

## The Social Report: Poland 2005

Polish society during the communist period. The legacy of state socialism

Social change and social policy during the transformation period

Poland's population and demographic changes

Job changes and the situation on the labour market

Social protection in Poland

Health care

Polish society 15 years after the Round Table:  
its condition, social structure, attitudes, values and social capital

The Social Report: Poland 2005



The situation on the labour market

Social policy during the transformation period  
The population and demographic trends  
Health care  
Polish society 15 years after the Round Table  
Polish society during communist times  
Social protection

# The Social Report Poland 2005

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REPRESENTATION IN POLAND

The Social Report  
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The Social  
Report  
Poland  
2005



Friedrich Ebert Foundation  
Representation in Poland

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# Foreword

Dear Readers,

It is with great pleasure that we present our latest publication: *The Social Report: Poland 2005*. Our *Report* was prepared by the following team of experts: prof. Stanisława Golinowska, PhD; prof. Maciej Żukowski, PhD; prof. Juliusz Gardawski, PhD; and Bożena Balcerzak-Paradowska, PhD; in cooperation with the Friedrich Ebert Foundation's in-house scholars Anna Kierzkowska-Tokarska and Krzysztof Getka.

The subject of the *Report* is a description and analysis of the key social problems in Poland today and of the social policies that have been pursued over recent history. It is our intention that this *Report* will help launch public debate on the ways in which pressing social concerns should be resolved, as well as on the challenges which Poland now faces as a member of the European Union. One of these challenges is to link social policies with the European Social Model (ESM).

The European Social Model may well be considered an element of European identity. We can define it as a system of the manifold activities of the state and of civil society aimed at satisfying citizens' material needs, ensuring their participation in social life and strengthening societal cohesion.

Societal cohesion is not an end in itself. Within the ESM concept it also serves to support economic growth. In striving to reconcile cohesion with economic competitiveness, the European Social Model differs from models observed in non-EU countries. At the same time, growth achieved in this way will constitute a material basis for realization of the ESM. This is why the strengthening of Europe's competitive capacity in our globalized world is a prerequisite for the further development of the ESM.

In reality, the European Union is still very far from having achieved the uniform implementation of the European Social Model. EU countries are pursuing divergent models of social policy, the range of which has increased with successive stages of the Union's enlargement. In the 1950s and 1960s the continental model was clearly predominant, while in the 1970s – after the admission of the UK, Denmark, and Ireland – social models became more diverse. The southward enlargement of the Union in the 1980s added a Mediterranean dimension to the model, while the northward enlargement and opening up to EFTA countries in the 1990s added a Nordic dimension. The consequences of the 2004 enlargement of the EU are at present still difficult to assess. However, there are many indications that the existing diversity of social policy models will be supplemented with a new approach, one combining the socialist past with a liberal future.

Despite the increasing reform tendencies and the attendant institutional diversity seen in the social policies of respective European countries, one element remains common: the understanding that social inclusion and balanced social development are conducive to economic development and are not merely a factor generating additional costs. The converse is also true: economic growth should support social cohesion.

Our *Report* presents a general outline of Polish society and the situation on the labour market and sums up the changes which have taken place during the transformation period, not neglecting to highlight their connection with the social policies pursued. We would like our *Social Report* to serve as a starting point for discussion on Poland's future social and economic development within the EU. In the upcoming reports we are planning to publish we shall analyze various areas of social policy with a view to their European dimension and draft guidelines to assist in policymaking.

The general premise of the undertaking embarked upon by the Friedrich Ebert Foundation is to obtain answers to the following questions:

- Whence have we travelled?

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- Where are we at present?  
and finally:
- Where are we heading?

*The Social Report: Poland 2005* endeavours first and foremost to find an answer to the first two questions. Our next Report, planned for next year, will try to provide an answer to the question "Where are we heading?"

This year's *Report* describes and analyzes such key aspects of the social situation as demographics, health care, the labour market and social protection. At the same time, it discusses the relevant changes and characterizes the social policies that have been pursued. The structure of our *Report* revolves around two axes. The first two chapters have been structured around a timeline. The following chapters depict the current situation thematically, in terms of given problems and/or their solutions. Consequently, these chapters address the following issues:

- the legacy of state socialism
- the transformation process
- demographic development and its consequences
- the labour market
- social protection
- health care
- the condition, structure, values and attitudes of Polish society 15 years after the downfall of the Polish People's Republic

On the one hand our *Report* should contribute to an enlivening of the debate and the exchange of views between academics and civil society. On the other hand it should help build a bridge to the world of politics. Civil society and politics are co-dependent in a democratic state. Their continued cooperation is a prerequisite for the success of politics in Poland, the two major challenges of which remain transformation and integration.

The Friedrich Ebert Foundation is planning to soon begin a series of discussions devoted to "Work and social issues". The seminars held during this series will form a broad plat-

form for dialogue between representatives of civil society and the world of politics.

Debate on the labour market, the social situation and social policies should not be limited only to Poland. The question "Where are we heading?" will need to be answered not only by Poles, but also by Czechs, Slovaks, Hungarians and the citizens of other countries of Central Europe. For the challenges those nations are facing today are not so very different from those Poland faces. And indeed, other EU countries will also embark on paths of reform chosen to ensure their continued economic growth and social cohesion.

We will appreciate any comments and suggestions you may have regarding the issues addressed in *The Social Report* and the discussions we are planning.

Our e-mail address is: [biuro@feswar.org.pl](mailto:biuro@feswar.org.pl)

We wish you an interesting read!

Peter Hengstenberg  
*Friedrich Ebert Foundation*  
*Representation in Poland*

Clemens Rode  
*Regional Coordinator*

# Chapter I

Polish society during  
the communist period.  
The legacy  
of state socialism

Stanisława Golinowska, Juliusz Gardawski



The legacy of the past – this is one of the essential factors defining the social order of Poland's post-1989 transformation period. Yet this seemingly obvious premise is not easy to demonstrate. For the past as present in the values and the behaviour of today's society differs from that which is embedded in its institutions. Indeed, whereas the oldest generation's frame of reference points to the pre-war period, the generations raised after World War Two frame their experience in reference to the various periods of the PRL (the Polish People's Republic)

Reference to the past also differs along conceptual and emotional lines. Those who have no personal experience of the functioning of an institutional order different than that formed in the PRL, along with those for whom that was a period of positive emotional connotation and life-time achievements, relate positively to the organizational models and behaviours that they assimilated in the past, ones they know and understand. Conversely, negation of the otherwise positive models from the PRL past can be observed among those who suffered from its repressive institutions. This concerns both those groups of people who acutely felt the lack of freedom and who greatly suffered as a result of the inefficient functioning of the economy, as well as those who knew other models and professed other values than those that were officially upheld.

Today, an increasing portion of the population has no personal experience of the pre-transformation period. Their knowledge about the past and their attitude towards it are formed by historical accounts, literature, film and the recollections of their parents and grandparents.

Is this diverse past still present in the current reality? If so, to what degree? This is the subject taken up in the first chapter of the present *Social Report*. The impact of the past on today's social life in Poland shall be identified and described through an attempt to respond to the following two questions:

- Whence have we travelled?
- What is the legacy of the past in our present social life?

In order to answer the first of these questions, it is necessary to establish a timeline for past events. Herein our *Report* refers to the historical periodization of the PRL, taking into account its overt political changes and institutional development, as well as changes in Polish society's living conditions. As there exists a large number of in-depth studies devoted to this subject, we may readily draw upon an established body of relevant facts and figures.

The answer to the second question calls for reference to analyses and studies that are not free of individual and/or group judgements. As a result, this part of the chapter is undoubtedly saddled with a certain amount of subjectivity resulting from the individual experience and personal views of our team of authors. Although the team has sought to remain fair and to present both the liabilities as well as the achievements of the past in an equitable manner, it is up to the reader to assess whether that attempt has succeeded.



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## 1. The various stages of social life in the PRL period

Although the period of the People's Republic of Poland (PRL) is very often treated conterminously with the period of communism, particularly in foreign literature, this is an oversimplification that may be said to falsify Poland's past to a significant degree.

The pre-1989 period can be divided into five qualitatively distinct stages of the country's development. The period of totalitarian communism itself lasted relatively briefly. This was the period from 1948-1956. During the first three post-war years (1945-1947) – a period of rebuilding the country on the one hand and of political conflicts on the other – Poland relied to a large extent on pre-war solutions in the institutional sphere. It was the political changes of 1948, to wit, the creation (imposition) of one-party rule (the Polish United Workers Party, PZPR); the establishment of the State Commission for Economic Planning (PKPG), i.e., a super-ministry to implement the command economy system; as well as the adoption of the six-year plan (1950-1955) that put Poland on the path of rapid industrialization – that fundamentally changed Poland's institutions and social relations. Institutional solutions taken from the USSR<sup>1</sup> were imposed. Politically, this was a period of totalitarianism entailing both the absolute monopoly of ideology and repressions against actual or presumed enemies of the system.

Following the "thaw" of October 1956, the corset of the totalitarian communist system was relaxed and the "Polish road to socialism" began, one evincing significant divergences from the Russian model for building the new system. By the late 1960s that path had proven too crude and uniform. Hence, together with the swift curtailing of the post-October freedoms, Poland's otherwise independent socialist development failed to win broad social acceptance. This fact manifested itself in the "March events" of 1968 and in December, 1970.

In the 1970s, power in the party and the state was held by an ambitious group that set out to modernize the country. That group viewed with favour the income and the consumption aspirations of society. The social and economic programme it elaborated, based as it was on capital derived from foreign loans and without the application of an efficient management regime, led to enormous economic imbalance and, subsequently, the crisis at the turn of the 1970s. Difficult living conditions in the crisis period, the inefficient economy and maintenance of limitations on civil and employee rights led to the emergence of mass-scale political opposition under the banner of the independent *Solidarność* trade unions. Initially *Solidarność* challenged the party authorities, later the whole system. In reaction to this, the communist leadership declared martial law. The 1980s were a period of acute crisis and the emergence of an extreme form of a deficit economy. It was also a period of political conflicts, and of ones that were no longer concealed.



<sup>1</sup> In 1947, when relations between the West and the Soviet bloc deteriorated, giving way to a climate of cold war, the Cominform strongly pressed for a uniformization of activities and submission to Moscow's guidelines in all areas: political, economic and social. Political activists who would not conform to the prerogatives so determined were eliminated.

## The period of communist totalitarianism

In the economic sphere, the period of communism meant the abolishment of private ownership, whether in the form of the nationalization of industry, prosecution of private entrepreneurship or elimination of individual farming, coupled as that was with the effort to collectivize rural areas. Communism also entailed control over social and cultural life, as in censorship and repressions against freethinkers. The communist state also fought against the Church and religious practice and enforced secular models of collective life.

However, in the social realm the period of communism in Poland does have a number of achievements to show for itself, particularly in the area of education and health care. (Golinowska, 1990). Programmes were undertaken to eliminate illiteracy (initiated in 1949 and successfully completed after a few years) and to build schools where none existed. Seven-year elementary schooling proliferated, as did the development of vocational education, along with complementary and compensatory education. In the area of health care a new infrastructure of health centres and hospitals was being reconstructed and created. Moreover, health care training was undertaken, along with measures to fight the epidemics and public diseases that were widespread at the time, most notably tuberculosis. Large-scale health care embraced children and began to cover maternity.

During the period of totalitarian communism and rapid industrialization, the living conditions of Polish families did not improve to a degree corresponding to the social effort undertaken by the public. A doctrine of belt-tightening on behalf of future prosperity was in force. The priority of developing heavy industry led to numerous shortfalls in the provision of food and other consumer goods. Despite the huge scale of migration from rural areas to cities, neither housing nor necessary service infrastructure (such as retail shops) were constructed at the required pace. The result was a huge disproportion in economic development, with the consumption requirements of the population neglected. In 1956, worker

protests took place in Poznań that determined the party's decisions with regard to personnel and programme changes. Interestingly, changes in the programme had been discussed within the party already since 1954.<sup>2</sup>

## The October "thaw" and the Polish road to socialism

The October "thaw" that took place in 1956 led to the replacement of the communist model of Soviet totalitarianism with a significantly milder version. Although the state continued to control most social organizations and institutions and to maintain censorship and limitations on freedom of thought, the independence of the Church was allowed, which effectively meant that the party was giving up its ideological monopoly.

The authorities' decision to permit the Church a large measure of independent activity after 1956 in the area of religion was further accompanied by tolerance for the social activity of religious orders and associations. This allowed a significant source of societal autonomy, particularly considering that restrictions on the social<sup>3</sup> and religious activities of the Church were altogether harsh in Stalinist times.

The social activities of the Church concentrated on the most difficult cases of human tribulation: total disability, incurable sicknesses and mental illnesses. Over time, this activity was broadened, with aid also provided to lonely and homeless people. A significant moment in the Church's social activity was the foundation of the Catholic Intelligence Clubs in 1957. These were organizations independent of the government authorities (positions in the organization were not staffed by

<sup>2</sup> After the death of Joseph Stalin in 1953, the USSR revised the manner in which the communist system was to be realized, a change which was declared by the 20th Congress of the Communist Party of the Soviet Union (Feb. 14-25, 1956). This was not without impact on the "thaw" taking place in other countries of the Soviet bloc, particularly in Poland.

<sup>3</sup> From the social viewpoint, a very significant limitation from that time was the nationalization of the Church charity organization Caritas in 1950.



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the party) that did not stop at providing charity, but also provided support in education, child-rearing and in culture. Meanwhile, the Oasis organization, which was founded in 1954 and later became known as the "Light-Life" organization, conducted outreach towards the younger generation.

Lay groups of independent intellectuals coalesced around the Church. The Catholic University of Lublin (KUL), the weekly *Tygodnik Powszechny*, Warsaw's monthly *Więź* and Kraków's *Znak* – these were communities that developed a model for positivist work on behalf of Poland despite the lack of independence and full freedom. Jakub Karpiński, following Andrey Amalrik, described their approaches as "conformist-reformist" (Karpiński, 1985).

In the economic sphere, the right to private land ownership was restored, significantly undermining the state's monopoly on the means of production. The party withdrew from forced collectivization. Furthermore, the development of individual crafts was allowed, and this segment of the economy grew to become a significant, although tightly controlled and constrained, partner for the dynamically growing state industry.

Decisions were taken to narrow the developmental proportions within the economy. Investments were made in those branches of industry that produced consumer goods, among them, those that supported agriculture (machinery and fertilizers). The aim was to increase food production. Peasants were still required to deliver the mandatory quotas that the law had imposed in 1951.

A wide-scale programme of housing construction was undertaken. Housing was the good that members of society most sought after. Residential construction plans were a response not only to the housing shortage in a country devastated by war and to the intense demographic upsurge (more than 11 million children were born by 1960), for they were also an element of supporting further urbanization and industrialization (the plan for the second stage of industrialization was adopted for implementation in the 1960s). Approximately 2 million people emigrated from the country

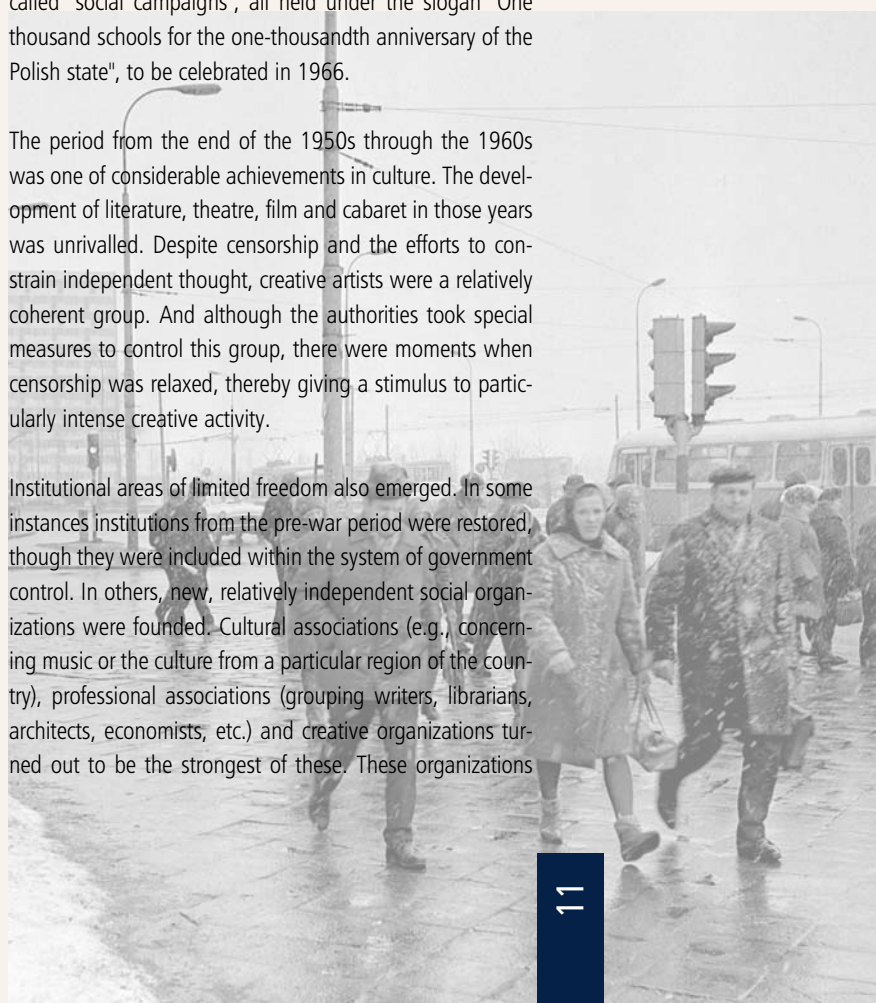
side to cities in the 1950s.

Housing development plans were being carried out very frugally. Exceptionally low standards for housing space were adopted, with the aim of building a large number of small and cheap apartments. Thus, these small apartments became a symbol of that period in the area of material development. They usually featured tiny, so-called 'blind kitchens' (without windows). This was justified by a model of development of social life in which domestic family life would be replaced by collective forms.

Economic plans also incorporated the development of social services infrastructure, particularly in education. The post-war baby boom had reached school age and schools were needed. They were largely financed from private funds gathered from among the public, with fundraising events organized among employees and their families and as part of so-called "social campaigns", all held under the slogan "One thousand schools for the one-thousandth anniversary of the Polish state", to be celebrated in 1966.

The period from the end of the 1950s through the 1960s was one of considerable achievements in culture. The development of literature, theatre, film and cabaret in those years was unrivalled. Despite censorship and the efforts to constrain independent thought, creative artists were a relatively coherent group. And although the authorities took special measures to control this group, there were moments when censorship was relaxed, thereby giving a stimulus to particularly intense creative activity.

Institutional areas of limited freedom also emerged. In some instances institutions from the pre-war period were restored, though they were included within the system of government control. In others, new, relatively independent social organizations were founded. Cultural associations (e.g., concerning music or the culture from a particular region of the country), professional associations (grouping writers, librarians, architects, economists, etc.) and creative organizations turned out to be the strongest of these. These organizations





operated on the basis of an ordinance from 1932, appended with contemporary decisions. From the viewpoint of freedom of activity, there was an interesting decision made in 1958, but not published, allowing associations to conduct for-profit activity (Ilczuk, 1995).

Once the fetters of totalitarianism were loosened in 1956, they could not be tightened again, despite the attempts subsequently made. This gave Poland's development and social relations its unique features (i.e., the Polish road to socialism), ones which were not to be observed in the majority of the other countries of the Eastern bloc, with the qualified exception of Hungary.

The social life of the 1960s was characterized by marked lack of ostentation (even asceticism) and egalitarianism, scornfully referred to as "urawniłowka", equalizing to the lowest common denominator. The model of "frugal socialism" was imposed by the top echelon of the party, indeed, by Władysław Gomułka himself, the first secretary of PZPR from 1956 to 1970. This model was approved of neither by the younger generation, nor by the younger members of the party ranks. Television, which was becoming more and more popular, displayed new and attractive consumer goods and new opportunities in life: free time, leisure, rest and tourism abroad. Young people were also demanding more freedom. Initially they had voiced this demand alone (in 1968) and without much support. They were disparagingly referred to as the "banana" young, in regard to their relative pampering. Later – in 1970 – the workers came out with demands. That movement led to a change of the authorities and the creation of a programme for national development.

### Modernization through borrowing

The 1970s in Poland was a period significantly distinct from the preceding one. The growing consumer aspirations of the public posed a potential source of approval for the new party authorities that took the helm in 1971 with a programme for

social and economic modernization. The production of consumer goods, including luxury goods (e.g., the production of a small car for the working population: the Fiat 126), was a part of the successive economic plans. The positive influence of an increase in household incomes on economic development was also accepted. Ambitious plans for further industrialization (the 3rd stage) were not abandoned, as these were justified by the argument that the post-war baby boom generation was entering adult life and needed jobs. These plans were carried out through borrowing from abroad, which at that time was suddenly much easier to obtain, thanks to the high supply of "petro-dollars" (extraordinary profits generated as a result of the oil crisis).

Policies with regard to individual farming also changed. Mandatory quota deliveries were abolished and investment support was provided to farms, which together allowed wide-scale imports of animal feed (and later food products, as well). The support provided to farmers had a selective nature. It was addressed to younger farmers having the required skills and involved in more modern production (so-called specialized farms). These agricultural policies very quickly led to differentiation in rural areas. The structure of farms began to change slowly in the direction of an increase in the average farm size (from 4 hectares at the end of the 1950s to 7 hectares at the end of the 1980s), and disparities in farmers' incomes and holdings increased. The inequality which arose at that time among farmers impacts the total income disparity in Poland to this day, making it larger than in other countries of the region (Wiśniewski, 1995).

The concepts of social development adhered to in the 1970s were significantly different from those of the preceding period of real socialism. A clear turn-around from the pressure on the collectivization of social life was to be observed. Instead, the authorities began to promote the family and support its activity and responsibility for the social and educational development of its members. The emphasis on women's emancipation decreased. Housing construction standards were altered, with acceptance of the right to "normal family apartments". The right of individual ownership



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was extended to owning an apartment and a recreational plot of land.

The 1970s were a period of rising intra-group divergences, not only in the private, but also in the collectivized sector. With the increased diversity of industry (resulting on the one hand from the planning priorities of coal mining and steel industries, and on the other from the inflow of foreign technologies) the living conditions of workers also diverged. Employees from privileged sectors and branches of industry not only earned higher salaries, but also enjoyed better living conditions and better access to scarce consumer goods and services. The policy of granting privileges had other criteria, as well, whether membership in communist party structures or the repression system, or the "buying" of professionals and talented people. The aspirations of modernization created conditions for acceptance and gave impulse to rational and creative attitudes. "A good professional, although not a party member" – this was a personnel policy slogan for many enterprises undergoing modernization.

Looking back, the attempts to reform the organization of enterprises and improve management appear noteworthy. That process hearkened to both the Yugoslavian model of increased employee participation in the management process (employee councils), as well as concepts of creating giant enterprises. Although those attempts were unsuccessful and the authorities' approval for them sometimes only had a tactical character, the potential of experts, which was fostered at the time, had considerable influence on the future initiatives of economic transformation in Poland.

An effort was undertaken in the 1970s to reform the education system. A team of experts headed by sociology professor Jan Szczepański prepared a report on the state of education and then drafted an outline for reform (1973). This was an ambitious project, referring on the one hand to post-war education concepts. On the other hand it was ahead of the education needs of the time in its adaptation to the modernized economy and its concept of social development. A common high school was proposed (a 10-year school), as well

as an earlier school-entry age (6 years), along with widespread pre-school education (exceeding 50% of children aged 3-6). It soon turned out that the project had no chance of being implemented. The only elements that were introduced were the extension of elementary school by one year (from seven to eight years) and the introduction of "zerówka" before the beginning of obligatory elementary school education. Although attendance in "zerówka" was not obligatory, the development of these classes, particularly in rural areas, did measurably improve the scholastic readiness of rural children, whose living conditions were on average notably below those of children in cities.

A significant element of social change in those years was that of allowing people to go on tourist trips abroad. Regulations on leaving the country were liberalized and it became possible to purchase foreign currency from the state for this purpose. For several years during that period Austria waived the need for Poles to have visas. The opening up of the "window to the West" strongly influenced personal aspirations. When going abroad, people would take up seasonal jobs and trade. Their foreign earnings were worth staggering amounts in Poland due to the favourable black market exchange rate of the dollar. For 25 dollars, the monthly needs of an entire family could be satisfied (Golinowska/Marek 1994). The experience of Western consumer societies and their civil freedoms contributed to the beginning of a powerful pressure to emigrate, something which was further fuelled by the political events of the following decade.

The socialist affluence of the 1970s ended in deep economic crisis. Abysmal macroeconomic management and voluntarism in management at the enterprise level, despite the planning process,<sup>4</sup> led to a deep imbalance. Attempts to balance the economy by raising the prices of foodstuffs led to worker protests that won withdrawals of those decisions.

<sup>4</sup> Many major investment decisions were made "outside the plan", for example regarding the construction of the flagship Katowice steel mill (Karpieński, 1986). In addition, the concept of planning changed at the time; a shift took place from planning in material categories to parametric planning, making the planning process more flexible, but because of poor management - highly ineffective (Golinowska, 1990).



The authorities began to lose control over the economy. The rationing of consumer goods was systematically introduced. The years of ration cards required to purchase products began in 1976 with the introduction of ration cards for sugar. Diverse markets for food products existed at the time, with lower official prices for basic goods and higher prices for luxury goods. At the same time a well-supplied bazaar trade and black market were functioning.

### The economic and political crisis

Studies of the profound crisis that set in during the late 1970s in Poland point to a multitude of interrelated, but separate factors. Concerning the economy, problems arose due to disregard for the principles of balancing and stabilizing the economy (there was severe over-investment in heavy industry, while at the same time a policy of expanding consumption was being pursued). Moreover, there were unsuccessful attempts to improve management on the microeconomic level, which fact largely contributed to the squandering of Western loans<sup>5</sup>.

In social policy, there was a visible tendency toward rising disparities in the population's living conditions. The division lines associated with privileges granted by the authorities were not accepted. At the same time, the growing attraction of Western consumerism as a result of "the window to the West" was at play. The rising consumption aspirations in the situation of a deficit economy, along with the high prices of goods on parallel markets, led to frustration and discontent. In the political realm, Poland's PZPR authorities lost control

<sup>5</sup> These were supposed to have been paid off by exporting output from enterprises modernized thanks to the application of new technologies.

over the processes that had begun. On the one hand, the authorities were seen cosyng up to the public by handing out privileges and avoiding (or withdrawing from) drastic measures to balance the economy (i.e., price hikes). On the other hand, they launched or allowed acts of repression and thereby rocked a society lulled by socialist prosperity. The authorities reacted to strikes in 1976 with repressions, ones which in turn gave rise to a movement to defend the workers (the Workers' Defence Committee – KOR). Hence, as the wave of worker opposition was spreading it was joined by independent intellectuals. After another attempt to raise prices in 1980 in order to balance the economy, a wave of strikes took place which not only led to a change of elites, but gave birth to an enduring movement for systemic change. The key moment was the creation and registration on November 10, 1980 of the federation of independent trade unions – "Solidarność".

It need be admitted that opposition organizations at that time primarily espoused social objectives and the protection of human rights, rather than such political goals as changes of power and the political system (Karpiński, 2001, p. 31). This helps explain why during a strike in 1980 in Szczecin, Czesław Socha, one of the protesting workers, shouted: "Yes to socialism! No to its distortions!" (Wilamowski, Wnęk, Zyblikiewicz, 1998).

This situation changed with the declaration of martial law on December 13, 1981. This was the moment when the *Solidarność* opposition unequivocally distanced itself from the system.

Despite the delegalization of the Solidarity movement and a massive wave of arrests, the opposition of independent trade unions remained active and moved underground. In April 1982, the Provisional National Committee – *Solidarność's* new underground authorities – was constituted.

The policy of the Communist authorities with regard to the opposition in the 1980s, in its programmatic sense as well,

was ambiguous. On the one hand they fought against and repressed opposition leaders and limited civil rights. On the other hand they initiated or allowed rational regulations governing the economy and administration. Several laws were passed contributing to increased entrepreneurship and administrative order, e.g.: the law on the Supreme Administrative Court (1980), on the Constitutional Tribunal (1982, but only taking effect in 1986), on prices (1982), on foundations (1984), on corporations with foreign capital (1986), on commercial activity (1988), as well as amendments to the Commercial Code (1988).

These regulations were a clear sign of a gradual abandonment of the central planning system. In 1988 the Planning Commission, until then a powerful strategic institution, was abolished and replaced with a new body, which was more of an analysis and forecast centre (initially called the Central Planning Office – CUP – and later the Government Centre for Strategic Studies – RCSS). A change in direction towards a market economy and entrepreneurship was also taking place in the Soviet Union. Mikhail Gorbachev initiated the *Perestroika* reforms which made the changes in Poland much easier to implement.

The daily life of citizens in the 1980s was marred by major problems with the provision of consumer goods. A semblance of balance was maintained only through rationing. Coupons were required to buy nearly all food products and queues became a permanent feature of everyday life. It was possible to obtain goods outside of the system of coupons and queues, but at bazaar (that is free market) prices, which were much higher. The difficult situation with regard to food meaningfully contributed to society's resourcefulness. Households significantly increased domestic production, the resources for which came from employee plots and the countryside. Food was bought directly from the peasants, as it was cheaper. Once again in Polish history, the countryside was aiding cities in a situation of crisis.

Significant material aid came from abroad. Its distribution was handled by parishes and church organizations. House-

holds passed along donated goods that were no longer of use to them, particularly children's toys and clothes.

Mutual support as part of spontaneous contacts and social initiatives was to be seen in the most dire of situations: sickness, disability, addiction and family dysfunction. The role of intermediary was not always assumed by the Church, although very often this was the case. Indeed, such initiatives were also taken up by journalists, teachers, doctors, as well as by normal families affected by adversities or problems which they could not handle alone, and for which a relevant government institution did not exist – or did not know how to help.

A significant part of the population could not accept the crisis situation and left the country. Making avail of a range of ways to cross the border, more than one million people left Poland in the 1980s. At the close of the decade, the level of foreign migration reached a higher level than that of natural increase (Okólski, 1993).

Social policy was unable to ease the difficulties of daily life in the 1980s. Its main thrust was aimed at drafting regulations that would allow families to function independently, without support in the form of an extensive system of social transfers and without non-essential reliance on social services. Basic measures included those aimed at: the professional deactivation of women; the introduction of paid child-raising leaves; and early retirement for women (at age 55 after 30 years of work). In this way women were to be provided greater time for their homes and for broader societal utility.

Expenditure on social transfers, for retirees and disability benefit recipients, was significantly limited. Although automatic indexation of benefits was written into the law on social insurance for employees and their families in 1982, this rule was not respected. Under high inflation (called "stagflation" due to the distinct characteristics of that period), benefits quickly lost their value and elderly persons, living on social benefits, became one of the poorest groups in the country.

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In 1988, after a wave of strikes that demanded restitution of *Solidarność* and following Mikhail Gorbachev's visit to Poland, the authorities declared their readiness to commence talks with the opposition. In Magdalenka (just south of Warsaw) during the autumn of 1988, the holding of "Round Table" talks was prepared. They took place between February 6 and April 5, 1989. From that moment on events unfolded at a rapid pace. Parliamentary elections, which took place in June, gave the opposition a landslide victory. All of the 35% of seats that were open to free election in the Sejm were won by the opposition. Moreover, the communists won not a single seat in the 100-person Senate. When Solidarity was joined by the "concessioned" parties that for decades had supported PZPR (namely the peasants' ZSL and the city-based SD), the first *Solidarność* government was created. A new political, economic and social era began in Poland. Its picture is drawn in the following chapters.



## 2. The social structure formed in the PRL

The years of Nazi occupation, followed by the political system forced upon Poland after World War Two, engendered a profound reshaping of the social and cultural structure. The social groups that had previously constituted the elite (namely, the bourgeoisie and the landowners) disappeared or were marginalized. Meanwhile, the groups that were socially disadvantaged before the war, advanced. The size of the petty bourgeoisie also notably decreased. A large new working class emerged in the period of rapid industrialization. Youth from rural areas advanced socially. A new intelligentsia emerged, mainly from a peasant background, but often from the working class. By the end of the PRL period, each social group was dominated by persons who were but two or three generations removed from the village. The old elites were replaced by new authorities who governed the party and the state through a sizeable bureaucracy and the apparatus of repression. This elite was described as the "nomenklatura", a name which arose due to the practice of how the party issued opinions on candidates for senior positions in practically all institutions and organizations in the country (with the principle exception of Church structures and organizations associated with the Church).

In the initial period of the PRL the social structure was open, exhibiting high social mobility: it was possible and relatively easy for people from lower and underprivileged social classes to move to higher ones. However, this society of open recruitment began to gradually close together with the formation of normal (ability-based), rather than revolutionary, selection criteria. In the 1950s, 55% of university graduates came from worker and peasant families (35% and 20% respectively). These proportions began to notably change in the following decades. Therefore, special "affirmative action" preferences were introduced to increase the admittance of children from worker and peasant families to universities,



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The social structure which was formed in the PRL period consisted of the following categories:

**Workers:** a group whose size continuously grew at a significant pace, in step with successive stages of the industrialization process. This group was described in statistics as physical labourers and later – as persons employed in worker positions.

**Peasants:** the group of farmers owning their own farms. The size of this group decreased, but at a rather slow pace.

**Peasant-workers:** the group of individual farmers who also worked outside agriculture. This was a numerous and durable group. Most of the owners of small farms commuted to work in state industries or lived in worker hostels during the week, and during their time off went back to the countryside.

**White-collar workers:** the group of employees carrying out management and office duties, later described in statistics and labour legislation as persons "employed in non-worker positions". The size of this group grew, but at a slower pace than the group of physical workers.

**Self-employed outside agriculture:** craftsmen and owners of small businesses. The size of this group did not exhibit a single, clear tendency. In the Stalinist period, this group was reduced significantly. Its size then grew dynamically at the end of the 1950s and stabilized in the 1960s. The group then began to grow again in the 1970s and 1980s.

**Free professions:** a group of persons with employment contracts, but due to their special (professional) skills and the degree of independence associated with it (also reflected in regulations on these professions), this group is listed separately in descriptions of the social structure.

but this did not reverse the trend. The process of the social structure's closing was becoming increasingly evident. Studies of social mobility indicate that in the 1980s, 60% of adult men in Poland had the same social position as their fathers (Cichomski, Domański, Pohoshi).

A notable feature of the social structure formed during the PRL was the phenomenon of decomposition. This means that one's social position did not correlate with prestige. This was particularly true for the intelligentsia, i.e., a significant part of white-collar workers and representatives of the free professions. For whereas those people enjoyed high social prestige, they did not earn more than workers. Income disparities between the intelligentsia and the national average began to decrease in the 1970s. While in 1973 the average earnings of employees with higher education amounted to 156% of the average salary in the

economy, by 1978 they declined to 127%, in 1980 they amounted to 110% and in 1981 they were a few percentage points below the average (Mokrzycki 1997:41).

Egalitarian tendencies were very strong in the first 25 years of the PRL. At that time, only the peasants' incomes were markedly lower than the average in the economy. The so-called income parity ratio of the peasant and worker population amounted to around 80%, meaning that average peasant incomes were 20% lower than average incomes of non-farm employees. In the 1970s a change in income proportions between social groups occurred. The peasants and the self-employed gained relative to other groups. Workers also gained. The income parity of the farmer population improved notably against the non-farmer population. Very high incomes emerged in the private non-farming sector. Studies on income disparities in the 1980s



showed that these were high in Poland and in Hungary (Beskid, Kolosi, Wnuk-Lipiński).

Below are the characteristics of selected social classes: workers, peasants, the intelligentsia and private entrepreneurs.

### The working class

In the rhetoric of party and government authorities during the PRL period, workers constituted the most important group – the leading force. This was due to the fact that the communist party, called the workers' party, was *de facto* an "industrial party"<sup>6</sup>. In the final stage of communist industrialization in Poland (at the end of the 1970s), workers constituted around 60% of the workforce (7.9 of 11.6 million).

In the first stage of industrialization, workers were mainly recruited from rural areas. The old industrial working class, present primarily in Śląsk (Silesia), accounted for a small portion of this group. The social advancement of workers from rural areas was an undeniable achievement of the system at that time. However, their working and living conditions were far from satisfactory. Hence, despite the fact they were fed the party's ideology, they could not tolerate the measly salaries and harsh living conditions for long. As a result, communist industrialization led to strikes.

The structure of the workers' class began to change, especially due to the influence of education. The post-elementary education system was dominated by basic vocational schools. 60%-70% of graduates of elementary schools went on to vocational schools. As a result, today's middle-aged working population is dominated by persons with only basic vocational education (more than 50%). The group of workers was augmented by graduates of middle vocational schools called technical high schools. Neither vocational education nor adult education were of a high quality. Graduates lacked both general and humanistic knowledge, while their technical skills also failed to meet world standards.

The material situation of skilled workers improved primarily in the 1970s. However, many studies point to their very difficult living conditions. A significant group of workers did not have apartments (they commuted to work from the countryside or stayed in worker hotels), and those who did have their own flat lived in cramped conditions (Malinowski 1981). The difficult working and living conditions contributed to disease and addictions, and this resulted in a strikingly high mortality rate among men at a relatively low age (Okólski 1988).

Labour relations and conditions were a significant factor determining attitudes in this, the largest social group. Therefore, we shall take a look at the results of studies devoted to this issue.

The first conclusion, one stemming from analyses carried out in the late 1950s and early 1960s, is the workers' low quality of work. The planning and management of production in that period led to a preference for quantity over quality, which obstructed the prestige of solid workers who had learned their skills before the war. Meanwhile, those who approached their duties instrumentally, carried them out hurriedly, without concern for quality, were tolerated. A new presence, that of the "worker-loafer" emerged, someone unheard of before the war, who would drink vodka on the job, steal, perform sloppy work, etc.

The direct superiors of the workers (foremen) acted more as representatives of worker interests vis-a-vis factory managers, than actual supervisors of the work performed. This was a consequence of a number of diverse factors, including the system's imperative not to allow conflicts within enterprises. As a result, management by "integration" and solidarity, rather than by "conflict" became one of the basic features of the social constitution of enterprises (Doktór 1987). A good indicator of the harmonious relationship between the managers of most enterprises and workers is that of worker attitudes in the period of the wave of strikes in 1980-1981.

<sup>6</sup> Milovan Đilas claimed that industrialization was the basic objective of Soviet communism.



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Participation in strikes rarely resulted from conflict within enterprises: what is more, there was "a sort of a climate of cooperation and lack of clear hostility [between managers and workers]" (Rychard 1987:130). The most frequent cause of strikes at the time was that of were demands regarding external issues (i.e., the state and the party).

The principles of rational organization were disrupted in state enterprises at that time and replaced with regulations described as "informal-familiar". The presence of informal structures and protection strategies utilized by employees were not the invention of societies of state socialism. This phenomenon was well-known in stable democracies, but under the conditions of state socialism, it had spread immensely. The social order resulting from these regulations has been called "administrative-familiar" (Żukowski 1987: 300).

Among other features described in the social order was the informal exchange of services. The basis for these services was the command over the enterprise's resources. This command was held by a foreman who would decide on the division of materials and who would formally supervise the work. He could consent to the performance, using company tools and materials, of private work during normal working hours. In this way, complex networks of dependence emerged that tied production-line workers to their supervisors and middle management. In the 1980s managers in state enterprises would treat such private jobs ("fuchy") as a form of service in kind, one constituting a relatively fixed bonus on top of salaries (Gardawski, 1992). Despite the organizational chaos, irregularity of work, problems with tools and materials, poor safety and hygiene standards, workers usually felt rather content in state-owned enterprises. However, the emphasis on the quantity rather than quality of work, demoralising "private jobs", insufficient control – these were

<sup>7</sup> Some researchers even expressed their surprise that such attitudes existed. However, it should be noted that the description of a Polish worker as one whose work is of poor standard does not find confirmation in studies of Poland's economic emigrants. Working in international groups, Polish workers perform very well, better than others.

<sup>8</sup> For example, in the 1960s a law was introduced forbidding the division of farms (single heir); later followed a regulation allowing farms to be turned over to the state in return for a pension benefit.

phenomena which many workers did not approve of. Workers were aware of their situation and were expecting changes. Many of them wanted to "finally do decent work" (Gardawski 1992:86). Indeed, and in spite of all, many of them did do decent work<sup>7</sup>. Jacek Kuroń (Kuroń/Żakowski 1995) writes that the staff structure of socialist enterprises which he had visited as a member of KOR was quite diverse, both in terms of background and attitudes. 1/3 of the staff were so-called "company patriots", firmly rooted in the environment and caring about the good of their employer. Another 1/3 had an instrumental attitude. They worked for the enterprise only for as long as they were reaping evident benefits. They would often change jobs in search of higher salaries. These "nomads" lived in worker hotels, exhibited weakened ties to family, and displayed a marked quarrelsomeness. The re-mainder of the staff was that of new people, generally school graduates or newcomers from the village. In time, they joined one of the two pre-existing groups.

