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THE POLISH LABOUR MARKET IN THE PERIOD OF ADJUSTMENT TO THE EUROPEAN UNION

Poland's association and future membership of the European Union causes that the adjustment and integration processes gain crucial importance on all markets, including the labour market.

This paper attempts to identify the key problems related to the functioning of the labour market in Poland during the adaptation period to the European Union. The Introduction discusses the basic documents containing agreements that determine the operation of the Polish labour market in the period of association and then of full membership. Then the labour problems are discussed, that would require in the foreseeable future solutions meeting the association and membership criteria: structural changes in the demand for labour, free flow of labour force, mobility of the labour force in terms of its qualifications and occupations, labour cost, working conditions, development of the SMEs' sector, agriculture and unemployment benefits.

The set of problems presented is neither systematized nor comprehensive, it is only a voice in the discussion on the future of the Polish labour market.

1. INTRODUCTION

The debate on the implications of Poland's association and then membership of the European Union for the labour market is now in progress. It points that a reliable evaluation is difficult to arrive at, as the date of integration is uncertain and, which follows, the condition of the domestic economy at that time is equally obscure. It is however commonly agreed that the process of adaptation to the EU's requirements concerning the area of interest to Poland will cover the following (Kwiatkowska et al. 1993; Karpiński 1996; Kaźmierczak 1997):

- rationalization of employment and fuller utilization of the qualifications and skills of the labour force, leading thus to a higher productivity of labour necessary to face the competitive challenge from foreign companies,
- changed volume of the demand for labour connected with a different volume of net exports, profitability of production and production costs, increased productivity of labour and growing inflow of foreign capital,
- a change in the structure of the demand for employees in terms of their

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qualifications and occupations (increased demand for specialists in modern technologies and a declining demand for low-skilled workers),

– a change in the structure of the demand for labour enforced by the need to transform the structure of production and traded goods.

The key point of reference for the labour market to function in the period of association is the European agreement establishing an association between the European communities and their member states, on the one part, and the Republic of Poland on the other part. (The European agreement; The Agreement, signed on December 16, 1991, came into force on February 1, 1994.)

It entails certain consequences for the Polish labour market. These mainly concern: flow of labour force, flow of services, adaptation of the legal framework, education, operation of Small and Medium Enterprises (SMEs) and co-operation in the area of employment and welfare. The European agreement by no means obliges the pre-accession Poland to apply the EU law in the area of the labour market, it only emphasises the significance and necessity to adjust legal regulations in this area. A future member is, however, bound to respect such an obligation.

In the period of Poland's membership in the European Union the labour market mechanisms have to accept and respect all European treaties and agreements, as well as the resulting lower rank acts the member states are subject to. The most important compliance measure to be assumed is the European Social Charter that is the fundamental document nowadays, regulating social and economic aspects of the labour market functioning. It contains the key provisions concerning living standards and working conditions, such as the right to work, the right to fair working conditions, the right to fair pay and others. In the course of ratification of the European Social Charter both relevant Polish legislation and the practice of social and labour market policies should be reviewed in terms of their compliance with the EU requirements, so that the rights they contain are available. Even though the European Social Charter, being only a declaration of the willingness to pursue a joint social policy, is not a mandatory legal act, it should make the key point of reference for creating instruments within the labour market policy. The objective here is a possibly high convergence of activities in the labour market area and these regarding social issues. It should be pointed out, however, that the harmonization of instruments in this area of Poland seems difficult today, mostly because of economic considerations that make it complicated, or sometimes even impossible, to introduce standards regulating working conditions and social issues.

