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Economic and Social Policies in Support of Competitiveness in the Global Economy: The Challenges Facing Poland

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Economic and Social Policies in Support of Competitiveness in the Global Economy: The Challenges Facing Poland¹

Executive Summary

Poland is facing three interrelated challenges: first to complete the transition from an inefficient centrally planned economy to a well-functioning, competitive market economy; second to prepare for membership in the European Union and at a later stage to join EMU; and third to cope with the advent of a global knowledge-intensive economy and society.

Fortunately, the broad policy responses to these three challenges point in the same general direction and are to a high degree mutually supportive. For instance, macro-economic policies which aim for low inflation and sound public sector finances are an essential precondition for EU and EMU membership. At the same time, they are conducive to innovation, entrepreneurship and experimentation and can therefore make an important contribution to supporting the transition to a knowledge intensive economy. Similar synergies can be observed with respect to micro-economic policies aimed at well-functioning of markets, with regard to liberal trade and investment policies as well as necessary reforms in the areas of education and social support systems.

Despite its successful development over the past ten years, Poland is still facing a daunting agenda. The country has responded well to the challenges of transition and gone a long way towards securing membership in the EU. This positive evolution must be consolidated and continued with determination and courage in the future, and increasingly incorporate progress towards the transition to the knowledge-intensive economy and society of the 21st century.

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Looking ahead towards the first decade of the new century, Poland's economy and society is faced with three interrelated challenges: first, to complete its transition from an inefficient centrally planned economy to a well functioning and competitive market economy; second, to prepare for membership in the European Union and at a later stage to join EMU; and third, to cope with the advent of a global knowledge-intensive economy and society.

Most of the attention regarding Poland's political, economic and social prospects has been paid in recent years to the first and the second of these challenges. And the progress made on both accounts over the past ten years is significant and admirable. However, to consolidate the success story of the past and to ensure efficiency, competitiveness and increasing living standards in the longer-term, a positive response to the third challenge is equally important.

The aim of this presentation is to suggest an integrated approach to economic and social policy which takes all the three above-mentioned challenges into account. The resulting policy recommendations will be grouped into three categories: first, where - by and large - a continuation of present policies is required; second, where fundamental reform is needed; and third, where genuinely new ground will have to be broken.

I. Completing the Transition to an Efficient and Competitive Market Economy

Ten years after engaging in an ambitious programme of political, economic and social transformation, Poland is regarded today as one of the most successful transition countries. On the economic front, Poland has established a rapid and sustained growth path, with GDP in 2000 exceeding its pre-transition level by 27% and - according to the latest OECD forecasts - expected rates of growth for 2001 and 2002 of 3.8% and 3.9% respectively. Serious efforts to conduct a sound monetary policy, to bring public finances in order, to unleash market forces and to implement structural reforms have been well rewarded.

This is not to say that present achievements could be realized without intermediate and partly still enduring costs. Like other transition countries, Poland also experienced in the initial stage of its reform process a deep depression resulting in substantial output and employment losses. GDP fell by 10% in 1990 and by another 7% in 1991, while unemployment leapt from zero to more than 10%. But even those who claim that the depression was deeper and the social costs somewhat higher than necessary - because the early stabilisation programme was too restrictive, the policy mix between fiscal and monetary policy perhaps not optimal, and the implementation of some of the reforms too abrupt - would

certainly admit that the policy approach was broadly correct and that a return to the past would not be desirable. Today's real issue is therefore to further consolidate present achievements; to complete the reform process in those areas where progress has been slow; and, to deal with some of the negative, but inevitable consequences of the transition such as still unacceptably high unemployment and a very unequal income distribution.

What needs to be ensured in this context is that the recent economic stabilisation is followed by a sustainable rebound of output and job creation, that macro-economic developments and policies are supported by further structural reforms and that the benefits of economic progress are shared more equally, - not primarily through public transfers, but through increased employment creation.

From a macro-economic perspective, the first requirement is that inflation be kept under control; second, that public finances be consolidated further; and third, that the external deficit is not pushed to excessive levels. In the recent past monetary policy that explicitly adopts a strategy of inflation targeting, has responded very successfully to the overheating of the economy in 1997 and early 1998, to the repercussions of the Russian crisis between September 1998 and January 1999 and again, to the sudden acceleration of inflation, due in part to rising oil and food prices between September 1999 and early 2001. For the future, it is of great importance that monetary authorities do not underperform with regard to announced target ranges (e.g. 5.4 - 6.8% for end 2000 and below 4% in 2003). Any slippage could undermine credibility, and if confidence is lost, punishment inflicted by international financial markets is, these days, fast and severe.

