

## **Halving unemployment: Poland in the 2000s**

### ***Reducing unemployment is policy priority in South Africa***

In 2004 at the Growth and Development Summit South Africa set out to halve unemployment by 2014. At that time the unemployment rate was 28 per cent. While many countries have halved unemployment, these are often from a relatively low level (for example, Korea reduced unemployment from 8% to 4% during the 1960s and 1970s), however, there are relatively few examples of countries achieving such a dramatic fall in unemployment as required by South Africa. Poland is one of these countries, which makes it a pertinent country to study and learn what policies helped lower unemployment so successfully.

### ***What can we learn from other countries? – The case of Poland***

Poland had an unemployment rate close to 20% in the early 2000s, which was halved by 2008. Half of the unemployed had been out of jobs for over a year (long-term unemployed) and the youth unemployment rate was 40%, which bears close resemblance to the current situation in South Africa. The analysis below highlights a number of policies that helped to achieve this outcome<sup>1</sup>:

- Tightening unemployment benefits and turning them into conditional grants. Such reforms were introduced during the mid-1990s in order to reduce reservation wages and increase labour supply.
- Increasing labour market flexibility particularly with respect to restrictions on temporary employment. A relaxation of labour regulations was introduced in 2002, to the benefit of young and low-skilled job seekers in particular.

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<sup>1</sup> There is little evidence that accession to the EU explained the fall in unemployment. The significant net job creation highlights that unemployment fell because new jobs were created rather than through the replacement of workers emigrating to the EU.

- Turning from passive to active labour market policies and introducing special measures for those difficult to employ (young, inexperienced, unskilled or long-term unemployed, single parents, disabled individuals or ex-offenders). An extensive subsidy scheme was introduced in 2002 to address youth unemployment.

Employment growth between 2003 and 2007 added 2.2 million jobs to the Polish economy. This was possible because of the economy's strong performance with growth averaging above 5% per annum. Yet, growth does not automatically translate into job creation. Indeed Poland itself experienced high unemployment that persisted at levels above 10% during the 1990s despite strong growth. Complementary policies – such as conditional unemployment benefits, more flexible labour legislation and active labour market policies – were introduced to ensure that economic growth supported strong job creation. This multi-pronged approach provides some useful examples for South Africa to learn from.

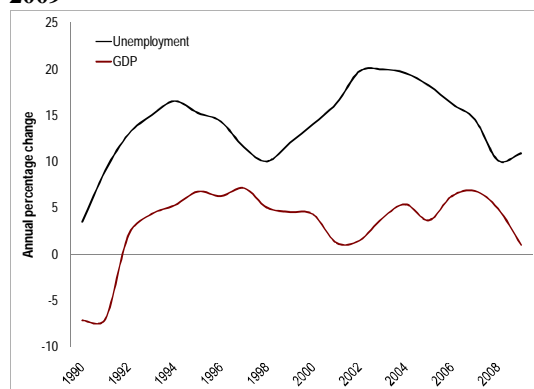
### ***The origins of Polish unemployment***

After the disintegration of the Soviet bloc, unemployment in Poland doubled from 9.9% in 1998 to a peak of 19.9% in 2003 despite strong growth (on average >5% annually) during the 1990s. However, this increase was successfully reversed between 2003 and 2008 as the economy continued to grow strongly and the authorities implemented policies to promote job creation (see graph 1). Poland has also managed to contain the impact of the recent economic slowdown on employment better than many other countries.

Poland struggled with high unemployment for youth and a high incidence of long-term unemployment. In 2003 when the unemployment rate reached its peak, a quarter of all those unemployed were aged between 15 and 24 years. This translated to

an unemployment rate of 43%.<sup>2</sup> In addition, more than 40% only had basic vocational training, illustrating the predominance of lower skilled unemployment. At this time almost half of the unemployed were jobless for over a year implying structural problems in the labour market.

**Graph 1. Unemployment in Poland, 1990-2009**



Source: GUS (Main Statistics Bureau, Poland), World Bank.

#### **Polish labour market trends, 2003-2007**

Poland halved its unemployment rate between 2003 and 2008 creating more than 2 million jobs. During the period 2003-2007, for which detailed data are available, Poland lowered its unemployment rate by more than 5 percentage points - 2.2 million jobs were created and the number of unemployed fell by 2 million.<sup>3</sup> Almost a quarter of the reduction in unemployment was among the young (15-24 year olds). More than 700 000 jobs were created in Polish manufacturing, almost 400 000 in construction and 300 000 in the trade and repair sector. The latter sectors are more intensive in the use of less-skilled labour and therefore helped alleviate the unemployment problem around low skilled workers. Employment of people with general secondary education or less increased by 30% during 2003-2007 making up one third of all job creation.

