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## **KNOWN AND UNREALIZED QUESTIONS ON UNEMPLOYMENT IN POLAND**

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The paper is addressed to academics engaged in studies on unemployment both in Poland and all over the world. It accounts for the argument that involuntary unemployment, known as structural, is the all-important subject of the labour market research. The recognition of the extent and sources of this kind of unemployment makes it possible to find ways for its reduction.

The argument was formulated on the grounds of the empirical research done into the local labour market in a city of 250,000 inhabitants. In 1997 the total number of unemployed decreased radically, but the number of persons that want to work but cannot find employment increases.

The article concerns unemployment in Poland in the perspective of unemployment in the European Union countries. It calls our attention to the fact that incomplete of labour resources is a phenomenon occurring in three large, economic systems. However, in the free market system it is obviously therefore perceived as the failing of the system.

### **1. INTRODUCTION**

In Poland in 1990 the system of provincial and district employment agencies was established. These agencies were given funds for the unemployed. In the years 1992–1994 the dimension of unemployment stabilized at the level of 2,5 mln people. In the years 1994–1996, in spite of rather high economic growth ratios, measured by the rate of the Gross Domestic Product increase, unemployment was not significantly reduced. In 1997 the ratios of unemployment oscillated between 11–12%, therefore signalling mass unemployment. The rate of unemployment in Poland is high, similar to the average in the European Union countries. But where both real wages and labour efficiency ratio are higher, these countries are much richer and they are able to defy unemployment problems much easier than we can.

Open unemployment appeared in Poland in 1990 as a response to government regulations. The idea of organizing the net of district and provincial employment agencies was justified in essence. The underlying assumption was that access to unemployment benefits will facilitate “downsizing” the personnel in the state – owned enterprises, that would be conducive for

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economic reforms. This plan was not fulfilled. The state-owned enterprises did not start their reforms with employment reduction. They only applied a policy of blockading headcount additions and stopped hiring young people, school graduates. In employment agencies they registered themselves as unemployed. However, they were not the group of people that the employment agencies were organized for.

Open unemployment is not a problem only of Polish society. It exists in all developed countries, where governments organize a net of employment agencies. Making unemployment open creates conditions for its learning and reduction. The Great Recession in the 1930s bore the important influence on this kind of state intervention to the economy. That was when unemployment became a political problem. Excessive unemployment growth risks the class struggle breaking out, the subversion of democratic systems, and the appearance of socialism. The Soviet Union, declaring the possibility of realization the idea of full employment, justified this risk. In Germany, in exchange for the promise of reduction of the unemployment, Hitler obtained support in democratic elections. He kept his promise, but Germany paid a very high price for the liquidation of unemployment that was used for developing military industry and preparations for the World War II.

Also F. Mitterrand in the election campaign promised French people the liquidation of unemployment through the division of work on existing places of employment. This idea helped him to win elections, but he did not keep the promise given to the electorate.

In many economic publications the phenomenon of unemployment is analysed in the macro scale. It is described as the result of economic conditions fluctuations, as the misfitting between the structure of demand and the structure of supply on the labour market, as the result of the unfounded increase of salaries, as the cost borne by the society. Generally, it is thought that the profitability calculation is the source of the incomplete use of labour resources. If the given kind of paid work does not bring economic profits there is no reason for its existence and the phenomenon of incomplete use of labour force appears. Economists searching for the solution indicate the importance of sustainable economic growth. The *employers' interest* dominates in these studies. The rule that people who do not contribute to the generation of surplus should not be employed is accepted.

Next, in the politicians' approach to this subject, the interest of employed people dominates. Every person with a weak position on the labour market could be the decisive vote, that needs to be fought for and that is why politicians support various forms of the aid to these people and do not analyse the profitability of these expenses. The new thing in the present phase of the global economy is distinguishing between involuntary and natural unemployment. Natural unemployment is voluntary. People do not

want to work for many reasons. If they need funds for living and if the law allows it, they become the clients of the employment agencies. Involuntary unemployment, so-called structural, concerns people who want to work for a living but are not able to find employment.

Involuntary unemployment is not only an economic and political problem, but also a moral one. According to the Universal Declaration of Human Rights, every person has the right to employment. So it is necessary to ensure conditions that would allow people to fulfil this right. This paper motivates the argument that local administration can fulfil a very important role in organizing these conditions. In foreign publications there are many examples of the efficient activities of local authorities.

In Poland the phenomenon of unemployment is a sum of two kinds of unemployment: involuntary and natural. Involuntary unemployment must not be accepted. The purpose of this article is to justify that there is a need to concentrate on this kind of unemployment in order to liquidate and counteract it. There is a necessity of studies searching for methods of solving this problem.

