

Labour market and social policy development in Poland

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The article describes (concentrates on the description of) the employment development and social problems related to labour market situation in Poland during the transition period (before the EU accession). It consists of four parts. The first gives an overview of basic tendencies in labour changes and explains periodical development in the labour market situation with negative effects: reduction in employment levels and increase in unemployment scale. We can observe very dynamic structural changes in the general tendencies: from industry to services with limitation of agriculture, from public economy to private one and from low labour productivity to a high one with the phenomenon of jobless growth.

The second part of the text presents general tendencies among the most risk groups from the unemployment perspective: disabled people, young and elderly people, women, people living in the countryside and in underdeveloped regions. The relatively bad labour market situation of these risk groups is strongly influenced by their low level of skills and qualifications.

In the third part of the paper basic social consequences of the difficult situation on the labour market are being presented: willingness to emigrate, growth of the grey economy and rising poverty and social exclusion. The author points out, that the disadvantages of the current policy afflict first of all the young generation.

The fourth and last part of the paper analyses labour market and social policy: as well the national as the EU policy. It depicts weak points of active labour market policy (ALMP) in Poland and high transfers for elderly people threatened by unemployment because of the dynamic restructuring of the economy. Support for the employment priority, necessary to fight unemployment and social exclusion is being sought for in the European Employment Strategy.

Research results presented in the study were collected mainly during the work on the UNDP Report NHDR 2004 „W trosce o pracę” (“Caring for a job”), which was prepared under the leadership of the author.

* For this article only the author is responsible.

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Introduction

Changes in the nature of work and the structure of a labour market are dramatic in countries subjected to the processes of economic and systemic transformation, modernisation, EU integration and globalisation. In transition countries, work-related problems occur to a greater extent than in wealthier western countries. Opening to the external world, rapid modernisation and the development of a market economy have increased the risk of falling employment and a shortage of jobs for groups only just entering the labour market. Problems with work are concurrent with difficulties in adapting to new technologies, firms, occupations and forms of labour. The difficulties in the Polish labour market, the subject of this study, are currently exacerbated because the supply

of labour is relatively higher than in other European countries as a result of a higher influx of young people (children of extended baby boom-generation) in a state of reduced demand for labour. Furthermore, the structure of the supply is not adapting itself to new and future economic needs at an appropriate rate. This applies, in particular, to qualifications and geographical mobility. Thus, Poland presents itself as a model suitable for analysing work-related problems; since Poland experiences most of the traditional and new problems associated with transformations and developments on the labour market.

The aim of the study is to show the basic direction of changes in labour and explain negative trends in the labour market development during the transformation period: reduction in employment levels and in-

crease in unemployment and widening of unemployment risk groups. Moreover, the study will present the basic consequences of the difficult situation on the labour market: readiness to emigrate, growth of the grey economy and rising poverty and social exclusion. The paper also analyses labour market and social policy. This section is addressed to all players active in the labour market: social partners, local self-government and the government. It is worth noting that the government continues to have considerable potential for action which is not utilized due to pursuing other priorities or ineffective action. Research results presented in this study were collected mainly during the work on the UNDP Report „W trosce o pracę’ (Caring for a job), which was prepared under the leadership of the author.

1 Labour market trends in general

1.1 Employment and unemployment development

In Poland, which is a country in transition, changes in work and labour are more dynamic and, consequently, more dramatic. The result of these dramatic changes is a fall in employment. The past period of transition, considering the formation of economic growth and employment (Figure 1 and 2) falls into four different sub periods: 1989–1993, 1994–1997, 1998–2002 and 2003–... These sub periods are characterised by distinct economic and social policy, carried out by the political parties of various origins; alternately the post-solidarity (1989–1993 and 1998–2001) and post-communist parties (1994–1997, 2002–2005).

The first period, in which a significant decline of a few percentage points in employment rate was noted, took place at the beginning of the 1990s. During the twelve month of 1990 the number of employed fell by over 1.2 million, while a further decrease of employment (over 700,000 individuals) was noted in 1991. In total, between 1989 and 1993, employment decreased by 2.6 million jobs (according to GUS-Central Statistical Office). Such situation was generally a result of economic opening and the capitulation of internal competition in confrontation with worldwide economies as well as the introduction of the market mechanism. More details can be given about two factors: (1) transitional recession that resulted in a large fall in production comprising the whole economy, (2) the elimination of excessive employment from the time of centrally planned economy¹ and advancing rise in labour efficiency. This second factor – excessive employment – was noticeable from 1992 to

1993 when production was not decreasing, but employment was still falling. The aspect of a fall in employment was considered in the research of Marek Góra (Góra 1992).

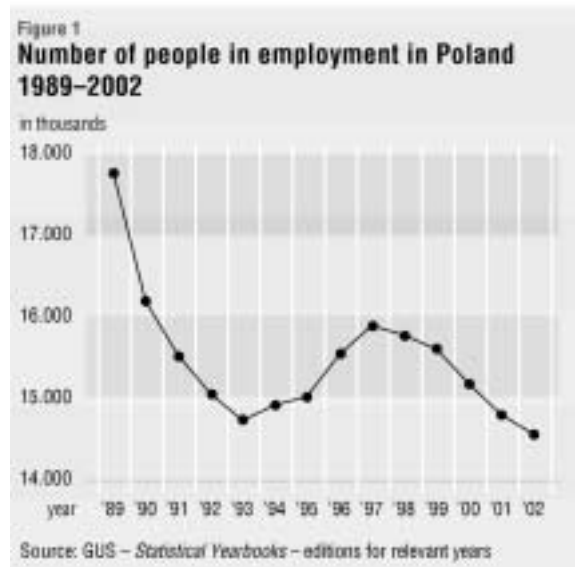
From 1989 to 1993 a fall in employment was also related to the shifts between the sectors: public and private. The public sector was losing work places and showing commercial features, whereas the private sector was not creating any places on an adequate scale. The flow to the private sector on the side of the supply for labour was weakened by its lower wages² and an easy way to get social benefits in case of job losses, and on the side of the demand for labour – high non-cost wages and a relatively rapid absorption of capital-absorbing methods of production (Socha, Sztanderska 2000).

From mid 1993 to 1997 employment was increasing. It was a very good period of the Polish economy: a robust – above 5% rise in Polish GDP for an average year, the increase in volume of production, companies profitability and a rise in labour efficiency. A rise in employment, however, was much lower than a rise in GDP. The market research showed a considerable influence of economic structure transitions (Kwiatkowski 1997) and a rise in labour efficiency (Socha/Sztanderska 2000), as well as inadequate adaptations of the demand for labour and supply for labour. They have resulted from improper qualifications and a low mobility in the cross-section of regions and migrations from rural to urban areas, which greatly weakened at the time of transitions (GUS 2004).

The next, and more significant, period of decreasing employment levels occurred at the end of the 1990s (since 1997) and the beginning of the following decade. This was a period of important structural changes in industry, caused both by globalization and by modification of traditional sectors of industry (mining, steelworks, and armaments) to scale and to the needs of EU structural integration processes. Moreover, in 1999 great social reforms were implemented in Poland, which also included programmes of reduction in employment in health care and education. Between 1998 and 2002, employment fell by 1.7 million jobs.

¹ Excessive employment in the last period of centrally planned economy was estimated as about 20–30% of the whole employment in the Polish economy (Góra 1992).

² Conclusions referring to wage differences between the public and private sectors as those explaining a limited mobility between these sectors, and as a consequence maintaining transitional unemployment can be found in the study of Aghion and Blanchard (1993).

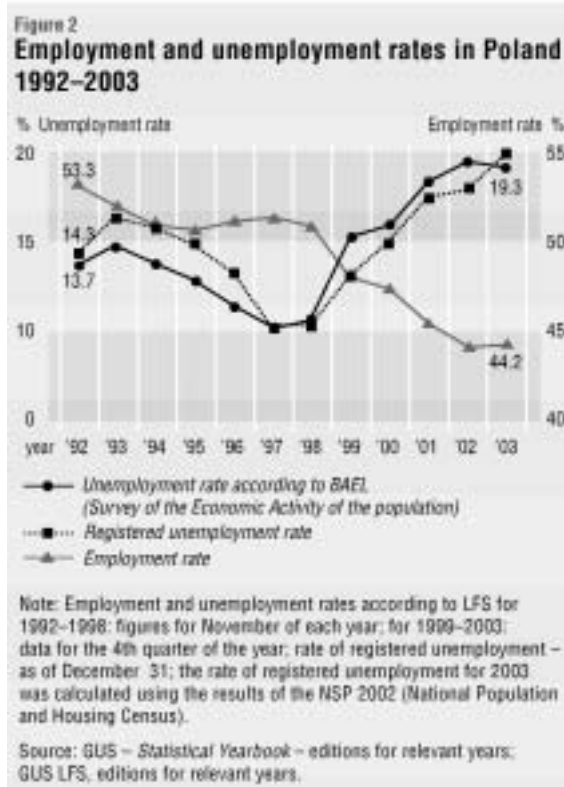


Workers leaving their place of employment took advantage of early retirement programs and disability pensions to a great extent; during the second half of the 1990s workers used specially introduced pre-retirement financial aid and funds created for labour market policy. Only a part of the group joined the ranks of the unemployed. In the second period of decreasing employment (late 1990s and the beginning of the following decade), unemployment became a recognised phenomenon currently remaining at a very high level.

This second wave of unemployment (1988–2002) was the combined effect of negative consequences of economic slowdown, causes of economic restructuring, and the mismatch between the effects of education system and the needs of the labour market. Additional stress resulted from the divergence between the labour resources (periodical strong increase) and the demand for labour (considerable drop). Between 2001 and 2003 there was a boom in an increase in labour resources (over 300 thousand people per year – post-war baby boomers' children). At present this group constitutes the great potential for migrations abroad.

2.2 Changes to the structure of employment

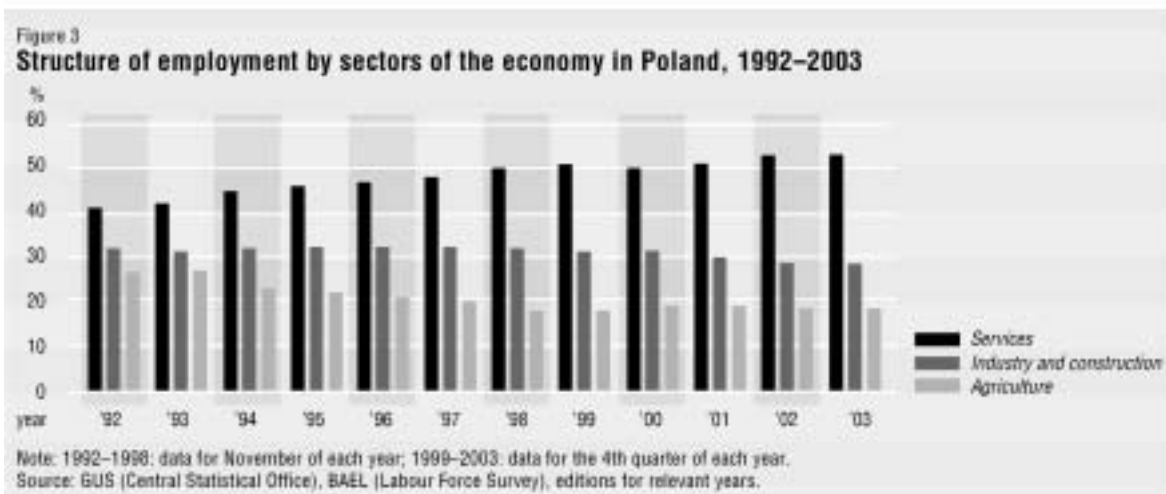
Employment change caused by changes in the economic structure includes a decrease in employment within industry coupled with an employment increase in the services sector. This process is taking place very quickly in transforming societies, more so than in the case of Western nations. It was only recently that the Polish society made an effort to con-



duct the next phase of industrialisation started in the 1970s. Presently, rapid de-industrialisation is occurring, and there is also a pressure to accelerate reform in agriculture.³

The increase of employment in the services sector of the economy considerably changes the nature of labour, labour relations and labour organisation. Service work is less standardised. It requires a more customised adaptation to its various features. An increase in assignment-based work and temporary contracts of employment is concurrent with a drop in work based on long-term contracts. Flexible work organisation and the application of flexible working time is becoming common, which is true with respect to the working day, week, year and the entire professional career. The rapid development of the service sector brings the structure of the Polish economy closer to the structures of developed countries. On the other hand, a stabilisation of the labour market share of the agricultural sector is taking place at a significantly high level. In rural areas, considerable surpluses in labour resources exist and such a situation is expected to continue for at least a decade.

