

THE IMPACT ON EMPLOYMENT OF INSTITUTIONAL TRANSFORMATION IN EASTERN EUROPE AND THE TASKS OF SOCIAL POLICY, WITH PARTICULAR REFERENCE TO THE POLISH CASE

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Introduction

The transformations that the years 1989 and 1990 have brought about in Central-Eastern Europe have led to dramatic changes in the labour market too. While until 1989 mass unemployment was practically unknown in the countries of "real socialism", with 1990 the issue of unemployment has surfaced in a number of them. The only country of Central-Eastern Europe where in 1990 the number of vacancies was still greater than the number of job-seekers, conforming to the usual pattern of the labour market under "real socialism", was Czechoslovakia [see Szyszilo M., 1989]. In order to face this new issue the countries of Eastern-Central Europe are adopting legislative measures recognizing the status of the involuntary unemployed and providing for assistance to them. Poland has adopted a comprehensive law on the assistance to the unemployed at the end of 1989. Moreover Poland is the first country in Eastern Europe which has been concretely confronted with the appearance of mass unemployment following the process of economic transformation. Its experience is therefore paradigmatic for the other countries which are embarking on a similar course. In the present paper I shall consider it in detail, including the legislative measures which have been adopted for confronting the issue of unemployment. Later on I will consider similar measures taken in Hungary and the USSR. The paper first examines why the change in economic institutions leads to the appearance of the issue of unemployment, briefly describing the mechanism which under "real socialism" leads to the maintenance of full (and even over-full) employment and concludes with some general considerations suggested, in particular, by the Polish experience.

1. The Economics of the Labour Market under "Real" Socialism

1.1. Why Open Mass Unemployment did not Exist in the Traditional Soviet-type Economy

With the launching of the stabilisation and institutional transformation policy of the Mazowiecki government, at the beginning of 1990, a number of new legal measures regulating various aspects of economic activity came into effect. Among them in particular a new law "On Employment"¹.

In order to understand the set-up in which the introduction of the new law can be appraised, it must be recalled that in the traditional Soviet-type economies there was typically no open involuntary unemployment. The mechanism leading to a state of chronic overemployment (in the sense of a greater number of vacancies than of job seekers) is well-known and simple to explain. Let us summarise it briefly. On the one hand the main objective of productive units could be considered the maximisation of the value of gross production. Contrary to the maximisation of profit, the gross output objective is not affected by the cost of resources (in particular labour) used in production. At the same time the implementation of the plan, especially in a world of uncertain supplies, was the easier the greater the amount of productive reserves. Hence the tendency for firms to strive for the maximum availability of resources, labour included. As for labour, this found a limit in the wage fund constraint; but this constraint was in many cases a soft one. As a rule plans were optimistic, in the sense that forecasts of labour productivity were higher than what ex post did occur. As a consequence, in order to hire the labour force needed for plan completion, firms required higher wage funds than the ones planned.

To ensure the attainment of planned production in the priority sectors (traditionally those of heavy industry and of strategic and military interest) their wage funds were increased in the course of plan implementation, without a corresponding reduction of those in non-priority areas. Basic wages were centrally determined, but in the specification of effective earnings at the enterprise level there were important phenomena of wage drift, caused by excess demand in the labour market. The result was a chronic excess demand for labour, the counterpart of which was an excessive demand for consumer goods, resulting in the all too familiar queues at the shops, scarcity of goods, black markets. Consequently, a constant preoccupation of the authorities in socialist countries was not how to deal with involuntary unemployment, but how to mobilise all the possible labour reserves. From this preoccupation stemmed the “antiparasitic laws”, a late example of which was the Polish law against “persons who elude working”², recently abrogated by the new law on employment (art. 45). On the other hand there were sectoral and regional areas where an unemployment problem arose, even in the presence of a macroeconomic state of over-full employment. Women, in particular, had greater difficulty than men in finding an adequate job³.

1.2. The Persistence of Excess Demand for Labour under Reformed Socialism

All this has to some extent changed in more recent times. With the weakening of the legitimisation of communist regimes, and the increased difficulty in maintaining a minimum degree of social support, the priorities of the authorities shifted from the development of heavy industry and the production of investment goods to the production of consumer goods. Nonetheless, the residual political influence of the traditionally preferential sectors was successful in resisting changes to a productive structure largely biased towards heavy industry. The production levels of the latter were often maintained through

massive subsidies from the public budget, to offset the increased costs of production stemming from the changes in the structure of international prices following the oil shocks of the seventies.

In Hungary, and later on in Poland, the methods of managing the national economy changed from traditional planning towards decentralization and utilization of market mechanisms as economic coordinating devices. However, the impact of reforms on the markets for labour and consumer goods were not decisive because of the persistence of price controls, and because of the system of levies and subsidies individualised down to the single productive units. The continuous meddling of the central authorities with the daily operation of the lower units, typical of the old system of material planning, was substituted by a new system of meddling, no longer based on command, but on the utilisation of financial levers. At the same time, continuous price controls accompanied by a lack of financial discipline brought about the persistence of repressed inflationary tensions, in particular in consumer goods and labour markets. Relatively favourable results were reached, as far as the stabilisation of the consumer goods market is concerned, in the Hungarian economy. In Poland the liberalisation of the prices of most agricultural consumer goods, decreed by the agonizing Rakowski government, in August 1989, and a highly inflationary wage indexation mechanism, obtained by the Polish opposition after the "round table" agreements in April, led to open hyperinflation, to the tune of 740% a year⁴ (reaching a peak in October with 54.8% monthly, and decreasing to 20.4% monthly in November and 17.7% monthly in December [data from Kolodko G.W., 1991]), without the subsidence of repressed inflation (and its accompanying scarcity of goods).

1.3. *The Labour Market in Poland during the Years of "Really Existing Socialism"*

The above considerations find a counterpart in the quantitative data concerning the situation of the labour market in the Polish economy, presented in the following table⁵:

Table 1 - THE RATIO OF VACANCIES TO JOB SEEKERS IN POLAND, 1955-88

1955	1.5	1972	1.8
1956	1.2	1973	5.2
1957	1.7	1974	4.1
1958	2.4	1975	6.3
1959	0.7	1976	6.1
1960	1.2	1977	8.3
1961	1.3	1978	10.2
1962	1.2	1979	20.0
1963	0.4	1980	9.8
1964	0.7	1981	4.6
1965	0.8	1982	27.5
1966	1.1	1983	46.8
1967	1.1	1984	52.4
1968	1.4	1985	66.5
1969	0.5	1986	57.6
1970	0.5	1987	44.5
1971	1.0	1988	86.8

In considering the above data one should pay attention to the fact that, even in the years when there was an excess of job-seekers over available vacancies, the share of job seekers in the active population was never greater than 1% [see Kiatkowski E., 1990]. Moreover one must pay attention to the huge increase in the vacancies/job-seekers ratio in the seventies and eighties. This is obviously an index of the loosening of financial discipline and of budget constraints in the whole economy, which goes hand in hand with the progressive weakening of the legitimacy of the previous political system in Polish society.

2. The Occupational Consequences of Stabilisation and Institutional Transformation

The task of the Mazowiecki government was on the one hand to proceed on the road to institutional reform towards "the introduction of a market system, similar to those of the economically most advanced countries"⁶, and on the other to undertake a stabilisation policy to combat inflation, both open and repressed.

