Summary of a report

»The next 25 years: what reforms we need to implement to catch up with the West?«

prepared by
Civil Development Forum (FOR)

Leszek Balcerowicz
Andrzej Rzońca

1. How to analyze economic growth?

A path of long-term growth can include, on the one hand, periods of growth collapse (which are usually brief, but still impact negatively the average growth rate in the long run), and on the other hand, generally longer periods of fairly stable economic dynamics.

Collapses are related to occurrence of various shocks. Some of them are external, but many are caused by national economic policy. It affects both the vulnerability of the economy to external shocks and its ability to cope with them. Besides personality traits of the politicians, quality of the policy is decided in turn by the restrictions imposed on their powers, restrictions which are called stabilizing institutions.

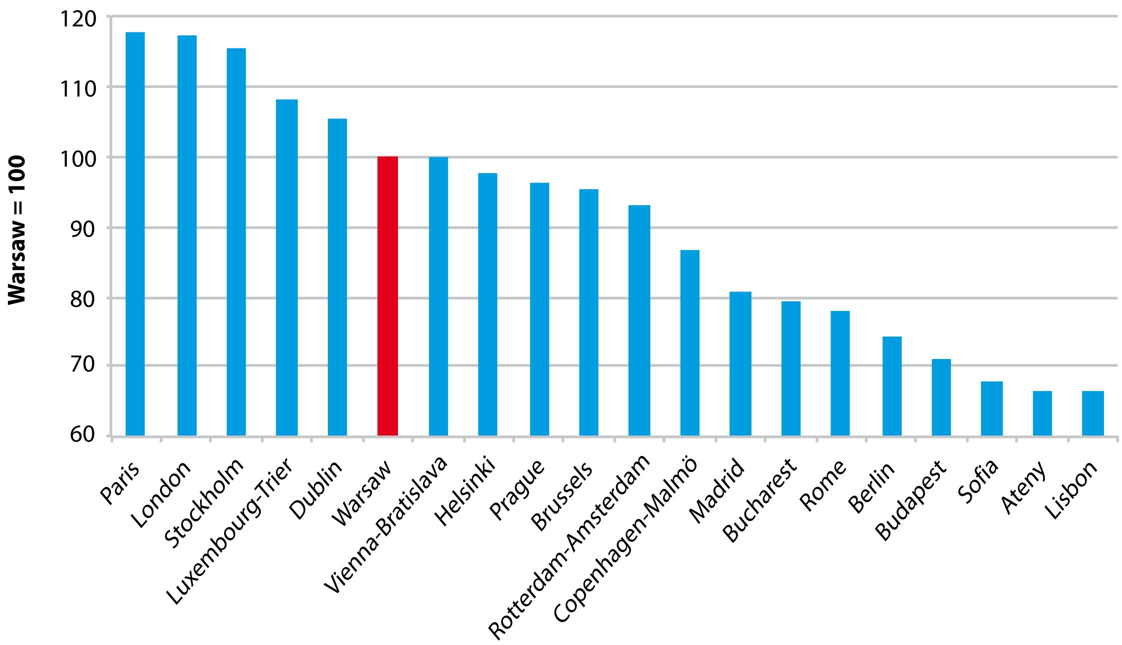
Outside the periods of collapses, factors responsible for the economic dynamics are forces which operate over an extended time or even continuously, called systematic forces of growth. They operate through changes in employment, accumulation of investment into capital, and changes in labor and capital productivity (that is changes in production achieved without changes in employment and without investment in new production capacity), and depend primarily on the institutions called the propelling institutions, and on economic policies shaped under their influence. Key propelling institutions, in view of vast literature on economic growth, include: private sector participation in ownership of companies; the structure of property rights, in particular the degree of freedom of private enterprise; the level of property rights protection, including the amount and stability of taxes; intensity of competition between suppliers; state fiscal position, determined mainly by the relation between social spending and GDP. They are reinforced by free-market reforms understood as those changes in business and state structures which are conducive to the growth of legitimate free market. They include decisive improvements in creation and enforcement of law, restricting uncertainty, which harms investments, especially those that are carriers of innovation. Anti-reforms, that is the opposite of free-market reforms, weaken the propelling institutions. Often, causing a build-up of imbalances in the economy, they lead to economic collapses.

These institutions can create institutional barriers to growth, that is they can take forms that prevent the country from catching up with the wealthiest. Removal of such barriers not only strengthens the systematic forces of growth, but can also trigger specific growth mechanisms which make the rate of growth temporarily extremely fast (more on this topic in Balcerowicz and Rzońca, 2014).

2. So far, how did Polish economy grow?

Poland has achieved great success in the last 25 years. For more than two decades the country was developing at a pace exceeding an average of 4% a year, faster than other countries of Central Europe. Per capita income, adjusted for differences in price levels, increased from 29% of income per capita in Germany in 1992 to 55% this year. The disparity between adjusted per capita income of Poland and of Spain, another country in the West, is smaller than the distance between our country and Mexico or Hungary in the early nineties. Poland is wealthier than both these countries. According to IMF forecasts, in three years our income per capita will exceed per capita income in Portugal. In the Polish capital, Warsaw, it is higher not only than in Budapest, Prague, and Bratislava, but also than in Berlin and Vienna.

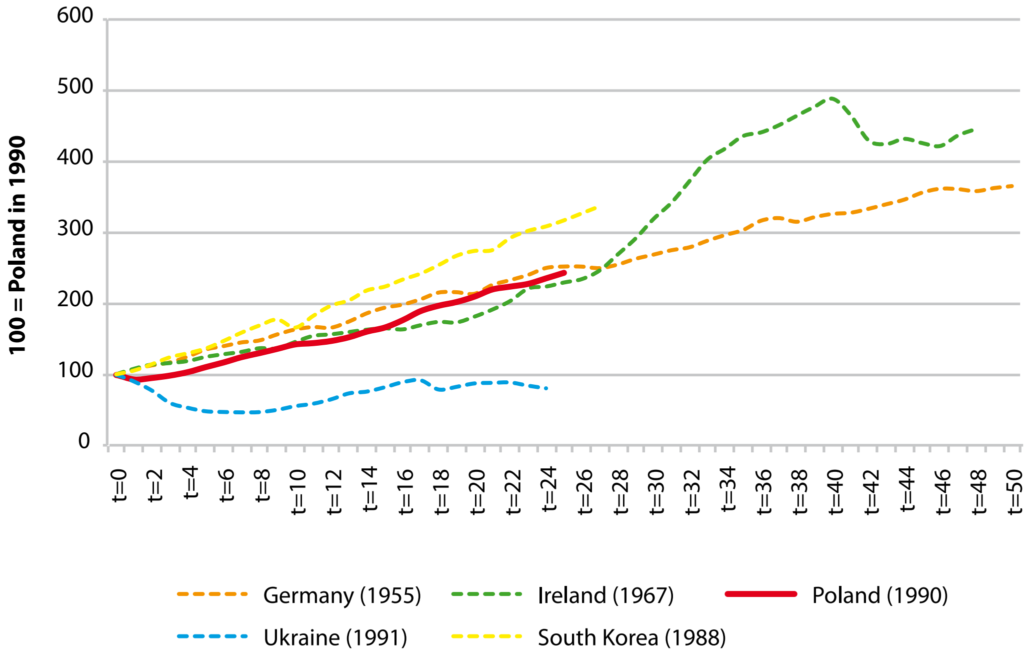
Figure 1. Income per capita in selected EU capitals in 2014



GDP per capita adjusted for price levels
Source: Own elaboration based on Brookings (2015) data

Poland was not only a regional economic tiger. Total growth of our economy in 1991 did not differ much from the growth in South Korea and was faster than in Chile or Malaysia. While China was taking away share of international trade even from Germany, Poland increased it threefold, making up for the entire period of decline that lasted from the mid-seventies to the collapse of socialism. Polish exports during transformation grew significantly faster than even exports of South Korea. As a result, our position on international markets has become about one-third stronger than implied by Polish participation in the global GDP. Also the structure of Polish exports changed fundamentally. Yet in the mid-nineties the percentage of exports that were moderately or highly technologically advanced was 35%, and now it is almost 60%. Both dynamic growth in exports and improvement of its structure would not be possible without the inflow of direct foreign investment. Enterprises with participation of foreign capital accounts for almost half of Polish exports.

Figure 2. Poland's GDP per capita growth in relation to other successful countries

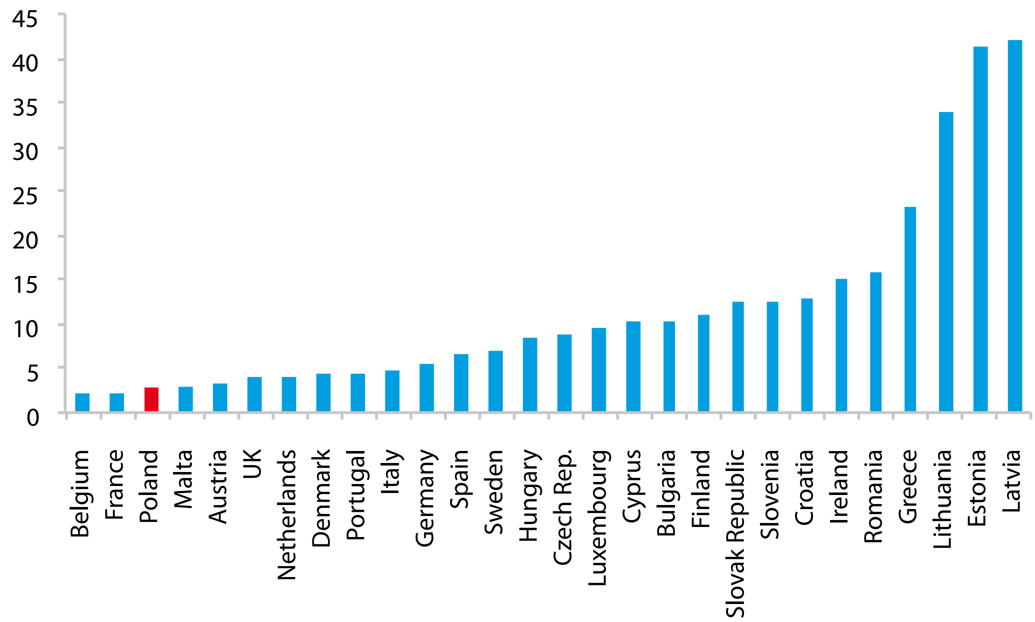


As the base year (t=0) has been taken the particular country when it was on the development level of Poland in 1990 (actual years given in parentheses). t+1, t+2, t+3 etc. stipulates GDP per capita level in subsequent years in relation to base year. The figure is based on GDP per capita data adjusted for price levels.

Source: Own elaboration based on Conference Board data

Intensive development of the export sector allowed Poland to avoid de-industrialization. The industry share of employment is in our case more than half higher than in the old EU countries, as well as slightly higher than the average in the countries of Central Europe. Meanwhile, at the beginning of transformation Poland stood out in the region due to high proportion of people employed in agriculture.

