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## **ANALYSIS OF EXPENDITURES ON LABOR MARKET POLICY IN POLAND DURING THE YEARS 1990–2008**

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**Key words:** labor market policy, Labor Fund, active instruments of the labor market.

### **A b s t r a c t**

Labor market policy implemented within the frameworks of active and passive programs financed from the Labor Fund is an element of the Polish model of combating unemployment. The role of these programs represents activation of the unemployed, promotion of employment and mitigating activities. High implementation costs of that policy, however, cause that for years it has been the subject of fierce critique that frequently questions the sense of its application. The fundamental problem that appears in the analysis of the role of those programs is the share of the expenditures on active forms of preventing unemployment in the total expenditures involved in implementation of that policy. The Labor Fund, since the beginning of its functioning, has been considered to be mainly a passive funds serving generally the mitigation measures for the unemployed. For 19 years they consumed { of the funds allocated for implementation of all the measures. Only during the last 4 years the evolution in the approach to implementation of the labor market programs and changes in the structure of expenditures for the purpose could be observed.

That is why it seems that presentation of the level and structure of expenditures from the Labor Fund since the beginning of its operation (1990–2008) is useful to present the changes that take place in both the level and the structure of Labor Fund expenditures for active and passive labor market programs. Additionally, presentation of the correlation between the changes in the expenditures of the Labor Fund and the level of unemployment seems interesting.

## **ANALIZA WYDATKÓW NA POLITYKĘ RYNKU PRACY W POLSCE W LATACH 1990–2008**

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**Słowa kluczowe:** polityka rynku pracy, Fundusz Pracy, aktywne instrumenty rynku pracy.

## Abstrakt

Elementem polskiego modelu zwalczania bezrobocia jest polityka rynku pracy realizowana w ramach aktywnych i pasywnych programów finansowanych z Funduszu Pracy. Rola programów sprowadza się do aktywizacji osób bezrobotnych, promocji zatrudnienia i działań osłonowych. Wysokie koszty realizacji owej polityki sprawiają jednak, że od lat staje się ona przedmiotem ostrej krytyki, która często podważa sens jej stosowania. Podstawowym problemem, jaki pojawia się w analizie roli programów, jest relacja udziału wydatków na aktywne formy przeciwdziałania bezrobociu do ogółu wydatków przeznaczonych na politykę. Fundusz Pracy od początku swojej działalności był uważany bowiem głównie za fundusz pasywny, z którego są finansowane w zasadzie osłony dla osób pozostających bez pracy. Przez 19 lat pochłonęły one 3/4 środków przeznaczonych na realizację wszystkich działań. Dopiero w ostatnich czterech latach możemy obserwować ewolucję podejścia do realizacji programów rynku pracy i zmiany w strukturze wydatków na ten cel.

Zasadne wydaje się przedstawienie poziomu i struktury wydatków z Funduszu Pracy od początku jego funkcjonowania (1990–2008) w celu ukazania zmian zarówno w poziomie, jak i samej strukturze wydatków Funduszu Pracy na aktywne i pasywne programy rynku pracy. Interesujące wydaje się również przedstawienie zależności między zmianami w strukturze wydatków Funduszu Pracy a poziomem bezrobocia.

## Introduction

Painful social consequences (AULEYTNER, GŁĄBICKA 2001, pp. 40–41) as well as lasting and mass character of unemployment allow considering that phenomenon as representing one of the major social issues. It has become the basic challenge for the social policy (FIRLIT-FESNAK, SZYLKO-SKOCZNY 2007, p. 225), which performs its tasks in the area of combating unemployment through the labor market policy (WIŚNIEWSKI 1994, pp. 29–30).

In Poland, similar to other countries, both passive and active instruments are applied within the frameworks of the labor market policy. Those earlier ones reflect the commitments of the State to the people without work. They are of compulsory character and do not influence the scope of unemployment directly. The later ones, that is the active instruments serve limiting unemployment (Kłosiewicz-Górecka 2008, p. 135). In the subject literature it is highlighted that the role of such instruments should involve, first of all (KWIATKOWSKI 1998, p. 9):

- professional activation of the unemployed through active labor market programs,
- decreasing the structural mismatch in the labor market,
- influencing the scope of employment and level of unemployment.