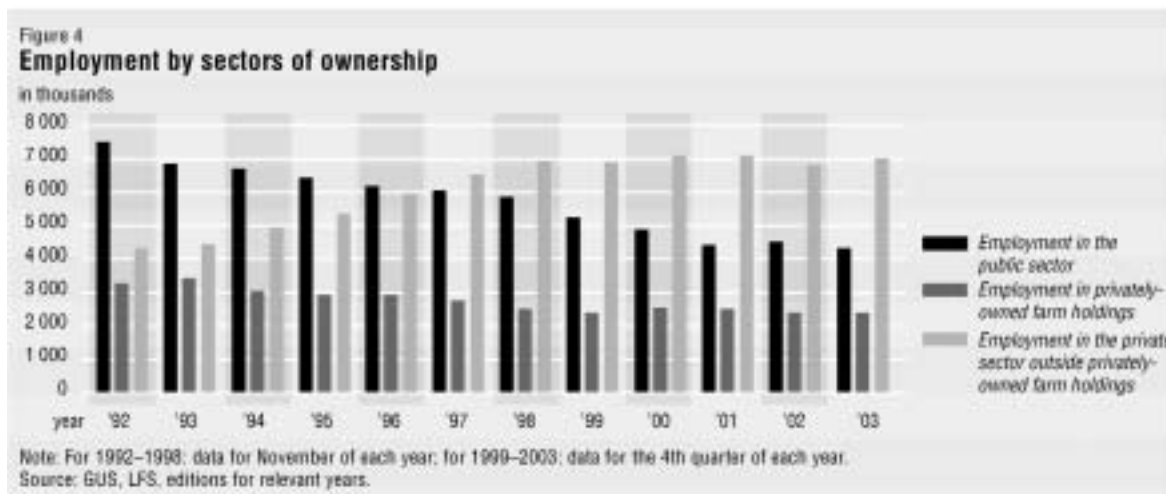
³ Not all transition countries have difficulties in employment within agriculture on the same scale as Poland. In the Czech Republic and Slovakia, as well as partially in Hungary, agricultural transformation took place earlier.

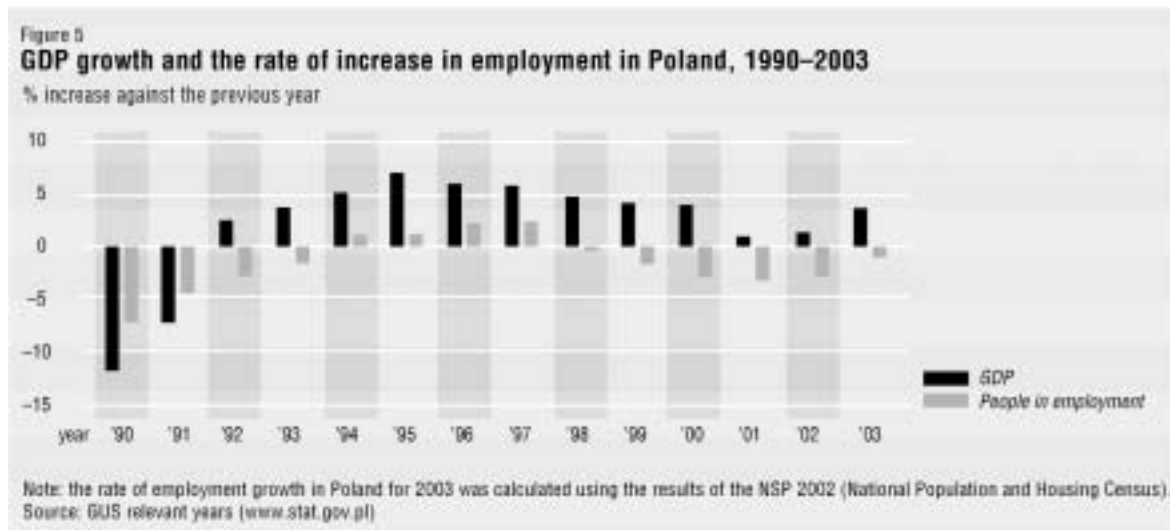


The second important feature of the structural employment development in Poland is a significant increase of the private sector role in job creation. While in 1989 the majority of workers (over 53 %) were employed in the public sector, by 2002 the private sector employed almost 74% of working persons.

The private sector includes to a great degree micro-small and medium businesses. Self-employment plays an important role in the sector. The share of self-employed workers and employers (except individual agriculture) among the general population of civilian workers, i.e. excluding the army and police, can be described as follows in the period between 1990 and 2002: initially, the share grew quickly (from 7.9% in 1990 to 12.8% in 1993), in 1994 a significant decrease occurred (a drop to 9.4%), reaching 10.4% in 2000 and 11.1% in 2002 (source: GUS NSP 2002 – National Population and Housing Census). The expansion of self-employed work noted over the first years of transformation was chiefly the result of

a disengaging of the brakes of a socialist economy. A spontaneous reaction of the populace given the right to conduct economic activity played a significant role in contributing to such expansion. Currently, there is a certain slow-down in the development of individual entrepreneurship, which should prompt the observation of both the new and the lingering barriers to its growth. These barriers include one or more of the following: lack of capital and/or deficiency in educational preparation, inability to establish and run a small business, lack of information on existing aid and resulting obligations. A significant barrier to the development of self-employment and small business is the fact that the Polish system supporting individual entrepreneurship is weak and underfinanced and as a result access to help is difficult or impossible (Kwiatkowski/Kryńska et al. 2004). It should also be noted that self-employment, especially occurring instead of traditional employment (sometimes under compulsion), carries with it many evident disadvantages. Self-employed persons are not eligible for paid





vacation time, do not have access to further education at the cost of the employer, do not receive overtime pay, do not benefit from the social fund or other employee benefits. They must also pay their own insurance dues because self-employment carries with it an obligation for obtaining social insurance individually.

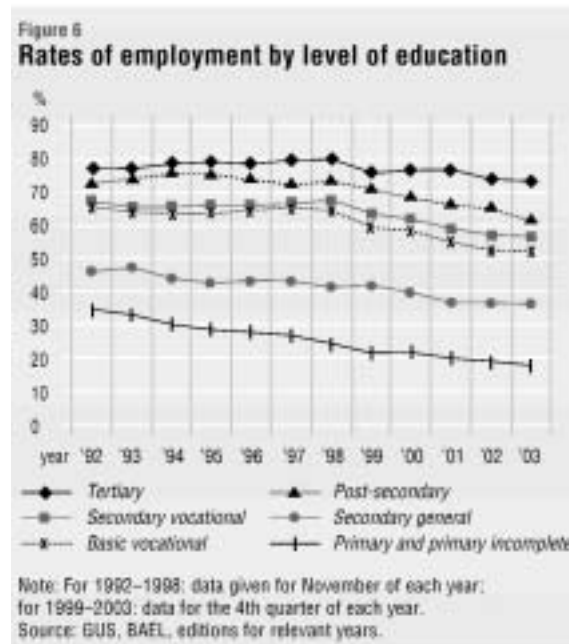
Work in such structurally diverse conditions is strongly individual. The division into permanent work (full-time posts) and irregular employment (contracts for specific periods of time or assignment-based ones, temporary jobs, casual work, etc.) is more and more evident. This dichotomy initially corresponded to the division of employment in the public and private sectors. Currently, it is also in the public sector that forms of employment other than permanent full-time jobs have appeared.

1.3 Limited demand for jobs with different structure of qualification

Although there was an increase in the number of work places in the period of 1994–1997 it was a smaller increase than of the GDP. When in the next period the GDP slowed down work places didn't grow in number, but their number even decreased. During the transformation period, trends were revealed for jobless growth. The phenomenon of jobless growth was noted also in other CEE countries. International research about economic development, in particular conducted by the ILO, have been describing this phenomenon as rather concerning less developed countries (ILO 1996, 1997). Research of Tito Boeri and Eugeniusz Kwiatkowski regard the issue of jobless growth in transition countries. On the basis of Kwiatkowski's research and estimation one can state

Poland needs an increase of more than 5% GDP to generate an employment increase in excess of the current reduction in existing jobs (Kwiatkowski 2003).

Jobless growth is influenced by several factors. One of them is high competition between companies which leads to a tendency of reducing work costs. Next factors are: new technologies, that supplants labour force from production, a fast development of modern branches of low laborious using modern methods in management and work organization and simultaneous stop in the development of traditional branches of high laborious. Those factors lead to an increase of work efficiency. It has significant implications to the situation on the labour market. Tenden-



cies of jobless growth can be also sustained by limited flexibility of the labour market.

The demand for work in the conditions of jobless growth and labour productivity increasing concerns above all groups of high and specific qualifications. That is the reason that the difference in the rates of employment among people with tertiary education compared to those with primary education has increased to an unprecedented scale. The rate of employment among people with tertiary education is 70% – 80%, while that of people with primary education is below 20%.

It hasn't really been taken into consideration in the education policy that the labour market will mainly need high and specific (more occupational in modern sense) professional skills and qualifications. The demise of traditional occupational schooling and the lack of interest from the authorities in order to reform and modernize lead to an increase of demand for general education opening the way to higher education, mainly newly established private schools. The supply of education direction and curricula in those schools was adapted to the competences of the professors and not to the needs of labour market. There is evidence showing a great scale of this misalignment in recent research regarding this subject (Sztanderska 2005). This kind of misalignment, even short-term, leads to an increase of the share of young people among the unemployed and to an external migration pressure of this group.

The increasing phenomenon of misalignment of education with the needs of the labour market is compensated to only a very small extent by education outside of the school system. Employers are not financing training for their employees (with the exception of the financial sector and some groups of companies with foreign capital), while education of the unemployed and those threatened by unemployment within labour market institution structures comes across barriers of financing, as well as appropriate preferences in autonomous labour market policies of local governments.

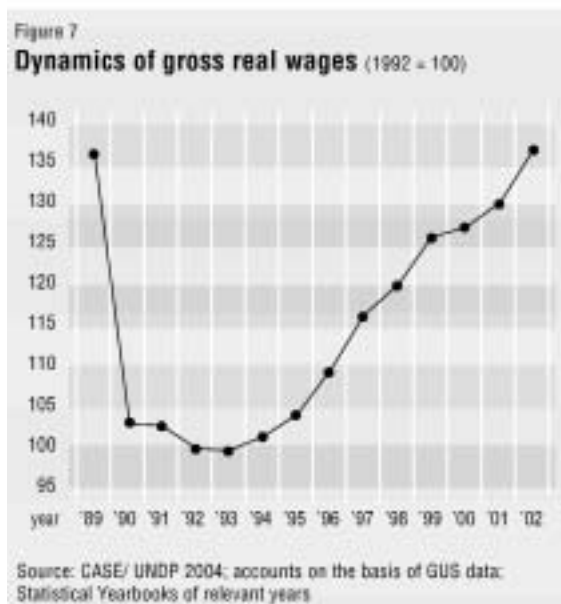
Education for adults, called lifelong learning, requires comprehensive systemic solutions. It appears that the first steps in the right direction have already been made. The government drafted and approved the *Strategy for Development of Lifelong Education until 2010*, while the amended law on the education system includes regulations on accreditation of institutions providing lifelong learning outside of the school system. Educational institutions are not obliged to obtain the accreditation, but it is expected, that it will be conducive to higher quality of education services for adults.

