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**The Lisbon Strategy, Competitiveness and the Labour  
Market – the Case of Poland**

**Abstract**

*The final goal of the paper is to answer the question why the employment targets of the Lisbon Strategy are difficult to be fulfilled in Poland. Our hypothesis is that in countries in transition including Poland the two general goals of the Lisbon Strategy: competitiveness increase and employment increase are not in line in the short run and they are contradictory to a substantial degree. In order to discuss the main question we analyse macroeconomic and labour market data for Poland for the period 1990–2005 and compare them with the other EU countries.*

*The situation of the Polish labour market is very different from that of the EU-15. In 2004 the Polish unemployment rate was nearly three times greater than the average of the EU-15. Total employment rate was lower by about 16 percentage points in Poland than in the EU-15. These tendencies indicate to a completely different initial labour market situation in Poland as compared with the EU-15 countries and significantly different conditions for implementing the goals of the Lisbon Strategy.*

*The data concerning relationships between GDP growth and employment indicate that the emergence of jobless growth in Poland was more likely than in the EU-15. The other side of the coin is a very fast increase of labour productivity in Poland which has a positive impact on the competitiveness of the Polish economy. One can say that Poland's unemployment and employment rates have been the price for accelerated growth in labour productivity and improvements in economic competitiveness of the country.*

*If follows from the statistical data that some of the EU countries have already reached the employment targets of the Lisbon Strategy (Denmark,*

*Netherlands, United Kingdom, Austria). There are also countries in which the realization of the employment targets is highly realistic (Finland, Portugal, Ireland, Germany, Luxembourg and probably Cyprus and Czech Republic). In the remaining countries including Poland the realization of the employment target in 2010 is remote assuming the existing relationships between the growth of employment and the growth of GDP are constant. We conclude that improvements of labour market flexibility, a reduction of non-wage labour cost and a faster development of SME's are important to increase employment rates in the Polish economy.*

## **1. Introduction**

Since the beginning of the nineties labour market as well as competitiveness issues have become important problems discussed in social and economic debates in the European Union. The debates were reflected in some EU documents such as the White Book of 1994 "Growth, Competitiveness and Employment", the European Employment Strategy passed in Luxembourg in 1997 and the Lisbon Strategy approved by the Council of Europe in 2000. The Lisbon Strategy intends to deal with the low productivity, stagnation of economic growth and low employment in the European Union countries. The strategy aims at making the EU "the world's most dynamic and competitive economy" and the economy attracting more people into employment.

The final goal of the paper is to answer the question why the employment targets of the Lisbon Strategy are difficult to be fulfilled in Poland. Our hypothesis is that in countries in transition including Poland the two general goals of the Lisbon Strategy: competitiveness increase and employment increase are not in line in the short run and they are contradictory to a substantial degree. In order to discuss the main question we analyse macroeconomic and labour market data for Poland for the period 1990–2005 and compare them with the other EU countries.

The structure of the paper is as follows. In section 2 we present main goals of the Lisbon Strategy. Section 3 displays data on employment and unemployment in Poland in comparison with the data of other EU countries. In section 4 we show relationships between GDP growth and employment growth in the analysed countries because GDP growth is a main determinant of employment. Section 5 concludes.

## 2. Main targets of the Lisbon Strategy

The Lisbon Strategy is a continuation of actions which aimed at intensifying the coordination of national policies of all EU member countries in order to increase employment, reduce unemployment and improve competitiveness of the economies.

At the European Council's summit in Luxembourg in 1997 main employment policy guidelines and programs of their implementation were adopted. The process of unification of employment policy began and it was called the Luxembourg process. As a result of this process, the European Employment Strategy was elaborated. It is based on four priorities:

- I – the improvement of employment possibilities which increases individual opportunities for employment and ensures easier access to employment for the unemployed, graduates and the youth;
- II – the development and stimulation of entrepreneurship by means of creating motivation for self-employment, promoting employment on local markets and reducing labour and other administrative or fiscal costs;
- III – the improvement of adaptation of both employees and enterprises towards permanently changing conditions of labour market, which could be achieved by means of development of flexible forms of employment, promotion of occupational schooling and constant training;
- IV – the equality of chances on labour market achieved by means of elimination of discrimination, especially in the case of women, the handicapped and national minorities.

European Union countries were obliged to prepare once a year Action Plan for Employment which would implement employment strategy of the EU and which, at the same time, would be adjusted to local conditions and needs (Wiśniewski 1999, 10), (Kabaj 2004, 46–58). The implementation of such programs was supervised and connected with the promotion of examples of so-called good practice (benchmarking in the labour market policy), thus, practical mutual learning on the basis of the best experiences and effective activities in the field of employment.

