

Chapter 2

Social change
and social policy
during the transformation period

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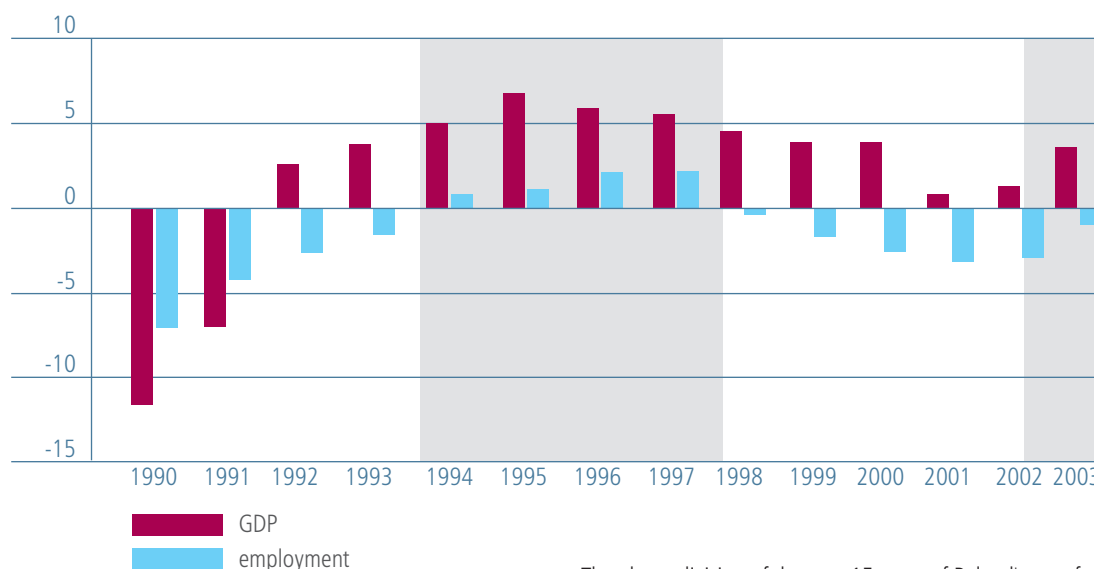
Poland's social policy as pursued throughout the transformation period is often referred to as an instrumental policy, one subordinate to the goals of economic development, to wit: the overhaul of the system and economic growth. This is a simplified hypothesis, although one for which evidence can easily be found. In reality, Polish social policy has progressed in two directions. Besides solidarity and the social protection of the weakest, we have witnessed the creation of conditions aimed at increasing flexibility, something which is conducive to independence and yet also fosters diversity. The latter direction is often seen as a factor stimulating economic development. However, neither in Poland nor in the European Union would such one-sided social policy receive lasting social or political support. A "golden mean" is therefore necessary. But how to reconcile the European social model, which respects the principles of solidarity and functional equality, with incentives for the greater entrepreneurship and flexibility necessary for the economy of a country undergoing transformation, a country that is not only significantly poorer than the older EU nations, but burdened with the legacy of the past system?

We do not intend to answer the above question in this chapter, but to pose it again and again as we make assessments and propose syntheses during our discussion of the subsequent periods of changes in social policy. A theoretical social policy framework usually assumes a certain constant in the intention to reform its institutions, along with a clear consistency in the realization of such through channelling changes in a designated direction. In the report presented here, model references are not sought in order to distinguish the periods of changes. The basis of our description is that of the analysis of measures undertaken (as reflected in the contents of regulations passed) and the assessment of amounts of funding allocated to address social problems. Therefore, the two main criteria of periodization applied in this report are: (1) changes in the amounts and structure of social expenditure against the background of the pace of economic growth and employment (the two basic sources of revenue for social funds); and (2) the substantial content of basic programmes and regulations defining the principles that underlie the functioning of the main social policy institutions. Based on these criteria, four periods of social policy can be distinguished in the 15 years of Poland's systemic and economic transformation. They are as follows:

- 1989-1993. A period of transformational crisis and of income decreases, which in social policy was a time of social protection for the social groups most affected by the changes.
- 1994-1997. A period of dynamic economic growth. In social policy this entailed the preparation and implementation of reforms modifying social safety net institutions to adapt them to market economy conditions.
- 1998-2002. A period of implementing market-oriented and decentralizing changes (reforms) in social policy in an environment of a slowdown in economic growth and the limited resources of public finances.
- 2003-present. A period impacted by EU accession and the application of EU social strategies to the changes taking place in Polish social policy, as playing out against a background of economic recovery and the inflow of EU structural funds

¹ This direction is sought by reference to the models or regimes of social policies existing in capitalist society in accordance with the concept of distinguishing the models put forward by Titmuss (Titmuss 1974) and/or Esping-Andersen (Esping-Andersen 1990).

Graph 1: Poland's GDP growth rate and the growth rate for employment in Poland in the years 1990-2003
(in % compared to the previous year)



The above division of the past 15 years of Poland's transformation process is in line with the division based on political criteria, i.e., according to the election dates and the programmes implemented by successive governing coalitions. In the first period of the transformation (1989-1993) the country was governed by a coalition that gathered post-*Solidarność* groupings, with *Solidarność* itself having representatives in the parliament. As of autumn 1993, political power passed to parties hailing from the previous regime: SLD, the transformed coalition of post-communist organizations, and PSL, which coalesced from peasant groupings, most particularly the old party ZSL. In the autumn of 1997, power was once again assumed by the post-*Solidarność* parties AWS and UW. Their term of office lasted until 2001 and coincided with Poland's emergence from the problems experienced at the turn of the millennium and with preparing the nation for EU accession. In 2001 power again passed to the social-democratic parties (SLD, UP) and the peasants' PSL. Despite the disintegration of the SLD-UP-PSL coalition, along with the split within SLD and the change of government in 2004, the left's term will run its full course, that is, until the autumn 2005 elections.

1. The period of social protection in the conditions of a transformation crisis

The first period of Poland's transformation has three basic characteristics, namely: (1) the radical stabilization programme and the high pace of market reforms (the big push strategy); (2) the magnitude of the crisis – decline in GDP, in output and household incomes; and (3) the significant scale of the social protection programmes applied.

It need be noted that Poland entered the period of transformation with a very high (three-digit) rate of inflation, a massive foreign debt and a deep imbalance in public finances. It is therefore clear that the quick implementation of a stabilization programme, and, simultaneously, the freeing of prices and the reform of the market (the "Balcerowicz plan"), were quite understandable at the time and widely accepted. At least initially. At the same time, fears of the extremely high social costs of such radical reforms and the belief that societal peace might be endangered, resulted in the application of various protection measures, the scale of which turned out to be very large.

The transformation crisis

The implementation of the stabilization programme and market reforms (introduced relatively early, at the turn of 1989/1990) were accompanied by a sharp fall in output. Companies were falling into bankruptcy because of losing their traditional markets in result of the dissolution of the Council for Mutual Economic Cooperation. At the same time they were losing out to competition from Western companies. This was being felt quite acutely as a result of the Polish economy's opening up.

The plunge in production resulted in new social issues that surfaced abruptly and on a wide scale. This concerned unemployment, which as early as in 1991 reached 12%; drops in household incomes and poverty (it is estimated that in 1990 alone the average income of households fell by 15% to 20%: Zienkowski 1998), and industrial conflicts. Indeed, there was a record number of strikes recorded in 1992 – over 6,000, with not only industrial workers protesting, but teachers as well).

Social protection

In 1989/1990, as a result of the great economic push forward, all the economic instruments which had helped to maintain the socialist welfare state were removed from social policy. These instruments included price subsidies, full employment and the social activities provided at or through the workplace. In this situation, the support of persons and families being in the worst situations was conducted by allocation of a significant amount of public funds to social transfers. At the same time, new institutions, such as social assistance and labour offices, were hastily created.

The social protection programme, sometimes referred to as the liberal-social pact, was pursued through the implementation of new regulations concerning the retirement and disability benefits system and the way it was subsidized. On the one hand, access to retirement and disability benefits was made available to a larger number of employees leaving the labour market earlier than expected. Within the first several years of the transformation from 600,000 to 800,000 people retired early. On the other hand, the level of benefits was tangibly raised.

