

Poland

Status Index (Democracy: 9.20 / Market economy: 8.61)		8.90	Management Index		6.36
HDI	0.858		Population	38.6 mn	
GDP per capita (\$, PPP)	11.379		Population growth¹	0.5 %	
Unemployment rate	19.6 %		Women in Parliament	20.7 %	
UN Education Index	0.96		Poverty	N/A	
			Gini Index	34.1 (2002)	
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003.					

A. Executive Summary

Democratic rules of the game function well in Poland, elections are free and fair, and political and social groups have unrestricted freedom of assembly. Only the Catholic Church and Christian parties in parliament at times exercise greater influence on political decisions than is common in a secular democracy. As evidenced by attempts on the part of leading party members to bribe a major Polish newspaper, the government did not always accept the freedom of the press. There are no restraints concerning the rule of law and the stability of democratic institutions. Whereas the consent to democracy is approximately 60%, satisfaction with the effective functioning of democracy decreased to 20% at the end of 2003. Judicial processes are too slow and the party system is growing increasingly fragile. Although support for populist parties has not increased, most parties receive equally low numbers of support, which will pose problems for the next government to emerge from upcoming elections.

The institutional framework for a market economy has improved and grown more stable in terms of competition, free trade and private property. Economic growth reached 5.9% in 2004 and inflation rate increases (up to 3.6% compared to 2003) ended after EU accession. Negative trends grew increasingly visible during the period under review, such as the increasing budget deficit under the SLD government (5.0% of GDP in 2004) and unemployment (19.6%). The so-called Oren scandal galvanized public debate in Poland in 2003 and 2004. The involvement of government officials once again demonstrated the fusion of politics and the economy in Poland.

Despite a large budget deficit and high unemployment, the structural constraints on government are low. However, following Poland's EU membership acceptance, internal struggles over European integration within the ruling coalition led to its dissolution in March 2003. Reform policies came to a near

grinding halt after the minority government and then-Prime Minister Miller left in May 2004. Persistent patterns in personnel policy, continued corruption and financial difficulties demonstrated a rather inefficient use of resources and deficiencies in consensus-building. Poland's cooperation with international and European actors was overshadowed by the conflict over the war in Iraq in which Poland supported U.S. interests and by Poland's role in slowing the ratification of the European Constitution. However, Poland gained respect for its engagement in developments in Ukraine.

Despite these negative developments, there are no significant and politically relevant extremist parties in Poland and political extremism is not expected to increase in the near future. However, populist parties with questionable democratic behavior continue to receive considerable support.

B. History and characteristics of transformation

The implementation of martial law on December 13, 1981 marks the starting point of democratic and economic transition in Poland. The government introduced martial law to stem the growing tide of political dissent associated with the independent trade union *Solidarność*. When the economic situation worsened in the late 1980s, the leadership of the ruling Polish United Workers Party (PZPR) acknowledged the need for substantial change, which they could carry out only in cooperation with the opposition.

With the Catholic Church as a mediator, the PZPR and *Solidarność* held roundtable talks from February to April 1989. As a result, several economic reforms, substantial revisions to the constitution and semi-free parliamentary elections were agreed upon and *Solidarność* was once again legalized. With the votes from parties that had previously functioned as puppets, the PZPR was removed from its position at the head of the government after the elections, thus creating a real transition to democracy. The new government under Tadeusz Mazowiecki introduced comprehensive political reforms and restructured the economy through shock therapy, with reforms named after the then-Finance Minister Leszek Balcerowicz. These measures made it possible to reduce the high external debt, the budget deficit and inflation, and to stimulate the economy.

While political actors were initially in general agreement about the stability-oriented course of economic policies, serious disagreements over political reforms were manifested in the protracted process of writing the constitution. The parties could agree on neither the authority of political institutions nor the relationship between church and state. In 1992, a preliminary 'Small Constitution' was adopted. It included contradictory regulations, however, that complicated the government's actions when it attempted to put them into practice. In 1997, it was

replaced by a new constitution, legitimized by a referendum, which clearly defined the roles of the president, government and parliament (Sejm), and further anchored political pluralism.