A new strategic program, which aimed at reinforcement of economic and social unity of the European Union, was adopted at a special summit of the European Council in Lisbon on 23 and 24 March 2000. The program's goal is to lead to long-lasting and dynamic development of the European Union which is to become a highly competitive and innovative economy based on knowledge and ensuring high-quality of life of a society. The necessity for the rise in employment and labour productivity, creation of new and better workplaces and

the rise of the level of education in a society were also emphasised in the program. They were to be achieved by means of the development of education, investment into human capital and assurance of social integration. The system of actions which aimed at implementing this program was called the Lisbon Strategy.

The range of activities concerning employment goals of the Lisbon Strategy included both labour market's supply and demand. The goals of the Lisbon Strategy connected with creating labour supply involved the rise of competitiveness of European labour force and modernisation of a social security system in member countries.

The first of the goals mentioned above is to be achieved mainly by the improvement of the quality of education and development of constant training. European systems of education and training have to be adjusted to the needs of a society based on knowledge as well as the needs of particular social and occupational groups. Moreover, it is important to increase employees' mobility by means of opening European labour markets, especially in the case of students, young volunteers and teachers.

The second goal of the Lisbon Strategy, namely modernisation of a social security system, requires actions which will ensure stability and durability of this system and the cooperation between member countries with a simultaneous reform of superannuation systems. It is important to sustain long-lasting stability of public finances in the face of ageing of European society.

The Lisbon Strategy's goals concerning creation of labour demand focus on the increase of the level and quality of employment in member countries. The rise of the level of employment is to be achieved mainly by reduction of administrative and legal barriers, creation of favourable environment for establishing small and medium-sized enterprises, development of innovative companies in this group of enterprises and the increase of flexibility of employment. The increase of the quality of employment should be ensured by the improvement of quality of workplaces, the increase of employment of the handicapped, the equality between men and women, and the increase of security at work and occupational hygiene.

The main goals of the Lisbon Strategy concerning employment policy involve:

- the increase of employment rates in member countries up to 70% of population at the age of 15–64 in 2010 (calculated as a ratio of the number of employed people at the age of 15–64 to the number of the whole population of that age);

- the increase of employment rates among women in member countries up to 60% in 2010 (calculated as a ratio of the number of employed women at the age of 15–64 to the number of all women at that age);
- the increase of employment rates among people at the age of 55–64 up to 50% in 2010 (calculated as a ratio of the number of employed people at the age of 55–64 to the number of all people at that age).

The European Employment Strategy and the Lisbon Strategy are of high significance for Polish economy. They constituted the basis for the formation of governmental programs which aimed at the improvement of the situation on Polish labour market. “National Strategy on Employment Growth and Development of Human Resources in 2000–2006”, which was prepared in 1999, included directions of actions patterned after the pillars of the European Employment Strategy. These actions were to contribute to the increase in employment figures by creation of new workplaces, introduction of a more flexible employment system as well as the increase of the quality of labour force. In 2005 “Domestic Employment Strategy for 2007–2013” was formulated in Poland. It displayed actions in the field of labour market policy on the basis of the analysis of the situation on labour market. The goal of these actions was to achieve an increase in employment and decrease in unemployment and some improvements of the quality of work (“The European Union’s Monitor” 2005, 53–54).

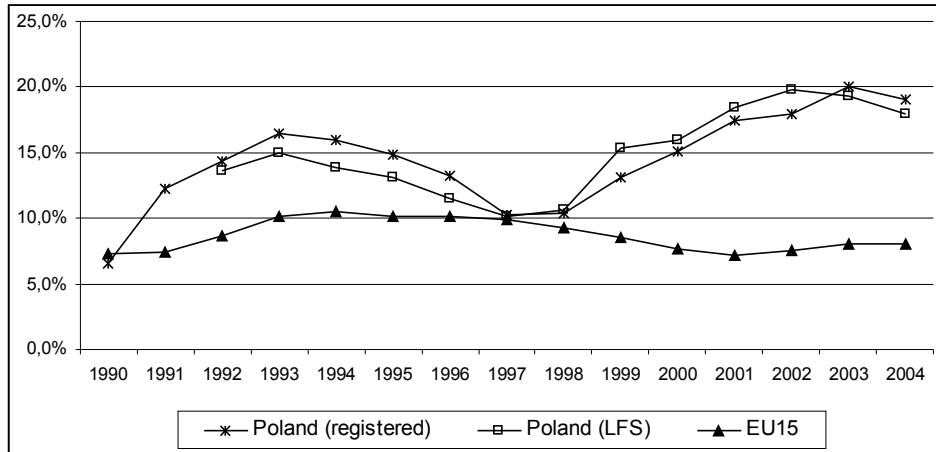
Summing up the presented goals of the Lisbon Strategy (together with those included in the domestic documents in Poland) one can say the goals comprise improvements of economic competitiveness and labour productivity on one hand and improvements of the labour market performance on the other. Theoretically the two kinds of goals do not have to be contradictory and can be realized simultaneously. However they may be contradictory in some circumstances. Which of the two options does occur in the Polish economy?

