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Unemployment Benefits and Labour Market Developments In Poland in Transition

1. Introduction

The transformation of the economic system in Poland initiated at the turn of 1980s and 1990s was also addressed, from the very beginning, to the labour market. Liberalization of economy and international trade, development of the private sector, higher economic autonomy of the state-owned enterprises had to significantly impact the labour market in the transition period. Unemployment started growing rapidly and resulted in the emergence of a number of social tensions and conflicts. This necessitated building a social protection system, one that would soothe the negative effects of unemployment. The unemployment benefit system was an important element of a broader system of social protection. With progressing transition and changes in the economic situation, there started to surface unfavorable consequences of the solutions assumed in the area of unemployment benefits. This entailed introduction of a number of modifications to that system.

This report attempts to present – with regard to developments on the labour market – the basic rules that have underpinned the unemployment benefit system in Poland during the transformation period so far (1990-1997) and an analysis of some selected economic effects of the unemployment benefits. In the presentation of the system the stress has been put on showing how the system evolved. As regards effectiveness of the system an attempt has been taken to analyze primarily the impact of benefits on employment prospects of the jobless.

The grounds for our study in this report are data and materials of three types:

- official statistical data on the Polish labour market, covering administrative data, as well as those from labour force surveys in the economic activity of population,
- legal regulations and definitions applicable to the unemployment benefits system in Poland, incorporated in employment and unemployment acts,
- surveys in the outcomes of unemployment benefits in Poland discussed in the literature.

The structure of the study is as follows. Section 2 presents developments on the labour market in Poland in the years 1990-1997, with particular focus on unemployment and unemployment benefits statistics. Section 3 outlines evolution of principles underlying the unemployment benefits system. Section 4 presents outcomes of surveys in the impact of benefits on the job finding opportunities. Section 5 provides final remarks.

2. Labour Market Developments

The past period of economic system transformation in Poland (1990-1997) was not homogenous from the labour market perspective. Three subperiods can be distinguished:

- drastic deterioration of the situation in the labour market between 1990 and 1991,
- improvement of the macroeconomic indicators and relatively slow growth of unemployment between 1992 and 1993,
- relatively strong economic recovery and declining unemployment trend since 1994.

The programme of liberalisation and stabilisation of the economy launched at the end of 1989 was important for the labour market situation in early '90s. This programme stipulated a liberalisation of prices and foreign trade, introduction of the principle of hard budget constraints into state owned companies, introduction of internal convertibility of the Polish currency and tight macro economic policy of the government. The implementation of this programme added to the emergence of a negative aggregate shock being a combination of the reduced aggregate demand for commodities and credit squeeze (Blanchard, Commander, Coricelli, 1994). As a result GDP dropped heavily and prices increased sharply (see Table 1).

Table 1. Macroeconomic indicators, Poland, 1990-1997

Year	GDP ¹	Consumer price index ¹	Employment ¹	Registered unemployment rate ²	U/V ratio ³	Budget deficit/GDP ²	Public debt/GDP ²
1990	8.0	585.8	-7.1	6.5	20.8	0.4	95.0
1991	7.0	70.3	-4.3	12.2	74.0	-3.8 (-4.0)	81.4
1992	2.6	43.0	-2.8	14.3	109.6	-6.0 (-6.4)	85.2
1993	3.8	35.3	-1.7	16.4	133.2	-2.8 (-3.3)	88.7
1994	5.2	32.2	1.1	16.0	112.6	-2.7 (-3.5)	72.3
1995	7.0	27.8	0.3	14.9	128.2	-2.6 (-3.5)	57.9
1996	6.1	19.9	3.4	13.2	170.9	-2.5 (-3.6)	51.1
1997	6.9	14.9	0.8	10.5	153.5	-1.3 (-2.8)	48.0

¹ - annual changes in percentages

² - data at the end of years in % (without revenues from privatization in the parentheses)

³ - data at the end of the year

Source: Rocznik Statystyczny 1997, GUS, Warszawa 1998; Gospodarka Polski 1997, RCSS, Warszawa 1997.