Figure 3. Volatility of the rate of economic growth in 2000-2015

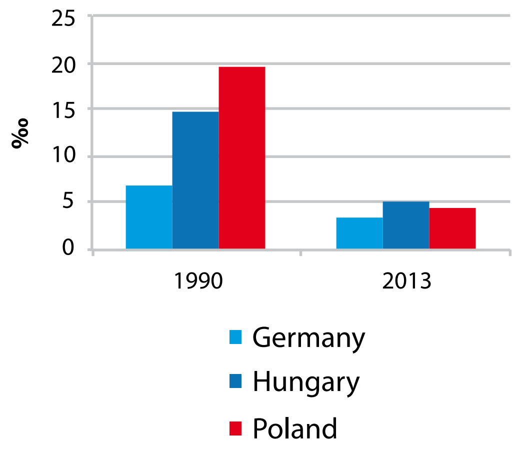


Volatility is measured by the variance of GDP growth

Source: Own elaboration based on IMF data

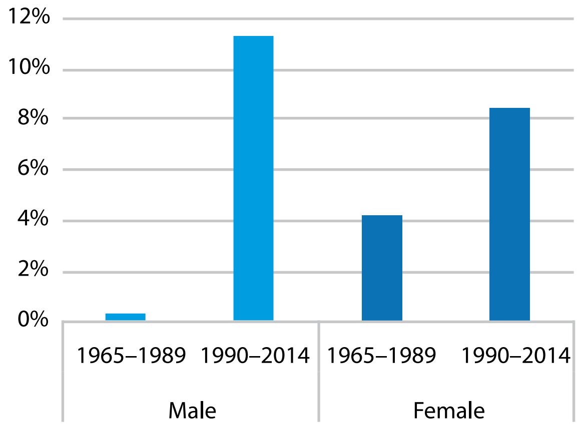
Polish economic growth was not only fast, but also very stable. In the years 2000-2015 its rate was less variable only in Belgium and France of all EU countries. None of cyclical slowdowns in our country was accompanied by decline in GDP. Poland was the only economy in the EU which has not shrunk even during the global financial crisis. This success is owed to a large degree to weaker growth of credit and of current account deficit than in most EU countries and in the region. These imbalances did not reach such a large size as elsewhere because tightening of monetary and fiscal policy broke the boom associated with the accession to the European Union. In addition, the banking regulator restricted the possibility of borrowing in foreign currencies by households, despite strong political pressure to the contrary. Stabilizing institutions passed the test: the independent central bank, limits of public debt, as well as floating exchange rate (which, unlike in most countries, was introduced without pressure for devaluation). It should be noted that if conservative monetary and supervisory policy, together with limits on government debt, did not slow the credit boom, the floating exchange rate would strengthen the shock caused by the global crisis. The negative implications of the increase of zloty value of foreign debt (due to the depreciation of zloty) would likely outweigh the positive effects of improving the price competitiveness of domestic goods in relation to imports.

Figure 4. Drop in infant mortality



Source: Own elaboration based on Eurostat data

Figure 5. Surge in average life expectancy. Last and previous 25 years



Source: Own elaboration based on GUS (Central Statistical Office of Poland) data

Polish success in transformation had not only the economic dimension. For example, infant mortality dropped more than fourfold at that time. The expected average life expectancy at birth increased by almost seven years. Generally, social indicators place Poland even higher in the international rankings than economic ones.

2.1. What are growth forecasts for the Polish economy?

The growth rate of Polish economy has been so far increased by specific growth mechanisms, launched by the radical free-market reforms implemented at the beginning of the transition, and continued in subsequent years. These mechanisms included the removal of waste, characteristic of central planning; transfer of organizational solutions from the West; elimination of earlier mass absenteeism (clearly reflected in popular saying: «Down you lie or up you stand, either way you'll earn a grand»); expansion of such sectors as trade or banks (whose development was previously blocked for ideological reasons, and which impact significantly performance of other sectors), as well as steep improvement of technology in many previously underdeveloped sectors (like telecommunications, but also in industry) enabled by unlocking transfer of technology from abroad. However these simple reserves are running out.

Poland needs more free-market reforms if it is to continue to close the gap separating it from the wealthiest countries. Without these reforms it will remain a poor member of the European Union. According to forecasts of the Ministry of Finance, which are the most optimistic of the available ones, within a decade the growth rate of Polish economy will be gradually falling. According to forecasts of the OECD and the European Commission the slowdown will be much deeper. The growth rate will fall below 2%. Such a slowdown would prevent Poland from ever reaching the living standards of rich countries of the West. Even catching up with old EU members such as Spain and Italy would be problematic.

2.2. Why could the economic slowdown be deeper than the available forecasts indicate?

Forecasts of the European Commission and the OECD can be described as status quo scenarios. They are based on the assumption of absence of both market reforms that would strengthen the systematic forces of growth, and of anti-reforms - such as lowering the retirement age. Anti-reform would not only undermine the systematic forces of growth, but would also increase the risk of a collapse.

In Polish conditions, this risk is related to the chronic deficit in public finances and its high sensitivity to economic slowdowns. The sensitivity results from rapid growth of public spending, which we get accustomed to. It was possible thanks to the rapid growth of economy. For the past ten years public spending grew at a rate of more than 3 percentage points over inflation. Introduced in 2013, the stabilizing expenditure rule, which restricts the growth rate of spending in good times and in periods of high deficit (over 3% of GDP) or of high public debt (over 43%), should reduce this vulnerability. However, the bad precedent of the suspension of safety thresholds for the public debt in a situation where they did not allow for the widening of deficit, increases the risk that this rule will not be observed as well. International experience suggests that a possible fiscal crisis could permanently reduce per capita income by 5-10%.

The risk of economic collapse is enhanced by susceptibility of the environment to severe shocks, combined with decrease in ability of many major economies to cope with such shocks. This decrease was caused, on the one hand, by scarcity of restructuration that took place after the global financial crisis, and on the other hand, by high public debt and by major central banks losing maneuvering space for conventional monetary policy. Whether serious shocks in the environment of Polish economy happen or not, problems with the growth of its major trading partners, in particular in the euro zone, would inhibit our growth. GDP dynamics is still lagging behind levels before the global financial crisis, although seven years have already passed since it exploded.

Another risk connected with public finances involves not only a collapse but also additional weakening of systematic forces of growth. In order for a slowdown (of any origin) not to cause an increase in the tax burden (and so hindering economic growth even further), the politicians would have to adjust immediately the increase in public spending to the reduced economic growth. The later will the adjustment happens, the stronger will increase the ratio of public spending to GDP and - as a result - the stronger will increase taxes. Delaying this adjustment will save neither politicians nor the society from making it eventually. The budget would have to become much more frugal, because it is the only way not to increase the tax burden after the slowdown.

The slowdown may finally be exacerbated by emigration, for which one of key determinants are differences in living standards. To them one can attribute about 70% of Polish emigration to the UK in the past 10 years. If, therefore, as a result of bad economic policy, the difference in living standards between Poland and Western Europe, still vast, is not being reduced, young Poles will continue to emigrate en masse, exacerbating the negative impact of aging population on the growth of Polish economy.

Inhibition of growth, or even a decline in GDP occurred in many economies with various income per capita, include countries previously regarded as paragons of success: Italy up to the nineties, and Greece, which in the years 1952-1973 was reducing distance separating it from the wealthiest countries even faster than Poland during the previous 25 years.

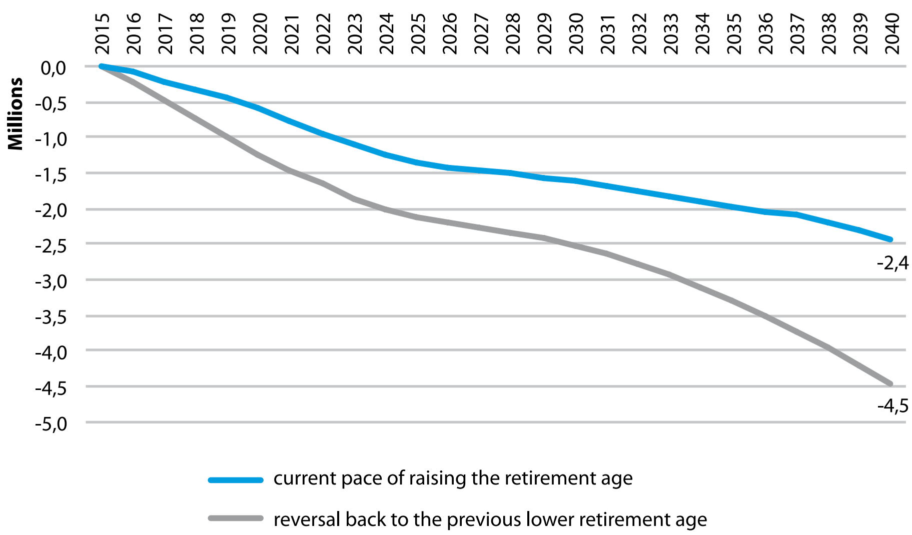
3. Why will economic growth slow down without free-market reforms?

Without free market reforms all factors of economic growth will be slowing down Polish economy. First, labor force will decrease, because Polish society is aging quickly. Secondly, the growth of productivity will be farther slowing down, as the possibilities of improvement without investment are largely exhausted. Meanwhile, thirdly, in Poland little is invested and even less saved.

3.1. Why lack of free-market reforms will decrease the labor force?

Polish society is aging rapidly. Although the retirement age was raised, the number of people of working age will fall by 2.4 million over the next 25 years. If raising the retirement age were to be reversed, this decline would reach 4.5 million.

Figure 6. Change in the working age population

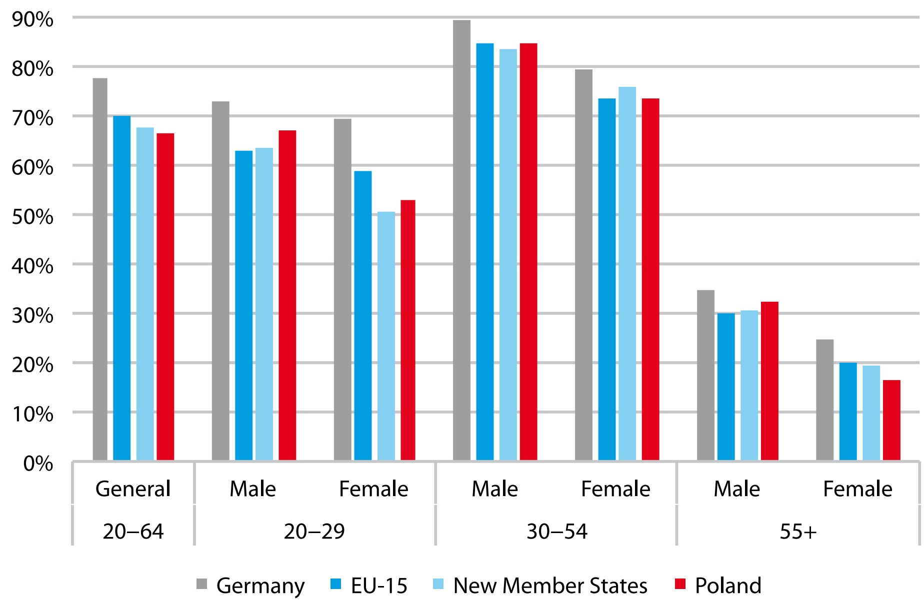


Source: Own elaboration based on GUS (Central Statistical Office of Poland) data

Aging of the Polish society cannot be avoided. Even if there was an effective prescription for raising the fertility rate, one cannot turn the clock back to the nineties and 2000s, and increase the number of births during that period. Children who were not born then, will be missing on the labor market in coming decades.