As present inflationary tensions are partly caused by external factors, in particular the increase of oil prices, the task to reduce inflation should not only be left to the monetary authorities. Monetary policy needs to be supported through decisive steps towards fiscal consolidation, which is at the same time and in its own right a critical objective in terms of unfinished business of the transition process. After several years of successful deficit cutting from 3.1% of GDP in 1996 to 2.5% in 1998, the general government deficit jumped to above 3% in 1999. Fiscal consolidation which resumed in 2000, should, therefore, be continued and further enhanced. First, and at the most general level, improvements in budget transparency, including for extra-budgetary funds, would have to ensure that the exact magnitude of the general government deficit is not obscured. Second, fuller and effective implementation of recently adopted tax reform would go some way to bring actual government revenues into line

with budget assumptions. And third and finally, steps need to be taken to stop the accumulation of arrears in taxes and social security contributions by state enterprises.

This latter statement indicates the link between the macro-economic challenges and a number of structural issues. To begin with, despite significant privatisation and restructuring efforts over the past ten years, the state still owns some 3,000 enterprises, including about 100 large companies (with over 500 employees). The plans for accelerated privatisation, decided in 1999, would require rigorous application, not only to such sectors as banking, insurance, telecommunications and transport, but also to more sensitive ones such as coal mining, steel mills and railroads. Any delay in the restructuring of these latter sectors would increase budgetary expenditure and would have negative implications for both fiscal consolidation and the international competitiveness of profitable firms which either have to cope with higher tax burdens and/or continue to suffer from bottlenecks in the infrastructure.

To improve the quality of the budget is the second major challenge on the structural front. On the expenditure side, much needs still to be done to shift the emphasis away from consumption towards public investment. Despite recently decided reforms, Poland's social safety net is not yet fully adapted to the requirements of a market economy. The generosity of the welfare system and also its widespread abuse, for instance with regard to disability and sickness pensions, has resulted in financial demands which necessitate not only state subsidies, but also extremely high payroll taxes. The latter, together with the still very high personal income tax rates, discourage work in the formal economy. After the improvements to corporate taxation have been brought on their way, the next priority area demanding action on the revenue side of the budget is the reform of personal income tax, the aim of which should be to lower tax rates and eliminate exemptions.

Other items of unfinished business in the transition process relate to the functioning of capital and labour markets. Here again, tax issues play a prominent role. For instance, there is an urgent need to unify the various tax rates on capital income in order to reduce possible distortions in the allocation of savings and in the way investments are being financed. The real black spot however, in an otherwise overall bright picture of economic development and reform, is the labour market. Not only does Poland already have the highest unemployment rate of all Central European countries; demographic developments will lead to a further increase in the labour force as the many people born during the baby boom of the 1970's reach working age. Furthermore, necessary structural adjustment, in particular in state-owned enterprises and in agriculture, will push great numbers into joblessness. Rigorous

implementation of the “National Strategy for Employment Creation and Human Capital Development for 2000 - 2006” is therefore of utmost political, economic and social importance. And beyond that and other measures of labour market reform, what is really needed is the broadest possible strategy for fostering dynamic economic growth, flexible adjustment and competitiveness.

II. The Accession to the European Union

In 1992, Poland signed the Association Agreement with the European Union, implying a free trade arrangement for manufactures and the possibility of moving at a later stage towards membership. Poland’s application for accession to the EU was formally submitted in 1994; a positive general opinion by the European Commission was issued in 1997, and the accession negotiations started in 1998. In a sense, gaining membership of the European Union has always been a strategic anchor for policy design during the transition process.

This is clearly underlined by the factual degree of integration with the EU in terms of trade and investment and by the progress made towards the adoption of the “acquis communautaires”. OECD statistics for 1999 show that more than 70% of Poland’s exports and 65% of its imports were with the European Union. This means that Poland records a larger share of its trade with the EU than either Greece or Italy. As concerns foreign direct investment, by end 1999 70% of the companies and 63.8% of the finance originated in the European Union, with Germany by far the most important partner, followed, with considerably less than Germany’s share, by France, the Netherlands, Italy and the UK.

In terms of implications for policy, there is no doubt that the requirement for institutional and instrument convergence implied in the accession process had a most positive effect on the scope and the speed of reforms. Thus, the 1999 report by the European Commission generally praises Poland for its progress in harmonizing its policies and legislation in many areas with the EU rules. The assessment was particularly favourable with respect to general economic reforms, regional development, home affairs and justice. It was also noted, however, that major efforts are still required in such areas as restructuring and downsizing of agriculture, internal market issues, anti-corruption measures and environmental policies.

