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THE UNEMPLOYMENT RATE AND STRUCTURE OF UNEMPLOYMENT IN TRANSITION: THE POLISH CASE

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I. Introduction

Among major Central and East European countries, such as Hungary, the Czech Republic and Slovakia, which experienced structural reforms in the late 1980's and early 1990's, Poland suffered the highest unemployment rate during this transition period. This, in fact, worsened social unrest following reform. Furthermore, it led to the reelection of the former Communist Party — the Democratic Left Alliance (SLD) to the position of leading power at the general election in September, 1993; that is, only after a few years of the non-socialist electoral victory over the socialist regime. In addition, the presidential election of November 1995 ended in a victory of Kwaśniewski, the candidate from the former socialist camp. The mere election results clearly attest national dissatisfaction with the government social policy, as well as the prevailing life insecurity and the fear for unemployment among the Polish people.

In this paper I attempt to clarify the characteristics of unemployment problems in Poland during this transitional period, which caused the social instability mentioned above. Particular attention will be given to the following basic aspects: who are the labor groups affected; whether statistics reflect reliably unemployment rate; and what the distinctive features of unemployment structure in Poland are.

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II. Unemployment problems in Poland

I would like to begin in stating how transformation of Poland and growth of unemployment were structurally related. Explaining the causes of unemployment is significant also when considering questions such as: was unemployment an inevitable cost of the reform? Wasn't the cost too heavy?

On January 1, 1990, the so-called Balcerowicz Plan was put into effect. Table 1 shows the extent of unemployment rate immediately after that. Several reasons can be ascribed to account for this rapid growth, simultaneous to the implementation of the reform program. However, the one most often pointed out is the extent of excess labor accumulated in the over-employing government enterprises under the full-employment system during the socialist era. It is difficult to estimate that excess labor, yet it is widely believed to take up to around 25% of all the industrial labor in the 1980s.[1] In the industrial sector

Table 1. The unemployment in Poland 1990-1991 (in thousands)

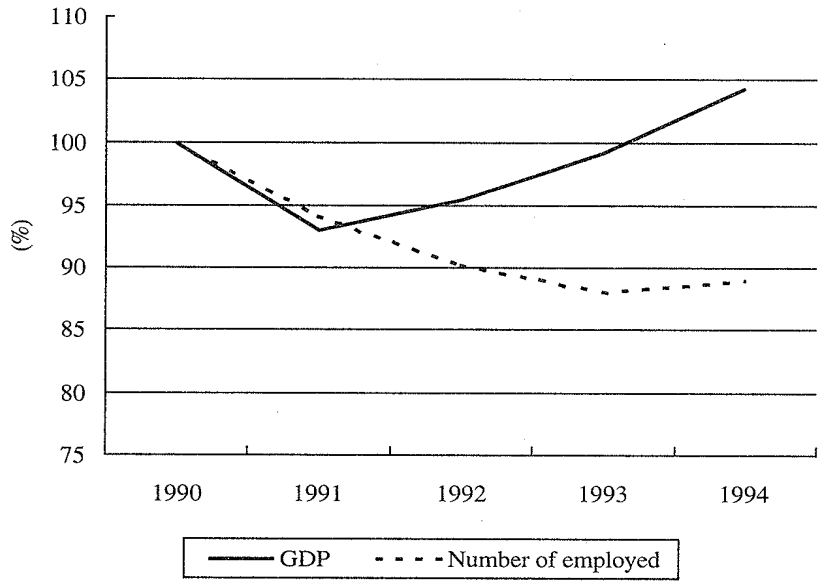
Year, Month		Total unemployment	Newly graduated unemployed
1990	1	55.8	—
	2	152.2	—
	3	266.6	—
	4	351.1	—
	5	443.2	—
	6	568.2	—
	7	699.3	—
	8	820.3	124.2
	9	926.4	157.4
	10	1008.4	164.9
	11	1089.1	164.8
	12	1126.1	164.3
1991	1	1195.7	158.4
	2	1258.9	156.1
	3	1322.1	153.4
	4	1370.1	145.2
	5	1434.5	134.5
	6	1574.1	144.2
	7	1749.9	203.8
	8	1854.0	223.4
	9	1970.9	235.5
	10	2040.4	228.8
	11	2108.3	224.7
	12	2155.6	222.4

Source: Kwiatkowski, Euganiusz. "Bezrobocie w Polsce w okresie transformacji, Rola szoku realokacyjinego, podażowego i popytowego". in: Sztandaska, Urszula ed. *Rynek pracy w trakcie tranformacji systemowej w Polsce.* (Materiały konferencyjne), MZBGP Wydz. NE UW, Warszawa, 1992, p.61.

only, considering that total employment in 1989 is about 4.02 million,[2] the calculated excess reaches over a million.

However it does not seem realistic to consider that all the excess labor became apparent at the same time, for the following reasons. First, in 1989, the commercialization (corporatization as well as management reform of the enterprises to adjust to a market economy) and privatization of the socialized sector which holds 86.3% of the total employment[3] were not completed overnight even if the Balcerowicz Plan was put into effect. The larger enterprises with many employees sluggishly underwent commercialization and privatization and would not release excess labor at once through restructuring. Second, as shown in Figure 1, in the early stages of transition, the drop in GDP was larger than that of employment. GDP in 1991 was 7% lower than the previous year, while employment was 5.9% lower. This shows that in the early period of transition, the excess labor was expanding.[4] Upon estimation, excess labor would reach its highest level in 1991: about 1.4 million in total employment, with a million in the industrial sector.[5] Since total employment in the industrial sector in 1991 is about 3.45 million,[6] excess labor would add up to 29.0%. After 1992 on the other hand, labor productivity began to show an upward tendency as GDP starts to recover, while the total employment remains on decline. Thus, as you see,

Figure 1. GDP and the number of employed (1990 = 100)



Note: The total employment is the annual average.
Source: Estimated according to *Rocznik Statystyczny Pracy 1996*. GUS, Warszawa, 1996, p.LXXI, p.125.

the extent of excess labor alone only hardly accounts for the increase of unemployment. What are the other plausible reasons? [7]

The first and most evident reason is the expansion of the labor supply capability of the society. While the total number of employed is on decline (1.65 million in 1990, 1.58 million in 1991, 1.54 thousands in 1992), the population of working age is increasing by 100-150 thousands every year (21.96 million in 1990, 22.05 million in 1991, and 22.33 million in 1992).[8] If restructuring of the enterprises does not proceed as expected, causing a decrease in productivity, the potential labor market inflow which mainly consists of high-school- and college- newly graduates, inevitably grows. Table 1 validates this assumption, showing a rise in registered unemployment of newly graduates in 1990 and 1991.

