

## Polish Labour Market Compared with other EU Member States

### Abstract

*The study primarily intends to show major tendencies occurring in the Polish labour market, as well as their determinants, vis-à-vis EU labour markets. Particularly interesting are tendencies that characterise economic activity, unemployment, employment and the sectoral structure of employment.*

*Both the number of economically active persons and the economic activity rate were falling in Poland in the transition period, even though the tendency was not very distinct. It caused, however, that today's economic activity rate in Poland is one of the lowest among EU countries. In the transition years, the number of employed persons varied significantly; downward tendencies in years 1992-1995 and 1998-2004 alternated with growth tendencies between 1995 and 1998 and after 2004. Comparisons of Polish employment rates with indicators describing other EU countries show that the former are very low. In the transition years, numbers of unemployed persons showed relatively strong variations. In years 1990-1993 and 1998-2003 unemployment was spreading, while between 1994 and 1997 and after 2004 it was falling. Analyses allow us to conclude that the dynamics of economic growth is important for the evolution of the size of employment and unemployment in the Polish economy, and indirectly also for the course of economic activity. Labour market institutions are important for shaping economic activity, employment, and unemployment. Their modification or deeper restructuring can entail advantageous changes in key labour market indicators.*

## **1. Introduction**

The study investigates changes taking place in the Polish labour market in the transition years and compares them with circumstances in labour markets of other EU countries.

The study primarily intends to show major tendencies occurring in the Polish labour market, as well as their determinants, vis-à-vis EU labour markets. Particularly interesting are tendencies that characterise economic activity, unemployment, employment and the sectoral structure of employment.

The study is organized as follows. Part 2 discusses variations in the key labour market indicators that appeared in Poland in the period of transition. Part 3 compares the main tendencies and traits of the Polish labour market with labour markets in other EU countries. Part 4 discusses and analyses the key determinants and factors underlying the described changes in the Polish labour market. Part 5 provides main conclusions and recommendations for the economic policy.

## **2. Tendencies in the Polish labour market**

Changes affecting the key economic indicators applying to the labour market in Poland are presented in table 1. The table offers several main conclusions.

Firstly, both the number of the economically active persons and economic activity rates showed a downward tendency throughout the period of transition. Between 1992 and 2007, employment decreased by over 750,000 persons, and the economic activity rate fell from 61.7% to 53.5%, i.e. by 8.2 percentage points (p.p.).

Secondly, the number of persons in employment varied in the analysed period. After a decline in years 1992-1994, employment grew significantly between 1995 and 1999, and then kept falling in years 2000-2003, to show an upward tendency starting from 2004. Analogous evolution characterised employment rates.

Thirdly, the number of unemployed workers and the unemployment rate revealed strong cyclical fluctuations. The indicators grew in 1992-1993, then fell between 1994 and 1997, and grew again between 1998 and 2002, to start falling

deeply from 2003. It is worth noting that the rate of unemployment never dropped below 9%, even in times of favourable economic conditions, which suggests a relatively high level of equilibrium unemployment.

The three-sector structure of employment changed favourably in the transition years (see table 2). Employment in agriculture decreased between 1994 and 2006 by over 1.1 million people, and the sector's share in total employment went down by almost 8 p.p. At the same time, the services sector increased its employment (by almost 2 million people in years 1994-2006), as well as its percentage share in total employment (by more than 12 p.p.). These changes indisputably resulted from modernizing structure of employment in Poland.

**Table 1. Economically active, employed, and unemployed persons in Poland, years 1992-2007 (4<sup>th</sup> quarter data)**

Year	Economically active		Employed		Unemployed	
	Thou. per.	%	Thou. per.	%	Thou. per.	%
1992	17 529	61.7	15 135	53.3	2 394	13.7
1993	17 367	61.2	14 772	52.1	2 595	14.9
1994	17 122	59.2	14 747	51.0	2 375	13.9
1995	17 004	58.4	14 771	50.7	2 233	13.1
1996	17 064	57.9	15 103	51.2	1 961	11.5
1997	17 052	57.4	15 315	51.5	1 737	10.2
1998	17 162	57.1	15 335	51.0	1 827	10.6
1999	17 214	56.6	14 573	48.0	2 641	15.3
2000	17 300	56.4	14 540	47.4	2 760	16.0
2001	17 229	55.8	14 043	45.5	3 186	18.5
2002	17 097	55.0	13 722	44.1	3 375	19.7
2003	17 091	54.8	13 718	44.2	3 373	19.7
2004	17 139	54.9	14 058	45.1	3 081	18.0
2005	17 283	55.2	14 390	45.9	2 893	16.7
2006	16 987	54.1	14 911	47.7	2 076	12.2
2007*	16 754	53.5	15 152	48.3	1 602	9.6

\* 2<sup>nd</sup> quarter data

Source: BAEL (LFS) data, GUS, Warsaw.