As a result, the costs of the old-age and disability insurance system increased enormously. In 1992 nearly 15% of GDP was allocated for paying old age pension and disability benefits, whereas in 1989 the figure had amounted to 8%. The portion of their salaries that employees paid for their social

insurance grew within a short period of time by 7 percentage points (from 38% to 45%). Whereas in the late 1980s the social security fund was recording a surplus of revenues over expenditures, in the first period of the 1990s, subsidies to ZUS and KRUS amounted to 20% of central budget expenditures (1992), or 6.3% of GDP.

The improvement in the situation of pensioners and disability benefit recipients was significant. The replacement rate of salaries with pensions reached 72% in 1993, while back in 1989 the rate had been about 60%. The benefits were secured and did not lose their value thanks to the system of automatic indexation. This served as a strong motivating factor for those potentially in danger of becoming unemployed to leave the labour market and retire or apply for a disability benefit. A number of people received benefits and continued to be employed. This was possible as initially there were no limits imposed on additional employment for the retired and recipients of disability benefits.

Another element of the safety net policy was the relatively generous financial support for the unemployed. About 80% of the unemployed were entitled to unemployment benefits in an amount tied to their previous salary, and for over an almost indefinite period. Similarly, the obligatory benefit for an unemployed university graduate amounted to 120% of the minimum salary. However, limits to this policy were soon imposed.

As a result of the fall in output and the social protection policies being pursued, employment decreased dramatically: by 2.6 million in 1989-1993. At the same time, the number of people supported by social benefits grew tremendously.

The commercialization of social services

The concept of providing social protection for the least fortunate and directing large amounts of public funds to financial transfers for the benefit of those groups resulted in a lack of

resources for other social needs, primarily for social services to be provided free of charge. As a result of the limiting of public financing for social service facilities, a vigorous process of commercializing many services began, mainly in the area of education and health care. This was largely based on old infrastructure and staff.

The commercialization process, that is, the introduction of fees for public social services, was the result of allowing public institutions, frequently with the status of state budgetary units, to undertake their own initiatives in terms of financing. This entailed de facto independent commercial activity.

The units providing social services took advantage of this permission in a number of ways. In some large and prestigious units, foundations or associations were founded to serve as intermediaries that would have more freedom to carry out commercial activities on behalf of their parent units. This served as one of the main incentives to opening foundations in 1990-1992 (Golinowska 1994). Smaller units often set up commercial activity as well, providing so-called non-statutory services for a set fee, through so-called extra-budgetary units operating in reliance upon the assets of the parent units.

The commercialization process contributed to the degradation of the public sector. Considering that the public units were somehow getting by, despite the radical cuts in public subsidies, and that the reduced or structurally changed supply of social services was not objected to, there was no pressure to introduce needed reforms inasmuch as they always bear political risk, particularly as concerns the issue of varying fees. As a

result of this, many public units were closed down, particularly those where the introduction of service charges led to a drop in demand, as happened with sports and recreation centres for young people as well as with community centres. These were not replaced with private entities. In the context of a rapid decrease in earnings, individual demand for social services (treated as luxury services) was severely limited. Private providers of these services emerged only some years later.

Whereas in the initial period vigorous commercialization was triggered by cuts in funding, later on it was associated with the process of adapting the salaries of community workers to the rapidly growing salaries in the wider economy. Income disparities and the material differences which surfaced in society made the issue of remuneration for doctors, university teachers, and experts in public administration the core argument in favour of the reforms advocated by those groups. Pointing to the structure of earnings in the business and finance sector, they underlined their relative high skills and demanded higher salaries. The salary demands of the whole social services sector could not be met in full because of limited public revenue. Official pay rises were limited to the budgetary sphere. The situation of other employees of the social service sector underwent improvement as a result of commercialization, particularly in those services which enjoyed considerable demand, i.e., education, health care and nursing.

Building societal dialogue

Societal peace was one of the major concerns of leading politicians in the initial period of the transformation. Nonetheless, the matter was politically complex. The NSZZ *Solidarność* trade union – as a political force originating from the opposition that had brought about the overthrow of the old regime based on the monopoly of a single political party and central planning – was at the same time the largest organization representing the rights of workers in Poland. *Solidarność* demanded democracy, but it would be an over-

statement to claim that it accepted the capitalist system *en bloc* with all the social problems it entailed. Many events, some of which were yet to take place, such as divisions within the trade union, show that the radical programme of implementing the capitalist system was approved only by a part of Solidarity. At the same time, this key political and social force offered support for the upcoming changes that did require sacrifices.

The protective umbrella NSZZ *Solidarność* extended over the governments that sprang from its ranks began to "leak" as a result of the social crisis arisen over rapidly rising unemployment and the decline in earnings. While in 1990 NSZZ *Solidarność* had organized only 5 protests and major strikes, in 1993 it organized 16. In 1992 the total number of strikes amounted to over 6,000, with the participation of 43% of employees hailing from the workplaces involved in the strikes. In 1993 the number exceeded 7,000 and involved 55% of employees (Frieske, Machol-Zajda, Zalewski 1996). In 1993 trade union members sitting in parliament submitted a vote of no confidence in their Cabinet, expressing their lack of approval for the changes underway².

The significant influence of trade unions on the pro-social regulations of the first period of the transformation process was not only a consequence of the political strength of *So-*

² *Disappointed, frustrated and impatient Solidarity-based Parliamentary deputies submitted a vote of no confidence in their own Cabinet, while in mid-1993 the political situation changed when the SLD-PSL coalition took over. This fact did not alter the direction of economic reforms. The position of the new political force was more convenient, as the economy, to some extent already reformed, entered into economic growth.*

lidarność, but also of the rivalry with trade unions rooted in communist organizations and centred in the National Association of Trade Unions (OPZZ).

Only one side of the social partnership was involved in the shaping of social policies in the initial period of transformation. It was first and foremost the rival trade unions that exerted and influence on policies. Employers³ were yet to become organized. As for the trade unions, they enjoyed substantial freedom to organize themselves and quite a number of them were founded locally, often as a result of an *ad hoc* reclamation campaign or in protest against the decision of their workplace's management.⁴

Societal dialogue was hindered by huge difficulties, as the lion's share of time and energy was devoted to resolving conflicts and signing agreements aimed at ensuring approval for changes and social peace.

Finally, on the initiative of politicians close to the Ministry of Labour and Social Policy, a body was formed in late 1992 for the purpose of upgrading societal dialogue on privatization issues⁵. On the basis of this organization, a tripartite institution for societal dialogue was founded in 1994, called the

³ State employers (directors of large plants were not the "real employers" as seen by industrial relations theories) acted more as "highest rank employees", representatives of the workforce and advisors of the trade unions. And in the case of conflicts with the owner (the State) they did not represent its position nor protect its interest at all times. Private employers were founding their organizations at this time. Moreover, not everyone felt an urge to get organized.

⁴ There were approximately 2,400 such local trade unions in the mid-1990s.

⁵ The "Pact on a public enterprise in the course of transformation" was signed, wherein the workers' consent for the larger scope of privatization was connected with certain licenses and guarantees of extended participation. Jacek Kuroń initiated the pact (as Labour Minister) with the support of Andrzej Bączkowski (Deputy Minister and later Labour Minister, the main negotiator with trade unions) and Jerzy Hausner (the influential head of the team of advisors to the Deputy Minister for Economic Issues in the 1993 Cabinet).

⁶ Within several years of its activity, the KT operated on the grounds of a resolution of the Cabinet of February 1994, amended twice within that year. However, the Act of December 16, 1994 on the negotiation system of average pay (Dz.U of 1995 No.1) featured provisions concerning the construction and tasks of the KT, which means that its grounds were of a *de facto* statutory character (Wielka Encyklopedia PWN, p. 188).

Trilateral Council for Social and Economic Issues (KT). It operated throughout the 1990s. KT was founded for the purpose of drafting opinions and consulting solutions for major social issues, as well as for issuing opinions concerning the directions of social reforms⁶.

Another issue which was significant from the viewpoint of the institutionalization of industrial relations in the new conditions, was that of the regulations on collective bargaining agreements (Section 11 of the Labour Code amended in 1994), thanks to which societal dialogue with the participation of trade unions could also develop at the company level.