As a consequence, the active labor market policy instruments are focused mainly on the preparation of the unemployed for the first or consecutive inclusion in the process of work while the passive ones fulfill the mitigating-social function only (KABAJ 2004, p.148).

Active labor market policy should, as a consequence, improve the functioning of that market by decreasing the extent of unemployment and influencing

an increase in demand for work (ORGANIŚCIAK-KRZYKOWSKA 2005, p. 255). Activities in the area of promotion of employment, mitigating the consequences of unemployment and professional activation require long-term measures the effectiveness of which depends not only on the innovative ideas but also on the adequate funding.

The Labor Fund, established in 1990, is the foundation for operation of both active and passive labor market instruments in Poland. In its nature, it is a special purpose fund the revenues of which originate from contributions of employers, State budget and European Union subsidies, credit and loans as well as other sources. A significant part of the measures within the frameworks of the labor market policy, i.e. the compulsory social benefits for the unemployed and the optional expenditures for financing the active labor market programs are funded from the Labor Fund (FIRLIT-FESNAK, SZYLKO-SKOCZNY 2007, p. 227).

High labor market policy implementation costs, nevertheless, cause that for years it has been the subject of fierce criticism that frequently questions the sense of its application (WIŚNIEWSKI 2002, p. 326). It happens that those opposed to the State activity in the labor market motion for allocating the funds financing the labor market policy to creating jobs only. They are against the mitigating function of the labor market instruments that consumes a significant part of the funds of the Fund. The Labor Fund, since the beginning of its operation, has been considered mainly as a passive fund from which the mitigation measures for the unemployed have been funded. However, during the recent years, an evolution in the approach to implementation of the labor market policy has taken place, which involves a gradual resignation from the mitigation measures towards strengthening the instruments of professional activation of the unemployed.

That is why the main goal of the paper is to present the level and structure of expenditures from the Labor Fund on implementation of the main labor market policy assumptions during the years 1990–2008, that is from the beginning of the Fund. Presentation of the evolution in the approach to the implementation of active labor market instruments, including individual programs, is a particularly important part of the paper. Additionally, presentation of the correlation between the changes in the Labor Fund expenditures structure and the level of unemployment seems interesting.

### **Level and structure of Labor Fund expenditures during the years 1990–2008**

Expenditures on the active forms of preventing unemployment in the EU represented ca. 42% of the total expenditures (ca. 1% GDP) (WIŚNIEWSKI 2006,

p. 577). In Poland such expenditures were much lower, which surely resulted from continually high unemployment and limited financial potential. During the decade of the operation of the Labor Fund (i.e. during the years 1990–2008), the total expenditures from the Fund amounted PLN 110.8 billion, including:

- PLN 81.7 billion – on dole and benefits for the unemployed,
- PLN 24.0 billion – on funding the active forms of preventing unemployment,
- PLN 5.1 billion – on funding of other tasks.

The share of the individual categories of expenditures is presented in Figure 1.

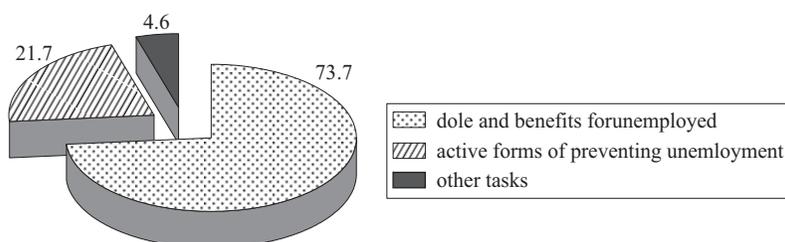


Fig. 1. Expenditures of the Labor Fund during the years 1990–2008 [%]

Source: own work based on the data from: *Informacja o aktywnych formach* (2006) i *Informacja o realizacji programów...* (2008)

Passive forms of preventing unemployment were the largest item of expenditures in the operations of the Labor Fund up to now. Their share in the total expenditures was 73.7%. This means that in practical terms 3/4 of the funds allocated for labor market policy implementation the major objective of which is to improve the labor market operation and decreasing unemployment, were disbursed as benefits securing social safety only. The dole and benefits are compulsory payments, which in practical terms means that their numbers are not limited and actually they have priority over the expenditures on the active instruments. That is why the outlays so far incurred on active forms of preventing unemployment are relatively modest representing just ca. 22% of all the funds. This is a significant limitation to their effectiveness.