**Table 2. Sectoral structure of employment in Poland, years 1994 and 2006 (4<sup>th</sup> quarter data)**

Sector	1994	2006
Agriculture (thousands)	3 378	2 268
Industry and building (thousands)	4 709	4 031
Services (thousands)	6 660	8 612
Agriculture (%)	22.9	15.2
Industry and building (%)	31.9	27.0
Services (%)	45.2	57.8

Source: BAEL (LFS) data, GUS, Warsaw.

### 3. Polish labour market vis-à-vis the EU member states

Let us now examine the situation of the Polish labour market in relation to other labour markets in the EU.

**Table 3. Employment rates for persons aged 15-64 years in selected EU countries in 2006 (%)**

Country	Total	Women	Persons aged 55-64 years
EU-15	66.0	58.6	45.3
Belgium	61.0	54.0	32.0
Bulgaria	58.6	54.6	39.6
Czech Republic	65.3	56.8	45.2
Denmark	77.4	73.4	60.7
Germany	67.7	62.4	48.9
Estonia	68.1	65.3	58.5
Greece	61.0	74.4	42.3
Spain	64.7	53.0	43.6
France	63.0	57.7	37.6
Italy	58.4	46.3	32.5
Lithuania	63.6	61.0	49.6
Hungary	57.3	51.1	33.6
Netherlands	73.7	66.7	48.3
Austria	70.2	63.5	35.5
Poland	54.5	48.2	28.1
Portugal	67.9	62.0	50.1
Romania	58.8	53.0	41.7
Slovakia	59.4	51.9	33.1
Finland	69.3	67.3	54.5
Sweden	73.1	70.7	69.6

Source: Eurostat data.

Table 3 shows employment rates for Poland and for selected members of the Community. According to the table, Polish employment rates are among the lowest in the EU. Poland is far behind the average employment rate for EU-15, both regarding the rate's total value (the 2006 gap was 11.5 p.p.), the female employment rate (10.4 p.p.), and the employment rate for persons aged 55-64 years (where the gap exceeded 17 p.p.).

Data in table 4 indicate strong variations in EU unemployment rates. In 2006, the Netherlands, Denmark and Austria had relatively low rates (below

5%), while the Polish unemployment rate was substantial and the highest (13.8%) at the same time, although it has been falling in recent years.

**Table 4. Harmonized unemployment rates in selected EU countries in 2006 (%)**

Country	Unemployment rate	Country	Unemployment rate
EU-15	7.7	Lithuania	5.6
Belgium	8.2	Hungary	7.5
Bulgaria	9.0	Netherlands	3.9
Czech Republic	7.1	Austria	4.7
Denmark	3.9	Poland	13.8
Germany	9.8	Portugal	7.7
Estonia	5.9	Romania	7.3
Greece	8.9	Slovakia	13.4
Spain	8.5	Finland	7.7
France	9.5	Sweden	7.1
Italy	6.8		

Source: Eurostat data.

Table 5 presents 2006 economic activity rates in selected EU countries. According to the table, Poland belongs to countries where the rates are the lowest (only Italy and Hungary had lower rates). The gap between Poland and the EU-15 average exceeds 8 percentage points, and between Poland and the country, where economic activity is the strongest (Denmark) it is over 17 p.p. Even larger differences can be found for older persons (aged 55-64 years). In this case, the Polish rate is the lowest among all analysed countries (30.7%); Poland is almost 18 percentage points behind the EU-15 average, and as many as 42 percentage points behind Sweden, where the rate is the highest.