2. STRUCTURAL CHANGES IN THE LABOUR MARKET

A comparison between Polish structures and those in the EU countries reveals considerable differences. The structure of Poland's economy does not fully correspond to the economy of any specific country in the EU, or the European Union as a whole, nevertheless it seems both advisable and necessary to assume these as a rough guideline. Polish economy needs the existence and development of modern, productive industry and equipped with state-of-the-art technology. On the other hand, industry needs a well-developed infrastructure to function properly. A higher demand for labour force in both these areas must be accompanied by a parallel decline in the demand for labour force in this part of the economy, whose development should be (due to various reasons) arrested. The process of labour force reallocation to various components of the economy is therefore unavoidable. Structural transformation of the labour market is necessary and in fact secondary to the structural changes in the whole Polish economy. A thesis can be posed that this process should be actually fact independent of the issue of first association and then integration into the economic structures of the EU. It is, however, known that the integration-aimed activities are the catalyst of changes that should be introduced anyway to ensure the competitiveness of the Polish economy (Klamut 1996, p. 199). In Poland the transformation mentioned will be effected under constraints of the original circumstances such as the small flexibility of the Polish labour market stemming mainly from the weak geographical and occupational mobility and low productivity of the labour force, lack of developed wage-shaping mechanisms, failing efficiency of the labour market institutions, etc.

3. FREE FLOW OF THE LABOUR FORCE

One of the key principles underpinning the operation of the EU's labour markets is the free flow of the labour force. The provisions of the European agreement relative to the flow of workers are limited. They assume that Polish citizens legally employed in the member states and citizens of these countries employed in Poland will not be discriminated in terms of working conditions, pay or dismissals. The employees and their families are allowed to enjoy the same basic social rights as the citizens of a given member state. The same privilege has been granted to citizens of the EU countries legally employed in Poland and the members of their families. The European agreement also provides for the possibility of employing so-called key personnel by companies operating in the territory of Poland and the EU countries. Under its provisions concerning the formation of businesses the flow of self-employed persons, being a part of the labour force, is allowed, i.e. individuals have

the right to run business activities. Such persons should be treated as favourably as local citizens involved in the same type of business.

The privileges enabling easier access to the labour markets of the Agreement signatories are viewed as very modest and the amount of the actual flow of employees between Poland and the member states depends in fact on the decisions of particular EU countries. It is also pointed to the fact that even though the European Agreement has granted Polish citizens some rights the moment it has been put in force, exercising even the modest of them faces in practice some barriers, such as administrative constraints on visas and work permits for the members of the Polish key personnel and questioning of the qualifications of Poles applying for jobs on the basis of the key personnel regulations (Kawecka-Wyrzykowska 1996, pp. 411–413). It can be stated that until now the EU has presented a definitely restrictive approach as regards the access to the labour market. Many problems connected with the Polish citizens' entrance to the EU labour market stem from non-observance by the local authorities of particular member states of the relevant Communities' regulations and, primarily, the European agreement. This situation is exacerbated by the indigenous problems with limiting unemployment, which has some impact on the lack on interest in the inflow of immigrants. Wealthy European countries perceive economic migration as a sort of threat.

In the post-entry period when Poland has to fully comply with the agreements pertaining to the member states, Polish citizens will be subject to the principle of a free flow of persons, the crucial element of which is the free movement of the labour force. According to the principle, each citizen of the member state is entitled to take a job or to seek a job in another member state (excluding civil servants). The important thing for the Polish employees is that according to the above principle employed foreigners have the right to be treated as equally as the indigenous employees, which particularly concerns the level of wages and working conditions as well as social and tax benefits. In the post-entry period attention should therefore be paid to the issue of relative equivalence in the conditions of rendering work and paying for it to avoid the outflow of qualified labour force (Jacukowicz 1997, p. 20).

In the post-accession period the freedom of employees' movement will also result in an inflow of labour force from other EU countries to the Polish labour market, which should be analysed in terms of the labour market policy. Today each member state is obliged to examine the levels of employment and unemployment in terms of its effect on the employees' right to move around freely. Central labour agencies in particular countries have to co-operate closely with each other and the EU Commission to provide information on the labour market (vacant jobs and job-seekers)

within the Communities. It is possible, on approval from other member states, to take on appropriate actions in order to halt the inflow of job-seekers bound to predetermined regions or professions, and even to suspend in endangered areas the EU's legislation on employment agency (article 20 of the Decision of the EU Council No 1612/68). The condition to such an action is notifying the EU Commission and other member states about the anticipated difficulties on the internal labour market that can pose a serious threat to the living standard or the level of employment in a specific region or occupational group (Skulimowska, 1994, p. 64 and on).