Additionally, analyzing the detailed structure of the Labor Fund expenditures in Poland during the last ten years it can be noticed clearly that both the amounts and the percentage share of the individual expenditures reached highly diversified levels (Fig. 2).

Analyzing the individual expenditures of the Labor Fund during the years 1990–2008 it should be noticed that despite the decreasing trend, every year

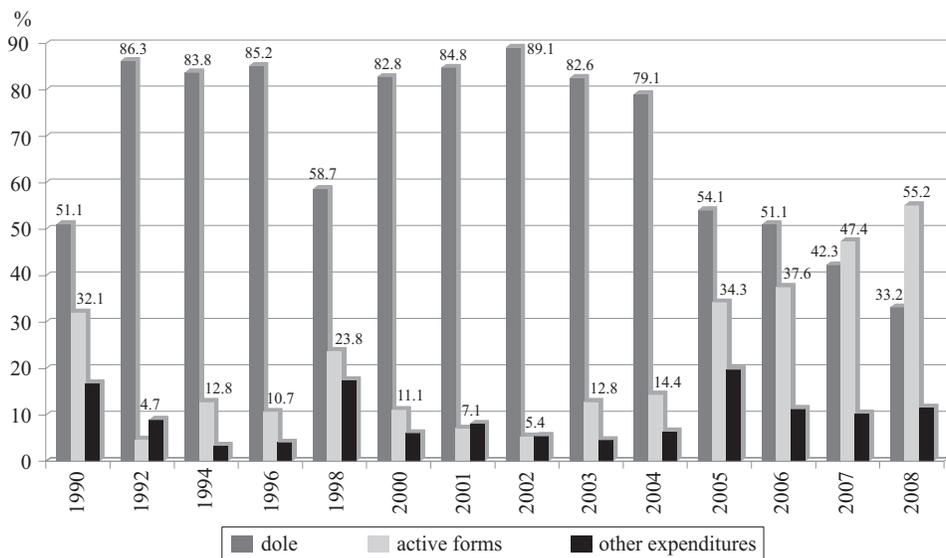


Fig. 2. Structure of Labor Fund expenditures in Poland during the years 1990–2008

Source: own work based on the data of the Department of Funds of the Ministry of Labor and Social Policy (MPiPS)

until 2007, the expenditures on the dole for the unemployed always had the highest share (in 1990 it was 51.1% of the total amount, in 2002 as much as 89.1%). During that time the outlays on the active forms of combating unemployment were almost symbolic (in 1992 and in 2002 they represented only 4.7% and 5.4% of the total expenditures). Nevertheless it should be remembered that such a high share of the dole in the structure of the Labor Fund expenditures until 2005 resulted also from the fact that the Fund financed not only the dole but also a part of the expenditures for the pre-retirement benefits. Only in 2005, the servicing of pre-retirement benefits was moved to the Social Insurance Institution, which limited the total expenditures of the Labor Fund from PLN 9,180.2 mln in 2004 to PLN 6,550.8 mln in 2005.

For the first time in the history of the Labor Fund the share of expenditures on the active labor market instruments exceeded the volume of expenditures on the dole and benefits for the unemployed in 2007 (Fig. 2). It reached 47.4% (PLN 2,544.6 mln) of the total expenditures as compared to 42.3% (PLN 2,267.8 mln) allocated to the passive measures. That change in the attitude to the labor market policy implementation resulted from full scope inclusion in the implementation of the *Lisbon Strategy*, and in particular the *European Employment Strategy* as a consequence of Poland's accession to the European

Union, resulting in the Act on promotion of employment and labor market institutions (Dz.U. of 2004 No. 99, item 1001). The main goal of the legislators was to introduce a more flexible approach to employment and to facilitate finding a job by people in a particularly difficult situation, mainly through development of active labor market policies. It soon found reflection in the structure of the Labor Fund expenditures. The share of outlays for active labor market instruments increased from 14.4% to 34,3% within 2005. During that year not only a jump increase in the outlays on activation programs (Fig. 2) but also a radical change in their structure (Fig. 3) occurred.

