Chapter 7
The silent and crawling crisis: international competition, labour market reforms and precarious jobs in Poland

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Introduction

Poland did not experience recession after the outbreak of the global economic crisis of 2008 and thus stands out, not only in the central and eastern European region, but in the whole of the EU. At the peak of the economic crisis, Poland’s GDP growth slowed from 6.8 per cent in 2007 to 1.6 per cent in 2009, with its slowest rate – 0.4 per cent – recorded in the first quarter of 2009 (GUS 2015b). After a short improvement, the second economic slowdown occurred in 2012 (2.0 per cent GDP growth) and 2013 (1.6 per cent) (Figure 1). Unemployment did increase to 13.4 per cent in 2012, thus breaking with the pre-crisis downward trend, with the lowest value registered in October 2008 (8.8 per cent) (GUS 2014). However, the rise was not as pronounced as in the neighbouring countries. Such a successful economic performance amidst the Great Recession raised obvious questions about its roots, among other things with the aim of pointing to policy solutions as a model to be emulated by other troubled countries.

Figure 1 GDP growth rate and unemployment rate in Poland 1990-2013

Source: Central Statistical Office of Poland.
We propose to frame our analysis in terms of the concept of a 'silent and crawling crisis', emphasising the long-term and gradual character of the changes under scrutiny. In line with the argument developed by Nölke and Vliegenthart (2009: 672), the strategy of keeping labour costs low to ensure the inflow of capital via foreign direct investment (FDI) has been a permanent feature of the 'dependent market economy' developed in the course of market reforms in Poland. Labour market deregulation has constantly been claimed to be the answer to the long-term strategic objective of attracting FDI. In Poland, the transition to a market capitalist system has been approached on the liberalising path taken in recent decades by Western developed capitalist economies. Foreign capital has played an important role in improving Poland’s competitiveness, but little attention was paid to the domestic capital base (Rae 2013). Foreign investors were seen as the main partners in the modernisation process (Poznański 1996). The great importance attached to foreign investment is a key feature of policymakers’ approach to competitiveness, which has outlasted the transformation period. For instance, Poland’s National Development Plan for 2004–2006 lists the substantial inflow of FDI in the 1990s among the present-day strengths of the Polish economy. Accordingly, high labour costs are diagnosed as a weakness and labour market flexibilisation is regarded as an opportunity.

Policymakers expected the expansion of flexible employment to add yet another competitive advantage on top of the relatively low labour costs. During the 'crawling' crisis a variety of measures were taken to maintain competitiveness, putting downward pressure on wages and social security. As we demonstrate, Poland has been following the policy of liberalisation and deregulation in the labour market since the systemic transformation. This enables us to explore whether a flexible labour market was a key element in the country’s apparent resilience in the face of the global economic downturn. It certainly appears to be the view of policymakers in Poland, who responded with even more deregulatory measures after 2008, notwithstanding the relatively good economic performance. Flexible employment combined with a lean and barely protective social security system – first used as a tool for EU accession – became one of the main austerity measures used to ease the repercussions of the global financial crisis. Some measures, which were initially laid down in the 'special' anti-crisis law designed to operate between 2009 and 2011 – for example, flexible working time – were permanently inscribed in labour law. This policy direction was similar to measures adopted elsewhere under the heading of 'internal devaluation'.
Overall, we argue that labour market reforms in Poland have had a tremendous impact, promoting insecure and precarious jobs at high social cost; on the other hand, we find very little evidence that the apparent economic success in recent years can be attributed to deregulation. Contrary to the apparent belief on the part of policymakers that labour market reforms and a highly flexible employment system might have helped Poland to avoid entering a recession, a number of other macroeconomic tools were used, which provide a much more convincing explanation. Above all, government spending in Poland during the economic slowdown after 2008 was relatively high as a share of GDP (in 2010 twice as high as in the euro zone, Eurostat) (see Figure 2). This can be partly linked to infrastructure development in preparation for the Euro 2012 football championship, and partly to the continuous stream of EU structural funds. Moreover, there was no significant collapse in the banking and financial sectors in Poland, due to relatively low personal debt levels and a relatively well regulated banking sector. Poland was also able to retain some competitiveness through a devaluation of the Polish zloty, which was not tied to the euro exchange rate (Rae 2013). However, the exchange rate has fluctuated over the years, with some significant devaluations alternating with revaluations, without any clear relationship to export performance. There was a substantial devaluation relative to the euro in late 2008 and early 2009, such that the average 2009 level was 19 per cent below the average 2008 level, but this was largely restored in the following years. The 2010 level was only 6 per cent below that of the immediate pre-crisis year (2007) and above the 2005 average.

We focus our analysis on the supply-side labour market policies aimed at reducing labour costs and, more recently, at flexibilising employment. In particular, we explore the role that a flexible labour market – with a high incidence of nonstandard, low paid and relatively unprotected contracts – might have played in the adjustment of the Polish economy when the crisis hit most of the developed world. In order to substantiate our thesis, we look first at the labour market and social policies pursued in Poland during the transformation to a market economy after 1989, their evolution on the eve of Poland’s accession to the EU and in the aftermath of the global economic crisis. We then consider how far changes in unemployment and selected economic indicators relate to the policies pursued. Drawing comparisons with neighbouring countries, where the mix of policies pursued has not been uniform, we conclude that there is no demonstrable evidence that the liberalising and deregulatory
The policy path undertaken in Poland has in fact helped to keep a competitive advantage in attracting foreign investment and preserving economic growth.