After concluding an association agreement with the European Union in 1991, Poland introduced its formal application for accession in April 1994 and began negotiations to join in 1998. The following years were characterized by intense efforts to meet EU conditions and implement these measures into Polish law. This process was fraught with several conflicts over the extent to which these conditions matched Poland's national interests that were initiated by national and clerical parties. The country's attempts to implement the *acquis communautaire* were rated positively by the Copenhagen EU summit in December 2002 and the accession treaty was signed on April 16, 2003. Debates arose within Poland once again over the common agricultural policy, the role of the church and Christian values, and the free movement of people. Finally, 58.85% of all eligible voters participated in the referendum in June 2003 and 76.9% of them voted in favor of EU accession. Poland became a member of the European Union in May 2004.

C. Assessment

1. Democracy

1.1. Stateness

There is no competition to the state's monopoly on the use of force. Public order and security are guaranteed.

All citizens have the same civil rights, and the status of ethnic minorities is adequately regulated in the constitution. Minorities' political representation in parliament is encouraged by special rules, e.g., they do not have to pass the 5% threshold as other parties do.

Although the state and church are officially separated, only marriages in the church are recognized and the clergy still possesses a certain influence on politics and society. The extent of this influence depends on the political parties in power. As it stands, these parties now constitute a rather influential opposition to the minority government in office.

The administration has a differentiated structure throughout the whole country. Self-administration was encouraged by a reform in 1999, which enhanced the way self-administration functions on both the regional and local level. The number of voivodships has been reduced and their competencies have been strengthened, although Poland is still a rather centralized country.

1.2. Political participation

All elections since 1990 have been free and fair. The electoral law was revised several times, and the last modification, in April 2001, was in response to administrative structure reforms. Political actors remained concerned about the effects of the electoral law, by stressing either its representativeness or effectiveness. The most current version favors smaller parties.

Elected officials, government and the state president all have the effective power to govern. The clergy is not a veto power, but due to its historical significance, the church is a heavily politicized institution and certain conservative priests and parties closely affiliated to the Catholic Church influence political decision-making.

Political parties and civil society have unrestricted freedom of association and of assembly within the basic democratic order.

The freedoms of speech and press are constitutionally guaranteed and realized in practice but were undermined by the political party in power in 2003. Film producer Lew Rywin, backed by the post-socialist government, was accused of trying to bribe the editor of *Gazeta Wyborcza*. Rywin offered the paper's editor help in attempting to influence the government's legislation to favor the paper's media holding company, Agora, and in return asked for a more positive coverage of the government's policy.

1.3. Rule of law

There are no restraints on the basic institutions involved in the separation of powers. Mutual checks and balances function properly.

The judiciary is free from unconstitutional intervention by other institutions. The mechanisms for judicial review of legislative or executive acts are sufficient and the Constitutional Court has a solid reputation. However, despite the high number of judges in Poland in comparison to other countries in Europe, legal cases proceed slowly and inefficiently.

Politicians who misuse their public mandate or power in office can be charged and prosecuted by the state tribunal. Additionally, Poland is persistent in its attempts to improve the prosecution of corrupt officeholders, e.g. since November 2001, members of parliament are obliged to publish their income on the parliament's website (Sejm). Despite public awareness and political attention given to the problem of corruption, the accused often slip through political, legal or procedural loopholes.

There have been no violations of civil rights reported. Violations of human rights under the socialist regime can be prosecuted in court, and since the summer of 2000, all citizens have the right to look at the files of the former security service.

1.4. Stability of democratic institutions

For the most part, democratic institutions work together effectively and efficiently. Political decisions are prepared, made, implemented and reviewed legitimately by the appropriate authorities. Efficient political governance is often hindered by the existence of a minority government or the unstable situation in the parliament. In addition, there are examples of profound tension between institutions that produce counter-productive results. The most blatant example was the tension between the executive branch and the central bank where their disagreements prevented Poland from developing a coordinated policy on the accession to the Eurozone.