Second, it was administrative failure: the government had authorized almost automatically this new potential market inflow as unemployed. To relieve social dissatisfaction toward side effects of the shock therapy, the government at first did not set strict criteria for unemployment. It allowed almost anybody who did not have a job to be entitled for unemployment benefits, without further screening. In fact, many new graduates enjoyed unemployment benefits, then started to look for a job before the end of these. Only since the mid-1990's has the number of newly graduates registered to unemployment temporarily fallen; at the same time, the related law was reviewed to limit the recipients of unemployment benefits to only those who worked more than 180 days in the latest 12 months.

Third, restrictive factors exist on the supply side. Liberalization of the economy caused a sharp rise in the prices of raw materials and energy, which restricted the development of any firms. To make it worse, devaluation of the zloty raised the prices of imported goods, hence further raising production costs. The financial situation for the enterprises worsened as the government cut subsidies, and banks tightened their policies concerning new loans. [9] It sounds plausible that all of these events caused a shock in the supply side, thus affecting employment negatively.

Nevertheless, some researchers pointed out that the restrictive factor in the supply side should not be so crucial in the early stage of transition. Rises in wages were controlled by the introduction of excess wage tax. Enterprises could avoid chain-reaction bankruptcy by forgiving one another's debt delinquency

in coping with the tight monetary policy. Leading enterprises were still enjoying a monopoly status in each sector. Stocks of raw materials bought before 1989 at a lower price could be used and sold at a higher price.[10] These factors considerably eased the worsening managerial situation, and also prevented to a certain degree serious damages in employment conditions.

Fourth, there are also restrictive factors on the demand side.[11] The monthly average real rewards to Polish people sharply fell from 75.8 in 1990 to 75.6 in 1991 (100 relates to the number in 1980.[12] Investment also decreased, as seen on a fixed-price basis compared with that of the previous year; it was -10.1 point in 1991, and -4.1 point in 1992.[13] Another restrictive factor in the demand side is the cutting-down of government expenditure (on a fixed-price base) to balance the national finance policy with conditionalities of the IMF. Moreover, after the collapse of the COMECON market, exports to COMECON countries significantly fell, by about almost 3.5% - 5% of GDP.[14] The shock therapy represented by the Balcerowicz Plan obviously cooled down the demand.

While considering the early period of transformation, let me point out that the main reason for the initial rapid growth in unemployment is not the sudden burst of the excess labor generated under the socialist system of full employment; it is rather to be ascribed to the sharp decline of the demand in the factor market caused by the recession preceded by the tightening of the monetary policy.

In the third section, I would like to discuss the structural factors that become more and more evident after the initial shock was absorbed, and after the characteristics of unemployment have changed.

III. The argument over the number of unemployment

In analyzing the transformation process of Poland, discussions over the estimate of the transitional cost have always been heated. Particularly the huge unemployment triggered by the rapid liberalization policy became a matter of argument, as it is considered as a typical indicator of the size of the transitional cost. The size itself of unemployment remains vague, as many researchers have estimated this in different ways. Unemployment in Poland is often discussed as the side effect of the shock therapy. Generally, the critics of the shock therapy emphasize the mass unemployment with even more potential unemployment, and the outflow from the labor market because of the desperate situation of job

seekers. On the other hand, supporters of the shock therapy stress that some of the unemployed never try to seek jobs even when registered, and that some earn their living out of the vast so-called 'grey zone'. Hence, how can we explain the reality of unemployment in Poland? In this section, I would like to consider the matter of unemployment figures mainly by defining the concept of unemployment in major statistics.

The main sources of data on unemployment in Poland are:

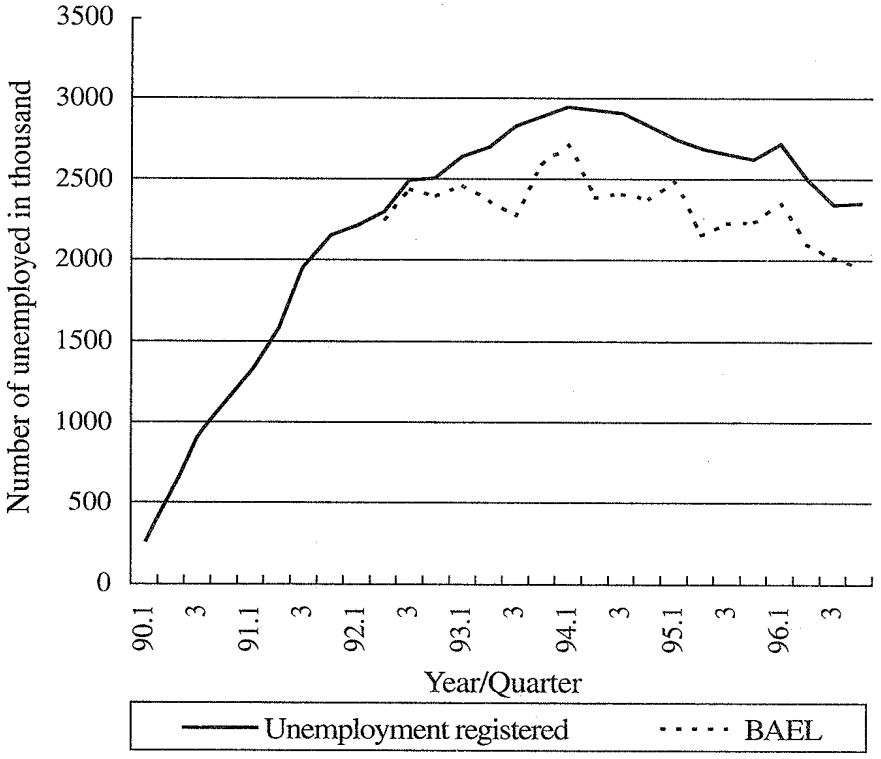
1. The data provided by the Central Statistical Office (GUS). The Central Statistical Office publishes both the number of registered unemployed -which we will discuss later- and the number of unemployed, based on data from BAEL in a variety of publications. These include *Statistical Yearbooks* (*Rocznik Statystyczny*), *Statistical Bulletins* (*Biuletyn Statystyczny*), and *Statistical Studies and Analyses* (*Studia i analizy statystyczne*);
2. The information compiled on the basis of labor market reports prepared by the Ministry of Labor and Social Policy. The National Labor Office publishes these data in *Labor Market* (*Rynek Pracy*);
3. The information derived from the Polish Labor Force Survey (LFS = badanie aktywności ekonomicznej ludności: BAEL). The definition of unemployment and the data collection methodology (sample survey by questionnaire) are consistent with recommendations of the International Labor Organization (ILO);
4. The population census carried out according to the standard international methodology, which is fully comparable with data from other countries;
5. Independent research and so-called follow-up surveys developed by various institutions or individual scholars.