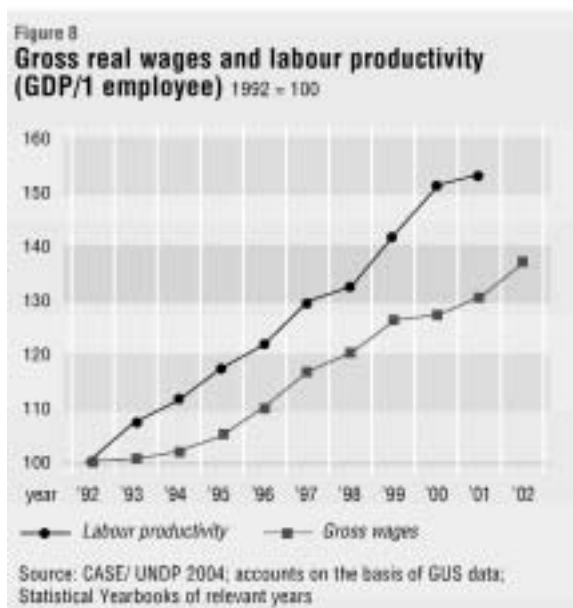
1.4 Development of wages

Throughout the first period of transformation (up to 1993) there was a real drop in the average wage by about 25%. The following years were gradually “making up” for this drop. It must be noted that in recent years wages are increasing despite very high and growing unemployment.

A rise in average productivity of work gave grounds for an increase in real wages. In 1996, 1998 and 2001 only, real wages were rising more strongly than productivity (see figure 7), yet on the whole the period between 1992 and 2001 saw a rise in productivity that exceeded an increase in real wages by over 20 percentage points. A rise in productivity took place mainly in industry and the building trade. The dynamic of productivity was higher in the private sector than in the public one. At the same time average wages were rising more slowly in the private sector than in the public one. There is, however, a hypothesis that the role of pay for work in the private sector is diminished in official sources because self-employment replaced part of wage-work, using non-wage forms of pay, and an “escape” of part of pay to the shadow-economy.

In the years 2002–2004 a rise in wages slightly weakened. There was also a rise in the flexibility of wages due to the amendments to the labour code (2002). Phenomena of wages not paid to workers appeared, and there was an increase in the number of persons employed for a limited period of time, on the basis of civil law contract (not labour relation), and in the number of volunteers admitted to jobs (which was





made possible under a law on social utility and voluntary jobs) who *de facto* in this form do a regular job hoping to be employed in the future.

Low costs of labour constitute one of the main factors that contribute to the favourable decisions of employers regarding employment. Wage costs are relatively low in Poland and compared to old EU member states they are very low. Meanwhile, non- wage labour costs are relatively high. They are determined by the high level of social contributions.⁴ The whole contribution rate (in % of basis wage) is near 50%, including: contribution rate for old age and disability pensions – 33%, for sickness insurance (continued payment of remuneration in case of employees illness) – 2,45 %, accident at work – 1,2 %, unemployment – 3% and health insurance – 8% (data from ZUS 2003).

Together with minimum wage regulations, this results in a “tax wedge effect” in the case of low wages (Boni et al. 2004). This means that a net wage which is in fact unattractive for a potential employee (e.g., because it is below the “threshold wage”, i.e., sufficient to attract someone to take up employment), is at the same time such a high burden for the employer that he looks to solutions that might make it possible to avoid the problem, including solutions within the realm of the shadow-economy.

1.5 The problem of the minimum wage

The minimum wage is the main instrument applied to the wage policy. The figure below depicts the tendencies in the ratio of the minimum wage to the average one. One can clearly see that the downturn of the business cycle has affected the tendency of this ratio. Between 1993–1998 the ratio of the minimum wage to the average gross wage amounted to around 40% (in 1992 – slightly over 31%). Since 1998 the level of the minimum wage in relation to the average wage has been declining (in 2003 it reached 35%). The pressure of unemployment (particularly in low-skilled groups that are earning low wages), has undoubtedly had an effect on the deterioration of this ratio. The decline of the ratio of the minimum wage to the average one in depressive years was associated with a small decline in the real value of the former (in the 1999–2002 period by 1.5%).

⁴ High non-wage costs of labour in Poland do not generally result from a generous welfare state, but only from the exceptionally large social transfers of the retirement and disability pension scheme, as well as from covering the costs of adopting a new pension scheme included in the pension reform (a partial withdrawal from a scheme of “pay as you go” type to a system that is partly funded).

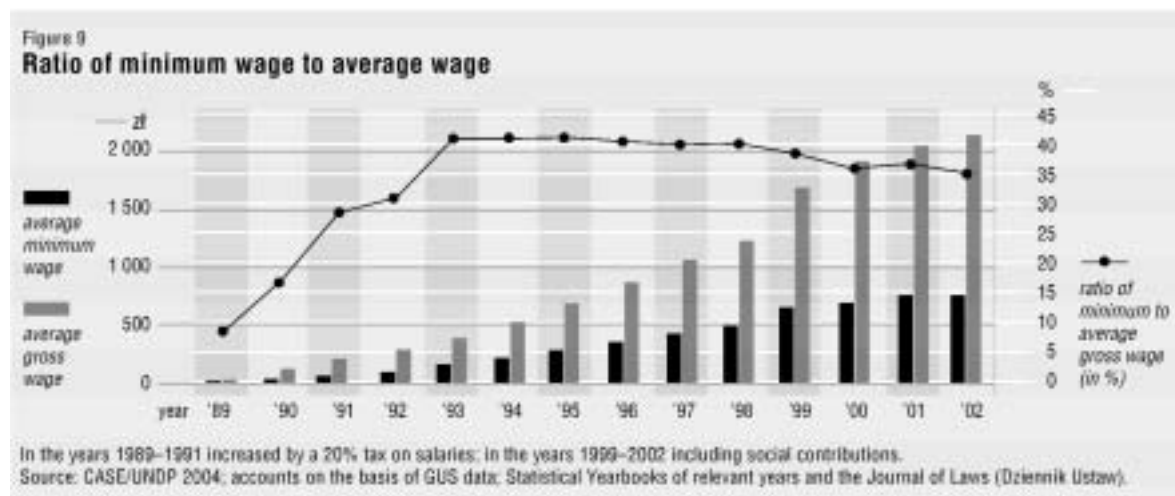


Table 1

Activity rate and employment rate for the total population and for disabled persons over the period 1993–2002 (percentage)

Specification	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Activity rate										
Total population	61.2	59.2	58.4	57.9	57.4	57.1	56.6	56.4	55.8	55.0
Disabled persons	24.0	22.0	21.6	22.1	21.9	20.7	19.7	19.5	19.7	17.3
Employment rate										
Total population	52.1	51.0	50.7	51.2	51.5	51.0	48.0	47.4	45.5	44.1
Disabled persons	20.5	18.8	18.9	19.7	19.8	18.4	15.9	15.9	14.4	14.4

Source: GUS LFS (November: 1993, 1994, 1995, 1996, 1997, 1998, 4th quarter of 1999, 2000, 2001, and 2002).

One can understand fears that the relative high minimum wage sets up a barrier to creating work places for low-skilled people (the World Bank 2004). A rise in the average wage mainly results from extending the wage span above the median, which is greatly affected by partial unbalances of high-skilled segments on the labour markets. When the minimum wage is set in certain relation to the average wage, it leads to a decrease in the number of work places for low-skilled people. As a result of an ongoing discussion on the role of the minimum wage in inhibiting employment when unemployment is high, changes were introduced to determine the minimum wage for graduates in their first year at work (up to 80% of the minimum wage) and in the second year (up to 90%) – for the period of the population explosion entering the labour market, i.e. up to 2005.

2 Employment of the higher unemployment risk groups

The groups with higher unemployment risk have more difficulties to enter the labour market and remain in employment. Discrimination against these groups in Poland is similar to other countries; however, the scale of problem is different in each of the categories. Analyses show that the strongest risk factors in Poland are: the level of disability, age, and the place of residence.

2.1 People with disabilities

According to the National and Housing Census of 2002, Poland has 5.5 million disabled persons (15% of the population). Compared to 1988, the year of the previous census, this rate is an increase by about 50%. Most disabled people in Poland are professionally passive (approximately 80%), which means they

are not employed and they are not seeking employment. The activity rate of disabled persons is at a level of approximately 20%, which is three times lower than in the case of the Polish population aged fifteen and more. The chances of people with disabilities in the labour market are lower mainly due to their lower human capital, mobility barriers (low level of appropriate technical infrastructure – architectural barriers) and relatively low motivation to work (correlated with the relatively easy earlier access to the disability pensions). Compared with other countries of the European Union,⁵ the ratio of working disabled persons to working able-bodied persons (i.e. the relative employment rate) is significantly lower in Poland than the average for Europe by a factor of almost two (20.8 for Poland as compared with 40.8 for the European Union). Only Spain has an indicator similar to that of Poland, which amounts to 22.1 (OECD 2003, p. 35).

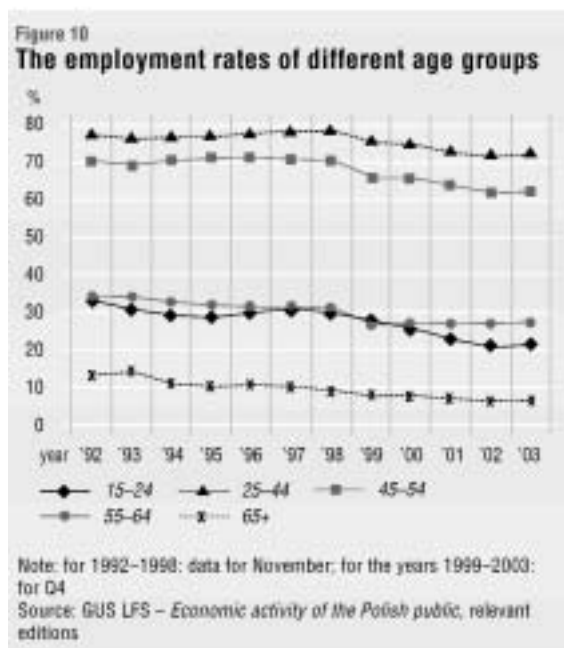
The unemployment rate among the disabled in Poland during the 1990s was, in general, on a somewhat lower level than the average. It was only over the years 1998–2000 that it was higher. These relations tend to be in contrast with the respective situation in the European countries. Unemployment among the disabled is often at least twice the average. Moreover, the disabled people being already professionally active, they experience a greater risk of becoming unemployed. The presence of disabled persons on the labour market in Poland is significantly lower, but when they are present they are subject to greater protection. Mainly, they work in the protected labour market (mainly in the sheltered enterprises).

⁵ International comparisons relating to disabled persons may elicit significant reservations due to differences in the definition of disability. For this reason they should only be treated as an approximation of the problem.

The Polish labour model for the disabled, shaped during the 1990s when the assembly of a market economy started, assumed that sheltered enterprises and sheltered jobs on the labour market are solutions that exhaust the problem of jobs for this category of workers. In both cases the developed solutions were more “business” solutions than “social” ones. The disabled persons’ cooperatives that dominated during the period of real socialism increasingly began to turn into minority structures.

Employment of the disabled on the open labour market in Poland is very modest. Job proposals for disabled persons account for a mere 5.6% of all offers submitted to the employment offices. Most offers come from the private sector. Studies conducted in 1998 and 1999 by PFRON⁶ show that a significant factor influencing low employment of disabled persons is reluctance on the part of employers. Employers are influenced by prejudice and stereotypes in their opinions concerning disabled persons; these feelings are strong enough to outweigh real qualifications of a potential employee. It was also discovered that employers are not familiar with regulations related to the employment of disabled persons, which may have a negative impact on their interest in such persons as potential employees. Employers make the employment of disabled persons contingent on external assistance. They claim that they would find it necessary to conduct changes in the company of organizational and investment character, which would adapt job positions to the needs of the disabled and they are not financially ready to do so.

