 For a better understanding of global competition regulations, representatives of the Office participated in works of the OECD Competition Committee, the UN Restrictive Business Practices Committee, and worked with competition offices from the United States and Member States of the EU.

5 The Act of 15 December 2000 (Journal of Laws No.122, item 139) replaced the Act of 1990; by the Act of 1 May 2004: the adaptation of the Council Regulation (EC) No. 1/2003 of 16.12.2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty (Text with EEA relevance). OJ L 1.4, which expanded the authorisation of the competition protection authorities, was the EC's preparation for the enlargement of the EU by ten new Member States. This process was continued after 1 May 2004: Act of 16 February 2007 on competition and consumer protection, Journal of Laws of 2007, No. 50, item 331.

6 A lack of statutory protection of the independence of the President of the Office led to situations like the one in 2011, where the President of the Office did not agree to the government's initiative of PGE SA's takeover of Energia SA, correctly arguing that this would significantly limit competition in the Polish electricity market. The President was dismissed by Prime Minister Donald Tusk in 2014 without justification, and the economic community perceived this as punishment for the lack of consent in 2011 to the aforementioned transaction.

7 Consolidated version of the Treaty on the Functioning of the European Union, OJ C 83/49, 30.3.2010.

Control of enterprise concentration was also harmonised with EU principles. However, the most important changes in the operation of competition protection bodies in Member States, including in Poland, were introduced under Regulation No. 1/2003[8]. They include:

- the principle of the direct application of Articles 81 and 82 (now: 101 and 102 of the TFEU) by the authorities that protect competition in Member States if the domestic competition law does not contain treaty provisions9 or if the provisions of this law are not specific enough;
- an obligation clause involving the possibility of the President of the OCCP accepting an "obligation to abstain from such violations or to take action to prevent such violations" from an enterprise whose use of anti competitive practices is made plausible during an investigation10; this replaces penalties with a self assessment of the enterprise's actions and its commitment to refrain from performing them;
- the introduction into Polish competition law of a leniency programme for financial penalties imposed on enterprises participating in anti competitive collusion, including the possibility of a decreased penalty for collusion participants who provide the Office with information that facilitates its identification and elimination[11].

One procedural change was the abolition of proceedings "upon the request" of an enterprise which was injured by a violation of competition, filed to the OCCP replacing them with a notice submitted to the Office. This resulted in a significant decrease in the number of proceedings at the Office and enabled it to focus on cases that are crucial for the development of competition[12]. The Office's operation using a quantitative perspective is shown in Table 1.

Table 1. Number of investigations and antitrust proceedings

Source: Office of Competition and Consumer Protection (OCCP).

No.	Cases and decisions	2004	2017
1.	Preliminary proceedings	559	87
	• horizontal	32	3
	• vertical	27	0
	• abuse of position in the market	296	6
2.	Number of decisions issued by the President of the OCCP: finding a restrictive business practice to have occurred		
	• horizontal agreements	8	13
	• vertical agreements	6	0
	• abuse of dominant position	45	6
3.	Number of cases and decisions of the President of the OCCP with respect to control of concentration	256	228
	• concentration permit	175	205
	• conditional permit	1	1
	• concentration ban	2	0
	• proceedings dropped	10	0
	• application return	19	13

8 Regulation of the Council (EC) 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty (Text with EEA relevance). OJ L 1.4, which expanded the authorisation of competition protection authorities, was the EC's preparation for the enlargement of the EU by ten new Member States.

9 Adapting the law, including competition law, to EU standards is a process that the AO began on 1 January 1993, perceiving it as an easy way to build legal protection for competition in the Polish market.

10 Report on Operations in 2004, Warsaw, April 2005. Source: OCCP reports, https://uokik.gov.pl/publikacje.php?tag=1 [last accessed: 12.02.2019]

11 Ordinance of the Council of Ministers of 23 December 2014 on the procedure applicable to undertakings seeking immunity from or a reduction of fines. This programme was introduced in the United States in 1978 and in the EU in 1996.

12 Act of 16 February 2007 on competition and consumer protection, Journal of Laws of 2007, No. 50, item 331.

The radical decrease in the number of cases and decisions of the President of the Office of Competition and Consumer Protection concerning abusing the dominant market position of enterprises (shown in Table 1) was due to several factors:

- requests being replaced with information of competition violation (the OCCP studies the markets that are the most susceptible to monopolisation, which forms its basis for assessing whether a given information is justified); the data in Table 1 show that 204 investigations did not identify alleged anti competitive practices[13];
- following the example of the EU, regulatory bodies were established in Poland in such sectors as telecommunications, railway, power, water and sewage, and waste processing (regulation for the development of competition has thus far been successful in the telecommunications sector); regulators took over some of the OCCP competences concerning individual sectors;
- EU membership eliminated the tariff and non tariff barriers between the Polish market and the markets of other EU Member States. This has forced Polish enterprises competing in the EU market to upgrade their technology and modernise their products in order to remain competitive in the market. Thus, these competitive pressures from the common market have led to a decrease in the number of anti competitive proceedings.
- the preventive control of corporate concentration has always quantitatively been the most important area of the OCCP's operation, which demonstrates changes in the structure of economic players; however, these changes do not always facilitate the development of competition.

Nearly 30 years of the application of competition law and 15 years of the operation of Polish enterprises on the EU market have resulted in the fact that operating a business in accordance with the requirements of this law has become a common occurrence. This was facilitated by the popularisation of enterprise management principles in accordance with competition law (competition compliance), not only through the observance of the law and the resulting penalties for violators, but also through popularising the need to manage antitrust risk (e.g. through conferences, seminars and media events).

State aid[14]

Poland's membership to the EU influenced the rationale for spending public money (budget funds and EU subsidies) and actions preventing the state from violating competition by extending state aid. Article 107 of the TFEU in general prohibits the state from intervening financially in the economy in a way that gives a preferences for selected sectors or enterprises, violating the equality of market operation conditions and thus competition. There are exceptions to this rule, but they require meeting strictly specified requirements. General conditions include the fact that aid must be temporary, degressive, proportional to the size of a given economic problem, and transparent (obligatory submissions to the EC for acceptance and publicly available reports and statements), and that the EC's actions are of a subsidiary nature, which means that the EC only tackles problems that Member States cannot solve. Detailed common market state aid admissibility conditions are listed in numerous TFEU implementing acts.

The TFEU also lists aid admissibility conditions which follow the EU's cohesion policy: the reduction and elimination of inequalities between Member States (Poland's GDP is currently at a level of 70% of the EU average, which is 5 percentage points less than Community average, in 2004 it was 45%) and support for the restructuring of the whole sectors or unprofitable enterprises (financial support for restructuring, protective payments or payments for reskilling laid off workers). All state aid is subject to reporting obligations. The competition protection bodies of the majority of the EU Member States are involved in

13 Number of investigations in 2004 (559) net of the sum of all antimonopoly proceedings (355) equals the number of investigations that were dropped (204).

14 The terms state aid and public aid are synonymous and mean the support of selected enterprises or industries by the state using such instruments as tax operations (remission, instalments, deferral), direct expenditure (state budget subsidies and relief funds), capital operations (increasing the capital of supported companies), credit operations (credit facilities with interest rates lower than market ones, other credit preferences).

the procedures concerning the monitoring and reporting of state aid.[15] The EC is responsible for making decisions with respect to notification and control. In order to answer the question of whether state intervention in the economy is state aid, we need to consider the following:

- only enterprises can be beneficiaries of aid;
- the intervention must be performed by the state using state resources;
- support must be selective;
- the provided support must disrupt or carry a risk of disrupting competition in the EU market or its significant part, as well as in third markets where enterprises from EU Member States compete with each other.

One result of the preparations for Poland's membership to the EU was the Act on the admissibility conditions and supervision of state aid for enterprises, which introduced rules in force in the EU and which enabled us to violate financial discipline in the economy[16] and protect competition on the market from state intervention that differentiates the conditions in which enterprises operate. The need to prepare business plans for public expenses and their settlement upon the conclusion of the project disciplined donors and recipients of state aid. After 1 May 2004, EU aid regulations came into force in Poland, and the Act of 2002 was replaced by a procedural act which adapted the provision of state aid and the settlement method to the Polish legal system[17].

Regarding the purpose of aid, we can differentiate between horizontal aid, sectoral aid and regional aid (the order in which the types of aid are given reflects their importance in Poland during the second half of the 1990s)[18].

Statistics regarding state aid during 2004-2017 are presented in Figures 1, 2, 3 and 4. The period 1996-2003 shows the effects of Poland's preparations for EU membership and the changes in the values and structure of aid after 2004.

We can arrive at the following conclusions by analysing the statistics:

- state aid was particularly high during 2003 and 2017 (PLN 28.3 billion and PLN 31 billion, respectively). The scale of aid in 2003 can be explained by the fact that it was the last to provide aid that was not subject to EU control (it only had to be reported as existing). During 2015-2017, the scale of aid can be explained by the increase in public expenditure due to the implementation of the "repolonisation" policy and investments in the state ownership sector supported by the government of Law & Justice (L&J) political party. There is no data on the observance of Community rules during the provision of this aid;
- the 2004-2009 period involved gaining experience in using state aid, which combined funding from two sources: the state budget (budget funds) and the EU budget (aid);
- the 2010-2016 period featured a relative stabilization of annual values of provided aid;
- during 2004-2017, the value of state aid provided totalled PLN 210,445 million[19]; the share of annual aid in GDP fluctuated from 0.5% to 1.9%; in the EU, the index of average state aid share in GDP fluctuated from 1.2% to 2.5%;
- the largest beneficiaries of state aid in Poland during 2011-2017 were enterprises such as PGE SA, Tauron Wytwarzanie SA and other companies from the electricity sector (PLN 17,447 million), TVP SA (PLN 5,181 million), Spółka Restrukturyzacji Kopalń (SRK, PLN 5,160 million), Polskie Radio SA (PR, PLN 958 million), three credit and savings

15 In Poland, by the decision of the government, in 1998, competences for state aid were transferred from the Minister of Economy to the President of the OCCP.

16 Act of 27 July 2002 on the admissibility conditions and supervising state aid for enterprises, Journal of Laws of 2002 No. 141, item 1177.

17 Act of 30 April 2004 on proceedings in state aid cases, Journal of Laws No. 123, item 1291.

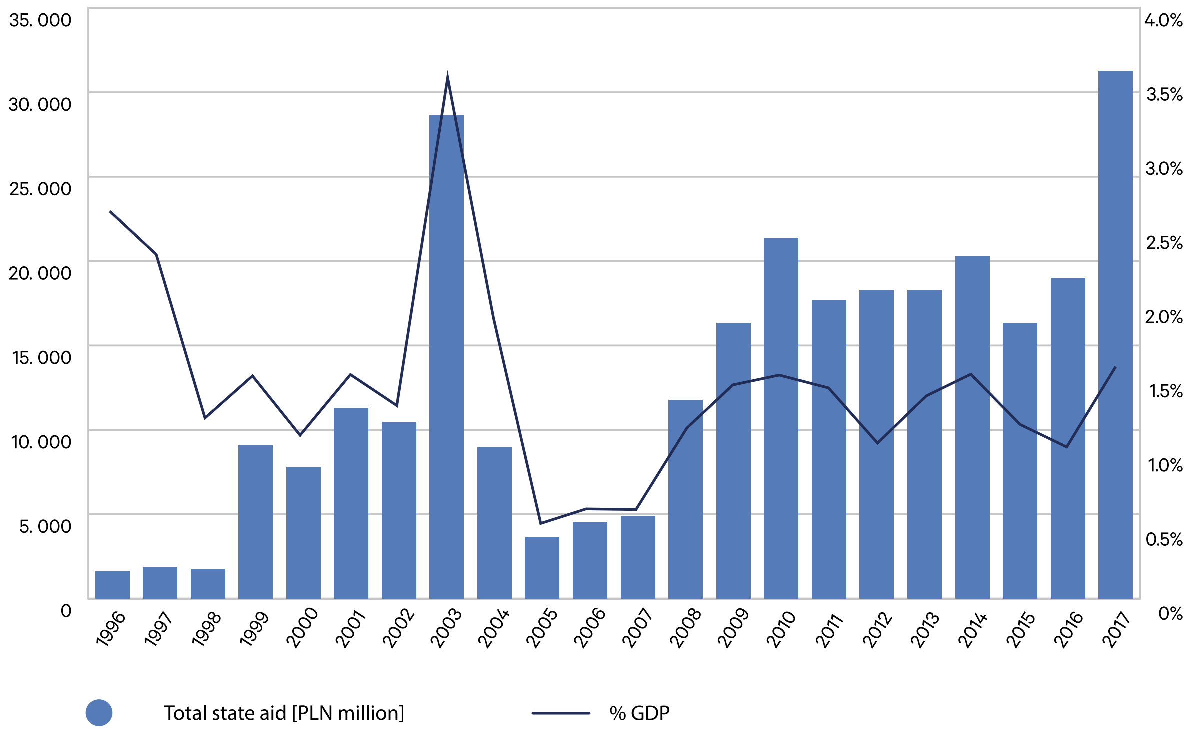
18 All statistical data on state aid comes from annual reports of the OCCP, https://uokik.gov.pl/published.php?tag=1 [last accessed: 12.02.2019].

19 The value of provided state aid does not include transport and agriculture.

unions (SKOK, in 2015 and 2016: PLN 985 million)[20, 21]. We should notice the rising subsidies for TVP SA and PR; state aid for these companies was higher than aid for SRK by PLN 981 million, which could result from halting the reorganisation of coal mining and building the ruling party's media empire.

Figure 1. Total state aid (excluding transport sector)

Source: Office of Competition and Consumer Protection.

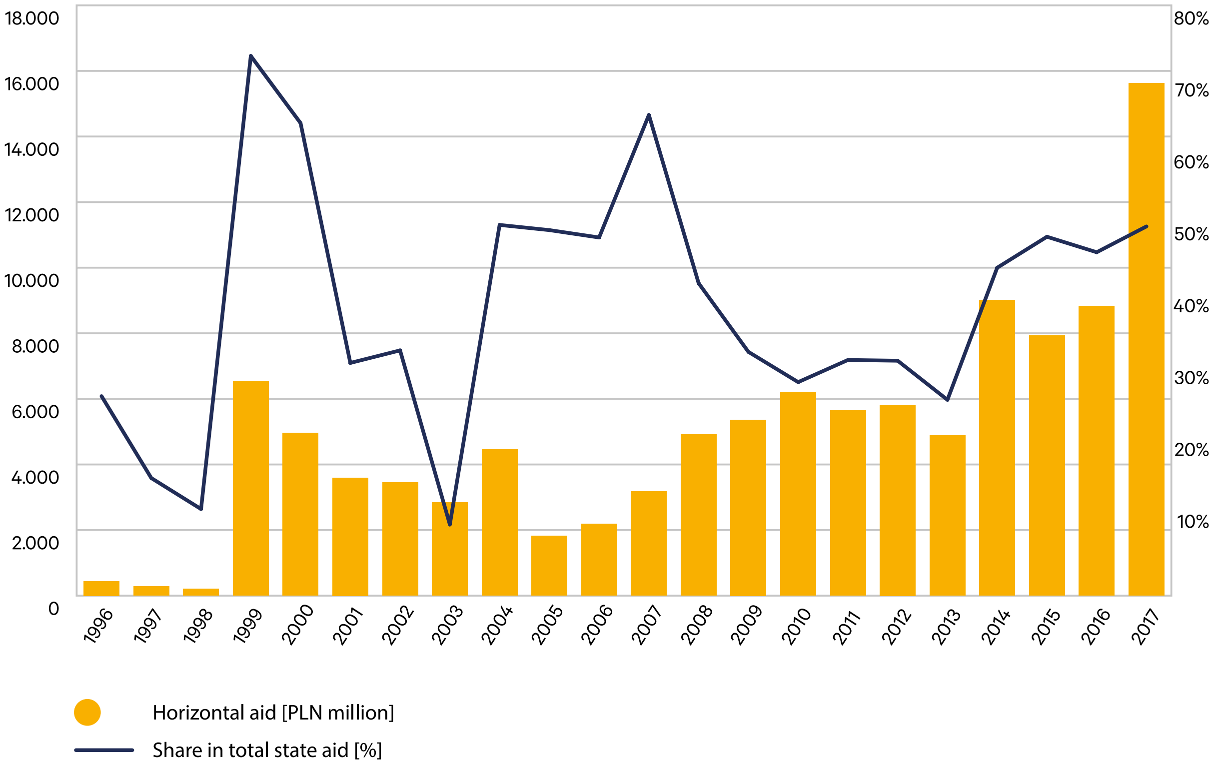


20 State aid for the largest producers of electricity was a result of the termination of long term contracts (LTC) and payments made to electricity producers to compensate for the difference between the actual market price and the price guaranteed in LTCs, the purpose of which was to provide the investment funds necessary for the modernisation of the electricity sector and the protection of the environment. In September 2007, the EC deemed LTCs illegal state aid because it was not reported before 1 May 2004 as existing aid. A special company for settling LTCs was established: Zarządca Rozliczeń SA, https://www.zrsa.pl/kdt/historia/ [last accessed: 17.02.2019]

21 Provided state aid amounts in PLN million. The author's calculations based on the reports of the OCCP, https://uokik.gov.pl/publikacje.php?tag=1 [last accessed: 12.02.2019]

Figure 2. Value of horizontal state aid

Source: Office of Competition and Consumer Protection.



The data in this Figure demonstrates that the horizontal aid had the following characteristics:

- it was earmarked for the execution of projects in various sectors (e.g. research and development support, environmental protection and goals related to energy, small and medium enterprises, the rescue and reorganisation of enterprises, protections for laid off employees and training courses, among others);
- the share of horizontal aid in total aid fluctuated from 32% to nearly 60%; the high share of this earmark was related in some cases to concealing sectoral aid (e.g. coal mining) in horizontal aid (financing protections for laid off miners);
- the increased share of horizontal aid in total aid in the studied period conforms to EU trends. This is because many Member States solved their sectoral problems (e.g. the liquidation of coal mines in France, the United Kingdom and Germany).

Sectoral aid is particularly important in the early stages of transformation. The faster and broader this process is, the more significant sectoral aid becomes. However, it is important to not use funds from sectoral aid to finance unprofitable enterprises in order to postpone their restructuring for fear of social unrest (e.g. coal mining in Poland).[22] Financing the current losses of unprofitable enterprises is an unacceptable form of aid because it is not temporary or degressive. We can allow such action only in periods preceding the commencement of the restructuring programme, and the purpose of such aid is to allow a given enterprise to survive until such a programme commences.

22 In 2007, the EC deemed support for Polish shipyards (in Gdańsk, Gdynia, Szczecin), which were mainly in the form of loans from a specially established shipyard fund, illegal state aid because it was provided without notifying the EC after 1 May 2004. These loans bore interest, but the economic risk related to their repayment was so high that no bank would grant them a credit facility. The Gdańsk Shipyard, with its historic significance as the birthplace of Solidarność, found investors (Industrial Development Agency and a Ukrainian investor), whereas the other two shipyards were liquidated and their assets were sold to cover the repayment of the received state aid and other obligations. The EC's decisions were issued for the Szczecin Shipyard (aid of EUR 700 million) on 6 November 2008, for the Gdynia Shipyard (aid of EUR 1,600 million) on 1 July 2007 and a conditional decision was issued for Gdańsk Shipyard on 22 July 2009.

Figure 3. Value of sectoral state aid

Source: Office of Competition and Consumer Protection.

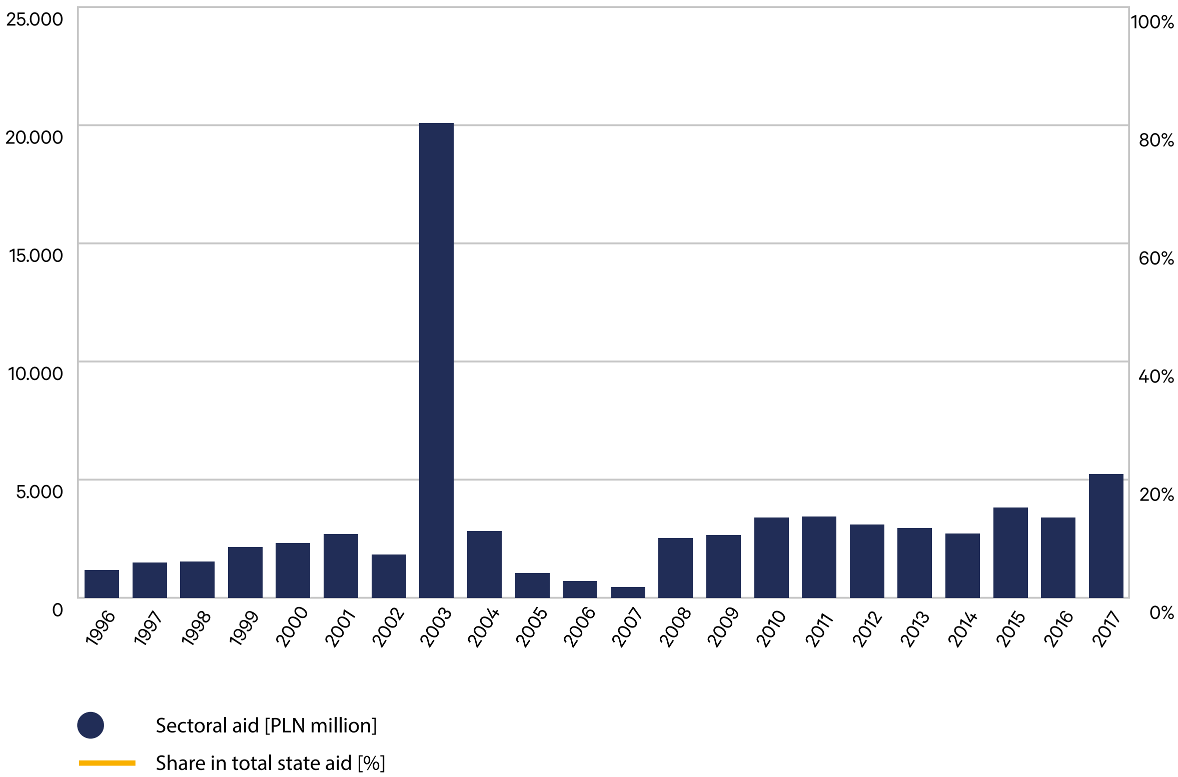


Figure 4. Value of regional state aid

Source: Office of Competition and Consumer Protection.

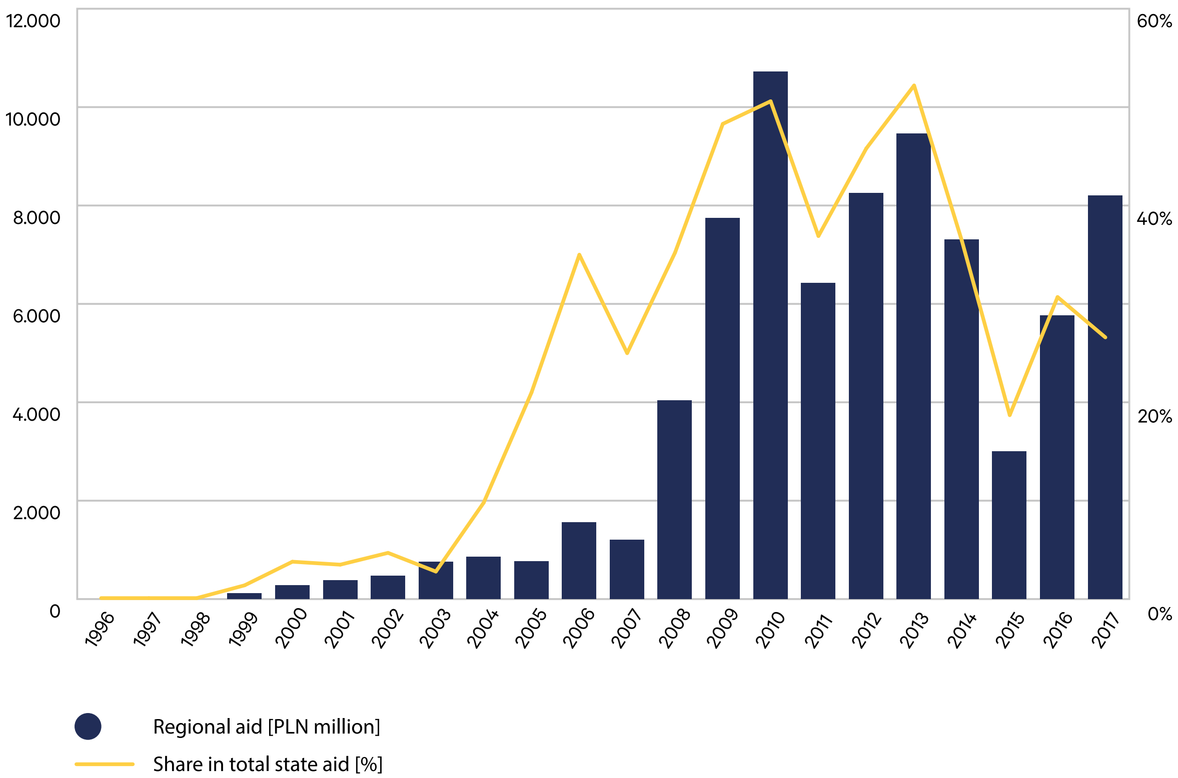


Figure 4 illustrates regional aid and demonstrates that the earmarking of Poland's state aid was adapted to EU standards because the policy of cohesion and equalisation of opportunities of EU Member States is a priority for economic policy, including EU state aid policy. Two conclusions can be drawn from the statistical data:

- regional aid is gaining importance as Poland integrates with the EU;
- there is visible growth, albeit unequal, in regional aid in 2004-2009; in 2014 and particularly in 2015, we can see a drop in expenditures for regional aid, and after 2015, regional aid grows again, although its share in total aid does not reach the level of 2010 (50.5%) or 2013 (52.1%).

The harmonisation with EU standards of the rules for providing state aid for enterprises also included the tools for its provision. Due to the requirement of observing the principle of transparency in state aid by Member States, we should see an increased share of subsidies in total aid. This has happened in Poland, where in 2004, the share of this form of aid constituted 62% of total aid, while in 2017, this share increased to 91%.[23]

Summary

- The development of competition and control over the state's intervention in the economy (regulation of state aid) supported the process of transforming the Polish economy, which involved reinforcing the functionality of market mechanisms, the privatisation of state owned property, the liberalisation of foreign trade, preventing inflation and changes in the player and product structure of the economy.

- Implementing antimonopoly law as early as 13 April 1990 and enterprise state aid regulations long before Poland's membership in the EU was a signal to the world that Poland is treating its market transformation seriously. Poland's membership to the EU anchored Polish antimonopoly and state aid law in the Community legal system, which is one of the most advanced supranational legal systems in the world with respect to the protection of competition. This has significantly increased Poland's trustworthiness as an economic partner in Europe and globally; it also protected Polish enterprises from the anti-competitive behaviour of enterprises and the governments of other EU Member States. Nowadays, the Polish economy is a part of the EU economy with a single legal system, including competition protection and state aid laws. Changing this law would expose the Polish economy to the possibility of losing competitiveness; it would constitute a violation of the uniformity of EU law by the government of L&J party and mean that Poland desires to withdraw from the EU.

- Poland's membership to the EU facilitated the development of the competition law, and the obligation to apply this law in accordance with EU case law became an accelerated lesson in successful antimonopoly action. Poland's membership to the common market and regulatory mechanisms in certain sectors resulted in the fact that the OCCP has been quantitatively unburdened from its cases. This changed the structure of works conducted by the OCCP, enabling it to focus more on consumer protection cases.

- Since 2015, when the economic structure and behaviour of state enterprises and, indirectly, the private sector became subject to decisions made by the government, the capabilities of the OCCP have generally been limited to consumer cases only. However, maintaining this status quo runs contrary to the priorities of the transformation strategy that pushes Poland toward other market economies and makes it a reliable economic and political partner.

23 Reports of the OCCP, https://uokik.gov.pl/publikacje.php?tag=1 [last accessed: 12.02.2019]

— Aid regulations made public the process of granting and monitoring the flow of public funds from the state budget and transfers from the EU. Reports on granted state aid, prepared by the OCCP, can be found on its website. However, the reports do not contain information on the efficiency of fund utilisation. The management of public funds should be monitored and shared publicly.

— State aid for enterprises that was granted in 2004-2017 combined funds from the budgets of Poland and the EU. According to data from the Ministry of Finance, in 2004-2017, the balance of financial transfers from the EU to Poland amounted to EUR 83,233 million[24]. According to data from the OCCP, the value of state aid in 2004-2017 amounted to EUR 50,108 million (the value of aid does not include aid for transport and agriculture). The aforementioned aid was awarded to Polish enterprises but, what is equally as important, the admissibility requirements for the provision of aid introduced rigorous economic criteria for assessing the rationality of prepared aid projects. In the context of the EU, these conditions also protect Polish enterprises from the anti-competitive effects of excessive state aid in other EU countries, which are often much wealthier than Poland.

— In 2015-2017, the development of competition as a driver of economic growth in Poland was dropped from the policy priorities and practical actions of the L&J's government. Currently, the state is meant to become the primary driver, setting goals and economic projects and spending public funds for their execution. We have witnessed policy statements such as the "repolonisation" of the economy (i.e. nationalisation), the creation of national champions and the making of large state investments (e.g. rebuilding the shipyard industry, producing of one million electric cars by 2025 and building the Central Transport Hub, which has preliminary cost estimates of PLN 30-40 billion).

— Regulation for the development of competition succeeded in the telecommunications sector and competition law played an important role in the removal of barriers to entry to the telecommunications services market for operators. Competition is not functioning properly in the electricity sector, which is a result of the L&J government's actions abolishing competitive changes in the structure of the electricity market and introducing administrative management of the State Treasury's electricity companies.

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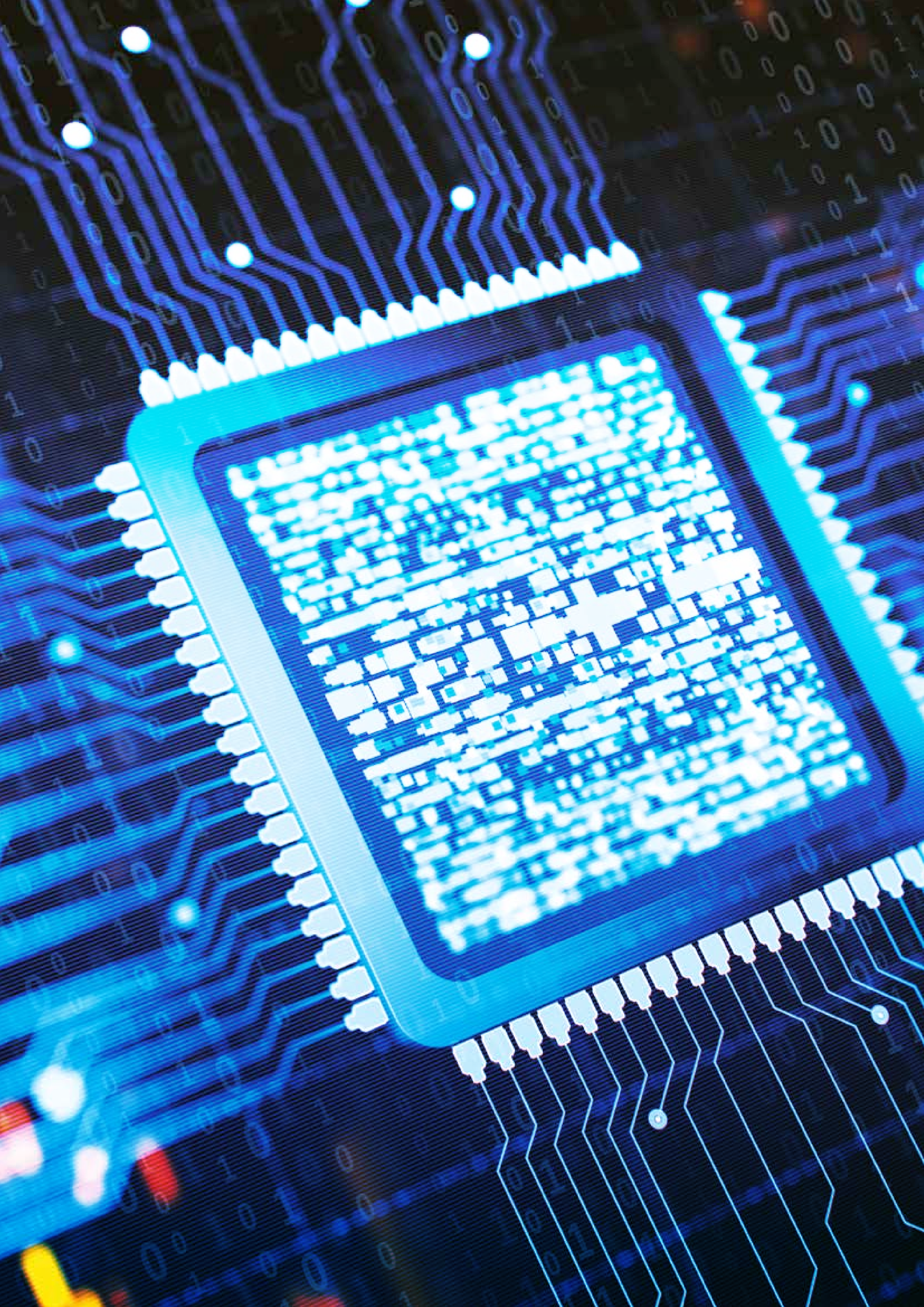
24 The transfer balance equals: total transfers (EUR 137,043 million) – Poland's member contribution (EUR 45,221 million) – return of unused funds (EUR 154 million), https://www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/unia-europejska/transfery-finansowe-polska-ue



CHAPTER 8

RICHARD WOODWARD

INNOVATION

ABSTRACT

Innovation is a significant factor of the development of European countries. With it, the European Union (EU) aspires to take its rightful place in the global economic rivalry. To achieve this, the EU supports investments in research and development and in projects that implement innovation in the production of goods and services, as well as in solutions aimed at improving the organisation of processes in market economies. In fact, innovation has become the key developmental aspiration of the EU as part of the Europe 2020 strategy for smart, sustainable and inclusive growth. An even stronger push for innovation is planned for the years following 2020.

The Polish economy's leap into the development of more efficient developmental processes in 1989 was exceptionally difficult and burdened by the low performance inherited from many years of a centrally planned economy. During Poland's transformation period, which was dominated by the necessary reorganisation of institutions and the economy, expenditures for innovation were low and falling. Since joining the EU, this trend has been reversed, largely thanks to EU funding, which has supported spending on research and development, the creation of new, innovative firms, and the integration of Polish research with the rest of Europe. The development of innovation was facilitated by the export of increasingly technologically advanced goods and the development of international economic ties. This approach produces promising perspectives for the more intensive development of innovation and better trade benefits.

Despite the progress, the Polish economy's innovation does not feature a growth rate corresponding to its economic potential and social aspirations, and it has been weakened in recent years. Overcoming this phenomenon is a crucial challenge which constitutes a requirement for using European funds in a new perspective, the programmes of which will be much more focused on innovative entities and actions than previously.

INNOVATION

Introduction

Innovation—the introduction of changes (particularly productivity-enhancing ones) into firms and the economy at large—is the main source of improvements in people's material well-being. Efficiency increases the income of employees and the profits of enterprises, creating the wealth of nations. Innovative changes take place through new product patterns, implementing new technologies into production processes and using efficient models of action and labour organisation. The most noticeable changes in the lives of people are technological changes. The Community's support of technological innovations means that the effects of membership in the European Union (EU) are largely apparent in the daily lives of citizens.

Innovation is an activity that is very difficult to measure. The two most common indicators measuring the innovativeness of a national economy are: 1) gross expenditure on research and development (GERD) in GDP and 2) the share of expenditure on research and development (R&D) financed by economic entities (enterprises) and not by public funds (state). We use these indicators because there is a positive correlation between GDP per capita and R&D expenditure and between GDP per capita and the percentage of R&D expenditure financed by enterprises (OECD, 1967, cited in Godin, 2003).

The Lisbon Strategy (2000) adopted the GERD/GDP ratio of 3% as a target for Member States of the EU in hopes of bridging the gap between innovativeness in Europe and innovativeness in the United States and Japan[1]. This is why a significant part of the European Commission's support for innovation was aimed at scientific research organised as part of framework programmes (FP) and (since 2014) as part of the Horizon 2020 programme. Furthermore, the European Regional Development Fund finances studies and their practical applications and supports the establishment of new innovative companies. The application of these instruments in Poland reversed the negative trends that characterised the first dozen or so years of its transformation.

After creating the Summary Innovation Index, the European Commission has, for several years now, been conducting estimates of its value and publishing the European Innovation Scoreboard. According to these measurements (EC, 2018), the Summary Innovation Index for Poland in 2010-2015 ranged between 50 and 54 (on a scale of 0-160). A marked improvement was seen in 2015 and 2016 when Poland's performance rose from 52 to 57. The greatest improvements underlying this improved overall performance were in the following areas: international scientific publications, broadband penetration (now well above the EU average), R&D spending in the business sector, the generation of design applications and, in particular, in opportunity driven entrepreneurship (in which Poland's performance is also now above the EU average).

Research & development expenditure

During the initial period of Poland's economic transformation, the GERD to GDP ratio (which is sometimes called R&D intensity) began declining and continued this trend for the next 15 years of the pre–accession period. Taking into account the relatively high economic growth rate of the second half of the 1990s, we should expect a faster recovery of this indicator. Especially since in the Czech Republic and Hungary, R&D expenditure has been growing since the beginning of the transformation, which is shown in Figure 1. This could indicate that the innovation of the economy in Poland was a neglected area at the time. However, the decline in R&D activity in the 1990s can be seen as natural, as Polish firms focused their innovation related spending on the modernisation of the machine park (the acquisition of modern production equipment and computerisation, among others) and on other means related to access to the conditions required for innovative operation, such as the acquisition of access to intellectual property created in the West by the purchase of licences. The Czech Republic and Hungary had this phase earlier, allowing them to occupy more attractive positions in European and global innovation scoreboards. This negative trend was only reversed, as mentioned earlier, after Poland's accession to the EU in 2004.

1 Both the United States and Japan formulated national innovation strategies that indicate they pay special attention to this factor in development. In the United States, it is the *Strategy for American Innovation* (2008), while in Japan, it is the *Comprehensive Strategy on STI* (2013).

Figure 1. R&D expenditure in % GDP, 1990-2017

Source: OECD Main Science and Technology Indicators.

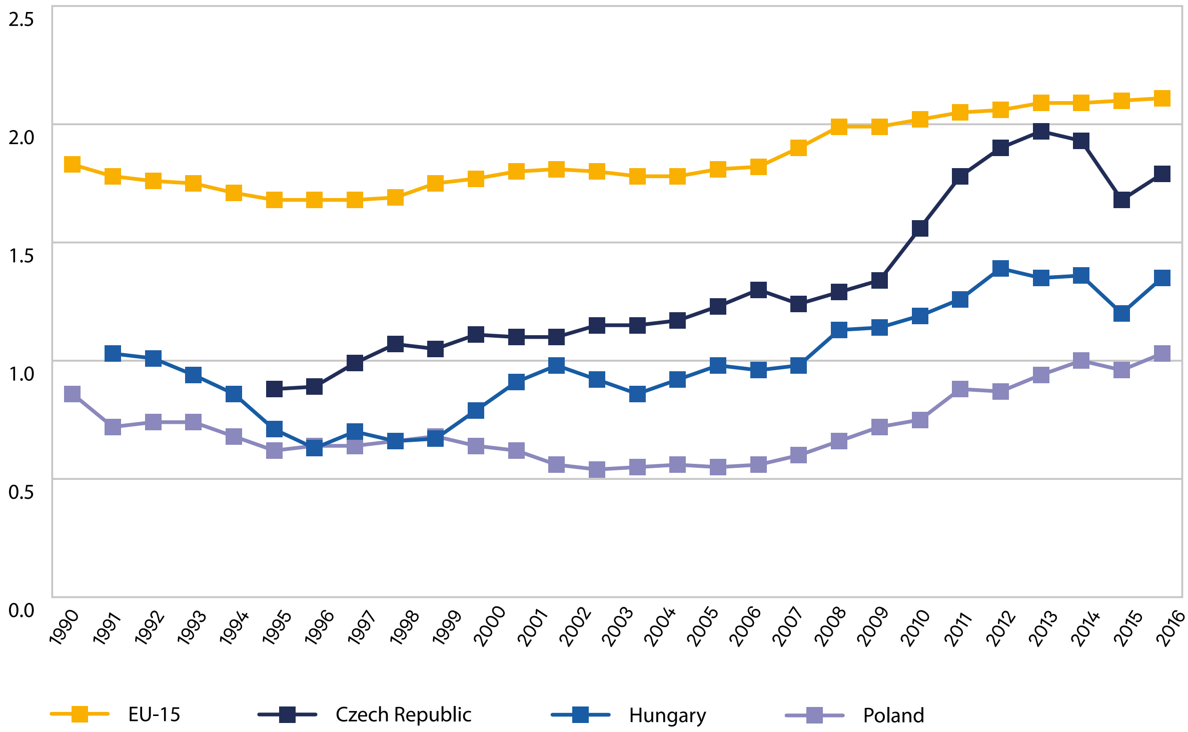
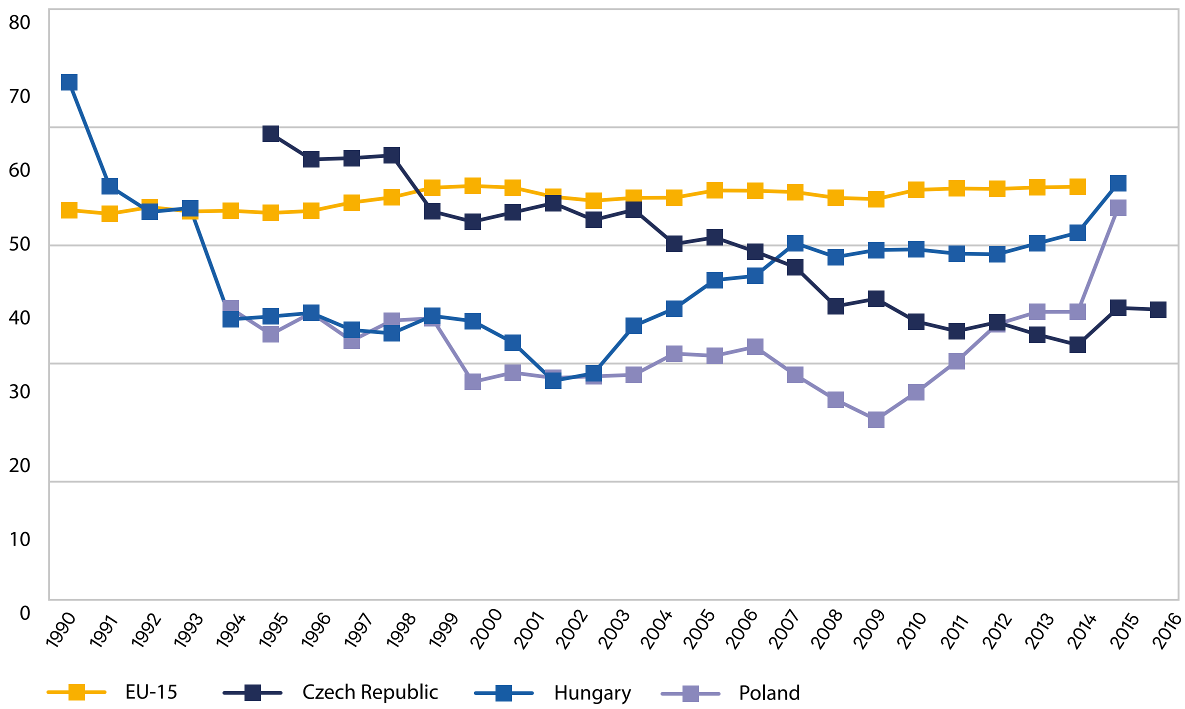


Figure 2. Business sector's R&D expenditure to total R&D expenditure (in %), 1990-2017

Source: OECD Main Science and Technology Indicators.



Looking at Figure 1, we can see a period of growth after 2004 (after accession to the EU) in all the countries represented, as well as a brief period of stabilisation and slight decline in the years 2014-2016 (this decline was mildest in Poland). Overall, the ratio of Poland's R&D spending to its GDP has approximately doubled in 27 years. It is, however, important to note that much needs to be done to catch up with the European average, although the value of 1.7% targeted for the year 2020 (European Commission, 2018) is not unreasonable.

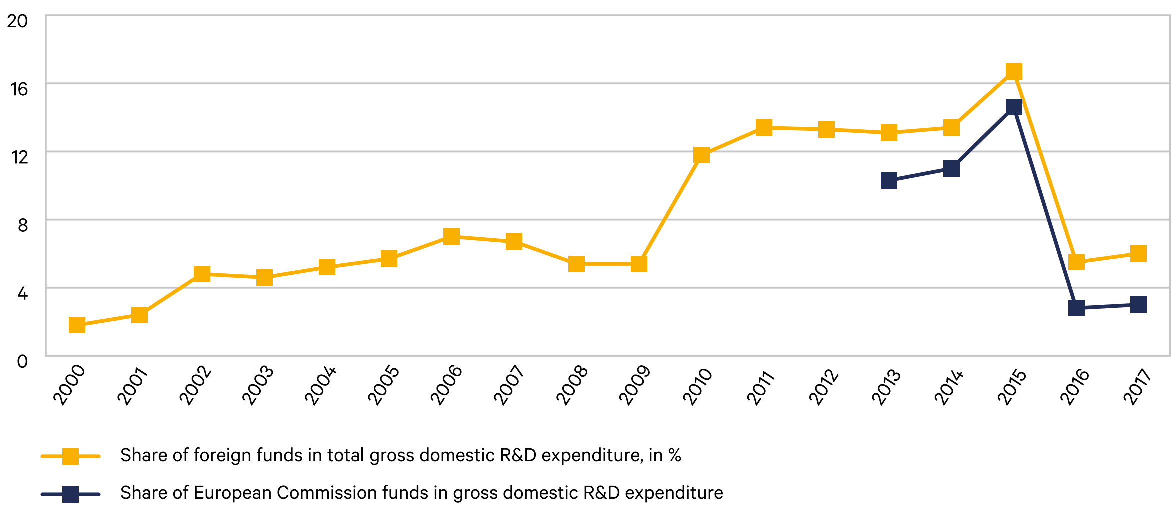
Figure 2 illustrates the percentage of gross corporate expenditures on R&D. Again, we see Poland beginning in the lowest position. In this case, however, its trend line is more dynamic, with Poland overtaking the Czech Republic in 2010.

In fact, Poland has also set a 2020 target of 35%-47% (assuming the target of 1.7% for GERD/GDP is reached; Szpor et al., 2014), and it has already leapt well past that target. The recovery in Poland's business sector's contribution to R&D really began to gather momentum around 2010 and is the most dramatic of the countries represented in the Figure. Clearly, since joining the EU, the negative trends observed in Poland before accession with respect to R&D have been reversed, and with both R&D spending as a proportion of GDP and the role of the private sector in financing R&D increasing after years of decline and stagnation, Poland's development path in this area is now in line with trends generally observed in the world in recent decades, which can be considered a very healthy and hopeful sign.

The EU has contributed to the increased R&D intensity of Member States' economies primarily by supporting European Commission framework programmes and financing research. Since the mid-1980s, the European Commission has been carrying out subsequent framework programmes (from FP1 to FP7). Poland joined these programmes only during Framework Programme 5. The current programme is Horizon 2020.

Figure 3. Foreign and European Commission funds in total gross domestic R&D expenditure in %, 2013-2017

Source: Statistics Poland (2018); Macroeconomic Data Bank (https://bdm.stat.gov.pl/).



As shown in Figure 3, the share of EU and other foreign funds in financing Polish R&D expenditure during 2010-2015 was significant (over 10%) but declined rather quickly. A comparison with Figure 2 shows that this rise and subsequent fall in the foreign funding of R&D corresponds to a strong rise and subsequent fall in R&D spending generally in relation to GDP. It is important to note that in both cases, the rise between 2010 and 2015 is strong; however, while foreign funding fell steeply in 2016, the ratio of R&D spending to GDP rose sharply that year and fell only very slightly in the following year. This might indicate that the foreign funding in 2010-2015 helped push up Polish R&D spending in a sustainable way, which would explain why the impact on R&D generally of the subsequent fall in foreign funding was very minor.

As also shown in Figure 3, the share of foreign R&D financing which is directly attributable to the European Commission was very high in 2013-2016. Although data for the years prior to 2013 are not available, it seems safe to assume that in earlier years, too, foreign funding was driven to a great extent by EU funds and European Commission programmes. The decline of financing from the EU since 2015 may be related to the inadequate utilisation of funds from the Horizon 2020 programme as compared to the previous programme (FP7). In this case, we can expect an improvement in the following years. This is because Horizon 2020 funding takes place in periodic tranches (Work Programmes covering 2-3 years), which may result in significant deviations from the trend at certain points in time.

Another significant factor contributing to Poland's ability to generate innovation is the mobility of its researchers, supported by the European Commission largely through grants from the Marie Skłodowska-Curie Actions (MSCA, which has been in operation for 20 years) for researchers to travel to European universities to conduct joint research and carry out educational programmes. These grants are financed using Horizon 2020 funds and previous framework programmes (FP6 and FP7). According to the data from the European Commission (European Commission, 2015), 958 researchers from Poland obtained over EUR 673 million within FP7 alone[2].

Although researchers (individually) and research centres view joint research and the opportunities for exchanging personnel for education and training purposes as very beneficial, the share of funds for these activities that reach Poland is low. In the previous programme (FP7), Poland received over EUR 437 million, which constituted 0.78% of the budget for the total amount of nearly EUR 56 billion. For example, compared with a 7.6% share of the population of the EU, Poland generated only 2.25% of the applicants for FP7 funding, and Polish applications had a success rate of 18.6%, compared to an EU average of 20.5% (European Commission, 2016). Often there are administrative obstacles or other limitations concerning the purpose of these funds which impact their utilisation, such as remuneration limits for contractors which are not set by the EU institutions financing these studies but rather by the Polish institutions managing the funds. An example of this is the upper limit of remuneration set in October 2018 by the National Science Centre (NSC) for scientific programmes financed as part of international competitions organised by the NSC (NSC Council, 2018). Nevertheless, increasing Poland's capacity to absorb Commission funds intended for research constitutes both a challenge and an urgent task for the coming years.

Innovation in Polish exports

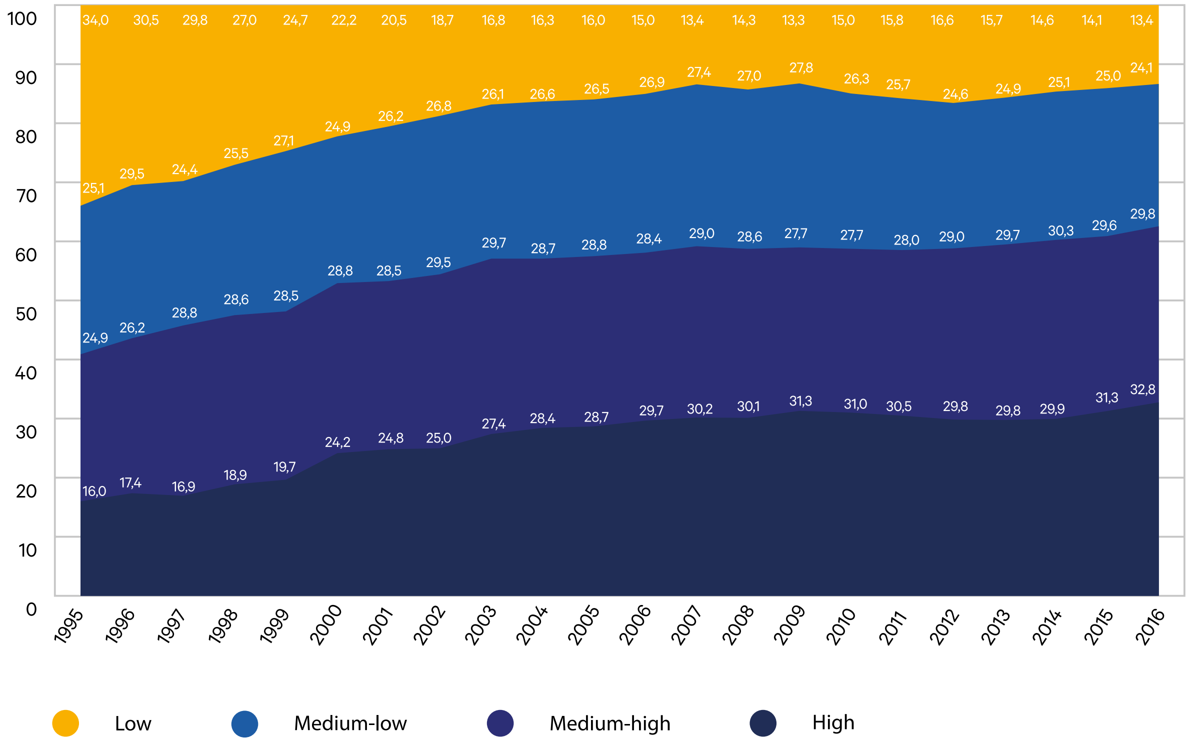
Evidence of the favourable impact of Poland's accession to the EU can also be seen in the changes in its export basket. A meaningful measure in this context is Hidalgo and Hausmann's Product Complexity Index. It is a synthetic indicator covering both the diversity and level of technological sophistication of exports in a given country. Here, we have compared the growth rate of this indicator broken down by sector, defining sectors according to level of technological sophistication. We divided 1,240 products at the four digit HS level[3] into four equinumerous categories: high, medium high, medium low and low technology.