All relevant political and social players accept democratic institutions as legitimate. The populist parties in parliament appear to have a rather fundamental and destructive view of their role as the opposition. This does not imply, however, that they are eager to overthrow the existing political institutions.

1.5. Political and social integration

The party system in Poland is still very fragile. After periods of consolidation, parties tend to again split up and new political groupings then appear. This fragmentation is connected to a high degree of voter volatility and thus indicates that political parties lack a solid base rooted in society. The first year after the elections of 2001 demonstrates this fragmentation, as the number of political parties was 3.6. Soon after, fragmentation and polarization began as several new parties and fractions were founded in the parliament. Certain aspects of EU membership (e.g., agricultural policy, selling land to foreigners and influence on family and Christian values) and the way the communist past is dealt with were the most important and hotly contested topics of debate and disagreement among parties in parliament. The post-socialist party SLD, often viewed as the most stable party, divided into two separate parties in March 2004.

There is a close-knit network of a wide range of interest groups promoting the growth of participatory democracy. Although the development of interest groups

has stagnated in recent years, their number is still five times smaller than in other EU countries. The relationship between the two major trade unions, *Solidarność* and *OPZZ*, is polarized on the national level, but on the local level, they work cooperatively. Other interest groups such as religious groups or sport associations function quite well.

There is a high consent to democracy (approx. 60%) and around 60% of respondents stated that the transition of the political system was a good decision. Public protests that arise around a variety of topics (e.g., reforms in coal mining or in education) are lawful. Populist movements, like *Samoobrona*, gain momentum and political representation in parliament. However, despite their obstructionist behavior, they are not anti-democratic. Today, 37% of respondents say the changes taking place in Poland since 1989 have brought the Poles more losses than gains. Yet, over 60% agree that the changes in the political and economic systems were and are worthwhile. On the other hand, these figures are accompanied by the public being alienated from the political sphere; trust and confidence in political parties and political institutions is very low (10% for parties and 9% for parliament) and only around 20% of the population are confident that democracy functions effectively in Poland.

Autonomous, self-organized groups and associations are well-developed and organized and work well with each other. Polls show that Polish society, as a whole, is not actively engaged in non-paid societal activities (24% of respondents). Another 13% works voluntarily for the community or people in need without belonging to a NGO. Political parties tend to have a weak organizational basis. The level of societal trust in civil institutions such as churches (56%), the press (55%), or the police (54%) is much higher. Hence, the level of social capital is solid but moderate. What may be responsible for these figures is the dominant inclination to privatize profits while externalizing the costs, combined with relatively low effectiveness of social ostracism as a control mechanism.

2. Market economy

2.1. Level of socioeconomic development

Social exclusion is quantitatively and qualitatively limited and not structurally deep-rooted. The GDI and Gini-Index show a relatively high level of development. Yet, poverty and inequality are on the rise. Pensioners, unemployed youth and single mothers are the groups most affected by the threat of poverty. There are extreme disparities between rural and urban regions, particularly in the southeastern part of Poland. In comparison to 2002, the number of families with an average standard of living has decreased from 53% to 46%, while the

percentage of families whose standard of living is below the average has increased from 40% to 48%. Since 1997, increasingly more people believe that unemployment is the primary reason why poor people cannot improve their situation. Three-fifths of adult Poles share highly egalitarian attitudes, a figure that increased at the end of the 1990s.

2.2. Organization of the market and competition

The state fully guarantees the rules of the game for market competition and all market participants have equal opportunities. Nevertheless, in many sectors state-owned enterprises enjoy a privileged position and rely on regulatory or non-regulatory interventions by the state.

The formation of monopolies is regulated coherently and effectively. The Office for Competition and Consumer Protection functions adequately.

Foreign trade is, for the most part, liberalized with uniformly low tariffs and no fundamental state intervention. Trade barriers with EU countries still exist regarding the import of used cars, alcohol advertisements, labels for textiles and the law on Polish language.