Needless to say that the population census, which includes the unemployment survey in accordance with standard international methodology, is not conducted very often. Independent researches by individual scholars and institutions are often interesting, but they are mostly conducted over a short-term basis and in a small area because of budgetary reasons. The Registered Unemployment Survey and the Polish Labor Force Survey (BAEL) are carried out nationwide and continuously; and hence they are useful for an overall, dynamic analysis.

Usually, the official number of unemployed refers to the number of unemployed registered at the 400 regional labor offices (Rejonowy Uzrąd Pracy)

nationwide and its branches (Filia Rejonowego Urzędu Pracy). The regional labor offices define "unemployed" according to the Law on Employment and Counteracting Unemployment (Oct. 16, 1991, *Dziennik Ustaw Rzeczpospolitej Polskiej*. Nr 106, poz. 457, 1991), which has been revised several times (Dz. U. z 1992 r. Nr 21, poz. 84, Nr 78, poz. 394; Dz. U. z 1994 r. Nr 43, poz. 165, Nr108, poz. 516). The latest version (Dec. 14, 1994, revised, Dz. U. z 1996 r. Nr 47, poz. 211.) defines "unemployed" as men of 18-64 years of age (women, 18-59; this includes underage graduates of 14-18 year-old) who have the will and the capability to work, who do not receive old-age pensions, disability pensions, sick benefits, or child-upbringing allowances, those who do not own a farm or an agricultural land larger than 2 hectares, and who present themselves at least once a month at the office and declare the will to take a job (from 1992), etc (See Annex). The definition of those unemployed has not much changed even after several revisions, although in practice (especially in qualifying for unemployment benefits) it has become more and more strict. This is because,

Figure 2. Unemployment registered and unemployment by BAEL



Source: Drawn according to *Labour Force Survey in Poland. November 1996*. GUS, Warszawa, 1997, p.XXI; *Biuletyn Statystyczny*. GUS, Warszawa, 1990-1997.

when the law was first enacted, the loose definition of unemployment and the low qualifying criteria of unemployment benefits generated some negative effects. Many youngsters chose to receive unemployment benefits right after finishing school, and the system offered disincentives for the unemployed to get a job.[15]

The BAEL, consistent with the recommendations of the ILO, has been conducting a representative survey on unemployment basically 4 times annually (in February, May, August, and November, since 1992).[16] The survey is conducted on family members over 15 years of age in the referred family.[17] BAEL defines the unemployed as follows: the unemployed comprises persons aged 15 and

Table 2–a. Unemployment registered in Poland (1990-1996)

	Unemployment registered (in thousands)	Unemployment rate (%)	Job offer (in thousands)
1990.1	266.6	1.5	24.1
2	568.2	3.2	42.5
3	926.4	5.2	61.0
4	1126.4	6.3	54.1
1991.1	1322.1	7.3	45.8
2	1574.1	8.6	47.4
3	1970.9	10.7	48.0
4	2155.6	11.8	29.1
1992.1	2216.4	12.1	26.8
2	2296.7	12.6	31.7
3	2498.5	13.6	40.5
4	2509.3	13.6	22.9
1993.1	2648.7	14.4	27.2
2	2701.8	14.8	37.0
3	2830.0	15.4	41.8
4	2889.6	15.7	21.7
1994.1	2950.1	16.7	33.4
2	2933.0	16.6	45.4
3	2915.7	16.5	52.3
4	2838.0	16.0	25.2
1995.1	2753.8	15.5	38.9
2	2694.0	15.2	45.9
3	2657.2	15.0	50.0
4	2628.8	14.9	20.5
1996.1	2726.0	15.4	30.4
2	2508.3	14.3	35.8
3	2341.0	13.5	36.2
4	2359.5	13.6	13.8

Source: *Biuletyn Statystyczny*. GUS, Warszawa, 1990-1997.

over and who meet the following three conditions:

· were not employed in the reference week;[18]

· were actively looking for a job;[19]

· were ready (able) to take a job in the reference week and in the following one.

As clearly seen in Figure 2, Table 2-a and Table 2-b, the BAEL estimate, since its first survey, is lower than the number of registered unemployment by almost 15-20% at its extreme values. Usually the unemployment figures provided by a questionnaire are higher than the number of registered unemployment at the labor offices, since the former includes potential unemployment. In this case, however, the number by BAEL is lower by 15 to 20%; this means that there are hundreds of thousand people who are officially registered as unemployed, yet they do not meet BAEL criteria of unemployment. Therefore there is a persistent argument that the actual unemployment rate in Poland is not as high as it appears in statistics.

One specific reason often mentioned is the so-called grey zone ("szara strefa") spread widely in the country. In the grey zone, people are engaged in unauthorized economic activities to evade high taxation, and this area considerably expanded during the "blank" period after the collapse of the socialist economy system and before the full installation of the new system. The argument that the unemployment in Poland is not as serious as it appears in statistics is based on the idea that many people earn money in this grey zone.

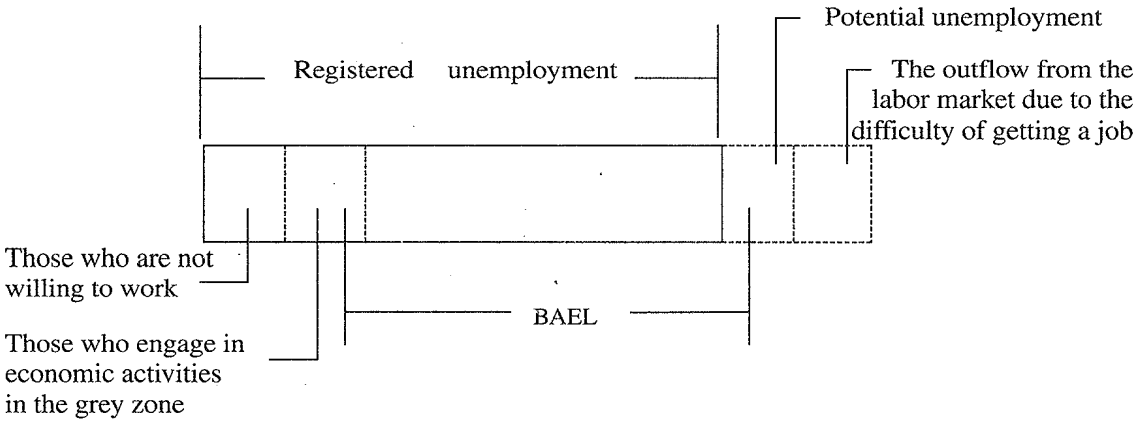
Next, let us discuss the problem of the disparity in the size of

Table 2–b. Unemployment by BAEL (in thousands)

1992.5	2254
8	2437
11	2394
1993.2	2467
5	2371
8	2274
11	2595
1994.2	2719
5	2391
8	2409
11	2375
1995.2	2491
5	2156
8	2227
11	2233
1996.2	2349
5	2103
8	2018
11	1961

Source: *Labour Force Survey in Poland. November 1996*. GUS, Warszawa, 1997, p.XXI.