Workers from the first group were not distinct from foremen and engineers. They constituted the core of the new working class. They cared about the quality of their work and about operating rationally. For young leaders of employee unions in the 1980s, the improvement of the situation at work and the rationalization of organizational structures was the main mission. This is the group from which arose representatives of the worker elite and trade unionists.

## Peasants

When Poland turned away from collectivization, there were 3.5 million farms with an average area of 4.5 hectares. The policies with regard to farming and the peasant population that were pursued in successive years by the PRL authorities led to a systematic increase in average farm size<sup>8</sup>. By the end of the 1970s there were 1 million fewer peasant farms, while their average size had grown to 6.5 hectares. In the 1980s this process slowed down somewhat as the profitability of farm production increased, farmers were brought

into the social insurance system and demand for food in a deficit economy was high and steady. In these circumstances, farmers were less inclined to cease farm production. In 1990 there were 2.1 million farms with an average size of 7.1 hectares. Only 6% of Poland's farms were larger than 15 hectares. Despite a visible improvement in the agrarian structure, the road to Western-style farming was very slow in the PRL.

Individual farming, which encompassed around 80% of farmland ("PGR" State Farms and farming cooperatives accounted for the remainder), performed important cushioning functions concerning food provisions and social crises at various stages of industrialization in the PRL. In the first period of industrialization farming was also an important source of capital formation, and throughout the period it supported the urban population with private transfers. Only in the 1970s and 1980s did peasant farms become beneficiaries of government policies, both directly, as well as indirectly (as a result of the inefficiency of state farms and state food-processing industries).

The policies of the PRL with regard to farming and peasants can well be described as instrumental. By allowing private ownership in this sector, the authorities exploited and discriminated against it in the division of investment outlays, as well as in the accessibility of the farming population to social services. A change of policy in the 1970s led to the emergence of a group of younger farmers who have been able to adapt to the requirements of the open market economy today. It is estimated that at the end of the 1980s this group accounted for between 1/5 and 1/3 of farms (Gorlach and Woś).

Peasant villages did not undergo anything resembling the modernization that cities did. For this reason, PRL industrialization is described as flawed modernization (Wilkin). The traditional peasant mentality, together with its telltale version of religiosity, was reinforced in rural Poland.



## Intelligentsia

The 'intelligentsia' is the traditional term used to describe the educated social stratum earning its living from non-manual work.<sup>9</sup> This is quite a diverse group, encompassing the elites in politics and public administration, officials, managers working in enterprises, and specialized professionals: engineers, medical staff, teachers, academics, lawyers, along with artists and the clergy.

The Polish intelligentsia came out of World War Two decimated by extermination, its part in uprisings, and in the fighting on various fronts of the war. Its surviving representatives numbered some 40% fewer than in the pre-war period – when even so the intelligentsia was but a small social stratum.

<sup>9</sup> The term 'intelligentsia' also encompasses the unique function of this social category, resulting from its high level of education and social awareness. This is the function of social leadership, a mission of enlightenment, explanation and evaluation of events, as well as pointing to their desirable direction. The fulfillment of such a function called for a high level of integrity, broad horizons, selflessness and a willingness to make sacrifices. The Polish intelligentsia performed this function for many decades of the late 19th century and early 20th century, taking over some of the features and obligations of the landowner class. After World War Two, some of these groups continued to aspire to fulfill the mission of the intelligentsia. However, we shall not focus on this problem in this Social Report, as it far surpasses the assumed boundaries of our review of issues.



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The communist system needed to conduct central planning and management activities, as well as to run enterprises, while at the same time it did not particularly trust the old intelligentsia. Therefore, the training of new staff began on a mass scale and at an accelerated pace. In order to emphasize the integration of the new intelligentsia with the remainder of the "working masses", this newly educated group was called the "working intelligentsia".

Management positions in factories were staffed by hastily trained workers, known as "work leaders", and by party members. Only engineers were recruited from the old intelligentsia, as it was not possible to swiftly educate the "industrial officers", as they were called. It should be admitted that the limitless possibilities of participation in the rebuilding and building of new industry were a strong attraction, one which won the support of many representatives of this community for the party. By the 1970s the managing staff of enterprises and engineers posed a coherent group. In fact, it was usually the engineers who ran public enterprises. In that period, too, the party again managed to seduce them, as foreign loans and new technologies offered them considerable room for attractive professional ventures.

In the initial PRL period, public administration officials were largely recruited externally, from outside the intelligentsia. Their skills, although enhanced by way of the adult education system, remained low. Nor were their salaries above the average, and over time they fell below those of skilled workers. With the possibility of material advancement blocked and their prestige dwindling, public officials felt increasingly frustrated and discouraged.

Representatives of what was previously known as the free professions were regular contractual employees in the socialist economy. Sometimes they would organize cooperatives, as did, for example, doctors, in the aim of providing services for persons not entitled to medical care – mainly peasant farmers. However, even these pseudo-cooperatives were controlled in the same way as public enterprises, in some instances even more stringently. The salaries of this

social group were humiliatingly low and outright bred systemic corruption. The recruitment of professionals was not based on meritocratic principles. For example, the influx of candidates to the teaching profession with time was tantamount to a negative selection process.

The spread of corruption in the socialist economy was associated with two key attributes of the socialist economy: shortages and salary egalitarianism. Under these conditions, corruption took the form of additional gratification for a rare commodity or service provided. This additional gratification was factored into the decisions made by communist authorities. "Doctors do not need to be given raises. They have given themselves raises on their own", was the thinking. The Hungarian sociologist Hankiss considered this one of the more perilous pathologies and lamented that the socialist economy inevitably increases the scope of corruption (Hankiss, 1996).

The intelligentsia also includes the political or power elite. In the PRL this meant the extensive *nomenklatura*. However, not all party members<sup>10</sup> should be counted among the *nomenklatura*; moreover, it also embraced non-party members, i.e., people who held senior positions in the administration or in other structures of the state or public enterprises. This group is sometimes defined as also including party officials or "apparatchiks", although they can also be treated separately. Their salaries were not significantly higher than those of "civilian" employees, but they also enjoyed significant privileges, ones, however, which were not immediately noticeable. Because of the high attachment to egalitarianism among the workers, the apparatchiks' privileges were concealed. In spite of this, or perhaps because of this, hearsay spread about shops "behind yellow curtains" and special recreation centres only for apparatchiks.

Artists, academics and the highest tier of the clergy were a significant and influential group among the intelligentsia.

<sup>10</sup> In the 1950s the PZPR had around 1.2 million members, in the 1960s their number increased to 2.3 million and in 1980 - the peak year - it reached 3.15 million members and candidates (Karpinski 1985).



After 1956, this group obtained a certain margin of freedom of activity which allowed them to develop their activities and practice their professions and arts relatively "normally", provided that they steered clear of "sensitive" topics. A significant indication of normality is seen in the possibilities to go abroad (expanded in the 1970s), especially to conferences and on scholarship. This group had the opportunity to participate in international training, competitions and joint undertakings. Even when ideological control was tightened, they would protect one another, not letting "purges" take place<sup>11</sup>. This makes the situation in Poland considerably different from that observed in Czechoslovakia following the "Prague spring", when the opposition intelligentsia was effectively purged by forced job changes, expulsion from the capital, and in many cases even loss of the right to practice their profession.

The artists, academics and the highest tier of the clergy were the group of the Polish intelligentsia that constituted the "brain" of the political opposition<sup>12</sup> formed in the 1980s, despite the initial sympathies of many of its representatives for the communist transformation. They were also the group that paved the way for liberal ideology and acceptance of the market economy.

### "Private initiative"

After World War Two, a brief three-year period of freedom for small and medium enterprise activity ensued that result-

<sup>11</sup> Although many intellectuals and artists did leave the country (particularly in 1968 and later during the martial law period), they were clearly encouraged to do so by the authorities. Nevertheless, these were not mass-scale purges, such as those taking place in Czechoslovakia. Furthermore, these people usually continued to work for the country, e.g., by supporting — to the extent they were able to — Polish communities.

<sup>12</sup> It would of course be an exaggeration to claim that intellectuals were a group totally in opposition - covertly or openly. There were also those among them who accepted the Polish version of communism in its declarative version and devoted much energy to improve (or to perfect, according to the official version) the system and fight its distortions. The downfall of the PRL, despite the restoration of independence, made them feel despondent because of the sense of a "wasted" life it engendered.

ed in a great number of private initiatives of various magnitude. However, after that period there ensued a period of widespread dispossession of entrepreneurs and the state's seizure of all private companies with economic or social significance. An acrimonious "war over trade" swept the country, leaving it with bloated state and pseudo-cooperative trading companies and a scant number of private grocery stores or small producers of lemonade or toys.

When the economy was divided into precisely defined segments in the 1950s (divisions, branches and sectors<sup>13</sup> which became monopolies in their respective areas), the private sector also obtained its "monopoly". This was the monopoly for provision of those services for the population which state enterprises could not guarantee. (Domański, 1994). In time, relatively fixed forms of "private initiative" emerged, such as the "green market" (which tied farmers with private traders), industrial cultivation of fruit and plants, production of building materials, and decorative items. This led to the formation of a socialist "private initiative" class, together with its distinct ethos.

Private non-farm activity had two dimensions. On the one hand, in the deficit economy, private companies (even those which were technologically obsolete) reaped incommensurably high profits that allowed their owners to pay their employees well. "It is an irony that the group which, at the very basis of its existence, was always under threat by the ruling ideology and political system, was — on average — the most affluent segment of the social structure in Poland" (Domański, 1995). At the same time, the situation on the market did not compel entrepreneurs to behave innovatively, to modernize their stock of machinery, improve efficiency, and so on. There was no competitive pressure: the market had the features of a producer's market. On the other hand, the functioning of private producers was subject to strict constraints. Owners of private companies faced constant audits by the financial administration, which could always charge

<sup>13</sup> In his "History of the PRL for beginners", Jacek Kuroń described this as communist corporatism (Kuroń, Żakowski, 1995).



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extra taxes according to their whims and drive companies into bankruptcy. Owners of private businesses were therefore forced to give bribes, impose limits on their own activity and carry out mimicry. As a result, their surpluses could not be invested. Rather, they were spent to increase consumption on the part of company owners and their employees. Sociological analyses in the late 1960s and early 1970s into the behaviour of representatives of private initiative in local environments indicated that "they were masking themselves from public opinion (...) hence the phenomenon of non-ostentatious consumption and of fortunes accumulated thanks to the external inconspicuousness of owners" (Tyszka 1971).

Government policies with regard to this group taught businessmen a distinct type of resourcefulness, that of caution and corruption. At the same time, however, by no means did it reward genuine entrepreneurship. As a result, this led to attitudes which can be described as "cautiously resourceful" (Gardawski, 2001). "Cautiously resourceful" attitudes on the part of private initiative were to a large extent morally dubious and some sociologists even claimed: "it is not [...] true, that socialist 'private initiative' was an area where the spirit of capitalism was growing [...]. It was more of an area shaping mentalities and skills typical for small-scale, underground economic activities and the shadow economy" (Mokrzycki 1995). This was one of the reasons why this group did not develop into the frontrunners of the new private economy in the years 1988-1993. It was stuck in its market niches carved out over the years, afraid of undertaking new challenges in the open market economy.

## The divide between "us and them"

The structure of traditional social ties and the permanent tendency of the communist authorities to become ever more distant contributed to a dichotomous and vertical perception of the social structure. This meant a division into two classes, one of which dominated and the other was dominated, one ruled and the other was ruled. "They" rule, "we" are sub-

ordinate. "They" are the alienated, socially unaccepted *no-menklatura*. In stable democratic societies the propensity to perceive the social structure in "us-them" categories is typical of classes with a low status. In Poland, this perception was also held by representatives of the intelligentsia. This was, of course, associated with the fact of the objective alienation of the power elites, which were not subject to social control and thus constituted the core of "them".

"Them" is the world of official institutions: the party structures, institutions of control and repression, local and government administration, legislative authorities imposing legal norms and judicial power. "Us" is the world of family and social ties, as well as of informal relations. "We" were focused on our own matters and were not much concerned with the authorities of that time. There were no institutional links between the family-social-informal structures, where everyday life took place, and the structures made up of the ruling class. One could say these were two separate worlds. There was no participation in power but for façades. "We" could rebel against the authorities, "we" could harbour expectations or claims against it, but "we" were taught against trying to influence the decision-making process within the political segment of social life. Power was perceived in zero-sum terms: either one has it – and thus has a decision-making monopoly, or one does not have it – and thus is completely deprived of any influence on the decision-making process. This way of perceiving power, natural in the situation of people having closed themselves in up family-social-informal niches, proved to be surprisingly lasting in Poland.

A society defining itself as "us" was defined by Stefan Nowak as a "federation" of family-social-informal groups. Within the framework of these groups, Poles showed a lot of resourcefulness, as well as an ability to conduct complicated trade in goods and services (often with disregard for the law). The situation was different in the official world. Mirosława Marody (1987) showed that a "learnt inability to solve problems" persisted there. Studies also pointed to a high degree of trust (a high level of "social capital", as we would say today) within family-social-informal groups, and a relatively





low level of trust for members of other groups and, of course, for the world of official institutions.

### 3. Attitudes, values, aspirations

Social studies, as well as publications and films, point to a few generalizations that can help in portraying the values and social attitudes evinced during the period of real socialism. The main characteristics of Polish society as formed in the PRL and described by sociologists include: informality, resourcefulness and group solidarity, religiosity, along with a "homo sovieticus" attitude towards the state and moral relativism with regard to theft and corruption.

These attitudes and values are connected with the perception of the social structure in the "us-them" terms described above. The most important consequence of this divide is the relativity of moral norms: the very behaviour that would be considered morally reproachable among "us", would not necessarily be so considered in relations with the official world. Taking or destroying public property was not always seen as theft in the setting, for example, of the workplace. Similarly, giving false account would not necessarily be described as lying. It was possible to be an unreliable and irresponsible employee and at the same time maintain a standing as a decent person among one's own.

Adam Podgórecki (1995) wrote of a characteristic "bottom-line survival attitude" which compelled Poles to strengthen their bonds with family, social and informal groups, i.e., in areas where a person could find support. Podgórecki pointed to the phenomenon of "a dirty community" that coalesced from the common pursuit of illegal objectives, the provision of small services to one another and private transactions. These transactions offered the opportunity of mutual black-

mail when the informal binding code of cooperation had been breached. A derivative of the "bottom-line survival attitude" was, he wrote, the attitude which approved the pragmatic norms necessary to achieve desired objectives and which allowed the breaking of a number of moral norms. Jadwiga Koralewicz (1979) spoke of a distinct, widespread model of practical values dominating over moral values: there emerged "a common acceptance for petty-scale cronyism and 'finagling', meaning the reliance upon informal connections in order to obtain certain goods or privileges present in formalized systems".

A typical characteristic of employees in socialism, particularly in the Polish model, was the creation of enclaves of friendly (i.e., cliquish) group relations. "Small" employee collectives were built on personal ties, the exchange of services and friendly gestures. While this made everyday work more pleasant, colleagues friendly and the boss tolerant, the clients and beneficiaries of the institutions where such small collectives materialized increasingly had the feeling that they were intruders. This was to be alleviated by enticing public officials, whether with flowers, chocolate or a promise of delivering something in exchange. Small collectives were not clear-cut and participation in them did not have the features of unpleasant obligation. They functioned in a very flexible manner, but at the same time they made up the life-blood of the society as a whole. Narojek described this phenomenon in the following way: "the distinct folklore of 'being one of us' saturates the entire culture of everyday life in post-war Poland, and it is accompanied by the belief that there is nothing that cannot be 'hustled' – one only needs to know how and through whom" (Narojek, 1991).

An important feature of Polish society as formed in the PRL years was the approval of egalitarianism – the principle of social equality. In stable market economy societies, the principle of equality, particularly in its extreme form as the premise of equal salaries, is held primarily by representatives of the lower social classes. The peculiarity of Poland, in turn, was that this equality was accepted not only by representatives of the lower classes of poorly educated people, but also



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by the intelligentsia and students. At the same time, Poles accepted the idea of differentiating salaries according to the quantity and quality of work and a minimum degree of inequality; albeit at a smaller scale than observed in the 1970s. This made it possible to speak of the "moderate egalitarianism" of Polish society (Nowak, 1978).

Another feature of Polish society as shaped by real socialism is the "gimme" or claimant attitude towards state institutions. This attitude was explained by the late Father Professor Józef Tischner in terms of the negation of private property. In his view, it is the negation of private property which first formed a "thief-beggar" mentality and later, once private property had been restored, the inability to deal with it (one does not know "what it means to own a horse and how much it costs" – Tischner 1998). According to the renowned Catholic philosopher, what we are dealing with in transformation countries is a constructed type of human being whom he memorably called "homo sovieticus" (Tischner 1990). The "Soviet man" is not illiterate, but he does not know how to be enterprising on his own account. At the same time, he has considerable consumer aspirations. This is because private property was scorned in communism, but human needs were rhetorically upheld.

Economic literature in the 1970s also pointed to the problem of "excessive" consumer aspirations, but the explanation of this phenomenon tended in the direction of the impact of demonstrations (related to allowing contacts with the West) and the influence of the media, particularly television (Pajestka 1975, Ostrowski, Sadowski 1978).

The majority of Poles were constantly criticizing the socialist state for not satisfying important social needs to a sufficient degree, but for a long period of time this did not lead to the conclusion that it would be a good idea "to take matters into our own hands" through genuine social organizations. Although the ability to self-organize had always been one of the notable traits of Polish society, state socialism led to a significant erosion of that quality. Of course there were objective grounds for this: state socialism made it very diffi-

cult to undertake independent social initiatives, but claimant attitudes were particularly strong even in these conditions.

This does not mean, however, that Polish society then was deprived of its own organizations. Margins of autonomy had always existed in Poland, and were tolerated in the PRL both in view of toadying up to the West as well as in recognition of the need for a safety valve to offset social tensions. This margin of autonomy was also visible in the activity of a number of the social organizations (The Friends of Children Association – TPD, the Polish Committee for Social Assistance – PKPS, the Polish Red Cross). These could hardly be called NGOs (they were steadily subsidized by the state and controlled by the authorities through the *nomenklatura* system of staffing top positions), but they did independently perform a range of social tasks for disadvantaged and neglected children, the disabled and seriously ill, and dysfunctional families.

In addition, traditions of social activism proved very strong among the intelligentsia. During the PRL this was evidenced in the form of associations, professional organizations and clubs for enthusiasts of a host of types. However, in the case of Poland, these were not only associations of fishing enthusiasts or dog breeders, as was the case for our neighbours, notably the Czechs or Hungarians. The strongest were cultural associations (musical, or for enthusiasts of the culture of a particular region of the country) and professional organizations (grouping writers, librarians, architects, economists, etc.).

Sociological studies on the system of values of Polish society (Nowak 1991), carried out systematically from the late 1960s, brought researchers' attention to the lack of association within vertical social structures. Between the nation (a value which Poles widely adhered to) and the family there was a vacuum. It was later to turn out that this vacuum was filled relatively easily in the form of opposition against the communist state. The degree of society's organization under the circumstances of a proactive opposition proved relatively large and, in view of the crisis of the 1980s, it brought considerable social benefits.

This ease with which society organized itself at the end of the 1970s to help others and in opposition to the totalitarian regime, is interesting in the sense that it undermines the hypothesis advanced by Stefan Nowak, the renowned Polish sociologist, about the institutional vacuum between the family and the nation. Indeed it seems that researchers underestimated the thrusts of the "quiet social activity" (usually focused around the Church, but not only) on the part of clandestine, local and spontaneous movements (Hryniewicz, 2000 and Siellawa-Kolbowska 2002). Nor did the officially operating social organizations limit themselves only to what was written in their statutes and regulations. Various support networks became an existential necessity. The deficit economy, as well as the underdeveloped social services (the situation in Poland in this regard was incomparably worse than in neighbouring countries) forced individuals to be resourceful, to exchange services and to support one another.

Regardless of the various limitations put on the activity of social organizations during the PRL, most of them still continue their activities today. And though they now operate on the basis of new regulations, they maintain the infrastructure and staff resources acquired previously.

#### 4. The balance sheet on state socialism

It is not an easy task to draw up a balance sheet for the period of 1945-1989. The problem is that any assessment drawn up after 15 years of having built up a market economy and democratic state can define only a handful of phenomena from the PRL as conducive, or not, to the new order. The majority of those phenomena has an equivocal nature: from one point of view they can be considered positive, from another negative. The legacy of the institutional past in many cases obstructs the construction of a new order. However, there are also numerous examples of solutions, thanks to which the continuation of modernizing tendencies is possible. One should not overlook (or forget) that the central planning experiment in Poland was also aimed at speeding up the country's developmental process in the aim of overcoming more than a century of imposed neglect. For Western countries, the 19th century was an era of industrialization and civilizational progress. For Poles, deprived of their own state, it was an era of exploitation, insurgence and repression. Poland's energetic attempt to build its own institutional order during the interwar period was brutally interrupted by the destruction of yet another world war.

The compilation below is an attempt at outlining the main benefits and drawbacks of the main features of real socialism in Poland in various areas of life and social activity. This compilation is no doubt incomplete. Therefore, readers can expand it for their own use.

The phenomena which may be classed as unequivocally positive include the material and educational advancement of representatives of the working class in the 1940s and 1950s, the housing construction programmes of that time, improvement in health care, etc. This is why so many leftist intellectuals, who were at the same time distant from communism, supported the new system to some extent.



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Meanwhile, the clearly negative phenomena included the "cliquish" climate in enterprises, allowance for a flippant attitude to work, the embezzlement of state property for one's own purposes and doing "private jobs" at the workplace. The demoralization of work can certainly be considered one of the worst legacies of state socialism.

The "us/them" divide of society had an equivocal character. It turned out to be extremely important during society's rebellion against authoritarian power and greatly facilitated the rise of the ten-million strong "Solidarity" movement. On the other hand, however, it led to a very dangerous relativity of moral norms, it reinforced the belief that all power is alienated, made it difficult to build societal trust, and contributed to a lack of respect for all official institutions, including legal norms.

Similarly equivocal was the distinct type of social bond which made Poles close themselves in family ("familism"), social and informal circles, and generally isolate themselves from official institutions and organizations. This type of bond significantly strengthened the institution of the family, but on the other hand it separated family-social circles from the broader social context and made it more difficult later to create non-government organizations, entities that are so important for a civil society.

Another phenomenon of an ambiguous character concerned the strategic decisions made with regard to the peasants. Their class was protected from collectivization, but it was exploited and discriminated against in the division of national income and became stuck for almost half a century in the dead-end of an obsolete agrarian structure. Peasants evinced an everyday resourcefulness, but they lacked innovation and entrepreneurship. At the same time, the countryside was a source of private transfers, an enclave of normality, and a place where many traditions important to national culture were cultivated.

The legacy of the mentality formed as part of "trade tourism" was also ambiguous. In this case, individuals not only be-

came resourceful, but also learnt mercantile innovativeness and practical entrepreneurship. However, the price of this education was high, for many also learned to avoid and disregard the law (not only customs regulations). Nor are the consequences of the regularly recurring economic migration unequivocally positive. Aside from material benefits and experience with a different organization and different way of performing work, returning emigrants often become alienated from their local community. Living in two worlds, in fact they were socially integrated with neither of them.

Therefore, the period of state socialism cannot be described only as a murky one. For aside from the negatives, particularly the habit of disregard for the law, there were also benefits, the foremost of which is the constructive resourcefulness and entrepreneurship that characterize many Poles.



## The social balance of real socialism

Areas	Benefits	Negatives
Human rights, civil freedoms, employee rights	Norms for individual employee rights were introduced and usually respected	Civil rights strongly constrained and controlled, repressions in the case of "disobedience". Norms of collective labour law strongly constrained and controlled
Education	Elimination of illiteracy, proliferation of elementary schooling, educational advancement of workers, development of adult education	Insufficient development of pre-school education, domination of middle vocational education, limiting of higher education
Culture	Financing of cultural activity from public funds, access to culture: libraries, culture centres, reading clubs in rural areas, development of film and theatre, as well as cabaret	Censorship and controlled staff
Work	Full employment, social activity of the workplace	Low efficiency, mismanagement of resources, political criteria of promotion
Material goods		Permanent deficit economy, failure to satisfy many needs, especially housing, devoting vast time and energy to obtaining goods, economic migration and trade
Social protection	Developed based on employment in the state economy, but later extended	For a long period, social protection only covered contract employees in the state sector, farmers received social insurance rights only in the late 1970s. Low levels of benefits, particularly pensions. High disparity of benefits: some groups (the privileged) and employees of large employers were offered more favourable terms
Family	Family policy only since the 1970s – introduction of favourable benefits and entitlements	Until the end of the 1960s, the family was not an object of social policy, collective institutions were more important, particularly those associated with the workplace
Free time	Development of employee holidays and camps for children	Controlling of forms of spending free time
Values and mentality	Mutual support in family-friendly circles and as part of some social organizations (including those of the Church). Friendliness (in fact, cliquishness) at work (small collectives). Resourcefulness and ability to adapt to difficult conditions, large household production	Homo-sovieticus features: Claimant-mendicant mentality and lack of respect for property; avoiding the law (cronyism, bribes, corruption)

# Chapter 2

Social change  
and social policy  
during the transformation period

Stanisława Golinowska

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:

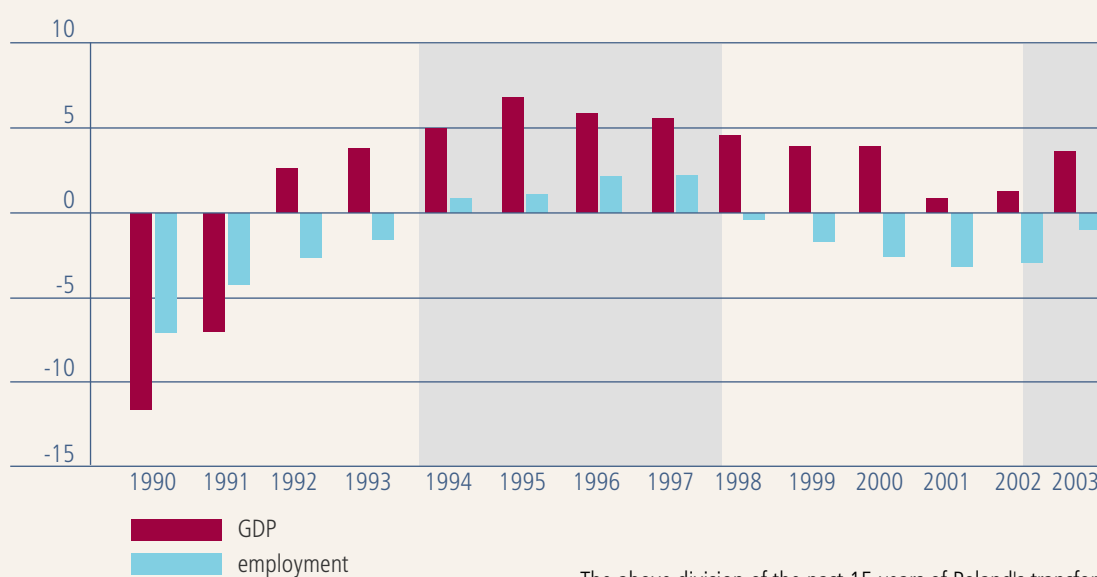
- 1989-1993. A period of transformational crisis and of income decreases, which in social policy was a time of social protection for the social groups most affected by the changes.
- 1994-1997. A period of dynamic economic growth. In social policy this entailed the preparation and implementation of reforms 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

<sup>1</sup> 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).



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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



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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

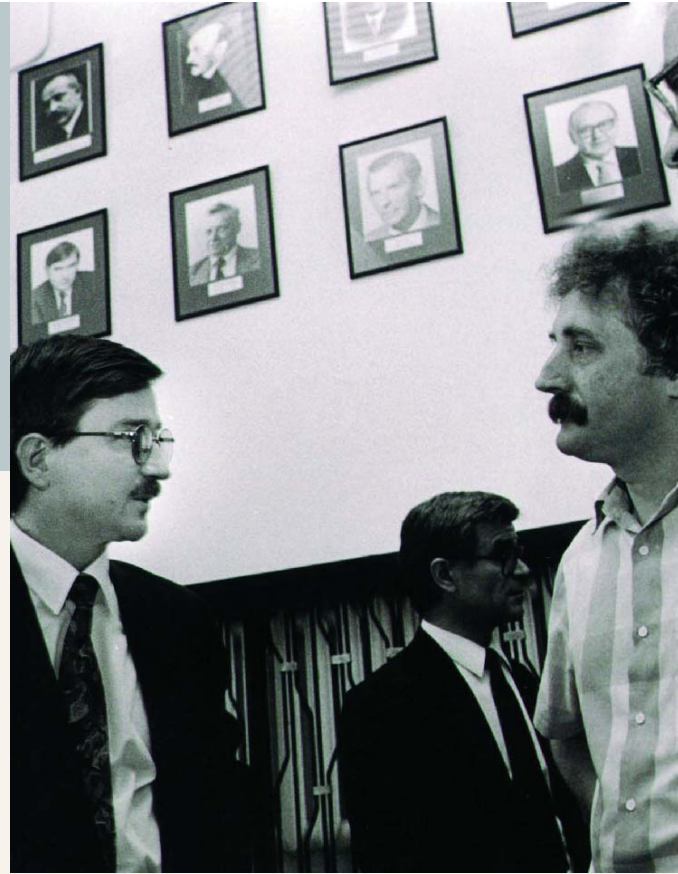


result of this, many public units were closed down, particularly those where the introduction of service charges led to a drop in demand, as happened with sports and recreation centres for young people as well as with community centres. These were not replaced with private entities. In the context of 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 underway<sup>2</sup>.

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-*

<sup>2</sup> *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.*



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*lidamość*, 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. Employers<sup>3</sup> 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.<sup>4</sup>

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 issues<sup>5</sup>. On the basis of this organization, a tripartite institution for societal dialogue was founded in 1994, called the

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 reforms<sup>6</sup>.

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.

<sup>3</sup> 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.

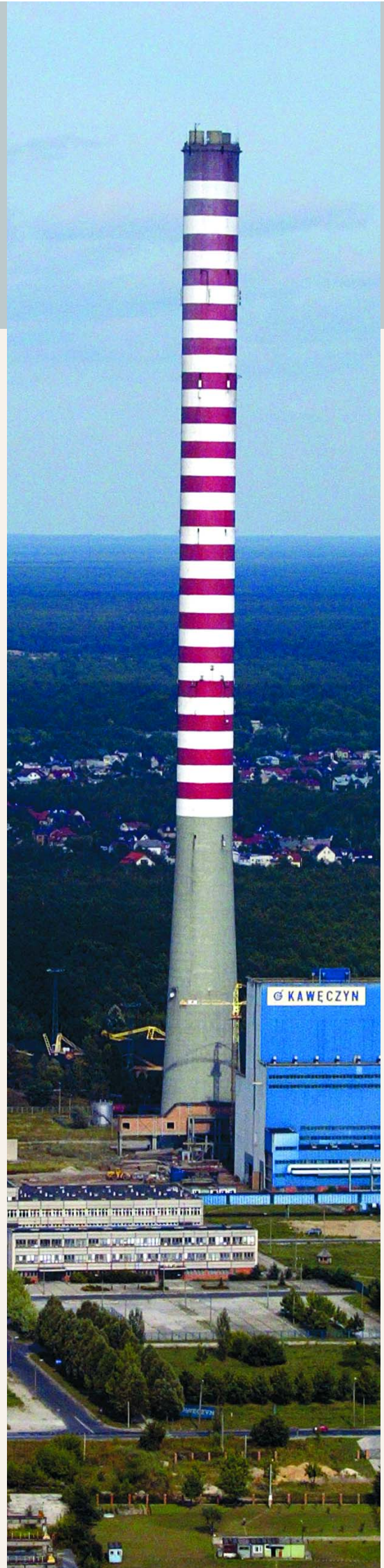
<sup>4</sup> There were approximately 2,400 such local trade unions in the mid-1990s.

<sup>5</sup> 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).

<sup>6</sup> 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).

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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.





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## 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 class<sup>8</sup>. 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

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 documents<sup>9</sup> 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

<sup>7</sup> 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.

<sup>8</sup> 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.

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



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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 value<sup>10</sup>. The idea to vary the amount of the benefit according to earnings was dropped, with the criterion of years of experience being introduced later<sup>11</sup>.

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".

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

<sup>11</sup> 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.

<sup>12</sup> 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 situation<sup>12</sup>. 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.



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The size of family allowance was determined as a fixed amount and varied according to the number of children in the family<sup>13</sup>. 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 prices<sup>14</sup>. 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.



<sup>13</sup> 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.

<sup>14</sup> 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 municipalities<sup>15</sup>. 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 market<sup>16</sup>.

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 education<sup>17</sup>. 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

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

<sup>16</sup> 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.

<sup>17</sup> 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 contribution<sup>18</sup> 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

<sup>18</sup> 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 limit<sup>19</sup>.

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 1998<sup>20</sup> 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.<sup>21</sup>

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.

<sup>19</sup> 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.

<sup>20</sup> 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.

<sup>21</sup> 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.<sup>22</sup> 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

<sup>22</sup> 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.

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

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 employees<sup>23</sup> 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.



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.



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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 regulations<sup>24</sup>.

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-

<sup>24</sup> 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 1999<sup>25</sup>. 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 schools<sup>26</sup>. 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,

<sup>25</sup> 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)

<sup>26</sup> 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





## The Social Report Poland 2005

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 them<sup>27</sup>. 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 Poland<sup>28</sup>. 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

<sup>27</sup> 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.

<sup>28</sup> 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 reformed<sup>29</sup>.

<sup>29</sup> 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 entry<sup>30</sup>, 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

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

<sup>30</sup> 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.



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%<sup>31</sup>. 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 lifespan<sup>32</sup>.

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 debate<sup>33</sup>. 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

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

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

<sup>33</sup> 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 Strategy<sup>34</sup>, 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

<sup>34</sup> *In the original it is the strategy of social inclusion*

<sup>35</sup> Dz.U. 2003 nr 122, poz. 1143

<sup>36</sup> Dz.U. 2003 nr 96, poz. 873

<sup>37</sup> *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 employment<sup>35</sup>, 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 work<sup>36</sup>, 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 Poland<sup>37</sup>. 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 complex<sup>38</sup>. 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.

<sup>38</sup> 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 policy<sup>39</sup>, 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 momentum<sup>40</sup>. 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.

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

<sup>40</sup> Researchers even put forth the notion of a market-paternalistic hybrid (Księżopolski 2004)

# Chapter III

## Poland's population and demographic changes

Bożena Balcerzak-Paradowska



Demographic change over the transition period has been characterized by great dynamism. Polish demographers differ in their definitions of this dynamic in relation to past trends in other European countries. However, this does not change the facts. For the high pace of population change came as a surprise and its consequences for the social development of Poland have not been fully sensed. The lack of such awareness may translate into inappropriate decisions concerning social policy. This is why in recent years the Government Population Commission and other expert committees have addressed the social consequences that may – and indeed already do – result from the population change. The present *Social Report* also takes this essential issue into account.

In the present chapter you will find a comprehensive overview of the main directions of demographic change in Poland over the last 15 years, including changes in the family model. The main trend that raises fears is that of the sharp decline in the fertility rate – which today is below the replacement level for the current population. Thus, the question about a social policy that could counteract this unfavourable trend looms as especially relevant. However, raising such a question does not mean that this chapter, as is the case with the others in this *Report*, will be devoted to finding an answer. Rather, chapter three aims at explaining this tendency and at examining the factors which have contributed to it. Both the development of a market economy and modernization are accompanied by individualization, a decreasing propensity to marry and declining fertility. Can this trend be changed, and if so, how?



Poland's  
population  
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changes

## 1. The population of Poland at the threshold of the transformation, and at the beginning of the 21st century. Size and structure

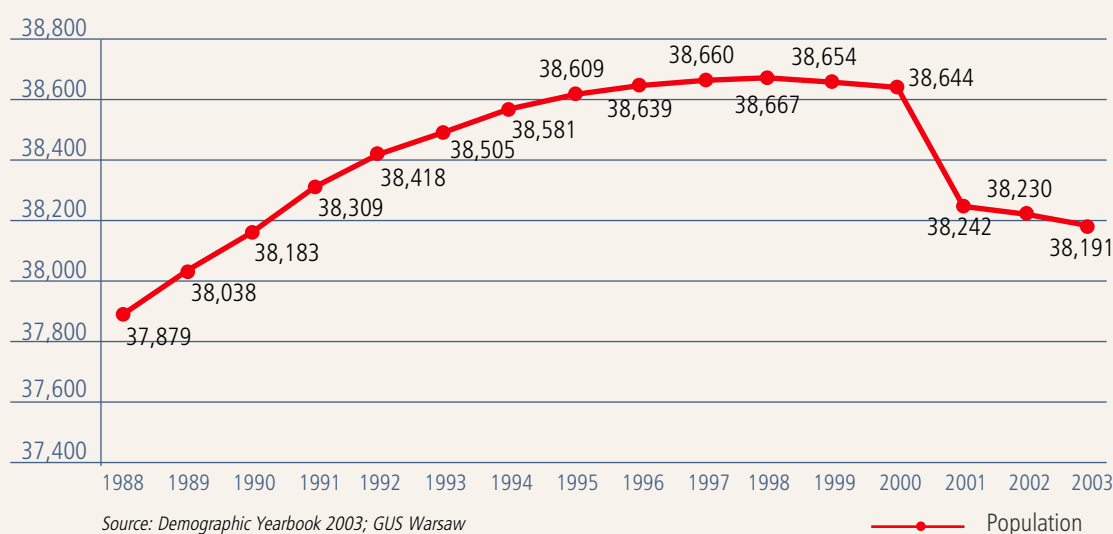
Until the 1990s Poland was characterized by a high dynamism in demographic processes. Between 1946 and 1988 Poland's population grew by around 14 million (from 23.9 to 37.9 million), i.e., by 59%. Average annual population growth amounted to 339,200. Between 1988 and 2002 (the dates of subsequent National Population Censuses) the population grew from 37,879,100 to 38,230,100, that is, by 351,000. Therefore, during the 14 years of the transformation period the size of the population increased by an amount equal to the annual average population growth across four decades before 1990.

The decline in the size of the population of Poland, which began in 1999, is still continuing. It results from the negative natural increase and the negative balance of foreign migration. The balance of migration was negative during the whole period embraced by the censuses, which means that more Poles left the country to live elsewhere than returned or settled in Poland. The balance of migration fluctuated between -11,000 (in 1997) and almost -20,000 (in 2000). In 2002 it amounted to -17,900.

Demographic processes connected with the natural movement of the population (such as marriages, births, deaths and migrations) influenced the changes in the size and structure of the population of Poland by age group.

The fundamental changes in the population structure are related to the changes in socio-economic conditions. On the one hand, the educational level of society has increased. On the other hand, the structure of the population and of households by socio-economic groups has changed due to ownership transformations and the situation on the labour market.

Figure 1. The changes in population size between 1988 and 2003 (in thousands)

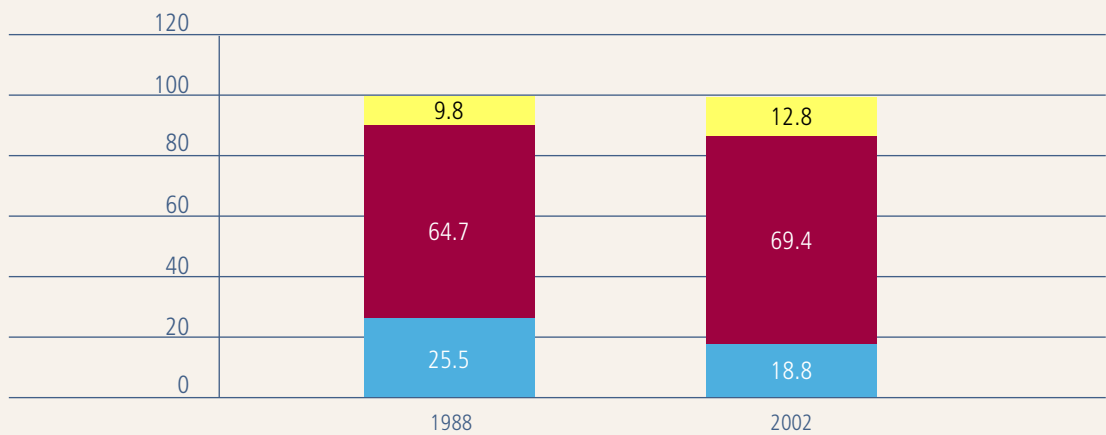


### The population of Poland by age group

The size and the structure of the population by age group changed due to a decline in the birth rate and an increase in life expectancy.

