

MYTHS AND FACTS CONCERNING LABOUR COSTS IN POLAND

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Abstract

Many opinions have been expressed for years concerning labour costs in Poland. Unsurprisingly, those opinions have been far from consensus. Basically, low wages are treated as a factor increasing the competitiveness of our economy and it is argued that they constitute major proof that Poland is attractive for foreign investors. On the other hand, however, entrepreneurs and various organisations representing them have repeatedly pointed out that high labour costs in Poland are the principal cause of unemployment, growth of grey economy, and low competitiveness of the country's economy. The above problems assumed particular significance after Poland's accession to the European Union. Basing on statistical data and empirical research we try to verify some myths concerning the labour costs in Poland.

MITY I FAKTY O KOSZTACH PRACY W POLSCE

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Słowa kluczowe: koszty pracy, opodatkowanie pracy, bezrobocie, szara gospodarka, inwestycje, inflacja, świadczenia społeczne.

Abstrakt

Od lat funkcjonuje wiele opinii o kosztach pracy w Polsce. Opinie te są ponadto sprzeczne. Z jednej strony niski poziom płac jest traktowany jako czynnik zwiększający konkurencyjność gospodarki i wysuwany jako ważny argument świadczący o atrakcyjności Polski dla inwestorów zagranicznych. Z drugiej zaś, zwłaszcza w gronie przedsiębiorców i w ich organizacjach, dużo mówi się o wysokich kosztach pracy w Polsce jako przyczynie bezrobocia, rozwoju szarej strefy i niskiej konkurencyjności gospodarki. Problemy te nabrały szczególnego znaczenia po wejściu Polski do Unii Europejskiej. Wykorzystując dane statystyczne i wyniki badań empirycznych, autorzy postarają się zweryfikować niektóre mity dotyczące kosztów pracy w Polsce.

Introduction

In 2006 we took an attempt to verify seven myths concerning the costs of labour in Poland:

1. Cheap labour force is the decisive factor in making Poland attractive as a site for foreign capital investments.
2. High labour costs in Poland are caused predominantly by high taxes (social security contributions and PIT rates).
3. High labour costs lead to a further growth of grey economy.
4. The increase in labour costs leads to rising inflation.
5. High labour costs hamper the growth of investments and the creation of new jobs.
6. Lowering labour costs will decrease the rate of unemployment.
7. A market-oriented transformation of economy is accompanied by reduction of social benefits.

It turned out that none of the above myths were confirmed. Statistical data and results of empirical research used then (KRAJEWSKA, KRAJEWSKI 2007, p. 179–193) covered the period until 2004 and in some cases until 2005. Now, having access to the 2012/2013 statistical data, we will make another attempt at verifying the above enumerated myths.

Labour costs in the European Union – the level and pace of changes

Total labour costs cover wage and non-wage costs less subsidies. They do not include vocational training costs or other expenditure such as recruitment costs, spending on working clothes, etc. Wage costs include direct remunerations, bonuses, and allowances paid by the employer in cash or in kind to the employee, etc. Non-wage costs include the employers' social contributions plus employment taxes regarded as labour costs less subsidies intended to refund part or all of the employer's cost of direct remuneration.

Before the enlargement of the EU with 8 new countries from the Central and Eastern Europe the differences between old (EU-15) and new states (EU-8) were enormous. According to the data included in table 1, in 2002 the labour costs in the old EU countries per hour¹ were over 5 times higher than in the countries which got accepted into the Community in 2004. In the periods under discussion the lowest labour costs were registered in Lithuania (EUR 2.7),

¹ Hourly labour costs are calculated by dividing annual labour costs by the overall number of hours worked.

and the highest in Sweden (EUR 28.6), thus marking an over 10-fold difference. Poland's labour costs amounted to EUR 4.5 per hour, an index which was lower only to that of Slovenia (EUR 9.0).