The achievements and costs of the first period of transformation

After a steep decline in output, the economy entered a path of rapid economic growth. GDP was growing already in 1992, initially by 2%, then by 3.6% and eventually the rate of economic growth exceeded 5%. The economy had been stabilized and reached financial equilibrium. The rate of inflation dramatically fell (in 1990 it was 589% while in 1993 – 35%). Trade, too, was growing robustly. The nightmare of queues and rationing had ended and was soon forgotten. General access to food products contributed to an increase in consumption, as well as an improvement in its structure. The main social costs included the outbreak of unemployment and the withdrawal of a large number of workers from the labour market and their resulting inactivity, which translated into enormous costs for the system of social transfers. The real level of salaries dropped (in 1990 by nearly 25%) and the extent of poverty swelled.

The policy of limiting the growth of salaries was aimed at fighting inflation. It was pursued through the introduction of a high progressive tax on "over-the-top" salary increases called "popiwek". When the Trilateral Council was founded, "popiwek" was abolished and the issue of salary increases became the subject of trilateral negotiations.

Social policy was predominantly aimed at supporting those who were losing their jobs, as well as those withdrawing from the labour market. No major social reforms were introduced at the time. The main systemic change was the somewhat disorderly commercialization of social services. A network of labour offices and social assistance centres was created to "cater" to new social issues, i.e., unemployment and poverty.

2. The social policy of the prosperity period (1994 -1997)

Dynamic economic growth, rising wages and the visible costs of further maintenance of the expanded social security system resulted in a modification of the directions of income policy. The policy of directly limiting salary increases was abandoned in favour of a policy aimed at increasing minimum pay. In 1994, for the first time in several years, real salaries did not decline, and in the following years they were clearly increasing: in 1995 by 5.5% and in 1996 by 6%).

The social policies of that period featured a gradual withdrawal from the large safety net of social protection, while at the same time preparation was underway for a new social policy that would be adapted to the requirements of a market economy and would reinforce it. As part of this new thrust, regulations were introduced that caused social benefits to gradually lose their widespread embrace. Said benefits were more frequently addressed to but two groups of recipients: the poor and the emerging middle class⁸. The introduction of the principle of determining income for social assistance entitlement and family and housing benefits restricted access to benefits to those in most immediate need. At the same time, tax allowances and deductions were introduced for those who used private services, i.e., for

⁷ Certain elements of the withdrawal were noted earlier. This provided one of the reasons of the downfall of the Cabinet headed by H. Suchocka in 1993.

⁸ In market economy countries applying a liberal and conservative model of social policy, the strengthening of the middle class (e.g., through tax policy) so that it is capable of financing independently (charged) social services, constitutes one of the objectives of social policy. In Germany, the concept of strengthening the middle class entailed the creation of assets (*Vermögensbildung*) by various allowances for the purchase of property or capital assets etc.

⁹ E.g., in the major strategic document of the period of dynamic growth "Strategy for Poland".

the more affluent who paid income taxes and sent their children to private and semi-private schools, and relied on the services of private health care facilities. The largest tax allowances were made available to those financing the construction of their own flats or houses.

The selective reduction of social protection and the introduction of income testing

Unemployment, one of the main sources of political conflicts in the previous years, began to decrease. While in 1994 the rate of registered unemployment amounted to 16%, in 1995 it was 1 percentage point lower and in 1996 it was almost 3 points lower. By the fourth quarter of 1997, the rate of unemployment had dropped to 10.3%.

Reducing the scope of social protection for the unemployed

The falling rate of unemployment came as a relief to the authorities, for it made it possible to focus on other issues in social policy discussions. The view emerged that perhaps social protection for the unemployed had been too extensive, and that it in fact had outright encouraged unemployed persons to remain on welfare. Official documents⁹ declared that the debilitating effects of social protection for the unemployed would be reduced. In August 1994, the Act on Employment and Unemployment was modified accordingly. The definition of who was unemployed was changed in a way to ensure greater security to older employees threatened with unemployment, as well as to younger people supporting children.

In the case of older workers, what the government was trying to stop was early retirement or applications for disability benefits. The argument went that early retirement and

Social change
and social policy
in the
transformation
period

health-related benefits were more costly than unemployment benefits. Yet during the same time, quite costly solutions were introduced in 1996 in the form of pre-retirement benefits which secured steady earnings for older people leaving the labour market in result of industrial restructuring.

The amount for unemployment benefits was reduced and the principle of a fixed amount was introduced, which, together with the application of the price indexation of the set amount, led to a systematic drop in its value¹⁰. The idea to vary the amount of the benefit according to earnings was dropped, with the criterion of years of experience being introduced later¹¹.

The provisions concerning the obligation of the unemployed to accept job offers were tightened. If an unemployed person turned down more than two job offers, that person lost his/her eligibility to receive benefits, even if the job offered did not match their skills.

Despite the very high unemployment rate among young people, and even with the situation on the labour market generally improving, the entitlement of school graduates to unemployment benefits (28% of the average salary) collectible for three months following graduation, was a questionable policy. And indeed, young people abused this right. Having been accused of demoralizing the young with too much security, the government devised a Programme for the Promotion of the Professional Activity of Young People. Entitlement to the unemployment benefit for graduates was restricted in 1996 and the change was accompanied by the slogan – "scholarships instead of benefits".

¹⁰ In 1995 the set amount equaled 36%. Today it is only 20% of the average pay.

¹¹ 1995 marked a change from one benefit to differentiation according to years of experience. Persons who had worked 5 years, were entitled to 80% of the benefit, and those whose work experience exceeded 20 years collected 120% of the benefit.

¹² Families with children whose gross income per capita in the preceding year did not exceed 50% of the average pay in the economy sector in the preceding calendar year were eligible for the allowance. For farmers the threshold of eligibility was set as 2 ha per capita.

The decrease in the unemployment rate was accompanied by significant geographical variation. This caused a need for a more selective unemployment policy. Much attention was devoted to the analysis of unemployment in municipalities and regions in order to draw up classifications that would serve as a basis for a geographical differentiation of benefits and other labour market policy instruments. The classification of unemployment became the subject of pressure from local authorities who wanted their regions to be classified as areas threatened with high structural unemployment. For this would allow them to win additional funding for the development of infrastructure (investment and public works), as well as investments and/or tax allowances for businesses.

Addressing family benefits and social assistance

Social insurance benefits, mainly pensions and disability benefits, are paid out based on entitlement acquired during one's working life and as such constitute a rigid expenditure which cannot be subjected to quick changes. Therefore, the implementation of new principles was mainly taking place in the area of family benefits and social assistance. The authorities stressed that financial transfers ought to be restricted to people and families in the greatest need and that these transfers should not have adverse effects in terms of job-seeking, mobility, or in the risk-taking involved with setting up a private business. The policy of addressing benefits was applied to family benefits, social assistance, as well as housing benefits.

Changes concerning family allowances, introduced in March 1995, entailed separating them from social insurance and addressing them exclusively to families in a poor financial situation¹². Politically correct opinions about the role of the family were more conservative than ever at that time. The family was considered to bear sole responsibility for child-care. The need for assistance from public funds was recognized only in the cases of poor families or those with many children.

The size of family allowance was determined as a fixed amount and varied according to the number of children in the family¹³. The "base" allowance equalled 3% of the average salary, while at the beginning of the 1990s it had amounted to 7%. The relative drop in the value of benefits was the result of price indexation; nominal salaries were growing faster than prices¹⁴. The policy of addressing family benefits to the poorest did not cause an increase of the individual benefit, which fact weakened the impact of family benefits as a means of fighting poverty among families with many children.

Following the implementation of the new solutions, the number of families eligible for the allowance declined dramatically – by nearly 25% (Golinowska/Topińska 2002). The size of expenditure in relation to GDP also decreased. In the following years, a weak declining tendency was to be observed, both in terms of the number of eligible recipients and the expenditure level.

The social policy importance of another family benefit – the child-rearing benefit – also declined, as access to this benefit was tightened. Indeed, these benefits were being granted only to mothers from extremely poor families with per capita income below 25% of the average salary. In the second half of the 1990s, the benefit amount was fixed and indexed to prices. Its value in relation to the average salary dropped to 20%. The only advantageous change in the system of child-rearing benefits entailed extending eligibility to fathers as well.

Overall, the policy concerning family and upbringing benefits was incoherent. With the reduction in providing institu-

tional care for children by the state, the benefits failed to become a viable alternative, as access to them had been severely restricted.

