

## **From employment guarantee to job competition**

- flexibilisation of the Polish labour market.

*Anna Baranowska*

## **ABSTRACT**

Most European countries in striving for competitiveness and flexibility have reformed their institutional arrangements to meet the new challenges related to globalisation, rising vulnerability of markets and accelerating technological change. The aim of this article was to elaborate on the predominant strategy of flexibilisation in Poland since transition from centrally planned to market economy. Following the theoretical arguments of Breen (1997), it can be expected that the way that risks were redistributed under conditions of increased uncertainty depended on the division of the previously defined power. Framing this statement in the Polish context, it is hypothesised that even though the economic shifts favoured qualified workforce, the welfare state sheltered the group of manual workers.

The empirical evidence shows that the welfare state changes, driven by necessity to respond to the recent economic challenges on one hand and on the other, by postulates of diminishing 'social costs' of transition to market economy, have left individuals in the certain stages of their life course relatively less sheltered from labour market risks. In particular, these seem to be labour market entrants and young people setting up their families. For workers in the later stage of their life course, especially those in declining occupations or restructured industries, social transfers provided strong disincentives to work but also protection from the unemployment and poverty risks.

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## **INTRODUCTION**

Globalisation is argued to generate an unprecedented level of structural uncertainty in Europe, which may have important implications for many spheres of individual lives, including partnerships or family formation (Blossfeld et al 2005). Thus, the examination of the way that established political and social forces filter globalization pressures and frame its influences on the experiences of workers has been pointed as a very important research area (Brady et al 2007). Although post-socialist societies, such as the Polish one, have been exposed to the influences of international trade, intensifying competition and accelerated technological change only two decades ago, their experience is very relevant to the literature on consequences of these processes, which have proceeded in these societies at high pace, much higher than in Western Europe.

Most European countries in the strive for competitiveness and flexibility have taken attempts to reform their institutional arrangements to meet the new challenges related to globalisation, rising vulnerability of markets to random shocks and accelerating technological change. This concerned also countries with socialist legacy, which had to adjust their institutions to the needs of modern economy. However, the nation-specific strategies of flexibilisation were far from uniform as they differed in terms of range, design and selectiveness (Regini 2000). In this article, the key focus is to elaborate on the predominant strategy of labour market flexibilisation in Poland since transition from centrally planned to market economy. Furthermore, the aim of this paper is to point at the main dimensions of emerging inequalities. To this end, a summary of results from existing studies on the differences in labour market outcomes of individuals in different phases of their life course and with different individual resources is presented. By complementing this overview with available empirical evidence from various national data sources, the article tries to identify the socio-economic groups, which became most exposed to risk and those, which were comparatively sheltered within recent socio-economic developments and how these inequalities on the labour market might have been “filtered” by Polish institutions.

The paper is structured in the following way. The next section provides the theoretical background on the way that the risk emerging in modern societies affect inequality structures and the way they can be mediated by institutions. The third section provides a brief description of the Polish course of transition from a

centrally planned to a market economy with special focus on the shifts in most important welfare state domains: education system, labour market policy and social security. The main dimensions of the restructuring processes taking place in Poland over the last several decades are identified and it is explained how they could be related to the concept of globalization. Next, the main patterns of inequality in terms of income and employment chances are discussed based on descriptive statistical evidence and the summary of findings from other studies. The last section provides discussion and summary of findings.

### **THEORETICAL PERSPECTIVES ON EMERGING RISKS AND THEIR ROLE FOR SOCIAL INEQUALITY**

In sociological research, there are two main contrasting perspectives of the effects of globalization on the development of social inequality structures (Buchholz et al 2008). The first has been presented in the works of Beck (1992) and Giddens (1990, 1998), who propose to characterise contemporary societies as 'risk societies', with a label that reflects spreading of new forms of risks and uncertainty across different social groups and strata. Following this argument, one could expect that in the course of the processes related to globalization, the pre-existing inequality structures are broken down.

A contrasting view postulates that the way in which the risks are redistributed under conditions of increased uncertainty depends on the previously defined division of power (Breen 1997, Regini 2000). Since in economies, which undergo rapid technological changes and are increasingly vulnerable to external shocks, long lasting commitments are becoming less attractive, the risks related to economic relationships are reallocated from employers to employees. However, workers differ in terms of their susceptibility to the transfer of risks. In particular, these are groups of workers with lowest bargaining power, to whom the risks are most likely to be shifted. Thus, it can be argued that the pressures related to globalisation may preserve or even strengthen the social inequality structures (Buchholz et al 2008).