### **3. Employment and unemployment in Poland and other EU countries**

Let us start our analysis with unemployment tendencies in Poland and the EU-15. The tendencies of unemployment rates for the period 1990–2004 are shown in Figure 1. The data for Poland come from two statistical sources: registration of the unemployed at labour offices and labour force surveys. The figure shows the unemployment rates in Poland were higher than the average rate for the EU-15 countries in the whole period analysed. Only in 1997 the indicators for Poland were almost the same as in the case of the EU-15. Moreover the Polish unemployment rates fluctuated much stronger than the

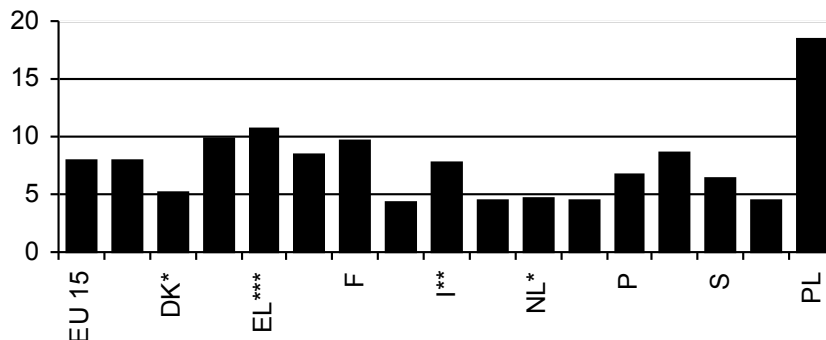
EU-15 ones. These observations suggest that (1) equilibrium (natural) unemployment in the Polish economy is relatively high (higher than in the EU-15) and (2) cyclical factors play in Poland a more important role in determining unemployment than in the EU-15.

**Figure 1. Unemployment rates in Poland and the EU-15 in 1990–2004 (%)**



Source: Statistical Yearbook of the Republic of Poland, Central Statistical Office, Warsaw, various editions and Economic Survey of Europe, 2005; own calculations.

**Figure 2. Unemployment rates in Poland and the EU-15 countries in November 2004 (%)**



\* 31.IX. 2004

\*\* 31.VII. 2004

\*\*\* 31.III. 2004

Source: Eurostat: [www.europa.eu.int/comm/eurostat](http://www.europa.eu.int/comm/eurostat).

Figure 2 indicates to substantial differences in unemployment rates among the EU-15 countries and Poland in 2004. In none of the EU-15 countries the indicator was close to the Polish one. A particularly big gap between Poland and the other analysed countries there was in case of Ireland, Luxembourg, Austria, Great Britain and the Netherlands.

The differences between the EU countries are especially significant in the field of long-term and youth unemployment rates (see Table 1). Particularly high long term unemployment rates (defined as ratios between the number of unemployed with the duration of 12 months or longer and total labour force) which have lots of negative consequences (a depreciation of human capital, a decrease of average labour productivity, an increase of wage pressure) occurred in Slovakia and Poland while in the majority of the EU-15 countries they kept at low levels. Also in the field of youth unemployment rates (defined as ratios between the number of the unemployed at the age of 14–25 and the labour force at that age) Poland and Slovakia are leaders but in this case the indicators in some EU-15 countries (Greece, Italy, Spain) are high as well. It is worth mentioning that youth is a very mobile group of people with a high propensity to migrate. That is why high youth unemployment rates in Poland, Slovakia and other transition countries create a big potential to migration.

**Table 1. Long-term and youth unemployment rates in Poland and other EU countries in 2002-2004**

Countries	Long-term unemployment rates (% of labour force)*		Youth unemployment rates (% of labour force at the age of 14–25)	
	2002	2004	2002	2004
Austria	1.1	1.3	6.7	9.6
Belgium	3.6	3.9	17.7	21.2
Denmark	0.9	1.2	7.4	8.2
Finland	2.3	2.1	21.0	20.7
France	3.1	3.9	20.0	21.9
Greece	5.3	5.6	26.8	26.9
Spain	3.9	3.5	22.3	22.1
Netherlands	0.7	1.6	5.0	8.0
Ireland	1.3	1.6	8.5	8.9
Luxembourg	0.8	1.1	8.3	18.1
Germany	3.9	5.4	14.2	15.1
Portugal	1.7	3.0	11.6	15.4
Sweden	1.0	1.2	11.9	16.3
Great Britain	1.1	1.0	12.1	12.1
Italy	5.1	4.0	23.1	23.6
<b>EU-15</b>	<b>3.1</b>	<b>3.4</b>	<b>15.7</b>	<b>16.7</b>
Cyprus	0.8	1.4	9.7	11.3
Czech Republic	3.7	4.2	16.9	21.1