Poverty was clearly defined as the prerequisite of eligibility for social assistance benefits. The amendment of the Act on Social Security, introducing restrictions in access to benefits, was passed in 1996. As a result, the number of benefit recipients dropped rapidly (by 50%). Financial benefits began to gain in importance over social services and social work. This, however, met with some reservations, as despite the obvious advantages of financial benefits, such as low costs and providing recipients with the freedom of choice, one could not ignore the merits of social work, for it provided an opportunity for a lasting way out of a difficult situation. Moreover, the need of developing the social services over the long term also had to be taken into account.

New regulations concerning housing allowances, to cover the cost of rent, took effect in 1995. In this case as well, eligibility was assessed according to family income.

¹³ The lowest rate was applicable to the first and second child, for the third child the rate was by 12.5% higher and another 12.5% higher for the fourth child in the family. No higher rates were set. The spouse received the same rate as the first and second children. A single parent received twice the amount.

¹⁴ To compensate for this, in some years families eligible for the allowance were paid single extra benefits in autumn to cover expenses connected with the beginning of the school year.

Responsibility for administering the allowance was delegated to the municipalities¹⁵. Previously, this had been a social benefit. In 1996-1997 approximately 0.1% of GDP was spent on these allowances, with the share of expenditure rising slowly (reaching 0.2%). This is reflected in the changing regulations that eased access to allowances. As a benefit addressed to households in a difficult financial situation, the housing allowance became a permanent element of domestic social protection. At the same time, problems emerged concerning the legal protection of tenants, as did the issue of providing housing for less affluent families.

Supporting the development of the private social services sector

The commercialization of social services continued in the period of prosperity. While the initial period of transformation witnessed *ad hoc* commercialization, in the next years the process was to a certain extent regulated. Moreover, the social services sector entered into the stage of privatization.

The tendency to commercialize social services was also visible in Western countries in the 1980s and 1990s, particularly in those countries and those areas where the state acted as the primary supplier. This was not only a spontaneous development, but was consciously seen as a tool for reforming the excessively expansive welfare state at a time when serious problems with its financing emerged. One may distinguish two variants: privatization and sometimes reprivatization of the public sector, or simply its commercialization, i.e., applying a market-oriented business approach while maintaining state ownership. In European countries commercialization was predominant, something also called the creation of an internal market¹⁶.

Education was the main arena of the commercialization and privatization of social services in Poland, particularly at the level of universities, which enjoyed an increase in interest, as well as in actual demand for academic services. This was

backed by readiness to pay for education¹⁷. The increased participation in university education was financed entirely from individuals' private incomes, at the expense of teaching quality in public universities, where the student-professor ratio deteriorated.

This new trend of seeking educational opportunities is a highly positive phenomenon. It concerns, however, only a part of the population, mainly young people with working parents, frequently self-employed and living in cities. Young people living in the rural areas and with families employed in agriculture did not evince increased demand for education services. Their own appraisal of the material possibilities caused them to limit their aspirations.

The debate on the issue of commercialization that took place during the drafting of provisions for the new Constitution in regard to access to free education did not reach any clear conclusions. The Constitution ratified in 1997 features a regulation on free access to public schools, but the very following sentence adds that fees may be charged for specified education services. This clause left room for further commercialization.

Thus, a situation began to emerge in public services where two separate spheres, namely the public (available to the majority of society) and the private (for the financial elite) existed alongside one another. Whether a citizen uses private or public services did not directly depend on his or her income. After all, obtaining access to social services does not require the fulfillment of income criteria. However, it is the more affluent part of society that avails itself of the private

¹⁵ 630 - 730,000 families receive the housing allowance annually, with the number of recipients growing gradually.

¹⁶ Institutions compete to sign contracts. The management of the institution is often delegated to a private company. The state is still responsible for access to services and ensuring a standard of high quality. Services are available at a full or partial fee, but the fees vary according to the characteristics of the service (more or less crucial, obligatory) or according to the status of the recipient. Selected recipients are given vouchers entitling to lower fees or no fees at all according to material status, type of work or marital status. The criteria are set by political decisions.

¹⁷ The number of university students is fourfold higher today than at the beginning of the transformation process.

sphere. Tax allowances were introduced to encourage people to take advantage of private services. Such regulations concerned not only education services, but also health care over a period of several years.

Finally, the prosperity period in Poland also witnessed the emergence of social policy measures aimed at supporting the development of the middle class. These primarily concerned assistance for housing construction, as well as support for individual investments in lease-oriented housing facilities. In 1997 tax write-offs on housing amounted to 4.4 billion zł. (Ministry of Finance 1998).

The institutionalization of societal dialogue in the Trilateral Council

During the prosperity period, the Trilateral Council performed the functions of a basic institution for societal dialogue. From today's perspective it must be said that it performed them quite effectively.

The Trilateral Council's attention was focused on practically all fundamental social-economic decisions, while arrangements agreed therein constituted an important premise for the parties' actions. A review of problems discussed during successive meetings of the Council suggests that it did not limit itself either to wage issues, or even labour relations in the narrow sense. Increasingly often, the Council's meetings concentrated on political controversies surrounding the programme of institutional and structural reform: the restructuring of coal mining, and reform of health care or of the pension system (Frieske et al. 1999).

Due to the regulations governing the work of the Council, the societal partners, even when they were working together, could not impose anything on the government administration. Nonetheless, governments actively sought permission for their activities, sometimes even the outright approval that would legitimize their decisions.

The preparation of fundamental social reforms

In the mid-1990s the climate for debate on the reform of social institutions markedly improved. Dynamic economic growth provided conditions for covering the cost of reforms and led to the belief, also shared by politicians on the left, that there was scope for a further reduction of social transfers and for introducing market mechanisms into the social services. Two reform bills in particular were the subject of broad debate – namely, the pension and health care reforms.

The debate over a concept for radical pension reform lasted several years in Poland, and thus prepared the ground for consent to changes. At the beginning of 1997 a government reform proposal was published under the title "Security Through Diversity". It had been drafted by the institution specially created to work on this reform, namely, the Office of the Government Plenipotentiary for Social Security Reform. Next to the existing pay-as-you-go pension scheme, a new, funded pension pillar was to be created, obligatory for the youngest workers (up to 30 years of age) and optional for employees aged 30-50. The pension contribution was to be divided into two parts: the first would continue to be paid into the pay-as-you-go scheme and the second – paid into new institutions - into pension funds, whose job would be to effectively invest revenues from contributions with the aim of increasing the value of future pensions. The gap in the public system, which had to continue financing the benefits of people already retired, was to be complemented with proceeds from state property slated for privatization.

A significant feature of the new reform concept was the defined contribution¹⁸ pension formula to be applied in both segments of the pension system. This marked a change from the old system, which operated according to defined benefit principles. In the new system, assumptions regarding the

¹⁸ Meaning that future pensions would be completely dependent on the amount of contributions paid in during the professional career.

value of the pension are not determined a priori. The size of future benefits will be the product of contributions paid into the first pillar and then indexed, and the result of their investment in the second pillar. The pension debate influenced the concept of Polish pension reform in the first pillar component, which was not designed as a small and flat-rate scheme, but as a significant one, fully dependent on earnings, although only up to a set limit¹⁹.

The aim of an old-age pension and disability benefit scheme is to secure the incomes of older generations for the period of their seniority. The effective realization of this objective for social purposes should not harm the economy (rather, it should be helpful) and should not take place at the cost of the younger generation. These were the boundary conditions of the Polish concept for pension reform.

The authors of the reform campaigned actively for the rapid acceptance of the fundamental statutes. The four-year term of the ruling SLD-PSL coalition was coming to an end in 1997 and it was not clear what the politicians of the centre-right (then preparing to assume power) would do. Following the elections and the change of government, legislative work on pension reform was continued. In order to make it more efficient, a Special Commission for Considering Drafts of Social Insurance Laws was appointed in May 1998. The main laws were passed in October (on the social insurance system) and in December of 1998²⁰ on old-age pensions and disability benefits from the Social Insurance Fund.

It may have seemed to politicians and experts at the time that it is sufficient to draft a good project, offer it for consultation and guide it through Parliament. However, as it soon turned out, it was equally important to have a precise plan for the implementation of the reform. This required time, proper organization and the right skills in the implementation process. The role of these factors was underestimated. As a result, this reform, which was costly by design, proved to be even more so.