Figure 4 shows the growth of a more favourable structure of innovation in the Polish export basket. A positive growth rate was identified throughout the entire Third Polish Republic era, i.e. also before Poland's accession to the EU (excluding years 2010-2014). The high technology export indicator saw its greatest growth in 2000, which can be explained by a significant reorganisation of the Polish economy, which changed the direction of Polish exports in the pre–accession period. This change also took place with EU support for actions establishing the process of European integration.

2 FP7 Country Profile gives the figure of 884 Fellows and the amount of approximately EUR 622 million.
3 The UN's industrial classification system, termed the Harmonized Commodity Description and Coding System.

Figure 4. Export baskets from the point of view of level of innovation

Source: Prepared by Przemysław Kowalski based on data from http://atlas.cid.harvard.edu/.



Corporate innovation

The system for supporting start ups is an important part of the National Innovation System and a significant beneficiary of EU subsidies. Among other things, this system includes science and technology parks, created in large numbers after Poland's accession to the EU. Currently, there are 40 such parks, of which three-fourths were created after its accession. The system also covers incubators, accelerators and venture capital funds. In particular, the operation of accelerators was largely supported using EU funds. The majority of these organisations were established as part of the Polish Agency for Enterprise Development programme (PARP, a governmental agency managing Polish and EU funds) called *ScaleUp* (Beauchamp et al., 2018). In 2017, the World Bank ranked Poland the third most friendly environment for founding new companies in the world (Haponiuk, 2017).

Since 2015, the Polish non governmental organisation Startup Poland has been conducting an annual survey among hundreds of new companies. The results of the 2017 survey demonstrate the high level of internationalisation of start ups: 28% of companies responding to the survey hire employees from other countries, typically from Ukraine, the United States and the United Kingdom. Furthermore, almost half (48%) of these companies are exporters selling their production mainly to European countries and the United States (Beauchamp et al., 2017).

The state of development of innovation among enterprises, particularly the small and medium enterprises (SMEs) which dominate the structure of the Polish economy, raises concern given the developments identified during the last two years. According to the report of Bank Pekao SA (2018), among others, the introduction of product innovation throughout 2018 was reported as the lowest percentage in enterprises (19.9%) in the history of the reports (which have been published annually since 2012). This information also concerns exporters, who are typically the most innovative. This data is unsettling and reveals the insufficient motivation for innovative action with respect to alternative revenue generation opportunities.

Conclusions: what next?

Despite the positive image of the growth of innovation in the Polish economy, there is still very much to do. The European Innovation Scoreboard (European Commission, 2018) indicates some of the areas in which Polish performance is poorest (EC, 2018). Given that Poland's per capita GDP stands at about 68% of the EU average, the areas where the country's performance is well under Polish GDP potential include important areas of innovation. First, universities insufficiently educate doctoral students and are not sufficiently attractive to foreign students. Second, the number of patent applications is low. Third, the amount of venture capital investment is low. Moreover, despite the improvements described here, R&D spending in both the business sector and the public sector are about 46% and 30%, respectively, of the EU average, which is unsatisfactory, so it is clear that a great deal of improvement is still necessary.

With respect to entrepreneurship, despite the recent wave of start up activity, innovation among SMEs is very limited. All indicators contained in the European Commission's scoreboard fall below 10% of the EU average. Deteriorating SME export trends in the recent period are another reason for worry because exporters constitute the majority of technologically innovative companies.

Only a short time ago, the assessment of the development of innovation in the Polish economy was more optimistic. Authors of the innovative policy study of new European countries (Havas et al., 2015) placed Poland in the middle group, dividing the analysed countries into three groups: 1) Germany, Finland, Switzerland and Estonia: the leaders of innovation with policies aimed at R&D, combining the sectors of science and business; 2) Poland, Ireland, Malta and Slovenia: countries with innovation aspirations, following the leaders and applying innovation policies that were largely driven by EU Structural Funds (without the contribution of private business) and oriented toward competitive funding; and 3) the remaining countries of Central and Eastern Europe.

This significant funding of innovation using EU funds is sometimes called a "funding tsunami" (Breznitz and Ornston, 2007); and can also be a reason for warning against discouraging internal attempts to invest in innovation. In a situation where EU funds are more difficult to obtain, in order to progress in accordance with the presented strategic indicators, Poland will have to develop a domestic policy that puts more emphasis on R&D and collaboration between the science and business sectors.

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CHAPTER 9

GRZEGORZ GORZELAK

REGIONAL POLICY AND TERRITORIAL COHESION

ABSTRACT

Cohesion Policy, of which Poland has been the greatest beneficiary in the European Union (EU) during the last two programming periods (2007-2013 and 2014-2020), is an important factor in the development of the country. About two-thirds of public investments in Poland have been financed from Structural and Cohesion Funds. This has significantly contributed to Poland's civilizational progress as well as the improvement of living conditions and the natural environment.

The economic effects of Cohesion Policy are also important, although thus far they have largely involved removing infrastructural barriers to development rather than increasing the innovativeness and competitiveness of Polish enterprises. Cohesion Policy has contributed to the improvement of public management and the reinforcement of local governments and cooperating non governmental organisations. It facilitated the development of direct cooperation between regions and cities in the EU and particularly cross border cooperation.

To some extent, it contributed to the dynamization of the development of the least-developed areas, as well as to the extension of the scope of impact of large urban centres on their regional environment.

REGIONAL POLICY AND TERRITORIAL COHESION

Introduction

Regional policy, which later became Cohesion Policy (CP), was announced in the Treaty of Rome of 1957 which created the foundations of European integration. It stated that we should "strengthen the unity of their [Member States] economies and to ensure their harmonious development by reducing the differences existing between the various regions and [reducing] the backwardness of the less favoured regions." These statements were then repeated in subsequent treaties, although the weight of regional policy gradually slid from "equality" to "efficiency"; nonetheless, equalising inter regional differences remained an important part of Cohesion Policy.

Beginning in 1975, regional policy continued to gain importance among the Community policies, which resulted in subsequent enlargements and the appearance of new challenges for regional development. In the 2014-2020 financial perspective, funds available through CP amount to 34% of the entire European Union (EU) budget (a little over EUR 371 billion), making it the second largest—after the policy of sustainable growth and natural resources (i.e. primarily the Common Agricultural Policy [CAP])—sphere of the EU's financial intervention.

Funds

Since the beginning of its membership, Poland has been a significant beneficiary of CP and, after 2006, its largest beneficiary. Poland is also an important beneficiary of funds provided as part of the CAP (Katarzyna Zawalińska and Andrzej Kwieciński provide a more in–depth look at the CAP).

In 2004-2018, Poland received EUR 159.5 billion; however, when expressed as a net amount (after subtracting payments to the EU budget), Poland received EUR 107 billion. During this time Poland's total GDP amounted to approximately EUR 5,200 billion[1]. The gross inflow of EU funds constituted therefore approximately 3.1% of generated GDP, and 2.1% when expressed as a net value. CP funds constituted approximately two-thirds of all EU funds paid to Poland. This proportion is more beneficial for CP than the one present in all funds of the EU because the CAP share reaches approximately 40% of all expenditure, while this number is approximately 35% for CP. This stems from the fact that Poland is the biggest beneficiary of funds earmarked under CP, but not the CAP.

In subsequent programming periods (excluding the first three year period of 2004-2006), expenditure directions for funds from Cohesion Policy did not changed significantly (Table 1).

It can be estimated[2] that in 2007-2013 and 2014-2020, over half of these funds were earmarked for what was broadly defined as infrastructure—mainly for transport infrastructure and in the sphere of environmental protection (see relevant chapters by Maciej Nowicki and Tomasz Komornicki in the sec-

1 It is an estimated value obtained by adding annual GDP values (half for 2004) each time divided by the EUR/PLN exchange rate as of 1 June of a given year.

2 In the 2007-2013 operational programmes (excluding regional ones), EUR 15.8 billion was earmarked for road infrastructure and EUR 5.5 billion was earmarked for railway, while in the next seven year period these values were respectively EUR 14.6 billion and EUR 6.8 billion. Expenses for transport infrastructure in regional operational programmes amounted in 2007-2013 to approximately EUR 5 billion, while in the following period they were much higher, which results from the increased share of regional programmes in all CP funds. This constitutes over 35% of expenditures for this policy in 2007-2013, and probably more in 2014-2020. To this, we have to add approximately EUR 9 billion for environmental protection projects, spent during the 2007-2013 period, so just these specified items account for over half of all expenditures in 2007-2013. We need to remember that infrastructural projects were also attempted in other programmes such as Innovative Economy, Human Capital, and others.

ond half of the report). A significant difference between both periods is that in the 2014-2020 financial perspective, almost twice the amount was earmarked for regional programmes than in the 2007-2013 perspective, which is without a doubt a sign of decentralisation. The territorial distribution of CP funds can be viewed from two perspectives: the most funds were given to cities where the absorption capacity is the highest (Figure 1). However, more CP funds per capita found their way to relatively less developed territorial entities (Figure 2), which is compatible with the goal of CP related to the equalisation of conditions of development.

Table 1. Operational programmes under Cohesion Policy as per MIR (the Polish Ministry of Infrastructure and Development) data in EUR billion

Perspective 2007-2013		Perspective 2014-2020	
Programme	**EU funds allocation**	**Programme**	**EU funds allocation**
OP Innovative Economy	8.7	OP Smart Growth	8.6
		OP Digital Poland	2.2
OP Infrastructure and Environment	28.3	OP Infrastructure and Environment	27.4
OP Development of Eastern Poland	2.4	OP Eastern Poland	2.0
OP Human Capital	10.0	OP Knowledge Education Development	4.7
OP Technical Assistance	0.5	OP Technical Assistance	0.7
16 Regional Operational Programmes	17.3	16 Regional Operational Programmes	31.3
Total	67.2		76.9

Figure 1. Value of Cohesion Policy projects 2007-2015 in counties

Note: Data shown on Figures 1 and 2 do not include large infrastructural projects and some funds from OP HC (Operational Programme – Human Capital) which are difficult to "settle" with respect to small territorial entities.
Source: G. Gorzelak, M. Smętkowski (2018).

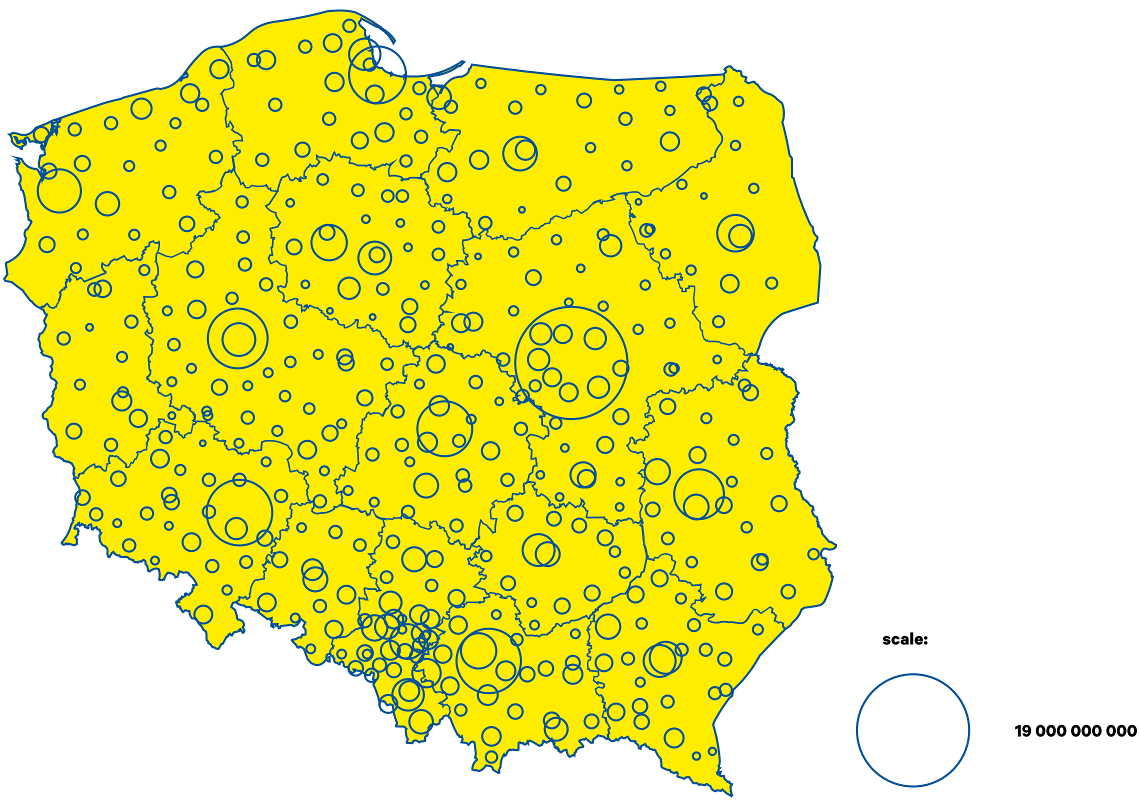
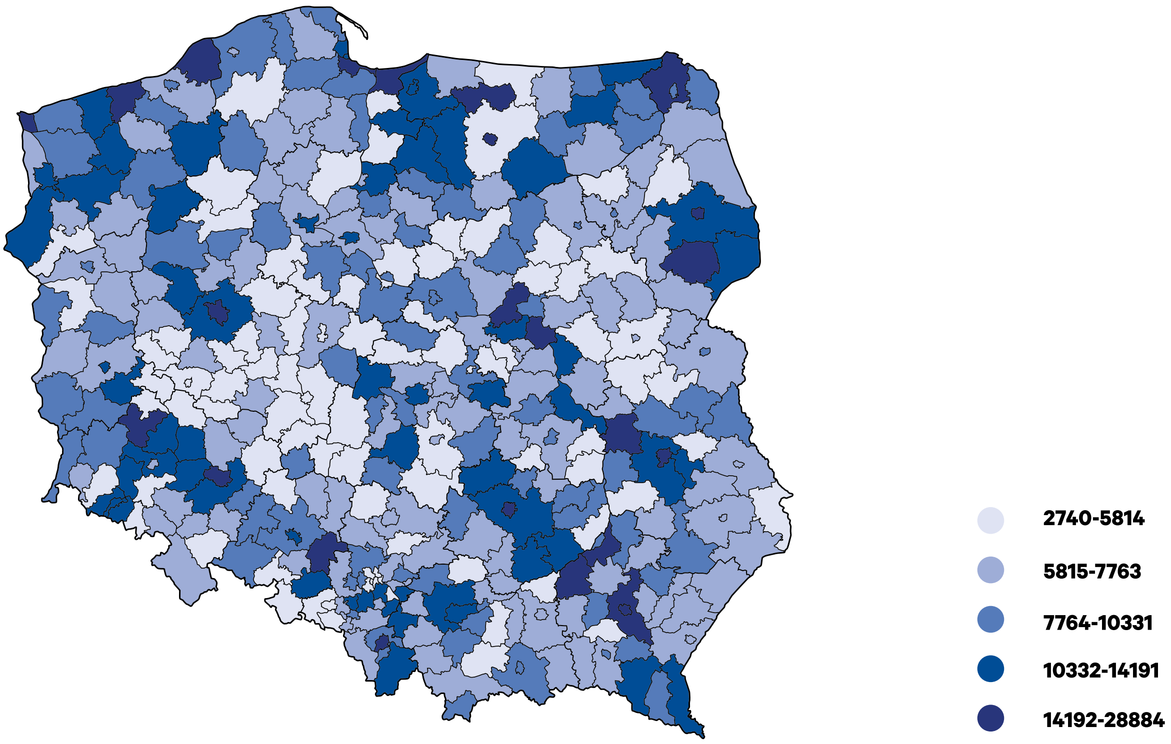


Figure 2. Value of Cohesion Policy projects 2007-2015 per capita in counties

Note: Data shown on Figures 1 and 2 do not include large infrastructural projects and some funds from OP HC which are difficult to "settle" with respect to small territorial entities.
Source: G. Gorzelak, M. Smętkowski (2018).



Cohesion Policy effects

In the economy

When discussing the benefits that EU funds aimed at CP brought for the Polish economy, we need to differentiate between demand effects and supply effects. The first one is obvious. Introducing additional funds to an economic system initiates multiplier effects (albeit less than one) that cause a temporary increase in the volume of manufactured goods and services. On the other hand, the supply effect means increasing society wide management efficiency, which can be achieved through technological progress, improved qualifications, organisational progress, improved infrastructure and the removal of barriers to development, among others. The supply effect is relatively permanent.

It is commonly agreed that the demand effects of CP (as well as the CAP) dominate the supply effects, although there are not enough in depth studies on this topic. In the opinion of the Ministry of Infrastructure and Development (MIR) at the time (2014), we read: "During the first years after the accession, the impact was small and occurred mainly through demand factors (…); currently, the supply effects have become visible, caused mainly by the accumulation of public capital and support for private capital" (page 21). No evidence for the presence of supply effects was presented and accounting for them using the accumulation of public capital is doubtful because its effects in the sphere of management efficiency can only become apparent with a significant delay.

Newer official analyses remain at a similar level of vagueness (MIR, 2018). They indicate that the supply effect is obtained as a result of CP intervention thanks to the increased share of construction and industry in GDP creation at the expense of agriculture—which is not true[3]. The thesis that the demand effect is stronger than the supply effect is also confirmed by analyses that indicate faster GDP growth in periods of significant inflows of funds from the EU and slower growth in periods when this inflow was lower (MIR, 2018, p. 12). In fact, supply effects should remain stable or even increase regardless of current transfers.

The hypothesis of the insufficient impact of CP on economic processes is confirmed by the observations of local governments (up to 50 thousand residents). Surveys aimed at them in 2015 indicate that the economic effects of funds received from the EU (including the CAP) are mainly perceived as "average and small" (Table 2).

Table 2. Effects of EU funds in the opinion of local governments. Results of qualitative studies from 2015 (%)

Source: Gorzelak (2017)

Effects	Very large and large	Average and small	No impact	Difficult to say
Increased speed of economic growth	22.1	51.3	8.4	12.8
Created new jobs	11.5	60.1	12.3	9.4
Increased agricultural production	23.8	37.3	19.3	13.1
Entrepreneurs became more competitive	15.7	49.0	11.8	16.6
New investors appeared	12.5	48.4	20.9	10.6
Unemployment decreased	7.8	55.5	15.6	13.2
People's lives are better	44.5	41.0	2.8	7.1
Natural environment is better	55.9	30.1	4.0	5.0

We can hope that supply effects will appear in following periods, although so far there is no hard evidence for that. One of the methods for reinforcing the supply effect can be to increase the complementarity of actions financed from EU funds[4].

Civilizational advancement

In addition to the economic effects of CP, we can also demonstrate broadly defined social effects. They are multidimensional and related to improved living conditions, including housing, improved safety, better access to community facilities and their improved operation, increased employment through lower unemployment and social exclusion, increased qualifications, and the revitalisation of municipal areas that are degraded socially and with respect to urban development, among others. CP funds enabled us to commence many projects whose execution would be impossible (at least partially) without them. CP finances approximately 60% of investments in the public sphere and this indicator is one of the highest in the EU. Such a high share indicates a great influence of EU contributions in the growth of Poland's civilizational standard. This sphere also includes projects undertaken in order to improve the natural environment—to reduce resource usage and pollution and to recultivate environmentally degraded areas, among others (Maciej Nowicki discusses this topic). Of particular importance is Cohesion Fund, which finances large infrastructural projects (see the transport chapter written by Tomasz Komornicki).

3 The share of agriculture, fishing and forestry increased from 2.6% in 2010 to 2.8% in 2017, while the total share of industry and construction decreased in the specified period from 29.2% to 28.9%.

4 Here we touch an important problem of interdependence of interventions made by various EU policies. We can defend the hypothesis that in many cases CAP effects run contrary to the goals of CP because they delay structural changes in agriculture and, more generally, in rural areas whose reinforcement is one of the main objectives of CP. However, this conflict could be avoided by coordinating individual actions that can and should be complementary. It is—so far—an unsatisfactory coordination, including within actions taken as part of CP.

In fact, representatives of local governments see the greatest benefits of CP funds in these two areas: improving quality of life and the natural environment. Half of the respondents perceived CP effects in this area as large and very large (Table 2).

In the sphere of public management

Effects of CP—and more widely, of EU membership—are also visible in the sphere of governance, expressed by the efficiency of institutions, access to public administration services, organisational culture and the quality of legislation and its observance, among others. This sphere is often treated as the "added value" of CP, i.e. that which appears next to or despite taking advantage of the funds provided by this policy.

Progress in this field is unquestionable. The very preparation for membership and accepting the subsequent parts of the *acquis communautaire* constituted significant progress in the functioning of the state and its institutions (Jakubek-Lalik, 2014).

- The reconstruction of strategic thinking at all levels of public management: central, regional and local, not just in a general perspective but also in a specialist one (including the creation of regional and domestic innovation strategies). This is in line with the programming principle in place in the EU, according to which EU funds can be granted only on the basis of prepared strategies. It is true that these strategies are often very vague and that they contain too many "proper goals", among others; however, the strategic thought forced by CP is undoubtedly a significant progress.
- The introduction of the broad evaluation of projects and programmes financed from EU funds to management practice at all levels of programme and project management financed using the CP funds. The need to reflect upon the designed, conducted and completed actions is undoubtedly a benefit in and of itself. Certainly, we can have a lot of doubts concerning the plausibility and usefulness of many evaluation studies (over a thousand of which have been conducted); nonetheless, the very fact of the introduction and development of the evaluation culture to institutions of public management should be seen as a good thing.
- The common introduction of clear rules for tenders and the obvious observance of competition have clearly rationalised the spending of public money and counteracted monopolistic and oligopolistic collusions; it has also reduced the scope of corruption in the public sector. Of significant importance is also the ability to take advantage of many international experiences concerning public management as well as the introduction of new technologies and organisational solutions to business. These experiences elevated Poland to a high position in rankings of the efficiency of Polish management in the public sector (EC, 2017, Figure 4.16).
- A significant factor—albeit weakened lately—is the ability to co–create CP at the level of the European Commission and European Parliament. Poland has actively taken advantage of these capabilities in the previous programming period, proposing novel solutions and interpretations of CP objectives. Thus, for example, largely thanks to the position of the Ministry of Regional Development at the time, the pro equity interpretation of territorial cohesion was weakened by proposing its functional recognition indicating the spatial determinants of economic and social cohesion (see EC 207, pt 3).
- In the case of Poland, an important feature of the implementation of CP is its influence on the development of local governance. Transferring over one-third of CP funds to regions and giving local governments authority over their use significantly reinforces this level of territorial management—which is already relatively strong in comparison with other Member States— while increasing the efficiency of local governments.
- Negative effects of CP include the "cult of absorption", which often places greater importance on the mere disbursement of earmarked funds as part of Community policies than on the rationality of their expenditure. As a result, there may be situations where facilities built using CP funds become a burden for local government budgets.

Despite the unquestionable progress in public management, largely caused by Poland's active participation in the execution of CP, the quality of management in our country is still viewed as relatively low (cf. EC 2017, map 6), which is probably unavoidable due to the still quite short experience of participating in a democratic system and a market economy.

Territorial variability

According to recent analyses (Gorzelak and Smętkowski, 2018), territorial variability in Poland—rising since the beginning of the transformation process—halted as of 2012, and even decreased to a certain degree. Other studies (Ciołek, 2017) suggest increasing symptoms of the diffusion of development from centres with the highest level of development to less developed areas.

So far it is difficult to say whether this is due to the execution of CP programmes. It is possible that the expansion of the diffusion of development from large cities to surrounding areas is a result of improved transport links (Tomasz Komornicki discusses the improvement of transport availability in the transport chapter). Certain hypotheses seem to demonstrate that the faster development of certain less developed areas of Eastern and Central Poland is a result of the significant effort made as part of the Human Capital programme in the area of education and qualification growth (Gorzelak, Smętkowski, 2018). These hypotheses will require further analysis.

Summary

Cohesion Policy, of which Poland is—so far—the largest beneficiary, has brought the residents of the country multidimensional benefits, improving living conditions and activities across regions, local arrangements and companies. Its civilizational importance is indisputable. CP funds significantly contribute to the improvement of the transport, social (education, culture and health care), environmental protection and communal infrastructure. They facilitate the daily lives of residents, enrich the cultural and recreational offering, contribute to better transport security, reduce damage to the natural environment and decrease the anthropocentric pressure on this environment.

What is important here is the economic significance of CP, based on the ongoing inflow of EU funds. Thanks to CP funds, society wide management efficiency has increased, although less than expected. There are significant reserves in this sphere, the execution of which depends more on domestic occurrences than on the regulations and mechanisms of the EU CP.

In the institutional sphere, CP established significant added value, on the one hand complementing Polish regulations with such important concepts as public tender, strategic approach and evaluation, while on the other hand reinforcing decentralisation in territorial arrangements. Furthermore, the wide participation of Polish representatives from central, regional and even local authorities in the exchange of experiences between authorities from the respective levels in EU countries unquestionably facilitates spreading knowledge about correct directions and mechanisms of programming and conducting and assessing the development processes of a country, its regions and local arrangements.

The impact of CP on processes of territorial development is—at the current stage of research—unequivocal. In particular, it has not been indisputably confirmed that the recently identified territorial convergence is a result of CP, although such conjecture can be hypothetically formulated, at least in relation to the support for education and human capital, in particular in regions that are relatively less developed[5].

The next financial perspective has not yet been conclusively specified, although its general points have been specified. According to preliminary arrangements, in 2021-2027, CP will provide Poland with EUR 64.4 billion. Poland will remain the largest beneficiary of CP. As per the assumptions, the majority of funds will be earmarked for innovation, support for small enterprises, digital technologies

5 The current educational reform is not particularly conducive to these goals.

and the modernisation of industry, i.e. for projects that will support the supply effect. Priorities will include actions for environmental protection, decarbonisation, clean energy and slowing down climate change. Obtaining these funds will be more difficult and involve many preliminary conditions. It would seem that Polish personnel—especially at the regional and local levels—have been well prepared to meet these new requirements. Whether Poland will be able to take advantage of the fruit of CP to a degree similar to the current one or higher will depend on the domestic policy at the central level and the strategic choices made there.

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PART II

EUROPEAN POLICIES AND CHANGES IN ECONOMIC SECTORS

CHAPTER 10

ANDRZEJ KWIECIŃSKI

KATARZYNA ZAWALIŃSKA

AGRICULTURE

ABSTRACT

Poland's membership in the European Union (EU) has definitely improved the conditions of the functioning of Polish agriculture. Of particular importance are: stabilisation of agricultural and trade policy instruments, opening of the EU markets, gaining access to the EU financial support instruments for agriculture and rural areas, accelerated transformation of the agri-food industry and the inflow of EU funds for infrastructure development. The most visible effect is the quick improvement in the balance of Poland's agri-food trade: from a deficit before the accession to over EUR 8 billion surplus in 2017. There has also been a significant absolute and relative improvement in the income situation of agricultural producers and rural residents.

The impact on structural changes in agriculture is mixed. The EU's Common Agricultural Policy tends to deepen the division of Polish agriculture into commercial and semi-subsistence sub-sectors. On the one hand, the commercial sub-sector is in a process of modernisation and strengthening. On the other hand, however, direct payments from the EU combined with large shifts of EU funds by the Polish government to support small and medium-sized farms, a preferential tax system and social and health insurance for farmers, and tight rules concerning trading in land, are slowing down the outflow of land and labour resources from small farms.

AGRICULTURE

Introduction

Macroeconomic and institutional reforms of the 1990s allowed the transformation of the Polish economy and made possible the start of accession negotiations with the European Union (EU). However, it was a decade of extremely difficult adaptation in many sectors of the economy, in particular in agriculture. After a period of high and costly support for agriculture as part of the centrally managed economy in the 1980s, reforms implemented in 1989-1990 caused an abrupt drop of that support due to the fall of the domestic prices of agricultural products compared to the prices on international markets and a significant decrease in budgetary transfers to agriculture. As a result, as measured by the OECD's Producer Support Estimates, the share of government support for this sector in gross farm revenues, decreased from 55% in 1986 to -20% in 1990 (OECD, 1996). Therefore, it can be claimed that at the start of the 1990s, agriculture was implicitly taxed, mainly due to the persistence of domestic prices at much lower levels than those on international markets.

Low prices on the domestic market, caused by the devaluation of the zloty and the introduction of mechanisms that slowed down the transformation of the devaluation into an inflationary impulse, improved the price competitiveness of Polish agriculture compared to imported products at the start of the 1990s. However, as the appreciation of the zloty progressed, that macroeconomic protection was replaced by a growing tariff protection and other trade barriers, which restricted imports of food and agricultural products. Consequently, growing prices on the domestic market above international levels decreased the price competitiveness of Polish agriculture, while the limited budgetary resources did not allow for supporting adaptation processes in agriculture and for improvement in its productivity (Kwieciński, 1996). The situation was further obstructed by very high unemployment in the non-agricultural sector, including in rural areas, which stunted the outflow of the workforce from agriculture and slowed down its restructuring throughout the 1990s and at the start of the 20th century. Therefore, productivity, and consequently the competitiveness of Polish agriculture, decreased in 1996-2000 (Zawalińska, 2004). That situation, as well as concern for the future level of support for Polish agriculture as part of the Common Agricultural Policy (CAP) and for the effects of opening the market to competition with strongly supported producers from EU countries, was the source of distress connected with Poland's accession to the EU.

Decisive impact of the accession to the EU on Polish agriculture

Poland's accession to the EU in 2004 was a breakthrough moment for Polish agriculture (Wilkin, 2010) and started the most favourable times for farmers and Polish rural areas "in the whole history of Polish rural areas and Polish agriculture" (Wilkin, 2018a). Major elements of the breakthrough include:

- Stabilisation of agricultural and trade policy instruments. Providing Polish agriculture with stable and predictable (usually over seven-year periods) instruments of market intervention and financial support reduced risk and increased the willingness to invest (Wilkin, 2018b).
- Opening of EU markets. Free access to the EU single market, including all Member States and over 500 million consumers, created completely new opportunities for the export-oriented sectors of the agri-food industry (Wilkin, 2018b);
- Access to EU's financial instruments. By joining the EU, Poland obtained access to financial funds from both CAP Pillars, including to direct payments for agricultural producers and for market instruments, i.e. for refinancing the costs of intervention on agricultural markets (Pillar I) and for support of the development of rural areas

(Pillar II). Under the CAP, in 2004-2017, Poland received EUR 47 billion from the EU budget, of which nearly EUR 28 billion was for direct payments for over 1.3 million farmers, the largest social and professional group of direct beneficiaries of Poland's membership in the EU (Nurzyńska, 2018). For the development of rural areas, Poland received EUR 17.4 billion in that period, the most among all EU countries. In the current financing period (2014-2020), for the financing of both CAP Pillars, Poland is to receive EUR 32.1 billion from the EU budget, which is 12% more than in the previous period (2007-2013) (Wilkin, 2018b);

- Harmonisation of standards and the quick transformation of the food and agricultural industry. Processing plants, aware of the risk of closure, had already in the pre-accession period launched investments adjusting the quality of their products to the EU sanitary, veterinary, phytosanitary, animal welfare and environmental protection standards. The inflow of foreign investment, both in the form of direct investment and the acquisition of already existing enterprises, contributed to a quick reduction of the technological gap between the food industry in Poland and in the countries of the "old" EU, as well as to the popularisation of modern methods of management and marketing (Szczepaniak, 2007). The modernisation and high standards spreading in the processing industry combined with the growing activity of international trading networks supported structural transformation in agriculture, including through the popularisation of contracts with producers able to deliver an agreed amount of produce of a required quality and at a specific time (Fałkowski et al., 2013).
- Improvement of macroeconomic conditions. Strong increase in GDP, fall in unemployment, low inflation, low interest rates and rapid increase in real income in the last 15 years are partly due to Poland's membership in the EU. In particular, the large inflow of EU funds for the development of infrastructure contributed to the significant improvement of the efficiency of the Polish economy, including of agriculture and its upstream and downstream sectors. The decline in unemployment from 17.6% in 2005 to 6.6% in 2017 (Central Statistical Office, 2018) created new possibilities for the reduction of employment in agriculture and the acceleration of its restructuring.

Effects

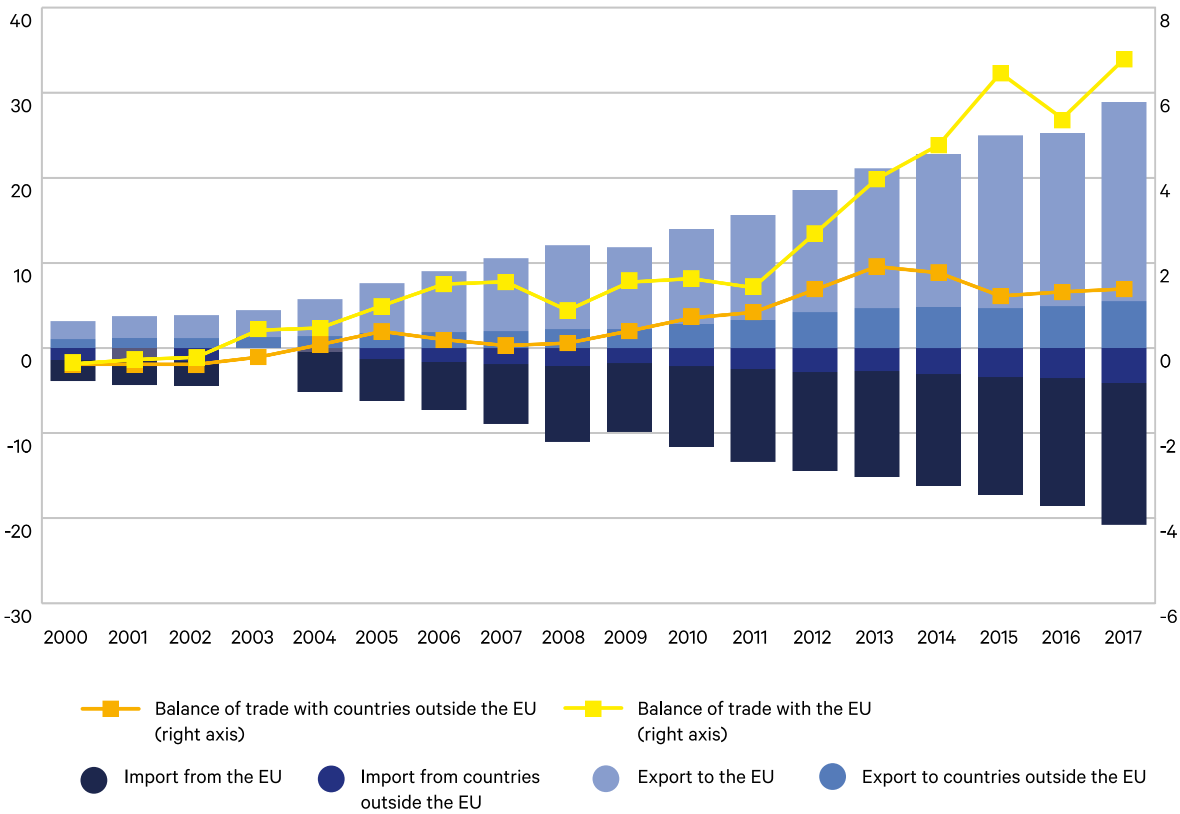
Rapid increase in agri-food exports

The balance of trade in agri-food products has been improving (Figure 1). The modernisation of food processing plants (partly due to the inflow of foreign capital), the gradual development of the commercial sector of Polish agriculture supported by the EU funds, the modernisation of the marketing network and the gradual improvement of infrastructure have allowed Polish agribusiness to enter the circulation of products on the EU open market and to quickly increase agri-food exports, especially to the EU countries (Tereszczuk, 2018). In 2004-2017, the value of agri-food exports increased over five-fold, from EUR 5.7 billion to EUR 28.9 billion, while its share in Poland's total exports increased from 9% to almost 14%. Agri-food imports have increased more slowly. As a result, Poland transited from a negative balance in agri-food trade in the first years of the 21st century to a surplus of EUR 8.2 billion in 2017 (Figure 1), which is the third highest positive balance among all EU countries, after the Netherlands and Spain, and before Denmark and France (Tereszczuk, 2018).

Slightly over 80% of all agri-food exports from Poland are sold on the EU market, one of the most demanding markets in the world. This share has even risen by approximately 10 percentage points since 2004, which proves the effectiveness of Polish agribusiness and its stable competitiveness in terms of quality and prices. The major recipients of Polish agri-food exports are Germany, the United Kingdom and the Netherlands; the major products exported include manufactured tobacco, poultrymeat, bread and cakes, chocolate products and beef. The value of exports of each of these products exceeded EUR 1 billion in 2017 (Tereszczuk, 2018).

Figure 1. Changes in the Polish agri-food trade with the EU and other countries, 2000-2017, EUR bn

Source: Eurostat database.



The importance of exports for Polish agribusiness has been growing. It is demonstrated by the increasing share of exports in the total value of food production from 13-14% before 2004 to approximately 40% in 2017 (Tereszczuk, 2018). This industry sources raw material for processing not only from Polish agriculture, but also from other EU countries and from countries outside the EU. An example is tobacco processing and exports of manufactured tobacco and tea. In 2017, Poland was the seventh largest exporter of tea in the world, before such countries as the United Kingdom, Japan, Vietnam or Indonesia, and the value of exports was USD 189 million (Workman, 2019).

Rapid growth of farm and rural incomes

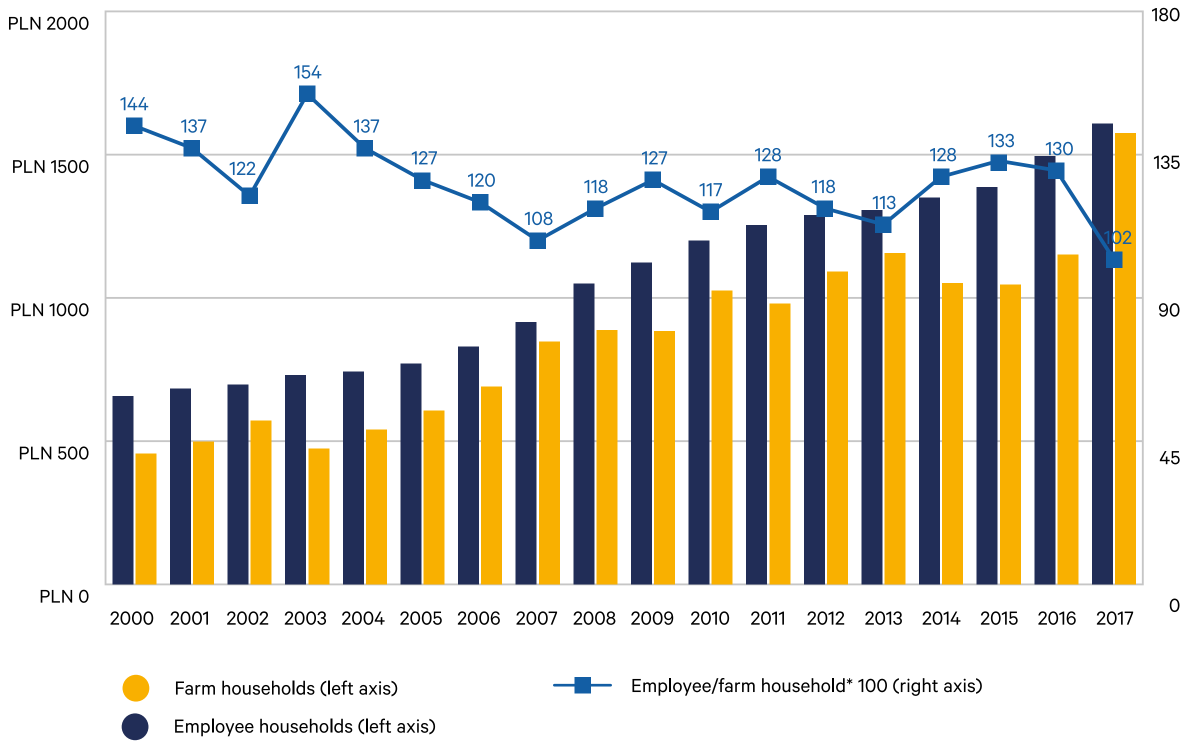
Since Poland's accession to the EU, the income situation of agricultural producers has significantly improved. This has been possible thanks to structural changes in agriculture, the improvement in the productivity of production factors, labour in particular, and the successive increase in the EU direct payments (Zawalińska et al., 2015). Access to the EU direct payments for almost 90% of farmers in Poland has had a positive effect on both the level of current agricultural incomes and the ability for the modernisation and development of farms, especially larger ones. In 2011-2015, the average share of direct payments in agricultural factor income was 26%, and the share of all EU subsidies financed under CAP was 47%. As a comparison, while the first indicator is at the EU average (27% for the EU-28), the second one is by 9 percentage points higher (38% for the EU-28) (DG A&RD, 2017a).

The gaps between the farm and non-farm incomes and between the income from agriculture in Poland and the EU average have narrowed. The rapid increase in farm income has reduced the gap between farm and employee disposable income per person from 39% on average in 2000-2003 to 23% on average in 2014-2017 (Figure 2). The gap between the income of farmers in Poland

and the EU average, as measured by the real income of factors in agriculture per annual work unit (AWU)[1] has also narrowed. In 2010-2016, income measured in this way increased in Poland by 25.2% and in EU-28 by 10.6%. It needs to be added, however, that incomes in Polish agriculture are still among the lowest in the EU, and in 2016 they amounted to EUR 6,210 per AWU compared to the average of EUR 15,422 in the EU-28. Lower incomes are found only in countries such as Romania, Slovenia, Lithuania, Latvia and Croatia. In addition, in some new Member States, agricultural incomes per AWU have increased much faster than in Poland, especially in Bulgaria, the Czech Republic, Slovakia and Hungary (DG A&RD, 2017b).

Figure 2. The value and ratio of average monthly disposable nominal income per person in farm and employee households in Poland in 2000-2017

Source: Central Statistical Office, the Statistical Yearbook of the Republic of Poland, editions 2001-2018.



In 2004-2018, living conditions in rural areas improved significantly. Rural residents' incomes increased at high rates. The relative income and social situation of rural residents have also improved. Rural areas are becoming attractive residential locations, which is demonstrated by the positive balance of migration from urban to rural areas. In 2004-2016, the real per capita income of rural residents increased by 78% compared to 50% for urban residents. The income gap between rural and urban areas, measured by the difference in average nominal disposable income per capita, decreased from 34% in 2004 to 26% in 2016 (Chmielewska and Zegar, 2018).

Much lower unemployment rate makes it easier to take up work in the non-agricultural sector. In 2016, incomes from farming accounted for just 9.3% of the rural household's total income, while incomes from contract work constituted 48.5%, self-employment 7.2% and social benefits (including pensions) 31.9% (Chmielewska and Zegar, 2018).

1 AWU (annual work unit) is a conventional unit of labour in agriculture, applied by Eurostat, corresponding to a full-time equivalent. It is equal to an annual number of hours of work performed by one person in agriculture expressed as a full-time worker. If a given country does not determine the number of hours to define a full-time worker, then it is assumed that such an equivalent is 1,800 hours, which corresponds to 225 work days of 8 hours each. In Poland, the equivalent of full-time work is 2,120 hours of work in a year, i.e. 265 work days of 8 hours of work each — Regulation (EC) No. 1166/2008 of the European Parliament and of the Council of 19th November 2008.

The scope of poverty in rural areas decreased. According to the Eurostat data, in 2005 as much as 50.6% of rural population in Poland was classified as at risk of poverty and/or social exclusion. From among all EU countries, only Latvia and Bulgaria recorded higher rates at that time. Over the period of Poland's membership in the EU, that rate decreased significantly and, in 2016, it was 28%, which was less than in ten other EU countries, including Greece, Spain and Portugal. It was the fastest progress among all EU countries (Chmielewska and Zegar, 2018).

Mixed impacts on structural changes in agriculture

The main structural problem of Polish agriculture is the persisting excess employment, resulting in low average ratios of land and capital per farmer. The progress in this respect has been slow (Rosner and Stanny, 2016; Baer-Nawrocka and Poczta, 2018). The level of labour productivity in agriculture, measured by gross added value per AWU, is still one of the lowest in the EU. In 2017, it was lower only in Latvia, Croatia and Romania. In 2010-2017, the annual rate of growth of farm labour productivity in Poland was quite high at about 5%, compared to the EU average of 2.8%, but was still lower than in many new Member States, such as Bulgaria, Slovakia, Hungary, the Czech Republic, Latvia and Lithuania, as well as in Ireland (DG A&RD, 2018a).

Land resources are slowly shifting from small farms to larger, more efficient ones, although small farms, i.e. those of up to 5 ha, still account for about half of the total number of farms (Figure 3). The share of agricultural land in all categories of farms up to 20 ha has been decreasing, while the share of larger farms has been increasing. In 2017, the share of agricultural land in farms of more than 20 ha was 52% compared to 49% in 2010 (Figure 3).[2] Still, however, the agrarian structure in Poland is very fragmented, and the average size of a farm, which was 10.1 ha in 2013, is one of the lowest in the EU (DG A&RD, 2015).

The CAP, especially combined with the policy tools at the disposal of the Polish government, deepens the division between the commercial and semi-subsistence parts of agriculture. On the one hand, 74% of direct payments in Poland are received by 20% of the largest beneficiaries (DG A&RD, 2018b). It strengthens their production potential and fosters modernisation. On the other hand, however, from among the 1.3 million farms benefiting from direct payments, there are as many as 0.6 million farms where the standard production value is below EUR 4,000 a year and which actually do not produce for the market (Nurzyńska, 2018). In this case, direct payments play the role of social support; however, in order to receive such support, one needs to be a farmer disposing an appropriate acreage.[3] This halts the flow of land to larger and more productive farms, as well as the outflow of labour from agriculture, especially from semi-subsistence farms.

Apart from the general framework of the CAP, an important role is played by the specific rules of its application in Member States and its connection with other tools remaining completely at the disposal of Member States. Poland is one of two EU countries (besides Bulgaria) which in the current financing period (2014-2020) allocate the largest part of funds available under the CAP to the support of small and medium-sized farms. Poland is also one of only five countries which have moved 25% of payments from Pillar II (development of rural areas) to Pillar I (direct payments) (DG for Internal Policies, 2015).

Research shows that as much as 45% of expenditures from Pillar II have been allocated to investment. This compares to just 18% from Pillar I (Zawalińska, 2011). This explains why payments from Pillar II tend to increase employment in agriculture by 2.4% while those from Pillar I by as much as 11.7% compared to the scenarios without such payments (Zawalińska, 2019). Therefore, it can be concluded that payments from Pillar I slow down the outflow of employment from agriculture and contribute to the freezing of the fragmented structure of farms; thus, they do not accelerate the growth of labour productivity in the sector. Shifting payments towards Pillar I only enhances these effects. Similar effects are caused by income tax exemptions for farmers, the rules of the functioning of the

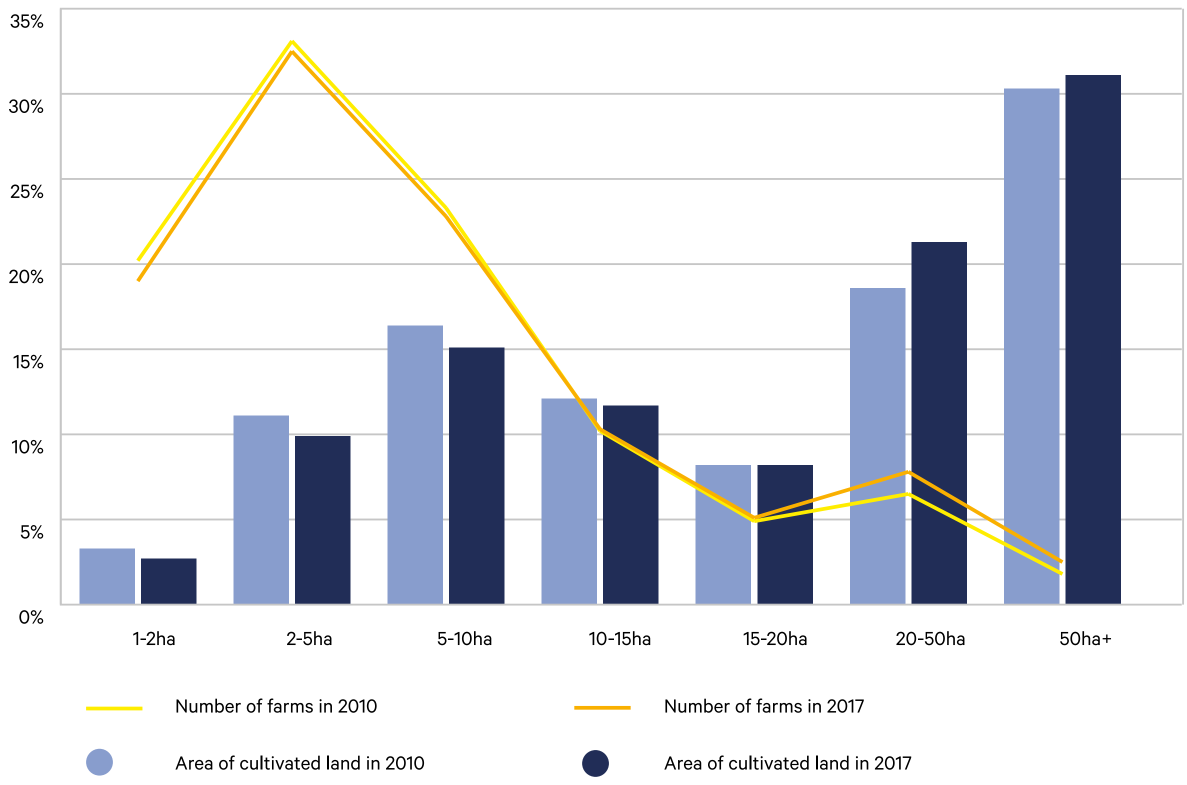
2 Due to the introduction of a change to the definition of a farm in 2014 by the Central Statistical Office, comparable data concerning the structure of farms is available after a backward conversion from 2010.

3 In Poland, that minimum is 1 ha of agricultural land or even less for farmers who receive payments from livestock production, "as long as the total due sum of direct payments for a given year is not smaller than the equivalent of EUR 200 in zloty" (Agency for Restructuring and Modernisation of Agriculture, 2019).

Agricultural Social Insurance Fund (KRUS), and restrictions in trading in land, which were drastically tightened in Poland in 2016 (OECD, 2018). The Agricultural Social Insurance Fund encourages farmers to retain at least 1 ha of agricultural land in order to benefit from the low insurance premiums paid to the fund, whereas the new rules on trading in land make it practically impossible to purchase land by farms which, after the purchase, would be larger than 300 ha, by non-farmers and by farmers not living for 5 years in the municipality in which land is to be sold (OECD, 2018).

Figure 3. The distribution of agricultural land and the number of farms in Poland by area group in 2010 and 2017 (%)

Source: Central Statistical Office, the Agricultural Statistical Yearbook, editions 2011 and 2018.



Conclusions

Poland's membership in the EU has definitely improved the condition of Polish agriculture. Effects include a rapidly rising positive balance of trade in agri-food products as well as an absolute and relative improvement of the income situation of agricultural producers and rural residents. Effects on structural changes in agriculture are mixed. On the one hand, membership in the EU, including CAP instruments, has contributed to the modernisation and strengthening of the commercial sub-sector of Polish agriculture. On the other hand, however, as research indicates, some CAP tools, especially direct payments, slowed down the outflow of land and labour resources from small farms. This slowdown is additionally accentuated by the reallocation of funds, allowed under the CAP, by the Polish government to supporting small and medium-sized farms and by Poland-specific regulations, such as exempting farmers from income tax, a preferential system for health and social insurance for farmers, and new rules for trading in land, which were tightened in 2016.

Polish agriculture has a chance to retain or even improve its position in the EU market under the changing CAP. However, it is necessary to accelerate structural changes in agriculture and to improve the functioning of public institutions supporting agriculture, including veterinary and agricultural advisory services. It is necessary for the strengthening of trust towards Polish agri-food products among domestic and foreign consumers, and for entering markets with new products of a higher quality and of higher value added. The future policy will have to place more emphasis on supporting adaptability of Polish agriculture to upcoming economic, social, environmental and climatic challenges. Therefore, it is necessary to direct more support at management, science, technology, knowledge transfer, the strengthening of agricultural resilience, risk management and modernisation than at only sustaining farmers' incomes.

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CHAPTER 11

PRZEMYSŁAW KOWALSKI

ANNA MALINOWSKA

MANUFACTURING

ABSTRACT

In recent years, the importance of the industrial sector in the global economy has increased, which has aroused the interest of economic politicians and has been reflected in the initiatives and regulations of the European Union (EU). Poland's accession to the EU in May 2004 was very important for the Polish economy, and for industry in particular. Joining the single market, together with the adoption of European production quality standards and regulations for the protection of intellectual property, has created the conditions for the establishment of cooperation with advanced foreign enterprises, in particular as part of well-developed value chains.

These processes have brought about two tangible effects, fostering the improvement of the quality of industrial manufacture: first, they have resulted in a multi-fold increase of trade exchange, and second, they have facilitated the absorption of new technologies and specialist knowledge.