<sup>2</sup> In South Africa 31% of the unemployed are 15-24 with a youth unemployment rate of 50%.

<sup>3</sup> The number of new jobs exceeds the reduction in unemployment because of the growth in labour force.

A major driver behind the job creation was temporary employment. More than three quarters of new jobs created between 2003 and 2007 were based on temporary contracts (although less than 2% were signed through temporary work agencies).<sup>4</sup> This development coincided with a relaxation of labour regulations in 2002 when the duration of temporary contracts was extended and allowed to exceed 6 months (including renewal).

#### **Poland's policies to boost employment**

Poland introduced a set of active labour market policies in 2004 passing the *Act on the Promotion of Employment and Labour Market Institutions*. Labour market institutions were re-oriented away from a focus on paying unemployment benefits towards promoting employment. Simultaneously, under-25 year olds were identified as a main target group for government policies.

#### **i) Reform of the unemployment benefit system**

After its reform in 1995, Poland's unemployment benefit system became relatively stringent. In the early 1990s, school leavers were eligible for fixed rate unemployment benefits (equivalent to the minimum wage) regardless of their work experience.<sup>5</sup> After the reform this was

<sup>4</sup> These figures refer to employees only and exclude self-employed individuals.

<sup>5</sup> Persons are eligible for benefits if they have worked (employed or self-employed) for at least 365 days over the last 18 months. The benefit will be granted if, within a week from registration, the labour office cannot provide the claimant with employment or an employment programme. People receiving retirement, maternity leave or sickness benefits cannot register for unemployment benefits. The period of benefit payment cannot exceed 18 months and depends on the regional unemployment levels with longer payment periods in regions with high unemployment rates. Drawing the remainder of the unemployment insurance is possible if participants enter employment but lose their job

changed, introducing a flexible system conditional on the period worked. This might have reduced reservation wages particularly among the young and inexperienced work force. In contrast, health-insurance continues to be practically unconditional.

## ii) Active labour market policies

In 2002, the Polish government introduced the ‘Entrepreneurship – Development – Work’ economic strategy, which placed a strong emphasis on active labour market policies. The strategy aimed to accelerate the pace of GDP growth gradually to 5% by stimulating entrepreneurship and reducing unemployment. Funding was provided out of federal and regional budgets but also via the European Social Fund (ESF). European Union funding is extensive amounting to EUR9.7bn for the period 2007-2013. Most of the funds go towards measures to encourage employment creation and human capital improvement.

### a. Programme of intervention works

The programme provides subsidised work to unemployed people mainly focusing on the young (under-25 year olds), long-term unemployed, women post-maternity leave, over-50 year olds, unskilled labour, the unemployed without work experience as well as single parents, ex-offenders and disabled unemployed. Wage costs are reimbursed to employers on a local level. The duration and amount of reimbursement varies by target group from a minimum of six months and equivalent to the value of unemployment insurance to 2 years and equal to the value of the minimum wage every second month. People hired under the work programme must remain employed for at least 12 months.

In addition employers can obtain financial assistance for equipment, with the obligation

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without having worked 365 days in the previous 18 months.

that it is kept for 2 to 3 years (in the case of SMEs and large companies, respectively).

### b. Public works

This programme targets the same groups as the *intervention works programme* with the exception of the young. Participants are employed through local government or non-governmental organisations in activities such as environmental protection, culture, education, health care, unemployment or social assistance and by water companies. Work is provided for a maximum of 12 months with the reimbursement of wage costs capped at 50% of average wage in the economy.

Generally, public sector efforts were not the principal method to absorb the unemployed since the number of government employees decreased by just over 8% from 2003 to 2007, while private sector employment rose by more than 40%.

### c. Work experience

Young unemployed individuals can work for an employer without a work contract for a period between 3 and 12 months. The participant receives a ‘scholarship’ of 140% of the unemployment insurance benefit.

### d. Vocational preparation at a work place

The programme is targeted at the same groups as the *public works programme* and is designed to allow the acquisition of new professional skills. The programme duration varies from 3 to 6 months and participants receive a scholarship similar to the work experience programme.