In 2013 labour costs were lowest in the two countries which entered the EU in the next stage of enlargement, namely in Bulgaria (EUR 3.7 per hour) and Romania (EUR 4.6), while the highest costs were registered in Sweden (EUR 40.1), Denmark (EUR 38.4) and Belgium (EUR 38.0), which means that the labour costs per hour in Bulgaria are over 10 times lower in comparison with the countries having the highest labour costs. However, the situation of the remaining Central and Eastern European countries in comparison with the countries having highest labour costs improved considerably. The fastest growth of labour costs per hour was noted in Estonia (from EUR 3 in 2000 to EUR 9 in 2013) and Slovakia (from EUR 3.1 to EUR 8.5). In Poland labour costs per hour grew at a slower pace than in the other Central and Eastern European countries (from EUR 4.5 to EUR 7.6). As a result, 5 EU countries have lower labour costs per hour than Poland: Bulgaria, Romania, Lithuania, Latvia and Hungary. Nevertheless, the position of Poland in relation to the countries with highest labour costs was also improved: from 6.5 times lower to in 2002 to 5.3 times lower in 2013.

It should also be emphasized that the share of non-wage costs in total labour costs is distinctly varied (Tab. 1). In 2013 it ranged from 8% in Malta to 33.3% in Sweden. These differences result primarily from the rate of social insurance contributions paid by entrepreneurs in various EU countries. However, the differences between old and new EU countries are not huge.

The verification of myths

Low labour costs increase the competitive position and are a decisive factor in Poland's attractiveness as a location for foreign capital investment

Since labour costs in the Central and Eastern European countries which were integrated into the European Union are much lower than in the Western Europe, there were high hopes for attracting foreign capital. A good criterion for measuring the given country's attractiveness for foreign investors is the volume of foreign direct investments (FDI) per one inhabitant. The data included in table 2 point out that labour costs are not the decisive factor as far as the influx of FDI is concerned. In the initial stage of transformation the economies of the Czech Republic, Hungary and Estonia attracted the largest FDI per capita, although their hourly labour costs were not among the lowest.

Table 1
Labour costs per hour in EUR, whole economy (excluding agriculture and public administration)

Specification	2002	2008	2010	2011	2012	2013	Non-wage costs (% of total), 2013	Change 2013/2008, %	Change 2013/2002, %
1	2	3	4	5	6	7	8	9	10
EU-15 ^a	21.4	26.4	27.6	28.2	28.9	29.2	22.4	10.6	38.4
EU-13 ^a	4.1 ^b	8.4	8.5	8.7	8.9	9.0	20.4	7.1	119.5
EU-28 ^a	.	18.0	18.7	19.2	19.6	19.8	21.5	10.0	32.9
Belgium	.	32.9	35.3	36.3	37.2	38.0	27.4	15.4	.
Bulgaria	.	2.6	3.1	3.3	3.6	3.7	15.8	44.1	.
Czech Republic	3.9	9.2	9.8	10.5	10.5	10.3	26.8	12.4	164.1
Denmark	27.1	34.4	36.7	37.3	38.0	38.4	12.4	11.7	41.7
Germany	26.3	27.9	28.8	29.6	30.5	31.3	21.8	12.2	11.9
Estonia	3.0	7.8	7.6	7.9	8.4	9.0	26.7	15.2	200.0
Ireland	17.3	28.9	28.9	28.7	29.0	29.0	13.8	0.5	67.6
Greece	11.6	16.7	17.0	16.2	15.0	13.6	19.1	-18.6	17.2
Spain	14.2	19.4	20.7	21.2	21.0	21.1	26.6	8.7	48.6
France	24.4	31.2	32.6	33.6	34.3	34.3	32.4	9.9	40.6
Croatia	.	9.2	8.6	8.7	8.7	8.8	15.4	-4.0	.
Italy	19.0	25.2	26.8	27.2	27.6	28.1	28.1	11.4	47.9
Cyprus	.	16.7	17.7	18.0	18.0	17.2	16.6	2.6	.
Latvia	3.0	5.9	5.5	5.7	6.0	6.3	20.6	7.1	110.0
Lithuania	2.7	5.9	5.4	5.5	5.8	6.2	28.5	5.0	129.6
Luxembourg	24.6	31.0	32.9	33.9	34.7	35.7	13.4	15.4	45.1