Importantly, the positive changes in Polish industry have not occurred as a direct result of the existence of EU tools and active policies in this area, which until recently focused on regulating—in fact, restricting—the role of Member States in supporting their domestic industries so as not to undermine the single market and fair compe-

MANUFACTURING

Introduction

The debate on the impact of industry on the economy and its future growth and the importance of industry over the services sector has gone through various phases. In recent years, industry has once again been attracting substantial interest from economic politicians. This phenomenon is even being referred to as a "manufacturing renaissance" (Andreoni and Gregory, 2013). Many economists claim that the industrial sector plays a significant role in the process of economic growth, in particular in developing economies, and they note a clear relationship between the level of industrialisation and GDP per capita (Kaldor, 1966; Rodrik, 2009)[1]. Additionally, possibilities in terms of capital formation and productivity in this sector seem to have surpassed other segments of the economy (Baumol, 1967; Rowthorn and Coutts, 2004). Industry involves the presence of economies of scale and multi-directional inter-branch connections throughout the economy (Hirschman, 1958); it plays a key role in the shaping of international value chains (Baldwin, 2012) and creates the conditions for technological development. Spill-over effects are an important part of this process, translating into positive demand, supply, scale and productivity effects in related areas of the economy (Szirmai, 2012; Szirmai and Verspagen, 2015). Taking into consideration the fact that industry involves certain advanced services[2], the significant role played by the sector in the economy far surpasses its demonstrated statistical share in the economy (Andreoni and Gregory, 2013). This sector is of key importance from the perspective of innovation support and the increasing importance of intellectual property[3].

For a long time now, industry has been the centre of economic integration around the world and in Europe. First attempts to create a European industrial policy were made in May 1950 (the Schuman Declaration). In 1951, the provisions of the Treaty of Paris described in more detail the expansion of industrial production, highlighting the role of competition and limiting the role of the state in the market (Art. 4 defined it as inconsistent with the objectives of the single market). The Treaty establishing the European Union[4] further stated that "the Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist"[5] Art. 130). The Lisbon Treaty later stated that regulatory action should include "in particular initiatives aiming at the establishment of guidelines and indicators, the organisation of exchange of best practice, and the preparation of the necessary elements for periodic monitoring and evaluation" (Art. 173).

The Europe 2020 Strategy, proposed in March 2010, presented four initiatives[6], of significance for industry aimed at increasing the competitiveness of the sector in the European Union (EU). They stipulated structural reforms and the pan-European coordination of actions promoting sustainable growth (European Commission, 2011). It also stipulated the need to, for example, increase innovation in industry and improve conditions for entrepreneurs. A year later, the importance of initiatives connected with advanced industrial technologies and sustainable actions in construction and the manufacturing industry was highlighted (European Commission, 2012). Therefore, EU policy in the 21st century attempts to raise the significance of industry in the economy, aiming to increase the share of industry in the GDP of Member States to 20% by 2020 (European Commission, 2014). This plan was expanded in 2016 with the application

1 It results from Kaldor's first law (Kaldor, 1966). The relationship between the dynamics of GDP per capita and the share of industry in the economy has the shape of an inverted U: lower levels of GDP per capita correspond with lower shares of industry in GDP; medium GDP per capita corresponds with a higher share; and in the case of developed economies—with a lower share (Rowthorn and Coutts, 2004; Rodrik 2009).

2 In Poland, services make up over 20% of domestic added value exported by the industrial sector—according to the OECD Trade in Value Added Database, this share has been increasing in recent years.

3 It is estimated that over 60% of R&D investments are conducted by industrial enterprises in OECD countries (De Backer et al., 2015).

4 1992 version – 2002 version introduced the regulations in Chapter XVI (Art. 157).

5 Art. 130 regulated the implementation of actions increasing the level of competitiveness, and the European Commission was the only body with the right of legislative initiative; the Council of Europe supported the implementation of relevant actions in Member States after consultations with the European Parliament.

6 The project includes seven main initiatives, four of which had significant importance for industrial policy.

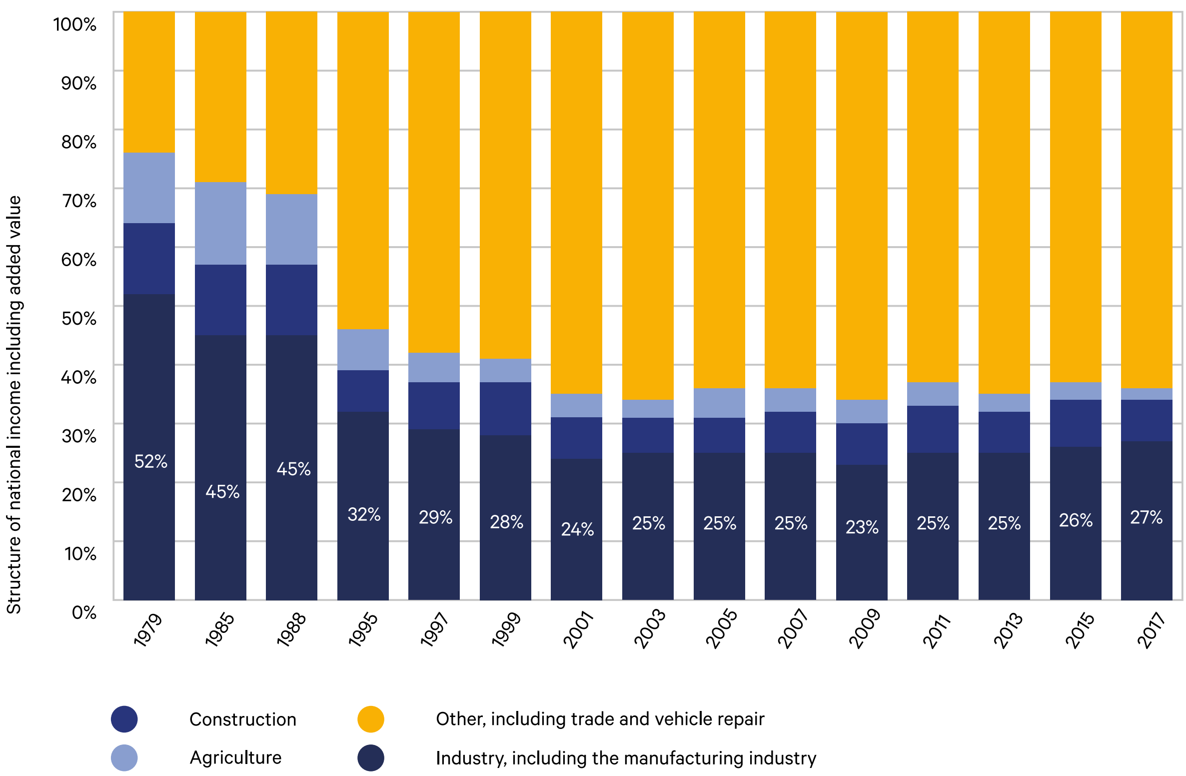
of tools connected with the progressive digitisation of European economies (European Commission, 2016). The idea and shape of industrial policy, understood as a system of actions of the state aimed at supporting the sector, has always been a contested issue in the EU. This stems from the different traditions of economic policy in Member States, from *laissez-faire* in the United Kingdom to strong statism in France. As a result, in principle, EU regulations have left industrial policy to the national governments of Member States, using EU state aid and competition policy to minimise the potentially negative effects of these types of policies on the functioning of the single market (Perissich, 2012). Consequently, the current industrial policy of the EU seems devoid of any clearly defined shape and has very limited financial resources. Some even claim that it does not actually exist, arguing that it is just a collection of various EU policies that target industry to a greater or lesser extent (European Parliament, 2016).

Transformation and gradual progress before and after accession to the EU

In 1989, when Poland was still under the political and economic influence of the Soviet Union (whose economic strategy involved extensive and centrally planned industrialisation), the industrial sector produced about half of Polish GDP (Figure 1). The first phases of the introduction of the market economy, not only in Poland but also in other countries of the old communist bloc, included the release of prices, the gradual privatisation of state-owned enterprises and the liberalisation of trade. As a result, the Polish market started competing with market economies in the areas of food and industrial products. The existing non-market trade exchange mechanisms within the communist bloc, on which Polish exports and imports were largely based, collapsed. New markets in the western world required meeting certain technical standards, often out of the reach of Polish enterprises. There were, however, advantages, which included well-educated Polish engineering and technical professionals and low labour costs, which could cushion the structural changes necessitated by the industrial transformation.

Figure 1. Structure of national income in Poland before and after the economic transformation in added value categories

Source: Own calculations based on data from Statistics Poland (Concise Statistical Yearbook of Poland 1980-2018; ed. Statistics Poland).

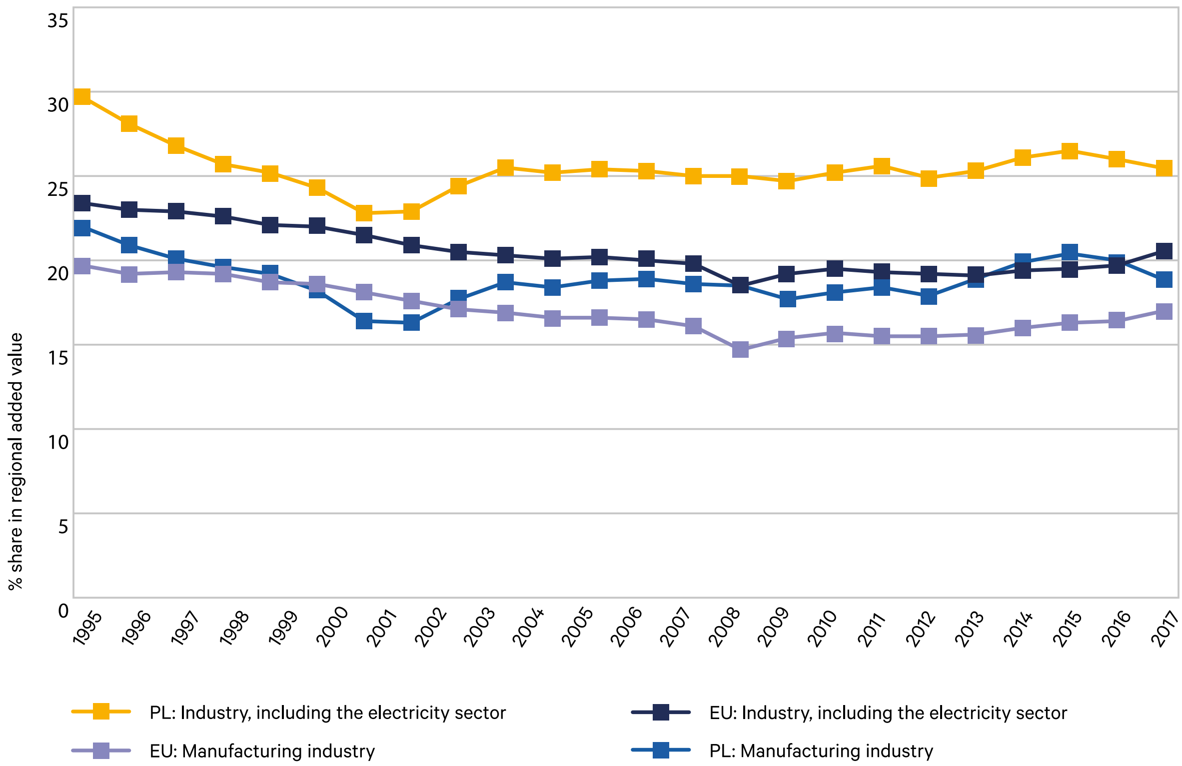


During 1990-2002, the main objective of the Polish administration was to establish closer cooperation with international organisations, intending to negotiate a reduction of Poland's international debt and facilitate international trade. The European Agreement (in effect since 1 February 1994) was a turning point: it regulated the free flow of services, work and capital, and harmonised competition policy with the regulations in force in the EU (cf. Chapter 6 on competition and state aid), significantly impacting the development of Polish industry at that time and later on.

According to data from Statistics Poland (GUS) covering the years 1989-2001, the share of industry in the Polish economy decreased from 45% to 24% (Figure 1). The OECD's harmonised international data also show a decline until 2001, a clear increase during the period of accession to the EU (2002-2004) and later, stabilisation at a level of 25-26% of GDP (in 2005-2013) (Figure 2). The rate of change in sold production in the area of industrial manufacturing exceeded the rate of change for the entire sector, both in the accession period and in the years 2006-2007. Industry, including the manufacturing industry, was resistant to economic shocks. Negative changes were recorded in only one period (2009). However, the manufacturing industry's reaction was milder than that of the sector as a whole, with a relatively quick recovery of its losses in 2010-2011 (Figure 3).

Figure 2. Added value, by economic activity

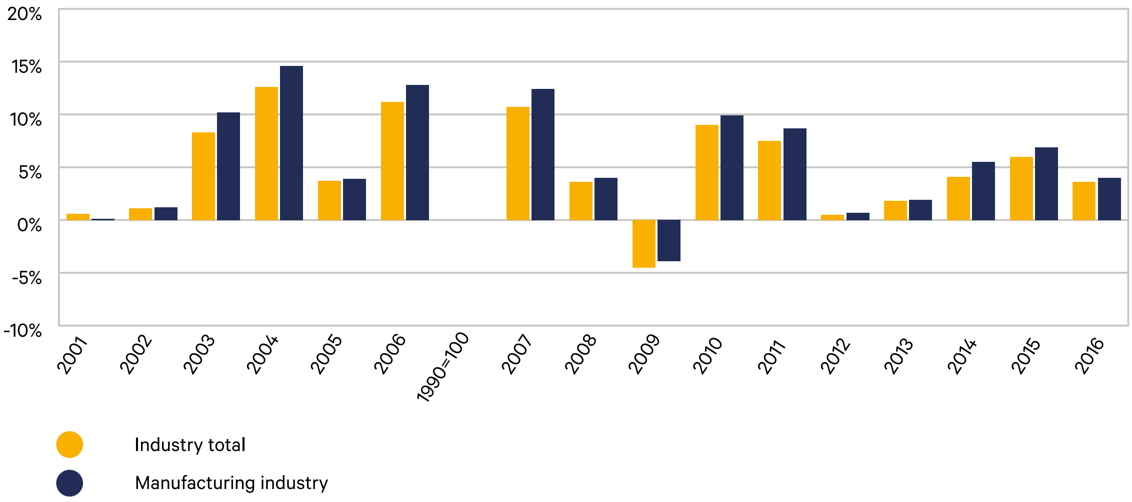
Source: Own calculations based on data from OECD National Accounts Statistics.
Discrepancies between the values specified in Figures 1 and 2 result from differences in data aggregation.



The OECD data also shows that in the analysed period, compared to the EU as a whole, Polish industry had a larger share in the economy and fared better in the period directly following the global financial and economic crisis (2008-2009). The crisis, particularly in developed economies, entailed an unprecedented drop in the level of production and employment in industry (Andreoni and Gregory, 2013). In the period 2013-2017, the significance of the sector in the Polish economy rose sharply. The economic situation was so favourable that in 2016, Poland reached the share of industrial production in relation to GDP set by the European Strategy for the period 2014-2020.

Figure 3. Annual changes in the value of sold production in Poland

Source: Own calculations with the preceding year taken as the basis (100); calculations based on data obtained from the Local Data Bank of Statistics Poland.



The role of trade and the benefits of EU integration

One of the main EU economic mechanisms of influencing Poland has been to allow the free movement of goods, services and foreign investments as part of the European single market. It involved not only the elimination of customs duties, customs procedures and transport stoppages at borders, but also the introduction of European quality standards (certifications), which significantly increased the credibility of Polish products both in European and global markets. These factors have also had a significant effect on Poland's integration with European value chains, in which complex activities necessary for the production of an advanced product (e.g. a car) engage entrepreneurs in many European countries, and therefore require low trade costs, smoothly operating logistics and the fulfilment of high technical standards[7].

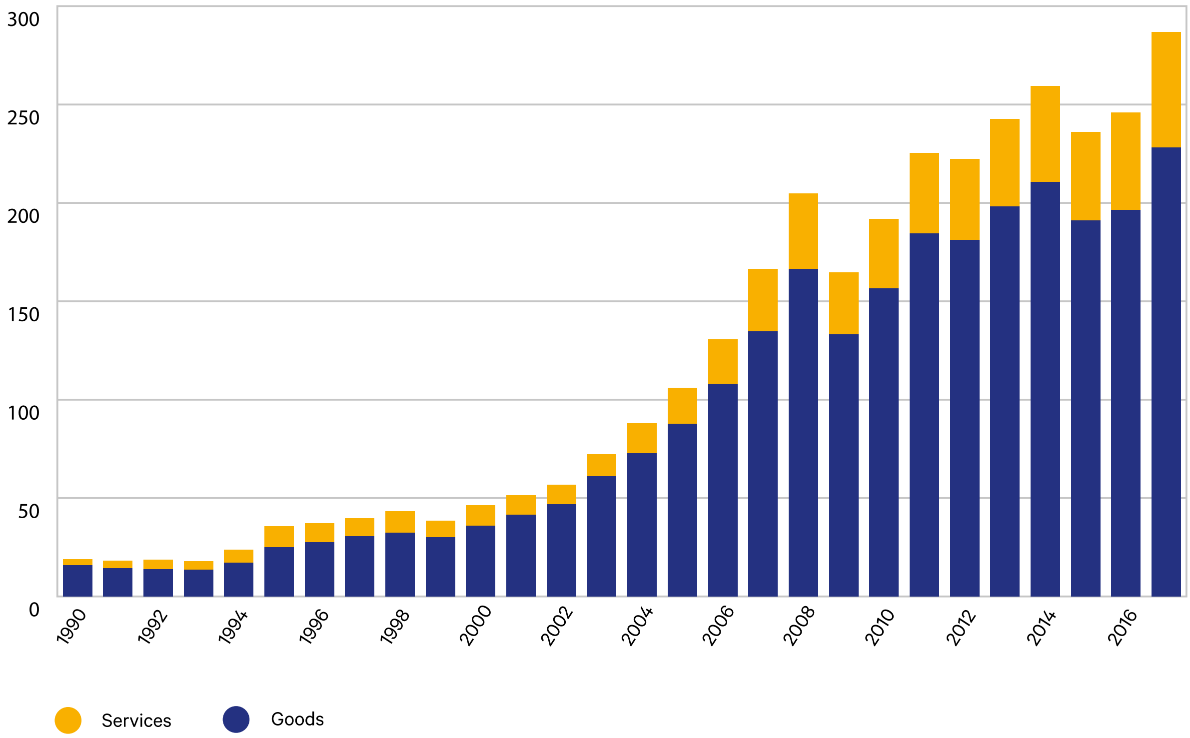
From a holistic perspective, Polish exports are dominated by goods (Figure 4, Panel A), most of which are industrial products sent to EU countries (Figure 4, Panel B). In the pre-accession period and afterwards, the value of exported products increased non-linearly, with a particularly abrupt shock recorded in the post-accession period. Poland's accession to the Community has resulted in positive changes, which were not stopped by the effects of the economic crisis on Poland and its foreign partners (the first temporary drop in exports recorded since 2000 was in 2009). Exports of goods have been developing so well that, in spite of the severe political and economic crisis in the EU (connected with the financial crisis in the Eurozone), their value in 2011 exceeded the previous maximum from 2008 by a large margin. Exports of Polish industrial products are one of the most visible and unquestionable benefits of Poland's accession to the EU.

7 In the value chain, a failure to meet standards or a delay in one of the production segments have consequences for other segments and for the final product. Standards are a kind of a guarantee that the production process will be conducted in an uninterrupted manner.

Figure 4. Exports of goods, services and industrial products globally and to EU countries

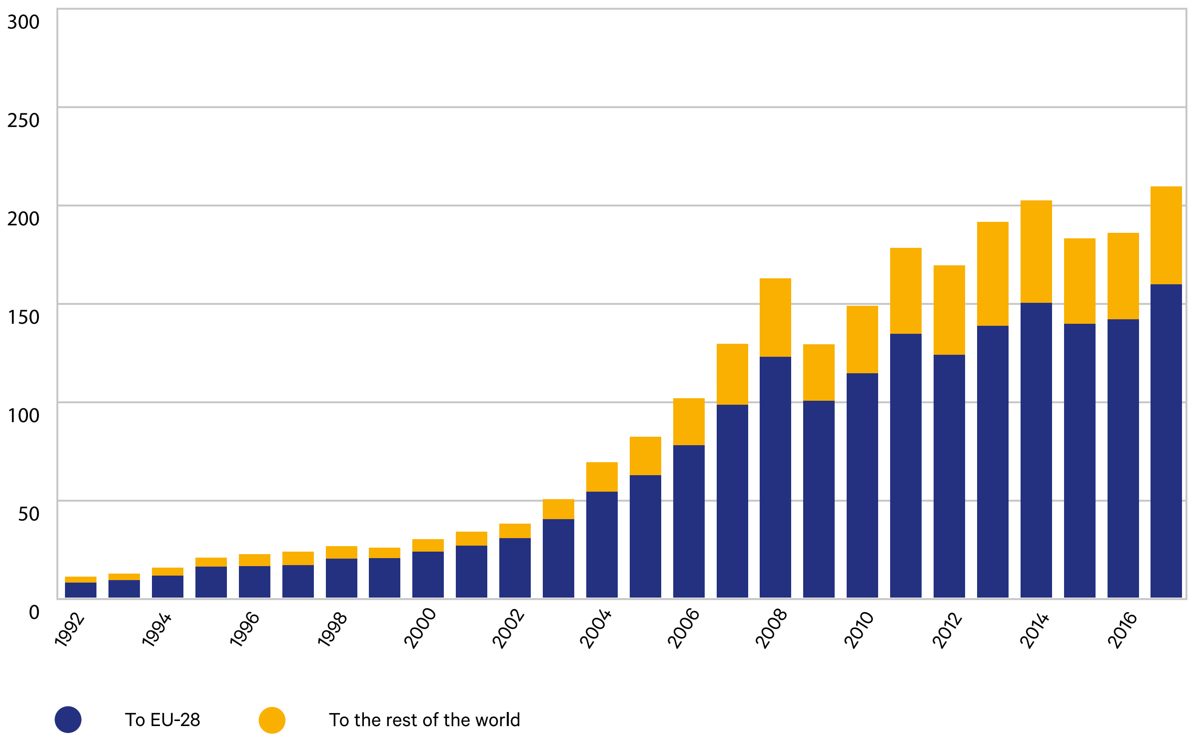
Panel A. Polish exports of goods and services to all countries (balance of payments, in current prices, USD bn)

Source: World Development Indicators.



Panel B. Exports of manufacturing industry production to the EU and the rest of the world (in USD bn)

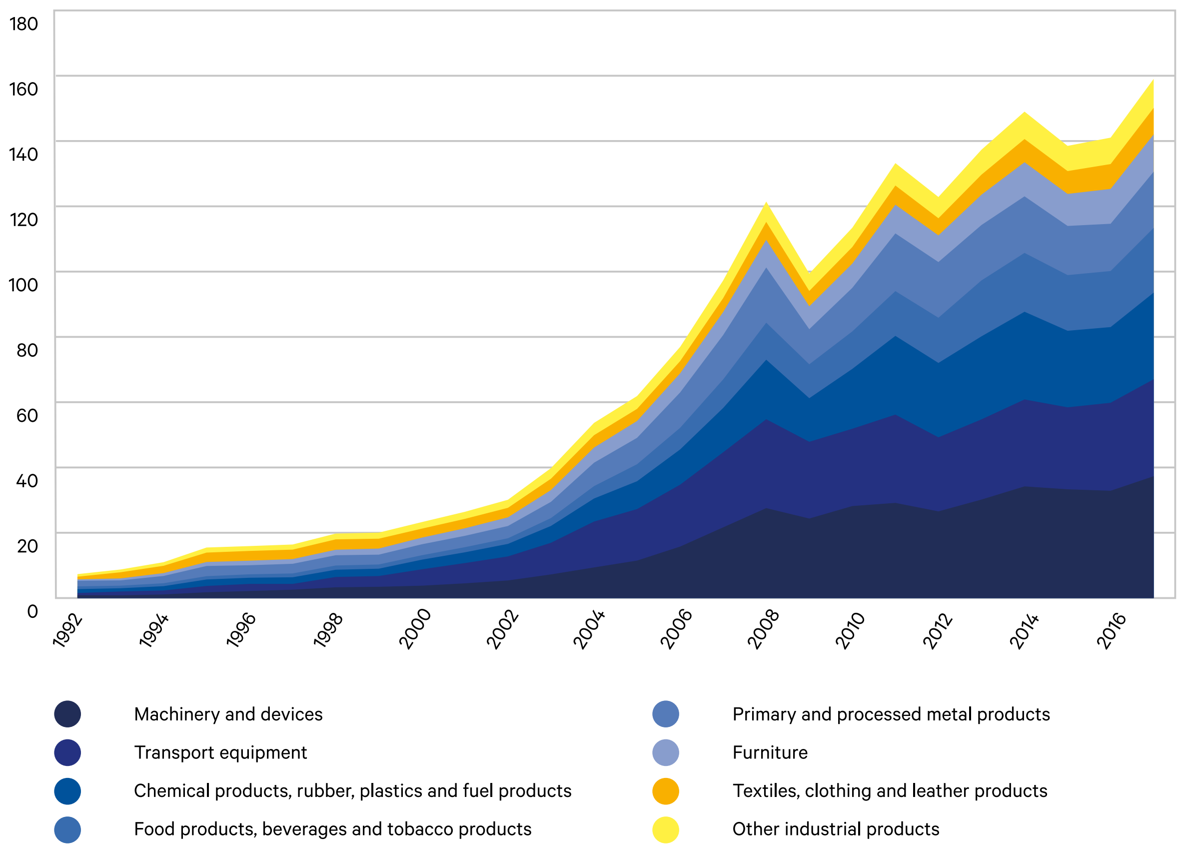
Source: OECD, Bilateral Trade in Goods by Industry and End-use.



Benefits are also visible in the product structure of Polish industrial exports. In the years 1999-2003, three product groups emerged that still dominate this area: chemical products, machinery and transport equipment and devices. Furthermore, after 2004, exports of these product groups increased significantly. The largest and the fastest-growing (since accession to the EU) group of export products has been machinery and devices (Figure 5), which is considered a category that includes major products in terms of importance for innovation and the technological advancement of the whole economy (e.g. Andreoni and Gregor, 2013). The next group of products whose exports have significantly accelerated after 2004 is transport products (such as cars, buses and lorries). In these areas, Polish companies and Polish subsidiaries of foreign companies are important participants of European value chains, and Europe is a technological leader in global markets. Moreover, exports of processed food products and tobacco and primary and processed metals and metal products have gained importance.

Figure 5. Structure of manufacturing industry exports to the EU

Source: OECD, Bilateral Trade in Goods by Industry and End-use.



Increased trade with EU countries has had a positive effect not only on the volume but also on the quality of Polish exports. This is clearly demonstrated by estimates of the “technological contents” of Polish exports in the manufacturing sector and by comparing these estimates with exports of agricultural products, food, beverages and minerals (Figure 6). Polish industrial exports are dominated by products of very high and medium-high levels of complexity or sophistication, and their importance is slowly growing[8]. The former category is gradually increasing its share and crowding out other categories (in 1995-2016, it increased by 18 percentage points). This suggests a qualitative evolution of the manufacturing industry, which is increasingly based on high technologies, advanced skills and participation in international value chains. Major changes took place directly prior to accession to the EU: in the years 1999-2003, the share of highly complex products increased by 8 percentage points. Also, the importance of the least technologically demanding groups decreased. By comparison, Polish

8 For definitions and methodology, see Harvard Atlas of Economic Complexity: http://atlas.cid.harvard.edu/.

exports of agricultural products, food, beverages and minerals feature a negligible level of complexity, as they mostly include products with low and medium-high levels of sophistication (although even these products are very successful in European markets; cf. the chapter on agriculture)[9].

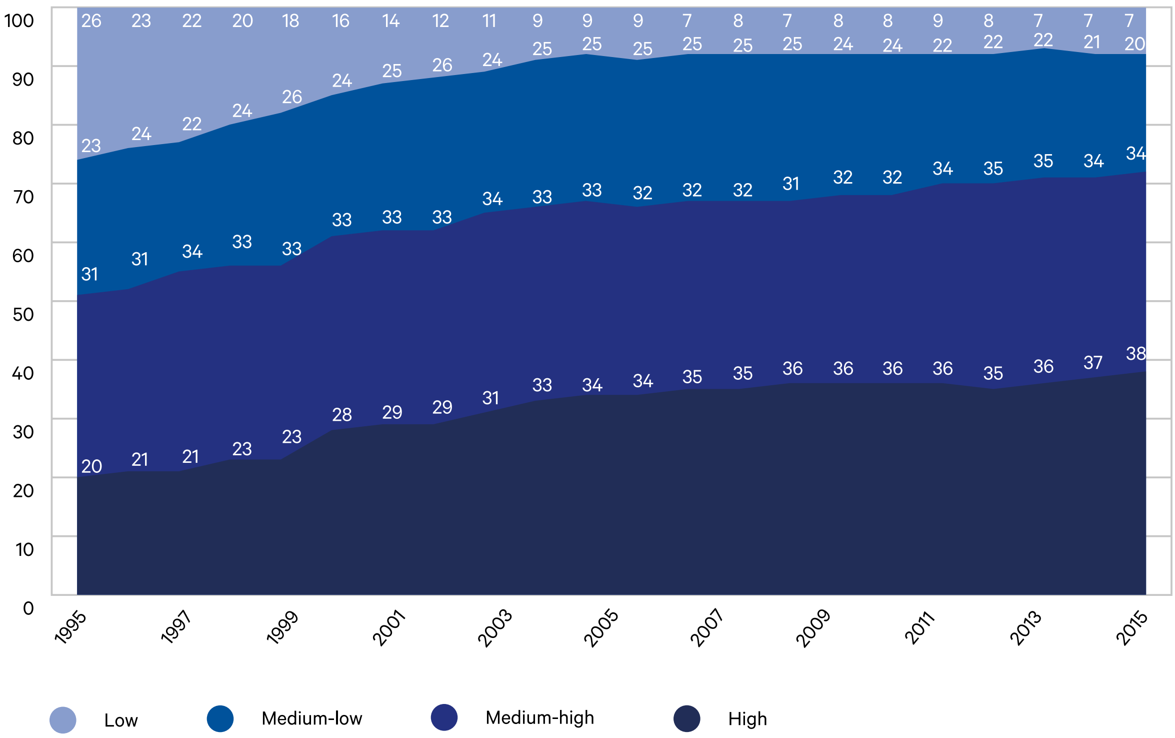
Polish manufacturing industry as an element of European value chains

After analysing the structure of industrial exports (Figure 5) and the fact that, since Poland's transformation began, the inflow of direct foreign investment has been concentrated on the manufacturing industry, we can infer that it has absorbed—and continues to absorb—new technologies and specialist knowledge following Poland's accession to the EU. This has allowed Polish products to efficiently compete on the internal EU market and the global market. The increase in the value of industrial exports to the EU and third countries (Figure 4) confirms this hypothesis and suggests that products of the domestic industrial sector meet European and global quality standards.

Figure 6. Comparison of the sophistication of the export basket of the manufacturing industry with other sectors

Panel A. Manufacturing industry (HS2 28-99)

Source: 1240 products, by HS4 codes (harmonised code, HS), divided, in line with the decreasing value of complexity indicators, into four categories (high, medium-high, medium-low, and low level of complexity). Structure according to the size of shares in the export value. Own calculations based on data from Harvard Atlas of Economic Complexity.



9 In spite of that, even in this sector the importance of moderately complex products increased in the studied period (from 2003-2004, an increase of 7 percentage points was recorded).

Panel B. Agriculture, food, beverages and minerals (HS2 01-27)

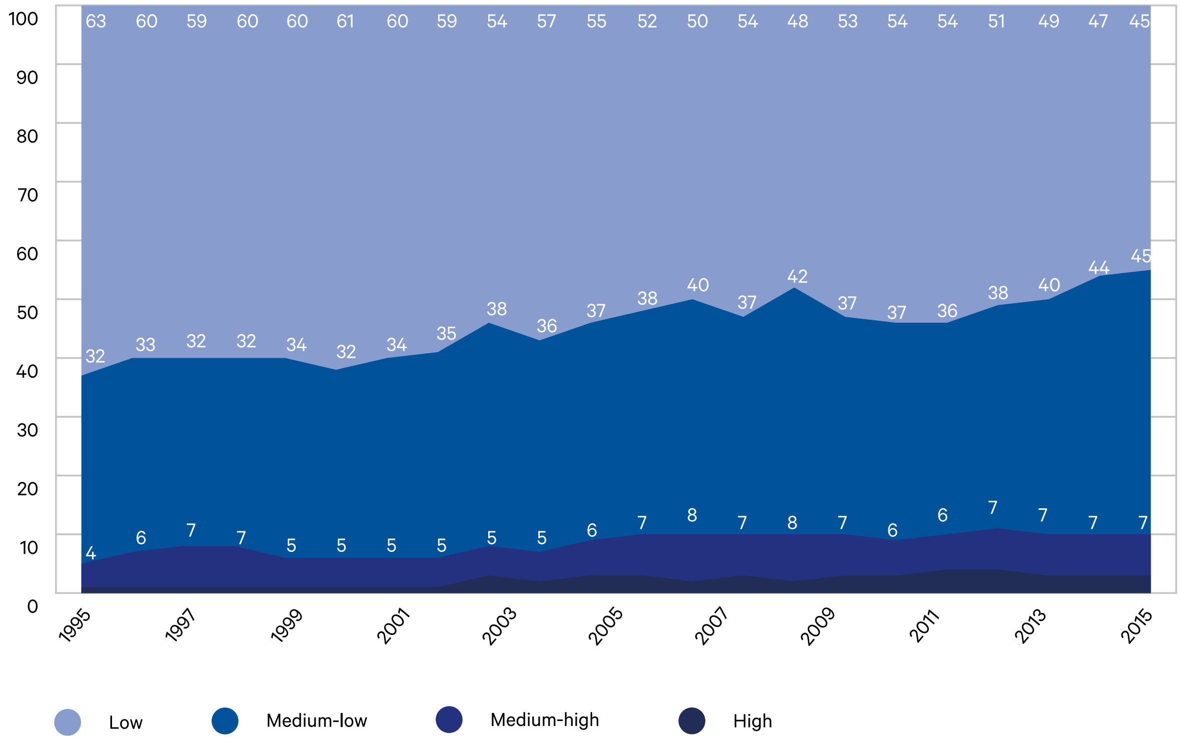
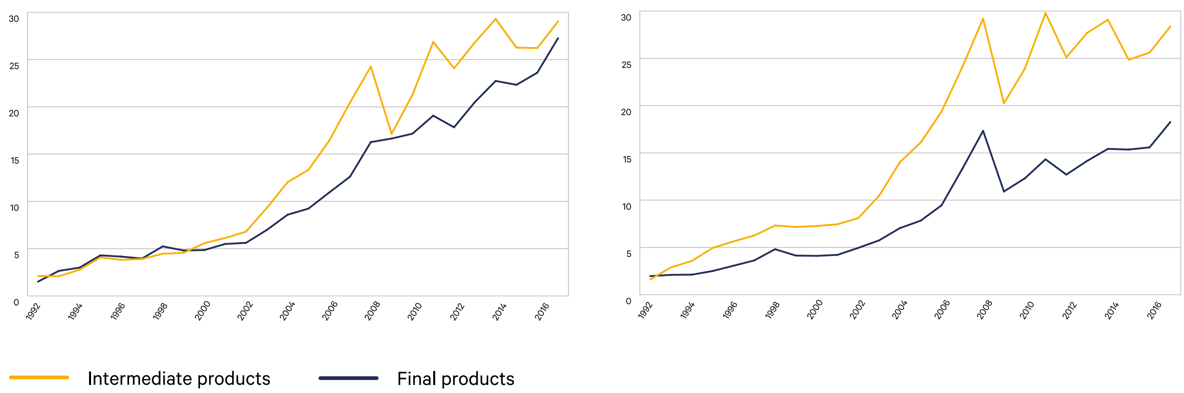


Figure 7. Polish imports and exports of manufacturing industry products to Germany in 1992-2016 (broken down by final and intermediate goods) (in USD bn)

Source: OECD, Bilateral Trade in Goods by Industry and End-use.

Panel A. Exports to Germany

Panel B. Imports from Germany



The ability to enter international value chains has played a significant role in the transfer of technologies[10]. These value chains have been developing rapidly since the beginning of the 1990s, and technologically advanced EU countries, such as Germany, are leaders in some of them (e.g. the automotive industry). At the same time, the German economy has been Poland's dominant trade partner.

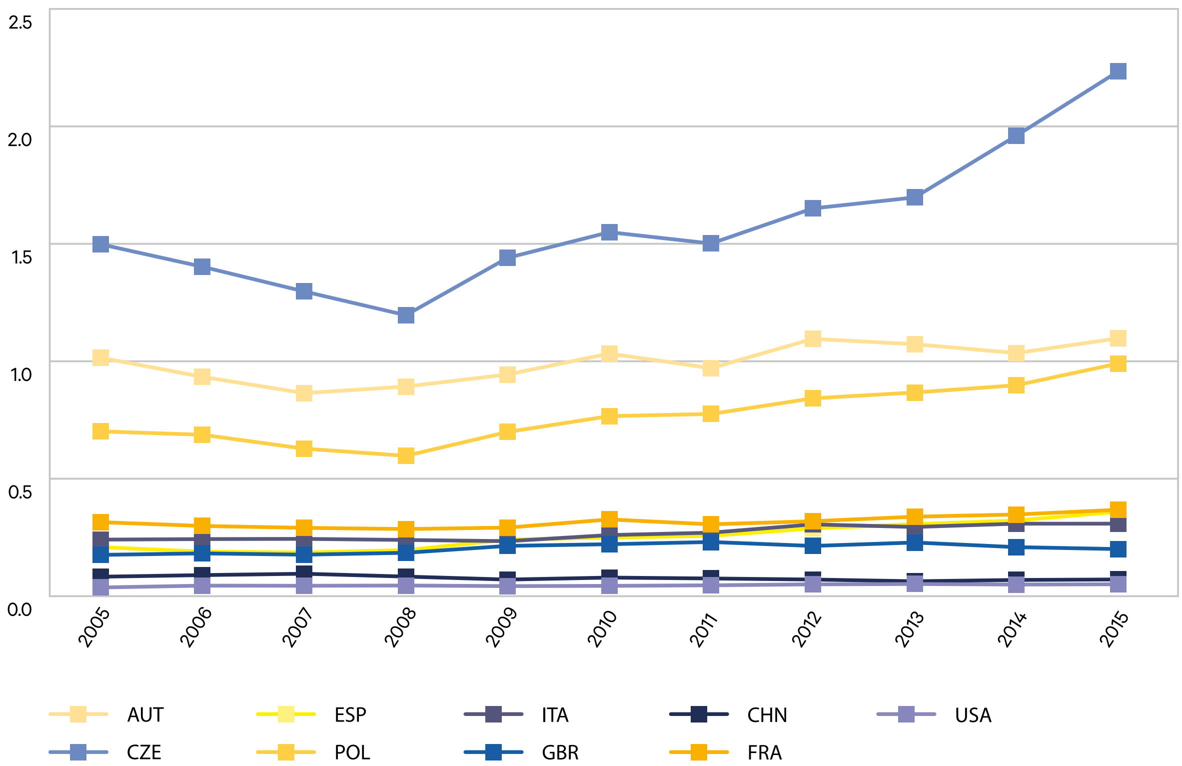
10 Value chains understood as geographically fragmented production processes which utilise economies of scale and increasingly strict specialisation in individual activities during the production process and which require advanced technology and take advantage of industry-related services (transport, logistics). See, e.g.: Baldwin (2012) or Kowalski et al. (2015).

The context of the German-Polish trade exchange is a good example of the progressing integration of Polish industry with European value chains. It can be illustrated by the rate of growth of imports and exports of intermediate goods (e.g. car parts and components) and finished goods (e.g. cars) (Figure 7). Since 1992, the value of imports of components in the trade exchange between Poland and Germany has been exceeding the value of imports of finished goods[11]; the difference between the sizes of these flows increased significantly after 2004. This phenomenon has also been identified in the context of Polish exports to the German market, although to a lesser degree.

Furthermore, the growing importance of European value chains and the improving position of Polish producers therein can be seen in the statistics concerning the origin of added value in the value of net exports[12]. The share of Polish added value in German exports of car equipment is comparable with the shares of Spain, Austria and the Czech Republic. Apart from China, Poland and the Czech Republic are the only two countries whose share in the added value of German exports from the transport sector has increased over the last decade (Figure 8, Panel A). The scope of this phenomenon is even clearer if we consider the sizes of the economies cooperating with Germany within value chains (Figure 8, Panel B).

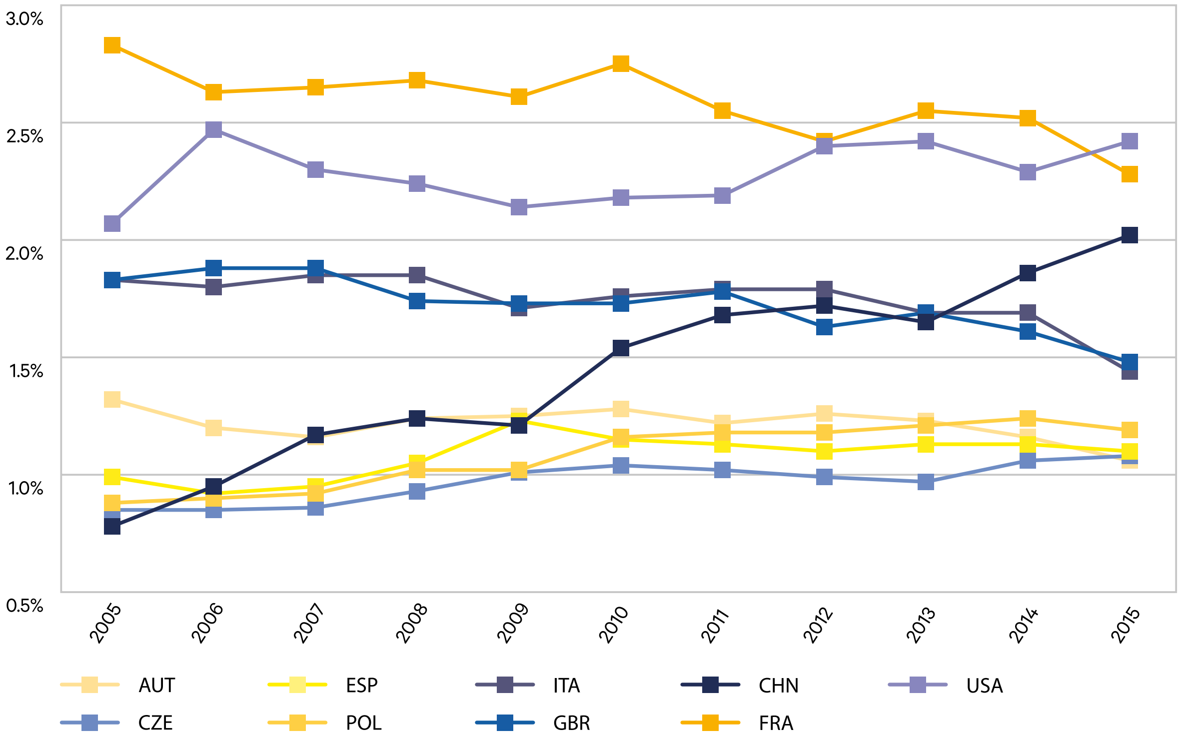
Figure 8. Foreign added value in German gross exports of transport equipment
Panel A. Index of gross export value scaled by the added value produced by the country (%)

Source: OECD, Trade in Value Added Database.



11 Of significance in this case was the signing of the Europe Agreement, which, in the pre-accession period, facilitated the flow of goods, capital, services and labour.
12 OECD, *Trade in Value Added Database*.

Panel B. Gross export value, %



Final notes

Poland's accession to the EU has been of key importance for Polish industry. Access to the single market, the adoption of European standards, higher intellectual property protection standards and the ability to work closely with advanced companies as part of their value chains have had two major effects. First, they have resulted in a significant increase of trade exchange, and second, they have contributed to the absorption of new technologies and specialist knowledge. This has facilitated an increase in the quality of domestic industrial production and a gradual increase in the share of complex products. This bodes well for the future of not only Polish industry but also the economy itself.

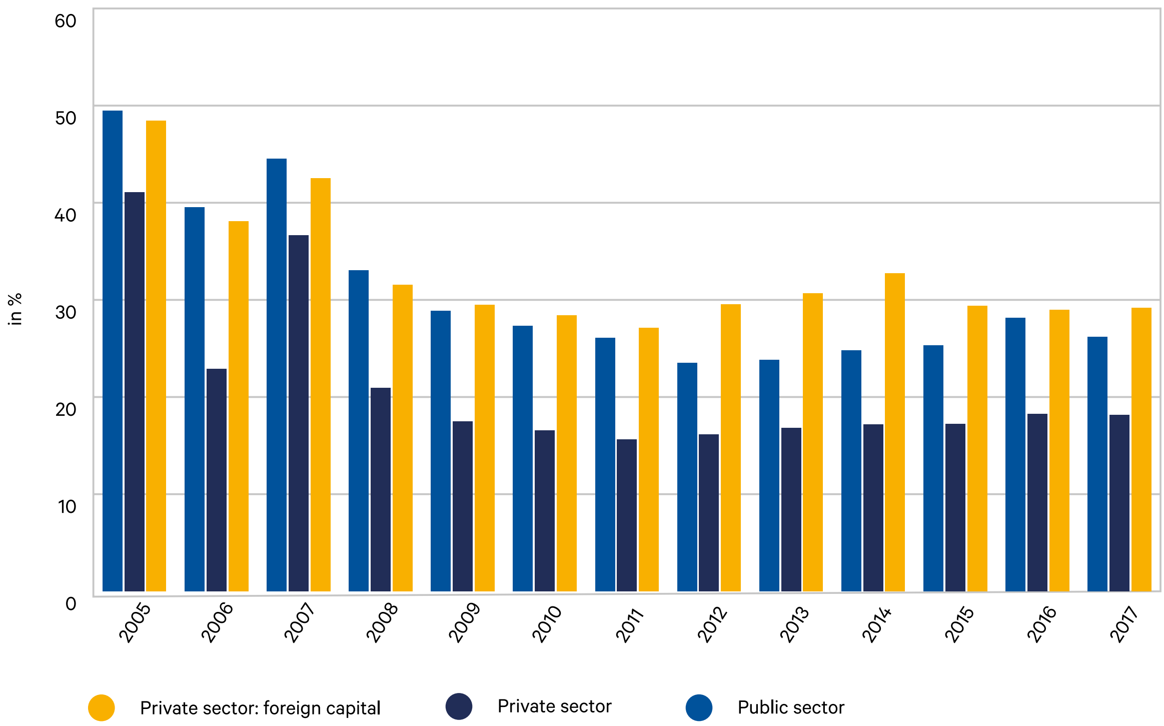
However, it is worth noting that these positive effects on Polish industry have not come about as a direct result of the EU's industrial policy wherein EU institutions would play a significant active role in the financing of enterprises or would influence management. As far as "hard" instruments go, thus far EU policy has concentrated mainly on appropriate limits (through regulations concerning the single market, the common policy of competition and state aid, and the common trade policy) imposed on Member States, so that they would not disrupt the functioning of market mechanisms in the single market. Results that have been achieved by Polish industry up to this point may confirm the validity of such a market-oriented EU policy.

However, since Poland's accession to the EU, the perception of the role of states in shaping economic policy (including industrial policy) has evolved. Academic research (e.g. Navarro, 2003), institutional changes and the expansion of the EU have redefined the overarching goals of the EU actions: from focusing on supporting collapsing enterprises and sectors (through state subsidies) to the dual approach that stipulates economic restructuring and the introduction of a model of a knowledge-based economy (Mosconi, 2009). Some believe that the EU should develop a common industrial policy that is better defined and has more resources (e.g. Perissich, 2012; European Parliament, 2016). The European Commission, following the experiences of the last economic crisis, highlighted the importance of competition throughout the EU (European Commission, 2010b, p. 3). In 2014, the European Commission extended the scope of the regulatory tools and funds available for the development of industry (European Commission, 2014, p. 22), aiming to combine regional and sectoral tools for the implementation of the Smart Specialisation plan and to use comparative advantages to create EU value chains. In times of rising anti-globalisation sentiments, tensions in the politics of global trade and many signs of stronger state intervention in the economy (e.g. Evenett, 2019), we can expect a growing interest in a better-defined and more active common industrial policy in the EU. It is very likely that future initiatives in this area will highlight the importance of innovation because it is a strategy that allows competition in, with labour costs playing a lesser role.

Poland and its industry may play a key role in this context. In order to develop an effective domestic industrial policy and to help shape an appropriate Community policy, Polish economic politicians will have to understand the strengths, weaknesses and needs of domestic industry. As the analysis in the chapter on innovation (see Chapter 8) demonstrates, there are positive trends that include a significant increase in the share of expenditure on research and development in enterprises, state-owned as well as private, both Polish and foreign (Figure 9). A change in the attitude toward the state's role in industrial policy will require a fair balancing of this role, so as not to restrict competition or the innovative initiatives of private entities. Support needs to be focused in areas where it can produce the best effects. It is also important to verify the relevance of the economic calculation and other criteria, such as safety and independence in formulating national interests in the context of existing, already strong and economically efficient ties between Polish industry and European value chains, and the transfer of knowledge and technology taking place as part of them.

Figure 9. Innovative industrial enterprises, by ownership as a percentage of all entities in the sub-sector

Source: Own calculations based on data from the Local Data Bank of Statistics Poland.



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CHAPTER 12

WIESŁAWA KOZEK

SERVICES FOR GENERAL INTEREST

ABSTRACT

During the beginning of Poland's economic transformation, its sphere of public services suffered degradation. Upon the accession to the European Union (EU), public services began to be rebuilt in accordance with new standards and with the use of new technologies and organisation models.

According to EU policy, each Member State is obligated to provide services for general interest and to ensure their proper standard. These services are divided into three kinds. First, there are economic services, which include the supply of water, energy, gas, waste collection and disposal. Second, there are services that ensure security, information and mobility: telecommunications, post and transport. And third, there are services satisfying fundamental social needs: healthcare, housing, local labour market and social assistance services, which take into account the needs of citizens from more vulnerable groups in particular.

The scope of services for general interest can be very broad and the EU does not impose their catalogue on Member States. In Poland, however, it has contributed to the expansion of the scope and promotion of higher standards of the provision of such services. Priorities in the practical performance of services for general interest depend to a large extent on the local level.

SERVICES FOR GENERAL INTEREST

Introduction

In the second five-year period of the implementation of the Lisbon Strategy (from 2006), the regulation of the European Union (EU) market was expanded by new elements indicating the need to intervene in the sphere of services referred to as services for general interest. These services serve all. According to EU policy, each Member State is obligated to ensure their appropriate standard and to organise their supply. The scope of services for general interest can be very broad.

Services for general interest in EU policy

In indicating the necessity for a state to intervene in supplying services for general interest, the EU does not strictly specify the scope of such services in a given country or entities (public or private) which are supposed to provide them. However, it obligates all Member States to have regulations and management in place which will ensure equal access to such services to all residents, both physically and financially. Furthermore, the EU emphasises the need to provide residents with information about the conditions of use, insight into how service providers function and participation in authorities' decisions about the development of the services (continuation / restrictions). One significant element of European obligations is the guarantee of appropriate standards of quality of such services (reliability and efficiency) (European Commission, 2011).

Pointing out the need for countries to regulate the sphere of services for general interest does not mean abandoning business methods (new public management) in managing entities providing services. It is still maintained that the provision of services for general interest should be both well-regulated and at the same time effective enough to provide all citizens with access to these services at economically justified prices.

Among services provided in the general interest in the EU, there is a distinction between services provided in a general economic interest and a non-economic interest. Relatively recently (2010), the category of social services was distinguished (*Guide to the application of the European Union rules*, 2013). High-quality social services accessible to citizens are treated as a significant component of the European social model.

Summary. Classification of services for general interest

Types of services for general interest	Sectors and examples of services for general interest
Services for general interest of an economic nature provided for a fee	Network services: supply of energy, gas, telecommunications, water; waste management; public transport
Services for general interest of a non-economic nature, provided free of charge or co-paid by the user	Administrative services, the activities of the police, justice and environmental protection
Social services satisfying the fundamental social needs of citizens in the local environment, including vulnerable social groups	Social assistance services, employment service, social housing and care services, educational and health services

The method of the EU's influence on Member States for the purpose of adopting a strategy for the development of services for general interest and adjusting to recommendations is of a soft nature. The EU leaves it to Member States to define the scope of that group of services and the ways to finance them, provided that it does not cause any excessive distortion of competition (European Commission, 2004).

In each of the listed groups of services, different proportions of methods of influencing Member States are used. Since numerous projects for the development of such services are of an investment nature, they require European standards of technical standardisation and standards concerning the needs of use resulting from relevant EU programmes and kinds of funds. Preference is given to solutions which eliminate architectural barriers preventing access to disabled persons, fostering mobility, integration in local communities, environmental protection and respect for tradition and culture.

In the provision of services, persons with appropriate competences and skills play a key role. Therefore, a significant number of programmes oriented at the development of services for general interest include training, exchanging experiences, and presenting good practices.

Services for general interest in Poland

The Polish understanding of services for general interest is deeply rooted in the experiences from the communist era. The sphere of services for general interest was relatively broad at that time. It was obvious that those services were performed by state-owned public entities. After 1989 and before Poland's accession to the EU, Polish society experienced a crisis of services for general interest resulting partly from a generally difficult economic situation and partly from the redefining of obligations of public authorities in that respect. The infrastructure of services for general interest at that time was degrading and expenditures on services for general interest were being reduced in the budget. It was particularly visible in such categories of services as public transport, social care services and socio-cultural services.