One of the areas of the socialist welfare state where the need

for changes was noticed very early, was health care. The effects of implementation of the Soviet model of health care, called the Siemaszko model, were much worse in Poland than in other countries of the region. Despite the relevant article in the 1952 Constitution, health care was never completely free and fully accessible. Government expenditure on health care amounted to around 3%-4% of national income. Investments were scant and took an exceptionally long time to complete.²¹

One negative phenomenon, widespread in medical circles, was that of the additional, informal charges collected from patients. These took the form of gratification for medical services performed, or were associated with the hope of obtaining better care. Sometimes they were simply an "expression of gratitude", something well established in the culture of real socialist society. Two key features of the socialist economy contributed to these informal charges: shortages and low salaries in the "non-productive sphere", which included health care.

Insufficient development of health care aroused apprehension and stimulated reform ideas, ones which were articulated as early as in the 1980s. In the first half of the 1990s several rival reform projects were prepared. There were deliberations on whether a health insurance system should be introduced, or if the existing state welfare system should be improved and decentralized. In 1996, a compromise concept was drafted by the Health Ministry. It called for the creation of newly created regional patients' funds that would be in charge of health insurance.

¹⁹ The concept of the Polish reform combines German influences with the World Bank proposal. The difference with regard to the model proposed by the World Bank lies in the concept of the first pillar. In the Polish reform, this was designed as a pillar providing benefits related to work and earnings, rather than flat-rate and common benefits, as proposed by the World Bank.

²⁰ There was not even a month between the adoption of the final (most important) law (December 17, 1998) and the date of implementation of the reform (January 1, 1999). It need be noted, that the date of the reform's introduction had been decided earlier and was treated as a political issue, meaning that it could not be shifted. Keeping this date was also important because of the process of creating pension funds, which had been launched a few months earlier.

²¹ There were cases of the construction of hospitals lasting more than 10 years.

A significant new element of the reform was the introduction, in line with the UK model, of market elements in the form of an internal market concept.²² The market was meant to stimulate improvements in efficiency and quality, open the opportunity for increasing the amount of funds in the system and for more decision-making independence on the part of the main players, particularly providers (health care centres and hospitals).

The concept of the health care reform was approved by the government in 1996, and in February 1997 the law on general health insurance was passed. The law was to begin being implemented in 1999. Until that time, preparatory work was taking place and the regulations of the law were amended several times.

The achievements and costs of social policy during the prosperity period

Evaluating the social policy of the period 1994-1997 is not straightforward. From today's perspective, three different thrusts can be observed. The first thrust is that of limiting the number of recipients of social benefits to precisely defined groups: the poor and those threatened with being unable to meet their basic needs. In family and housing policy there

was a tendency to move away from universal benefits towards clearly defined ones. In social policy, income testing was clearly defined as the basic condition for obtaining benefits.

The second thrust is that of the continuation of protective measures with regard to employees made redundant as a result of restructuring industry. Miners obtained particularly generous social packages at that time. Pre-retirement benefits were also introduced for all senior employees²³ leaving the labour market as a result of mass layoffs.

The third thrust was support for individual attention to social issues. The main instrument here was the development of the private market supply for social benefits. The commercialization and privatization of social services was expanded and supported. Regulations were introduced allowing the creation of private schools and universities, health centres and clinics. The use of these private institutions was supported by tax incentives. Individual housing construction was supported on a large scale.

This policy had its winners and losers. If the criterion of victory is the size of the social benefits that were most made avail of at that time, then an analysis of income redistribution (Golinowska et al. 2000) shows that the employees of restructured enterprises were the beneficiaries. However, their victory may have been but short-lived, as in the long run a number of them became permanently unemployed and lost their chance of earning a decent pension. The winners also included employees and younger self-employed people. Those who had good jobs in modern companies were able to take advantage of tax breaks on building homes or buying apartments and sending their children to private schools.

²² In the version of the model applied in Poland, the internal health care market meant that independent providers (increasingly often private ones also) would compete for contracts for the provision of health care services. This was financed by public payers (patients' funds) called the buyers.

²³ 2-3 years before reaching retirement age, with a sufficiently long employment period.

Farmers proved the losers vis-a-vis the social policies of the prosperity period. They did not receive entitlement to social benefits and their incomes declined while those of other groups were improving. Young families with children also lost out. The closure of nurseries and preschools, the limiting of the social-grooming functions of schools, the commercialization of education and cultural and recreation activities, as well as low financial benefits (including those for poor families) placed the huge burden of the transformation on the backs of Polish families. Its proper functioning was under threat. The process of forming families also weakened. The number of marriages declined considerably, as did the number of births.

3. The period of slowdown in economic growth (1998-2002) and the introduction of the four social reforms

There are two key factors which greatly complicated social policies during the turn of the millennium. Firstly, the rate of economic growth declined considerably. Secondly, four radical and very costly social reforms were introduced, ones calling for huge organizational changes. They were: (1) decentralization of government administration and social services; (2) social insurance, mainly pensions; (3) health care; and (4) education.

The four reforms

The idea of the first of the four social reforms simultaneously introduced was to further the decentralization of power and decentralize the responsibilities of social institutions.

Decentralization is also connected with the hopes of more efficient governance thanks to moving power closer to local communities, increasing social control over political elites, public funds and allocation decisions. The great hope of politicians in Poland, regardless of their political orientation, was that decentralization would contribute to greater responsibility for the concerns of local and regional communities, that it would bring the state closer to its citizens, but at the same time relieve the central government of care for specific enterprises and social problems. The decentralization reform of 1999 significantly expanded self-government at the level above municipalities (gminas), which had enjoyed self-governance since 1991. A new local government level was created – the district or county (powiat) – and self-governance was also introduced at the level of voivodeships, which until then were controlled by the central government. The three territorial tiers of local government: municipalities, districts and voivodeships, were designed to be independent of each other.

Decentralization in social policy was the second key thrust after commercialization, and was at the same time a strategy to limit the scope of the welfare state. Despite the much larger scale of the decentralization of public administration structures in Western countries, they, too, undertook reforms involving the decentralization of social services in the 1990s. These reforms were aimed at debureaucratization, deregulation, democratization, participation and self-governance.

The beginnings of the decentralization of administration structures in Poland engendered numerous problems for social policy. The shifting of responsibility to the tiers of local government, initially with small resources, led to a breakdown of the functioning of whole areas of social policy. This was most visible in the case of the labour market, where the powiats - the newest and weakest level of local government – were immediately confronted by a new wave of unemployment. The powiats were not only lacking concepts and instruments to handle this problem, for at the same time they had lost the staff and the support of government structures. In 2000, staff turnover in the public services reached 50%, paralyzing the functioning of labour offices (Boni, 2004).

In the area of health care, local governments were conferred with the function of founding bodies for the basic group of health centres and hospitals. Local governments not only did not and do not have the funds for this task, but in terms of professional skills they are a weak partner for the health care system. The handling of the tasks associated with the network and infrastructure of health care provision units by local government proved to be the weakest element of the reform.

In the area of education, local governments proved to be more competent partners, particularly as regards elementary and junior high schools. These schools were the responsibility of municipalities, which had been created back in 1990, meaning that their structures had already been "shaken down" and their skills developed. Thus, the process of decentralizing education had actually begun earlier. It also needs to be pointed out that local governments wielded an additional instrument in the form of an education subsidy. However, district (powiat) governments, responsible for high schools, were not doing as well. This was particularly visible as far as coordination of education with the needs of the labour market was concerned.

Problems with the decentralization reform also arose due to difficulties in coordinating activities at different levels of local government: municipalities (gminas), districts (powiats) and

voivodeships. These tiers were independent of one another. Hence, the government, although it did have offices at the voivodeship level, was able to influence local governments but indirectly. It need be stressed that at the voivodeship level, there is a division of power. The voivodeship legislature is represented by its Marshal, and the government administration is represented by the voivode (i.e., governor). This situation oftentimes led to gridlocks and nagging conflicts over competences.