cont. table 1

1	2	3	4	5	6	7	8	9	10
Hungary	3.8	7.8	7.0	7.3	7.5	7.4	24.6	-5.2	94.7
Malta	.	11.3	11.9	12.2	12.5	12.8	8.0	13.9	.
Netherlands	23.0	29.8	31.1	31.6	32.3	33.2	24.7	11.7	44.4
Austria	23.6	26.4	28.0	29.0	30.5	31.4	26.7	18.9	33.0
Poland	4.5	7.6	7.2	7.3	7.4	7.6	16.7	0.1	68.9
Portugal	8.1	12.2	12.6	12.6	11.6	11.6	19.3	-5.1	43.2
Romania	.	4.2	4.1	4.2	4.1	4.6	23.2	10.6	.
Slovenia	9.0	13.9	14.6	14.9	14.9	14.6	14.7	4.9	62.2
Slovakia	3.1	7.3	7.7	8.0	8.3	8.5	27.4	17.0	174.2
Finland	22.1	27.1	28.8	29.5	30.8	31.4	22.1	15.9	42.1
Sweden	28.6	31.6	33.6	36.4	39.2	40.1	33.3	26.9	40.2
United Kingdom	23.8	20.9	20.0	20.1	21.6	20.9	15.3	-0.3	8.8

^a arithmetic mean

^b arithmetic mean for EU-8

Source: 2008–2013: *Labour costs in the EU28* (2014), 2002: CHALAS (2005), p. 41.

With time passing Estonia became the leader in attracting foreign capital (EUR 12,030 per capita in 2013), whereas in Poland (in spite of lower labour costs) the influx of FDI was much slower (EUR 4,810 per capita).

Table 2

Foreign direct investments of the „new” EU countries (in EUR per capita)

Countries	2002	2004	2008	2013	2013 (2002=100)
Bulgaria	498	951	4,211	5,238	1,051.8
Czech Republic	3,818	4,123	7,876	9,379	245.6
Estonia	2,916	5,397	8,798	12,030	412.5
Lithuania	1,105	1,380	2,861	4,170	377.4
Latvia	1,154	1,460	3,707	5,668	491.2
Poland	1,206	1,663	3,074	4,810	398.8
Romania	341	446	2,343	3,073	901.2
Slovakia	1,600	2,347	6,738	7,884	492.8
Slovenia	1,980	2,795	5,034	5,211	263.2
Hungary	3,392	4,461	6,172	7,983	235.4

Source: the author's report on the basis of Eurostat data: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database (access: 25.07.2014).

This means that between the years 2002 and 2013 in Estonia the influx of foreign capital increased over 4 times, while hourly labour costs increased 3 times (from EUR 3 to EUR 9 per hour) and are among the highest in this group of EU members.

In 2002 labour costs in Poland were, in comparison with other new EU member states, relatively high, and the influx of foreign capital was moderate. However, gradually it turned out that the labour costs in Poland in the period under analysis were increasing at a relatively slow pace (from EUR 4.5 to EUR 7.6, i.e. by 68.9%), whereas in all the other countries (apart from Slovenia) they were increasing much faster (cf. table 1). Nevertheless, this fact did not improve Poland's position in terms of competitiveness; in the competitiveness ranking it even fell from the 6th position among 10 countries under analysis to the penultimate position (EUR 4810 per capita). Romania, where the FDI index per capita is the lowest (EUR 3073), made considerable progress, after all – in 2002 the influx of FDI per capita was over 3.5 times lower than in Poland, whereas in 2013 it was lower only by 36%. It should also be added that in Bulgaria in the analogous period the FDI index per capita rose over 10 times, thanks to which the country moved from the penultimate position in the ranking to the 6th spot.