**Table 1. Long-term and youth unemployment rates in Poland and other EU countries in 2002-2004 – continuation**

Countries	Long-term unemployment rates (% of labour force) <sup>a)</sup>		Youth unemployment rates (% of labour force at the age of 14–25)	
	2002	2004	2002	2004
Estonia	5.0	4.8	17.6	21.7
Lithuania	7.2	5.6	22.5	22.7
Latvia	5.7	4.3	22.0	18.1
Malta	3.4	3.5	18.3	19.0
<b>Poland</b>	<b>10.8</b>	<b>10.2</b>	<b>42.5</b>	<b>39.6</b>
Slovakia	12.2	11.8	37.7	33.1
Slovenia	3.4	3.1	16.5	16.1
Hungary	2.4	2.6	12.7	15.5
<b>EU-25</b>	<b>3.9</b>	<b>4.1</b>	<b>18.3</b>	<b>18.9</b>

<sup>a)</sup> unemployed for 12 months or longer.

Source: Eurostat – [www.europa.int/comm/eurostat](http://www.europa.int/comm/eurostat).

Challenges of Polish economy, namely the reduction of overall unemployment as well as the unemployment in particular unemployment groups presented above, are tremendous. The improvement of the situation, in terms of the increase in employment is a factor which influences the possibility of overcoming these challenges. Employment rates in Poland in 2004 as opposed to the rates of the same period characteristic for other EU member countries are presented in Table 2.

**Table 2. Employment rates in Poland and other EU countries in 2004 (%)**

Countries	Overall at the age of 15–64	Women at the age of 15–64	People at the age of 55–64
Austria	67.8	60.7	28.8
Belgium	60.3	52.6	30.0
Denmark	75.7	71.6	60.3
Finland	67.6	65.6	50.9
France	63.1	57.4	37.3
Greece	59.4	45.2	39.4
Spain	61.1	48.3	41.3
Netherlands	73.1	65.8	45.2
Ireland	66.3	56.5	49.5
Luxembourg	61.6	50.6	30.8
Germany	65.0	59.2	41.8
Portugal	67.8	61.7	50.3
Sweden	72.1	70.5	69.1
Great Britain	71.6	65.6	56.2

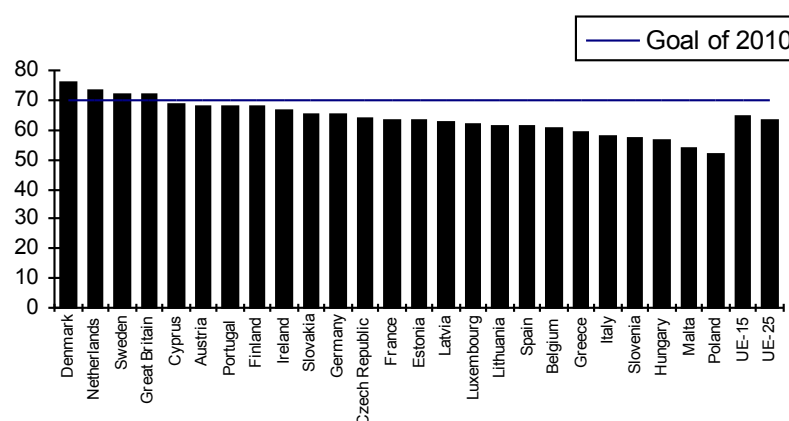


**Table 2. Employment rates in Poland and other EU countries in 2004 (%) – continuation**

Countries	Overall at the age of 15–64	Women at the age of 15–64	People at the age of 55–64
Italy	57.6	45.2	30.5
<b>EU-15</b>	<b>64.7</b>	<b>56.8</b>	<b>42.5</b>
Cyprus	68.9	58.7	49.9
Czech Republic	64.2	56.0	42.7
Estonia	63.0	60.0	52.4
Lithuania	61.2	57.8	47.1
Latvia	62.3	58.5	47.9
Malta	54.0	32.7	31.5
Slovakia	65.3	60.5	29.0
Slovenia	57.0	50.9	26.8
Hungary	56.8	50.7	31.1
<b>Poland</b>	<b>51.7</b>	<b>46.2</b>	<b>26.2</b>
<b>EU-25</b>	<b>63.3</b>	<b>55.7</b>	<b>41.0</b>

Source: Eurostat – [www.europa.int/comm/eurostat](http://www.europa.int/comm/eurostat).