To give an example, Breen (1997) points to the group of the least skilled, arguing that due to diverging monitoring costs for high and low skilled workers and because of different costs of labour turnover in case of these two groups, the former becomes more disadvantaged. As a result, employment becomes more precarious for workers who lack skills or who are easy replaceable. On the contrary, in the case of well qualified and experienced workers, strategies of numerical flexibility bring employers lower profits.

Although this example seems convincing, the potential weakness lies in the fact that there are alternative relevant and well established theoretical models which explain the diminishing employment chances of least skilled individuals (Brady et al 2007). In democratic societies, workers with low qualifications can be argued to be both less productive and less influential interest group. Education is strongly associated with most forms of civic participation, including political

involvement (Hanushek 2002). If less skilled workers are more difficult to mobilise, from the perspective of power contests among major interest groups their influence on the distributive processes is lower. They may thus constitute the group of outsiders, who have less bargaining power. However, in Poland in socialist times, manual workers constituted the most privileged group. It could be argued that even if both the economic shifts, for reasons independent from arguments outlined in Breen (1997), put the low skilled at disadvantage, the changes in the state policy should be oriented at compensating and sheltering this particular group of workers, who used to enjoy privileges under previous regime.

The institutional structures are regarded as “filters” of exogenous influences, such as processes related to the globalization and thus they contribute to divergence of individual labour market outcomes in countries with different welfare state arrangements (Buchholz et al 2008). For interpreting the way in which labour market risks are channelled to specific groups of workers within state policy, the welfare, production, and educational regime that are most relevant (Mills and Blossfeld 2003). These three dimensions of institutional setup outline the direction and the degree of possible adjustment of the state and firms under pressures of increasing competition, accelerated technological change and market volatility. The country-specific settings related to the education system, labour market policy and social security determine the degree to which people are affected by rising uncertainty with the net result of rising levels of inequality.

The educational system constitutes one of the most important dimensions of the welfare state’s inequality reproduction, since education attainment defines future labour market chances. There are large differences among European societies in the way they shape educational institutional arrangements. For example, different systems of the tracking can be developed. Tracking of students into separate groups, which are homogeneous in terms of ability and status increases the influence of social background on future life chances through a range of mechanisms such as peer effect or schooling efficiency effect (e.g. Betts and Shkolnik 2000, Dustmann 2004). Furthermore, in some countries, there are well-established and wide-spread vocational training systems, constituting strong institutionalised links between the educational and the employment systems, while in other countries these links are much weaker. The vocational education with strong links between schools and employers is argued by some scholars to be a “safety net”, which by virtue of offering marketable skills facilitates labour market entry, especially for students lacking ability or motivation, who would have dropped out of academic track (Arum and Shavit 1995, Shavit and Muller 2000). Following a track, which offers occupation-specific skills might increase chances of finding employment and decent wages, compared to the chances of untrained workers for this youth (e.g. Bonnal et al 2002, Bishop 1989, Blossfeld 1992)<sup>1</sup>. Thus, investing in the development of vocational education and training has been argued to be a measure of increasing labour market chances of the least skilled (Leney and Green 2005).

Labour market regulations play an important role in defining employers' market power, and the freedom of contracting in the labour market (Esping-Andersen 2000). Regulation of the labour market introduces standards of hours of work, the level of job security and compensation and thus protects the rights of workers and imposes specific contracting costs on employers. As a result, on the one hand, it affects the duration of employment relationships by restricting employers' rights to terminate existing contracts and to hire workers on temporary contracts. On the other hand, increased costs of hiring and firing might limit the job creation rate in the labour market (DiPrete et al. 1997; Esping-Andersen 2000), hence diminishing the labour market chances of the groups, whose position on the labour market is less stable. Therefore, strict employment protection legislation places people in certain phases of the life course (e.g. women, graduates) at disadvantage, but protects the prime-age workers (Kahn 2007).

Country-specific social security regimes reflect diverse national ideologies about social solidarity as well as gender and social equality. They redistribute financial means from employees to those who can be considered as persons in need. They also define the extent of decommodification, because generous and extensive social transfers can shelter specific social groups and make their life chances relatively independent from fluctuations of the market. Welfare state support for more vulnerable groups at risk of unemployment is also provided within active labour market policies. Unlike in the case of social transfers, the primary objective of ALMP is to shorten the period of duration by encouraging and enhancing active job search activities. One of the key dimensions of the welfare state is family policy. The state's intervention in this area can shape opportunities and constraints regarding employment career of women by offering work and family reconciliation measures.

## **INSTITUTIONAL AND ECONOMIC CHANGES FOLLOWING TRANSITION TO MARKET ECONOMY**

### **Centrally planned economy till 1989**

Till the late eighties, Poland was a centrally planned economy with employment guaranteed for all workers, even for most "fragile" groups, i.e. young people, women and the low skilled workers. Female position on the labour market was much stronger than in Western countries, since the state-owned companies had to struggle with labour shortages and thus encouraged labour market activity of women. The group of low-skilled actually was most privileged in relative terms, because socialist ideology supported manual work. This was reflected in the most important dimensions of institutional settings: the education system, labour market regulations and the social security system.