Figure 3. Unemployment by definition



Source: Taguchi

unemployment caused by the definition as well as the problem of deviation caused by the methodology. Figure 3 compares the number of registered unemployed at labor offices with the result of the BAEL survey. "Registered unemployed" includes those who are not seeking a job and have no will to work, but receive unemployment benefits as long as they are entitled to them, while the BAEL terminology excludes those who are not actively searching a job. Also, the registering procedure at regional labor offices depends basically on self-declaration; therefore, it is impossible to identify if one is working in the grey zone or not unless s/he declares it. Generally it is natural that people who came to receive unemployment benefits hide some income from the grey zone. Meanwhile, there is a group of potentially unemployed who are willing to work, but have not registered at regional labor offices for various reasons (e.g. family matters, pessimism over the labor market, distance of the regional labor office from their homes). Among these potentially unemployed, some are searching for a job on their own, while others are not. There is also a group of outflow from the labor market, who have just given up seeking a job in the harsh economic situation due to their old age or other factors; these are not included in the concept of unemployment.

It is impossible to measure the exact size of each group, but we could try some estimation as follows.

(1) Unemployed with no will to work

"Unemployed with no will to work" specifies those who are registered as unemployed at regional labor offices, but are not actively seeking a job, or pretend

Table 3. The registered unemployed who did not actively seek a job in a month (%)

	Total	Men	Women	Cities	Villages
Total	27.8	24.3	30.5	27.7	27.9
Newly registered unemployment	27.6	23.5	30.5	28.6	26.1
Registered as unemployment more than once	28.3	25.9	30.5	25.5	31.7

Source: Kostrubiec, Stanislaw; Kowalska, Anna. *Efektywność polityki rynku pracy.* GUS, Warszawa, 1997, p.35.

to be seeking one. Table 3 shows the result of a questionnaire survey carried out by BAEL during 1992-1996: It indicates the number of the registered unemployed who have not actively searched for a job in a month. The size of this group expanded, when the government eased its criteria for unemployment benefits with the purpose of relieving some negative effects of the shock therapy. In Table 3, the unemployed registered at the regional labor offices, and who are not actively seeking a job, account for 27.8% of the total number of registered unemployed. Table 3 also clearly shows that women are more passive in seeking a job than men. When the ILO definition is applied to the same survey, the unemployed who are "actively seeking a job" account for 39% of the total number of registered unemployed; those who are not, for 43%. The remaining 18% engage in some form of economic activities for income.[20]

(2) Participants in economic activities in the grey zone

The largest part of activities in the grey zone is frontier trade and its associated economic activity.[21] Frontier trade is estimated to account for over 30% of the total amount of money which appears in statistics as official exports; it has already reached several billion dollars.[22] The Central Statistical Office estimates that the value of unofficial export to Germany in 1993 is as large as 20-40% of the total official export. The amount of foreign currency flows into Poland from Germany through the grey zone is estimated as 1.1-1.3 billion dollars, assuming that the increase of entries from Germany to Poland is mainly due to the increase of shoppers. Similarly, in 1995, statistics for the official export from Russia to Poland are 1282 million dollars. The Central Statistical Office estimates the value of unauthorized exports from Poland to Russia through the grey zone, at least to the same value; yet it does not appear in the official statis-tics.[23]

The actual size and activities of the grey zone differ among regions. On the Western border it is mainly a typical frontier trade. In the former East Germany

prices had almost reached the level of that of former West Germany, whereas the quality of goods in the East did not improve so fast. In Poland the quality of products improved comparably faster, which made the price seemingly cheap; hence Germans living on the border started to enter Poland frequently for shopping. Therefore, it can be said that expansion of the grey zone comes from the difference between purchasing power parity and the official exchange rate. On the Eastern border, circumstances are different. The shock therapy in Poland had stabilized the value of its currency comparably in the early period of transition, although production did not increase as expected for a certain period. Then cheap goods poured in from Russia, causing a huge amounts of foreign currency to flow back into Russia, given also the background that the Russian rouble was unstable and there was a high demand for foreign currencies in the country. The real value of the dollar fell, however, as the Russian economic reform started to yield some results. On the contrary in Poland, as economy was recovering, purchasing power parity of the zloty rose relatively, which caused a major flow of foreign currency into Poland. Given this situation, industries manufacturing at home - such as dress- and shoe- making- flourished to form another grey zone in Poland. There was a unemployment problem among women in the textile industry which was seriously damaged by the transitional recession; it was eventually solved when these unemployed women moved into the grey zone. This in turn reduced production costs in dressmaking, and lowering the sales price to a level competitive enough with neighboring countries. The characteristics of the grey zone on the Eastern border are: (1) the existence of goods distribution channels connecting the Russian market through neighboring Belarus, Ukraine, and Lithuania; (2) the existence of a vast grey zone in Russia itself, that backs up the expansion of the Polish one; (3) the location of the trade center of in Warszawa and Łódź, and not in the bordering region; (4) a high unemployment rate, a cheap labor force in labor-intensive industries standing on the unemployment, and the preference to evade high tax in the country. All this supports the expansion of the grey zone. In the South, the bordering area with Czechoslovakia displays characteristics of both the East and the West.

It is difficult to measure the exact size of the population who earn an income in the grey zone, although it is possible to estimate the approximate number from the nationwide survey carried out by the Central Statistical Office (GUS). According to the 1995 survey, 960 thousand people engage only in the labor

relating economic activities in the grey zone.[24] Another reference shows that in 1995, a total of 2034 thousands perform some economic activities in the grey zone, with 880 thousand (about 5% of the total employees) mainly working in the grey zone.[25] Also, according to the Central Statistical Office announcement published in a daily newspaper, 2.4 million worked in the grey zone in 1996; among these, 180 thousand engaged in economic activities exclusively in the grey zone, 220 thousand occasionally, and the rest a few days to 20 days a year.[26] Moreover, data from the Ministry of Labor and Social Policy state that there are nearly 20 thousand illegal (undeclared) workers (according to the same newspaper). The figures may vary, but it is clear that several hundreds of thousand live on the income from the grey zone. There are various workers in the grey zone: pensioners and retirees, students, housewives, registered unemployed, the excess population in agricultural villages, illegal foreign immigrants, workers with a side job etc.[27] As mentioned in (1), if we assume that 18% of the 2.5-million registered unemployed were working in the grey zone, 450 thousand people were involved into economic activities in the grey zone.