Education for people with disabilities (on secondary and tertiary level), under conditions adjusted to the level of their disability, is the first step towards improvement of their situation in the labour market. Moreover, the disabled support strategy needs changing. It requires a shift of activities: from the dominating passive assistance to a more active approach that would especially allow for social integration through work, which in turn does not have to imply traditional forms of employment. Therefore, active labour market policies can be introduced through a wide range of activities, such as workshops, social enterprises, and other not-for-profit initiatives, organised alongside a wide range of market and for-profit solutions. Activity strategy also requires social solidarity, while passive solidarity mostly means participation in the financing (through tax system or organised system of donations). Active solidarity also implies support for and acceptance of people with disabilities on the daily basis in every aspect of social life: in the street, at work, in the office or in the cultural spot, what is not yet easy in the Polish society.



2.2 The younger and the older

At present has the young generation in Poland much higher educational potential than the generations before it. However, the young generation is not quite prepared to enter the labour market and their skills are matching the employers’ expectations only to a limited degree. The difficulties that the young people face when entering the labour market are associated with the employers’ natural unwillingness to hire people with no work experience, often also with low practical skills. Polish enterprises, especially small and medium ones, do not have enough funds to co-finance the preparation of fresh graduates to the labour market needs. The high supply of the young labour resources recently experienced in Poland gives the employers the possibility to simply pick and choose, which makes entering the job market more difficult for the young. The factors such as unattractive and a low quality degree, lack of practice, and inability to operate in the labour market translate (from the supply side) into unemployment at the start of the adult life (on the basis of research of AIG/Agora S.A. 2002 and 2003). The programmes supporting the entrance of the young into the labour market are of great importance yet their number is insignificant as related to the needs.

Difficulties in staying employed faced by older people in Poland are mostly connected to the process of the economic restructuring. It results in job losses for

⁶ Further described in Golinowska 2004.

the elderly who do not usually have a chance for the new work places. Their qualifications tend to be too low and inadequate. It seems that it would be the easiest to leave the labour market through participation in some early retirement scheme. However, this solution should no longer be used as much as it has been so far. Also people in pre-retirement age should give into activity, like education, qualification change, social rehabilitation. Therefore there is a need to enrich the educational offer in the sphere of life-long learning.

Support programmes for the young and old can be perfect complements in the labour market, but they require well co-ordinated and really active labour market policy.

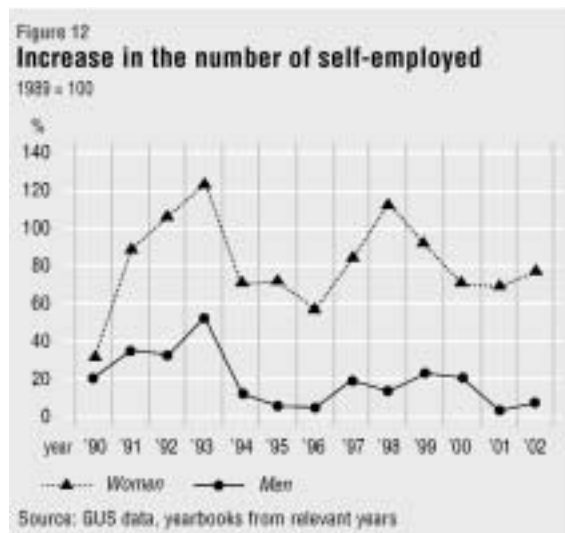
2.3 Women

Tendencies in the employment of women compared to that of men indicate that women have lost fewer jobs in the transformation period than men have. In 1990, women constituted 45.2% of the total workforce. By the end of 2002, the share of women in the total number of employed had increased to 47.6% (GUS 2003). However, and similarly as in other countries, the professional activity of women in Poland still lags behind that of men (the difference currently amounts to 14%–15% – see figure below).

The lower decline in the employment rate of women compared to that of men is a characteristic observed not only in Poland, but also in other transformation countries (Nesporova 2002). The unemployment of

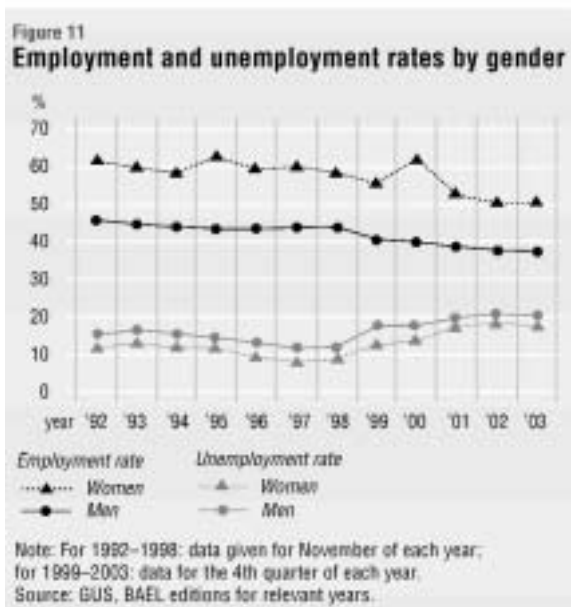
men is strongly related to the process of restructuring industry.

A particularly interesting tendency of women's behaviour on the labour market in Poland is the higher rate of growth in the number of self-employed compared with men – see the figure below.



The high share of self-employed is partly due to the considerable independence of women in rural areas, specifically, on farms. However, the picture of the growth of entrepreneurship by gender does not change if we verify whether it is taking place in farming or outside of it. The share of women among all entrepreneurs outside of individual farming is also increasing, although with fluctuations. In 1989 it amounted to over 26%. It reached a peak of 40.2% in 1998 and currently it amounts to 37% (2002 data). Women entrepreneurs in cities, unlike those living in rural areas,⁷ are characterised by a relatively high level of education, particularly among those who are employers. Most of them have at least high school education (76%, as compared with 67% among men).

Although women have lost fewer jobs than men have and although women take more often risk to be self-employed than men, their situation on the labour market is tougher. Unemployment among women is higher and differences in unemployment between the sexes persist or have even increased, as they have done in recent time. While unemployment among men tends to be declining, unemployment among women appears to be rising: among men it was at a level of 18%–20%, while among women 20%–21%



⁷ Information on the entrepreneurship of women comes from studies conducted by Lisowska 2001.

(according to LFS). It was more common for women to join the jobless ranks because of layoffs than for men. Women are also experiencing considerable difficulties in returning to the labour market. Data on the average duration of job searches confirm that women are more often affected by the problem of long-term unemployment.

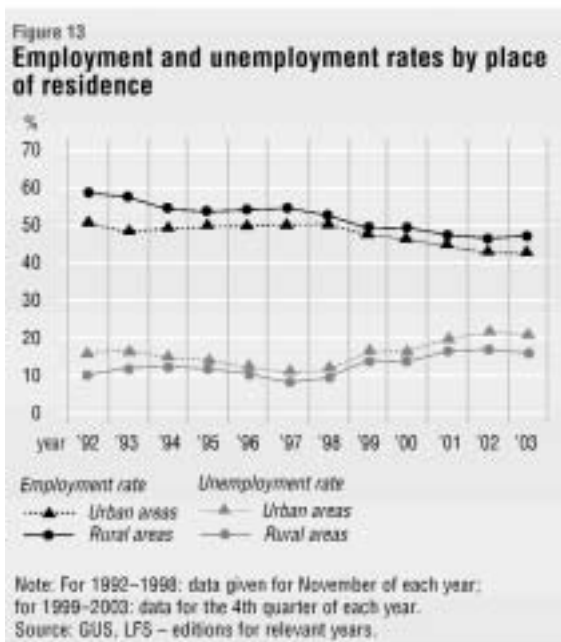
Difficulties women face when entering and maintaining their position on the labour market are neither a result of their lower qualifications nor a result of high employers' expectations. On the contrary, women in Poland have relatively higher (as compared to men) qualifications and they are much more likely to invest in enhancing of their skills. The most crucial reasons leading to gender inequality in the labour market are institutional and cultural determinants of women's role in the society. As such, the familial duties dominate in the popular image of women. A mother is the parent responsible for childcare. Due to underdeveloped infrastructure and inadequate support from the public funds which could help reconcile work and family life as well as due to insufficient partnership relations in the families, employers avoid hiring women who are at the childbearing age. They are associated with risk of the higher labour costs (Balcerzak/Paradowska 2001 and 2003).

Real equalisation of chances for men and women in the labour market requires motivation to change the employers' behaviour on one hand and the development of an institution for reconciling work and family life on the other. The state should include these objectives into its employment policy, analysing current inequalities and monitoring the effects of actions taken by different social agents. The accession to the EU can help position gender equality as an action priority, not only at the governmental level, but also at the level of local authorities or social partners.

Since in Poland strong tendencies to perceive women's role in a traditional way are present, many various NGOs have come to exist which help shaping and changing the social image of women, propagate tolerance for different models of family life, support partnership and lobby for egalitarian changes in the political programmes.

2.4 Peasants and inhabitants of the rural areas

According to the National and Housing Census 2002, economic active population tied with agriculture and living in the peasant households together with farm user (holder)⁸ amounts to 29,5 % (4,25 mln persons) of the economic active people in general or 15,8% of



people aged 15 and more, while the share of agriculture in the GDP amounts only to 2.7% (GUS 2002). Over 50 % of all persons living in the peasant households have other sources of living (2, 25 mln persons), which are more significant than the agriculture production. Moreover there are within the farm users such persons, which have supplementary sources of income on the one hand, 12.6% of peasants are in retirement age and thus retirement and disability benefits are their main source of income instead of work in agriculture (GUS NSR 2002). On the other hand, income from employment outside the agriculture as a second source of peasant income plays still significant role; currently 12 % of farm users obtain main income from work in industry or services. In Poland's socialistic period the development scope of this group of peasants (so called peasant-workers) was more significant than now. Another 25% of peasants takes jobs outside of the sector periodically but not regularly.

Leaving the agriculture sector first of all takes place in case of large farms, especially in the former state farms (so called PGR – LPG), where employment has decreased 4 times as a result of their privatization. In contrast, over-employment is present in small

⁸ In the National Population Census was introduced a category farm holders (users) as a category which should better defined agriculture population. Earlier majority sources of many in the households was the criterion of definition. That has changed in some extent a number of people connected with the agriculture, making its size smaller. For the group of farm users it is not classify f.e. owners of small farms, which they don't sell their production on the market. (GUS 2004)

individual farms. Hidden unemployment or fragmentary employment is the common phenomenon in the agricultural sector.

There is no doubt that labour resources in agriculture will decrease if the sector does not become more competitive. The income of peasants has to be sufficient to sustain this group at a comfortable level while at the same time there must be an increase in opportunities for rural areas inhabitants to be employed outside the agricultural sector. An emphasis of aid in the field of agricultural policy has to shift from price and income subsidies towards structural changes.

During the first years after Poland's EU accession one should not expect that the EU Common Agricultural Policy and structural programmes will be able to offer instruments which can be used quickly and effectively to create new jobs in rural areas. However, in the longer term, their importance in solving labour problems in rural areas will grow together with an increase in the ability of potential beneficiaries to utilise the funds by adapting the programmes to their own needs.

The expected faster rate of economic growth after the EU accession may increase the demand for low qualified labour, which may be an opportunity for employment for some of the rural population. However, it is expected that immigrants from the East (especially from Ukraine and Belarus) would constitute additional competition in the non-agricultural labour market.

2.5 Employment and unemployment by geographical distribution

Employment opportunities differ greatly across the country. This is not always evident, if we use data grouped by macro-regions or even by voivodships, although differences are also visible in these breakdowns. In Q4 of 2002, with the average nationwide unemployment rate of 19.7% (GUS-LFS 2004), in some voivodships these rates were at a relatively high level (Dolnośląskie – 27.2%, Zachodniopomorskie – 25.9%, Lubuskie – 25.9%), while in others they were much lower (Małopolskie – 16.1%, Lubelskie – 16.6%, Mazowieckie – 16.9%). The presence of Lubelskie in the latter group could appear to be somewhat surprising, but it needs to be noted, that this is a region with traditionally well developed individual farming, absorbing labour force surpluses.