The number of children aged 0-14 decreased from 9,672,800 in 1988 to 6,804,200 in 2002, i.e., by 2,868,600 (almost 30%). The number of people aged 15-64 increased by 2,019,200, while the number of the elderly people (aged over 65) grew by 1,183,200. The population structure by age group has also changed (figure 2).

Figure 2. Population by age group in 1988 and 2002 (%)

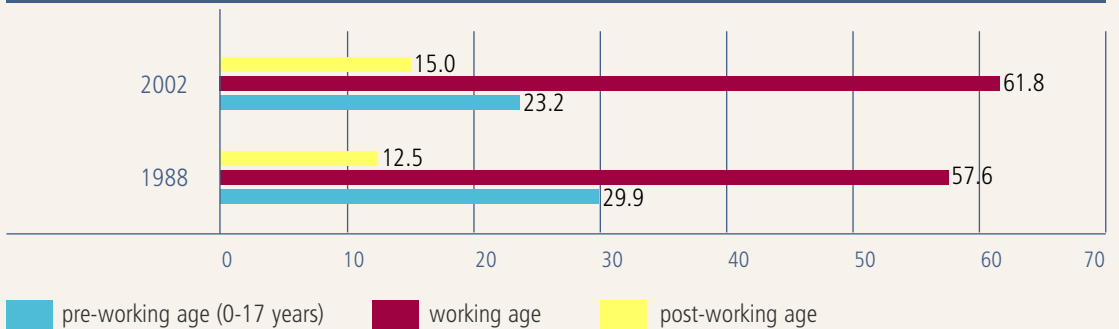


Source: Report by the Government Population Council 2004.

0-14 15-64 65 and more

The number of people in the pre-working age group (the youngest generation) decreased. The number of people in the working age group increased by 1,822,000, mainly due to the rise in the number of people aged 45 and more (by 1,748,500).

Figure 3. The population structure by age group in 1988 and 2002



pre-working age (0-17 years) working age post-working age



## The general level of education

Education has become the main determinant on the labour market. The educational aspirations of society as well as their fulfillment have increased. As a result, the number of persons who have completed secondary education increased by over 5.5 million, while the number of persons who have completed higher education grew 1.5-fold (see Table 1).

Women have shown particular educational activity. The percentage of women who have completed higher education is currently higher than in the case of men (compare Table 1).

Table 1. Population aged 15 or more by sex and level of educational attainment in 1988 and 2002

Level of education	1988		2002		1988 = 100	Men		Women	
	thous.	%	thous.	%		1988	2002	1988	2002
Total	28 269.1	100.0	31 288.4	100.0	110.7	100.0	100.0	100.0	100.0
including:									
Higher	1 838.3	6.5	3 203.6	10.2	174.3	7.2	9.7	5.9	10.8
High school and post-high school	6 979.6	24.7	10 298.4	32.6	146.3	20.6	28.7	28.4	36.3
Basic vocational	6 665.8	23.6	7 539.8	24.1	113.1	31.5	31.3	16.2	17.5
Elementary complete	10 961.4	38.8	8 823.3	28.2	80.4	35.9	26.2	41.5	29.9
Elementary incomplete and no school education	1 823.7	6.7	876.1	2.8	x	4.5	1.7	7.5	3.8

Source: GUS 2003a

## The population of Poland by socio-economic group

The changes in the age structure of the population, but above all in the situation on the labour market, have transformed the structure of the population in accord with the main sources of income. The number of persons supporting themselves from their salary incomes, especially that of the self-employed, has significantly decreased, while the percentage of the population whose primary source of income

was from non-earned sources (e.g., disability allowances, pensions, social benefits, etc.) increased, as did the number of persons supported by others (see table 2).

Table 2. Population by the main source of income in 1988 and 2002.

Source of income	1988		2002		1988=100
	thousands	%	thousands	%	
Total	37 879.1	100.0	38 230.1	100.0	100.9
With own source of income	24 024.7	63.4	23 073.3	60.4	96.5
Dependent	13 853.9	36.6	13 547.2	38.0	105.0
Salary income	29 832.0	78.8	23 412.7	61.2	78.5
– with own source of income	17 218.2	45.5	12 354.7	32.3	71.8
– dependent	12 613.8	33.3	11 058.2	28.9	87.7
Non-earned income	8 047.1	21.2	14 163.7	37.0	176.0
– with own source of income	6 806.8	18.0	10 691.7	28.0	157.1
– dependent	1 240.3	3.0	3 472.0	9.1	279.0
Income from property	x	x	44.1	0.1	x
– with own source of income	x	x	27.1	0.1	x
– dependent	x	x	17.0	0.0	x
Unspecified source of income	x	x	609.5	1.6	x

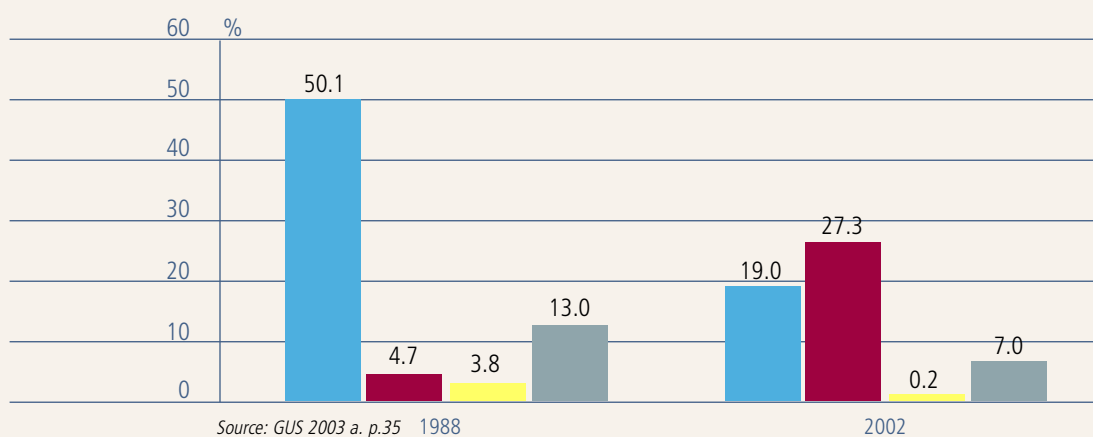
Source: GUS 2003



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The ownership transformations which took place in the Polish economy during the transformation period were reflected in the structure of the sources of salary income. The importance of employment in the public sector decreased in favour of the private sector. This concerned sectors outside agriculture. As compared to 1988, the percentage of the population maintaining themselves from agriculture systematically decreased (see Figure 4).

Figure 4. Those with their own source of salary income in 1988 and 2002.



- Employment in the public sector apart from agriculture
- Employment in the private sector apart from agriculture
- Employment in agriculture in the public sector
- Employment in agriculture in the private sector

In 2002 early retirement allowances and pensions were the most common source of income apart from salaries. In comparison with 1988, the percentage of people maintaining themselves from those benefits increased by 63% (in the case of early retirement allowance) and 22% (in the case of pensions). The group of persons for whom social benefits constituted the main source of income underwent a seven-fold increase. Unemployment benefits constituted the primary source of income for 5.7% of the population (GUS, 2003a p.36).

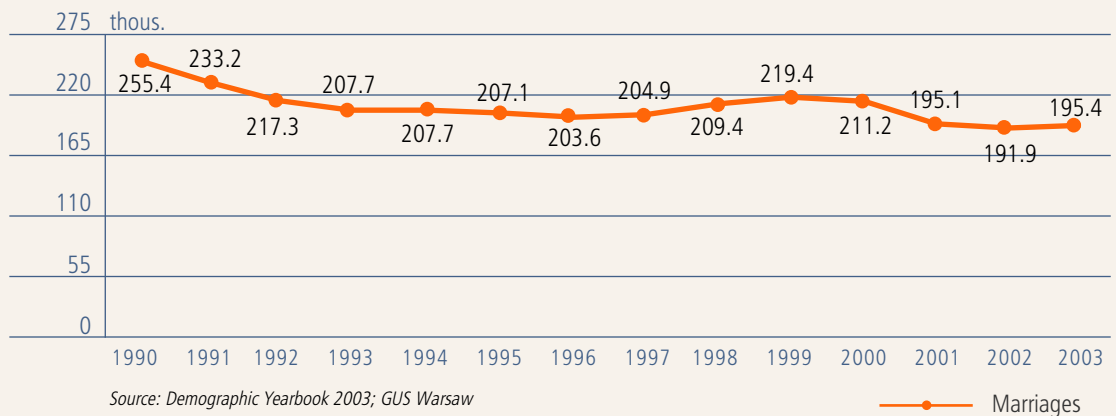
## 2. Demographic processes in Poland. Their determinants and consequences.

### Demographic change in the family model

#### Family formation patterns

Marriage and family have been, and still are highly ranked in the hierarchy of values for the generations entering adult life (CBOS 1994, 1998, Świda-Ziemba 2000, Ignatczak 2002). However, the values declared do not fully translate into pro-marriage activities. Since the beginning of the 1990s the number of marriages contracted has been clearly declining (see Figure 5).

Figure 5. The changes in the number of marriages contracted between 1990 and 2002 (in thousands)





The propensity to marry (expressed as the number of marriages per 1,000 persons of a given sex and in a given age group) is decreasing.

Marriage patterns are also changing due to the postponement of matrimonial decisions. Families are being formed by older persons (the largest number of marriages has shifted from the age group 20-24 to the age group 25-29). This may mean that marriages are contracted by more mature and financially independent persons. Nevertheless, this trend has negative consequences for the procreation process as it is connected with the postponement of the birth of the first child. This is one of the key factors that reduce the fertility rate.

The number of non-formalized (partnership) unions points to a shift in attitudes towards marriage. Statistical data show that the percentage of such unions is insignificant in comparison with marriages (in 1988 it amounted to 1.2% and in 2002 to 1.9%). This may result from a reluctance to reveal such unions. Moreover, the National Population Censuses (from which the above data were taken) record the situation at the moment the survey is conducted. On this basis one cannot conclude whether the persons surveyed had lived in informal unions in the past. However, the approval of this form of cohabitation is gradually increasing. 47% of respondents consider it to be appropriate provided that it is accepted by both partners (Frątczak 2003).

At the same time the propensity to remain single continues to increase. This is reflected in the changes in the first marriage rate. In 1990 87% of men and 90% of women below age 50 had entered into their first marriage. In 2001 those figures amounted to 57.6% and 58.1% respectively.

Delayed entry into marriage results from the social and economic transformations that have been taking place in Poland. To establish a family one needs to have a profession and a job. This is preceded by an extended period of schooling and studying. The 1990s brought about an educational revolution, which is expressed by the increased numbers of people entering secondary and higher education. The extended period of

schooling and studying is usually accompanied by the postponement of matrimonial plans. Women, to an even greater extent than men, aim at attaining education and professional qualifications first, followed by finding a job and only then want to form a family.

The postponement of marriage plans is also a result of the difficult living conditions of some young people. Unemployment, the widening sphere of poverty and high prices of housing, negatively influence pro-marriage attitudes.

The reasons behind the shifting attitudes of young people towards marriage may also be found in cultural and social change. The ideals of individualism, autonomy and self-fulfillment in other than traditional forms are spreading. The access to information technologies and the opportunity to directly observe patterns present in Western countries have resulted in the liberalization of attitudes and sexual behaviour, in seeking independence and a greater acceptance for non-formalized unions.

#### Are current demographic tendencies a threat to the modern family?

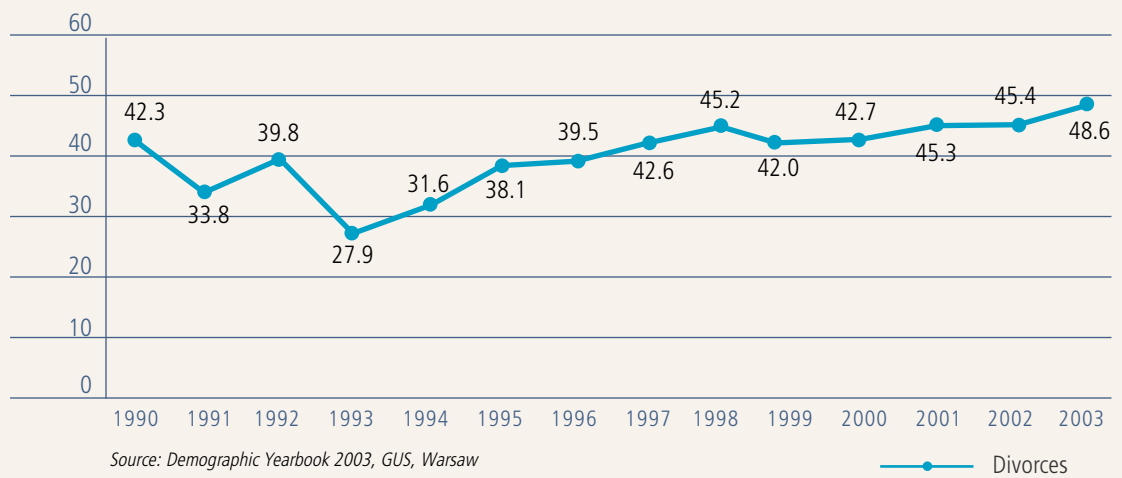
Marriage is still the predominant form of family formation in Poland (the number of informal unions is small, even if we question the data from the National Population Census in 2002, which indicate that they account for 1.2% of all unions. Z.J. Holzer arrived at a figure of 4.7% (1997). Rather it is the breakdown of the family (with children) that constitutes the main problem for family policy.

The death of one of the spouses, usually the man, is a natural cause of the end of a marriage. The number of marriages terminated due to the death of the husband is almost three times higher than the number of marriages terminated due to the death of a wife. This is a result of the inordinate mortality of men, especially in middle-age groups.

The increasing number of divorces recorded recently has resulted in the growing number of single-parent families (see Figure 6). Informal unions (as the experience of the countries with a



Figure 6. The number of divorces between 1990 and 2002 (in thousands)



large number of such arrangements proves) are usually characterized by low stability.

#### Changes in the fertility rate

The 1990s and the first years of the 21st century have been characterized by a decline in the number of births. Together with insignificant changes in the death rate, such a sharp decline in the birth rate has resulted in a negative natural increase rate which in 2002 amounted to -5,700 and in 2003 already to -14,500 people.

This is partly caused by the decreasing number of women of childbearing age, but the main reason is the change in the female fertility model. Female fertility has decreased in almost all age groups. As a consequence, the fertility rate (the average number of children born by women aged 15-49) declined from 2.04 in 1990 to 1.22 in 2003. These profound changes concern both urban areas (where the fertility rate decreased from 1.8 in 1990 to 1.1 in 2003) and rural areas (from 2.5 to 1.4 respectively), which earlier had been the setting of the traditional family model with a large average

number of children. At the same time, the systematic, though slow, growth of the average age of women giving birth to a child has been observed. In 1990 it was 26.3, while in 2003 it was 27.3 years.

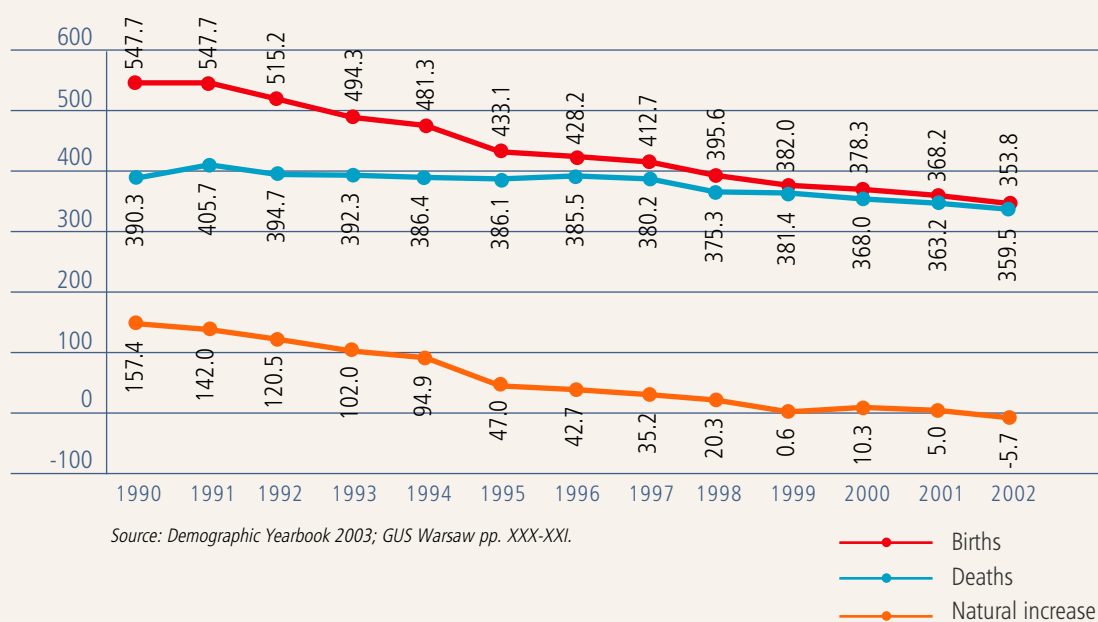
Another characteristic of the transformations is the increase of extra-marital births. In 1990 33,700 children were born out of wedlock, which accounted for 6.7% of the total number of births. In 2003 these figures amounted to 55,900 and 15.8% respectively.

This fertility model is to a greater extent moving away from the model which ensures the simple replacement of the generations. Demographers consider this level for the fertility rate to be very low. The reproduction rate, which amounted to 0.99 in 1990 fell to 0.60 in 2002. Natural increase, though it had been gradually declining in the 1990s, in 1990 still amounted to 157,000. However, it has been negative since 2002 (- 5,700, - 14,500 in 2003).



Poland's  
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Figure 7. Live births, deaths, and natural increase between 1990 and 2002 (in thousands)



### The determinants of the changes

The reasons of the changes in family formation and fertility rate may be due to Poland entering a second demographic transition phase<sup>1</sup>. However, the fast pace of the changes indicates that their directions are also related to the consequences of the socio-economic transformation.

The postponement of childbirth, the decline of fertility among young women, the increase of extra-marital births, these being the result of changes in the family model, constitute the characteristic features of the second demographic transition. However, the factors which influenced such radical changes to the family model and procreation attitudes in Poland may also be sought among the socio-economic determinants of the transformation period (Kotowska 1999, Frątczak 2000).

The situation on the labour market – which is characterized by difficulties in finding a job, unstable employment and

efforts aimed at maintaining a job, unemployment, increasing social inequalities and poverty – does not favour the implementation of procreation plans. Studies show that procreation plans have not undergone radical change. Those who plan to have two children are still the most numerous group. In a 1995 survey some 64.1% of respondents planned to have two children, while 28.8% wanted to have three children. In 2002 those figures amounted to 58% and 23.4% respectively. If the declared plans were fulfilled, there would be 230 children per 100 persons (Kotowska [ed.] 2003) which would guarantee the simple replacement level of the population.

Nevertheless, life alters these plans in minus.

<sup>1</sup> A theory explaining the changes in demographic processes characterized by fertility decline below the simple replacement of the generations and the stabilization of the fertility rate on this level. Permanent fertility decline below the replacement level stems, among other matters, from the changed patterns of family formation and breakdown as well as shifts in the fertility pattern.



Studies from 1995 (GUS 1997) and 2003 show that the realization of respondents' procreation plans was limited by barriers related to the situation on the job market (difficulties in finding a job, fear of losing it), high costs of maintenance and the difficulties in reconciling professional and family duties. For a woman, childbirth means a shorter or longer absence from professional activity or even total professional deactivation. The fear of difficulties connected with the return to professional work strongly influences private life (Balcerzak-Paradowska [ed.] 2003). It should also be taken into account that, for part of the population, resignation from enlarging the family results from axiological choices: attaching greater importance to other values, defying traditional norms of behaviour, acceptance of other than parental social roles and private life patterns. All in all, it may be concluded that attitudes towards marriage and having children are influenced on the one hand by such factors as: the aim to attain a higher education level, prolonged schooling/studying period, desire to achieve a higher standard of living, a larger share of women in education and on the labour market, shifts in the value systems (the plan to have a child is sometimes "trumped" by the aspirations to implement other plans and to attain material goods) with a simultaneous increase of the importance of individualism, personal independence and self-fulfilment in "non-family" life. On the other hand, those attitudes are affected by unemployment, limited accessibility of housing, high costs of maintenance, the threat of poverty and ill-adjusted institutional solutions to the needs of the family.

#### An ageing population

Increasing life expectancy is one of the manifestations of the demographic changes in Poland. Together with a declining fertility rate it brings about an increase of the number and share of elderly people in the population, i.e., the ageing of the Polish population.

In 1990 life expectancy at birth for a man amounted to 66.5 years and in 2002 to 70.4 years; for a woman it was 75.7 years in 1990 and 78.8 years in 2002.

The number and the share of elderly people in Polish society has increased. In 2002 the number of people aged over 60 amounted to 6.48 million (or 17% of the total population), while in 1988 it amounted to 5.5 million, i.e., 14.6%. The percentage of senior citizens (aged 80 and more) in the total population increased from 1.9% in 1988 to 2.2% in 2002.

The longer average life-span of women and high mortality of men in younger age groups explains the growing number of women among the elderly (60.2% of them are women). Over half of the elderly live in family households, but 43% maintain private households.

#### Demographic projections and their consequences

The profound demographic changes occurring in Poland will have consequences for the size and the structure of the population in the future. They will also bear socio-economic consequences, ones which will influence the development of the country and the living conditions of future generations.

The projections prepared in recent years by the Central Statistical Office (GUS) for 2000-2050 and the projections of the United Nations Organization for 2000-2050 point to a progressive decline in the total population.

Changes in the population structure by age group will also take place. The low fertility rate results in a decreasing number and share of children and young people in the population structure. The fertility decline and longer life expectancy will cause the further ageing of the population.

The demographic burden (understood as the share of dependent persons per 100 working persons) will increase. The GUS projection envisages that after 2010 this burden will increase to around 70 non-working persons per each 100 working persons. This will stem mainly from the increased number of people in post-working age<sup>2</sup>.

<sup>2</sup> The UN projection points to similar tendencies. Since another range of pre-working age was used in this projection, the dynamics of the change is lower, and a ratio of 70:100 will be achieved in 2050.

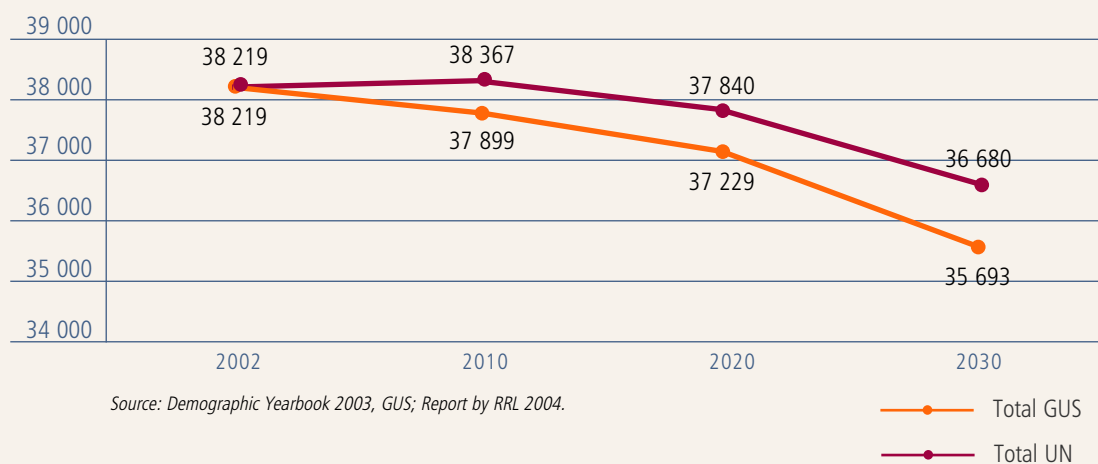


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Negative natural increase is also expected to deepen, especially after 2015. In 2020 it may amount to around -75,000 and in 2030 to around -180,000 persons.

Some experts anticipate that, due to the opening of Poland's borders, the increased outflow of people from Poland will considerably exceed the inflow. This process is to continue during the whole projected period (2003-2030). Although the surplus of emigrants over immigrants will eventually decrease, the negative balance of migrations will remain on a level of between 10,000 and 20,000 people a year (Report by RRL 2004).

Figure 8. Poland's population in thousands according to the projections of GUS and the UN



The projected changes will plainly have socio-economic consequences. The smaller size of the young generations will translate into less "pressure" on the education system and later on the labour market. This also means a decrease of the potential of the population with higher qualifications, better health, greater educational, professional and spatial mobility and such characteristics as creativity, productivity, and the propensity to take risk – that is, features which are needed and should be employed for the benefit of the social and economic life of the country.

The ageing of the working population will entail the necessity to implement an appropriate policy with respect to continuous education and encouraging people in the advanced age group and older to continue professional and social activity.

The increasing number of elderly people will result in a growing burden for both the social security system (pension and retirement system, but also the social assistance system), and the health care benefits system. The demand for nursing services will grow as the declining number of persons forming families and limited family ties may considerably reduce the possibility for elderly people to obtain help and care within the family.

### 3. The situation of families

The changes in the number and structure of households and families are a consequence of the shift in matrimonial and procreation attitudes. Households have fewer members, and more often than before have but one person. The model of the family with fewer children is strengthening. It is more often a family with just one child. The number of single parent families is growing. These changes affect the functioning of the family and the conditions for rearing children.

In 2002 the number of households amounted to 13,337,000. This marked a growth of 11.4% in comparison with 1988, when their number totalled 11,970,400. However, the average number of persons per household decreased from 3.1 in 1988 to 2.84 in 2002. This was caused by the decline in the number of children per family and the increase of the percentage of one person households (from 18.3% in 1988 to 24.8% in 2002). These are mainly households established by young people (aged

below 30) who are economically independent and opt to delay their matrimonial decisions.

In 2002 the number of families amounted to 10,457,600, which marks a growth of 2.3% in comparison with 1988. There is a smaller number of families with children (6,323,000 in 1988, 5,860,300 in 2002) and the number of married couples without children has slightly increased (by 40,000). 6,079,400 of the families with children were families with dependent children aged below 24. The number of such families also decreased in comparison with 1988 (from 6,209,900, i.e., by 2.1%).

Families with one child constituted 46.9% (in 1988 40.5%) and with two children 36.2% (in 1988 40.7%) of the total number of families. Therefore, while at the beginning of the 1990s the nuclear family was on average a family with two children, in the first years of the 21st century the model of a family with one child prevails.

The less than lasting character of marriage and the increased number of extra-marital births have brought about a growing number of single-parent families. In 2002 the number of single parent families with dependent children aged below 24 amounted to 1,125,500, i.e., 18.5% of families in this category. In 1988 the number of such families amounted to 901,000, i.e., 14%.

The feminization of single-parent families (90.5% of them headed by single mothers rearing children) is a consequence of the break-up or ending of a family. The first cause is the death of the husband. Thereafter follow divorce or separation, which usually result in the granting of child-custody to the mother. and the final such cause is childbirth by single women.

The fertility drop also resulted in changes in the number and – albeit insignificantly – in the structure of families with many children. In comparison with 1988 the number of such families decreased from 1,166,200 to 1,024,000, and the share in the structure of families with dependent children



aged below 24 decreased from 18.8% to 16.8% respectively). Although the share of the families with a larger number of children (four or more) slightly increased (by 1%), the number of families formed by single mothers with many children grew significantly (by 21,700, i.e., by 27.2%, while the number of single mothers who rear four or more children increased even more – by 35.8%). These changes point to the alarming characteristics of such families, namely, a large number of children and single parenthood, which importantly affect child-rearing and living conditions.

99% of the dependent children aged below 24 (i.e., 10,808,700) are reared in families. One child in three is brought up in a family with many children, while 15% in a single-parent family.

Table 3. Children and young people by age group in 1988, 2002 and 2003 (in thousands)

Year	Age group					
	0-2	3-6	7-14	15-17	18-19	20-24
in thousands						
1988	1 797.4	2 736.5	5 138.9	1 679.2	1 018.3	2 483.2
2002	1 091.6	1 607.4	4 105.3	1 859.4	1 371.8	3 197.0
2003	1 064.0	1 556.4	2 854.2	1 676.0	1 856.9	3 944.9
% of the population						
1988	4.7	7.2	13.5	4.4	2.7	6.6
2002	2.9	4.2	10.7	4.9	3.6	8.4
2003	2.8	4.1	7.5	4.4	4.9	10.3

Source: Report by RRL (2004).

The changes in the source of income of the population are reflected in the structure of households by the main source of income and, what follows, by the socio-economic status of the person maintaining the household.

Table 4. Households by the main source of income in 1988 and 2002

Year	Total in thous.	Main source of income					
		Employment in the public sector %	Employment in the private sector		Non-earned income		Dependent
			Total	Own farm	Total	Retirement pay- ments and pensions	
<b>Total</b>							
1988	11 970.6	55.0	17.9	12.1	27.1	26.2	x
2002	13 337.0	19.5	32.1	4.9	43.0	37.6	3.9
<b>City</b>							
1988	7 864.3	62.7	8.2	1.1	29.1	28.1	x
2002	8 964.5	21.8	29.3	0.4	42.2	36.8	5.1
<b>Village</b>							
1988	4 106.3	40.0	36.6	33.3	23.4	22.7	x
2002	4 373.5	15.6	37.9	14.3	44.5	41.2	1.5

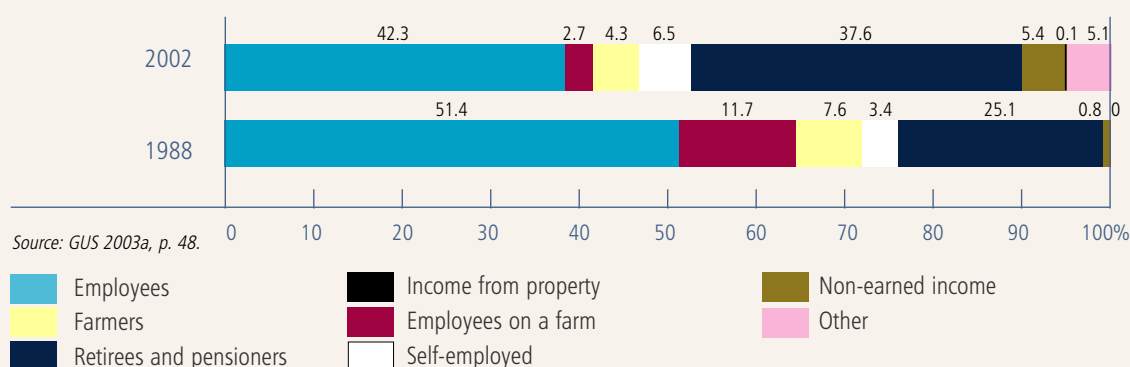
Source: GUS 2003a.

Between 1988 and 2002 the percentage of households where employment was the main source of income (except for the self-employed) decreased. The number of households of retirees, pensioners and persons maintaining themselves from non-earned income (among others from social benefits and unemployment benefits) increased. A considerable share of the families are threatened with poverty. In 2003 5.4% of families with one child, 10.2% with two children, 17.9% with three children, 41.6% with three or more children and 13% of single parent families lived below the existential minimum<sup>3</sup> (those figures increased in comparison with 2002 – Szukielojć-Bieńkuńska 2004). The poverty of families with children is a consequence of the lack of parents' salary

<sup>3</sup> This means such a level of satisfying the needs below which there occurs a biological threat to life and psycho-physical development.



Figure 9. Households by socio-economic group in 1988 and 2002



Source: GUS 2003a, p. 48.

income caused by unemployment or professional inactivity. In 2002 47% of the families with children aged below 14, and in which none of the parents worked, lived in extreme poverty. The salary income of one parent does not protect the family from poverty.

The education of children is limited by financial problems. This may result in the children inheriting the professional and material status of their parents.

The overview of the situation of families would not be complete if it was reduced to exposing difficulties. Some families have benefited from the transformation and seized their chance on the labour market along with the widening offer of consumer goods and services. Educational and consumer aspirations have increased. At the same time, however, the efforts to obtain a higher living standard and to create the best possible conditions for the development of children became a factor which has limited the number of children per family.

#### 4. Past policies towards the family and children

The declared need to support the family in the fulfillment of its functions, as expressed in government programs ("Family policy program" from 1997, "Pro-family policy program" from 1999, "Social policy strategy for 2002-2005"), was not translated into solutions significantly supporting families and children. The adopted solutions were mainly of a selective character. Some of them lacked stability. For instance, preferences for families with many children proved to be temporary, as did the lengthening of maternity leave.

The lack of stable solutions was connected with changes in the programmes of successive governments. Nor can we neglect to mention the steady limiting of expenditures for social purposes, regardless of the ideological differences in the different governments' programmes. As a result, monetary social benefits were received by a decreasing group of families, due to the constant lowering of the income criterion. The importance of family benefits for the income of families decreased and their share in the families' income structure



constantly declined. Families with many children posed the exception to the rule. This was connected with preferences for such families (the amount of benefits was dependent on the number of children). However, the low value of the benefits did not protect such families from poverty.

In 2004 new regulations concerning the granting of family benefits entered into force. The family benefit is a basic benefit and its amount depends on the age of a child (44 PLN



for a child under 5 years, 56 PLN for a child aged 6-16, 65 PLN for a child over 17). The family benefit is supplemented by other benefits such as: the birth benefit (a one-off payment of 500 PLN); the benefit for child-care during child-rearing leave (400 PLN a month for 24 months); the child-rearing benefit for a single parent who lost the right to un-

employment benefits and is raising a child aged below 7 (400 PLN a month for three years); the benefit for the education and rehabilitation of a disabled child (50 PLN per a child aged below 5 and 70 PLN per child aged over 5); the benefit connected with the beginning of a school year (90 PLN once a year); and the benefit connected with the beginning of education by a child in a school outside the place of residence (80 PLN monthly for 10 months). The short period of the new system's functioning does not allow a comprehensive evaluation of its effects. It was negatively received by the public due to the liquidation of the alimony fund and its replacing with a child-rearing supplementary benefit for single parents. This provoked protests from the former beneficiaries of the fund. It also resulted in an increased number of divorce petitions on the part of persons who in this way wanted to obtain the right to receive this benefit.

Tax allowances connected with the education of children in non-state schools and their commuting to schools located outside the place of residence were withdrawn. Instead, low-income families received supplements to their family benefits connected with the education of a child in a school located outside the place of residence.

The scope of solutions aimed at enabling women (parents) to reconcile professional and family duties was reduced. Obtaining a child-rearing benefit by persons on child-rearing leave was conditioned on income level (with a changing, constantly lowered criterion). The amount of the nursing benefit was reduced (from 100 to 80% of salary), and this resulted in a decreased interest in those forms of aid. Making the rights of men and women equal with respect to obtaining parental leave for the care over a child did not result in any changes. Women continue to be the recipients of those benefits. Due to their innate maternal functions they also use the benefits connected with pregnancy and childbirth. Altogether this means that employers look at a female employee through her factual or even potential family duties. This weakens women's position on the labour market both at the moment of employment and in terms of professional promotion.



## 5. On the need for family- and child-friendly social policy

A regression took place in the development of the institutions supporting the family in its nursing and rearing function, and in facilitating care for the children of working mothers. Fewer and fewer families use day-care facilities. Between 1990 and 2002 the number of children at day-cares dropped from 137,500 to 45,300. This was only partly the result of the lower population of the youngest generations. In 1990, of 100 children aged below 3, only 42 went to a day-care, while in 2002 this figure amounted to just 19 children.

Less than half of children aged 3-6 goes to a kindergarten. The number of children going to kindergartens increased from 328 in 1990 to 389 in 2002 per 1,000 children aged 3-6. The accessibility of day-cares and kindergartens is limited by a commercial system of paying for those child-care services, something which exceeds the financial possibilities of numerous families.

Difficulties in finding a job, and fears of losing it, result in women submitting their private plans to the situation on the labour market. This does not mean the complete abandonment of matrimonial or procreation plans, but it usually results in their postponement or modification, which entails a limiting of the fertility rate.

Current demographic changes have greatly affected the decline in fertility. Dirk van de Kaa estimates that "Poland's accession to the European Union will result in economic and social changes that will cause a further shift in value systems"<sup>4</sup> and which will affect attitudes towards marriage and family. The attitudes of some young people towards founding a family based on a formalized union will be affected to a larger extent by the patterns of non-formalized unions present in Western countries. However, it must be remembered that for a considerable percentage of young people marriage in its traditional form still has a high value.

The strengthening of the family model of two working parents (which is characteristic for European Union countries) engenders the need for the development and improvement of instruments that will favour the reconciliation of professional and family duties by both parents. It is worth repeating that higher fertility rates are observed in those EU countries with a high level of women in professional activity that boast well-developed instruments allowing women to reconcile professional and family duties. The Scandinavian countries and France belong to that group (Muszyńska 2003, Balcerzak-Paradowska 2004, Kotowska 2004).

The real equality of men and women in education, on the labour market and in the family, is connected with a partnership family model. Partnership requires mental changes on the part of partners themselves, their environment and employers, too.

<sup>4</sup> A speech by D. van de Kaa delivered during the ceremony when he was awarded with the title of doctor honoris causa by the Warsaw School of Economics on May 7, 2003.

The workplace is a subject of family policy whose importance is ever more often emphasized in Western countries. The practices employed by enterprises (work-life balance, family-friendly employment) are seen as instruments for reconciling employees' professional and social roles, as well as instruments which favour work efficiency and are beneficial for the employers themselves. A family-friendly enterprise is also one where flexible employment and time conditions are available for employees. Currently in Poland there are barriers which inhibit the intensification of such activities, especially in small and medium-sized enterprises. Such barriers also appear on the part of the employees. Part-time employment is the most common non-standard form of employment. It results in lower salary, lack of employment stability and the prospect of lower retirement pay.

Politicians working in this area often think in the following terms: if it is difficult (though not impossible) to create a social policy that would influence the quantitative development of the young population, let's focus on quality. This means the creation of conditions for the development of upbringing, educational, health, sports and recreational services, the improvement of said services' quality, and widening the accessibility to those services for children from all environments, especially underprivileged ones. This obvious demand, which time and again has been tabled by the experts (Golinowska [ed.] 1994; Balcerzak-Paradowska 1999, and others), as well as included in subsequent government documents ("Family policy program" from 1997, "Pro-family policy program" from 1999, "national Social Integration Strategy 2004") finds but dim reflection in decisions made concerning the allocation of public funds. Thus, the realization of this demand requires not only a change in the state's priorities, for it is also a task for social organizations and local communities.





## Summary

Until the beginning of the 1990s Poland numbered among countries with high demographic dynamism and a favourable age-structure – we were a society of young people. However, the last 14 years have been characterized not only by the weakening of demographic dynamism, but also by population decline and transformation in age structure. The population is not growing and its structure is changing. Poland is beginning to age.

The main reasons behind the halt in population development prominently include the negative balance of migrations and the negative balance of natural movement (the difference between the number of births and deaths). Each year during the 1990s, between 10,000 and 20,000 more people left Poland to live elsewhere than settled here. However, due to Poland's accession to the European Union, foreign migration processes will probably have a wider scale. Due to the difficult situation on the labour market in Poland, seeking a job abroad may become more common, especially taking into account the increasing liberalization of the EU countries' labour markets.

What raises concerns from the point of view of the quantitative and qualitative consequences for the demographic and socio-economic development of the country is the decline in the number of births below the simple replacement level. Those changes result from shifts in family formation and fertility patterns. The propensity to marry is declining and it is only to a small extent being replaced by the formation of non-formalized unions. Delayed entry into marriage is predominant; marriages are contracted by persons in older age groups. At the same time, remaining single is becoming more widespread.

The changes of the female fertility model have taken place at an even faster pace. Although the number of extra-marital

births is increasing, marital births are still predominant. The postponement of matrimonial decisions usually means delayed procreation and, as a consequence, a decline in fertility rates. When comparing these tendencies with trends present in Western European countries it should be noted that the direction of the changes is analogous, but their pace is different. Changes in the forms of married family life are appearing more slowly than they did in Western countries, while the fertility changes are characterized by especially high dynamism. E. Frątczak estimated that, while the changes in Western countries took place over 27 years, in Poland 14 years was enough to achieve a similarly low fertility rate and negative natural increase. These tendencies, together with increasing life expectancy, have resulted in the ageing of Poland's population. In the future they will engender a tendency toward population decline.