The Polish banking system is organized according to international standards, with functional supervision, minimum capital requirements and market discipline. Capital markets are open to domestic and foreign capital, with sufficient resilience to cope with speculative investment.

2.3. Currency and price stability

Inflation and foreign exchange rate policies have been coordinated with other goals of economic policy. While the inflation rate is accelerating gradually, it remained at 3.4% from January to November 2004—a jump compared to the same period in the previous year. Price increases in food and non-alcoholic beverages resulting from EU accession and the growth of fuel prices was the most important factor driving inflation rate growth. A flexible exchange rate is used as an instrument of economic policy-making. In November 2004, the zloty did well against the euro as well as against the dollar (1.4% and 5.1% respectively). In the future, the exchange rates between euro and zloty will be coordinated in preparation for the introduction of the euro in Poland. The National Bank of Poland is independent, but there were struggles in 2003 and in 2004 concerning the financial independence of the central bank. The government wanted to use at least one third of reserves for losses from exchange rate changes to minimize the deficit. In January 2004, banking regulation was brought into line with the

prevailing practice in most EU member states. The central bank has remained restrictive regarding monetary policy.

In 2003, the budget deficit amounted to 4.5% of GDP and public debt to 51.6% of GDP. After the Miller government did not manage to reduce the deficit, the Belka government has undertaken new efforts, but has yet to succeed. Consequently, the previously consistent stabilization policy continues to be undermined. However, the current government attempts to safeguard its policy against the interests of specific lobby groups more so than its predecessor does.

2.4. Private property

Property rights and the regulation of the acquisition of property are well-defined. Only the right of foreigners to buy land, especially for Germans, was highly debated and led to several political disagreements.

Private enterprises are given appropriate legal safeguards and they mark the backbone of the economy. They contribute to 76% of the GDP. Three-quarters of the 500 largest enterprises in the country are privately owned. The problematic segments of industrial production, such as coalmines and shipyards are not yet fully privatized. However, the largest Polish bank, PKO BP was successfully privatized in November 2004. Furthermore, PHS, which accounts for 70% of Polish steel production, was sold in October 2003.

The slow continuation of privatization is attributed in part to the fact that most profitable enterprises have already been sold and that additional conditions for investors, such as the obligation to keep jobs, have been introduced. Client list patterns were also reactivated. In April 2004, it became public that domestic intelligence had arrested the chair of the mineral oil company PKN Orlen shortly before he was to buy the state-owned refinery in Gdansk. The Russian company Lukoil was also interested and had already paid bribes to prepare the deal. It appeared that one of the richest Polish businessmen, Jan Kulczyk, intervened at the highest levels (state president or prime minister) in favor of the Russians. A parliamentary commission of inquiry was established in July 2004; at the time of this writing, the investigation was still underway.

2.5. Welfare regime

Social welfare networks are only partially well-developed. The government has reformed the pension and health systems and the social welfare net in order to make social insurance viable for the future. In addition to the pay-as-you-go system, individual contributions have become necessary. In reality, the health care

and the social welfare system is still under-financed and private payments are frequently required to receive adequate treatment. Especially the unemployed and old people are at risk of poverty, although retirement pay and pension grew by 4.1% in 2004.

Equal opportunity exists in principle, and women have equal access to education, public office and well-paid jobs. However, women still earn less than men, and more women (52% of total unemployed) than men continue to suffer from long-term unemployment (64.9% in 2002). Violence against women is a serious and widespread problem. The competencies and capacities of the government body responsible for gender equality, introduced in 2001, must be strengthened. Special pro-active initiatives for women, the elderly, and people with special needs remain insufficient.

2.6. Economic performance

Following several quarters of falling domestic demand and slow GDP growth, a recovery began materializing. In the course of 2003, GDP grew by 3.8% and by a further 6.4% in the first half of 2004. Still, GDP per capita in Poland only accounts for about 46% of the average GDP per capita of the EU. This is associated with shifting macroeconomic data: unemployment remains very high at 20.6% in 2003 and approximately 19.6% in 2004. The budget is still unbalanced, and in 2003, the budget deficit amounted to 4.5% of the GDP and public debt to 51.6% of the GDP. Foreign debt has risen; it was approximately 47.6% of the GDP in 2003. Poland's trade balance remains negative.

