



*Jobs for Youth/Des emplois pour les jeunes*  
**Poland**

*Summary in English*

## SUMMARY AND MAIN RECOMMENDATIONS

The OECD economy is in the midst of its deepest and most widespread recession for more than 50 years. Output has declined in almost all OECD countries in the past ten months and with non-OECD economies also slowing sharply, world growth has turned negative. Although Poland appears to have fewer problems than other OECD countries in tackling the current crisis, the country is not immune from the global slowdown and will experience a worsening of labour market conditions for many of its citizens. The most recent Polish Labour Force Survey data suggest a rise of the overall unemployment rate in Poland from a 6.6% historical low in mid-2008 to around 8.2% during the second quarter of 2009. Over the same period of time, the youth (15-24) unemployment rate rose from 16.5 to 19.5%. This deterioration of the youth unemployment rate is lower than the corresponding OECD average (+4 percentage points) and much less dramatic than in Spain and in Ireland (+11.4 percentage points).

Past experience suggests that in Poland, like in most other OECD countries, any deterioration in labour market conditions is disproportionately felt by the youth. But it is reassuring that the Polish youth labour market entered this downturn from a relatively favourable starting point, at least from an historical perspective. Before the start of the economic crisis, the youth (15-24) unemployment rate was declining. It dropped to less than 17% in 2008, marking a dramatic improvement compared to the early 2000s when it peaked at 40-45%. But, in 2008, it was still higher than the European Union or OECD averages (15% and 13%, respectively).

There is little doubt that most of the problems encountered by youth in Poland are structural and need to be addressed irrespective of the state of the business cycle. Still, one of the key priorities for the coming months should be to avoid the build up of a large pool of youth at high risk of becoming long-term unemployed or disconnected from the labour market, particularly in remote/rural areas characterised by higher-than-average unemployment rates. The experience of Japan in the so-called “lost decade” of the 1990s is instructive of the potential long lasting effects for the generation of youth entering the labour market during the crisis. When the economy recovers, employers may be tempted to hire “fresh” school-leavers rather than youth with a long-term unemployment or persistent inactivity record.

To limit that risk, several strategies are available. First, policymakers can try to compensate for the handicap youth structurally suffer from when labour demand falters. They can – temporarily – make youth more attractive for employers via hiring subsidies earmarked for school drop-outs and other at-risk groups. There are OECD precedents for this, for instance hiring subsidies for disadvantaged youth in France (OECD, 2009b).

Second, if there are no real job opportunities available for these youth, it may also make sense to try to keep them involved in useful – although not immediately profitable – activities. Options here are essentially twofold. Policymakers can entice youth to stay longer at school or they can ensure that they are exposed to transferrable job experience. The latter strategy implies to expand apprenticeship or traineeship schemes or even to temporarily resurrect public jobs creation schemes.

This said, a deep recession with higher youth unemployment also provides an opportunity to promote structural reforms that could prove to be worthwhile investments to sustain Poland’s growth potential over the long-term. The crisis puts heavy pressures on governments from many fronts but it emphasises underlying structural problems in the youth labour market. It calls for remedial actions that, when the country emerges from the economic crisis, potentially translate into *i)* better trained youth, *ii)* more effective labour market; and *iii)* welfare institutions guaranteeing quicker and smoother school-to-work transitions.

## Structural concerns

In Poland, a number of structural problems impair youth's labour market prospects. One of them is the situation of youth who live in rural areas or in small towns, where traditional jobs, particularly in the agricultural sector, are disappearing rapidly and where new categories of jobs (service- or industry-related) are in short supply or simply non-existent. Although many young Polish workers have amply demonstrated their readiness to move abroad (*e.g.* to Belgium, Germany, Ireland and the United Kingdom), there is also strong evidence that those who stayed behind, in the less densely populated parts of Poland, are less prone to move within Poland to grasp new employment opportunities.