The education system was composed of three conventional sectors: primary, secondary and tertiary. Secondary education was offered by the following types

of schools: basic vocational schools offering three year occupational specific training, upper secondary vocational schools offering five year schooling giving the title of technician and general secondary schools which were meant to be a preparatory stage for further education in either postsecondary or tertiary education institutions. The tertiary sector included not only universities, but also applied science higher education institutions, offering vocationally oriented tracks such as polytechniques or agricultural academies. Since the educational policy was focused on the transformation of the social structure, education at all levels was provided free of charge, children from poorer and less educated families in rural areas were granted 'social scholarships' if they applied for higher education and they were also given preference in the admission procedures (Heyns and Bialecki 1993, Simonová and Antonowicz 2006)<sup>2</sup>. The emphasis in the education system was on occupational-specific schooling and the proportion of graduates, who attended the basic vocational schools after leaving elementary schools amounted to over 50% before transition (Adamski and Bialecki 1981). Young people used to complete education extremely early – the median age of graduation amounted to about 18.3 for men and 18.9 for women (Kowalska and Wróblewska 2001).

Labour market policy included far-reaching control and regulation, especially in terms of allocation of workers to jobs. The central government established bodies responsible for forecasting labour demand in specific industries and branches. For example, in 1951 the Central Office for Vocational Schooling was set up, which had the task to coordinate training of the workforce in order to secure realisation of the National Economic Plans in cooperation with the Ministry of Education and the Ministries for specific branches.<sup>3</sup> The Central Office for Vocational Schooling was responsible for forecasting the numbers of students in specific branches, that were expected to be needed in the national economy, and for establishing the rules according to which the graduates were allocated to the workplaces in the enterprises. It provided also guidelines for directing to work "labour reserves", i.e. people without jobs. Although these allocation mechanisms often did not work properly, officially phenomena such as poverty or unemployment were non existent.

The strict labour market policy regulation was also reflected in setting of wages at the central level. The wages were established in a way that favoured especially manual workers in heavy industries, which were considered as crucial for socialist economy. However, in general, wages were also very compressed, because of high taxes on compensation with level "above the norm". High compression of wages meant also that irrespectively of individual resources or effort, everyone received rather similar earnings. This also affected gender equity, since women were not disadvantaged in terms of level of compensation and the gap in pay between men and women remained quite low by international standards (Newell and Reilly 2001).

The welfare regime reflected also they key points of socialist ideologies regarding gender and social equality. There was a high support for maternal employment in terms of provision of childcare facilities. Access to crèches and

kindergartens remained at a level which could be considered as moderately high by Western standards (Saxonberg and Szelewa 2007). The state financed the childcare facilities directly, and furthermore, state-owned enterprises were also engaged in their provision (Balcerzak-Paradowska et al. 2003).

### **Introducing market economy rules**

Poland's transition to a market economy started in the late eighties with comprehensive reforms aimed at eliminating detailed state intervention in both labour and product markets and increasing the flexibility of supply and prices. The state withdrew from its former role of provider of services, which considered all the components of institutional setup: education system, labour market policy and the social security arrangements. Transition into market economy meant bringing the labour market outcomes such as employment and wages closer to individual productivity. Obviously, this necessitated many reforms in education, labour market regulation and social security system.

The main goal of the reform of education system was to provide young people with better skills. Among all the post-socialist countries, Poland took a very specific way towards achieving this aim. The emphasis was put on increasing the share of students, who follow tertiary education – this target was explicitly stated in official government documents (MEN 1998). The education system was reformed a number of times, with changes regarding tertiary education introduced as early as in 1992 and a more comprehensive one implemented in 1999-2004. New forms of higher education institutions were introduced: private courses offering masters degree and the so-called higher vocational schools. Contrary to public universities, the new institutions did not use strong selection measures at admission of new students, which meant that the access to tertiary education for students with lower academic achievements and lower level of social capital was made much easier. The higher vocational schools were explicitly meant to provide access for tertiary education for young people from poorer families in more remote areas.

At the same time, no explicit strategy has been developed for reforming a route alternative to the academic one. The reformers intended to limit the proportion of pupils involved in vocational training on the secondary level and to provide it in schools, which allow students to continue education at tertiary level (Bialecki et al 2001). Although the importance of steps towards establishing links between education institutions and employers, providing financial support for modernising schooling infrastructure, creating standards and accreditation measures of occupational training was recognised in the public debate, some actions aiming at implementing them were taken only at the beginning of the new century and some are still in the planning phase.