**Table 5. Economic activity rates in selected EU countries in 2006 (%)**

Countries	Population aged 15-64 years	Population aged 55-64 years
EU-15	71.6	48.3
Belgium	66.5	33.6
Bulgaria	64.5	43.0
Czech Republic	70.3	47.7
Denmark	80.6	63.2
Germany	75.3	55.2
Estonia	72.4	61.0
Greece	67.0	43.9
Spain	70.8	46.8
France	69.4	39.9
Italy	62.7	33.4
Lithuania	67.4	52.9
Hungary	62.0	34.9
Netherlands	77.4	49.6
Austria	73.7	36.8
Poland	63.4	30.7
Portugal	73.9	53.5
Romania	63.6	42.8
Slovakia	68.6	36.7
Finland	75.2	58.5
Sweden	78.8	72.8

Source: Eurostat website.

**Table 6. Three-sector employment structure in selected EU countries in 2006 (%)**

Country	Agricultural sector	Industrial sector	Service sector
EU_15	3.7	23.7	72.6
Belgium	2.0	20.5	77.5
Bulgaria	20.6	27.6	51.8
Czech Republic	3.7	37.9	58.4
Denmark	3.1	20.9	76.0
Germany	2.2	25.5	72.3
Estonia	4.9	33.1	62.0
Spain	5.0	29.6	65.4
France	3.4	20.4	76.2
Italy	4.1	28.4	67.5
Lithuania	12.4	29.5	58.1
Hungary	4.8	32.3	63.0
Netherlands	3.1	17.0	79.8
Austria	11.1	23.0	65.9
Poland	19.2	26.9	53.9
Slovakia	3.6	33.8	62.7
Finland	4.9	25.8	69.3
Sweden	2.1	22.3	75.7

Source: Eurostat website.

Table 6 shows data characterising the three-sector structure of employment in selected countries in 2006. According to the table, Poland is among countries, where agriculture has the highest share in total employment (only Bulgaria has a higher rate than Poland (20.6% against 19.2%)) and the gap between Poland and the developed EU countries is relatively large. On the other hand, the services sector had a very small share (53.9%), when set against the EU-15 average (72.6%), and against many developed countries. It seems, therefore, that despite certain favourable changes in the employment structure brought about by the transition period, the three-sector structure of employment continues to be rather obsolete.

#### **4. Determinants and factors of changes in the labour market**

The tendencies and traits of the Polish labour market presented above are determined by many diverse determinants and factors. Their selection is ultimately subjective, although it is somewhat imposed by the nature of

identified tendencies and traits one wishes to explain. Having this in mind, the decision was taken to concentrate on the roles played by three determinants, namely:

- economic growth,
- changes in the economic structure and gaps,
- selected labour market institutions.

Because of the broad scope of the discussion, analyses of the above determinants are synthetic and largely based on statements and arguments derived from the literature of the subject.

#### **4.1. Economic growth**

Economic growth is one of the significant factors that determine changes taking place in the Polish labour market in the current period of transition. The changes are mainly related to size of employment and unemployment, but the factor's interventions can also be sought in the variations of economic activity. The influence of economic growth is more distinct in the long-term processes, although short-term GDP changes are also important for the formation of the key labour market indicators.

Investigations exploring the relationship between employment and unemployment, on one hand, and GDP changes in the Polish economy<sup>1</sup>, on the other, show that in the transition period GDP changes were significant for tendencies in both indicators, although the relationship was not straightforward. In years 1990-1991, i.e. in the first period of transition, liberalization, and subordination of prices to market rules, decreasing GDP was accompanied by falling employment and growing unemployment, but employment fell less than GDP did. This implied the swelling of hidden unemployment that was high already at the beginning of the transition period, as the legacy of the central command economy. Between 1992 and 1994, processes leading to GDP growth were initiated, but they came with decreasing employment and growing unemployment, although the latter slowed down at the end of that period. That employment was declining, while GDP was growing can be explained by referring to actions launched to rationalize employment and to reduce hidden unemployment in restructuring enterprises. Years 1995-1997 were the period of fast economic growth combined with expanding employment and shrinking unemployment (in fact, employment continued to grow until 1998). Rates of GDP growth were so high then (e.g. 7% in 1995 and 6.9% in 1997) that they

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<sup>1</sup> See E. Kwiatkowski, L. Kucharski, T. Tokarski (2002).



exceeded labour productivity growth, thus stimulating labour demand and making employment grow. The dynamics of economic growth clearly lost its impetus between 1998 and 2003 (GDP growth dropped below 4.5%, i.e. below labour productivity growth), which reduced employment and increased unemployment. Some symptoms of recovery appeared as early as 2003, when the GDP growth rate rose to 3.8% and unemployment started falling. The year 2004 opened another period of prosperity in economy and in the labour market, because relatively high rates of GDP growth (exceeding the growth of labour productivity) are combined with growing numbers of workers and shrinking unemployment.