Assessing Poland's overall youth labour market performance requires going beyond the youth unemployment rate and also considering their participation in the labour market. For instance, the above-mentioned rural areas with high unemployment rates also experience lower youth employment rates. The combination of these two phenomena explains why youth in Poland after leaving school display one of the highest non-employment rate in OECD countries. In 2008, it reached 32% of the male population aged 20-29, 17.5 percentage points above the OECD average. The non-employment rate for Polish young women were 35%, 9 percentage points above the OECD average.

In more dynamic terms, the transition from school to work in Poland appears slow compared with many other OECD countries. Few youth have their first contact with the labour market during their study years. The share of Polish students aged 21-22 holding a job was in 2008 only 31%, which is well below the Dutch rate of 72%, one of the highest in Europe. In addition, data covering the early 2000s suggest that a typical young Pole only spent 3.9 years in employment during the five years since leaving school, well below the 4.5 years recorded in the best European performers (Denmark and the Netherlands).

Finally, Poland has the highest share in 2008 among OECD countries of young workers aged 15-24 on temporary contracts (65.7%). This share is 3 percentage points above the share of Spain, known for its high degree of precariousness among young workers. The share of young workers, even older than 25, holding temporary contracts is very high in Poland. This sits at odds with the pre-recession overall improvement of the labour market conditions and probably points at structural rigidities in the labour market disproportionately affecting youth, such as strict employment protection legislation (EPL) for adults in permanent contracts.

## **Educational performance is good but could be improved**

### *Low pre-school attendance rates among children aged 3-5, especially in rural areas*

Poland is characterised by relatively low pre-school attendance rates, especially below the age of 6. This risks compromising the long-term prospects of children from disadvantaged backgrounds. Indeed, international evidence suggests that quality pre-school education provides these children with a better start in life, a lower risk of dropping out, and better chances of accomplishing a successful school-to-work transition. Moreover, an insufficient supply of pre-schooling (and also childcare facilities) may have a detrimental effect on the labour supply of young women. It is noticeable that Poland has one of the lowest rates of female labour force participation across the OECD.

### *Good test scores at the age of 15 and access to tertiary education on the rise*

Notwithstanding this problem in the pre-school cohort, Poland's educational attainment is globally positive. Poland has one of the lowest school drop-out rates in the OECD, defined as the share of youth aged 20-24 who are

no longer studying and have not reached an upper secondary level. The OECD Programme for International Student Assessment (PISA) scores of the 15-year-olds are equal to or slightly above the OECD average. And there are less rural *versus* urban differences than the overall regional economic imbalances would suggest.

The educational attainment among adults is characterised by a relatively small fraction of tertiary graduates. This probably reflects the legacy of the communist economic system where services (known for employing many graduates) were underdeveloped compared with industry (concentrating mainly on individuals with intermediate and/or vocational qualifications).

But things have changed dramatically since the beginning of the economic transition. Reflecting the changing structure of the economy and the fast rising share of service-oriented activities, the number of students attending tertiary education programmes has quintupled since the early 1990s. Inevitably, in a couple of years, this trend will show up in the statistics on adult attainment. However, the rapid expansion of tertiary education also raises concerns about its quality.

### *The challenging task of rebuilding vocational education and training*

Another side-effect of the dramatic expansion of tertiary education has been a reduction of the number – and perhaps also the quality – of youth completing vocational education and training (VET) programmes at the secondary level. The developments also coincided with supply-side challenges. The largest part of the firm-based vocational education system collapsed with the dismantling in the early 1990s of many state-owned firms that played a pivotal role in the delivery of VET. In addition, the official classification of occupations in VET has become largely obsolescent with the economic transition and needs modernisation. There is also some evidence that VET schools struggle to update their equipment and keep pace with industrial and technical changes.