However this gap can be filled by drawing more people onto the labor market and by extending the time that they spend in the labor force. In Poland the percentage of people in work is 67% of those aged 20-64, compared with 70% in Western Europe, and 78% in Germany. From Germany, Poland differs especially by low percentage of people in work among the elderly and young people, and women. Catching up to Germany in terms of the percentage of working population would be sufficient to compensate for the loss in employment, which will happen over the next 25 years due to the aging of the Polish society.

Figure 7. Employment rate by age groups in 2014



New Member States do not encompass Cyprus and Malta

Source: Own elaboration based on Eurostat data

The rise in labor force participation of Poles would be fostered by improvements in education. People with higher education are less likely to find themselves in situations that threaten professional deactivation: they rarely lose their jobs, and when unemployed they can quickly find new jobs. However, even higher education cannot ensure jobs if specialization is wrong. Therefore the scale of educational mismatches in Poland requires thorough examination, as it is a factor that limits employment and - as a result - growth of the economy

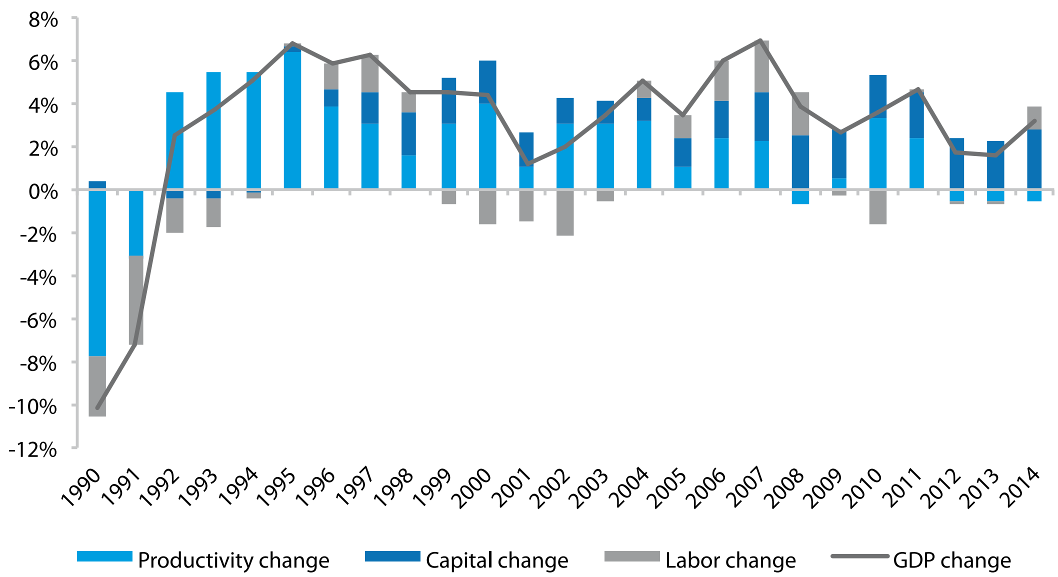
Impact of information revolution on professional activity of Poles is another important issue. This revolution will, on the one hand, increase demand for ICT experts but on the other hand, displace jobs characterized by repeatability. The net effect of these opposing trends will depend on the degree of knowledge of ICT in society.

Growth of our economy will determine what is the balance of migration. A waves of repatriation or influx of migrants from abroad who want to work in our country are both possible, but only if the difference in living standards between Poland and the West is reduced. Such a positive scenario did materialize in Ireland. When in the nineties that country reached about 90% of British income per capita (after adjusting for the difference in price levels), net migration, deeply negative in the 1980s, was reversed. Initially, immigration was dominated by Irishmen returning from abroad, but the percentage of immigrants of other nationalities gradually increased.

3.2. Why fast productivity growth will not return without free-market reforms?

Increase in productivity of labor and capital (The so-called Total Factor Productivity (TFP)), which - as mentioned in the first paragraph - means the increase of production achieved without hiring new workers and without investments in new production capacity, was responsible for overshalf of the growth of Polish economy in the previous 25 years, but has gradually weakened. Since the outbreak of the global financial crisis, productivity thus measured has been increasing on average only 0.6 percent per year, and for the last two years is even lower than in the old EU countries.

Figure 8. Contributions of productivity and factors of production to Poland's GDP growth



Source: Own elaboration based on Conference Board data

Fast but expiring improvement in productivity points to a large share of the specific growth mechanisms mentioned in Section 2. 2 in the rapid growth of the Polish economy in the previous 25 years. This improvement was largely a result of movement of workers and capital from sectors with low productivity, particularly from agriculture, to sectors in which productivity is high, that is to market services, and in the 2000s also to industry. Since the mid-nineties, the percentage of people employed in agriculture fell from 27% to under 12% in 2014. The outflow of workers from agriculture to other sectors not only steeply increased their productivity, it also contributed to improved efficiency in the agricultural sector, which was growing by over 4% per year. Nevertheless, the level of productivity in this sector is still five times lower than in market services. In contrast, the levels of efficiency have levelled for market services and for industry, in which productivity grew at a rate of over 5% per year, the fastest in the entire economy.

Figure 9. Productivity by sector

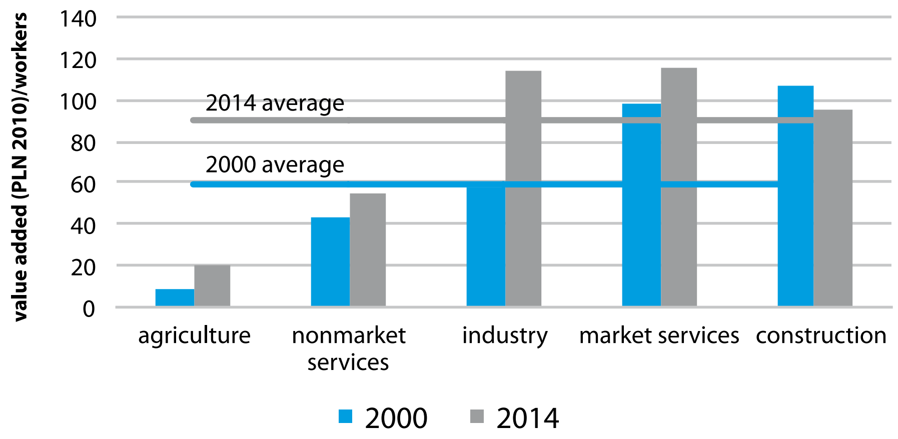
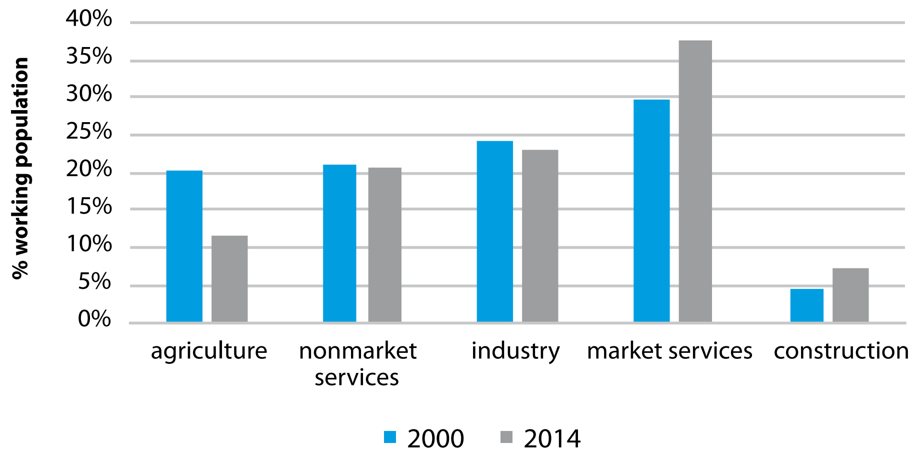


Figure 10. Employment by sector

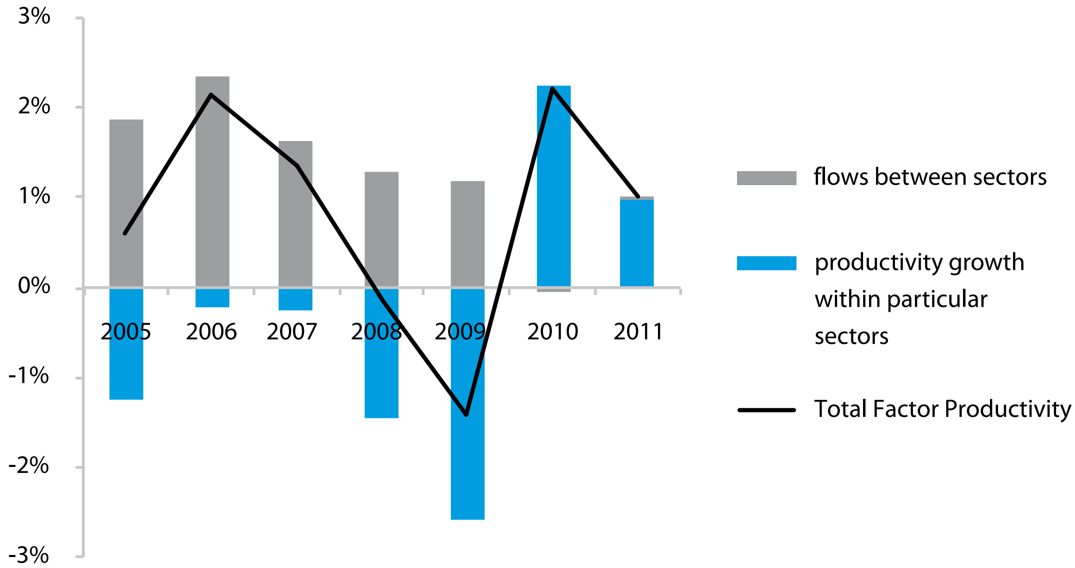


Source: Own elaboration based on Eurostat data

Room to improve performance by changing the sectoral structure of the Polish economy has narrowed greatly. The percentage of employed in market services is admittedly still about 11 percentage points lower than in the old EU countries, but industry, where performance is similar to the performance in services, has share of employment about 8 percentage points higher than in the West. Use of this room is hindered by subsidization of sectors with low productivity by the State, particularly (but not exclusively) of agriculture, which every year gets the support of 40 billion zlotys (subsidies for ASIF, funds from the EU, tax preferences).

Future productivity improvements in the economy will probably be mainly a result of productivity growth within individual sectors rather than flows between sectors (although the information revolution can force such flows). In order for the reduction the intensity of flows between sectors not to reduce the rate of improvement, productivity would have to begin to grow significantly faster in the largest sector, that is in market services. In the past twenty years it grew at a rate of less than 2% per year. High rate of productivity growth in industry and agriculture would also have to be maintained.