Analysis of the tendencies with respect to the changes in family forms and fertility patterns (along with the high pace of those processes) points to factors connected with Poland's socio-economic transformation. This thesis is further confirmed by the results of studies indicating the main causes of the demographic transformations. On the one hand they are connected with the stages of entering adult life by young people and they concern both men and women. This includes: prolonged schooling/studying period; a prolonged period of job seeking (due to the current situation on the labour market in Poland); and the stabilization of professional position. The Italian researcher Massimo Levi Bacci dubbed this the "delay syndrome" (Levi Bacci 2004). Delayed family formation and the decline in fertility rates are also a result of: the limited accessibility of housing; high housing maintenance costs relative to family income; expectations concerning living standards; and the effort to ensure optimal developmental conditions for offspring, in order to provide them with the chance for a better start in adult life.

Further modification of women's social roles is a limiting factor for fertility rates. Women show higher educational mobility than men and attain a higher educational level. They want to apply their qualifications on the labour market, but

the market is not women-friendly. They have more difficult access in gaining jobs, promotion or achieving higher positions. Maternal and family duties in connection with professional work cause a double burden for women. They can only count on their partners to an insignificant extent. The family model where a working woman performs most of the household duties is still predominant. Nor is family policy favourable to women. The scope of benefits that allow for personal care over a child was reduced (changes in child-rearing and nursing benefits) and there was a regression in the development of pre-school institutions. Other forms facilitating the reconciling of family and professional roles (such as flexible working hours) have not been developed. Women are not shunning marriage and having children, but the aforementioned barriers influence the postponement of matrimonial decisions and the choice to limit the number of children. To counteract the current demographic trends it is necessary to implement actions aimed at removing or at least reducing those barriers.



# Chapter IV

## Job changes and the situation on the labour market

Stanisława Golinowska



Over the past five years Poland has witnessed a dramatic intensification of problems associated with jobs. This chapter is devoted to the nature, causes and consequences of those problems. A significant element of this chapter is also the description of labour market policies and their complex setting. The discussion is concluded with an analysis of the influence of European policies (currently – with Poland's EU membership – the European Employment Strategy) on changes in labour market policies in Poland.

The basic question faced by Polish social-economic policies in the context of the labour market is that of how modernization, restructuring and improvement in labour productivity should be reconciled with an increase in employment. Although the reader shall not find an answer to this question in the present chapter, perhaps with this question in mind he or she will better understand the tendencies of change on the labour market in Poland and the dilemmas of the employment policies being pursued.



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## 1. Characteristics of the Polish labour market

During the 14 years of systemic transformation from 1989 to 2003, employment in Poland shrank by more than 3.2 million people.<sup>1</sup> The Polish economy moved from an era of full employment, although highly inefficient from an economic point of view, to an era of high unemployment with an acute shortage of jobs.

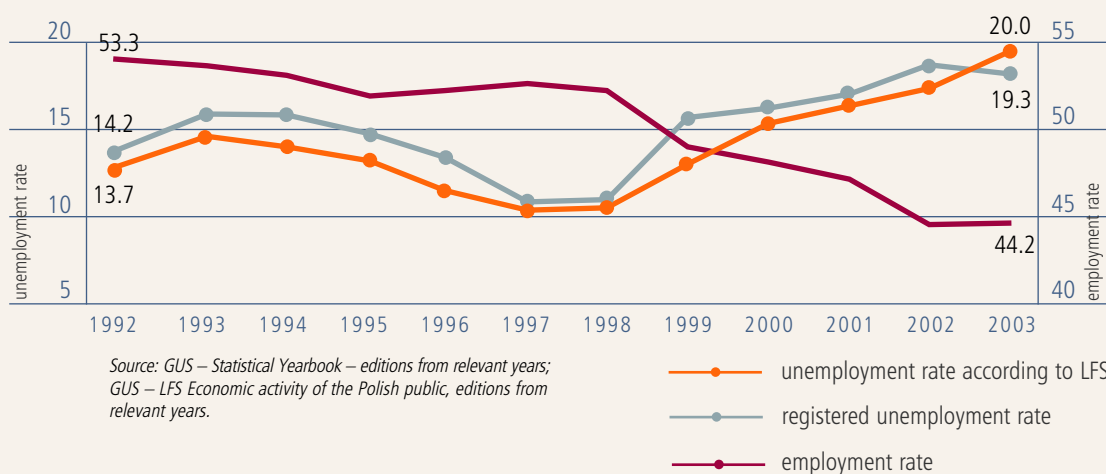
The rapid drop in employment which took place at the beginning of the 1990s ceased during the prosperity period (1994-1997 – see Chapter II), when in 1996 and 1997 the number of employed actually increased by 1 million. In 1998 the decline in employment resumed with even greater force and came to a halt not until 2002 at a very grave level. The end of the declining trend in the employment rate (ER) is

comforting, but the low value of this indicator gives reason for concern. One study has shown that the ER ratio is 51.5% (Labour and Economy Ministry 10/2004); the survey conducted by GUS (the Labour Force Survey – LFS) arrived at 44%.

The opposite of the employment rate is the unemployment rate. Looking at the figure below, one can clearly see two waves of rising unemployment. The first took place at the beginning of the transformation period, while the second at the turn of the millennium. Since 1998, there has been a strong upward tendency in the unemployment rate. The highest rate of registered unemployment was observed in the first half of 2004 when it reached over 20%. By the end of the year it had declined to slightly below 19%.

The issues regarding employment are diverse. The factors which affect an individual's situation on the labour market include education, age and general health, as well as gender and place of residence.

Figure 1. Employment rate and unemployment rate in Poland in the years 1990-2003 (in %)



<sup>1</sup> The development of the situation on the labour market Poland was presented in detail in the UNDP/CASE report (2004) entitled "In concern for work".



Employment by gender

Tendencies in the employment of women compared to that of men indicate that women have lost fewer jobs in the transformation period than men have. In 1990, women constituted 45.2% of the total workforce. By the end of 2002, the share of women in the total number of employed had increased to 47.6% (GUS 2003). However, and similarly as in other countries, the professional activity of women in Poland still lags behind that of men (the difference currently amounts to 14%-15% – see figure below).

The lower decline in the employment rate of women compared to that of men is a characteristic observed not only in Poland, but also in other transformation countries (Nesporova 2002). The unemployment of men is strongly related to the process of restructuring industry. The intensification of these processes towards the end of the 1990s in Poland caused the rate of job destruction to be much stronger than before, even than during the beginning of the transformation period. At the same time, the rate of new job creation was too slow to absorb those who were leaving the eliminated jobs (from World Bank research – Rutkowski, 2002).

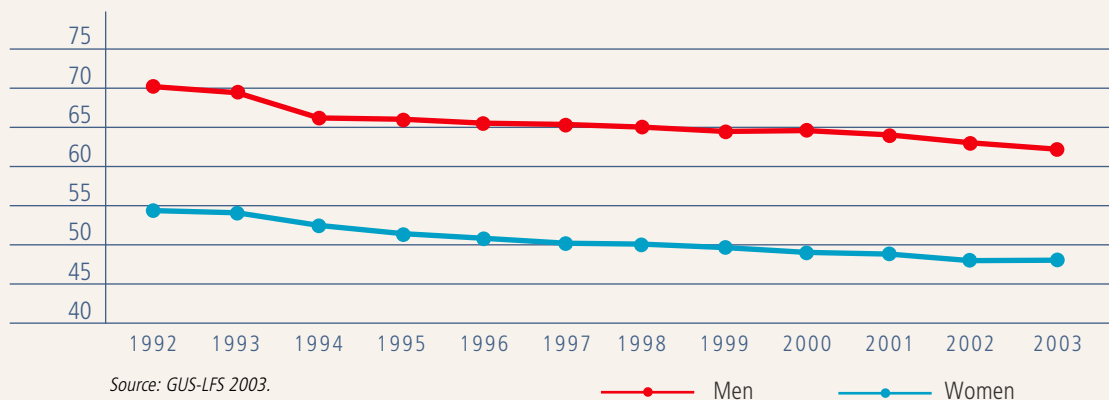
The restructuring process covered such sectors as heavy industry and transport, areas mostly employing men. On top

of this, there was the issue of the construction sector, which strongly reacted to changes in business activity.

Although women have lost fewer jobs than men have, their situation on the labour market is tougher. Unemployment among women is higher and differences in unemployment between the sexes persist or have even increased, as over the most recent period. While unemployment among men tends to be declining, unemployment among women appears to be rising; among men it was at a level of 18-20%, while among women 20-21% (according to the LFS). It was more common for women to join the jobless ranks because of layoffs than for men. Women are also experiencing considerable difficulties in returning to the labour market. Data on the average duration of job searches confirm that women are more often affected by the problem of long-term unemployment.

A significant factor exacerbating women's problems on the labour market is the burden of housework they must bear as a result of the underdevelopment of services that would allow them to effectively combine professional and family roles. The proverbial "two-front" nature of women's work forces them to choose such a career path that allows them to shoulder the double load. The issue of the double burden of women in former communist countries is outlined in comparative studies carried out by Pirella Paci (World Bank, 2002).

Figure 2. Indicator of economic activity according to gender (in %)





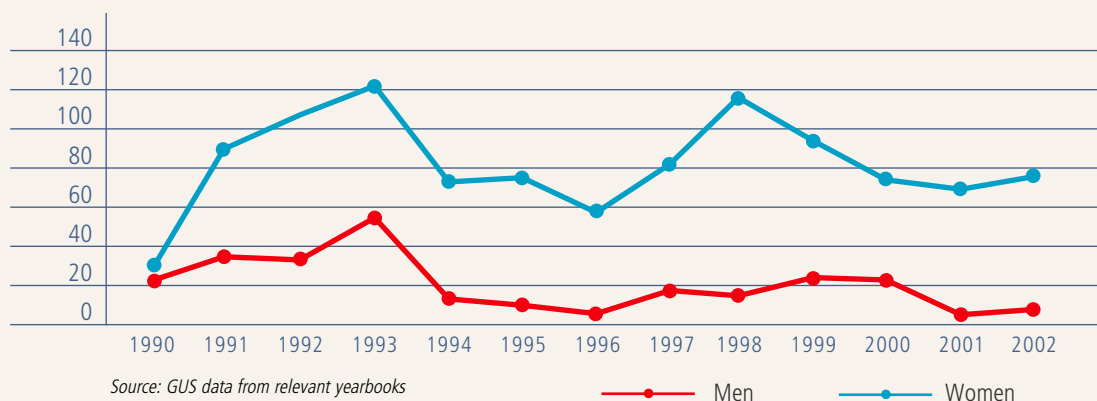
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Poland is listed among those countries where the development of nursing, child-rearing and care services is exceptionally poor.

The distribution of women's labour resources in the public and private sectors of the economy has undergone significant changes during the transformation period. By the end of 2002 the share of women among all employees had increased to 54.8% in the public sector, while it had decreased to 45.1% in the private sector (GUS 2003).

is taking place in farming or outside of it. The share of women among all entrepreneurs outside of individual farming is also increasing, although with fluctuations. In 1989 it amounted to over 26%. It reached a peak of 40.2% in 1998 and currently it amounts to 37% (2002 data).

Figure 3. Increase in the number of self-employed (1989=100)



These changes can hardly be viewed positively when one bears in mind that the number of employees in the public sector is showing a strong downward tendency, while in the private sector employment is increasing.

A particularly interesting tendency of women's behaviour on the labour market in Poland is the high rate of growth in the number of self-employed.

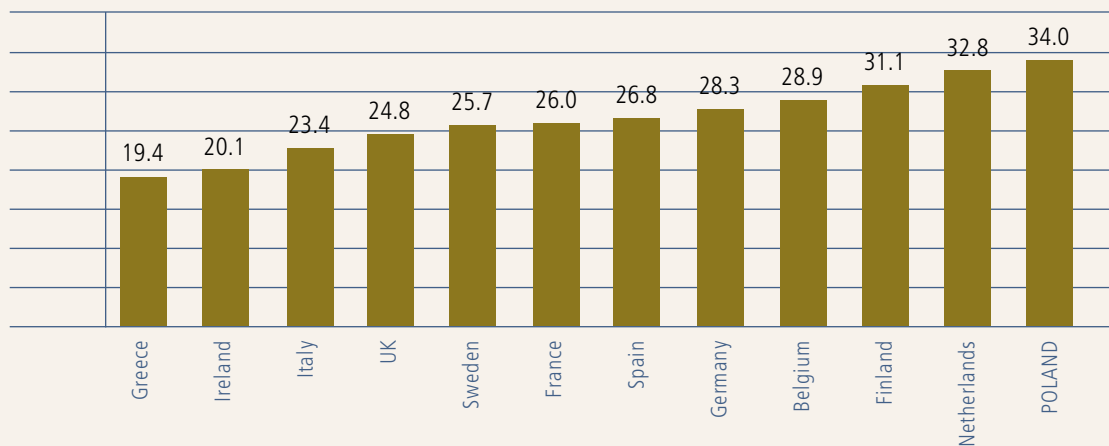
The high share of self-employed is partly due to the considerable independence of women in rural areas, specifically on farms. However, the picture of the growth of entrepreneurship by gender does not change when we examine if it

Women entrepreneurs in cities, unlike those living in rural areas,<sup>2</sup> are characterized by a relatively high level of education, particularly among those who are employers. Most of them have at least high school education (76%, as compared with 67% among men).

Compared with other European countries, the share of women among the self-employed is the highest in Poland. One needs to keep in mind, however, that this result is affected by the significant share of women among the self-employed who run the numerous though relatively small farms.

<sup>2</sup> Information on the entrepreneurship of women comes from studies conducted by Ewa Lisowska (Lisowska 2001)

Figure 4. The share of women among the total number of self-employed in Poland and selected EU countries (average for the years 1990-1997)



Source: OECD 2000 and calculations based on Lisowska 2001.

#### Employment by education

Although the decline in employment evident since 1998 concerns people with all levels of educational qualifications, the difference in the unemployment rate between persons with higher and those with elementary education has increased to an astonishing magnitude. The employment rate of persons with higher education amounts to around 80%, while that of persons with elementary education less than 20%. The low employment rate among high school graduates – 35% – is also noteworthy. Studies show that the lack of skills is closely correlated to older age, disability and social background.

Against the background of the low employability of unskilled persons, the question arises as to whether special programmes should be prepared to support their employment and which concept should be chosen for motivating such persons (who do not participate in standard ALMP programmes), to work. One expert's response to this question is

positive: programmes for this group of people should be created, ones to be based on the proper preparation of employment services to apply tailor-made measures (Sztanderska 2004).

#### Employment by age

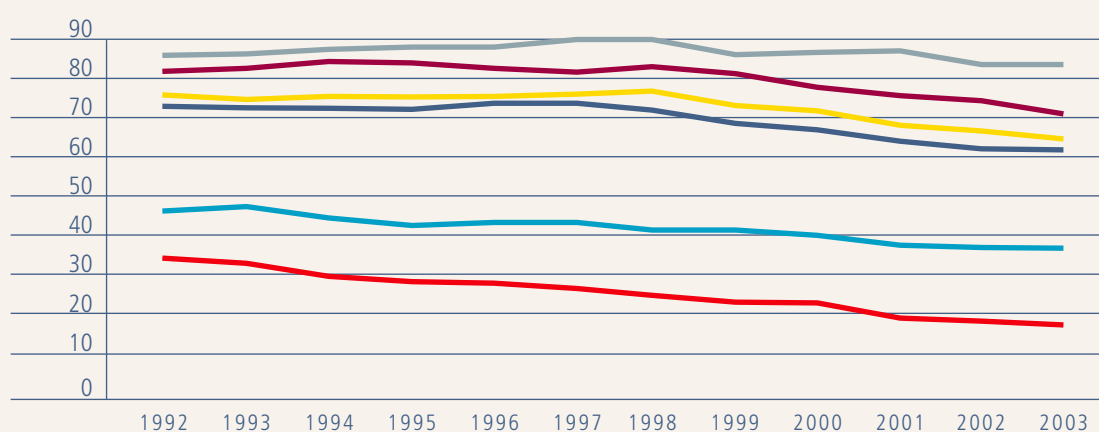
The labour market is visibly segmented as regards age. While the employment rate of persons aged 24-54 amounts to 60%, for the youngest (15-24 bracket) and the oldest (54-retirement age) it is barely above 20%. For persons in retirement age the employment rate is single-digit.

On the one hand, the barriers impeding a successful professional start for young Poles are associated with the poor quality of education, the relative lack of self-motivated improvement of skills, and lack of knowledge on how to find work. On the other hand, the problems for young people in entering the labour market are associated with the natural



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Figure 5. Employment rate by level of education (in %)



Note: for the years 1992-1998 data for November is presented, for the years 1999-2003 data for Q4.

Source: GUS-LFS – Economic activity of the Polish public, relevant editions.

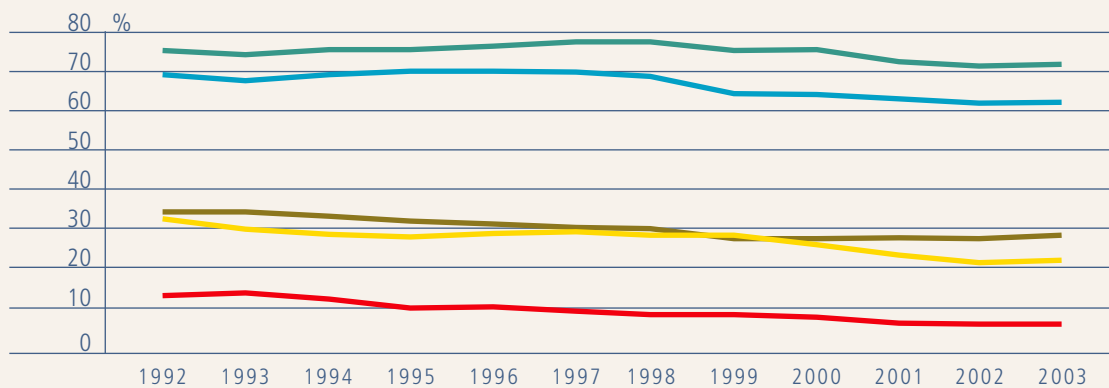


aversion of employers towards hiring staff without professional experience and the relatively high costs of labour (meaning not the salary cost of labour, but the excessive ratio of non-salary to salary costs).

Polish programmes for activating youth (the Promotion of the Professional Activity of Youth Programme, Graduate, First Job) have embraced a relatively small scope of unemployed graduates. The focus of labour offices has too often been dominated by consultations, advice, standard training and subsidies for employers to finance internships for young people, who upon their completion return to unemployment. There is a need for programmes that would provide a greater stimulus for employers to permanently hire young people, as well as for ones that would encourage and motivate the bolder and more industrious representatives of the young generation to begin their own business activities.

The difficulty which older people are experiencing in maintaining their jobs is mainly associated with the restructuring processes in the economy. In result, they often lose their jobs before reaching retirement age and usually have no chance of finding new ones. The skills of the older generation are often too low and inadequate for the needs of a transforming economy. In these circumstances, older employees were leaving the labour market and taking advantage of the social benefits offered in the retirement-disability benefit scheme or special benefits from the Labour Fund. This costly policy is now changing. Current policies include both programmes aimed at supporting the employment of older employees (e.g., 50+), as well as the extension of the official retirement age. However, the effects of these programmes will depend primarily on the general improvement of the situation on the labour market, as well as on the future pace of the processes of Poland's economic restructuring.

Figure 6. The employment rate for different age brackets



Note: for 1992-1998 data for November, for the years 1999-2003 for Q4.

Source: GUS-LFS – Economic activity of the Polish public, relevant editions.



#### Employment of the disabled

A deep division on the labour market is to be observed when it comes to employment of the disabled. The chances for disabled people to find work are lower, mainly due to the obvious reason of their physical condition (and assumed lower labour productivity), but also because of their relatively lower skills, infrastructural barriers to mobility, as well as their relatively low motivation to hold a job.

Although the labour market for people with disabilities is divided into a protected one and an open one, with the major group of the working disabled in Poland employed at Protected Enterprises (ZPCh) and cooperatives of the disabled, the professional activity and employment rates of disabled people are very low. The relevant ratios are 20% and 15% respectively. These are among the lowest ratios in the EU.<sup>3</sup> This is partly due to the generally difficult situation on the labour market, but it is also a result of the very low level of skills and the relative ease of obtaining social benefits

(i.e., the possibility of receiving disability benefits) that replace potential earnings.

In assessing the employment of the disabled in Poland, one needs to take into account the fact that the effort for them to undertake work is disproportionately large. As a result of architectural barriers and totally unsuitable means of public transport, disabled persons, even those with a good and well-adapted workplace, cannot bear the daily burden of commuting unless she/he is employed in a ZPCh or a cooperative that organizes employee transportation and provides support in access to rehabilitation. As a consequence, while the overall employment of disabled is low, employment on the sheltered market in Poland compared to other countries is high.

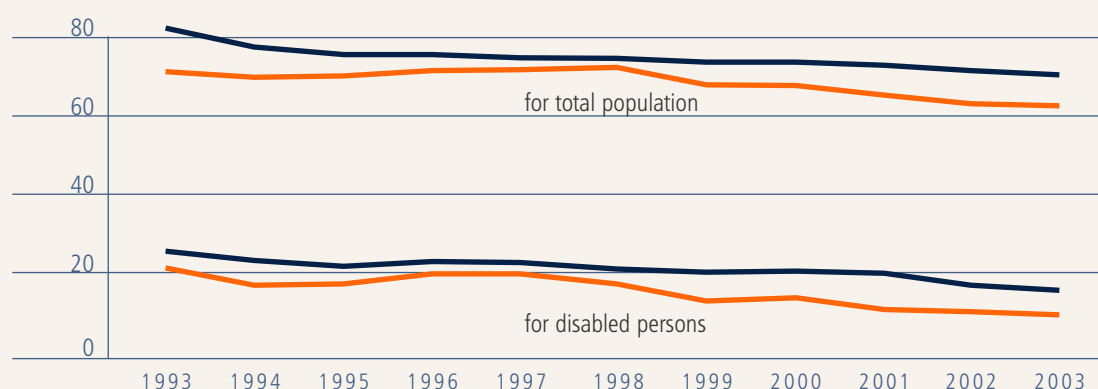
<sup>3</sup> Extensive information on the work-related problems for disabled persons can be found in publication by IPiSS "The social integration of disabled people. Evaluation of institutional activity" (Golinowska 2004).



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The high rate of employment of the disabled in the protected labour market has also been affected by the favourable system of organization and generous financing of ZPChs, which have contributed to their dynamic development. The efficiency of this growth was overall rather low, however, and in the new decade significant changes were introduced in the system for supporting employment of the disabled.<sup>4</sup> The support funds will now be tied to employment of a disabled person without regard to the status of the employer. These changes prompt fears on the part of the communities of disabled people, as to whether their chances for employment might not drastically shrink in the new legal-financial framework. For the sheltered labour market might significantly decrease, and employers on the open market may still be insufficiently interested in employing disabled persons.

Figure 7: Professional activity rate and employment rate of disabled persons \*



\* Note: for the years 1992-1998 data for November, for the years 1999-2003 for Q4.

Source: GUS-LFS – Economic activity of the Polish public, relevant editions.

— professional activity rate  
— employment rate

<sup>4</sup> The law amending i.a., the statute on professional and social rehabilitation and the employment of disabled persons, DzU from 2003, no. 7, paragraph 79, which came into effect in 2004.

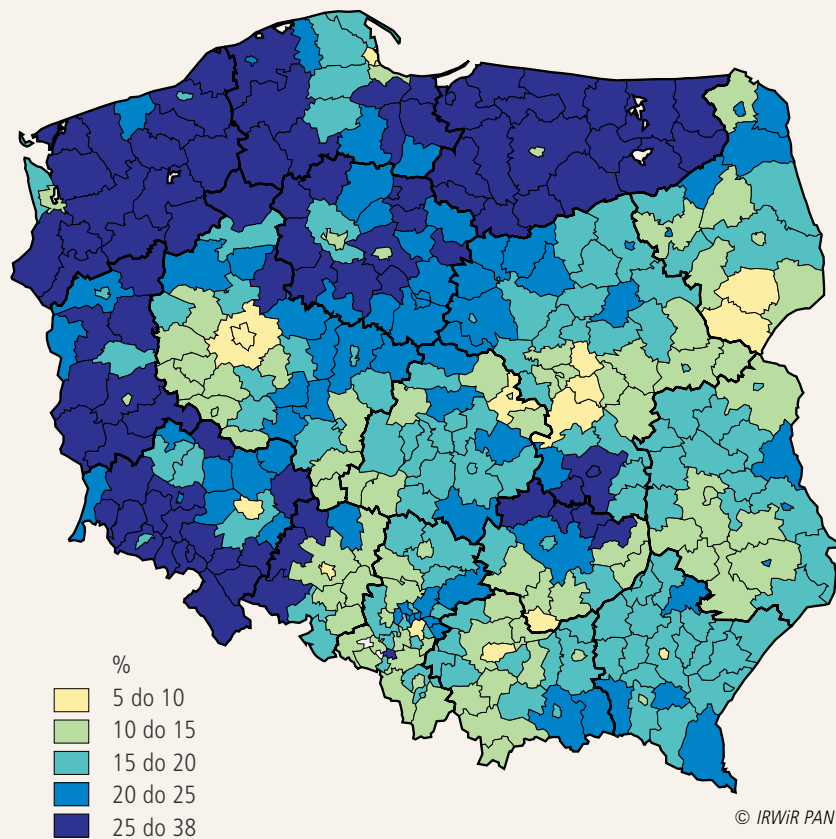
Employment and unemployment  
by geographical distribution

Employment opportunities differ greatly across the country. This is not always evident when we use data grouped by macro-regions or even by voivodeships, although differences are visible in these breakdowns, as well. In Q4 of 2002, with the average nationwide unemployment rate of 19.7% (GUS-LFS 2004), in some voivodeships these rates were at a relatively high level (Dolnośląskie – 27.2%, Zachodniopomorskie – 25.9%, Lubuskie – 25.9%), while in others they were much lower (Małopolskie – 16.1%, Lubelskie – 16.6%,

Mazowieckie – 16.9%). The presence of the Lubelskie voivodeship in the latter group might appear as somewhat surprising, but it need be noted that this is a region with traditionally well-developed individual farming, which absorbs labour force surpluses.

It is only the data for the districts (powiaty) that shows a world of dramatic differences. The rate of unemployment is extremely high in certain districts in the north and west of the country, where there is large rural unemployment (following the closure of the PGRs or state-run farms). There the rate is four times higher than in the most rapidly developing districts.

The level of registered unemployment according to *powiat* (December, 2001)





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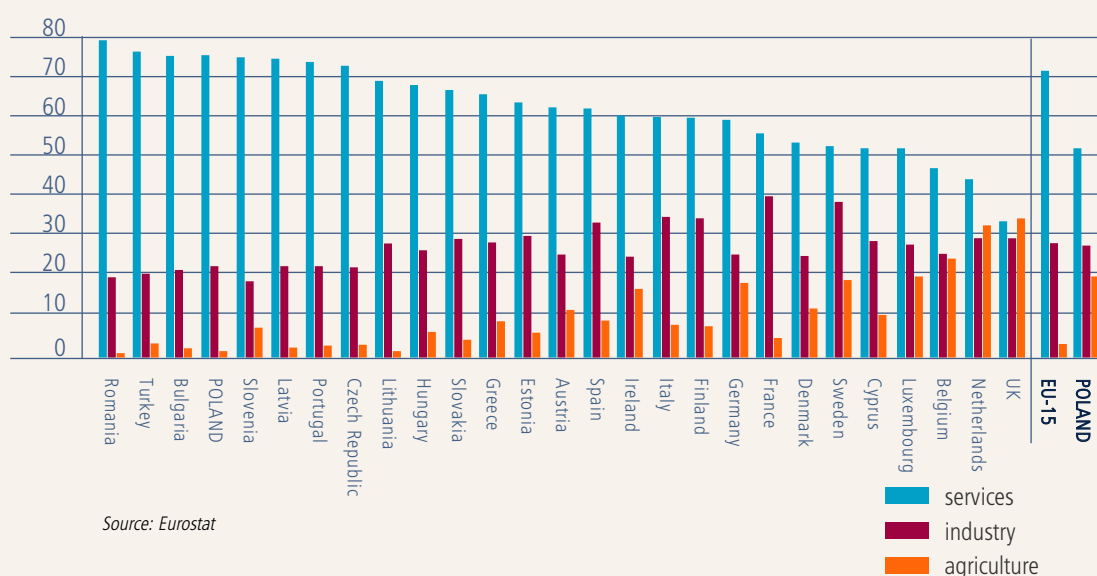
## 2. The limited and diverse demand for labour

The modern economy is characterized by the tendency of declining demand for work. But not in all countries is this tendency stark. Its occurrence depends on the developmental level achieved and the employment policy pursued. Within this broad tendency we can observe a diverse demand for labour in line with the segmentation of the economy, the dual nature of which is increasingly visible the more it is modernized. On the one hand, modern branches of the economy are expanding and evince very high labour productivity in reliance upon the latest technology, while on the other hand, traditional (sometimes called archaic) sectors are also still present, ones largely based on physical work.

In accord with the division of the economy, the labour market is also composed of a modern (superior) and a traditional (inferior) part. They differ not only as regards the type of work performed, but also in salaries, which are becoming increasingly diverse. The significance of high skills (both in creative, as well as reproductive type of work) in superior markets is increasing. This leads to increased interest in education, as seen in the rising educational aspirations of parents and their children. The demand for highly qualified foreign employees is also increasing. Meanwhile, the inferior markets employ people with low skills, oftentimes immigrants from countries at a lower level of development ("sending countries").

In transformation countries, affected as they are by three major and simultaneous tendencies (to wit, systemic change, restructuring and modernization, as well as globalization), the changes in employment are particularly intense.

Figure 8. Share of employment in given sectors among the total number of employees aged 15-64 in 2002



Source: Eurostat



On the one hand, labour productivity is increasing and working conditions are becoming more diverse. On the other hand, whole groups of people who are unable to adjust to the high pace and nature of change are driven out of the labour market (or they never enter it in the first place). The weakening of the average demand for labour in Poland is closely tied to the changes currently taking place. This is particularly the case when one considers that the pace of modernization is fast, while the overall economic structure (vide its high share of agriculture and obsolete industries) remains quite traditional.

#### Universal tendencies

The main direction of change in the modern economy, which has entered the post-industrial and post-Fordist stage, involves the dynamic growth of the service sector (3rd sector) in the structure of the generation of domestic product and of employment. This occurs at the expense of both highly productive industries (2nd sector), which fact decreases its absorption of the labour force, and at the expense of agriculture (1st sector), as well.

Of all service sectors in the EU, employment is growing at the fastest pace in business services. In second place is health care provision along with social services, which are followed in third place by IT services, and in fourth by educational services (European Commission 2002).

The increasing dominance of the service sector in the economy has significantly changed the nature of work, work relations and work organization. Service work is less uniform, it requires more of an individualized adjustment to its various features. The number of commission (per-task) and temporary work contracts is increasing, while the share of long-term employment contracts is declining. Flexible organization and the use of flexible working hours are becoming more common: both with regard to the working day, week, and year – as well as the whole professional career.

The share of work based on employment contracts is decreasing overall, with an increase in self-employment and employment in micro-businesses (up to 9 persons). At the same time, the increase in demand for employees with a higher willingness to accept flexible working conditions is conducive to increased employment in the shadow economy.

It is a paradox of modern times that despite reduced physical effort at work and increased safety (particularly in Western countries), mental stress is increasing. This is associated with the intensity of selected types of work, and emphasis on creativity, independence and responsibility. In such conditions, the unpredictability of the terms and results of work is greater.

Non-standard work, increasingly often performed in small businesses, naturally leads to a decline in the unionization of employees. Difficulties emerge in conducting societal dialogue within the framework of traditional industrial relations. There is a threat of the metastasizing of conflicts and of the problems in resolving them.

#### Tendencies characteristic for Poland

At the turn of the millennium, Poland experienced a number of factors that strongly reduced demand for work. On the one hand these were business-cycle causes, reflected in the decline in growth of national income, output and investment. In 2001 the rate of economic growth decreased by 3 percentage points compared to the previous year (from 4% to 1%). A rate of GDP growth under 5% per year leads to a sharp decline in employment in Poland. This is the rate that has proven necessary to maintain employment at the same level (Kwiatkowski et al 2003). This high threshold of GDP growth necessary for an increase in employment is interpreted as an example of the phenomenon of jobless growth, something characteristic for a country experiencing rapid structural and technological change.

On the other hand, economic policy has also played a significant role in the decline in employment. Its features have



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included an intensification of structural changes in industry (coal mining, the steel industry, arms industry and railway transport), leading to a significant reduction in the number of jobs. According to analyses carried out by Tito Boeri and Pietro Garibaldi, almost 3 percentage points of the decline in the number of employees in Poland in 2002 is due to changes in employment in industry (Boeri, Garibaldi 2003).

The restructuring of industry was taking place against the background of a tight macroeconomic regime and a vigilant pursuit of the inflation target. At the same time, until 2002, the effects of restructuring were not being offset by a policy of creating new jobs in the surroundings of sectors undergoing restructuring, and labour market activation programmes were not given sufficient prominence.

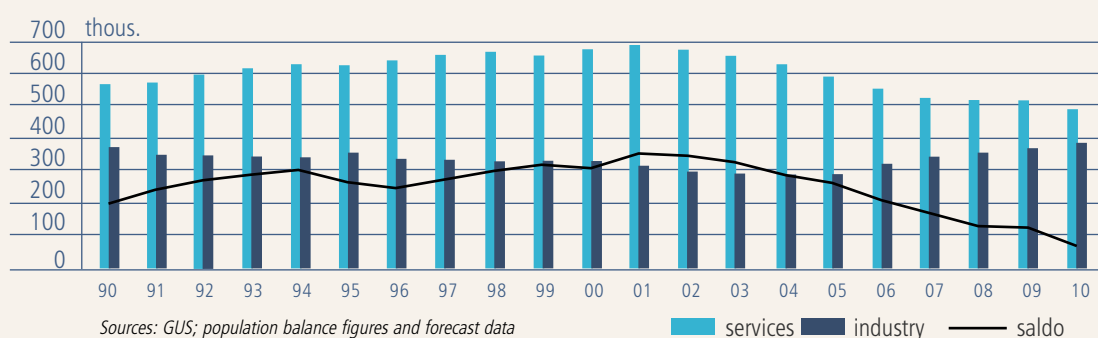
As regards the influence of restructuring on the level of employment and unemployment, it is worth pointing out that this effect could differ between the short and long-term. In the short run, restructuring could reduce demand for labour and increase unemployment through the labour-saving effects of the process of improving the efficiency of activity and implementing advanced technology. Meanwhile, the negative effects of restructuring for the labour market need not appear in the long run. The improved efficiency of businesses may help them improve both their economic and financial standing, and allow them to expand production and invest, which

together should lead to higher demand for labour. Both of these effects can be perceived in the Polish economy, although the short-term effects are more visible at present.

### 3. Large and non-adapted labour resources

Demographic tendencies in Poland show that a significant increase in labour resources shall have taken place over the years 1990-2010. The increase in the number of the population reaching production age has been gradually mounting since the beginning of the 1990s and it shall continue to systematically rise through to the year 2010. The rate of this growth has varied: it was weaker in the first half of the 1990s, much stronger at the turn of the millennium, and will be slower again after 2005. The increase in labour resources concentrated in the past few and coming years is the effect of prior demographic developments having come to the fore, primarily the post-war high in new births that lasted in Poland until 1956. The post-war "baby boom" experienced "after-shocks" in the 1970s that lasted until the beginning of

Figure 9: Balance of production-age population



the 1980s (the peak number of births was observed in 1983). Over the past few years the people born at that time have been filling up schools and universities and entering the labour market. Over the period of 1996-2000 the number of those in production age (18-59/64 years) increased by more than 1 million, while between 2001-2005 it will have increased by a further 1,155,000. Between 2006-2010 the increase in labour resources will decline from year to year. In 2006 it will stand at 257,000 persons (see figure 9).

#### 4. Ill adaptation in skill structure

The effort undertaken in the area of upgrading skills in the 1990s was evidenced primarily in the quantitative change in the structure of education. Literally historical changes have taken place in this regard. Those with higher education rose to very high levels, even by West European standards. The number of students per 10,000 people currently equals 450, as compared with 105 (i.e., 4.5 times fewer) back in 1990. At the same time, problems have emerged concerning the diversity of education standards, quality of education and its adjustment to the needs of the labour market.

The disparity in education standards is already apparent at very young ages as a result of the insufficient availability of pre-school education, something which would offer an opportunity to overcome the developmental deficiencies of children from underprivileged environments and to earlier prepare children for the new and tougher school demands. At higher levels of education, disparities are exacerbated on the one hand by the sorting of youth for passage to comprehensive high schools or to vocational schools, the latter being perceived as inferior. On the other hand is the selection process channelling pupils to superior urban schools or to inferior schools in small towns and villages. This general ten-

dency is not contradicted by cases of the existence of very good schools in small towns, as well as substandard schools with a poor teaching standard in big cities.

The problems of insufficient teaching quality rest primarily in the lack of focus within curricula on the formation of basic skills, namely language and communication skills, mathematical and academic thinking, and issues regarding cooperation and teamwork. These deficiencies were starkly revealed by the results of the Programme for International Student Assessment – PISA<sup>5</sup>. That test was conducted in 2000 and assessed the abilities of 15-year old pupils in three areas: reading comprehension, mathematical thinking and logical thinking. The results for Polish youth, as compared with that in other countries, were not optimistic. They also showed significant differences in teaching results depending on the social disparities between students and the quality of education in respective schools. The test was repeated three years later only with regard to reading comprehension, with much better results than previously, although the differences between Polish 15-year olds remained sizeable.

Another type of problem lies in the inadequate reorientation of vocational education – at all levels – to the needs of the labour market. Curriculum realignments and student internships are always carried out with considerable difficulties. Their effective realization encounters numerous barriers of different types, from controversies regarding concepts, the lack of information and analytical tools, staffing shortages, to financial problems. The responsibility for solving problems in this area falls to local governments, and the results of this are mixed. There are positive examples in many towns, but there are also cases of neglect and impotence. Municipal and district governments now have the opportunity to obtain support in the form of European Union structural funds in the area of education, particularly as part of the Human Resources Development programme.

<sup>5</sup> PISA – this is a programme for student assessment carried out by the Organization for Economic Cooperation and Development (OECD) - devoted to evaluating the skills of students completing elementary and (junior high) schools.



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Governmental education policy as regards the place of vocational education in the education system has been varied. In recent years there was something of a reversal of the previous concept according to which high schools were to play the predominant role in middle education, with vocational education being transferred onto the shoulders of employers and the market. Employers did not take up this responsibility and the government withdrew from its plans to some extent. However, this withdrawal from the concept of first-line support for comprehensive high schools does not, for the time being, imply a more active involvement in resolving the problems of vocational education.

Institutions of higher learning are taking their own initiatives to help students find an effective route to the labour market. At present these are at an early stage of development: career offices, professional advisory services, cooperation with potential employers, skill-based education and the formation of behaviours useful in professional life. Perhaps a more efficient system of supporting the start of students in their professions will eventually be created out of these singular activities.

The increasingly relevant phenomenon of the misalignment of education to the needs of the labour market is compensated only to a very small extent by education outside of the school system. Employers are not financing training for their employees (with the exception of the financial sector and some groups of companies with foreign capital), while education for the unemployed and those threatened by unemployment within labour market institutional structures encounters financial barriers, as well as the preferences stipulated in the autonomous policies of local governments.

Adult or lifetime education requires comprehensive and systemic solutions. It appears that the first steps in the right direction have already been made. The government drafted and approved the Strategy for the Development of Lifetime Education to 2010, while the amended law on the education system includes regulations on the accreditation of institutions providing lifetime education outside of the school system. Application to receive such accreditation is not obligatory, but it is expected that accreditation will be conducive to attaining a higher quality of education services for adults. Overall, despite the positive quantitative changes which

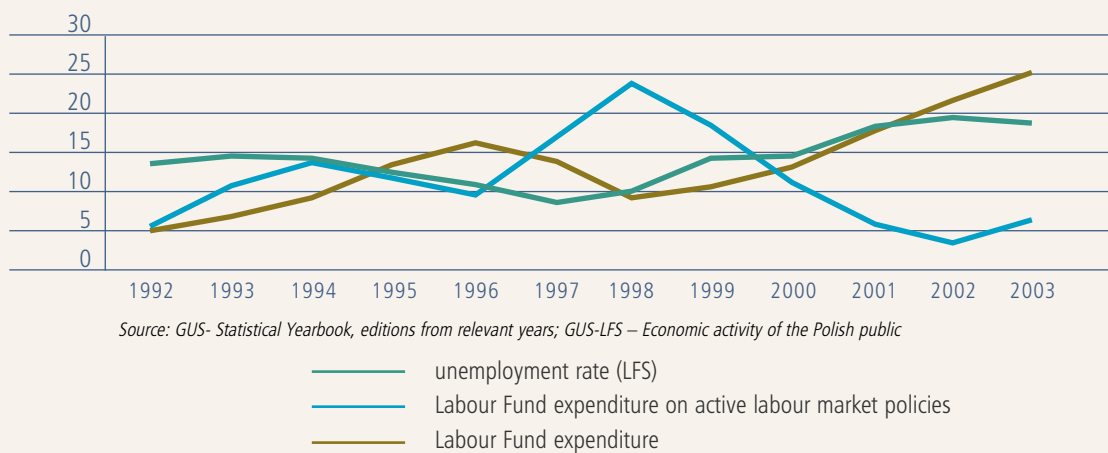


have taken place to date, education faces another historic challenge, namely, the need to improve the quality of education, as adjusted to the needs of the new labour market and the new service economy, and to achieve high productivity and greater mastery of information. Although other countries also face this challenge, meeting it will be more difficult in Poland. This is because of the historical gaps in the development of education that still have to be made up for, as well as the need to limit the increasing disparities in the education system.

the labour market were transferred to districts (powiats), the new and weakest tier of local government.