The drastic fall of production during the first years of the transition had to result in some adjustment of employment. Indeed, it was dropping significantly in the Polish economy between 1990 and 1991 contributing to a fast rise of unemployment (see Table 1). It is interesting, however, that the drop of employment was much weaker than the collapse of production in that period, which implies a drop of labour productivity. Such trends translate into a growth of hidden unemployment which, as revealed by some estimates (Rutkowski, 1990), was at a relatively high level already in the late '80s, reaching 25 % of total employment. Therefore, the fast increase of open unemployment at the beginning of transition cannot be explained by the reduction of the hidden unemployment as one might suppose. The relatively low sensitivity of employment to the drop of production can be explained by the strong position of trade unions in the state-owned companies. The pressure of the labour made the management of the state-owned companies apply alternative employment adjustment methods to reduce labour cost (e.g. reduction of working time and overtime, or early retirement) other than dismissals (Kwiatkowski, 1993). The strong position of trade unions also contributed to the fact that the principle of hard budget constraints was not fully implemented implying a bigger state budget deficit (see Table 1).

In the second subperiod covering years 1992-1993 unemployment and its rates continued to grow (Table 1). The U/V ratio (i.e. the ratio showing the relationship between the number of unemployed persons and the number of vacancies) also grew, revealing more and more problems with finding a job. The growth in unemployment was, however, much weaker than in the first

subperiod, which was related to a slowing down decline in employment. Interestingly, the drop in employment in the period 1992-1993 was accompanied by growing GDP, resulting in a fast increase in the productivity of labour. These tendencies can be explained by the growing respect to market economy rules in many state-owned enterprises. Despite this, the size of the budget deficit swelled essentially in 1992.

The third subperiod (years 1994-1997) was characterized by a clear-cut drop in the number of unemployed persons and the rate of unemployment (Tab. 1). However, the U/V ratio kept growing to 1996. That tendency can be partly explained by the fact that the U/V ratio shown in Table 1 was based on data provided by labour offices on the numbers of job offers reported, that were largely underestimated. It is worth noting that the drop in unemployment in that period was accompanied by declining inflation and shrinking budget deficit and public debt (see Table 1). This was owed to the fast economic growth. Nevertheless, it must be stressed that the drop in unemployment in the period of recovery in the years 1994-1997 was much weaker than the growth in unemployment between 1990-1993. A probable explanation was a higher share of the structural unemployment in the years 1994-1997. The issue of structural unemployment will be discussed again in the next sections.

The rocketing unemployment and soft eligibility requirements for unemployment benefits at the outset of the transformation caused that the number of benefit receivers was growing very fast. In the years 1990-1991 almost 80 per cent of the registered unemployed persons received benefits (see Table 2).

Table 2. Unemployed and benefit receivers, Poland, 1990-1997, data at the end of years

Year	Registered unemployed (thousands)	Unemployed entitled to benefits (thousands)	Entitled/unemployed (%)
1990	1126.1	891.7	79.2
1991	2155.6	1703.0	79.0
1992	2509.3	1312.4	52.3
1993	2889.6	1394.3	48.2
1994	2838.0	1422.7	50.1
1995	2628.8	1548.9	58.9
1996	2359.5	1224.0	51.8
1997	1826.4	556.5	30.4

Source: Registered Unemployment in Poland, CSO, Warszawa; for the years 1992-1998

In 1992 the rate of beneficiaries rapidly declined because of tightened requirements for receiving an unemployment benefit (amongst others, the benefit

drawing period was cut down to 12 months). In the next years the number of benefit receivers grew to the year 1995 to essentially decline between 1996-1997. One of the reasons for that decline could be a further restriction of provisions regulating unemployment benefits (for instance, school-leavers stopped being eligible for the benefit, as a law was introduced that required a potential beneficiary to have worked at least 365 days during the last 18 months; section 3 discusses this issue more in detail).

Unemployment benefits are financed by the Labour Fund fed by contributions paid by employers and budget subsidies. Trends characterizing expenditures from the Labour Fund are presented in Table 3. The Table shows that, firstly, expenditures on benefits consumed the prevailing part of total Labour Fund spending (ca 80-85 per cent) (except for 1990). The share of expenditures on benefits in GDP showed an upward trend to the year 1995, which was related to the fast growing number of the benefit receivers, and then slightly dropped. Secondly, the dynamics of real expenditures on benefits in the years 1990-1997 was considerably higher than that characterizing all Labour Fund expenditures, which concerns both total expenditures and expenditures per one unemployed person. This indicates how important role was attributed to the income function of the benefits.