The collapse of services for general interest in Poland was accompanied by views, widespread at the time, about the need for far-reaching liberalisation and privatisation of this sector. In this sense, one may perceive some time-wise similarities between Poland and other countries of the EU in the scope of the popularity of the idea of liberalisation of the market of services for general interest.

In the first decade of this century, the first critical comments on the effects of this policy began to be published, for example, a report was presented concerning the negative effect of liberalisation on the quality of services for general interest and the number of jobs, and the necessity to control standards of the provision of services, also in Poland, was noted (e.g. Kozek et al., 2011).

First interventions of the EU in the sector of services for general interest in Poland took place already in the pre-accession period and involved increasing institutional capacity in many areas of the state's activity. The total sum of aid granted to Poland as part of pre-accession instruments was EUR 6 billion (Human Capital Operational Programme, 2007, p. 101 and further). However, it is difficult to estimate what part of these funds were actually allocated to services for general interest. For instance, the PHARE programme assumed the allocation of 30% of funds for the "building institutions" component. It related, among others, to the police and strengthening the local institutional potential in the scope of preventing unemployment. The ISPA programme made it possible to invest in environmental protection and transport; and the SAPARD programme allowed the modernisation of structures in the area of agriculture in terms of quality, veterinary and phytosanitary control and the construction of a waste-water treatment plants. As an aspiring country, we could influence which areas the EU aid was most needed for us to be able to integrate with the EU.

The pre-accession support was important not only for the integration process, but it also shaped the expectations and aspirations connected with services for general interest. These aspirations are currently very broad, and the EU is additionally legitimising them.

Services provided for general economic interest

Services provided for general economic interest, usually network services, are covered by European regulations concerning the internal market and competition rules. They, however, cannot be completely based on market mechanisms, because there is no certainty that they would be supplied in an appropriate quantity, reliably, steadily, accessibly and in an equal and common manner. In necessary cases, Member States can grant public aid to service providers in order to provide such services to all citizens.

In some cases, these services have developed very dynamically after 2004, examples being transport, communication, water supply or waste management services. One positive example is communication services provided through a cellular phone network. After 2004, businesses have been interested in competition in this area, and the EU, supporting the development of the pan-European market, sought to liberalise sectoral markets, including allowing international companies to enter national markets as providers.

An example of positive changes under the influence of EU regulations in the scope of these services is the telecommunications sector. Currently, in Poland, only 7% of respondents have never used a cellular phone (European Commission, 2017). The EU acts as a regulator in this market, establishing the rules of cooperation between service providers and standards of consumer service. Poland gradually introduced these rules, which benefited the users, into national law acting under pressure from the EU and providing such as justification for the necessity to introduce new service standards. In terms of quality of such services, we, as a society, live in a new world as compared to 1980s, when it took over ten years to have a telephone landline installed, and one had to wait for a few hours to make a phone call to Paris. The latest EU regulation concerns the costs of telephone calls within EU countries resulting in the price of an EU call being equal to a national call. According to Eurobarometer, in Poland, 37% respondents in person and 65% of friends, family or acquaintances of respondents said that they would benefit from the new standard of calls (European Commission – Eurobarometer, 2018).

Another example of relative success are postal services; although the process of the liberalisation of the postal services market lasted much longer in Poland due to the political acceptance of the monopoly of Polish Post. Regarding this market, in some sense, Polish Post has defended its position as the dominant service provider, because rivals have withdrawn from competition in this area (i.e. competition in the market of mail of up to 50 grams), shifting their interest towards competition for another market which is developing dynamically in connection with the increase of Internet sales, i.e. the parcel market. A few large global corporations originating from EU countries have entered the market of parcels, but Polish courier firms have also remained. That market has been developing very dynamically and is now competitive enough for consumers to be able to benefit from the competition in the form of prices for services and the quality standard. Therefore, it is a benefit connected with the liberalisation of this market, supported by the EU.

In some cases, the entrance of a service provided in general economic interest into a market is more difficult for rivals, which is clearly seen in the energy sector. These difficulties include obstacles related to the strong dominant position of energy companies owned by the state treasury. The government is present in this market as a market regulator and at the same time as a market entity (owner of companies), trying to combine these roles in the name of energy independence for the country. Seemingly, it is a market open to liberalisation; however, foreign companies find it very hard to enter it through direct investments. Formally, many quality standards established by the EU in the interest of the final consumer have been accepted in this market. However, a lack of strong competition between companies results in maintaining relatively high energy prices and does not create additional impulses for the implementation of technological innovations in the field of renewable energy sources.

Progress in the standard of provision of economic services for general interest can be largely attributed to the cooperation between Poland and the EU. As a Member State, Poland has used its opportunities to a large extent, although a full assessment has yet to be conducted. In Poland, too little attention is paid to the monitoring of such services from the perspective of the user, although some actions as part of the project “System of monitoring of public services: SMPS concept 2014-2020” have been undertaken. Eurobarometer research shows that some of these services are assessed relatively highly by Polish citizens (e.g. railway transport and electronic communication).

Non-economic services provided in general interest

Non-economic services provided in general interest are not available in the market; although, to some extent, they are available to citizens for a fee or can be provided as a part of the economic activity of private entities. The EU recognises the competences of Member States for establishing the rules on which they are provided; however, Member States exchange experiences and inspire each other, striving for optimisation. Member States decide which of these services constitute the public commitment of authorities and to what extent they can be provided by private entities. Private providers can generally be found in Poland in all kinds of services. The EU tries to promote selected standards for the provision of such services, but only on the basis of subsidiarity, disseminating the best models of organisation and financing, facilitating expertise cooperation of experts and supporting the development of infrastructure as part of regional and cohesion policies.

Subsidies for projects to develop non-economic services for general interest were very significant in 2004-2018. Although abstract numbers alone do not explain a lot, they still show priorities. These priorities were dictated by the most urgent needs present during that period. More funding was allocated to increase employment and social integration (mainly for the active policy of the labour market) as well as for science and education (support for schools and universities). Less funding was allocated for healthcare, culture and arts, tourism and revitalisation. However, a review of these projects shows that they were also investments of key importance for the whole country (e.g. Copernicus Science Centre, European Solidarity Centre) or for local communities in the area of culture and arts, e.g. the construction of the European Krzysztof Penderecki Music Centre and the construction of Public Music School Complex in Radom. The effects of these subsidies are visible in almost each local community, city, region or professional environment.

Table 1. EU expenditures on projects completed in selected social services for general interest in the years 2004-2018

Source of data: own calculations based on: Subsidy Map (http://www.mapadotacji.gov.pl) data concerning projects completed as at 25th February 2019.

Areas of expenditure	Number of completed projects	Expenditures from EU funds in PLN	Non EU founding inflows	Share of EU funds in the funding costs of the projects
Healthcare	533	1,147	8.4	0.66
Culture and arts	961	5,388	12.3	0.56
Tourism	2,455	6,592	19.3	0.44
Revitalisation	3,933	7,019	11.8	0.59
Administration	6,906	16,459	20.9	0.79
Science and education	26,639	24,678	15.6	0.76
Employment and social integration	23,113	27,920	2.8	0.81

A significant group of projects implemented in Poland includes new investments and the renovation of units providing non-economic services. The funding of such projects consists of financial engineering, in which the investor must demonstrate an appropriate own contribution, although sums from EU funds (mostly the cohesion fund, social fund and human capital fund) prevailed. Projects were submitted by local governments, public institutions, companies, non-governmental organisations and even by individual citizens. Some parts of EU subsidies were allocated for the support of systems and structures (building institutional capacity), which was submitted centrally.

Social services for general interest

Social services for general interest are meant to support the implementation of the sustainable growth of the whole EU as well as social integration by equalising the living conditions of residents. They include services in following areas: social security, employment and vocational training, social housing, childcare and care of dependants, as well as social assistance. The development of these services is aimed at providing residents with access whenever they need it, especially when they find themselves in adverse family, income or health circumstances. At the same time, it allows residents to overcome obstacles, become included in the life of the community and take up an activity. EU programmes concerning these services also include the promotion of cultural activity, healthy lifestyle and building social relations in order to overcome solitude and exclusion.

The method of exerting pressure on Member States in the area of social services for general interest is also of a soft nature. It is a method of open coordination that fosters planning, standardisation of the functioning of providers and increasing the accessibility and quality of services. Since 2006, Member States have been preparing national reports concerning social security and social integration, which allow for the comparison of standards of social services and the identification of best practices.

Final notes

European integration is based on values which increasingly include the quality of the functioning of entities operating for general interest for public use. Universal access, high standards, affordable prices and the participation of citizens in decisions concerning investment directions ensuring the development of services for general interest are all strategic actions which the EU confers to Member States, offering funds for their performance. Although Member States independently define the scope of services for general interest, the functioning of which is not entirely subject to the rules of the free market and requires state interventions, the standardogenic and financial importance of the EU in that scope is so strong that it changes the civilizational conditions of the lives of citizens in the places they live—in their municipalities, cities and regions.

The introduction of services for general interest into the EU's strategy of influencing Member States has been particularly beneficial for Poland. During Poland's period of intensive economic transformation, its sphere of public services suffered degradation. It is being rebuilt in accordance with new standards, with the use of new technologies and organisational models, thanks to European funds and concepts. Citizens participate in this process, on the local level, adjusting solutions to their needs and comfort of life. Without such support, the path to civilised communal solutions and good infrastructure conditions for the provision of social services would have been undoubtedly longer and not necessarily as levelled as it is with the support of the EU.

The freedom of defining the scope of services for general interest by Member States allows them to flexibly adjust to current and future social aspirations and needs concerning the subject of such services and the manner of their provision in the face of quickly changing technologies.

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CHAPTER 13

MAGDALENA KĄKOL

COMMERCIAL SERVICES

ABSTRACT

Alongside economic development and the progress made towards economic transformation, the importance of the services sector in Poland, particularly of market services, has been growing. Poland's accession to the European Union (EU) has allowed domestic service providers to participate in the EU internal market, gaining access to 500 million consumers, and to take advantage of competition within the area of the Community. Thus, the value of exports of services in international trade and intra-EU trade has increased dynamically. For many years now, Poland has been recording a positive balance in trading in services, both globally and regionally.

Although most services exported include labour-intensive services and Poland's competitiveness is based mainly on lower prices and costs, in recent years there have been some positive structural changes, such as the increased share of modern sectors of services in total exports. These are services which develop in a knowledge-based economy that apply new technologies, such as telecommunications, computers, IT and business technologies. Among the positive tendencies in the Polish exports of services, particular praise is due to its increase of competitiveness and the importance of computer services, both in the EU internal market and globally.

The integration of the market of services has taken place at a slower pace than the market of goods, the freedom of competition in the EU internal market is significantly lower and EU regulations are accompanied by numerous national regulations. Recent problems, from the Polish perspective, have included regulatory barriers concerning services provided in other EU countries, e.g. road transport or construction, which restrict the benefits of Polish companies that are achieved within the territory of the single market. The liberalisation of the EU market in this domain poses a challenge to all its participants.

COMMERCIAL SERVICES

Introduction

By joining the European Union (EU), Poland gained access to the single market. The opportunities to expand into the markets of other Member States were conditional upon the completion of adjustment processes in Polish enterprises, so that they would be able to withstand higher market competition. Thanks to the transformation of the economic system, the structure of Poland's economy has gradually begun to resemble some more economically developed countries: step by step, the share of employment in and added value from industry and agriculture has decreased, while the significance of services, including commercial services, has increased, supported by privatisation and the shift towards a market economy. In 1990, the share of services in GDP in Poland was only 39.5% (35.8% in employment); over the following 12 years (until 2002), that share increased by 27.2 percentage points (and by 16.2 percentage points in employment) (Białowąs, 2014).

The introduction of the EU single market took place on 1 January 1993; the single market for services, however, remains largely divided. Integration in the services sector progresses more slowly than in the goods sector, which results from, among others, the very nature of service transactions. Many types of services are provided at the place of their production, which often requires the cross-border mobility of production factors, such as capital or labour. The services market has many more imperfections than the goods market; thus, many believe it should be more heavily regulated than the goods market. Furthermore, the regulation of a portion of the services market remains within the competences of Member States, which are obligated to provide basic public goods to their citizens (which include some services, particularly non-market services; see: chapter on public utility services). In some countries, national authorities, for social reasons and for their own political interests, try to prevent foreign service providers from entering their domestic markets, in which a large part of their domestic labour force finds employment. What interferes with the implementation of the freedom of services and the freedom of establishment for service providers (guaranteed by Art. 56 and 49 of the Treaty on the Functioning of the European Union) is not the regulation of activity in the service sector itself (which is often excessive), but the fact that the regulations are different in each Member State, not as much in terms of content but in terms of form, which often results from differing legal traditions. This increases the costs for service providers operating in many markets; this is particularly cumbersome for small enterprises.

Services are regulated as part of various legal regimes, some only at the EU level, some exclusively by Member States and some simultaneously at the transnational level and the Member State level. Apart from the Services Directive (referred to as the horizontal regulation), there are many sectoral rules, and the provision of a part of services is performed only thanks to the provisions of the primary law (treaty law). Non-economic services provided in the general interest and without remuneration are excluded from regulations concerning the internal EU market. The proper functioning of the single market of services requires the creation of an appropriate infrastructure necessary for the provision of many services (mostly those qualified under the network sector), which differs significantly between various Member States.

In the process of building the single market of services, a number of methods to reduce regulatory barriers are used: liberalisation, harmonisation and mutual recognition. Although the key methods used during the beginning of economic integration included liberalisation and harmonisation, in 1970s, after the establishment of the principle of mutual recognition, a more flexible approach began to be used, making references to standards established by the private sector and non-governmental organisations (Barcz et al., 2016; Kąkol, 2017). The White Paper of 1985 concerning the introduction of the internal market adopted an approach involving minimal harmonisation, referring to essential requirements connected with health protection and public safety, environmental protection and consumer protection, which led to the development of harmonised technical standards. Regarding services not covered by harmonisation, Member States should accept their own standards, guided by the principle of mutual recognition (El-Agraa, 2015).

The liberalisation of the market of services in the European Community started relatively late and initially applied to only some domains (e.g. the performance of services as part of given professions which can be practised in home countries only after meeting very specific requirements; financial services; and, partly, transport services). In 1990s, the liberalisation was extended to other areas of the economy, particularly the network sectors (broadcasting, telecommunications, postal services, the gas and energy sector, as well as air and rail transport); however, in spite of attempts, the introduction of universal regulations which would regulate all services provided in the EU market was not successful. It was only in 2006 that the special Services Directive was introduced, and its provisions were to come into force by 2009. It established the general legal framework facilitating the use of the freedom of establishment by service providers and the free flow of services in the internal market (provided that the service provider operates a business in one of the EU Member States)[1]. The directive applies to many kinds of services; however, it does not apply to a few key sectors, such as financial and telecommunications services. It also did not introduce the principle of the country of origin, which had been included in an earlier draft directive (hereinafter referred to as the Bolkestein Directive), which provides for the provision of services in the internal market in accordance with the law of the country from which the service provider originates. It significantly limited liberalisation and the potential advantages which could have been obtained from full market integration in that sector of the economy (see: chapter on the challenges of the single market). Instead of the principle of the country of origin, the principle of freedom to provide services was used, which does not state the legislation of which country is to govern the performance of services and allows the restriction of access to national markets through the imposition, by the destination country, of additional requirements on providers of services from other Member States.

Tendencies in trade and Poland's competitiveness in the EU internal market of services

Market services are the most important sector of the Polish economy: in 2018, they made up almost 50% of gross value added and provided work for 46% of all employed persons. Market services have a similar position in the EU, although their share in gross value added and employment is higher than in Poland (see: Table 1). During Poland's membership in the EU (2004-2018), the significance of market services increased slightly in terms of share in the creation of gross value added and increased significantly in terms of share in total employment (increase of 5.5 percentage points). The pace of changes in Poland was slightly faster than in the EU-28, but not enough to allow Poland to reach the level of shares of the EU-28.

Moving on to data which is more interesting from the point of view of our topic, attention must be drawn to the substantial and positive changes that occurred during EU membership in Poland's exports of services to EU countries and in the balance of services. The positive balance in trading in services increased in the period 2005-2017 by over 750% (Figure 1), whereas the balance of all EU-28 countries increased at the same time by over 180%. Over a 12-year period (for which we have data), Poland increased its exports and imports of services by 226% and 143%, respectively, which was significantly more than for the whole EU (99% and 90%, respectively) (Figure 2). It is also worth noting that in the case of trading in services, the single market is of much more significance for Poland than in the EU on average: the share of the EU in exports and imports of services in Poland ranges from 70% to 80%, while corresponding rates for EU-28 countries are within 50% to 60%.

In 2008-2017, the share of Poland in the exports of services into the EU market increased in most sectors, including all high-tech sectors (Table 2). In 2017, the highest share achieved by Poland in exports to the EU-28 was in: construction, manufacturing services on physical inputs owned by others[2], repairs and maintenance, transport and personal services connected with culture and leisure. In the above-listed types of services, Poland had a positive balance of trade with the EU in 2017, and the

1 Provisions of the directive relate only to services provided for economic reasons and only in a scope in which a given domain has been opened to competition. Therefore, they do not obligate national authorities to liberalise services provided in general economic interest, to eliminate monopolies or to abolish state aid granted in accordance with EU competition law.

2 This category of services includes, among others, processing, assembly, labelling, packing of products belonging to other entities.

highest surplus occurred in the transport sector, which accounted for over 60% of the surplus of our country in the internal market of services.

Poland also gains relatively high surpluses in trading in services inside the EU in manufacturing services and construction, telecommunications, computer and IT services, and other business services. The highest comparative advantages[3] in intra-EU trade achieved by Poland are in construction, manufacturing services, transport, repair and maintenance; while in 2008-2016, Poland's comparative advantage increased in manufacturing and transport services and decreased in construction and services in the scope of repairs and maintenance. The lowest share in exports to the EU, the largest trade deficit and a lack of comparative advantage is manifested in following services: lending of intellectual property, financial services, insurance and pension services.

The analysis of high-tech and knowledge-intensive services exports shows some positive tendencies in Poland's trade in EU markets (Kąkol, 2018b, 2018c). Among the five analysed sub-sectors of services (high-tech knowledge-intensive services) in the period 2010-2016/2017, Poland: 1) increased its share in exports to the EU in all sub-sectors, and in computer and audio-visual services the most; 2) obtained a comparative advantage in computer and information services and continued losing its comparative advantage in trade in audio-visual services; and 3) achieved a positive balance of trade in three sub-sectors of services, with the highest surplus in computer services. Negative tendencies were also seen, such as: 1) a further loss of comparative advantage in trade with the EU in telecommunications and research and development (R&D) services; 2) a deficit in trading in telecommunications and audio-visual services; and 3) still relatively small shares of Poland's exports to the EU in all sub-sectors of high-tech knowledge-intensive services (below the average of Poland's share in exports of all services to the EU).

Table 1. Share of market services in gross value added and in employment in Poland and in the EU-28 in 2004 and 2018 (in %)

Note: * Based on hours worked. Source: Own study based on data from the European Statistical Office

	Share in gross value added in %				Share in employment* in %			
	Poland		EU-28		Poland		EU-28	
	2004	2018	2004	2018	2004	2018	2004	2018
Market services:	48.9	49.8	53.5	54.1	40.9	46.4	54.1	57.4
Wholesale and retail trade, transport, accommodation and catering services	22.1	22.4	17.3	17.1	22.8	23.1	25.1	25.2
IT and telecommunications services	4.2	3.5	4.6	4.5	1.6	2.5	2.7	3.3
Financial and insurance services	3.4	3.5	4.7	4.3	2.0	2.5	2.7	2.6
Services connected with real estate activity	5.4	4.4	9.6	10.0	1.0	0.9	1.0	1.1
Professional, scientific and technical services; administrative and support services	5.5	7.2	8.8	10.1	4.5	6.3	9.6	12.6
Services connected with arts, entertainment and leisure; other service activities	1.9	1.9	3.1	3.1	2.6	3.4	5.0	5.4
Construction	6.4	6.9	5.4	5.0	6.4	7.7	8.0	7.2
Non-market services (public administration, defence, education, healthcare and social work)	13.7	12.3	16.4	16.5	17.9	19.5	20.0	21.5
All services (including construction)	62,6	62,1	69,9	70,6	58,8	65,9	74,1	78,9

3 It is about lower relative costs of production in a sector in a given country in relation to both other sectors and countries. One of the indexes used for the measurement of comparative advantage is RSCA (revealed symmetric comparative advantage) which is based on relative shares in trading in various products. Its value is in the range from -1 to 1, and it indicates a decisive comparative advantage in trade if the index is close to 1; whereas -1 means relatively high costs of production and a lack of comparative advantage.

Figure 1. Value of exports and imports and balance of services for Poland in 2005-2017 in USD million

Source: Own calculations based on data from ITC, UNCTAD, WTO and OECD.

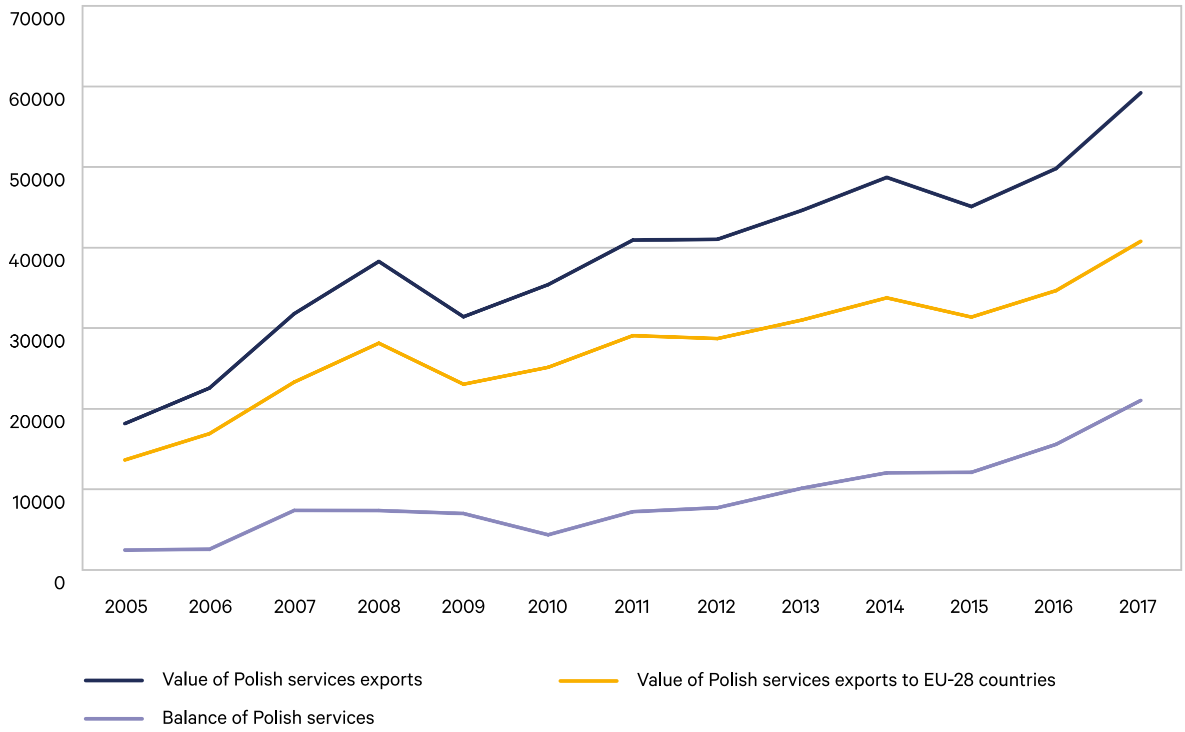


Figure 2. Average annual rate of growth of the value of exports and imports of services for Poland and the EU-28 in 2005-2017, in %

Source: Own calculations based on data from ITC, UNCTAD, WTO and OECD.
Note: Columns on the LHS refer to Poland, while columns on the RHS relate to EU

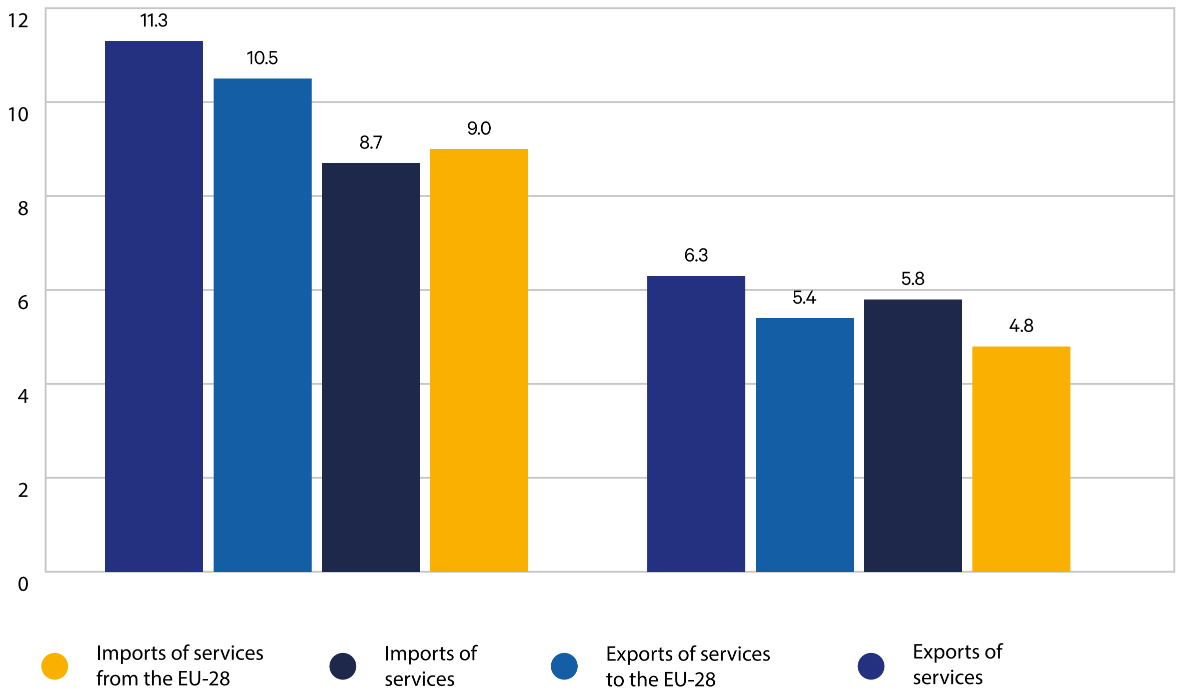


Table 2. Shares of the sectors of services in Poland's exports to the EU-28 (in %) and their percentage change in 2008/2010-2017, Poland's balance of trade in services (BS) with the EU-28 in USD million in 2008 and 2017 and the RSCA index in 2008 and 2016 as per the sectoral structure of services in Poland

Source: Own calculations based on data from ITC, UNCTAD, WTO and OECD.
Explanation: *Such is the wording of the category of services in the statistics, which consists of the payable lending of intellectual property.

Service sector	**2008**	**2017**	**2017/ 2008**	**BS 2008**	**BS 2017**	**RSCA 2008**	**RSCA 2016**
Manufacturing services on physical inputs owned by others	4.08	7.16	75.38	1254	2340	0.23	0.40
Repairs and maintenance	5.98	6.14	2.74	493	511	0.40	0.26
Transport	3.86	5.91	53.19	2892	6384	0.20	0.30
Travel	3.04	2.48	-18.36	960	-386	0.09	-0.06
Construction	9.89	9.23	-6.60	486	1284	0.59	0.45
Insurance and pension services	0.86	0.91	5.75	-297	-198	-0.50	-0.40
Financial services	0.30	0.66	116.22	-239	13	-0.79	-0.70
Charges for the use of intellectual property*	0.44	0.39	-11.20	-1037	-1984	-0.71	-0.76
Telecommunications, computer and IT services	1.06	2.80	164.83	-236	1299	-0.42	-0.09
Other business services	2.49	2.84	14.35	400,0	1356	-0.01	-0.02
Personal, cultural, and recreational services	1.54	3.69	139.32	-114	56	-0.25	-0.04
All services	2.56	3.09	20.69	4421	10628		
High-tech knowledge-intensive services sub-sectors:	**2010**	**2017**	**2017/ 2010**	**BS 2010**	**BS 2017**	**RSCA 2010**	**RSCA 2016**
Telecommunications	1.42	1.76	23.82	-52	-95	-0.29	-0.43
Computer services	1.29	2.98	130.72	-153	1 300	-0.33	0.40
IT services	2.13	2.82	32.64	-12	68	-0.10	0.14
Research and development services (R&D)	1.66	2.38	43.80	247	605	-0.22	-0.28
Audio-visual and related services	0.51	1.36	163.93	-243	-209	-0.67	-0.21

Poland has a comparative advantage in international trade primarily in labour-intensive services and to a lesser extent in capital-based services. In most of the competitive sectors, the comparative advantage of Poland was rather small, apart from one sector: the assembly and processing of products.

This proves that even in labour-intensive services, Poland's comparative advantages are not well established, and if serious rivals from other countries (especially developing countries) appear, Polish exports of services may be at risk. Some undoubtedly positive tendencies in the years 2005-2016 include trends in business services (constituting a sector of knowledge-based services) and in telecommunications, computer and IT services, i.e. in high-tech knowledge-intensive services.

When it comes to the last category of services, in 2010, none of the sectors in Poland had any comparative advantage or had any surplus in the trade balance; while in 2015, there were two such sectors: computer and IT services. Generally, in the years 2010-2015, our economy saw beneficial changes in the scope of comparative advantages and the trade balance index as well as increases in the value of exports and share of exports in total exports in high-tech knowledge-intensive sectors, exclusive of telecommunications. However, out of all categories of services classified as high-tech knowledge-intensive, only computer services has played an important role in the export of services from Poland, with a share of 8.3%, while the total share of all other services of this type was only about 4% in 2016.

When attempting to assess the basis of Poland's comparative advantage in the internal EU market, it is worth analysing some economic indexes and comparing their values in both economies. Although the level of labour productivity in Poland has been increasing, in 2016 the gross value added per hour worked in absolute terms was two to six times lower in various sectors of services than in the EU-28, with largest differences in: activity connected with real estate, non-market services, and financial and insurance activity (Kąkol, 2018b). The study of the competitive capacity based on analyses of prices and costs of labour has shown Poland's advantage in relation to the EU-28 in generally all sectors of services. In terms of price indexes, in 2016, the advantage was the highest in communications (the lowest level of prices in the EU), education, transport as well as leisure and culture services. In spite of increasing costs for labour and remuneration in all sectors of services, their absolute level in Poland is still on average three times lower than in the EU-28.

Studies on Poland's potential for increasing trading in knowledge-intensive and high-tech services as well as analyses on various measurements of the quality of human resources have produced an ambiguous picture. Apart from the relatively good assessment of Polish employment structure in comparison with the EU-28 in terms of employing persons with higher education in knowledge-intensive sectors, the scope of IT training for the staff in all categories of services as well as the relatively low level of expenditures on R&D spent by enterprises operating in the high tech knowledge-intensive sectors do not indicate any significant potential of our economy in this area (Kąkol, 2018b). If Poland wishes to achieve and retain a strong competitive advantage in trading in services, both in the single market and the global market, in the long run, it should focus most of all on its technological capabilities, because low costs of labour will not ensure a permanent competitive advantage forever, especially under economic convergence and growing GDP per capita.

Barriers to accessing the intra-EU market of services

According to Aussilloux et al. (2017), regulatory barriers, in particular in the internal market of services, restrict intra-EU trade to a level four times lower than that among various states in the United States, which often serves as a comparison, since differences between their respective regulations are minimal. In spite of the successful elimination of explicit discriminatory restrictions towards entities from other EU countries, there are still about 3,000 national regulatory requirements as part of the internal market which apply to professional and business services and which pertain to: foreign capital shares, legal forms of activity, prices and combining various kinds of service activities (e.g. architectural services, construction services and services in the scope of real estate activities). The following also interferes with the full integration of the EU market of services and the use of its potential advantages: high shares of state ownership; insufficiently developed infrastructure, especially in network sectors (e.g. in the EU, there are as many as four types of rails - even ten if urban tracks are taken into account); restrictions imposed on foreign capital usually in sectors of key importance for infrastructure; poor access to funding (mainly for small and medium-sized companies and new enterprises); regulations connected with the granting of licences and restrictions in the flow of natural persons, which significantly hinder trade, in particular in sectors requiring high qualifications (such as professional services); large administrative burdens and long procedures (in particular concerning the recognition of qualifications); limited possibilities to transfer social rights; restrictions in access to the public procurement market, which is particularly important for construction companies; and the relatively small size of many service enterprises, which restricts the benefits of economies of scale (Kąkol, 2017; Mucha-Leszko, 2012).

The fragmentation of the internal market of services is caused to a significant extent by the restrictiveness and multitude of regulations as well as their heterogeneity in various Member States. A measure used to compare the level of restrictiveness of regulatory barriers in the international trade of services is the STRI (Services Trade Restrictiveness Index) prepared by the OECD. The STRI index takes into account following restrictions in trading in services: entry barriers for foreign entities, restrictions in the movement of persons from abroad, other discriminatory measures, barriers for competition and regulatory transparency[4].

In 2018, STRI indexes were calculated for trade in the internal market of 25 members of the European Economic Area (EEA) in various sectors of services, and then they were compared with average STRI indexes of EEA countries for their trading in services with third-party countries (performed based on the principle of most favoured nation (MFN), without preferential treatment within the EU). The results are presented in Figure 3.

The values of the STRI indexes confirmed the occurrence of positive effects from market integration in the EU[5]. The most heavily regulated sector in the EEA internal market is air transport and the least regulated is freight transport by road. The largest difference between the level of restrictiveness of regulations in international trade and in trade within the EEA is found in air transport and in four sectors of professional services, including in particular legal services. For Poland, the STRI index is slightly higher than the average for the EEA-25, and the largest restrictions are found in the following sectors: legal, air transport, freight transport by road and cargo logistics. The most liberalised sector in Poland is the telecommunications sector. Market integration has also contributed to the decrease in heterogeneity of regulations between Member States in all service sectors, as is confirmed by indexes for trade inside the EEA calculated for pairs of Member States. Poland is ranked eighth among 25 EEA countries in terms of restrictiveness of regulations in the market of services (Benz and Gonzales, 2019). From the point of view of the Polish economy, the most important are barriers existing in the internal market in such sectors as construction services (which have the largest share in Polish exports into the EU market) as well as transport services (in which, as mentioned before, Poland generates the highest trade surplus among all kinds of services). While in the case of construction services, the barriers mainly consist of a lack of transparency in regulations, and in the transport sector, they are mostly connected with the restriction of competition.

Suppliers of construction services that wish to pursue their activity in the single market are often obligated to fulfil procedures for accessing the market applicable in the EU host country. They encounter barriers in the form of lack of access to information (which is often available only in the national language and not available electronically), the limited scope of electronic procedures and the need to submit a large number of documents (often originals together with translations into the language of the country in which the service is provided). It is estimated that in some cases, the administrative costs connected with the fulfilment of national systems of approvals imposed on providers of construction services may be EUR 10,000 and more (European Commission, 2018).

In the case of the transport sector (especially road transport), but also other kinds of services provided directly, the largest risk is posed by Directive (EU) 2018/957 of the European Parliament and of the Council of 28th June 2018 amending Directive 96/71/EC concerning the posting of workers in the framework of the provision of services, which is to come into force on 30th July 2020 (see: chapter on the challenges of the single market). The new regulations restrict the period of the posting of employees to 12 months with the possibility of a six-month extension under a "justified notification" presented by the entrepreneur to the authorities of the host country. According to the provisions of the directive, after the posting period, an employee will be subject to the law of the host country. Although in the EU as a whole, there are only about 2

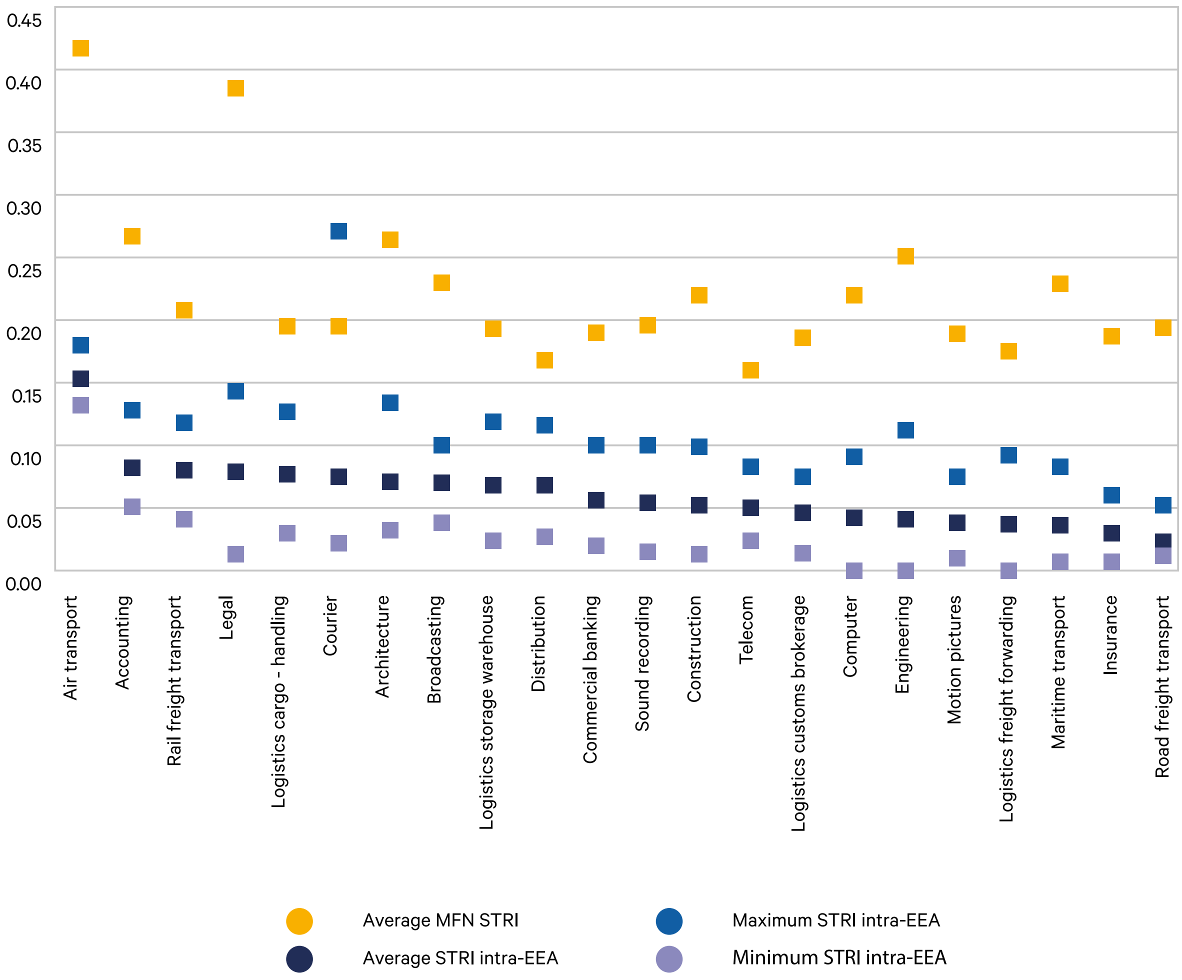
4 Currently, the STRI index includes 22 service sectors. The index assumes a value from 0 to 1, where 0 indicates the complete openness of a sector, while 1 indicates a complete closure to foreign competition. A result above 0.1 is to be deemed a significant restriction in international trade.

5 The average STRI index for trade inside the EEA for all sectors of services was only 0.06 in 2018, while a corresponding index of international trade was 0.22, the index for the United States was 0.24 and the index for all OECD countries was 0.23 (OECD, 2019a, 2019b).

million posted workers (i.e. less than 0.5% of all EU citizens), as many as 20% of them are Poles. Therefore, these are mainly Polish companies sending workers to EU Member States that will incur the higher costs of the new regulation. Current regulations require that the posted worker receive at least the minimum wage of the host country, but all social contributions be paid in their home country. Amendments to regulations in this scope provide for the payment of remuneration (after the expiry of 12 months of posting) according to the same rules as in the case of a local worker.

Figure 3. STRI index intra-EEA and MFN for service sectors in 2018

Source: Benz and Gonzales, 2019 and OECD (2019a and 2019b).



Conclusion

The integration of Poland and the EU, and in particular access to the single market, has opened new opportunities of development for the national market of services and for Polish enterprises which would wish to offer services to foreign recipients.

The most important advantages of integration from which the Polish economy has benefited in the area of market services have involved a high rate growth of service exports into the EU market. In spite of the substantial increases of total service imports and service imports from the EU, Poland has had a large surplus in trading in services, both in the internal market as well as in international trade. Apart from the period of the financial and economic crisis, the surplus has had an increasing trend. Unfortunately, in the structure of the Polish exports of services (both total as well as intra-EU), labour-intensive (and less capital-intensive) kinds of services prevail: construction, the assembly and processing of products, repairs and maintenance, and transport services, and Poland bases its competitiveness mainly on lower prices and costs.

In spite of the intense competition which Poland has to withstand, in recent years we can observe positive changes in the structure of our exports, which include the improvement of many indexes pertaining to two sectors of knowledge-intensive services: other business services as well as telecommunications, computer and IT services. Particular attention should be paid to the improvement of the competitiveness indexes of some high-tech knowledge-intensive services, in particular the increase of the significance of computer services in Poland's exports of services both in the EU internal market and the global market.

Thanks to market integration, it has been possible to notably lower the regulatory barriers to access to the markets of other EU Member States, which undoubtedly benefits Polish service providers. Unfortunately, in the internal market of services, there are also disintegration processes, such as the recently adopted directive concerning posted workers. Due to high percentage of these types of workers employed in Poland (the highest among the EU-28), the financial effects of the new regulation will be mainly felt by our economy, and particularly by road transport enterprises.

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CHAPTER 14

MACIEJ NOWICKI

ENVIRONMENTAL PROTECTION

ABSTRACT

During the process of Poland's political transformation, the issue of environmental protection, which is an important social domain, also became a significant economic sector. Thanks to restrictive laws and a globally unique system of extra-budgetary environmental funds, by the first stage its transformation, Poland had made significant progress in the protection of water and air; however, many other problems still remained to be solved.

The breakthrough came in 2004, when Poland signed the Accession Treaty with the European Union (EU), which required the adoption of the EU's full legislation and, consequently, its high standards in environmental protection. EU financial programmes, such as the Cohesion Programme, which was transformed in 2007 into the Infrastructure and Environment programme and the LIFE+ programme, provided substantial support in fulfilling these standards. During 2004-2017, Poland received over EUR 15 billion in the form of grants. No other Member State has received such immense financial support for environmental protection from the EU.

These funds were used to carry out large-scale water and sewage investments, develop projects aimed at reducing the emissions of carbon dioxide and particulate matter, invest in renewable energy sources, develop waste management infrastructure and complete numerous programmes aimed at environmental protection.

There are still many challenges left, and new programmes are necessary, as a clean environment means better health for citizens, the protection of wildlife, more crops in farming, the better condition of forests and smaller property losses in the economy.

ENVIRONMENTAL PROTECTION

Introduction

A pollution-free natural environment is among the fundamental values of integrated Europe, and environmental protection is one of basic objectives of the European Union's (EU's) impact on Member States. The environment was recognised as an official area of EU policy in the Maastricht Treaty (1993), while the development strategies of EU Member States—the Lisbon strategy and Europe 2020—formulated the aims of low-emission and resource-efficient economies. The EU has also joined the global partnership for the protection of our planet, initiated by the United Nations (UN).

The main method of the EU's impact on Member States in the domain of environmental protection is legal regulations, which also includes sanctions for failure to comply with given standards. In addition, Member States obtain funds which are necessary for the financing of investments and other activities for environmental protection. It is estimated that, starting from 1970s, the EU has issued over 500 directives concerning environmental protection standards. They have focused on issues such as: acid rain, ozone depletion, air quality, excessive noise, water pollution, waste utilisation and sustainable energy, and the protection of biodiversity. Significant activities of the EU in recent years have included the monitoring of environmental quality and registering pollution caused by the economy.

Activities for environmental protection in Poland before accession to the EU

Under communist rule, Poland, together with USSR, had the most polluted natural environment. Not only in Europe—but also globally—was the country's position very low in this respect. Therefore, it came as no surprise that in the first stage of the political transformation, environmental protection was a key issue—both economically and socially. Already by the beginning of the 1990s, the law in this area underwent radical changes, "eco-police" were established to ensure compliance, and a globally unique system of extra-budgetary ecological funds were established with a view to support pro-ecological investments without making use of state budget funds.

These activities brought about significant results. Concerning water protection during 1990-2005, over one thousand modern water treatment plants were built, accessibility to water supply systems among rural residents increased from 10% to 45% and accessibility to sewage systems increased from 2% to 15%. The amount of municipal wastewater discharged to rivers and lakes without any treatment was reduced from 1500 hm^3 to 250 hm^3, although still 10% of this wastewater awaited treatment.

Regarding air protection, the most progress was made in equipping energy providers not only with high-performance dedusting installations, but also with desulphurisation and denitrification installations. It should be noted that in 1990, no power plants or combined heat and power (CHP) plants had any installations for the reduction of sulphur dioxide (SO2) or nitrogen oxide (NOx) emissions. In many cities, heat and gas networks were developed at that time, thanks to which it was possible to eliminate a large number of small coal-fired boiler houses and tiled stoves, although the problem of low emissions is still far from being satisfactorily resolved.

During 1990-2005, no material progress was made in municipal waste management—still, over 95% of this type of waste ended up in landfills. Although regarding industrial waste, the volume of waste was reduced from 180 million tonnes a year in 1988 to 120 million tonnes in 2005, still 20% of waste, often containing toxins, was not utilised at all.

Concerning nature conservation during 1990-2003, the number and surface area of legally protected areas increased significantly, which was a positive manifestation of the ecological awareness of central and local authorities at that time. Additionally, during this period, the number of national parks increased from 15 to 23 and landscape parks from 50 to 120. Regrettably, due to the unfortunate amendment of the act on nature protection of 2004, this positive tendency was interrupted, and since this time (through to today), not one new national or landscape park has been established, although there are a large number of valuable natural areas should be protected.

Thus, upon Poland's accession to the EU, we had already had significant achievements in environmental protection, but still there was a lot to do, because the backlog and negligence in this area—which is so important for the health of people, for the conservation of nature and the country's economy—was still immense.

EU support for activities towards environmental protection

The Accession Treaty, signed in 2004, was a very important document for environmental protection in Poland. Since this time, our country has been a full member of the European Community, which has obligated us to adopt and implement the full legislation of the EU, as well as to adhere to standards applicable throughout the EU. As Poland was not able to quickly fulfil many of these standards, the Accession Treaty contained ten transitional periods allowing their gradual completion.

Although the basic tool used by the EU to stimulate progress in environmental protection among all Member States is the requirement to respect Community law, it is equally important to show solidarity with members such as Poland, whose national income is much lower than the EU average, through the financial support of activities aimed at the fulfilment of EU standards. Environment protection measures have received financial support from the EU since the beginning of Poland's political transformation. During 1990-1999, the PHARE programme provided EUR 160 million in aid. During 2000-2003, approximately EUR 600 million was received from the ISPA aid scheme.

After Poland's accession to the EU, the amount of aid received multiplied. In 2004, the Cohesion Fund was established, under which major investments in the scope of environmental protection received EUR 1.87 billion worth of funding over the period of 2004-2006. At the same time, the European Regional Development Fund, of regional importance and providing similar sums, was established for smaller investments.

In 2007, the Cohesion Fund was transformed into the "Infrastructure and Environment" programme, which in the 2007-2013 financial perspective had a budget of EUR 28.3 billion. These funds were used primarily for the improvement of transport infrastructure and environmental protection. The second stage of the programme, executed in the years 2014-2020, has a budget of a similar scale: EUR 27.4 billion. Both financial perspectives have been given about EUR 15 billion for environmental protection. The method of using European funds for environmental protection has been the same as for projects from other areas: financing investments used for environmental protection, drastically reducing construction costs and often deciding about whether a project would be implemented.

Water and sewage sector

Over the last 15 years of Poland's membership in the EU, the majority of funds has been allocated to the water and sewage sector, i.e. to the construction of waterworks and sewage networks and the construction or improvement of wastewater treatment plants. For this enormous programme, during the years 2004-2017, the sum of PLN 49.1 billion was spent, PLN 27.6 billion of which (56.2%) came from EU funds[1]. The construction of the water and sewage systems was carried out primarily by Polish companies and with the use of Polish equipment and materials.

1 The sums provided by the Ministry of Investment and Development relate only to projects which have already been completed and cleared, while the current stage of the aid scheme for Poland will not end until 2020.

Table 1. Costs of investments in water and sewage and wastewater treatment plants in the years 2004-2017 with the support of EU grants (PLN million)

Source: Own calculations based on the data from the Map of EU Grants of the Ministry of Investment and Development (2018).

Voivodeship	**Cost of projects (PLN million)**	**EU grants (PLN million)**	**Share of EU funds (%)**
Lower Silesia	2308	1351	58,5
Kuyavian-Pomeranian	2050	1151	56,1
Lublin	1118	626	56
Lubusz	1209	786	65
Łódź	3043	1614	53
Lesser Poland	4142	2462	59,4
Mazovian	8629	4699	54,4
Opole	1717	989	54,4
Podkarpackie	2310	1309	56,7
Pomeranian	2467	1382	56
Podlaskie	493	281	57
Silesian	9097	5285	58
Świętokrzyskie	2143	1093	51
Warmian-Masurian	1228	629	51,2
Greater Poland	4062	2004	49,3
West Pomeranian	3135	1962	62,6
Total	49151	27 623	56,2

The table above presents the construction costs of already completed water and sewage systems and wastewater treatment plants which received funding from EU grants in 2004-2017. The vast majority of funds were spent on the construction of new water and sewage networks as well as wastewater treatment plants in Upper Silesia and the construction of Poland's largest wastewater treatment plant "Czajka" in the Praga District in Warsaw together with a collector feeding wastewater from the left bank of the city, as well as a state-of-the-art installation for drinking water treatment in Warsaw. These immense investments in the capital city cost PLN 4.12 billion, PLN 2.31 billion of which came from EU funds. Thanks to these great investment efforts, at last, all wastewater in Warsaw is treated, while only 15 years ago it was discharged to the Vistula river without any treatment.

Additionally, in other large Polish cities, funds from the EU allowed for the quick extension and improvement of wastewater treatment plants, e.g. in Cracow, Poznań, Szczecin and Wrocław; but in all voivodeships, aside from the construction of wastewater treatment plants, the majority of funds were spent on making water and sewage networks reach those places in which they had never been present before. Therefore, it can be said that the programme is very important not only for the improvement of the cleanliness of our rivers and lakes, but also for the improvement of the health and comfort of lives of millions of citizens.

At the beginning of this report it was mentioned that, in 2004, 45% of rural residents used water supply systems and 15% used sewage systems. In 2017, these rates had grown to 85% for waterworks and 41% for sewage systems. For city residents, these numbers in 2017 were 97% and 90%, respectively. It can be said that the immense negligence in this sector was largely remedied and currently rates for Poland are close to the EU average. A similar improvement happened with regards to wastewater treatment plants. During 2004-2017, about 600 new wastewater treatment plants were built, and many others were upgraded, so that all Polish cities are now fitted with these installations and 95% of city residents and 41% of rural residents use them. Finally, thanks to the funds of the EU, we have nothing to be ashamed of, and Polish rivers and lakes are becoming cleaner every day.

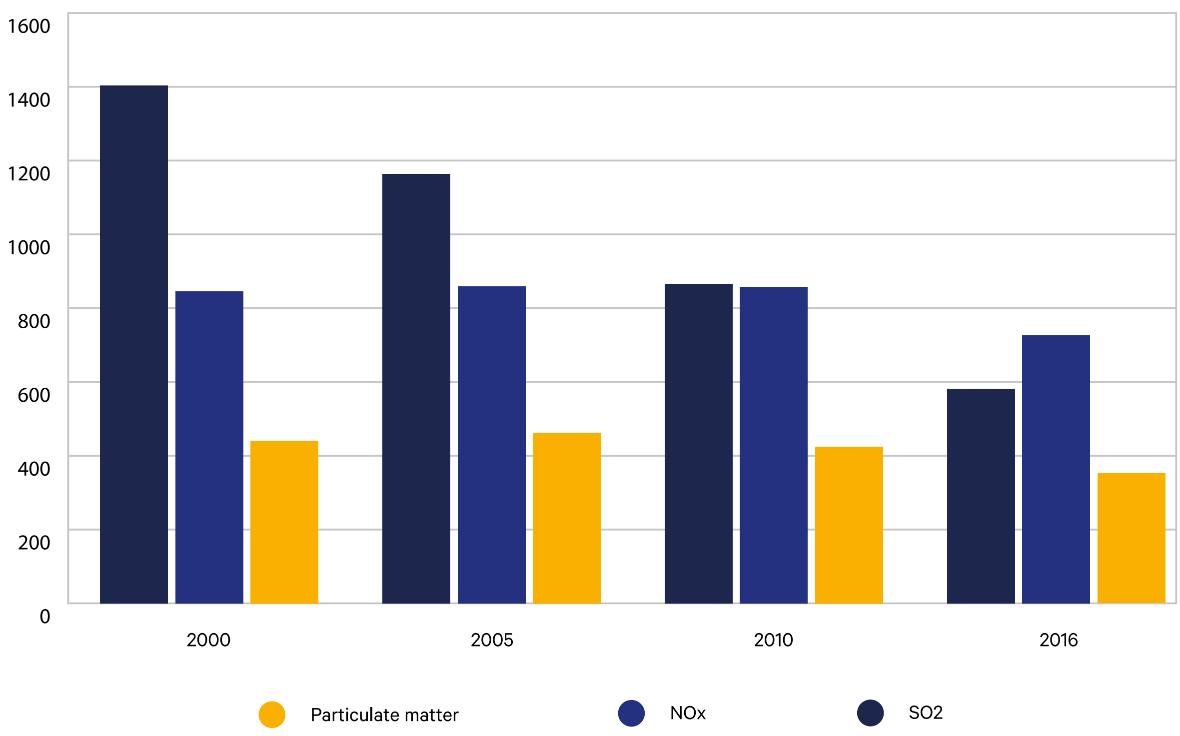
Air pollution caused by the energy sector

Concerning reducing air pollution caused by energy producers, the activities of EU are of a legal nature and include directives concerning the use of specific standards. Regarding water protection, EU support concerns the infrastructure owned by local authorities, which does not disturb the market competition of the Community. As for the air pollution, however, the most significant sources of pollution emissions have been and still are energy producers, i.e. profit-seeking enterprises. Increasingly strict EU law has been gradually forcing power producers to use high-performance installations for the reduction of SO2, NOx and particulate matter in accordance with the cardinal principle stating that the polluting party pays. Therefore, although costs of such investments were in the range of hundreds of millions PLN, EU grants did not exceed PLN 20 million.