The above tendencies suggest that the dynamics of economic growth was important for the evolution of employment and unemployment in the Polish economy. Unemployment was falling in periods of relatively fast economic growth, while the number of workers was expanding. In such periods, the dynamics of GDP growth exceeded labour productivity growth. However, in times when GDP was falling and its growth was relatively slow, employment was decreasing and unemployment was swelling. The reason was relatively high increases in the productivity of labour. It seems justified, therefore, to conclude that the Polish economy showed jobless growth tendencies.

The jobless growth phenomenon is known in many countries, but in the Polish economy in the transition period its intensity was high. Analyses investigating the relationship between employment size and the volume of GDP indicate that in that period the threshold value of jobless growth (i.e. the minimal rate of GDP growth for which employment does not fall) in the Polish economy was 4.2%, largely exceeding the threshold value for EU-15 countries (see E. Kwiatkowski, S. Roszkowska, T. Tokarski, 2004). In other words, labour productivity growth in the Polish economy at that time was on average much higher than in EU-15, which had to affect the course of employment and unemployment. Several factors can be mentioned to explain the high threshold values of jobless growth in Poland. Firstly, the convergence effect was at work, because in economies where labour productivity and *capital-labour ratio* are comparatively low the *marginal product of capital* is quite high, which generates relatively large increases in labour productivity. This situation happened in the Polish economy, too (Kwiatkowski, Roszkowska, Tokarski 2004). Secondly, some role was played by changes made in the production structure and employment structure that affected Polish economy in the transition years. Operations were moved to more productive areas of economy, which consequently decelerated demand for labour (Kaczorowski, Rogut, Tokarski 2001). Thirdly, it must be remembered that the Polish economy was encumbered by relatively high hidden unemployment taken over from the

former central command economy that even expanded at the beginning of transition. Therefore, processes aimed at enlarging production were first supported by the existing enterprise workforce that had been underutilized so far, and only afterwards by additional recruitments.

Additionally, economic growth changed the number of economically active persons, but indirectly, by affecting the number of created jobs and availability of employment. Accelerated economic growth made it easier to find a job and this encouraged people to give up economic inactivity. Decelerating economic growth operated in a reverse direction. Tendencies in the number of economically active persons that were presented in section 3 largely confirm the relationship. Between 1999 and 2003 numbers of economically active persons and economic activity rates were falling together with slowing down economic growth, whereas accelerated economic growth that appeared in 2004 triggered indicators' growth.

#### **4.2. Structural changes and gaps**

Variations in key economic indicators applying to the Polish labour market that appeared in the period of transition (described in part 2 of this study and set against conditions in other EU countries in part 3) are diverse in character. On one hand, they reflect the short-term changes generated by the economic cycle, but at the same time they are determined by longer-term impacts. The first category includes variations in key economic indicators for the labour market, which are linked with the changing dynamics of GDP growth, as already discussed in section 4.1. Let us now examine the other type of changes, i.e. those determined by the operation of relatively long-standing factors. The analysis will start with the role of the production structure changes and gaps existing there, whereas part 4.3. will explore the importance of institutional aspects of the labour market for the course of the changes.

Structural changes influence the formation of key labour market trends according to the following sequence of events. In a developing and transitional economy, such as the Polish economy is, the production structure undergoes many adjustments. One reason for making them is that the Polish economy is underdeveloped compared with the fully-fledged countries. Adjustments in the production structure imply multidirectional changes in the structure of labour demand, particularly within sectors and branches, levels of education, as well as qualifications and occupations. Consequently, the structure of labour supply must be fitted to the requirements of labour demand as fast as possible. All gaps in this area deteriorate labour market situation, decreasing the size of employment and enlarging unemployment.