The paper is addressed to academics interested in searching for realistic solutions to the problem of structural unemployment in Poland. The period of transformation in Polish economy and the experience of the former era create convenient conditions for research. They give chances for finding the solutions that are badly needed.

The text has been written in the paragraphs. Each of them presents in short the question exposed in the title of the section.

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## **2. WHY IS THERE A QUESTION OF FULL EMPLOYMENT?**

There are three kinds of resources used in the economy: labour, natural resources, and capital. Each of them is very important in the production process by influencing the efficiency, profitability and market value of goods and services. However, the question of full exploitation concerns only labour resources. This peculiarity needs reflection.

There is no exposition of the question of full exploitation of natural resources, renewable and unrenewable. There are no postulates for full exploitation of capital. Why? After all, unused production potential leads to its waste. Unused natural resources can lose their value. However, the only factor that the solutions are searched for is the full employment of labour resources.

The problem of full employment of labour arose in the 20th century as a political one of national scale. The risk of class conflicts and proletarian revolutions induced the search for political solutions to this problem. This kind of solution was the introduction by the state intervention on the market of so-called mixed-economy. This problem deeply influenced the development of contemporary economy.

The incomplete employment that appears as unemployment is not only a problem of a political nature. This is, first of all, an economic and moral issue.

Paid work is a form of human life and a way of obtaining income. The quality of this work influences many aspects of human life: health, consciousness of one's own value, prestige, ways of self-improvement, relations with other people. When a person wants to work in order to earn money and is not able to find employment, he becomes poorer and his personality gets disintegrated. If the period of unemployment lengthens, he loses hope for finding employment. He becomes dependent on the help of other people.

Incomplete employment is also a great economic problem. People who do not work for money do not create goods, do not pay taxes, but they take unemployment benefits and decrease actual incomes of working people. These are the main economic consequences. But there are plenty of other defects.

In a democratic system everyone has equal political rights. Also unemployed people decide who is to rule, they have an influence on the politicians' career. That is the reason why the problem of full employment so often arises in election campaigns.

The problem of unemployment or the problem of incomplete employment of labour resources is very important. The moral, economic and political arguments call for its solving, and that is why there is a need of searching for solutions.

### **3. DOES THE PHENOMENON OF UNEMPLOYMENT ONLY EXIST IN THE FREE MARKET ECONOMY?**

In economic history mankind created three great systems: traditional, market, and socialistic. Only in a free market economy there is open, legally sanctioned incomplete employment. The other systems do not manifest the existence of unemployment. That is why in many people's consciousness, the calamity of unemployment concerns only the free market system.

And so, in a *traditional system*, in an economy based on agriculture, nobody in the past registered the number of working people, their working time, and profitability of production. The working time depended on the season of the year, on the weather conditions. The supply of the labour depended on the demographic

conditions. Famines, epidemics and the low level of labour efficiency meant that poverty not unemployment was the problem for the inhabitants of cities and villages.

R. Cameron claims that in the wealthy Ancient Rome out of about 1 million inhabitants, 200 thousand of them (i.e. ca 20%) were obtaining free grain because they could not afford to buy this basic product (Cameron 1997, p.47).

This kind of information is to be found in many economic history handbooks. Probably in the traditional system only a small number of people practised a regular profession that would meet the present requirements of full employment. The traditional system did not pass. In the contemporary world a great part of the population still lives and works according to the rules of the traditional system. They aim at the free market economy, but a lot of people live on what they produce in their farms.

The *socialistic system* is characterized by its wasteful exploitation of labour resources. Full employment was the communists' ideological slogan winning them votes. This slogan was realized by not counting labour costs, profitability. This practice facilitated hiding unemployment. J. Kornai called it, "unemployment in the place of employment". J. Nowicki proved that hidden unemployment in the Polish People's Republic (PRL) in the middle of 80's was higher and much more costly than the open unemployment in the free market system during the Great Recession (Nowicki 1990).

In *the free market system* efforts of full employment became evident in the beginning of the 20th century. Efforts undertaken in England were described by W. Szubert (Szubert 1973). In Poland, between the two world wars unemployment in the cities and in the villages was very severe. It affected many people and that is the reason why socialistic ideas of full employment seemed to be so attractive. In this period the phenomenon of the proletariat became more intense ("man without any property"), due to the shortage of own working tools and by moving from the village to the city a person became subordinated to the employee. Unemployed people in the city were given inconspicuous unemployment benefits. People living in the village had no access to unemployment benefits at all. If the person found permanent employment that was sufficient not only for the current maintenance but also for some savings, he became perceived as a member of the middle class. He was achieving promotion, if he extricated himself from the poverty.