Legal tools proved to be effective, because currently all Polish power plants and CHP plants fulfil EU standards. While in 1988, SO2 emissions from the energy sector were 2.7 million tonnes and in 2004 – 0.75 million tonnes, by 2017 it was only 0.24 million tonnes. The case of particulate matter reduction of emissions was similar: in 1988, it was 900 thousand tonnes, in 2004 – 110 thousand tonnes, and in 2017 only 38 thousand tonnes; thus, the progress is immense.

Figure 1. Emissions of the main types of pollution into the atmosphere in the years 2000-2016 (thousands of tonnes/year)

Source: Data for the years 2000, 2005 and 2010 Nowicki (2014); and for 2016 - data from the Central Statistical Office.



EU funding programmes focused mainly on the elimination of emissions in cities through thermo-modernisation and the construction of heating and gas networks in order to eliminate small boiler houses and tiled stoves. Funds were also allocated for the use of renewable energy sources. For activities such as these, the share of EU grants ranged from 50% to 65%.

In 2004-2017, investments in air protection as part of EU programmes consumed PLN 11.33 billion, PLN 3.87 billion of which (34%) came from EU funds. The majority of funds were spent in Silesian Voivodeship (PLN 3 billion), which is no surprise, since in the past this region was one of the most polluted parts of Europe and, consequently, negligence in this respect was immense as well. It is also worth noting that the CHP plant Siekierki in Warsaw spent about PLN 600 million on the improvement of three installations used for the protection of air, with EU grants of only PLN 60 million.

The graph above presents the changes in the emissions of SO2, NOx and particulate matter which have taken place in Poland in 2000-2017. It can be seen that the largest reduction is related to sulphur dioxide, which in the past was the most dangerous pollutant of the atmosphere in Poland. A significantly smaller reduction of NOx is explained by the fact that over the last dozen years, the number of cars has doubled, and in spite of that there is a noticeable drop in emissions of nitrogen compounds, which is connected to the construction of flue gas denitrification installations in power plants and in the chemical industry. The main source of dust emissions is still the burning of low-quality coal in small boiler houses and tile stoves.

Investments in renewable energy sources

The co-financing of investments in renewable energy sources was realized mainly by Voivodeship Funds for Environmental Protection, which implement environmental protection strategies as adopted by regional assemblies, since as a rule these are minor projects. The undisputed leader in terms of investing in renewable energy sources is Lublin Voivodeship, in which in 2005-2017 the sum of PLN 484 million was allocated for this goal, over two-thirds of which (i.e. PLN 331 million) constituted grants from EU programmes. The projects were mainly related to photovoltaic installations. It is puzzling that neighbouring Podkarpackie Voivodeship, which has even better conditions for using solar energy, spent only PLN 17 million on this type of energy sources. This shows that there are very different regional priorities in the area of environmental protection. It must be added that in activities concerning the combating of emissions, in 2005-2017, Podkarpackie Voivodeship proved to be among the least active in the country.

Municipal waste management

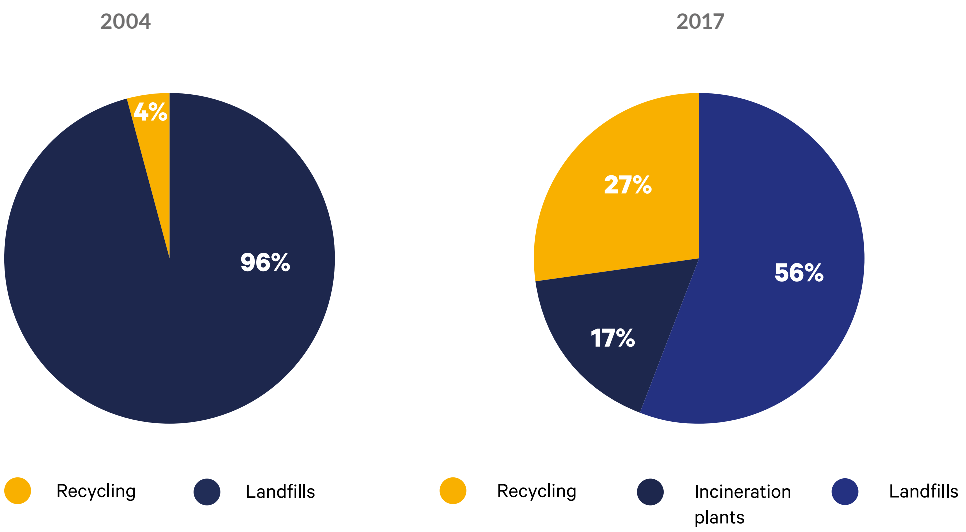
Yet another important sector in the protection of the environment is the management of municipal waste. As mentioned in the introduction, only 15 years ago over 90% of this waste ended up in landfills, and the recycling of waste such as glass, paper or metals was lower than before 1989. The Accession Treaty required radical changes in this respect within a decade, and the introduction of EU directives into Polish law forced specific actions. In 2009, the Act on the collection and utilisation of waste electric and electronic equipment, i.e. old refrigerators, washing machines, TV sets and computers, was adopted. Only four years later, 158 thousand tonnes of such equipment were collected, which comprised 33% of the new equipment placed on the market. In 2018, the respective share increased to 52%.

In 2010, an act was adopted according to which local authorities and not disposal companies are the owners of municipal waste and are responsible for its collection and utilisation. This change caused a dramatic improvement in the approach to responsibility in waste management.

In 2010-2017, modern waste incineration facilities were built in the largest cities. These necessary investments received grants from the EU ranging from 33% to 50% of their costs. In Cracow, Poznań, Bydgoszcz, Białystok, Szczecin, Rzeszów and Konin, such incineration plants are already in use, whereas in Warsaw and Gdańsk, they are under construction. Furthermore, throughout the country, a network of several dozen regional waste treatment installations was built. The installations are equipped with lines for the segregation of mixed waste, for the production of fuel from waste and for biodegradation of organic waste. These installations received EU grants covering about half of their costs. It needs to be added that Poland has also recently implemented the Packaging Directive, which will lead to a significant decrease in anti-ecological packaging. During 2005-2017, activities in waste management consumed over PLN 10 billion, 45% of which (PLN 5 billion) constituted EU grants. Graph 2 presents the different types of municipal waste management in the years 2004 and 2017.

Figure 2. Municipal waste management in 2004 and 2017

Source: GUS.



The above graph illustrates the progress completed over time thanks to the introduction of EU legislation on the management of waste, which forced residents to segregate waste and resulted in the construction of numerous modern installations for segregation and utilisation. The high costs of these installations were reduced by almost a half thanks to EU grants. However, it needs to be noted that a lot that remains to be done in order to achieve a satisfactory result.

Nature protection

In the introduction was mentioned that the 2003 amendment to the act on nature protection halted the process of the creation of new, legally protected areas of the most significant natural value. Fortunately, after Poland's accession to the EU, our country joined the NATURA 2000 European network of areas, which protects the most valuable natural habitats and species of endangered birds. The Polish list of such areas was eventually established in 2008 and covered 19% of the country's territory in total. In these areas, ecological agriculture is preferred, co-existing with wildlife and respecting its rights, together with agrotourism, but any investments which may pose a risk to nature are forbidden. Furthermore, farmers receive compensation for lower production volume in relation to large-volume farmers and growers. This is a just solution that is increasingly welcome by new municipalities in which NATURA 2000 areas have been established.

The EU LIFE programme, introduced in 1992, has been financially supporting activities for the nature protection in Poland. Since 2007, it has been holding significantly higher funds as a rebranded LIFE+ programme. It is directly managed by the European Commission and projects from all Member States can take part in the programme. In 2007-2016, grants from this programme were received by 75 Polish projects. The costs of these projects totalled over PLN 800 million and EU grants covered half of this sum (PLN 420 million). It is worth noting that the main beneficiaries of the programme are non-governmental ecological organisations which are particularly distinguished in activities for the protection of endangered species of fauna and flora. A number of applications were also submitted (and approved) by local governments and also by management of national and landscape parks for activities which typically should be financed by the state budget. Thus, in this sector as well, EU aid for Poland has proved significant.

Other activities

In order to complete this picture, it should be noted that Poland has received about EUR 80 million from EU funds for providing fire-fighting units with modern equipment for fire and chemical rescues. Over EUR 600 million were used for supporting flood prevention activities and approximately EUR 40 million were used for providing environmental protection inspectorates with modern control and laboratory equipment, allowing for the effective control of compliance with environmental protection standards.

Conclusions

The scope of EU assistance for Poland concerning environmental protection has been wide and multi-sided . It has allowed Poland to catch up as quickly as possible for many years of negligence in terms of environmental protection. The total sum received by Poland from EU funds in the form grants during 2004-2017 was over EUR 15 billion. No other Member State has ever received such significant financial support in the environmental, economic and social domain. However, the challenges concerning the protection of the environment remain significant. What endangers the environment today is not only the economy, but also the lifestyle of people. New directions for actions are needed, because we must remember that a clean environment means better health for citizens, the protection of wildlife, more crops in farming, the better condition of forests and smaller property losses in the economy.

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CHAPTER 15

GRZEGORZ WIŚNIEWSKI

ANDRZEJ CYLWIK

ENERGY

ABSTRACT

During the pre-accession period and after Poland's accession to the Community, Poland did not have difficulty in adjusting to the requirements of the liberalised European Union (EU) energy market.

Poland's sectoral transformations have been harmonised with EU energy policy. A major change occurred during 2006-2008, when the national energy sector was consolidated and the implementation of the EU climate and energy policy was slowed down. This led, in recent years in particular, to the national 2020 target (15% renewable energy sources in gross final energy) not being achieved and to a drop in the value of state-owned capital groups in the energy sector.

At the same time, in other areas, cooperation with the EU has continued, resulting in multi-billion (over PLN 17.5 billion) support for infrastructure investments, which has allowed Poland to fully cover national demand for natural gas with supply from outside Russia. Regarding the EU, underdeveloped renewable energy sources and excessive carbon dioxide emissions remain our future problems.

ENERGY[1]

Introduction

This chapter focuses on the processes and changes that have occurred in the Polish electrical power sector, including in the generation of renewable energy and in the natural gas sector, and analyses them in the context of regulatory changes and European Union (EU) economic policy.

The first EU directives concerning liberalisation (the first climate package) were adopted in 1996. In February 1997, Directive 96/92/EC – “Uniform rules of the internal market of electric energy” came into force in the EU-15. The EU directive concerning the internal market for natural gas came into force in 1998; in 2001, the EU established the directions of its actions towards energy security in its Green Paper entitled “Towards a European Strategy for the Security of Energy Supply”. This document became the basis for developing programmes and regulations towards the strengthening of European energy solidarity.

At the same time, the EU created a sustainable basis for the development of renewable energy sources (RES). By March 1994, the European Commission had begun the process of adopting the “Action plan for the use of renewable energy sources in Europe” (the Madrid Declaration). In December 1997, after taking comments into account, the Commission prepared and adopted a White Paper entitled “Energy for the future: renewable sources of energy”. The strategy and related action plan proposed by the White Paper were aimed at achieving a minimum target of a 12% share of renewable energy (with 6% in 1995) in the EU-15 by 2010.

The Directive on the promotion of electricity from RES, finally adopted in 2001 (2001/77/EC), set forth not only the target of a 12% share of energy from RES in energy consumption in the EU-15, but also individual targets for Member States. In addition, in 2003, the Community adopted the Directive on the promotion of the use of biofuels or other renewable fuels for transport (2003/30/EC), setting a target of a 6% share from energy from RES, including in particular biofuels (mainly of agricultural origin at that time), in energy consumption in transport.

Apart from regulations strictly concerning the energy sector, there was also a package of environmental directives which affected the energy policy of Member States and directly influenced energy companies. The most significant of these directives were: the Directive on the reduction of carbon dioxide (CO2) emissions (1993); the Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants (2001); and the Directive establishing a scheme for greenhouse gas emission allowance trading (2003). Tax directives (harmonisation of the rules on the taxation of energy carriers), numerous decisions from the Commission and Council concerning electricity and gas transmission networks, and the rules of access to networks were already in place.

The starting point for the implementation of the pre-accession strategy in the energy sector, which had been planned as part of the “National Integration Strategy” (1997), was the introduction of the recommendations from the EU White Paper of 1997 concerning the single market into the Polish law.

During 1990-1999, the domestic natural gas sector changed mainly due to the influence of the radical departure from the centrally planned economy and the development of a market economy. Most notably, there was a large and rapid drop in demand caused by the rationalisation of the structure of industrial production and the shift to a base currency (USD) in the settlements of imports of natural gas from Russia. The effects of these changes were mitigated by governmental decisions limiting the increase in prices of natural gas for recipients, in particular for households. Also planned were actions necessary for the adjustment of the management system organisation of, for example, Polish Petroleum and Gas Mining (PGNiG SA)—a domestic monopolist employing close to 50 thousand persons in over 20 internal facilities. Finally, the restructuring of PGNiG SA was executed during 1997-1999. Significant internal changes coincided

1 Andrzej Cylwik is the author of the section on the gas sector and a co-author of the abstract and introduction.

with the start of the liberalisation of the European market of natural gas (1998) and first attempts to diversify imports (2000, Norwegian contract, which, however, was not realised by a subsequent government).

In 2002-2003, at the final stage of negotiations concerning Poland's accession to the EU, the acquis of the Community (*acquis communautaire*) in the "energy" area (founding treaties, directives and decisions, Commission recommendations as well as the case law of the Court of Justice of the European Community) was already substantial.

Generally, it was assumed[2], that the structure of the national energy sector (liberalised in the 1990s) and the fact that Poland already had, from 1997, a relatively new and good act — the Energy Law — would serve as a guarantee that Poland should have no significant difficulties harmonising its laws and regulations with those of the EU.

Further in this chapter, there is an overview of the methods and effects of the implementation of the then *acquis communautaire* (and new ones, created with the participation of Poland) in the areas of: electricity, gas, renewable energy sources and energy efficiency.

Electrical power sector

The idea of decentralisation and diversification (ensuring energy security and acceptable changes through regulations and increased competition) was first supported through ownership (privatisation) and organisational changes in the sector, adjusting it to the new liberalised market. In the pre-accession period, the activities of the Polish state were fully compliant with the idea of the free market (privatisation and liberalisation), the prevention of monopolistic practices (the Anti-Monopoly Office—later transformed into the Office of Competition and Consumer Protection—had been active for a decade then, and the Energy Regulatory Office started operating under the Energy Law) and consumer support (creating consumer organisations operating on fuel and energy markets).

These activities were completely in line with the policy of the EU, which, in a time of accelerated economic growth, was looking for competitive advantages. The EU has understood that it is the second largest consumer of energy in the world, that it has substantial purchasing power and that it is becoming one of the most energy-saving continents and a global leader in new, distributed and renewable energy sources, in creating technologies reducing the emission of carbon dioxide and in demand management. These ideas have been reflected in numerous directives and documents, which have been synthesised in the form of "A European Strategy for Sustainable, Competitive and Secure Energy".[3]

These optimistic assumptions clashed with the actions of large energy companies, supported by national politicians. The idea of the creation of national or even European leaders in the energy sector began to threaten the ideas articulated by EU documents. It is worth noting that the energy sector of the countries of the old fifteen was also not particularly willing to adhere to the rules of the single (free) market. By 1997, the right to derogate from the provisions of Directive 96/92/EC, requiring the opening of an internal market of electric energy, was exercised by 12 Member States[4], including the oldest members—the founders of the Community (i.e. Germany, France, the Netherlands, Belgium and Luxembourg). These phenomena paved the way for applying for derogations in accession countries, and later on in new Member States of the EU. This approach, named over time[5] as the "underdevelopment benefit" (an idea generally in conflict with the rules of innovation, environmental protection and even economic viability), became more and more common in Poland as well, and not only in the critical area of environmental protection, but also in the scope of shaping the energy market.

2 Pupka J., *Doświadczenia polskiej energetyki związane z dostosowaniem do warunków UE. Materiały konferencyjne Enerkom 2000* (*Experiences of the Polish energy sector connected with adjusting to EU conditions. Enerkom 2000 Conference material*), 27/05/2000.

3 Commission of the European Communities, *Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*, Brussels, 8.3.2006.

4 Pupka J., *op. cit.*

5 Wiśniewski G., *Dylematy strategiczne sektora odnawialnych źródeł energii* (*Strategic dilemmas of the sector of renewable energy sources*), „Energetyka – Społeczeństwo – Polityka" 1/2015.

The key action in the abandonment of free market principles, functioning in a spirit of the "second energy package", was the adoption by the government in 2006 of the "Programme for the electric sector", which changed the fundamental assumptions of the national energy market. It was reflected in the creation of a state-owned monopolies in the energy sector and the centralisation of management performed under the slogan of "consolidation of the energy sector". As a result of the quickly performed (2006-2007) consolidation, four vertically integrated energy groups were created (PGE, Tauron, Enea and Energa). For a few years, they operated on the market of electric energy together with other large foreign (EDF, GDF, RWE, Dong and Iberdrola) and national entities. Over time, the foreign companies would disappear and the level of concentration on the domestic market would increase; however, in spite of these changes, Polish capital groups did not become internationally recognised companies (those with the highest earnings before interest, taxes, depreciation and amortization - EBITDA are only in the second ten of top European energy companies) (Zamasz, 2016). The centralisation in the electricity sector did not fulfil its assumed function of increasing the level of investments and decreasing the costs which would then open opportunities of international expansion.

Consolidation was—in essence—the manifestation of an effective game of a large interest group using economic patriotism. This concept was becoming a notion cultivated more and more fervently by subsequent political groups. With huge discrepancies in social and economic policy, successive governments have been implementing the principles of energy policy involving a preference for state ownership.

In 2008-2013, after adopting the climate and energy package and the third liberalisation package, the market capitalisation of five largest producers of electricity in the EU—such giants as E.ON, RWE, Engie, EDF or Enel—dropped by 37%, i.e. by approximately EUR 100 billion. This was not only the result of the financial crisis and the stabilisation of electricity consumption, but also of deep changes which occurred on the electricity market in Europe at that time due to the implementation of EU energy policy. Demand for electricity in 2008-2013 dropped by 3.3% (with GDP rising at the same time by 4.1%), the share of coal in the energy mix of fuels for the electricity sector decreased by 4.2%, and the share of energy from renewable energy sources (RES) increased in 2014 to 16%. European energy companies started to separate (split) coal and renewable production resources and build the value and development potential (including innovative potential) focusing on the latter. Contrary to many concerns and doubts, it confirms the effectiveness of EU climate and energy policy in the scope of decarbonisation and the development of RES, at the same time retaining competitiveness and the security of the power supply and strengthening the EU's competitive position on the global market.

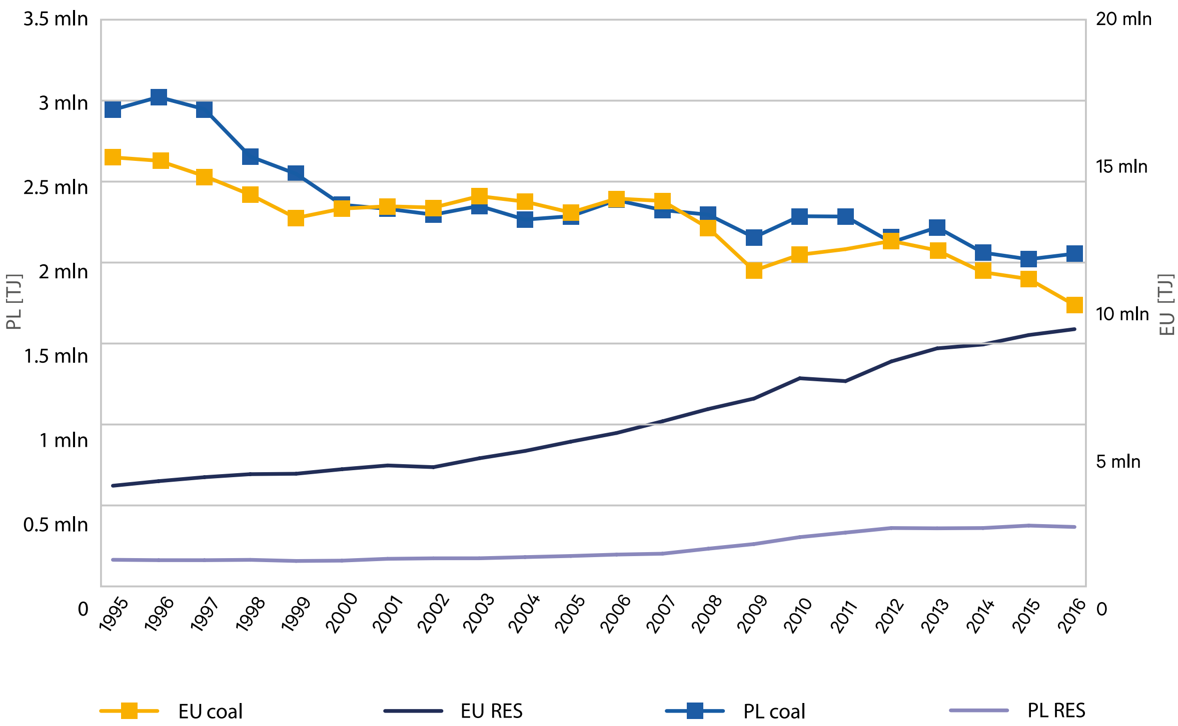
In Poland, consolidated state-owned energy companies did the opposite: they continued investments in their own coal production resources (including the purchase of coal resources from foreign companies getting rid of them, e.g. Vattenfall, EDF), and in the sector of coal mining, and in particular in recent years, they have slowed down or halted investments in RES. In 2018, this led to the highest increase of wholesale electricity prices in Poland since the beginning of integration with the EU. Should current trends persist, both the Polish energy sector as well as the economy, which is burdened with rising energy costs, may lose competitiveness. Unfavourable trends in terms of the stock market value of energy companies continue. The value of PGE since its first listing (over a decade, 2009-2019) has dropped by 58%, including 45% over the last four years. Over the last three years, all energy companies managed by the State Treasury have lost over PLN 16 billion in value, which restricts their future investment opportunities. One can argue that the Polish energy sector has failed to benefit from the creation of the single European market of electricity and that its failure has been caused by responding too slowly to EU climate and energy policy.

Multi-year trends of the use of coal[6] and energy from RES are presented in the Figure below. It shows that by the turn of 2019/2020, the use of coal in the EU will be smaller than the use of RES energy. In the EU, coal was the main fuel for the energy sector only until the mid-1990s (after petroleum, used mainly in transport). In 1996, the EU used more natural gas than coal for the first time. RES energy is becoming the second, after natural gas, source of energy for the generation of heat and electricity. It will also replace non-renewable fuels in transport. According to trends, already in 2019-2020, the EU will be using more energy from RES than from coal.

6 Currently, the level of coal consumption in the EU has become close to the level of nuclear energy consumption, which has been experiencing a downward trend for a few years now.

Figure 1. Comparison of gross energy consumption (according to Eurostat "gross inland consumption") in Poland and in the EU

Source: Eurostat database, own calculations.



The above Figure not only illustrates the problem and confirms the argument of a two-speed Europe raised in other areas—when it comes to decarbonisation—but even of a "Europe of opposing directions" when it comes to RES. The presentation of this situation anticipates risks for Poland connected with increasing contradictions between its conservative national strategy and the progressive EU strategy. There remains a dilemma whether the EU will launch mechanisms to bring the Polish energy sector back on track to development and innovation, or whether it will be an evolutionary or revolutionary way (due to excessively high costs and social discontent).

In the context of processes occurring in the EU, changes in the national energy sector so far have been too slow. The structure of energy generation, decreasing emissions and the development of RES do not match the current needs of the economy (increasing energy prices) and the aspirations and increasing numbers of today's members of society that are aware of environmental risks. The use of coal in the energy sector has been decreasing since the start of the transformation (1990), but since the middle of the last decade (paradoxically, since Poland's accession to the EU and the adoption of environmentally-friendly EU regulations), the rate of this decrease has been slowing down. In recent years, the use of coal in the Polish economy has become stable. However, it seems difficult to confirm the claim raised in the draft "Polish energy policy by 2040" (from November 2018) that coal will remain the dominant fuel for the coming decades, especially as the share of imported coal in the production of electricity and heat in Poland is growing.

There remains one challenge for the national energy and climate policy: a substantial change of the structure of the energy sector, in which environmental costs and economic risks will be as low as possible, with the highest possible chances for the development of forward-looking solutions based on (in accordance with the EU strategy) low-emission or no-emission sources.

Renewable energy sources

As a result of the opening of the path towards accession negotiations with the EU (Agenda 2000) and in response to the European Commission's publication of the White Paper "Energy for the future: renewable sources of energy" and requesting Member States to develop their own strategies, Poland (then, as the first EU candidate country) began developing its own strategy for the promotion of RES.

Energy concepts coming from the EU became the starting point for the creation of Poland's current policy in the scope of RES, with the first official step in this direction being a resolution of the Polish Parliament in 1999. The resolution obligated the government to prepare a "Strategy of development of renewable energy in Poland". Responsibility for that task was assumed by the Minister of Environment. The strategy, accepted by the Council of Ministers in 2000, and adopted finally by the Parliament in 2001, set the directions for the development of renewable energy in Poland by 2010, with a 2020 perspective. The basic goal was to increase the use of energy from RES to 7.5% in the balance of power by 2010 and 14% in 2020. Due to the national structure of energy consumption, with the dominant role of heat in the final energy balance, a significant role was given to the development of the production of "green heat", especially from biomass, which was assessed as the most promising renewable energy technology for Poland until 2010. Three development scenarios were proposed, assuming 7.5%, 10.5% and 12% shares of electricity from renewable sources in the total production of electricity in 2010. The implementation of the Strategy was supposed to be performed by preparing development programmes for individual kinds of RES and a dedicated act on RES. Unfortunately, the planned programmes were not adopted and implemented, although in 2001 a draft of the first pilot "Programme for the development of wind energy for 2001-2005" was created. In 2003, the Ministry of Environment created a draft act on RES, but a legal act of that rank was not adopted by the Parliament until 2015.

In 2003, in the process of accession negotiations, in the part concerning the implementation of Directive 2001/77/EC concerning the promotion of RES energy, the national target for 2010 for the share of RES energy in electricity consumption was set at the level of 7.5% (the first directive concerning RES omitted targets for the transport and heat sector, which appeared in the EU legislature in 2003 and 2009, respectively). In the face of the failure of the governmental work over the RES act at that time, the directive was implemented in 2004 in the form of an amendment to the act—the Energy Law. Legislators obligated all sellers of electricity to purchase green energy (or to generate it within own sources connected to the network). A mechanism for supporting electricity from RES was introduced in the form of certificates of origin of energy from RES (green certificates)[7]. It was only in 2007 that quantitative targets (commitments fulfilled through the purchase of certificates) for the producers of electricity and trading companies were increased, so as to achieve 10.4% in the balance of sales in 2010 (verified equivalent of the indicative target of 7.5% in the final energy consumption in Directive 2001/77/EC). Poland correctly implemented the first directive concerning RES (finally confirmed by notification to the Commission of 2016). The main role in the fulfilment of the target was played by wind energy and the controversial technology of the co-combustion of biomass together with coal in generating plants, which in 2010 delivered as much as 48% of total electricity from RES. The support of the technology of biomass co-combustion actually became helpful to coal plants, instead of being a tool for innovation and development of RES, with substantial imports of biomass fuel at the same time.

The implementation of EU targets for 2020 (the EU package "3x20" from 2007 and the second Directive 2009/28/EC about the promotion of RES of 2009) proved much more difficult. According to Directive 2009/28/EC, Member States are obligated to ensure a specific share of RES energy in gross final energy consumption by 2020. Obligatory national general targets comprise a complex 20% share of RES energy in gross final energy consumption in the Community. This share is calcu-

7 Property rights to certificates of origin of energy from RES subject to trading on the Polish Power Exchange, having ensured demand from entities obligated to purchase them, became a form of a subsidy to the price of energy for RES energy producers.

lated as the quotient of the value of gross final energy consumption from RES and the value of gross final energy consumption from all sources. The target for Poland was established individually at the level of 15%.

The start of implementation of the "3x20" package and Directive 2009/28/EC was promising. Renewable energy has been adopted by more and more self-governments (mainly thanks to EU structural funds), developers, independent investors, and, since 2012, (since the implementation of the essential provisions of the directive in the energy law—the small legislation three-pack) the first prosumers as well. In 2013, Poland became the third market in the EU in terms of the production and sales on the national market of solar collectors, and the national market of wind energy in 2015 held the 7th position in the EU.[8] At the start of the current decade, in Poland there were over 340 companies manufacturing RES devices or key components for RES devices (Wiśniewski ed. 2015), which increased the added value of the RES industry and was in line with the policy of innovativeness.

The RES act was adopted only in 2015, and the process of notification of the support system in the European Commission was completed in 2018 (almost nine years after the entering into force of the directive which was meant to lead to the implementation of RES targets approved by Poland on the EU Council in 2007—the "3x20" package). Weak progress in the scope of increasing the share of electricity from RES became an obstacle in the implementation of the target of at least a 10% share of fuels and energy from RES in transport by 2020. Electricity from RES in transport, of which Poland has too little, counts from 2.5 times (rail transport) to 5 times (road transport) more for the implementation of the RES target than biofuels, and the regress has been deepened by EU requirements concerning the restrictions on support for second-generation biofuels (from non-agricultural raw materials), which Poland does not produce. The restriction of subsidies for heat from RES has contributed to Poland's leaving of the path for the achievement of the 2020 target for heating as well. Increasing problems connected with the decrease of the rate of development of RES, below the rate required by the EU law, were deepened by the adoption in 2016 of the act on investments in the scope of wind farms, referred to as the "distance" act, which halted investments in wind farms and undermined the trust of investors from many countries.

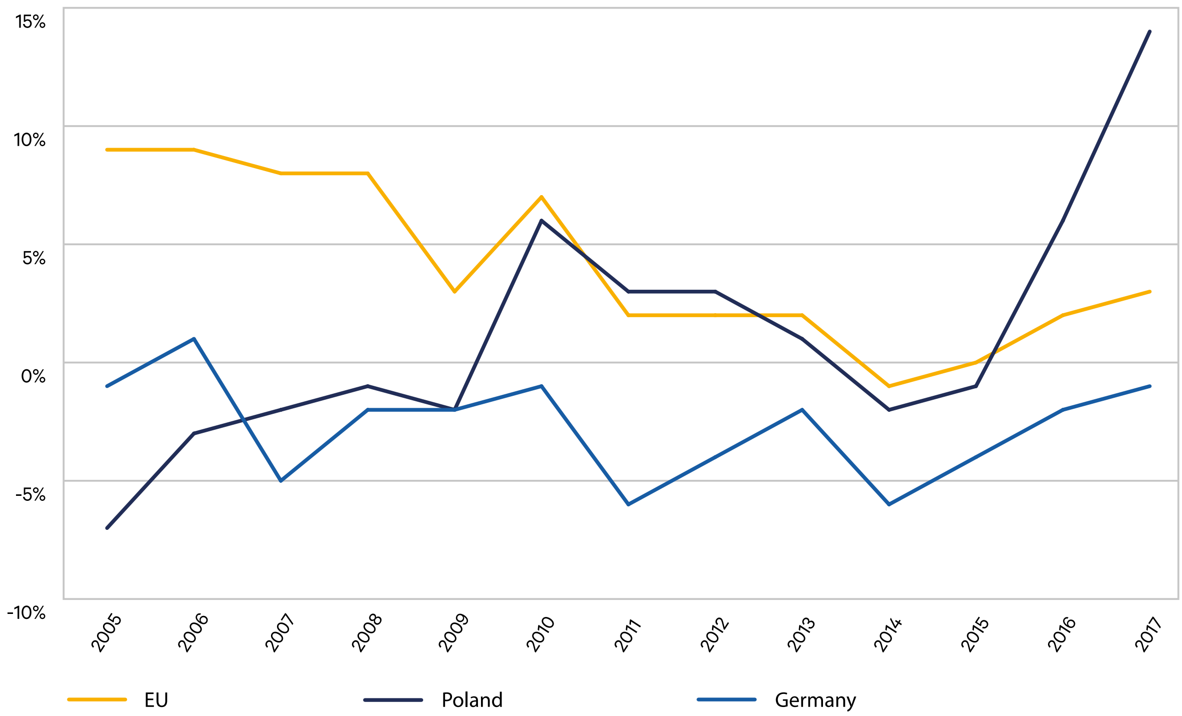
The above claims concerning the increasing risk of failing to implement RES targets set earlier (2015-2016) by independent experts (Wiśniewski, 2015) (and ignored by the administration) were finally confirmed in official documents. In the report "Energy from renewable sources", the Main Statistical Office concluded that in 2017 the share of energy from RES was only 11%, and identified other pessimistic trends related to energy sector underdevelopments. At the same time, in another report entitled "The development of the sector of renewable energy sources", the Supreme Chamber of Control concluded that Poland's achievement of the assumed target of a 15% share of energy from RES in 2020 may be at risk. As a result, according to the Supreme Chamber of Control, "Poland will most likely face the necessity to perform a statistical transfer of energy from RES from Member States which have a surplus of such energy. The costs of such transfer can be even PLN 8 billion." In the face of real threats of the further collapse of the renewable energy sector and in the face of increasing prices of electricity, in particular for entrepreneurs, in 2019, Prime Minister Mateusz Morawiecki appointed an Inter-ministerial Team for Facilitation of Investments in Prosumer RES Installations, the work of which is directed by the Ministry of Business and Technology. The Ministry of Energy, as well as the Ministry of Business and Technology, have separately started work on amendments to the act on RES, which are meant to mobilise its short-term investment potential and decrease the size of the statistical transfer; these actions, however, are late. Additionally, the new initiatives of the National Fund for Environmental Protection concerning the accelerated use of EU funds in investments in RES in heating will bring effects mainly after 2020.

The problem with the achievement of the RES energy target is compounded by the lack of the effective achievement of another EU target in the scope of increasing energy efficiency. Since 2015, energy consumption has been growing dynamically (Figure 2) and, thus, the increases of RES energy must also be higher than assumed in order to achieve the planned shares (set as a percentage) of energy from RES in final consumption.

8 EurObserv'ER report '2015. The state of renewable energies in Europe.

Figure 2. Changes in final energy consumption in relation to 2005

Source: Eurostat database, own calculations.



Contrary to previous trends and expectations, RES energy is becoming an additional problem in Poland's relations with the EU. The lack of Poland's implementation of the RES target in 2020 and the expected costly statistical transfer will not resolve this matter. The Winter Package adopted by the EU, with the new RES directive (and indicative target for 2030 of 32% of energy from RES), brings about new commitments. One of them results directly from the Regulation of the Parliament and Council of the EU concerning the management of the Energy Union, requiring a Member State which fails to fulfil 2020 RES targets (such country being Poland without a doubt) to catch up by 2022 and to maintain the direction of implementation of the new 2030 target (by the end of 2022, the Member State, apart from catching up with the implementation of RES targets for 2020, should additionally achieve 18% of the 2021-2030 target).

Natural gas sector

Poland, although not yet a Member State, implemented the provisions of the directives of the first (1998) and the second (2003) energy package in advance, establishing a separate transmission system (GAZ-SYSTEM SA—2006) and creating regional distribution companies (2007), as well as transforming PGNiG SA into a stock company. Only the underground gas storage facilities remained in possession of the PGNiG SA, which performed the function of their operator too. Thus, by the first decade of the 21st century, the vast majority of the activity of the state-owned gas sector, which covered over 90% of the market, was harmonised with EU policy.

The situation worsened temporarily after the introduction of the provisions of the third EU energy package (2009), which was the next step towards the liberalisation of the natural gas market, in particular in the scope of separating the production and transmission from the use of the gas network. There was a significant difference of opinion with the European Commission, which initiated and referred to the Court of Justice two proceedings concerning (according to the European Commission) an unlawful regulation of prices and a failure to implement a part of the provisions of the third energy package, the application deadline for which expired in 2011. The Polish government devised

a small energy three-pack, which was adopted by the Polish Parliament in November 2013—causing the complaint filed by the European Commission to the Court of Justice to be withdrawn.
Among the decisions concerning the national market of natural gas, most significant was the introduction of the gas commitment (since 2014) and the creation of the company Operator Systemu Magazynowania (Storage System Operator) in 2012. The gas commitment involved the wholesale of most (initially 30%) of the consumed natural gas through the Polish Power Exchange (PPE). The intermediation of PPE benefits the development of the market of natural gas, which is in line with EU policy.

Generally, the Polish administration has attempted to cooperate with the European Commission and the relevant EU institutions, for example, the EU Agency for the Cooperation of National Energy Regulators (ACER) and the European Network of Transmission System Operators (ENTSO). The cooperation has resulted in significant financial support for financial and cross-border investment projects. Thanks to EU support, it was possible to implement an ambitious programme, involving:

- building new necessary transmission gas pipelines;
- expanding existing (Lasów) and building new (Cieszyn) cross-border connections;
- building the Gas-port and LNG terminal in Świnoujście;
- expanding the capacity of underground gas storage facilities.

Poland continues EU cooperation in the scope of building new cross-border gas power networks (the North-South corridor), including new interconnectors. A significant result of the over 12-year cooperation with the EU is the development of the national gas system, in particular the achievement of the potential full diversification of transmission networks of natural gas—in an emergency situation, we can currently import more natural gas from outside Russia than our own needs require.

However, the Polish administration has not established cooperation with the European Commission in the scope of development of the gas sector, which has been a failure. Only about 25% of investment plans submitted by domestic energy companies in the previous decade have been completed. The development of the gas energy sector has been halted in spite of increasing opportunities to import natural gas from outside Russia.

Poland has a different standpoint compared to most EU countries in the scope of the construction of the Nord Stream 2 offshore gas pipeline. The European Commission is trying to replace the depleted gas fields in the North Sea (the Netherlands, England) with a pipeline supply from another source, while Poland has been opting for LNG from the United States and the new Norwegian Baltic Pipe. Both above-mentioned initiatives are not mutually incompatible in economic terms.

In summary, the policies of the EU and Poland in the natural gas sector are convergent in economic matters and in the scope of energy security. The observed differences in some standpoints result from partly differing political views or the impact of the domestic coal lobby. The EU has been financially and substantially supporting the dynamic development of the Polish gas sector, including in particular investments in the transmission system, LNG terminal and underground gas storage facilities.

In 2016, the European Commission accepted a part of Poland's previous proposals concerning the security of the gas supply, including the introduction of the principle of solidarity in cooperation between EU Member States in a given region (Poland makes up one region together with Germany, Czech Republic and Slovakia).

Conclusion

The substantial change of EU energy policy, initiated in 1995-1998, was at first well received by Poland, which started the implementation of new development programmes. Problems began to grow in the mid-2000s, when EU requirements increased and started to threaten the particular interests of various groups, including especially the national coal lobby. Their actions have led to energy-related underdevelopment and the lack of the possibility to achieve EU targets (especially the share of RES) in 2020.

One positive aspect connected with joining the EU is the development of the sector of small and medium-sized RES installations, particularly those used for the production of heat (e.g. solar collectors) and independent investors. The sector of independent energy producers greatly contributed to the increase of the total share of energy from RES from 4.4.% in 1997 to 6.9% in 2004, and to 11.7% in 2015, resulting in the activation of social capital in that respect, which is not being fully used for energy sector transformation (e.g. in the prosumer area).

In the electricity sector, and in particular in the renewable energy sub-sector, the delay in implementing EU policy has proven a failure. Delays lead directly to the lack of achievement of climate and energy targets (share of RES, energy efficiency) and related consequences (technological underdevelopment, rising energy costs due to the increasing costs of carbon dioxide emissions and other pollutants, and the unnecessary costs of purchasing the missing shares of energy from RES). Another failure was the attempt to create "national champions", the market value of which has dropped in the last decade by a few dozen percent. The confrontation with EU policy in the RES area is harmful for the future of the national energy sector and for energy consumers.

EU support in many cases has been crucial for the development of strategic investments, with examples being the financing of investments in the national gas sector (transmission, LNG terminal, underground gas storage facilities) as well as electricity and heat networks. EU funds allocated for investments in the energy and gas sector have exceeded the total sum of PLN 17.5 billion.

What remains our problem in regard to the EU is the failure of the national renewable energy sector and excessive carbon dioxide emissions.

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CHAPTER 16

TOMASZ KOMORNICKI

TRANSPORTATION INFRASTRUCTURE

ABSTRACT

The development of transport infrastructure serves to improve both the economy and the quality of life of residents in the country. Due to the long-lasting underdevelopment of infrastructure in Poland, investment needs were immense at the time of accession. Currently, these needs are still significant. With the help of EU funds, a portion of the most important transport routes, especially roads, have been created. The technical capacity of routes and spatial accessibility have improved substantially throughout the country. At the same time, the objectives of the regional policy have been gaining significance. They include reducing differences in socio-economic development and improving the living conditions of residents, including accessibility to labour markets and public services.

The effect of being a member of the EU on the improvement of spatial accessibility has been deemed definitely positive. The total net effect of road investments alone is estimated at approximately 25% in passenger traffic and 12%-15% in freight traffic. In 2005-2019, the Polish space has become much more accessible in Europe, and major national centres have become more accessible in relation to each other. The polycentric system of the settlement network has been enhanced and a portion of the marginalisation processes occurring in Eastern Poland have been compensated for. Thus, EU support for the Polish transport system (especially roads) has fostered the fulfilment of the objectives of the internal cohesion and spatial policy (including the provisions of the National Spatial Development Concept 2030). Furthermore, EU rules of execution of both operational programmes and specific transport projects have guaranteed the continuity of Polish transport policy, regardless of changes in the ruling parties.

Major effects have been achieved in road transport, and relatively smaller effects in railways. Nevertheless, investments supported by the EU have stopped the trend, which has been observed since the 1980s, of the reduction of railway share in the transport modal split in Poland.

The development of infrastructure thus far, assessed on a regional and local scale, brings about a more varied result. Quality of life has improved in many areas. At the same time, however, polarisation in terms of accessibility has increased, followed by an increase in the scope of related development opportunities. This poses a challenge for further investment activities.

TRANSPORT INFRASTRUCTURE

Introduction

Transport investments are one of the effects of Poland's membership in the European Union (EU) which are easiest to notice in our surroundings. It is a common perception that they serve the residents of the country and the economy. In mass media, they are usually described through simple indicators, such as the length of constructed motorways, modernised railway lines or the increase of airport capacity. Often quoted are also the impressive financial aspects of interventions. Only within the 2007-2013 financial perspective period, a sum of PLN 113.6 billion (28% of all EU funding under the cohesion policy) was allocated for transport development, of which PLN 71.2 billion was allocated for roads and PLN 19.7 billion for railways (IMAPP Consulting, 2017). According to data from the Ministry of Investments and Economic Development, until the start of 2019, yet another sum of PLN 70 billion was allocated for corresponding purposes from the current financial perspective (2014-2020). However, a full assessment of the effect of Poland's accession to the EU on the development of transport infrastructure requires a broader view and the application of more advanced evaluation measures. The benefits of EU membership can be analysed in a number of basic dimensions: a) as the reduction of barriers resulting from an underdeveloped network; b) as an improvement of spatial accessibility and consequently as the creation of new development opportunities; c) as an improvement of the quality of life of residents (including e.g. improvement of safety in road traffic); and d) as a positive change in the procedures for and implementation of investments, forced by EU regulations. This study focuses mainly on changes in transport accessibility. Its general improvement and regional distribution are discussed separately, followed by the determination of challenges connected with potential future support for the further development of the infrastructure. The study mainly refers to road and railway transport, since these modes of transport determine the level of spatial accessibility the most. The role of aviation and maritime transport is insignificant in this respect.

The implementation of new transport investments usually serves one of two basic purposes: a) satisfying an already existing demand for the infrastructure; and b) implementing a regional policy, i.e. supporting the development of specific areas. In Poland, the scale of backwardness in the development of transport infrastructure was exceptionally large in 2004. Compared to other countries of Central and Eastern Europe, an exceptionally long investment gap occurred. It started together with the economic crisis, about the year 1980, and *de facto* continued until Poland's accession to the EU. Over this 25-year period, very few new routes were built. At the same time, the spatial mobility of people increased along with freight transport. This resulted from the opening and deregulation of the economy, the development of transit, the decentralisation of the labour market, sub-urbanisation processes and the very quickly increasing numbers of passenger cars. In such conditions, the emergence of EU support for large new investment (starting from the Instrument for Structural Policies for Pre-Accesion - ISPA) caused a rapid, although chaotic at the beginning, intensification of investment activities. Each new road or modernised railway line was justifiable by already existing demand. It was only at the turn of the second post-accession financial perspective (2007-2013/2015) that attention was finally paid to the need to clearly define the objectives of individual investments. This was reflected during works over the National Spatial Development Concept 2030. New investments became the tools of both social and economic development as well as the improvement of the quality of life of residents. As a result, indicators of spatial accessibility began to be used as measures of the potential effects of EU support.

The accessibility of a territorial entity can be defined in a simplified way as a chance for its social and economic development, which is connected with the ease of achievement of attractive objectives in other entities. The measure used more often in evaluating transport investments is potential accessibility. The indicator used in Poland is based on a matrix approach, and the duration of transit on routes between all municipalities. The basic trait of potential accessibility is the fact that the attractiveness of the destination of travel/transit increases together with its size and decreases as the physical, time or economic distance expands (Rosik et al., 2015).

General improvement of accessibility of Polish space

The assessment of the effect of transport infrastructure on social and economic development is very difficult. In catching-up countries, one of which is Poland, the construction of infrastructure remains a significant condition necessary for development. This is why, in Poland, this problem, upon entering the EU, had to be perceived as a barrier that needed to be overcome. It is necessary to be aware, however, that the improvement of accessibility is not a sufficient condition for accelerating development or for overcoming marginalisation. Perceived as such, the intervention of the EU, by increasing the level of accessibility, only consequently increases the chances of Poland and of Polish regions in relation to European and global rivals. In the local dimension, better accessibility translates into the quality of life of residents. This means the larger reach of labour markets in the scope of territory (a wider choice for the employee and increased resources for the employer) as well as better access to public services.

Since Poland's accession to the EU, accessibility indicators have been growing very quickly almost throughout Poland. Previously, positive changes were recorded only in areas adjacent to specific investments, while for example in eastern voivodeships, accessibility decreased due to migration outflow and on occasion also due to decapitalisation of the network. In the first full programming period (2007-2013/2015), the value of the road accessibility indicator for the whole country increased thanks to investments supported by the EU by 9.4% in passenger transport and by 4.8% in freight transport. The difference results from, among others, speed limits for heavy goods vehicles. Estimations for the current programming period (2014-2020/2023) show a corresponding increase of the indicator in passenger transport by a further 11.8%, and in freight transport, by 6.1% (Komornicki et al., 2018). Including pre-accession investments and the first financial period (2004-2006), it allows estimating the expected total net effect of road investments resulting from being a member of the EU (in the scope of spatial accessibility) to be approximately 25% in passenger transport and 12%-15% in freight transport. These increases should be deemed spectacular, taking into account that the study concerns all Polish municipalities, as well as those located far away from new investments.

Changes of the value of the accessibility indicator were also significant in railway transport. In this case, it needs to be remembered that this resulted in part from the "low base"—the extremely low operational speeds which, upon accession, were recorded on many decapitalised routes. In the period 2007-2013/2015, railway potential accessibility improved in passenger transport by 7.3% and in freight transport by 4.4%. The specificity of rail transport causes these figures to be the result of rapid changes in the vicinity of some investments (e.g. the modernised rail line between Warsaw and Gdynia) and very small changes in areas located far from railway infrastructure. Investment assumptions for the current financial perspective provided for an improvement of railway accessibility by over a dozen per cent. However, contrary to the situation of road transport, the full implementation of these plans is rather unlikely, due to, among others, the fact that no new investments that have been previously planned, such as connections between Cracow and Nowy Sącz and Zakopane, or the Modlin-Płock route, have been started. A very significant element of the improvement of railway accessibility are currently investments co-financed under the new mechanism Connecting Europe Facility (CEF); whereas in the improvement of road accessibility, the role of the CEF is marginal.

From among all road investments supported from EU funds in the years 2007-2015, the net effect of the Infrastructure and Environment Operational Programme was the largest. In relative terms, in road transport it amounted to almost 9% on a country level. Corresponding effects for the Operational Programme (OP) "Development of Eastern Poland" amounted only to 0.14%, while for all regional operational programmes in total only 0.5%. In rail transport, a corresponding effect of the Infrastructure and Environment Operational Programme was 4.85%, while the effect of 16 Regional Operational Programmes was 1.09%. In the current programme perspective, proportions will most likely be similar. However, it needs to be noted that investments undertaken as part of regional programmes and the "Development of Eastern Poland" OP were largely complementary in relation to activities under the Infrastructure and Environment Operational Programme.

Both modes of transport saw the confirmation of the key role of some investments for the whole transport system of the country and for the level of accessibility of vast territories. This pertains first to some sections of motorways, as well as to the modernised rail lines on which the speed has increased significantly. It confirms the role of the proper selection of investment priorities as the basic condition for the optimal use of EU funds for the development of the country. In Poland, in the post-accession period, the selection of priorities was encumbered by politics, but the role of politics was definitely smaller than before 2004. We owe this indirectly to EU funds, the use of which is connected with specific procedures (starting from the preparation of appropriate strategic documents, to tender procedures, to a full evaluation of obtained cohesion effects). In this context, the tangible effects of the improvement of accessibility as a result of road investments prove the effectiveness of these procedures. It can even be argued that EU funds and the rules of implementation of both operational programmes and specific transport projects have guaranteed the continuity of Polish transport policy, regardless of changes in successive ruling political groups. A more critical assessment may be applied in this context to railway investments.

Scale of regional differences

The improvement of transport accessibility has taken place throughout Poland mainly thanks to large road investments. The accessibility coefficient (road, railway and multimodal) has increased in each Polish municipality. This means that all entities, thanks to investments, have improved their situation in relation to the full set of potential travel destinations, both in Poland and in Europe. However, from the point of view of the purposes of the cohesion policy, the assessment of regional differences in this scope is significant. It is also important whether these differences are increasing.

In 2004 (and three years later, at the start of the new programming period), the level of road transport accessibility strongly differentiated Polish voivodships. It was definitely the highest in Śląskie voivodship, and also high in Małopolskie, Mazowieckie, Łódzkie and Opolskie voivodships. At the same time, the worst situations were in the voivodeships of peripheral locations, including in particular Podlaskie and Zachodniopomorskie voivodships. In the whole studied period, the areas with the best transport accessibility stretched along two poles: Warsaw-Łódź and Cracow-Upper Silesia, from which zones of better accessibility spread, in reference to the land transport infrastructure being constructed or modernised. However, the improvements connected with investments of the period 2007-2015 were faster on the Warsaw-Łódź pole. Wider areas of good accessibility had formed. More easily accessible zones along the A2 and A4 motorways became more visible. However, what affected the change of the spatial vision the most was motorway A1 (supported with EU funds at the section between Stryków and Toruń), causing the rapid improvement of accessibility of the Gdańsk-Sopot-Gdynia metropolitan area (Komornicki et al., 2018).

The improvement of infrastructure caused the areas of better accessibility to spill over from the most accessible poles to other regions. As a result, the zone with higher values of the indicator started to resemble a polygon, which can be likened to the network metropolis postulated in the National Spatial Development Concept 2030. Thus, it can be concluded that the support of the EU for the Polish transport (especially road transport) system benefited the fulfilment of the objectives of the internal cohesion and spatial policies.

The biggest beneficiaries of investments supported by EU funds during 2007-2013/2015 were the following regions: Łódzkie (A1 motorway), Kujawsko-pomorskie (A1), Pomorskie (A1 and the northern sections of the S7 express road), and Podkarpackie and Małopolskie (the band from Tarnów to Przemyśl, A4). Furthermore, a positive effect can be seen in the area of Szczecin (northern sections of the S3) and Mazowieckie (A2). Also, some areas located outside the direct vicinity of the completed investments benefit from them indirectly. Examples include the southern Lubelskie region (thanks to the A4), the Słupsk region (thanks to the A1) and the Podlaskie region (thanks to the A2). As the map shows (Map 1), the changes were relatively the largest in the lines of some of the new motorways and express roads, particularly those connecting major centres or leading to peripheral areas (such as the A4 motorway in Podkarpackie voivodship).