1. Pathways to labour market deregulation

1.1 Systemic transformation and the challenge of unemployment in Poland

A prerequisite for understanding how labour market policies and a strategy of economic competitiveness developed in Poland is to consider them in a longer-term perspective, since the systemic transformation. At the beginning of the 1990s, in the aftermath of the Solidarity movement and economic recession of the second half of 1980s, Poland underwent a systemic shift in economic policy widely known as ‘shock therapy’. It transformed the existing state planned economy into a market economy (Kowalik 2009; Hardy 2009; Tittenbrun 2007). This process was ushered in by decisions taken in 1990 by the newly elected government, guided by foreign economic advisors (Kowalik 2009; Tittenbrun 2007, Vol. 2). They introduced a package of fiscal, trade, wage and employment reforms; these measures deepened a systemic crisis that lasted until the second half of the 1990s.

Source: Eurostat.
The particular direction of industrial policies, as part of shock therapy, was a consequence of pressures from several sides: the European Round Table of Industrialists (in order to protect their interests in a newly opened market), the World Bank and the IMF (in order to restructure Polish debts) (Tittenbrun 2007, Vol. 3). The shock therapy, with its mantra of macroeconomic stabilisation, liberalisation and privatisation, lost momentum, partially as a result of political choices aimed at reducing the social costs of transition by building on the existing welfare state (Bohle and Greskovits 2012: 153) and partially as a consequence of massive strikes in 1992 and 1993 (see Figure 3).

Figure 3  **Number of strikes in Poland**

Source: Central Statistical Office of Poland.

The social pressure forced the government to maintain social protection in terms of unemployment benefits and early-retirement schemes, as well as to introduce institutions of national social dialogue (the Tripartite Commission on Social and Economic Affairs), albeit with rather limited prerogatives and an overall goal of 'maintaining social peace'. For instance, pension expenditure as a proportion of GDP was increased from 6.5 per cent in 1989 to 14.7 per cent in 1992 (Bohle and Greskovits 2012: 156). On the other hand, in 1994 elements of conditionality were introduced into the social security system, for example, with regard to

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unemployment. Henceforth, the unemployed could be deprived of that status for a period up to six months for various reasons (such as refusal to accept a job offer or undergo a medical check-up, or if their income rose above 50 per cent of the minimum wage). Consequently, combined with the changes in the health care system and other social security provisions in the late 1990s, it opened up the possibility of restricting access to these public services and tightly linking it with the applicant’s employment history. The law also limited the scope of entitlement to unemployment benefits. First, it excluded groups in atypical employment and, in 1994, graduates. In practice, this deprived the great majority of unemployed of any financial support. While in 1990 79.2 per cent of the registered unemployed were entitled to benefits, in 2000 the figure was only 20 per cent. The level of allowances was also reduced to 36 per cent of the average wage in 1994.

In 1998–2001, Poland underwent a second wave of neoliberal reforms led by Solidarity Electoral Action. They exacerbated the encroaching commercialisation of public services by restructuring health care, public administration, education and pensions. In the early 2000s, the expectation was that competitiveness would be promoted by freezing the minimum wage (in 2002) and then by keeping its increases low. As Bohle and Greskovits observed (2012: 87), the second wave of reforms also reflected EU pressure to 'ensure compliance with the Maastricht criteria of Economic and Monetary Union (EMU) enlargement'; they also point out that 'further convergence on the EU requirements has entailed a rush for monetary and exchange rate stability, fiscal discipline and welfare state retrenchment'. Slashing corporation tax (from 40 per cent in 1989 to 19 per cent in 2004) and labour market reforms were introduced to attract new, mainly foreign investments (Bohle and Greskovits 2012).

During the first four years of transition (1989–1993) unemployment grew from nearly zero (officially) to 3 million and the unemployment rate increased to 16.4 per cent in 1994 (see Figure 1). As estimated by Kabaj (2001), between 1990 and 2001 job losses, mainly in the public sector, reached 5.1 million. The first wave of unemployment at the beginning of the 1990s (see Figure 1) was related to the liquidation of (mainly) state-owned heavy industry. It resulted from the need to replace an outdated applicable law is the Act on Employment Promotion and Labour Market Institutions, enacted in 2004 (Dz.U. 2004 nr 99 poz. 1001, http://isap.sejm.gov.pl/DetailsServlet?id=WDU20040991001).
and distorted industrial infrastructure, increased adaptation pressures in the liberalised goods and services market and changed fiscal policies aimed at halting wage growth in the public sector and increasing interest rates for state-owned enterprises. Furthermore, the deregulation of food and services prices and liberalisation of foreign trade induced hyperinflation, which pushed down real wages. At the same time, the government introduced new labour market policies to tighten control over the unemployed and limit their access to benefits and social security.

In the first years of transformation (until 1997), there was no systematic government programme to combat unemployment. Indeed, the threat of job loss was used by employers to discipline the labour force (Kozek 2013). In 1989–1993, average real wages declined by around 29 per cent (Kieżun 2012: 131), which sharply diminished domestic demand and led to higher inequality and impoverishment, especially among production workers and farmers, amounting to a radical change in the class structure. While the share of income from business activities in total income grew to 60 per cent between 1989 and 1993, the wage share and the proportion due to individual agricultural activity halved, while the share of income from social security benefits (such as pensions and unemployment allowances) increased by one quarter (Kowalik 2007: 3).