Poland’s agricultural sector (including hunting and forestry) counts for 25% of employment but produces only 3.4% of total value-added. This not only implies that rural areas have not benefitted greatly from the overall growth process, but also demonstrates that

agriculture is one of the least efficient sectors of the economy. Price support and protectionist measures, which were stepped up again in the aftermath of the Russian crisis, are in principle detrimental to both - to the agricultural sector because this policy draws attention and resources away from the real issues; and to the overall economy because it implies a massive resource transfer from the competitive sectors to one of the most uncompetitive. What would really be needed is the design of a comprehensive long-term strategy for rural development. This strategy would also have to address one of the thorny issues of the accession negotiations, namely that of the acquisition of land by foreigners.

The establishment of a fully integrated European market is a key challenge of EU policy. This involves the free movement of goods, services, capital and labour. It also includes harmonized approaches to certification and standardisation as well as common concepts for the protection of industrial and intellectual property. Other requirements are the application of European competition rules and of common norms for state aid and public procurement. In many of these areas, Poland has made significant progress to adjust to EU standards but policy advances are uneven. Apart from further amendments in antitrust laws and public procurement, major efforts are still required with regard to intellectual property and data protection and also to public aid, in particular to state-owned enterprises. The European Commission is also still very critical concerning the effectiveness of the Polish authorities' fight against corruption.

A third area where the overall rate of progress in terms of alignment with the rules of the EU has been slow is the protection of the environment. Although much effort has been devoted to the development of an overall concept as represented in the "Act of Environment Protection", more specific legislation needs to be introduced, and where respective laws and regulations exist, compliance may have to be reinforced. Areas of concern include air quality and noise, nuclear safety and radiation protection, ozone depleting substances, chemicals and waste. There is no doubt that adherence to the EU directives on environment will require considerable investment. Some sectors of the Polish economy may even come under increased competitive pressure in this context. But in an overall economic perspective and in the longer-term, more stringent environmental policies will be to the benefit of the Polish economy and contribute to rising living standards and quality of life.

Despite the fact that Poland is undoubtedly on the fast track to joining the European Union, this is still a daunting agenda, and although Poland has decided not to seek long transition periods for the implementation of most of the EU rules, several of the adjustment

requirements may only be fulfilled in the medium-term. This will also apply to Poland's participation in the Economic and Monetary Union (EMU). One can hardly overestimate the determination and discipline in both macro-economic and structural policies that this additional step will require. Inflation would have to be brought down to the 2% range, fiscal conditions would have to meet the Maastricht criteria and the exchange rate would have to remain in very narrow fluctuation margins. It is difficult to see how these macro-economic results can be achieved without further dramatic adaptation in economic structures and extremely determined adjustment policies, in particular in the least efficient sectors of the economy such as coal mining, metallurgy and agriculture.

The Polish government has established as a target accession date for joining the European Union the 31st December 2002. Although there is no such precise deadline on the EU side, the Polish authorities' approach has clearly contributed to mobilizing policymakers and the people at large to support the burdensome convergence process. At least until now, the strengthened macro-economic policy discipline as well as the determined implementation of structural reforms have been surprisingly well accepted. To maintain the momentum and to aim for the earliest possible conclusion of the accession process appears, however, to be more important today than ever. On both sides, the danger of "accession fatigue" cannot be excluded. Fears are growing in the EU with regard to the implications of enlargement on the labour market, the EU budget and the functioning of European institutions. And the Polish population seems to be increasingly aware that many of the benefits of joining the European Union are long-term whereas the costs, in particular the social costs of further restructuring are, in many respects, very immediate. Nevertheless, there is no time to lose. The advent of the global, knowledge-intensive economy and society will require even more fundamental transitions and this, regardless of early or late membership in the European Union.

III. Coping with the Advent of a Global Knowledge-Intensive Economy and Society

The transition to a knowledge-based, highly networked economy and society, the globalisation of production and distribution structures and further growing international interdependence will be key determinants of economic and social development over the next decades. The driving forces behind this evolution include political, economic, social and technological factors. Peaceful overall world development and the triumph of capitalism; the evolution of the open multilateral economic system and regional integration processes; the dynamic growth of international trade, foreign direct investment and trans-border capital

flows; significant reductions in communication and transport costs, the global spread of information and rapid advances in technology - all these movers will further change the domestic and international economic environment. The question is therefore what will be the consequences.