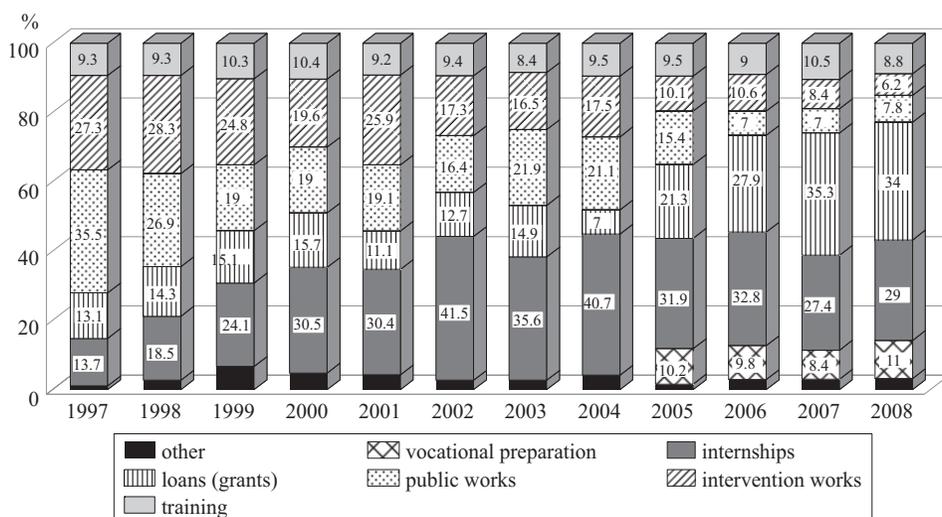


Fig. 3. Structure of outlays on active labor market programs during the years 1997–2008 [%]

Source: own work based on the data from: *Informacja o aktywnych formach* (2006) i *Informacja o realizacji programów...* (2008)

During the last 11 years, i.e. 1997–2008, the change taking place in the structure of outlays allocated to active labor market programs can be observed clearly. In 1997, expenditures related to public works and intervention works programs had the highest share in the outlays for activation of the unemployed, which jointly represented over 60% of funds allocated for that purpose. The lowest level of financing was provided for loans/grants originated to the unemployed to start own business and to the internships (ca. 13% of funds each). Subsidized employment in the form of intervention or public works during the consecutive years decreased year after year, which resulted mainly from the gradual resignation from those forms of activation. At the same time, starting as of 2005, the interest of the unemployed in obtaining funds for

start-up of own business activities increased significantly. The same concerned an increase in the knowledge of employers on employing the unemployed in exchange for the refund of the costs or equipment or upgrading the workstations for the unemployed employed. Also such forms of activation as training and internships enjoyed vast interest among the unemployed.

The structure of expenditures on active labor market instruments in 2008 was completely opposite to that of 1997. In this case the funds allocated to refunding to the employers the costs of equipment or upgrading the workstations for the unemployed posted at those workstations and grants (non-reimbursable) originated to the unemployed to start own business activity (representing ca. 34% of the expenditures) as well as internships for graduates (29%) had the largest share in the outlays. Initiatives such as intervention or public works were financed to a smaller extent.

The scope of application of the individual activation tools depends significantly on the interest among the unemployed, the organizational capacity concerning a given form at the local labor market and the preferences of the county territorial governments. That choice, however, should depend in particular on the cost effectiveness measured by the costs of re-employment (see SZYLKO-SKOCZNY 2004, p. 191) and employment measured by the proportion of people that became employed after completing their participation in the program (see ORGANIŚCIAK-KRZYKOWSKA 2005) as those are important measures of the active labor market policy development.

### **Expenditures on active labor market forms and the unemployment level**

Active labor market policy means mainly undertaking of measures focused on improvement in that market. The outlays allocated to implementation of active labor market programs are to contribute mainly to limiting unemployment of both frictional and structural type resulting from the insufficient demand.