The shortage of funds for ALMPs is connected to the structure of both Labour Fund revenues, as well as expenditures. Although the Fund is financed by several revenue sources, each of them has been limited. The first source is that of contributions from employers; the second, a budget subsidy that largely reflects current financial decisions<sup>6</sup>; the third, additional funds from the so-called property restitution reserve

Figure 10: Labour Fund expenditure against the unemployment rate (in %)



## 5. The weaknesses of labour market policy

In the period of the slowdown of economic growth and the second wave of unemployment, the significance of active labour market policies declined. The decentralization of employment services (1999/2000) severely limited the possibility of carrying out these policies. The tasks associated with

(used for labour market policies since 2002); and the fourth, bank loans. This means that, faced with a chronic shortage of funds, the Labour Fund has to increase its indebtedness. The last source is that of funds from the European Social Fund that complement the funds which can be generated domestically.

<sup>6</sup> Subsidies from the central budget have been frozen on several occasions, which has led to the interruption of policies carried out and the loss of credibility for employment services as partners in carrying out projects together with employers (involving, for example, subsidized employment of unemployed persons). When the Labour Fund obtained the right to resort to financing from bank loans in order to continue its programmes, it began to accumulate debt, which fact also acts to ensure their continuation. At the end of 2003, the Fund's debt amounted to 3.1 billion zloties.



As regards the structure of expenditures, while revenues declined in real terms, one of the expenditure items markedly increased, thereby reducing the funds available for other purposes. This item was that of pre-retirement benefits. Labour Fund expenditures for this purpose amounted to almost 5 billion zloties in 2003 (for almost 500,000 people collecting these benefits), while another 5 billion zloties was spent on unemployment benefits and only 1.3 billion zloties on active labour market policies.

With such limited funds and the rigid structure of financing labour market policies, it was difficult to carry out this policy at all, particularly as concerns activating the unemployed. In the optimal period for ALMP policies, with unemployment relatively low (1998), spending on active programmes constituted over 23% of all Labour Fund expenditures, while in the most difficult period it fell to around 5% (2002). Nevertheless, over the dozen or so years of active labour market policies, these programmes provided service to more than 4.5 million people (Boni 2004).

## 6. Insufficient support for creating new jobs

The domination of policies of macroeconomic stabilization and of modernizing the economy, ones often requiring intense restructuring programmes, has pushed government efforts to create new jobs into the background. One could even say that the level of unemployment in Poland is the price both of having opened up and introduced market mechanisms, as well as of the acceleration of the country's modernization. However, the price has been too high. This is why much more significance than at present should be attached to policies of supporting employment. Its main elements are the support of entrepreneurship and broader access to capital.

## Supporting entrepreneurship

One of the significant elements of economic development is that of the favourable conditions for the development of entrepreneurship, in which small companies are currently of special importance. Small and medium-sized enterprises constitute almost 99% of the total number of businesses, the figure for which is 1.8 million. They generate around 46% of Poland's GDP and employ around 66% of the total number of employees in the enterprise sector (Balcerowicz et al. 2002).

The development of entrepreneurship was a spontaneous and intensive phenomenon at the beginning of the economic transformation in Poland (Beksiak 2001). It seemed that this process would continue under its own steam. However, the growth of entrepreneurship slowed down and barriers emerged that were not addressed effectively. These barriers were of a regulative, administrative, as well as fiscal nature. Barriers associated with the legal system include: the frequent changes of regulations, short periods of *vacatio legis* before their introduction, unclear laws, as well as excessively detailed regulations.

Concerning administration, one could observe the systematic limiting of the freedom of commercial activity. The formation of barriers in this regard included primarily the justice system, tax administration, as well as central and local government administration. In the second half of the 1990s there were mounting complaints about the inefficiency of courts and the system of executing the laws, about prolonged legal proceedings, and the impunity of public officials who made mistakes and breached the law. One of the favourable changes worth noting in this regard was the introduction of the Law on Freedom of Commercial Activity, which should contribute to a significant reduction in the barriers to the functioning of enterprises (the law was passed in May 2004).

The high costs of conducting commercial activity are a significant factor constraining the development of businesses. Their main source is that of the high non-salary labour costs,

primarily the high social insurance contributions, including obligatory pension contributions. However, its reduction is not possible in the near future without undermining the financial stability of the pension system in a situation of continuing pension reform, something which entails transition costs. This is why it is so important to reduce contributions to other elements of social insurance, in particular disability and sickness benefits. The government public expenditure reduction programme (also called the Hausner plan) did go in the direction of such measures (see Chapter 2).

The legal and administrative barriers to entrepreneurship have proven to be fairly lasting. Surveys conducted among entrepreneurs, statements issued by business chambers, and expert reports have all been pointing to these problems for a number of years. The problem is that their origins lie deep in the structure of the political and legal system and in the rules the state financial system is based on. An additional problem has been the weak lobbying power of organizations representing employers in the political system. Furthermore, some of the barriers, particularly those related to changing regulations, as well as changing political rules, are an objective result of the very high pace of the Polish transformation.

## Access to capital

Limited access to capital is also a significant barrier to commercial activity in Poland. Thus far during the period of developing a market economy, capital has been expensive and poorly accessible. This is due in part to institutional factors .

Banks did not constitute the main source of capital for the majority of Polish businesses, not only small and mid-sized ones. Only around 15% of companies from the small and medium-sized company sector regularly use bank loans, while among small ones, the activity of as many as 90% is based on their own financial resources (according to MPSPiG report 2003). Meanwhile, the share of households among

bank borrowers has been steadily increasing.

The first barrier preventing the use of loan financing was that of the high interest rates associated with the central bank's policy aimed at lowering the high rate of inflation. The problem of the strict pursuit of the inflation target and too slow a pace of interest rate reduction has been the subject of constant debates and political disputes in recent years. One needs to keep in mind, however, that once the interest rates were lowered, the commercial banks' reaction to central bank decisions was weak, which prolonged the period of high interest rates.

Another barrier was seen in the safety measures taken against bad loans. After the first occurrence of such loans in Poland, very high provision standards were adopted, ones which in some cases were even higher than in EU countries (for example, the high minimum reserve requirement rate and its taxation) and in reality they strongly constrained<sup>7</sup> the role of the banking system in the creation of entrepreneurship. Following entry into the EU, the standards limiting banks' credit risk have been eased.

Another difficulty is the threat of decreasing access on the part of businesses, particularly small and medium-sized ones, to loans in local banks due to the changes taking place in the structure of trans-local, trans-regional and trans-national banks (i.e., the consolidation of the banking sector). These tendencies, caused by certain processes of globalization, are in stark opposition to capital needs on the local level<sup>8</sup>.

<sup>7</sup> In 2002-2003 banks undertook measures to "clean" their loan portfolios. New loan scoring methods were applied which contributed to the resolute execution of dues, sometimes at the cost of the bankruptcy of creditors (*Gazeta Bankowa* Nr 5/2004, p. 24).

<sup>8</sup> There is a reasonably prosperous cooperative bank sector in Poland – around 600 banks, 3000 outlets, 10 million customers (NBP 2003) – which has been able to systematically increase its share in assets of the banking system (currently at around 5%), with solid results obtained on lending activity. The level of bad debts in this segment of Polish banking remains far lower than in the sector overall. Cooperative banks are facing the problem of further increases in the minimum value of their own funds (eventually to 1 million euro), which fact causes the need for structural change (mergers and acquisitions) with ambiguous benefits for clients/businesses.



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In their lending policies with regard to small and medium-sized businesses, banks were expecting to share the risk with the government. It took Polish authorities quite a long time to realise this and so far the government's involvement in loan guarantees has been very limited.<sup>9</sup> It was not until 2004 that the number of guarantees issued by the central and local governments increased dynamically.

The subsidizing of opening new businesses also has not been high on the government's agenda in the past five years, despite the high level of unemployment. Programmes financed by the government and with EU Phare funds provide support mainly in the form of information and advisory services, without offering small firms investment aid.<sup>10</sup> Moreover such forms for financing business activity as leasing, factoring, or venture capital are used to a much smaller extent than in EU countries, although the leasing sector did grow at a high pace in 2002-2003.

Overall, the role of the banking system in supporting entrepreneurship – in the creation of businesses, their development and in supporting them in crisis times – is totally unsuited to the relevant needs when considering the dynamism and level of development of Poland's market economy.

<sup>9</sup> In 2000-2003 the government devoted only 30-40 million zloties per year for this purpose.

<sup>10</sup> The exception here is that of loans from the Labour Fund for the unemployed who are launching their own business. However, they are a distinct group and a marginal one among the total number of people choosing to become self-employed.

<sup>11</sup> In 1999 the employers association "Polish Confederation of Private Employers" (PKPP) was founded. This confederation has played a significant role in counterbalancing (or even obtaining an advantage over) trade unions with the interests and arguments of employers.

## 7. Flexibility Polish style

The discussion about flexibility – or, more broadly, about deregulation of the labour market – has gained momentum in Poland as the employment situation has deteriorated. This discussion has focused mainly on labour legislation, the minimum salary and labour costs.

### The flexibility of labour legislation

Beginning in 2000, the increasingly active employer associations<sup>11</sup> began to demand amendments to the Labour Code that would give employers greater freedom in firing and hiring employees. In 2002, following intense discussions, several significant changes were introduced in labour law to increase their flexibility. These changes primarily affected small businesses with regard to regulations that govern labour and the organization of work. The costs of redundancies in the case of group layoffs were reduced. New forms of employment were introduced, for example, temporary employment. The employers' obligation to offer employees a permanent job contract after two fixed-term contracts was limited.

These were not all the changes that employers put forward in the debate. Nevertheless, the amendments to the labour code significantly increased the level of flexibility of labour regulations in Poland, although the actual flexibility of the labour market was already significant before. This is why it was possible to conduct restructuring on such a large scale at the turn of the century without disturbing societal peace and without high costs for employers, although some of the social packages offered to employees constituted a noticeable burden for public finances (i.e., for taxpayers).

All in all, the index of the rigidity of employment conditions used in international comparisons indicates that current Po-



lish labour legislation is fairly flexible. However, some authors claim that the actual legal protection of employment, both in the recent past and today, has been none too high in Poland (Riboud et al 2001).

The extent of desirable labour market flexibility is a subject of dispute among experts. A number of them have questioned the role of labour market deregulation in lowering unemployment. K. Frieske gave his view on this matter with the telling title, "Mystifications of deregulation" (Frieske 2004). Undoubtedly flexibility does not change much if it is meant to be the only factor serving to reduce unemployment. However, one cannot overlook its important role in allowing the parties to labour relations to adjust quickly to changing conditions on the labour market and to strengthening competition in the global world. On the other hand, there are well-known cases of abuse of the employers' freedom as well as of breaching the basic provisions of the labour law. Poland has experienced situations straight out of the "wild" capitalism period: failure to pay salaries and/or their unilateral reduction, working hours considerably exceeding legal limits, working in unacceptable conditions, sometimes even working on terms of near-slavery.

## Labour costs

The low costs of labour constitute one of the main factors that contribute to the favourable decisions of employers regarding employment. Salary costs are relatively low in Poland and compared to older EU member states they are very low. Meanwhile, non-salary labour costs are relatively high. They are determined by the high level of social contributions. Together with minimum salary regulations, this results in a "tax wedge effect" in the case of low salaries. This means that a net salary which is in fact unattractive for a potential employee (e.g., because it is below the "threshold salary", i.e., the level sufficient to attract someone to take up employment), is at the same time such a high burden for the employer that he looks to solutions that might make it pos-

sible to avoid the problem, including solutions within the realm of the shadow-economy.

Since social contributions are a permanent element of the existing social security system and it would be difficult to quickly reduce them, the solutions being proposed focus on differentiation of the minimum salary<sup>12</sup> as a measure which would make the labour market more flexible. The intention of these proposals would be to achieve lower non-salary costs of labour for the lowest earning groups, as well as in those groups and places where the threshold salary is lower. This would include regions where the costs of living are lower, as well as young employees who are still supported by their parents and can treat work more as an internship than as a basic source of income.

Proposals with regard to differentiation of the minimum salary have met with the unalterably negative reaction of trade unions. Nevertheless, taking into account the results of discussions on the role of the minimum salary in limiting employment at high unemployment levels, the government managed to push through some changes with regard to school graduates. The minimum salary for this group has been reduced to 80% of the normal level in the graduates' first year of work and to 90% in the second year. These levels are to hold for the period in which the demographic high is entering the labour market, i.e., until the end of 2005.

The figure below depicts the tendencies in the ratio of the minimum salary to the average one. One can clearly see that the downturn of the business cycle has affected the tendency of this ratio. Between 1993-1998 the ratio of the minimum salary to the average gross salary amounted to around 40% (in 1992 – slightly over 31%). Since 1998 the level of the minimum salary in relation to the average salary has been declining (in 2003 it reached 35%). The pressure of unemployment (particularly in low-skilled groups that are earning low salaries), has undoubtedly had an effect on the

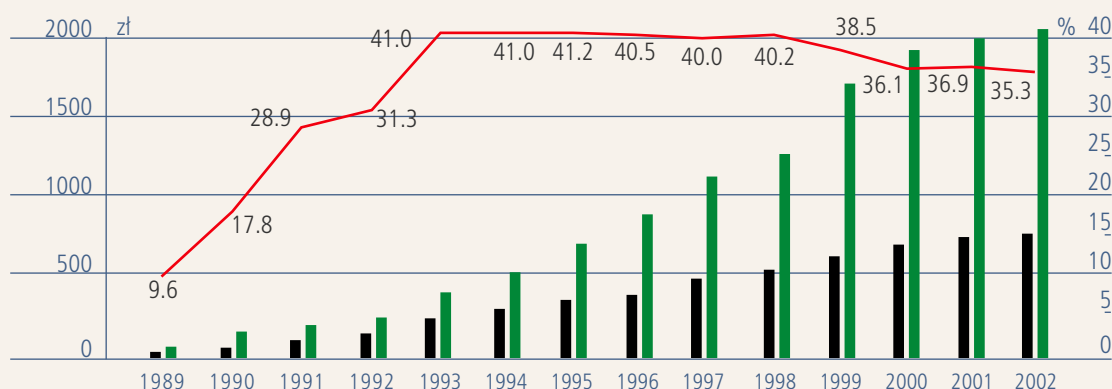
<sup>12</sup> These proposals are repeated all the time. They are also among the headline recommendations of the latest Bank Report on the social situation in Poland (World Bank 2004).



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deterioration of this ratio. The decline of the ratio of the minimum salary to the average one in recent years was associated with a small decline in the real value of the former (in the 1999-2002 period by 1.5%).

Figure 11. Ratio of minimum to average salary



\*In the years 1989-1991 increased by a 20% tax on salaries; in the years 1999-2002 including social contributions.

Source: Boni et al. 2004; data on salaries was collected from the Journal of Laws (Dziennik Ustaw) and GUS statistical yearbooks for the relevant years

- minimum annual salary
- average gross salary \*
- the ratio between them

## Work in the shadow economy

A significant element of the labour market's real flexibility is the work in the shadow economy, sometimes called the informal labour market. This is work performed without an official employment relationship between the employer and the employee in the form of a written employment contract and without the employer's guaranteeing numerous employee rights, ones primarily associated with social insurance (health, pension, disability and accident insurance). The undertaking of such work is mainly associated with the lack of alternative employment opportunities, as well as the desire to avoid taxation of salaries and non-salary labour costs. Informal employment provides employers with the benefit of a reduction in unit labour costs. Businesses oper-

ating in the shadow economy do not fulfill their obligations towards the state.

It is difficult to precisely determine the scale of employment in the shadow economy. According to GUS estimates the number of people working informally is between 1 and 2.2 million, which amounts to 5.1%-9% of the total number of employed (these estimates are based on various studies).<sup>13</sup> It should be noted that the increase in the phenomenon of non-registered work is taking place in line with the deterioration of business conditions since 1998, and particularly since 2000.

<sup>13</sup> GUS estimates do not encompass the entire phenomenon of shadow economy employment. They do not include illegal activity, nor, to some extent, the activity of unregistered employers. Therefore, GUS estimates are more representative of the term hidden, than illegal, employment.

GUS studies show that unregistered work is more often performed by men than women, both in the cities, as well as rural areas. It is mainly performed by persons from 25-44 years old who account for approximately 50% of all persons employed in the shadow economy. However, unregistered work is also performed by young people, for more than 60% of whom this is their only work. This reflects the generally difficult position of young people on the labour market. The unemployment rate for persons under the age of 24 is currently around 40%. Young people are a relatively cheap source of labour, particularly when they do not have appropriate professional training.

The vast majority of people working in the shadow economy have low skills, with only elementary (sometimes incomplete elementary) or basic vocational education. They constitute around 70% of total unregistered employment. Low skills limit their possibilities of finding employment on the official market in the circumstances of high non-salary labour costs. Highly skilled people are also working in the shadow economy. However, for them this form of work is usually complementary, and involves such tasks as private lessons, translations, IT or advisory services.

Shadow economy work reduces the scale of official unemployment, which is usually defined as registered unemploy-

ment. A broad survey study "Social diagnosis 2003" commissioned by the government (Czapiński/Panek 2003) allows for an evaluation of unemployment's magnitude by weighing the different motivations of persons registered as unemployed. In the table below such behaviour is interpreted as the behaviour of the unemployed, which also takes into account work in the shadow economy. Factoring in unregistered work, the rate of unemployment would be lower than the standard by some 6%. The results of this study have spurred broad discussion in Poland on the "truth" about unemployment.

Belief that the real rate of unemployment is lower than officially reported is also shared by M. Góra (Góra 2004). It is worth noting in this vein that it is not unregistered employment which matters most here, but rather the failure to search for work. On the one hand this is due to the high threshold salary for those groups of the population who are working part-time in agriculture, or are living off income earned from seasonal work abroad. On the other hand this is due to the actual incapacity to take up work, as in the case of the nursing-caring obligations performed in families by women who are otherwise registered as unemployed.

Table 1: Unemployment rate by different unemployment criteria (in %)

N <sup>o</sup>	Unemployment criteria	Unemployment rate among persons in professionally active age (18-60/65)
1	Registration in the labour office	19.6
2	Registration + readiness to take up work	16.6
3	Registration + readiness to take up work + searching for work	14.8
4	Registration + readiness to take up work + searching for work + income below 850 zł a month+ not having worked full-time in the past week	13.5

Source: Kotowska in: Czapiński / Panek 2003



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## 8. Economic migration

Economic migration undoubtedly constitutes a significant element of relieving the difficult situation on the labour market. However, the problem of migration in Poland is not unequivocal. Polish employees have been present on many foreign labour markets and for a long period of time. On the one hand this is the effect of prior (pre-1989) migration (also political) and the work relations of that time, as well as the use of contact networks that facilitated migration decisions. On the other hand, this is the result of measures introduced during the 1990s, making economic migration easier as part of bilateral international agreements regarding employment. Each year, there are some 300,000-500,000 Poles going to work abroad in seasonal jobs, contract-specific jobs, and on the basis of trans-border green cards.

There is steady demand for Poles abroad.<sup>14</sup> The factors encouraging people to take up jobs abroad play an important role in shaping the process of migration. The phenomenon of economic migration, which is gaining strength in the era of globalization, serves to intensify the international cost competition of enterprises. Professional migration gives recipient countries a good opportunity to overcome problems like that of labour market segmentation (division into superior and inferior markets), skill mismatches and even problems of different levels of flexibility with regard to non-stand-

ard organization of work (for example, in services). However, it is now more difficult to take advantage of foreign employees, reducing the whole costs of employment in the legal economy. Anti-discrimination regulations and trade unions are keeping guard over the equal treatment of employees. This is why businesses frequently move to countries where labour costs are notably lower, so that they can face international competition.

The era of one-way migration from Central and Eastern European countries to the EU, most notably Germany, is coming to an end. For Poland, the Czech Republic, Slovakia and Hungary are indeed becoming recipient countries. The main group of economic immigrants comes from neighbouring countries in the East (Ukraine, Belarus and Russia), but also Vietnam and China. The scale of legal economic immigration is not large, with the Czech Republic recording the highest rate (around 2% of employment, 0.1% in Poland), but the rate of inflow is quite dynamic. There is also an illegal labour market functioning in this area. In Poland it is probably larger than the legal employment of foreigners.

Western professionals are increasingly often coming to work in Poland. They are employed by companies with American, German, UK or other ownership, but also in Polish companies cooperating with foreign ones.<sup>15</sup> Notwithstanding this, foreigners are signing individual employment contracts with Polish employers based on employment permits.

Poland's integration with the European Union did not open up the EU labour market to Polish employees in line with the principle of freedom of the movement of labour. Some countries have applied restrictions in this regard, Germany (the main recipient of Polish economic migration) notably among them. As a result of these constraints, a larger stream of short-term economic migration was directed to other countries, especially the United Kingdom, Ireland and Sweden. Over the past few months, young people have been leaving Poland, mostly in search of a way to earn money quickly and to learn English. From the perspective of recipient countries, this was an opportunity to develop those sectors in which

<sup>14</sup> The largest country receiving economic migration from Poland is Germany. Poles working in Germany are usually employed in seasonal jobs and on temporary contracts. The share of economic migration from Poland constitutes a significant part of the total number of foreigners working there. Germany remains the country extending the largest number of offers in this regard (Hoenekopp 2003). Similarly as other foreign employees, Poles are mostly employed in Germany in worker positions and in non-modern sectors (traditional services, construction, agriculture, simple services), they have low skills (clearly lower than domestic employees) and their chances for a good position on the German market compared to those of German citizens are notably lower.

<sup>15</sup> The reader shall find an explanation of the demand for foreigners' work in Poland in Golinowska (ed.) 2004.



employment of a domestic employee would require a much higher salary. The difference in the threshold salary of a British citizen and a young candidate from Poland is so fundamental that, without immigrants, many jobs would not have been created at all.

## 9. The role of the EU in Poland's employment policies

When discussing the influence of the EU on Poland's employment policies, one cannot limit the focus only to presenting the National Employment Strategy that has been adopted for realization in line with the guidelines of the Luxembourg Process and the principle of common coordination. EU support in the area of the labour market had already been taking place beforehand. It was being carried out as part of Phare projects and concerned three main types of activities: supporting entrepreneurship, supporting the development of labour market institutions and supporting the development of infrastructure in local and regional centres.

### Supporting the SME sector from EU aid

In the first half of the 1990s the Polish SME sector was mainly receiving support from abroad. Support of entrepreneurship is one of the main pillars of EU policy. Since the launch of Phare, EU programmes to support entrepreneurship have been a constant presence. Aside from Phare, support for the SME sector was also provided by the US government (US AID, the loan programme of the Polish-American Entrepreneurship Fund) the governments of other countries and international organizations.

Support for the SME sector was provided via two channels. Individual entrepreneurs received it in the form of loans, subsidies, training and advisory services. Institutions from the business environment also received support.

At present, public aid to enterprises is to a large extent conditioned upon the scope of activities resulting from EU programmes. This includes financing from Phare programmes, which are coming to an end.<sup>16</sup> Investment and advisory aid is provided in such areas as enterprise management, exports, the implementation of innovation and new technology, obtaining quality certificates, and adapting businesses to EU safety norms. Considering the number of businesses and their needs, this is still quite little.

Loans and loan guarantees are provided on a smaller scale than subsidies. Entrepreneurs have access to them thanks to the financial support of specialized lending institutions and guarantees from the state budget.

More extensive support will only be possible after the launch of programmes financed from Structural Funds<sup>17</sup>, which has already begun to take place.

<sup>16</sup> Allocations for the SME sector in Phare 2000-2003 amounted to almost 200 million euro (with around 150 million euro from Phare and necessary cofinancing from the state budget amounting to a further 50 million euro). This amount was used to provide subsidies to around 17,000 businesses (Boni 2004).

<sup>17</sup> Public funds devoted to the direct support of enterprises (Priority 2 of the sector operational programme "Improvement of competitiveness of enterprises") amount to almost 970 million euro: 684 from the European Regional Development Fund and 286 from domestic public resources. The provision of these funds will also bring about sizeable private outlays on the part of entrepreneurs estimated at more than 1 billion euro. In addition, more than 250 million euro is planned for training programmes in businesses, with 190 million from EFS, 63 million from domestic public resources and almost 8 million will be provided by businesses benefiting from training (Boni 2004).

## The National Employment Strategy and the National Social Integration Strategy

Already during the pre-accession period, and in connection with the Luxembourg process, the National Action Plan was drafted in Poland. In January 2000, the government adopted the "National Strategy for Increasing Employment and the Development of Human Resources", the first document drafted in line with the guidelines and methodology of the European Employment Strategy. This document did not immediately stimulate the proper undertakings. One could say that it served more to promote the European concept of employment and acquainted Poles with the methodology proposed. Although the strategy document was binding until 2004, other documents have played a bigger role in defining the present direction of actions on the labour market (see Chapter 2), as they take into account the new elements of European concepts, in particular the Lisbon Strategy.

The new guidelines of the Lisbon Strategy have put forth three complementary goals with regard to employment: (1) high employment (at a 70% employment rate level); (2) improvement in the quality and productivity of work; and (3) the strengthening of social cohesion and integration.

The core of the European concept is to achieve a high level of employment by also activating persons with "low employability". In previous labour market policies as pursued by many countries, including Poland, these persons were induced to leave the labour market by offers of sizeable benefits. This was mainly the case for disabled and older persons, particularly when their skill level was low. The policy of activation calls for more intense efforts in areas of lifelong learning, the medical and professional rehabilitation of the disabled, creating appropriate conditions for their mobility (including architectural), as well as creating anti-discrimination regulations.

This element of the employment strategy is closely related to the social integration strategy. Its concept has already been

drafted in Poland (NSIS 2004). That document places particular emphasis on quality education (adjusted to the needs of the labour market, as a basis of preparation for work) and on measures aimed at keeping people on the labour market.

It is as yet too early to evaluate the possible results of the two strategies. It is worth noting, however, that a change in the direction of activation from a welfare state to a state that supports work (*the workfare state*) is particularly desirable in Poland. The professional deactivation that has taken place in Poland is very costly and through the high costs of social insurance it reduced the incentive to create new jobs. The vicious circle of a negative linkage between work and benefits for the professionally inactive population could be broken through implementation of the *workfare state* concept.

## Conclusions

The difficulties of the labour market in Poland are the result of the transformational and restructuring processes that Poland (as well as other transformation countries) has been subject to throughout the 1990s. The restructuring changes in industry and in agriculture that took place in Poland had a much broader scope and faster pace than the similar such processes that took place in older EU member countries. In addition, Central and Eastern European countries are also affected by globalization, the effects of which are often more acute in this part of Europe because of its lower level of economic development.

In these circumstances, the Polish employment strategy cannot amount to a simple adoption of the strategies of Western European countries, the composition (structure) of the origins of their unemployment being so different in Poland. That composition includes certain factors which either no

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longer have any significance in Western countries, or their significance is very limited – for example, the great prominence of agriculture or the coal mining industry. As a result of this, the instruments for job creation in Western EU countries have a different hierarchy than they would have in Poland.

Four areas of activity are of particular importance for the improvement of the situation on the Polish labour market:

- The introduction of structural changes in the economy, taking into account employment criteria in a way that they serve the long-term employment strategy.
- Developmental support for business activity of various magnitudes, through improvement of access to capital and the abolition of administrative and fiscal barriers.
- An improvement of the quality of labour resources via better education and the development of lifelong education.
- The rationalization of active labour market policies, including the development of effective instruments for activation of the unemployed, including long-term unemployed.

A significant variable determining the realization of Poland's employment strategy is the political will to assign priority status to job creation. The high average rate of unemployment, its disturbing structure, the high unemployment among the younger generations, and the increasing duration of unemployment – these are phenomena which should concern every responsible politician. The consequences of aggravating this tendency constitute a serious threat to balanced growth, in all of its dimensions;

- the economic, because human capital is being wasted and the foundations of growth are being undermined by the increasing scale of the redistribution of social programmes for the non-working population,
- the social, because an increasingly broad part of the population is being deprived of the experience of working, is being disintegrated and marginalized, pushed into the shadow economy and to living conditions at absolute poverty levels,

- the political, because of the radicalization of sentiments and political organizations, this creating a threat to stability and social peace.

# Chapter V

## Social protection in Poland

Maciej Żukowski





The purpose of social safety nets is to protect people from the negative consequences of various events in life. Most of these events are unfavourable, and thus pose "social risks". There are also positive risks (such as giving birth), along with such events as growing old. All of these events – from sickness, disability, unemployment, old age, child-birth to other tribulations in life – create the need for material protection. This is precisely the function of social safety nets: to replace or augment sources of income, whether lost or insufficient in result of the occurrence of demanding events. Due to their common function, as well as the links between various of their institutions, it is justified to talk of a system of social protection.

Social protection is often understood broadly, as covering the vast majority of social policies. This *Report* devotes separate chapters to areas often included in social protection (Jończyk 2003), i.e., health care, family benefits and unemployment benefits. Therefore, this chapter will focus solely on two sections of social protection: social insurance (re: pensions, disability, sickness and accident) and social assistance.

With the onset of the systemic transformation in Poland, both social insurance and social assistance had to be adapted to the new environment. The basic problem was to ensure that these institutions performed their social functions as adjusted to the demands of a market economy.

The first part of this chapter examines the present social protection system in Poland – its main features, scope and structure. The second part is devoted to the pension system – by far the largest component of social protection, and one which underwent radical reform in 1999. Other sections of social insurance (disability, sickness and accident insurance) are presented in the subsequent portion, while the final portion presents the social assistance system. The chapter ends with a set of conclusions.



## 1. The present social protection system in Poland

The Constitution of the Republic of Poland (1997) states that every citizen has the right to social protection in the event of his or her inability to work due to sickness or disability, as well as after reaching retirement age. The scope and forms of social protection are defined by statute. A citizen unemployed not because of their own will and with no other sources of income, is entitled to social protection, the scope and forms of which are defined in the relevant statute (article 67).

The present social protection system in Poland is the product of the legacy of the communist regime (PRL) and of the 15 years of Poland's transformation, during which significant reforms have taken place. We inherited from the previous regime an overgrown and centralized state system of social protection. Together with full employment, the social functions of work places and price subsidies, the state's social benefits offered a high degree of social security – albeit at quite a low level. But such "lowest common denominator" egalitarianism was altogether consonant with "the sense of social justice" prevalent in the PRL (see Chapter 1).

The social protection system inherited from the PRL continued to function after the transformation had begun, for unlike the case of many other institutions, there was no need to create anything from scratch. But conditions were to change fundamentally. Work ceased to be "a place of satisfying the social needs of the employee". Employers began to limit their social functions. Most price subsidies were abolished. For a growing part of the population, social benefits became the basic source of income (chapter 2).

With the improvement of the economic situation, some curbs on social benefits were put in place. Work on structural social reforms, including the pension reform, was intensi-

fied. Poland joined the European Union with a partly reformed social protection system, but also with a difficult situation resulting from the weakening of economic growth and a dramatic decline in employment.

The main features of the current social protection system in Poland include:

- the domination of the insurance method. Only persons covered by insurance are entitled to protection in the case of sickness, inability to work, accident and old age. The insurance obligation is tied with the obligation to pay social contributions. The size of future benefits is tied to the amount of contributions paid in (revenues of the system), while reforms conducted in recent years have notably strengthened this link;
- the weakness of social assistance, which plays a marginal role in the system and above all suffers from underfunding;
- the lack of universal benefits in the system, based on citizenship or place of residence.

All employees are covered by social insurance. Contractual employees and persons conducting business activity outside of agriculture are covered by the general system, which is based on the law of October 13, 1998, and on the social insurance system, which is operated by the Social Insurance Institution (ZUS). Individual farmers are covered by a separate system that is operated by the Farmers' Social Insurance Fund (KRUS). The latter part of this chapter will focus mainly on the non-farmer, i.e., "general" scheme.

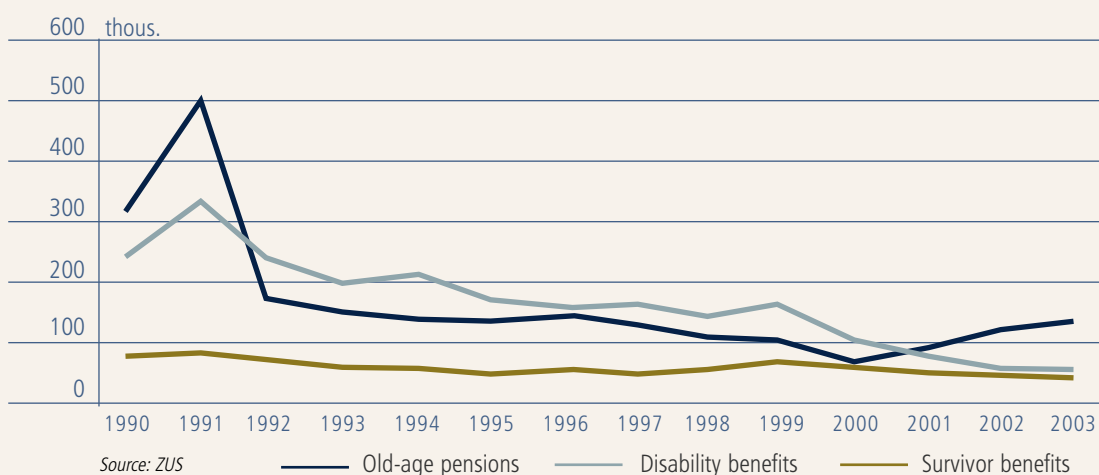
The new social insurance system, in place since 1999, distinguishes four sections of social insurance and differentiates their scope: the broadest scope applies to pension and disability insurance, the narrowest to sickness insurance. The separate social insurance rates are presented in Table 1.

Table 1. Social insurance (ZUS) rates in 2004

Insurance	Social contribution rate (in % of basis - salary)		
	Total	Employee	Employer
Pension	19.52	9.76	9.76
Disability	13.00	6.50	6.50
Sickness	2.45	2.45	–
Accident	0.40-8.12	–	0.40-8.12

In 2003, there were 12.7 million insured persons registered with the Social Insurance Institution, while 7.1 million people were receiving pensions or disability benefits. For each 100 insured there were therefore 56 benefit recipients, while in 1989 the ratio was 100 to 37. Such a significant deterioration of this ratio was mainly due to large-scale retirement, including early retirement, carried out in the initial years of the transformation – Figure 1 (see Chapter 2).

Figure 1. The number of benefit recipients awarded a pension or disability benefit by FUS (the Social Insurance Fund) between 1990-2003 (in thousands)





Social protection in Poland

The rate of decline in the number of insured has slowed down somewhat in recent years, in part as a result of the stabilization of the number of pensioners and disability benefit recipients (Figure 2).

Figure 2. The number of insured and pension and disability benefit recipients in the Social Insurance Institution (in thousands)

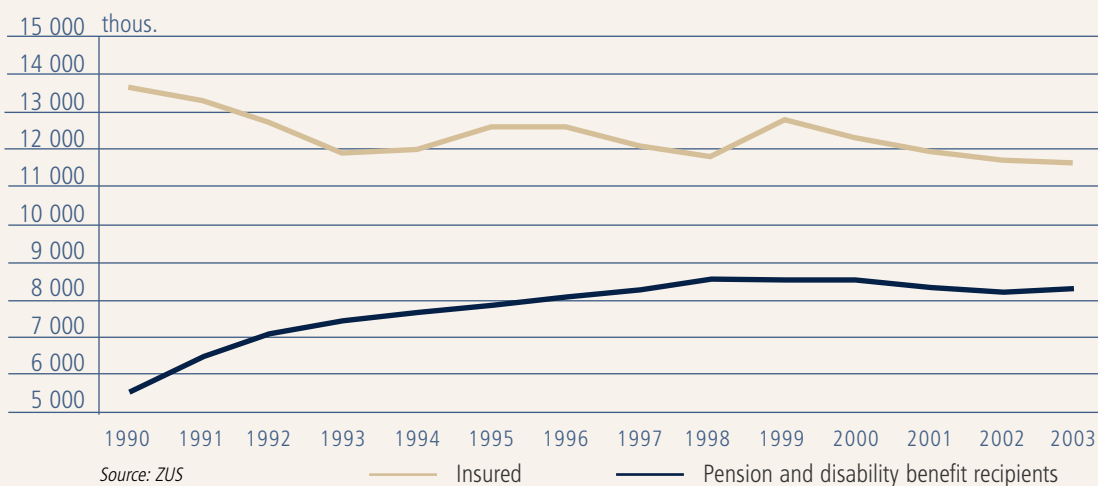
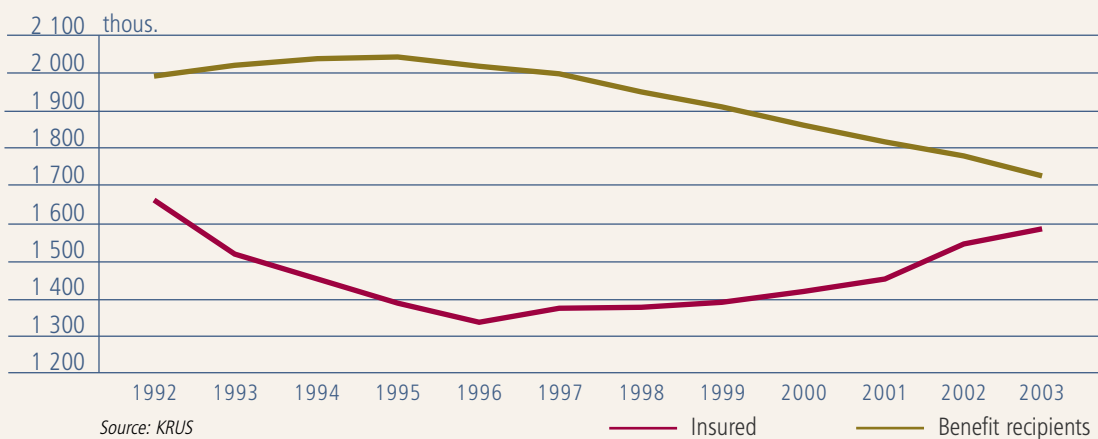


Figure 3. The number of insured and benefit recipients in KRUS, 1990-2003 (in thousands)



In 2003 there were 1.6 million insured and 1.8 million benefit recipients in KRUS (Figure 3), meaning that there were 110 benefit recipients per 100 insured. This relationship has been improving in the last two years, as a result of a natural decline in the number of benefit recipients and a surprising increase in the number of insured. This latter development, as observed in recent years, has two main causes: the reform of the non-farmer scheme, while leaving the farmer scheme unchanged (which has made it an increasingly attractive alternative), and European Union accession, which has entailed direct subsidies to farmers.

As a result of such the unfavourable relationship between the number of insured and benefit recipients, the farmer social insurance scheme is in the vast majority financed from a budget subsidy, which in 2003 amounted to 93% of the expenditure of the Farmers' Pension and Disability Fund (KRUS data). However, other social benefits for farmers (accident, sickness and maternity) are financed exclusively from farmers' contributions, as collected within the Farmer Social Insurance Contribution Fund.

Expenditures on social insurance benefits in the non-farmer scheme (ZUS) amounted to 12.3% of GDP in 2003. Pensions

and disability benefits were clearly the dominating item in the sum of benefits, accounting for 91.7% of total expenditure (ZUS data). Among the pension and disability benefit recipients in ZUS, half were old-age pension recipients, one-third were receiving a disability benefit, while 17.6% a survivor benefit (following the death of the family's bread-winner) (Figure 4).