A range of factors necessitates adjustments in production structure. Firstly, an important role is played by changing structure of demand for products. The changes follow buyers' preferences that alter when incomes go up and economy thrives. A worth noting thing is the falling income elasticity of demand for numerous food products and a relatively high income elasticity against many services. Secondly, effects of technical progress embodied in products and processes have to be underlined, as the progress contributes to the appearance of new products, or products that are more modern and environmentally safer. This tendency can be found across all sectors of economy. Thirdly, the restructuring processes are noteworthy, as they imply elimination of ineffective enterprises, expansion of more effective organizations and lines of business, modernisation of manufacturing methods, work organization and production assets, as well as organizations' better financial situation. Fourthly, an important role is played by processes related to the inflow of FDI's and aid funds from the European Union that aim at supporting modernization of the production structure.

In the period of transition, production structure changed significantly in Poland. Agriculture's contribution to GDP creation declined (from 8.5% in 1990 to 4.1% in 2005), industry also decreased its share (from 53.1% in 1990 to 27.2% in 2005), but the services sector distinctly enlarged its contribution (from 38.4% to 68.7% in 2005)<sup>2</sup>. In addition, production structure in industry and services was considerably restructured. Regarding industry, shares held by mining and quarrying, production of coke and petroleum, textiles, clothing, furriery and leather products decreased, while manufacturing of motor vehicles, trailers and semi-trailers, metal products, papermaking pulp and paper increased their contribution to GDP. As for the services sector, sections such as financial intermediation, real estate and business services, education, hotels and restaurants, as well as trade and repairs became more important for GDP creation, while contributions of healthcare and welfare, public administration and national defence declined (see W. Kwiatkowska, 2007, pp. 163 and 173).

The above production structure adjustments had to entail changes in the structure of labour demand. Indeed, that structure changed significantly in the transition period. As it has already been stressed in part 3, industry and agriculture decreased their shares in total employment, unlike the services sector whose share expanded. Significant adjustments affected the structure of labour demand also within sectors, following changes in the structure of production. Additionally, employers clearly raised their expectations as to workforce

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<sup>2</sup> Calculated by the author based on Statistical Yearbooks 1993 and 2006, GUS, Warsaw.

qualifications. The question appears, however, whether the changes induced corresponding adjustments in the structure of labour supply.

It is worth stressing that although some part of labour force moved from agriculture to the service sector in the transition period, the present sectoral structure of employment in Poland continues to be relatively obsolete compared with its counterparts in the developed countries (in Poland, agriculture's share in total employment is much higher, whereas the services sector's share is considerably lower). Interestingly, Polish agriculture's share in total employment largely exceeds that sector's contribution to GDP creation, which indicates that its labour productivity is relatively low. Naturally, there are many factors behind the relatively high employment in the Polish agriculture (such as substantial agrarian fragmentation and rather immobile labour force with relatively low education; another meaningful factor is direct payments and the Agricultural Social Insurance Fund that discourage the outflow of labour force from agriculture). It is out of the question, however, that modernizing economic structure needs transfers of labour force from agriculture to services.

Adjustments in labour supply to the required profiles of qualifications also stir some critical comments. It is a fact that education boomed in Poland in the transition years and that the average level of education rose. Between 1990 and 2005, the number of tertiary students increased from 400,000 to 1.9 million people, and the share of persons with higher education in total employment went up to 21.8% (Kwiatkowska, 2007, p. 136). Notwithstanding, adjustments in education to market requirements are by far insufficient. Despite an almost fivefold increase in the number of students in the current period of transition, the number of university teachers increased by merely 55.0%<sup>3</sup>, which had to affect the quality of teaching. Additionally, the structure of education changed rather one-sidedly, as numbers of students studying humanities, social sciences, administration, economics and pedagogy grew dynamically, while the group of students taking science, biological sciences and technical sciences diminished. The tendencies are reflected in the growing tensions in many occupational markets in Poland.

Analyses of the Polish labour market reveal many gaps between the labour supply structure and the structure of labour demand. Their existence is evidenced by the persisting and considerable differences between unemployment rates for labour force groups distinguished based on occupations and education (Kwiatkowska, 2007, p. 205). The above opinion is confirmed also indirectly by the relatively high rates of equilibrium unemployment (Kwiatkowski, Kucharski,

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<sup>3</sup> Calculated based on Statistical Yearbook of the Republic of Poland 2000, p. 243 and Small Statistical Yearbook of Poland 2007, p. 232.