Increase in the expenditures on the active labor market programs that occurred during the recent years should, as a consequence, translate into the increased number of people withdrawn from the registers as a consequence of covering them with active forms of preventing unemployment. That correlation is illustrated by Figure 4.

Increasing the funds from the Labor Fund allocated to financing of active programs for preventing unemployment was one of the factors that could contribute to a decrease in the level of unemployment during the recent years. That fact is clearly noticeable in the presentation of changes in the expendi-

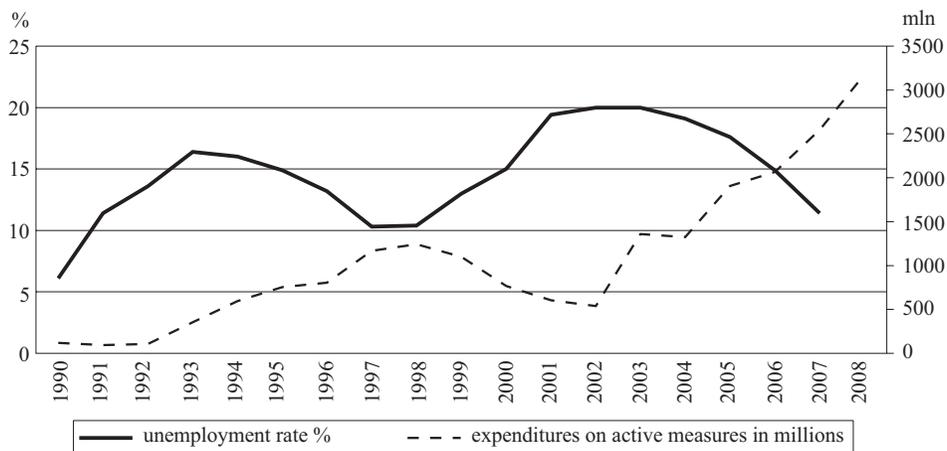


Fig. 4. Expenditures on active employment prevention forms and the unemployment rate during the years 1990–2008

Source: own work based on the data by the MpiPS (data on unemployment and revenues and expenditures of the Labor Fund during the years 1990 – 2004, <http://www.mpips.gov.pl/-download.php?f=userfiles%2FFile%2Frynekpracostatystyki%2Fdanefp.doc.>, [access on 23.06.2009] and *Informacja o realizacji programów...* (2008)

tures on the active forms and changes in the unemployment rate. The situation observed during the years 1999–2002 can serve as an example. The amount of the Labor Fund funds allocated to the active forms decreased year after year while at the same time a significant increase in the level of unemployment occurred. On the other hand the increase of outlays as of 2003 was accompanied by an improvement in the situation in the labor market. This seems to confirm the thesis concerning existence of correlation between a decrease of unemployment and increase of outlays on active labor market programs. The increase of financial outlays for those forms of preventing unemployment influences both an increase in the number of subsidized jobs offers and the largest outflow of the unemployed resulting from taking subsidized employment and commencement of trainings, internships or vocational preparation at workstations.

As a consequence, increasing the outlays on active forms of the labor market policy had to result also in the increase in funds for activation of the unemployed per 1 registered unemployed person, which in turn surely translated into the effectiveness of the implemented programs (Fig. 5) that was high during the recent years.

As of 2004, we can talk about a clear increase in the funds allocated for active labor market instruments. As of that year the continual increase in the amount allocated for activation of 1 unemployed person was observed. Until