(3) Potential unemployment and hidden unemployment

In this section, I define "potential unemployment" as the group of people who are willing and able to work, but are too pessimistic about the possibility to continue active job seeking. "Hidden unemployment" describes excess labor inherited from the socialist economic system both in enterprises and in farming villages.

According to the Central Statistical Office surveys, potential unemployment includes 280-290 thousand at its peak in 1995-1996, which is equal to about 11% of registered unemployment, and to 13% of unemployment based on BAEL. Hidden unemployment took up to 1.4 million out of all the employees at its peak in 1991.

The excess population in agriculture is estimated as 720-900 thousand. The Central Statistical Office conducted a survey in 1994 using an objective standard (that is, whether one engaged in farming over 3 months a year, and if s/he did, whether s/he worked over 3 hours a day) and as subjective standard (how many workers are necessary from the viewpoint of a farm owner). The result showed that nearly 900 thousand workers in farms larger than 1 hectare did not meet the objective standard, among which 500 thousand are of working age. Moreover,

farm owners answered that a total of 325 thousands workers are unnecessary in light of subjective standards, and that another 408 thousands are needed only seasonally. Therefore, excess labor in agriculture can be estimated to 500-730 thousand.[28]

(4) The outflow from the labor market

The outflow from the labor market does not appear as unemployment in any statistics. However we can assume that the outflow consists of people who were willing to work; yet they decided to live on pensions and taking advantage of an early retirement system or to go back to home making under the severe economic situation. It is again difficult to estimate the exact size of this group of people, but we could in part estimate the number of outflow from the labor market from the increase of pensioners observed with the worsening of economic conditions. Table 4 displays the population of pensioners and the non-working of working age. We can see the rapid increase of pensioners (1) in 1990 compared with the slow increase of the non-working (2). The number of pensioners has increased by 661 thousand in 1985-1989, while it boosted by 2107 thousand -that is, 3 times faster- in 1989-1994. It is also remarkable that in 1989-1994, while the

Table 4. Pensioners and non-labor force above the labor age (1985-1994)

	Pensioners (in thousands)	Non-labor force labor above the labor age (in thousands)	1:2	Potential pensioners relative to the number in 1989 (in thousands)	1−4
	1	2	3	4	5
1985	6234	4486	1.40	×	×
1989	6895	4799	1.44	6859	×
1990	7390	4903	1.50	7060	+330
1991	8369	4979	1.68	7170	+1199
1992	8621	5062	1.70	7289	+1332
1993	8819	5140	1.70	7402	+1417
1994	9002	5218	1.72	7514	+1486
Growth					
1985−1989	661	293	2.26	×	×
1989−1994	2107	419	5.02	×	×

Source: *Raport o rozwoju społecznym. Polska '95.* Split Trading, Warszawa, 1995, p.101.

number of non-workers of working age increased by 419 thousand, pensioners increased by 2107 (5 times faster). The gap between the number of pensioners and non-workers (3) has also widened to 1.72 in 1994 from 1.44 in 1989. It is clear that a large a fraction of the population took up living on pension under the early retirement system in the turmoil of transitional recession and economic structure transformation. Here, let us assume that the conditions in 1989 represent an average, when the difference between pensioners and non-worker of working age is 1.44. Then multiply by the number of non-workers of working age, that can be considered as the number of potential pensioners (4). We can thus estimate, from the gap between (1)(4), the number of outflow from the labor market who took advantage of early retirement system to avoid the recession and restructuring. The outcome is shown as (5), nearly 1.5 million in 1994.[29]

With this in mind, I have to admit that the argument that "the unemployment problem in Poland is not as serious as it appears in the statistical numbers" is valid. There are over 700 thousand registered unemployed who are not actively seeking a job and another 450 thousand registered unemployed are working in the grey zone. This means that over a million are not considered unemployed according to the ILO definition. On the other hand, the argument that "the reality is more severe than the statistical numbers" is also true considering the fact that, in reality, there are nearly 300 thousand potential unemployed and 300-500 thousand of excess labor in agricultural villages. Also, 1.5 million turned out to be the outflow from the labor market; they retired to become pensioners because of the recession and restructuring. Therefore, I can hardly say which one of those arguments is more true, since both have enough supportive material. Yet it has been extremely meaningful to look into official statistics and relating data for a better and clearer understanding of the truth.

IV. The basic structure of unemployment

Now I would like to look at the basic structure of unemployment in Poland. Let us review the basic statistical data to clarify some overall characteristics as listed below:

(1) High rate of unemployment

Compared to Central and East European countries in 1994, unemployment rate of Poland is considerable higher: 3.2% in the Czech Republic, 10.9% in Hungary, and 16.0% in Poland.[30] Table 2-a clearly shows that the unemployment rate has risen rapidly from the very first stage of the transition and it has reached its peak range of 16% in 1994. As we have discussed in the first section, the decline of unemployment rate is far behind GDP recovery. Although the GDP growth rate already hit bottom in 1991, and started to recover in 1992, employment kept on declining for a certain period after that. It is a favorable indicator in that the labor productivity improved, while it also shows the reality that the labor force composition could not match the transformation of the industrial structure.

(2) Territorial diversity

Table 5 presents the highest and the lowest area in unemployment rates. Generally the unemployment rate is lower in larger cities. In the highest area the rate comes close to 30%, while it stays below 10% in big cities. Especially in Warszawa, despite an unemployment rate of 7.5% (1994), certain economic sectors suffered a labor shortage. An exception is the industrial city Łódź, whose textile industry suffered a destructive blow causing its unemployment rate to rise to 19.5% in 1994.[31] Remarkably the rate in agricultural areas is higher. The unemployment rate was also higher -and the employment level was slow to recover — in areas where many state farms (PGR) were formerly located, as well as in middle- and small- sized regional cities where major firms were specialized in producing goods for export to COMECON countries and the former Soviet Union.