However, in October 2004, export revenues were about 19.4% higher than during the same period for the previous year, and expenditures on imports were 14.9% higher a year before. Consequently, the trade deficit was 208 million euro less than in October 2003. This was mainly due to Poland's accession to the EU. Germany specifically, and the EU more generally, remain the most important trade partners. Inflation was low in 2003, around 1.7%, and this was mainly due to successful central bank policy. However, it rose to over 4% in 2004 due to the increase of food prices and indirect taxes that came about during the course of EU accession. Interest rates have been in continuous decline during the last years. Prices increased gradually after EU accession and an increase in fuel prices. These developments now seem to have stabilized.

2.7. Sustainability

Ecologically compatible growth is taken into account and Article 5 of the constitution guarantees, in principle, the concept of sustainable development. The

institutional framework for sustainability has been established in the course of accession talks and Poland is to implement certain legal standards concerning air and water pollution and waste management. Nevertheless, economic growth remains a top priority and ecological thinking is underdeveloped. State and private institutions for education, training and research and development have improved and education is regarded as a key qualification to compete on the global market. Private institutions in particular have developed extensively. Public expenditure on education (5.4% of GDP) is above the EU average, and expenditure on secondary education has increased significantly during the last few years, while expenditure on research and development (0,7% of GDP 1996-2002) remains below the EU average.

3. Management

3.1. Level of difficulty

There are few structural constraints on the government. The following all produce favorable conditions for the government: A high standard of development; a well-educated work force; a well-developed infrastructure, except for some regions in the southeastern regions of Poland; and the state of law and institutional stability. There are shortcomings regarding the effectiveness of the administration and court system.

The moderate traditions of civil society, resulting in a relatively low engagement in public affairs and in NGOs, the alienation from politics, the low voter turnout and low trust in political parties and political institutions do not endanger the further transition to democracy, but do make it more difficult for the government to gain legitimacy for its policies.

While ethnic conflicts are non-existent, there are some social conflicts. It is growing increasingly difficult to finance public welfare systems because of the rising budget deficit. Poverty has thus increased, as has the influence of populist parties, such as Samoobrona or the League of Polish Families. The cleavage between church and state is also increasingly apparent. The debate on EU accession and the EU Constitution was marked by demands from the Polish Church and Christian parties for greater influence of Christian values.

The socialist past also dominates political discussion. For example, political parties often cannot join in a coalition, despite similarities in their political goals and aims, because their leaders were on different sides before 1989. Scandals concerning the membership of high-ranking politicians in the socialist secret service have become more frequent in recent years. The position of the prime minister became increasingly weak during his term in office. His party received a

clear majority in the 2001 election; in 2003, only 18% viewed the government positively. His weakened position had a negative effect on the government's effective policy-making.

Profile of the Political System

Regime type:	<i>Democracy</i>
System of government:	<i>Semi-presidential</i>
1. Head of State:	<i>Aleksander Kwasniewski</i>
Head of Government:	<i>Leszek Miller</i>
Type of government:	<i>coalition majority</i>
2. Head of Government:	<i>Leszek Miller</i>
Type of government:	<i>single party minority</i>
3. Head of Government:	<i>Marek Belka</i>
Type of government:	<i>single party minority</i>
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of p_i ministries/ ministers denotes the situation on 1 January 2005.</p>	

3.2. Steering capability

The government pursued long-term aims during the last two years, but due to political crises and changes in the government these goals were not implemented. After the government of Leszek Miller managed to receive a favorable result for Poland at the Copenhagen summit, where the accession of Poland to the EU was agreed upon, this victory did not last for long. Conflicts in the ruling coalition led to a break on March 1, 2003 and since then the government has ruled as a minority government with internal problems. As a result, the spirit of reform lost momentum. Short-term political benefits became more important than long-term results, and the strategic aim of introducing financial and structural reforms in order to reduce the budget deficit and unemployment lost ground. When Prime Minister Miller left office in May 2004, his successor, Marek Belka, a former minister of finance, gave more weight to reform policy and was able to stabilize the political situation with his team of mainly non-party experts. However, seen as a transition and minority government, the team around Belka is not capable of implementing important reform projects.

