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Remarks on the Social Costs of Long-Term Unemployment in Poland

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Jerzy KITOWSKI

Remarks on the Social Costs of Long-Term Unemployment in Poland

Uwagi o społecznych kosztach długotrwałego bezrobocia w Polsce

INTRODUCTORY REMARKS

The main thesis of the present paper can be formulated in the following way: There is no painless transition from a commanding-distributive economy to a market economy. However, there exists a key problem of whether the social costs of this transformation had to be so high.

The main economic difficulties of the present period include ¹:

- a) a lower national income per one citizen as compared with the situation 20 years ago,
- b) enormous and spontaneous rise of unemployment,
- c) a growing budget deficit and a two-figure inflation,
- d) progressing decapitalization of the production property,
- e) unfavourable structure of investments and production,
- f) exceptionally limited building of dwelling houses,
- g) lack of an efficient mechanism of the capital allocation.

These difficulties are termed by E. Łukawer as a "Bermuda triangle" which is marked by: budget deficit — inflation — recession.

The basis of the system transformation carried out in our country, especially of marketization of the economy, was provided by the program worked out by L. Balcerowicz. In its principal outline, this program was presented to the Parliament at the beginning of October 1989, and it was

¹ E. Łukawer: Kilka uwag o podstawach polityki ekonomicznej i sytuacji gospodarczej kraju [W:] Czynniki i bariery rozwoju rejonów przygranicznych (ed. J. Kitowski, Z. Zioło. Kraków—Rzeszów 1993.

passed in the form of a body of 11 acts in the second half of December of the same year.

To make the picture clear, it should be also added that this program was closely linked with the premises of the International Currency Fund. These can be expressed symbolically in the form of so-called "five de's": denationalization, deregulation, demonopolization, deflation and devaluation.

It was a serious carelessness, or even light-mindedness which took place when this program was introduced (1 January, 1990), to announce what kind of social costs would have to be borne. In comparison with 1989, the industrial production was to drop by 5%, the national income by 3.1% and the consumption by 1%, while unemployment was supposed to reach the level of 400,000 people. However, at the same time it was emphasized that some animation should be felt as soon as after half a year. Obviously, that prognosis was by no mean likely to be carried out.

A SYNTHETIC CHARACTERIZATION OF UNEMPLOYMENT IN POLAND

In January 1990, job agencies recorded nearly 56,000 unemployed people. In June of that year, this figure grew almost 10 times, while in December — 20 times. In December 1991, the unemployment rate increased almost 40 times, in the next year — 45 times, and in September 1993 — more than 50 times (Tab. 1).

The greatest number of group dismissals (607,000) fell on September 1992, while the highest proportion of this form of reductions in the number of the unemployed occurred in May 1992 — on the average, every fourth unemployed person lost his job following a group dismissal.

5% unemployment rate (in relation to the number of professionally active people) was achieved in September 1990, 10% — a year later, and 15% rate in July 1993 (in relation to the total population professionally active, and not to the civil population professionally active — for the year 1992, the Central Statistical Office considered this socio-professional group).

In September 1993, the number of the unemployed was 2,830,000, which gave the unemployment rate of 15.1%. This means that on the average, every professionally active person was left without work. Most of the unemployed were women (53%). The proportion of those who had not ever been employed yet among the newly registered unemployed people was 21.2%. The unemployed lost their jobs due to group dismissals, who constituted 12.5% of the total number of the newly registered unemployed. In September 1993, those who were employed previously

Tab. 1. The unemployment registered in job agencies and the unemployment rate in Poland in the years 1990—1993
 Bezrobotni zarejestrowani w biurach pracy oraz stopa bezrobocia w Polsce w latach 1990—1993

Years	The situation at the end of the month			
	March	June	September	December
	The unemployment rate a in %			
1990	266,6	568,2	926,4	1 126,1
1991	1 322,1	1 574,1	1 970,9	2 155,6
1992	2 216,4	2 296,7	2 498,5	2 509,3
1993	2 648,7	2 701,8	2 830,0	—
	The unemployment rate a in %			
1990	1,5	3,1	5,0	6,1
1991	7,1	8,4	10,5	11,4
1992 ^b	12,1	12,6	13,6	13,6
1993	14,2	14,5	15,1	—

a) In % of the professionally active population.

b) In % of the civil population professionally active.

Sources: 1) Unemployment in Poland 1st—3rd 1991, Central Statistical Office, Warsaw 1991, pp. 4, 6.

2) Unemployment in Poland, 1st—3rd quarters 1993, Central Statistical Office, Warsaw 1993, pp. 8, 19.

constituted 76% of the total number of the unemployed. For 60% of the employed, the public sector was the last place of employment, for 44% — it was industry and building trade, while for nearly 10% — agriculture and forestry.