It should, therefore, be stated that, apart from labour costs, many other factors affect the given country's economic competitiveness and attractiveness for the foreign capital. Among other things, one should enumerate factors such as the quality of infrastructure, companies' access to financial services, institutional and legislative frameworks, stability and transparency of the tax system, efficiency of the judiciary and enforcement of contractual provisions, and high expenditure on R+D and education. According to the World Bank report on the competitiveness of Polish economy and investment climate assessment, in Poland all the above mentioned factors concerning competitiveness were at a lower level than the average in those Central and Eastern European countries which were integrated into the European Union in 2004. The structural changes taking place in Poland were also negatively assessed in comparison with the transformations in the new member states. The report (*Poland – Convergence to Europe 2004*) states: „The manufacturing production structure remains dependent on low-skill, low-value-added, labour-intensive industries. Like Romania and Bulgaria, Poland remains locked in a traditional pattern of industrial trade and specialization... [However,] the other EU-8 show a more dynamic pattern of integration into the European division of labour. Hungary, the Czech Republic, Slovakia, and Estonia are catching up relatively fast in technology and more sophisticated branches of industry”. Unfortunately, these assessments remain accurate as far as the situation in Poland is concerned.

High social security contributions and high wage taxes result in high labour costs in Poland

One of the typical arguments frequently made by entrepreneurs in Poland is that social security contributions and taxes should be lowered. Indeed, these burdens are high in Poland.

Social security contributions constitute a significant share of labour costs in EU countries (Tab. 3). They are exceptionally low only in a few countries: Denmark, Finland, Ireland and Great Britain, as well as in Cyprus and Malta. However, several EU countries had bigger tax and contribution burdens on gross earnings than Poland (38.64–41.3%): Belgium – 48.0%, Czech Republic – 45.0%, France – 59%, Greece – 47%, Slovakia – 48.6% and Italy – 45%. However, it should be admitted that the income tax rates for physical persons in Poland (18% and 32%) are relatively low in comparison with PIT rates in other EU countries, particularly in the „old EU” countries, where the upper PIT rates exceed 40% (KRAJEWSKA 2012, p. 95).

Table 3

The rate of social security contributions in the EU countries in 2011

Countries	Total burden on gross earnings	Including:	
		the worker's contribution	the employer's contribution
Austria	39.5	18.0	21.5
Belgium	48.0	13.0	35.0
Bulgaria	29–29.7	11.4	17.6–18.3
Cyprus	17.3	6.8	10.5
Czech Republic	45.0	11.0	34.0
Denmark	9.0	9.0	0
Estonia	35.0	2.0	33.0
Finland	9.81	8.62	1.19
France	28.0–59.0	14.0	14.0–45.0
Greece	44.0–47.0	16.0–19.45	28.0
Spain	28.3	4.7	23.6
Ireland	14.75	4.0	10.75
Lithuania	30.8	3.0	27.8
Latvia	35.09	11.0	24.09
Luxembourg	22.4	11.9	10.5
Malta	20.0	10.0	10.0
Germany	39.0	19.5	19.5
Poland	38.64–41.3	23.71	14.93–17.59
Portugal	34.75–37.85	11.0	23.75–26.1
Romania	31.3	10.5	20.8
Slovakia	48.6	13.4	35.2
Slovenia	38.2	22.1	16.1
Sweden	38.42	7.0	31.42
Hungary	44.5	17.5	27.0
Great Britain	15.8–25.8	2.0–12.0	13.8
Italy	40.0–45.0	31.0–36.0	9.0

Source: *Taxation trends in European Union* (2011).

The burdening of workers and employers with full labour costs, i.e. not only social insurance contributions, but also income tax, is commonly described as tax wedge. Since the rate of taxation for workers is influenced not only by their earnings, but also their family situation, tax wedge is calculated for specific worker groups, e.g. single taxpayers, taxpayers opting for joint taxation with spouses, having one or two children and earning close to median value (which often amounts to 2/3 of the average earnings), the national average or two national averages. Table 4 presents calculations of total burdens on the gross

wages of the single worker, having no children and earning 2/3 of average wages. In the period under analysis the tax wedge in Poland was lower than the EU-27 average.