### *Educational reforms go in the right direction*

The Polish Ministry of National Education is actively working on the definition of new VET curricula, as well as the establishment of a new, more flexible and relevant certification system. The Polish government aims at increasing from 12% to 14% by 2013 the share of students completing VET among the total number of students completing secondary education. It also aims at improving the match between the supply of VET programmes and the new needs of the economy. To this end, the government has taken a certain number of promising initiatives.

A first element is the modernisation of the official classification of occupations in VET used in schools. Efforts are being made by the Ministry of National Education to acquire a clearer picture of *i*) the new vocational qualifications needed by an economy that has undergone major transformations since 1990 and *ii*) a closer monitoring of labour surpluses and shortages by occupation and region. Second, a nationwide network of examination centres is being established to promote the certification of VET qualifications acquired

primarily outside schools. Third, the modernisation strategy also seeks to foster closer co-operation between employers and VET schools.

### ***But more needs to be done to ensure that all young Poles leave education with recognised qualifications to set up a career***

To ensure that youth have the basic skills needed to enter and progress on the labour market, the following measures could be envisaged:

- *Put a greater emphasis on early-age (i.e. before age 5) education of children from disadvantaged groups and ensure that the effort is sustained during primary education.* The central government, in close connection with the municipalities, should aim at universal access to education for 5-year-olds if *i)* the evaluation of the generalisation of pre-school preparation for 6-year-olds in 2004 shows positive results, and *ii)* if public finances permit this. Specific financial incentives (e.g. a targeted child allowance conditional on pre-school participation) could be introduced to ensure that poor families living in rural areas – where women are very often inactive and thus available to look after their children – participate more in pre-school education.
- *Invest in a universal VET classification system.* International evidence suggests that centrally-defined VET standards, in a context where the provision of VET becomes more diverse and/or decentralised, are important to ensure that VET students eventually get certificates that can be used in the labour market to signal their attainment. An obvious start would be to speed up the current process of modernisation of the classification established by the Ministry of National Education. In addition, it would be worth aligning the training and certification standards used by Labour Offices implementing active measures (e.g. apprenticeship) to those developed by the educational sector, to achieve a unique nation-wide Polish Qualifications Framework. The latter could be similar in scope and nature to the one Australia developed and implemented successfully (OECD, 2009a).

### **Many demand-side barriers to youth employment**

Although education and training policies are central elements of any effective strategy for improving youth labour market prospects, a comprehensive policy framework has also to pay attention to the existing labour market arrangements and institutions and their impact on the labour demand for young people, especially low-skilled youth.

The minimum wage in Poland compared with the median wage is not particularly high in international comparison. Its impact on youth employment is mitigated by measures allowing enterprises to pay new entrants (of any age) only 80% of the mandatory minimum wage during the first year of employment. Nonetheless, not all institutions in Poland are conducive to good employment outcomes for youth.

For instance, relatively strict employment protection legislation for insiders<sup>1</sup> could adversely affect the employment prospects, as well as the opportunity to access regular/permanent jobs of young outsiders. In Poland, the transition from temporary to permanent contracts takes significantly more time than in most other OECD countries. There are basically two forms of employment regulated by different legislations. Open-ended (permanent) contracts and fixed-term contracts are covered by the labour code, whereas so-called commission contracts and per-piece contracts fall into the purview of civil law. The open-ended/fixed-term variant of employment is heavily regulated and burdened with high social security contributions. Conversely, commission/per-piece contracts grant no protection or entitlements to social security benefits.

High taxes on labour use – the difference between gross wage and take-home pay – a priori represent a barrier to employment. It is thus a good point that these taxes have been reduced significantly in Poland over the past decade. The cut was largely driven by the reduction in early retirements. These developed in the early 1990s as a way to smooth the (dramatic) process of economic transition which was marked by massive job cuts in many sectors of the economy. Early retirement schemes have been intensively used: in the early 1990s up to 70% of the new retirees were on early retirement benefits. Poland has now successively reformed these schemes, making them less generous.