Despite considerable methodological divergencies, it is worth following the formation of the unemployment rate in Poland against the background of the situation in the countries of the European Common Market². In 1990, the mean yearly rate of unemployment in Poland was only 3.4%, while in Spain and Ireland it was nearly 5 times bigger, and in Italy, France, Belgium and Holland it was almost 3 times as big. In 1991, the mean yearly rate of unemployment was already as high as 9.2% (in December — 11.8%; on the average, every ninth professionally active person was not employed), while Great Britain, which occupied the 5th place in Europe, had the unemployment rate of 9.4%. In 1992, the unemployment rate of 13.6% (according to the state at the end of December) already placed us on the third position (following Spain and Ireland). We outpaced Great Britain by two percent point, and France — by three. We also maintained the third position — according to the discussed comparison — in September 1993.

² Unemployment in Poland 1st—3rd quarters, Central Statistical Office, Warsaw 1993, p. 7.

It should be emphasized that in the middle of that year in 13 provinces, the unemployment rate was higher than 20% (the level of unemployment in Spain), including five (Koszalin, Suwałki, Olsztyn, Elbląg and Słupsk regions) with the unemployment rate higher than 25%, which means that on the average, every fourth professionally active person was left without a job.

It seems interesting to compare the number of the unemployed with the number of the people employed in the national sector besides individual farming. The Central Statistical Office shows another inconsistency, because they do not provide the unemployment rate constructed in such a way.

It follows from the accessible data (according to the state at the end of December 1992) that the discussed rate of unemployment was 21% (which means that on the average every fifth person working outside individual farming was left without a job). To give a comparison — the rate of 21% corresponds to the classical rate of unemployment (in December 1992) of 13.6%. In as many as 16 provinces, the unemployment rate (in relation to the number of the people employed outside agriculture) is higher than 30%, which means that every third person working in the national economy of these provinces had no work. An especially dramatic situation in this respect is to be found in three regions (Suwałki, Ciechanów and Łomża provinces), where nearly every second person working outside individual farming was left without a job.

Some consideration should be given to the structure of unemployment in Poland. According to the data of the 3rd quarter of 1993, nearly 2/3 of the total number of the unemployed was made up of young people, not older than 34 years of age, including 36% made up of the people younger than 24 years of age.

The greatest number of the unemployed is formed by the graduates from the vocational schools — 39%. Graduates from universities constitute 2% of the unemployed.

In 6 provinces, approximately every fourth unemployed person lost his job following group dismissals.

The active forms of helping the unemployed is very poor. In September 1993, the number of the unemployed trained in new professions was only 8,000 (0.3% of the number of the unemployed). 50,000 (1.3%) people were employed at intervention work, and almost 46,000 (1.6%) of the unemployed at the work for public purposes.

The proof of the stabilization of the structural unemployment is a decreasing proportion of the people on the dole. In December 1991, this rate was 79%, in December 1992 — 52.3%, while in September 1993 — 45.5%. In as many as 9 provinces, more than 50% of the unemployed

did not receive the unemployment benefit, and in two of these — Łódź and Szczecin regions, this figure was 60%.

In the third quarter of 1993, nearly 45% of the unemployed had been left without a job for more than 12 months. According to the terminology of the International Labour Organisation, this phenomenon is called long-term unemployment.³ It should be added that in certain countries the period of staying without a job within the category of long-term unemployment is much shorter for the unemployed people aged 18—24 (for example, in Sweden it is 4 months and in Great Britain 6 months). To give a comparison, in December 1992, the corresponding rate of long-term unemployment in 7 countries of the European Common Market was over 50% (in Italy and Belgium it was more than 70%), while in Sweden it was less than 5%. However, one should remember that these are not fully comparable data ⁴.

ECONOMIC INSTRUMENTS OF FIGHTING AGAINST LONG-TERM UNEMPLOYMENT IN SOME EUROPEAN COUNTRIES

It is commonly agreed that the most effective form of fighting against long-term unemployment is motivating the employers to engage the workers from the long-term unemployment group.

To give an example, according to the decisions of the German "Round Table of Social Responsibility", the major instrument of influencing the long-term unemployment in the period of two years (July 1989—July 1991) were subventions to the salaries. Those subventions were paid to the employers and they were 80% of the salaries during the first 6 months and 60% during the following months in the situation when the employed people had not had a job for at least 3 years. The rates for the employers who engaged those who had not worked for 2 to 3 years were respectively 70% and 50%, while for those who employed the people staying without a job for 1 to 2 years those rates were 60% and 40%.