Figure 11. Sources of productivity growth in Poland



In the figure, the TFP productivity change is split in two sources: productivity growth within the particular sectors and rapid productivity growth due to flows of labor and capital from less to more productive sectors of the economy.

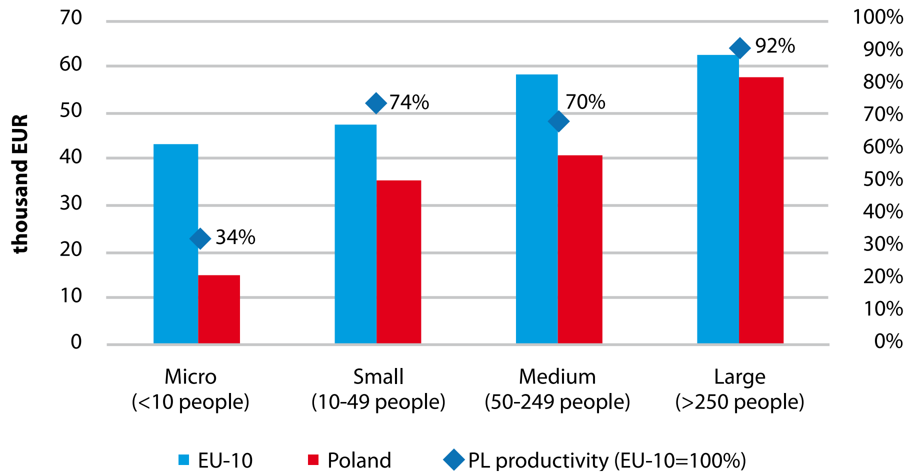
Source: Own elaboration based on Eurostat data

Increase in productivity should be facilitated by the information revolution. It allows to copy and adapt solutions without physical presence in the places where they were developed and tested.

At the same time room for simple and highly imperfect imitation narrowed (and will farther narrow down) as a result of reducing the difference in performance between Polish companies and cutting edge technology abroad. Native inventions will rather not become a major source of innovation in our country, even if their share of usable inventions was several times greater than the share of the Polish economy in world GDP (which is less than 1%). However, our ability to adapt increasingly advanced foreign technology will depend more and more on local research and development. If this area does not improve, it could become a barrier to growth. The scale of its financial support places us in the 18th place in the EU. In terms of quality of research Poland is ahead of Latvia, Romania and Bulgaria only. Few scientific articles from Poland are frequently cited in the world. Polish universities do not attract graduate students from outside the EU. Even more serious problems we have with cooperation in research between public and private sectors and with low innovativeness of small and medium-sized enterprises. In this dimension of innovativeness we are placed ahead of only Romania and Bulgaria, and the gap separating us from the EU average has widened in the last 8 years.

The acceleration of productivity growth within sectors can be stimulated by changing the structure of Polish enterprises in regard to their size.

Figure 12. Productivity per worker by company size in 2012



Data adjusted for differences in Purchasing Power Parities. UE-10 encompasses Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Sweden, UK; Southern Europe has been dropped, because we believe that Poland should compare itself to the better growing economies of Northern Europe. Luxembourg has been skipped as an outlier – city-state with a very large financial sector

Source: Own elaboration based on Eurostat data

The gap between productivity in Polish and Western enterprises is greatest for micro-enterprises, employing up to 9 workers. Their productivity does not exceed one third of the productivity of their counterparts from the old EU (excluding the peripheral countries), while in small and medium-sized enterprises (employing respectively 10-49 and 50-249 employees) is lower by less than one quarter, and in large companies (with 250 or more employees) is similar to the performance of large companies from the West (reaches 91% of their productivity). However, this relatively high average performance outside the sector of micro-enterprises masks significant differences. In this group of entities the performance is 44% higher in companies with foreign capital than in enterprises with purely domestic participation. This significant difference indicates an important role of foreign direct investment in transfer of technology from abroad (eg. EBRD, 2014), which is a key source of productivity gains in all small economies (regardless how developed they are), and is responsible for as much as 90% technical progress in emerging economies (such as Poland). In addition these investments improve the performance of economy not only directly but also indirectly: they transfer the knowledge of new technologies by the flow of workers between enterprises with foreign and with domestic capital, and through their co-operation.

Low productivity of micro-enterprises in Poland cannot be attributed to different sectors of their activity than those of large companies. Within the same industries they achieve, on average, only 36% of productivity of large enterprises. This relationship is nowhere so low in the EU. For comparison, in Germany it amounts to 89%.

One has to take into account that the performance of micro-enterprises in Poland is seriously underestimated because they hide a large part of their activities in the informal sector. All registered companies produce there more than 14% of GDP. The signal of domination of the informal zone by micro-enterprises is a high, exceeding in those entities 50%, proportion of workers who officially receive the minimum wage (in other companies this percentage is low). The sum of savings on taxes thanks to concealment of activity in the gray area is several times greater than the total value of all other forms of soft financing that distorts competition (such as grants, guarantees and preferential loans).

Activity on a small scale is easy to conceal in the gray zone, which leads to over-representation of micro-enterprises there. In our country they account for 36% of employment in industry and market services in comparison to 31% of the EU average and only 18% in Germany. A larger share of employment than in Poland they have only in Slovakia and southern European countries: Cyprus, Spain, Portugal and Italy. The mere reduction of their participation in employment in Poland to the level they have in Germany, without any improvement in their performance, would increase the performance of the economy by 12%. But such a change would imply an increase in productivity in micro-enterprises. Those of them that would grow, would be taking away employees from the rest, eliminating market players with the lowest productivity, unable to offer higher wages.

What is needed for the increase of companies' average size is improving ratio of benefits resulting from increased scale of operations to associated costs and risks. We devote more attention to these issues in the next section, where we explain reasons for the low level of investment in Poland. Here we focus on the benefits of increased scale of operations. First and foremost, companies are affected by competitive pressure, which forces poor ones to expand or be eliminated. Paucity of such competition in our country is indicated by - in addition to larger than elsewhere differences of business productivity - higher mark-ups on costs than in the West and other countries of the region (Egert and Goujar, 2014), lower utilization of production capacity, and greater differences in profitability (Lewandowska - Kalina , 2012).

Reduction of the gap in productivity between Poland and the West weakens the competitive pressure from abroad, to which Poland opened at the beginning of transformation and which was strengthened by the accession to the European Union. The great importance of this pressure for productivity growth is confirmed by its rate, much higher in industry than in the rest of economy, which is less linked to foreign economies. For the productivity to improve rapidly, weakening of competitive pressure from abroad must be offset by increased intensity of local competition. This growth will also raise the importance of competitive pressure from abroad. If operating in areas not exposed to foreign competition ceases to be a way to avoid competition, the incentives to do so will weaken.

Figure 13. Public ownership component of the PMR index in 2013

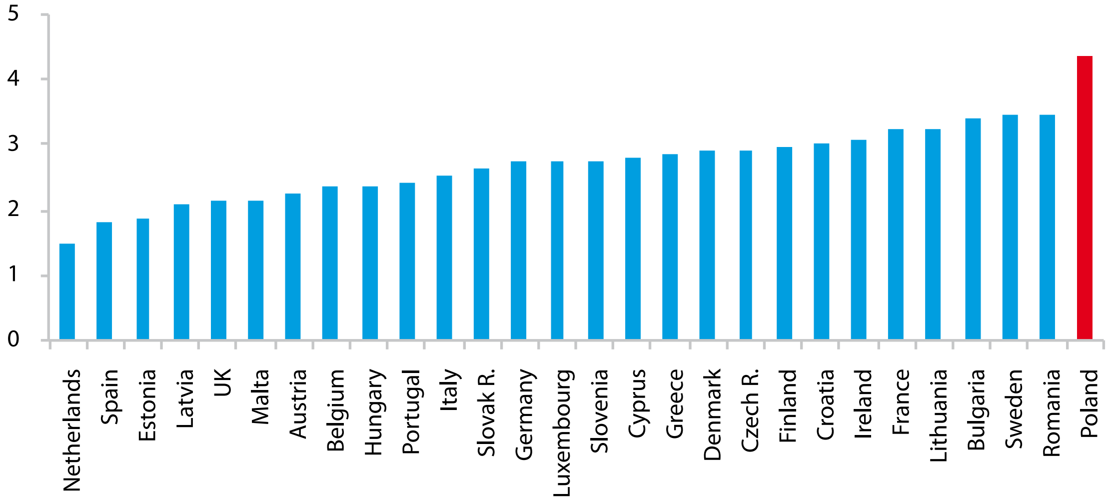
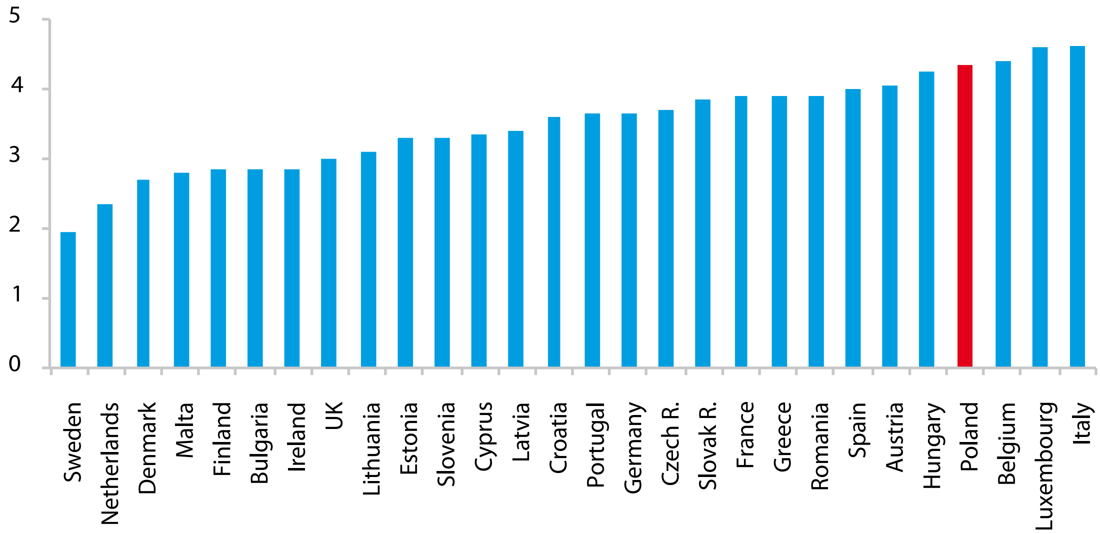


Figure 14. Barriers in services sectors component of the PMR index in 2013



Source: Own elaboration based on OECD data

In Poland there is still more restrictions on competition than in the West. Goods markets are overregulated more than in our country only in 6 out of 33 analyzed OECD countries. However, in 2008-2013 some progress was made in Poland, especially regarding start-up costs. Poland has the widest state ownership of companies among all OECD countries. In the activities of the network industries, which affect costs of almost every company, the state interferes stronger only in Turkey. At the same time, these sectors are in Poland more monopolized than on average in the EU or in the OECD. In each of these sectors, except telecommunications, Poland, lags far behind the countries leaders. Especially bad results Poland achieves regarding barriers to competition in the gas sector, which is monopolized by PGNiG (production, import and distribution) and Gaz System (transport) and aviation, where Polish Airlines LOT, still not privatized, is being saved from time to time from bankruptcy with taxpayers' money. Large-format stores in Poland, defined as such at relatively low level of retail space, are subject to stricter regulations than in most EU and OECD countries. Yet they are very important for productivity in the economy. Poland has a high share of trade in GDP, reaching almost one-fifth and this sector is able to utilize IT revolution to improve performance easier than most others. Finally, it is also capable of enforcing performance maximizing adaptations among suppliers (McKinsey, 2006). Starting almost 300 business activities it is hampered by about 1,000 different kinds of licenses, permits, approvals, licenses or certificates. Their number increased twofold since the liberalization in the beginning of transformation.