It could be argued that the state's policy in education was oriented at weakening tracking in the sense that the access for disadvantaged groups has been made easier at the cost of the youth from better educated families. According to the overview of empirical studies on education system selectivity

presented in Domanski (2005), in the early nineties these were rather young people from the *intelligentsia*, whose graduation rates from tertiary education increased the most, and the chances for tertiary education attainment among children of skilled workers, unskilled workers and farmers remained rather limited. However, in late nineties, which is when cohorts of graduates from new higher education institutions completed schooling, the effect of parental class position declined to the level observed before the Communist collapse.

Decreasing support for VET and promoting higher education expansion to some extent might have been driven by budgetary concerns - high costs of providing extensive vocational training and low costs of tertiary education in social sciences (Bukowski 2005). But it could be also interpreted in line with the argument of Breen (1997). The decline of vocational training could be viewed as a withdrawal of state and employers from support of the least skilled. At the same time, the families which in the previous regime enjoyed privileges were not at disadvantage, since education policy was directed at giving access to tertiary education to more skilled and motivated students from poorer families.

Obviously, the transition from a centrally planned to a market economy meant that the allocation of jobseekers to vacancies was no longer "automatic". After the onset of reforms, neither employment provision nor its security was guaranteed by the state. The firms were privatised and the labour law was reformed to increase employers' opportunity to easily adjust the level of their workforce to their current needs and to allow for a broader use of flexible employment forms. As a result, dismissal procedures were relaxed and simplified. For example, lacking skills or economic factors constitute justified reasons for dismissal, and the definition of unjustified dismissal covers only a very narrow range of reasons (Bukowski 2005). Furthermore, a relatively short average notice period and low severance payment were established.

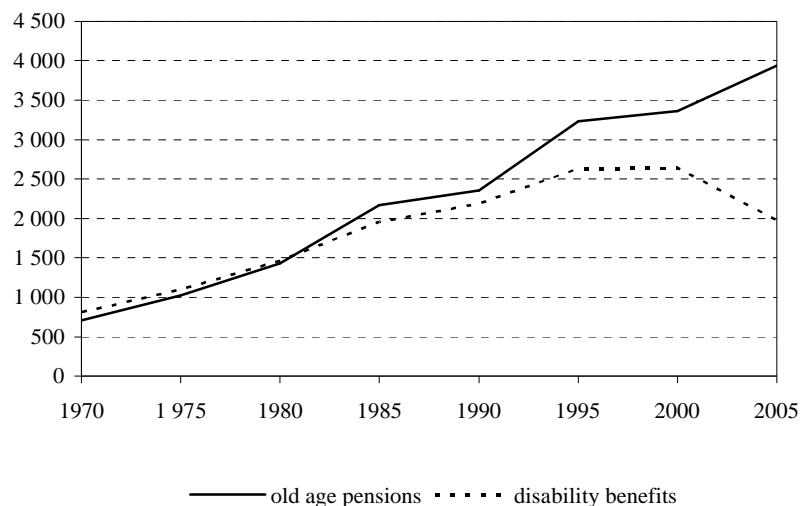
According to the OECD (2004) EPL index of the strictness of labour market policies, the strictness of employment protection for regular employment contracts is rather moderate in Poland. Regulation concerning temporary employment is less rigid, but it increased from 0.8 during the late 1990s to 1.3 in 2003. In contrast, Poland's firing rules concerning collective dismissals are more restrictive than in EU. This is particularly interesting, because especially collective dismissals are the dimension of employment protection schemes which concern mainly workers in traditional economic sectors. In general however, due to deregulation efforts, Poland has on average a lower strictness of employment protection than the average of most European countries.

The institutional reforms in labour market policy involved as well deregulation and a decentralisation of wage setting (Cazes and Nesporova 2004). Only a legal minimum wage is currently set at the central level. The ratio of the minimum to the average wage remained remarkably stable level at 45 per cent as compared to other European countries (OECD 2000), which is relatively high by international standards. Employers have the right to reduce wages below the minimum wage for labour market entrants, e.g. to 80% of the minimum wage for the first year of employment and to 90% in the second year (Kogan et al 2008).

At the beginning of the nineties, the social security programmes, encompassing early retirement schemes and disability benefits were introduced. The aim was to protect the groups of workers from the risk of unemployment and poverty related to privatisation and restructuring. Clearly, at the onset to market economy, the structure of the labour force in Poland was adjusted to a completely different economic conditions: there was a large share of workers with very low education level and with experience acquired in work under different technology conditions and this induced pressure on the social security system.