After a period of preparation of a few months, the joint programme of stabilisation and institutional transformation was launched at the beginning of 1990. In a few weeks the obliteration of repressed inflation and a marked slowing down of open inflation were achieved. At the beginning, however, the elimination of excess demand was accomplished at the cost of a marked increase in open inflation. The monthly growth rate of the consumer price index jumped from 17.7% in December to 78.6% in January (much higher than the forecast figure of 45% [see Kolodko G.W., 1991]), slowing down to 23.9% in February and 4.7% in March. On the other hand repressed inflation was instantaneously halted and the positive excess demand changed to its contrary, following the drastic reduction in distributed real incomes of the population (-24% in January)⁷ and the curtailment in real money balances. This was the outcome of highly restrictive monetary and budgetary policies, and of a punitive tax on wage increases.

2.1. *The Tax on the Growth of Remunerations and the Trends in Real Wages*

This tax (popularly called *popiwiek*, originally with a rate varying between 200% and 500%) was applied, according to the December 1989 version, to overall wage bill increases above the norm set by the government. This norm is determined, every month, on the basis of the rate of inflation of the previous month, in order to allow only a part of inflation to be recouped by wage increases⁸. The lower tax rate was applied to payments above the norm, up to 3%, and the higher rate to excess payments above 3%⁹. In practice, the revenues from the tax have been very low in the first months of 1990 – an indication that firms were refraining from conceding excess wage increases – but have grown in the second half of the year¹⁰. Apparently this tax has

performed in the first months as an effective instrument for curbing increases in money wages: in April in the principal 5 branches of the national economy, average monthly earnings were 932,000 zloty (98 US\$ at the current exchange rate) which in real terms was only 64.8% of average earnings in April 1989¹¹. Later on, however, the anti-inflationary impact of the tax has lessened and even reversed. The fact that in the first months of 1990 firms kept their wage increases below the levels permitted by the norm, in order not to risk overshooting, has allowed them to take advantage, later on, of the unused margins increasing wages by more than the rate of inflation. At the same time wages were increased in the (wrong) expectation that 1991 norms would be fixed on the basis of actual remunerations of the previous year or of the end of it. This would have granted fewer opportunities for increased earnings to firms which had accorded wage increases below the norm in 1990¹². Whatever the cause, from May to November 1990 the monthly growth of wages has consistently exceeded the corresponding one of the price index.

It is interesting to note that the highest rate of wage increase, both in money and real terms occurred in July, with a rate of growth of remunerations of 14.4%, and of consumer prices of 3.6%, being the correcting coefficient, 1, the highest in the year¹³. The increase in the real revenues of the population has resulted in massive increases in purchases, and this has led to a "lowering of the demand barrier"¹⁴. This trend of real wage increases was reversed in December, with a rate of growth of remunerations in the 5 branches of 1.6%, much lower than the rate of growth of consumer prices of 5.9%¹⁵, and in January, when earnings in the State and cooperative sector decreased by 5.5% in the presence of a 12.7% growth in consumer prices mainly caused by increases in the administered prices of energy products [*Gazeta Bankowa*, n. 10, 19/3/1991, p. 7]. However, in the 6 main branches of the national economy¹⁶ average earnings (inclusive of payments out of profits) in February were up by 10.8% compared to January, reaching a value of 1,680 million zloty, against a growth of 6.7% in the price index. The growth in average earnings in February was the product of payments out of profits, taking place as every year in that month, following the closing of the accounts of the previous year, while wages held in check by *popiwek*, actually fell in February by 1% [*Gazeta Bankowa*, n. 12 2/3/1991, p. 2]. Over the two months demand was held down by a restrictive monetary policy, leading to a reduction in the money supply of 8.5% in real terms, of 13% in average real wages, and a 3.2% fall in industrial production [*Gazeta Bankowa*, n. 12 24/3/1991, p. 2]. All this, added to the experience of the previous year, gives an idea of how stubborn Polish stagflation still is. Some optimism however can be derived from the fact that one of the main causes of inflation has been the adjustment of the internal price structure to the structure of costs (considering also international opportunity costs) from which at the beginning it differed greatly. This adjustment led to successive price increases due to the phasing out of subsidies and increases in administered prices. As long as this process continues, the scope for further adjustments is reduced; hence, this factor should gradually lose its importance, even if some inflationary impact will be produced by the inevitable future adjustment of the exchange rate.

There has been much discussion in Poland on the need of abolishing *popiwek*, which is viewed as a hindrance to the efficient functioning of the labour market. Indeed, it restricts the possibility of raising wages where this is needed as an incentive or in order to prevent workers who are highly productive in one particular firm, which is subject to the payment of *popiwek*, from changing their work place to another where *popiwek* does not apply. In the way it is structured at present, the tax penalizes workers of the sector of State enterprises which, even if shrinking, still represents an overwhelming part of the economy, in terms of both the value of its assets and its contribution to the formation of the national income. The tax has been in fact utilised as an incentive towards particular institutional forms of economic activity. Foreign firms and joint ventures were exempted from the first version of the tax (see art. 1 of the law of 27 December 1989). Measures in favour of firms in the process of privatisation have subsequently been introduced, such as the exemption from half the amount of the tax for companies under commercial and civil law, with a public share between 50 and 20% and from 20% of the tax for those with a public share greater than 80% (see art. 13 of 22/12/1990 law "On the Taxation of the Growth of Remuneration"). Firms with a majority of private ownership and labour cooperatives are exempted in the new version of the tax. However, exemptions are removed when the Antimonopoly Office reports on monopolistic practices by the firm (see art. 1 par. 4, art. 9 par. 7, art. 13 par. 7).

The conception of the tax itself can be traced back to the years in which Poland was still and was supposed to remain a socialist country. The fact that the growth of earnings inside the norm is exempt, while the tax sharply jumps from a marginal rate of nought to a prohibitive one for earnings just outside the norm reminds one of the times when the economy was run on the basis of planned, allegedly mutually compatible magnitudes, rather than on the basis of market and price signals. A further reminder of those times is the multiplication of specific rules relating to different situations and creating various indexes which render the last version of the law utterly complicated. A more adequate way to control the formation not only of earnings, but of incomes in general would perhaps be the introduction of a general progressive income tax, which is planned for the future. In the meantime, *popiwek* is expected to last, at least to the end of the present year [see Binczak H., 1991], not only for controlling the granting of wage rises by State firms, thus counteracting inflationary pressures and the rise of unemployment, but also to create workers' incentives towards privatisation of State firms. The managers of State firms, owing to the elements of self-management in the latter, are in fact under strong pressure to grant wage increases, and at the same time to maintain employment, at the expense of whatever financial means are available: potential profits, funds which should be earmarked to meet the obligations of firms, leading to suspension of payments and insolvencies (as has been the case both in Poland and in Hungary¹⁷), bank credits granted for strictly political reasons (as especially in Yugoslavia), all leading to "soft budget constraints". Owing to the strictures posed by IMF supervision on the possibilities of credit expansion, the "soft budget constraint" syndrome has found expression not so much in the expansion of irrecoverable credits by banks, as in excessive tolerance of

accumulation of indebtedness towards the public budget and in an upsurge of mutual indebtedness by enterprises. Many enterprises are technically insolvent, but the authorities are very reluctant to initiate bankruptcy proceedings, because of the social consequences involved¹⁸. On the other hand “*popiwek* provides a very convenient *alibi*” to managers of state firms to resist wage pressures [see Zulawnik B., 1991]. As the relative importance of state firms, subject to the payment of *popiwek*, diminishes, the efficacy of the tax in checking excessive wage rises, will also decrease. Even independently of privatisation, the liability to the payment of the tax will decrease simply through the transformation of State enterprises into joint-stock companies, even if the totality or the majority of shares is owned by Treasury. In this case the reduction in the liability to *popiwek* can be interpreted not only as a reward for initiating the process of privatisation, but also a compensation to employees for the abandonment of the system of self-management of Polish state enterprises (in particular the appointment and dismissal of directors by workers’ councils)¹⁹, to which a poor substitute is the election by the workers of one third of the supervisory committee of joint stock companies arising from the transformation of state enterprises²⁰. Joint stock companies (even with 100% state ownership) are in fact regulated basically not by the law “On State Enterprises”, but by the Commercial Code.