It is only the data for the county (powiats), that shows a world of dramatic differences. The rate of



unemployment is extremely high in powiats in the north and west of the country, where there is large rural unemployment (after PGRs – state-run farms). This rate is four times higher than in the most rapidly developing powiats. The chart above indicates however unemployment dimension according to voivodships but the general tendency connected with post-PGR unemployment is well visible.

In the spatial development from the job creation perspective it is noticeable, that the jobs creation drivers are first of all the big cities: Warszawa, Kraków, Katowice, Wrocław, Gdańsk and Poznań. In the period of the economic growth slowdown the new work places were created for the most part in Warszawa. In the capital is located 62% of the biggest 2000 firms (Centrum Badań Regionalnych 2004). This tendency shows that service sectors, which at present dominantly create new jobs, are developed only in the big cities.

3 Consequences of employment decrease

Considering the employment rate decrease and the increase of unemployment, as well as changes in employment character and industrial relations, a long-term and a short-term perspective should be taken into account. The short-term one highlights the problems of migration, poverty and social exclusions. Considerable segmentation of the labour market can

be observed as well. In a diversified labour market, social security for employees is no longer universal. Social benefits are becoming less accessible and the opportunity to acquire income from such benefits is more and more limited. The long-term perspective points to the transformation of the welfare state and key European social institution. The long-term perspective emphasizes the uncertainty of the pension system financing. The pension-related expenses are the largest portion of the social budgets. Therefore, the financial difficulties resulting from the labour changes are primarily affecting the financing of pension schemes.

3.1 Labour migration

Migration processes in Poland have been always of big dynamic. In the past external migration was caused by political reasons, and internal migration – from rural to urban areas – accompanied the post-war industrialization. The aim of temporary external emigration to the USA, Austria, Germany and Sweden which has been taking place since the 1970's was also to quickly attain better earnings (quick money). There is even a special term to describe this kind of migration: emigration for supplementary individual welfare (in Polish: *emigracja dorobkowa*) (Rajkiwicz 1999).

The difficult situation on the labour market in Poland in the 1990's is somehow being tempered by the labour emigration. Yet it concerns only some regions and specific segments of the market abroad, where there is a high demand for foreign workforce. Internal migration flows however were not significant in Poland in the 1990s (GUS 2004). The insignificance of internal migration is connected to the decrease in the demand for lower qualified labour force in the cities, where development of the housing construction has a decreasing tendency and where residential market is still underdeveloped.

What kind of external emigration is it now and what is its influence on the labour market?

Polish employment emigration abroad can be characterized as mainly temporary. This is true both for legal migration based upon bilateral agreements for employing groups of people, as well as for illegal migration. Illegal migration can be associated with illegal residence⁹, or if this is not the case, unregistered (clandestine) employment. Poles continue to emigrate in search of such concealed employment. Their destinations include: USA, Germany, Austria, Great Britain, Belgium, and more recently: Italy, Spain and Portugal. It is difficult to estimate the scale of such

activity. Various estimations are quoted, for example 300 thousand people, however, this figure is only roughly approximation. A few qualitative research studies worthy of noting were conducted, which characterise work motivation and employee behaviour. For example relatively new English studies emphasise the determination of Poles to quickly attain relative good earnings (in compare with Polish earning possibilities) (Jordan/Duevell 2003).

The lately difficult period in the development of the labour market in Poland puts more pressure on labour emigration. The EU accession and the opening of the labour markets in some old member states to labour force from Poland clearly increased the scale of labour emigration. The latest emigrants (2004/2005) are mainly young people, high school and university graduates, that have difficulties in finding a permanent employment on the Polish labour market (the employment rate among young people –19–24 years old – is only about 20 %). The Home Office of the United Kingdom reports, that during the first 6 months after the accession 100 thousand young Poles arrived on the English labour market.

A phenomenon new in migration process in the transition period is the appearance of newcomers from other countries on the job markets of Poland and its southern neighbours. Employment migration is chiefly represented by immigration from the East: neighbouring countries (Ukraine, Belarus, Baltic countries) and Vietnam and China. The scale of legal employment migration is not yet large, but it is increasing quickly; among the Eastern European countries it is highest in the Czech Republic (roughly 2,0 %, 0,1% is the case for Poland). The illegal labour market is more evident in Poland. Some claim that illegal employment surpasses the legal labour market in size. For the time being, arrivals of immigrants have slowed down when access to the new EU member states became significantly limited by the introduction of visas.

Immigrants find jobs in those segments of the labour market that are not attractive to domestic Polish workers (child care, long term care, assistance in agriculture, cleaning and catering services) or where the supply of specifically skilled Polish labour force is limited, also because Polish people work abroad, i.e. physicians, nurses, engineers, qualified blue-collar workers. It is a known tendency, which was presented in the theory of the role of labour market segmentation in the demand for foreign workforce (Pri-

⁹ In the USA, for example, it is primarily related to the illegal crossing of the border or the extending of a stay beyond the validity period of a visa.

ore 1979). However according to research about labour immigration in Poland, there is a noticeable group of foreigners coming from western countries employed in management and consulting (Golinowska 2004).

In the EU Member States, the process of East-ward enlargement was a cause of an increased need for the analysis of the situation concerning migration potential from the East (see f.e. Hoenekopp 2000, Bruecker 2001, Sinn 2001, Dustmann et al. 2003). The old EU countries are once again fearful of an immigration wave from the East and are not equally enthusiastic about integration on equal terms which respect the four liberties of a common market: the unhindered movement of capital, goods, services and workforce.

No mass-scale emigration for paid employment to Western Europe is anticipated. However, the policy of selective admission for labour from the new member states to the labour markets of the old EU member states may distort the balance in some segments of the labour markets of the former. In Poland, this may apply to various groups of specialists: IT specialists, engineers and health service workers, especially nurses. It should be mentioned that the education of nurses in Poland was considerably limited in the second half of the 1990s, even though the ratio of nurses per 10,000 of population is approximately 50% lower than in the EU average (Kózka 2004). The selectivity of emigration for paid work is also governed by criteria related to age. Young people who go abroad to seek employment have much higher human capital than ever possessed by previous young generations in Poland. Such migration is a loss, which will be felt in a few years when the current surplus in

labour resources passes and deficits in certain types of qualifications will be revealed in the economy.

3.2 Employment in the informal economy

Employment in the informal economy, also known as non-registered employment or black (grey) market, is a phenomenon which existed in Poland even before 1989 when it functioned as hidden supplementary work to the main official professional activity. Currently, the phenomenon is wide-spread and concerns persons who do not have legal source of income of any other form. Such employment is an activity detrimental for the state, as it aims to provide financial income without meeting tax and insurance obligations. In the case of hired work, employment in the informal economy prevents establishing a documented relationship between the employer and employee. Other criteria, especially concerning social insurance (healthcare, pension, and disability), are not met. In such arrangement employees do not pay taxes because their work is not registered; they perceive such situation as beneficial. The employer's costs per unit also decline. In the case of non-registered self-employment, a person does not meet the financial obligations toward the state.

The increase of non-registered work in Poland can be attributed to several factors. They can be described as either motivation of employers or that of employees (Kwiatkowski et al 2004).

- Employer-related factors:
 - High non-wage costs of hiring workers, especially social insurance costs

Comparison of the costs and benefits of an informal economy

	Benefits	Costs
Employers	Avoiding high non-wage labour costs.	Creation of unfair competition for legally functioning firms due to lower labour costs. Lack of motivation to create new, legal jobs in existing companies.
Employees	Non-registered work and income derived from it ensure a minimum standard of living and protect against further deepening of poverty.	No social insurance, worse treatment by employer.
State	Despite negative aspects, a job has been created and income has been earned, which increases global demand and benefits the economy.	A decrease in the potential budgetary income. An inaccurate view of the labour market with regard to employment and unemployment rates.

Table 7
Unemployment rate by criteria of unemployment

	Unemployment criteria	Unemployment rate among people of working age (18-60/65)
1	Registration	19.6
2	Registration + willingness to begin work	16.6
3	Registration + willingness to begin work + looking for work	14.8
4	Registration + willingness to begin work + looking for work + monthly income of less than 850PLN + not working full-time over the past week	13.5

Source: Kotowska and Strzelecki (2004)

- Determining the lower level of minimum wage as rather high in relation to average pay, which decreases the demand for work by those with low qualifications and productivity
- Insufficient legal regulations related to economic activity and the employment of foreigners
- Ineffective control in employment relations (as in expression ‘*Opportunity makes thief*’)
- Employee-related factors:
 - Difficulties finding employment on the official labour market
 - A relatively low level of income (including salary) on the legal labour market, causing one to look for alternative (or supplementary) income
 - A low potential net salary in relation to the increased costs of obtaining the salary – *the poverty trap*.
 - In the case of social transfers beneficiaries fear of losing a part or entire pensions or social allowances when beginning legal employment.

Due to the nature of non-registered work, it is very difficult to estimate the scale of this phenomenon. According to GUS, the number of persons working in the informal economy¹⁰ does not exceed 1 million. This number represents a figure between 5.1% and 7.3 % as related to the total number of working persons in the years 1994–2003 (GUS – yearly statistics from the years 1998–2004). It should be noted that the worsening of the economic situation in Poland after 1998 was coupled with a rise in non-registered work. Surveys have shown that in 1998 5.5% of the workforce, 14.6% of the unemployed and 2.4% of passive workers carried out non-registered work (Kałaska 1999). Such work was the main source of

income of non-registered workers: in 1995 43.5% and in 1998 46.3% (Kałaska/Kostrubiec/Witkowski 1996). The figures suggest that a significant portion of the workforce did not have a source of income in addition to that in the informal economy.

Non-registered work decreases the scale of the official unemployment rate, which is based on the number of registered unemployed. The “Social Diagnosis 2003” survey, carried out at the request of the government (Czapinski/Panek 2004), allows for the gauging of unemployment while taking into consideration various behaviours by those registered as unemployed. The table above presents the behaviour of the unemployed and takes non-registered work into account as well. The unemployment rate, after keeping non-registered work in mind, is six percentage points lower than the official estimate. The results of this research have caused much debate in Poland about the “truth about unemployment.”

The characteristic of persons and situations associated with the informal economy can be attained from the GUS data of August 1995 and 1998. The data is based on special modular surveys of population’s activities as extended BAEL – labour force service (LFS). According to this research (Kałaska/Kostrubiec/Witkowski 1996, Kostrubiec 1999), non-registered work was more often carried out by men than women, both in rural areas and in cities. Employed non-formally in cities were only slightly higher in numbers than in rural areas (especially in 1998). Representatives of all age groups held non-registered jobs. The middle-aged (25–44 years old) group dom-

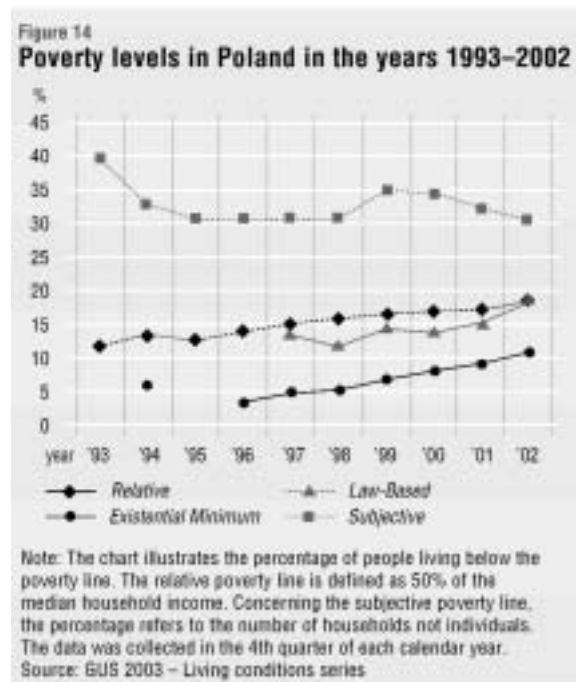
¹⁰ The Estimates of GUS concerns rather non-registered work than whole gray labour market. It means that, they do not include the entire employment in the gray economy. Among other issues, the estimates do not include criminal activity and, to some degree, non-registered employers. Therefore, GUS estimates are more accurately described as ‘hidden’ rather than ‘illegal’ work. Other approach to estimation of the scope of the gray economy and gray labour market you can see in Schneider 2002.

inated with over a 52% share in 1995 and 49% in 1998 in a total of all persons working in the informal economy. Non-registered work was also carried out by young persons (up to 24 years old; over 20%). In 1998, for over 60% of young persons working in the non-formal market non-registered work was their sole source of income. The willingness to take part in illegal work by the young constitutes the evidence of a difficult situation on the labour market. This is so especially considering that the unemployment level in 1998 was over 30% for this age group and increased up to 40% in 2001–2002. Many young people decide to take up employment in the grey economy despite the fact that sometimes such work is on the verge of illicit activity or explicitly criminal. The inclination toward such behaviour is higher when the differentiation in the income levels in society is greater and when consumption of luxury goods is more visible (consumption demonstration effect). Particularly disturbing is the fact that young employees with relatively high levels of education participate in such dealings considerably.