Table 4
Tax wedges for a single worker with 67% of average earnings, no children, as % of total labour costs

Country	2000	2004	2008	2012	Difference (2000–2012)
Belgium	51.3	49.0	50.2	50.5	-0.8
Bulgaria	40.0	35.8	35.1	33.6	-6.4
Czech Republic	41.3	41.9	40.1	39.3	-2.0
Denmark	40.8	38.9	38.5	37.0	-3.8
Germany	47.5	46.9	46.6	45.6	-1.9
Estonia	39.8	39.6	37.0	39.2	-0.6
Ireland	18.1	19.5	15.0	20.1	2.0
Greece	36.0	36.1	35.5	38.6	2.6
Spain	34.8	35.3	34.0	37.0	2.2
France	43.7	46.2	46.4	47.1	3.4
Italy	43.6	42.2	43.2	44.5	0.9
Cyprus	16.7	18.6	11.9	11.9	-4.8
Latvia	42.2	41.9	39.9	43.5	1.3
Lithuania	42.9	41.6	40.3	38.9	-4.0
Luxembourg	31.1	28.1	28.2	28.9	-2.2
Hungary	51.4	44.8	46.7	47.6	-3.8
Malta	16.6	17.6	17.9	18.6	2.0
Netherlands	42.2	40.8	34.0	33.2	-9.1
Austria	43.2	44.0	44.5	44.2	1.0
Poland	37.0	37.2	33.6	34.6	-2.4
Portugal	33.2	32.8	32.1	32.0	-1.2
Romania	44.7	42.9	40.9	43.8	-0.9
Slovenia	42.6	43.6	40.3	38.5	-4.1
Slovakia	40.6	39.2	36.0	36.9	-3.7
Finland	43.0	39.4	38.6	36.7	-6.2
Sweden	48.6	47.2	42.5	40.7	-7.9
United Kingdom	29.1	30.5	29.7	28.2	-0.9
EU-27	38.6	37.8	36.3	36.7	-1.9
EA-17	36.7	36.4	34.8	35.5	-1.2

Source: *Taxation trends in European Union* (2013, p. 36).

An important measure of economic fiscalization is the proportion of taxes and contributions in relation to GDP. According to Eurostat data (*Taxations trends.*, 2013, p. 195, 196), in the majority of EU countries the share of

contributions is high and relatively stable. For instance, it constitutes ca 16% of GDP in France and between 12-13% in Belgium, Czech Republic, Estonia, Greece, Italy, Slovenia, Slovakia, as well as in Poland (12.7%).

The high, and in many countries growing share of social insurance contributions in relation to GDP results from the wide range of social benefits and the growing number of old age pensioners, retirees, unemployed and persons receiving social benefits. At the same time, however, many people notice the negative consequences of high contributions (high labour costs, decrease of profit rate, a less competitive economy). The aging of Western Europe societies only aggravates the already existing problems. Nevertheless making „cuts” in social benefits generates considerable social resistance everywhere, as a result of which changes are introduced at a very slow pace.

High labour costs lead to a growth of grey economy

The proponents of lowering taxes and social insurance contributions very frequently point out to the high share of grey economy in Poland's economy (WYRZYKOWSKI, 2013, p. 192). It is argued that the lowering of taxes and contributions would facilitate the „coming out” of a significant number of entrepreneurs; they would pay taxes and insurance contributions, which would lead to the increase of budget income.

The share of grey economy in Poland ranges, depending on the methodology of research, from 16% GDP (GUS²) to 25% GDP (WYRZYKOWSKI 2013, p. 185–192). According to most recent research data (SCHNEIDER 2011, p. 192), grey economy in Poland amounts to 25% of GDP. However, a higher share of grey economy was noted in countries which have much lower labour costs, lower social insurance contributions and lower taxes, e.g., 32.3% in Bulgaria, 29.6% in Romania, 29.5% in Croatia, 26% in Cyprus and 25.8% in Malta.

On the other hand, the share of grey economy in Western European countries is relative stable. In many of them (Germany, Holland, France, Austria) it ranges between 8-10% of GDP (SCHNEIDER 2011), although the level of tax burdens and social insurance contributions there is rather high.