4. MOBILITY OF THE LABOUR FORCE IN TERMS OF OCCUPATIONS AND QUALIFICATIONS

Labour markets in the EU put much weight to stimulating the occupational and qualification mobility of the labour force. The shape and development of the system of education and schemes for occupational retraining and upgrading skills is crucial to an improved mobility of the labour force and higher flexibility of functioning of the labour market.

According to the European Social Charter each employee is entitled to appropriate privileges in accessing vocational training (Part I). The exercise of this right requires (article 10 of European Social Charter with amendments):

- providing or supporting technical and vocational training, as needed, for those interested, after a consultation with the organizations of employers and employees;
- granting privileges to enable access to higher education, with the sole criterion for the assistance being an individual's talent;
- providing or supporting the system of vocational training and other youth education schemes;
- providing or supporting, as needed, privileges that facilitate the training of adult employees and granting special privileges aimed to providing adult employees with retraining necessary because of the technological progress or new trends on the labour market;
- supporting privileges such as reduction or abandonment of training charges, granting financial assistance, etc.

In the post-entry period one should take into account the execution of the 1977 EU Commission's recommendation on the introduction in the member states of special vocational training programmes for all persons under 25 years of age outside the school system, and either unemployed or exposed to unemployment. According to this recommendation training courses should

incorporate teaching, consolidation of vocational and practical skills, elements of law and vocational guidance. The member states are obliged to report annually on the implementation of these recommendations.'

5. LABOUR COST

A problem of the Polish labour market that is going to become increasingly important in the process of adjusting and integrating into the European Union is the cost of labour comprising wages and non-wage costs. It is a fact of life that high costs of labour in a given country make employment decline there, the capital is leaking out abroad, the inflow of foreign capital is limited and there appears the need to increase contributions to the social insurance system. Today the situation regarding the costs of labour in Poland is as follows:

- wages are at a comparatively lower level than in the EU countries, which is determined by a comparatively lower level of the productivity of labour (Kabaj 1997a, pp. 107–109),

- high proportion of non-wage costs of labour in the total costs of labour.

The level of wages stems directly from the level of productivity: low productivity usually translates into low wages and this relationship can be seen in all countries under consideration. The obligation to defend Poland's labour market against taking advantage of it and the need to accomplish consumption standards expected by society, especially in the post-accession period, require the provision of conditions that encourage the growth of wages and improved motivation system in the longer period. Obviously, this growth must be aligned with the growth in employees' productivity. If the rate of wage growth does not exceed the growth in productivity, the potential danger of inflated manufacturing costs and prices will not occur. The gap between Poland and the EU countries in this respect can be bridged by launching investment projects, outlays on the technological progress, improved management and organization of labour as well as enhanced the motivation system. The growth in wages accomplished in this way is, nevertheless, a necessary condition for the Polish labour market to join the European structures. Trying to improve the competitiveness of Polish enterprises and to create incentives by keeping wages at relatively low levels would produce considerable perturbances on the labour market in the longer period. Such an action would be the more ineffective that the impact of wages on productivity in Poland is similar to that in the EU (Kabaj 1997b, p. 15).

The non-wage costs of labour look somewhat different. One should consider in the future a reduction of their relative share in total labour costs. This could bring several benefits to the functioning of the Polish labour market, and above all:

- higher attractiveness for placements of foreign capital,
- constrained outflow of the domestic capital,
- growth in employment because of increased demand of the economy for labour force, and
- growth in employment due to the legalization of a part of the jobs now located in the so-called “grey economy”.

A reduction in the share of non-wage labour costs in the total costs of labour is beyond the scope of the labour market policy. This is mainly so because of the non-wage labour costs connection with the social insurance system. In Poland the amount of incomes transferred from the sphere where they are generated to the sphere where they are distributed is very high, which heavily encumbers enterprises and hinders their competitiveness. The requirements of the social insurance system make us look closely at the area of guaranteed social benefits and the possibilities of providing them. Society is reluctant to accept any constraints here. There is also a danger that in the future some actions will be faced, that are related to the procedures counteracting a possible social dumping. Such actions are already being prepared. According to the procedures a country breaching social standards recognized by EU countries will be exposed to similar sanctions as in the case of economic dumping (Kabaj 1997a, p. 122). Nevertheless, the present level of labour costs in Poland directs the efforts towards actions that would allow cost reduction, while at the same time maintaining the necessary social standard of the workers.