(3) High unemployment rate among young people

In 1994 when the unemployment rate peaked, unemployment of people under 24 years of age accounted for 34.6% of the total unemployment; for people younger than 34 year-old, it reached 62.0% (See Table 6). In the midst of the restructuring of enterprises, tight recruitment policy, the gap between vocational/ secondary school education, the requirements of newly developed industries, and other factors have led to high youth unemployment. Some tried to wait for the economic situation to improve while receiving unemployment benefits as

Table 5. Regions with the highest and lowest unemployment
(End of 1993 and 1994)

Unemployment rate = %

	1993	1994
Total	15.7	16.0
A. Region with the lowest unemployment rate		
1. Warszawa	7.2	7.5
2. Kraków	7.7	8.5
3. Poznań	8.2	8.8
4. Katowice	9.7	10.1
5. Bielsko-Biala	11.1	11.5
Average	8.8	9.3
B. Region with the highest unemployment rate		
1. Słupsk	28.7	30.5
2. Suwałki	28.6	29.1
3. Koszalin	27.8	28.0
4. Olsztyn	26.8	28.2
5. Wałbrzych	24.5	27.1
Average	27.3	28.6

Source: Kabaj, Mieczysław. *Programmes and Strategies for Counteracting Unemployment and the Promotion of Productive Employment in Poland.* ILO-CEET Report No.15, Budapest, 1996, p.12.

Table 6. Unemployment by age (in thousands)

	Total	up to 24 years	25－34	35－44	45－54	55 years and over
1992	2509.3	867.7	746.1	620.3	231.6	43.6
1993	2889.6	995.0	824.7	729.1	284.2	56.6
1994	2838.0	981.5	777.7	718.3	302.4	58.1
1995	2628.8	909.0	708.1	660.5	298.0	53.2
1996	2359.5	734.5	645.3	608.6	313.5	57.6

Source: *Bezrobocie rejestrowane w Polsce. I kwartał 1997.* GUS, Warszawa, 1997, p.13.

we discussed in the second section of this paper; however, their number is decreasing as the economic situation improved and the criteria for entitlement for unemployment benefits became stricter.

(4) Unemployment among unskilled workers

It is also remarkable that the unemployment rate of unskilled workers is noticeably high in the unemployment structure of Poland (See Table 7). In 1994, 71.4% of the total unemployment is found among graduates of a primary school (8 years) or a vocational school. This is related to the reorganization and decline of the traditional labor-intensive industries, the release of excess labor from large enterprises, and also worsening conditions of regional middle- small- sized cities and economy in agricultural villages. The new industries that developed after the structural reform require more and yet more skilled labor, while training programs for reemployment has not been functioning as expected. For example, retraining program of accounting does not really contribute to form skils of unskilled workers, while accountants, who are temporary unemployed, take this program to upgrade their skills.

(5) Long-term unemployment

The two most severe problems in unemployment structure of Poland are the high rate of unemployment and a chronic unemployment (See Table 8). In 1994, 44.2% of total unemployed were looking for a job for more than 12 months. This is the outcome of a lengthening transitional recession, the staggering economic recovery in middle- and small- sized cities where unemployment is most serious, and the low reemployment of unskilled workers.

(6) Rise in unemployment and gradual fall in real wages

As seen in Figure 4, there is a downward tendency in real wages while the unemployment rate rises in Poland. If you compare this tendency with that of Czech Republic, the contrast is even more obvious. In Czech Republic the growth rate of real wages and the unemployment forms almost a vertical line: while the unemployment rate stays low, real wages are quite elastic. That means that in Czech Republic the labor market changes according to the wages rather than the size of the employment.[32] In Poland, it is often pointed out that real wages never fall sharply because of the strong labor unions which were the driving

Table 7. Unemployment by educational attainment (in thousands)

	Total	University	Secondary vocational	General secondary	Basic vocational	Primary and lower
1992	2509.3	56.6	527.9	177.9	964.6	782.4
1993	2889.6	52.1	581.5	193.2	1131.2	931.5
1994	2838.0	47.6	570.2	194.4	1118.3	907.5
1995	2628.8	38.9	531.6	188.2	1025.0	845.0
1996	2359.5	31.4	471.0	151.7	907.7	797.6

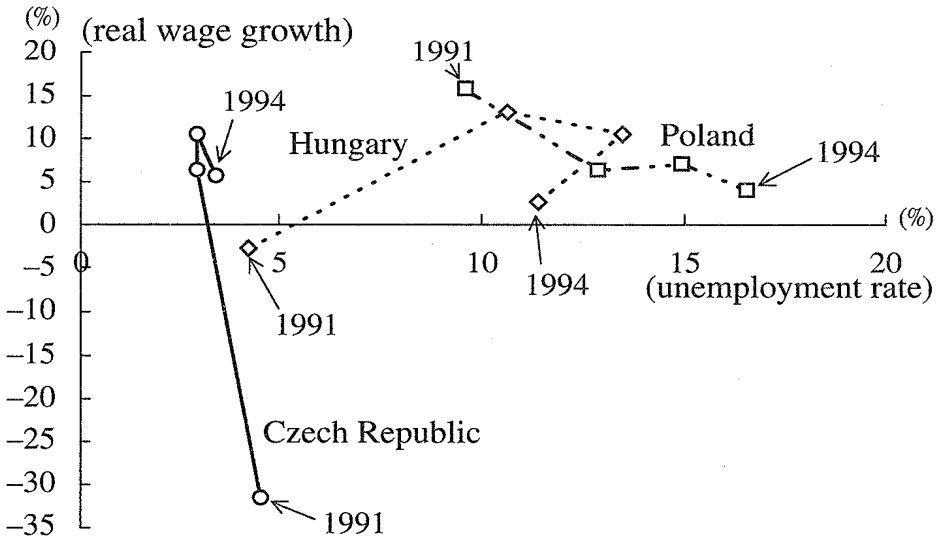
Source: *Bezrobocie rejestrowane w Polsce. I kwartał 1997.* GUS, Warszawa, 1997, p.13.

Table 8. Duration of unemployment (in thousands)

	Total	Up to 1 month	1−3	3−6	6−12	12−24	24 month and more
1992	2509.3	118.1	312.9	393.2	551.0	1134.1	
1993	2889.6	138.3	368.8	454.1	633.8	1294.7	
1994	2838.0	159.6	354.4	428.3	640.4	687.7	567.5
1995	2628.8	170.7	382.7	451.2	642.0	493.8	465.6
1996	2359.5	189.1	333.0	365.0	503.7	520.4	448.6

Source: *Bezrobocie rejestrowane w Polsce. I kwartał 1997.* GUS, Warszawa, 1997, p.14.