The numbers of beneficiaries grew, with Poland becoming known as “the sick man of Europe” (Hoopengardner 2001). On one hand, as Keanu and Prasad (2002) show, the social transfer mechanisms introduced in the nineties played an important role in mitigating increases in poverty. On the other hand, they contributed to the expansion of social expenditures, leading to placing a large burden on the central government budget. This led to policy actions oriented at making eligibility criteria sharper and reducing the numbers of people receiving social transfers in the late nineties. However, while these reforms had the potential to reduce the inflow into the group of beneficiaries, the numbers of those who already took advantage of early retirement or disability insurance schemes were already large. Thus, the reforms might have only stopped further cohorts of workers in the later phase of their life course from withdrawing from the labour market, but they did not encourage previous cohorts to re-enter employment.

*Figure 1* The number of persons eligible for old age pensions and disability benefits (in thous.)



Source: Social Insurance Office.

Furthermore, the increasing strictness of criteria for early retirement and disability schemes was accompanied by introducing alternative schemes, for example pre-retirement allowances, which in fact played a similar role in providing disincentives to work for older workers (Bukowski 2005).

Displaced workers and the labour market entrants also received welfare state support in the form of active labour market policies. In general, the share of ALMP spending in GDP used to be lower in Poland than the average in Europe. For example, the ALMP spending in 1996, 1999, 2002 and 2004 amounted to 0.46, 0.35, 0.13 and 0.15 percent of GDP, respectively. These expenditures were similar to the level of spending in other Central European countries but very low as compared with the spending in Western Europe. A large and increasing part of this expenditure was directed at supporting labour market integration measures of graduates. In 2004, this type of measures accounted for 40 percent of the total ALMP expenditures. Other important categories of ALMP, subsidized employment “public works” and the so-called “intervention works” absorbed 21 and 18 percent, respectively.

Family support declined across last two decades in Poland. Following the transition from a centrally planned to a market economy the childcare provision management was decentralised, but it was not always accompanied by a shift of financial means to local authorities. Hence, local authorities either imposed additional fees on parents or they closed down the facilities, with the latter being more frequent. As a result, within two decades, the number of places in kindergartens declined by 76 percent and in crèches by 25 percent (Balcerzak-Parandowska et al. 2003). The ratio of children in the age group 3-6 to 100 available places in kindergartens increased from 124 up to about 286 between 1980 and 1990. In the next years, this ratio declined, but this was related to decreasing fertility and to a public policy oriented at improving the availability of childcare services.

The system of social assistance for families was reduced, imposing greater reliance on the family and promoting individual responsibility for the provision of well-being (Balcerzak-Parandowska et al. 2003, Heinen and Wator 2006, Kotowska et al 2008). The reforms included extending support for families with more than three children, introducing income-testing for most of the family benefits and implementing more restrictive eligibility conditions. The majority of benefits decreased in real terms, which is reflected in the drop of benefit-to-social minimum ratio from 8.3 percent in 1990 down to 3.8 percent in 2002 (Heinen and Wator 2006). Generally, the system of family benefits is argued to have been transformed to some kind of a “safety net” rather than a family policy measure (Heinen and Wator 2006, Kotowska et al 2008).

**EMERGING NEW INEQUALITIES - ARE THERE ANY WINNERS OR LOSERS?**

After the fall of the iron curtain, the Polish economy was opened up for international trade and flows of capital. The restructuring and privatization of state-owned companies and investments induced acceleration of technological change. Emerging and intensifying competition necessitated massive lay offs, mainly in the over-staffed public sector. However, these were not only adult workers, who were subject to the unemployment risk. The state no longer automatically allocated labour market entrants to vacancies, young people had to search for jobs on their own, and their transition from school to work became prolonged and more complex. The retrenchment of the welfare state in the family policy area decreased the opportunity to combine work and parenthood, which affected female labour market chances. Furthermore, in the times of growing competition for jobs and changing organisation of work it became increasingly difficult to re-enter the labour market after a break related to rearing children.

The processes, which could be observed in Poland after transition, i.e. liberalisation, intensifying competition, rapid technological change, increasing vulnerability of the domestic market to external shocks can be related to the core dimensions of globalisation as defined in (Buchholz et al 2008). New institutional and economic arrangements created risk and opportunity structures, which resulted in increasing variation in employment chances and income inequality. The relevant question is what kind of inequalities emerged under these transformed economic and institutional conditions and how flexibilisation processes were related to distribution of risks across individuals in different phases of their life course and across gender. In order to refer to this issue, secondary source data are used and a summary of available empirical evidence is provided to reveal the patterns of inequalities measured in terms of two outcomes: employment chances and income.