Table 3. Expenditures of the Labour Fund, Poland, 1990-1997

Specification	1990	1991	1992	1993	1994	1995	1996	1997
1. Total expenditures as % of GDP	0.62	1.65	1.99	2.05	2.11	2.19	2.07	1.48
2. Expenditures on unemployment benefits as % of GDP	0.32	1.35	1.72	1.72	1.77	1.86	1.77	1.17
3. Exp. on unempl. benefits as % of total Labour Fund expend.	51.1	82.0	86.3	83.9	83.8	84.8	85.2	78.9
4. Dynamis of real total Labour Fund expenditures (1990=100)								
- total	100.0	214.4	253.1	262.8	280.3	314.5	324.1	250.6
- per 1 unemployed	100.0	111.9	113.6	102.4	111.2	134.7	154.7	154.5
5. Dynamis of real expend. on unempl. benefits (1990=100)								
- total	100.0	344.5	427.6	431.7	459.5	521.8	540.8	387.3
- per 1 unemployed	100.0	180.0	191.9	168.3	182.4	223.5	258.2	238.8
- per 1 benefit receiver	100.0	173.3	158.1	184.5	193.1	201.4	250.4	258.1

Source: Rocznik Statystyczny Pracy, 1995 i 1997, GUS, Warszawa and the data obtained from the National Labour Office.

Detailed rules determining the amounts of unemployment benefits will be presented in section 3. At this point we only want to present statistical data used to set the levels of the basic benefit in relation to the average wage and minimum wage (see Table 4).

Table 4. Ratios between unemployment benefit, minimum wage and average wage, Poland, 1990-1997, in percentages

Ratios between unemployment benefit and	1990 ¹	1991 ¹	1992	1993	1994	1995	1996	1997
minimum wage	81.2	118.2	82.4	82.3	82.3	84.6	78.8	75.5
average wage	19.6	34.2	37.9	36.0	37.0	36.7	33.4	32.0

¹ ratios between net magnitudes

Source: data obtained from the Voivodeship Labour Office, Lodz; own calculations.

The table reveals that the relation between the benefit and the average wage grew from 19 per cent to ca 37 per cent in the first four years of transition, and then it slightly declined in the years 1995-1997. Similar tendencies are observable as regards the relation between the benefit and the minimum wage, here the relevant rate oscillated in most years between 75 and 85 per cent. Values of both these rates suggest that the compensation ratio was not high. This conclusion, however, would be right only in part. It must be remembered that among the benefit receivers a large group were persons with low skills and education, whose wages were relatively low. Consequently, in the case of these groups of unemployed the compensation ratio was much higher.

3. Evolution of the unemployment benefit system

The program aimed to transformation of the economic system in Poland that was initiated at the end of 1989 (Balcerowicz, 1997, pp. 360-361) assumed setting up of the labour market as an important market economy institution. In parallel, new laws were put in force that regulated the labour market and provided primarily social protection to persons being laid off by instituting a system of unemployment benefits and setting aside resources for training and retraining, as well as creation of new jobs. It was rightly assumed that the new environment of a market economy and the stabilization efforts undertaken would all result in restructuring of employment that would reduce the redundant number of employees and modify structure of the demand for labour, adequately to the real

needs of enterprises and requirements of modern economy. The cost of those attempts was open unemployment.

The unemployment benefit system incorporated in the program was addressed to all jobless persons. But it was to provide special protection to persons dismissed under the so-called mass lay-offs caused by the reduction of employment due to economic or production-related factors, as well as those who lost jobs because of liquidation or bankruptcy of their enterprises.

According to the employment and unemployment act of December 19, 1989 (Dz. U. No 75, article 446) the unemployment benefit system was an element of a system providing social protection for those out of job. The key objective of the benefits was to secure a pre-defined minimum amount of income to the unemployed persons, shielding them from a sudden deterioration in their present living standard. It was stressed, however, that unemployment benefits should also play the role of incentives, i.e. to mobilize unemployed persons to search for job opportunities and take jobs.

It was assumed that the source to cover costs of unemployment benefits and contributions to social insurance to be paid by persons drawing benefits would be the Labour Fund. The main source of the Fund's incomes has been contributions paid in by employers (first amounting to 2 per cent of the gross wage bill, and 3 per cent from 1994) enhanced with a subsidy from the state budget.

The act of 1989 defined precisely who was an unemployed person and detailed the rules for granting an unemployment benefit by stipulating requirements that determined eligibility for the benefit, periods of waiting for and drawing the benefit, as well as its amount.