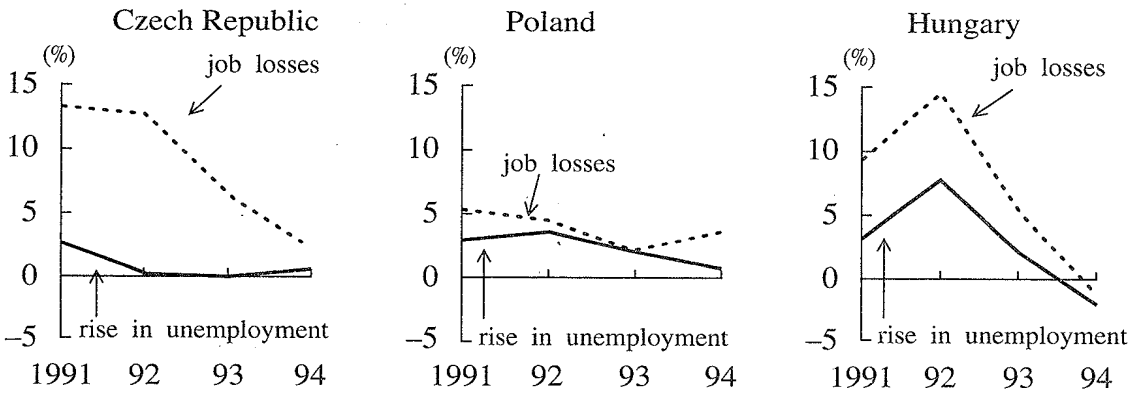
Figure 4. Real wages and unemployment rates in Czech Republic, Poland, and Hungary



Note: 1. The first half for 1994.
2. Real wages are nominal wages deflated by producer prices.

Source: Ikemoto, Kengo; Umetani, Kenji. "Comparative Analysis of Labor Markets in Central and Eastern Europe. Why is the Unemployment Rate So Low in the Czech Republic?" in: *Monthly Econmic Bulletin (Keizai Geppo),* Research Department, Economic Planning Agency, Tokyo, May, 1995 p.31.

Figure 5. Relationship between job losses and rise in unemployment (as a percentage of labor force)



Note: 1. When the difference between the two lines is small, it implies that job losses turn into unemployment directly. On the other hand, the wider difference suggests the existence of a large number of discouraged wokers.
2. The first half for 1994.

Source: Ikemoto, Kengo; Umetani, Kenji. "Comparative Analysis of Labor Markets in Central and Eastern Europe. Why is the Unemployment Rate So Low in the Czech Republic?" in: *Monthly Econmic Bulletin (Keizai Geppo),* Research Department, Economic Planning Agency, Tokyo, May, 1995 p.32.

force of the social transformation.

(7) Declining employment and increasing unemployment

Let us look at Figure 5 to compare the relation between the decline in employment and the rise in unemployment in Poland with that in Czech Republic. While the unemployment does not rise even when the employment plunges in the Czech Republic, the rise in unemployment and the decline in employment are correlated in Poland. That is, in Poland, those who retired or lost jobs still stay in the labor market as the unemployed, while in the Czech Republic there is a tendency of outflow from the labor market. It is understandable when we see the Polish government compensate the unemployed with benefits comparably better, while the Czech Republic has introduced the early retirement system (retirement could be advanced by 2 years at most), and promoted the retirement of women by raising child upbringing allowances. The unemployment rate in the Czech Republic would have been around 8%, had there been a correlation between the decline in employment and the rise in unemployment as in Poland. [33]

V. Concluding Remarks

The analysis in this paper brought the following to light:

1. The high rate of unemployment in Poland was mainly due to the shock therapy that caused the lessening of demand in the early period of system transformation, although the structural factor became more evident as the transformation proceeded.
2. The characteristics of unemployment structure are a large geographical diversification, a high unemployment rate among young people and unskilled workers; this persistent structural problem has caused the current chronic unemployment structure.
3. Although there are many arguments over the figures in the unemployment statistics, it is certainly true that over a million registered unemployed are either not actively seeking a job or working in the grey zone. And another million consists of the potentially unemployed, excess population in rural villages, and the outflow from the labor market receive a pension earlier because of the recession or the restructuring despite their will to get a job.

At last, although unemployment after 1997 is not analyzed in this paper, the situation seems to have improved according to the statistics reports, even if it is somewhat behind the current economic recovery. How this situation improves is worth close attention; that is, monitoring whether the unemployment rate will be lowered to the original level as the economy develops, or if the unemployment structure formed before 1990 chronically persists.

Annex

The Law on employment and counteracting unemployment. (April 23, 1996, Dz. U. Nr 47, poz. 211. *Dziennik Ustaw Rzeczpospolitej Polskiej.*)

(....)
Article 2 Wherever the Law mentions:
(....)
2) unemployment(bezrobotny)-it means a person referred to in Article 1

Section 2 point 1 and 2 (*1), not employed and having no other gainful occupation, subject to Article 26 Section 1(*2), capable of working and ready to take up full-time employment for the worktime binding for a given occupation or service, subject to letter 9), not being schooled under the day-time system, and registered at the labor office (rejonowy urząd pracy) at the place of (permanent or temporary) residence providing:

a) he or she is over 18, with the exception of underage (*3) graduates (*4),
b) the woman is under 60 and the man under 65,
c) has not acquired entitlement to old-age or disability pension, or after the cease of employment does not receive a rehabilitation benefit, sickness, maternity or child upbringing allowance,
d) is not an owner or holder (free or tenant) of an agricultural property, as specified by the provisions of the Civil Code, having farmland area over 2 standard hectares, or a farm constituting a special area of farm production within the meaning of tax regulations, unless the income from special production areas calculated for the purposes of personal income tax exceeds the average amount of income from work in private agriculture as per 2 standard hectares, specified by the Minister of Labor and Social Policy under the agricultural tax regulations,
e) is not covered by old-age and disability pension insurance by virtue of permanent work as a household member in a farm having a farmland area over 2 standard hectares or constituting a special area of farm production, from which the income calculated for the personal income tax purposes exceeds the income from 2 standard hectares referred to in latter d),
f) has not undertaken non-agricultural business activity since the date indicated in the registration entry until the date of striking that activity off the register, or is not subject - under separate regulations - to mandatory social security or pension insurance,
g) is an able-bodied person, whose health condition allows for undertaking employment for at least half of the worktime binding for a given occupation or service,
h) is not temporarily arrested or serving a term in prison.

Notes on translation of the Law on employment and counteracting

unemployment.

(*1) Polish citizens residing in Poland seeking and undertaking employment or other gainful occupations in the territory of the Republic of Poland and employment abroad with foreign employers, as well as foreigners staying in the territory of the Republic of Poland who are holders of residence cards or who have been granted the refugee status in the Republic of Poland seeking and undertaking employment or other gainful occupations in the territory of the Republic of Poland.