Tokarski, 2002) caused, among other things, by structural gaps in the labour market. Undeniably, the gaps keep unemployment rate at a high level and employment rate at a low level.

#### 4.3. Labour market institutions

Tendencies observed in the Polish labour market emerged in specific institutional circumstances. The circumstances, especially those affecting the labour market institutions, had to affect the course of the tendencies. This statement is underpinned by the belief that institutional solutions significantly influence attitudes and decisions of the labour market participants, particularly attitudes shaping labour supply and labour demand. The discussion will concentrate on major labour market institutions and on their effects on the main tendencies observed in the Polish labour market.

**Early retirement** is an institution that significantly weakens economic activity of older persons and thus the overall economic activity. This mechanism is connected with a relatively broad range of retirement options available to persons before their retirement age. Because older persons (i.e. more experienced) have better chances either for finding or for retaining their jobs, early retirement not only brings down economic activity, but it lowers employment rates as well.

The former retirement regime provided many early retirement possibilities. In addition to the relatively liberal eligibility criteria (55 years of age and 30 pensionable years for women and 60 years of age and the same pensionable period for men), the system was available to persons working in special conditions or doing special types of jobs. The new pension system does not have the early retirement option, but the provision was added that persons born after 31 December 1948 that had done jobs entitling to early retirement prior to the reform and that would not become entitled to pensions in the interim period, would be able to exercise to some degree the right to so-called bridge pensions. Although government's bridge pension bill of 27 May 2005 attempted to restrict the number of persons entitled to early retirement, it is not quite certain to what extent the plan will be successful. The acceptance of special solutions for some groups of workers (miners) created pressure towards considerable enlargement of the number of beneficiaries.

**Disability pensions** (before 1997 known as invalidity pensions) perform important income-securing and integrating functions. Polish experiences gained in the transition period show, however, that rules of the disability pension system were bent. The system offered non-earned incomes and it was used by

some work-capable persons to obtain support before their due retirement age. The disability system contributed thereby to lower economic activity rates and lower rates of employment. Exploitation of the disability pension system is proved by the fact that in Poland numbers of old-age pensioners per 1,000 working age population significantly exceeded the OECD average (see *Employment in Poland 2005*, p. 140). Another piece of evidence is the decreasing number of old age pensioners in Poland after 1999 (see *Employment in Poland 2005*, p. 143), when the disability pension system revised in 1996 (in particular, the reform remodelled the disability adjudication system and brought in broader application of temporary disability pensions) became fully operational.

**Pre-retirement benefits and allowances** introduced in 1997 were designed to protect unemployed persons at pre-retirement age that met predetermined requirements (they specified not only worker age, but also the number of pensionable years). Ensuring a relatively attractive income (a pre-retirement benefit offered between 1997 and 2001 amounted to 120% of the unemployment benefit and the level of a pre-retirement benefit paid before 2004 was 80% of the old age pension, but not less than 120% of the unemployment benefit), the payments encourage economic inactivity, thus reducing *unemployment* and economic activity. Changes made to the pre-retirement benefit system in 2004 should be recognized as advantageous, because the benefit eligibility criteria have become stricter, and the benefits' financial attractiveness slightly lessened. Despite the changes, pre-retirement benefits continue to be a major hindrance to economic activity of older persons.

The important role the above institutions played in keeping economic activity rates at a relatively low level can be demonstrated by the fact that between 1999 and 2004 the average number of persons at pre-retirement age drawing social insurance benefits, i.e. old age pensions, disability pensions, pre-retirement benefits and pre-retirement allowances, was approximately 4 million (Bukowski et al., 2006, p. 214).

**Labour taxation** is frequently referred to in discussions of low employment rates and high unemployment rates in Poland. It is stressed that the so-called tax wedge (composed of direct taxation and social insurance contributions) is relatively high in Poland (ca 40-47% of labour costs) and at the same time one of the highest among OECD countries (see S. Golinowska et al., 2007, p. 30). However, empirical investigations into the impacts of labour taxation on employment and unemployment do not provide explicit results (Bukowski et al., 2005, pp. 147-150). Notwithstanding, it seems that reduced non-wage labour costs might help stimulate labour demand (this opinion is quite

common among employers), but the process should be combined with rationalization of social expenditures.

