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### Reasons and Sources of Unemployment in Poland During System Transformations

Przyczyny i źródła bezrobocia w Polsce podczas zmian systemowych

The phenomenon of unemployment takes place in all countries that in managing of manpower are mostly based on market mechanism. The counteraction, the appearance of high unemployment level, prevention of structural unemployment, equalization of job markets in regional systems as well as softening the social results of unemployment are essential directions of state interventionism in those countries. However, despite distinct programs of neutralization the unemployment and giving large means for this purpose, the unemployment level in most of West Europe countries equals 7—12%. That is: in Austria — 7.3%, Denmark — 11.3%, France — 11.2%, Netherlands — 5.2%, Spain — 21.7%, West Germany — 8%, Sweden — 7.1%, Great Britain — 10.5%, Italy — 9.5%<sup>1</sup>.

In Poland, after long time of deficit of man power (despite hidden unemployment estimated as 20—30%), the rapid decrease of factories' requests for labour followed in the 90's. Starting from January 1990, we observe the appearance and then intensification of unemployment phenomenon. In September 1993, the unemployment level in Poland exceeded 15% and the amount of unemployed people approached 2,830 million.

The dissimilarity of unemployment conditions in our country, however, should be emphasized. It accompanies the transformation process of managing system. It is the consequence of economic changes during domination of new liberal and monetaristic conceptions.

The new rules of economic functioning, tending to transformation of this centrally managed economy to market economy called Balcerowicz program, were carried into effect at the beginning of 1990. Started as part of this program, the fiscal, monetary and salary policies whose purpose

<sup>1</sup> Kwartalnik Statystyki Międzynarodowej 1993, GUS, Warszawa, s. 23.

was suppressing of inflation, displayed to be too restrictive and led to deep economy recession. The reaction of most firms against this program was shifting the results of condition changes to purchasers. Undertaken within transformation process of economy, radical decreasing of subsidy for producers as well as price liberation caused the increase of costs and prices, but not the tendency to improvement of managing efficiency.

On the other hand, the new rules of financing led to significant reduction of money influence, depreciation of people's money resources and decreasing of real wages. It was the reason of arising the demand barrier in short time. Almost overnight, firms that lacked market experience, and that possessed an old technology and staff together with habits carried from centrally managed economy, were faced to hermetic barrier of domestic demand due to social and foreign impoverishment caused by the loss of eastern markets. Meeting demand barrier caused, under condition of big production monopolization and lack of competition, negative adaptation processes in many firms. Instead of looking for possibility of production and sale increasing, production was reduced by means of accepting "waiting" strategies, using group dismissal and reduced working time. In 1990—91, industrial production was decreased by 36%, and the lowest level was in consumption industries. The scale of activity in the rest of economic sectors was also reduced. These tendencies made economic subjects to reduce employment.

The continuation of the restrictive financial policy for state led to financial incapacity of many of them. Difficulties were gone through by firms having modern machines, because they could not fight the financial strains in virtue of dividend as well as those having development and investment program, because they could not fight the barrier of expensive credit. Possibilities were blocked for those firms that wanted to export. Mis-shapen rate of dollar made their efforts unprofitable. Also the way of wages fund reduction in firms (so-called "popiwiek"), weakening the motivation towards work, reduced very much the demand for things on domain market, intensifying the recession.

One should underline that demand reduction was so high that it caused a decrease of production even in firms so far profitable and having market for their articles or servicing; it caused such results as decrease of work demand.

Thus, despite the reasons which had caused inflation before 1990 stopped, the politics whose consequence was demand reduction was still preferred. First, its result was still high inflation; second, intensifying of recession. Finally, the recession appeared in the form of considerable budget deficit that is always inflation threat. It seems that in situation when inflation has cost but no demand character, one must change an

approach to priority in economic politics. The fighting against inflation should be swapped by recession counteraction.

It is characteristic that increasing of free production power accompanies the increasing of unemployment. M. Kabaj estimated the factor of manpower in social industry as 50%, which means that every other place in the industry is not used.<sup>2</sup> Inactivity of machines accompanies inactivity of people.

So-called hidden unemployment was present in central managed economy; it was often named as unemployment at a place of work. It was estimated, as mentioned, approximately 20—30%. It did not get a shape of evident unemployment, so it did not cause pathological phenomena, characteristic of such kind of unemployment. Together with starting the market mechanism, there appeared conditions for transforming it, at least in a part, into evident unemployment.