The problem of the labour market was observed by M. Kalecki. In a very brief paper he justified the idea that the market is not able to solve the unemployment problems itself (Kalecki 1961). That is why he assented the question of full employment as the political problem that requires non-economic methods (Kalecki 1961).

To sum up – the phenomenon of unemployment, meaning incomplete employment of labour resources has been appearing in all kinds of political

systems. However, in the free market system it became an open phenomenon for two reasons. The open phenomenon is easier to identify and to remedy. Through the budget created on the base of the taxes imposed on the members of the society the government organizes help for the unemployed. The state does not want to leave them to their fate. That is why unemployment must not be treated only as a free market economy calamity. It is, as in every system, a negative phenomenon that the remedial measures are searched for (Wiśniewski 1994). Special help is needed for people who want to have paid work but are not able to find employment.

#### **4. RESULTS OF UNEMPLOYMENT RESEARCH ON THE LOCAL LABOUR MARKET IN GDYNIA**

The extent of employment labour force in Poland is very differentiated. There are regions of a very high degree of unemployment, of a medium and a low one. To ascertain the dimension of involuntary and natural unemployment, it is necessary to study the specific labour markets. *The analysis carried out in the district employment agencies, with the use of plenty of methods allow to estimate how many people among those registered in the agency want to find employment, how many want to obtain health services, and how many are interested only in obtaining unemployment benefits.* This kind of information is needed for ascertaining the situation on the specific labour markets, in order to define the method of struggle against involuntary unemployment.

In 1993 I did full research work on the number and structure of unemployment in Gdynia (Polańska 1994). This city is characterized by a low rate of unemployment, lower than the average in the province and in the country. With the help of statistic data, records, observations and interviews I estimated that 4,000 persons out of 14,000 registered in the District Employment Agency, wanted to find employment, and 10,000 people were not interested in employment offers tendered to them by the officials of the Agency. The conclusion: involuntary unemployment – about 30% and voluntary – about 70%.

Among the people involuntarily unemployed, 10% were school graduates, 20% – low qualified people. Among the people, who were not interested in finding any employment there were mothers raising children (about 20%), people employed in the “grey zone” (about 30%) and people so-called “born on Sunday” (about 20%). These people never worked for money or worked as the occasion arose. They were maintained by their families (parents, wives, also adult children).

In 1995 the research in Gdynia was repeated on the representative sample (in 1993 the total number of unemployed was investigated). The differences consist

in the increase, by a few per cent, of the group of people involuntary unemployed and the decrease in the number of mothers obtaining unemployment benefits.

In 1997 the number of unemployed in Gdynia decreased suddenly and radically. At the end of September it was 7,000 people. This decrease appeared in connection with sharpening the access of unemployed to unemployment benefits. They were obliged to report in the Agency every second day of their willingness to employment. The names of persons that did not fulfilled this duty were taken off the records. In this way voluntary unemployment was considerably reduced. Involuntary unemployment was not reduced, since the number of people willing to find employment increased up to 5,000 people in 1997. This amount is 25% higher than in 1993. On the base of statistics it was expected that the decrease in the number of unemployed in Gdynia concerned structural unemployment, since in this period there were very clear symptoms of an economic boom. In the studied case this phenomenon did not take place. The formal difficulties in staying in records of the local employment agency caused a decrease in the number of people registered. This decrease appeared in the group of unemployed not interested in employment offers.

There are three facts concerning the unemployed in Gdynia in 1997 that need to be emphasized. Women composed up to 73 % of total number, 41% of unemployed waited for employment for more than 12 months, 48% registered were not qualified to receive unemployment benefit.

Presented results of the research concern Gdynia, a region with low rate of unemployment. There is a lack of this kind of research in regions of a medium and high rate of unemployment. Recognition of the state and structure of people that really seek employment would facilitate employment agencies and local administration to improve local labour markets. There would be the possibility to promote economic activities, that could employ people seeking work. They are persons that have low qualifications and poor health, that are not able to achieve the status of working man without the help of other people. There are lots of these kinds of people.

## 5. COSTS OF UNEMPLOYMENT

The calculus of unemployment costs is multidimensional. The bill is paid by unemployed people, who play a marginal role in the society. The bill is covered by working people whose part of value is paid to the budget and then is assigned for institution on the labour market, for unemployment benefits, insurance for unemployed, and also for help in the professional activation. The bill is paid by

society, because not working people do not create any value, do not pay taxes, and in a small degree influence demand activating the economy.