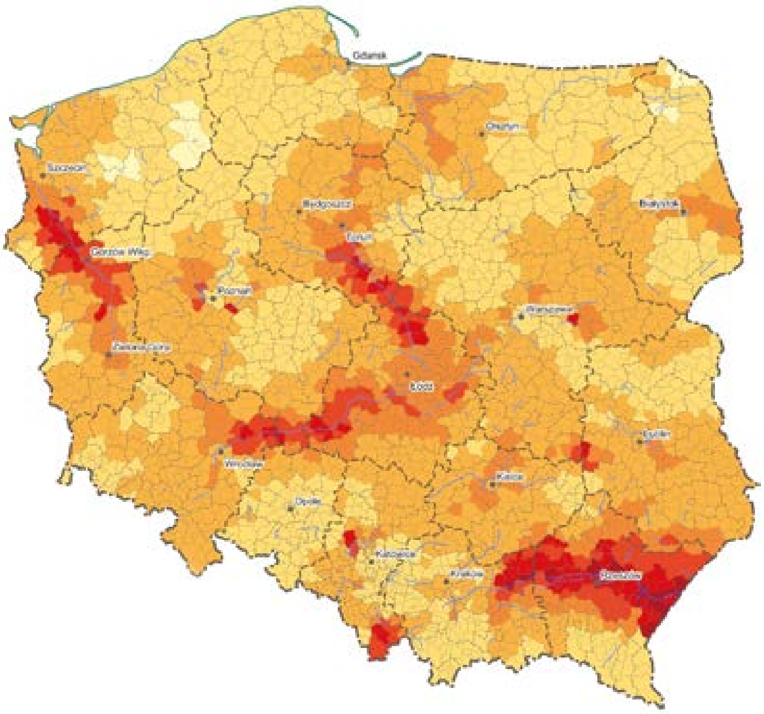
The improvement of railway accessibility has been more island-like in nature (Map 2). The structure of the network causes the effect to spread on to further territorial entities at a lesser degree. At the same time, some railway investments give a very spectacular spatial effect in their vicinity (especially in peripheral areas). A more comprehensive assessment of the network effect of the modernisation of the railways will be possible after the completion of a number of large investments under the current EU financial perspective. This pertains in particular to lines connecting the capital city with Lublin and Białystok. Apart from the improvement of accessibility, modal split must also be a measure of the positive effect of railway investments. Investments supported by the EU halted the trend, observed since the 1980s, of the decreasing share of railways in the division of freight in Poland.

In the 2014-2023 programming period, the main beneficiary of the increase of road accessibility, and partly railway accessibility, has become Eastern Poland, which so far has been relatively less accessible, including in particular Podlaskie voivodship (Map 2).Taking into account economic and social tendencies (concentration of GDP generation and concentration of people), the maintenance of a similar rate of improvement of accessibility in Eastern Poland means the effective prevention of its peripherisation. If absolute changes of the indicator values were referred to the level of development recorded in the regions, then the macro-region of Eastern Poland would turn out to be the strongest supported region in the whole country. Thus, the assumed intervention, with the use of EU funds, fulfils the basic objectives of increasing economic, social and territorial cohesion (Komornicki et al., 2014). The development of transport networks also significantly balances the constant concentration of people resulting from internal migrations. To a lesser extent, the same is true for constant GDP concentration.

Transport investments supported with the use of EU funds have significantly increased the percentage of persons residing within the isochrone of a 60-minute commute to voivodship cities. This isochrone is often equated with the spatial reach of the labour market of these centres. In 2013, this percentage was 67%. It is expected that by 2023, it will have grown to 72% (Komornicki et al., 2018). Previous assessments, based on surveys, of the effects of specific new road routes show that the construction of new roads has significantly improved access to public services (Komornicki et al., 2015). Respondents note that it mostly pertains to commuting to shopping centres and cultural and leisure institutions, and secondarily to healthcare centres and financial institutions.

Map 1: Change of the road transport accessibility indicator as a result of investments co-financed by the European Union during 2007-2015.

Source: cartography by S. Goliszek based on Komornicki et al., 2015a.

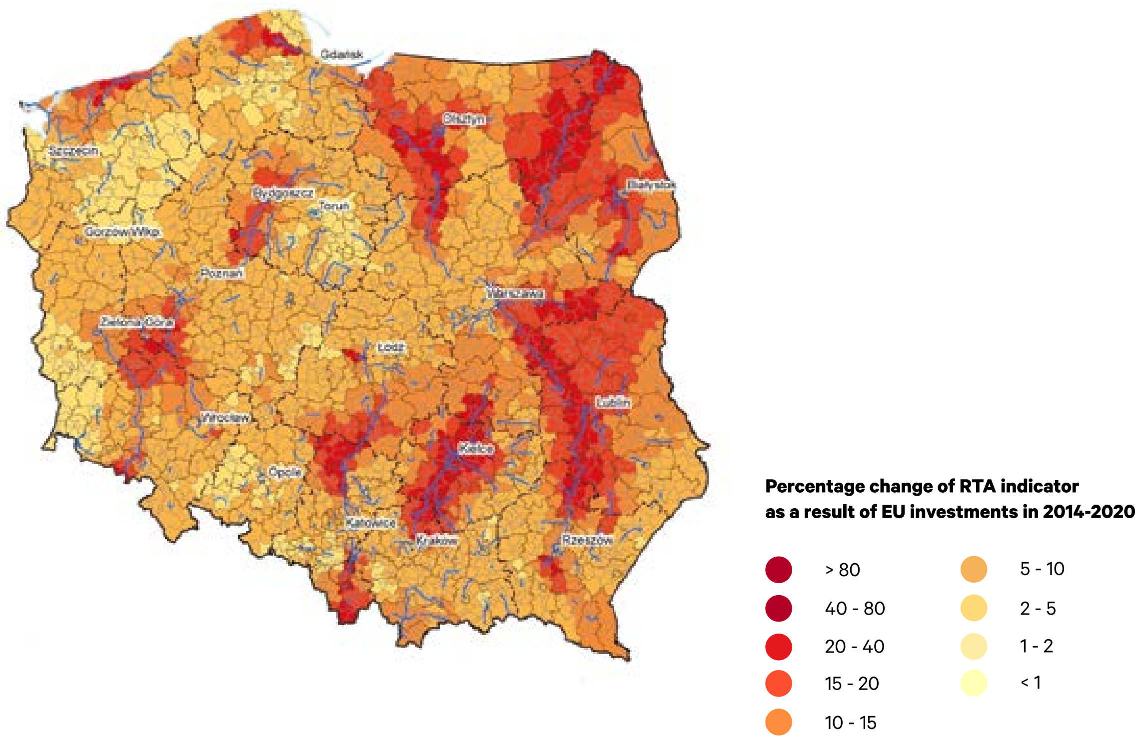


Percentage change of RTA indicator due to investments cofinanced by the EU in 2007-2015

- over 30
- 20 - 30
- 15 - 20
- 10 - 15
- 5 - 10
- 2 - 5
- under 2

Map 2: Change of the road transport accessibility indicator as a result of investments co-financed by the European Union during 2014-2020/2023 (ex-ante evaluation as of 2017)

Source: cartography by S. Goliszek based on Komornicki et al., 2014.



Challenges of the next perspective

The successes of the EU's support for Polish transport infrastructure completed thus far also pose a challenge for the next financial perspective. The more advanced the investment process, the more care must be exercised in selecting any further investments. Selection must be more and more affected by the criteria of the regional policy and to a lesser extent by demand. In 2023, Poland will have a well-developed road network and an advanced railway network. Both these networks will not be fully closed, though. The development of infrastructure since 2004 has inevitably been leading to increased polarisation in the scope of spatial accessibility. This tendency can only be overcome if the investment process is continued. The discontinuation of investments in 2023 would mean petrification. A detailed analysis of changes in accessibility has shown that polarisation has an increasing regional or even local dimension. It depends on access to motorway intersections or stations where faster long-distance trains stop. On road accessibility maps, we perceive a negative "tunnel effect" in the form of lower values of the indicator between successive motorway and express road exits (e.g. in the vicinity of the A4 motorway in Podkarpackie Voivodeship; Map 1). This leads to the conclusion that further investment activities should concentrate to a greater extent on the integration of the large-scale infrastructure with regional and local roads.

Largely thanks to EU membership, Poland is gradually moving on to the development phase where some regions are already saturated with modern transport infrastructure. This is the largely the case in the western and southern parts of the country. Investments under the current perspective will visibly mitigate the differences on the west-east line. At the same time, accessibility disproportions on the south-north line will most likely persist. In this context, the concentration of new investments in Eastern Poland (especially after 2015) must be assessed positively, but at the same time the resignation from certain actions in other parts of Poland has its own spatial consequences. This concerns, for instance, the eastern section of the S6 express road and the northern fragment of the railway line from Wrocław through Kostrzyn to Szczecin.

In the context of transport investments, it can be concluded that EU membership has strengthened the Polish metropolis network and the polycentric settlement structure. It is in line with the provisions of EU (2020 Territorial Agenda) and national (National Spatial Development Concept 2030) documents. In 2023, the polycentric structure will be well formed, especially if it is assessed with the use of passenger accessibility indicators instead of freight accessibility indicators. This confirms the existence of the discrepancies between settlements and economic polycentrism in Poland. The distribution of populations is still polycentric, but it is true to a much lesser extent in terms of the place of generation of the domestic product. Challenges connected with the positive consequences of EU support for Polish transport infrastructure also have a legal and planning dimension. The effective implementation of subsidised investments has required the legislators to introduce numerous special legal acts (road, railway and other special laws). Without them, most investments would never have been completed, since the Polish system of spatial planning has proved to be completely unprepared for the absorption of EU funds. The successful implementation of special laws encourages the creation of more and more non-system solutions (such as the special residential law). In such a situation, the key task is to integrate legal solutions so that they could constitute a modern base for the development of the country.

Conclusion

The total net effect of road investments resulting from Poland's membership in the EU (in the scope of accessibility) is estimated to be 25% in passenger transport and 12%-15% in freight. Thus, the effect of EU membership on the development of Polish transport infrastructure and the improvement of spatial accessibility should be deemed definitely positive. Mistakes occurring in individual investments do not change this assessment. The Polish space has become more accessible in Europe, and major centres have become more accessible on a national level. The frame-like polycentric system of the settlement network has been enhanced and a portion of the marginalisation processes occurring in Eastern Poland have been compensated for. For a large part of the country, poor transport accessibility has ceased to be the main development barrier. On a regional and local scale, the effect has been more selective in terms of territory. Quality of life has improved in many areas. Furthermore, polarisation in terms of transport accessibility has increased, and consequently the relative competitiveness of some entities has worsened. This poses a serious challenge for further investment activities, notwithstanding whether they are based on EU or national sources.

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CHAPTER 17

URSZULA SZTANDERSKA

JACEK LIWIŃSKI

HIGHER EDUCATION

ABSTRACT

Poland's accession to the European Union (EU) harmonised the functioning of Polish universities with other European universities in accordance with the objectives of the Bologna Process. This long-term European project changed the programmes and organisation of higher education in Poland, significantly expanded bachelor's degree courses, and popularised educational mobility.

EU funds aimed at universities increased their investment capabilities, contributed to the construction of new and the modernisation of old buildings, and provided them with modern equipment, including research equipment and equipment allowing the introduction of new educational technologies.

Another positive aspect of Poland's accession to the EU is the increased international mobility of university students and employees under successive editions and forms of the Erasmus programme. Education abroad not only improves competencies and experiences related to the exploration of a foreign culture and language, but also contributes to the development of personality, which is the most important benefit reported by students in surveys.

However, compared to students from other countries, the number of Polish students' international trips is relatively small, and the use of EU funds in higher education spending has been insufficient in recent years, despite continuously high demand, which is particularly important because higher education has not yet been fully modernised.

HIGHER EDUCATION

Introduction

Although European Union (EU) countries run independent higher education policies, it does not mean that their independence leads to a complete separation of higher education between Member States. In fact, we can notice a growing convergence in certain areas. While respecting local achievements, traditions and challenges, higher education has been evolving as a result of comprehensive diagnoses made by EU institutions by comparing the strengths and weaknesses of the functioning of universities in individual EU countries, setting common goals for them, and proposing or even creating similar programme and institutional solutions.

Changes in higher education and their financing

The higher education harmonisation mechanism involves creating a joint assessment of the situation in universities, prescribing desirable directions of development, determining auxiliary activities and—at least in some initiatives—providing funds for their implementation. This is why—thanks to Poland's membership in the EU—Polish higher education has undergone visible changes. Some of those changes could, perhaps, have also taken place without the membership, e.g. the expansion of foreign language education; nevertheless, the pressure of jointly established goals has guided the changes taking place at universities.

Major institutional changes in higher education were introduced as part of the Bologna Process, which has begun in 1999 and also covers states outside the EU; however, its effects are primarily noticeable in EU countries and it is supported by the actions of European institutions. Poland has been a participant of the Process and during the accession period, it actively introduced solutions such as the two-tier structure of university courses, basing the curricula on the definition of educational outcomes and the creation of a qualification framework, the application of the European Credit Transfer and Accumulation System (ECTS), and the Diploma Supplement. Moreover, Poland created a system of supervision over the quality of higher education. However, not all recommended solutions have been implemented in full. For instance, the ECTS system is not based on an external (in relation to the university) assessment of students' workloads (*The European Higher Education Area in 2018*), while the national strategy for applying new technologies to learning and teaching, or improving the prestige of the teaching position in academic careers, remain distant goals. Nevertheless, Poland's presence in the Bologna Process has thoroughly changed higher education, although these changes are not always universally accepted. They attract numerous negative opinions, including allegations that certain changes are superficial and bureaucratic.

EU operational programmes have introduced a system of competitions to the research and education project selection system. The establishment of the National Centre for Research and Development (NCRD) in 2007 is an example of combining EU and strictly domestic goals. It is an institution which, among others, acts as an intermediary in providing EU funds for targeted university development goals and for the application of research results in the economy. In the current financial perspective (2014-2020), three operational programmes are being implemented through the NCRD: Knowledge Education Development (KED OP), Intelligent Development (ID OP) and Digital Poland (DP OP). KED OP is fully aimed at universities, whereas the other programmes increase funds for the implementation of scientific research in the economy, where university participation is partially possible. It is easy to find the echoes of European goals in the programme dedicated exclusively to universities (providing them with PLN 5.9 bn in the period 2014-2018), since the competitions have been placing an emphasis on:

- the modernisation of higher education, including its curricula, so as to better meet the needs of the economy and the labour market (roughly 33% of the entire sum was allocated to this purpose);
- increasing the effectiveness of graduates' transfers from the university to the labour market, which was to be supported by internships, vocational training courses

and the development of academic career centres, to which end over 16% of the sum was allocated;
- the modernisation of doctoral studies, including in particular the creation of interdisciplinary doctoral studies with an allocation of over 12%.

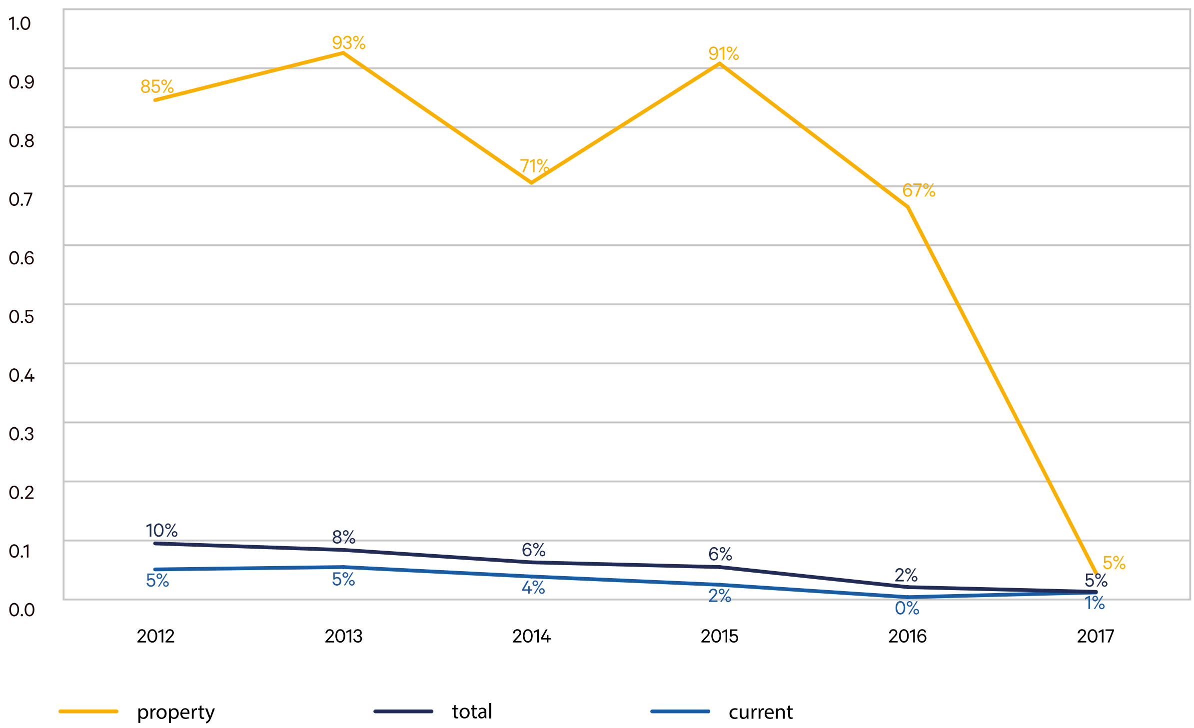
This strictly European nature is intended to create international curricula, which should foster increased mobility, especially for students coming to Polish universities, to which end nearly 8% of competition funds were allocated. At the same time, the uniqueness of Polish preferences has been noticeable. For instance, the goal of improving the qualifications of higher education teachers (*The European Higher Education Area in 2018*), which has been strongly emphasised in EU documents, has been relatively poorly reflected in the Polish division of funds. Meanwhile, the programme also includes strictly Polish goals, such as the development of human resources for business and the automotive industry. Previous financial perspectives under the Human Capital Operational Programme financed, among others, the programme of ordered specialties (science and technology) with particularly beneficial solutions for participating universities, employees and students. Thus, Poland's accession to the EU opened a targeted way of financing universities that perform their tasks, which are defined as part of state policy. Previously, there had been no such mechanism in Poland. However, there are not many in-depth studies on the effects of the aforementioned mode of university task financing, and those that do exist do not always report a complete success.

Nonetheless, some of the positive effects of access to EU funds are clearly visible, e.g. the computerisation of the higher education and science data system and the increased number of curricula taught in English (although some of them have been created without EU funds).

Setting the direction for the functioning of higher education also pertains to the actions of the Ministry of Science and Higher Education. After many years, the emphasis placed on transparent information about the careers of graduates in the labour market has forced the creation of a system for tracking the professional careers of graduates (ELA), combining information on courses with the situation of graduates in the labour market and justifying the decisions of each participant of the higher education system, beginning with applicants and ending with public authorities.

Figure 1. Share of higher education spending (part 38 of the government budget) financed from EU funds in 2012-2017

Source: own calculations based on reports on the execution of tasks and the budget with respect to higher education.



International exchange of university students and university teachers

EU funds have become a significant source of financing for higher education. Reports on the execution of the government budget show that in 2010-2017, EU funds constituted from 1.3% to 9.9% of funds spent on higher education (part 38 of the government budget) and from 9.4% to 29.8% of expenditures on science (part 28), and that the share of EU funds dropped significantly in 2016-2017, which, in the face of stagnation and even an actual drop in budget spending, could adversely affect the condition of higher education, in particular property expenditures, since they have been 90% dependent on EU funds (except in 2017). A vast majority of large investments in higher education in the early 21st century, such as the construction of the Campus of the 600th Anniversary of the Jagiellonian University Renewal and projects of the Adam Mickiewicz University in Poznań in 2004-2017, would not have been completed without EU funds. This is also true for investments at many other universities. In addition to the cited data, university property expenditures have also been financed from regional funds.

Accession to the EU enabled Poland to join the EU Erasmus programme, which supports the international mobility of university students and university employees as well as cooperation projects with the participation of universities and other institutions or organisations connected with higher education. The Erasmus programme was established in 1987 and at the time, covered only 12 Member States of the European Community. In subsequent years, it evolved and its objective and territorial scope expanded. In the current EU financial perspective (2014-2020), the mobility of university students and university employees is supported by the Erasmus+ programme, which includes 33 participating countries.

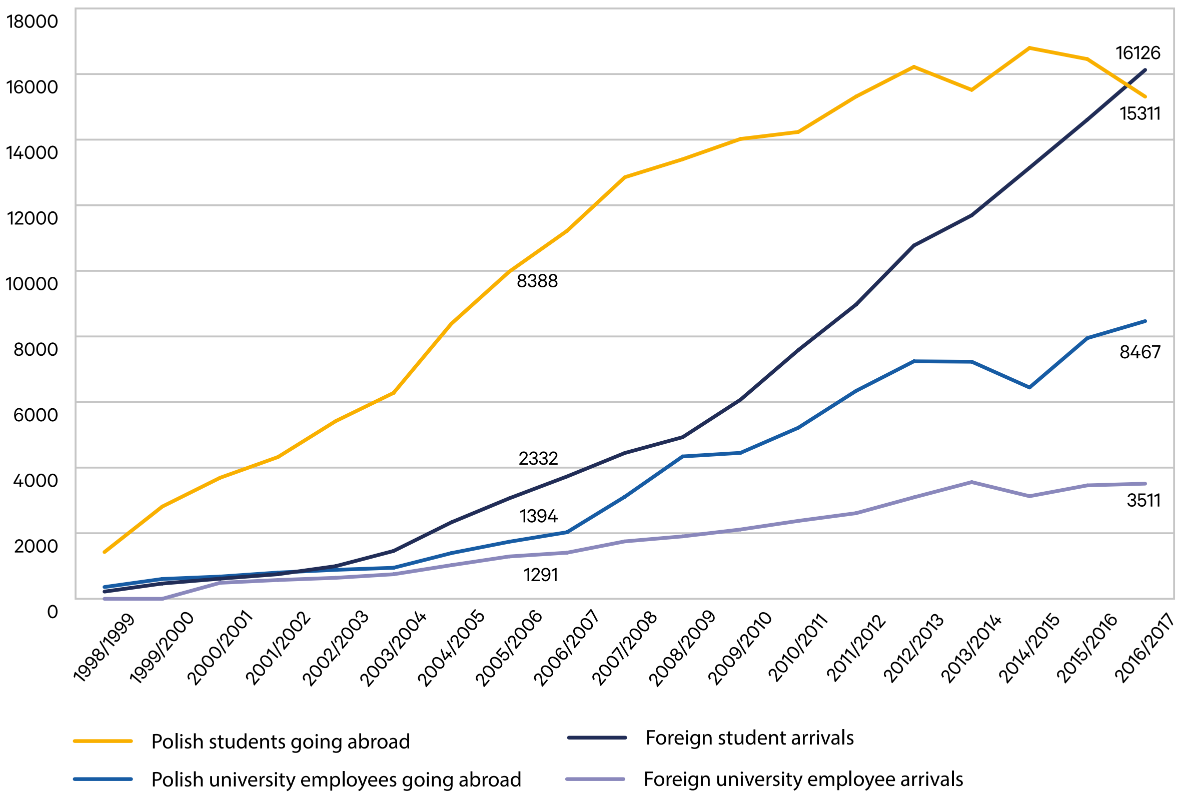
Poland joined the Erasmus programme in 1998, i.e. during accession negotiations. In the first year of participation in the programme (academic year 1998/1999), the size of exchange was small: 1,426 Polish students and 359 employees went abroad to study and to teach at foreign universities. In turn, Poland received 220 students from abroad. In the pre-accession period, the budget allocated to Poland for the implementation of the Erasmus programme stabilised at around PLN 6.5 million per year until the year 2003/2004; nevertheless, the exchange has continued to grow and the number of students leaving Poland quadrupled while the number of employees tripled. Since accession to the EU, the amount of funds allocated to Poland for the implementation of the programme has grown from EUR 15 million in 2004/2005 to EUR 49 million in 2012/2013. The size of exchange has increased as well. The number of Polish university students going abroad reached 11-12 thousand people annually and remained stable after 2015. In the academic year 2007/2008, a new form of exchange appeared: internship completion trips. In that year, almost 1,000 people went abroad for that purpose, while in 2016/2017, it was over 5,000 people. Furthermore, more and more Polish university employees have been participating in the exchange. The number of employees going abroad to teach reached almost 5,000 in 2016/2017, which is five times higher than before accession. In addition, over 3,500 university employees have been travelling abroad for training as part of the Erasmus programme. In total, since Poland's entry in the Erasmus programme, over 203,000 Polish university students and over 70,000 Polish university employees have gone abroad.

By comparing the size of exchange with the number of university students, it can be concluded that 1.1% of Polish BA and MA students went abroad to study in the academic year 2016/2017. Even if we assume that all university students study in a five-year cycle (if all went on to complete MA studies after BA studies, or if all completed long-cycle MA studies), the share of exchange remains relatively low—below 6%; whereas the goal of the EU programme is to achieve a 20% share of students taking part in the international exchange by 2020. On the other hand, university employees going abroad in order to teach or participate in training courses in 2016/2017 made up 9.2% of all academic teachers in Poland.

The number of trips to Poland as part of the Erasmus programme has been lower than the number of trips made by Polish university students and teachers, but it has been growing, and in 2014/2015, it caught up with the number of Polish university students' international trips (Table 1). In total, almost 112,000 foreign students and over 33,000 employees from foreign universities have come to Poland.

Figure 2. Number of university students and employees going abroad and coming to Poland as part of the Erasmus and Erasmus+ programmes

Notes: trips of university students include studies and internships; trips of university employees include teaching and participation in training courses.
Source: own calculations based on data of the Foundation for the Development of the Education System (2009-2015).



There have been multiple analyses concerning the benefits of participation in international exchanges, including as part of the Erasmus and Erasmus+ programmes. They can be divided into two groups: analyses based on participants' subjective assessment of benefits, and objective analyses of the effects. The first group includes evaluation studies conducted by the European Commission in all countries participating in the Erasmus programme as well as studies conducted for the Foundation for the Development of the Education System (FRSE), exclusively covering Polish university students participating in the exchange. Although study methodologies vary, their results are quite consistent. Students from 26 European countries participating in the Erasmus programme typically list the development of their personality as the main benefit of participation in the programme, while the conclusion that the exchange has helped them find their first job and develop their professional career is slightly less popular. On the other hand, benefits listed by Polish university students include increased self-esteem (83%) and improved competencies (82%), primarily with respect to foreign languages (64%) and learning the host country's culture (55%) (Dąbrowska-Resiak, 2018). Staying abroad provides not only the opportunity to improve proficiency in the language used to conduct lectures (usually English), but also in the host country's language, which can be an advantage in the Polish labour market. Results of the evaluation study confirm that the primary effect of the exchange among Polish university students is the knowledge of the host country's language.

Results of the objective analyses focus on identifying the effect of the exchange on the occupational status of its participants. In relation to Polish university students, it has been demonstrated that studying abroad has no effect on the likelihood of having a job after one year following graduation. This could result from the fact that people who study abroad are more talented and motivated, and thus do not encounter difficulties in finding work regardless of participation in the exchange. On the other hand, the effect of international exchange on earnings has proved positive (resulting in 22%

higher earnings in the first job after graduation), provided that the people participating in the student exchange took up a job abroad after graduation (Liwiński, 2019). It seems that, in Poland, the fact of having temporarily studied abroad does not generate any benefits in terms of earnings. However, it needs to be noted that long-term benefits have not been studied due to the lack of appropriate data.

To summarise, research demonstrates many benefits gained by participants of the international exchange as part of the Erasmus programme, although they are more pronounced in the subjective opinion studies than in the professional career studies.

Conclusion

Although its membership in the EU does not impose an obligation to fully adjust higher education to the adopted common principles of its functioning, Poland has introduced significant changes harmonising the operation of Polish universities with other European universities in accordance with the objectives of the Bologna Process. This harmonisation manifests itself the most in actions that improve the educational mobility of university students—not only with respect to the exchange of students and staff, but also with respect to the development of the foundations of this exchange.

Changes in higher education were also meant to pave the way for the establishment of a single labour market, including employee mobility. To this end, changes informed by the intended and defined outcomes of education have been introduced to curricula; foreign language education has been expanded; university courses have been divided into two tiers; transferring education results between Polish and other European universities was made possible thanks to ECTS credits; a course quality control system has been created; and diploma recognition has been assured. Many of the aforementioned tasks were financed with EU funds, which played a significant role in financing the infrastructure of higher education (which refers in particular to the previous financial perspective: 2007-2013), as well as in the development of certain curricula and their adjustment to the needs of the labour market and to the development of science (mainly in the current perspective 2014-2020).

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CHAPTER 18

DOROTA ILCZUK

ANNA KARPIŃSKA

CULTURE: UNITY IN DIVERSITY

ABSTRACT

The European Union's (EU's) approach to culture is multi-faceted. It includes respect for the rich and diverse cultural heritage of Europe, freedom and support for the development of creative works, access to works of culture and art, and support for cultural activity and infrastructure as a factor of development for European regions. Means from structural funds support national projects implemented as an element of the cultural policy of Member States. EU support also includes the cultural industry and trades of the creative economy.

In Poland, EU funds intended for culture have been used relatively quickly and intensively. As a result, each large city has modern theatres, musical facilities, museums or art schools, completed thanks to subsidies from EU funds. The renovation of historical monuments is met with society's appreciation. European support also benefits Polish cinematography, which has achieved great artistic successes.

Currently, there is some pressure to create a European cultural policy, although decisions in the scope of cultural development belong to the competences of Member States. The debate on allowing stronger tools to exert pressure concerns the fields and activities of culture and the arts that develop feelings of community and European citizenship while at the same time maintain respect for the heritage of countries, regions and cities. Today's debate and regulations have also included the problems of the protection of artists' and performers' substantive rights under the conditions of digitisation and free access to the Internet. For the sake of the social security of cultural creators and performers, work on the status of the artist, which is being debated in Poland, is currently underway.

CULTURE: UNITY IN DIVERSITY

Introduction[1]

The “unity in diversity” phrase comes from the report prepared by Giorgio Ruffolo (2001), an Italian member of the European Parliament and Vice-Chairman of the Committee on Culture of the European Parliament. It refers to the principle of subsidiarity, which means that decisions concerning culture are made by those who it pertains to. And in line with that principle, Member States of the European Union (EU) independently implement policies in the area of culture. At the same time, European cultural policy includes features resulting from jointly set rules and standards of the Council of Europe and the EU. These rules, in the broadest sense, consist of recognising complete creative freedom, in direct support for creators and artists, the public financing of cultural activities under decentralised—though socially-oriented—decision-making processes in the scope of the organisation and financing of cultural activity.

Member States are free to develop culture their own way, without the unification of cultural institutions, setting their own goals and determining priorities on their own. An important and tangible joint between Community structures and culture in Member States are aid measures, aimed at equalising the level of wealth of associated countries. In the said report, Ruffolo notes that EU support reaching the culture sector comes most of all from structural funds, and not from Community programmes addressed directly to it, such as “Culture 2000”. As much as 82.7% of EU subsidies allocated for cultural projects came from structural funds in the years 1989-1993. This information casts new light on the very concept of cultural support from the EU. It was the first signal that the priority is to treat culture as a special measure to achieve a goal, which can be support for the development of regions, job creation, or the generation of income, among others. When Poland was preparing to enter the Community, there was a debate held at the EU level concerning the contents of the new programme intended for culture for the period 2007-2013, which replaced the previous programme, known as “Culture 2000”. The issue of proportions in treating culture either as a value in itself or as a remedy for socio-economic ills became most significant.

From the perspective of Poland’s 15 years of membership in the EU, we have a good pretext to recapitulate on what the place of culture is in the EU. Whether EU membership gives culture anything? And if yes, then what? What is the meaning of culture in the EU, which has been created as a political and economic concept? Finally, what has happened in Polish culture in connection with its accession to the EU, and is it only about the money we have obtained for development in this area?

The concept of culture in documents and studies of the European Union

It is nothing new to state that culture has significant integrative (community-creating) potential. Fundamental EU treaties contain plenty of provisions about the importance of culture and the values promoted through culture. On the web portal of the European Parliament, it states: ‘The Treaty of Lisbon places great importance on culture: the preamble to the Treaty on the European Union (TEU) explicitly refers to “drawing inspiration from the cultural, religious and humanist inheritance of Europe.”’ One of the EU’s key aims, as specified in the Treaty, is to ‘respect its rich cultural and linguistic diversity, and […] ensure that Europe’s cultural heritage is safeguarded and enhanced’ (Article 3 TEU). Article 6 of the Treaty on the Functioning of the European Union (TFEU) states that the EU’s competences in the field of culture are to ‘carry out actions to support, coordinate or supplement the actions of the Member States.’ Article 167 of the TFEU provides further details on EU actions in the field of culture:

1 The text was co-developed with Adam Ołdak and Patryk Ilczuk, who cooperate with the Creative Economy Research Center at SWPS University of Social Sciences and Humanities.

the EU must contribute to the flowering of the cultures of the Member States, while respecting their national and regional diversity and bringing the common cultural heritage to the fore. Action by the Union should encourage cooperation between Member States and support and supplement their action in improving the knowledge and dissemination of the culture and history of the European peoples, conserving and safeguarding cultural heritage of European significance, and fostering non-commercial cultural exchanges and artistic and literary creation, including in the audio-visual sector. Article 13 of the Figureer of Fundamental Rights of the European Union stipulates that: 'the arts and scientific research shall be free of constraint.' Article 22 of the same Figureer lays down the requirement that 'the EU shall respect cultural, religious and linguistic diversity' (Franke, Iskra, 2018).

Over the last two decades, new provisions concerning the importance of culture have appeared in EU documents. The Lisbon Strategy highlights the significance of culture as a factor of development. Expenses incurred on the financing of culture are looked at from a broader perspective. Culture constitutes not only the foundation of the education of societies and the tools of social policy, but also a significant kind of investment in economic development and in the development of the labour market.

Culture becomes an appreciated sector of the economy with various positive external aspects. Although these aspects are difficult—and sometimes even completely impossible to measure—they are still commonly felt. The awareness of the significance of culture as a development factor is increasing in the face of dynamic socio-economic and technological transformations. Such categories as cultural industries and creative industries appear. The concept of the creative economy is being defined, in order to highlight the creative component in production, and not only for symbolic goods, i.e. cultural goods. The scope of culture has expanded. Currently, it is mentioned together with cultural industries and creative industries (Ilczuk, Noga, 2018).

An important role in this new approach to culture has been played by the results of studies initiated by the European Parliament and then systematically continued. A report of the European Commission— *The economy of culture in Europe* (2006)—has been of significant importance, both for the systematisation of areas of culture and for the determination of their participation in the GDP and jobs created by them. The report presented the recognition of culture together with the industries of the creation of traditional cultural goods and the industries of the creative economy. This approach was not treated with confidence at first. On the one hand, it has some advantages, because a broader and more measurable approach to culture is a stronger argument in cultural policy. On the other hand, though, it bears the risk of the instrumentalization and economisation of culture.

Financing of culture from EU funds

It is with some embarrassment that it must be agreed that during negotiations with the EU, Poland did not demonstrate care for the cultural sector. There was a lack of consistency and creative solutions that could have helped Polish culture. An example is the loss of the possibility to continue the zero VAT rate for books. Instead, over the years, we have been gaining experience and Poland has become a leader in using EU funds.

The support of the European Community for Polish culture is done through subsidies to flagship cultural sites as well as through artistic and awareness-raising activities in fundamental areas of arts and culture. EU funds flow to Member States in two ways: 1) as part of Community programmes addressed directly to the cultural sector and 2) through structural funds (SF) created for the purpose of equalising the level of development of regions in united Europe. The scale of funding of culture from structural funds is higher than from funds directly dedicated for arts and culture. It results from the view widely recognised in the EU that culture is one of the factors of development for regions, and priority is given to actions supporting regions.

Support from EU funds consists of subsidising projects in the form of grants. The share of EU funds in the costs of projects and programmes varies: usually from 50% to 80%. In the 2007-2013 financial perspective, support for projects in the area of culture amounted to PLN 2.3 billion. They covered three fields: historical monuments (PLN 578.9 million), cultural infrastructure (PLN 1,184 million) and arts education (PLN 538.2 million).

Operational programmes in the field of historical monuments allowed the renovation of 77 sites (e.g. the Royal Castle and the Palace on the Water in Warsaw), 7 UNESCO world heritage sites, 6 sites entered by the President of Poland on the list of monuments of history. Furthermore, 43 films from the pre-war era and almost 30 thousand magazines, manuscripts, old prints, volumes and graphics, among others, were reconstructed.

In the field of the development and improvement of cultural infrastructure, the granted support resulted in the building and rebuilding of 47 cultural institutions, such as museums, theatres, concert halls, libraries (including e.g. the European Solidarity Centre in Gdańsk, the National Forum of Music in Wrocław, the Copernicus Science Centre in Warsaw, the Katowice Polish Radio National Symphonic Orchestra and the Podlasie Opera House and Philharmonic), and 9 new sites.

Funds from the Infrastructure and Environment Operational Programme financed the modernisation of the conditions for conducting arts education. Support covered 10 universities and 16 arts schools. Thanks to the modernisations, renovations and other investments, 20 thousand pupils and university students could learn and study in new or renovated institutions. In total, in the 2007-2013 financial period, funds from the Infrastructure and Environment Operational Programme were used to complete 79 projects, most of which were in Masovia (15), Lesser Poland (12), Silesia (9) and Lower Silesia (9). As to beneficiaries, support was granted to cultural institutions (31 projects), units of self-government (22), arts schools (12), arts universities (10), churches and religious associations (3) and a state university (for the digitisation of collections).

Table 1. Flagship cultural and educational projects subsidised from EU funds in the 2007-2013 financial perspective

Cultural sites	**Cost of investment, PLN million**	**Share of EU funds, %**
Construction of the Copernicus Science Centre in Warsaw	364.8	a – 206.8 b – 57.0
Construction of the Katowice Polish Radio National Symphonic Orchestra	305.4	a – 145.6 b – 47.6
Construction of the National Forum of Music in Wrocław	328.7	a – 143.4 b – 43.6
Construction of the Meeting of Cultures Centre in Lublin	171.0	a – 126.3 b – 74.0
Construction of the Podlasie Opera House and Philharmonic — the European Centre of Arts in Białystok	180.2	a – 100.6 b – 55.8
Reconstruction of the Capitol Musical Theatre in Wrocław	113.5	a – 83.0 b – 73.1
Construction of Krzysztof Penderecki's European Music Centre in Lusławice	65.1	a – 54.6 b – 83.9
Construction of the Gdańsk Shakespeare Theatre	93.8	a – 51.2 c – 54.6
Reconstruction of the Castle Opera in Szczecin	75.1	a – 45.9 b – 61.1
Improvement of the quality of educational and cultural offer through the revitalisation, rebuilding and expansion of University of Fine Arts in Poznań	48.4	a – 41.0 b – 84.7

In the 2014-2020 financial perspective, culture still has a significant share in terms of the number of projects and the scale of expenditures. The Creative Europe Programme has a budget of EUR 1.46 billion (9% more than previously) under the current perspective. The programme combines previous EU initiatives: the MEDIA Programme (1991-2013), the MEDIA Mundus Programme (2011-2013) and the Culture Programmes (2000-2013). It also includes an inter-sectoral sub-programme consisting of: 1) a guarantee facility, managed by the European Investment Fund, to make it easier for small entities to obtain bank loans and 2) funds for the support of research, analyses and the better collection of data in order to improve the database necessary for policymaking (Franke, Iskra, 2018).

Financial perspective programmes to 2020 are ongoing, and there are no complete data on their course. Nevertheless, one can find many positive signals. Since 2014, over EUR 11.8 million has been spent, of which EUR 1.1 million was spent on the distribution of Polish films abroad. On the Creative Europe portal, we can read: “We are proud of Polish projects carried out with EU support”.

A significant source of financing of culture, as mentioned above, is the Infrastructure and Environment Operational Programme. For the period 2014-2020, the programme’s priority is environmental protection (discussed in Chapter 14 of the report) for the purpose of containing environment degradation. According to the programme’s website, EU funds from the programme will also be allocated, although in a limited scope, to investment in the areas of health care and cultural heritage. The types of support do not differ from previous ones. They include comprehensive tasks connected with protecting and providing access to historical monuments of national and global importance; they also provide for the implementation of projects concerning the development of cultural resources as places for the presentation of cultural heritage, including through the improvement of the standards of functioning of cultural institutions. Support is also received by modern solutions in the scope of access to culture, also through tourism. In addition, greater importance is attributed to those projects which feature technical changes to existing infrastructure, improving accessibility to cultural services for disabled persons. Such investments will support the objectives of sustainable development and will contribute to social integration for persons at risk of social exclusion.

The completion of cultural projects results in an improvement of the conditions of the visibility and dissemination of Polish cultural resources and the key elements of the country’s cultural heritage, which has a positive effect on the recognisability and attractiveness of Polish space. Care for cultural heritage sites fosters the conservation of local and regional tradition in culture, fosters the development of tourism and supports the process of cultural identification. These projects are usually characterised by an informative programme of cultural education, equalising possibilities to access culture, especially among the youth and disadvantaged groups. The projects increase the cultural and social competences of Polish society. In relation to projects connected with arts education, they also contribute to an increase of the creativity of artistic circles and personnel.

In May 2018, the European Commission published a proposal concerning the regulation establishing the future Creative Europe Programme for 2021-2027. The budget of the new programme was increased to EUR 1.85 billion (the increase does not take inflation into account). The proposal of the Commission is adjusted to the purposes of the new European programme for culture. It also replicates the structure and develops on the achievements of the current Creative Europe programme. Planned actions remain in line with the objectives of the Europe 2020 Strategy which are based on values promoting openness and accepting cultural diversity as well as appreciating the importance of culture as a factor that increases the mobility of society and builds community social capital.

Cinematography — support for a selected field

The development of cinematography and all actions indirectly connected with it were made possible not only thanks to financing from structural funds (under national operational programmes), but also thanks to the European Commission’s initiative “Creative Europe” and its target component, MEDIA.

The choice of cinematography as an example of effects of EU support for Polish culture has been dictated by both the turnout and artistic successes of this field of culture as well as the spatial range and participation of new technologies.

The development of the audio-visual sector in Poland has been supported by programmes financed from two structural funds: the European Regional Development Fund and the European Social Fund. The most common activities include the modernisation, expansion and digitisation of cinemas throughout the country.

Table 2. Projects financed from structural funds for the development of cinemas and culture audio-visual

Audio-visual projects	Subsidy from EU funds, PLN million
Lesser Poland Digital Cinema Network	3.8
Masovia Cluster — Small Community Cinemas	2.9
Film Arts Centre in Katowice	7.7
Lower Silesian Film Centre	4.9
Film Culture Centre in Zamość	5.4
National Audio-visual Institute (currently National Film Archive — Audio-visual Institute)	45.0
Mazovian Media Culture Centre	2.0
L. Schiller State School of Film, Television and Theatre in Łódź, subsidies for the Academic Centre for New Media Teaching and an archive of film stock	18.0
Reconstruction of Castle Opera in Szczecin	75.1
Improvement of the quality of the educational offering through the revitalisation, reconstruction and extension of the University of Fine Arts in Poznań	48.4

Grants from the EU have also been allocated to enterprises for the implementation of innovative solutions for professional film production in the scope of equipment, sites or techniques. Examples include companies such as Alvernia Studios, which received a grant of PLN 7.4 million from the Innovative Economy Operational Programme and the Audiovisual Technology Center, which received a grant of PLN 2.7 million from the Lower Silesia Regional Operational Programme. One project worthy of special attention is the conservation and digitisation of pre-war drama films at the National Film Archive in Warsaw. A subsidy of PLN 14 million from the Infrastructure and Environment Operational Programme allowed for the reconstructed historical titles to be presented in 4K definition.

EU funds are also used to subsidise film production. Dramas, documentaries or animated productions are supported at the development stage, i.e. the preparation of the financial and organisational plan of film production. This type of support was received by e.g. "Cold War" by Paweł Pawlikowski (EUR 60,000), "United States of Love" by Tomasz Wasilewski (EUR 50,000), "Loving Vincent" by Dorota Kobiela (EUR 58,000) and "The Dark House" by Wojciech Smarzowski (EUR 50,000).

Cinematography funds are used for the financing of projects deemed priorities. Apart from the above-mentioned film production, funds are also received by distributors, who are able to show artistic European films without incurring the investment risk connected with a limited audience. Distributors include brands such as: Gutek Film, Kino Świat, Solopan, Aurora Films, Monolith Films or Against Gravity.

Since 2007, the Creative Europe Programme have supported the creation of the largest film festivals in Poland: the New Horizons International Film Festival, the International Film Festival of the Art of Cinematography Camerimage, Etiuda & Anima and the Cracow Film Festival. These festivals have been receiving amounts covering full costs related to their organisation.

European Capital of Culture

The European Capital of Culture Project (ECC) introduced by the EU in 1985, initially under the name European Cities of Culture, is Europe's most recognisable EU programme dedicated to culture. The ECC programme was initiated by Melina Mercouri (also performing the function of the Minister of Culture in the Greek government), who, justifying the need to develop international cooperation in the area of culture, argued that: "It is time for our [ministers of culture] voice to be heard as loud as that of the technocrats. Culture, art and creativity are not less important than technology, commerce and the economy" (Myerscough, 1994).

The ECC programme allows selected cities to present the cultural life, heritage and cultural offer not only of the city itself, but also of the whole region or even country. The ECC highlights the diversity of European culture while at the same time underlining its common source.

Since 2010, EU grants for the ECC amount to EUR 1.5 million. Events programmes should be in line with the objectives and activities provided for in Art. 151 of the Treaty and constitute an element of many years of cultural policy or the strategies of both the cities and regions applying for the title. It is innovative in introducing obligatory criteria for the planning of the events programme, determined in the Decision as criteria concerning the "European dimension" and the "city and citizens" (European Parliament, 2006). The interpretation of the criterion of the "European dimension" provided in the Decision specifies it as activities that shall:

- foster cooperation between cultural operators, artists and cities from the relevant Member States and other Member States in any cultural sector;
- highlight the richness of cultural diversity in Europe;
- bring the common aspects of European cultures to the fore[2].

In turn, the criterion of the "city and citizens", in line with the intent of the authors of the document, should be understood as initiatives that shall:

- foster the participation of the citizens living in the city and its surroundings and raise their interest as well as the interest of citizens from abroad;
- be sustainable and be an integral part of the long-term cultural and social development of the city[3].

The first Polish city to be selected as a European Capital of Culture was Cracow. This happened before Poland's accession to the EU. The year 2010, however, was an unusual year, in which the contribution of European cities in the development and achievements of the world civilisation was highlighted. As many as nine cities were awarded the ECC title then, two of which were only about to join the Community. Cracow was selected as the capital of culture in a top-down decision by the Polish government, and it had not gone through the contest procedure.

Since 2007, the title of the European Capital of Culture has been awarded to two cities at the same time. The selected cities will have a few years to prepare for the event; this is why the minister of culture and national heritage announced a contest in 2009 under the name of European Capital of Culture 2016. It gave all Polish cities equal chances to apply for the title. In total, 11 Polish cities applied, including: Łódź, Bydgoszcz, Gdańsk and Warsaw. The contest was won by Wrocław with an application by Adam Chmielewski. At the same time, a similar contest was carried out in Spain. The winner was the city of San Sebastian, which in 2016, together with Wrocław, enjoyed the title of European Capital of Culture.

The next chance for Poland to present one of its cities as the capital of culture will be in 2029. At the same time, one of the cities in Sweden will be applying for the same title.

2 Decision No. 1622/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Community action for the European Capital of Culture event for the years 2007 to 2019.

3 Ibid.

Copyright in the time of digitisation

In connection with the digital breakthrough, the cultural sector, and the cultural industry in particular, which create goods that are subject to digitisation, are facing a crisis. The crisis is connected with the informal circulation of culture content (Filiciak, Hofmokl, & Tarkowski, 2012), commonly known as pirating. Creators—producers of content—are compensated insufficiently or are not compensated at all, while the media which reproduce it infinitely make quite a lot of money. Because digital films, books, music and video games are consumed on a mass scale, their consumers can pay little or nothing, while still allowing distributors to make a profit.

In the creators-distributors-consumers of culture triangle, conflicting interests have emerged. Creators, based on copyrights, demand a share of the income from distribution. In the digitised reality, distributors would have to control the circulation of the content they disseminate, and thus incur additional costs. Consumers would have to pay for using such content. This problem will not be solved by consumers' readiness and willingness to pay, and studies conducted by the European Commission (Ecorys, 2015) show that there is a lack of motivation, apart from the ethical one, to incur fees (particularly in Poland and in France).

In the European Parliament in Strasbourg, the EU directive on copyrights was adopted. Two articles—11 and 13—of the proposed regulation caused particular controversies. Article 11 specifies what elements of press articles can be disseminated by portals such as Facebook without paying any licence fees. The passed regulations obligate "aggregators" to pay the holders of copyrights for the publishing (often by users themselves) of content or to delete it. This provision also allows negotiating with publishers in terms of the scope of content covered by the licence[4].

Directly linked with Art. 11 of the EU Copyright Directive is Art. 13, which introduces the obligation to filter and analyse content made public on the Internet in terms of copyrights. Platforms covered by this provision will be obligated to sign a licence with the holder of copyrights. If such a licence is not signed, the owners of the platform will be obligated to remove the content specified by the owner of the copyrights. Importantly, if a given platform fails to fulfil copyright obligations, it will be liable for content made available by its users.

The EU Copyright Directive is a big step in exercising the rights and royalties to which creators are entitled in the new technological reality. It proves that the European Community cares for the professional situation of artists, performers and creators, striving to improve their financial situation.

Artist status

The professional situation of creators and artists in Poland does not correspond with recognised developmental tendencies, according to which culture and its industries have been recognised as new areas of investment and sources of creativity and innovation. The cultural policy of European countries, which belongs to public policies, just to small extend recognizes the new reality of culture characterized with greater market scope and the presence of new technologies. In this new reality, there is a need for suitable regulations that take into account the social needs of creators and cultural performers.

Until 1980, copyright issues were primarily related to artists' work. Thanks to the efforts of UNESCO and the International Labour Organisation, in 1980 in Belgrade, a resolution was adopted which contained many recommendations concerning the conditions of work of artists, their use of employee rights and the need to introduce the institution of "artist social status" (as a profession and position) in legal systems. Currently, artist status has a broader meaning. It is still used for the determination

4 As a support for Art. 11, on Monday 25th April 2019, major Polish journals, including "Gazeta Wyborcza" and "Rzeczpospolita", were printed with their first pages blank. It was an appeal to Polish members of the European Parliament to support the directive.

of a position in a social hierarchy, granted to artists in a given society; but it also indicates the scope of freedom and rights, including personal rights, proprietary rights and social rights which artists should be entitled to.

At the end of 1990s, the European Parliament also began working on the definition of artist status. Many soft-law resolutions were adopted in this scope. These regulations show desirable targeted standards to be used in the cultural policy of Member States. Artist status in Poland is not yet a legally defined category, but work is currently underway to introduce it. It is worth noting their participatory nature, which means that artistic circles are broadly included in its development[5].

Conclusions

During Poland's initial period of transformation, both the market and administrative actions in the area of culture forced the introduction of a number of adaptation measures. The awareness and behaviour of people regarding culture changed. Artists and performers began not only to freely discuss modern methods of cultural management, the partnership of economic sectors and the economic meaning of culture, but they also started to take criteria of economic effectiveness into account in their activities in various areas of culture and its industries. People involved in culture draw on global models of good business, capably using financing from various sources, including EU funds, and adeptly moving around the area of new technologies. Furthermore, they demonstrate active citizenship by creating numerous non-governmental organisations and supporting self-governments. What is more, it has been in cultural circles that the need for perspective planning and responsibility for the future first manifested itself.

Poland's entry to the EU has provided Polish culture not only with a solid financial injection, various examples of which have been presented in this chapter, but also with the ability to take an active part in the debate and to practise new experiences of the global culture and, obviously, the freedom to establish international cooperation and the increased mobility of artists. Poles have adjusted to new market conditions and adapted to being EU citizens, facing the challenges of globalisation and even the 2008 economic crisis.

As economies intensively follow innovation, culture creates a creative economy. These transformations require new competences and the broadening of the field of freedom both in relation to institutions and individual possibilities. And it is here that the need to note the appropriate place for culture in its broadest sense emerges. It seems insufficient to treat culture only as a factor of achieving of economic, social and political priorities such as the improvement of the wealth and attractiveness of EU Member States, their regions and cities, supporting innovation, entrepreneurship and knowledge-intensive economic growth and the creation of more jobs. Culture has the ability not only to create customs and standards, but also to strengthen ties within communities, create identity and support civil society. At a time of EU unity out of balance and difficulties which the Community is facing due to Brexit, the development of culture should become an autotelic objective and a priority of the new horizon. This would surely refresh and fortify the wise concept of unity in diversity, which fosters the development of and care for countries' own cultural area while drawing from strength and resources of the Community.

5 Also significant are studies of the specificity of the market of work of artists as well as estimations of their numbers, which are being conducted together with the Creative Economy Research Center at SWPS University of Social Sciences and Humanities.