The thesis that hidden unemployment is one of the determinants for creating unemployment in Poland, especially at the beginning of its increase, was very common. From comparing the decreasing tendencies of production, employment and efficiency, it appears that such thesis is not confirmed because 36% production decreasing in 1990—91 was accompanied by smaller decrease of employment (about 14%). The efficiency in industry in this time decreased by 24%. One should think then, that the process of employment rationalization did not fully start in Poland. Inversely, the hidden unemployment level increases as some economists think.<sup>3</sup>

The collapse of the Council for Mutual Economic Aid (RWPG) and then crash of trading in former U.S.S.R. and former socialistic countries had surely an effect on increasing of unemployment. Politics and economic transformations in these countries caused weakening of traditional trade connections. Economic difficulties of countries having belonged to former RWPG, decrease in their domestic demand as well as conversion to bonded settlement of accounts caused appreciable decrease in Polish export to former socialistic countries, mostly to former U.S.S.R. It originated — as was mentioned before—demand barrier, mostly due to the lack of means in U.S.S.R. and high production costs in Poland. It caused crash of many firms producing for zone I of payments. The clear instance of this is the situation of Polish military clothing, food and machine industry.

Liberality of foreign trade and free access to currency exchange accompanied conditions of unemployment connected with Polish economy

<sup>2</sup> M. K a b a j: Program elements of unemployment counteraction, Social Politics no 1, 1992.

<sup>3</sup> *Ibidem*.

transformation. The sale of Polish producers' articles decreased due to relatively high prices and low quality of Polish products; it seems that the increase of demand for imported articles was psychological. That is, after many years of difficult approach to foreign things, there appeared possibility of free buying them. Also the fact that State military policy was inconsistent and it led to crash of Polish production as well as finally to unemployment increase is not insignificant for increasing demand for import.

Obviously, it must be underlined that part of reasons causing unemployment in Poland has its roots in the past. The market economy has just showed them. There is development negligence: high decapitalization of production means, unpreparing of firms to effective management under conditions of market economy, competition and risk, underdevelopment of large economic regions, and hidden agrarian unemployment, unfitted level and teaching structure to work market needs.

The factor that intensifies unemployment is underdevelopment of large regions of the country, and at the same time, hidden agrarian unemployment. After all, it refers to eastern and central provinces of Poland that have low level of industry and service. These regions are characterized by high employment in agriculture and forestry as well as by high percentage of two-profession people. Grumbled farms with surplus of manpower that was employed in near factories before economy transformation, and at the beginning of it, was laid off, are the majority. It means that due to transformation processes, the inlet of unemployed people to the villages appeared, which increased hidden unemployment scale.

It should be underlined that under Polish conditions, the rural work market is of more importance than elsewhere in Europe. Almost 40% of people live in the country; together with small towns, almost 10 thousand people, that is about 45% people of Poland; almost 28% people working in national economy are engaged in agriculture. In the country and small towns there are no, so far, possibilities of other alternative employment. It forms in local Poland the more difficult situation than in big industrial agglomerations.

Moreover, the unemployment in the country, especially in northern and eastern provinces, increases due to group dismissions from State Farms (PGRs).

The amount of state farms that have no credit possibilities increases systematically. In 1991, 368 farms out of 2,100 lost their credit possibility. Fast worsening of financial situation of PGRs, lack of perspectives for further development create the necessity of making the essential property transformations of these individuals.

In conditions of demand barrier and difficulties in agriculture products sale, the profitability decrease, agricultural production is little attractive for capital investment. At the same time, according to progressive social impoverishment, few people have enough capital to buy the grounds belonging to PGR. There is not also the clear State agrarian policy. Such situation does not encourage to organize companies both by PGR staff and other physical and legal persons.

Thus, the process of transforming them is slow, which worsens much more their economic situation and leads to damage of property, cultivation stopping of part of the grounds. The decrease in production and employment is the result.

Monopolizing of local and regional work markets by relatively big state factories employing considerable percentage of workers had an effect on work market destabilization. In Poland there are approximately 500 factories having over 20% employed people who live where they work <sup>4</sup>.

Regions especially being in danger of unemployment, in which one factory practically monopolizes the work market and its crash threatens with unemployment to domestic people, are especially southern and eastern provinces. Among 15 towns having over 25 thousand citizens, in which one factory concentrates 35% of all workers, 9 are placed in that part of the country. The decrease in employment in social sector is only partially compensated by employment in private sector because the process of this sector forming in Poland is rather slow. Small firms often face specified development barriers, among them: insufficient demand barrier, too high fiscalism, expensive credit barrier, variability of action conditions as well as high rents <sup>5</sup>.

In the near future the unemployment is going to be stronger as being a result of restructuralization of country regions, whose development was based on mining and heavy industry; it refers mainly to Katowice and Wałbrzych voivodeships. These are the regions of ecological damage and low rental of developed branches of industry. In such regions, with traditional, old-fashioned industry, processes of product and branch restructuralization leading to liquidation of work places will be growing.