**Inequality of employment chances**

The increasing job instability was reflected in a large drop in the employment rate. Before transition, the employment rate in the group aged 15 and more reached 67.3 percent in 1978. After the onset of transition to market economy it declined down to 42 percent in 2002. The largest drop occurred at the very beginning of the nineties, following the fall of the iron curtain. As Poland recovered from the transitional recession in 1993 and in the period 1994–1998, employment rates increased again. However further growth was brought to a halt by the Russian crisis in 1999, which contributed to further cuts in employment. The global slowdown in 2001 protracted the recession and kept employment figures at a very low level till 2003. The improvement of the labour market situation started only recently, with employment rates increasing since 2004.

The available studies show that, on one hand, these were low-skilled workers, for whom employment chances decreased the most. It is also reflected by simple

descriptive statistics derived from the national census data. While for workers with tertiary education, employment rates dropped from about 87 percent down to 74 percent, for those with primary education and basic vocational education, the decrease was much steeper and amounted to over 30 and 27 percentage points respectively. Obviously, these figures partly reflect the cohort effects, since the group of least qualified consisted also of relatively many elderly, who reached the retirement age. Still, the above presented evidence suggests that individual resources, such as human capital, constituted one of the most important dimensions of emerging inequality.

*Table 1 Employment rate according to educational attainment level for population aged 15 and more.*

	1978	1988	2002
Higher	87.3	81.8	73.8
upper secondary	66.0	70.0	47.2
basic vocational	71.0	69.7	42.5
Primary	51.0	44.0	13.8

*Source:* Own calculations based on the National Census from 1978, 1988 and 2002

According to the national census data presented in Table 2, downward shifts in employment rates occurred in all age groups. However, the largest decline concerned young people, aged 15-29 and the workers in their fifties. Obviously, there were very different mechanisms beyond employment decline across age groups. Decreasing employment rate in the age group 15-24 might have occurred partly as a consequence of increasing educational participation, but no such explanation can be offered for young people aged 25-29. Furthermore, available studies (Bukowski 2005, p. 42) reveal that increasing tertiary education enrolment contributed to very limited extent to decreasing employment rate of people in their early twenties – most of all it should be attributed to prolonging duration of labour market entry. For workers in the later phase of their life course, a drop in employment rates was related to restructuring processes in early transition period, but also to influence of employment disincentives created within early retirement and disability schemes.

*Table 2 Employment rate according to age group for population aged 15 and more*

	1978	1988	2002
15-24	52.4	44.3	21.8
25-29	85.8	82.3	62.9
30-39	88.6	87.9	68.6
40-49	86.9	87.8	65.7
50-59	74.3	68.6	45.3
60+	30.7	30.2	9.5

*Source:* Own calculations based on the National Census from 1978, 1988 and 2002

As Bukowski (2005) argues, these actions were not well targeted and in fact many relatively young individuals, aged 45-60, who had the capacity and skills to continue working lives, withdrew from the labour market taking advantage of the easy availability of social transfers. On one hand, directing social transfers provided strong disincentives to work for the group of workers in declining or restructuring industries, on the other hand, these workers were relatively most sheltered from the risks related to unemployment.

The studies disaggregating the current employment gap between Poland and Western societies show that no more than 1 percentage point can be attributed to different education attainment of the workforce, and as much as 10,5 percentage points of the total gap can be explained by low access to employment among those aged 50 and more and those aged less than 25 in Poland (Bukowski 2005). These results underline the role of country-specific institutional arrangements, which keep these groups away from the labour market. In particular, it can be argued that prolonging education spells related to reforms in the education system and providing easy access to the benefits from the social insurance system stay behind this gap.

Looking at the labour market outcomes according to the gender dimension, employment of women in Poland did not decline to more extent than in case of men (Bukowski et al 2005, Grajek, 2001, Paci 2002). To some extent, this was related to the differences in sectoral composition of male and female employment. According to Grajek (2001), in the early stage of transition the managers of state-owned enterprises in the industrial sector were first to reduce labour costs. Since male employment concentrated in heavy industries, men were particularly exposed to job loss and wage cuts. Furthermore, as a response to changing opportunity and constraints structures, women were more likely than men to invest in education and postpone setting up a family. As Kotowska et al (2008) also point out, if it wasn't for a change in childbearing patterns, related to a deep drop in fertility, female employment would have had declined more than male.

*Table 3 Employment rate for population aged 15 and more according to gender and education (in percent).*

	Females			Males		
	1978	1988	2002	1978	1988	2002
higher	87	82	74	91	87	75
secondary	66	70	47	90	80	57
basic voc.	71	70	43	97	88	56
primary	51	44	14	66	60	23

*Source:* Own calculations based on the National Census from 1978, 1988 and 2002

To sum up, the available evidence points at decreasing labour market attachment of young people and workers in the later stage of their life course, while no gender disadvantage has been revealed. There were different

mechanisms behind declining employment rate for workers in the early and later life course stage. For young people it was related to increasing difficulties in finding and retaining jobs. Since welfare state support was mainly directed to youth in the form of active labour market policies and the access of this group to social transfers, which act as disincentive to work, was very limited, the life chances of young people became more exposed to market risks. On the contrary, welfare state support for workers in the later stage of their life course was oriented more at protecting them from the unemployment risks by offering alternative sources of income.