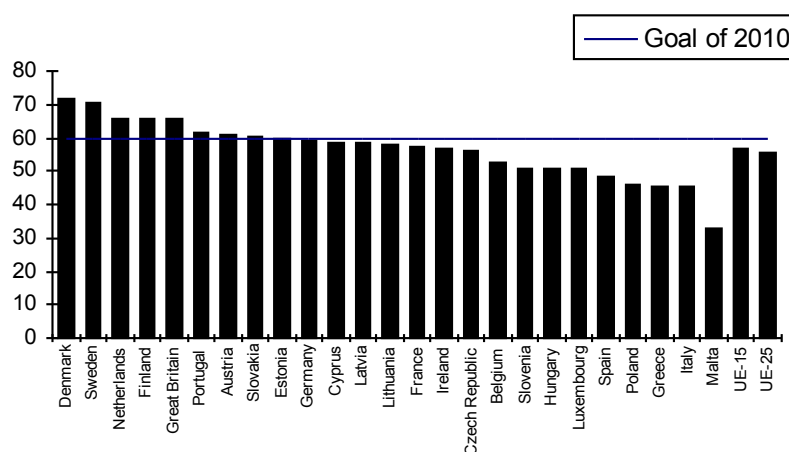
Data presented in Table 2 allow for comparison of the real employment rates in 2004 with the ones approved in the Lisbon Strategy as the goal of 2010. The comparison of these rates is presented in Figure 3, Figure 4 and Figure 5 in which a horizontal line represents the goal of the Lisbon Strategy.

**Figure 3. Employment rates in the group of people at the age of 15–64 in Poland and other EU countries in 2004 (%)**

Source: own elaboration on the basis of data from Table 2.

In 2004 overall employment rates in the group of people at the age of 15–64 reached over 70% only in four EU countries (Denmark, the Netherlands, Sweden and Great Britain). In the rest of EU-15 countries the rates reached 60–68%. Employment rates lower than 60% occurred in Italy and Greece (about 58–59%). The highest employment rates among new EU members were noted in Cyprus, Slovakia and the Czech Republic (about 64–68%), relatively high in Estonia, Latvia and Lithuania (61–63%) and relatively low in Slovenia, Hungary and Malta (54–57%). In 2004 Poland was characterised by the lowest employment rate in EU-25. The rate amounted to 51.7% of population at the age of 15–64. It was by 13 percentage points lower than the rate in EU-15 and by about 11.6 percentage points lower than the rate in EU-25.

**Figure 4. Employment rates in the group of women at the age of 15–64 in Poland and other EU countries in 2004 (%)**

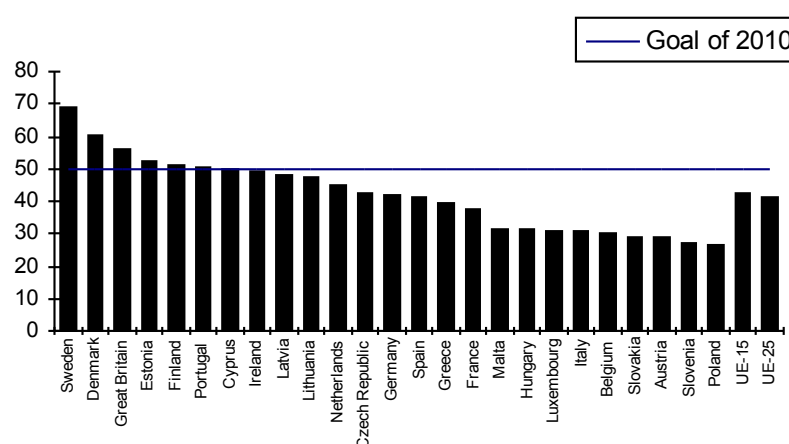


Source: own elaboration on the basis of data from Table 2.

The comparison of employment rates in the group of women in EU countries shows that the goal of the Lisbon Strategy (60%) was achieved in 2004 by seven European Union countries (Austria, Denmark, Finland, the Netherlands, Portugal, Sweden and Great Britain). In all these countries employment rates exceeded 60%. The highest employment rates in the group of women were noted in Sweden and Denmark – over 70%. The highest employment rates in the group of women among new EU members were characteristic for Estonia and Slovakia, which in 2004 achieved 60% goal of the Lisbon Strategy. A high

percentage of employed women at the age of 15–64 was also noted in Cyprus, the Czech Republic, Lithuania and Latvia (56–59%), as well as in Slovenia and Hungary (about 51%). The lowest employment rate in the group of women was a feature of Poland (46.2%), Greece and Italy (the same rate of 45.2%), and Malta (32,7%).

**Figure 5. Employment rates in the group of people at the age of 55–64 in Poland and other EU countries in 2004 (%)**



Source: own elaboration on the basis of data from Table 2.