### e. Training financed from the Labour Fund

If the unemployed have no professional qualification or need to complete or change their qualification to obtain employment, they can receive a training allowance of 20% of the unemployment insurance benefit

(40% for those under-25 years old). Reimbursement for travel costs can also be granted.

f. Socially useful works

This programme targets unemployed workers who do not qualify for unemployment insurance payments. The programme aims at providing the unemployed with income to prevent illicit work and to support development at a community level.<sup>6</sup>

Overall, the *intervention work programme* seems most effective (at least for the year 2006 when data is available). Two-thirds of those completing it remained in employment after the programme finished. The socially useful work and the public work programmes had success rates of 10-20% while work experience, preparation and training measures apparently did not result in employment being taken up immediately after completing the programmes (see table 1 in the annex).

g. First job programme

In the early 2000s a large number of school-leavers entered the labour market exacerbating the problem of youth unemployment, which peaked at 44% in 2002. In response the government introduced policies with a special focus on youth unemployment including the ‘First job programme’. The programme was started in June 2002 and lasted until December 2005 involving 800 000 participants. It consisted of a blend of the measures presented above with most young people participating in the work experience category or benefiting from training (see table 2 in the annex).

The programme sought to increase the likelihood of young graduates finding a job, by offering to refund employers’ social security contributions for the first 12 months of employment. A scheme of refunded traineeships for those leaving secondary school was also introduced and loans to entrepreneurs employing secondary school graduates were made available. The First job programme also included measures to encourage self-employment among young persons (subsidised loans, tax rebates, mentoring programmes). In 2005, 30% of programme participants took up regular jobs after completing the programme according to the Polish Ministry of Labour. The programme was not evaluated and the new government abandoned the initiative shortly after elections in the autumn of 2005.

h. Other supporting measures

Other measures to support job seekers and the unemployed are in place in Poland. Job clubs are an important part of that infrastructure. They offer job search and activation training.<sup>7</sup> It is estimated that 23% of the unemployed involved in a job club gained employment as result of job club activity [OECD 2009].

iii) Labour market flexibility

Between 2003, when unemployment peaked at 19.9%, and 2007 three quarters of job creation was through temporary contracts. Overall, 28% of employment contracts were fixed-term contracts in 2007, an increase of 11 percentage points since 2003. Over the period 2003-2007, the majority of young people finding jobs entered employment on temporary contracts and in 2008, two-thirds of young workers were fixed-term employed. Lower skilled workers, individuals with basic vocational and

<sup>6</sup> Work is capped at 10 hours a week under this programme for an undetermined period. Participants also receive health cover and a minimum allowance of 6 PLZ per hour. Local authorities can be refunded for up to 60% of wage costs from the Labour Fund.

<sup>7</sup> Active job search training takes 3 weeks, contains workshop sessions and practical job searching and is conducted in groups not exceeding 14 participants. Activation training takes place in a workshop form and may be accompanied by individual interviews.

vocational secondary education, seem to have disproportionately benefited from fixed-term contracts. More than one quarter of industry workers were employed on a fixed-term basis during the years 2003-2007. In 2002 labour legislation governing temporary employment was relaxed significantly allowing temporary employment for an indefinite length. Prior to this, contracts had to be converted from temporary into permanent employment after a 6 month period [Ingham et al. 2009]. Interestingly only a marginal share (less than 2% in 2006 and 2007) of those on temporary contracts was employed through temporary work agencies. Instead fixed-term contracts tend to be between employer and employee. It is frequently disputed how much the increased flexibility of the Polish labour market through the legislative changes contributed to employment creation. For example, it is often argued that Polish standards do not surpass EU levels of labour market regulation. But the figures suggest that greater flexibility did help to create jobs. The high number of temporary contracts might reflect regulatory rigidity around permanent employment encouraging employers to circumvent regular legislation by employing workers on a temporary basis. This is problematic from a labour protection perspective but might have substantially contributed to lowering unemployment in Poland.