Figure 4. Structure of pensioners and disability benefit recipients in the Social Insurance Fund in 2003

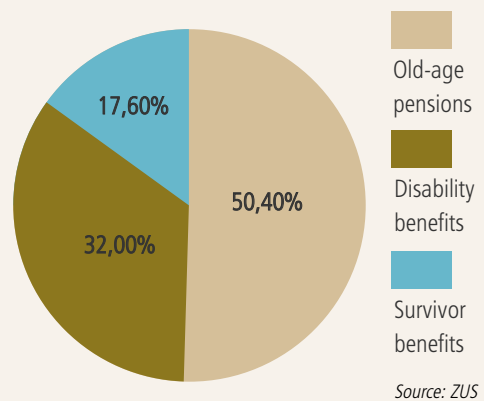
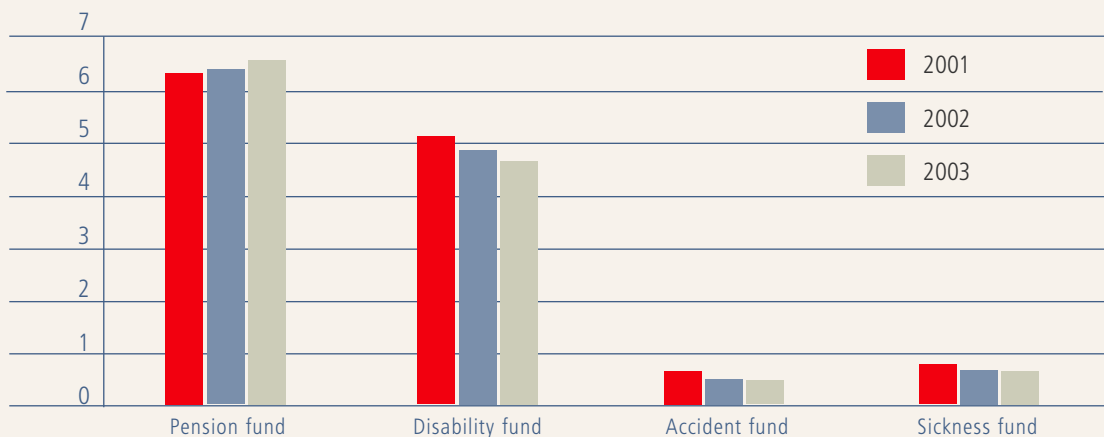


Figure 5. Expenditure on social benefits from FUS according to funds (in % of GDP)



Source: ZUS



Expenditure from respective funds within the Social Insurance Fund amounted to (in relation to GDP): 6.5% from the pension fund, 4.7% from the disability and survivor fund, 0.6% from the sickness fund and 0.5% from the accident fund (Figure 5). It is worth noting that expenditure on pensions is rising, while that on disability benefits is declining, mainly as a result of the tendencies in the number of newly awarded benefits, i.e., more old-age pensions, fewer disability benefits (Figure 1).

## 2. The new pension system

In 1999 a structural reform of the pension system was introduced (chapter 2). All those insured under the age of 50 on January 1, 1999 fell under the coverage of the new rules. The others are subject to the old rules, ones which are still the basis for awarding pensions today, and will remain so over the upcoming years. The present description of the system refers to the new solutions, while the figures on pension expenditures refer to the old system.

The new pension system replaced the diverse set of pension solutions for various groups of insured and covered everyone except individual farmers, who remained in the separate KRUS system<sup>1</sup>.

The new system separates the risk of ageing from the risk of inability to work and the death of the family bread-winner. Pension insurance was thus separated from disability insurance and survivor insurance. For both types of insurance, an upper ceiling of contributions was introduced at the level of

2.5 times the average salary. Of the pension contribution in the amount of 19.52% of the salary, 7.3% is transferred (through ZUS) to a selected pension fund (OFE).

The new system comprises two compulsory components or "pillars". The first operates according to pay-as-you-go principles and is administered by ZUS, while the second is a funded pillar and is operated by privately managed pension funds.

Pensions from the first pillar will be based on the principle of a defined contribution: pensions will be calculated as a ratio of the total indexed value of contributions paid in during the working life divided by the average life expectancy at retirement age. For persons born after December 31, 1948, and who were covered by social insurance before January 1, 1999, an "initial capital" is calculated and added to their accounts in ZUS. This comprises what they have earned in pension contributions in the old pension system.

Pensions from the second pillar will depend on similar factors. Pension funds are managed by private pension fund companies that have the legal form of joint-stock companies. An insured person can freely choose and change their pension fund. Funds are subject to strict regulations and state supervision. Every fund is required to attain a minimum rate of return. Therefore, if a given fund's results are clearly inferior to those of others, it is required to make up for the missing amount. A multi-step security procedure is built into the law to prevent the insolvency of a fund. An OFE cannot go bankrupt, but its management can be taken over by another pension fund company.

The new pension system, just like the old one, envisages a minimum pension. However, it is to be financed from the state budget and only persons with a minimum insurance period of 20 years (for women) and 25 years (for men) will be eligible to receive it, as an amount augmenting the pension received from the first and second pillars (i.e., ZUS and OFE) combined.

<sup>1</sup> Pensions for the uniformed services (military, police, fire service, etc.) were initially included in the new system (for newly hired officers), but were later again excluded from the general social insurance system. Prior to the reform, judges and prosecutors were also excluded from the scheme.

The third pillar constitutes various forms of additional voluntary insurance: employer pension schemes, individual pension accounts and all other forms, such as life insurance, savings, investments on the capital market, etc.

Six years have passed since the introduction of the reform. The attempt to evaluate the reform can therefore only be made with regard to its concept and implementation. All such assessments need to be made with care, taking into account the long-term nature of pension insurance systems, particularly one based on a funded component.

The new system has a number of advantages over the old one. First of all, it is based on risk spreading, as it operates partly according to a pay-as-you-go principle (meaning that it is tied to the labour market, as the size of pensions in the first pillar will depend on the rate of growth of salaries) and is partly funded (meaning that it is tied to the capital market, as the size of pensions from the second pillar will be determined by results of OFE investments). Although a compulsory funded system is not a solution commonly seen in Europe, it should be noted that voluntary funded schemes have been developing for a number of decades in developed European countries. The Polish reform can therefore be seen as an attempt at speeding up the process of spreading the risk in pension insurance.

The new system emphasises the foresight and responsibility of the individual for their old age pension. This is clearly visible in the third pillar, presented as a significant element of old age security. There is also a choice, albeit a limited one, in the design of the second pillar (choice of a fund). In addition, in the first year of the reform, persons aged 30 to 50 had the right to choose between two options: whether to participate or not in an open pension fund (OFE).

The microeconomic advantages of the new system in the first pillar are quite indisputable. They are also a direct response to the problems of the old system. By establishing a close link between the contribution and the pension and by abolishing early retirement, the new system, unlike the

old one, should offer positive incentives to pay contributions and stay longer on the labour market. The previous practice of retiring early, sometimes encouraged by authorities, constituted a serious threat both to the size of pensions, as well as the solvency of the system. In 2003 only 26.9% of people aged 55-65 were employed, as compared with an EU-15 average of 41.7% and the Lisbon Strategy goal for 2010 of 50%. Therefore, the new system is aimed at activating and encouraging people to work longer. It also ensures the individualization of eligibility and flexibility – these being features which a modern pension system must have.

A key aspect of the reform was the assumption that the new pension funds would contribute to economic growth through savings and investment. These effects, debatable in theory, cannot yet be assessed empirically. Meanwhile, on a macro-scale, the positive result of the reform should be the stabilization of the pension system's finances. Forecasts show that in the year 2050 Poland will likely be spending a similar share of GDP on pensions as it was in 2000.<sup>2</sup>

From the viewpoint of the security of funds gathered in the new institutions (open pension funds), initial experience is fairly positive. Legal regulations and the supervision of the state, currently carried out by the Insurance and Pension Fund Supervision Commission (KNUiFE), are performing their role.

However, the new pension system also features drawbacks and entails certain threats. These particularly concern the compulsory second pillar. These fears, well known from international debate, concern mainly the level of future pensions, investment results and the security of pension funds, the scope of insurance and, in particular, the transition from the old to the new pension system.

Pensions from the new system can be lower than those from the old one. According to the reform programme, pensions from the two compulsory pillars should jointly constitute

<sup>2</sup> In 2000, total expenditure on pensions and disability benefits in Poland amounted to around 13.5% of GDP.



**Table 2. The relation of the average pension and disability benefit from the FUS (Social Insurance Fund) to the average salary (in %)**

Insurance	1998	2003
Total pensions and disability benefits	57.0	57.5
Old age pensions	65.0	65.0
Disability benefits	47.4	46.9
Survivor pensions	56.3	55.3

Source: [www.zus.pl/statyst](http://www.zus.pl/statyst)

around 50%-60% of previous income. In 2003, the average pension (according to the old principles) amounted to 65% of the average salary (table 2). In addition, the size of the pension is burdened with much higher risk in the new system, a risk wholly borne by the insured individual, as this is a defined contribution system. A greater equivalence of contributions and benefits will also lead to a greater divergence of pensions, which in many cases will be associated with insufficient insurance. Unemployment will also contribute to low pensions. Persons with low incomes, frequent breaks in their contribution history, and who will thus not meet the

conditions for receiving a minimum pension will be at the mercy of social assistance.

A questionable element of the new system is the obligatory nature of the second pillar. The reform was based on the assumption of reinforcing individuals' own responsibility and the freedom of choice in pension insurance. Meanwhile, the total scope of compulsory pension insurance has not been limited. The state continues to force individuals to secure their own future, although it has partly ridden itself of direct responsibility for provision this security. The large scope of

**Table 3. Structure of revenue of the Social Insurance Fund between 1998-2003**

Insurance	1998	1999	2000	2001	2002	2003
Total revenue (billions of zł) (= 100 %)	72.0 (100.00)	73.7 (100.00)	81.0 (100.00)	91.6 (100.00)	95.3 (100.00)	98.6 (100.00)
Contributions and related dues (% of total revenue)	62.2 (86.5)	63.7 (86.5)	65.1 (80.3)	69.9 (76.3)	68.2 (71.6)	70.3 (71.3)
Targeted budget subsidy (% of total revenue)	3.2 (4.4)	3.2 (4.4)	3.3 (4.0)	3.7 (4.0)	3.4 (3.6)	3.5 (3.6)
Complementary budget subsidy (% of total revenue)	5.6 (7.8)	6.2 (8.4)	12.1 (14.9)	17.5 (19.1)	23.5 (24.7)	24.7 (25.1)
of which						
Transfer of funds to OFE (% of total revenue)	— —	2.3 (3.1)	7.5 (9.3)	8.7 (9.4)	9.5 (10.0)	9.9 (10.0)
Other revenue (% of total revenue)	0.9 (1.3)	0.5 (0.7)	0.6 (0.7)	0.6 (0.7)	0.1 (0.1)	0.1 (0.1)

Source: [www.zus.pl/statyst](http://www.zus.pl/statyst); author's calculations.



the pension system is probably the main reason of the poor development of the voluntary third pillar. For example, as of December 10, 2004, there were only 389 employer pension schemes registered (Insurance and Pension Fund Supervision Commission data).

## Open pension funds

Open pension funds as a provider of social insurance are a new element of the Polish system of social protection (Żukowski 2004b).

In 1999 almost 10 million persons joined open pension funds. This was undoubtedly to be counted a success for the reform, but on the other hand its costs are very substantial (see chapter 2). The structure of financing the Social Insurance Fund (FUS) has clearly deteriorated (table 3). Complementary subsidies from the budget, including those resulting from the need to cover the gap created after diverting part of the social contribution to OFE, currently amount to 1/4 of all of FUS funds, i.e., around 3% of GDP. This is a massive cost that limits the possibilities of financing other important social causes such as health care, education or effective social assistance. Such high transition costs will also make it lastingly more difficult to lower the compulsory social contribution level that was listed as one of the objectives of the reform.

The open fund market shaped itself in the first year of the system's functioning, i.e., in 1999. The division of the market which took place then has since been subject only to minor corrections in later years. The picture of the OFE market as of December 31, 2003 is presented in table 4. Altogether, the 16 OFE had 11.5 million members, 55.6% of which belonged to the three largest ones (the same ones as four years ago). The Polish obligatory pension fund market is the second largest in the world (after only Mexico's) in terms of the number of members (Müller 2003, p. 88).

The pension funds are currently attracting new members from two sources; new entrants to the labour market and insured people who are changing their pension funds. In 2003, around 470,000 new members joined OFEs, while almost 300,000 decided to change their fund (UKNUIFE 2004a)

In 2003 ZUS transferred 10.3 billion zloties in social contributions to OFEs. Since the beginning of the new system's functioning there have been problems with these transfers and payments were sometimes delayed. This was due to problems with collecting information about the insured and their contributions, particularly in view of the delays in implementation of the new IT system. However, the delays were also a way to reduce the previously mentioned financial problems of FUS. Based on the law of July 23, 2003 on the assumption by the State Treasury of ZUS' liabilities with regard to OFE, at the end of 2003 bonds worth 387 million zł. were transferred to the pension funds. According to estimates, the delays in payments amount to as much as 10 billion zł, an amount equivalent to the value of contributions transferred annually (UKNUIFE 2004a).

The structure of OFE investment portfolios is clearly dominated by Treasury bonds, the share of which fluctuates around 60%, while stocks account for 30% (Figure 6).

The effectiveness of OFE investment activity, as measured by the rate of return per calculation unit, averaged 10.9% in 2003, with little diversity between the funds (UKNUIFE 2004a). There has been more diversity in the official rate of return for the past 24 months (Table 1). The results of OFE investment activity in the entire 1999-2003 period are favourable – their rate of return in that period was significantly higher than return rates on bank deposits, investment funds or bond yields (Borowski 2004). OFEs' net assets increased by 42% in 2003, reaching 45 billion zł. (Table 4).

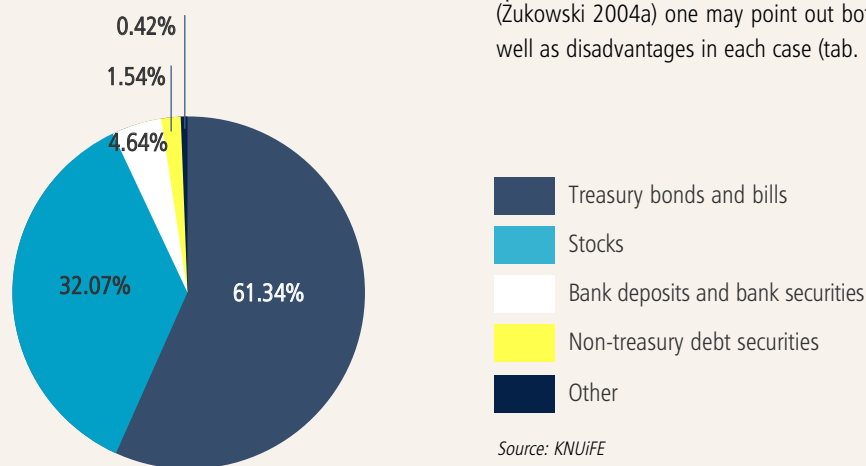


Table 4. Open Pension Funds. State as of December 31, 2003

OFE	Main shareholders of pension fund company (% of share capital)	Number of members, December 31, 2003	Net assets, December 31, 2003 (million zł)	Official rate of return 31.12.01-31.12.03
AIIG	ALICO (50), Amplico LifeS.A. (50)	938 839	3 833.9	26.9
Allianz Polska	TU Allianz Polska S.A. (58,28) Allianz Aktiengesellschaft (41,72)	245 284	1 210.8	26.8
Bankowy	PKO Bank Polski S.A. (100)	395 444	1 368.1	30.3
Commercial Union	CU Polska Tow. Ubezpiec. na Życie S.A. (50) Bank Przemysłowo-Handlowy PBK S.A. (10) Bank Zachodni WBK S.A. (10) CGU International Insurance plc (30)	2 540 530	12 710.5	22.9
Credit Suisse L&P	Winterthur Life Insurance Company (70) EBOiR (30)	367 916	1 143.9	21.0
DOM	TUiR Warta S.A. (50), Kulczyk Holding S.A. (50)	239 793	749.7	23.5
Ergo Hestia	Sopockie TU Ergo Hestia S.A. (100)	397 907	915.4	24.3
Generali	Generali Polska Sp. z o.o. (85,91) Generali Sp. z o.o. (10,65) Generali Holding Vienna AG (3,44)	380 385	1 481.5	26.2
ING N-N Polska	ING Bank Śląski S.A. (20), ING Continental Europa Holdings BV (80)	1 966 603	10 046.9	30.1
Kredyt Banku	Kredyt Bank S.A. (100)	140 816	246.2	20.2
PeKaO	Bank PeKaO S.A. (65) Pioneer Global Asset Management S.p.A (35)	290 434	722.0	18.2
Pocztylion	PPUP Poczta Polska (33,33) Konferencja Episkopatu Polski (4) Cardiff S.A. (33,33), Amvescap PLC (29,33)	452 376	937.5	21.3
Polsat	Polsat Media S.A. (41,15) Telewizja Polsat S.A. (36,78) Invest-Bank S.A. (19,31) Totalizator Sportowy Sp. z o.o. (2,76)	123 581	181.8	29.4
PZU Złota Jesień	PZU Życie S.A. (100)	1 866 692	6 272.7	27.8
SAMPO	SAMPO plc (100)	510 090	1 374.9	27.8
Skarbiec- Emerytura	BRE Bank S.A. (100)	606 595	1 619.5	23.4
<b>RAZEM</b>		<b>11 463 285</b>	<b>44 833.1</b>	
<b>Średnia ważona</b>				<b>26.0</b>

Source: UKNUIFE (2004a); UKNUIFE (2004b).

Figure 6. Structure of open pension fund investment portfolios (October 2004)



In conclusion, the assessment of the new pension system is not unequivocal. By applying the three main objectives set for pension funds in the EU's open coordination method (Żukowski 2004a) one may point out both advantages as well as disadvantages in each case (tab. 5).

Table 5. The main advantages and disadvantages of the new pension system in Poland

Aims of pension system	Advantages	Disadvantages
Adequate protection	Equivalence - opportunity to earn a good pension, ensuring continuation of the living standard enjoyed during working life	Poor protection against poverty. Low pensions for women (as a result of equivalence of the system and women's lower retirement age).
Long-run sustainability	Internal stabilizers adjusting expenditure to contributions - ensuring long-term sustainability. Incentives to work longer and retire later.	High costs in the transition period - burden for public finances. Maintaining a high contribution rate, inhibiting employment growth.
Modern design – adjustment to changing needs	Individualization (individual accounts). Flexibility with regard to changes on the labour market. Clarity and consistency of solutions in both components of the compulsory system.	Poor equalization mechanisms to ensure appropriate pensions for women (equivalence of the system).

Source: [www.zus.pl/statyst](http://www.zus.pl/statyst)



### 3. Other components of social insurance: disability, accident and sickness

The structural reform of the pension system was also associated with the division of the social insurance system (which until then was uniform) into separate components, namely: pension, disability and survivor, accident and sickness insurance. However, unlike the case of the pension system, the separation of contributions and funds was not at the same time associated with any changes in the terms of eligibility and in the size of benefits. Changes in these institutions were conducted regardless of the pension reform, some of them already beforehand. At the same time, these changes were usually far less radical than those carried out in the case of pension insurance.

#### Disability insurance

This social insurance component covers two types of social risk: inability to work and death of the bread-winner.

As of September 1, 1997 the name of disability benefits was changed to "benefits due to inability to work". One of the features of the Polish social insurance system is the large number of disability benefit recipients (Figure 4). In the initial years of transformation, the number of newly awarded disability benefits also increased, although legislation governing these benefits did not change. The reason was that of the relative ease of obtaining such benefits, ones which persons threatened with unemployment took advantage of. Since 1992 the number of newly awarded disability benefits was even higher than the number of pensions (Figure 1).

A disability benefit is paid out to an insured person who has

been found completely or partly unable to work. A person completely unable to work is a person who has lost the ability to perform any type of work. If a person who is completely unable to work requires the constant or long-term care and assistance of another person in satisfying basic needs, such a person is considered unable to exist independently. A person partly unable to work is one who has largely lost the ability to perform work in line with their skills.

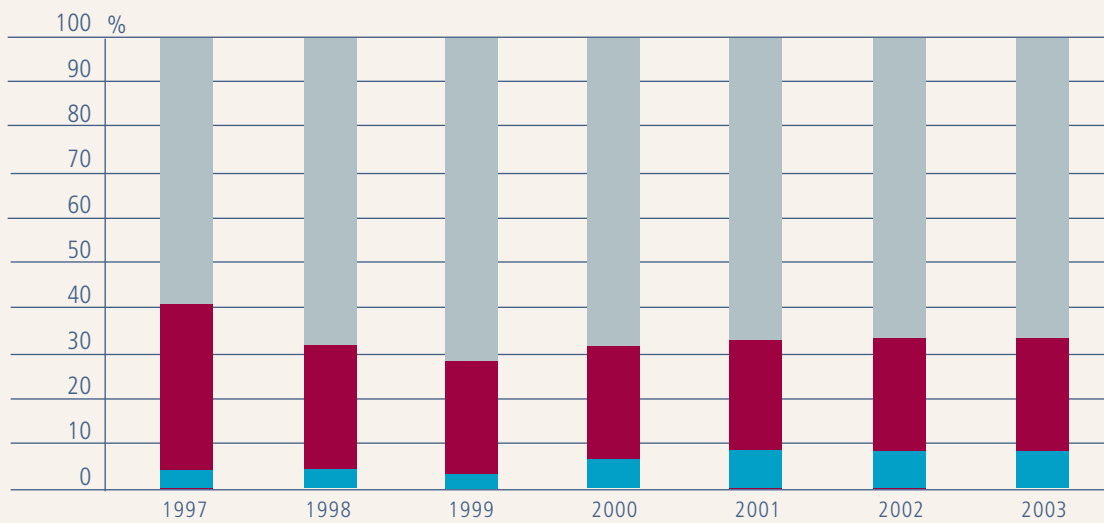
Inability to work (total or partial) can be declared permanently (as permanent inability to work) or temporarily (if according to medical knowledge there is a chance for the person to regain the ability to work). Decisions on inability to work for disability benefit purposes are made by the assessment of doctors, whose decisions can be appealed for re-examination by a doctors' commission from the Social Insurance Institution (ZUS)<sup>3</sup>.

The tightening of assessment criteria and change to the assessment procedure have led to a decline in the number of newly awarded disability benefits, as well as to a change in their structure according to the degree of inability to work (Figure 7).

In 2003 the number of disability benefits awarded was less than half of the 1997 figure, of which 7.6% were benefits due to total inability to work and exist independently (an increase from 4.4% in 1997), 29.0% were benefits due to total inability to work (decline from 36.4%) and 63.4% were benefits due to partial inability to work (increase from 59.2% in 1997) (ZUS data). Changes in the structure of newly awarded benefits have resulted in a change in the structure of all benefits paid out (Figure 8). In 2003 benefits due to total disability to work and exist independently accounted for 13% out of the total number of 2.3 million disability benefits paid out (ZUS figures).

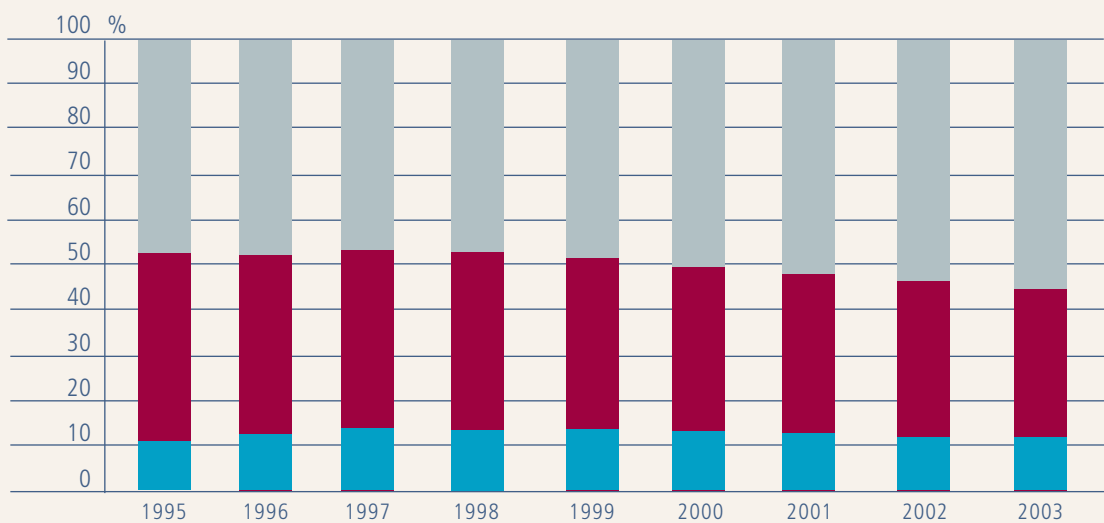
<sup>3</sup> Following a change introduced with the law of April 20, 2004 on the change in the law on pensions and disability benefits from FUS and selected other laws (Dz. U. nr 121, poz. 1264), in force since January 1, 2005

Figure 7. Structure of disability benefits awarded between 1997-2003 according to the degree of inability to work



Source: ZUS

Figure 8. Structure of disability benefits paid out of FUS between 1995-2003 according to degree of inability



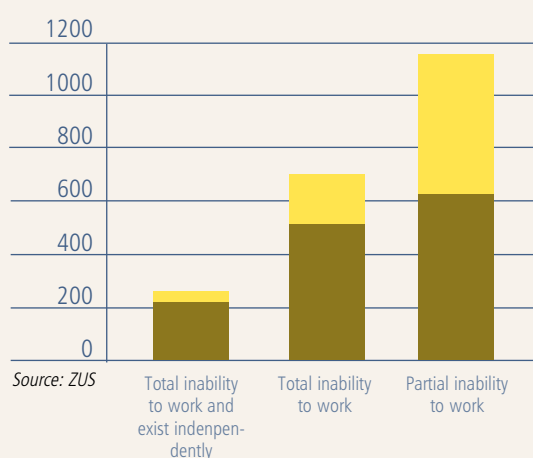
Source: ZUS

Partial inability to work  
 Total inability to work  
 Total inability to work and exist independently



Temporary inability to work is declared much more commonly today than in the past. In 2003 permanent benefits accounted for only 9.3% of newly awarded disability benefits. Meanwhile, among all persons collecting disability benefits in December of 2003, those with permanent disability accounted for almost 64% (Figure 9). However, the proposal of reviewing previously awarded disability benefits (something included in the "Hausner plan") has met with fierce criticism.

Figure 9. Structure of disability benefits paid out of FUS in December 2003\* according to validity of disability decision (in thousands)



Source: ZUS

\* excluding persons collecting war-time and military disability benefits  
Source: ZUS

■ Declared temporarily  
■ Declared permanently

In conclusion, a number of positive changes have taken place in recent years as regards disability benefits. The number of benefits has declined, slowly bringing Poland closer in line with other European countries, where disability benefits account for slightly more than 10% of the total number of pension and disability benefits paid out. As a result, expenditures from the disability fund have declined (Figure 5). Disability benefits are now more often awarded temporarily, inability to work is therefore usually not treated as an irre-

versible situation. On the other hand, the rising share of benefits in the most serious category points to new challenges in the area of providing protection for persons permanently unable to work and who, moreover, require regular care. Some wealthy countries, including Germany, have introduced a new solution for this group: nursing security. The weight of this problem in Poland will be rising with the ageing of the population, including an increase in the number of people in the "fourth age".

Survivor pensions are also paid out of the disability and survivor insurance fund. Unlike the number of pensions and disability benefits, the number of newly awarded survivor pensions has remained fairly stable throughout the transformation period (Figure 1). Moreover, the rules for their awarding and calculation have not been subject to any significant changes. In 2003, 1.26 million people were collecting survivor benefits from FUS – this constituted 17.6% of all pensioners and disability benefit recipients. The average amount of survivor benefits was between that received by pensioners and by disability benefit recipients (Table 2)

## Accident insurance

On January 1, 2003, the law of October 30, 2002 on social insurance against accidents at work and work-related diseases came into effect. Significant changes were introduced to the definition of accidents at work, while accidents taking place on the road to or from work were excluded from accident insurance (and shifted to disability insurance). The scope of the insurance was broadened to cover all persons covered by social insurance, resulting in two categories of on the job accidents: employee and non-employee (Szpor 2004).

The contribution rate for accident insurance varies (Table 1). In the first period of the new system's functioning the rate was uniform, with differentiation introduced from 2003. Gradual differentiation will also take place (starting in 2006) with regard to employers. This is supposed to encourage

them to undertake measures aimed at preventing both accidents at work and work-related diseases.

One of the main challenges faced by accident insurance in the future will undoubtedly be the development of accident prevention.

Expenditure on benefits from the accident fund amounted to 0.5% of GDP in 2003 (Figure 5).

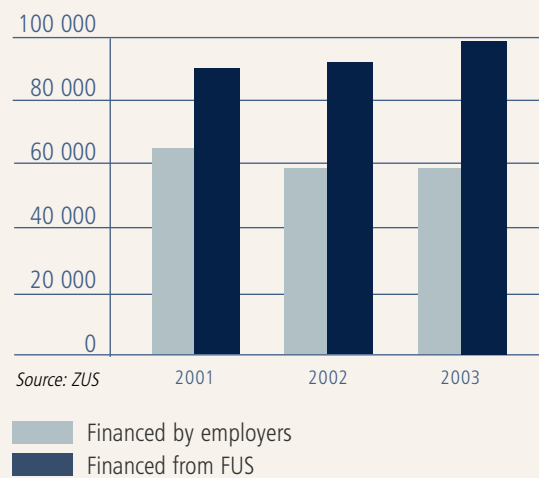
### Sickness insurance

Sickness insurance provides benefits in case of sickness and maternity. The sickness insurance obligation is the narrowest of the four sections of insurance and covers employees and members of farmer production cooperatives and cooperative farmer circles.

There are three types of benefits paid out in case of sickness: sickness benefit, rehabilitation benefit and complementary benefit. The sickness benefit is of primary importance; it is paid out to an insured employee from the 34th day of inability to work. For the first 33 days of inability to work, the employee is entitled to guaranteed compensation from the employer. Therefore, sickness absences are partly financed by employers and partly from sickness insurance. Between 1999 and 2003, sickness absenteeism declined considerably: from more than 19 million days in 1999 to 13.2 million in 2003 (ZUS data), most likely in connection with the increase in unemployment over that period. Meanwhile, measures undertaken in recent years to limit sickness absenteeism (not paying for the first day of sickness not lasting longer than 6 days) have not brought about expected results, but there has been a shift in the structure towards sickness insurance (Figure 10).

The sickness insurance fund also finances maternity benefits associated with maternity leave after giving birth and nursing benefits, and in the case of the need to take care of a

Figure 10. Sickness absenteeism according to sources of financing between 2001-2003 (in thousands of days)



child or another family member. There have been no significant changes in recent years with regard to these significant "family" benefits from sickness insurance. However, the number of nursing benefits paid out declined significantly: from 688,000 days in 1999 to 370,000 days in 2003. Such a large reduction in the use of this benefits was probably associated with the deteriorating situation on the labour market and fears of job loss.

Expenditure on benefits from the sickness fund amounted to 0.6% of GDP in 2003 (Figure 5).



## 4. Social assistance

The aim of social assistance is to prevent and limit poverty and social exclusion. Social exclusion is currently defined in a broad sense and unlike the traditional perception of poverty, it encompasses not only low incomes, but also such aspects as unemployment, low skill level or poor health. The prevention and limiting of social exclusion defined in this way is therefore a task for the global social policy of the state, including labour market policies, education policies (chapter 4), family policies (chapter 3), health care (chapter 6) and social insurance as presented in this chapter. In this system, social assistance is the last resort, aimed primarily at limiting poverty.

Depending on the boundary line assumed, the ratio of people living in poverty in Poland in 2003 was as follows: 11.7% (assuming the minimum subsistence level as the boundary), 17.0% (assuming the EU definition of 60% of the median equivalent income), 25% (assuming the adjusted social minimum) (Ministry of Social Policy, 2004, Social Diagnosis, 2003). Regardless of the definition assumed, figures indicate that the scope of poverty has increased considerably over the past 10 years.

In the conditions of real socialism, social assistance was marginalized, partly for ideological reasons, as a relic of the capitalist system, as being redundant in a system aimed at abolishing poverty. Full employment, price subsidies, the social activities of employers and an extensive social insurance system have all objectively marginalized the role of social assistance. This was evidenced for example by the fact that until 1990 the law on social assistance passed in 1923 was still in force.

Social assistance was therefore a social policy institution that clearly needed to be developed (see Chapter 2) in the new conditions created after the economic transformation. The

new law on social assistance was passed on November 29, 1990 and came into effect on January 1, 1991. The current law on social assistance, passed on March 12, 2004, then replaced it. The latest change was mainly aimed at activating benefit recipients and mobilizing them to become more independent in overcoming their difficult lifetime situations. Social assistance may only be provided in response to situations defined in the law as "difficult lifetime situations" (as proposed by J. Jończyk 2003). Paragraph 7 of the law lists 15 situations allowing social assistance to be granted:

- poverty
- orphanhood
- homelessness
- unemployment
- disability
- protracted or severe illness
- family violence
- need to protect maternity or large families
- helplessness in providing family care and raising children and managing a household particularly in broken and large families
- inability of youth leaving care centres to adjust to life
- problems with integrating persons with refugee status
- problems in adjusting to life after leaving penitentiary facilities
- alcohol or drug addiction
- random events and crisis situations
- natural or ecological disaster

Benefits may be obtained on the condition that the net income of the person applying for assistance does not exceed a certain level. At the end of 2004 this was the level of 461 zł. per month for a single person and 316 zł. for a person in a family.

The basic tasks in the area of social assistance are handled by municipalities. These tasks can be divided into the municipalities' own (mostly obligatory) and those delegated by government administration. These tasks are performed by municipal social assistance centres. At the district (powiat) level, social assistance tasks, including the operation of





social assistance homes, are performed by district family support centres. The law also delegates certain tasks in the area of social policy to voivodeship governments, as well as to voivodes (governors) themselves.

Social assistance can have the form of financial or in-kind benefits, services, and of stationary (social assistance homes) or open (e.g., daytime support centres) support. In terms of the number of people assisted in various forms, there is a clear predominance of material support over that provided in the form of services (Table 6).

Homelessness is a particularly dramatic form of social exclusion. It is estimated that there are between 30,000 and 80,000 homeless in Poland (Ministry of Social Policy 2004, p.17). The provision of shelter, food and necessary clothing

to persons in such need is the obligatory task of municipalities. Nighttime shelters for the homeless are run both by local governments, as well as non-governmental organizations.

Social disability benefits have been paid out by the Social Insurance Institutions since October 1, 2003, based on the law of June 27, 2003 on social disability benefits. This solution can be perceived favourably by those eligible, as it strengthens the "claiming" nature of this benefit. Conversely, it is criticized, as it is not a social insurance benefit. In view of this, proposals have been voiced for some time to distinguish a third type of social protection benefits (beyond social insurance and social assistance), namely "social support" (Szurgacz, Zagrosik 2004).

Analyses of the functioning of social assistance in Poland since 1990 (Golinowska, Topińska 2002; Hrynkiewicz 2004)

Table 6. Social assistance benefits in 2002

Wyszczególnienie		Beneficiaries in thousands	Benefits provided in millions of zł.
Total	1995	2 127	1 408
	2002	2 549	3 834
Material assistance of which		3 285	3 535
Benefits: permanent		74	293
Permanent complementary		116	350
periodical		470	310
dedicated		1 036	466
Social disability benefit		231	1 055
Maternity protection		106	115
Shelter		10	16
Food		1 052	292
Clothing		39	7
Financing of health care services		23	5
Assistance in the form of services		94	299

Source: *Abridged Statistical Yearbook 2004, GUS, Warszawa, table 12 (156).*



## Summary and conclusions

lead to diverse assessments. On the one hand, a modern legal basis for this system has been created, new institutions have been built and professional staff trained. The activities of non-government organizations, which play a significant role in social assistance, have developed tremendously, particularly in the initial period.

On the other hand, social assistance in Poland features significant weaknesses, particularly the following:

- lack of strategy and long-term solutions
- poor diagnosis of the situation and identification of needs
- domination of passive benefits, poor activation of recipients, even though according to the law currently in force, the objective of social assistance is to "lead [beneficiaries] – to the extent possible – to become independent in life")
- domination of financial benefits over assistance in the form of services
- low, sometimes negligible amounts of benefits provided
- decline in the real value of benefits that have not been regularly indexed in recent years
- "crowding out" of tasks not listed in the law as obligatory by those which are obligatory
- lack of financial resources. It is easier to reduce expenditure on social assistance, the last link in the social protection chain, than rigid expenditure from the social insurance system.

Expenditure on public assistance in Poland increased from around 0.2% of GDP in 1990 to around 0.5% at present. However, this amount is grossly insufficient to solve or even significantly alleviate the social problems that have increased over that period.

Public assistance provided in Poland therefore is not a fully-fledged and effective link of the social protection system.

The main challenges for social protection remain pertinent:

- the challenge to ensure appropriate protection against the negative consequences of various events in life (social risks)
- the challenge, in new economic and political conditions, to focus on limiting the negative economic consequences and to strengthen motivation to work and individuals' responsibility
- the challenge of Poland's membership in the European Union.

The analysis of the current situation indicates that the social protection system in Poland only partly meets these objectives. Meanwhile, the system will need to deal with additional challenges, ones arising mainly from demographic changes (see chapter 3) and the situation on the labour market (chapter 4). Although social protection remains the domain of European Union member states, the policy of Open Method of Coordination pursued in recent years by the European Union will also have an effect on the Polish system of social protection (see chapter 2).

A fundamental change has taken place in Poland in the largest component of social protection, namely the pension system. The new system is undoubtedly modern, reinforces both the motivation to work and individuals' own responsibility and provides an opportunity to make the system sustainable in the long term. However, the costs of implementing this system are too high. Furthermore, in the long run it could crowd too many people out of social assistance, meaning that it may not properly fulfill the main objective of every pension system: securing appropriate incomes for the period of old age.

A number of positive changes have taken place in recent years as regards disability benefits. However, material security is only one element of the whole system of supporting

disabled persons. Their living conditions are significantly affected by the functioning of the whole of the economy and state social policy, particularly concerning: access to education, the situation on the labour market and real chances of finding employment, access to health care, housing, living and nursing services. The situation in Poland as regards these aspects is not good, which fact significantly affects the living conditions of this segment of the population. The activation and social integration of disabled persons, aimed at preventing their social exclusion, remains a very important objective for social policy (Golinowska 2004).

Social assistance has been developed during the transformation period, but it nonetheless remains the weakest link in the social protection system, evincing a limited effectiveness in alleviating the problems of persons threatened with social exclusion.

In view of the above analysis, the following aspects should be considered priorities in the area of social insurance in Poland:

- a proactive approach - putting work first as the priority and as a solution better than benefits (evolution "from a welfare state to a workfare state"),
- simultaneous, effective protection against social exclusion by the notable strengthening and better earmarking of social assistance, and a partial return to universal benefits, perhaps by complementing a bipolar approach (social insurance - social assistance) with social support,
- undertaking a comprehensive reform of the social insurance system for farmers.

Economic growth is a necessary prerequisite for improving the effectiveness of the social protection system's functioning and the situation of persons benefiting from its support. Growth will allow the state to provide better security in the case of sickness, inability to work, unemployment or old age. However, economic growth alone will not automatically resolve all the problems. There is also a need for a modern, effective and active policy on the part of the state.

On the other hand, a well-functioning social protection system can pose a factor supporting economic growth, as an investment in human capital.

# Chapter VI

Health  
care

Stanisława Golinowska



The basic indicators of the health of the Polish public showed significant improvement in the 1990s. The average life expectancy increased, while the presence of basic social and civilizational diseases declined. The general improvement in the provision of goods, the greater accessibility of food, the appeal of healthy lifestyles, as well as an improvement in ecological standards, have all resulted in favourable tendencies as regards the average state of the public's health.

This improvement took place against a background of serious problems concerning the functioning of the health care system. Indeed, Poland might serve as an example that the poor performance of health care services does not have a fundamental effect on the health of the public. This is because the health care system is involved in curative medicine and its services are addressed primarily to people who already have problems with their health. It determines the quality of life for people who are already affected by diseases, not the whole population.

Institutional and financial crisis has been troubling the health care system for quite some time. This is reflected in the tendency to create (recreate) imbalances and frequent organizational changes. The health care reform introduced in 1999 did not yield the anticipated results. Consequently, it has been largely reversed since, with the regional health funds having been abolished and payer functions centralized in the National Health Fund (NFZ) in 2003.

The privatization of health care services, primarily in the area of basic health care and outpatient specialist services, has increased the scope for participation in the system on individual terms, with fees for services. More affluent individuals are taking advantage of this opportunity, oftentimes supported by employers who have purchased health care service packages for them.

Meanwhile, public health care dominates as far as hospital care is concerned. This is the most troubled element of the system – with mounting debts, patients queuing for treatment and the staff, nurses in particular, frustrated with their meagre salaries.