It should be remembered however that our competitive advantage being lower, labour costs are in fact quite small, if we take into account the low level of overall productivity and high manufacturing costs (Kabaj 1997b, p. 15).

6. WORKING CONDITIONS

An important issue in the adjustment processes to the European Union is working conditions. In Part I of the European Social Charter two provisions have been formulated relevant to this topic: all employees are entitled to fair working conditions and safety and health protection at workplace. Part II, articles 2 and 3, discusses the working time problem (without giving its precise definition, but only using the phrase “reasonable daily and weekly working time”), vacations and additional days off for particular employees, holidays, as well

as the necessity to impose regulations concerning the safety and hygiene at workplace, provision of measures to control the compliance with such regulations and ways of communication, with the organizations of employers and employees on measures tending to improve the safety and hygiene at workplace, when such communication is needed. For the labour market to function it is important that working conditions in particular businesses and institutions in the economy are similar. This counteracts the segmentation of the labour market leading to reduced mobility of the labour force. This problem is being worked upon by governmental agencies (e.g. State Inspection of Labour) in charge of working conditions. In the future the scope of their activities should be extended to issues relating to the adjustment to detailed legal solutions implemented in the EU in this area.

7. DEVELOPMENT OF SMEs

The development of the SMEs' sector is of key importance for the future of the Polish labour market. Activities to support the creation and development of small and medium-sized enterprises belong to the set of measures designed to reduce unemployment and stimulate economic growth. The SMEs' sector is characterized by high flexibility and innovation, at the same time its increments in employment are the biggest. At present the sector accounts for about 2/3 of GDP in the developed countries, concentrating at the same time the majority of persons involved in national economies. The processes of adjusting the Polish economy to the economic structures of the developed countries will result in a steadily increasing importance of the small-sized companies on the labour market, mostly as job generating units.

Many countries take on activities aimed to spur the growth of SMEs, such as: creation of favourable environment, introduction of financial preferences (credits granted by specially established financial institutions, guaranteed loans, tax reliefs), aided access to information and guidance, assisted formation of businesses, training of the staff, etc. Other activities incorporate a possibility for the small and medium-sized enterprises to associate into a variety of unions and co-operatives protected by the state against possible unfair competition from the large companies, guaranteed participation in public procurement and covering by a system protecting against bankruptcy.

All these types of assistance are known and in large part operated also in Poland, but it can be judged that the domestic expansion of the small and medium-sized enterprises has been a result of opening the throttle that choked the sector's development at the turn of the 1980s and 1990s rather than strong commitment to its promotion. The very intensive activity of individuals

specially contributed to this outcome (Bednarski 1996, p. 31). The present dynamics of the rise and development of the SMEs' sector is clearly characterized by a dying out trend which is definitely unfavourable. One of the primary sources of this phenomenon may be the mentality of the population, a large part of which traditionally planned their professional careers in one company and the typical economic activity was earning wages. The combination of various developments in recent years induced insufficient changes in the attitudes of the labour force. Another obstacle is the relatively confined welfare system, frequently barely accessible or even completely out of reach. Yet, to join the European labour market it is necessary to act on behalf of such reinforcement of the Polish small and medium-sized enterprises so that these are able to meet the demand for employment from the labour force losing their jobs on one hand, and to face the competition from European firms on the other.

Poland both takes and plans actions to support the SMEs' sector. Their main objective is making available appropriate financial instruments, reforming the legal framework and education. The drawbacks of the existing and designed aid systems are:

- the various forms of assistance strongly respond to the specific circumstances on the local labour markets which are analysed on an on-going basis, but solely in terms of unemployment build-up; their response to the needs resulting from the short-term and especially long-term structural policy is limited;
- limited access to those potentially interested, which is due to the high dispersion of the welfare institutions and a lack of unobstructed information channels.

The modification of the existing as well as planned aid systems for the SME's sector would build on rectifying the identified drawbacks and possible addition of several detailed solutions. Apparently, not all measures to assist the SMEs have been implemented in Poland.