In France, a system of a "contract of return to work" has been functioning since 1989. According to this system, the employer is freed from the social insurance premium for his workers for the period of 9 months if he employs long-term unemployed people. If he employs a person staying without a job for more than 3 years, he is exempt from this duty for at least as long as 18 months, and when the unemployed person is more than 50 years old, this peculiar abolition goes as far as

³ G. Gęsicka: *Długoterminowe bezrobocie*. „Rynek Pracy” 1992, 11/12, p. 9.

⁴ *Ibid.*, pp. 24—27.

the pensionary period of the people from the long-term unemployment group.

In Holland, the employer engaging the discussed category of the unemployed does not pay any insurance rates for the period of 4 years. Besides, he can receive subsidies in order to make up for the costs of training the unemployed.

In Denmark, the employers receive 9-months' subsidies if they engage a person younger than 25 years of age who has been unemployed for at least 12 months, or a person older than 25 years of age who has been unemployed for at least 2 and a half years.

Earlier pensions should be included among the instruments allowing for a relatively gentle way of "withdrawing" certain social and professional categories from the work market and for avoiding their competition for the existing jobs. In this respect, the European countries have different experiences. For example, in France in the years 1983—1988, people who had been professionally active so far and who made vacant places for younger people or the ones who had been left without a job for longer than two years, were entitled to a retirement earlier by two years. In this case, the system of earlier pensions is an instrument of activation and not "withdrawal" of the long-term unemployment group. Likewise, the earlier pensions in Germany and Great Britain performed such activating functions.

This instrument functioning in different periods in Austria, Belgium, Denmark and Finland had a completely different character. There, the status of an earlier pensioner was given to the unemployed who had been left without a job for a long period. The additional conditions were length of employment, age, the number of years left to reach the retirement age, etc. In those countries, the long-term unemployment group was then the category "withdrawn" for good by means of earlier pensions.

While discussing the problem of earlier retirement, one should remember about the demographic conditions of the work resources of the country in the nearest years. In the period between 1996 and 2000, the increase of the work resources of men will be 460,000 people⁵ (in the years 1991—1995 it will be 390,000). Within this figure, the increase of the work resources of the age of 45 years and more will be 530,000. The increase of women's labour resources will be 340,000 (the increase of the labour resources of the age of 45 year-old people and older will be 440,000).

⁵ Plan perspektywiczny do 2000 roku. Część I. Rozwój społeczno-gospodarczy i polityka strukturalna. Warszawa 1988, pp. 32—34.

THE SOCIAL EFFECTS OF LONG-TERM UNEMPLOYMENT

The causes of long-term unemployment are of structural character. They do not result from individual weaknesses or faults of the people from the long-term unemployment group. The most frequent processes causing the structural effect in the form of long-term unemployment include the following:

a) radical changes in the structure of production and services resulting in a drop of the demand for non-qualified and poorly qualified labour force,

b) the educational system inadequate to the needs of the economy and administration,

c) demographic perturbation, for example demographic explosions usually resulting in the unemployment of young people,

d) shortcomings of the benefit system, for example relatively too high benefits in relation to the salaries, and lack of control of whether the person receiving the benefit is really unemployed,

e) break-down of the local labour markets.

The two basic forms of the effects of long-term unemployment are distinguished ⁶:

1) Effects of long-term unemployment for an individual

— professional — with time, long-term unemployment causes considerable limitation of the efforts of looking for a job. Besides, one observes that the willingness for changing a job or raising qualifications drop down.

— psychological — deterioration of the picture of oneself, lowering the vitality and activity, decrease of aspirations, the feeling of isolation and being on the margin of society.

— referring to health — the studies conducted in some countries of the European Common Market showed a considerable inclination of the unemployed (as compared with the employed) to fall ill with heart diseases, circulatory and digestive disorders, neurosis and mental illnesses. A grim statistic of the increase of the of the suicide rate in Poland seems to confirm this thesis. The studies conducted in France on a group of 800,000 unemployed people showed an exceedingly big death-rate of the men who had ever been unemployed.

2) Social effects of long-term unemployment

— unused, non-productive potential of human labour (the social loss

⁶ A very clear classification of the social costs of long-term unemployment is provided in the work by G e s i c k a: *op. cit.*, pp. 15, 17.

due to this is especially high when long-term unemployment refers to young people),

— high social and budget costs of maintaining these people as well as the institutions dealing with the unemployed (benefits, social care, medical treatment, etc.),

— pauperization of the long-term unemployment group, which is followed by consequences for the unemployed themselves and for their families. Pauperization of the long-term unemployment group has also its effects on the market (lower demand), which are especially well visible in the regions of big concentration of unemployment,

— social isolation of the unemployed which can take a mass dimension (districts inhabited by the unemployed, collapsing towns and regions),

— the threat of social pathologies. One should also remember that concentrations of the long-term unemployment can provide the base for the radical political movements (results of recent elections confirm this thesis),

— a peculiar social effect of long-term unemployment is strengthening the stereotype of an unemployed person as being guilty for his situation, resourceless, having problems with keeping his psychical "normality". Such a stereotype is especially dangerous when it functions among the employers and the institutions dealing with the unemployed.