Hence, the ability of the government to implement reforms was unpredictable. Whereas the government showed commitment to foster the reform path, announced reforms were not fully implemented. In 2003, the government debated

heavily on different proposals to reduce the budget deficit by introducing substantial financial reforms. While the finance minister planned to eliminate all tax privileges to reduce the budget deficit and reduce corporate taxes to spur economic growth, the labor minister sought to lower taxes in general to enable every citizen to increase his or her consumption. Prime Minister Miller did not comment on any of these proposals and thus created a climate of insecurity. In the end, the reform was far less reaching as originally planned and has yet to be fully passed by the parliament.

Poland's political actors proved to be rather inflexible regarding the willingness to learn and adapt to policy-making or the aims of certain reforms to a change in environment. The leadership relied on old patterns, especially concerning the privatization of the remaining state companies, as the Orlen scandal clearly demonstrated. However, the government understood it could appeal to certain moods among the population. Miller gained in popularity by insisting upon the rigid Polish position during the Brussels summit on the European Constitution. Sixty-four percent of respondents regarded his unwavering stance and strategy with respect to the weighting of votes as appropriate, despite the fact this temporarily derailed the European Constitution. Prime Minister Belka managed to shift the political climate. Now, following further negotiations, approximately 73% of all Poles support the constitution.

3.3. Resource efficiency

The government uses most available resources efficiently. In formal terms, competitive recruiting procedures were protected against political influences. A professional civil service has been established since the reform of the public service. However, in practice the number of politically motivated dismissals and new appointments of public servants have become clearly visible in the second half of the SLD administration. One example to date is the appointment of a new minister of privatization who was an officially registered member of the communist secret service. In addition, several institutions were dissolved in order to install new personnel after the restructuring, e.g. the dissolution of the old internal secret service in favor of two new institutions: the Agency for Internal Security and another office of intelligence investigation aimed at opening new channels for intelligence agents from the communist era. At the top level, Miller's tactical behavior toward his ministers kept him in office, despite repeated demands for him to leave office.

Poland's performance regarding the efficient use of budget resources has increasingly worsened. The state budget's deficit continues to grow, and effective auditing, transparent planning and implementation of the state budget are weak. In contrast, however, the administrative organization is efficient. Decentralization

has occurred and local self-government possesses a certain legal and financial autonomy that is backed by arrangements for public review of its activities. Procedures and institutions to reform and modernize public administration exist, but are underdeveloped.

While the government tries to manage conflicting interests, it has met only limited success. Tensions between the different ministries over issues such as the reform of fiscal policy create counterproductive effects on other policies. In addition, the extent of departmentalism in Poland is high. Ministries often behave as rival fiefdoms and compete with each other over resources. This is most evident at the level of law-making where departmentalized amendment strategies lead to legal instability and substantive inconsistencies.

The government seeks to provide and maintain integrity mechanisms. The fight against corruption was introduced by passing the program “a secure Poland” in 2002. Despite this attempt and other measures, corruption remains one of the largest problems in Poland. Parliament, as well as independent institutions, review state spending. Party financing and accountability of officeholders are regulated by law. Since 2001, Polish members of parliaments must publish their income on parliament’s website. Corruption scandals remain a problem such as the already mentioned Rywin affair or the Starachowice scandal. The final EU monitoring report from September 2003 and Transparency International reports criticize the degree to which corruption dominates political and public life in Poland.

3.4. Consensus-building

The aim of establishing a market economy and democracy is not questioned by relevant political, economic or civil actors. The round table talks between the old elite and the political opposition that took place in 1989 carried the spirit of reform for a significant period. It is now clear that political debates over things such as the role of the state president in the political system or the relationship between church and state take place within democratic structures. Even the populist parties express no desire to return to the socialist period.