8. AGRICULTURE

According to the criterion of weight and because of having particular significance for firm integration processes the key adjustment area is agriculture. This sector will largely determine the rate of Poland's full integration into the EU. Adjustments in this area have to correspond to the rules and mechanisms of joint agricultural policy. The EU predicts that this adjustment area will be extremely rough and probably extending in time to the post-entry period, potentially conflict bearing, and costly in economic and

social terms, particularly for a country with such a high agricultural capacity as Poland (Chrupek 1996, p. 34). These predictions result from the fact that Polish agriculture is largely different from the European Union's standard as regards the agrarian structure and productivity. The size of employment in agriculture and the arable area classify Poland as an agricultural country, with a large reserve of productive capacities. The EU countries are afraid of the competitiveness of Polish products offered at lower production costs.

The European Agreement does exactly define the position of the Polish agriculture in relation to the European Union at the outset of the association period, it treats agriculture differently than other industries in the economy, imposing in practice the symmetry rule. This places Polish agriculture in a much inferior position to other sectors, where a distinct asymmetry has been stipulated in favour of Poland. Unlike industry, agriculture is not provided by the process of integration with such significant incentives to transform structurally. Therefore, the different approach to agriculture may have a negative (delaying) effect on structural changes in the Polish economy.

An effective labour market policy towards agriculture should comprise the following activities:

- stimulating the demand for labour in non-agricultural sectors to enable a decline in employment in agriculture;
- multi-functional development of rural areas by, amongst others, providing inhabitants of these areas starting up non-agricultural businesses with preferential lending terms.

The measures to encourage and stimulate structural changes in rural areas are primarily promotion of local initiatives such as non-profit organizations, co-operatives of consumers, coadjutant associations, business clubs, neighbours' co-operatives, partnerships, family businesses. Specially important here is the assistance offered by the local authorities such as information, guidance, relaxed access to funds and programmes of vocational training and education.

9. UNEMPLOYMENT BENEFITS

The issue of unemployment benefits should be reconsidered. In Poland these benefits are financed by the Labour Fund, whose revenues are mainly contributions paid in by companies and persons who are not wage-earners, but are eligible for social insurance due to running business other than agricultural. In fact, the primary source of the Labour Fund's revenues are subsidies from the state budget that compensate for the difference between the amount of contributions paid in and disbursements on mandatory benefits. The basic

differences between the unemployment benefit scheme in Poland and these in the majority of the UE countries are as follows (Żukowski, 1994, pp. 83–84):

- lack of unemployment insurance;
- absence of an additional system of benefits for persons who have either not become eligible for the benefit or their right to receive it has expired;
- contributions to the Labour Fund only paid by the enterprises;
- equal amounts of benefits for a definite majority of the unemployed.

To enhance the system of unemployment benefits the following improvements should be taken into account:

- higher amounts of contributions paid to the Fund to finance the unemployment benefits and making both employers and employees pay them,
- introduction of variable unemployment benefits, their amount depending on the level of pay prior to a dismissal, years of service and the insurance period;
- combination of variable benefit drawing periods in regions with diverse intensity of structural changes on the labour market and intensive retraining and vocational guidance.

10. CONCLUSIONS

The Polish labour market has been exposed, like other markets, to transformational processes going on from 1990, but today it is neither fully mature nor fully developed. Therefore it is not compatible and cannot be referred to labour markets in states where the market economy mechanisms have been in operation for many years. Probably, the differences between the Polish labour market and markets in the EU will gradually decline, as a result of further development. The question however remains: will the markets be close enough to enable full integration? The answer seems negative, because such integration has not been observed, until now, even within the European Union itself. The progress in the integration of the labour markets within the EU is small and joint policy is practically untraceable there. The labour market policy is predominantly controlled by the member states and subject to their national legislation. In these circumstances Poland has to prepare for a long period of pursuing a relatively autonomous labour market policy. Nonetheless, the policy must allow for all (expected and unexpected, desirable and undesirable) effects and aspects of the processes related first to the association with and then membership in the EU. Undoubtedly, by integrating into the EU labour market the Polish labour market may benefit in many ways. But to enjoy the benefits of tomorrow, as many barriers have to be lifted today as possible.

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