3.3. Why without free-market reforms there will still be little investment?

In Poland a smaller share of GDP is invested than in most countries of our region. In the years 2005-2014, it was 21% vs. 26% on average in the region. In countries which started from a similar level of income per capita as Poland, and in 25 years closed the gap separating them from the West, the share was higher than ours usually by 2 to 8 percentage points, and in extreme cases (Finland and Singapore) 15 -30 percentage points.

Figure 15. Average investment rates in the region 2002-2011

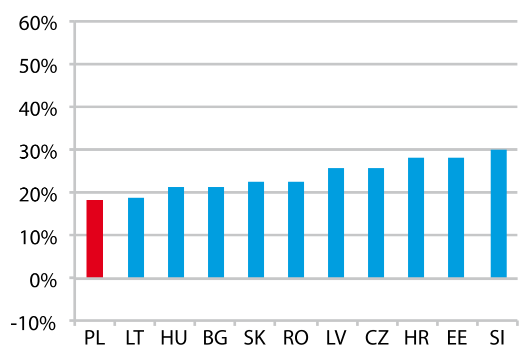
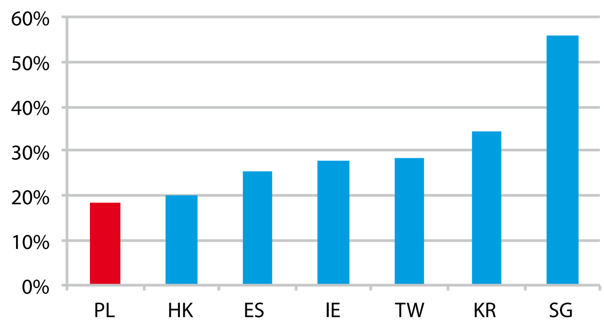


Figure 16. Historic average investment rates for the last 10 years of Poland and selected countries before they achieved the current level of income of Poland



For comparability, both figures show gross capital formation (includes stocks) instead of gross fixed capital formation, due to data availability for Figure 16.

Source: Own elaboration based on OECD data

We stand out from the region in terms of both investment in construction projects, and - what is more worrying from the perspective of long-term growth (eg. DeLong and Summers, 1991) - of investment in machinery. The corporate sector is responsible for a relatively low investment rate, their investments were in the previous 10 years, on average just over 10% of GDP compared to the average in the region exceeding 16% of GDP. Public investment increased considerably thanks to EU funds and after 2008 they were higher than in most countries in the region. However, experience of such countries as Greece, Spain or Portugal teaches that they are no substitute for private investment. A large part of public investment does not increase (even indirectly) the productive potential of the economy, and in the future will require maintenance expenditure. At the same time EU funds, which enabled their growth, will decrease. Possibilities of financing them with national funds depends on the pace of economic growth and this, in turn, on the reforms.

Figure 17. Business investment (% GDP), Poland and region

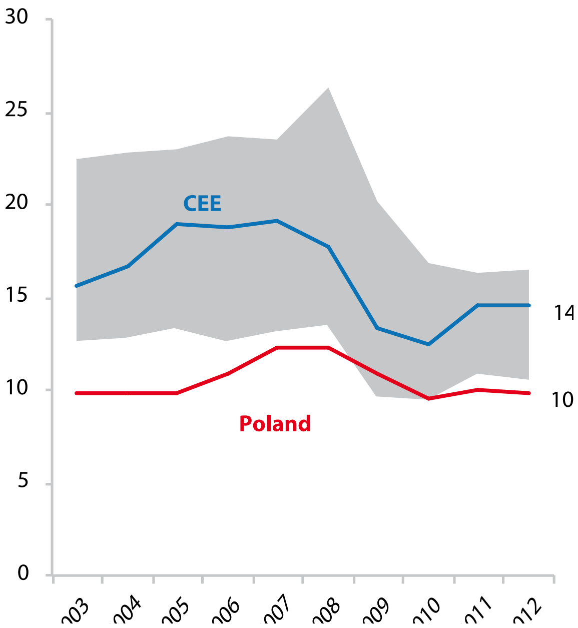
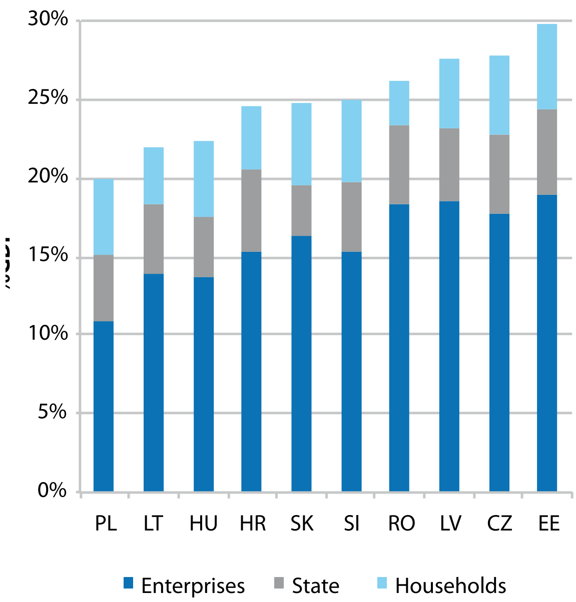


Figure 18. Investment by institutional sector in 2003-2012

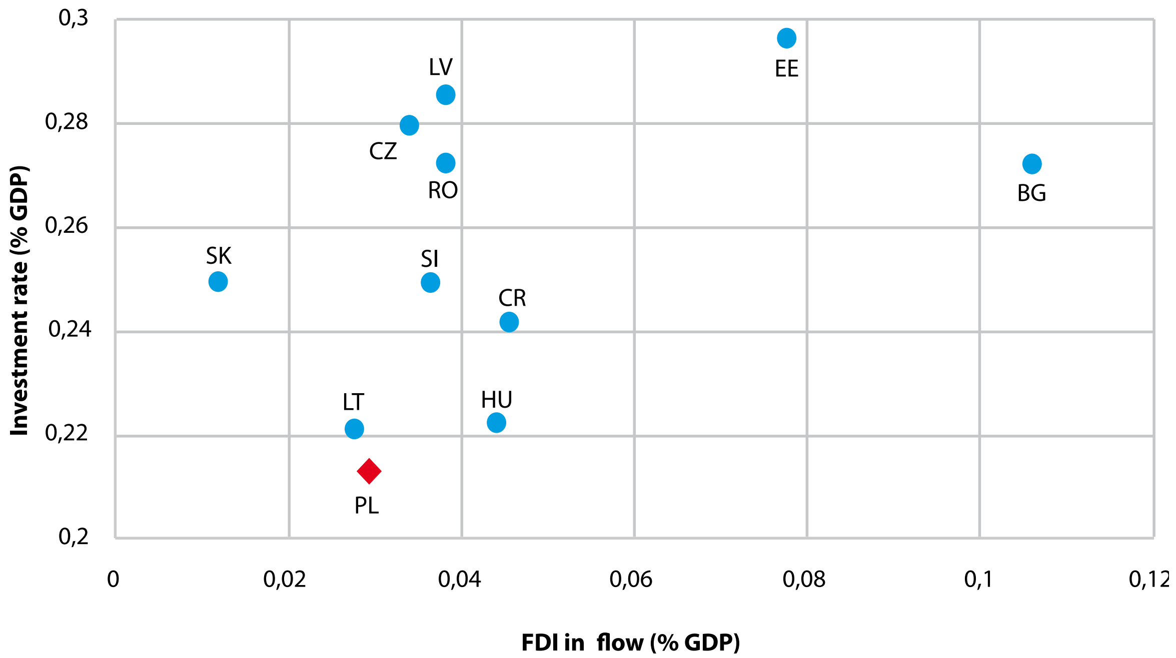


The grey area in Figure 17 represents the range of investment rates in the region, from countries with the lowest to the highest investment rate

Source: Own elaboration based on Eurostat data

To low investment of businesses in Poland contributes less than the average in the region of the inflow of foreign direct investments to our country, which at the same time has been clearly slowing down since the outbreak of the global crisis. Inflow of foreign direct investments to our country, lower than regional average, contributes to low business investments in Poland, and in addition it has been markedly slowing down since the outbreak of global financial crisis. In particular, investments in new plants in 2008-2013 decreased more than fourfold. Only about half of this decline can be explained by the global decrease in investments of this kind .

Figure 19. FDI inflows and investment rates in the region in 2005-2014



Source: Own elaboration based on IMF and UNCTAD data

Another factor responsible for low business investments in Poland is the percentage of micro-enterprises, larger than in other countries of the region. If their employment share was similar as in the region or similar as in Germany, then even in the absence of any change in the tendency of companies of all sizes to invest, business investment would be higher, respectively, by almost 1% of GDP or more than 2% of GDP.

Both foreign and domestic investment decisions depend on whether the investment in question is able to generate sufficient revenue to cover all associated costs, as well on the uncertainty regarding income and expenses. Additional limitation for foreign investment is restrictiveness of regulation imposed on foreign investors only. Poland negatively stands out in the region especially in terms of the limits of the shares of investors in selected sectors, such as transport.

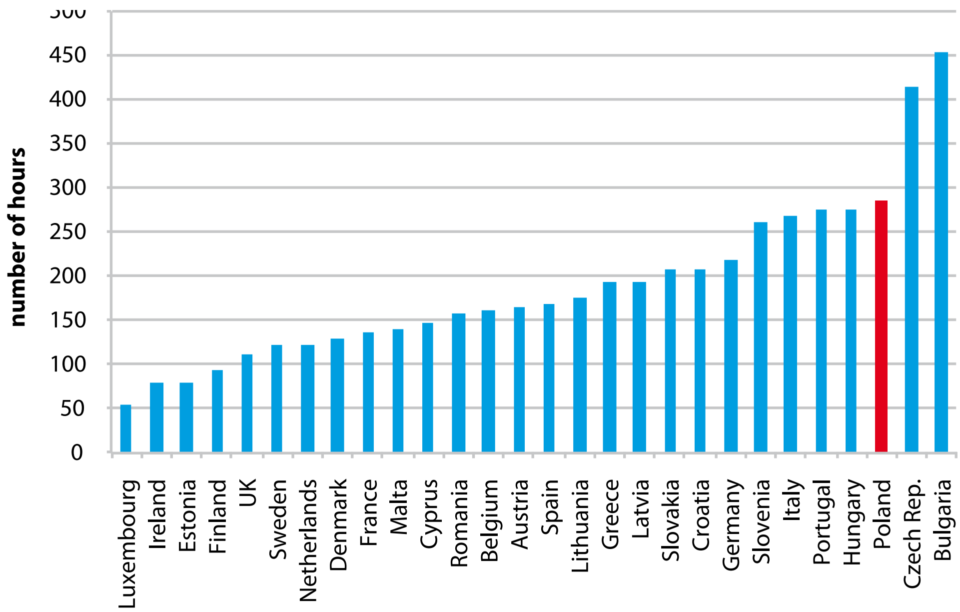
Companies have been discouraged to invest by relatively high operating costs and uncertain prospects of revenue increase. Indeed, these prospects are determined by economic growth. For most of the past 25 years, the Polish economy grew both faster and stabler than other economies in the region. In turn, the growth prospects of export revenues were similar across the region, as the whole region directs the majority of its exports to Western Europe. With reduced growth - both in Poland and abroad - costs and uncertainty created by state actions will weigh even more on investment.