#### iv) Emigration

Emigration is not the main driver of the reduction in unemployment. It is often argued that the Polish accession to the European Union in 2004 is the major cause of falling domestic unemployment because of large-scale emigration. If this were the case, there are few lessons for South Africa to learn from Poland. Despite the high number of Polish emigrants to Western European countries there is little evidence that this trend was the major driver behind lower unemployment.<sup>8</sup>

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<sup>8</sup> Workers leaving Poland are typically employed. This might in theory free up jobs for

#### Conclusion

Poland has managed to achieve significant job creation between 2003 and 2009 that has contributed to a large fall in unemployment. Examining the period 2003 to 2007 in detail, there is evidence that more flexible labour market legislation alongside strong GDP growth and a reorientation of labour market policies towards active policies and job creation were important in generating jobs. Active labour market programmes were implemented on a large scale with the intervention work programmes (where employment is subsidised by government) apparently successful as two-thirds of participants remained employed after exiting the programme. The success of the First job programme in targeting youth unemployment is however difficult to assess due to the lack of an evaluation. According to Polish authorities 30% of participants took up regular employment after completing the programme.

#### References

- Ingham, H.** and **M. Ingham** (2009), ‘Poland’s Jobless Growth: A Temporary Cure?’, *Lancaster University Management School Working Paper*, No. 2009/017, Lancaster University, Lancaster.
- Kaczmarczyk, P.** and **M. Okolski** (2008), *Economic Impact of Migration on Poland on the Baltic States*, Fafo, Oslo.

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the unemployed, however, labour immobility and skills mismatches suggest this is not the case. According to company surveys, since accession to the EU a shortage of skilled labour has become an increasing obstacle to company activity in Poland [Kaczmarczyk et al. 2008]. In regions where access to neighbouring EU labour markets is easy (like the border region to Germany, Opole) both employment and unemployment declined. As result, while outward migration might help explain declining unemployment it cannot explain increasing employment. Integration into the European Union has increased economic activity in Poland through trade with and investment from other EU members. As pointed out in the beginning growth does not automatically translate into employment.

**Kaluzna, D. (2009), ‘Main Features of the Public Employment Service in Poland’, *OECD Social, Employment and***

*Migration working Papers*, No. 80, OECD, Paris.

## Annex

**Table 1. Participants in active labour market programmes in 2006 [OECD 2009]**

Units

	Intervention works	Public works	Work experience	Vocational preparation at a work place	Training	Socially useful works
<b>Total number of participants during the year</b>						
	69 050	32 655	169 100	58 300	147 139	70 200
<b>Persons returning to unemployment after completing individual programmes in individual months</b>						
January	2 546	8 104	16 882	6 455	3 885	930
February	982	1 124	14 738	5 502	5 194	960
March	1 409	928	17 539	6 864	8 574	1 482
April	1 423	719	13 603	5 840	10 651	2 894
May	1 061	760	9 686	2 892	10 294	4 171
June	1 022	1 103	10 118	2 568	14 036	5 166
July	2 189	1 683	11 481	3 328	15 606	5 435
August	1 609	1 056	12 210	4 225	11 409	4 367
September	2 128	1 469	16 669	6 186	13 308	5 339
October	3 076	3 082	15 373	5 646	14 669	7 165
November	2 839	3 113	12 214	5 910	17 762	7 419
December	2 528	4 819	19 013	6 368	20 281	11 699
Yearly total	22 812	27 960	169 526	61 784	145 669	57 027
<b>Percentages of all participants<sup>a</sup></b>	<b>33.0</b>	<b>85.6</b>	<b>100.3</b>	<b>106.0</b>	<b>99.0</b>	<b>81.2</b>

a) Values exceeding 100% appear for some programmes. *Total number of participants* refers to starts in 2006 (i.e. statistics refer to the flow of new entrants to the programme). *Persons returning to unemployment* includes people who started the programme in 2005. Both statistics may include two or more spells in the programme for the same person.  
 Source: [www.psz.praca.gov.pl](http://www.psz.praca.gov.pl), and author's calculations.

**Table 2: First Job programme participation, 2005**

Instruments and services	Number of youth participating	% of participants
Work practice	152,594	56.13
Vocational preparation	21,990	8.09
Training	42,141	15.5
Loans for the cost of training	48	0.02
Intervention works	15,230	5.6
Public works	6,325	2.33
Scholarships for the period of education	3,552	1.31
Job activation supplement	17,664	6.5
Refunding of workplace equipment costs	3,145	1.16
Loans for unemployed persons willing to start own business	5,025	1.84
Refunding of consulting and legal advice costs	133	0.05
Reimbursement of travel costs	23,128	8.5

Source: <http://www.eurofound.europa.eu>.