In Poland unemployment is financed by the so-called Labour Fund from the central budget, created from the taxes paid to the budget.

In 1993 the dimension of expenses on unemployment in Gdynia amounted to 200 billion zlotys. The same year the total budget of the city amounted to 800 billion. In this confrontation costs of unemployment were very high. They were assigned for 14,000 people and the city budget for 260,000 people (Polańska 1994).

W. Golnau calculated unemployment costs in the scale of the country. He ascertained that in 1993 the expenses from public funds, flowing through the state budget, made 3.03% of this year's Gross Domestic Product. This ratio (3%) in the European Union countries was also reached. However in these countries expenses on unemployment were passive in 60% (unemployment benefits) and in 40% active (organization of employment places, qualification for a new job). In Poland so-called active expenses made only about 10%. These funds do not make it possible to reduce involuntary unemployment. The above mentioned author estimated also part of losses that Polish society sustains as the result of occupational passiveness of unemployed. He ascertained that these losses are higher than direct costs, being at the level of 4.22% of the Gross Domestic Product in 1993 (Golnau 1996).

The calculus of cost and losses in the national scale and in the scale of the local labour markets indicates that the financial consequences of incomplete employment of labour resources in the economy are huge. They influence conditions of running the economy and standards of living of the whole of society. If to this calculus we add moral losses and political aspects, the postulate for need of liquidation of involuntary unemployment in the first place should not leave any room for doubt. Only natural and frictional unemployment can be tolerated.

## 6. INSUFFICIENCY OF MACROECONOMIC TOOLS

The problem of full employment of labour resources is attractive for economic studies. Researches have been done by many academics in many institutes. Well known are publications of such authors as: J. Robinson, M. Friedman, A. Okun, A. W. Phillips, O. W. Phelps, M. J. Piore. Their concepts are based on the surveys in a macroeconomic scale. They describe the interdependence between the rate of unemployment and dimension and dynamic of GDP, level of wages, inflation. When in the decade of 50's and 60's in many Western countries the stage of full employment was achieved, this effect was treated as the result of government intervention on the labour market.

The increase in labour costs, raising the level of education and welfare, and increase in prices of the petrol caused the flowing out of capital from Western countries to others, and the return of the phenomenon of incomplete employment. In countries called developed countries, arduous, dirty, assistant and dangerous work was given away to the workers from poor countries. The calamity of unemployment affected citizens of rich countries prepared for practising qualified and well-paid professions. This phenomenon became a source of frustration for these people who positively estimated government intervention on the labour market. J. Robinson wrote, "it is ironic that after the period of huge technical achievement and decades of growth, what we offer now is the return to mass unemployment and poverty in the midst of wealth. Kalecki was right to be sceptical. The present free market economy failed on the labour market. Economic and social institutions in the national and international scale failed" (Robinson, Wilkinson 1977). The article stated that capitalism and full employment are not compatible. It was admitted that Kalecki, socialist, was right counting full employment among political problems.

Tested in Poland, during the PRL period, the manner of solving the question of full employment did not pass the exam. Hidden unemployment like lots of other negative economic consequences increased the number of weak people waiting for the state aid. This phenomenon is known as "learnt helplessness", that has been described by J. Mariański (Mariański 1994).

The process of the increase in the unemployment in EU countries in the decade of the 80's and 90's was accompanied by an increase in people's activity in countries known as "Asian Tigers". It is possible that the phenomenon of Tigers would never have occurred if it was profitable to invest in western countries.

The efforts of governments aimed at a reduction of mass unemployment in the decades of 80's and 90's consisted of controlling the rate of economic growth, taxation policy, rate of inflation, legal regulations concerning functioning of employment agencies, supporting comprehensive education, creation of funds motivating unemployed to earning activity.

*The NAIRU concept, that allows the dimension of unemployment that does not increase the inflation was formulated.* It consists in acceptance of natural (= voluntary) rate of unemployment. It was assented that in connection with the growth of welfare the percentage of people not having paid work increases. Beveridge estimated this percentage in England in 1945 as 3%. Begg, for the same country, claims that this percentage among men in 1980-83 was 9% (Begg 1992, p. 233)

However more often attention is paid to the fact that connecting unemployment with ratios of growth and the rate of inflation is insufficient, that in western countries the low rate of inflation and growth of GDP, and at the

same time *high hidden unemployment* is possible, that there is a considerable percentage of people discouraged with seeking for a job and unable to get employed. There are reports stating that many people are not able to raise their level of education and that there are many persons that cannot meet the requirements concerning qualifications in contemporary economy.