2.2. *The Consequences of Stabilisation on Output.*

The abrupt reduction in real demand and the worsening of firm profitability following the reduction in subsidies and the cost push coming from a fourfold increase in energy prices, currency devaluation and high nominal interest rates, led to a sharp reduction in output. In the months of January and February 1990 there was an overall decrease in production of 23.5% in relation to the corresponding period of 1989 [*Zycie Warszawy*, 15/3/1990, p. 2]. In the five main branches of state industry the decrease in production in the first months of the year was around 30%. Since June however some recovery occurred. On the whole in 1990 industrial production decreased by 23%, and the gross national product by 12% [*Gazeta Bankowa*, n. 24, 10/3/1991, p. 5]. The reduction in production, much greater than government forecasts, was partly attributed to the inability of the state industries to adapt to change [*Gazeta Bankowa*, n. 24, 10/6/1990, p.2]. At the same time it must be linked to the greater reduction in the real value of money quantities, and in particular in the purchasing power of money earnings, in comparison with government expectations, based on an anticipated monthly rate of inflation of 45% in January. The mistake in the official forecasts could have derived from the lack of consideration for the extent to which the monopolistic power of state enterprises (or simply their habit of pricing on a cost-plus basis) would have allowed them to pass over on prices the increases in costs arising from the reduction of subsidies and rises in administered prices.

Some exertion of market power could be suggested by the increased profit margin (namely the “relation of financial results to sales”) of state enterprises

which, in the first three months of 1990 increased from 19.7% in 1989 to 27.5% in 1990. In the following months however the difference with the previous year decreased, perhaps because of greater competitive pressures. In the first nine months of 1990 as a whole the coefficient was 24.4%, to be compared with 22.8% of the previous year. In the first three months of 1991 the value of the coefficient has dramatically decreased, down to 10.8%. This decrease has been accompanied by a dramatic worsening of the overall financial results of state enterprises²¹.

2.3. *The Consequences of Stabilisation on Employment*

The reduction in output has not been associated with a comparable reduction of employment. In 1990 employment in State industry decreased by only 8.2%, much less than the overall production drop of 23% [*Gazeta Bankowa*, n. 6, 10/3/1991, p. 5]. This can be explained by a number of concurring circumstances. At first, part of the reduction in production did not lead to an appreciable increase in the number of registered unemployed, but to the decrease in part-time employment by persons having another professional status, pensioners, students, moonlighters. For instance, among the collective dismissals announced in June, 24.4% affected pensioners who were employed part-time, and moonlighters [*Gazeta Bankowa* n. 29, 15/7/1990, p. 9]. At the same time, the initial effects of the reduction in economic activity led to the absorption of the previously excess demand for labour, rather than to the reduction of employment as such. At the end of February, despite the strong reduction in production, there were only 152,200 registered unemployed²², out of a labour force of about 18 million²³. In mid-July, after six and a half months of deflation, the unemployment rate was at about 3.4% (corresponding to 640,000 unemployed) [*Gazeta Bankowa*, n. 13, 29/7/1990, p. 3]. In order to realise the real significance of the above figure one must consider that "among the unemployed registered in the labour offices... there are about 40% who had not worked within the 3 months before registering in the list ... This shows that actual dismissals proceed far more slowly than might be deduced from the absolute numbers of the unemployed" [*Zycie Gospodarcze*, 23/8/1989]. It seems very likely that most of the 40% mentioned in the above quotation were people posing as unemployed in order to get unemployment benefits, but really outside the active labour force (students, housewives, and the like). In order to continue receiving the unemployment subsidy after refusing one first job offer, it was sufficient not to report to the labour office for another thirty days, with the help of a medical certificate for instance, in order not to receive a second job offer in the same thirty day period. In fact, according to art. 16 of the law of 29/12/1989, "the unemployment subsidy is not due to unemployed who 1), without just cause, does not report to the labour office in the prescribed time in order to receive an offer for a job, or 2) refuses in one thirty day period two offers for an adequate job or an offer for professional training or retraining". Indeed, since this law was passed, "unemployment has increased more rapidly than the process of reduction of the number of employed Poles" [see Urbaniek

M., 1991]. In order to avoid paying unemployment benefits to people who are really outside the labour force, the law was amended so that unemployment benefits are payable only to those unemployed persons who have worked, or have been socially insured on other grounds, for at least 180 days in the twelve months prior to registering²⁴. A number of exceptions to the above requirement have, however, been maintained. According to a report, which deals with the situation at the end of 1990, "a large number of unemployed graduates, especially in the provinces where there is the lowest rate of unemployment, do not undertake a job intentionally, because the earnings offered to them are not much higher than the unemployment subsidy" [*Gazeta Bankowa*, n. 4, 27/1/1991, p. 14]. Even after the reform of the law, it is reported that the real extent of unemployment is much less than the statistical data would lead one to believe, the scale of statistical overstatement of unemployment being estimated to range between 20 and 70% [see Urbaniek M., 1991]. On the other hand there are reports of hardships and misery resulting from the new provisions leaving some truly unemployed persons without means of subsistence [see Frey D., 1991]. Thus, even if the old norms could be considered somewhat naive in approach, the new ones appear in some way to be in contradiction with the viewpoint of the then Minister of Labour, Kuron, who argued that it was better for ten false unemployed to receive unemployment benefits than a single true unemployed to be unjustly deprived of the means of subsistence [see Urbaniek M., 1991].

The lack of correspondence between the productive and occupational trend has been attributed to the fact that "in general state firms are unable to adapt to the market context, because they have the wrong priorities: in the first instance to exist, in the second to give employment, in the third to be solvent, but they do not care either for profit maximization or for sales"²⁵. According to another viewpoint "they tend to keep their workers, waiting for an improvement in the economic situation" [see Gorski M. and D. Jaszczynski, 1990] (presumably taking also into consideration their ingrained experience of labour scarcity during the past system and holding to their traditional habits of manpower hoarding). Moreover, dismissals are unpopular and politically harmful, so there are a lot of pressures of a different nature to avoid them. Consequently, state firms have striven to avoid dismissals, absorbing losses as long as possible through their liquid reserves, running down their hard currency balances and disregarding amortisation. Part of the resources needed to finance the maintenance of the employment levels (which even previously with a higher level of activity included sizable amounts of disguised unemployment) may have come through exertion of market power allowed by the abolition of price controls (see above, section 2.2).

Some collective dismissals have occurred, but much less than might have been expected to result from the fall in production. Out of about 1,100,000 unemployed registered at the beginning of December only about 170,000 (15.5%) were due to collective dismissals [*Gazeta Bankowa*, n. 51, 16/2/1990, p. 2]. Collective dismissals were however on the increase towards the end of the year, when firms, having exhausted the reserves allowing them to keep up their employment, began announcing their intention to proceed to collective dismissals of 418,000 workers [*Gazeta Bankowa*, n. 4, 27/1/1991, p. 14].