For a small scale activity a tempting alternative to the investment, enabling to avoid these costs and uncertainties, is to use workforce from the border of the grey economy and micro-enterprises use it extensively (see above). It enables them to adapt quickly to unforeseeable changes in the environment. These companies may fire from day to day workers, who are not protected by any agreements, or to limit their salaries (or even hold them up, which is made easier by the inefficient system of justice). Poor equipment in machinery and - consequently - low productivity makes it difficult indeed to cover labor costs (which are indicated as a problem by twice higher percentage of micro-enterprises than large companies). Yet avoiding non-wage labor costs, i.e. income tax and any contributions alleviate these difficulties. At the same time it directly reduces the severity of the main barrier impeding activities in Poland, which in the opinion of entrepreneurs are complicated tax system (such an assessment emerges from a review of 12 different studies on the obstacles to the development of enterprises in Poland). So a key reform that would limit the benefits of the business relying on the work force from the border of gray zone, and - as a result - would encourage more investment, it would be to simplify taxes

The tax system has deteriorated in the last 7 years, although the increase in the percentage of entrepreneurs recognizing complicated taxes as the main barrier to growth could be partly linked to progress in other areas. In particular, the percentage of businesses reporting problems with infrastructure and corruption has decreased to the level respectively slightly and significantly lower than the average in the region.

The complexity of taxes negatively distinguishes Poland from other countries in the region. To a large extent they are responsible for the fact that the costs associated with administrative requirements are much higher than on average in other countries. According to estimates by Deloitte in 2008 they absorb 6% of GDP compared to 3.5% of GDP in other countries. 44% of those costs are generated by the three tax bill: PIT, CIT and VAT. Since 2008, these costs have indeed fallen, but not enough to bring them to the level of other countries in the region. Based on RIAs (regulatory impact assessments) of four deregulation bills this decline can be estimated at approximately 0.5% of GDP. The number of hours required for tax returns fell more strongly, by about 32%, from 418 hours in 2007 to 286 hours in 2014. However, it is still higher than in the 25 EU countries, and together with the high number of required payments, is responsible for distant 21st place of Poland in EU in the World Bank›s ranking in the ease of paying taxes.

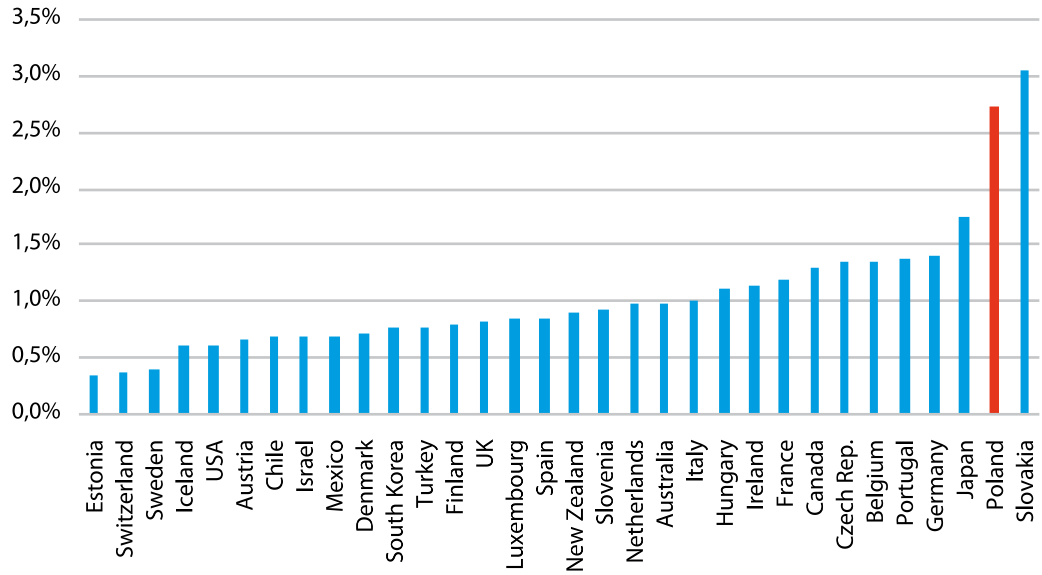
Figure 20. Hours spent yearly paying taxes in a medium sized enterprise



Source: Own elaboration based on Doing Business 2015 data

Cost of compliance with complicated tax place particularly heavy burden on smaller operators, provided that they act lawfully and are of a size at which they are covered by the same rules as larger companies. For example, in Canada, New Zealand and the UK this cost absorbs 2% of annual sales in a company with revenues of less than 50 thousand dollars, but only 0.04% in companies with sales in excess of one million dollars (GAO, 2011). Therefore competition is disrupted; companies gain advantage if (1) they conceal activities in the informal economy, (2) they have size entitling them to use simplified forms of taxation, or (3) they are large companies, especially those that benefit from tax optimization.

Figure 21. Relation of the cost of tax administration to taxes collected in OECD countries in 2014



Source: Own elaboration based on OECD data

It is worth mentioning that the complicated tax system generates high costs not only for businesses but also for the tax administration. In 2011, expenditure on its maintenance consumed 2.7% of the income tax compared with 1% on average in OECD countries. This relationship was worse only in Slovakia.

Taxes in Poland are not only complicated, but also unstable. This instability, along with the ambiguity of the tax enforcement practice is an essential source of uncertainty with regard to return on investment.

Each of tax laws and the general tax code were amended on average at least a few times a year. The Ministry of Finance publishes more than 150 individual tax interpretations daily. Nearly three thousand interpretations yearly are appealed before the administrative court, which declare more than half of the complaints as founded.

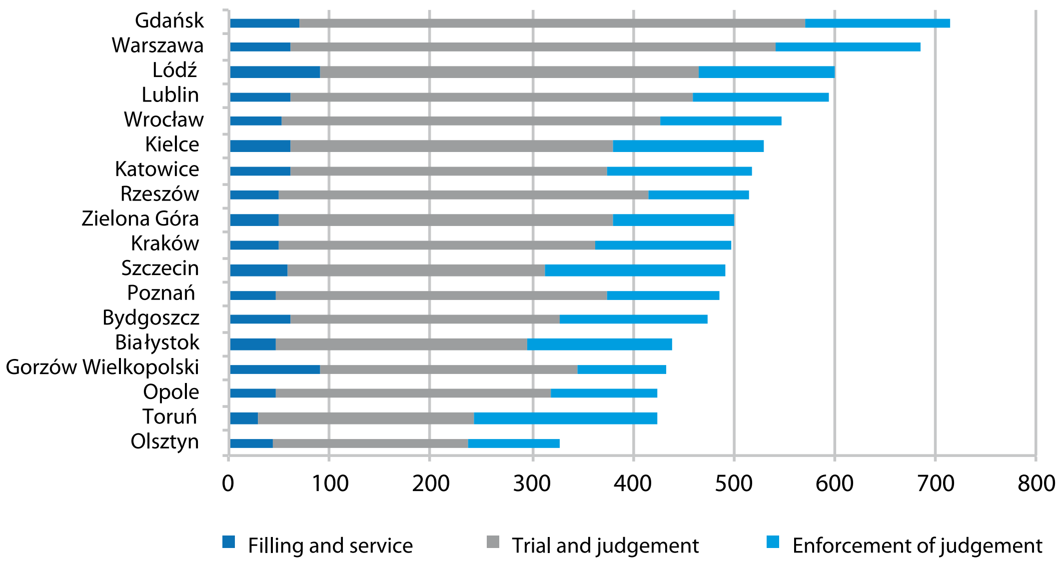
The instability of the tax law is a manifestation of a wider problem of inflation of law, which makes it very difficult for people to assess whether they act in compliance with the regulations. Last year almost 26,000 pages of legislation entered into force in our country. In this regard we outrun not only the Czech Republic, Slovakia and Hungary, but even France or Italy, often seen as leading bureaucracies. If one would want to familiarize oneself with all the changes in legislation being introduced in Poland, one would have to spend about 3 hours and 26 minutes each day (Grant Thornton, 2015).

Complex and unstable tax legislation mutually reinforce their negative impact on investment. On the one hand, if the tax system were complicated, but stable, its learning would entail one-off cost. If the rules are constantly being changed, tracking them has no end. On the other hand, if taxes were often changed, but simple, it would be possible to identify potential scenarios and prepare for each of them. When the number of parameters in the tax system that are subject to change is high, an analysis of potential scenarios becomes very difficult, if at all possible. These difficulties discourage to undertake projects from which one can not withdraw without serious losses, in particular from invest in machinery, especially of type not used in other entities.

Another factor that lowers the profitability of investment in machinery in Poland in comparison to the region are relatively less favorable rules of writing them off. As a result, if the effective taxation of income from investments does not differ significantly from the average in the region (17.5% vs. 15.5%), this difference is more pronounced in the case of investments in machinery (18.4% vs. 13.6%; Spengel et al. , 2012).

The uncertainty caused by complicated and unstable taxes is deepened in our country by excessive length of judicial proceedings. Though the ineffectiveness of the judiciary is indicated by not too high percentage of companies (16%) as a serious barrier to development, it increases more than double (to 35%) among those entrepreneurs who were a party to the judicial process in the last 3 years.