Work in the grey economy concerns mostly persons with low qualifications who hold only primary, incomplete, or trade education. This group accounts for 70% of non-registered workers for whom the grey economy presents most often the single source of income. Low qualifications limit the possibilities of legal employment. Persons with high qualifications usually treat non-registered work in a supplementary way.

3.3 Poverty and social exclusion

Considering the employment rate decrease and the growth of unemployment, as well as changes in the nature of employment and industrial relations, two perspectives should be taken into account: long-term



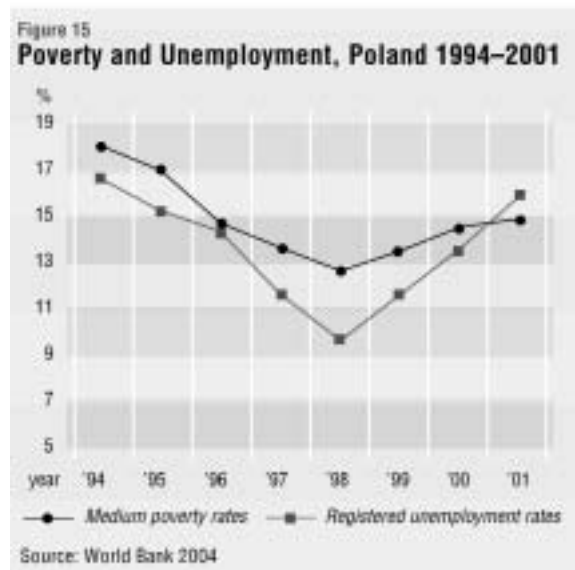
and short-term. The short-term perspective especially highlights the problems of poverty and social exclusion.

Poverty in Poland is growing (see figure above). All available monetary indexes used in Polish statistical analysis point to such conclusion. The increase in relative poverty (50% of median household income), absolute poverty (minimum needed for survival), as well as poverty as defined by law (basic entitlement for social assistance) can be observed. A different trend concerns subjective poverty, as it follows the business cycle. Subjective poverty level was lower in the time of high GDP growth, while it was on the increase during the times of the economic growth slowdown.

Table 3
The risk of poverty by socio-economic group in 2002

Households	Survival minimum		Law-based criterion	
	%	Total = 100	%	Total = 100
Total	11.1	100	18.5	100
Workers	8.5	77	14.8	80
Manual workers	13.3	120	22.3	121
Non-manual workers	1.8	16	4.2	23
Farmers	16.7	150	27.9	151
Self-employed	4.5	41	9.2	50
Pension recipients	9.9	89	16.4	89
Non-income based support	32.4	292	43.6	236

Source: GUS 2003



Poverty in Poland mainly results from social differentiation, cultural and economic gaps between rural and urban areas and changes in employment. The last factor has become especially important in the years 1999–2003. Recent studies show that the major cause underlying the spread of poverty in Poland is long-term unemployment (World Bank, 2004). Long-term unemployment is a relatively new phenomenon in the transition countries. Long-term unemployed in Poland, which share among whole unemployed people is 46%, are older than average unemployed and they have the worst qualification of all unemployed groups (GUS NSP 2003). Generally they don't take unemployment benefits. This group is in danger of social exclusion or even already is excluded from the main strain of social life.

The employed (especially white collar workers and the self-employed) are much less endangered by

poverty than the average population. Pension beneficiaries are very unlikely to live under the poverty line. However, people without income and small farmers are most at risk of extreme poverty.

High levels of unemployment, especially during highly dynamic economy changes, do not have to lead to increases in poverty. Normally, there is a high mobility dynamic in the labour market – people lose jobs but after some time they regain employment. However, the unemployment recently experienced in Poland is connected to the continuing reduction in the demand for labour in the restructuring industry. Fewer and fewer new work places are being created and more people are losing their jobs. At the same time, there is a certain selection among the unemployed regarding possibilities of finding employment. The chances to be re-employed are decreasing for the low skilled and at the same time long-term unemployed. Moreover, the longer the unemployment period is, the lower the chances of finding employment.

The poverty levels vary between the regions of Poland and are highly related to the regional level of development. Therefore, the poverty is lowest in *voivodships* with the highest GDP per capita (*Mazowieckie, Malopolskie, Slaskie*) and it is highest in the traditionally poor areas (*Podkarpackie, Warminsko-Mazurskie, Swietokrzyskie*).

There is a considerable poverty divide between urban and rural areas. Significantly less poor people live in large cities (i.e. those above 500 000 inhabitants), where 2.5% of people below the poverty line live and 5% below the social assistance level. The poverty levels are higher in smaller towns in comparison to medium size towns (18–19% of the poor live in towns up to 20 000 inhabitants) and they peak in rural areas according to statistics – 28% of the countryside

Table 4
Percentage of people at risk of poverty (legally-defined poverty line) by location in 2002

Location	%	Total = 100
Total	18.5	100
Urban (together)	12.2	66
500,000 and more inhabitants	5.0	27
200,000 – 500,000 inhabitants	9.0	49
100,000 – 200,000 inhabitants	12.1	65
20,000 – 100,000 inhabitants	13.9	75
20,000 and less	18.6	101
Rural	27.9	148

Source: GUS 2003

inhabitants are poor (see table below). Poverty is most severe among rural area residents who do not own farm land and whose major source of income is not related to employment (excluding pension recipients). Around 46% of this group live in extreme poverty. For comparison, only 15–17% of the families owning or working on farms were at risk of extreme poverty.

The analysis of income (monetary) rural poverty seems to be boosting the figures. In the countryside cash is a much scarcer commodity than in the cities, but simultaneously rural areas offer a much wider access to basic goods such as food and shelter. At the same time, the high scale of rural poverty is highly correlated with cultural poverty and other development gaps such as lower human capital base and poorer health condition. In the rural areas the Polish HDI index is much lower than in urban regions. For that reason, the Polish NHDR for the year 2000 put forward a thesis that Poland was actually separated into two societies: urban Poland and rural Poland (UNDP 2000).

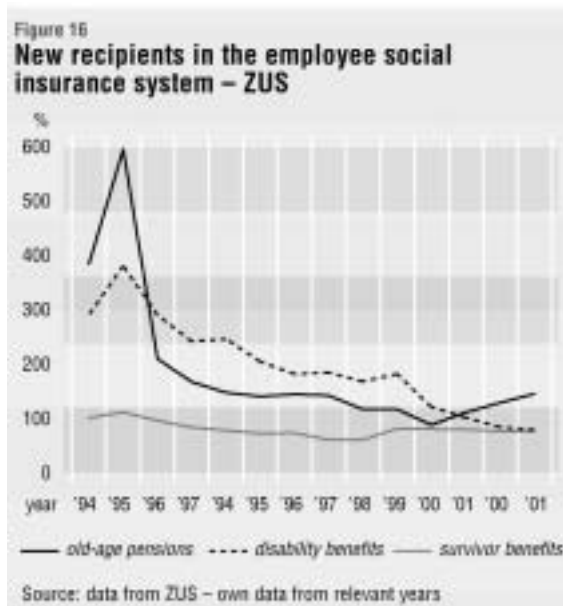
4 Labour market and social policy

The priorities for economic transformation focused on creating conditions for privatisation, stimulating private entrepreneurship, industry sector and enterprise restructuring to adapt to market requirements and pursuing macro-economic goals to stabilize the economy (the inflation objective). Achieving these priorities pushed the objectives related to the development of a comprehensive social and labour market policy into the background.

To date, the response to the economy and system changes has not been consistent and has not been supported with a coordinated social and labour policy concept focused on employment development. Since this policy is pursued by various entities (players include national state governments, international structures such as the EU, decentralized state structures of territorial self – government, social partners and non-governmental organisations), its co-ordination is very difficult. Reaching an agreement on a direction for the employment development was in these circumstances challenging, especially because in quantitative terms the labour force is no longer a key development factor of economy as it was in the industrial age.

4.1 High scale of social transfers

At the time of market economy launch, the fear of widespread unemployment spurred the decision to



widen social transfers. The need for such decision was especially evident during the first phase of transformation, when the decrease in the number of the employed was rapid. A significant portion of employees losing jobs opted for early retirement and disability pension especially because it was at that time relatively easy to obtain its. The normal proportions between working and economically inactive people were distorted, causing an excessive burden on extra pay-related costs of labour which provided the source of income for those who left the labour market.

The figure above illustrates the increase in new old age (mostly early retirement) and disability pensions between 1990 and 1992. In later years, criteria regarding disability pensions stiffened and in 1997 also the medical assessment describing disabilities were changed. Until 1997 the medical describing level of invalidity was the dominant factor of the assessment. A new definition making the ability to work the dominant factor of such assessment¹¹, what influenced in a visible way the decrease in the number of new disability pensioners. However, the financial burden of disability pensions in Poland remains very high. The so-called Hausner Plan (MGPiPS 2003) of the current government strived to introduce a cost-saving social plan through which a verification of half a million disability pensions was proposed, yet it failed to receive political support.

¹¹ The problems and changes of the disability pension policy in Poland are described in the chapter of Golinowska/Piętka 2003 in the book of Prinz (Ed.) 2003.

In the second half of the 1990s, when the number of employed fell sharply again, a number of workers chose pre-retirement financial transfers, available since 1996. Such transfers were not financed by the Social Insurance Fund; it came instead from the Employment Fund, stripping the financial means of unemployment allowances and ALMP instruments. These expenditures (roughly, 0.6% of the 2002 GDP) were present for the entire period of the second restructuring of the industry (1998–2002) and had a very strong growth dynamic (40–50%) (Piętko 2004). Pre-retirement transfers meant political preferences for workers just before the retirement but not for the younger co-workers threatened by unemployment and not for the unemployed graduates¹². Those political preferences were visible in the second half of the 1990s despite a very high wave of the new labour force caused by the entrance to the labour market of that population.

As a result of a social protection policy for workers which were laid off due to restructuring of the industry, (especially elderly workers and those with a long work history), social expenses are very high. Disability pensions and pre-retirement allowances exceed more than 4% of the GDP.

4.2 Limited ALMP and decentralisation of labour market policy

Literature has not always recommended Active Labour Market Policy (ALMP). Empirical evidence suggests that some of the instruments are not sufficiently effective, for example in the case of public works (Puhani 1999, Robinson 2000). However, completely overlooking ALMP is one of the major disadvantages of the socio-economic policy. In a situation of growing unemployment, especially long-term unemployment, ALMP constitutes a basic motivational tool and an instrument to activate the return to the labour market.