From the above figures it can be seen that unemployment in Poland is still at a relatively manageable level. The point is that it is still increasing, albeit at a lower rate than most of last year. Since February 1990 the rate of increase in the number of unemployed was more or less steady, at around 50-60,000 every two weeks. In October 1990 the increase in the number of unemployed was the lowest since January (82,000)²⁶. About the same absolute increase in the number of unemployed occurred in November, but the increase markedly slowed down to 37,000 in December [*Gazeta Bankowa*, n. 4, 1991, p. 14]. Subsequently the increase in unemployment has peaked again. In the first months of the year unemployment grew steadily at a rate of about 50-60,000 a month, half that of most of the previous year. In April the increase was 48,000 unemployed, unemployment reaching 1,370,000 at the end of the month, corresponding to 7.3% of the active population [*Rzeczpospolita*, 11/5/1991, Supplement on *Ekonomika i Prawo*, p. 1]. The real issue concerns the level of unemployment once the process eventually levels off. The extent of the restructuring processes in the foreseeable future leads one to expect that these levels are very likely to be very high. On the other hand "there is no doubt that the extent of unemployment depends primarily on the shape of the process of economic transformation" [*Gazeta Bankowa*, n. 29, 15/7/1990, p. 9]. A mitigation of the occupational consequences of this process may be provided, among others, by the possibility of restructuring the oversized and clumsily organised public enterprises in ways which could increase their productivity and competitiveness. This could take place not only with the privatisation process, but also through organisational changes such as the separation of some plants from the enterprise or the starting of new activities, so as to create new jobs for those who are under threat of collective dismissal. These types of organisational changes should be proposed by trade unions and must be taken into consideration by the management whenever collective dismissals are announced²⁷. Moreover at least part of those dismissed from the public sector can be hired by the rapidly increasing private one. In the course of 1990 the share of employment in the private sector (outside agriculture) has increased to 15.7% from 12% in the previous year [*Rzeczpospolita*, 8/5/1991, Supplement on *Ekonomika i prawo*, p. 3]. Some additional data may be of interest for illustrating the progress of the private sector. The share of private production in industry has increased from 7.4% in 1989 to 13.4% in 1990, at current prices. Moreover the increase in the development of the private sector is accelerating in time [*Gazeta Bankowa*, n. 11, 17/3/1991, p. 1]. While overall industrial production has decreased in 1990 by 23%, the production of private industry has increased in 1990 by 8% [*Gazeta Bankowa*, n. 11, 17/3/1991, p. 13]. In 1990 the number of private firms has increased by 35%. The turnover of the private retail trade has increased 4.5 times, while state and cooperative trade has decreased by 32%. The value of private imports has increased 5 times, and that of exports 3 times, so that private exports already amount to 17.3% of hard currency exports, and private hard currency imports to 37.5% of the total [*Gazeta Bankowa*, n. 12, 24/3/1991, p. 2]. The amount of credit drawn by the private sector has increased 9 times [*Gazeta Bankowa*, n. 10, 10/3/1991, p. 1].

2.4. *The Occupational Consequences of Industrial Restructuring*

It is a widespread opinion that the Polish economy is in need of a deep structural readjustment leading to closure of unprofitable firms and obsolete plants and the contraction of sectors which have been overexpanded. The need for restructuring does not only apply to those economic activities (such as the coal and steel industries), overextended beyond the limits justified by the allocation of resources, or by present or expected comparative advantage, but also to industries in technologically advanced sectors, characterised by an economic organisation of particularly low productivity compared to international standards. For these sectors restructuring so as to acquire international competitiveness can be particularly difficult, owing to the fact that "the more modern an industrial sector is, the lesser is the significance that prices [and therefore lower labour costs] have for competitiveness, and the greater that of quality" [see Gadomski W., 1991]. An example of a technically sophisticated industrial sector which is badly in need of restructuring is the aeronautical industry, which is closely intertwined with the Soviet one. Notwithstanding the tendencies to concentration at the international level, the 80,000 employees are divided between 25 firms, with a level of productivity ten times lower than in the West. The time taken to prepare a new type of aircraft is about 10 years (twice as long as in the West) [see Brzeg-Wielunski S., 1990]. Another case where the need for restructuring is obvious is given by the automotive industry, where FSO, which has a dominating share in the Polish market for average size cars (about 70%), produces little more than 80,000 low quality cars a year with 24,000 employees [see Lipinski S., 1991]. Restructuring is the natural outcome of the phasing out of subsidies and of the opening up of the Polish internal market to international competition. In the long run this may bring about dramatic productivity increases, together with the benefits of the international division of labour. In the short to medium-term, however, it may lead to the closing down of firms and plants which are unable to face international competition, before productive capacities can be developed in the sectors which, in time, could absorb the resources (in particular manpower) released by the shrinking industries. In this may lie one of the justifications for the continued use of subsidies, even if reduced in scope. It is however a potentially dangerous justification, as it may divert to the ailing sectors resources which could be better employed to develop production and employment in more promising areas. For the time being, however, the process of phasing out of subsidies is maintaining its momentum. In the budget law for 1991 subsidies to firms have been reduced from about 16% in 1990 to 9.7% of overall State expenditure²⁸. If implemented, this will certainly add to the unemployment problem. A particular area where the need for restructuring can have wide occupational consequences is also agriculture, which still employs about 30% of the active population²⁹.

3. The Tasks of Social Policy and the New Law on Employment

As already mentioned, mass unemployment had been foreseen from the start by the Polish authorities, who have braced themselves to face the new phenomenon with a set of measures contained in the new law on employment.

It must be noted that the previous law regulating the activity of the labour offices dated back to 2/8/1945, that is, before the transformation of the Polish economy in a Socialist direction. Obviously, the fact itself that institutional change did in that case lead to the rapid disappearance of open unemployment, lessened the importance of the activity of the labour offices, and so the practical relevance of reforming the legislation. The reform has been undertaken since the prospect of the opposite institutional change and the economic policies of the transition have once again enhanced the relevance of a law on the activity of the labour offices, dealing with assistance to the unemployed. On the other hand, part of the ground of the new law was already covered by the previous law of 29/12/1983, "On the State Fund for Professional Activation", passed in the framework of the attempted reforms of the early eighties. Both the previous laws (2/8/1945 and 29/12/1983) have been abolished by the new one.

3.1. Active Employment Policy Measures in Favour of the Unemployed

The philosophy at the basis of the new law is that the payment of an unemployment subsidy is the instrument of last resort, when every other measure which implies some kind of work, or the attendance of some retraining programme, for the workers deprived of regular employment has been shown to be impractical. Finding an adequate regular employment for the unemployed should, according to the law, be the task of the labour offices. But the latter do not have the responsibility of rationing available jobs, nor is the intermediation of the labour office compulsory (cf. art. 8) With labour intermediation labour offices are essentially performing a public service, which can or cannot be used according to its efficacy. Hence the obligation of notifying to the competent labour office all vacancies and hirings has now been abolished³⁰.

If it is not possible for the unemployed, with the help of the public labour exchange office, to find an adequate job (adequate in the sense of corresponding to his qualifications, as given by its level of education and his professional curriculum)³¹ the law provides for three types of intervention before taking into consideration the payment of an unemployment subsidy: 1) to admit the worker to a programme of professional training or re-training; 2) the promotion and the financing of *ad hoc* jobs (including the setting up of businesses as self-employed entrepreneurs); 3) enabling the unemployed to take part in *ad hoc* organized temporary works³².

The first type of intervention occurs when the lack of regular employment can be attributed to a lack of the professional qualifications required by the labour market. The second type takes place in the creation of jobs through a

public activity of proposal and financing³³. The third type implies the organisation and financing by the labour offices of occasional employment for a period no longer than six months in temporary activities. Only if none of the previously mentioned solutions can be implemented is an unemployment subsidy paid unconditionally.