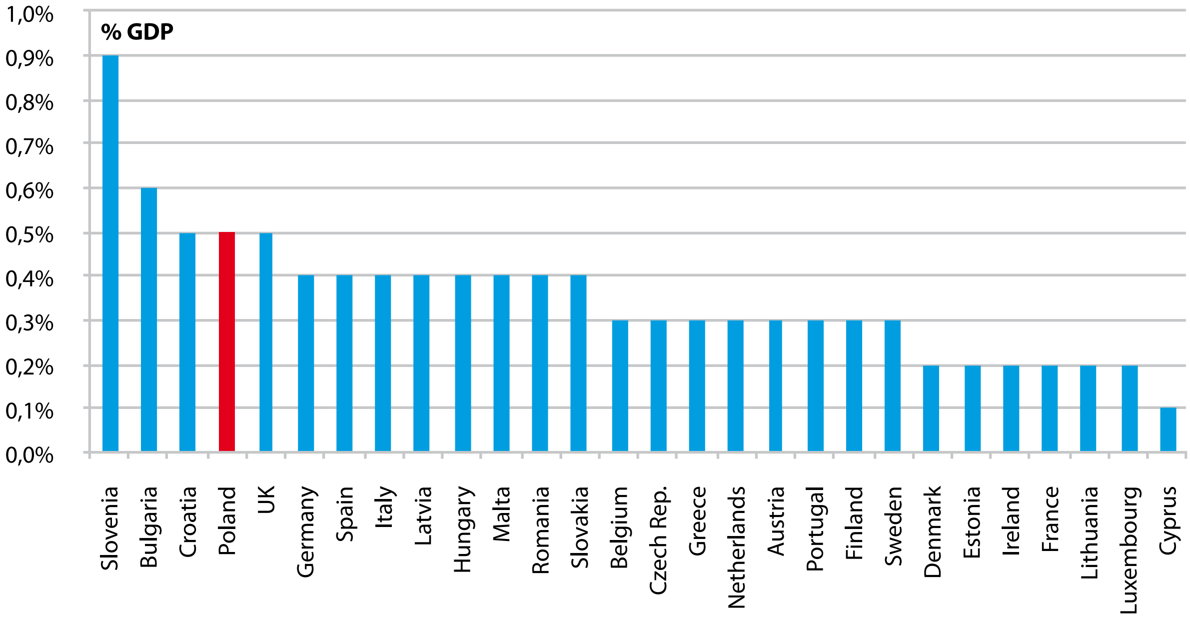
Figure 22. Average time of enforcing contracts



Source: Own elaboration based on World Bank (2015)

Ineffective judiciary means that in the case of disputes entrepreneur, even confident that he is right, cannot hope for a quick recovery of amounts due from the Inland Revenue. He is also prone to serious problems with the recovery of debts owed by defaulting partners, which make it difficult for him to fulfill timely his own obligations, including tax payments. The average duration of debt enforcement differs strongly between regions (ranges from 328 days in Olsztyn to 715 days in Gdansk), but is long everywhere (World Bank, 2015). This diminishes the level of trust between partners, and ultimately discourages specialization and operation on a large scale, where the relations between partners are depersonalized. Research indicates that ease and certainty of debt recovery significantly increases the propensity of companies to invest (eg. World Bank, 2005).

Figure 23. Law courts government spending in 2013



Source: Own elaboration based on Eurostat data

The ineffectiveness of the judiciary in our country does not result from low level of financing. In the EU, only three countries: Slovenia, Bulgaria and Croatia spend more (as a percentage of GDP). What contributes is the instability of law and judicial procedures. In the period of 2002-2012 for example the Code of Civil Procedure changed 118 times. There were 65 Constitutional Court's rulings concerning amendments to the Code of Civil Procedure, which in 25 cases required changes in the Code (World Bank, 2013).

Despite low level investment in Poland, domestic savings do not suffice to cover them fully. The gap in funding the investment in the previous 10 years was over 4% of GDP - the same as the average in the region - and was covered by the inflow of foreign savings. As a result, Poland increased its debt to foreign countries. Comparison of costs of the global financial crisis in different countries in our region, as well as in the West, shows that it is impossible to increase safely and strongly domestic investment without a corresponding increase of domestic savings.

Before 2008 it was mainly the public sector (which includes the state budget, any state funds and agencies, and local governments), which was responsible for the low level, compared to the region, of domestic savings, as it usually consumed part of private savings. This part was spent on purchases of government bonds, and loans to local governments rather than to finance business investment. Currently, both the public and the private sector in our country save less than in most other countries in the region. Dismantling of the fully-funded pillar in the pension system, which greatly reduced the compulsory savings of the sector, contributed to low level of private savings.

4. What to do so that Poland reduces further the distance separating it from the wealthiest countries?

Poland still has reserves of growth, whose activation can significantly balance the expiration of existing specific mechanisms of growth. The main areas of opportunity are:

- a much lower percentage of employed than in countries such as Germany and Sweden;
- the still high proportion of people employed in agriculture, which is characterized by a very low productivity;
- the highest percentage of enterprises in the OECD under the control of politicians;
- a high proportion of micro-enterprises whose performance lags behind the performance of other companies more than in any European Union country and that invest little;
- markedly lower share of investment in GDP than in the region and than in countries that starting with per capita income similar to Polish, managed to join the wealthiest countries.

The pace of catching up with the West by our country will depend on whether and at what pace these reserves will be released. In the status quo scenario, that is without reforms, Polish economy will grow at a rate of about 2% per year, and any reduction of gap in per capita income will be marginal at best. In the anti-reform scenario there will be no catching up, and likely fiscal crisis will cause a regression relative to the West. But Poland is condemned neither to the status quo, nor to anti-reforms. In the scenario of reforms, depending on their scope, economy may grow at a rate of 3-4% per year, despite the rapid aging of the Polish society and narrowing the gap in performance compared to the West, which limits the possibility of easy improvement of performance (that is limits specific annuity of backwardness). In this scenario, in 25 years' time, per capita income would be, conservatively estimating, higher by more than a third than under the status quo, and almost three quarters than in the scenario of anti-reform.

Mobilization of growth reserves requires the widest possible range of reforms because of the relationship between changes in employment, investment and changes in performance. For example, failure to resolve the problem of the shrinking workforce would exert downward pressure on public spending, which in turn would increase the instability of taxes, discouraging investment and making it difficult to improve productivity. Preventing contraction of the workforce without elimination of barriers to investment would favor maintaining a large gray zone in employment, where performance is very low. Only an adequately wide range of reforms will protect us against such vicious circles.

In all the countries that started from per capita income similar as Poland and in 25 years joined the wealthiest countries, growth was driven by at least two of the three possible sources of rapid growth. In our country, because of the aging of the population there is no chance of strong employment growth. Therefore it is even more important to prevent shrinkage of the number of employees and to strengthen the intra-sectoral performance improvement as well as to increase the hitherto low investments.

Reforms that would be so narrow as not to remove all barriers to growth, would not bring any obvious benefits. Lack of these benefits might in turn result in reducing social support for further reforms and increasing it for anti-reforms.

4.1. What to do to maintain the stability of the Polish economy?

Maintaining the stability of the Polish economy requires first and foremost of immunization public finances against two phenomena, one of which is certain and one probable.

A phenomenon that will certainly occur, is rapid aging of the Polish society. What is needed in order to strengthen the stability of the pension system is not only to raise the retirement age to 67 years, but also to link it with lengthening life expectancy. Besides, it is necessary either to allow negative indexation of accounting records for individual retirement accounts in ZUS (Social Insurance Institution) during periods of cyclical contraction of the economy (which is to be expected due to the weakening pace of its long-term growth), or to reduce the rate of annual indexation below the dynamics of wage fund / economic growth. Without such changes, the proceeds of the pension contributions will fall far behind pension obligations of ZUS (Social Insurance Institution), and covering this deficiency can absorb a total of 25% of GDP by 2060 (IMF, 2014).

A probable phenomenon, whose scale can, however, be strongly mitigated by strengthening the systematic forces of growth (as described in the following paragraphs) is a slowdown of the Polish economy in comparison to the previous two decades. To protect public finances against its consequences, one needs to lower the maximal rate of growth of public spending that results from the stabilizing expenditure rule, to the level consistent with the growth of the economy under the status quo scenario, i.e. by at least one percentage point. Growth rate of government expenditure that is such reduced should apply at least until its ratio to GDP drops to 35% of GDP, in other words, until this ratio begins to positively distinguish us in the region. Such level would at the same time significantly strengthen the systematic forces of growth, as it would create space to reduce taxation, in particular on labor income. It is worth mentioning that it would be still slightly higher than what is indicated in the literature as sufficient to fulfill the state's core tasks and to maintain a reasonable social spending (eg. Afonso et al., 2005).

In order that lowering the maximum rate of growth of public spending that results from stabilizing expenditure rule would not be unenforceable, which would lead to its revocation or non-compliance, it would have to be accompanied by systemic changes to ensure its fulfillment, going beyond the pension system. Since most of the changes that generate savings in public finances at the same time strengthen the systematic forces of growth, they are described in the following paragraphs.

4.2. What to do to prevent decrease in workforce?

Rapid aging of the Polish society does not condemn Polish to decrease in workforce. Decrease in working age population can be compensated by longer working lives and by increasing the percentage of employed among working-age people.

Provision of employment in Poland is low against, for example in comparison with Germany, percentage of employment among older and younger people and women. Reforms strengthening work and employment incentives should focus on these three groups. The fourth group, whose situation in the labor market requires improvement, are people with low productivity, which have most trouble finding and keeping legal employment, regardless of age and gender.

The reform of 2013, unless reversed, will prolong the professional activity of Poles. However we should not stop at raising the retirement age to 67 years but, following the model of many highly developed countries, should link it to the expected life expectancy. Pre-retirement benefits, should also be withdrawn or at least their conditions tightened in parallel to raise of the retirement age They are a kind of early retirement for the unemployed who lost their jobs due to a fault of their employer. The age of entitlement to a survivor's pension should be gradually raised, as its low level (50 years) increases professional inactivity among women. Access to special pension systems, which today include miners, uniformed services and judges and prosecutors, should be restricted further and preferably closed to people entering the labor market. These groups are admittedly not very large, but their benefits are a major burden for other employees. There is also an urgent need to adjust the disability pension system to the state pension scheme so that a disability pension did not exceed the state pension and encourage early exit from the labor market. Finally, the method of determining the minimum pension requires a modification - so that, like in Chile, an additional year of contributions would always raise the future benefit. Without it, people, having very low accounting entries pension account in ZUS will not have incentives to delay retirement once they reach the retirement age.

To ensure the demand for increased labor supply of older people, they should no longer be protected against dismissal and changes in conditions of employment during the last four years before retirement age. These restrictions encourage to lay off people approaching retirement age, and at the same time dramatically limit their chances of employment (as well as opportunities for people at the pre-retirement age).

The exemption from pension contributions in the first year of employment would, in turn, increased the demand for labor of young people. This solution can be financed by abandoning present subsidies for employers of young people as well as paid internships offered by employment offices. Relating the minimum wage of a worker to his seniority would yield a qualitatively similar result.

The mismatch between qualifications of young people and the needs of employers could be reduced by providing reliable information about the career of graduates of various universities and academic courses of study. It would discourage potential students from taking up courses whose graduates have difficulty finding well-paid jobs and would put pressure on higher education institutions to improve quality of education.

Increasing women's professional activity would be supported by increase in the availability of childcare facilities and institutional care for the elderly, whose number will grow rapidly in the coming years. Combining work with care of children or elderly would occur more often if flexible or part time job arrangements were facilitated. Care for young children would no longer be a domain almost exclusively belonging to women, if the paternity leave is lengthened and maternity leave shortened accordingly.

Legal employment of low-capacity workers would be increased by the reduction of wage wedge, that is the difference between the full costs of labor borne by the employer and the net pay received by the employee, for those with the lowest incomes who are particularly sensitive to its size. Today in Poland it is higher than the average for OECD countries. To change that one would have to increase dramatically the flat-rate tax deductible expenses. They are the part of the tax-free personal allowance, that can be used only by workers, rather than those deriving income from other sources.