According to the act an unemployed person was one that

- remained jobless, was able to render work and ready to take it and registered at the local labour office relevant to the person's place of residence,
- did not own or held a farm with acreage exceeding 1 ha,
- did not run any other business activity,
- did not draw an old age pension.

The right to the unemployment benefit was granted to unemployed persons after 7 days from the date of their registration, if the local labour office did not offer a job or occupational training. All unemployed persons were eligible for the benefit, irrespective of how long they had worked before or if they had worked at all. These two possible and different options translated, however, in the varying amounts of the unemployment benefits and the base amounts for setting them.

A benefit for those who had already worked was tied to the wage they

received from their last employer. The benefit amounts were fixed degressively, with reference to the duration of unemployment. Amounts of the unemployment benefits could be:

- a) 70 per cent of monthly wages during the first three months of unemployment,
- b) 50 per cent of the wages during the next six months of unemployment,
- c) 40 per cent after that period.

Unemployed persons who had not worked before received a benefit amounting to the minimum wage. Also school-leavers were eligible for unemployment benefits within 12 months from graduation. Unemployed school-leavers received a benefit being:

- 200 per cent of the minimum wage within first three months,
- 150 per cent of the minimum wage within next six months,
- 100 per cent of the minimum wage after 9 months of drawing the benefit.

Persons leaving secondary and vocational schools were entitled to benefits amounting to:

- 150 per cent of the minimum wage for the first three months,
- 100 per cent of the minimum wage after three months of drawing the benefit.

The lower limit of the unemployment benefit for all unemployed was determined in relation to the minimum wages announced by the Ministry of Labour and Social Policy. The maximum amount of the unemployment benefit was confined by the wage an unemployed person had earned before.

The period of drawing the benefit by an unemployed person was unlimited. The person was entitled to receive it until a job was found.

The aforementioned act stipulated also when the unemployed were turning illegible for the benefit. An unemployed person could not receive the benefit when:

- the person did not turn up at the local labour office to take a job offer on a fixed date without justifiable explanation;
- if the person refused twice to accept a job offer within 30 days, or a proposal to undergo training or retraining,
- refused to take part in intervention works without a justifiable explanation.

The right to unemployment benefit was also terminated when the unemployed person derived other benefits, e.g. maternity allowance, disability pension, an allowance for rearing a child.

When evaluating the 1989 solutions concerning the mode of becoming eligible for the unemployment benefit we need to note their positive and negative effects. Unemployment benefits, fixed at a relatively high level, provided an

essential protection to unemployed persons from a radical deterioration of their living standard, as well as their families. By performing the income providing and welfare functions they were therefore an important element of social security of the unemployed persons and their families. On the other hand, the unemployment benefit system produced certain negative effects. The soft requirements for granting benefits, an unlimited drawing period, and their relatively high amounts undermined their motivating function. The unemployment benefit system did not encourage the unemployed to search for employment opportunities and take jobs, or participate in training courses. Moreover, a large part of benefits paid out, especially to those who had never worked, was socially doubtful (see Kabaj, 1990, p. 43). The system of unemployment benefits, creating stimuli to register as an unemployed person, contributed to a higher number of the economically active in the economy. Thus it added to the generation of unemployment.

The negative consequences of the 1989 act forced its amendment as early as 1990 (act of 27 July 1990, Dz. U. No 56, item 323). A number of important modifications was introduced to laws regulating the unemployment benefit system. Above all, more rigorous regulations concerning the eligibility requirements were imposed.

Only those unemployed persons became eligible for the benefit who had worked at least 6 months during the year prior to registration, who did not draw old age pensions and did not hold a farm with an acreage exceeding 2 ha. The condition requiring a period of employment to receive a benefit was not applied to school-leavers and employees with many years of service, if their total number amounted to 15 years (women) or 20 years (men), and persons distinguished because of social reasons, for instance, those being the only income providers in the household, persons who had lost their only income provider, or spouses whose wife or husband had already drawn the unemployment benefit.

The seven day waiting period for the right to the unemployment benefit and the unlimited time of its payment until a job was found were sustained.

The 1990 act introduced some changes relative to amounts of the unemployment benefits. The lower limit of the benefit was reduced to 95 per cent of the minimum wage, the upper limit was also cut down to the level of the average wage in the state-owned sector. The benefit still amounted to 70 per cent of the previous wage during the first 3 months of unemployment, 50 per cent of the wage during the next six months and 40 per cent of the wage afterwards, but it was adjusted according to the lower limits for setting its levels.