To begin with the economic dimension, the spread of new technology applications and the on-going globalisation of production and distribution structures will lead to ever keener competition on all markets not only for goods and services but also for capital. Looking at Poland's long-term investment needs, in particular in the form of inward FDI and related technology transfers, there is every reason to pay continued attention to heightening world-wide competition with respect to the attractiveness of locations for investment. In a world where capital, technology and management know-how are increasingly mobile, it is of the utmost importance to ensure the availability of qualified labour, to keep labour costs (including non-wage labour costs) in line with overall productivity levels, to offer excellent infrastructure, to avoid too high overall tax burdens and to provide a general economic climate which is conducive to investment and entrepreneurship.

A second economic consequence of globalisation and technological progress which is more or less related to intensified competition on markets, is faster structural change. It is important to note in this context that this not only applies to the rapidly changing shares in output and employment of the very large economic sectors such as primary industries, manufacturing and services, but also to developments within these sectors and even within companies. There will be a continued and permanent move towards higher value-added operations. In many instances, this implies sharp increases in genuine service activities such as R&D or software development, including within manufacturing companies. In fact, services have been one of the most dynamic growth sectors in many OECD countries over the more recent past and will play a major, if not the most important role in job creation also in the future. Despite this, policymakers need, however, to be aware of the prospect of widespread labour-shedding even in many service branches.

This will in particular apply to several traditional activities such as retail banking, insurance brokerage, travel agencies and retail shops which may, due to the evolution of electronic commerce, lose many of their former roles and functions. Today e-commerce is still primarily applied in business to business transactions. But business to consumer e-commerce, in particular for such items as travel and tourism, electronics and software, books and CD's, financial services, event tickets and online-auctioning, shows considerable growth

rates. As a result, and this applies to Poland as well as to all other EU and OECD countries - many of the traditional service sectors will undergo transformations as deep as agriculture and industry.

In terms of social implications, the advent of the global, knowledge-intensive economy and society will impact on all aspects of life. Most important from an economic and social policy perspective, will be foreseeable changes in company and work patterns. E-commerce will fundamentally affect the way companies organise their business - from obtaining raw materials, intermediate products or finance to the selling to a final distributor or consumer. Expected advances in information and communication technology applications could lead to a substantial degree of disintegration as companies take advantage of lower communication and co-ordination costs to specialise in what they do best in the value chain. Related to this, there may be a strong tendency towards bi-polarization of company structures, - a trend towards very big global players on the one side and very small highly specialised companies on the other. There is little doubt that Poland's comparative advantage would tend to be with the second group.

As far as work patterns are concerned, there will be a clear shift away from present rigid organisations with narrowly defined specific tasks and pre-determined graduations of responsibility. The traditional hierarchical command and control structures may be increasingly replaced by horizontal and co-operative teams and networks frequently based on very flexible contractual arrangements. Partly this is due to the fact that detailed managerial control is increasingly bounded and impaired as a result of the growing dematerialisation and complexity of the modern production processes. Workers have always possessed some tacit skills beyond the reach of supervisory comprehension. But in the complex knowledge-intensive work environment of the future, the limitations of managerial control become immensely more severe. This development may contribute to undermining the relevance or adequacy of many of the behavioural, contractual, legal and institutional patterns of today's world of work.

Finally and more fundamentally, in most of the OECD area, there may be a profound transition from an economic system based on mass consumption, mass production and mass government which characterises the industrial society, towards more differentiated, diverse and complex societies built on uniqueness, flexibility, creativity and personal responsibility. This transformation of the societal foundations will offer many opportunities for economic and social progress. But at the same time, it will also exacerbate uncertainty and the risk of

conflict which always accompanies the passing of the old social orders and the emergence of new ones.

Two aspects of potential social tensions stand out in particular: first, the possibility of growing inequality and the fragmentation of society. This relates not only to the prospect of an increasingly uneven distribution of income and wealth, but beyond that, to a potential polarisation between technology insiders and outsiders, between those who have access to information and knowledge and those who have not, and between those who easily adapt to a rapidly changing economic, social, and technological environment and those who are not able to do so. The second concern is related to ethics, values and mindsets. Even the early phases in the longer-term development towards a new economic and social paradigm could pose unusually strong challenges to the existing cultural and ethical standards. Growing exposure to the outside world and to the implication of new, radically innovative technologies will put enormous strain on people's ability to tolerate the foreign and the unknown. Nonetheless, it is almost impossible to opt out of the process of the transition towards the global knowledge-intensive economy and society, and if it were, in the light of the many promises of the future, it would perhaps even be undesirable. The real question therefore is what might be the policies which could ensure that the benefits of the future technological, economic and social dynamism are fully reaped and shared and that potential dangers and risks are controlled and contained.