(*2) The status of the unemployed and the right to the unemployment benefit shall be retained by the unemployed who undertook a job or any other gainful occupation after at least 30 days from the date if registration at the labor office and receives pay or income in the amount lower than one-half of the lowest wage.

(*3) According to the Labor Law in Poland, underage means 14-18 years old.

(*4) The underage graduates here refers to those who has started to seek jobs after graduation, and in principle, with in 12 months after the date on the graduation certificate) the Law on employment and counteracting unemployment, Article 2 Section 1)

NOTES

1. Kwiatkowski, Euganiusz. "Bezrobocie w Polsce w okresie transformacji. Rola szoku realokacyjnego, podażowego i popytowego". in: Sztandaska, Urszula ed. *Rynek pracy w trakcie transformacji systemowej w Polsce.* (Materiały konferencyjne), MZBGP Wydz. NE UW, Warszawa, 1992, pp.47.
2. *Praca 1990.* GUS, Warszawa, 1991, p.XXIX.
3. *ibid.*, p.XXIX.
4. As for the mining and textile industries, the fall in employment is larger than that in sector production (see Kwiatkowski, *op. cit.*, pp.48).
5. Kabaj, Mieczysław. *Programmes and Strategies for Counteracting Unemployment and the Promotion of Productive Employment in Poland.* ILO-CEET Report No.15, Budapest, 1996, p.16.
6. *Rocznik Statystyczny 1993,* GUS, Warszawa, 1993, p.111.
7. I made reference to the analysis in "Bezrobocie w Polsce w okresie transformacji. Rola szoku realokacyjnego, podażowego i popytowego" (Kwiatkowski, *op. cit.*, pp.43-63).
8. *Rocznik Statystyczny 1996,* GUS, Warszawa, 1996, p.51, 122. The labor age in statistics in Poland is 18-64 for men and 18-59 for women.
9. The reasons of the tight finance policy of banks are the poor structure of the new bank

system, including the development of commercial banks, the strict financial conditions caused by the large deficit of state enterprises, and the rise in bank rate due to inflation.

10. Kwiatkowski, *op. cit.,* pp.53-55.
11. *ibid.,* pp.55-57.
12. *Rocznik Statystyczny 1996,* GUS, Warszawa, 1996, p.LIX.
13. *ibid.,* p.510.
14. Balcerowicz, Leszek. *Socjalizm, kapitalizm, transformacja. Szkice z przełomu epok.* Warszawa: PWN, 1997, p.244-245.
15. The registered unemployed used to be entitled to unlimited unemployment benefits at first, now limited up to 12 months. Except between 1992 and 1994, when the structural unemployment was particularly severe, they received benefits up to 18 months. Also the unemployed can receive the benefits for 24 month before going on pension. In mid 1990s another condition was added: one is entitled to the unemployment benefits only when he/she has worked more than 180 days in 12 months.
16. See the detailed methodology in *Labour Force Survey in Poland. November 1996.* Warszawa: GUS, 1997, p.VII-XIII.
17. The household member includes those who stay in the territory of the Republic of Poland more than 2 months either as a permanent resident or a temporary visitor, who are abroad less than 2 months, and who stay abroad more than 2 months due to the requirement of his/her occupation such as crews on a ship, and excludes those who stay in the employees' housing of a company, and employees hired by Polish nationals abroad.
18. The labor includes not only employees but also absent employees. An employee is one who was engaged in activities to collect wages, salary, benefits and extra income from side jobs more than 1 hour during the period of the survey. The activities include agricultural work, and work for a home industry even if he/she is not paid.
19. The job search has to be over 4 weeks during the period of survey, and actual actions have to be taken in that period.
20. Kostrubiec, Stanisław; Kowalska, Anna. *Efektywność polityki rynku pracy.* Warszawa: GUS, 1997, p.35.
21. See: Taguchi Masahiro. "Polish Foreign Trade Statistics in Transition", in: *Annals of the Association for Comparative Economic Studies*, Vol.35, Feb. 1998, pp.91-96, (in Japanese).
22. To acquire more statistic data of the activities in the grey zone, the Central Statistical Office has conducted nationwide surveys by questionnaire at border customs started in 1994. The results have been gathered twice a year. The questionnaire includes expense on purchased goods (by 17 categories), and other expense on hotel and services. Foreigners who entered by cars and motorcycles are also asked how long he/she stayed in Poland, how many people he/she accompanied, how far is his/her residence from the border, how far was the destination in Poland from the border, and where he/she has spent any money. The answer is voluntary and anonymous. (See: *Ruch graniczny i wydatki cudzoziemców w Polsce w I półroczu* 1996 r. GUS, Warszawa, 1996, p.3).

23. *Szara gospodarka w Polsce. Rozmiary, Przyczyny, Konsekwencje.* GUS Zakład Badań Statystyczno-Ekonomicznych, Warszawa, 1996, p.41.
24. Kałaska, Małgorzata; Witkowski, Janusz. *Rynek Pracy w Polsce w 1996 roku: Kontynuacja korzystnych tendencji.* GUS, Warszawa, 1997, p.13.
25. Kabaj ,Mieczysław. *Strategie i programy przeciwdziałania bezrobociu. Studium porównawcze.* SCHOLAR, Warszawa, 1997, p.64.
26. *Gazeta Wyborcza*, 1997.2.24.
27. *Szara gospodarka w Polsce. Rozmiary, Przyczyny, Konsekwencje.* GUS Zaklad Badan Statystyczno-Ekonomicznych, Warszawa, 1996, p.48.
28. Kałaska, Małgorzata; Witkowski, Janusz. *Rynek Pracy w Polsce w 1996 roku*:Kontynuacja *korzystnych tendencji.* GUS, Warszawa, 1997, p.50-51.
29. *Raport o rozwoju społecznym. Polska '95.* Split Trading, Warszawa, 1995, p.101.
30. *CESTAT Statistical Bulletin. 1996/3,* GUS, Warszawa, 1997, p.19.
31. *Rocznik Statystyczny Pracy 1995.* GUS, Warszawa, 1995, p.68.
32. Ikemoto, Kengo; Umetani, Kenji. "Comparative Analysis of Labor Markets in Central and Eastern Europe. Why is the Unemployment Rate So Low in the Czech Republic?" in: *Monthly Economic Bulletin* (*Keizai Geppo*), Research Department, Economic Planning Agency, Tokyo, May 1995, p. 31.
33. *ibid.,* p.32.