In 2004 employment rates in the group of people at the age of 55–64 were in six countries higher than the goal of the Lisbon Strategy (50%), namely in Sweden, Denmark, Great Britain, Finland, Portugal and Estonia. Employment rates in this group of people relatively close to the goal of the Lisbon Strategy were noted in Ireland and Cyprus (over 49%). Latvia, Lithuania, the Netherlands, Germany and Spain were characterised by relatively high employment rates in the group of people (about 41–47%). In the rest UE countries the employment rates reached 29–39% (for example from 39.4% in Greece to 28.8% in Austria). Poland and Slovenia appeared to be listed among countries with the lowest employment rate in the group of people at the age of 55–64 (Polish coefficient being a little worse than the one of Slovenia).

It may be interesting that the big gap between Poland and the EU-15 countries in the field of employment rates refers only to some groups of labour force i.e. the persons with primary and secondary education. In the case of the

persons with tertiary (university) education there are no differences in employment rates between Poland and the EU-15 countries (see Table 3). One can say the market reforms introduced into the Polish economy appreciate the role of skills and human capital in the labour market. One can conclude the changes of employment structures in favour of persons with tertiary education could increase average employment rates in Poland.

**Table 3. Employment rates by education levels in the age group 15–64 in Poland and the EU countries in 2002 (%)**

Countries	Level of education		
	Tertiary	Secondary	Primary
Belgium	82.8	65.7	40.8
Denmark	87.0	80.6	60.4
Germany	83.0	69.8	43.6
Greece	80.2	57.2	49.2
Spain	77.5	58.2	52.8
France	79.2	69.8	46.8
Ireland	84.8	71.2	48.1
Italy	81.8	64.8	45.3
Luxembourg	83.6	69.1	50.8
The Netherlands	86.8	79.8	61.7
Austria	85.0	72.9	48.2
Portugal	88.6	64.7	67.3
Finland	85.5	72.8	48.9
Sweden	86.2	79.6	52.8
Great Britain	87.3	77.3	50.9
<b>EU-15</b>	<b>82.8</b>	<b>70.5</b>	<b>49.4</b>
Poland	82.4	57.8	25.0

Source: Panorama of the European Labour Markets, 2003, p. 35.

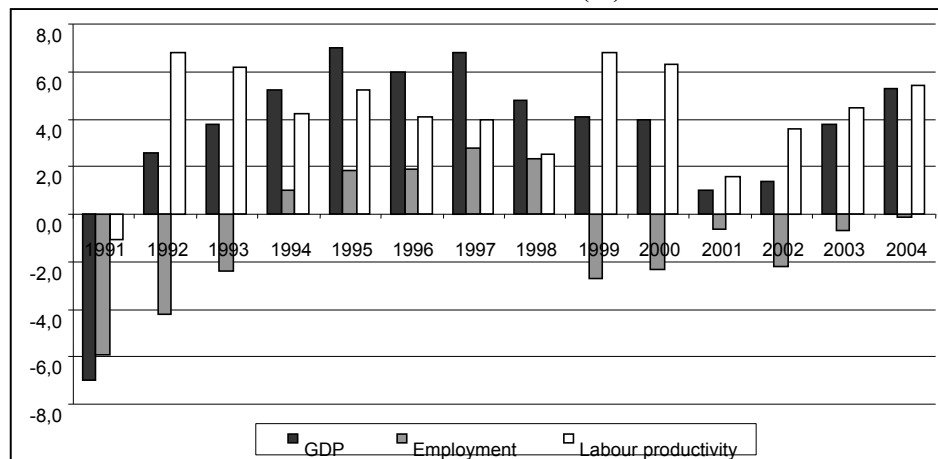
Summing up considerations on employment rates, it should be emphasised that in 2004 only three member countries, namely Denmark, Sweden and Great Britain achieved the goals of the Lisbon Strategy. Poland, in comparison with other countries, was characterised by the lowest overall employment rate as well as the lowest employment rate in the group of people at the age of 55–64. Moreover, Poland was also listed in the group of four countries distinguished by the lowest employment rates among women. Such low employment rates in Poland determined the highest overall, youth and long-term unemployment rates in comparison with other EU member countries.

#### 4. GDP growth and employment

It follows from the data presented in section 3 that employment rates in Poland are extremely low if the comparison is made with the EU-15 countries. There arises a question whether it is realistic to expect the employment goals of the Lisbon Strategy to be achieved. Among the determinants of employment one must mention GDP growth, underlined in Keynesian economic theory. Of course, there are also other determinants of employment stressed in economic theories, nevertheless GDP growth is certainly of crucial importance for employment tendencies.