One of the innovative aspects of the law (from the viewpoint of Polish labour institutions) is to have the actual status of being unemployed explicitly acknowledged (defined in art. 2, point 8). The 29/12/1983 law "On the State Fund for Professional Activation" did in fact contemplate the payment of some unemployment subsidies to "persons temporarily out of work" (art. 6, point 5). However the terms "unemployed" or "unemployment" were carefully avoided. Another innovative aspect, which is consistent with the abandonment of the peculiar labour market institutions of the Soviet-type economy, is provided by the legalisation of the possibility to find a job abroad individually, with time spent abroad recognized for the purposes of the social security system, provided that the payment of social security contributions is not discontinued (see the chap. 6 of the law of 29/12/1989).

3.2. Managerial Responsibilities of the Labour Offices and the Powers of the Minister of Labour

As can be seen, according to the law the labour offices have a variety of organisational tasks concerning the creation and financing of employment or re-training for the unemployed. In their turn the labour offices depend on the Minister of Labour, who disposes of the resources of the Employment Fund, to which a given share of social security contributions are paid³⁴. The theoretical degree of intervention of the Employment Fund and of the labour offices is far-reaching, extending from the organisation and financing of "intervention works" (*prace interwencyjne*) devoted to the creation of temporary employment in local community projects, to the financing of the acquisition of stocks and bonds and of shares, to the granting of credits and subsidies for the creation of jobs, and (last but not least) to the payment of unemployment subsidies (art. 37).

It is worth mentioning that the Employment Fund itself is the transformation of a previously existing institution: the State Fund for Professional Activation, instituted by the previously mentioned 29/12/1983 law. The State Fund for Professional Activation was already performing some of the tasks of the Employment Fund, especially in organising the retraining and redeployment of the labour force. It was financed through the revenues of a kind of excess tax on the growth of remunerations, in some ways akin to the present one (art. 2 of the law of 31/12/1983).

3.3. Job Creation in Poland

It appears that the organisational responsibility of the labour offices and of the Employment Fund have not been adequately exerted in the areas of job

creation and workfare, since it seems that their greatest endeavour has been the payment of unemployment subsidies.

According to a first appraisal of the activity of the Fund, which refers to the month of June 1990, "the labour offices ... notwithstanding the burden of registering the unemployed and calculating unemployment subsidies, have organised the retraining of 1994 persons, have provided for the creation of 37,000 'intervention jobs', have granted 1502 loans to unemployed for undertaking an economic activity on a self-employed basis and for creating 1655 new jobs" [*Gazeta Bankowa*, n. 29, 15/7/1990, p. 9]. As can be seen, the percentage of the unemployed involved in the activities of the labour offices was very small. Later on, however, this type of activity increased to some extent. According to a report "from the beginning of the year the labour offices have found jobs for about 196,000 unemployed. 81,500 have been directed to "intervention jobs", 6,300 to retraining and 15,300 loans for creating additional jobs; 17,000 loans for setting up businesses have been granted³⁵. This is not much, but better than nothing. Hopefully the record will improve in the future, once the labour offices have learnt by their new experience. Moreover the performance of the labour offices could improve following some financial and technical assistance recently agreed by the World Bank [see Krajewska Z., 1991].

On the other hand part of the blame can be attributed to inadequacies of the law. For instance, let us consider the loans granted to the unemployed wishing to start a self-employed business. No attention is paid by the law to the issue of how to monitor the utilisation of the loans and especially of how to prevent the utilisation of the proceeds of the loans for purposes different from those foreseen, nor, especially, to the issue of how to enforce the loan's repayment once due. In practice the criteria for granting this type of loan have varied greatly from one provincial labour offices to another. The dynamics of this type of activity is also a good example of the need for learning and of the difficulties that the labour offices have had in getting started. The start was in fact made rather late, in March, in the third month after the approval of the law on unemployment, with only 47 loans given. Since then, there has been a constant increase in the number of contracts, reaching 8,213 in December [see Kruk W., 1991].

3.4. *The Workfare Approach towards the Assistance to the Unemployed*

As already noted, the law provides in principle for the payment of an income to those who are deprived of regular employment, and for whom no regular employment can be found, conditional on performing some type of work or on undergoing retraining. This seems in line with the tendency which can be seen in a number of countries (starting with the United States [see Gueron J.M., 1990]) towards forms of workfare (associating assistance to those who are deprived of regular employment with an obligation to perform some kind of work, usually in the social services). In this way, the "moral hazard", potentially associated with the unconditional payment of a subsidy (such as allowing people to register as unemployed while holding a non-official job, or

choosing unemployment and living on welfare as a way of life “out of the rat race”) is eliminated. The same applies to the waste, and the possible negative consequences for the social order, implied in keeping idle people who could be otherwise productively utilised. Another, more usual, proviso directed at avoiding the moral hazard problem, makes the unemployed who does not accept the offer of an adequate employment ineligible for the payment of unemployment benefits. This proviso was contained in art. 16 of the 29/12/1989 law, in such a formulation as to allow its circumvention in the ways considered in section 2.3. The law of 27/7/1990 puts some limits to the eligibility of receiving unemployment benefits, but not to the extent of really solving the moral hazard problem. To this effect the obligation of participating in retraining activities or in so-called “intervention jobs” could be more effective, provided these activities are actually organised.

3.5. *Comprehensiveness of the Provisions in Favour of the Unemployed.*

One of the advantages of having faced the issue of how to deal with the unemployed before the unemployment problem arose, was the possibility of drawing up a comprehensive set of legal measures, in order to provide for all the possible kinds of unemployment in a consistent and systematic way. Thus, in the original formulation no category of involuntary unemployed was left without assistance, nor were particular categories unduly privileged, even if the assistance to those who lose their jobs because of a decision of the employer is relatively more favourable (see art. 18 of the 29/12/1989 law “On Employment”). Special provisions are established in favour of those affected by collective dismissals³⁶.

3.6. *Quantitative Data on Unemployment Subsidies and on the Implementation of the Law*

Let us now consider some quantitative data to give some idea of the order of magnitude of the subsidies. In mid-May the average wage was 437,506 zloty, the minimum one 120,000³⁷. Unemployment subsidies were between these two figures³⁸. Taking into account the exchange rate of the zloty (9500 zloty to the dollar) these were very small amounts indeed. Their purchasing power was much higher in terms of necessities than in the West, because of the comparatively much lower price of most services and staple foodstuffs, even if the prices of durables, especially those of relatively better quality, were of comparable level.

As long as inflation continues at its current monthly rate and the exchange rate continues to be stable³⁹, the wage in convertible currencies will continue increasing, even if the same cannot be said of its purchasing power, especially in terms of necessities (whose relative prices are increasingly put into line with the international ones by phasing out subsidies and increasing administered prices)⁴⁰.

In November average money earnings in the five fundamental branches of the State economy were already more than three times the amount in May (1.4125 million zloty) [*Gazeta Bankowa*, n. 51, 16/12/1990 p. 13]. In the longer term the process of continuous increase in the dollar value of wages may contribute to push unemployment upward, making it more difficult for the Polish economy to compete in international markets, notwithstanding the remarkable performance in 1990⁴¹.

4. The Employment Fund and Employment Support in Hungary

An Employment Fund for running an active employment policy and for financing measures of income support for the unemployed (such as early retirement, severance pay, and the payment of unemployment benefits), and temporary employment creation through public works, was introduced in Hungary in 1987 (Decree of the Council of Ministers n. 52/1987 of 15/10/1987, later substituted by the Decree of the Council of Ministers n. 143/1989 "On the Employment Fund and its utilisation in the critical regions", which came into effect on 1 January 1990, the same day as the Polish employment law). A peculiar feature of the latter decree is the definition of "critical employment regions", entitled to benefit from additional subsidies from the Fund.