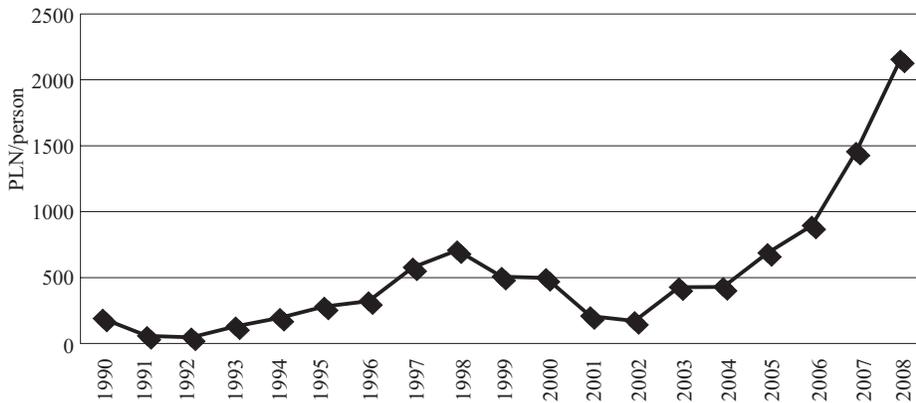


Fig. 5. Expenditures on active labor market instruments per 1 registered unemployed during the years 1990–2008

Source: own work based on the data by the MpiPS (data on unemployment and revenues and expenditures of the Labor Fund during the years 1990–2004, [http://www.mpips.gov.pl/\\_download.php?f=userfiles%2FFile%2Frynekpracystatystyki%2Fdanefp.doc.](http://www.mpips.gov.pl/_download.php?f=userfiles%2FFile%2Frynekpracystatystyki%2Fdanefp.doc.), [access on 23.06.2009], *Informacja o realizacji programów aktywnego...* (2008) and *Informacja o aktywnych formach...* 2006.

Poland's accession to the European Union that amount rarely exceeded PLN 500 while in 2008 the average amount spent per 1 unemployed exceeded PLN 2000. It should also be remembered that not all the unemployed are interested in benefiting from any form of activation.

## Conclusions

As of 1990, the labor market policy goals that are elements of the Polish model of combating unemployment have been implemented by means of active and passive programs. The Labor Fund is responsible for the funding of the implemented policies. During the initial 15 years the expenditures for the so-called passive labor market instruments dominated the labor market policy. During the initial 15 years of systemic transformation the attempts were made to decrease the level of unemployment mainly by means of decreasing the supply of labor (role of benefits and pre-retirement benefits). Additionally, all the activities within the frameworks of the labor market policy should be considered mitigating activities that did not activate the beneficiaries in any way, or rather deactivated them.

Although during the consecutive years the level of social protection decreased gradually the general "philosophy of support" did not change. As the result, almost 3/4 of funds allocated for implementation of the labor market policy assumptions were passed to the beneficiaries as the dole and other

benefits. The remaining part activated the unemployed within the frameworks of the active forms/programs that during the past years were subject to major development and gradual transformation. During the initial period the structure of funds allocated for that group of programs should also be considered defective. Definitely ineffective programs such as public works consumed the vast majority of funds. On the other hand the training or loans, effective although costly, consumed just a marginal part of the budget. Nevertheless the share of funds for professional activation of graduates increased systematically.

The breakthrough for labor market policy implementation came with the accession of Poland to the European Union structures and the Act in which the strategic goals of the current labor market policy in the area of professional activation of the unemployed were defined anew. This, however, required a major change in both the level and structure of the Labor Fund outlays on the active programs. Gradually, the volume of those outlays started exceeding the outlays on funding the benefits disbursed. Additionally the effectiveness index of the implemented active labor market programs allowed evaluation of their effectiveness and focusing the funds on those that were the most effective for employment and costs. They with no doubt include grants to the unemployed for establishing own businesses, refunds for upgrading workstations and intervention works. It is important to carry out permanent evaluation of effectiveness of the labor market programs because it determines the effectiveness of the use of public funds allocated for limiting unemployment.

Additionally, the increase in outlays on active labor market programs translates into the decrease in the unemployment level. As a result the effectiveness of work of the employees increases. That effectiveness in turn means performance of tasks involved in professional activation of the unemployed. It should not be forgotten, however, that the decrease in the level of unemployment during the recent years occurred during the economic boom that had a beneficial influence on the scope of unemployment. The scale of economic emigration is also of importance in that respect.

Undoubtedly the economic boom and the resulting improvement in the labor market situation until recently offered a major opportunity to intensify the activities activating the unemployed. That was also supported by decreasing the pressure on applying the passive labor market instruments. Currently, the labor market policy is facing another challenge of the consequences of the financial crisis in the shrinking labor market. The real challenge is to mitigate the influence of the crisis on employment.

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