### **Income inequality**

Before transition, earnings inequality was relatively low. For example, Atkinson and Micklewright (1992) report the values of Gini indicator at the level of 0.207-0.242 in the period of late eighties<sup>4</sup>. At the onset of transition to market economy a rapid growth in inequality occurred (Keanu and Prasad 2006, Newell and Socha 2007, Rutkowski 1996). For example, the results presented in Rutkowski (1996) indicate that the Gini indicator rose to 0.257 in 1993 and by 1995 it reached the level of 0.288. Obviously, these changes were much more dynamic in the private sector than in the state-owned enterprises. Currently, earnings inequality is larger in Poland than in most European countries (Magda and Szydłowski 2008).

One of the driving forces of inequality increase were rising returns to education (Rutkowski 1996, Keanu and Prasad 2002, Newell and Socha 2007). Workers with tertiary education received wages on average 35 percent higher than wages of workers with primary education, while this proportion amounted to over 70 percent and almost 120 percent in 1996 and 2004 respectively (Rutkowski 1996, Magda and Szydłowski 2008). Interestingly, as Keanu and Prasad (2002, 2006) show, the rising inequality was related not only to increasing gap between the earnings of low and highly skilled workers, but to large extent it was a consequence of increasing differentiation of wage level *within* the group of qualified workforce. This pattern could be perhaps explained by changing composition of workers with tertiary education by age and experience.

According to Keanu and Prasad (2002), at the onset of transition, there was a sharp decline of returns to age and experience, but between 1992–1996, a slight recovery in experience returns occurred, especially at higher experience levels. In the post-transition period, experience premiums were relatively stable for prime age workers while for younger workers they continued to decline. The authors point that the labour market entrants turned out to be the only group, for whom experience returns were systematically lower in 1996 than in 1987.

More recent studies reveal that this pattern of labour market disadvantage continued in the following years. Socha and Newell (2007) show that between 1994 - 2004 there were increasing returns to both overall experience and firm-specific tenure. Clearly, young workers with limited working experience became

more and more disfavoured on the Polish labour market. This evidence is corroborated by results of Magda and Szydłowski (2008), who report that whereas in 1996 the average wage of young worker working full-time amounted to 74 percent of the average wage, this ratio was decreasing steadily from 1996 to 2004 and stabilised only in recent years at the level of about 60 percent. The drop in relative wages of youth was especially evident in the group of workers with tertiary education – it declined from 60 percent of the average wage in this educational group in 1996 to 47 percent in 2006, whereas in other educational groups wages of youth deteriorated only moderately.

Conversely, the beginning of the transition marked an improvement in the relative position of women in Poland, since the observed gender wage gap declined (Grajek 2001). The studies referring to the later period of transition i.e. the second half of nineties, found no further reduction (Grajek 2001, Adamchik and Bedi 2003). Still, currently, the gender wage gap in Poland is rather low by international standards. The highest disparities in wage level are observed in the highest percentile of wages, and for workers with low and medium income there are no gender-specific differentials (Magda and Szydłowski 2008). The larger gender gap in the higher paid jobs relative to the lower paid jobs is also reported in the study of Newell and Reilly (2001). This suggests that either there are gender-specific allocation patterns among the high-ranked officials, directors and managers (for example, female directors might be more likely to be found in less productive firms and organisations) or the incidents of gender discrimination are more likely to take place in this specific, highly competitive labour market segment.

Following substantial growth of wage inequality, there was a strong increase in overall income inequality in the Polish households. Milanovic (1999) reports that the Gini indicator fell from 0.260 in 1989 to 0.247 in 1991, then it recorded a large jump in 1993 to 0.298, and afterwards it continued to rise, reaching a level of over 0.35 in mid nineties. Keane and Prasad (2002), using more detailed measures, find milder changes: their estimate of the Gini coefficient for the overall individual income distribution declined from 0.256 in 1988 to 0.230 in 1992, but then began a gradual increase, reaching levels up to 0.276 by 1997.

Obviously, although a large part of income inequalities stems from wage differentials, lower income derived from labour account can be compensated for by social transfers. Indeed, in Poland, social expenditures accounted for 17.7 percent of GDP in 1990–1997, which was the highest level among all transition countries. Mitra and Yemtsov (2006) show that had there been no increase in transfers in the form of old age pensions and other social benefits in Poland, inequality would have been 3 Gini points (or 10 percent) higher.