Although unemployment in Hungary was much lower than in Poland at the beginning of the year⁴², it is on the increase and may become a major social problem in the near future. Even before a comprehensive employment law was approved last February by the Hungarian parliament, a social security net for the unemployed had been gradually woven: in 1988, when no system of unemployment benefits existed, only about 30-40% of the average 10-15,000 unemployed were covered by the social security system. This percentage grew to 70-80% in 1989 (when a comprehensive system of unemployment benefits was first introduced) and to more than 90% in 1990 [see Frey M., 1991, pp. 6, 13]. In Hungary (as in Poland) the system of dealing with the unemployment problem has a number of workfare connotations. One such was the institution, in 1987, of "work for public benefit", which was initially the exclusive responsibility of local councils, but was extended in 1990 to private employers. In 1990 20,000 workers were affected. A comparable number of unemployed in 1990 were given loans on becoming self-employed [see Frey M., 1991, pp. 10, 12]. These figures must be compared with 70,000 receiving unemployment benefits in 1990⁴³.

5. Some Comparative Appraisal of the New Soviet Employment Law

The paramount importance of the Polish employment law is that it provides the first comprehensive legal set-up in the post-communist countries in the sphere of employment, and especially of unemployment, and as such it constitutes a point of reference for the other ex-communist countries. The new Soviet employment law⁴⁴, which was approved in January 1991, is in many ways

similar to the Polish law, even if the opinions expressed last year by the Soviet Labour Minister, in this journal, seemed to imply some greater similarities in approach than the text eventually approved [Šerbakov V.I., 1990]. Interesting features of the new law, which parallel those of the Polish one, are the recognition of the legitimacy of not being employed in the State sector, and therefore the end of the “antiparasitic” legislation, the voluntary nature of the intermediation of the State employment service (art. 5 and 9), the creation of a State Employment Fund for financing the pursuit of an active employment policy, retraining, and the payment of unemployment benefits (art. 18 and 19), the recognition of the possibility to work temporarily abroad (art. 11). Some kind of unemployment benefits are paid for a number of calendar weeks, as defined in republican legislation, not only to persons previously employed, but also to school leavers for whom no adequate job can be found⁴⁵. The right to unemployment benefits is forfeited if the offer of an adequate job is refused twice. Some measures of workfare are foreseen; in particular the organisation of community work, and temporary work contracts, but there is no counterpart to the comprehensive workfare philosophy of the Polish law.

6. Conclusion

As we have seen, the strength of the Polish law lies in the comprehensive-ness of the way the unemployment issue is tackled and in its workfare orientation, its weakness in the fact that its implementation is left to a branch of the State Administration, to which the usual issues of efficacy and motivation apply. For an administrative body the easiest way is to pay straight unemployment benefits rather than be concerned with labour intermediation and job creation. And, as we have seen, this is precisely what has happened in Poland, where the greatest domain of intervention by the labour offices has been just in the area of straightforward payment of unemployment benefits. Things are improving, but some doubt remains as to whether other, more incentive compatible ways of putting the unemployed to work could be devised, for instance through the automatic intervention of ordinary employers, rather than through the action of labour offices⁴⁶. After all for the creation of incentives to labour mobility and to reallocation of resources, as well as to labour productivity of employed workers, unemployment is not really needed. What is needed is simply that the section of the labour force in need for re-deployment should be worse off than the part which is actively and productively employed, thus creating for potentially redundant (and actually lesser paid) workers an incentive to look for a better (and more productive) job, and for employed workers to avoid being dismissed. To keep potentially redundant workers at work at a markedly lower wage than the remaining part of the labour force, provided they are, even if very moderately, productive, is probably a socially and economically less wasteful way of solving the problem of redeployment of labour resources and of activating the labour market as an allocative mechanism than forcing them onto the dole. One way of implementing this solution, and at the same time pressing for institutional transformation in ex-communist countries,

is to delegate this role to the residual public sector, and this is precisely what is taking place in Poland, with the newest legislation on *popiwek*. In order to avoid unduly penalising workers' incentives in state industry part of wages should be tied to profitability so as to allow workers in profitable enterprises to reach the same wage levels as in the private sector (provided profits are not shown to be patently the outcome of excessive monopolistic practices). To some extent these considerations are taken into account in the more recent legislation on *popiwek*⁴⁷. The alternative way, of simply closing down non-profitable plants in state industry, laying off workers to mass unemployment seems to be excessively wasteful and unduly dangerous for the survival of democratic institutions. After all it is much easier and immediate to close down non-profitable plants rather than to build new plants and to develop new areas of activity, and there is the problem of what to do in the meantime with the redundant workers. Obviously keeping down wages in unprofitable plants presents a number of social and political problems of its own. The experience of *popiwek* proves however that they can be overcome, at least in the short run. It must be stressed that it is absolutely crucial that the wages of workers in need of redeployment should be kept markedly lower than elsewhere. Only in this way the allocative mechanism of the labour market would be allowed to operate.

On the other hand the experience with the social policy towards the unemployed made from the beginning of 1989 to date shows that active employment and workfare measures, such as those contemplated by the law, are difficult to be implemented by a public bureaucracy overcome by the mass of the unemployed and, possibly, aiming at minimizing its own effort.

Notes

¹ Law of 29/12/1989 [*Dziennik Ustaw*, 1989, n. 75, item 446]. Actually, "Law on Unemployment" would have been a more appropriate name.

² Law of 26 October 1982 [*Dziennik Ustaw*, n. 35, 1982, item 229].

³ If we look at the Polish vacancies/job-seekers ratios in the fifties and sixties, as reported by Kwiatkowski [see Kwiatkowski E., 1990], while the ratio for the whole of the labour force was greater than 1 in 10 out of the 15 years between 1955 and 1969, it was lower than 1 in all 15 years for the female component alone. In the seventies and eighties however the ratio rose considerably over 1 for both components (see Table 1 below).

⁴ Yearly growth rate of consumer prices, calculated from the beginning to the end of the year.

⁵ The table, which is based on Polish official statistics, is taken from Kwiatkowski [see Kwiatkowski E., 1990]. The table refers to the ratio between registered vacancies and registered job-seekers at the end of the year. Quantitatively these data relate to a rather small fraction of the labour force. For instance, registered job-seekers at the end of 1957 were 31,937 (0.4% of non-agricultural employment) and the number of vacancies 48,112 [*Rocznik Polityczny i Gospodarczy 1957*, pp. 795, 797]. At the end of 1970 the two figures were respectively 79,400 (of which 71,300 women) and 39,500 [*Rocznik Statystyczny 1974*, p. 62]. At the end of 1988 there were only 5,000 registered job-seekers, to be compared however with 430,000 vacancies. In the same year 1,719,000 workers found jobs through the labour offices [*Rocznik Statystyczny 1989*, p. 76]. Comparable data would be more difficult to obtain after 1/1/1990, because of the abolition of the obligation for employers to notify vacancies to the labour offices. According to available statistical data there were about 16 unemployed for any vacancy, on average, at the end of October 1990, and 21 in December [*Gazeta Bankowa*, n. 4, 1991, p. 14]. However the situation is probably a little better than it seems, since a number of vacancies are not notified by employers [*Gazeta Bankowa*, n. 49, 2/12/1990, p. 13].

⁶ From the economic programme of the Polish government, distributed as a supplement to *Rzeczpospolita*, Warsaw, October 1989, p. 1.

⁷ On the whole, the real incomes of the population underwent in the first five months of the year a reduction of 35.4% in comparison to the same period of the previous year [*Gazeta Bankowa*, n. 27, 1/7/1990, p. 2].

⁸ "The monthly norm of remunerations is given by the norm of the previous month, augmented by the monthly increase in the index of the prices of consumer goods and services in that month, multiplied by a correction coefficient" [art. 4 of the law of 27 December 1989 "On the taxation of the growth of remunerations in 1990", *Diennik Ustaw*, n. 74, 30/12/1989, item 438]. Such a correction coefficient was 0.3 in January, 0.2 in February, March and April, and 0.6 in May and June, 1 in July, 0.6 henceforth [*Gazeta Bankowa*, n. 6, 10/2/1991, p. 15, and *Gazeta Bankowa*, n. 2 13/1/1991, p. 2].