Economic slowdown at the beginning of 2000s, as well as industrial and public sector restructuring (Charkiewicz 2009; Hardy 2009) ushered in the next wave of job losses, resulting in a rise in the unemployment rate to 20 per cent in 2002 (see Figure 1). The number of employed persons decreased from 15.5 million in 2000 to 12.7 million in 2004 (GUS 2006) and the unemployment rate remained at high levels until 2005. In the context of high unemployment, wage pressure decreased. The situation improved in the years leading up to the global economic crisis, but since 2009 Poland has experienced further growth in unemployment (up to 13.4 per cent in 2013), with a slow but stable fall in employment, largely in line with the cyclical fluctuation in output. Between 2009 and 2013 the total number of employed people fell by more than 300,000 (of whom 73 per cent were women), which contributed to a decrease in workers’ labour market bargaining power. In 2014, some recovery in employment was observed. However, in 2008–2014 employment fell in, among other things, manufacturing, water supply, construction, agriculture and retail.
1.2 Labour market reforms

We argue that, as a political strategy, both macroeconomic and labour market policies experienced three turning points related to three stages of economic recession in Poland. The first was observed at the beginning of the 1990s. It took the form of 'shock therapy' and served as a tool to introduce neoliberal capitalism in Poland. In this phase we cannot speak about coherent labour market policy but rather a neoliberal macroeconomic package that effected a systemic shift mainly through market liberalisation and a low wage policy. The second phase occurred at the turn of the 1990s and 2000s and aimed at stabilising the economy on the eve of EU accession. It involved, among other things, the second wave of privatisation of state-owned enterprises, the partial commercialisation of public services and legal changes to bring the country’s laws into line with EU law. The third stage took place as an outcome of the 'silent' crisis that came to Poland after some delay at the beginning of 2010. It encompassed, among other things, the further liberalisation of the Labour Code – in particular with regard to the use of fixed-term contracts and working time regulations – the introduction of ‘new public management’ elements in employment policies and a variety of austerity measures to restrain the growth of the public debt and public deficit.

One important conclusion of studies of labour market policy in Poland (Kozek 2013; Męcina 2009) is that it is characterised by incoherence, frequent changes and dependence on electoral logic. Until 1997, there was no strategic government document concerning the long-term planning of labour market policy. The situation changed at the beginning of the 2000s, however. The systemic shift from a policy of full employment and the creeping deregulation and decentralisation of the social security system in the 1990s, coupled with rapid unemployment growth (see Figure 1) and a collapse in trade union density (from 38 per cent in 1987 to 12 per cent in 2014; cf. Czarzasty and Mrozowicki 2014) created very unstable conditions in the labour market in terms of both employment protection and unemployment security. This situation overlapped with preparations for systemic adjustment to EU accession. As a result, a coherent political strategy on structural problems in the labour market was urgently needed. New policies developed in the early 2000s aimed at increasing employment and adjusting Poland’s legal framework to those of western European countries. As remarked by Kozek (2013) and Giermanowska (2013), the labour market policies largely reflected EU documents such as the European Employment
Strategy from the late 1990s. Flexible forms of employment were a particularly important tool in this policy approach.

With regard to flexible employment, the most important developments took place in 2003—2004, especially concerning the Labour Code. Until the 2000s Poland had medium-level labour market regulation, characterised by relatively strict protection of standard employees, fairly weak protection of the unemployed and a policy of supporting early retirement as a way of enhancing accelerated restructuring of state-owned enterprises (Rymsza 2005). Two years before EU accession, the government – emphasising the need to increase employability and employment flexibility – implemented legislative changes in support of labour market deregulation. The most important of these were: (i) legislation on temporary work agencies; (ii) introduction – in 2003–2004 – of the possibility of concluding an unlimited number of fixed-term contracts (previously, up to three fixed-term contracts for a period of up to three months, currently, the third contract must be open ended); (iii) exemption of SMEs from obligation to establish a company social fund; and (iv) suspension of collective agreements for employers in a difficult economic situation. Looking at the OECD’s index of employment protection (OECD 2014), we observe that the outcome of labour market reforms in 2002–2003 was a decrease in workers’ protection against collective dismissal. If we examine the various aspects of employee protection more closely, we can see that in 2013 Poland had a higher level of protection against individual dismissals (a score of 2.20 for regular contracts) than the United Kingdom (1.12) or the United States (0.49), but that employees were less protected in this respect than in some countries in continental Europe, such as Germany (2.72). When provisions for collective dismissals are also taken into account, protection for workers in Poland (2.88) was the same as in the United States, slightly higher compared with the United Kingdom (2.62), but significantly lower than in Germany (3.63).

On top of that, within the framework of the new Act on the Employment Promotion and Labour Market Institutions enacted in 2004 the new labour market policies were applied which further deregulated the labour market, while imposing controls on the unemployed. The new regulations reduced the duration of unemployment allowance to a maximum of six months and fixed the amount of unemployment allowance at 120 euros per month (in 2014 it amounted to 170 euros for the first three months and 135 euros for the next three months). Hence, the only people entitled
to financial support were those whose contracts had been terminated for company reasons. This new law also limited the range of groups entitled to training and internships to those under 25 and above 50 years of age, people without qualifications and disabled and single parents with at least one child under 7 years of age. However, the new policies that required new activities were not secured with extra financial support. Between 2005 and 2011 total expenditure on labour market policies of all kinds declined (see Table 1). This decline is to be accounted for first and foremost by the reduction of expenditure on out-of-work income maintenance and support (mostly unemployment benefits) and early retirement benefits, which were relatively high in Poland in the 1990s with a view to softening the negative effects of neoliberal transformation.