At the beginning of 1999 health care reform was introduced in line with the concept of health care insurance and the "internal market". Unfortunately, the insufficient understanding of market mechanisms (namely, its limited possibilities) and flaws in the health care system did not permit success. First of all, the "internal market" mechanism required vastly more precise regulations and coordinated action than was the case in the system of centralized administrative management. Nonetheless, in the shared imagination of the authors of the reform, the market always allows for automatic adjustments and does not require that problems regarding the functioning of respective health care units be resolved at the national level. The need for the standardization of services and coordination of actions was underestimated and the system quickly spun out of control.

Secondly, at a low level of financing, the market mechanism creates clear constraints on demand. Health-care providers felt this acutely. They directed their resentment against the health funds, and also against their paymaster, who did not provide sufficient demand for their services, who fiercely negotiated its "prices", demanded that additional conditions be met, etc. At the same time, the monies received by the health funds were not confronted, either as regards their size or as regards their structure, with the health care needs of residents of a given region.

A significant group of health-care providers moved to the private sector, expecting a more productive source of financing individual demand. However, this demand slowed down due to the weakening of economic growth and the lack of

growth in household incomes. Private providers also lined up for public funds. However, the value of public funds spent on health care had not been increasing in real terms since 1996 (see chapter VII).

Thirdly – the reform introduced the "insurance right" to services, along with the institution of a family doctor who also performed the function of a "gatekeeper". Citizens had to insure themselves and choose their general practitioner. Access to the system was tightened.

Insurance was tied to the contributions coming from personal income taxes (PIT). As unemployment began to rise again in 1999, a significant group of persons emerged without any official incomes, or who were so poor, that they did not fall into any tax bracket and consequently did not pay towards health care contributions. The question arose about where to locate a source for financing their health care needs. The solution was the Labour Fund, social assistance funds and local government budgets. In spite of this, the health care system did not receive sufficient funds from these sources for the first few years after the reform.

Fourthly – the reform disregarded the rights of both citizens, as well as patients. The reason for this was the belief, common among many proponents of market-based solutions, that competition would enforce a better quality of services.

Also in this case, the role of the market mechanism was overvalued. As a result, patients' rights continued to be neglected. Although an information document called "the patient's charter" was drafted, it referred only to rights already written in other legal regulations²⁴.

After two years in operation, the health funds were subjected to widespread criticism. The Democratic Left Alliance (SLD), the party which in that period (2000/2001) was preparing to regain power, announced that it would reverse the 1999 reform. The promise of further changes had a destructive effect on the functioning of the system before the new law even came into effect. Health care providers began to accumulate debts on a mass scale (expecting the state to bail them out in the future), while the health funds under attack ceased applying the tough budgetary constraints they had in the past. After SLD came to power and created a coalition government (with the Labour Union – UP, and the Polish Peasants' Party – PSL), the changes declared in its campaign programme were quickly implemented. The health funds were abolished and replaced with a single central payer institution – the National Health Fund.

The introduction of pension reform also brought many problems. These problems were all the more evident as the reform was very costly. The concept introduced was expensive due to both the adopted institutional solutions (Orszag, Stiglitz 1999), as well as the scope of the reform. As Poland was already spending nearly 15% of GDP on its old-age pension and disability benefit system before the reform, building an additional capital pillar, while maintaining the accrued rights of pensioners and employees, was a financially risky challenge. This is because the obligations of the old system (with regard to pensioners and employees) still needed to be financed at the same time as investments in new solutions went on. To meet these demands a doubling of contributions was necessary. In this situation, it was particu-

²⁴ The amassing of all previously issued regulations in one document and establishing a so-called patients' rights ombudsmen operating only as boxes in which complaints would be filed, without introducing them into management of the system, did not serve to improve the position of the patient in the health care system.

larly significant not to allow additional costs to arise. However, this was not avoided. As a result, the pension reform proved to be costly for both the state budget and the private institutions managing pension funds. Not all of the costs of implementation, whether financial or political, were anticipated. Perhaps not all of them could have been foreseen.

Education reform was launched in September of 1999²⁵. The main aim was to modernize education at the elementary and high school level, as well as to improve the conditions in which the school system operated. The means to this end was the introduction of a common 6-year elementary school and the creation of 3-year junior high schools. The junior high schools were a component, separate in terms of programme and organization, of the elementary system that had been extended by one year. At the same time, the intention with regard to secondary education was for further proliferation of comprehensive high schools, although they were to exhibit greater specialization than traditionally. The scope of vocational training was to be limited to around 20% of the graduates of junior high schools²⁶. The instrument previously used to finance education, namely the education subsidy to local governments, was retained. Its allocation was changed, however, with the amount of funds per school dependent on the number of students, with an index for the level of urbanization. High requirements were introduced with regard to promoting teachers. This reform was introduced in a tense atmosphere. There was a shortage of funds for organizational changes (in particular the organizational separation of junior high schools), school buses, and for the announced pay raises for teachers. There were also protests in defence of small rural schools.

Underfinanced and inadequately prepared in the organizational and informational sense, the four social reforms, introduced as they were in a period of a weakening economy,

²⁵ The principles of the reform were formulated in the Education Act of July 25, 1998 (Dz. U. 1998 nr 17, poz. 759 and Dz. U. 1998 nr 162, poz. 1126)

²⁶ In the PRL period, 60% of the graduates of elementary schools completed middle vocational schools.

met with fairly considerable social aversion and contributed to a serious political crisis for the ruling post-Solidarity coalition of AWS and the Freedom Union (UW). The broad scope of reforms in key areas of social life distorted the existing status quo, violated interests and aroused fears. Parties on the left used the criticism of the implementation of reforms to their political advantage. After winning the elections in 2001 and assuming power, they amended two of the reforms: health care and education. In the health care system, the health funds were abolished and the system was centralized once again. In the education system, changes in high schools were halted.

Societal dialogue at the turn of the millennium

During 1998-2000, the process of restructuring the economy was accelerated in the following sectors: coal mining (1998), railways (1999), and the steel and arms industries (2000). This brought about a sharp decline in employment. At the same time, due to the financial crisis in Russia, many companies traditionally cooperating with Russia were permanently pushed out of that market. A further decline in employment ensued. In the new more difficult economic conditions, ones including the dramatic deterioration of the situation on the labour market, the position of societal partners was also changing. Trade unions, which until then had been strong, became significantly weakened, while the power of employers increased.

A symptom of the weakening power of trade unions was the very large decrease in unionization (15% in Poland in 2002, as compared with 40% in Slovakia, 30% in the Czech Republic and 20% in Hungary – Carley, EIRO 2002). On the one hand, this is a natural process in an environment of dynamic privatization and rapid development of the service sector. However, in the case of Poland, there were also specific factors that played a role in the decline in trade union membership. These include the strong political involvement

of trade unions and quarrels between the main unions, along with their participation in power structures. This resulted in a shifting of the authorities' failures to the trade unions supporting them²⁷. Another factor is the considerable organizational dispersion of the union movement. Most public employers would have two (or more) competing unions, of which none was able to dominate to an extent that would allow it to assume the role of representing all employees. As a result, they all began to lose the ability to express the interests of personnel as a whole and were gradually marginalized.

The increase in the significance of employers' organizations was brought about by the maturing of the economic structure from the viewpoint of ownership criterion and an increase in the self-awareness and common interests of employers in the private sector. This increase in awareness led in 1999 to the foundation of the Polish Confederation of Private Employers, a powerful organization with a clear focus on promoting and protecting employers' interests.

Employers' organizations, gaining in strength, stepped forward with initiatives to deregulate the labour market and lower taxes. Employers took advantage of the very difficult situation on the labour market and began a struggle to amend the labour law, and namely to introduce regulation on: flexible forms of employment; easier lay-offs; employment rules; and the more flexible functioning of collective bargaining agreements. They have largely succeeded in achieving these aims.

Societal dialogue continued to develop within the Trilateral Council, although during 1999-2000 the Council did not succeed in reaching a consensus on issues requiring the consent of the three parties, due to the suspension by the OPZZ trade union of its participation in the Council's work. A num-

ber of other organizations, ones also based on the tripartite form of societal dialogue, were working in parallel, for example the National Employment Council and other councils supporting key social institutions: the Social Insurance Fund (ZUS), social assistance, and support for the disabled and for insurance and pension funds.