There are no anti-democratic veto powers to threaten the government. Yet, the government itself has difficulty in pursuing the reform path and in applying democratic modes of decision-making properly. There is also a strong populist

opposition that acts as a veto power and whose political aims have to be considered by the government if it is to acquire majorities. This is a problem of performance and does not substantially threaten the democratic political system.

Whereas the government attempts to minimize cleavage-based conflicts, it could demonstrate more eagerness to agree upon long-lasting solutions. Some of the political cleavages in Poland relating to rural differences, or those relating to the church or the socialist past grew visible during the debate on EU accession and the European Constitution. The government failed to mediate all of these conflicts effectively.

The political leadership in Poland promotes social capital. In 2003, the government passed long-awaited legislation regulating welfare and other third sector organizations. This legislation came into effect on January 1, 2004. This law demonstrated that the government has an interest in fostering civil society. Hence, the political leadership takes into account and accommodates the interests of citizens. The relevant constitutional and legal regulations concerning the financial situation of civil society organizations (tax exemptions), the relation to state bureaucracy (public assignments) and the legal rights of people who are engaged in these organizations have been passed.

The tripartite council in which government, trade unions and employer organizations bargain on socioeconomic topics was revitalized and began to function more effectively. However, no further measures were taken to attain or to strengthen inter-personal solidarity and civil engagement.

The need to reconcile historical acts of injustice is also recognized by the political leadership, but the process of reconciliation has failed because the post-socialist government clearly seeks to obstruct true evaluation of the past. Such obstruction is illustrated by the lustration law, which reduced the forms of (punishable) collaboration with the old socialist regime. Therefore, increasingly more people were able to assume party functions they would otherwise not have received. Collaboration with the secret service is a current topic of heated debate. Several real or instrumentalized cases concerning the involvement of well-known people in Poland became public after the archives were opened.

3.5. International cooperation

The Polish government is highly attuned to the use of international assistance particularly that of the EU and other assistance programs for accession, needed to complete its transition. The evaluation reports continuously attest to Poland's adaptation to EU or other international rules, and administration reforms in implementing the *acquis communautaire*. At the time of accession, there were still some policy fields not yet fully in line with EU standards. Consequently, several reforms failed to properly absorb or use external financial assistance and large amounts of money were left untouched. Poland is an active partner in other international political institutions such as NATO, the OSCE, the Council of

Europe or the Council of the Baltic Sea States and international economic institutions such as the OECD and the EBRD.

Within these circles, Poland is generally regarded as a reliable partner. Tensions arose in 2003 when Poland signed the “declaration of the eight” and committed to an unrestricted alliance with the United States during the Iraq conflict without discussing this position with Germany, France or other EU partners in advance. Further doubts about Poland’s interest in maintaining good relations with its fellow EU countries emerged when Poland insisted on its position during the negotiations of the European Constitution, which in turn contributed to the failure of the Brussels summit in December 2003. Together with Spain, the Polish government aimed to push through the majority system decided upon at the treaty of Nice, which was more favorable for medium-sized countries than the agreements made for the European Constitution. The slogan formulated by a politician from the parliamentary opposition, “Nice or Death,” became the central motto during negotiations and drew domestic political lines but served to damage Poland’s image in Europe. In the meantime, the Belk government adjusted its position and declared its acceptance of the constitution. Some debates over the influence of the EU on religious and family values in Poland continue.

Poland is also a member of regional organizations and participates in less formalized gatherings such as the Middle-European Initiative. In the Council of Baltic Sea States, Poland is very active in fighting organized crime. Poland actively promotes regional integration and recently met with success in negotiating a peaceful solution for the political conflict in Ukraine. The eastern perspective is important for a country that has one of the longest external land borders of the EU. Only relations with Germany have worsened during the last two years. The first conflict emerged during the course of EU accession and dealt with the restitution of former Germans in Poland, which included a sharp resolution in the Polish parliament. The second conflict dealt with the foundation of a restitution organization called Prussian Trust by German expellees. The

Center for Expulsion and the interpretation of a common history exacerbated historical tensions between the two countries and increased the precarious nature of the German-Polish relationship.