Table 1  **Expenditure on labour market policy (% of GDP)**

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<tr>
<th>Type of measures</th>
<th>2005</th>
<th>2006</th>
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<th>2011</th>
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<tr>
<td>EU28 average</td>
<td>1.99</td>
<td>1.81</td>
<td>1.59</td>
<td>1.6</td>
<td>2.15</td>
<td>2.15</td>
<td>1.89</td>
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<tr>
<td>Total (Poland)</td>
<td>1.28</td>
<td>1.16</td>
<td>1.01</td>
<td>0.9</td>
<td>0.96</td>
<td>1.04</td>
<td>0.72</td>
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Source: Eurostat.

As the data show, the global crisis began to affect the Polish labour market relatively late compared with other EU economies and employment outcomes proved to be less profound than in earlier systemic crises. Nonetheless, in 2009 the Polish government undertook anti-crisis measures and adopted the Act on Alleviating the Effects of the Economic Crisis on Employees and Employers. One of the assumptions of the anti-crisis measures was that the development of even more flexible employment would create a cushion for companies undergoing economic downturn. The new law made it possible to conclude an unlimited number of fixed-term contracts in a period of 24 months, extended the reference period for calculating average weekly working time from 4 to 12 months (in consultation with trade unions in unionised enterprises) and, finally, introduced the 24-hour work cycle of flexible working hours and public subsidies for enterprises suffering from ‘temporary financial difficulties’.

Even though the anti-crisis package was intended to be a temporary measure, in 2013 reforms were passed in continuity with previous regulations that pushed labour market flexibilisation even further. Among other things, in 2013 the government returned to an idea that first emerged in 2009, permanently inscribing in the Labour Code the possibility of extending the reference period for calculating working time.
to 12 months if that can be justified by ‘objective’, technical or organisational reasons. Finally, as shown by Sztandar-Sztanderska (2013), the changes in the Act on Employment Promotion and Labour Market Institutions (enacted in 2014) indicate a convergence towards ‘New Public Management’ (commercialisation of the public sector). On the one hand, they aim at ‘rationalising’ expenditure on active labour market instruments by introducing the ‘profiling’ of the unemployed, which was previously unknown in Poland. On the other hand, they establish strict measures of ‘efficiency’ and ‘competitiveness’ (‘targets’) for labour market institutions (both public and private) by linking the financing of such institutions with their efficiency (according to centrally established indicators). It is important to note that the changes were introduced without trade union consent. This contributed to the stalemate in national-level social dialogue and a joint trade union decision to leave the Tripartite Commission on Social and Economic Affairs in June 2013.

In this way, the 'state of emergency' became the status quo. Social discontent has been growing in Poland, not manifest in another wave of strikes but in public demonstrations, whose intensity has increased since 2010 (Urbański 2014). The most spectacular example was the 'Days of protest' in September 2013 when over 100,000 people (mostly union members) rallied in Warsaw against the amendments to the Labour Code on flexible working time, pension reforms, the expansion of junk contracts and the lack of social dialogue with the government. In recent years, policies aimed at fighting unemployment by any means, regardless of the quality of jobs created, have begun to be challenged by trade union campaigns against the expansion of precarious employment (‘junk contracts’). Trade union actions seem to indicate an important change in the public attitude to labour market issues in Poland, which stands in clear opposition to the austerity agenda of the past.

2. Facing the crisis: have supply-side labour market policies ever worked in Poland?

In the following step, we consider the impact of the liberalising and deregulatory measures pursued before the crisis, as well as after 2009, as described in the previous section. We first consider economic performance and discuss whether it was the policies pursued – and in particular devaluation – that mattered in Poland with regard to attracting FDI and possibly helping to avoid recession by maintaining positive
economic growth. We then move on to the effects on the labour market, focusing on the unemployment rate, the structure of employment and precarious work with related social costs.

2.1 Economic performance

Following the government’s stance and taking the FDI inflows as a criterion of economic success, the policy package implemented in Poland seemed to work in the mid-1990s. The FDI inflow reached its first peak in 2000 and the share of foreign investment in GDP grew from 2 per cent in 1994 to 5.9 per cent in 2000 (MGPiPS 2003). In parallel, Poland’s overall economic performance improved: the unemployment rate decreased from 16.4 per cent in 1993 to 10.3 per cent in 1997 (see Figure 1) and annual GDP growth increased from 2.6 per cent in 1992 to 7.3 per cent in 1997. However, as the FDI inflow began to decline soon afterwards (until 2004), new sources of competitive advantage had to be sought. The labour market reforms of the early 2000s were designed to play that role, as well as to combat rapid unemployment growth. Judging by the macroeconomic developments in the mid-2000s, the policy package seemed to work again. New foreign investments flowed into Poland, both exports and domestic demand grew, while unemployment rates fell (see Table 2). The share of exports in GDP grew from 33.4 per cent in 2000 to 38.8 per cent in 2007 (its value grew almost threefold in that period), the inflow of FDI grew rapidly from 2004, reaching its historical peak in 2007 of 17.24 billion euros (see Figure 4). There was a major acceleration of domestic demand growth (9.5 per cent in 2007 as compared with –1.3 per cent in 2001, see Table 2). The registered unemployment rate, having reached its peak of 20 per cent in 2003, also fell, slowly but steadily (in 2008 it was 9.5 per cent). Even if other, external factors arguably contributed to these developments, the overall positive economic performance seemed to have reinforced trust in the dominant policy line.

While in the mid-2000s, the imposition of greater flexibility in exchange for higher wages seemed to work, the economic crisis halted this trade-off, which was dubious in any case. As a result of (i) a slowdown in outward migration and (ii) the increasingly difficult situation of companies in some sectors, labour market bargaining power and wage pressure (at both individual and collective levels, that is, via strikes) declined. Moreover, the outcomes of the policies aimed at further employment flexibilisation to improve competitiveness became
questionable. After 2012 there was an economic slowdown: GDP, FDI, exports and domestic demand lost their momentum in 2012 and 2013, and there was slow but stable growth in unemployment.