However, more could be done to make taxation on labour more progressive. Indeed, when comparing 2008 tax rates at low and average income levels, Poland's tax wedge stood out as one of the least progressive of OECD countries. Hence, taxes on low-skilled (and young) workers may still be relatively high in Poland and dampen firms' willingness to recruit them.

In that context, the OECD recommends to:

- *As a response to the current downturn, temporarily reduce the (still relatively high) social security contributions for low wages in order to reduce the too high labour costs of employing unskilled youth.* Shift foregone social security contributions towards other forms of taxation (such as VAT) to achieve revenue-neutrality. Recession times are particularly bad for youth as one of the first reactions of firms is to freeze recruitments. Young people comprise a disproportionate segment of newcomers in the labour market and are thus more heavily affected by a decline or a freeze in recruitments, particularly for unskilled youth.
- *Reduce the gap in effective employment protection between open-ended/fixed-term contract and “commission contracts”.* From a more structural standpoint, it is desirable to rebalance the lack of employment protection granted to those hired on commission/per-

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<sup>1</sup>. Insiders are those incumbent workers who enjoy more favourable employment opportunities than the outsiders. The reason for this disparity is that firms incur labour turnover costs when they replace insiders by outsiders. Examples of labour turnover costs are the costs of hiring, firing and providing firm-specific training. Insiders may resist competition with outsiders by refusing to co-operate with or harassing outsiders who try to underbid the wages of incumbent workers.

piece contracts with the high employment protection afforded to those with permanent/fixed-term contracts. A move to protect better the latter would be part of a shift towards a new “flexicurity” balance.

### **The challenges of implementing a genuinely active labour market policy**

In Poland, the unemployment benefit system set up in 1990 was configured, as in many other OECD countries, as an insurance scheme. Passive spending exceeded public spending on more active programmes. The former essentially provides replacement revenue to jobless people, while the latter aims at enhancing labour supply (*e.g.*, through training); increasing labour demand (*e.g.*, through employment subsidies); and improving the functioning of the labour market (*e.g.*, through job-placement services). Historically in Poland, a large part of the tasks of the public employment service (PES) also consisted of paying early retirement benefits and providing subsidised public jobs.

But Poland now fully recognises the importance of activation of unemployment benefit recipients. The passing into law in 2004 of the *Act on the Promotion of Employment and Labour Market Institutions*, marked a turning point. The main change was the reorientation of labour market institutions towards the promotion of employment, instead of focusing mainly on the payment of unemployment and other benefits. Another welcome step was that unemployed youth aged under 25 became a main target group of labour market policies. Consequently, ALMP expenditures, including the programmes for youth, rose significantly.

The 2004 Act has been amended in 2009. The main objective of the 2009 reform is to further enhance measures designed to reintegrate unemployed persons into the labour market. Rules of payment of unemployment insurance (UI) benefits have been changed with a lower benefit after three months of unemployment while funding for training is now an important provision not only for youth but also for adults and older workers.

As a result of continuous reforms, the unemployment benefit system in Poland has become relatively stringent for unemployed youth. In the early 1990s, young school-leavers, who had no work experience, were eligible for a fixed rate benefit set in reference to the minimum wage. Since 1995, eligibility is conditional for all unemployed people, including youth, on a certain period of work. As a consequence, in 2007 only 12% of youth registered with the PES received UI benefits. Poland has however one of the highest shares of unemployed youth registered with the PES in Europe. This is because there are other benefits available to PES-registered unemployed youth (*e.g.* access to scholarships for training programmes). What is more, many school-leavers just register with the PES because it is a relatively easy way to gain health-insurance coverage.

Even if unemployed youth who don't receive UI benefits are also eligible for means-tested social assistance benefits delivered at the local level, the overall picture is that many of them have to look after themselves or rely on relatives or friends for financial support. There is no strong indication that

many young Poles end up being caught in welfare traps. Still, many youth have a hard time finding a job and too many of them do not participate in the labour market. Thus guaranteeing these groups have access to a well-functioning PES should remain a top priority.