The new situation of societal partners, as well as the more complex social and economic problems in this period of the deep restructuring of industry and falling employment, led to the need for change in the way the Trilateral Council functioned. In July 2001 a new law was passed on this institution which, despite all, remains the centre of societal dialogue in Poland²⁸. The scope of issues which it deals with has been expanded. Practically everything which is of large significance and is important for maintaining social harmony is now the subject of the Council's interest. The criteria for the representation of societal partners have been redefined and the principle of their periodical validation introduced.

The fact that the period of the intense restructuring of industry and the dramatic increase in unemployment took place in an environment of social harmony that helped foster constructive agreements, is also much to the credit of sector-based bi- and trilateral working groups, the creation of which is associated with attempts to work out compromises regarding strategies for restructuring key sectors of the economy. In the period being analyzed there were at least eight such groups operating (with various intensity and various effects) under the auspices of the Labour Ministry and later the Ministry of Economy, Labour and Social Policy (Boni 2004).

Since 2002 societal dialogue in Poland has been supplemented with the Voivodeship Societal Dialogue Commissions (WKDS), in which representative societal partners were also joined by representatives of local governments. The scope of WKDS' work was not set out in detail in the law. Relevant regulations refer to the competences of government (voivode) and local government authorities at the regional level. Expectations are that WKDS will conduct

²⁷ In the case of Prime Minister Buzek's government (1997-2001), one could even say that the Solidarity trade union was a superior force in the government, at least for half of its term.

²⁸ According to the new law, the name of the institution has changed slightly. It is currently called the Trilateral Council for Social-Economic issues. Dz.U. from 19.09.2001

extended dialogue between autonomous government administration bodies, i.e., between central and local government authorities and societal partners. It is expected that the role of the WKDS will increase in relation to civic matters and the development of public social services, as well as vis-a-vis employee matters in the situation of an absence of trade unions in many companies (mainly mid-sized and above all small ones).

The lowest level of labour relations, namely enterprise-level collective bargaining agreements (CBA), are relatively poorly developed in Poland, although collective bargaining is supported by the special Commission for Collective Bargaining Agreements created back in 1994. Throughout the 1990s, several hundred CBAs were signed, but the number of agreements in force is declining each year. Interest in signing CBAs above the enterprise level is even more limited. Some 150 such agreements have been signed, mainly in the earlier 1990s (Gardawski 2003).

In the period of intense restructuring, societal dialogue played an important function in ensuring social harmony. However, new problems arose in labour relations that revealed its weakness. In Polish conditions (i.e., the rapid pace of change, high unemployment and the presence of immigrants looking for work) the effectiveness of societal dialogue should also be measured in terms of care for jobs and respecting the principles of decent work. There is still a lot to be done in this area.

Problems of social policy in the period of economic slowdown and the implementation of social reforms

At the turn of the millennium, undesirable features in Poland's social development gained strength. The growth of real salaries slowed, income disparities increased and the scope of poverty increased. Unemployment reached its highest levels. While unemployment was but slightly over 10%

back in 1998, in 2002 it began to reach 20%.

At the same time, the functioning of basic social services was distorted as a result of the simultaneous introduction of four fundamental social reforms done without sufficient funding and adequate preparation. In 1999 the budget expenditure on social purposes amounted to 22% of GDP; in 2001 – 21% of GDP, while back in 1996 – 30% of GDP.

The administration reform spawned significant problems. Social reforms, particularly in education and health care, were structured into the decentralized local government system. Administration of the labour market was also shifted to local governments. The threats arisen from operating in completely new institutional conditions and with insufficient funds were miscalculated. This is because priority was given to carrying out the idea of local governance over and against the social policies that were being reformed²⁹.

²⁹ This was a view expressed by local government communities (Association of Nationwide Local Government Organizations)

4. Social policy during the period of preparation for entry into the EU

In 2003 the Polish economy began to rapidly grow again. This was also a period of intense preparations for EU integration. In the social policies of that time there are three thrusts of activities that can be distinguished, each of which was fairly independent. Firstly – the increase and persistence of unemployment shifted a lot more attention to labour market policies. Secondly, increasing problems with financing the budget deficit and the rising costs of debt-servicing (translating into a higher cost of capital), together with the need to finance EU entry³⁰, mobilized the government to look for savings in public finances. A public expenditure reform programme was drafted known as the "Hausner plan", after Jerzy Hausner, Deputy Prime Minister and Minister of the Economy and Labour. Thirdly – accession implied acceptance of European social strategies. The Polish government, in line with a memorandum signed together with the EU, began preparations to implement two key social programmes of the EU: employment and social integration (inclusion).

Combating unemployment

The programme to combat unemployment was formulated in two landmark government documents drafted in 2002. The first of these was the "Entrepreneurship – Development – Work" economic strategy, while the second was the social policy of the government, "Social Policy Strategy: Work and Social Protection". Both of these documents focus on policies to support entrepreneurship and increase employment and

³⁰ Aside from the contribution to the EU budget, Poland also needs to cofinance EU structural funds with domestic financing in the amount of 20%-25% to 50% of the projects' value.

to activate the unemployed. A key direction of both these strategies concerned reconciling the restructuring of selected sectors of the economy and large enterprises with a labour market policy aimed at fighting unemployment. The proposed solution was to coordinate protection measures for redundant employees with measures to make them active on local labour markets and to promote entrepreneurship in the environment of restructured enterprises. This approach attempts to bring together sector policy (according to sectors of industry) with regional and local policies. In addition, there was a declaration of a shift from passive labour market policies towards broad activation of the unemployed. The government also pledged to move away from ministry-specific measures towards super-ministry programmes and prepared a broad programme of supporting entrepreneurship.

Government documents also included measures resulting from Lisbon Strategy priorities: providing equal labour access rights to women and men, developing lifelong learning or preparing special professional activation programmes both for graduates (the "First Job" programme), as well as senior citizens (The "50+" programme). Phare funds from the EU were directed to support proposed measures and priorities and the use of structural funds from the EU was set in line with these programmes.

Reduction of social expenditure

In 2003 the government began work on measures to reduce public expenditure, adopting the Public Expenditure Reform and Reduction Programme, with an attachment in the form of the report "Rationalization of public expenditure. The Green Book". The search for savings in social expenditure proved to be a breakneck task in 2003. This was a completely different situation than that in the first years of the transformation, when there were many areas where obvious savings could be made. Over the years since the beginning of the transformation, social benefits ("monetary transfers") had been reduced significantly, while their scope was limited (in

the case of non-insurance benefits) to the poor members of society. While in the first half of the 1990s expenditure on monetary social transfers was at around 22% of GDP, after 1995 this ratio began to decline. It is currently around 18%³¹. A similar declining tendency can be observed in expenditures on social services.

Social insurance could be an area of potential savings (expenditure in this area amounts to 15% of GDP), particularly as regards the old age pension and disability benefit system, as well as sickness benefits. The government's consolidation proposals also encompassed the Farmers Social Insurance System (KRUS), which is costly due to the exceptional disparity between farmers' contributions to the system and the benefits they receive. These benefits are subsidized by the state to a degree of some 91%.

Since a costly pension reform was introduced in 1998/1999, and which is now expected to be successfully completed, the search for savings in the pension system comes down to limiting the indexation of benefits, extending the retirement age for women to make it equal to that of men, and conducting a reform of the farmers' social insurance system. The argument justifying the extension of women's retirement age is their longer (than men's) average lifespan³².

A relatively large sum of money is also spent on disability insurance. Expenditure on all types of disability benefits (from the general employee system, accident insurance, farmers' insurance and social insurance) amounts to around 4% of GDP, one of the highest levels in Europe. Although a reform of disability benefits in the employee social insurance

system has been introduced since 1997, further rationalization and cost-saving measures are needed in the whole disability benefit system, but this would call for new solutions, mainly with regard to education and rehabilitation. This in turn would require additional funds, which would imply a restructuring of existing expenditure, rather than its reduction.

The government programme known as the Hausner plan was submitted to extensive public debate³³. That debate led to a correction of the programme and its significant downsizing.

The Hausner plan, although not fully approved as a single package of measures, has given direction to a number of initiatives that will probably lead to the rationalization of social expenditures in the future. Today, in the wake of the difficult experience with implementing the four social reforms, it seems that package and large-scale solutions arouse too many fears. Studies confirm the aversion of the Polish public toward reforms and reformers (Czapiński, 2002).