Benefits for unemployed school-leavers were abated. University graduates were entitled to 125 per cent of the minimum wage. Benefit for the secondary school graduates was at the level of 110 per cent of the minimum wage for the period of 6 months, and then 95 per cent of the minimum wage.

Other significant changes in the unemployment benefit regulations valid so far were introduced by the act of October 16, 1991 (Dz. U. no 106, item 457) that was put in force on December 1, 1991. According to that act the unemployment benefit was available as soon as the next day after an unemployed person registered at the labour office. An important modification, however, was abandonment of the unspecified period of paying out benefits. The new law stipulated limitation of the benefit drawing period to 12 months, as well as granted a sick benefit and maternity allowance.

An unemployed person became illegible for the benefit after one refusal to accept a job corresponding with the person's skills, to participate in a vocational training, intervention works or public works.

In order to encourage graduates to search for and take jobs after completed education a new law was issued, according to which graduates were eligible for the benefit within three months from graduation. A uniform benefit was also established for under age school graduates, amounting to 12 per cent of the average wage in the economy.

The act of February 15, 1992 (Dz. U. no 21, item 84) essentially amended the primary methodology of setting and the amounts of the unemployment benefits. Instead of amounts of benefits varying in relation to the wage received from the last employer and duration of the unemployment period, a uniform benefit for being out of work was introduced. It amounted to 36 per cent of the average wage in the economy.

Other changes rationalizing the unemployment benefit system incorporated the act of March 10, 1994 (Dz. U. no 43, item 16). By virtue of this law the eligibility for drawing a benefit was extended to unemployed persons, such as single mothers or fathers, or two unemployed spouses rearing a child, who became illegible for the benefit because of expiry of the period in which the benefit could be received. In addition, a new type of benefit was introduced, amounting to 52 per cent of the average wages, for unemployed persons with long employment history and laid off due to reasons on the side of the enterprise in areas imperiled by high structural unemployment.

Significant changes in the extent of laws regulating the unemployment benefit system were introduced by virtue of another employment and unemployment combating act (Dz. U. of 1995, no 1, article 1), that was put into force on January 1, 1995. The new act determined new requirements allowing either to acquire or to maintain the status of an unemployed person and the right to the benefit. Such a status was granted to persons who were not eligible for an old age pension or disability pension, or, after termination of employment, did not draw rehabilitation allowances, sick benefits, maternity allowance or child rearing allowance. The status of an unemployed person and the right to draw the benefit

was preserved also by persons that accepted regular employment or any other paid job within 30 days from the date of registration at the labour office, if the income earned was lower than half of the minimum wage.

According to the act, there were three obligatory levels of the unemployment benefits:

- 36 per cent of the average wage as in the previous quarter for the majority of the unemployed,
- 52 per cent of the average wage for persons laid off because of reasons on the company side, in regions particularly exposed to high structural unemployment,
- 75 per cent of the employee's individual wage received from the last employer, determined according to rules for calculating the basis for old age pension payment, but not lower than the minimum wage, for laid off persons with longer employment history entitling to old age pension and being at the required age (completed 55 years for women and 60 years for men).

Unemployed graduates were offered two rates of unemployment benefits being:

- 12 per cent of average wages for underage persons until maturity,
- 28 per cent of average wages for mature graduates.

The act allowed to incorporate various periods not being regular employment periods (for example military service, drawing a disability pension, child rearing leaves) to the 180 days deciding about the eligibility for the benefit and to include these periods to the total number of years of service to determine the period of benefit payment. With employment history equal to 25 years for women and 30 years for men the benefit payment period was extended 6 months - to 18 months.

The benefit awaiting period was prolonged to 90 days if an employee gave up a job voluntarily or the employment relationship was terminated because of disciplinary considerations.

The status of an unemployed person and the right to the benefit were terminated when the unemployed person turned down a job offer three times, the result being a ban on registration for six months.

The act of December 22, 1995 (Dz. U. 1996, no 5, article 34) introduced, in particular, several notable changes concerning the status of an unemployed person of school-leavers. By virtue of this act, since March 1, 1996, school-leavers have not been eligible for the unemployment benefit. It has been replaced by the so-called activity bonus being a kind of a stipend. This stipend is funded by the Labour Fund. It has been introduced to activate the school-leavers on the labour market, as the previous laws encouraged them to apply for the unemployed person status rather than seek a job.