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PART III

THE CHALLENGES OF EUROPEAN INTEGRATION

CHAPTER 19

PRZEMYSŁAW KOWALSKI

CHALLENGES OF THE SINGLE MARKET

ABSTRACT

The European single market is considered one of its greatest achievements of the EU thus far. Nevertheless, both citizens and entrepreneurs who wish to operate in the markets of other EU countries still come across obstacles which they do not experience in local markets. Some of these barriers result from differences in the levels or economic development or cultures, but some of them are the consequence of unnecessary bureaucracy, unclear national regulations and standards or even protectionism. Empirical studies show that the benefits of eliminating these barriers can reach up to several percent of the EU's GDP.

Poland's participation in the European single market is a good example of some of the challenges connected with its completion in the context of the economic and social differences persisting in the EU. The unfinished agenda of the liberalisation of the services market as well as the term "social dumping" and the postulate of the level playing field in competition in the single market are of special importance for countries such as Poland. Benefits of the exchange result from differences between countries, but the exchange has to be based on the principles of fair competition. In a time of growing anti-globalist tendencies (in the wake of the financial crisis), increasing inequalities, the return of statism in economic policy and the crisis of trust in EU institutions, these areas should be the centre of interest in future discussions over reforms of the single market. In these discussions, Poland, as the largest Member State in Central and Eastern Europe, can play an important role.

A lack of dialogue and will to reach a compromise can lead to protectionism and increasing harmful competition between Member States in areas such as taxation, regulations and standards concerning the labour market, environmental protection and state aid. In a negative scenario, one may imagine that, in spite of the undoubted previous achievements, the failure to solve contentious issues concerning the functioning of the single market may become a bone of contention among Member States.

CHALLENGES OF THE SINGLE MARKET

Single market: glass half-full or glass half-empty?

The European single market is considered one of greatest accomplishments of the European Union thus far: it brings together over 500 million consumers and is currently the world's largest common economic area that includes separate nation states. Although available estimates concerning the economic benefits of the single market vary significantly, economists agree that reduced costs of international exchange, common standards, economies of scale and the increased mobility of labour and capital have significantly improved the allocation of production factors and have increased the level of competition. In addition, they have also brought benefits to consumers (e.g. Erixon and Georgieva, 2016, and Chapter 5 in this report).

In particular, previous achievements connected with the creation of the single market make the EU an important player on the international stage, and one which can influence the direction of development of multilateral relations, e.g. in the scope of shaping international standards or trade law as part of the World Trade Organisation, and can be an equal partner in bilateral talks with such economic powers as the United States or China.

Nevertheless, many observers point out that the internal EU market is single in name only (e.g. Erixon and Georgieva, 2016). This can be confirmed by EU citizens who are confronted with complex formalities (e.g. the recognition of qualifications or setting up a bank account) when they wish to study, work or retire in another EU country. Consumers from various Member States often do not have access to products of comparable quality or price, whereas entrepreneurs who wish to enter the markets of other countries in the Community still face barriers which are non-existent in local markets (e.g. European Commission, 2011).

Some of these barriers result from cultural differences, but part of them is the effect of complex and sometimes contradictory EU regulations and their misinterpretation and faulty implementation by national authorities, the existence of non-transparent regulations and standards in many domains, bureaucracy or even protectionism. The visible fragmentation of the internal market not only lowers the competitiveness of the European economy but also reinforces negative national sentiments in politics. The last element is demonstrated by politicians being primarily focused on a narrow set of national interests, even in discussions concerning the directions of strengthening the European integration.

Quantitative studies of the costs associated with the lack of completion of the single market conducted by the European Parliament in 2014 show that potentially they may amount to EUR 1.1 trillion a year or 8.6% of the EU's GDP (European Parliament, 2014). The scale of the phenomenon clearly demonstrates the size of the barriers persisting in the internal EU market.

What single market?

Since the start, the strive for eliminating trade barriers as part of the single market has stemmed from the expected benefits from free trade based on principles of fair competition. Economic theories on which these expectations were based (in particular, the theory of comparative advantage) showed that the exchange allowed trading partners to more efficiently allocate production factors and focus on those areas of activity in which individual countries were relatively more productive, and thus be able to exchange own products for those produced more effectively in other countries.

A condition which is fundamental (although often forgotten in popular discussions about free trade) for the existence of benefits derived from such an exchange is unconstrained competition and a lack of state intervention in the shaping of relative production costs, also known as a 'level playing field'. State aid, e.g. in the form of sectoral subsidies or funds supporting a specific production factor (or product), although it can increase trade flows or change their structure, potentially entails a decrease of economic welfare (e.g. Deardorff, 2011).

International economic policy after World War Two, and particularly the formation of the multilateral trade rules under the General Agreement on Tariffs and Trade (GATT) and later WTO and macroregional initiatives such as the EU and the single market were inspired by the said theoretical case for the gains from trade. At the start, actions were focused on reducing customs duties and other barriers which are typical for trade. However, over the last 20 years, in the face of increasing influence on the global economy of developing countries and the crisis of 2008-2009, many governments of developed countries have begun to run a more active economic policy. Thus, barriers resulting from state interventions in markets became significant. They included subsidies, monopolies and state-owned companies, local content requirements or regulations concerning public procurement.

EU institutions that regulate the single market[1] are often mentioned as the most advanced examples of inter-state economic cooperation. In addition to the removal of all customs duties and other trade barriers and the introduction of common standards (e.g. safety of products) by the Member States, the European Commission has strong, transnational competences in the scope of shaping regulations concerning state aid or competition policy (see Chapter 6). These competencies were granted to the Commission to prevent situations where products exchanged in the single market are not manufactured by the most competitive producers, but by those which have won political favours in specific Member States. In the international context, a state intervention that undermines the level playing field threatens the process of the liberalisation of trade and international investments and can lead to protectionism, undermining the fundamental goals of European economic integration.

Unfortunately, even within the EU internal market, the exchange of goods, services and the flow of workforce and capital face barriers connected with more or less deliberate state interventions in the economy. They result not only from persistent restrictive national regulations and standards on the international flow of goods, services and production factors, but also from local regulations of the labour market, environmental protection, taxes and the management of monopolies and state-owned companies or infrastructure.

Are French wages set in Warsaw?

The above headline is a travesty of a question posed in the mid-1990s by an American economist, Richard Freeman. Just like many other analysts and politicians of that time, he wondered to what extent, in light of economic theories and empirical studies, the increasing trade exchange with China affected the level of employment and wages of the low skilled workforce in his country (Freeman, 1995). At that time, controversies surrounded the manufacturing sector, which was shrinking in the United States and growing in China. Before that, in the 1970s, a similar question was asked about the trade exchange between the United States and Japan, which was developing quickly at that time. This literature is becoming more and more relevant in the context of the challenges of the EU single market.

In the case of Poland, first, the gradual adjustment to the requirements of the single market and, since 2004, full participation in the single market have brought about immense economic benefits. These benefits have been largely connected with the elimination of border trade barriers and the adoption of EU regulations and standards. They also resulted from large differences in the level of development and structure of the economies and societies between Poland and the 'old' Member States.[2]

1 These include treaties, regulations, directives, the European Parliament, the European Commission and the European Court of Justice.

2 According to the neoclassical economic theory, the more countries taking part in the exchange differ (e.g. in terms of resources or relative labour productivity), the bigger the gains from trade are. In turn, the new theory of trade, started by P. Krugman, emphasises that the factors fostering the development of international exchange are the similarities of the economies and companies.

These differences and the resulting economic effects, which materialised after the enlargement of the EU, have also revealed the weaknesses of the single market. An example is the controversial discussion held in 2004-2005 concerning the Services Directive and references in it (first in France, but also later on in other EU countries) to the so-called phenomenon of the Polish plumber. This term became a symbol of protest in Western Europe against the influx of cheap workforce from Central and Eastern Europe and the perceived problem of social dumping. It has allegedly made the French reject the European constitution in a referendum in 2005. The large inflow of workforce as well as the alleged reduction of wages and standards by employees from the new Member States were also used as arguments for leaving the EU in the Brexit referendum campaign. Accusations of unfair competition were also raised against Poland in the context of moving industrial production from France to Poland (by both main candidates in the 2017 French presidential campaign).

With Poland as a benchmark, the remaining parts of this chapter outline two selected challenges connected with the completion of the single market in the context of the economic and social differences persisting in the EU. The chapter discusses in particular: 1) some points of the unfinished agenda of the liberalisation of the services market, which appear to be of special importance to countries such as Poland, and 2) the term of level playing field in competition in the single market. These areas have significant potential to be in the centre of interest in future discussions about reforms of the single market, in which Poland, as the largest Member State in Central and Eastern Europe, can play an important role.

Liberalisation of the services market and the problem of social dumping

One of the pillars of the single market, which by many commentators is considered the least completed, is the market of commercial services (e.g. Monti, 2010; Perissich, 2012; Erixon and Georgieva, 2016; European Parliament, 2014). It is worth pondering why it is so and what implications it has for the single market as a whole.

The provision of services differs from that of goods, as the exchange of the former is based on geoFigureical (or timewise) proximity between the provider and the consumer. In many instances it requires the trans-border mobility of labour resources and capital. The market of services, which are largely devoid of material form, is moreover exposed, to a bigger extent than the market of goods, to market failure; hence, services require stricter regulations. As a result, the international exchange of services faces barriers different from those faced by the exchange of goods. In this case, what is crucial is not border barriers such as customs duties, which are relatively easy to reduce, but regulatory barriers, which often result from the societal preferences concerning the internal services market or the rules, standards or informal socio-economic norms in a given country rather than from the rules governing the international exchange of services.

Regulatory reforms conducted thus far within the EU single market have resulted in a significant reduction of trade barriers in services (Benz and Gonzales, 2019). Nevertheless, these barriers remain high, as indicated by comparisons of the size of the intra-community trade and trade between individual states in the United States (Aussiloux, 2017). The lower levels of trade in services within the EU results from, among others, the fact that not all services are subject to EU legislation: it is estimated that in the professional and business services sector in the EU, there are approximately 3,000 national regulations (see Chapter 12). These regulations can constitute trade barriers due to their restrictiveness (e.g. the requirement to use the local language or restrictions imposed on foreign capital) and heterogeneity (e.g. different accounting and reporting standards imposed on the Small and Medium-sized Enterprises (SMEs) sector, which restrict access to local services markets of foreign accounting services providers, e.g. Kowalski et al., 2019).

The most important legal act of secondary legislation (not resulting directly from EU treaties) concerning the services sector is the above-mentioned Services Directive (2006/123/EC), covering services sectors responsible for over half of the GDP of the EU (Kowalski et al., 2019). It sets the legal framework facilitating the use of the freedom of establishment by service providers and the free flow of services on the internal EU market (see Chapter 13).

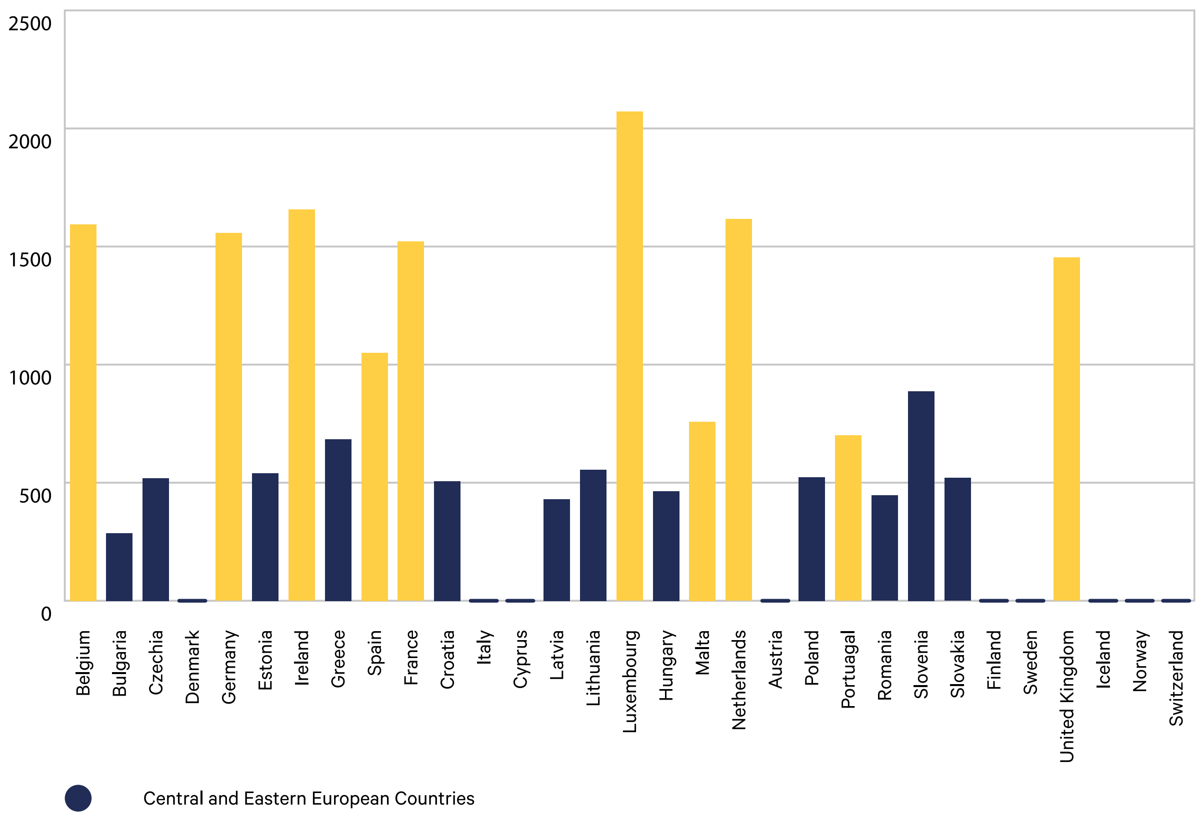
However, in its final form, the Services Directive did not include the Bolkestein Directive proposed in 2004. The aim of the latter directive was, among others, to adopt the country of origin principle. It assumed the provision of services on the internal market according to the law of the country of origin of the service provider. The introduction of the said regulation was met with resistance from the 'old' Member States of the EU who were afraid of social dumping, which is understood as having to compete on their own markets with service providers from Central and Eastern European countries where wages are much lower, the social security charges are different and, in general, the level of socio-economic development is lower (Kowalski et al., 2019).

It was then that the term 'Polish plumber' gained publicity, being used, among others, in a press conference of the former EU Commissioner for Internal Market and Services and promoter of the directive, Frits Bolkestein. He claimed that he would gladly use the services of a Polish plumber, because, as he said, in the city in northern France, where he had a house, it was difficult to find a good local plumbing specialist. In spite of the controversies aroused by that statement in France, it gave Poland a lot of positive publicity in more liberal circles, advertising Poland as a country of competitive professionals.

The issue of social dumping returned during discussions concerning the European services e-card. The e-card did not apply the controversial principle of country of origin; rather, as a transitional solution, it was meant to be only a passport or certificate issued by a relevant office of the country of origin. This type of certificate would state that a given service provider meets the regulatory requirements of the host country.[3] The goal was to reduce the burden of formalities which service providers face in other EU countries. The initiative was blocked in 2017 due to objections from Member States and trade unions, which argued that while it may help to reduce formalities, it also had associated risks including fraud connected with self-employment, fictitious posting and social dumping.

Figure 1. Statutory monthly minimum wage in EEA countries (EUR, first half of 2019)

Source: Eurostat.



3 See: http://www.europarl.europa.eu/legislative-train/theme-deeper-and-fairer-internal-market-with-a-strengthened-industrial-base-services-including-transport/file-services-e-card.

Directive (EU) 2018/957 of the European Parliament and Council of 28th June 2018 amending Directive 96/71/EC concerning the posting of workers in the framework of the provision of services is the latest proof of the attention certain Member States pay to the issue of social dumping and equal chances on the internal services market. As mentioned in Chapter 12, new rules reduce the posting period and, therefore, the possibility of employing a worker posted to work in another member country under the rules of the country of origin to 12 months. After this period, the employment of a worker must be governed by the laws of the host country. Rules also require that the worker receives at least the minimum wage of the host country, although social security contributions are to be paid in the country posting the worker. As can be seen by the variation of the amounts of the current statutory minimum wages in EU countries (Figure 1), the principle of the minimum wage of the host country can radically change the conditions of competition on the markets of, for example, construction or transport services, which are important from the point of view of countries such as Poland (see Chapter 12). Furthermore, it provides workers with wages closer to those in the countries to which they are posted.

Level playing field in the era of mobile industry

The challenges of the single market also pertain to manufacturing and foreign direct investment. The production of technologically advanced goods is increasingly performed in global value chains (see Chapter 5 and Chapter 11). The progressing specialisation and geoFigureical fragmentation of production processes, in which companies from different parts of the world specialise in individual and specific activities means a higher mobility of production. It is easier to change the subcontractor producing a given component or the location where a product is assembled from imported components than to move an entire integrated production process (as was required, for example, in the relocation of production in the 1970s or 1980s, when industries were concentrated in specific regions, for example, the US motoring industry in the region of Great Lakes). In some cases, even very small changes in production costs in a segments of a value chains located in a specific location results in moving production to another (cheaper) location. From the point of view of companies, this is effective; but from the perspective of workers, it poses a real danger. Managers of production plants, under the threat of the relocation of production, often demand concessions from workers in terms of pay or working conditions. In the era of value chains, the attraction and retention of industrial production processes have become one of the main priorities for local and central authorities in many countries.

A concrete example of the above-described situation was in 2017, when Whirlpool moved its washing machine factory from outside Amiens in northern France to Łódź in central Poland. The move was extensively covered by the French media during the presidential campaign taking place at that time. Workers from the French factory, who became the protagonists of one episode of a popular French TV programme "Envoyé Spécial", had previously been warned about the possible relocation. Consequently, they agreed to lower pay and to work on the weekends so that they would not lose their jobs. However, it did not prevent the later decision to move production to a special economic zone outside Łódź, where labour costs were three times lower than in Amiens and the corporate income tax (CIT) was half the standard Polish rate (which was also lower than the French rate). Both Emmanuel Macron, considered a liberal candidate at the time, and the right-wing Marine Le Pen visited the factory in Amiens and talked with the workers on strike. Emmanuel Macron, notwithstanding the fact that in other elements of his campaign he referred to the value of international integration and European values, went as far as to accuse Poland of unjust practices consisting allegedly of unfairly undercutting of production costs.

Under the rules applicable on the single market, the wages of workers are not governed by EU regulations, and company income tax rates are not harmonised. Therefore, the reduction of the tax rate in relation to the general tax burden seems not to be in conflict with EU regulations on public aid, which can be targeted at economically impoverished regions of the EU (such as e.g. Łódź). Furthermore, many employees of the Amiens factory did not blame Poland or their Polish colleagues for stealing their jobs, even expressing friendly feelings to Polish workers, since the price they paid for obtaining jobs in the new location was low pay. The French highlighted for instance that having several times lower wages and wishing to buy the products they themselves manufacture, their Polish colleagues would have to pay at a local store exactly the same amount of money as in France, and thus that their purchasing power was much lower.[4] The workers on strike argued that probably in five years' time, Polish employees would lose their jobs in favour of employees in yet another, cheaper EU country, or in a further country, such as Ukraine (which signed a Deep and Comprehensive Free Trade Agreement with the EU), to which production might be relocated.

This example shows that, especially in the era of globalisation and increasing production mobility in global value chains, even in the EU—which brings together countries of a similar level of economic development (in particular compared to trade between developed and developing countries), there will be more and more questions concerning equal chances and the rules of competition. Countries such as Poland, which, compared to most EU economies, are still "cheap" and at the same time are large enough to affect the economic mechanisms of the EU, will be in the centre of this debate.

Final remarks

There are a lot of examples like this, and they do not pertain only to Poland. They are certainly an element of a political game in which EU countries try to negotiate for themselves the best possible conditions of competition on the internal market. However, they indicate continuing tension and incomplete integration within the single market. The latter is demonstrated through a lack of sufficiently clear rules concerning the level playing field and fair competition that would be acceptable by Member States.

Anti-globalist tendencies in societies, growing in the wake of the financial and economic crisis (2008-2009), followed by the Eurozone crisis (2010-2011), increasing inequalities, the return of statism in economic policies, the crisis of trust in EU institutions, and, finaly, Brexit indicate an urgent need to rethink the strategy and further reforms in the area of the EU single market. In negative scenarios, one may imagine that, in spite of undoubted achievements of the single market (or maybe because of them[5]) the failure to solve the remaining contentious issues may become a bone of contention among Member States.

Such an opinion is expressed, for example, in the White Paper of the European Commission on the Future of Europe (European Commission, 2017), also known as "Juncker's Scenarios" (also see: Chapter 22). Scenario three entitled "Nothing but the single market", in which Member States would focus mainly on maintaining and deepening reforms in this area, is presented as a scenario that is too narrow and divisive, and, therefore, as too risky. However, in the context of the achievements and importance of the single market, it seems that there is a need for an additional strategy, with a concrete list of closely analysed, feasible reforms, in which the focus on the single market becomes a positive scenario for the EU.

Such a strategy is a demanding scenario, because it is a very challenging task to determine where the role of the state should end and what standards should be adopted in order to ensure a level playing field and, at the same time, not restrict the benefits coming from differences between Member States. Studies on the various forms of state aid and government support and their influence on production and trade have been conducted at the Organisation for Economic Cooperation and Development (OECD) for many years. Initially, they focused on measuring the effects of subsidies in agriculture (producer support estimate, PSE, OECD, 2016); lately, they have been extended to examining subsidies in the fossil fuels and aluminium sectors (OECD, 2019). Especially this last study, covering the entire production chain, shows how difficult it is to document and measure the influence of a state on production costs and market competition. Studies and political discussions on this topic continue. There is a chance that these efforts will be reflected in discussions over the future of the EU single market, and more so as it brings together countries with similar values, traditions and history (Chapter 1).

As is also noted in the above-mentioned White Paper (European Commission, 2017), a lack of dialogue and will to reach a compromise could lead to protectionism and increasing competition between

4 Documentary from channel France 2, "Envoyé special", *Whirlpool: les oubliés de la campagne*, of 27th August 2017, https://www.youtube.com/watch?v=dLZvDV47Zhw.

5 It can be e.g. argued that the reduction of customs duties and other border trade barriers forces the use of standards in other domains, e.g. concerning the labour market or environmental protection, because they are connected also with production costs.

Member States in areas such as taxation, regulations and standards concerning the labour market, environmental protection or state aid. It may lead to a situation where all countries race to the bottom on these standards with essentially unchanged trade and production structures (and, therefore, also economic well-being). Coming to an agreement would prevent this. Reaching a consensus in these areas would also help more effectively shape EU external trade policy, which is facing similar challenges, including, for example, with reference to the liberalisation of trade and investment with third countries which have radically different standards.

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CHAPTER 20

MATEUSZ SZCZUREK

TOWARDS A FISCAL UNION?

ABSTRACT

The very first proposals to create a European Monetary Union noted the usefulness of a fiscal union—sharing of a significant part of public spending in the European Union (EU), so that it would constitute an important stabilising mechanism. If such community-level sharing is not present, the stabilising role during crises can be played by internal adjustments of prices and wages, migrations, the reactions of financial markets and a well conducted national fiscal policy.

Community mechanisms would have many advantages. Apart from their basic stabilising functions, they could help free fiscal policy from the excessive pressure of financial markets during recession. It would also allow taking into account of the influence of national fiscal policy on other countries. Finally, it would generate economies of scale and the better effects of expenditures (e.g. on the strengthening of the single market or the scientific research and development of technologies) with the same funds than national expenditures.

However, since the very beginning, national circumstances, in particular fears of permanent funding of the excessive expenditures of other countries and differences in preferred macroeconomic policies, have constituted barriers which are impossible to overcome. Furthermore, today, promising-sounding slogans such as the “Eurozone budget” or “coordination of fiscal policy” mean something else for France and for Germany. The lack of a real perspective of establishing a community fiscal policy for EU members intensifies the necessity to maintain a relatively conservative fiscal policy in good economic times. National fiscal policy will remain the key element replacing the limited role of EU stabilising mechanisms. The effectiveness in this scope depends on the freedom to increase and fund national budget deficits in times of crisis, i.e. on prudent policy in good economic times and a low level of national public debt.

TOWARDS A FISCAL UNION?

Problems with the Eurozone

The European Economic and Monetary Union is often referred to as the incomplete Monetary Union[1]. It results from a number of problems connected with the atypical nature of the Monetary Union in European implementation. With a limited federal budget, the common currency causes tensions in economic policy, particularly in times of crises.

Members of the Eurozone have delegated monetary policy to the independent European Central Bank (ECB) and have adopted a single currency, irrevocably establishing mutual nominal exchange rates. This decision naturally increased the significance of fiscal policy for the stabilisation of the economy, in particular in the case of economic shocks affecting Member States in an uneven manner.

Single interest rates of the ECB can be too low for some countries, and too high for others. In the first group of countries, this would translate into economic overheating, inflation and credit booms that are dangerous for financial stability. In the other group, demand and investment would be restricted, resulting in unemployment and lower incomes.

The second potential problem are imbalances and growing differences in competitiveness between members of the Eurozone. This problem can be offset by changing real exchange rates, which is difficult without separate currencies and, consequently, without nominal exchange rates. The loss of competitiveness may result from: a) mistakes in national policy—for example, too expansive fiscal policy; b) exogeneous shocks—changes in the prices of raw materials or the collapse of a key company (the Nokia effect); or c) the above-mentioned overheating of the economy and an extreme increase of wages and prices (in relation to other members of the Eurozone).

The third risk is an increased threat of liquidity crises absent action on the part of the ECB as a lender of last resort. The Maastricht Treaty established the independence of the ECB at a unique level (Draghi, 2014; Mody, 2018), with a very limited basic mandate—ensuring price stability (without the criterion of unemployment or growth)[2].

Doubts concerning the ECB mandate pertained both to the role of the ECB as a lender of last resort for banks and for governments. DeGrauwe (2011) notes that the lack of an own central bank that can reduce speculative attacks on government bonds denominated in a currency of a given country exposes the government to the threat of moving from a liquidity crisis to solvency crisis. This happens due to a combination of the increase of market interest rates and weakening of the the banking system's capital adequacy. Doubts regarding ECB's stabilising role were significantly reduced by the announcement in July 2012 of the Outright Monetary Transactions (OMT) programme preceded by Mario Draghi's "whatever it takes" statement.[3]

Substitution mechanisms

There are a few mechanisms which can address the weaknesses described above, replacing one's own monetary and exchange rate policy. However, their effectiveness in the European context is limited by low inflation, high public debt, the insufficient integration of financial markets and the still existing barriers as part of the single market.

1 (Juncker, Tusk, Dijsselbloem, Draghi and Schulz, 2015; DeGrauwe, 2011).

2 Although the treaty states that, as part of its secondary objectives, the ECB "supports the general economic policies in the Union in order to contribute to the achievement of its objectives as laid down in Article 3 of the Treaty on the Functioning of the European Union" (Art. 127 TFUE), but in practice the value of the basic inflation rate has been proving to be the key parameter dictating decisions concerning interest rates (Trichet, 2011).

3 "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." The Outright Monetary Transactions (OMT) Programme allows the ECB to purchase bonds of a country in a crisis provided that the conditions concerning the aid scheme under the European Stability Mechanism (ESM) are met (ECB, 2012).

Internal devaluation

Real exchange rates can adjust through relative changes of wages and prices, thus stabilising economic growth. These mechanisms, however, work more slowly than nominal exchange rates; and in deflationary environment, they are particularly ineffective. As a result, with large economic shocks, the period of higher unemployment and lower production continues. With appropriately high average inflation in the Eurozone and a large productivity increases in deficit countries, it can be relatively easy to offset imbalances through the depreciation of real exchange rates. However, inflation in stronger countries and the productivity growth in countries affected by crisis have been very low in the last decade. Internal devaluation also constitutes a threat to the solvency of both indebted governments and companies. While stabilisation of an economy in recession and real economic growth reduces the burden of the existing debt, the drop of prices (necessary for obtaining a real depreciation in a low EU inflation environment) increases the real value of the debt (Escolano, 2010).

Migration

The mobility of production factors, labour in particular, can offset the economic situation between countries and the costs of economic shocks for households. However, while the freedom of taking up work in each country of the European Union (EU) is one of the fundamental freedoms of the Community, in practice, the mobility of work in the Eurozone is still lower than in the United States (Bayer and Smets, 2015; also see: Chapter 3 herein, about the flow of workers). This can result from cultural differences, language, or local regulations.

An additional problem connected with labour mobility is its negative effect on the age dependency ratio in countries which export workforce. Without the EU level provision of some public services in particular pensions or healthcare, emigration can translate into an increased burden for the budget of the country which exports workforce. In practice, increased emigration in the EU translated into an increasing share of expenditures on health and pensions, but an insignificant and short-term effect on the general balance of budgets (Atoyan et al., 2016).

Market compensation of economic shocks

An important mechanism offsetting macroeconomic risks in the United States are financial markets (Alcidi, D'Imperio and Thirion, 2017). Investments made in the stronger regions bring profits to companies and households in areas affected by a crisis. The Eurozone, in spite of the freedom of capital flows and its single currency, still remains behind in that respect, although the latest data suggests an increase in the significance of the private sector in offsetting macroeconomic risks (ECB, 2016). The fragmentation of capital markets and their reduced significance compared to banks are an obstacle in increasing the role of the financial sector.

The experiences of previous decades show yet another worrying dependency: financial integration, which in good times constitutes an element that offsets the risk, works the other way around in times of crisis. Cross-border financing disappears or, even worse, reverses, which in the Eurozone may be connected with the still present risk of the break-up and re-denomination of assets in accordance with new exchange rates (Messori and Micossi, 2018).

National fiscal policy as a mechanism for offsetting imbalances

With the insufficient mechanisms mentioned above, national fiscal policy becomes the key element in stabilising a good economic situation. It is particularly effective in a time of recession and zero interest rates thanks to high fiscal multipliers (Auerbach and Gorodnichenko, 2012). National fiscal policy, however, is not a perfect mechanism.

Most of all, the capacity to quickly adjust to the economic situation through discretionary measures is limited. Changes in taxes and increased public investment require time and are not fit for quick responses to changes in the economic situation.

Part of fiscal policy that is less vulnerable to inertia are the "automatic stabilisers", i.e. the fact that in a recession some expenditures (e.g. unemployment benefits) naturally increase, while taxes fall. However, even these mechanisms are automatic only when a country has sufficient freedom to increase and finance budget deficits. In the case of high public debt, the freedom to stabilise the economic situation through fiscal policy can be reduced by the step-wise response of financial markets, the profitability of treasury securities and debt servicing costs (Berger, Dell'ariccia and Obstfeld, 2018)[4].

An additional flaw of national fiscal policy as a tool of macroeconomic stabilisation is the potential conflict between responding to internal imbalances (unemployment and inflation) and to external imbalances (competitiveness and dependence on external funding). An example of such a conflict on a regional level can be the areas of former East Germany in the 1990s. In this case, the expansive fiscal policy that sustained economic growth, in spite of the beneficial supply effects, actually delayed the adjustment of competitiveness and reinforced the difficult economic situation (European Commission, 2002).

Fiscal union as an answer?

Fiscal mechanisms of risk sharing at the EU level could be—to some extent—the answer to problems described above.

First of all, Community stabilising mechanisms could free fiscal policy from excessive market pressure during a recession. The disciplinary role of markets is generally a very desirable mechanism lowering "deficit bias" in budget policy. However, its crisis dimension, self-fulfilling market panics can force a sub-optimal economic policy (Bayoumi, Goldstein and Woglom, 1995). The significance of the reduction of risk of moving from a good equilibrium of market trust to a crisis equilibrium requiring crippling adjustments is particularly important due to strong relationships between the solvency of banks and governments in Eurozone countries (Berger, Dell'Ariccia and Obstfeld, 2018). Furthermore, with some mechanisms of EU risk sharing, the fiscal impulse can be more effective due to the lack of the need to quickly lower debt and the reduced expectations of a future tax increase or decrease in expenditures (Kenen, 1969).

Second, Community mechanisms would allow the inclusion of the externalities of the national fiscal policy—its influence on other EU countries (Szczurek, 2018). Such fiscal externalities can be both positive and negative. The first kind can function through intra-Community trade or the relative prices and costs in the Eurozone. An example of the second kind is an increase of interest rates or the excessive strengthening of the euro in other EU countries. The positive external effects of increased public spending are particularly large when interest rates are close to zero (In 't Veld, 2016).

Third, economies of scale can be an argument for the fiscal union. EU taxe policy coordination can reduce the temptation to conduct unfair tax competition, "intelligent tax havens", which make use of differences in tax systems. Common expenditures in the areas of single market, scientific research and the development of technology, infrastructure and energy policy could give better effects with the same volumes of expenditures than national spending.

4 Another such restriction can be the structure of fiscal rules—constitutional limits of debt or restrictions on the value of the budget deficit not taking into account the economic situation.

Nihil novi

The above-presented challenges connected with membership in the Monetary Union, potential problems with the application of alternative mechanisms and the usefulness of a stronger federal dimension the European fiscal policy have been acknowledged for at least half a century[5]. Pierre Werner report, advocating a fuller economic integration of the European Community, had already envisaged that "the headquarters of the Community must be able to influence national budgets in relation to balances, financing methods or use of surpluses"[6] (Werner, 1970, p. 11).

The next key report of MacDougall (1977) studied the role of public finances in the context of European economic integration. Based on analyses of the existing of federal and regional budgets, he found that the insufficient scale of the stabilisation of cyclical fluctuations between countries in the Community was an important reason making "the Monetary Union unfeasible". MacDougall's team did not see good chances for obtaining a budget of ordinary federations in Europe (20%-55% GDP) and concentrated more on the organic model (5%-7% GDP) or "pre-federation" model with a budget of 2%-2.5% GDP. From the point of view of macroeconomic stabilisation, such a small budget of the European Community would require the ability to incur debts[7] (Commission of the European Communities, 1977).

Finally, the Delors Committee, in its report constituting an intellectual foundation for the decision to create the European Economic and Monetary Union, agreed that in the final phase:

> *"…the Council of Ministers, in cooperation with the European Parliament, would have the authority to take directly enforceable decisions, i.e i) to impose constraints on national budgets to the extent to which this was necessary to prevent imbalances that might threaten monetary stability; to make discretionary changes in Community resources (through a procedure to be defined) to supplement structural transfers to Member States or to influence the overall policy stance in the Community;"*
>
> (Delors 1989, p. 36).

Where we are

Even compared to the "pre-federation" proposals from MacDougall's report, the EU budget at the level of 1% of GDP is very limited. The ability of the EU budget to play the stabilising role is even more in contrast with the importance of large federal finances for individual states of the United States in the Federal Republic of Germany.

However, apart from the budget, the EU has developed a few other potentially important common mechanisms for offsetting macroeconomic risks. They include: 1) the European Stability Mechanism (ESM); 2) the single resolution fund (SRF); and 3) the quasi-fiscal role of activities of the European Central Bank, in particular the OMT.

The first mechanism allows conditional support for countries in crisis. For middle-sized countries[8] it is macroeconomically significant. So far, its application for macroeconomic stabilisation is limited to the critical cases only.

The EU shared aspect of the SRF is only being built, but after 2022, national allocations will be combined, thus creating a resolution fund in the amount of 1% of bank deposits. Finally, as noted above (Substitution mechanisms), the stabilising policies of the ECB, through effects on prices and the distribution

5 A review of the academic and political discussion connected with the creation of the European Economic and Monetary Union can be found in chapters 2 and 3 (Mody, 2018).
6 (Werner, 1970, p. 11).
7 Commission of the European Communities, 1977).
8 Although the ESM could prove insufficient for Italy, just like SRF it is definitely too small for the restructuring of really large financial institutions in Europe.

of public debt risk, also have a macroeconomic aspect of fiscal stabilisation. Their true test would take place only in the case of an actual application of the OMT.

Unfortunately, the significance of all listed fiscal mechanisms for the smoothing of shocks in the Eurozone is almost negligible. Furthermore, as shown in Figure 1, in the period 2010-2013, there was also a collapse of the significance of capital markets and private consumption smoothing as shock-offsetting mechanisms. This can be connected with the strength of the relationship between banks and public finances and the constraints of national fiscal policy.

Figure 1. Shock absorption in the United States (left) and in the Eurozone (right).

Source: Alcidi, D'Imperio and Thirion (2017)

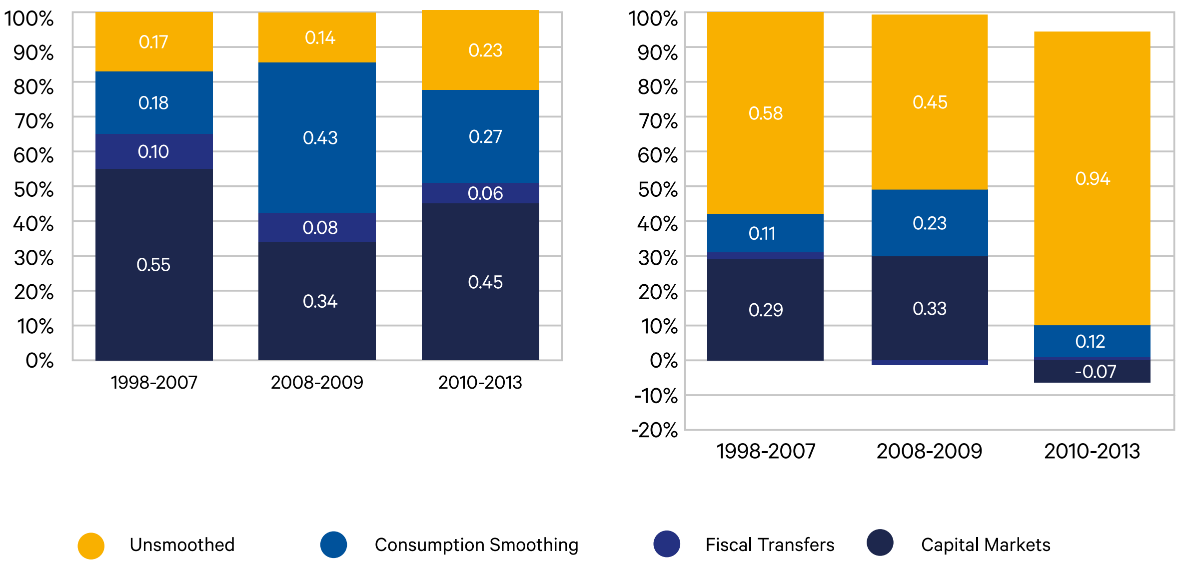

Figure 1 presents a decomposition of the variance of GDP growth broken into international (trans-state in the United States) transfers, flows of international income, changes in net savings and changes in consumption (Alcidi, D'Imperio and Thirion, 2017, p. 10 and 12).

As the community-level mechanisms remain limited, fiscal rules, which are meant to ensure the freedom of national fiscal policy, and fragmentary attempts to coordinate these politics, described below, remain thethe only viable tools of macroeconomic stabilisation.

Ideas

In the public sphere, there are many further ideas for the implementation of the fiscal union.

Coordination of national policies

Both the Five Presidents' Report and the provisions of the "EU two-pack"[9] note the fiscal stance of the Eurozone as a whole. Its assessment and recommendation is to be issued by the European Fiscal Board

9 Recital 23, Regulation of the European Parliament and of the Council (EU) 473/2013.

(EFB), established in 2016[10]. Since the very beginning, this part of EFB has been controversial, particularly for representatives of Germany, who were sceptical of the recommendations of looser fiscal policy for countries with fiscal space.

Stabilisation fund

Both the size and the structure of the EU budget make it unable to perform the function of a macroeconomic stabilisation. Discussions over the introduction of such a mechanism have been held for years. Such fund could finance investments (Szczurek, 2017) or unemployment benefits (Beblavý, Lenaerts and Maselli, 2017). Investment support can strengthen both the demand and economic potential of Member States. It could also fund regional projects, which, to some extent, disarm concerns about the transfer union. However, the lack of automatic link with the stage of the business climate, difficulties in structuring shovel-ready projects quickly, render could mechanisms based on unemployment rates more attractive in the short term.

The European unemployment benefit, however, requires a careful construction so it can take into account other definitions and structures of the labour market. The proposed inclusion of the unemployment level and its changes (Leandro, 2018) may in turn breed unwillingness in countries with higher unemployment to intervene in countries with much lower (but rising) unemployment[11].

So far, the only instrument of this kind which has successfully been created is the European Fund for Strategic Investments (EFSI), which uses limited funds from the EU budget by leveraging them and through participation of the private sector. Investment directions of the EFSI depend on financeable investment projects, without set Member State envelopes. Even overlooking its limited size, it is difficult to treat it as an element offsetting macroeconomic risks, and potentially only as an instrument supporting the general economic situation under zero interest rates.

Expanding ESM

The ESM, as an already existing inter-governmental mechanism with significant resources, is often proposed as a candidate for the provision of additional stabilising functions. Recurring ideas include: 1) as a backstop to SRF, to be used if there is a need to restructure banking institutions; 2) as a seedbed of the European deposit insurance scheme (EDIS); and 3) for granting short-term credits for the support of the economic situation ("with limited conditionality") or structural reforms (Regling, 2018). However, the usefulness of credit instruments is limited only to cases in which access to market funding is expensive, and even then only in the scope of the difference between the cost of market financing and financing through the ESM.

Problems

Why is it that in spite of numerous comments regarding its importance for the success of the Monetary Union, the fiscal union—on the scale suggested by MacDougall—has yet to be created and discussions over instruments (conservative in their scale) are at a standstill?

10 Commission Decision (EU) 2015/1937 of 21st October 2015.
11 The European Fiscal Board (2018) presents a discussion concerning the advantages and disadvantages of the stabilisation fund based on transfers for investments and the unemployed.

Fear of the transfer union

The prevailing national nature of fiscal policy results from the strength of the simple statement: "we don't like paying for others". This type of situation within nation states occurs frequently (e.g. the Rust Belt in the United States; the Italian mezzogiorno; East Germany; the beneficiaries of the "Robin Hood" mechanism in Poland). Even within one country, it can breed tension (e.g. calls for secession or at least the federalisation of Italy by Lega Nord). Federalisation of a larger part of expenditures resulting in net transfers from some countries to other countries, extending over decades, remains completely unacceptable from a political point of view. In the European context, even the small EU budget is a pretext to hold annual discussions between the net payers and the net beneficiaries, which come to a large extent from national media pressures (e.g. Daily Express, 2018). The dislike of the transfer union is reflected in successive EU reform proposals, as well as in the Five Presidents' Report from 2015. In the context of the European unemployment benefit (Beblavý, Lenaerts and Maselli, 2017), a few ways to reduce constant transfers ex-ante (by activating payments through changes in and not levels of unemployment) or ex-post (through subsidies to the common fund in case it is used on a permanent basis) are presented.

Financing of the rich or wasteful

For the new members of the Eurozone, the idea of financially supporting richer countries with financial problems is politically devastating. An example is the collapse of the Slovak government of Prime Minister Radicova in 2011, after a vote on strengthening the EFSF—the predecessor of the ESM (Financial Times, 2011). The quoted case concerned conditional emergency funding, which in its assumptions did not constitute a transfer union. More permanent transfers from poorer countries to richer countries would be an even greater political problem.

An argument often raised against the fiscal union are also the pre-existing problems at the moment of introducing the form of fiscal union. An example are discussions over the European deposit insurance scheme (EDIS), which would strengthen the banking union and weaken the relationship between the stability of the banking sector and the solvency of governments. Countries with stronger banks are less willing to create EDIS before weaker countries address non-performing loan problems first ("risk reduction before risk sharing").

The problem of the risk of moral hazard

EU risk sharing lowers the incentives for future prudence in economic policy. For example, maintaining liquidity and capital buffers and reducing public debt may be seen as less pressing, if an effective EU mechanism limits risks of a prospective crisis. Methods used to solve this problem are fiscal rules or the inconvenience of using common aid—a bail-in for banks, a package of reforms required before any emergency financing is deployed[12].

Macroeconomic dilemmas

A significant problem complicating the agreement on the fiscal union can also be the already mentioned conflicts between internal and external stability. Even the creation of a pan-European stabilisation mechanism will not solve the problem of where to invest the gathered sums.

After a short-term shock, the situation is quite simple: European money should be spent where the output gap is the largest. However, when problems are connected with payments imbalance and loss of competitiveness, it could be even recommended to overheat the economy in countries with an excessive

12 Due to the strict conditionality of the Greek rescue package, the bail-out was politically extremely costly.

current account surplus in order to facilitate the adjustment of relative prices and help rebalancing the euro area economy. The second variant is maybe even more difficult politically—countries in long-term stagnation would then be expected to support consumption and wage growth in stronger countries.

The same dilemma is visible in attempts to coordinate and influence the fiscal stance for the whole Eurozone. From the point of view of national policy makers, the state of the economy and a higher aversion to inflation, it comes as no surprise that Germany showed no enthusiasm in relation to fiscal stimulus in 2016-2017. However, at the same time, from the point of view of the whole Eurozone, spending in Germany would be much more beneficial than higher expenditures in countries with poorer solvency and competitiveness ratios (EFB, 2018).

Conclusion

The EU federal budget in a size comparable to the United States or Germany is a pipe dream. In such a situation, the logic of the Monetary Union suggests stronger coordination mechanisms. So far, however, such coordination has been asymmetrical and boils down to attempts at reduction of budget deficits and public debt through EU fiscal rules. In a situation of low inflation and zero interest rates, institutional incentives to run a more expansive fiscal policy in some countries could benefit stability and growth in the EU. But such mechanisms are also difficult to imagine given the objection of countries which value their policy of low public debt more highly than the potential benefits for the whole community.

In such a situation, members of the Eurozone are left with three imperfect substitutes. First, they need to maintain fiscal space and a low debt in good times, allowing for anti-cyclical fiscal policy in a crisis at a national level. Second, supporting the integration of capital markets could help to smooth private consumption and investment during asymmetric slumps. Finally, macro prudential policy should prevent creating of dangerous credit booms and subsequent busts.

Unfortunately, the above advice is of little use for countries which already have high public debt and struggle with the loss of competitiveness and weakness of the banking sector. Furthermore, with an excessively bloated banking system, even the fulfilment of EU fiscal rules may not be enough to maintain sufficient freedom to implement fiscal policy in a crisis. Without an unexpected return of the productivity growth in such countries, or without a higher average inflation and demand in stronger economies, the Eurozone will still be subjected to solvency crises, low growth and fears of break-up.

The current lack of a fiscal union poses a threat to economic and political stability. In turn, the "completion of the Monetary Union", desirable for the EU (although rather unlikely), with the EU level risk sharing or better coordination of national policies must bring about compromises for national policy.

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CHAPTER 21

STANISŁAW GOMUŁKA

IMPLICATIONS OF REMAINING OUTSIDE THE EURO AREA

ABSTRACT

In its accession treaty, Poland agreed to adopt the euro as its national currency; however, no date for its adoption was specified. The financial crisis in many Eurozone countries, which followed the outbreak of the global financial crisis in 2008, drastically reduced support for replacing the zloty with the European single currency. However, in the Eurozone itself, trust for the single currency remained unchanged. What was important for Poles was that the Monetary Union did not protect its member countries against the risk of bankruptcy.

Maintaining similar unit labour costs in Member States, resulting in comparable competitiveness, proved to be essential for the stability of the currency union. In 2010-2011, new institutional solutions were introduced, aimed at providing stronger regulations as part of fiscal and competitiveness policies with a view to achieve a more permanent stabilisation. However, the effectiveness of respecting financial discipline in Member States would depend on a more effective enforcement of European Union (EU) fiscal rules (e.g. through establishing additional sanctions for noncompliance).

The arguments for Poland's adoption of the euro are manifold. Due to the rising significance of international trade, foreign exchange rate risk in Poland has taken on a strategic importance. In addition, remaining outside the Eurozone increases macroeconomic risks from the perspective of global financial markets, causes an increase in real interest rates and reduces direct foreign investment. Higher interest rates also reduce domestic investments and increase the costs of public and private debt servicing. The experiences of the Eurozone show, however, that the benefits of the single currency concerning further access to capital and better company financing terms are not guaranteed without observing fiscal discipline. The economic and political costs of remaining outside the Eurozone will grow. The quality of domestic monetary and fiscal policy, leading to a swift introduction of the euro, is a critical part of the euro strategy for Poland. The fulfilment of the fiscal criterion (improvement of public finances sector results by 3-4% of GDP) is already relevant, and related changes could trigger further reforms.

IMPLICATIONS OF REMAINING OUTSIDE THE EURO AREA

Introduction[1]

The financial crisis, which broke out in 2008 in the United States and the United Kingdom—that is, in countries outside the Eurozone—did not reduce global trust in either the US dollar or the euro, and even initially strengthened it. This trust guarantees the dominant position of the dollar and the euro as reserve and settlement currencies. As a result of the increase in global macroeconomic risk, the currencies of countries with low (or moderate) trust capital have weakened. The experiences of the past few years point to three main reasons for the Eurozone crisis: excessive public debt, the acceptance of high risk in the banking sector and excessive wage increases resulting in a decrease in competitiveness. Against this background, much of the controversy surrounding Monetary Union reform resulted from the questionable effectiveness of the interstate solidarity policy and the risk of moral hazard.

In this context, Poland's rapid accession to the currency union has lost social support, although in the Eurozone, the crisis did not reduce confidence in the currency itself. For Poles, it was apparently important that the Monetary Union did not protect its member countries from the risk of bankruptcy. This attitude became less prevalent as economic stabilisation and awareness of the economic and political costs of remaining outside the currency union increased.

This chapter discusses the consequences of the crisis in the Eurozone in the context of reforms improving the stability of the European Union (EU) and the declarations to adopt the euro by Poland and other Member States. The chapter also presents, in the context of the past experience of Eurozone countries, a new assessment of the net economic and political benefits of Poland's adoption of the single currency.

Reforms in the Eurozone

Financial crises are frequent, but before 1 January 1999, they only affected countries with national currencies and a national monetary policy, strengthening the importance of domestic financial supervision and the coordination of fiscal and monetary policy. In the Eurozone, in addition to the Maastricht stabilising criteria, there is a transnational decision-making centre which comprises: the European Central Bank (ECB), the European Commission and meetings of finance ministers from Eurozone countries.

Maintaining similar unit labour costs in Member States, resulting in comparable competitiveness, has proved important , perhaps even essential, for the stability of the currency union. This can be achieved with strict fiscal discipline and a flexible labour market. The experience of the recent financial crisis has highlighted the ineffectiveness of the Maastricht criteria in mitigating disproportions in countries' insolvency risks and has reinforced the role of financial market discipline against the "wasteful rule", differentiating the profitability of treasury bonds in economies of the currency union (National Bank of Poland [NBP], 2014).

1 This chapter is an abridged and modified version of an article (Gomulka,2019), written at the invitation of the editors of the magazine *Revue Internationale des Economistes de Langue Français*, published in Polish in the PAN (Polska Akademia Nauk) bimonthly NAUKA (1/2019, p. 7-29). For this edition of the text, I wish to thank Anna Malinowska and Przemysław Kowalski from CASE. In writing this paper, I used three chapters from my book (Gomułka, 2016), published by PWN. I would like to thank Alberto Chilosi, Marek Dąbrowski, Stefan Kawalec, Andrzej Olechowski, Dariusz Rosati, Paweł Wojciechowski and Cezary Wójcik for their insightful comments on the previous version of the paper.

The current policy of the ECB, shaped through the practice of other central banks and internal EU initiatives that increase, among others, the reliability of credit risk assessments and tighten the criteria of conduct in the banking sector, has supported the stabilisation of the banking system. In this process, the implementation of the inflation target has not been violated and the insolvency risk of the economies of the currency union has been reduced without diminishing the need for internal fiscal reforms. In the EU institutional sphere, the Treaty on Stability, Coordination and Governance (EC, 2011) and the regulatory package, also referred to as the Sixpack[2], constituted a response to the imbalances accrued in the fiscal and competitiveness planes. Moreover, supervision over financial markets was reinforced through the establishment of the appropriate institutions in January 2011[3].

Fiscal discipline is a precondition for the effective functioning of monetary policy based on a pegged currency (Wójcik, 2011). In this context, useful budget planning instruments include the European Semesters[4] and the Sixpack, which guarantees the European Commission's supervision over the economic policy of Member States and ensures stricter financial sanctions for non-observance of the Maastricht criteria. Having these solutions in mind, an important question arises concerning the effectiveness of freezing EU budget aid in treaty violation cases.

The current situation raises some doubts. On the one hand, will current funds guarantee fiscal discipline? And on the other hand, will the rights of central governments and the flexibility of domestic fiscal policies not be excessively restricted (Buiter, 2012)? While the former issue remains unknown, the latter is clear: the EU is a group of independent countries; therefore, any specific decisions concerning taxes and public expenditures will be made at the state level. The activities of the European Commission and the European Parliament concerning fiscal policy of Member States will remain essentially of an informational and advisory nature. Thus, the association of the adoption of the euro with a (greater) loss of sovereignty (Toroj et al., 2012) seems unfounded. The EU would receive tools to enforce the observance of the stability criteria (and the rule of law criteria) if EU fiscal rules were included in domestic law. The Community would also have an aid budget for Members States in a difficult financial situation. At the same time, a reduction in large international transfers of funds should become an unquestionable principle of the functioning of the whole EU.

Economic costs of remaining outside the Eurozone

According to the report of the National Bank of Poland of 2009, the benefits of adopting the euro exceeded both the long- and short-term costs[5] (NBP, 2009). In the subsequent report of the National Bank of Poland, in the wake of the global financial crisis in the years 2008-2012, the analyses focused more on the ways to maximise the potential resulting from the realisation of the economic and political benefits of Poland's accession to the Eurozone (NBP, 2014).