Table 2  Export, domestic demand, individual household consumption and foreign direct investment (FDI) in Poland

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<th>2001</th>
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<td>GDP per capita (%)</td>
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<td>Export (% of GDP) (Eurostat)</td>
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<td>Domestic demand (%)</td>
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<td>Individual household consumption (%)</td>
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Note: * previous year=100%
Sources: Central Statistical Office of Poland (GUS), except for Export of goods and services as % of the GDP (Eurostat).

However, a closer look at the pattern of FDI flows between 2000 and 2012 reveals that developments in Poland were nothing exceptional when compared with central and eastern Europe, but also the EU15 (Figure 4). The increase in FDI inflows after 2003 was noted also in the neighbouring countries despite a very different mix of policies (Myant and Drahokoupil 2014). After the 2008 economic slowdown, the pattern of foreign investment flows in Poland duplicates those in the EU15 as a whole.

What is more, adjustments in the cost of labour are not demonstrably related to Poland’s attractiveness to foreign capital. When the labour
market situation further deteriorated in 2012, a decline in real wages was observed for the first time since 1993. Despite the growth of the minimum wage (up to 392.73 euros in 2013), it still remained relatively low compared with western European countries. In 2008–2012, real labour productivity per employee grew faster than real wages, while real unit labour costs kept on declining from 2008 onwards (Figure 5). In 2013, labour costs in Poland were among the lowest in the EU28: labour costs per hour were 8.1 euros compared with 24.6 euros in the EU28, with lower costs only in Hungary, Lithuania, Latvia, Bulgaria and Romania (Eurostat 2014). Despite these downward pressures on wages and a continuous decline in real unit labour costs after 2008, the pattern of FDI flows in Poland seemed to develop no more favourably than in the Czech Republic, where labour costs increased in the same period. It thus becomes hard to argue that specific labour market policies pursued in Poland made any discernible difference.

Although supply-side labour market policies combined with low labour costs were still pursued as a means of maintaining the competitive advantage of the Polish economy, the positive correlation between deregulatory measures and a positive economic performance clearly ceased after 2008. Looking at macroeconomic data, the situation got worse in 2009 (Tables 2 and 3). Despite the growth in GDP per capita in 2010 (2.9 per cent) and 2011 (4.5 per cent), the positive economic performance was overshadowed by a growing public deficit and debt pressure. Following the growth in the public deficit in 2009 (7.4 per cent of GDP) and 2010 (7.6 per cent of GDP), its level almost returned to that
of the pre-crisis period. Public debt grew from 45 per cent in 2007 to 55.7 per cent of GDP in 2013 (see Table 3). In 2013 GDP per capita growth returned to the level of 2009 (1.6 per cent) and domestic demand growth was very low (0.2 per cent), as was that of household consumption (1.43 per cent). FDI inflows fell from 10.9 billion euros in 2011 to 2.2 billion euros in 2013 and export growth also slowed down, from 16.1 per cent in 2011 to 7.4 per cent in 2013 (see Table 2). Even though the share of exports in GDP continued to grow and current estimations of domestic demand growth (4.6 per cent) and GDP growth (3.3 per cent) in 2014 are optimistic (GUS 2015a), further flexibilisation and dualisation of the labour market at the same time pushed many Polish households into precarity.

Thus, the Polish economy’s ability to attract foreign investment can hardly be linked to a political strategy for developing the labour market alone. Instead, a range of other factors has been pointed out as playing a key role in attracting skill-intensive foreign investments in the mid-1990s, such as high unemployment, relatively low labour costs (compared with other European economies), a wide range of tax exemptions for private businesses and decreasing corporate taxes (from 40 per cent in 1989 to 30 per cent in 2000 and 19 per cent in 2004), as well as the legacy of complex-manufacturing experiences from the period of state socialism (Bohle and Greskovits 2012: 44). For instance, in order to stimulate foreign direct investments, the Law on Special Economic Zones was passed in 1994, creating the framework for tax incentives for investors. Indeed, analysis of foreign investment in transition economies found it

![Figure 5: Real unit labour costs](image-url)
to be predominantly attracted to countries with existing industries and good geographical positions, close to the economic heart of Europe (Myant and Drahokoupil 2012).

Table 3  **Selected economic indicators, Poland, 2000–2013**

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<td>Public deficit (% of GDP)</td>
<td>–3</td>
<td>–5.1</td>
<td>–5</td>
<td>–6.3</td>
<td>–5.7</td>
<td>–4.1</td>
<td>–3.6</td>
<td>–1.9</td>
<td>–3.7</td>
<td>–7.4</td>
<td>–7.6</td>
<td>–4.9</td>
<td>–3.7</td>
<td>–4</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>36.8</td>
<td>37.6</td>
<td>42.2</td>
<td>47.1</td>
<td>45.7</td>
<td>47.1</td>
<td>47.7</td>
<td>45.7</td>
<td>50.9</td>
<td>53.6</td>
<td>54.8</td>
<td>54.4</td>
<td>55.7</td>
<td></td>
</tr>
<tr>
<td>Harmonised indices of consumer prices, annual average rate of change (%)</td>
<td>10.1</td>
<td>5.5</td>
<td>1.9</td>
<td>0.8</td>
<td>3.5</td>
<td>2.1</td>
<td>1</td>
<td>5.5</td>
<td>5.9</td>
<td>3.5</td>
<td>3</td>
<td>2.5</td>
<td>6.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Average nominal wage growth per year (%)</td>
<td>12.7</td>
<td>7.2</td>
<td>3.5</td>
<td>3.2</td>
<td>4</td>
<td>4</td>
<td>4.1</td>
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<tr>
<td>Real labour productivity per person employed (annual % change)</td>
<td>n.d.</td>
<td>n.d.</td>
<td>n.d.</td>
<td>4.8</td>
<td>4</td>
<td>1.4</td>
<td>2.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real unit labour costs growth (% change)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–2.3</td>
<td>–2.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum wage (% change)</td>
<td>32.6</td>
<td>8.6</td>
<td>0</td>
<td>5.3</td>
<td>3</td>
<td>3</td>
<td>5.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real wage (% change)</td>
<td>1</td>
<td>2.5</td>
<td>0.7</td>
<td>3.4</td>
<td>0.7</td>
<td>1.8</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>