In Europe, Germans pay the most attention to searching for the solution for involuntary unemployment. The idea of organizing the work of unemployed on so-called "secondary market", i.e. market without profits could be the way to change the low efficient work for the one profitable for capital owners. Introducing this idea requires far-reaching decentralization of decision-making circles concerning labour markets.

## 7. REQUIRED DIRECTIONS OF RESEARCH IN POLAND

The net of provincial and district employment agencies in Poland was organized very quickly. It concentrates on registration and passive services for the unemployed. The funds for creating market qualifications for unemployed are insufficient. The legal restrictions introduced in 1996 and 1997 reduced natural unemployment. However, structural unemployment in Poland is high and should not be kept this way.

In the period of reforms of the economic system in the decade of the 90's many institutes took up studies on the unemployment. Many reports were published, but they did not contribute much to the change of the situation on the labour market and the reduction of unemployment. The authors rely on statistical data and do not undertake efforts to ascertain the dimension and the structure of voluntary and structural unemployment. Without learning these issues it is not possible to undertake activities to cure the labour market.

People that seek for employment and are not able to find it are of weak health, low qualifications, do not trust in the value of their strength resources, mainly women, but also graduates, who did not develop any fields of interests and received low marks at school. These people very often are not responsible for their profile. Family, schools, the group of people of the same age can explain this situation. John Paul II calls them "hurt people". They need to be aided. The European Social Charter concerns this group of people.

*The key for the reduction of involuntary unemployment is the decentralization of decision-making concerning the labour market.* The organized co-operation of local governments (cities, regions), schools, businessmen, and regional employment agency is necessary.

On a local level a system of addressed employment places for selected unemployed as well as a period of adaptation in order to achieve employment

profitability can be proposed. A good example is the district of Konstantynów near Łódź. W. Fisiak, the mayor of the city, achieved considerable reduction of the rate of unemployment on the premises of the commune by organizing direct forms of co-operation between job seekers and employers (Wojciechowski 1997).

Structural unemployment is connected with incomes of the fathers of families. If they are too low for the maintenance of the family, the woman – mother seeks for paid work in order to improve the conditions of living. The social, pro-family policy undoubtedly can reduce the number of women seeking for the employment.

Another way of reducing unemployment consists in a good education, that can help people to ascertain their own talents and could facilitate finding employment. This kind of activity requires hard and long-term efforts, but gives good results. It would be also much better if schools were evaluated for the way they help their graduates to recognize and develop their interests that later on are a bridge to finding their place in the economy. Unemployed graduates have no professional interests and do not know what occupation would be appropriate for them.

Another solution to unemployment is a reduction of the phenomenon of proletariat. The man that owns his tools, ground, or transportation means finds employment much easier. This idea is included in the concept of L. Kelso. It assumes that there will be two general sources of income: labour and property (Kelso 1989, p. 15–41). The man deprived of any property is in a much worse situation than the villain in the traditional system who always had at his disposal his own plot of ground for individual cultivation.

The few ways of the reduction of involuntary unemployment in Poland were presented. It is certain that there are many more. Every solution can contribute to the improvement of the situation on local labour markets.

## 8. CONCLUSIONS

The experience of Poland in the period of transformation indicates that a large part of society do not accept the economic policy that produces effects measured only with an increase in GDP. Other criteria are accepted, i.e. an increase in actual wages and the possibility of employment. That is why formulating the aims of economic policy from the social interests' point of view it is needed to assign three tasks: full employment, an increase in real wages and the development of economy measured by net investments.

The handbook statement that the complex aim of the economic policy is economic growth measured by GDP is an idealistic paradigm. The citizens' consciousness in this contemporary period is created among others by the Universal Declaration of Human Rights and the Revised European Social Charter. People expect the compliance with these regulations. Ratios of increase in GDP are abstract

for them. Man needs employment not only because of income. He needs it for health, for relations with other people, for development of his personality. Work is not a commodity but a fundamental dimension of existence.

In Poland a huge imbalance between demand and supply in work skills can be observed. About 1.5 million people work in two or three employment places to prejudice of their own health, become workaholic, do not have any free time. It is possible that the same number of people are not able to find employment, because they do not fulfil the qualification requirements.

The total efforts of local administration, the net of employment agencies, government, and academics need to concentrate on the decrease in the imbalance between required and offered qualifications of people. This effort can help liquidate involuntary unemployment and facilitate academics to discover new aspects in labour resources management.

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