Figure 6 presents data about annual rates of growth of GDP, employment and labour productivity in Poland between 1991 and 2004. The whole period analyzed in Figure 6 can be divided into some sub-periods. First, the period 1991–1993 was characterized by declining tendency in employment despite positive rates of GDP growth in 1992–1993. Deep restructuring processes took place in this sub-period. Second, in the period 1994–1998 due to very high rates of GDP growth there were positive increases of employment, but employment growth was lower than GDP growth. Third, in the period after 1998 there were decreases in employment although GDP growth was positive. One can conclude there were strong tendencies to jobless growth in the last sub-period. Fourth, in the whole period analyzed (except for 1991) rates of growth of labour productivity were relatively high. Summing up, there is a positive relationship between the dynamics of GDP growth and employment growth, although the relationship is not simple.

**Figure 6. Growth rates of GDP, employment and labour productivity in Poland in 1991–2004 (%)**



Source: Economic Survey of Europe, various editions; own calculations.

Let us have a look at data about GDP growth, employment growth and labour productivity growth in the current 25 EU countries. The data (see Table 4) are calculated as annual averages for the period 1991–2004. It follows from the table that in the all countries analysed GDP growth was positive and the leaders in this field were Ireland (average annual rate amounting to 6.7%), Estonia (5.4%), Slovakia (4.7%) and Poland (4.3%). Moreover, labour productivity growth was also positive in the all countries analysed, but the differences between the countries were more remarkable. The highest labour productivity growth occurred in Estonia (6.8%), Slovakia (4.9%), Poland (4.3%) and Slovenia (4.1%). Comparing the indicators between the EU-15 and the EU-10 countries one must stress significantly higher rates of labour productivity growth in the EU-10 countries. It is worth noting that in some countries analysed the growth rates of labour productivity were higher than GDP growth rates implying negative increase of employment (Latvia, Estonia, Lithuania, Slovakia, Slovenia, the Czech Republic, Sweden, Finland). One can say tendencies to jobless growth in these countries were the strongest.

**Table 4. Growth rates of GDP, employment and labour productivity in the EU-25 countries in 1991–2004 (as an average in 1991–2004; %)**

Country	GDP	Employment	Labour productivity
Austria	2.2	0.5	1.7
Belgium	2.1	0.6	1.5
Denmark	2.1	0.3	1.9
Finland	2.1	-0.3	2.4
France	2.0	0.6	1.4
Greece	3.0	1.0	2.0
Spain	3.0	2.1	1.0
Netherlands	2.3	1.4	0.9
Ireland	6.7	3.5	3.3
Luxembourg	4.8	3.4	1.3
Germany	1.4	0.0	1.4
Portugal	2.7	1.2	1.0
Sweden	2.1	-0.3	2.6
Great Britain	2.5	0.4	2.2
Italy	1.6	0.6	1.0
<b>EU-15</b>	<b>2.3</b>	<b>0.6</b>	<b>1.1</b>
Cyprus	3.4	2.9	0.7
Czech Republic	2.1	-0.2	2.4

**Table 4. Growth rates of GDP, employment and labour productivity in the EU-25 countries in 1991–2004 (as an average in 1991–2004; %) – continuation**

Country	GDP	Employment	Labour productivity
Estonia	5.4	-2.3	6.8
Lithuania	0.2	-1.1	1.8
Latvia	0.3	-2.4	3.6
Malta	2.0	1.4	0.4
<b>Poland</b>	<b>4.3</b>	<b>0.0</b>	<b>4.3</b>
Slovakia	4.7	-0.2	4.5
Slovenia	2.3	-0.2	4.1
Hungary	3.0	0.8	3.3
<b>EU-25</b>	<b>2.3</b>	<b>1.0</b>	<b>1.4</b>

Source: Economic Survey of Europe, various editions; own calculations.

A more detailed comparison between Poland and the EU-15 is contained in Table 5 where the whole period is divided into 4 sub-periods. The data confirm the conclusions drawn earlier while analyzing Figure 6 and Table 4. One must conclude that the growth of labour productivity was in Poland much higher than in the EU-15. This implies the limits of jobless growth (i.e. the rate of GDP growth connected with negative change of employment) are in Poland substantially higher than in the EU-15.

**Table 5. Changes in employment, GDP and labour productivity in Poland and EU in 1991–2004 (%)**

	1991–1993	1994–1998	1999–2002	2003–2004
<b>Poland</b>				
1. GDP	-0.20	5.96	2.63	4.55
2. Employment	-4.17	1.96	-1.95	-0.40
3. Labour productivity	3.97	4.00	4.58	4.95
<b>EU-15</b>				
1. GDP	0.93	2.58	2.48	1.70
2. Employment	-0.73	0.78	1.43	0.55
3. Labour productivity	1.67	1.80	1.05	1.15

Source: Economic Survey of Europe, various editions, own calculations.