4. Trend of development

4.1. Democratic development

Stateness, political participation and the rule of law have remained at their former levels of high quality. However, scandals, such as the Rywin affair served to upset the positive assessment over the last four years.

Democracy has remained more or less a stable force due to institutional stability and citizens' high approval of the democratic system. However, the population's alienation from politics has increased significantly compared to the mid-1990s. The party system appears to be deteriorating, as periods of consolidation and fragmentation in Poland's party system in Poland seem to have become a steady pattern. In addition, the system of social self-organization in a network of cooperative associations or interest groups has remained at a level in need of improvement if the political system is to be classified as a fully participatory democracy.

4.2. Market economy development

The level of development, measured by Poland's HDI rank, has slightly improved between 1998 and 2002. Poverty, however, remains a serious concern as about 10% of the population lives on less than \$4 a day. A certain degree of social exclusion of women, pensioners and juveniles on the labor market and in the systems of social welfare has not been reduced.

The institutional framework of the economy has improved slightly as the anti-monopoly policy and the degree of liberalization in foreign trade have been extended because of EU accession. Private enterprises are becoming the backbone of the economy. Some positive results were achieved regarding the privatization of the banking and the steel sector, although the privatization process itself could be accelerated. Additionally, new scandals tainted the post-socialist party and revealed the strong interrelationship between the economy and politics.

As some indicators have developed differently, overall economic development has not essentially changed. On the one hand, economic growth first decreased approximately three percentage points between 1999 and 2001, and then increased steadily from 2002 on. Inflation decreased visibly, and a moderate level of sustainability remained unchanged. On the other hand, the budget deficit grew and the rate of unemployment remains very high.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	4.0	1.0	1.4	3.8	5.5
Export growth in %	17.5	8.0	5.0	6.0	na

Import growth in %	12.0	7.0	3.0	4.0	na
Inflation in % (CPI)	10.1	5.5	1.7	0.7	3.6
Investment in % of GDP	25.0	21.0	19.2	20.3	na
Tax Revenue in % of GDP*	32.5	31.9	32.6	na	na
Unemployment in %	16.4	18.5	19.8	19.2	19,6
Budget deficit in % of GDP	-1.8	-3.5	-3.7	-4.2	-5.0
Current account balance in billion \$	-9.998	-5.357	-5.007	-4.085	-6.000

Source: EBRD Transition Report 2004, *OECD

D. Strategic perspective

Politically speaking, 2005 is an exciting and important year. Scheduled parliamentary and presidential elections are bound to subject the party system to further pressure. For the first time, the future development of both conservative and leftist parties, particularly the SLD, is unclear. There are hopes that a new period of consolidation will emerge as the state of the party system will influence the next government's performance and steering capability.

Fiscal and monetary policy must be more balanced if the budget deficit is to be reduced and further economic growth stimulated. Government expenditures must also be redirected away from consumption to investment. In addition, the government must address Poland's rigid labor market to reduce unemployment levels and set targets in the fight against corruption and the politically motivated use of administrative personnel. The weak performance of the Miller government in terms of setting and maintaining political priorities, the effective implementation of reform policies, the ability to choose tools and strategies and to organize and sequence reforms must be improved substantially in the future. Increased investment in education and sustainable development is also needed.

Poland must also improve relations with the EU and Germany. The dispute over the direction of foreign policy and the interpretation of historic events should end if Poland is to be viewed as a credible European partner again. Poland's engagement for democratic development in Ukraine and the compromise on the European Constitution are two hopeful indications thereof.

Consolidating the party system and improving the government's steering capability are the most important tasks for Poland's future, if the government is to improve efficiency and stimulate growth. Doing so would help reduce public alienation from politics. Poland's persistent deficiencies will present the next

government with difficult political and economic problems to resolve.