Another way of activating people with low productivity would be to replace withdrawal of benefits when income increases by its gradual reduction. At the same time the introduction of social accounts, through which all of the benefits for the individual would pass, would eliminate the opportunity to earn a high income from work of others.

If the so called active labor market programs were to be developed, it should be done by support for job search (in particular through individual plans of transition into employment and through provision of information on vacancies). Research suggests that it is the most effective form of such programs (eg. Card et al., 2010), which is displaced in Poland in particular by very ineffective vocational internships.

To improve the chances of the low productivity workers to find a job, one should avoid any action that increases labor costs without relation to an increase in productivity. In particular, any changes increasing costs of labor provided under other agreements than a contract of indefinite duration (Section 4.4) should be accompanied by appropriate liberalization of the labor code. Above all, the periods of notice stipulated for employment contracts by the Codex should be dramatically reduced. For contracts of up to four years they are in Poland much longer than in countries where Poles emigrate for work. It is 3 months in Poland, compared to 14 days in Ireland, and one month in Germany and in the UK. What is also needed is, following the example of Germany, to exclude at least small businesses from the requirement to provide reasons for the termination of the employment contract, which is an important source of reluctance of employers to hire workers on a permanent contract. Besides, the Polish state should stop the rapid raise of the minimum wage, which moved us from a group of countries where its relation to the average wage is low, where we were in 2007, to the group of countries in which this ratio is among the highest in Europe. In times of crisis and just before the working population starts to shrink we did what Hungarians did in the early 2000s - with dire consequences.

4.3. What to do to restore strong productivity growth?

In Poland, there is still space to improve performance through changes in the sectoral structure of the economy.

To exploit it, one should first of all withdraw all subsidies for sectors with low productivity. Where - as in agriculture - this is impossible because of the funds received from the EU, domestic subsidies should be reduced as far as possible. Such a restriction would be helped by excluding persons starting to work in agriculture from access to ASIF and, in the case of other farmers, by making it dependent on their income (Neneman et al., 2012). Only farmers with the lowest incomes would remain in ASIF, farmers with the highest incomes would be subject to social insurance, and the rest - to a mixed system. The relative profitability of leaving agriculture in order to work in more productive sectors would be improved further by the reduction of wage wedge for low income earners, described in the previous section.

Besides, one should once and for all abandon the state programs that increase demand for housing, and as a result, lead to its higher prices, which reduces job mobility. If the State was to support housing, then it should not increase demand but the supply of new housing, particularly for rental. Today their construction is too risky for institutional investors. Due to the restrictive law on protection of tenants and lack of social housing they have very limited possibilities of evicting defaulting tenants. Reduction of the protection offered to tenants would have to be accompanied by a change in public support for some of them in the form of non-market rents. It should no longer depend on whether one occupies a communal apartment, and more strongly depend on the financial situation of the tenant.

However, since most of the space for performance improvement through changes in the sectoral structure of the economy has been exploited in the previous 25 years, the key to the future pace of this improvement will be increase of productivity within individual sectors, especially the largest one, that is in market services and industry. The general direction of needed reforms is indicated by significant differences in performance between companies, especially large enterprises with foreign capital and micro-enterprises. To reduce these differences barriers to competition, which forces companies to develop or eliminates them, have to be eliminated. If it succeeded, the performance of the Polish economy would grow by 10% in 10 years.

Key to increase the intensity of competition in Poland is the completion of privatization. In addition to administration, uniformed services, health and education, the politicized public sector still employs around nine hundred thousand people. The state should also withdraw from the construction of «national champions», particularly in network industries. These sectors, in particular the gas sector must be de-monopolized, otherwise they will continue to spread their inefficiency to customers.[1] Weakening their position towards clients, including other companies, would be better served by strengthening the independence of regulators by introducing - as recommended by the OECD - the irrevocability of their presi-

1 Energy sector in particular should be requires an in-depth analysis, which lies beyond the scope of this report.

dents during the term (beyond the limited catalog of situations such as a criminal offense) and limiting the presidency to one term. Reduction of the barriers to competition in the retail trade, following the example of countries such as Latvia, Sweden, and the Netherlands would also be of great importance for improving the efficiency. To increase pressure on the existing firms to raise their productivity, licensing should be replaced, as far as possible, by voluntary certificates, confirming quality without limiting the customer's freedom of choice. Finally, there is an urgent need for a review of regulations concerning micro-enterprises which will focus on regulatory thresholds discouraging them to increase the scale of their operations. In this respect one should examine in particular those concerning the flat rate tax scheme.

Other reforms that foster productivity are also essential to increase in investments. They are presented in the next section.

4.4. What to do to increase investments?

Low business investments in our country are a reserve for increasing investment. However any slowdown in the Polish economy will deepen the reluctance of business to invest, as the pace of this growth affects the prospects of investment income. For companies to invest more (what would at the same time reduce the slowdown), costs and uncertainty discouraging investment would have to decrease appropriately strongly. It would be better served by simplification of taxes and reduction of other administrative burdens, limitation of fiscal and legal uncertainty and improvement of judiciary performance.

Simplification and then stabilization, is required above all for the VAT (Value Added Tax) Procedures. The best way to achieve it is to introduce a single tax rate. This uniform rate should be set at a level which would increase the importance of VAT in the public revenue, eg. 20%. What distinguishes the VAT from the other taxes is that is paid by all consumers, regardless of what they buy: domestic or imported goods, and regardless of how they finance purchases. As a result, this tax distort economic decisions less than other taxes. Proceeds from the introduction of a single VAT rate of 20% would be sufficient to fund all proposals for reduction of other taxes, especially taxes on labor, contained in this report, as well as covers for the poorest. At the same time other loopholes in the VAT scheme should be closed, which would include support for reforming rules on intra-EU trade. Currently, the temporary solutions introduced in 1992 are still in force. Since then it has not been possible to develop definitive solutions, despite the fact that the zero rate for exports is a source of many abuses.

Another much needed simplification should cover the system of social security contributions, for example by introducing compulsory contribution from mandate contracts analogous to contribution from employment contract, combined with the liquidation of contributions to the Labour Fund and Guaranteed Employee Benefits Fund and by making the health premium fully deductible. Different contributions for different types of contracts complicate the social security system, leading also to many distortions because the main reason for selecting a particular type of contract is that its exemption from contributions rather than the legal and economic sense of agreement between the parties. Another pathology resulting from the existing legislation is the practice of conclusion of several agreements between the parties regarding the same employment relationship, in order to exploit differences in compulsory contributions for different types of contracts. It gives a side effect of increasing administrative costs for both the employer and the administration. At the same time avoidance of contributions by a large part of work force poses a significant risk to public finances, risk related to the guaranteed minimum pension payments.

In the case of income taxes a single tax should cover all income from economic activities (including agriculture). As a result, the choice of the legal form of business would be much less disturbed by tax laws than it currently is.

Setting a numeric goal (eg. 3.5% of GDP) as well as indicating the responsible institution would help to reduce regulatory burdens.

Reduction of uncertainty about tax assessment should be an objective of the amendments to the Tax Code. In the draft of new Tax Order Act presented in March 2015 by FOR in cooperation with its partners, it was proposed in particular to introduce the principle of resolving doubts in favor of the taxpayer; the responsibility of the tax administration for the decision made in flagrant violation of the law, as well as restricting its possibilities to suspend the limitation period, which the administration often abuses.

On the other hand, in order to curb judiciary inflation, it is necessary to put in place mechanisms of systematic check whether rules actually contribute to the purposes for their introduction, and whether their negative consequences do not in practice outweigh their benefits. For each regulation there should be defined: the time necessary for its verification, evaluation criteria, and the necessary data. There should be introduced rules of automatic expiration for acts whose assessment are not positive.

A separate report by FOR will be devoted to changes that would enhance the efficiency of the judiciary.

To be able to safely finance the increased investments, the savings rate should increase. A way to do it is to reduce the deficit in public finances. In order that the reduction of the deficit does not lead to a reduction in investment in the same time, it can be done neither through cuts in public investment nor through raising of taxes, as this would reduce the profitability of investment by the private sector, but rather by keeping public expenditure growth below GDP growth, as proposed in section 4.1.

Increase of private savings would be encouraged by restoration of the funded pillar in the pension system and limitation of access to various kinds of social benefits, dispensing households from due foresight.

Table 1. summarizes impact of proposed reforms on stability, employment, productivity and investment in Polish economy. Proposed reforms, implemented simultaneously are fiscally neutral in short term (decrease in general government revenue from labour taxation is compensated by higher revenue from consumption and property taxes). In the long term proposed reforms have strong,

positive impact on general government balance. First of all, proposed reforms enhance economic growth, thus strengthening public finance. Secondly, impact of proposed expenditure reductions grows over time).

Table 1. Shortened appraisal of the impact of the proposed reforms on the sources of growth of the economy, that is employment, productivity and investment

The table contains the most important recommendations discussed in the synthesis.

Recommendations

„+++" – denotes a very strong positive impact

„++" – moderate positive impact

„+" – positive but limited impact

Assessment of the importance of the specific reforms is based on various sources. The assessment of the effects of reforms, such as deregulation, flexibility of work contracts, reduction of the tax wedge financed by an increase in consumption tax, etc. has been based on OECD research. The assessment of the importance of other labor market reforms has been decided based on the size of population affected and where possible, experiences of other countries pursuing similar reforms. The assessment of the significance of reforms to reduce the costs of investing and uncertainty is based on a literature review and intensity of problems reported by entrepreneurs. Reforms that increase the possibility of financing investments from domestic savings were assessed in terms of the scale of potential savings for general government. Other evaluations have been prepared on the basis of a review of literature and / or experience of other countries.

	Stability	Employment	Productivity	Investment
STABILIZING INSTITUTIONS				
Strengthening automatic safeties of the pension system	++	+		
Strengthening the expenditure rule	++			++
LABOR				
Reducing barriers to entering and staying on the labor market				
Preventing premature exits from the labor market	+	+++		
Facilitating easier entry onto the labor market		+		
Facilitating easier combining of family and professional responsibilities		+		
Decreasing taxation of work of persons with low productivity		++		
Simplifying the termination of employment contracts		++		
Simplifying the tax and contribution payments		+	+	
PRODUCTIVITY				
Removal of barriers to the outflow of workers from low-productivity sectors				
Eliminating disincentives to moving from agriculture to other sectors		+	+	
Decreasing excessive protection of tenants		+	+	++
Elimination barriers restricting competition				
Completing privatization	+		+++	+
Other deregulatory activities		+	++	+
Overview of regulations of microenterprises			++	+
Limiting the availability of soft financing			+	
Introducing term limits and non-recallability of regulators	+		+	
INVESTMENT				
Decreasing investment costs and uncertainty				
Simplifying taxes		+	++	+++
Improving efficiency of the justice system			++	++
Reducing the number of regulations and improving their quality			+	++
Reducing administrative burdens			+	+
Increasing the capability of financing investment through domestic savings				
Savings in the pensions system	+	+		++
Introducing social accounts and wealth criteria for social assistance	+	+		
Rebuilding the funded pillar of the pension system	+		+	++

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