Although high taxation burdens, especially high social insurance rates, are, indeed, conducive to the growth of grey economy, in reality there are many more factors responsible for this tendency. Among other things, one should enumerate the following causes:

– Weak and inefficient tax administration system, as a result of which tax collectability is low, and the sanctions not severe enough,

² Central Statistical Office of Poland.

- Ineffective, corrupted government institutions and links between politicians and business which facilitate illegal activities,
- Overly bureaucratic administrative and legislative regulations,
- A poorly developed banking system, as a result of which funds necessary to finance economic activities often come from illegal sources,
- A high rate of unemployment and an unsatisfactory social protection system which encourages people to take up illegal jobs,
- A wide range of natural economy (in small towns and in villages) making it possible to live on meagre means and working irregularly,
- Poor filing system of some economic activities (e.g., agriculture, artisanship, services).

The above quoted results of Schneider's research clearly indicate lack of correlation between the level of labour costs and the size of grey economy. In the new EU countries grey economy constitutes a significant share, although the tax burdens measured by the share of taxes and social insurance contributions are relative low. Conversely, a small share of grey economy has been observed in many countries with a high degree of fiscalization.

High labour costs contribute to inflation

The view that labour costs contribute to inflation is closely related to the wage/price spiral, which occurs when increase of wages leads to increased prices of goods, which, in turn, gives trade unions an argument to pressure for growth of wages. A similar spiral is set in motion by the increase of labour costs, however, provided that producers can balance some of the costs by increasing prices. Research analysing the time period from 1992 to 2004 (STASIAK 2007, p. 18) demonstrates that the pace of increase of real wages was (with the exception of the years 1996–1998) lower than the pace of increase of workforce productivity, and since 2002, the wedge was becoming wider and wider. Also in the subsequent years the workforce productivity increased faster than the real wages in the enterprise sector. This trend was confirmed by the research covering the years 2000–2012 (KABAJ 2013). According to the results of the research, the gap between the increase of workforce productivity and real wages (with the exception of the years 2007–2009) is distinctly growing (Fig. 1). Therefore, the above quoted data do not confirm the assumption that labour costs contribute to inflation.

It is fortunate that the problem of disproportion between the increase of workforce productivity and wages was noted in the *Konkurencyjna Polska* [*Competitive Poland*], report prepared and edited by Jerzy HAUSNER (2013, p. 16, 126). One can find there the following passage: „The relatively high

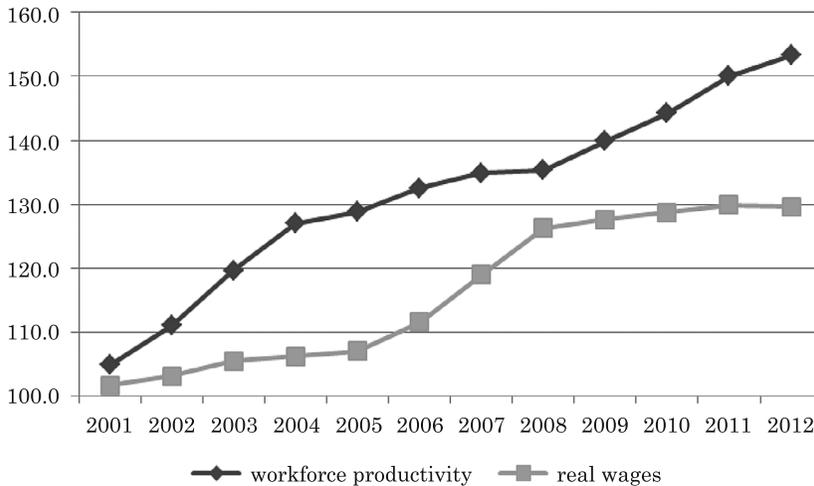


Fig. 1. Dynamic of increase of real wages and workforce productivity in the enterprise sector (2000 = 100)

Source: KABAJ (2013).