On the other hand, the policy focus on foreign investment, as well as export-led strategy for growth arguably overestimated their role in the overall performance of the Polish economy (see Figure 2). In 2007, exports of goods and services accounted for 40.8 per cent of Polish GDP, while in the neighbouring Czech Republic, Hungary and Slovakia their share was twice as high (Myant and Drahokoupil 2012). If we are to look
for alternative explanations of Poland’s relatively good GDP performance, the role of domestic demand should be considered and its relatively small drop in 2007 can provide part of the explanation. In this respect, it was not wage moderation, but wage increases that might have translated into a positive trend. As argued by Meardi (2012), the improved labour market situation boosted workers’ bargaining power in Poland and led to stronger labour assertiveness in pay demands. Indeed, a wave of strikes was triggered in 2006 (24,600 people went on strike in comparison with 1,600 in 2005), reaching its peak in 2008 when 209,000 workers went on strike and 12,765 strikes took place; the highest number since 1989 (see Figure 3). In the aftermath, we saw an increase in nominal wages (by 8.6 per cent in 2007 and 9.4 per cent in 2008) and real wages (by 5.5 per cent in 2007 and 5.9 per cent in 2008) and an extremely high increase in the minimum wage (by 20.3 per cent in 2007 and 13.3 per cent in 2008, see Table 3).

2.2 Employment and social outcomes

The flexibilisation of employment triggered by legal changes in the first half of the 2000s, resulted in a spectacular expansion of temporary jobs (see Figure 6). This was strengthened by the anti-crisis regulations adopted in 2009 that pushed labour market flexibilisation even further. By 2014, Poland had become notorious for temporary contracts in the EU: in the second quarter of that year, 28.4 per cent of employees had a contract of limited duration, as compared with 14 per cent in the EU28. According to the Eurostat labour force survey, temporary employment affects young people above all: in 2012, 70 per cent of people aged 15–24 had this kind of contract. We can also see the symptoms of a dual labour market in which temporary employment is grouped mainly among workers with secondary/non-tertiary and lower levels of education (72.6 per cent). As demonstrated in Table 4, growth of temporary employment in 2008–2014 was observed in most economic sectors except for manufacturing, construction and financial, insurance and real estate activities. In absolute terms, the biggest increase in temporary employment was in wholesale and retail (up by 74,200 workers in 2008–2014). Importantly, growth in temporary jobs was observed both in sectors in which total employment declined (such as agriculture, forestry and fishing or wholesale and retail) and in sectors in which it grew, including a range of services. In the latter case, the growth of temporary employment was often faster than total employment growth (for example,
electricity and gas supply, IT services, transportation and storage, human health and social work activities and others). Finally, there are also some sectors in which employment growth was accompanied by a decline in temporary jobs, namely financial and insurance activities and real estate activities. Overall, the patterns of temporary job creation do not seem to follow clear sectoral lines.

Figure 6 Changes in unemployment and atypical employment in Poland 1999–2013

Nevertheless, labour market flexibilisation was expected to ease the unemployment crisis by providing incentives for employers to create jobs. The analysis of patterns of job creation over the long term (Figure 7) casts doubt on the effectiveness of the measures taken. In fact, it seems that the periods pre- and post-2008 are quite different in their patterns of job creation and in particular in the role of temporary employment. In the periods of growing unemployment (2000–2002) and its stabilisation at a high level (2002–2004), permanent jobs were declining steadily and substantially, while temporary jobs grew substantially each year. This development brought little change in the total number of jobs and in the unemployment rate, suggesting that what was occurring was a replacement of permanent employment by temporary work and not job creation. However, since 2008 there has been relatively little net change in temporary jobs, and the higher unemployment rate seems to be driven by overall weak job creation, along with a sharp decline in permanent jobs (but only in 2010) (see Figure 7). Thus, there is little evidence that
Table 4  Employment, employees and temporary employees by branch, Poland, 2008, 2014