IV. The Challenges for Economic and Social Policy

Completing the transition towards a well-functioning market economy, preparing for membership in the European Union, and addressing the opportunities and problems related to the advent of a global knowledge-intensive economy and society clearly demand the pursuit of economic and social policies which are mutually supportive and complementary. To deal with the unfinished business of the transition process is an essential precondition for EU-membership. To fulfil the macro-economic, structural and institutional requirements for joining the European Union would go a long way to adjust Poland to the needs of a competitive global knowledge economy. The question is therefore what kind of strategy could provide an appropriate and effective response to all the three goals at the same time

It appears useful in this context to distinguish first, those policy areas where the traditional present thrust should be maintained or even strengthened; second, those areas of policy where, particularly in the light of longer-term economic and social developments,

significant and partly fundamental reforms are required; and third, those where the basic frameworks and mechanisms are not yet in place so that the requirement is imaginative policy innovation. As far as Poland is concerned, macro-economic policies as well as policies towards market functioning and micro economic adjustment clearly belong to the first group. Reform requirements in education and social support systems provide good illustrations for the second category. And the need for new frameworks with respect to new technology applications as well as governance issues exemplify the third group.

As argued before, further efforts in inflation control and fiscal consolidation are still badly needed. With expected consumer price increases in the order of 7% for this year, Poland is still far away from the 0 to 2% band which is usually considered as price stability. The general government deficit was in 2000 one of the largest in the OECD area and needs to be reined in so as to meet the Maastricht criteria. Should Poland really want to adopt the Euro in 2006, then there is the added requirement of ensuring exchange rate stability within very narrow fluctuation margins in only four years from now.

More generally, however, success in macro-economic stabilisation would also help Poland to better seize the opportunities and weather out potential turbulences of the advent of the global knowledge-intensive economy and society. Markets can best adjust to rapid economic, social and technological change when market participants can plan and operate in a stable and predictable environment. Steady expansion of demand, low inflation, solid public sector finances and external equilibrium are the ingredients of a general economic climate that is conducive to investment, innovation, entrepreneurship, experimentation and risk-taking. If there is no or too little confidence in underlying macro-economic trends, investors will not develop and preserve a medium- to long-term perspective which induces them to incur the typically short-term adjustment costs for the benefit of longer-term gains.

For the same reasons, the past orientation of policies towards market functioning and micro-economic adjustment need to be maintained and even strengthened. Competitive goods and service market, open and transparent capital markets and more flexible labour markets are all essential for the smooth adaptation of economic structures to changing patterns of demand and supply and for the effective and as much as possible frictionless reallocation of resources to economic activities with increasingly higher value-added. Further efforts towards the privatisation of state-owned enterprises, labour market reform including the regional differentiation of minimum wages and the continued adaptation of the tax system, are all illustrations for the kind of measures needed. And it is very obvious, the short-term needs

concerning the unfinished business of the transition, the medium-term requirements for membership in the EU and the longer-term exigencies of the global knowledge-intensive economy and society all show in the same direction.

Furthermore, there is a strong interrelationship between market functioning and micro-economic flexibility on the one hand and successful macro-economic stabilisation on the other. Not only do markets easily fail to fulfil their coordinating role when macro-economic disturbances heighten the risks for investment and innovation. It is equally true that an economy with well-functioning markets and resulting flexible responses to changes in demand, technology or prices can more easily be kept on a macro-economic equilibrium path. This is an important consideration when governments assist structurally weak industries. There are not only the direct costs which through higher tax burdens or otherwise are normally borne by the more competitive sectors of the economy, but also potential indirect costs in terms of negative impacts on overall economic performance. This underlines once again the urgent necessity for Poland to effectively resolve the problems of such sectors as coal mining, metallurgy and agriculture without any undue delay.

Poland has also embarked on major reform projects with respect to education and social support systems. Education reform has just started to be implemented. Apart from its social component aimed at improving education and vocational training for young people from underprivileged groups, it is also and in particular designed to closing the gap in secondary and university education with the EU. The question is, however, whether the present approach is sufficient to adapt and improve the learning capacity of society more generally and to prevent the potential new forms of social exclusion coming along with the advent of the global knowledge-intensive economy and society. The liberalisation of private education certainly goes in the right direction.