From these considerations, it results that the main generator of unemployment in Poland is social economy and big industry factories (traditional industry, requiring liquidation or restructuralization).

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<sup>4</sup> F. Adamczyk, J. P. Mosewiz, J. Gieorgia: Work Market in Poland, Foundation "Promotion", Warsaw 1992.

<sup>5</sup> B. Brylska, K. Znamirowski: Development Barriers of Small Private Firms, in: Barriers of Economics Development, Under Conditions of System Transformation, Collective Issue, red. G. Sobczyk, Lublin 1992, s. 137—139.

The important factor of unemployment increase appeared to be, especially among youth, educational system unfitted to market economy needs. This unfitting causes increase in unemployment among graduates of many types of schools. During the central managed economy, employment system soaked in even the larger amounts of secondary school graduates. It does not imply that employment was always consistent to level and structure of education. Moreover, the workers qualifications were not in use either. If qualification structure is not fitted to economy needs, it leads to increase in unemployment, and on the other hand, it is a barrier to economic development. That is why educational system should be so elastic to predicate directions of changes on work market and fit to them.

Among conditions of unemployment there are also: the state of employment agencies, system of information and functioning of institutions called for reduction of unemployment scale and its results. In 1990 the network of employment agencies was extended on the base of former employment departments. There were created 49 provincial and 346 regional employment agencies. In practice, the role of these institutions is mainly to register unemployment and pay unemployment benefits. However, the activity of such agencies should be more concentrated on the help in direct offering the work to the unemployed, advising during the choice of qualifying to the new job, organizing the courses for unemployed, giving the loan for starting own activity. The question is to prefer such forms of activity that would make possible work activity again to the biggest amount of people looking for a job. The employment agencies should, to a greater extent, play the role of co-organiser of employment. However, the development, modernization, computerization, high qualified people are necessary to play that role efficiently. But even when they are fully modern, they do not replace economy mechanism leading to increase in employment and decrease in unemployment. In majority of Western Europe countries, these agencies are efficient and modern but their effect on work market situation is not conclusive. Regional programs of creating the work places secure job not more than to 50% of all amount of unemployed.

Summing up these considerations, it must be underlined that unemployment in Poland is neither, in the broader scale, result of rationalizing changes, production modernizing, effectiveness actions nor structural transformations. It is mainly the result of economy recession. It meets all areas of activity, not only these ineffective ones. Thus, if the recession drags on, there is anxiety that considerable part of unemployment can form itself into permanent shape.

At present, it is thought that too strong therapy was applied and the bounds of necessary wages and payment reduction was not kept within. That was too high cost that affected the lost production, decrease in real wages and increasing unemployment. As well as the loss of traditional markets due to damage of RWPG, economy demonopolization, giving it to the external competition caused that thousands of people lost their jobs, in so far initially fast increase was mainly connected with the possibility of legal getting the unemployment benefit, surely in the second half of 1990, the high increase dynamics of unemployment was the consequence of crisis phenomena in the economy.

### STRESZCZENIE

Wprowadzone z początkiem 1990 roku nowe reguły funkcjonowania gospodarki, zmierzające do transformacji gospodarki centralnie kierowanej w gospodarkę rynkową, zmieniły w istotny sposób sytuację na rynku pracy w Polsce. Począwszy od stycznia 1990 roku mamy do czynienia z pojawieniem się i narastaniem w kolejnych latach zjawiska bezrobocia. We wrześniu 1993 roku stopa bezrobocia przekroczyła 15%, zaś liczba bezrobotnych sięgnęła 2830 tys. osób.

Część przyczyn tworzących bezrobocie w Polsce ma swoje korzenie w przeszłości. Gospodarka rynkowa jedynie je obnaża. Są to zaniedbania rozwojowe, m.in. wysoka dekapitalizacja środków produkcji, nieprzygotowanie przedsiębiorstw do efektywnego gospodarowania w warunkach gospodarki rynkowej, konkurencji i ryzyka. Czynnikiem pogłębiającymi bezrobocie są także: niedorozwój całych regionów gospodarczych przy jednoczesnym ukrytym bezrobociu agrarnym, niedostosowanie poziomów i struktury kształcenia do potrzeb rynku pracy. W głównej jednak mierze bezrobocie jest rezultatem recesji gospodarczej, która dotyka wszystkie sfery działalności, nie tylko nieefektywne. Utrata tradycyjnych rynków zbytu w ramach rozwiązanej również RWPB, demonopolizacja gospodarki, wystawienie jej na konkurencję z zewnątrz powodowały wzrost bezrobocia.