The stipend can be drawn by unemployed school-leavers registered at a labour office during a training or an internship period at employer's. It is paid out not longer than the period of holding the status of a graduate, i.e. to 12 months after completion of a school or education. The stipend's amount has been set at 1/40th of the unemployment benefit for each day of internship or training. In regions exposed to high unemployment the stipend for graduates can receive also unemployed persons who have started education at a school for adults within 6 months after their graduate's status has been terminated. The stipend is paid out at 60 per cent of the unemployment benefit for the period of 12 months.

The act of 1995 discussed here amended also the rules for setting amounts of the unemployment benefits. The benefit at 36 per cent of average wages has been replaced with a benefit set as an amount of 260 PLN (from March 1, 1996). It was assumed that the benefit would be subject to a quarterly valorization relative to the change in the CPI.

Another act was passed on December 1996, the provisions of which were put in force on January 1, 1997 (Dz. U. no 147, article 687). This act introduced new solutions aimed at rationalization of the rules for granting and payment of unemployment benefits and restricted the possibility to abuse one's eligibility (Olejarz T., 1996, p. 33). Moreover, it was to reconstruct the system of benefits drawn by persons out of work, to make the solutions in force closer to the target model based on an unemployment insurance system.

The act of January 1, 1997, changed the definition of an unemployed person. The basic changes can be found in that the status has been lost by persons who:

- draw a pre-retirement benefit or receive a pre-retirement allowance
- have taken on a job or other paid employment, irrespective of the number of hours they work and the amount of the wage.

Unemployed persons have become entitled to receive a benefit after 7 days from the date they have registered at the local labour office. The right to draw a benefit hold unemployed persons who worked 365 days during 18 months prior to the registration at the labour office and earned at least half of the minimum wage.

Table 5. The unemployment benefit system in Poland, 1989-1997 (main changes)

Specification	1989	1990	1991	1992	1994	1995	1996	1997
Qualifying conditions	-registered - no old-age pension - no farm	pension employed for 6 months in last year			as before and pay in present job below 50 % of minimum wage			employed for 365 days in last 18 months
Waiting period	7 days		none		90 days if quit job without notice			7 days 90 days as before 180 days if dismissed paid job pre-retired benefit
Disqualification	2 refusals of suitable job within 30 days		1 refusal		3 refusals within 6 months			
Duration	no limit		12 months		12 months 18 months in special cases			6, 12 or 18 months dependent on local unemployment rate
Rate of benefit	70% of previous monthly wage for 3 months 50% for next 6 months 40% thereafter		previous monthly wage	36% of average wage of previous quarter	fixed rate in zlotys 52% of average wage in special cases			rate dependent on duration in employment

The amount of the unemployment benefit has become variable in relation to the duration of employment of the unemployed person. Three levels of the unemployment benefits have been distinguished:

- 80 per cent of the basic benefit, with employment history to 5 years,
- basic amount, defined in the act as a specific sum of money and valorized every quarter in relation to the CPI, for service longer than 5 years, but shorter than 20,
- 120 per cent of the basic benefit for employment period longer than 20 years.

The benefit drawing period has been related to the rate of unemployment on the local labour market. The length of this period is:

- 6 months if, when drawing the benefit, the unemployed person resides in an area subject to the local labour office, where the rate of unemployment has not exceeded the average rate of unemployment in the country;
- 12 months, if the unemployed person lives in an area where the rate of unemployment is higher than average in the economy,
- 18 months when the unemployed resides in an area where the rate of unemployment doubles the average rate, has at least 20 years of service and supports at least one child aged to 15 years, and his or her spouse is also unemployed and lost the right to the benefit.

The act in question has amended periods for becoming eligible for the benefit. The following periods have been fixed:

- 90 days if an unemployed person gave up work voluntarily or by virtue of an agreement between the parties, i.e. due to liquidation or bankruptcy of the enterprise, within 6 months before registration at the labour office,
- 180 days if the person was dismissed because of disciplinary reasons in the same period.

The periods are deductible from the period in which the unemployment benefit is paid out.

The main provisions of the 1996 act that regulate eligibility for the benefit, amounts of benefits, benefit drawing periods generally remained the same and are still in force in 1998 (Dz. U. 1997, item 128).