Nevertheless, changes in the composition of the workforce, along with the growing internationalisation of the economy, further advances in technology and the spread of new innovative models of work organisation based on networking and greater personal autonomy, will demand substantial investment in human capital if the skill and qualification requirements of future jobs are to be met. Furthermore, making the leap to life-long learning will demand imaginative new ways of organising education and validating people's knowledge. Instead of a supply-led and heavily institutionalised system, based on near monopolies of governments in providing education and assessing and certifying the outcomes, the economic and social conditions of the future may increasingly require a demand-led,

client-driven approach, where the learners can shop from diverse sources and in ways they themselves plan.

Important steps have been taken in the recent past in the areas of pensions and health care. Despite still prevailing difficulties in the transition from the old to the new pension system, if successfully implemented, the reform should help to ensure financial sustainability. Equally, the on-going overhaul of the health care system is addressing the problems of creeping inefficiencies and the absence of cost consciousness, so that in the end it is hoped that the reformed system will provide universal coverage at a reasonable level of spending.

Although all these reforms are fairly drastic and bold in a transition perspective, they may, however, not go far enough in adapting the social support systems to the needs of tomorrow's rapidly changing and more diverse society. Many of the old ways of risk sharing and social solidarity which were largely adequate for the industrial society tend to stifle the much higher levels of adaptability, creativity and diversity that are essential to fuel the knowledge economy and society. As in many other OECD countries, social policy reforms in Poland appear to be driven primarily by financial considerations in the light of demographic developments and other pressing problems of today. What is equally important, are innovative approaches which adjust the social support systems to the new requirements of the global knowledge economy and society of the future.

Many areas where even fundamental reforms may not be sufficient, but where new innovative approaches are required, are related to new technology applications. New ground will have to be broken to provide policy frameworks for the Internet and in particular for electronic commerce. The latter demand includes solutions to such issues as consumer protection, safeguarding privacy, secure payment, verifying identity and ensuring competitive market conditions. Equally, new rules will have to be designed in relation to biotechnology developments. The issues at stake include reliable certification procedures for genetically modified organisms, problems of food safety and the question of ethical standards for genetic manipulations with respect to animals or even human beings. The requirement in all these fields is not just national or for that matter even European solutions, but - if possible- global solutions. Poland will need to participate actively in this debate at all three levels.

Finally, there is the issue of governance. Pressure for change is coming from different sides: . First, the hierarchical command and control structures are becoming increasingly obsolete, - an evolution which concerns not only the private but also the public sector. Second, the sovereignty of nation states is getting more and more constrained by international

interdependence. Third, many issues which in the past could be dealt with on the basis of expert knowledge and technocratic approaches may require in tomorrow's society decisions which encompass political, moral and ethical considerations. The policy challenges in the context of the application of new technologies are a good illustration for this. And finally and perhaps most importantly, decision-makers throughout economy and society will face severe difficulties in making effective choices in an environment in which the old rules and reference points are increasingly less applicable and not yet replaced by reliable new ones. .

Governments in particular are exposed to new challenges that under the present system could be seen as contradictory requirements. They are confronted with problems of an ever increasing complexity; most of the new issues are of an interdisciplinary, horizontal nature and therefore do not correspond to existing primarily vertical organisational structures: the advent of a dynamic, knowledge-based society will spur much broader participation of civil society in political decision-making. At the same time, however, when the exercise of authority becomes more complicated, the high speed of economic, social and technological change will require much faster decision-making. Re-establishing the capacity of governments and perhaps of society as a whole for effective decision-making in the global knowledge-intensive economy and society will demand bold new solutions and not just reform.

A final remark: Without doubt, this paper presents a challenging picture of Poland's future and a daunting agenda. Nevertheless, there is no reason for the Polish people to lose courage. First, Poland has successfully responded over the past ten years to the challenge of transition and gone a long way towards securing membership in the EU. Already this should provide for an optimistic perspective on the future. Second, the overall policy approach suggested here, in particular with respect to adjustment to the EU norms, is encouragingly ambitious. It needs to be noted, however, that not even all present EU members have completed their homework in this respect, in particular not as concerns the restructuring of certain uncompetitive, but politically sensitive economic sectors. And third and finally, Poland can take comfort in the fact that there is no EU or OECD country that could claim to be already today fully equipped to cope with the advent of the global knowledge-intensive economy and society.