This chapter will present the main problems of public health care and the functioning of the national health care system. It will present the fundamental dilemmas and propose ideas to reform the system.



Health  
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## 1. The state of public health

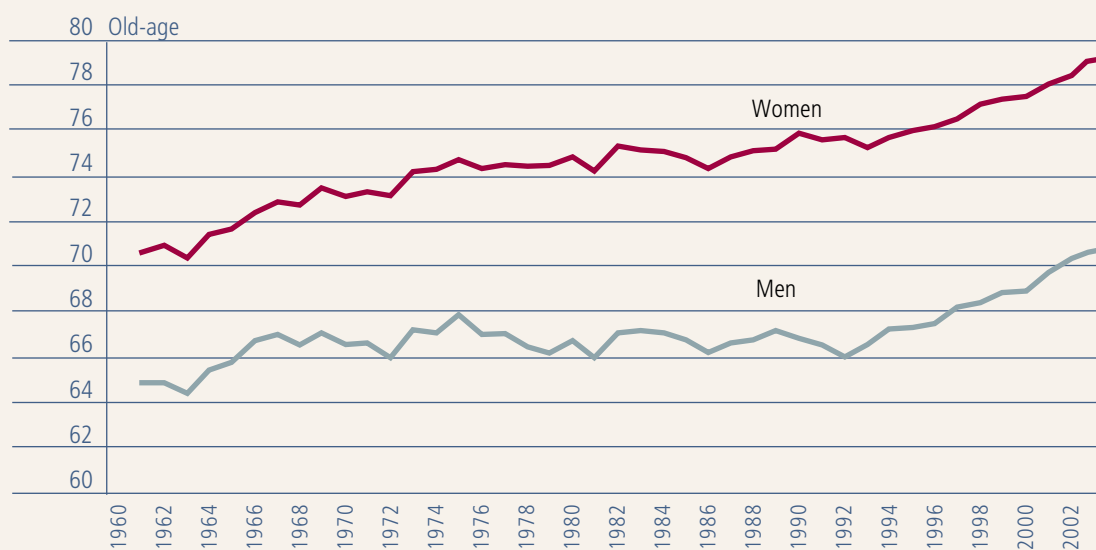
Over the past few years, the health condition of the public has improved noticeably, although Poland's relevant indicators are still inferior to the average indicators tabulated in European Union countries.

First of all, an improvement has occurred in life expectancy (LE). As Figure 1 below shows, tendencies in the average life expectancy for women and men in Poland were somewhat different. While in the case of women the life expectancy line has generally tended to rise, greater fluctuations can be observed with men. For some 20 years (1975-1995), the average life expectancy of men did not increase. These fluctuations gave grounds to the hypothesis of a higher mortality rate for men. The decline in the average life expectancy

for men was convergent with the period of rapid industrialization, and later with periods of profound crisis, i.e., the turn of the 1970s and the turn of the 1980s. Incidentally, one may also observe minor fluctuations in the LE ratio for women in those periods.

The present average life expectancy for Poland's population is 74.3 years – 78.4 for women and 70.2 for men. In the 1990s, the indicator improved by almost three years: 2.1 for women and 3.5 for men.

Figure 1. Average life expectancy for women and men in Poland



Source: based on GUS data, Demographic Yearbook 2002 and OECD 2004



The life expectancy ratio in Poland is lower than the European Union average. According to OECD figures, the EU average is 4 years higher than the Polish rate for the population as a whole, with almost 3 years difference in the case of women and more than 5 in the case of men. In 2002 only five European countries recorded a lower figure than Poland. All of them have since become EU member states.

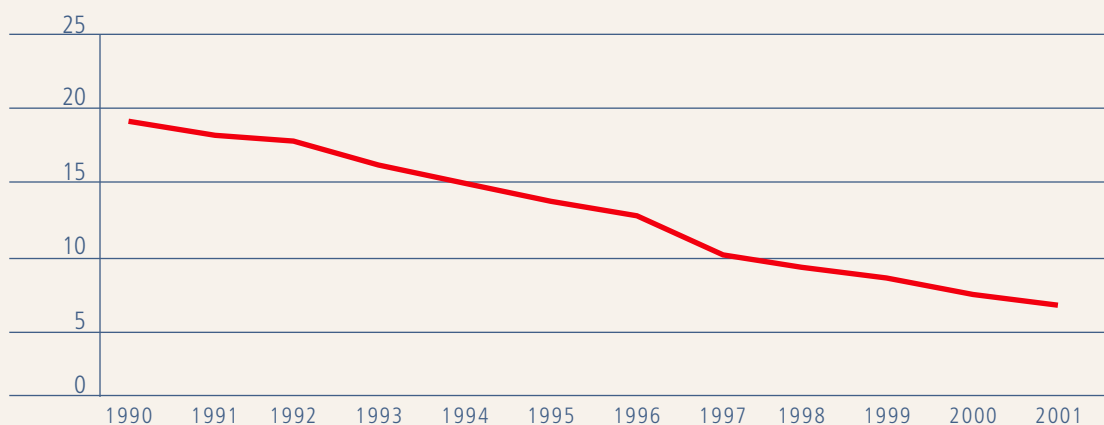
The life expectancy ratio does not give a full picture of the real health condition of the population. An actual increase in life expectancy can be accompanied by an increased burden of diseases, disability and indeed, a qualitative deterioration of the extended life. This is why, in line with WHO suggestions, we have applied the adjusted LE indicator called HALE (health adjustment life expectancy), which describes the number of expected years of life in full health. It combines information on life expectancy with that on a population's quality of health. The HALE indicator for Poland was equal to 65.8 years in 2002, meaning that it was 8.5 years lower than the LE indicator. This means that life in full health is notably shorter than overall life. With such a HALE value,

Poland ranks low among EU countries. Only Lithuania, Latvia, Estonia and Hungary have poorer ratios. The difference between Poland and the country with the highest HALE value in the European Union (Italy – 73.2 years) is more than 7 years. It should be noted, however, that a favourable tendency can be observed in the HALE figure, which over the period of two years (2000-2002) improved by 1.5 years.

Another indicator of clear improvement in the health condition of Poles is the dynamic decline in infant mortality rates. In the 1990s infant mortality per 1,000 live births decreased from a high level of 20 to a figure well below 10. This constitutes an improvement of more than 60%. However, compared to older EU member states, this figure still leaves much room for improvement, as the EU average is approximately 5. One of the main risk factors for child mortality in Poland is low birth weight.

A fundamental health problem in Poland is that of the high morbidity and mortality rates associated with diseases of the circulatory system, coronary ischemic diseases and cerebral

Figure 2. Infant mortality rate – per 1,000 live births.



Source: based on GUS data, Demographic Yearbook 2002



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care

vessel diseases. The standardized ratio of circulatory disease mortality had been rising at the beginning of the 1990s (re: the transformation crisis), but since then, a clear downward trend is visible. Over the period of 1990-2001 mortality among women declined by more than 25% and among men by more than 28%. Despite this declining trend, the mortality rate associated with these diseases is notably higher in Poland than in other EU countries. Circulatory diseases still constitute the main cause of hospitalizations and in-patient care, with a steadily increasing trend observed in this regard.

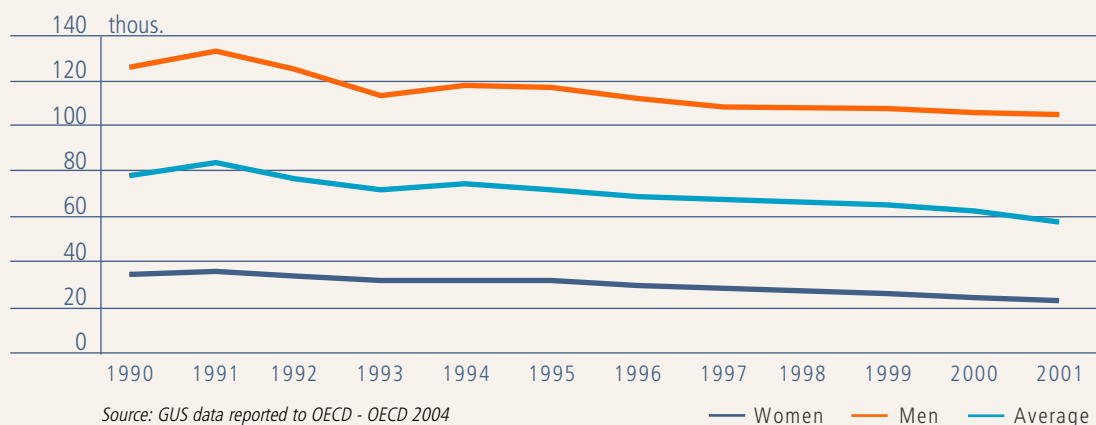
The second leading cause of death in Poland, after circulatory diseases, is that of malignant tumours. Unlike circulatory diseases, the number of deaths caused by malignant tumours has not shown a declining tendency since 1990. In the first decade of the 21st century we have even observed an increase. The level of mortality caused by malignant tumours is higher in Poland than in the older EU countries, but this difference is not as large as in the case of circulatory diseases. Poland is one of the countries with the highest uterine cancer morbidity and mortality rates in Europe. In most EU countries, the situation in this regard has improved sig-

nificantly in recent years thanks to early diagnostics. In Poland, however, preventive examinations and early diagnosis of carcinomas have been glaringly neglected.

The third leading cause of death is that of "external cause", namely, accidents, injuries, poisonings and suicides. The overall mortality rate due to these causes declined by some 25% in the 1990s. External causes constitute an incomparably greater threat to the lives of men than women. As Figure 3 demonstrates, the differences between the sexes in this regard are very pronounced. The mortality rate per 100,000 persons is almost four times lower for women than for men (26.7 for women, 95 for men). Road accidents are the most significant of all external causes of death, accounting for more than 25% of such cases.

Despite a clear downward tendency observed over the past few years, mortality rates due to so-called external causes are still much higher in Poland than in the older EU member states. In 1999, the standardized ratio for Poland was almost 15 deaths per 100,000 higher than the EU average.

Figure 3. Indicator of deaths due to external causes per 100,000 persons.

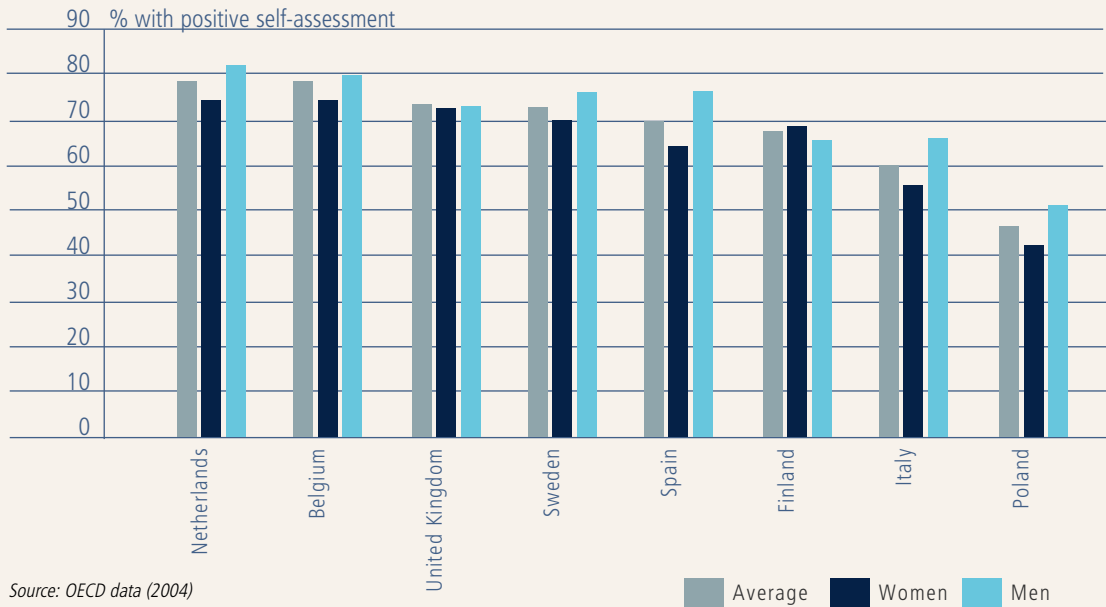




Aside from the objective indicators of the health status of the population (such as life expectancy, mortality and morbidity rates), increasing significance is also attributed to subjective measures, such as self-assessments of the state of public health. Although the self-assessment of health in Poland is lower than in the pre-2004 EU countries, the overall tendency is positive. During 1996-2001, 6% of men and 5% of women assessed their health as being better (Figure 4). Just as in most countries, Polish men assess their own health more favourably than do Polish women.

The positive tendencies in the Polish population's overall health status are accompanied by an intensification of new phenomena that notably worsen the quality of life. This includes the spread of mental illnesses and of disabilities associated with both the process of the population's ageing and the difficult situation on the labour market (disability motivated by disability benefit entitlement). This is a significant challenge for Poland's health care policies and health care system a whole, as indeed it is for the functioning of the entire social policy system

Figure 4. Self-assessment of health in selected EU countries and in Poland





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## 2. The structural organization of the health care system in Poland

Over the past five years, the health care system has twice been subjected to radical changes: in 1999 and in 2003 (see Chapter 2). In 1999 health insurance was introduced in place of budget (general taxation) financing, complemented by a system of regional health funds and so-called internal market principles (see Chapter 2). For four years (1999-2002), the health care system operated according to those principles in the face of mass-scale criticism on the part of medical communities, patients and opposition politicians. In 2000 the latter declared that the system would be changed. And that is what they did after assuming power in the fall of 2001. Although the reformed system's problems were being gradually overcome and the new organizational system was slowly falling into place, in 2003 the health funds were abolished and payer functions centralized with the creation of a central fund – the National Health Fund (NFZ) and its 16 branches in Poland's respective voivodeships (provinces).

The NFZ was created as an extra-budgetary entity of public finances. Such extra-budgetary entities are criticized in Poland, as they are not subject to the same principles of financial management as the central budget is. Management in these funds frequently lacks transparency. The transferring of such funds to the ministries responsible fosters less than smooth management and poor efficiency. Such criticism could also fall on the NFZ, although the Law on Health Care Services Financed with Public Funds of August 27, 2004<sup>1</sup> did

establish the Finance and Health Ministers as supervisors of the fund, and clearly defined the relevant competences and responsibility. However, in the latter case, relations with the NFZ remain quite tense.

The activities of the NFZ have caused numerous problems since its creation, including conflicts over responsibilities, the lack of appropriate management tools, and above all the shortage of funds. As a result, the NFZ has been subject to no less criticism than the earlier health funds. The heads of the institution have been appointed and dismissed at a dizzying rate.<sup>2</sup> The election programme of the largest opposition party currently envisages such far-reaching measures as the abolishment of the NFZ. If this proposal was to be treated seriously, there would be reason to fear yet another organizational revolution in health care. This is not a good idea; rather, the NFZ should be strengthened with instruments of effective management over the funds it has at its disposal and gradually decentralized to the regional branch level, but not abolished. Such an institution is necessary to perform allocation and coordination functions<sup>3</sup>.

The diagram below presents the organizational picture of the health care system in Poland. The main managers in the system are the Health Ministry (the body responsible for health care policy, and the coordination of activities and medical supervision) and the National Health Fund, the so-called "payer body", which has regional branches.

The position of local governments in the health care system deserves some attention, as they perform the role of "founding bodies" for some 85% of health care centres in Poland. This function implies responsibility for the creation and liquidation of units and for the development of its assets (investments). In addition, local governments have been assigned responsibility for catering to the health care needs of their communities, a task which is too tall an order, considering their real potential (limited funds and lack of competent staff).<sup>4</sup> Municipalities are responsible for basic health care, districts for third reference tier hospital care, and the voivodeships for second tier hospital care. The Health Ministry is

<sup>1</sup> Dz.U. 2004 Nr 210, par. 2135

<sup>2</sup> Over a period of two years the institution had 5 different heads.

<sup>3</sup> Patients funds felt the need for an institution that would perform coordination functions and on their own initiative created the National Union of Patients Funds (KZKCh), which was supposed to support them as concerns information and tools. This need was underrated at the time.

<sup>4</sup> These problems are pointed out in research studies by Golinowska et al 2002

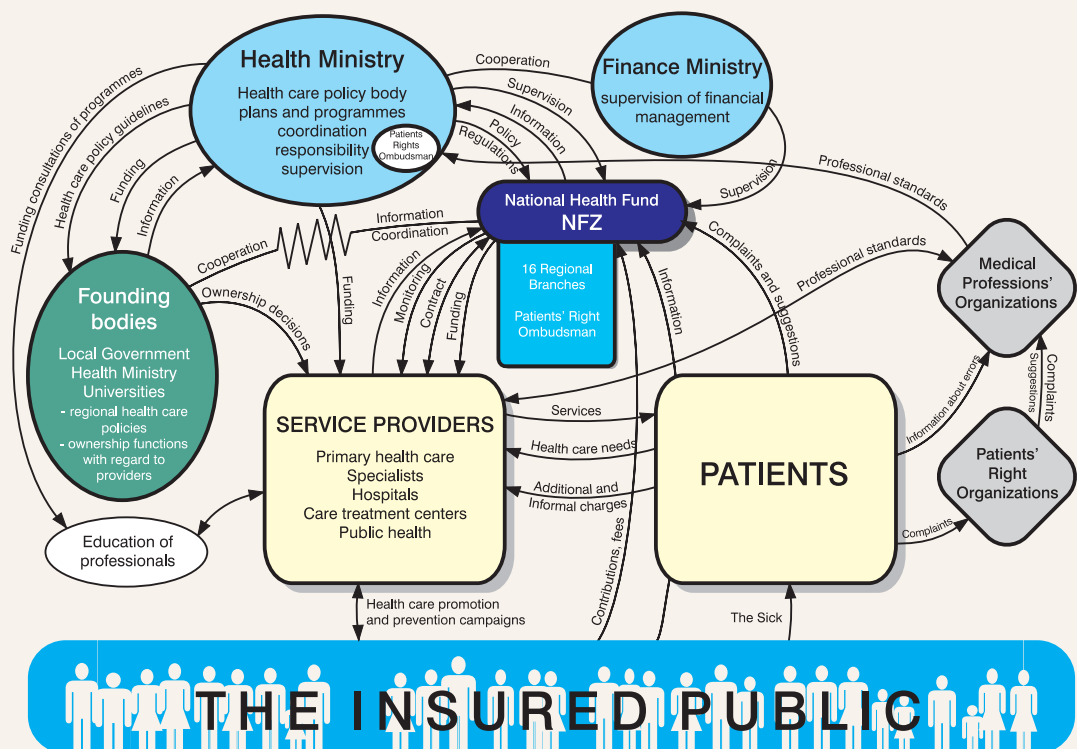
the founding body for national units and institutes (such as the Mother and Child Institute, the Oncology Institute, and the Food and Nourishment Institute).

Another notable organizational feature of the current system, is the independence of health care units, which were introduced before 1999. These units, called "sp zoz" (independent public health care units), obtained significant independence in decision-making concerning microeconomic management based on funds obtained from NFZ via contracts signed with the Fund for the provision of health care services. In a situation of the limited standardization of health care services, lack of medical treatment guidelines and a very low level of financing, the independence of health care units tends to lead to ad hoc decision-making and rising indebtedness, rather than rational management.

There are both public, as well as non-public health care units among providers. The already developed private sector is mainly present in basic health care and specialist outpatient services. Around 60% of outpatient units have private ownership status, and 56% of outpatient services provided take place in private units (data for 2002 – GUS 2003, p. 289). Meanwhile, hospital care is dominated by public units.

Private units are financed not only through purchases of health care services by individuals, for they also have contracts with the NFZ. Based on data collected as part of the work on the "Green Book" for health care financing, it has been estimated that the value of contracts signed with non-public sp zoz exceeded 20%, while in the Wielkopolskie voivodeship, where privatization of basic health care has progressed the furthest, it exceeded 30%.

Health care system from 2003.



### 3. Staff and the material resources of the health care system

There are contradictory opinions regarding the state of resources in health care. It is usually believed that staff resources are excessive. However, the number of doctors in Poland is relatively low (an average of 22 doctors per 10,000 inhabitants) and in terms of the number of dentists, Poland ranks last in the enlarged EU. Since 1996 the number of dentists in Poland has declined by almost 50%. Meanwhile, the number of pharmacists increased the most in that period: from 4 per 10,000 people in 1990 to 5.7 in 2000. (table 1).

The concentration of nursing staff is also low (table 1). This is not a problem unique to Poland, but rather one that has been encumbering developed countries for quite some time. The reason for this goes deeper than the insufficient reaction of the education system to the increase in demand for the services of this professional group, for we must also consider the nursing profession's comparatively difficult working conditions and low salaries, as well as limited opportunities for professional development it offers (Peltier, Schiborowski, Nill 2004). Numerous medical reports indicate that the deficit of medical staff could very soon become the most serious threat to the quality of medical care. In response to this threat, many countries are undertaking steps to encourage a greater number of candidates to train for the nursing profession, and are devising new concepts for managing medical staff that would make the profession more attractive, both in financial terms, and in career opportunities. The level of the employment of nurses in Poland (per 10,000 residents) is only 50% of the EU's average figure, with a continued downward trend (since 1996 by more than 10%). The decline in the employment of nurses has particularly affected the public sector – and indeed, more acutely than the authors of the 1999 reform envisaged when drafting their

employment restructuring plan. At the same time, the decline in employment has been accompanied by a radical reduction of education opportunities in the various branches of the nursing profession. Between 1994 and 2000 the number of graduates of nursing schools declined seven-fold (from around 14,000 to around 2000 persons). Urged by a 2002 report by EU experts that warned Poland about the negative consequences of further decline in the education of nurses, in 2003 the authorities took measures to promote a quantitative and qualitative improvement in the education of nurses (Kózka 2004).



Table 1. Staff resources per 10,000 residents

Country	Practicing doctors per 10,000 residents in 2002	Practicing dentists per 10,000 residents in 2002	Nurses per 10,000 residents in 2002
Austria	33	5	93
Belgium	39	8	56
Denmark	34	9	97
Finland	31	9	90
France	33	7	72
Germany	33	8	99
Greece	45 (2001)	1.2	40 (2000)
Ireland	24	5	153
Italy	44	5	54
Luxembourg	26	6.1	–
Netherlands	32	5	128
Norway	34	8	104
Portugal	32	5	38
Spain	33	5	71
Sweden	30 (2000)	9	88
United Kingdom	21	4.0 (only the National Health Service)	92
<b>Czech Republic</b>	<b>35</b>	<b>7</b>	<b>94</b>
<b>Hungary</b>	<b>32</b>	<b>5</b>	<b>85</b>
<b>Slovakia</b>	<b>36</b>	<b>7</b>	<b>71</b>
<b>Poland</b>	<b>22</b>	<b>3</b>	<b>49</b>

Source: authors' compilation based on OECD database (Health Data 2004)

The former socialist countries still have a sizeable hospital base, larger than that of the older EU countries. This is the legacy of a health care doctrine in which the hospital played the central role in the health service system. The consequence of this was the underdevelopment of basic health care units and an oversized hospital network. Since the late 1990s significant changes have taken place in this regard.



Table 2. Hospital beds and average length of stay

Country	Hospital beds per 1,000 residents (serious cases)		Average length of stay (ALOS), days	
	1990	2002	1990	2002
Austria	7.1	6.1	9.3	6.0
Belgium	4.9	4.7 (1995)		8.0 (1999)
Denmark	4.1	3.4	6.4	3.7
Finland	4.3	2.4	7.0	4.3
France	5.2	4.0	7.0	5.7
Germany		9.0	16.7	11.6
Greece	4.0	4.0 (2000)	7.5	6.3 (1999)
Ireland	3.3	3.0	6.7	6.5
Italy	6.2	4.6	9.5 (1991)	6.9
Korea	2.7	5.7	12.0	11.0
Luxembourg	6.8	5.8	11.0	7.6
Netherlands	4.3	3.5 (2000)	11.2	8.6
Norway	3.8	3.1	7.8	5.7
Portugal	3.4	3.2	8.4	7.3
Spain	3.3	2.8 (2000)	9.6	7.1 (2000)
Sweden	4.1	2.4 (2000)	6.5	4.8
Switzerland	6.5	3.9	13.4	9.2
Turkey	2.0	2.1	6.0	5.2
USA	3.7	2.9	7.3	5.7
United Kingdom	2.8	3.9	5.9	6.9
Czech Republic	8.5	6.6	12.0	8.3
Hungary	7.1	5.9	9.9	9.9
Slovakia		5.5		7.8
Poland	6.3	4.6	12.5	~8.0

Source: OECD database for the years 2003 and 2004, estimates for Poland

Basic health care services have expanded in Poland together with the introduction of general practitioners, and the number of hospital beds per 1.000 residents has declined. Indicators of the duration of hospital-stays, called the average length of stay (ALOS) also improved, yet they remain quite high, which fact indicates room for improvement (table 2).

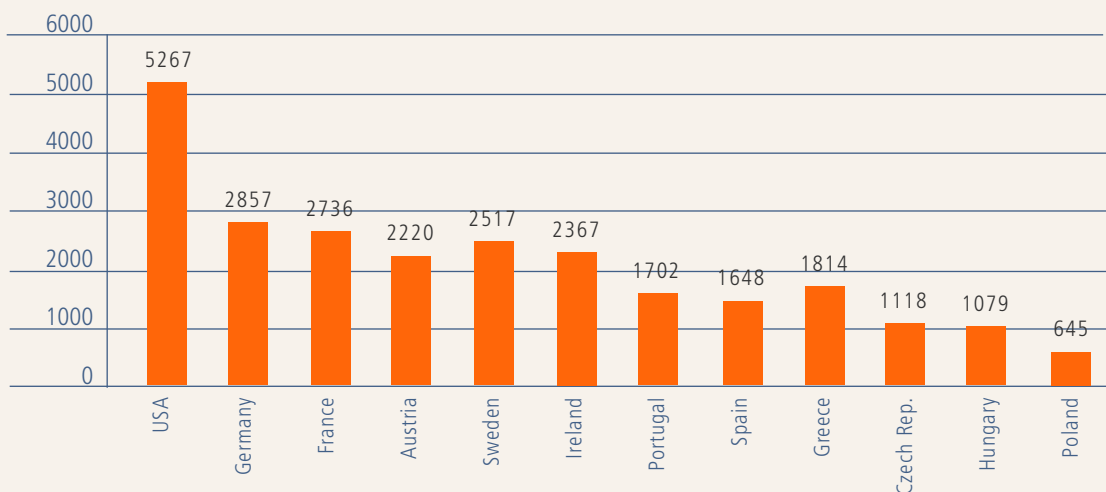
## 4. The financing of the health care system

It is estimated that total outlays on health care in Poland exceed 6% of GDP (in 2003 – 6.3% of GDP). This is a low level of financing, one of the lowest among OECD countries. Only Mexico and Slovakia have a ratio to GDP quite as low. The level of spending on health care is also measured by per capita indicators of absolute spending totals measured in purchasing power parity (PPP) in USD (Figure 6).

The main reason behind the low level of overall expenditure on health care in Poland is the low level of public spending in this area. Expenditure has not increased in real terms since 1996, with the single exception is 1998, when funds increased slightly due to the anticipated thoroughgoing reform of the system (introduced in 1999). The debts of health care units were therefore written off, investment purchases made "in advance", etc.

If we evaluate the real growth of public expenditure based on an index of prices in health care (which in the period analyzed was higher than the consumer price index), we will see that there was no increase in real terms. This means that the

Figure 6. Total outlays on health care in selected OECD countries in per capita PPP USD in 2002



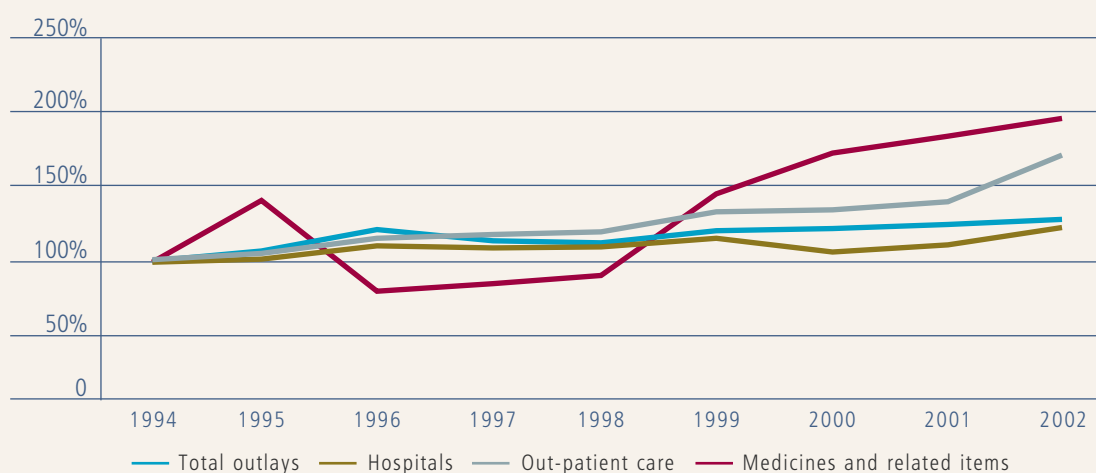
Source: OECD 2004

amount of funds in the public health care sector did not increase. Meanwhile, if we look at the structure of expenditures, there is a clear upward trend in spending on medicines that began in 1998. Spending on outpatient care was also rising faster than overall expenditures. However, real spending on hospital care did not increase, despite a significant increase in hospital stays from 1999.



Health care

Figure 7. Public outlays on health care in 1994 constant prices



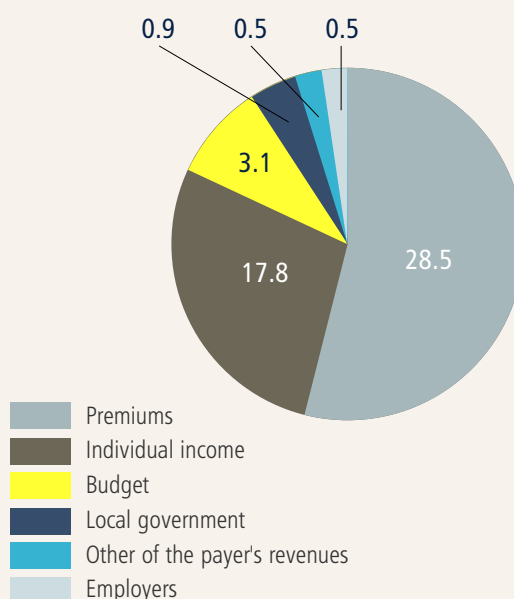
Source: author's calculations based on Finance Ministry data (acc. to COFOG classification)

Meanwhile, expenditures on health care from individual incomes, both of households as well as companies, increased. Based on data from a modular household survey, GUS estimates that households are already financing 35% of the health care system in Poland. This is a substantial figure, ranking Poland high among EU countries in this regard.

Figure 8 depicts the structure of outlays on health care. One quite surprising feature of this structure is the low share of local governments (JST), which, as we have noted, perform the function of founding bodies of health care units and which bear the responsibility for the financing of developmental investments. However, the resources of local governments, particularly at the district (powiat) level, are insufficient to perform such a responsible function, all the more so as health care is not a priority objective in the spending decisions of local governments.

A significant feature of the difficult financial situation is the system's imbalance. Costs are notably higher than revenues, in result of which health care units are constantly accumulating debt. The indebtedness of the health care system has

Figure 8. Structure of outlays on health care in 2003, in billions PLN



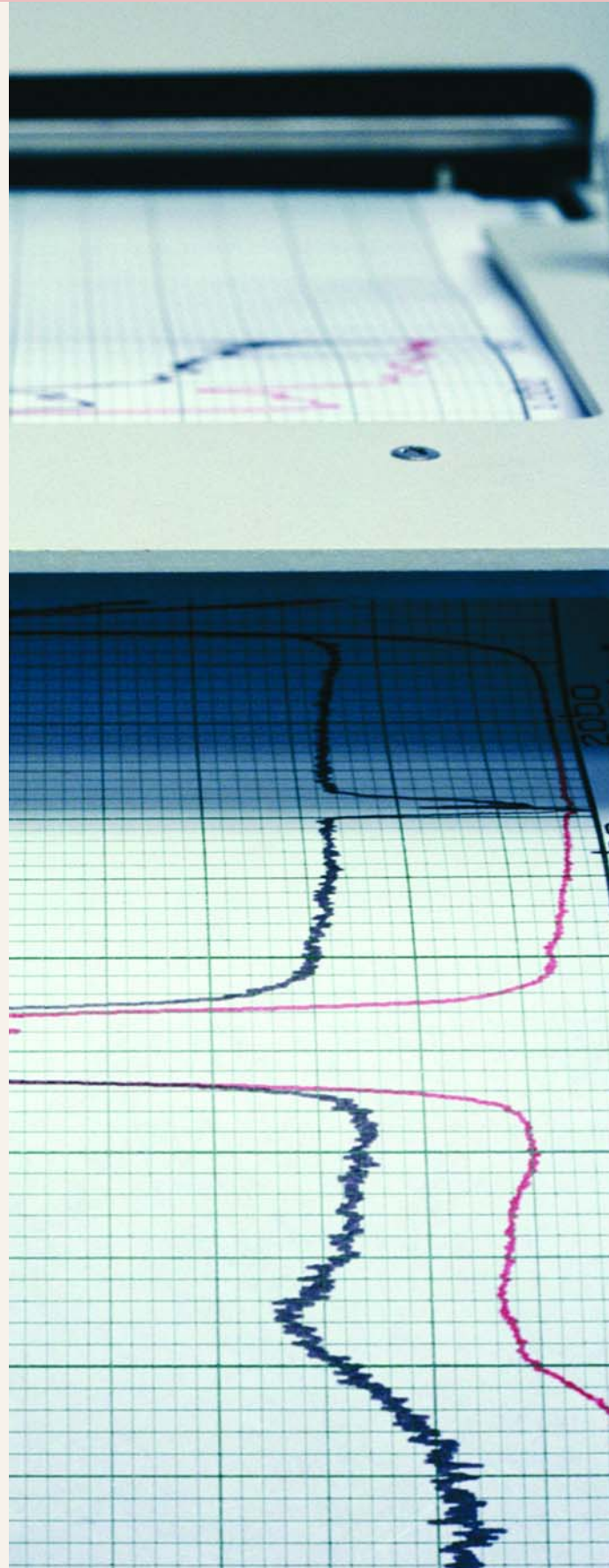
Source: based on Health Ministry data for 2004 - the Green Book for health care financing



already exceeded 10% of its total revenues. The costs of debt servicing increased significantly in 2004.

Health care units are providing more health care services than the value of their contracts with NFZ stipulates. This is because the Constitution still guarantees unconditional access to health care services in the case of the threat to health and life, while at the same time these services are being limited and those performed above the plan, i.e., the contract with the NFZ, are not being paid for. At the same time, there is a sizeable discrepancy between the rates (prices) for services in the contract and the actual costs of providing services. Moreover, in the context in which health care units are largely independent and where supervisory bodies have been abolished with the closing of patients' funds, the cost-control system is insufficient.

The results of the imbalance are also reflected in the deterioration of infrastructure and technical and medical equipment, and in the case of underpaying medical staff. This fact compels medical employees to obtain income from additional jobs (on average, doctors have two jobs). This of course happens at the expense of the quality of medical services and involves significant effort, effort resulting in the lack of time to upgrade professional skills and in the pursuit of entrepreneurial activity for the benefit of "their own health care unit". A doctor working several jobs often treats his or her primary employer in an exploitative manner and does not identify with the employer's interests. In addition, the underpaying of medical staff breeds corruption.





Health  
care

## Conclusions

The health of the Polish population is systematically improving, although health indicators still significantly lag behind those of the older EU countries. This positive development observed in Poland over the past years is the result of increased consumption on the part of the population (as well as of an improvement in the structure of consumption), a change in lifestyle, and improving ecological standards.

However, the functioning of the health care system, aimed at treating the sick, has left much to be desired. The system was twice subjected to major organizational reforms, with the level of public financing, however, remaining unchanged. These changes engendered significant difficulties in the current functioning of the system, ones that have led to the frustration of medical staff (including protests and strikes) and to increased public anxiety about the provision of health care.

A significant feature of the new situation is the considerable extent of the privatization of the sector of health care providers, despite underdeveloped institutional solutions for cofinancing by patients. Households are already participating in the financing of the health care sector to a significant extent (more than 1/3). Their funds are mainly used to purchase medicines, make "informal payments" to medical staff, and, to a lesser extent, to pay for private health care services, mainly dental.

In view of the mounting difficulties, the health care system is facing the need for another major overhaul. The failures experienced thus far do not encourage additional changes. Particularly since any such changes will have to fit in the space between rationing (defining the public – i.e., guaranteed – scope of services) and rationalization, meaning control of costs (or, to put it more bluntly, 'stifling of costs'), especially as regards pharmaceuticals. Such reforms are not

likely to be popular, and hence politicians will not leap to undertake them. At the same time, the current, extremely low level of financing investment and salaries in the health care sector appears unsustainable.

At the end of the decade, Poland will be entering a phase of the significant increase in the share of senior citizens in the population. The post-war demographic high (those born between 1946 and 1956) will be turning 60 in the years 2006-2016. This means a major increase in health care needs, implying a significant hike in health care requirements. Another plan for raising health care contributions will be necessary, meaning an even greater need for reforms and improving the efficiency of the system, both as regards medical results, as well as cost efficiency. The failure to carry out such changes, particularly with regard to the increase in health care needs, would result in excessive financing requirements.



# Chapter VII

Polish society 15 years after  
the Round Table:  
its condition, social structure,  
attitudes, values and social capital.

Stanisława Golinowska



After 15 years of systemic transformation, Polish society and the Poles' living conditions have changed very significantly. Anyone who visits Poland following a long absence (and many emigrants have indeed returned home), can no longer find the old Poland. Even in rural areas, where the pace of change has been the slowest, modernization is plainly visible – with both its positive and negative consequences.

This chapter, which constitutes something of a conclusion to our *Report*, presents our readers with a snapshot of Polish society today, of Poland as a new member of the European Union. We herein endeavour to capture that image with a knowledge of the trends in Poland's demographic changes, the social policies which have been implemented (as presented in previous chapters) and through an analysis of the results of a wealth of respected social studies carried out by various centres both in Poland<sup>1</sup> and abroad. Our aim is to present a picture that, although simplified, is justly comprehensive. Thereafter, on the basis of this picture, we attempt to assess the present social situation.

The fundamental question that we put forth in this part of the *Report* is: do the structure and features of Polish society provide a good basis for a high pace of development and for achieving a higher level of social cohesion? In asking this question we do not intend to formulate ready answers. Rather, this question is to help us evaluate changes, suggest necessary (or possible) future adjustments, and postulate efforts to counteract the undesirable and dangerous phenomena before us.

<sup>1</sup> Social monitoring studies have also been carried out for many years by the Friedrich Ebert Foundation (EU Monitoring). These studies were led, in turn, by professors Marody and Hausner.



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## 1. Social condition

Until 1994, Poland belonged to a group of countries with high demographic growth. Between 1946 and 1994, the population increased by 14.7 million people. Since 1994 the population has no longer been growing. The country has entered a phase of demographic stability (Okólski 2002). The fertility rate is declining, average life expectancy is clearly increasing and the share of senior citizens in the population is growing, although not yet at the pace observed in Western European countries. This tendency is accompanied by an increase in the share of the disabled population.

The years of transformation have brought about a clear improvement in the health of the population. The sharp decline in infant mortality rates and in mortality due to circulatory diseases is a sign that the health crisis, which periodically re-emerged during successive stages of industrialization and during the crisis of the 1980s, has been arrested. In recent years the functioning of the health care system has deteriorated due to low financing by the public sector and problems associated with its management, both at the macroeconomic level as well as at the level of health care institutions. This could translate into a deterioration in the quality of life of the sick and those in need of rehabilitation.

The structure of the population has changed in terms of educational attainment. The share of those with higher and completed high school education (matriculation exams) has increased considerably. The level of those entering higher education increased from slightly over 10% at the end of the 1980s to around 50% at present. The return on investing in one's university education has increased and educational aspirations have shot up. The system of education is now facing the need to improve the quality of teaching and become more oriented toward the requirements of the labour market.

The mobility of the population is characterized by two contradictory tendencies. The period of transformation has caused a notable deceleration of the processes of internal migration and urbanization. In some regions of the country, a reverse tendency can be observed, with return to or settlement in rural areas (usually close to big cities). However, as regards foreign migration, we can observe the persistence of a negative balance of migration, although with a different structure than before as migrations to Poland are steadily on the rise.

Average disposable incomes have increased over the 15-year transformation period. However, this general tendency obscures periods of sizeable fluctuations. Over the first four years incomes plunged, and only afterwards did they begin to grow dynamically. At the close of the century they were seen to stabilize, with growth of approximately 1% in real terms. The structure of income growth has been completely different than during the PRL, as high growth has been observed particularly among persons with the highest skills and living in large agglomerations.