⁹ The higher rate was applied also to payments of premiums and bonuses out of profits above the norm, whatever their amount (art. 8). The norm of payments of premiums and bonuses out of profits is fixed in principle at 8.5% of wage payments out of costs (art. 6). Later in the year the tax was reduced to 100% of wage payments above the norm for excess payments under 3% of the norm, and 200% for excess payments between 3% and 5%, maintaining the highest rate of 500% for excess payments above 5% of the norm. Nevertheless, the penalties involved in overshooting wage norms remained substantial. More relevance on the effective dynamics of earnings did probably have, rather than the reduction in the rates of the tax, the possibility, granted in the July 1990 version of the law, of making additional payments, exempted from the tax, out of profits of firms which increased their profitability in the second half of the year [cf. art. 1, law 28/7/1990, "On changes of the law of taxation of the increase in remunerations in 1990", *Dziennik Ustaw*, n. 56, 1990, item 323, pp. 796-797].

¹⁰ In the first four months the revenues from the tax have been little more than 200 billion zloty [*Gazeta Bankowa*, n. 26, 24/6/1990, p. 1]. At the end of 1990, however, the revenues from the tax had reached about 8,700 billion zloty, 4.4% of overall State revenues of 196,200 billion [*Gazeta Bankowa*, n. 9, 3/3/1991, p. 7]. In order to evaluate the quantities expressed in zloty one must take into consideration that since the beginning of 1989 the zloty was internally convertible at a rate of exchange which, until mid-May 1991, was 9500 zloty to the dollar.

¹¹ [*Gazeta Bankowa*, n. 26, 24/6/1990, p. 1]. One must consider however that real earnings in April 1989 were a purely statistical concept, since part of the money earnings in 1989 could not be used for freely purchasing goods. Part of the consumer goods could indeed be purchased only incurring high transaction costs in the form of time wasted in queues or searching for the goods. In many instances goods were simply unavailable at the official prices.

¹² [*Gazeta Bankowa*, n. 51, 16/12/1990, p. 12]. However, the new law (of 22/12/1990, "On taxing the growth of remunerations", *Dziennik Ustaw*, n. 1, 4/1/1991, pp. 1-5) fixes the exempted wage increases on the basis of the norm, and not of effective remunerations, of the previous year, tying the norm of 1991 *de facto* to remunerations in September 1989 (which were the basis of the 1990 norm). However, some increase of the norm for firms which were granting wage rises subject to the tax are contemplated. (According to art. 4, 1/24 of wage increases per worker in 1990 subject to the tax are increasing the norm in 1991.) The new law also contains significant changes in the structure of the tax. First of all, the basis of the calculation is the average wage, and not the wage bill any more, so the incentive to make part of the labour force redundant in order to increase the wages of those remaining is abolished, in view of the prospect of a high rate of open unemployment in 1991. On other aspects we shall return later.

¹³ Probably the coefficient was set to 1 to compensate for the steep increase in the price of energy (between 80 and 100%) [see *Gazeta Bankowa*, n. 35, 26/8/1990, p. 9], which, however, contrary to expectations, did not result in an acceleration of the inflationary process.

¹⁴ *Gazeta Bankowa*, n. 47, 18/11/1990, p. 13. In the last four months of 1990 alone the real revenues of the population increased by 23.5% [*Gazeta Bankowa*, n. 10, 10/3/1991, p. 1].

¹⁵ *Gazeta Bankowa*, n. 6, 10/2/1991, p. 15. The average real remuneration in the State sector in 1990 has turned out to be lower by 28% than in the year before. It must be remembered however that this represents a reduction only in real "statistical" remunerations, in the sense considered above (see footnote 11). Moreover the share of employment in the private sector, where wages are probably higher, has increased.

¹⁶ These branches are: industry, construction, transport, communication, trade, and the local municipal economy (*gospodarka komunalna*). From this year the statistical definition of this aggregate has changed in comparison with the previous definitional aggregate of the five main branches of the national economy. Not only have the branches become 6, but the aggregate now includes a substantial part of the private sector that was previously excluded.

¹⁷ For the Hungarian case see *Gazeta Bankowa*, n. 2, 13/1/1991, p. 13. At the beginning of 1990 the National Bank of Poland started to activate discounting and rediscounting procedures for trade bills so

as to stimulate the enforcement of mutual obligations by state firms, but the circulation of trade bills has been rather slow to develop [see *Gazeta Bankowa*, n. 11, 17/3/1991, p. 5].

¹⁸ See Witold Gadomski, in *Gazeta Bankowa*, n. 13 31/3/1991, p. 1. This should change in the course of 1991, owing to the fact that in the memorandum presented to the IMF in occasion of the recent debt negotiations the Polish government is contemplating the bankruptcy of scores of State enterprises, which will push the level of unemployed up to 2 million [see Binczak H., (1991b)].

¹⁹ As provided by the law "On State Enterprises" of 25/9/1981; for its latest revision see the law of 9/3/1990, *Dziennik Ustaw*, n. 17, item 99.

²⁰ Art. 17 of the law of 13/7/1990, "On the Privatisation of State Enterprises", *Dziennik Ustaw*, n. 51, item 298.

²¹ "Statystyka Polski - Informacje Głównego Urzędu Statystycznego", in *Rzeczpospolita* 28/11/1990 and 25/5/1991.

²² "Statystyka Polski - Informacje Głównego Urzędu Statystycznego", *Rzeczpospolita*, 23/3/1990, p. 7.

²³ 1.783.070 in 1988, according to the Polish Statistical Yearbook of 1989.

²⁴ Cf. art. 1 of the law of 27/7/1990, *Dziennik Ustaw* n. 56, item 323, pp. 796-797.

²⁵ See Gadomski W., 1990. The following year similar attitudes are still the object of complaints: "The state firm is still unable to free itself from the role of provider of work and money for the crew. Not surprising, if you consider that the workers regard the role of director simply as this."

²⁶ Zespół Komitetu Ekonomicznego Rady Ministrów, *Informacja o przebiegu procesów gospodarczych w październiku i w okresie styczeń-październik 1990r*, Warszawa, 15/11/1990, pp. 36-37.

²⁷ cf. art. 2, law 28/12/1989, *Dziennik Ustaw*, 27/1/1990, n. 4, item 19, p. 1.

²⁸ Percentages calculated from the data contained in the budget law, as reported in *Rzeczpospolita*, 6/12/1990.

²⁹ 29.6% in 1984 [see *Rocznik Statystyczny 1989*, p. 535].

³⁰ This obligation was contained in article 4 of the decree of 2/8/1945 "On the labour offices" (*Dziennik Ustaw*, n. 30, 1945, item 182).

³¹ Cf. art. 2 section 14. It is easy to presume that this condition of "adequacy" of the proposed job would greatly constrain the possibility to present workers with job offers so as to avoid the sheer payment of an unemployment subsidy. The condition of the lack of a "adequate" job for benefiting from some measures in favour of the unemployed can also be found in Hungarian legislation (Decree of the Council of Ministers n. 143/1989 "On the Employment Fund and its Utilisation in the Critical Regions", art. 7), with the additional condition for defining an adequate job that "the expected earnings with the possible extras achieve the previous average wage of the person". According to the new Soviet Employment Law (art. 2) the status of registered unemployed is conditional upon not having been offered an adequate job by the State employment services.