An analysis of provisions included in successive employment and unemployment acts with respect to the system of unemployment benefits indicates that the system has undergone many modifications. Changes in that system resulted from the pursuit of better and better solutions, the need to adjust regulations to the changing socio-economic conditions in the country, as well as making domestic solutions closer to the west European ones and development similar unemployed persons social insurance standards in view of the integration into the European Union. Constant changes in the unemployment benefit laws

were also connected with the need to rationalize the rules for eligibility, to replace the initially soft solutions with more rigorous ones in order to limit the relatively high expenditures on passive measures, to combat sources of unemployment and to reinforce motivation for active behaviors on the labour market (seeking and taking jobs). The directions of changes in the unemployment benefit system outlined in the previous discussions are presented synthetically in Table 5.

4. Effects of unemployment benefits

On the ground of the job search theory a number of hypotheses has been formulated with respect to effects of unemployment benefits. Primarily, a theory has been posed that drawing a benefit reduces the cost of being an unemployed person and thus adds to undermining the job search intensity, which is reflected in the lower outflows of person from unemployment to employment. Another hypothesis has said that the benefit receivers typically become more active in their job search immediately before the benefit drawing period expires. This means that outflows from unemployment to employment should be higher just at the end of these periods. Both the hypotheses were verified empirically using data on the Polish labour market as in 1990s. Results of this research will be presented in this section.

An interesting analysis of rates characterizing the transition of the labour force between unemployment and inactivity in the years 1990-1994 was made by M. Góra, M.W. Socha, U. Sztanderska (1995a). The starting point for the analysis was data derived from a modular labour force survey conducted in August 1994 and devoted to the „Effectiveness of Labour Market Policies”. The questionnaire addressed to over 46 000 persons included retrospective questions allowing to capture the labour market status of persons in the years 1990-1994. From the survey it results that the rate of outflow from registered unemployment to employment was higher in the case of persons drawing benefits than those who did not (by 43 per cent). This result of the survey was, however, largely due to the operation of other factors. It turned out that in the group of beneficiaries a considerable part was school-leavers (eligible for benefits at that time), who found jobs more easily. On the other hand, the group of unemployed non-beneficiaries was made up of those who had lost employment earlier. The last group had more problems with finding employment. When only those unemployed who had worked earlier were taken into consideration, then it turned out that the beneficiaries were characterized by a much lower rate of outflow to unemployment than the non-beneficiaries.

An analysis of the impact of drawing unemployment benefits on the probability of leaving unemployment behind and join the group of those employed was made by M. Góra, M.W. Socha, U. Sztanderska (1995b). In the analysis they used individual data on the labour market flows derived from standard labour force surveys conducted in August 1993 and August 1994. In each of the surveys questionnaires were addressed to over 20 000 persons. The analysis gave ground for a conclusion that the probability of an unemployed person's getting a job is higher among persons drawing unemployment benefits than among other unemployed. This result, however, is biased by the fact that among the benefit receivers prevailed persons unemployed for less than 12 months, i.e. those who enjoy much bigger employment opportunities than the long-term unemployed. When the population of persons unemployed to 12 months was separated, then the outcome was different. In this group of unemployed persons better employment opportunities had those who did not receive benefits.

M. Góra (1996) attempted to identify the impact of drawing unemployment benefits on the probability of flowing out from unemployment to employment. The basis for the analysis was individual data taken from 8 panels of labour force surveys conducted between May 1992 and February 1994. The data set covered almost 27 000 individual transitions between labour market states (unemployed or employed). The probability that an unemployed persons finds a job was related to a number of individual attributes, such as age, gender, education, region, duration of unemployment, job search methodology and drawing of the unemployment benefit. Estimates of the probability of transition were made on the basis of a binomial logit model. Results of the survey showed that unemployed person receiving the benefit were characterized by a lower probability of finding a job than those who did not. This suggests that the regulations in force between 1992-1994 concerning unemployment benefits contributed to the consolidation of unemployment (M. Góra, 1996, p. 150-158).