competitiveness of enterprises results from systematically maintaining the low-paid increase of workforce productivity. Thanks to this the increase of real wages is moderate and does not spoil the macroeconomic balance. Reining in real wages is relatively easier when high structural unemployment persists. However, apart from being beneficial, such a situation has also negative consequences [...] A mechanism crystallizes, which, even while being helpful from the point of view of business cycle, is nevertheless harmful structurally". Hausner expressed his reservations even more clearly in his interview for „Gazeta Wyborcza”: „If Poland wants to enter a higher level of development, we have to pay more for work. If we don't, we will not have good employees, who would be able to design all those innovative products and technologies. People are the most valuable capital for the company” (*Dokąd idziemy* 2014).

High labour costs hamper the growth of investment, ergo they make it difficult to create new jobs

Entrepreneurs tend to think that growth of labour costs, including increase of wages, reduces funds for investment and thus makes it difficult to create new jobs. However, their opinions would be fully justified if labour costs and wages grew at a faster pace than workforce productivity. On the basis of the above quoted statistical data it can be concluded that entrepreneurs enjoy more benefits from increase in workforce productivity, which leads to the

increase of gross operating surplus. Gross operating surplus is a balancing item in the generation of income account, created as a result of subtracting from gross domestic product transactions related directly to production processes, i.e. costs connected with employment and tax on products (VAT, excise, custom duty) minus subventions connected with production and import.

Table 5
Dynamic of labour costs, wages, operating surplus and investment (current prices – 2012)

List of items	2000 = 100
Average monthly labour costs per 1 person employed	181.1
Average gross monthly wages and salaries	186.4
Gross operating surplus	257.6
Including the enterprise sector	318.1
Investment outlays	178.5
Including the enterprise sector	200.8

Source: The author's calculations, based on GUS Statistical Yearbooks.

Gross operating surplus can be spent on investments, savings and entrepreneurs' consumption. GUS data (Tab. 5) suggest that in the years 2000–2012 gross operating surplus grew at a faster pace than labour costs and average wages. At the same time, however, the pace of increase of investment outlays was lower than the pace of increase of labour costs and wages, although, judging by the level of operational surplus, the investments could potentially be higher. The difference between the pace of increase of gross operating surplus and the pace of increase of investment outlays can be seen most clearly in the enterprise sector. This means that the possibilities for increasing investments were higher and they were not hindered by the growing labour costs.

Lowering labour costs leads to decrease of unemployment rate

Entrepreneurs often use the argument that the lowering of labour costs leads to a smaller rate of unemployment. The statistical data presented in table 6 do not support this myth. Two time periods were used to verify the above claim: years 2000–2003 and 2008–2013.

In 2003 only 4 out of the countries researched saw decrease in unit labour costs (in comparison with the year 2000). In 2 countries the lowering of labour costs was, however, accompanied by the growth of the unemployment rate (Austria and Poland), whereas only 1 country saw decrease of the unemploy-

ment rate (Great Britain), while no change was observed in 1 country (Sweden). In the countries where unit labour costs were increased the situation varied: the rate of unemployment either grew or decreased, or remained the same.

Between 2008 and 2012 hourly labour costs decreased in countries such as Greece, Germany, Portugal and Hungary, whereas in Ireland they remained more or less the same. The rate of unemployment decreased only in Germany, whereas in other EU countries (i.e. in those where labour costs got lower, and in the remaining ones) the rate of unemployment was significantly higher, for example, in Greece from 7.7% in 200 to 24.3% in 2012 r., in Spain up to 25%, in Portugal up to 15.9%, and in Ireland up to 14.7%. This was an obvious aftermath of the sudden crash of the business cycle in these countries.