When priorities which facilitate obtaining the goal of increased employment growth are missing, Active Labour Market Policy does not have great significance, as was the case in Poland (Ratusznik/Olejarz 2003). Paradoxically, ALMP ceased to play any role during the period of accumulation of the second wave of unemployment (1999–2002) when it was particularly needed. In this period of decentralisation, a new tier of territorial self-government (county – *powiat*) took over the responsibilities concerning the ALMP. Before the state administration reform and introducing territorial self-government administration (1999), labour market institutions were managed by governmental bodies, which have had so

called special administration with own territorial departments.

The priority of the Employment strategy (according to the European Employment Strategy) constitutes a relatively new requirement in the autonomous policy and action of territorial self-governments. Until 2000, the National Labour Office (a government institution) was responsible for the implementation of certain pre-defined priorities and had the required competencies, services and financial instruments. Since 2000, the responsibility for the development and creation of a labour market has been in the hands of the territorial self-government at its three various levels. Territorial self-governments authorities now have certain regulatory competencies and the ability to directly influence real economic processes in their respective localities.

The territorial self-government:

- manages the infrastructure resources and is in charge of the related investment projects. Good infrastructure is then the basis for business locating its ventures in particular areas by helping firms to establish themselves and create jobs. The local government should formulate and consistently implement long-term infrastructure policy that facilitates business development.
- can help eliminate barriers for small and medium-sized enterprises to register locally
- oversees secondary schools whose alumni not only continue their education or but also stay locally and increase local labour resources. The territorial self-government should develop methods which influence the profile and quality of education and match the demands for qualifications of local employers with the potential of schools and aspirations of young people.
- has been made responsible for the Active Labour Market Policy. It should be equipped with appropriate tools and knowledge to enable sensible and effective application of the ALMP.
- has been given the responsibility for stimulating people threatened by social exclusion and characterised by low employability. These people include the elderly, low-skilled, the disabled, chronically ill, addicts, ex-prisoners and persons rejected by their families.

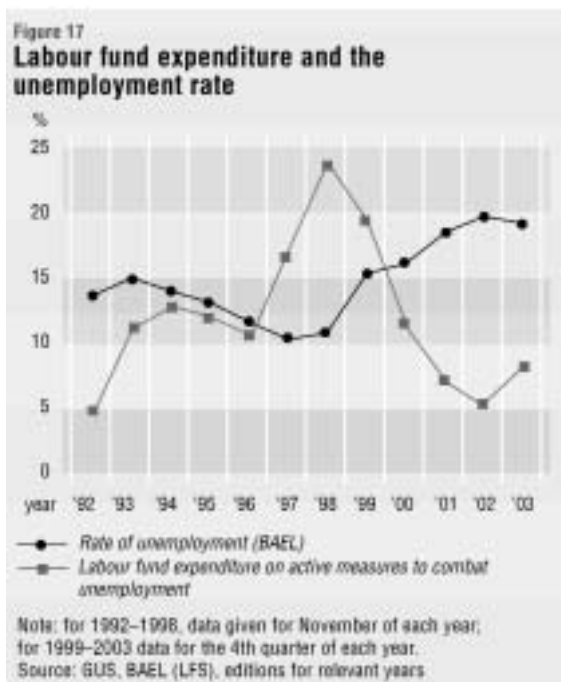
¹² The same amount of funds was allotted to unemployment benefits as for pre-retirement benefits – (5 billion PLN).

The territorial self-government at the *poviat* level has been entrusted with the special responsibility to pursue labour market policy and management. The results of surveys about its efficiency in the new reality indicate that *poviat* governments and *poviat* labour offices (PUP) require significant support.¹³ This support should comprise four essential components:

Firstly, it is necessary to design a basic set of informational and analytical tools pertaining to the implementation of the labour market policy.¹⁴

Secondly, it is necessary to develop programmes essential for the delivery of the labour market policy. In the Polish reality in particular three types of programmes are necessary (CASE/UNDP 2004). First type should increase the access to capital for small firms (loan funds, credit guarantee funds), support local entrepreneurship, develop infrastructure investment and attract inward (including foreign) investment. The second type of programmes should concern the changes in education, above all at the secondary school level, to match long-term demands of the labour market, to organize a support for tertiary education with incentives to return to work in the local environment and – for the development of adult education institutions. The third kind of necessary programmes should concern instruments of the ALMP in line with the priority of supporting the activity of the unemployed (especially long-term unemployed) and people threatened by social exclusion: to provide not only income support but first of all – social services e.g. by organising occupational therapy-type workshops for disabled people and co-operating with NGOs to stimulate the activity of socially excluded people. Preparation of all abovementioned programmes is not possible over a short period of time while some of the programmes may not constitute a priority in a specific local environment at a given time. Yet, the development of programmes can be approached in a comprehensive fashion and within a single programme which integrates all priorities under a “Poviat Employment Strategy” banner. This could be the starting point for developing programmes under local and regional employment strategies, which are based on the concepts of the European Employment Strategy.

Thirdly, setting of priorities and developing action plans requires mobilisation of local social and political forces not only to gain support for the programmes but, more importantly, to involve such forces in programmes’ actual implementation. For this reason agreements are needed between factual and potential stakeholders of the *poviat* employment policy. Such agreements should bind authorities at



various levels of the territorial self-government as well as public institutions administered by those territorial self-governments and responsible for education, health care and social welfare. Such public institutions in theory answer to local authorities but in practice they are quite autonomous. Such autonomy stems from the nature of their activities which is very professional and the fact that they report to national authorities on the content and quality of their services (Golinowska et al. 2003). Cooperation with social partners (local employers’ organisations or business self-government on the one hand, and local trade union organisations and NGOs on the other) would also benefit from such an agreement.

Fourthly, the implementation of each programme requires cooperation with the *voivodship* and central government authorities. Currently, involvement in independent initiatives is encouraged by EU pro-

¹³ As a result of changes at that time, the foundations for the development of employment services were undermined. Territorial self-government neither have ready means nor competent labour resources capacity or know how to handle new tasks. Only in the first year after reform earlier educated people for labour market services were dispersed in a mass scale (Boni et al. 2004).

¹⁴ Moreover, the evaluation of local labour market policies in the EU member states frequently points out that it is essential to conduct own surveys and researches in order to anticipate the pursuance of a decentralized labour market policy in an effective manner. For that reason, the so-called *Labour Market Studies* form one of the first instruments postulated by the European Commission in the work on local employment strategies (ICLEI 2001).

grammes, participation in which offers major benefits. It should also be noted that territorial self-government in Poland is becoming an independent partner of analogous territorial authorities in other EU member states. The identification of a suitable partner for cooperation would inspire to follow good practices but will also be a major help for finding potential joint investment initiatives.

One of the basic shortcomings of the Polish labour market policy is the lack of balance between active labour market tools and the social protection policy. Funds for the social protection of the unemployed and especially of the older unemployed dominate in the expenditures of the Employment Fund. The drastic majority of funds is designated for pre-retirement allowances, which *de facto* perform the function of pre-retirement programmes. Such arrangement was introduced in 1996 as mean of social protection directed toward restructuring of industry programmes. (It has significantly expanded and when the allowance was to be curtailed, the project of its abolition caused a strong social response in 2002–2004). At the same time, the unemployment benefits motivating to return to the labour market are a small proportion of the total.

There is an urgent need to reformulate the concept of the social protection of the unemployed. The income security system for the unemployed in Poland provides rights to a modest (initially 33 %, and then 30 % and finally 20% of the average wage) and flat rate benefit. Qualifications and the entitlement period are diversified. A criterion which entitles claimants to extend their rights and prolong the entitlement period from 12 to 6 months is related to difficult situation on local labour markets and difficult family status (both parents are unemployed). The value of the benefit has been declining since its price indexation (1996). This is accompanied by a decrease in the number of persons receiving benefits against total registered unemployed. The current figure stands at slightly lower than 20%. In the context of rising unemployment and acute scarcity both of fiscal and administrative resources, flat rate benefits have particular advantages in the early transition (Barr 2001).¹⁵

Now it is needed the social protection for unemployed to do strengthened so to induce motivation for job search (higher benefits, regressing, overall administered for a shorter period of time). A change in approach is also required; the tactic should shift from schematic to diversified and customised to adapt the tools to the needs of the various groups seeking employment, depending on their employability levels. In consequence there is a need to define at least two labour market policies: one addressed to people with

higher levels of employability and to those with lower ones.

The long-term unemployed remain outside the social insurance and unemployment policy system. They constitute a category which has dynamically expanded and currently comprises the core of the Polish poor. Social assistance benefits are almost outside their reach or, if available, at a very low level. There is a new and urgent need to prepare adequate social programmes which target this group and are active and socially integrated rather than providing additional, passive financial assistance. Such programme would require linking the benefits with other kind of activity (education, training, employment consulting, therapy workshops, etc.).

5 EU labour market policy in Poland

Western unified Europe decided to change its current labour policy. The change was designed through the European Employment Strategy and subsequently the European strategy to combat poverty and social exclusion; it is also referred to as the Social Inclusion Strategy (*Lisbon Strategy and Social Agenda 2000*). EU member states are encouraged to pursue labour market policy which would increase everyone's access to work, including people with considerable difficulties in employment: less efficient, less qualified, less experienced, disabled, and discriminated. Such turn in the EU policy has two aspects. One is economic, relating to the high cost of supporting non-working people who require increasing re-distribution of income in their favour, which reduces the competitiveness of the economy. Instead of paying benefits, it would be less expensive to create jobs (even jobs which are less productive and require financial subsidy). The other aspect is political and relates to the unease about democracy. Excluded groups are more susceptible to manipulation by extreme political options as they are less informed, less socially involved and, not infrequently, completely excluded from the mainstream of community life.

EU requirements and lessons from implementation of the European Employment Strategy present additional factors which support re-orientation in the labour market policy. In that context, it is important to analyse the chances (opportunities and barriers) for

¹⁵ Barr arguments: they are cheap, since nobody receives unemployment benefit above the minimum. They are administratively easier than earnings-related benefit. This kind of social protection for unemployed is concentrating solely on poverty relief (Barr 2001).

the use of EU resources in the Polish labour market policy in line with the main directions of EU priorities. However, specific difficulties of Poland, a country less economically developed and still evolving from transition and industry restructuring, must also be taken into account. In these circumstances, the articulation of public interests is not simple while their implementation is even more difficult.

For the appropriate development of the labour market policy it is important to be able to use experience and models of good practice in pursuing labour market policies in other countries. The employment policy will change in the course of time, influenced by examples of accurate and inadequate practices. However, even the best foreign practice may not be successful in Poland if it is not placed in the context of specific circumstances, enabling its adaptation to the local implementation potential.

Labour-oriented activities have the following key dimensions: labour supply, labour demand and labour market institutions. Over the recent years, analyses and conclusions concerning the supply side have attracted great interest. Keeping such interest in mind, it should be emphasised that in Poland problems to the demand for labour are now essential.

The development of comprehensive programmes for employment growth should use the Open Method of Co-ordination (OMC): management through objectives, use of benchmarking, and identification of examples of good practice. For Poland, the ability to become involved in European strategies and the use of resources of Structural Funds is of particular importance.

A comprehensive employment policy can greatly benefit from a procedure which requires the government (the Ministry of Economy and Labour) to submit annual reports on the implementation of programmes for employment growth which would be independent of the evaluation of the National Action Plans, undertaken jointly with the EU.

5.1 Construction of the employment strategy in Poland under new concept of a welfare state

Employment Strategy concept has a political dimension of great importance. Work is still the basis for social inclusion and its shortage on a mass scale poses a threat to civic peace and democracy. Even though the contemporary market-economy state has not assumed responsibility for ensuring full employment, it has begun to apply numerous instruments for

supporting labour and combating unemployment. The concepts underlying such activity of the state are beginning to form a social philosophy called a *philosophy of the workfare state* – as opposed to the concept of the *welfare state*. The concept was born in response to a deficit of labour in its traditional form (as a socially secured and highly organised industrial work) and in response to the dwindling welfare state.¹⁶ Such approach to the broader social strategy includes so called social activation and job creation policy.¹⁷ Highly-efficient industrial work, as the dominating form of the industrial era, is now giving room to labour of a service nature. Services vary: they can be specialised, requiring very high qualifications and precise organisation, or simpler in nature, which require more strength and concentration than intellect. Such variation significantly differentiates the labour market.