The analysis of outflows from unemployment in the Polish economy was made by V. Steiner and E. Kwiatkowski (1995). The basis for the analysis was individual data derived from 4 labour force surveys conducted in Poland in the period May 1992 - February 1993. The surveys based on a representative sample of population aged 15 years plus. The analysis attempted to identify the impact of demographic, social and economic attributes of individuals on the transition of persons between the labour market's states, i.e. between unemployment and employment. One attribute of unemployed individuals considered in the analysis was drawing, or not, of unemployment benefits. To estimate the impact of individual's attributes on the rates of flows on the labour market the multinomial logit model was used. From the analysis it results that unemployed benefit drawers were characterized by lower outflow rates from unemployment than non-drawers. This strong benefit entitlement effect was mainly connected with a lower

rate of outflow from unemployment to inactivity. This suggests that some unemployed persons would have left the labour force stock, if they had not received benefits, and also that some amount of unemployment is caused by the unemployment benefits.

The impact of unemployment benefits on staying unemployed in the Polish economy was a subject considered in a study by T. Boeri and V. Steiner (1997). They used administrative data on unemployment and labour market flows derived from two local labour markets: Ciechanów, that belongs to depressed agricultural markets, and Warsaw where the labour market is very dynamic. Using the hazard model they estimated the impact of unemployment benefits on outflows from unemployment. From the research it can be inferred that a strong benefit entitlement effect occurred in the case of the Warsaw labour market and in the case of women in Ciechanów. It turned out that outflow rates from unemployment are sensitive to termination of the benefit drawing period, especially in the case of men in Warsaw moving from unemployment to employment and in the case of women flowing out from unemployment to inactivity. Both in Warsaw and Ciechanów the outflow rate from unemployment to inactivity grew rapidly in the next month after expiry of the 18 month benefit drawing period. In the case of persons drawing benefits for 12 months, the strong benefit entitlement effect, reflected in the outflow to inactivity after termination of benefit drawing, only occurred among women in Warsaw.

5. Summary and conclusions

1. In the transition period so far the situation on the Polish labour market have undergone significant modifications. After a period of a dynamic increase in unemployment in the years 1990-1993 a clear, although not so fast, decline in unemployment took place in the years 1994-1997. The source of these changes was a variety of economic and social factors. Worth underscoring are those connected to the change in the economic conditions and a structural mismatch between labour demand and supply, reflected in the significant variation of unemployment rates that characterize labour force. Also institutional factors exercised some impact on change trends in unemployment, especially those related to laws regulating the labour market policy.
2. The unemployment benefit system introduced at the beginning of the transition period was very soft. It mainly aimed at the income role of the benefits, whereas it was less focused on the motivation role. This was mostly revealed in the lax benefit entitlement conditions (benefits could be drawn also by those

who had never worked) and unlimited period of drawing them. This triggered a high inflow of persons outside the labour force to the registered unemployment. Hence, benefit-related laws were made stricter in the years 1990-1991, introducing the requirement of previous employment in order to receive the unemployment benefit and restricting the drawing period to 12 months.

3. The unemployment benefit system as assumed in Poland shaped behaviors of benefit drawers on the labour market. Empirical surveys confirm that the beneficiaries search for jobs less intensively and thus have slimmer chances for finding a job. Many of them delay a more intensive job-search activity until expiration of the benefit drawing period.
4. The system of unemployment benefits introduced in 1989 in the period of transition significantly evolved towards becoming more rigorous. The requirement of 6 month employment during the last year established in 1990 was extended in 1996 to 12 months of work during the last 18 months. In 1994 the benefit awaiting period was extended to 90 days and in 1996 the period was made as long as 180 days if the unemployed was dismissed due to disciplinary reasons. At the end of 1996 a rule was established that a person who took any job was supposed to lose his or her benefit. The benefit drawing period was also shortened and related to the unemployment rate on the local labour market. After a period of a uniform rate of benefit that was in force in the years 1992-1996, a varying rate of the benefit was set, dependent on the length of service. All the changes were to contribute to the reinforcement of the motivating function of the benefits, which was weakened by the application of social protection measures addressed to the unemployed.
5. Despite improvements, the unemployment benefit system in Poland still needs further modifications. The amounts of benefits should be tied to wages earned before. Moreover, the level of benefits should be going down over the period of unemployment. It is necessary to build the unemployment benefit system on the insurance principle. Such an insurance should be obligatory and contributions to insurance should be paid by both employers and employees. In addition, the trend to increase the number of persons taking advantage of the pre-retirement benefits and pre-retirement allowance seems unsustainable because of the large fiscal burden on the central budget. This problem should be solved under obligatory unemployment insurance.

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