Despite many sound recent reforms, including those spelt-out in the *2009-11 National Action Plan for Employment* providing stricter guidelines for regional employment policies, Poland could probably do better in organising the functioning of its PES. A cornerstone reform was the 1998 decision to transfer to local governments the responsibility to organise and deliver PES activities. Although many OECD countries carried out similar reforms, the singularity of the Polish move towards greater decentralisation was that it did not really preserve the capacity of the Ministry of Labour and Social Policy to exert an important role, either as a standards-setting body or as an entity with the capacity to assess outcomes and develop benchmarks. The Ministry of Labour and Social Policy appears not to function sufficiently as an umbrella organisation that, at least indirectly, properly co-ordinates and orients the functioning of local PES offices.

The system's main shortcomings comprise: *i*) insufficient evaluation capability at the local and central level;<sup>2</sup> *ii*) high fragmentation of the PES (until very recently caseload workers in one county had no access to the list of vacant positions in other counties due to a lack of IT integration); *iii*) poor individualised follow-up capability partially due to the lack of properly trained PES staff; *iv*) cronyism in the recruitment of PES staff; and *v*) an overall lack of co-ordination between local labour offices and with structures delivering social assistance.

The way decentralisation was implemented in Poland presents, at the very least, the risk of having increased the level of heterogeneity in the way national goals are implemented locally.

The following measures could be envisaged to improve the effectiveness of the PES:

- *Develop and speed up the introduction of a nationwide information system connecting labour market and employment services.* Co-ordination of local PES activities needs to be based on a countrywide information system with real-time integration capabilities regarding job vacancies, registered unemployed or ALMPs caseload. Job-search assistance services in one particular local area, to be fully effective, need to know about vacancies in other areas. The new information system announced by the authorities needs to be put into place swiftly. This would boost the mobility of youth across regions and help reduce regional asymmetries in labour market performances.
- *Reinforce the role of the central government in standard-setting, co-ordination and assessment of the outcomes of local PES offices.* Enhancing the effectiveness of the PES, now highly decentralised, implies reinforcing the role of the central government in

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<sup>2</sup>. Although recent efforts to evaluate the efficiency of ALMPs must be praised.



selected areas: standard-setting and the evaluation of outcomes attained by the local PES and their regional umbrellas. There is a need for better national guidelines and standards as to how local PES offices must deliver key services (profiling, job-search assistance, assignment to ALMPs) or handle problematic cases (*e.g.* repeated failure to comply with PES requirements, etc.). As to output-based evaluation, an example could be provided by the Australian Star Ratings system, in particular the scheme it uses to assess the performance of numerous autonomous PES providers.<sup>3</sup>

- *Encourage PES registration among unemployed youth who are not eligible for UI benefits, but avoid artificially inflating registration figures with those seeking health-insurance coverage.* There are concerns that many Poles register with the PES primarily for health-insurance motives. As controls are lax or ineffective, this results in too many people not actively seeking jobs and artificially inflating the PES's caseload. To prevent this, it would be desirable to better check, upfront, people's willingness to work. In addition, it would be desirable to review the rules regarding how people obtain health-insurance coverage in the country.
- *Invest more in evaluation in order to identify the best practices.* The 2004 and 2009 reforms of labour market policies represent steps in the right direction. Many sound active measures were introduced, but more efforts are needed to ensure that the PES becomes more cost-effective. To this end, greater importance should be given to evaluation, in order to establish what works and what does not. Inevitably, this will require collecting more and better data and investing in scientific evaluation methods.

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3. Australia's Star Ratings system rests on a sophisticated statistical instrument which allows for accurate comparison of employment agencies' achievements (*i.e.* job-placement rates, unemployment-to-employment transition speed, etc.), while taking into account differences in local labour market conditions and other factors bearing on performance (OECD, 2009a).

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