<table>
<thead>
<tr>
<th>Branch</th>
<th>Total employment ('000)</th>
<th>2008–2014 change %</th>
<th>Total number of employees ('000)</th>
<th>2008–2014 change %</th>
<th>Share of employees in total emp. (%) 2014</th>
<th>Temporary employment rate (%)</th>
<th>Change in temp. emp. rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All sectors</td>
<td>15 477.0</td>
<td>0.43</td>
<td>11 932.5</td>
<td>2.3</td>
<td>78.5</td>
<td>26.4</td>
<td>2.72</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>2 101.7</td>
<td>-15.01</td>
<td>205.0</td>
<td>21.95</td>
<td>99.9</td>
<td>12.1</td>
<td>-3.39</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>205.0</td>
<td>21.95</td>
<td>205.0</td>
<td>21.95</td>
<td>99.9</td>
<td>12.1</td>
<td>-3.39</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3 212.7</td>
<td>-6.93</td>
<td>3 017.5</td>
<td>-7.4</td>
<td>93.4</td>
<td>31.7</td>
<td>-2.26</td>
</tr>
<tr>
<td>Electricity, gas supply</td>
<td>162.1</td>
<td>4.94</td>
<td>162.1</td>
<td>4.94</td>
<td>98.5</td>
<td>4.5</td>
<td>8.1</td>
</tr>
<tr>
<td>Water supply; sewerage, waste management</td>
<td>166.7</td>
<td>-6.12</td>
<td>159.2</td>
<td>-3.5</td>
<td>98.1</td>
<td>16.6</td>
<td>22.1</td>
</tr>
<tr>
<td>Construction</td>
<td>1 176.5</td>
<td>-4.43</td>
<td>939.4</td>
<td>-8.5</td>
<td>76.4</td>
<td>39.1</td>
<td>3.97</td>
</tr>
<tr>
<td>Wholesale and retail</td>
<td>2 286.6</td>
<td>-1.10</td>
<td>1 717.3</td>
<td>3.6</td>
<td>78.7</td>
<td>32.2</td>
<td>9.43</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>892.3</td>
<td>1.74</td>
<td>742.5</td>
<td>4.3</td>
<td>85.3</td>
<td>15.9</td>
<td>20.8</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>300.8</td>
<td>13.83</td>
<td>251.1</td>
<td>16.1</td>
<td>85.2</td>
<td>42.5</td>
<td>45.5</td>
</tr>
<tr>
<td>Information and communication</td>
<td>303.9</td>
<td>20.86</td>
<td>257.5</td>
<td>17.0</td>
<td>82.1</td>
<td>25.4</td>
<td>27.6</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>335.1</td>
<td>7.28</td>
<td>301.8</td>
<td>0.6</td>
<td>84.4</td>
<td>20.2</td>
<td>17.9</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>147.0</td>
<td>5.85</td>
<td>134.0</td>
<td>-2.5</td>
<td>84.0</td>
<td>16.0</td>
<td>13.3</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>391.0</td>
<td>43.30</td>
<td>246.0</td>
<td>43.5</td>
<td>63.0</td>
<td>27.0</td>
<td>25.4</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>370.5</td>
<td>18.76</td>
<td>336.6</td>
<td>18.1</td>
<td>90.4</td>
<td>55.1</td>
<td>57.2</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>952.1</td>
<td>10.12</td>
<td>952.1</td>
<td>10.1</td>
<td>100.0</td>
<td>13.3</td>
<td>12.6</td>
</tr>
<tr>
<td>Education</td>
<td>1 197.7</td>
<td>2.86</td>
<td>1 173.6</td>
<td>1.6</td>
<td>96.8</td>
<td>16.0</td>
<td>16.1</td>
</tr>
<tr>
<td>Human health</td>
<td>831.2</td>
<td>11.12</td>
<td>782.9</td>
<td>7.8</td>
<td>91.4</td>
<td>15.4</td>
<td>17.2</td>
</tr>
<tr>
<td>Arts, entertainment and recreation</td>
<td>202.4</td>
<td>-0.69</td>
<td>182.8</td>
<td>-3.5</td>
<td>87.8</td>
<td>21.5</td>
<td>23.0</td>
</tr>
<tr>
<td>Other service activities</td>
<td>218.4</td>
<td>6.50</td>
<td>146.8</td>
<td>3.3</td>
<td>65.2</td>
<td>37.0</td>
<td>33.3</td>
</tr>
<tr>
<td>Households as employers</td>
<td>19.6</td>
<td>33.67</td>
<td>18.5</td>
<td>30.3</td>
<td>92.0</td>
<td>66.5</td>
<td>76.3</td>
</tr>
</tbody>
</table>

Source: Eurostat.
High levels of temporary employment in Poland have cushioned the effects of the global economic crisis by allowing rapid adjustment of staffing levels. If anything, employment adjustment in the recent crisis was achieved by permanent staff reductions.

Figure 7 The net changes in employment by type, ‘000s (lhs), % (rhs)

Turning to other forms of economic activity, as demonstrated in Figures 6 and 7, self-employment in Poland remains relatively stable and thus its impact on employment and unemployment is not evident. Contrary to EU trends, the share of part-time employees in Poland has declined, from 9.3 per cent in 2000 to 7.3 per cent in the second quarter of 2014 (in the EU as a whole, the figures are 15.8 per cent in 2000 and 19.7 per cent in 2014). The reason for the difference between Poland and the EU as a whole is the low wages, which make it difficult for part-time employees to support themselves. Another reason is the prevalence of civil law contracts, which offer more advantages for employers than standard part-time contracts. In the case of civil law contracts (freelance contracts and specific-task contracts), the minimum wage and in fact most labour code regulations do not apply. As far as specific-task contracts (and self-employment) are concerned, employers do not need to cover social security contributions, contributions to national health insurance system or training and health and safety costs, which have all been shifted to the employee. Although the overall level of temporary work remained stable after 2008 (Figure 6), there is some evidence of a shift towards civil law contracts. According
to the Central Statistical Office of Poland (GUS 2014), the number of people solely on civil law contracts in 2012 amounted to 1.35 million (as compared with 546,700 in 2010), or around 10 per cent of employed people. Unfortunately, no data have been collected in Poland to show the sectoral differentiation of civil law contracts.