³² Cf. the text of art. 15, paragraph 1: "The right to unemployment benefits pertains to the unemployed 7 days after registration, where an adequate job, a course of professional training or retraining, cannot be offered, and when the unemployed worker cannot be directed to intervention works, or to an additional job".

³³ In particular through loans up to twenty times the average wage to the employers for covering expenditures for the organisation of additional jobs or to the workers for setting up their own business. When a worker has been employed or self-employed for 24 months, half of the loan is waived (art. 13).

³⁴ 2% of the social security contributions, according to a decree of the Council of Ministers of 29/1/1990 [*Dziennik Ustaw*, n. 5, 5/2/1990, item 29]. This seems to be a rather small percentage, considering the extent of the tasks which the Fund has to cover. In fact these payments were supplemented from budget funds. In the first nine months of 1990 the revenues from the 2% contributions of employers amounted to a mere 645.6 billion zloty, while the contribution from the budget was 2,288.2 billion zloty [*Gazeta Bankowa*, n. 49, 2/12/1990, p. 13]. In the same period the expenditure out of the Fund was 1,301.4 billion, the bulk of which was for the payment of unemployment subsidies (845.1 billion zloty). For the whole 1990 the resources of the Fund amounted to 3,700 billion zlotys, of which more than half were utilised for unemployment subsidies, 26% for loans to firms and unemployed persons, 13.6% for professional instruction for the young, only 5.6% for local community works and a mere 0.86% for retraining and requalification of the unemployed [*Rzeczpospolita*, n. 124, 29-30/5/1991, p. 2].

³⁵ Zespół Komitetu Ekonomicznego Rady Ministrów, *Informacja o przebiegu procesów gospodarczych w październiku i w okresie styczeń-październik 1990r*, Warszawa, 15/11/1990, p. 38.

³⁶ By the law of 28/12/1989, *Dziennik Ustaw*, 27/1/1990, n. 4, item 19.

³⁷ *Gazeta Bankowa*, n. 20, 13/5/1990, p. 8. The minimum wage was later increased to keep up with the inflationary process. For instance, the minimum wage rate applying from the first January 1991 was set at 550,000 zloty (decree of the Minister of Labour and Social Policy from 11/12/1990, in *Monitor Polski*, n. 48, p. 445).

³⁸ Cf. article 15, 3. of the law on employment. In the law of 27/7/1990, which has already been mentioned, the lower limit was reduced to 95% of the minimum wage.

³⁹ One of the advantages of continuing to keep the rate of exchange of the zloty in relation to the dollar constant is to consolidate the confidence of the public in the national currency, with further progress towards the de-dollarization of the economy and related advantages in terms of seigniorage, and long-term anti-inflationary effects. During 1990, the relation of deposits in hard currencies to deposits in zloty declined from 5.4 to 1.6, even if in absolute terms there has been an increase in hard currency deposits from 46,800 billion to 55,000 billion zloty (the zloty deposits have increased more than the rate of inflation, from 8,600 billion to 33,300). The maintenance of the exchange rate with the onset of 1991 has caused an abrupt fall in relative confidence towards the dollar, and a parallel increase in the confidence towards the zloty, bringing about a reduction in the absolute amount of hard currency deposits by 2,000 billion zloty in January alone [*Gazeta Bankowa*, n. 11, 17/3/1991, p. 21]. Over the two months, savings accounts in zloty have increased by 27.3% [*Gazeta Bankowa*, n. 12, 24/3/1991, p. 2]. The decrease in hard currency accounts and the increase in savings accounts in zloty has also continued in March and in April. In the latter month alone, zloty accounts have increased by 15% [*Rzeczpospolita*, 13/5/1991, *Ekonomia i Prawo*, p. 1]. The above process is not surprising if one considers that, on account of the stability of the exchange rate and the high nominal interest rates in 1990, the yearly rate of return of keeping a savings account in zloty was more than 160% in terms of dollars, even if this did not compensate for an inflation rate of 263.5% a year [see Krajewski J., 1991; for the degree of significance of the latter figure, see however, the following note]. It is difficult however to think that, short of an upsurge in Polish productivity, the exchange rate could be maintained much further in the presence of the current monthly inflation rates. Moreover a dollar parity is suitable under present circumstances for psychological reasons (according to an inquiry, the dollar is still the "strongest" currency in the eyes of the Polish public). In the long run, after having overcome the inflationary process, one would rather expect a parity to be established with some currency, such as the DM or the future single European currency, more relevant for the trade structure of the country. [After this paper was sent to the press, the 17th of May the zloty was devalued to a new exchange rate of 11,100 zlotys to the dollar. The new parity has been established not any more with the dollar but with a basket of currencies, of which the dollar has the greatest relative share of 45%, the other shares being 35% for the DM, 10% for the British pound and 5% each for the French and the Swiss franc. The value of the basket was one US and 11,100 zlotys the 17th of May, but of course the dollar value of the basket, and so the dollar exchange rate of the zloty, fluctuates according to the variations in the relative exchange rates of the currencies of the basket].

⁴⁰ As already noted the inflation rate in 1990 was 263.5%. With the dollar exchange rate constant, this has resulted in a corresponding real appreciation of the zloty in dollar terms. Of course the above was the rate of open inflation. Had the halting of repressed inflation been taken into account, making allowance for the fact that the real purchasing power of the 1989 zloty was markedly lower than its nominal purchasing power (because of unavailability of consumer goods at the official prices and additional transaction costs needed for their acquisition), the effective inflation rate would probably have been markedly lower. It should also be noted that all price indexes in 1990 referred only to State trade. In particular, prices charged in the booming street trade were not taken into account in the official price index.

⁴¹ There was a remarkable surplus of 3 billion dollars in hard currency trade in 1990 [*Gazeta Bankowa*, n. 3, 20/1/1991, p. 6]. COMECON trade also had a surplus (5.4 billion transferable rubles; *ibidem*, p. 1). In the first two months of 1991 the balance of trade in hard currencies has been however in the red, notwithstanding a 53.4% increase in exports compared to the same period last year, matched however by a 76.1% increase in imports [*Gazeta Bankowa*, n. 12, 24/3/1991, p. 1. In appraising the above figures one must take into account that the introduction of hard currency trade as the basis of exchange in ex-Comecon countries from the beginning of 1991 has contributed to the increase in those values). This has resulted in a decrease in the hard currency reserves, which has continued in March and April [*Rzeczpospolita*, *Ekonomia i Prawo*, 13/5/91, p. 1]. Hard currency surplus did already start to decline in the second half of 1991. A contributing factor could have been the substantial reduction in import restrictions during 1990. Import duties at the beginning of 1990 were rather substantial (an average customs tariff rate of 10% plus a 20% average turnover rate on imports, plus a deposit without interest of 10% of the sale value of the imported commodities [see Plowiec U., 1991].

⁴² 1.8% at the end of 1990, according to the figure reported in Frey M. (1991).

⁴³ See Frey M., 1991. I am grateful to Mária Frey, who is a scientific adviser to the Labour Research Institute in Budapest, for having provided me not only with her unpublished paper, but also with an English translation of the relevant legal documents.

⁴⁴ I must thank Sheila Marnie for having furnished me with a copy of an unpublished typescript by her, where the contents of the new Soviet employment law are reported in detail. The complete Russian text of the law was published in *Izvestija*, 25.1.1991.

⁴⁵ For the concept of a "adequate" job see above, section 3.1.

⁴⁶ For the consideration of a scheme of this kind and of the problems involved, see Chilosi A. (1987)

⁴⁷ See art. 9 of the 22/12/1990 law "On the taxation of the growth of remuneration", which allows (with some limitations) to increase the norm so long as the ratio of profits to wages accounted as costs does not decrease as a result.

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