As opposed to the dominating demand for highly-productive labour currently formulated in Poland, jobs for special-risk and low-employability groups also need to be developed. Such development is possible once the activity strategy is accepted and implemented and its function is not reduced to a simple income support measure. The activity strategy, instead of forcing people with very low employability to work, strengthens their social inclusion because through it people to carry out work which is not necessarily perceived as traditional employment. Such action is supported by the European Social Inclusion Strategy, which Poland joined in 2004 while developing its own National Strategy on Social Inclusion (MPS, NSIS 2004).

In a democratic market economy *caring for a job*¹⁸ continues to be of concern for the government as it still plays a major role in launching and initiating activities supporting the policy of employment growth and its co-ordination. Employment strategy should also be a matter important for all institutions and citi-

¹⁶ The concept of workfare has originated in the USA. It originally related to 'welfare-for-work' programmes where the idea was to oblige benefit recipients to do something for themselves to become independent, and was then extended and adopted as an alternative to the passive social policy (Standing 2002).

¹⁷ "There are two types of strategies for reconciling redistribution and employment growth. The first is called 'activation strategies'. Their goal is to put pressure on recipients of income support. They include: job search assistance and tests, job counselling, controls and sanctions. The second type of strategies are financial incentives to job creation, in particular for low-productivity fields, including two key categories: Employment Conditional Incentives (ECI) and wage subsidies for low-wage employees (or social security deductions)" Boeri 2005).

¹⁸ *Caring for a job* – it is a slogan, which includes job creation activity together with decent work concept, defined in the CASE/UNDP report 2004.

zens because of its fundamental objectives and criteria for action.

5.2 Political elites and their expert support

New socio-economic policy requires the understanding and recognition of the primal importance of employment growth (measured through increase in the employment rate) in government programmes. Such programmes must then be translated into legislative initiatives, accepted by the parliament and implemented by various executive bodies. Recognizing that employment growth is so noteworthy signifies that there is awareness that the proper use of human resources is a condition of an effective state while being the basis for its social and political stability. When the rate of employment falls below 50% of the working-age population, the situation constitutes a threat to the country's sustainable development.

Employment strategy should be pursued under permanent rules of macroeconomic order. This means that it is not activities in the nature of extraordinary demand-dictated or institutional interventions that should be undertaken, but itemised activities that are systematic, undertaken in many areas, mutually compatible. Such multi activities, in turn, require programmes with precise defined objectives of comprehensive actions and their permanent monitoring. The development of such programmes are facilitated by following the requirements of the Amsterdam Treaty and the Lisbon Strategy concerning the European Employment Strategy. However, the experience to date with "test" implementation of that strategy in Poland shows exceptionally poor transfer of the objectives set out in the National Action Plan (also referred to as the National Strategy for Employment and Human Resources Development) into actually made decisions. Thus, contrary to the political rhetoric of the main political parties, the Employment Strategy is not an essential part of their practical activities.

Despite the scale of unemployment and expressing concern, the current approach of the political elites and a majority of well-informed, opinion-making, top-class experts toward the employment problem is improper. Their approach does not indicate that they recognize the necessity to fund programmes supporting job creation and helping in activation of the unemployed. Information is used selectively to weaken the use of labour market programmes, exaggerating the individual faults and malfunctions (e.g. abuse of alcohol, breaking the law, laziness, permanent discontent and depression) that lead to dismissal prob-

lem of unemployment. As a consequence, systematic development of appropriate programmes strengthening employment growth and activating unemployed persons is not induced.

A certain group of Polish politicians and experts treat combating unemployment exclusively as a policy of increasing the GDP. They fail to recognise the limitations of such policy in terms of employment due to jobless growth and in terms of conflicting contrast between the rapid increase in work productivity and barriers of employing lower-skilled labour, to which they attach insufficient importance.

Despite the positive statements and declarations of political elites, Polish education is developing only because individuals bear the increasing costs of education while the conditions of inadequately supervised quality of educational services prevail.

A policy of support to entrepreneurship involving real actions rather than declarations is crucially needed. A major element of such policy would be the support to small and micro enterprises in obtaining access to capital by increasing government loan guarantees and introducing more user-friendly financial regulations. Such enterprises produce approximately 46% GDP and employ about 66% of the entire labour force in the enterprises sector (Balcerowicz et al. 2002).

5.3 Entrepreneurs

Employers are the players in the labour market most obviously and directly involved in the employment strategy. Their role in generating demand for work and creating jobs is the greatest factor. The theory of economics and numerous empirical studies indicate an extensive list of conditions to be met so the employers are motivated to create jobs: access to capital, appropriate labour resources, good infrastructure in their environment, low fiscal burdens, favourable regulations in the sphere of labour law, lack of administrative barriers, etc. In Poland these conditions, favourable for employers, are frequently unfulfilled while the employers do not always follow the objective of creating jobs in their companies. The recommendations formulated for employers suggest solutions which would enable the reconciliation of the current interest of enterprises related to profit generation with a more general long-term concept of the employment strategy. In the first place, it is important to recognise that employers' associations strive for proper conditions for the development of their firms which include job creation. The conditions can be satisfied through:

- activities aimed at increasing access to capital, especially for small, medium-sized and micro enterprises
- elimination of the mismatch between vocational education and the demands of the contemporary labour market, for example through the involvement in developing vocational education curricula, developing on-the-job training and apprenticeships, as well as through participation in the financing of vocational education
- creating pressure on the development of a business-friendly infrastructure
- reacting to cases of wilful or thoughtless damaging of firms by their owners (both old state-owned and new private enterprises) and cases of unethical or corruptive behaviour
- promotion of the concept and development of standards of decent work, as promoted by the ILO, and demanding that they be applied by the employers
- raising awareness of problems relating to excessive differentiation in pay, in particular between management and employees, and developing a position which would lead to the prevention of excessive and unfounded differentiation
- promotion of the idea of ethical and social responsibility in the business world.

5.4 Social partners and civil society organisations

Mobilisation and involvement of social partners, civil society organisations, local governments and community organisations as well as other players in the life of a society involved in decision making regarding labour issues is a standard of European democracy originating from the time of forming industrial relations. The current idea to pursue partnership-based activities has been recorded in the Lisbon Strategy and constitutes one of four directions for action of the so-called Nice Objectives of the European Social Inclusion Strategy. The partnership-based approach to engage in a labour market strategy oriented at employment growth has two goals: it democratises decision-making and involves the interested players in the approach creation, promotion and implementation.

The numerous community and social organisations in transformation countries (including Poland) is increasing systematically, played significant role to create climate for job creation supporting. In addition,

the position of employers' associations, business chambers and local governments is also strengthening. Until recently the trade union had the dominant position within the social dialogue. The issue valid for Poland as well as other countries is how to use the partnership potential and social capital without multiplying the transaction costs involved in partners communication which usually prolongs the necessary arrangements in the decision-making process.

In their individual activities, social partners are oriented towards their statutory objectives. Trade union organizations focus on representing the 'world of work' and defending the interests of employees. Employers' organizations, on the other hand, concentrate on representing the employers and lobbying for their interests. In those activities, job creation oriented strategy is not their principal objective. Trade unions traditionally tend to be concerned with wages, protect working conditions and safeguard employees' privileges; they are less bothered by unemployment. Employers press more for reducing taxes and increasing productivity, leaving aside job creation. Only a sensible social dialogue could foster the development of conditions favouring an increase in employment and combating unemployment. For this reason a balanced social dialogue is of significant importance to the growth of employment. It is very important to have a concept of a mature dialogue, where each party sufficiently represents its environment, is aware of its mission and is prepared to stand by its idea. It is equally important that a compromise is reached in the general interest seen in a broad perspective. The great strength of a mature social dialogue lies in the fact that it is independent of government.

So far, the concern for job creation has not been a priority of the Polish social dialogue. Apart from their political activities, trade unions have protected the conditions of work and pay, similarly to the Polish labour law. An improvement in the rate of employment is present the declarations by employers' associations for whom increase in employment is relevant and positive as long as it reduces the costs of labour and facilitates effective work of the employed.

Presently, when membership in trade unions is decreasing¹⁹, the problem of protecting employees' rights is again becoming a valid issue. However, under the EU law the employees have the right to consultation and information which would result in the establishment of employees' representation in enter-

¹⁹ In Poland only 15% of workers are member of the trade union, in Hungary – 20%, in the Czech Republic – 30% and in the Slovak Republic – 40% (Carley, EIRO 2002).

prises, in which the trade unions are missing and would enable the extension of employee protection through the funding of the so-called workers' councils.

The employment strategy also requires the development of collective labour agreements. Development of the collective labour agreements both on the enterprises level and above that is relatively weak. To achieve such end, regulatory changes leading to a balance of expected benefits for the parties are needed in addition to a change in the balance of forces in a company. On the one hand, the role of the employer needs to be fully appreciated and on the other, the employees' representation needs to be made realistic what in many cases means the need to create workers' council.

The EU accession will bring unknown consequences for the progress of the social dialogue. At the EU level, Polish structures of social partner organisations have been already established. What will they contribute to the social dialogue at the European and national levels?²⁰ Will the 'job creating' oriented strategy be their principal objective? A recommendation addressed to the Polish representatives of social partner organisations at the European level should be to implore them to make the objectives of the Employment Strategy a priority.

6 The final word

In the middle of 2005, a year after Poland's accession to the EU, the situation on the Polish labour market is moving in the right direction. Creating employment has at last exceeded a decrease. In consequence, employment has increased and unemployment decreased. In this context, it is worthwhile to mention those elements of the labour market policy that have been aimed at solving the problem of youth unemployment, which in the Polish debate is said to be the most difficult.

Between 2003 and 2004 the government launched a number of initiatives designed to combat unemployment of young people. Such programmes as "First job", "Job for the young" and "First business" were worked out and implemented. Those programmes are being monitored by the Ministry of Economy and Labour (MGiP 2005) very closely. The results of the monitoring showed that the programmes resulted in the noticeable decrease in youth unemployment. The unemployment for young people aged 19 to 24 was 39.5% at the end of 2004, i.e. it was only a little higher than twice the average unemployment rate²¹, which is "European standard" (Eurostat 2005).

The main idea of the programmes for young people in Poland was directed towards gaining vocational experience and continuing education. Therefore, among the most important means designed for the basic programme ("First job"), there were also such instruments as vocational placements and refunds for employers giving jobs to graduates. These two instruments comprised 72% of the total funds of the said programme. This diminished the significance of the main instruments applied thus far within the framework of Active Labour Market Policy (ALMP), i.e. training programmes and public work. Their assessment did not bring satisfactory results in Poland (Puhani 1998).

The role of banks played for the good of employment of young people must be emphasised. The government and banks have started sharing a risk of granting loan funds to small firms set up by young people (adopting a programme of granting credit guarantee funds), and one of bigger national banks finances loans within the programme "First business". The fact that banks have started to participate in that policy took place after they came mass criticism for their loan policy (applying very restrictive criteria for granting loan funds for fear of bad loans, even more restrictive than in the old EU) and attitudes towards enterprises. The criticism of banks' policies and their particular attitudes was included in the report CASE/UNDP "Caring for a job" described there. This report, which was worked out with considerable effort due to a vast range of problems, limited time of work and difficulties in coordinating work of many authors, including those institutional ones, has contributed at least partly to this slow change.

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²⁰ D. Sadowski (2004) writes that not only the employer associations, but also the national trade unions in general are very reluctant to defer bargaining power to European peak associations under conditions of heterogeneous labour markets.

²¹ Total unemployment rate in Poland 2004 – 18,8% and EU 25 – 9,0%; youth unemployment rate in Poland – 39,5% and EU 25 – 18,6% (Eurostat 2005).

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