An important development, which should not be overlooked when analysing unemployment changes in Poland, is mass migration. Between 2002 and 2007 nearly 1.5 million people left Poland and as a result the number of Poles living abroad almost tripled (to 2.27 million, Table 5). To put this figure in perspective, 1.5 million corresponds to nearly 9 per cent of the economically active population in Poland in 2007. This outflow coincided with the fall in unemployment from 20 per cent in 2002 to 11.2 per cent in 2007; that is, from 3.1 million to 1.7 million people (see Figure 1). Although the unemployed constituted a relatively small share – some 2 per cent – of post-2004 migrants from Poland (GUS 2013), their departure significantly reduced the competition for jobs among those who stayed. Therefore, while it is difficult to assess the relative impact of migration on the market situation as compared with the role of economic growth, employment policy or a better environment for foreign investors, it is simply impossible to disregard such a mass outflow of workers in such a short time span.

Table 5  Level of foreign migration, Poland, 2004–2011 (‘000)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>786</td>
<td>1,000</td>
<td>1,450</td>
<td>1,950</td>
<td>2,270</td>
<td>2,210</td>
<td>2,100</td>
<td>2,000</td>
<td>2,017</td>
</tr>
<tr>
<td>EU</td>
<td>451</td>
<td>750</td>
<td>1,170</td>
<td>1,550</td>
<td>1,860</td>
<td>1,820</td>
<td>1,690</td>
<td>1,607</td>
<td>1,622</td>
</tr>
</tbody>
</table>

Source: Central Statistical Office of Poland.

While the expected positive impact of labour market deregulation on unemployment levels does not emerge from the analysed data, a range of its other social consequences and costs are well documented. As indicated by the literature (for example, Sochańska et al. 2013: 11) the growing number of flexible jobs seems to be related to a tendency to minimise employment costs and protect companies against bankruptcy rather than to the creation of an 'efficient, flexible labour market based on high employee mobility'. Therefore, the spread of temporary employment, which had a clear impact on lowering labour costs, also limited the purchasing power of temporary workers. Based on EU-SILC
data, Kiersztyn (2012) suggests that, regardless of occupation, temporary employees earn less than permanent workers, by around 30 per cent on average. The same analysis shows that workers with contracts of limited duration are significantly more often at risk of poverty and economic deprivation (50.8 per cent households of temporary workers compared with 23.8 per cent of the households of permanent workers) and financial exclusion (16 per cent compared with 5.9 per cent of permanent workers).

A lack of prospects for stable and good quality employment can contribute to the migration of graduates or discourage those already living abroad from returning to Poland. Precarity associated with temporary work undermines the sense of economic security much needed at the stage of family formation, thus negatively affecting both fertility rates and women’s employment (Piasna and Plagnol 2015). Moreover, the spread of non-standard employment associated with lower investment in human capital (Forrier and Sels 2003; Cutuli and Guetto 2013) does not form a solid basis for a knowledge-based economy and the growth of skill-intensive sectors. This raises questions about the sustainability of such a direction of development in the long run.

3. Conclusions

When the crisis struck most of the developed world in 2008, Poland stood out among its neighbours as the only country that preserved positive economic growth, albeit at a slower pace than in preceding years. Poland’s competitiveness has traditionally relied, according to national strategies for development and policymakers, on attracting foreign investment. In light of the supply-side labour market policies that have been implemented in Poland over the past two decades, contributing to a high level of labour market flexibility and precarity, the question arises of how successful they were in attracting FDI flow and the extent to which it can account for Poland’s apparent resilience in the economic downturn. The evidence considered challenges such assertions; instead, relatively low dependency on exports, resilience of the financial sector and continuing public spending explain why the crisis was not so deep in Poland.

Due to a number of intervening factors – among others mass migration, the effects of EU enlargement and the inflow of EU funds – the outcomes of labour market and economic reforms in the early 2000s are difficult to assess. On the one hand, the establishment of a flexible labour market and a favourable fiscal environment for business in the early 2000s...
coincided with economic growth in the following years and a fall in unemployment. Indeed, most of the positive macroeconomic developments in the period 2004–2007 that coincided with the political strategy of labour market flexibilisation and fiscal discipline might be interpreted as evidence of enhanced performance by the Polish economy as a result of such policies. We could observe export growth and an inflow of FDI, as well as substantial GDP growth. At the same time, the unemployment rate slowly started to fall and the employment rate started to grow for the first time since the mid-1990s. Workers’ better bargaining position led to a wave of strikes and wage increases (both minimum and real wages).

On the other hand, it can be suggested that these developments unfolded in parallel rather than in a causal sequence (the familiar fallacy expressed by ‘post hoc ergo propter hoc’). A series of comparisons with other countries in the region seems to support such an assertion. Moreover, in the long run, the policies pursued came at the price of externalised social costs. The changes in the Labour Code and new labour market policies led to the flexibilisation of employment, including a spectacular expansion of temporary employment. Thus, the side effect of the supply side labour market policies implemented in the 2000s purportedly to counteract extremely high unemployment was the emergence of a dual labour market in Poland, with a growing number of lower-paid, insecure jobs and increasing control over the unemployed, limiting their access to institutional and financial support. The outcome of labour market deregulation in the 2000s for labour market performance is difficult to assess, also due to the systematic ‘exit’ of workers from the Polish labour market via migration.

In sum, policymakers’ belief in the positive role of lowering labour costs and labour market deregulation in attracting FDI to Poland cannot be supported with hard evidence. International comparisons of cyclical fluctuations in foreign investment, labour costs and economic growth suggest that labour market reforms were not a crucial factor in determining Poland’s attractiveness to investors. However, the negative consequences of such policies are evident in terms of increased precarity for workers and externalised social costs. This should raise concerns about government claims that labour market reforms are necessary to help Poland to avoid recession and restore economic competitiveness.
References


All links were checked on 05.10.2015.