**Minimum wage** primarily aims at securing incomes, but it can also affect the course of employment, unemployment, and economic activity. Existing Polish experiences indicate its rather neutral effect on labour demand (see *Employment in Poland*, p. 169 and Golinowska et al., 2007, p. 32). The 2002 rule that young workers should be offered lower minimum wage (by 20% in the first year of employment and by 10% in the second year) is advantageous, because it has lifted barriers hindering demand for young workers when the economic conditions were poor. Amendments made in 2005 that raised the minimum wage (new and more favourable to workers indexation rules were introduced, and the target ratio of the minimum wage to average wage set at 50%) can prospectively impede employment of the low-skilled workers, but the higher minimum wage can be expected to raise the economic activity rate.

**Employment flexibility** is viewed as an important element of labour market flexibility, the latter being of key importance for ensuring effectiveness of labour market adjustments. Employment flexibility mainly depends on the ability to make fast adjustments to adapt employment fast to the changing conditions and so laws are required that do not impose excessively stringent requirements on worker hiring and dismissing. Restrictive laws applying to the employment relationship can exert adversary influence on employment and unemployment. Analysis of Labour Code amendments, especially those introduced in 2002 and 2004, do not reveal any tightening of employment rules in that period. It is worth stressing that the index of employment protection legislation constructed in line with OECD methodology (taking into account the level of regulation of the employment relationship, i.e. rules applying to worker hiring and dismissing, as well as possibilities of taking jobs and various options of the employment relationship) was relatively low (2.1) in Poland in 2003 and even though it has slightly increased against 1999, it remained below the average OECD index (see *Employment in Poland 2005*, M. Bukowski (ed.), 2005, p. 238). This allows us to formulate the conclusion that the sphere of employment is not overregulated in Poland. Therefore, insufficient flexibility of employment should be rejected as the cause of low employment rate and high unemployment rate in the country.

**The labour market policy** is guided by goals whose accomplishment can significantly affect key labour market tendencies. This applies both to passive policy and to active policy. However, the special influence the two policies exert on the labour market is determined by many factors and conditions that occur in a given reality.

Unemployment benefits being the main instrument of the passive labour market policy are not only expected to protect persons losing their jobs, but also to motivate the unemployed to seek jobs actively. Analysis of provisions applying to person's eligibility for unemployment benefits in Poland reveals that the eligibility criteria were successively tightened in the transition years, which helped reduce percentages of potential users of such benefits (58.9% in 1995 and 13.5% in 2005; see Statistical Yearbook of the Republic of Poland 2006, p. 250). This suggests declining influence of unemployment benefits on the labour market. Average replacement rates were relatively low and they did not show any significant impacts on unemployment. Nevertheless, their effects on workers with lower qualifications and earning lower wages were stronger, because the replacement rate for that group oscillated around a high level exceeding 80%. The period of drawing unemployment benefits was also meaningful for unemployment. According to many empirical investigations, the probability that an unemployed person will find a job grows rapidly after expiry of the benefit-drawing period.

Active labour market policy should pursue several important goals. In particular, it is expected to boost economic activity of unemployed persons and to reduce structural gaps in the labour market. It cannot significantly change unemployment related to the economic cycle, but it can be instrumental in diminishing structural unemployment. However, the policy's coverage in Poland is relatively narrow. Funds allocated to active labour market programmes are comparatively limited (in 2005 they accounted for only 0.19% of GDP, while in EU-15 that rate exceeded 1% of GDP; see Kwiatkowska, 2007, pp. 241-242). As a result, a relatively small percentage of unemployed workers take advantage of such programmes (less than 19% in 2005; see Kwiatkowska, 2007, p. 227). In addition, the programmes' targeting provokes serious criticism (their participants are frequently not unemployed workers in the high-risk group, but those who would find jobs anyway), which brings us to the conclusion that the policy's influence on employment and unemployment seems largely insufficient.

## **5. Conclusions and recommendations**

1. Both the number of economically active persons and the economic activity rate were falling in Poland in the transition period, even though the tendency was not very distinct. It caused, however, that today's economic activity rate in Poland is one of the lowest among EU countries (the gap between Poland and average EU-15 rate exceeds 8 p.p.). Even larger differences between Poland and other Community members can be found



for the rate's values for older persons (aged 55-64 years). In this case, average EU-15 rate is almost 18 p.p. higher. Because of that, challenges faced by the Polish economy that require improved economic activity of population become even more urgent than before.