FINAL REMARKS AND CONCLUSIONS

Realization of employment is a long-term process and it cannot be treated as a goal in itself, but it must follow from complex actions whose purpose is to improve the efficiency of managing. These actions should be supported by the instruments of the state's interventionism in the necessary degree. A spontaneous increase of unemployment in Poland follows from, for example, an excessive concentration of the state on the antiinflation program, when no clear economic and spatial policies have been worked out.

The economic policy of the state above requires the following long-term activities:

a) animation of the economic growth and the process of restructuring the economy, with pro-export priorities,

b) working out and introducing the micro-economic policy, including industrial and agrarian policies,

c) working out the criteria and principles of the strategic role of the state in the conditions of market economy,

d) supporting those forms of privatization which stir up the potential of enterprise, increase the efficiency of management and the desired changes of the economic structure,

e) passing from the present policy of a positive percent rate to the policy of low-interest credit, periodically valorized according to the actual rate of inflation.

Finally, it should be emphasized that one can observe in the bibliography an undesirable manner of being fascinated with the solutions referring to fighting against the effects of unemployment in the countries with developed market economy. Examples of the solutions which have been given here should be treated only as a kind of inspiration for our studies and they can not be directly referred to incomparable socio-economic conditions.

To give an example, the many expectations associated with the development of small enterprise in Poland include the creation of new places of employment and, following this, reduction or at least hampering the rising unemployment. The experiences of the countries with developed market economy show that these expectations can be justified.

On the basis of the inquires among the unemployed in the eastern frontier region, one can formulate the following general conclusions⁷. Only 15% of the respondents showed their interest in undertaking their own (which should be emphasized) economic activity. Within this number, only a half declared their intention to do it in the nearest future, and only 3% of these had precise plans. More than 80% of the unemployed keeps a distance from undertaking their own economic activity. Half of the examined people stated clearly that they could not see any chance for themselves and they were not going to undertake anything.

However, one must remember that as follows from the generalization of nearly 200 programs of fighting unemployment⁸ (in the whole world), they are very expensive and they are financed by the central budget (up to 20% of the budget expenses). Those programs refer to the economy (e.g. great programs of intervention work and promoting small business with the government's credit warranties) and deactivation of the population. The maximum effect of such activities is about 4—8% decrease of unemployment.

⁷ A. K o p c z u k: Własna działalność gospodarcza jako forma wyjścia z sytuacji bezrobotnego (na przykładzie woj. białostockiego). „Rynek Pracy” 1992, 6, pp. 27—42.

⁸ I. W o l i ń s k a, A. W o ź n i a k o w s k i: Seminaria naukowe w IPiSS. „Polityka Społeczna” 1990, 10, p. 34.

STRESZCZENIE

Główną tezę artykułu można sprowadzić do następującego sformułowania: nie ma bezbolesnego przejścia od gospodarki nakazowo-rozdzielczej do gospodarki rynkowej. Istnieje natomiast kluczowy problem — czy społeczne koszty tej transformacji musiały być aż tak wysokie?

Społeczne koszty urynkowienia polskiej gospodarki (według programu L. Balcerowicza) przewidywały, obok 5% spadku produkcji przemysłowej, spadku dochodu narodowego o 3,1% oraz obniżenia się konsumpcji o 1%, pojawienie się na rynku pracy blisko 400 tys. bezrobotnych, przy czym, jak optymistycznie zakładano, ożywienie powinno rozpocząć się już po upływie połowy roku. Tymczasem w styczniu 1990 r. zarejestrowano blisko 56 tys. bezrobotnych, w czerwcu tego roku liczba ta wzrosła ponad 10-krotnie, a w grudniu blisko 40-krotnie, w rok później — 45 razy, a we wrześniu 1993 r. — ponad 50-krotnie (średnio co siódma osoba czynna zawodowo pozostawała bez pracy).

W artykule, obok syntetycznej charakterystyki bezrobocia w Polsce, omówiono ekonomiczne instrumenty walki z długoterminowym bezrobociem w wybranych krajach europejskich, dokonano klasyfikacji społecznych skutków długoterminowego bezrobocia oraz krytycznie oceniono dostrzeganą w krajowej literaturze przedmiotu manierę fascynowania się rozwiązaniami w zakresie walki ze skutkami bezrobocia w krajach o rozwiniętej gospodarce rynkowej (nie można ich odnosić wprost do nieporównywalnych warunków społeczno-ekonomicznych w Polsce).