Income disparities further widened. With the emergence of official unemployment and its increase (particularly that of long-term unemployment), poverty and social exclusion have become more acute.

The overall affluence of the population has increased. People are living in better apartments, and ones that are better equipped. Nearly all households boast basic appliances: refrigerators, washing machines, freezers and vacuum cleaners. Ownership of a TV, radio and modern stereo equipment has also become commonplace. As many as 75% of families are equipped with fixed-line telephones. However, ownership of computers is much less common, with only 1 of households possessing one, although among urban households some 30% do. It is estimated that 10% of households have an Internet connection (4% in rural areas).<sup>2</sup> Despite the continued progress, Poland is still lagging behind other European countries in this regard.

<sup>2</sup> Data on household equipment come from the GUS survey study on household living conditions in 2003 - GUS 2003.



Ownership of cars and modern recreation equipment has also become more commonplace. The majority of households (more than 50%) owns low-value cars, ones purchased second-hand or used for a very long period of time. Only fewer than 20% have more expensive and new cars. The widespread use of autos has exposed the bad condition of road infrastructure, which is one of the Achilles' heels of Poland's material development. While Poles have two and a half times as many cars as in 1990, the amount of paved roads has increased only by 57%.

The accessibility of public transport has decreased due to the closing down of many less profitable railway and bus connections.

Despite the improvement in the quality of housing, Poland has one of the largest indicators of housing shortage in Europe. Poland is the only country of the enlarged EU not to achieve the "1 room per 1 person" ratio (only 0.9). A number of unfavourable developments of the past half-century of the country's history contribute to this. Firstly, the massive wartime destruction; secondly – the housing construction of the PRL era, which totally failed to keep up with industrialization and high demographic growth; and thirdly, the lack of support for mass-scale housing construction during the transformation period. The 1990s were the period that saw the construction of the lowest number of apartments in all of the country's post-war history.



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**Table 1. Changes in basic indicators of social condition**

Areas of change	1989/1990	2002/2003/2004	Change
Population (million)*	37.879	38.230	+ 0.9%
Share of population in retirement age %	12.5	15.0	+ 2.5 percentage points
Senior citizens – over 65 – share in %	10	13	+ 3 percentage points
Number of old-age pensioners and disability benefit recipients (million)	6.8	9.2	+ 35%
Marriages contracted – thousands.	255	192	(–) 25%
Fertility rate – number of children per 1 woman in reproductive age	2.04	1.25	- 0.79 fall below simple replacement of generations
Average life expectancy – years			
men	66.5	70.4	+ 4
women	75.5	78.8	+ 3
Infant mortality – per 1000 live births	10.6	2.7	-7.9 percentage points or fourfold decline
Mortality due to circulatory system diseases – ratio per 100,000 inhabitants	564 (734 for men and 446 for women)	443	Decline by 25% among women and by 28% among men
Children in pre-school facilities per 100 children aged 3-5	32	32 (11 in rural areas)	After perturbations, recovery to the 1989 level
Share of population with higher education attainment	13%	46%	+ 4.5 percentage points or 75% increase
Those entering higher education (relation of the number of students to the number of youth aged 19-24)			+ 33 percentage points
Employment (million)	17.5	13.2	- 4.3 mln (–)25%
Unemployment rate %	–	20-19%	Open unemployment, significant share of structural causes
Increase in no. of apartments	14.9% (1979-1988)	8.5 % (1989-2002)	- 6.4 percentage points
Population in substandard housing	34.2%	17.1%	- 17.1%
Public hardened roads in km thousands	159	249	57% increase
Autos – million	4.5	11.2	2.5-fold increase
Fixed-line telephones	–	74% (61% in rural areas)	
– Share of households with telephone %	–		
– Private subscribers - million	2.3	9.2	4-fold increase
Computers - % of households	–	25% (14% in rural areas)	New phenomenon
Internet connection – % of households	–	12% (5% in rural areas)	New phenomenon

\* note: demographic data comes from the National Censuses of 1998 and 2002. The sources for other data are reports or data from representative surveys conducted by GUS in the relevant years, included in statistical yearbooks and GUS specialist publications.



## 2. The social structure after 15 years of transformation

The changes in social structure which have occurred since the beginning of the transformation were affected not only by the working of market structures, but also by the social policies pursued and by individual life-strategies. Mirosława Marody (1999) and other sociologists beforehand (Ziółkowski, 1994, Rychard, 1998) pointed to the formation of dualistic life-strategies in Polish society. The first of these strategies anticipates a market-based logic. People are focused on goals that entail effort and risk. The second choice is that of a safe road in life, although a modest one in terms of income potential. This means work in public administration, seeking to obtain a disability benefit, early retirement, or other social benefits. "Between the market and a safe job", is how Marody described what is currently happening in the social structure. Perhaps a third choice should be added for full clarity, namely social transfers.

Let us look at the social structure from the perspective of the sources of income on which Polish households support themselves. Analyses prepared on the basis of GUS studies of household budgets (Wiśniewski 2002, Łysoń 2004), point to the following tendencies:

- the share of income from work in total household disposable income is declining. While at the end of the 1980s income from work accounted for 60% of all income, 10 years later, its share fell below 55%.
- the share of incomes from agriculture declined dramatically: from 20% to around 6%
- the share of income from social benefits increased substantially: from around 20% to around 33%
- other sources of income (including income from capital) emerged, with a slow increasing tendency from 1% to around 6% .

A significant change in the structure of household incomes is that a higher share of income from work is currently obtained in the private sector. At the end of the 1990s, the share of income from work in the private sector reached a level of 55%.

One can also look at the social structure from the perspective of the three basic sectors of the economy, and which are the main sources of employment and of generating national income: industry, agriculture and services. The changes of structure in this regard are perhaps slower than in Western countries due to the persistently high share of agriculture, yet there are unequivocal trends towards an increase in the share of services.



An important method of analysing the social structure is that of the subjective assessment of social position. Here analysts see a distinct incommensurability between subjective assessments of material position and the objective indicators included in official statistics published by GUS. The subjective picture, as reconstructed through representative surveys of the public, is slightly more optimistic. Without going into too much detail, one can say that one source of the difference is that of the individual resourcefulness of many Poles, for example the participation of a large group of registered unemployed in the shadow economy, trips abroad to work, etc.

When using subjective measures of social position, society can be divided into three or four major factions. Aside from the relative few with a feeling of improvement in their mate-

rial situation, there is a relatively numerous group of those who have adjusted to the new conditions and are not complaining. The number of persons whose declarations indicate social disadvantage does not exceed 1/4 of the Polish population (Sikorska 1998, Marody 2000).

Below we shall describe the changes underway and how they affect the main social groups in Poland today. This outline does not include a description of the group that could conventionally be called "the excluded", for we do not have sufficiently complete information about this group. However, broad studies have been conducted fairly recently on selected categories of people in this group - for example, on the homeless and/or addicted who come into conflict with their environment. Moreover, they are partly to be found among recipients of social assistance. We are aware that this is not a small group. A few well-known non-governmental organizations have devoted all of their activities to the socially excluded. However, as we have but fragmentary information, we cannot yet responsibly present general numbers and conclusions regarding social exclusion in Poland.

## Workers

The results of the National Census conducted by GUS in 2002 show that the share of the industrial working class in the social structure remains significant: 25.3% (of which 8.7% are operators of machinery and equipment) of all those employed. However, at the same time the share of workers employed in the services sector, especially trade, is also increasing (11.1%). Over the past 15 years there was no radical shift in the structure of Polish society towards a post-industrial society, although the increase in the share of services is evident. A significant feature of the worker structure is the still sizeable share of workers performing simple manual tasks. According to the Census they account for 6.4% of total employment. Domański's study, which uses the General Social Survey to analyze the social structure (Domański 2004), estimates the share of this group to be slightly higher.

The structure of the working class has undergone changes in the opposite direction of those that took place during the decades of industrialization. First of all, the size of the large-industry working class has decreased notably, its place being assumed by workers in small and medium-sized enterprises. Secondly, this disparity became associated first and foremost with the ownership sector: specifically, there is a correlation between these two groups: public enterprises are usually large, while private ones are small and mid-sized.

After more than a dozen years of systemic transformation, the differences in the characteristics of public- and private-sector workers have become very noticeable. Those employed in the public sector are on average better educated<sup>3</sup>, earn more and their salaries show smaller disparities. In the majority of enterprises where they have worked, there were trade unions or an employee council. Conversely, for those employed in private enterprises, salaries have been more divergent, and there have usually been no trade unions. These differences have had implications for workers' attitudes and views: rational management (e.g., the dismissal of excess employees, bankruptcy of insolvent enterprises) is more often accepted in private enterprises. But at the same time, workers employed there have demanded much greater social equality. Research has also pointed to a declining level of solidarity among the working class, something largely caused by the high level of unemployment, lack of trade union organizations, as well as the lack of confidence that strike action can bring about the results employees expect. Hence, dissatisfaction has rarely led to active protests. Since the second half of the 1990s the level of strikes in Poland has been among the lowest in Europe.

<sup>3</sup> This is quite striking as the older population is on average less educated. This would indicate that a significant selection process has taken place among workers (the majority of those with poor skills are probably unemployed).

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## Entrepreneurs and the self-employed

Entrepreneurs and the self-employed constitute around 25% of overall employment. This figure is lower than in the mid-1990s when it reached 33%. The economic slowdown at the turn of the decade reduced this group notably, despite the clear tendency in many companies to switch from regular employment contracts to individual or group contracts for the completion of specific tasks, or to rely on the services of outsourcing companies.

The statistical group of employers and the self-employed also includes individual farmers, who account for 60% of this group. As a result, those who undertook the risk of running their own business outside the agricultural sector account for only 11% of the self-employed. "Full-blown" entrepreneurs, meaning those who run companies employing a larger number of people, are an even smaller group – barely a few percentage points. Although the position of this group in the overall social structure is higher today than it was in the last decade of state socialism (its share has increased from around 3% to around 6%), its share has not increased since the initial jump that took place during the late 1980s and early 1990s.

The group of private entrepreneurs is comprised of distinct lower and higher levels. Representative studies conducted at the Warsaw School of Economics (SGH) in 1999-2000 portray the picture of this disparity (Gardawski 2001). The lower level of entrepreneurs is not very different from contractual employees. It consists of the self-employed, owners of family businesses, and owners of micro-businesses employing up to a few employees. Many entrepreneurs from this level function partly in the shadow economy and their status is volatile. It often happens that they return to the status of contractual employee or even lose their jobs. The higher level of private entrepreneurs, in turn, is quite diverse internally, but in terms of social position and broad views it is clearly distinct from the representatives of the lower level of this class.

Former workers account for more than 1/3 of the owners of micro-businesses. Their average educational level and other demographic features are close to the national average. It is also important that the views of micro-business owners on the economy are similar to those of the majority of Poles. They favour the general rules for a market economy and privatization, but they fear foreign capital, unemployment and want to limit the privatization of Poland's largest enterprises. The composition and views of the upper level of the entrepreneur class are fundamentally different. Among owners of businesses employing more than 15 persons, 64% have completed higher education, 80% have previously been employed in state enterprises and 62% have held management positions in those enterprises. They were proponents of an open, liberal, privatized economy (which can feature unemployment), but they were also apprehensive about the excessive expansion of foreign capital (Gardawski 2002).

## The Intelligentsia

When describing the intelligentsia in the PRL period in Chapter 1, we pointed to its diversity in terms of backgrounds, skills, income levels and views. The diversity of this class is even greater today as new groups have joined its ranks. Above all, it is a more numerous group. Around 40% of employees now work in non-manual positions. This group can be divided into two subgroups of almost equal size. The first group encompasses politicians, upper level public administration officials, managers and experts. According to 2002 census data, this group accounted for 19.3% of those employed. The second group includes office employees, technicians and other middle-level staff – encompassing 20.6% of total employment<sup>4</sup>. Experts, sometimes called meritocrats,

<sup>4</sup> When analyzing the structure of white-collar employees according to a somewhat different classification than the one currently used in statistics, a significant increase is to be observed in the employment of administrative staff. It might seem that the market economy would contribute to a decline in administration. In the event, the opposite has happened. The reform of local government administration has led to a significant increase in the number of bureaucrats, while Poland's EU entry is exacerbating this effect at present.



have the largest share in the structure of the intelligentsia (13.1% of total employment). When considering international comparisons, this share of professionals in the social structure is similar to that observed among Poland's southern neighbours, while compared to Western Europe it is close to the share observed in Portugal and slightly higher than that in Greece. (Domański 2004).

The first group of non-manual employees, namely experts, are the largest income beneficiary of the transformation process. And indeed, the white-collar group of employees has benefited as a whole. The ratio of salaries in non-manual positions to those of manual jobs has reversed. For whereas during the PRL manual workers on average enjoyed higher incomes, as soon as in 1990 the intelligentsia had higher earnings. The ratio of its incomes to those of manual workers amounted to 1.20 at the time, while in 2000 this ratio reached 1.36 (Deniszczuk 2002).

The improvement of the situation of non-worker employees has had a significantly positive effect on the educational aspirations of the public. The drive to obtain higher education has surpassed all expectations.

The improvement in the income status of the intelligentsia has been accompanied by the phenomenon of the weakening of its traditional mission in society: the promotion of higher values, ethical attitudes, and the right to proffer perspective and explain complexities.

## Farmers

The transformation period has wrought a very strong differentiation of the agricultural population, and on average, a substantial deterioration of its material position. First of all, authentic farms emerged, ones having an area much larger than average (farms larger than 15 hectares currently account for 35% of farmland). It is estimated that the population making their living from these farms (farmers and their

families) amounts to around 1.7 million persons (Wilkin 2002). Secondly, there is a clearly observable group of peasant farmers, i.e., those who have stopped producing for the market and work on their land only to satisfy their own needs. There is also a less distinct group of peasant-workers or worker-peasants, i.e., the group that is currently described as the "multi-profession peasant population". As it is not easy today for peasants-workers to in fact find a permanent job outside agriculture, the living standards of this group have deteriorated substantially.

In the agriculture sector there is also a significant group of people making their living from social transfers. In the period of real socialism farmers' rights to social benefits were limited only to those who gave their farms to the state. In the transformation period, the handing over of farms ceased to be a prerequisite for obtaining social insurance. Moreover, a special social insurance institution for farmers was created – KRUS. This heavily subsidized institution provides old age pensions and disability benefits for 1.7 million people.

The average material situation of farmers has deteriorated very substantially. Farmer incomes are equivalent to just 40% of that of the non-farmer working population. The extent of poverty among the farmer population has increased. However, peasant poverty is different from that of other groups of the population. Peasants have their own food supply and housing for which they do not pay rent. Other groups of the population, particularly those from the former state-owned farms (PGRs) are in a much worse situation. This is also due to the inability (or sometimes impossibility) to take up independent work whether in farming or outside it.

## Pensioners and recipients of disability benefits

A particularly distinct element that has shaped the social changes in the transformation period is the increase in the number of the population living from non-salary income. In

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1988 this group accounted for 21% of the whole population, while by 2002 that figure had gone up by 16 percentage points to 37% (National Census GUS 2003). This group primarily includes pensioners and recipients of disability benefits. In 1988 their number was 7.4 million, while in 2002 – 10.5 million. This is more than 1/4 of the Polish population. The number of old-age pensioners increased by 63% in the 1988-2002 period, while the number of disability benefit recipients by 22%. However, this increase is not the result of the population's ageing. It is related to the social policies of the initial period of transformation (see Chapter 2) and the natural propensity to escape from the labour market in a situation of uncertainty about work and maintaining incomes. As Mirosława Marody put it, a significant part of the population was pursuing the strategy of "obtaining a pension or disability benefit", a strategy less risky than becoming self-employed and not requiring such effort as that of obtaining additional skills, something that is often necessary when changing the place and form of work.

The propensity to seek disability benefits, early retirement pensions and full retirement pensions is a consequence of the relative stability of decent social benefits. This is due to the indexation principles adopted at the beginning of the transformation period and written into law. Over the years several attempts were made, some more successful than others, to limit the gains from indexation. Pensioners and benefit recipients, being a strong electorate well aware of its interests, spoke out strongly against such attempts. Its voice was institutionalized in 1994 with the creation of The National Party of Pensioners and Benefit Recipients – KPEiR. Although this party does not have any members in Parliament, it did win a number of seats in the 1998 local elections. Today every major political force has to take into consideration the views of this multi-million electorate.

In 1989, the average pension benefit was equal to 53% of the average salary. In the mid-1990s this relationship was improved by around 20 percentage points. At the close of the 1990s this relationship, called the replacement ratio, had declined to around 60% and then fell below 60% (see

Chapter 5 for details). In spite of this, pensioners and disability benefit recipients are considered a group that has gained during the transformation period. One of their benefits is the opportunity to work, which is quite frequently taken advantage of by persons with higher skills, often in the shadow economy.

## The unemployed

Throughout the transformation period Poles have had to deal with the problem of open and rising unemployment. The unemployed from the first period of the transformation (1989-1993) mainly included persons entering the labour market for the first time, namely young people and women becoming professionally active. Laid-off employees were a smaller group (Sztanderska 1995). There were relatively few older people among the unemployed, as that age group took advantage of the opportunity to obtain benefits from the social insurance system.

The attitudes of the unemployed in that first period can be described as passive and conservative. They would collect benefits and await a job offer from a state-owned company (Reszke 1995). This was a telltale consequence of the legacy





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of socialism, where an "employee market" rather than an "employer market" existed. Moreover, the passive-conservative attitude revealed a lack of trust in the private sector. The unemployed were characterized by a low level of education (basic vocational qualifications at most), but also by the lack of an active approach towards further education. Contrary to the arguments frequently raised that the unemployed are in fact not unemployed, because they are employed on the black market, the vast majority of unemployed were decidedly not active professionally and their benefits (collected by 80% of unemployed) importantly contributed to their family's income.

The second wave of unemployment, evident since the end of the 1990s, is very large in terms of size – 3.5 million people (according to the National Census). It is characterized by a different structure and circumstances. Although young people predominate among the unemployed, the number of jobless from the two subsequent age groups (25-34 and 35-44) is not significantly lower. Unemployment among persons in pre-retirement age is minimal (3.3% among those above 55). The unemployed have low skills. The majority of them are graduates of basic vocational schools (40%) and people with no skills whatsoever (20%), namely those with elementary or incomplete elementary education. There are also graduates of high schools among the unemployed (33%). The problem in this group is the type of school they graduated from, for it was either a comprehensive high school (which does not teach specific skills), or it was a technical school of a type that did not meet the needs of employers.

The long-term unemployed account for 46% of those without a job today. This segment of the population is slightly older than the national average and has the worst skill level. The long-term unemployed usually do not receive unemployment benefits. They are a group threatened with social exclusion – and are often already excluded from mainstream social life.

### 3. Inequality and poverty

As we wrote in Chapter 1, social inequalities in Poland began to form in the 1970s, they developed in the 1980s and in the 1990s they were initially halted only to begin to increase again, and at an altogether rapid pace.

The period of the declining increase in social inequality as the 1980s swung into the 1990s was associated with the introduction of a stabilization programme aimed at combating high inflation. One of the elements of this programme was the introduction of a tax on excessive increases in salaries. Another was that of offering a broad range of social transfers to groups threatened with unemployment.

Social inequalities began to increase again with the overcoming of the transformation crisis, that is, after 1993.

What are the sources of the new social inequalities?

First of all, they were associated with the process of privatization. The line of income disparities runs not so much between the sectors, but within the private sector. Here one can observe the high affluence of a much broader class of entrepreneurs and the low incomes of contractual employees, on average lower than in the public sector. A different line describing income disparities runs between the sections of the economy. Such sections as finance, insurance, and telecommunications, but also public administration and defence, are far ahead of average figures. Meanwhile, the situation is worse in the health care and social assistance sectors. Another dividing line of high-income disparities runs between the management staff and line employees. Very high salaries for managers came as a completely new phenomenon, and one typical of the transformation period. Public officials' salaries also became higher. This is supposed to help attract highly-skilled people to public service and to prevent corruption.

Inequality has also increased in agriculture, which still significantly impacts the overall measures of Polish society's income situation. On the one hand, this sector contains a broad group of people with very low incomes (or without monetary income at all), and a clearly distinct group of owners of large and very large farms.

The high rate of unemployment has exacerbated inequality, as a large number of the unemployed have minimum incomes coming from social transfers (unemployment or pre-retirement benefits), or obtain irregular incomes from casual work or work in the shadow economy.

The Gini index<sup>5</sup> is used as a synthetic measure of income disparities. Its value for Poland is 0.33. This is a level of disparity similar to that observed in Central European countries belonging to the EU. In Northern European countries the disparities are smaller (below 0.3), while in Southern European they are greater, even exceeding 0.4 – as is the case in Portugal and Greece.

Compared to other post-communist countries, income disparities in Poland are higher than those observed in southern neighbouring countries and lower than in eastern ones, with the exception of the Baltic countries, where they are more or less similar.

The high income disparities currently observed in Poland imply growing poverty on the one hand, and high affluence on the other. Such a social structure is described as "narrow in the waistline", meaning that the middle group (identified as the middle class) is not numerous.

The increasing scope of poverty is a very worrying social phenomenon. The graph below presents poverty tendencies according to different definitions. In the lower part of the graph the scope of poverty is defined as the number of people not achieving a certain level of income, whether: (1) 50% of average consumption spending; (2) an income level which entitles one to social assistance benefits; and (3) minimum subsistence income. The upper part of the chart depicts

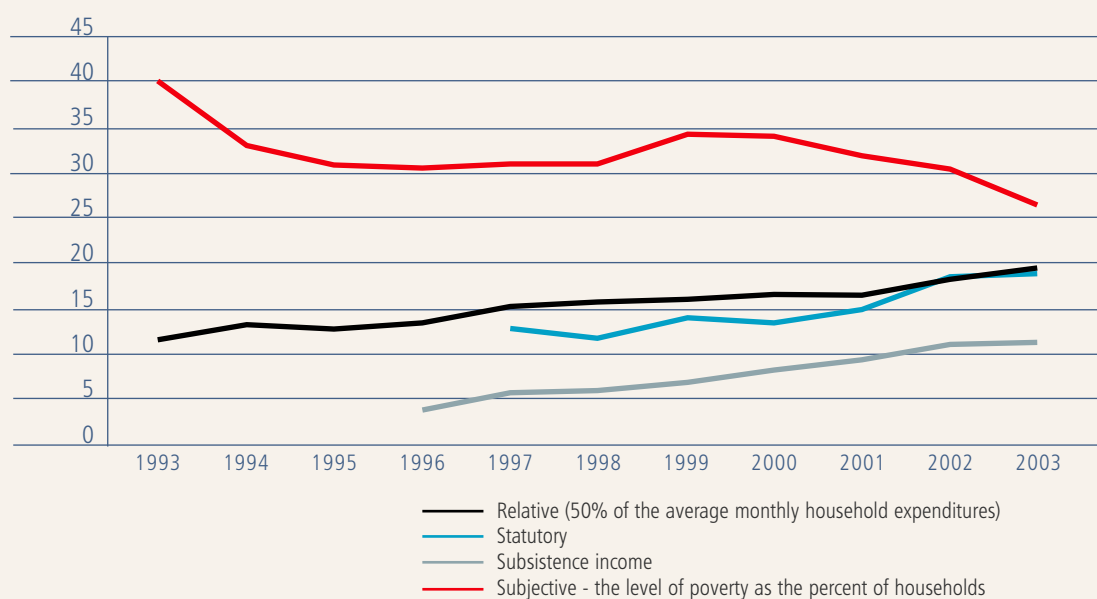
the tendency of how poverty takes shape according to a subjective definition (self-assessment). It is interesting to note that the self-assessment line (the upper one) and the lines representing objective measures (the three lower lines) converge. Previously we had observed quite a large difference between subjective and objective measures. This could indicate that the phenomenon of poverty is now more present and recognizable in social life. Previously it often had concerned communities and places not known personally.

Other studies also show that income disparities are becoming more publicly noticeable. At the same time, they confirm the aversion to such a direction of development that would lead to excessive social stratification: deep income disparities are not socially accepted. According to a recent survey by the CBOS opinion polling centre on this matter, 90% of Poles claim that income disparities are too high and 63% believe that they will further increase.

<sup>5</sup> The Gini index in theory assumes values from 0 (when everyone has equal incomes) to 1 (maximum disparity). In practice, the value of the index is usually between 0.2 and 0.6 (in Latin American countries).



Figure 1. Poverty in Poland according to different measures



#### 4. Civil society, entrepreneurship and social capital

The change of the political and economic system should contribute to the foundation of a society which at one and the same time is (1) civically active, (2) enterprising and (3) rich in social capital. Civil society is conducive to the development of democracy, entrepreneurship is the foundation of a market economy, while social capital helps a society live in concord, be supportive of one another, and achieve a strong measure of cohesion despite competition and the focus on individual success. Each of these desirable features of society requires individuals to be active and to participate. Civically active members of society work for the common good, participate in elections, respect public institutions and place a check on them. Enterprising persons undertake ambitious

economic challenges, are not paralyzed by fear of risk, and inject dynamism into their environment. Finally, social capital is featured by those communities that evince an aptitude for self-organization and a culture of mutuality and trust.

Analysis of the attitudes of Polish society over recent years indicates a weakening of civic and enterprising attitudes, but with a maintenance of grass-roots social activity. While membership levels in parties and trade unions is declining fast, and turnout in Parliamentary and local elections has been low, this is not reflected in the weakening of grass-roots social activity in the form of associations. The strong role of family and of circles of friends has also been maintained. In response to a CBOS survey question on where help can be obtained the fastest, 88% responded "first and foremost from family and friends" (CBOS 2003).

Social attitudes are conditioned by the values a society professes to uphold. Studies of social values conducted from an international perspective show the persistence of strongly



materialistic values in the post-communist countries, including Poland. Such an orientation is observed not only among the general population, but also the elites, both economic, as well as political (Siemieńska 2004). Conversely, in mature democracies and more affluent countries, post-materialistic values prevail. These values are not always professed by all of society, but they are nearly always professed by the political elites.

The results of studies obtained from transformation countries, results which indicate the predominance of materialistic values, are associated with a country's current level of economic development. The societies of these countries are catching up with Western living standards and are busy building market economies for both individualistic and materialistic motives. Understanding this tendency does not relieve one of anxiety regarding the fact that such values and attitudes are represented by political elites.

A noteworthy aspect of the studies of social values cited here is the fact that Polish society is demanding greater influence on decisions made in the workplace and in the place of residence. This clearly indicates an insufficient level of democratic development in those areas, ones which, after all, are the closest to people. It also explains why there are so many dissatisfied people in Poland, many more than in Western countries. This also explains why social activism occurs rather more within self-help organizations and in the realm of private initiatives than within the structures of social institutions.

## Civic spirit

In his book 'Not a prince, not a merchant – a citizen', Jerzy Szacki, one of Poland's most renowned sociologists, characterizes civic or republican spirit in terms of: involvement in civic matters, elections (particularly local ones), and in local initiatives. Szacki also stresses the citizenry's control over what authorities do, this being impossible without the prerequisites of freedom of speech, decentralization, and self-

governance. Another important issue is access to the institutions of justice (the legal system) and its efficiency.

The exertion of effective pressure on administrative authorities, including that of local government, along with social control over the day-to-day operation of institutions of power – this is the hallmark of a well-functioning civil society. Through the well-organized and constant interaction of citizens and the decision-making institutions of power, the deficiencies of representative democracy can be alleviated. Indeed, a representative democracy that is not buttressed by effective citizen organizations can, and often does, spawn a division of the society into a narrow group of politically active citizens and the rest, namely those who limit their participation in political life at most to occasional participation in parliamentary and/or local elections. Such a silent majority perceives political authorities, albeit democratically chosen, as an alien body. They may also view the entire class involved in politics (the political elite) as "them", as being foreign to "us", the majority of citizens. Lest any such chasm between society and the authorities yawn, forms of democracy emerge that are typically referred to as "participatory" democracy. This does not entail a replacement of representative democracy, but rather its augmentation.

The involvement of the bulk of Polish society in organizations and initiatives belonging to civil society is meagre. One might say that Poles are replicating models of behaviour from the period of state socialism. As we wrote in Chapter 1, state socialism has left behind a society fractured into small family, social, or informal groups. Hence, while there was a high degree of trust within those groups, society's identification with official organizations was very limited, even among those persons who were in fact members of official organizations. Indeed, even when people did participate in official socio-political life (for example in marches or various community campaigns), it was often out of constraint. When communism was finally overturned, masses of Poles opted for withdrawal – freedom was now treated as the freedom from having to belong and participate. A 2003 CBOS survey devoted to this issue asked persons who were not members



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of social or political organizations whether they would be willing to join such organizations: 80% of this group (which accounted for 70% of the total population) responded negatively. Therefore, seven out of ten Poles declared that they are not a member of any organization and have no intention of joining one. It is worth pointing out that only 0.3% of citizens declared membership in a political party.

This lack of desire to participate in civic issues is also related to how self-government at the local level developed in its initial stages. The CBOS survey quoted above also showed that only 22% of Poles believe that the interests of residents are important to their local governments, while 53% were of the opinion that those authorities really only care about their own and their friends' interests. Such the case, it is hardly surprising that numerous efforts are undertaken to persuade

people to fulfill their civic duty of participating in elections. To this end, priests for example, encourage their parishioners to participate in elections, explaining to them the significance of democracy and pointing out to them the possibility of influencing programmes and advancing local interests.

The data on voter turnout during the transformation period presented in the table above shows that only around 50% of eligible voters participate in elections. Compared to other European countries this is a low figure. The highest voter turnout figures are observed in presidential elections – above 60%. The lowest are in local elections – under 50%.

Table 2. Percentage of voter turnout in elections

Election years	Presidential	Parliamentary	Local government
1989-1990	60.6 i 53.4	62.5	42.3
1991		43.2	
1993		52.1	
1995	64.7 i 68.2		
1997		47.9	
1998			46
2000	61.1		
2001		46.3	
2002			44

Source: National Electoral Commission figures: after: Wiatr et al. 2003, p. 211

<sup>6</sup> It should be added that the main source of conflict is currently seen in the relationship between democratically elected authorities and the public – the voters. This is reflected in increasing disappointment with democracy as a whole. Studies show that just slightly more than half of Poles have clearly positive associations with the concept of "democracy" – 17.7% of Poles assess democracy negatively and 20.3% said that they have no associations. However, this picture (at least in mid-2003) has not translated into a significant increase in support for authoritarian power. Only 33% of the public agreed that in crisis times, power should be handed over to a person who would individually answer to society. Conversely, in 1991, 51% of employees of industry responded affirmatively to a similar question (Gardawski 1992).

## Entrepreneurial spirit

Poles see themselves as being a resourceful and enterprising society, and these traits have been confirmed by historical experience and numerous social studies. This conviction is particularly justified when referring to the initial period of the transformation. The introduction of economic freedom, after years of constraints, precipitated an eruption of private commercial initiatives.

The entrepreneurial spirit of the first period of the transformation could be seen everywhere. Street trading was the most visible. This street-vendor stage of the transformation, which provided a source of capital for something "more serious", came to an end fairly quickly. It is interesting to note that the people who were involved in street vending at that time, having first gone on trading trips to Berlin or Vienna, often had higher or at least high school education. Many had either lost their jobs or felt that they soon would. Others simply did not want to be "stuck" in a public enterprise anymore. Studies on entrepreneurship carried out at that time indicated that these persons were more mobile in their careers, changing jobs more often (Domański 1994). The decision to "go it alone" was associated with a temporary degradation. It was not fulfilling for an engineer from a once respectable public enterprise to begin selling goods on the street or hot-dogs from a booth. But this was a means to an end. Many street merchants achieved that end and now own various distribution or wholesale companies. Some of them even own production plants, although this is less common.

Another type of grass-roots entrepreneurship that involved people concerned the privatization of the state enterprises they worked in. Employee companies were often created, only later to be transformed into corporations with one or more owners.

Concerning social public services, entrepreneurial spirit was reflected in protecting the future existence of one's own insti-

tution (see chapter 2), under the aegis of which sundry associations and foundations were created, initially with the intention to support the "mother" institution. In the next stage, they would become detached, creating for profit organizations and more often exploiting the infrastructure and staff of the public institution than supporting it. This type of entrepreneurial activity occurred primarily in the health care sector.

The societal nature of entrepreneurship could initially be observed in the process of creating non-public schools. Organizations of parents and teachers founded private "schools with a mission", and called them social schools. In time, entrepreneurship in the area of education took on the features of a "normal business".

After a several-year boom in the creation of new enterprises, the situation became complicated. In the second half of the 1990s a process of weakening entrepreneurship took place. Firstly, the Russian crisis and constraints on the visits of citizens hailing from countries of the former USSR caused a decline in production for many small companies focused primarily on the Eastern market. Afterwards, due to a general economic slowdown coupled with an increase in unemployment, domestic demand declined and problems of excess supply emerged on the domestic market. Meanwhile, imports were increasing in step with the successive abolition of customs barriers, something that was taking place as part of Poland's preparations for EU membership.

The deterioration of conditions for entrepreneurship was not countered by government policies that might have supported its further development. Access to capital was still limited, fiscal burdens and administrative barriers were increasing. It is thus hardly surprising that the energy needed to create new businesses and become self-employed clearly weakened. Today. However, it appears that with Poland's accession to the EU a new stage of entrepreneurial development shall set in. There are now broader opportunities for obtaining capital and the lobbying power of employer communities on government decisions has increased.

Notwithstanding this, there is still a marked need for greater awareness on the part of politicians as to the role of entrepreneurial spirit in the development of Poland's market economy and in the creation of new jobs.

## Social capital

While one talks about civic spirit in Poland with some concern, the matter of social capital is to be evaluated somewhat differently.

Social capital is a feature of micro-communities that cannot be identified solely on the basis of participation in formal structures. Social capital is what characterizes effectively functioning communities. Therefore, studies of social capital in various societies<sup>7</sup> take into account such things as neighbourhoods, self-assistance, the ability of a community to organize itself for a specific purpose, the existence of factors which help in such organization (for example community or local leadership), trust, elements of social control, the degree of social integration, etc.

No studies on social capital have been conducted in Poland. However, there does exist a large body of knowledge about non-government organizations. The creation of these organizations can be treated as an element of society's ability to organize itself and create networks of contacts. This is not, however, a sufficient indicator to describe the presence of social capital in a given country, for a large portion of behaviours that indicate the existence of social capital (or a lack thereof) are not captured by official statistics. Only specialized studies can help to uncover and portray those features of a society that allow people to function well as a community: to cooperate and support each other based on trust and mutually recognized norms. Social capital is a feature that is

clearly conducive to entrepreneurship and to the development of civil society. However, we might also be dealing with social capital limited to the social domain.

Sociological observations and studies conducted by various organizations in Poland permit us to propose the hypothesis that social capital is present in Polish society, but it is limited; it does not reach beyond specifically oriented, small social structures. Polish society exhibits self-organization mainly in areas such as social and humanitarian assistance, education and health care.

Putnam divides social organizations into those that integrate individuals within a community (bonding) and those that integrate the individuals from one community with another one (bridging). However, it seems that it is not this distinction that is decisive as concerns Polish social organizations. What is decisive is the objective and subject of activity. In Poland two types of organizations are developing most intensively: aid organizations and those that are oriented on protecting and promoting the interests of their members. Currently these are the dominant non-government organizations in Poland. Polish aid organizations are both of the bonding as well as the bridging type. The latter cover increasingly broad social milieux and are generally approved of. Their strong presence in contemporary Poland is not only the result of the weakness of public social institutions, but also of the direction of social policy that non-government organizations are included in for the realization of public tasks.

Conversely, organizations focused on promoting the interests of their members and of a lobbying character are an expression of corporationist tendencies, the closing of the social structure, but also of the fight over the division of income and privileges.

According to data from the KLON/JAWOR association, there are 42,000 registered non-governmental organizations operating in Poland. This suggests a significant potential for social involvement. The problem is in the distribution of this activity. In nearly 50% of Poland's municipalities there are no

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<sup>7</sup> The studies of R. Putnam conducted in Italy (Putnam 1996) and the US (Putnam 2000) serve as a model of research on social capital. In recent years studies in this area have been undertaken by the World Bank, the OECD and national statistical offices, for example in the UK and Australia.

non-governmental organizations at all. NGOs are most numerous in intelligentsia-dominated communities, in large cities and regions with relatively strong residential traditions.

Studies into social activity usually encompass three types of measures: (1) formal membership, (2) time spent on contacting and cooperating with the organization and (3) material generosity on behalf of the organization or the objective promoted by the organization. The results of studies conducted in recent years in Poland show a ratio of social involvement of 22% to 30% (Leś, Nałęcz 2002). Compared to Western European countries this level of involvement is low, but it is similar to what is observed among Poland's southern neighbours, namely, the Czech Republic, Hungary and Slovakia. Certain differences are visible with regard to the subject of involvement. For example political issues play a greater role in Hungary, while sports and recreational issues have a greater profile in the Czech Republic.

## Conclusions

The picture of Polish society after 15 years of systemic transformation has many different colours. However, those colours exhibit but two tones: bright and dark. A number of studies give a dichotomous picture of the transformation and of the social situation. "Two Polands" (Gorlach: in UNDP 2000) or "A Country of Two Vectors" (Giza-Poleszczuk 2004) – these publications attempt to show that the transformation process has extracted and sharpened social differences, and that it has revealed fissures in the processes of modernization along with the limited capability (of a significant portion of the society) to adjust to the new rules.

Behind the average indicators of changes in living standards, attitudes and values (ones which are not significantly differ-



ent than in other countries undergoing the process of transformation) greater disparities are hidden. But Polish reality is not so much dichotomous as it is trichotomous.

The variables that distinguish societies pertain to education, age, the level of urbanization of one's place of residence, sources of income, and the availability of employment. These variables are frequently interwoven and can create communities with a syndrome of features strengthening their disconnection from the rest of the society.

On the one hand we have the group in "immobile age" (as demographers define those above 45, but before retirement), with at least basic vocational education, living in the countryside or in small cities, with limited access to decent (meaning well-paid and legal) work, i.e., the unemployed, small farmers, casual workers, shadow economy workers, seasonal migrants, workers without permits. When these features are compounded by additional factors such as dysfunctional family life or other social pathologies, it is easy for such people to find themselves completely on the margins of social life.

On the other hand, we have the younger group, with above-average education (post high school, higher vocational and

university degrees), from large cities, working in modern sectors of the economy and in a fully regulated capacity (employment contract, self-employment) and earning the highest salaries.

Between these extreme groups is the lower group of white-collar employees, smaller entrepreneurs and qualified workers who increasingly often work in the service sector (rather than in large-scale industrial plants), as well as farmers who survived through the hardest period on their own and have adjusted to market conditions and an open economy.

Social values and attitudes differ depending on the place in the social structure and the position one has attained. However, there are several features that are altogether common today in Poland: persistently high consumption and education aspirations; the willingness to migrate, more often abroad than domestically; and support from small groups, i.e., local communities and family.

Civic spirit has not developed to the expected and desired degree. Polish society has always been largely autonomous, regardless of what was going on in the institutions of power (civil disobedience). With today's scope of decentralization and local self-government (its quality and consequences aside), this autonomy of social life is incomparably higher. Yet at the same time, society has not reduced its activity at the local and community level – and it still draws strength from the family.

But the disdain for politicians, public institutions and the realm of power is also a consequence of the internal weaknesses on their part. Many leading politicians have little to offer, whether in terms of ethics, because of their poor skills, lack of concepts and programmes, their base drive for material enrichment, etc. Many basic public institutions are notably inefficient (courts, prosecutors, the legislative branch and several governments). This engenders low levels of public trust in these institutions. Eurobarometr surveys (RCSS 2004) show that the level of social trust in Poland for political institutions and the legal system is the lowest among the

10 new members of the European Union. These studies also show a low level of trust in banks. It is social institutions that enjoy the highest trust.

Although the years of transformation have provided the public with new mechanisms and institutions and have significantly changed living standards, they have not significantly altered social attitudes towards political power and institutions. Society is still developing quite autonomously, although it does make avail of public institutions, particularly in placing claims of the "homo sovieticus" variety. Society also has high expectations with regard to the European Union. Of all the new member states and candidate countries, it is the Poles who harbour the most positive image of the functioning of democracy and order in the EU. Poland, as an EU country with high societal trust in EU structures, is beginning a new chapter in her history. But what are the foundations of this trust? Is it justified? What is expected of Poland as an EU member and what can Poland contribute to European structures? To what extent can Poland's place in the EU contribute to the reduction of inequality and the achievement of greater social cohesion? As signalled in the introduction, these are the questions that the next *Social Report* of the Friedrich Ebert Foundation will address.

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