2. In the transition years, the number of employed persons varied significantly; downward tendencies in years 1992-1995 and 1998-2004 alternated with growth tendencies between 1995 and 1998 and after 2004. Comparisons of Polish employment rates with indicators describing other EU countries show that the former are very low (52.8% in 2005). Employment rates for older persons (aged 55-64 years) are especially remote, as the difference between Poland and EU-15 for that age group amounts to almost 20 p.p. These circumstances make the call for increasing employment even louder.
3. In the period of transition, the three-sector structure of employment showed favourable changes required by economic development and improving competitiveness of economy. The absolute number of agricultural workers decreased by over 1.1 million people and their percentage by over 7 p.p. Similar tendencies, but definitely weaker, appeared in the sector of industry, whereas employment in the services sector grew considerably, as well as its percentage share of workers (by more than 2 million people and by over 12 p.p., respectively). Notwithstanding, adjustments made in the structure of employment are insufficient, both in terms of changes taking place in the production structure in Poland, and when viewed from the standpoint of employment structure in developed EU countries. Comparisons with average employment shares of sectors in EU-15 reveal overemployment in the Polish agriculture (the Polish percentage of workers in agriculture exceeds the EU-15 rate by more than 15 p.p.) and underdevelopment of the services sector (here the percentage of workers is ca 18 p.p. below the average rate). This situation requires larger transfers of human resources from agriculture to the services sector.
4. In the transition years, numbers of unemployed persons showed relatively strong variations. In years 1990-1993 and 1998-2003 unemployment was spreading, while between 1994 and 1997 and after 2004 it was falling. The years actually coincide with periods of variations in the size of employment, which indicates that the fluctuating labour demand was the mainspring of unemployment. Knowing that the dynamics of GDP changes affected the course of employment, we can assume that unemployment fluctuations were largely determined by the economic cycle. It is worth noting, however, that the rate of unemployment was relatively high in periods of advantageous economic situation. This observation unveils rather high level of structural unemployment in Poland. Comparative analyses of unemployment rate in

Poland and in other EU countries confirm its relatively high values in our economy. However, in the recent years the rate has shown relatively strong downward tendency.

5. Analyses allow us to conclude that the dynamics of economic growth is important for the evolution of the size of employment and unemployment in the Polish economy, and indirectly also for the course of economic activity. These observations decide about the importance of keeping GDP growth at a relatively high level, but there is one more reason that supports the approach: one of the challenges faced by the Polish economy is the necessity to raise the standard of living. This situation calls for actions enhancing investments, including foreign investments, and actions must be taken to boost productivity and management effectiveness (for instance, actions focused on technical progress and transfer of technologies, on increasing R&D outlays and improving the quality of human capital).
6. In the transition period the structure of production and the structure of employment changed significantly and advantageously (especially changes in the employment structure could be observed in the cross section of sectors-branches, levels of education, as well as worker qualifications and occupations). However, Polish economy requires more structural changes to improve and this awareness increases the importance of adjustments affecting labour demand and labour supply. Analyses of Polish experiences suggest that such adjustments encounter many barriers, so efforts aimed at lifting them are an important line of action. It is essential to improve labour force mobility, especially its territorial mobility (development of the housing market and transport networks are crucial here), as well as mobility across qualifications, occupations, and the inter-enterprise mobility (the relatively high flexibility of employment ensured by employment relationship regulations enacted in the Labour Code need to be stressed here). Secondly, the quality of education must be raised, and profiles of education must be adjusted to meet labour market expectations. Thirdly, it is necessary to increase amounts allocated to active labour market policy measures and to ensure better targeting of the active programmes (to make them available to high-risk groups).
7. Labour market institutions are important for shaping economic activity, employment, and unemployment. Their modification or deeper restructuring can entail advantageous changes in key labour market indicators. Firstly, the access to early retirement should be restricted. It is also important to reduce the group of persons entitled to bridge pensions. Secondly, the revised rules for granting disability pensions should be retained. Thirdly, it should be considered whether it is purposeful to maintain pre-retirement benefits or,

alternatively, whether a reduction in the financial attractiveness of this benefit should be contemplated. Fourthly, the possibility of reducing non-wage labour costs should be considered, especially with respect to young workers. These measures could improve economic activity, but also employment rates.

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