The influence of European social strategies

Two key European social strategies pursued through open coordination methods (the European Employment Strategy EES, and the European Social Integration Strategy) have become a permanent element of government programmes. However, the influence of the two European strategies on Polish social policy was not immediately visible.

In January 2000, the government adopted the National Strategy for Increasing Employment and Developing Human Resources, the first document written according to the methodology of the European Employment Strategy. It takes into account measures of the efficiency of the programme's implementation, which fact reflects the large emphasis on improvement of employment figures. It would appear that the EES arrived in Poland at a very opportune time, when labour activation measures were very much needed. This is because around the same time economic growth decreased

³¹ Based on our own analyses relying on Finance Ministry figures, in line with COFOG classification.

³² The average number of years for women after 65 is equal to around 18 years, while that of men - 14 years.

³³ The objective of the debate was to collect opinions of an as broad as possible group of social organizations, experts and citizens on whether the planned direction of change is correct and whether specific measures and proposals should be subject to legal changes. An important purpose of the debate was also to make the society aware of the threats arising from neglect in reforming public finances.

considerably and a huge drop in employment became visible. However, that document did not play a major role at that time (formally, it was in force until 2004), as it did not fit the new situation. It was not only the macroeconomic conditions which changed, for there were also large-scale re-structuring programmes taking place, ones which did not yet envisage activation measures for redundant employees. Furthermore, as a result of the 1999 decentralization reform, institutions also changed. The administration reform initially left employment services without instruments for action and coordination. The development rate for small businesses also declined.

Other domestic programmes that were prepared later played a greater role in the adaptation of EES directives in Poland: the above-mentioned economic programme "Entrepreneurship – Development – Work" and the "Plan for pro-growth measures in 2003-2004". Both of these documents feature the fundamental elements of EES. The document which is the closest to EES principles is the one prepared in association with EU accession and establishing the framework for the absorption of funds from the European Social Fund (ESF): The Sector Operational Programme Development of Human Resources 2004-2006.

The EU's second social strategy, namely the Social Inclusion Strategy³⁴, which covers combating poverty and, eponymously, social inclusion, is the result of a broad debate on the social issues of the 21st century. It includes proposals for introducing new economic programmes and new labour market institutions. Its inspirations derive from social economy theories and the third sector (non-government).

Before work on the Polish version of the European Inclusion Strategy began, two laws were adopted, ones which clearly

³⁴ *In the original it is the strategy of social inclusion*

³⁵ *Dz.U. 2003 nr 122, poz. 1143*

³⁶ *Dz.U. 2003 nr 96, poz. 873*

³⁷ *This view has found clear confirmation in the World Bank's report on the social situation in Poland (The World Bank 2004)*

tie into the inclusion activities. In mid-2003 Parliament passed a law on social employment³⁵, introducing regulations regarding support for new forms of professional activation: social cooperatives, social integration centres and social companies. In parallel, a law was also passed on public benefit and volunteer work³⁶, not only broadening the category of the relevant entities that can help make individuals active on the labour market, but also creating an additional integration mechanism. Organizations working for the public good, while able to obtain public financing, will need to pursue participatory and integration objectives in line with the supportiveness principle.

The strategy of social inclusion, also called the strategy for social integration, reached Poland at a time when the poverty rate resulting from high unemployment and rising long-term unemployment is high, higher than ever before. It is the difficult and diverse labour market which has become the most important area of social exclusion in Poland³⁷. As the problems of lack of work and the segmentation of the labour market appeared, the fate of those who have been shifted to its lower segments, or remain completely on the margin of professional and social life, has come to the fore.

In 2003, the government appointed a Task Force to draft a National Strategy of Social Integration (NSIS). It was created as a result of broad cooperation between central and local government experts, along with representatives of societal and international organizations. The strategy envisages 20 priority measures to be implemented by 2010. Based on this strategy, a National Action Plan for social integration for 2005-2006 was prepared.

The Polish NSIS represents the idea that rational actions aimed at fighting poverty and social exclusion should give priority to measures supporting children and youth. Emphasis was therefore placed on:

- a) compensatory measures, compensating for a disadvantaged start into adult life,
- b) preventative measures, awareness programmes promot-

ing and mobilizing campaigns for integration, c) measures to support persons either threatened with exclusion or already excluded (MPS 2004).

With such a placement of accents, a significant role is to be played by the education system and institutions and participants of the labour market.

The idea of social integration has met with understanding and acceptance in Poland as an idea for improving access to education and the labour market. This is not only a reflection of the currently difficult situation with regard to access to the labour market, but also of the presence of a "labourist spirit" that places emphasis particularly on the significance of work for the process of social inclusion.

Problems of social policy in the accession period

The social policy initiated in 2003 does not yet have a clear countenance. Moreover, this period – let us call it the initial accession period – is not yet over. What already appears salient in this policy is the emphasis on its activation and the use of new programmes and instruments. These are programmes stimulating local and regional centres to improve infrastructure and entrepreneurship, the development of activities in the area of education and lifetime education, active labour market policies including support for its decentralized organizational structures. These activities are augmented with EU funding (previously Phare) and current structural funds. All in all they have been helping to reverse the decline of public involvement in labour market and social development issues.

At the same time, efforts are continuing to find areas for potential cuts in social spending and shift the responsibility for providing social services onto families. Perhaps the law on public benefit and volunteer work will help to strengthen non-government organizations that have the potential to

become significant social policy players, supporting both families, as well as local governments in their efforts to resolve the social problems of their communities.

Summary and conclusions

The social situation of Polish society after fifteen years of transformation is highly complex³⁸. Economic growth since 1992 has on average been stable (although it slowed down during 1998-2002), but this masks great disparities in the material and social situation of individuals. The tendency towards diversity and inequality has accompanied the Polish transformation since its very beginning. The current level of inequality is not lower than the EU average, and in many cases it is even higher.

Polish social policy during the transformation period has not had a clearly defined direction, despite the declarations that it would participate in creating a social market economy (vide: relevant regulations in the Constitution). The policy line of political rhetoric and election programmes has remained rather socialist: protection of traditional employee rights, protection of the disadvantaged, respect for accrued rights, equal access to social services, support for the family, fighting poverty, etc. In practice, however, policies were greatly diverse and inconsistent. On the one hand, they initially helped to protect those who lost out on the transformation, via increasing monetary transfers and deactivating employees. On the other hand – they supported an individual approach to the resolution of social problems, as well as the commercialization of social services.

³⁸ A description of this situation is presented in Chapter 7.

Decisions in the area of social policy were often taken under the influence of current needs and pressures, such as: compensating for the costs of radical transformation (social packages), the pressure of solutions promoted by institutionalized interest groups, and the suggestions of international organizations.

Further social development, in line with the European social model, will constitute a sizeable challenge. What deserves particular attention in this model is the activation of social policy. In the case of Poland this would require the considerable reallocation of public expenditure: less spending on social transfers and more on programmes promoting and motivating individuals to take matters into their own hands. This would start with education and employment and end with entrepreneurship and social involvement.

Based on the development of social policy in Poland to date, one cannot say that it has any permanent features that would show that it is headed towards a specific model or that it is shaping its own model. For above all it has been a reactive policy³⁹, and has supported market economic and systemic reforms, at the same time as easing their drastic social consequences. Market reforms in the social area have lacked decisiveness and failed to gain sufficient momentum⁴⁰. Moreover, society's varied incomes, coupled with the fact that the vast majority of people are insufficiently affluent, have not created enough demand for market social services. Lastly, the notion of a social market economy, although written into the Constitution, has not been realized. One cannot say that social policy has clearly aimed towards the realization of such a model, although some of its aspects, albeit in part and very slowly, are moving towards solutions typical for such a concept. A social market economy needs a more

affluent and proactive civil society, as well as a society that evinces greater solidarity. And this requires time. Solidarity of the magnitude required in social policy is not created only by altruistic gestures and unconstrained spontaneity in helping others. Only wisely directed and well-organized solidarity is effective in situations of social peril and proffers a way out.

³⁹ *The policy was described as having more elements of spontaneity than attempts to structure it according to a clear hierarchy of values (Książopolski 2004), or that it was pursued largely under the influence of political intuition (Staręga-Piasek 2004).*

⁴⁰ *Researchers even put forth the notion of a market-paternalistic hybrid (Książopolski 2004)*