Interestingly, as pointed by Keane and Prasad (2002), a substantial proportion of social transfers was in fact directed not towards the households at the bottom of the income distribution, but rather to workers around the retirement age. The availability and generosity of disability benefits and old age pensions (also these granted within early retirement schemes) compensated for drop in the level of income (Keane and Prasad 2002, Bukowski 2005). As a result, increasing

income precariousness emerged most of all among families rearing children and among young people, while there is no evidence for substantial disadvantage in the relative incomes of elderly persons, and in particular for beneficiaries of old age, pre-retirement and disability pensions. Beblo et al (2002) name it as a consequence of fundamental changes in income redistribution policy across generations, beneficial for older generations, but leaving for younger generations behind.

Summing up, the structural changes following the fall of the iron curtain had a large impact on the growth of income disparities. As employers became free to reward individual resources, wage premium for education emerged. Young, inexperienced and low-skilled workers had to accept wages much below the average level. These influences have affected the differences in general level of income, putting people with lower level of skills and experience at higher risk of poverty. However, workers in the later phase of the life course were sheltered from increasing risk of job loss by welfare state policy, oriented at increasing expenditures on social transfers.

## **SUMMARY**

The aim of this article was to elaborate on the predominant strategy of labour market flexibilisation in Poland since the onset of transition from a centrally planned to a market economy. Following the theoretical arguments of Breen (1997), it can be expected that the way that risks were redistributed under conditions of increased uncertainty depended on the division of bargaining power defined under previous regime. Framing this statement in the Polish context, it is hypothesised that even though the economic shifts favoured qualified workforce and placed less skilled workers at disadvantage, the welfare state policy sheltered the group of manual workers. In the article it is examined how these inequalities on the labour market might have been “filtered” by institutional arrangements in Poland.

Over the recent two decades, new institutional arrangements created risk and opportunity structures, which resulted in increasing variation in employment chances and income inequality. However, the overview of recent empirical studies reveals no clear pattern of emerging inequalities among men and women in Poland. In fact, female employment did not decline to more extent than male and currently the labour force attachment of women contributes to narrowing rather than widening the employment gap between Poland (Bukowski 2005, Grajek 2001). A similar pattern has been reflected in wage inequalities across gender, as the gender-specific differences seem to have declined.

Instead, the available evidence points at decreasing labour market attachment of young people and workers in the later stage of their life course. For young people, dropping employment rates were related to increasing difficulties in finding and retaining jobs. Since the access of this group to social transfers which act as disincentive to paid work was very limited, the life chances of new

cohorts of labour market entrants became more exposed to the market risks. On the contrary, the welfare state support for workers in the later stage of their life course was oriented more at protecting them from the unemployment risks by offering alternative sources of income.

The structural changes following the fall of the iron curtain had also a large impact on the growth of the income disparities. As employers became free to reward individual resources, wage premium for education emerged. Young, inexperienced and low skilled workers had to accept wages much below the average level. These influences have affected the differences in general level of income, putting people with lower level of skills and experience at higher risk of poverty. However, workers in the later phase of the life course were sheltered from increasing risk of job loss by welfare state policy, oriented at increasing expenditures on social transfers. On the contrary, young people are identified as the group which has become more exposed to the risk of poverty.

The empirical evidence goes in line with the hypothesis proposed in the article. The welfare state changes, driven by necessity to respond to the recent economic challenges on one hand and on the other, by postulates of diminishing 'social costs' of transition to market economy, have made individuals in the specific stages of their life course less sheltered from labour market risks. In particular, these seem to be especially labour market entrants and young people setting up their families. Thus, in a way, structural processes such as accelerating technological change, increasing vulnerability of the Polish economy to external random shocks and intensifying competition have been followed by strengthening of age-specific inequalities.

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<sup>1</sup> Although comparisons of graduates with occupation specific and more general track at the same level of education provide rather equivocal evidence on direct benefits of vocational training (see eg. Heijke & Koeslag 1999, Kogan and Unt 2004, Leney et al 2004, 2005).

<sup>2</sup> The success of this policy was rather limited, as Bialecki and Heyns (1993) shown - the social origin and other ascriptive features did not have a decreasing impact on the transition to secondary and university levels across pre-transition period.

<sup>3</sup> This responsibility was shifted between different institutions across several decades of socialism. For example, in 1956 Central Office for Vocational Schooling was absorbed by the Ministry of Education, which took over its tasks. In 1960 the Committee of Labour and Wages was set up, which not only prepared forecasts and plans of training and allocation of workforce to enterprises and set the wage policy. This Committee was dissolved in 1972 and its responsibilities were shifted to the Ministry of Labour, Wages and Social Affairs.

<sup>4</sup> As quoted by Keanu and Prasad (2006).