Due to the rising significance of international trade, foreign exchange rate risk has taken on a strategic importance. In addition, remaining outside the Eurozone increases macroeconomic risks from the perspective of global financial markets, causes an increase in real interest rates and reduces direct foreign investment. Higher interest rates also reduce domestic investments and increase the costs of public and private debt servicing, which, measured by the profitability of Polish treasury bonds, are persistently significantly higher than in the more "reliable" EU countries outside the Eurozone (the Czech Republic, Denmark, Sweden, the United Kingdom).

Although the underlying cause of the last world financial crisis was unrelated to the euro, public opinion tended to blame the EU currency. However, only one small country—Greece—ended up on the brink of insolvency, i.e. bankruptcy, due to its profligacy. In the United States, there are also cases of cities, and even entire states, going bankrupt, and for the same reason, too: excessive profligacy. However, no one suggests that, for example, California or Detroit should introduce their own currencies and devalue them in relation

2 Of 8 November 2011.
3 The European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority.
4 Introduced on 7 September 2010.
5 Net benefits were estimated at 7% of GDP annually after a decade of membership in the Eurozone (NBP, 2009).

to the dollar in order to improve the competitiveness of their products and services. An exchange rate peg must be offset by stronger flexibility in public expenditures and in the labour market. The latter is quite high in Poland: in large cities, unemployment is low and wage pressure is moderate. The insufficient mobility of workers from high-unemployment areas to low-unemployment areas remains a problem, but whose importance is declining.

After the adoption of the euro, Polish nominal interest rates would be lower by approximately 2 percentage points, while the rate of inflation would remain high enough to reduce real interest rates. In the long run, with inadequate banking supervision and the weak prudential discipline of banks, this reduction could be excessive, leading to an excessive credit expansion and the formation of speculative bubbles, especially in the real estate market and in securities (stocks and bonds) exchanges. However, according to the National Bank of Poland, this is a negligible risk in Poland (NBP, 2014).

Although in 2003 Poland pledged to adopt the euro, the specific date remains unknown, primarily because two basic accession conditions have not been met, i.e. the presence of a constitutional majority that supports joining the Eurozone and a permanent improvement of the outcome of the public finances sector by roughly 3% of GDP. The latter requires statutory changes in order to make public spending more flexible, which is not yet present on the agenda of the major political parties.

The arguments raised by some opponents of Poland's entry to the Eurozone are ideological in nature: they present accession as a threat to national identity and the country's political independence. Two other arguments are also used in the discourse: the risk of higher prices and the threat of the loss of independence in implementing monetary policy. However, when it comes to the latter, Poland's relatively small economy has been open to capital flows from the currency union since accession to the EU. In a situation of liberalised capital flows and integrated money markets, there is very little actual independence. This has been proved by empirical studies, which demonstrate a long-term unilateral dependence between the interest rates of the National Bank of Poland and the ECB (Goczek, Mycielska, 2014, p. 278). Currently, the strategy of integrating Poland with the Eurozone is based on four pillars: 1) permanent fulfilment of the Maastricht criteria[6]; 2) reinforcement of the Polish economy's potential; 3) good technical and organisational preparation; and 4) institutional reinforcement of the Eurozone itself.

The first item is particularly important, although difficult to implement, and changes in this area affect the stability and economic growth of the country regardless of circumstances. Indeed, Polish public debt was at a level of 50-60% of GDP in 2000-2012, exceeding the desirable maximum level of 30-40% of GDP by 20-30 percentage points. The structural deficit of public finances exceeded the desirable level of 0% of GDP by 3-4% of GDP on average.

As to the second pillar, the Polish economy is characterised by a high level of innovation based on external transfers of new products and technologies. The adoption of the euro would increase foreign direct investment and trade exchange, which would, in turn, facilitate the influx of innovation, increase competitiveness and bring about positive structural changes. Therefore, taking the above into consideration, Poland's entry into the Eurozone should be accelerated rather than delayed.

There is a popular suggestion to only adopt the euro when the differences in wages and other income (denominated in the euro) between Poland and the "old" EU countries are small. However, such an approach, justified psychologically and politically, ignores certain crucial economic arguments. First, the economic benefits of the adoption of the euro decline along with the reduction of the developmental gap between Poland and the EU. Second, differences in nominal income-denominated in the euro but not in purchasing-power units—will remain significant for decades. Third, the decision to adopt the single currency will strengthen the zloty and decrease the nominal income gap (denominated in the euro). Finally, the competitiveness of the export sector is resistant to exchange rate fluctuations due to a significant share of foreign capital (40-50%) and the dominant position of large entities with easy access to global markets, bank credits and advanced technologies. Therefore, the zloty to euro exchange rate in 2019 could exceed current figures by 10-20%. This would mean a corresponding increase of incomes in Poland, denominated

6 Until 2008, the Maastricht criteria concerning public debt and the deficit of the public finances sector were treated as non-binding by governments and financial markets, and transfers of budget funds between Eurozone countries were almost impossible.

in euro. However, the exchange rate cannot be too strong because such a situation, although attractive for e.g. pensioners, would lead to mass bankruptcies in the enterprise sector and to a proportional increase in unemployment.

In continental Europe, national values are associated with two world wars. The single currency and the central bank reduce the risk of another armed conflict by promoting economic and political cooperation and offering a sense of belonging to a community that shares similar values. These aspects often prevail over economic benefits. Further economic integration should involve the creation of fiscal stabilisers for selected countries and the Eurozone itself, such as Eurozone budgets, aid funds and fiscal safeguards for the banking union. Due to insufficient political integration, this could be hampered by moral hazard, a side effect of the international variability in the quality of governance and economic policies. At the same time, since national budgets are and will remain the basis of fiscal policy, stabilising mechanisms should be domestic as well, while transfers of budgetary funds within the Eurozone require quantitative regulation (e.g. through joint debt ceilings). Other proposals involve the assumption of responsibility for a part of national debts by the entire Eurozone, which necessitates the elimination of permanent unidirectional transfers between Eurozone countries (NBP, 2014).

The likelihood that the ex-ante coordination of reform plans will improve the functioning of the Eurozone is small. It has not been strengthened by the previous changes. On the contrary, they have highlighted the need to implement "structural competitiveness" reforms in Poland before the adoption of the euro.

Political and economic integration functions of the euro

The founders of the EU defined the specific direction of integration, in particular covering international trade and the financial and labour markets. The single currency, inspired by the works of Mundell (1969), does not constitute a precondition, but can support the multidimensional process of integration.

Poland and other countries of Central Europe have been expecting, or should have been expecting, that transformational reforms, including the membership of the European Union, now also Monetary Union, would allow them to catch up with the highly developed West faster thanks to the "benefits of underdevelopment" (Gerschenkron, 1962). In fact, Eurozone membership stimulates foreign direct investment and makes cheaper foreign financing available to domestic companies. As a result, poorer countries can develop more rapidly and catch up with more developed economies. However, since 1999, the experiences of the Eurozone have shown that such benefits, although possible and even likely, are not guaranteed: lower interest rates may increase consumption or residential real estate investments excessively, and instead of technological development, may result in excessive private debts, which destabilise the economy.

Formally, the ECB is not a lender of last resort for Member States; the Eurozone is a group of independent countries, not a federation. If it were so in such conditions, the effectiveness of the inflation target policy would be limited: the rigour of low deficit in public finances would weaken, resulting too often in an excessive fiscal expansion and the diffusion of responsibility for the stability of the entire eurozone area. However, after 2008, the ECB has despite such risks gone outside its statutory framework of operation by taking actions to reduce the costs of public debt in the countries most indebted and most affected by the crisis. These stabilizing actions by the ECB were remarkably balanced, timely and effective, so any substantial modification of the current institutional governance of that key institution would not be justified.

In order to fix exchange rates in the Eurozone, Member States' economies have to become more flexible in two other areas: public finance and the labour market. If individual countries can have a budget deficit during recession, then they should maintain a budgetary surplus in times of economic boom[7]. In turn, the greater flexibility of national labour markets is required for maintaining a similar

7 That goal drove the signing of the Stability and Growth Pact (1997). Most EU countries in the Eurozone recorded budgetary surpluses in the years of a good economic situation.

rate of growth of unit labour costs in all Member States, thus ensuring a similar level of international product competitiveness. A significant decline of competitiveness in any of the Eurozone countries proves—with a pegged currency—difficult to compensate and translates into more external debt or a long-term recession in the affected country. This phenomenon materialised, undetected, in several Eurozone countries in the period 2000-2008.

The budgets of Member States constitute on average about 50% of their GDP, while the EU budget constitutes about 1% of the entire EU's GDP. Inappropriate domestic macroeconomic policies, which generate large costs for individual economies, worsen the situation of the entire Eurozone. Therefore, it is important that withdrawals from the policy of financial stability, which used to be treated with leniency,[8] be met with effective sanctions at the state and regional levels (Soros, 2011).

The Eurozone does not constitute a homogeneous state; therefore, it would be irrational to expect strong European solidarity and large money transfers. For instance, a kind of "compensation" for Greece's profligacy and excessive debt would create a moral hazard with respect to similar policies in other countries, which could then lead to the disintegration of the Eurozone. At the same time, a lack of subsidies could result in costly bankruptcies and an EU-wide recession. To strike a balance, aid should allow the introduction of important reforms in a country struggling with problems while remaining acceptable to financing countries.

The single ministry of finance and the implementation of Soros' postulates (2011) remain infeasible due to political reasons: countries of the currency union would have to waive the competencies of executing a fiscal policy and hand them over to EU bodies. This would result in the creation of a federal country similar to the United States. When comparing the two regions, it must be noted that the latter is a federation of states that are restricted by the obligation to provide budgetary balancing, with a strong but indebted federal government. The Eurozone does not have central authorities or, in practice, a central budget. Therefore, the responsibility for debt and fiscal policy lies with national governments. In addition, EU fiscal restrictions are more lenient: national budgets do not need to conduct year-on-year balancing, which diversifies the levels of the investment risk of a state in the Eurozone. In such circumstances, financial markets must take on a big disciplinary role with respect to the fiscal policy of Member States, completely separately from the European Commission's activities. Such role they have apparently learn to take after 2009.

Long-term corrective measures

Short-sighted economic decisions can be irrational in the medium and long term. However, a complete elimination of such behaviour is unrealistic, which is why we need to focus on minimising their frequency through an appropriate system of rules and incentives.

In the Eurozone's case, the effectiveness of the Maastricht criteria in ensuring EU-wide coordination and fiscal and monetary stability remains controversial. However, in spite of violations, it has typically been possible to effectively coordinate monetary and fiscal policy. In light of recent experiences, it is doubtful whether treaty provisions and the disciplinary system are sufficient. Therefore, we can consider the following changes.

First, we should introduce two new regulations concerning the total external debt (public and private) of a country and the balance of payments current account. This would mean conceding that both public debt (domestic and foreign) as well as excessive external private debt destabilise the economy. Presently, the deficit in the balance of payments current account is not limited: technically, it is a part of gross public debt, but it is not calculated this way, officially. Imports, the domain of the private sector, could therefore constitute a separate category. A large deficit in the current account should signify the excessive income of residents or excessive public spending (or insufficient taxes) and suggest the need for reforms.

8 Primarily due to the lack of a single ministry of finance, fiscal policy and a low level of international solidarity (Soros, 2011).

Second, the European Commission and the Court of Justice of the EU should have the right to automatically discipline countries that violate the Maastricht criteria. So far, automatic penalties have not been implemented, which is why creating a real corrective mechanism is important.

Third, the removal of a country that violates strongly the stability criteria from the Eurozone should be clearly admitted. Experiences with Greece (in fiscal matters) as well as Hungary and Poland (regarding the rule of law) show that treaties will be violated sooner or later, but their signatories will insist on remaining in the EU and in the Eurozone. Tying payments from the EU budget for 2021-2027 to the observance of the rule of UE law is in line with this idea.

Finally, the EU budget should be increased in relation to the GDP of the EU[9], which would allow the financing of strategic pan-European investment projects. The need for such projects is becoming apparent given the expected large climatic changes during the coming decades. Net payments to the EU budget should be limited, so that contributions remain a small portion of Member States' public spending, and so that the EU budget does not take on a significant role as a tool of fiscal stabilisation.

Some reorganisation of the Monetary Union is necessary because its collapse would cause a deep political and economic crisis throughout Europe and perhaps outside Europe as well. Most changes pertain to the economies of the PIIGS group[10], which should be obligated to bear most costs. At the same time, the rising political and economic significance of China and India provides further motivation to strengthen policy cooperation and institutional integration within the EU.

Strategy for Poland and the Eurozone: final comments

Economic changes connected with globalisation and technological progress are deeper than in the past, and they sustain the need for economic and political integration in the EU, including in the Eurozone. Therefore, thanks to further reforms, the currency union is likely to be stronger and more resilient to crises. Thus, the economic and political costs of remaining outside the Eurozone will grow.

The strategy for Poland should have two goals: in the short term, Poland should take a position of support for the reinforcement of the currency union; in the middle term, the quality of monetary and fiscal policy should facilitate a swift introduction of the euro. The fulfilment of the fiscal criterion is particularly relevant, and related changes could trigger further reforms. It is expected that the domestic labour market will experience a drop in the labour supply, which could produce pressure to increase inflation. To respond to this risk, reforms of the pension system, activation of the rural labour reserves and a more friendly immigration policy are needed.

9 Currently, the EU budget is approximately 1% of the EU's GDP.
10 An acronym describing a group of countries that includes Portugal, Italy, Ireland, Greece and Spain.

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CHAPTER 22

PAWEŁ WOJCIECHOWSKI

THE FUTURE OF THE EUROPEAN PROJECT — HOPES AND FEARS

ABSTRACT

The European project is going through tough times, and not only because of Brexit. Sceptical or even hostile attitudes of some national political groups towards European integration are also to blame. At the same time, trust among the residents of the European Union (EU) towards the institutions and actions of the Community is greater than trust for national governments. The difference, however, is smaller than in the period before the 2008 economic crisis.

The new 2021-2027 financial perspective was prepared in a deteriorating political climate for European integration, and its development was accompanied by a debate on the future of the EU. As reflected in the European Commission's "White Paper on the future of Europe". The future of the EU can be described in five different scenarios: (1) carrying on; (2) nothing but the single market; (3) those who want more do more; (4) doing less more efficiently; and (5) doing much more together. The assessment of those scenarios varies among European leaders, with the most ambitious version of integration proposed by Emmanuel Macron. Others suggested the need for a greater preparation of European communities for a deeper integration. Some also pointed out the need to improve institutions aimed at strengthening the European foundations and building the new ones in other areas.

Polish politicians seem to support the scenario of deeper integration in selected fields. The biggest problem in the execution of this scenario, however, is selecting the priority fields for deepened integration.

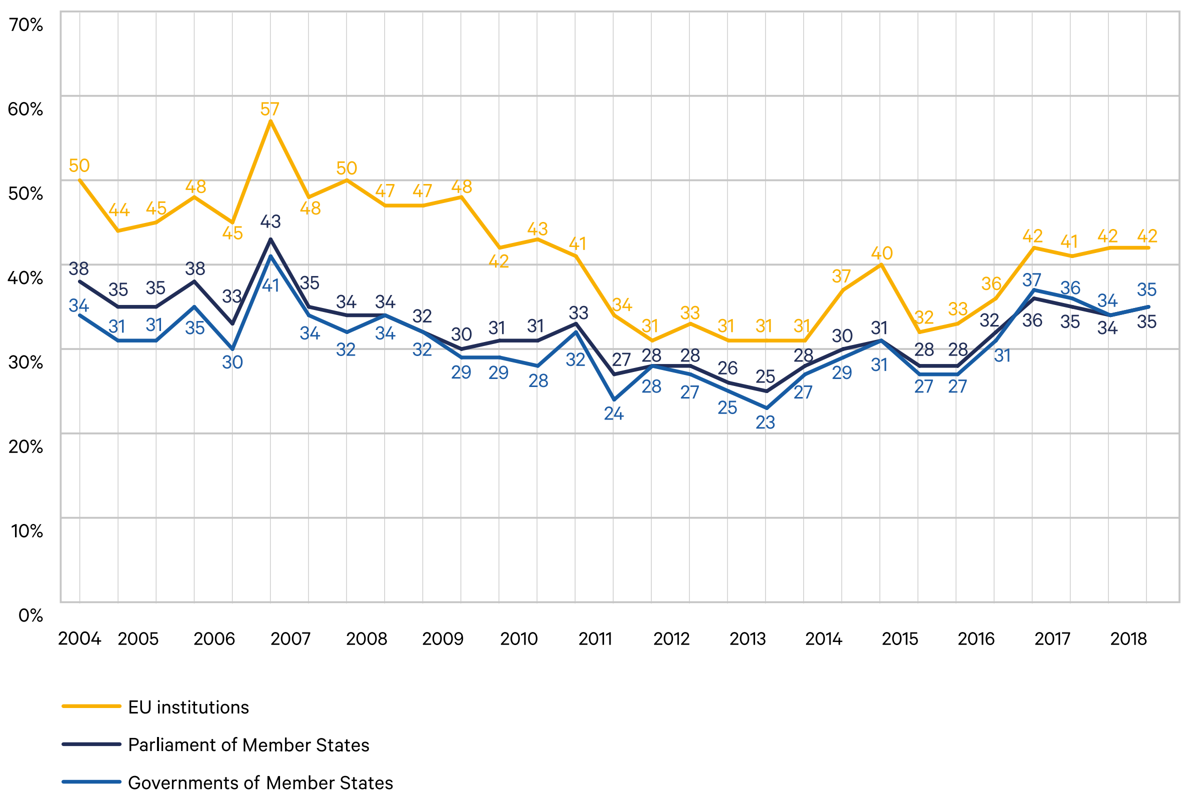
THE FUTURE OF THE EUROPEAN PROJECT: HOPES AND FEARS

Introduction

There has been a debate on the future of the European Union (EU) since its beginning; however, the greatest challenges for deepening integration have been brought about by the current wave of anti-European populism which has significantly undermined Europeans' trust in EU institutions. Over the last 15 years, according to public opinion surveys conducted by Eurobarometer, the level of trust for the EU dropped from 50% to 30% during the financial crisis and has only partially recovered – most recently stabilising around the 42% mark in the last two years. It is worth noting that although the level of trust for the EU has, historically, always been higher than that for national governments and parliaments, since 2010, this difference has shrunk by half. During 2004-2010, the average difference reached 15 percentage points; during 2010-2018, the difference decreased to 7 percentage points. Poles have always been among the biggest enthusiasts of the EU, and the spread between trust for the EU and for their own government has been significantly higher than the European average. According to the latest Eurobarometer surveys, this gap reached 18 percentage points, which results from a relatively higher trust for the EU (54% in relation to the EU average of 42%) and a slightly lower level of trust for Poland's own government (33% in relation to the EU average of 35%). Similar tendencies of the polish public can be seen in the results of the European Values Study (EVS),with documented changes in values constituting the backbone of the EU and the level of penetration of Europeanism into Poles' everyday lives (see Chapter 2 for a presentation of the results of the study).

Figure 1: Trust of EU citizens towards EU and national institutions

Source: Eurobarometer (2018).



Lower trust levels for EU institutions can be perceived partly as a result of a general decrease of trust in governments, and partly as a result of the new style of doing politics. On the one hand, there has been an increase in the manifestation of one's own national interests, even those in conflict with European values; and on the other hand, EU institutions have become an easy target for populist attacks. Political narratives are increasingly blaming "bureaucrats in Brussels" for all the problems, while at the same time crediting national policies for the benefits of integration. There has been a growing inconsistency between what politicians say or even sign during EU summits, and what they say back home. These inconsistencies have become an ideal ground for undermining the democratic legitimacy of EU institutions and have increased doubts concerning the unity and efficiency of the Community.

At the same time, external threats have grown. These threats, such as Russia's attempts to revise the political order in Europe shaped after 1989 (Czaputowicz, 2018) or attacks of non-state actors in cyberspace, have a mobilising effect on the perception of the EU's unity. Integration is meant to build the economic strength of the EU and, by increasing inter-dependency between its Member States, strengthen its safety as a whole as well as the safety of each country alone.

An important point of reference for the debate on how to strengthen the European project are the constructive scenarios presented in the EU White Paper on the future of the European Union of March 2017 (European Commission, 2017). The White Paper presents the directions of changes in the upcoming financial perspective (2021-2027) within five development scenarios and reflects over the future of Europe in the perspective of upcoming years.

The five development scenarios are as follows:

"Carrying on": the EU focuses on the implementation of a positive reform programme.

"Nothing but the single market": the EU's focus is shifted back to the single market.

"Those who want more do more": the EU allows interested Member States to establish closer cooperation in specific areas.

"Doing less more efficiently": the EU focuses on the effective and quick achievement of results in selected policy areas, while paying less attention to others.

"Doing much more together": Member States decide to do much more together in all policy areas.

All five visions, also referred to as Juncker's scenarios, can be described as positive directions for the future of the EU. Notably, the White Paper does not contain any negative development scenarios, e.g. the division or collapse of the EU, even though such catastrophic visions do sometimes appear in the public debate. Scenarios contained in the White Paper can be analysed through various criteria. What is most important here, however, is an attempt to describe the most likely direction of changes and to provide an assessment of how it relates to Poland's priorities.

Positions of leaders

European leaders have responded to the scenarios presented by the Commission. The French vision depicted by Emmanuel Macron (2017 and 2019) promotes a scenario of "doing much more together" with elements of supporting "the multi-speed EU". In a situation where some countries do not agree to quick integration, there should be a transition towards federalisation, named by the president of France a "European renaissance". In the face of actions undermining the EU's legitimacy often focused on areas in which European institutions have insufficient competences to significantly affect the well-being of its residents, Macron proposes deeper integration. He is convinced that it will increase the feeling of belonging among residents and will become the glue of the European project.
Visions of other leaders are less radical. The President of the European Council Donald Tusk, in the Leaders' Agenda (Tusk, 2017), proposes practical solutions, i.e. gradual reforms based on the unity of all countries. Thus, he reverses what has been proposed by Macron, indicating that reforms should

not "start from the avant-garde group of EU countries, but from tedious attempts at devising changes that would be acceptable to all" (Bielecki, 2017). Putting unity first does not mean the complete halt of "enhanced cooperation" within smaller clubs inside the EU, but will at least slow down the creation of divisions, which would happen as a result of the realisation of the "multi-speed EU" scenario.

The head of the European Commission Jean-Claude Juncker also rules out the "multi-speed EU" as a starting point. In the annual State of the Union Address in September 2017 he advocates for the EU to move together in one direction (Juncker, 2017). Thus, it will remain internally consistent which will facilitate its effective functioning. For this scenario to come true, it is key that all states belong to the Eurozone. To encourage them, Juncker proposes to create a special pre-accession instrument facilitating this process. Despite his great enthusiasm for further integration, the President of the Commission notes that to operate effectively, the EU should limit its competences. In other words, it should "have a stronger focus on things that matter", and not "meddle in daily lives of European citizens" nor "march in with a stream of new initiatives or seek ever growing competences". The reforms proposals were so concrete that today this hybrid is sometimes referred to as Juncker's sixth scenario.

Much more pragmatic views than Macron's "European renaissance" project have been presented by other European leaders. For instance, the Prime Minister of the Netherlands, Mark Rutte (2019), makes a reference to the division of competences, saying that Europe should be "big on the big things, small on the small things". During a meeting of the Eurogroup in 2018, the Dutch, on behalf of ten middle-sized and smaller countries constituting the Hanseatic Group, spoke against the reforms of the Eurozone which would lead to fiscal transfers between countries within the single currency area. With Germany's hesitant stance, this means that Macron's ambitious agenda appears rather unlikely in upcoming years. Also, other non-economic issues have become more important recently. And so, German Chancellor Angela Merkel (2018) pays greater attention to strengthening European solidarity in relation to the migration problem, which, in her view, is an "decisive factor regarding the future and unity in Europe".

An analysis of the leaders' positions shows that none of the scenarios are likely to be realised as it is. Yet, they are not separable; therefore, it is worth pondering which scenario is gaining the most support and may at least serve as a starting point for further debate. It seems that this is not scenario four, i.e. "doing less more efficiently". A more distinct division of competences while respecting the principles of proportionality and subsidiarity should increase EU's institutional efficiency. Based on this, it is possible to build a future either together towards a strong deepening of cooperation in line with scenario five or leaving some countries behind and allowing them to join later when they are ready, in line with scenario three.

Scenario for Poland

Małgorzata Bonikowska (2017) shows that Polish politicians also prefer the "doing less more efficiently" scenario. They deem the scenario of quick federalisation unrealistic, while assessing the "carrying on" and "only the single market" scenarios as unfavourable for Europe and Poland. The scenario that is objected to the most is the "multi-speed EU". However, the intense political polarisation does not allow for assuming that Polish political elites have formed a consensus for the future of the EU. The difference is that for the Polish right wing, scenario four is attractive on the condition of the greater empowerment of national states. In turn, centrist and leftist parties, seem to unconditionally support option four, with some elements of deeper integration in line with scenario five, especially if the risk of the "multi-speed EU" were to materialise.

After Brexit, should it actually happen, such a course of events can prove more likely, because the relative importance of countries remaining outside the Eurozone will decrease, with their participation in the EU budget falling from 27% to 13% (Wojciechowski, 2018). Consequently, the pursuit of putting the Eurozone to the core of integration will increase. Poland, if it decides against joining the Eurozone, would risk remaining on the side lines of the European project. The Eurozone is where the economic and currency unions will strengthen, moreover it will also form the core of any fiscal, banking or capital markets unions. This is why some of the liberal and left-leaning parties suggest that Poland should adopt the euro as quickly as possible, implementing fast and deepened integration in line with scenario five.

The Polish government notes that scenario five is rather unrealistic and recognises the threats of scenario three. Prime Minister Mateusz Morawiecki (2018) refers to Charles de Gaulle's vision of a union of nations, i.e., a union based on national states. This thought is affirmed by the governmental think-tank (Polish Economic Institute) noting that an expansion of the European project should, most of all, focus on national states, because only these are able to effectively articulate the political will coming from democratic elections. "That is why there is a need for redefinition of the balance between national states and cooperation at a European level", argue representatives of the Institute (Arak, Flis and Kutwa, 2018). The attempts at determining an appropriate direction for such a redefinition may be subject to accusations regarding inconsistency, since how do you reconcile the strengthening of national states with the objections towards the "domination" on the part of Germany and France, if it is the national interest of the respective countries underlie this "domination"?

Realistic scenario

Based on the European leaders' positions, one may deduce a preferred scenario; however, it is difficult to assess which is more realistic. To answer this question, we will attempt to assess the risk of their realisation.

Scenario two, "nothing but the single market", has the smaller number of supporters. Additionally, the most important supporter of this solution—the UK—has decided to leave the EU. Limiting the EU only to the single market would mean not only a reduction in the scope of integration but would also bring about unintentional effects. If the main reason for the EU were the functioning of the single market, then, assuming a reduction of its other competences, e.g. in the scope of competition policy, it could lead to a risk of competing with lower standards in many areas, e.g., in consumer or environmental protection. This, in turn, would distort the functioning of the single market. A lack of a common foreign policy would hinder the implementation of EU trade policy, resulting as a side effect in the need to conclude bilateral agreements with third-party countries. The reduction of the ability to act jointly would lead to the weakening of EU's position worldwide.

Scenario five, "doing much more together", going in the direction of federalisation—the creation of the "United States of Europe" appears as equally unlikely. Despite the potential for streamlining the decision-making processes in the EU and its overall strengthening, it seems that Europeans are not ready for this. It would be difficult to obtain political acceptance for the handing over of too many competences to Brussels. It remains unknown whether it would lead to—as Macron argues—a creation of a common ground binding the Community together—or the opposite—upsetting the part of the society who think that the EU has insufficient democratic legitimacy to do so.

Scenario three, "those who want more do more", is quite unrealistic; yet, since it is the most divisive, it arouses the most emotions. The EU White Paper shows that already today we deal with numerous circles of integration, as shown in Figure 1 below.

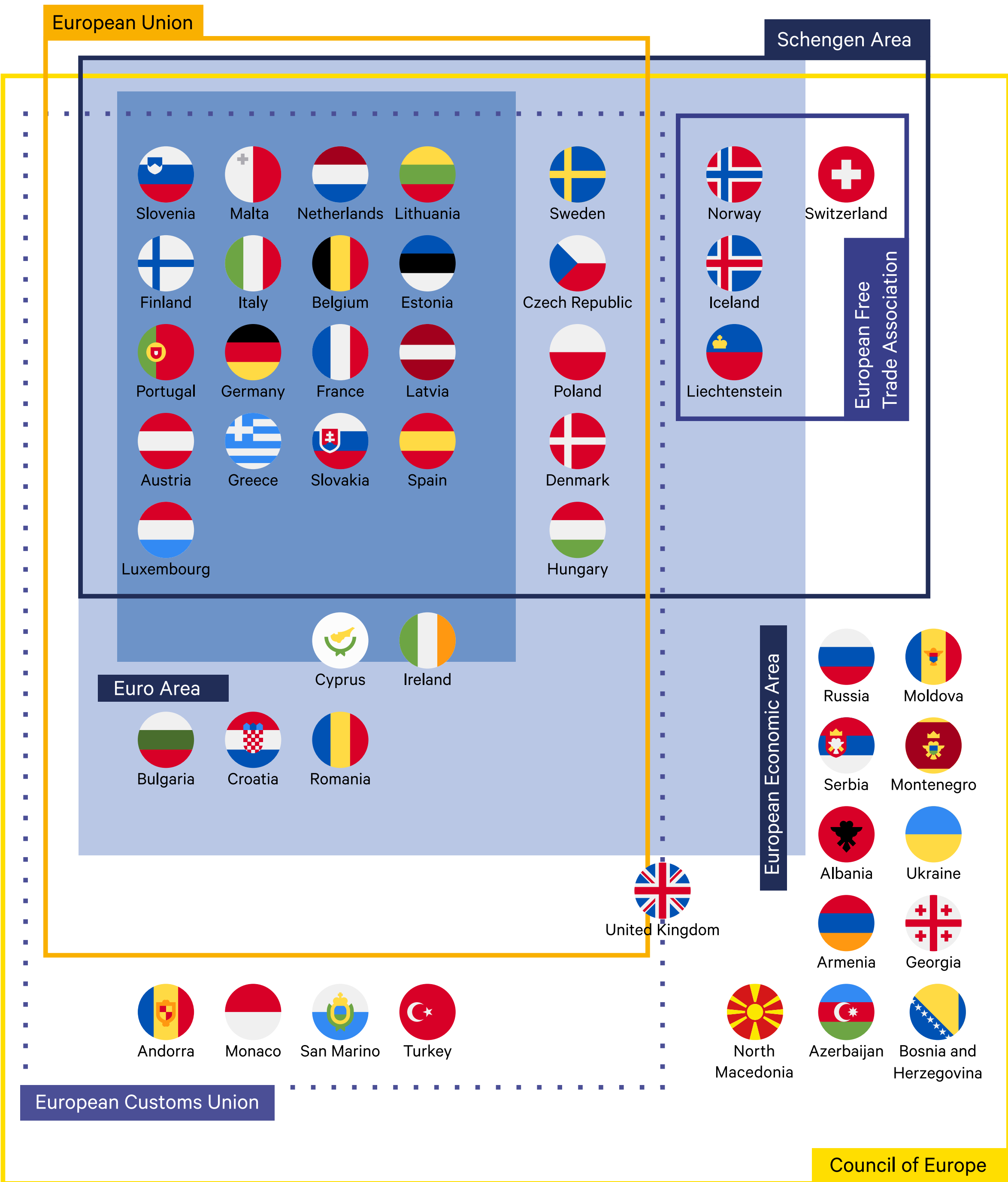
"Leader states" do not want to wait for those who are not interested in deepened integration. At the same time, they argue that the unity of the EU is not threatened because the status of "marauder states" will not change and they will always be able to join, if they decide so in the future.

In turn, countries remaining outside the close circle of integration argue that the implementation of a varied pace of integration undermines the cohesion of the European project, raising concerns in relation to the transparency of decisions made in "separate clubs" or financing of their own inner-circles. The greatest risk involved in scenario three is the consolidation of the division into "leaders" and "marauders". It raises a concern that states which do not join the circle of closest integration will remain outside for a long time, maybe even forever. Such a vision is not unrealistic, with Romania and Bulgaria still outside the Schengen zone. An uneven scope of integration proves that the "multi-speed EU" is already in effect.

Scenario one, "carrying on", although appearing very realistic, is rejected as a direction which, in the face of current challenges, will lead the EU astray. If the methods of updating the objectives and solving the current problems are not improved, then the decision stand-off will be more probable, slowing down the progress towards the strengthening of further integration. Everyone knows the "carrying on" EU all too well, and such a vision does not satisfy anyone any longer. Still, the realisation of this scenario as the default option seems the most likely.

Figure 1: Europe today

Source: European Commission (2017).



Finally, scenario four, "doing less more efficiently", although winning the most supporters, breeds difficulties in determining the areas which the EU should treat as priorities and approach with deepened cooperation. This results from the very diverse interests of states and from the multi-level governance system of the EU.

Interests and values

The difficulties in selecting priorities are linked with the essence of multilateral policy, which is a game of values and interests. The final results of the game also depend on the structure of the EU's governance system, which determines competences and the rules of decision-making.

Strengthening of fundamental values, such as the observance of the rule of law, is a precondition of enhanced integration, since national courts are also European courts and nothing should erode confidence in their independence. Other values, such as the determination of the importance of European solidarity, will increasingly be the balance of states' interests. Therefore, to strengthen the role of common values, the European Commission proposes that systems of governance evolve towards conditionality. They may include both conditional instruments on financing of projects based on the criterion of creating European added value and instruments that would freeze funds in specific programmes either due to a failure to observe the recommended reforms presented in the European Semester or to breaching the rule of law.

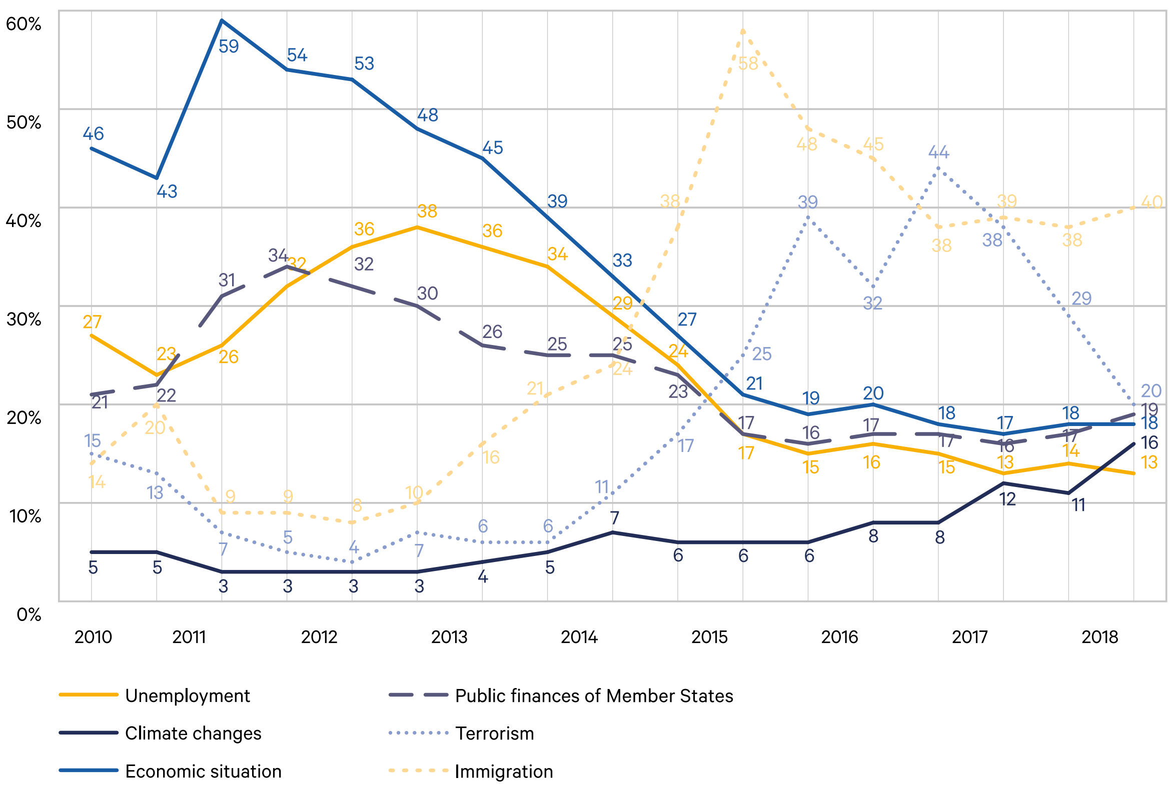
Notwithstanding how highly we assess these values, national interests have been increasingly becoming the point of reference in the decision-making process. Their recognition and understanding—regardless of the scenario—will become a key determinant of the EU's future priorities. Verbal declarations of European leaders' regarding an EU-positive agenda will be insufficient.

A much more significant element, which will be increasingly influencing the shape of the agenda and the possibility to reach compromises, will be the "red lines" —fundamental barriers—mostly resulting from geostrategic nature. Those include, for example: for Ireland—refusal to accept a "hard border" between Ireland and Northern Ireland after Brexit; and for Italy—solidarity in sharing the burden of accepting migrants.

Decisions in the scope of priorities will increasingly be determined by external factors. Opinion surveys conducted by Eurobarometer confirm that in recent years Europeans have progressively indicated migration and terrorist threats as the two major challenges for the EU, as shown in Figure 2.

Figure 2. Major challenges for the EU

Source: Eurobarometer (2018).



Expectations of greater security will be multifaceted, from strengthening of external borders in response to uncontrolled migration on the one hand, to closer integration in the areas of common foreign and security policies and creation of a defence union on the other hand. Still, progress in these areas will be uneven. The paradox is that countries which pay a lot of attention to security matters are oftentimes nationalist and therefore opposed to further integration; consequently, they often jeopardise joint EU projects and break free of the common foreign policy.

In turn, growing economic integration at the global level will accelerate the development of the EU single market. This area is definitely stronger than integration within the monetary union, because the latter requires implementation of a full fiscal union, a scheme which today seems rather unrealistic.

Political and governance reform

The scope and pace of realising the scenario assuming further integration will largely depend on how the EU will cope with further political reforms and the optimisation of the system of multi-level governance. These reforms will pertain to a simultaneous improvement of agency and effectiveness while strengthening the democratic legitimacy of EU institutions. Without them, priorities will be established as a result of a search for the lowest common denominator, translating into slow progress towards further integration.

It would be wrong if the lack of governance reform led to a further slowdown of integration process. It would also be wrong if the lack of imagination persisted and crises remained the principal catalyst for reforms. Nicole Gnesotto from the Jacques Delors Institute emphasises the significance of the ability to predict crises which may facilitate taking preventive steps (Gnesotto, 2018) and reduce the reliance on the reactive "putting out fires" strategy.

The strengthening of the European project will depend on the possibility of political reform within the EU, including its practical dimension, i.e. broader inclusion of democratic legitimacy in the multi-level governance system. The establishment of transnational lists to the European Parliament or combining the function of the President of the European Council with the position of the head of the European Commission set the course in the right direction, but remain insufficient. There is a need for a broader reform which would, among others, revise the competences of the European Commission and strengthen the Community method. Moreover, in some areas there would be a need for changing how decisions are made: from consensus to qualified majority.

Conclusion

In the end, the direction of the EU's future development will be decided by Member States, but the real progress will depend on the evolution of governance. With the current fragmentation of the multilevel decision-making model and with increasingly varied interests, there will be more and more stand-offs and the transactional nature of international cooperation will gain significance instead of the Community method. Without political reforms, compatibility between national and EU policies will not increase. There will always be the argument of the democratic inadequacy, pushing the process of arrangements towards a "transactional Union".

But even such a scenario should not mean drifting towards self-destruction. Brexit—like a bucket of cold water—has worked as a wake-up call. After an experience like this, it is rather unlikely that others will wish to leave the Community. Most importantly, in uncertain times, turning points and crises, the EU is looking for strength in unity. In the face of global challenges, the EU should speak with one voice to the outside world, because it strengthens its negotiating position in solving global problems. The essence of being a part of the EU is the feeling that "united we stand strong" (Juncker, 2018). Understanding this is of fundamental importance for maintaining peace and security in Europe.

For Poland—in a geostrategic context—the unity of the EU has an existential dimension. This is why the awareness that the future of Europe depends on the play of values and country-specific interests should not obscure the values which enhance the cooperation within the Community. The skilful defence of one's own interests should not be done at the cost of the fundamental values constituting the strength and unity of the EU.

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Professor and doctor habilitatus of economic sciences, graduate of economics at the University of Warsaw, and scholarship holder of the Alexander von Humboldt Foundation. Author of numerous works on social policy, the labour market and healthcare. Pioneer of poverty research in Poland. For many years, she has been working as the head of both the Institute of Labour and Social Studies (IPiSS) in Warsaw and the Institute of Public Health at the Collegium Medicum, Jagiellonian University in Kraków. One of the founders of the CASE Foundation. Participant and head of numerous international research projects. Author of many renowned and award-winning books and over a hundred scientific and popular science articles. Affiliation: IPiSS in Warsaw and Collegium Medicum, JU in Kraków.

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Doctor of economic sciences, researcher and lecturer at the Faculty of Economic Sciences, University of Warsaw (1972-2006). For many years, she has been conducting research in the area of social statistics and social policy, in particular concerning the measurement of poverty and the assessment of the effectiveness and efficiency of social transfers. She has been working with Polish institutions (IPiSS, Statistics Poland) and international organisations (World Bank, UNDP); she has also been participating in several EU expert networks in the area of social policy. Author of several dozen articles and expert reports, coauthor of reports for international organisations on poverty and social policy, coauthor of three books. Affiliation: CASE.

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Doctor of economic sciences. Academic at the University of Łódź (1968-2002), School of Business in Nowy Sącz (2003-2007) and the Łódź University of Technology (2008-2013). In 1990-1995, she was the President of the Antitrust Office. In 1991, she participated in association negotiations between Poland and the European Union, and after the association, she directed the harmonisation of Polish competition law and state aid with EU standards. Consultant of the Centre for Antitrust and Regulatory Studies at the Faculty of Management, University of Warsaw. Author of numerous publications, including articles on politics and competition law, as well as the book entitled *Biznes a ochrona konkurencji* [Business and Protection of Competition]. Partner at COMPER FORNALCZYK I WSPÓLNICY SP. J., a consulting firm operating in the area of the protection of competition and state aid for entrepreneurs.

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Doctor of economic sciences, member of the CASE Foundation Council. Lecturer at the University of Edinburgh. He headed multiple international projects financed by, among others, the World Bank, the European Union, and the National Centre for Research and Development. He received his master's degree in 1992 from Pennsylvania State University (in economics); he defended his doctoral dissertation in 2000 at the University of Łódź. Research interests: reorganisation of state enterprises, development of small enterprises, innovation, business networks, local governments and privatisation.

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Professor and doctor habilitatus of economic sciences, specialises in issues of regional and local development. In 1996-2016, director of the Centre for European Regional and Local Studies (EUROREG), University of Warsaw. Founder and chief editor of the *Studia Regionalne i Lokalne* [Regional and Local Studies] quarterly. He worked with governmental agencies and local and regional governments in Poland and Ukraine, as well as with international institutions (including the World Bank, the European Commission, the OECD, and the Open Society Institute). Fulbright scholarship holder, visiting professor at the University of Strathclyde, lecturer at foreign universities. Coordinator of numerous domestic and international research projects (including ESPON projects); in 2012-2015, head of the 7th Framework Programme project for the development of new EU Member States (GRINCOH). As author and editor, he published approximately 50 books and 260 articles and chapters.

Andrzej Kwieciński

Former senior agricultural policy analyst in the Development Division of the OECD's Trade and Agriculture Directorate; he was the main author and team leader of OECD reviews of agricultural policies in China, the Philippines, Indonesia, Vietnam, Estonia, Israel, Russia and Romania, and co-authored reviews of agricultural policies in Ukraine and Poland. During his time at the OECD in 1995-2017, he participated in the preparation of approximately 50 OECD publications and reports concerning various aspects of agricultural policy and rural development, mainly in countries located in Central and Eastern Europe and Southeast Asia. For 17 years, on behalf of the OECD, he was responsible for the regular assessment of China's agricultural policy. Prior to joining the OECD, he was assistant professor at the Faculty of Economic Sciences, University of Warsaw, chief specialist of the Consultative Economic Board at the Council of Ministers, head of the Agricultural Policy Analysis Unit, and member of the Polish Policy Research Group at the FES, UW. After leaving the OECD, he has worked as an independent agricultural policy consultant.

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Doctor habilitatus of economic sciences, head of the Department of Economic Modelling at the Institute of Rural and Agricultural Development, Polish Academy of Sciences in Warsaw. She obtained her degrees of doctor and doctor habilitatus at the Faculty of Economic Sciences, University of Warsaw, and her MPhil in Development at the University of Cambridge (Corpus Christi College). She is the author of numerous articles in foreign magazines (including Land Use Policy, Journal of Policy Modelling, Agricultural Economics, Applied Economics), a member of the Board of the European Association of Agricultural Economists, and a member of the editorial teams of *EuroChoices* and *Wieś i Rolnictwo* magazines. She has led many scientific projects, both Polish and international (H2020, ESPON, World Bank, DG AGRI). She received the Gold Cross of Merit (2011).

Przemysław Kowalski

Doctor of economic sciences, graduate of economy at the University of Warsaw and the University of Sussex in the United Kingdom. In 1999-2009, he was a lecturer at the University of Sussex, the Paris Institute of Political Studies (Sciences Po), and a guest lecturer at other universities. Since 2002, he has worked as an economist and head of teams at the OECD, specialising in research and economic consultancy with respect to international trade, investments, competition, innovation and economic development. When working at the OECD, he cooperated with the governments of its Member States, as well as with the European Commission, the International Monetary Fund, the World Bank and the World Trade Organization. He is the author of many articles and books about the economy and economic policy. In 2018, he has assumed the position of the President of the Management Board of CASE.

Anna Malinowska

Doctor of economic sciences, graduate of economy at Kozminski University. She is the experienced author of empirical quantitative and qualitative studies on the economic and institutional conditions of development and the market valuation of private sector enterprises, as well as the rate of growth of financial markets in Central and Eastern European economies. She is the author and coauthor of international articles. In 2017-2018, she was an assistant professor in the Department of Finance, Kozminski University. Affiliation: CASE.

Wiesława Kozek

Professor and doctor habilitatus of social sciences. Head of the Department of Sociology of Labour and Organizations at the University of Warsaw, president of the Scientific Council of the Institute of Sociology, University of Warsaw; formerly the long-term Director of the Institute of Sociology and Deputy Dean of the Faculty of Philosophy and Sociology. Author and coauthor of over a dozen books about economic sociology. Researcher of labour market issues, collective labour relations and social exclusion as part of international projects. Longterm member of the Social Dialogue Council at the Ministry of Labour. She has worked with the European Trade Union Institute and the European Foundation for the Improvement of Living and Working Conditions; Expert of the European Anti-Poverty Network. Feminist and spokeswoman of the interests of the world of contract work.

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Doctor of economic sciences, assistant professor at the Department of World Economy and European Integration, Faculty of Economics, Maria Curie-Skłodowska University in Lublin. Graduate of the Faculties of Law and Economy, MCSU. She specialises in the economy of European integration, particularly in the issues of the EU single market and competition policy, as well as in the Economic and Monetary Union. Author and coauthor of approximately 70 publications. In 2009-2012, member of the EuroTeam expert group organised by the European Commission in order to disseminate knowledge about the eurozone. Affiliation: MCSU in Lublin.

Maciej Nowicki

Professor and doctor habilitatus, technical sciences engineer, graduate of the Warsaw University of Technology. Twice the Minister of Environment (1991, 2007-2010). Vice President of the UN Commission on Sustainable Development (1994-1995), President of the EkoFundusz Foundation (1992-2007), President of the UN Convention on Climate Change (2008-2009). Received "Der Deutsche Umweltpreis," also called the environmental Nobel prize. Author of over 200 publications and 6 books about environmental protection, energy and sustainable development.

Grzegorz Wiśniewski

Graduate of the Warsaw University of Technology (majored in mechanics and process power generation) and the University of Warsaw. Founder (2001) and President of the Institute for Renewable Energy. Former Director of the European Commission's Centre for Renewable Energy Sources (RES) and President of the European Commission's Reflection Group on Sustainable Energy. Coauthor of the *Renewable Energy Development Strategy*. Coauthor of the "prosumer amendment" to the Act on RES. Member of the Energy Steering Committee at the National Centre for Research and Development; President of the Association of Employers Council at the Renewable Energy Forum; member of the National Development Council at the President of the Republic of Poland. He participated in several dozen EU research projects concerning RES; author of numerous market reports, economic and predictive expert reports concerning RES and power generation for public, local government and private sector administrations.

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Doctor of economic sciences, member of the CASE Foundation Council. President of Neo-Doradcy Sp. z o.o. (since 2015), and President of the Management Board of CASE-Doradcy Sp. z o.o. in 1999-2015. In 1996-1999, head of research topics at the CASE Foundation. In 1990-1996, Vice President of the Antitrust Office; in 1978-1990, assistant lecturer and assistant professor at the Institute of Management Organization and Personnel Education. His main research interests include economic integration with the European Union, industry and energy economics, market competition and structural transformations of enterprises and economy.

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Student of cultural studies at the SWPS University of Social Sciences and Humanities. Coordinator of projects at the Creative Economy Research Centre, SWPS University, including of the project entitled "Szacowanie liczebności artystów, twórców i wykonawców w Polsce" [Estimating the Number of Artists, Creators and Performers in Poland]. Committed to actions of the Pro Cultura Foundation, including with respect to the studies entitled "Rynek pracy artystów i twórców w Polsce" [Labour Market of Artists and Creators in Poland]. Affiliation: Creative Economy Research Centre, SWPS University.

Mateusz Szczurek

Doctor of economic sciences, University of Sussex, graduate of the FES, University of Warsaw. In 1997-2013, ING's economist Poland; in 2011-2013 the chief economist of the ING Group for Central and Eastern Europe. Expert of CASE, KPP Lewiatan and OECD BIAC. Minister of Finance of the Republic of Poland in 2013-2015. Since 2016, the EBRD's economist for EU countries, member of the European Fiscal Board and assistant professor at the Faculty of Economic Sciences, University of Warsaw. Affiliation: Faculty of Economic Sciences, UW.

Stanisław Gomułka

Doctor of economic sciences (University of Warsaw), graduate of the Faculty of Physics, UW. Scholarship holder of the Danish Academy of Sciences. Lectured at, inter alia, the London School of Economics (1970-2005), the University of Pennsylvania, Columbia, Harvard, and Stanford in the United States, Central European University in Budapest, and the College of Europe in Warsaw. Former consultant of the IMF, OECD and the European Commission. In 1989-1990 and 1998-2002, adviser to subsequent Ministers of Finance of the Republic of Poland; and in 1995-1998, adviser to the President of the National Bank of Poland. From January to April 2008, UnderSecretary of State at the Ministry of Finance in Donald Tusk's government. Currently a correspondent member of the Polish Academy of Sciences and member of the Scientific Council of the Institute of Economics, PAS, as well as the chief economist of the Business Centre Club.

Paweł Wojciechowski

Doctor of technical studies. Graduated (1986) from economic studies at the John Carroll University, and then master's studies and doctoral studies at Case Western Reserve University. In 2006-2014 he was, in turn, Polish ambassador to the OECD, Vice Minister of Foreign Affairs, President of the Polish Agency of Information and Foreign Investments and Minister of Finance. President of the Universal Pension Society (PTE) Allianz Polska S.A. (1999-2005), previously the President of subsidiaries of Polski Bank Rozwoju S.A. Guest lecturer at the Harvard Kennedy School and John Carroll University. Since 2014, he has been working as the chief economist of the Social Insurance Institution. He also holds other functions, including the Director of the Whiteshield Partners think tank, and EU coordinator of one of the transEuropean transport corridors. Affiliation: Whiteshield Partners.

Ewa Balcerowicz

Doctor of economic sciences, graduate of the Foreign Trade Faculty, SGH. Cofounder (1991) of CASE – Center for Social and Economic Research, Vice President of the Management Board of CASE (1992-2004), later the President of the Management Board (2004-2008); since July 2008, the President of the Foundation Council holding supervisory functions. Coeditor of Bank monthly finance magazine (1992-1997). Researcher at the Institute of Economics, PAS in 1983-1996 and 2012-2015. She participated in many research projects, mainly international ones, and she headed some of them. Since 2015, Vice President of the Council of the Association of Polish Economists (TEP). Affiliation: CASE and TEP.

Barbara Błaszczyk

Professor and doctor habilitatus, graduate of the Faculty of Economic Sciences, University of Warsaw, holder of scholarships of the Alexander von Humboldt Foundation and Georgetown University. Since 1983, she has been working at the Institute of Economics, PAS. In 1989-1996, adviser to Sejm and the government. Author of numerous works about privatisation, owner supervision, system transformation and structural reforms, as well as participatory management systems. Member and coordinator of international research projects. Cofounder of CASE – Center for Social and Economic Research, as well as its first President. Lecturer at the School of Business – National Louis University in Nowy Sącz (2003-2012). Member of the Main Committee of the Economic Knowledge Olympiad since 2007. Since May 2015, President of the Scientific Council of the Institute of Economics, PAS.