The presented above considerations indicate to remarkable differences between the countries in transition (or the EU-10) on one hand and the EU-15 countries on the other. In the countries in transition (of course including Poland)

labour productivity growth is faster and the limits of jobless growth higher than in the EU-15 countries. Such tendencies which are favourable for the improvements of competitiveness in countries in transition can be explained by at least two factors. The first is connected with the process of economic convergence. Solow (1956) suggested that the less developed economies, in general, developed faster than more developed economies, as long as these economies were characterized by similar preferences and technology. Similar views can be found at Barro and Sala-i-Martin (1992, p. 224) who believe that the economy with lower initial value of capital will develop quicker than the economy with a higher value of capital. The second factor is connected with a reduction of over-employment in transition economies after the systemic changes had started. As it was explained by J. Kornai (1985) there was huge hidden unemployment in the centrally planned economies. Marketization of these economies had to cause a reduction of excessive employment strengthening tendencies to jobless growth.

It follows from the conducted considerations that in Poland (1) the limits of jobless growth are relatively high and (2) the current level of employment rates is very low. Taking the two tendencies into account one must ask the question whether it is realistic to reach in Poland the employment goals of the Lisbon Strategy. It follows from the calculations that assuming the relationships between GDP and employment will be the same as in the past one should have annual rates of GDP growth amounting to 16.7% in order to achieve the employment rate of 70% in 2010. Such high rates of GDP growth are obviously non-realistic. There arises a question how it would be possible to reach the employment rates approaching the goals of the Lisbon Strategy while maintaining the GDP growth rates at more realistic levels?

We would like to stress three factors which can be of big importance for higher levels of employment at given GDP growth:

- a higher labour market flexibility,
- a reduction of non-wage labour cost,
- a faster development of small and medium enterprises.

According to the generally accepted definition, labour market flexibility means the market's ability to adjust itself quickly enough to changing market conditions and technologies (Adnett 1996, p. 12). The concept comprises employment flexibility (i.e. employment adaptability to changing conditions), wage flexibility (changes in wages in response to movements of wage determinants), labour mobility and flexibility of working time. According to economic theories, especially the theory of a natural rate of unemployment, business cycle, as well as the new Keynesian theory, the more flexible the labour market is, the lower is the unemployment rate, the higher the employment, and



the stronger the tendency to create new jobs. The example of the Polish labour market underscores the importance of flexible labour markets for the growth of joblessness. A more flexible labour market could increase employment in Poland at given level of GDP growth.

Labour cost is regarded as an important determinant of employment, especially in neoclassical literature where labour demand is inversely related to labour cost. Although Poland is considered as a country of relatively low wages there are barriers connected with labour cost to create more jobs. They refer to the internal structure of the labour cost. Due to a high level of social security contributions and other non-wage labour cost, employers hesitate to create more jobs because they regard the relationship between the labour cost and labour productivity as not favourable enough. A reduction of non-wage labour cost would be important for increasing employment in the Polish economy.

The development of small and medium sized enterprises is another recommendation in order to increase employment at a given GDP growth. The development of these enterprises is favourable for employment because the SME's do not use the most advanced technologies which crowd out labour from the production. Moreover a substantial part of new SME's is located in services where labour-consuming processes predominate. The government should create more favourable conditions for establishing and developing these enterprises to make employment increase easier.

## **5. Concluding remarks**

The situation of the Polish labour market is very different from that of the EU-15. In 2004 the Polish unemployment rate was nearly three times greater than the average of the EU-15. Total employment rate was lower by about 16 percentage points in Poland than in the EU-15. These tendencies indicate to a completely different initial labour market situation in Poland as compared with the EU-15 countries and significantly different conditions for implementing the goals of the Lisbon Strategy.

The relationship between GDP growth and employment was a complex one in the Polish economy. The data show that a net increase in the number of jobs took place only when GDP growth rates exceeded 4.3 per cent or more annually for the entire period under analysis, while the EU-15 threshold was generally between 1 and 2 per cent. One must say the emergence of jobless growth in Poland was more likely than in the EU-15. The other side of the coin is a very fast increase of labour productivity in Poland which has a positive impact on the competitiveness of the Polish economy. One can say that Poland's

unemployment and employment rates have been the price for accelerated growth in labour productivity and improvements in economic competitiveness of the country.

If follows from the statistical data that some of the EU countries have already reached the employment targets of the Lisbon Strategy (Denmark, Netherlands, United Kingdom, Austria). There are also countries in which the realization of the employment targets is highly realistic (Finland, Portugal, Ireland, Germany, Luxembourg and probably Cyprus and Czech Republic). In the remaining countries including Poland the realization of the employment target in 2010 is remote assuming the existing relationships between the growth of employment and the growth of GDP are constant. We conclude that improvements of labour market flexibility, a reduction of non-wage labour cost and a faster development of SME's are important to increase employment rates in the Polish economy.

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