Table 6

Rate of unemployment and hourly labour costs in the EU

Country	Rate of unemployment (in %)		Hourly labour costs (2000=100)	Rate of unemployment (in %)		Hourly labour costs (2008=100)
	2000	2003	2003	2008	2012	2012
Austria	3.7	4.4	98.8	3.8	4.3	115.5
Belgium	6.9	8.1	108.2	7.0	7.6	113.1
Czech Republic	8.7	7.8	106.4	4.4	7.0	116.7
Denmark	4.4	5.6	109.8	3.4	7.5	110.5
Finland	9.8	9.0	107.5	6.4	7.7	113.6
France	9.3	9.4	102.8	7.8	10.2	109.9
Greece	11.0	9.3	107.6	7.7	24.3	89.8
Spain	11.3	11.3	110.0	11.3	25.0	108.2
Holland	2.9	3.8	119.8	3.7	5.3	108.4
Ireland	4.3	4.6	100.7	6.4	14.7	100.3
Luxemburg	2.3	3.7	105.9	4.9	5.1	111.9
Germany	7.8	9.7	104.9	7.5	5.5	96.2
Poland	16.4	19.2	76.8	8.1	10.1	109.3
Portugal	4.1	6.4	109.1	8.5	15.9	95.1
Slovakia	18.7	17.1	105.0	9.6	14.0	113.7
Sweden	5.6	5.6	96.0	6.2	8.0	124.0
Great Britain	5.4	5.0	97.3	5.6	7.9	103.3
Hungary	6.3	5.8	131.0	7.8	10.9	96.2
Italy	10.4	8.6	117.4	6.7	10.7	109.5

Source: the years 2000-2003 – the author's report on the basis of: CHALAS (2005, p. 39); the years 2008-2012 – the author's report on the basis of the table 1 and Eurostat: <http://epp.eurostat.ec.europa...>

Together with the market-oriented transformation of economy, companies reduce social benefits

Before the transformation Polish state-owned companies had a very well developed infrastructure making it possible to offer to the workers and their families many social services. Companies financed workplace crèches and kindergartens, canteens, community centres, sport clubs, holiday houses located in very attractive tourist regions. Winter and summer camps were organized for children. Many companies granted their workers flats or co-financed their fees for housing cooperatives. Due to ongoing privatization processes the expanded social infrastructure was becoming an unnecessary burden negatively impacting the financial results of companies. Therefore, the process of closing or commercializing crèches, kindergartens and canteens began, while holiday houses and residential buildings were sold. It was commonly believed that because of the advent of free market economy companies started reducing social benefits.

However, we treated this assumption as a myth, rather than an unquestionable fact. Our scepticism was based on the results of empirical research conducted by various teams KRAJEWSKI (1996), MORECKA (1999), which did not offer definitive conclusions. In the initial stage of transformation the range of social benefits in the companies which were still state-owned did not change. Social benefits were not severely reduced in privatized companies with a share of foreign capital. This policy may have resulted from the fact that working crews agreed to privatization in exchange for obtaining guarantees concerning employment, level of wages and social benefits. The investors' pledges were written into contracts or annexes to privatization contracts. Employee-owned companies did not want to reduce social benefits either. It is also worth emphasizing that companies frequently offered various benefits in kind or tokens (Christmas or summer vouchers) in order to avoid the burden of income tax and social insurance contributions.

In the initial stage of transformation the benefits were reduced in a very conservative manner. Gradually, however, a considerable diversification of the extent of social benefits could be noticed, influenced, to a large degree, by the improved or worsened economic condition of various companies. The value of benefits grew in a relatively small sample of the companies under research, while the poorly performing state-owned and private companies decreased the social benefits. Employee-owned companies and state-owned companies mounted the strongest defence against the dramatic decrease of the benefits (KRAJEWSKA, KACZOROWSKI 2007, p. 105, 106). The social benefits which are not wage-related are also changing as well as the criteria for granting them. Social benefits are slowly losing their status as a widely accessible, egalitarian

option. More and more frequently, they are addressed at the employees considered „strategic” for the company and constitute a form of nonwage integrating motivation. Growingly popular are referral bonuses for attractive holiday leaves for the best employees and „bonding events” for medium and high level personnel.

According to GUS data, the share of outlays on Employee Social Fund in labour costs decreased from 3.1% in 1996 to 2% in 2000 (Rocznik Statystyczny Pracy 2001, p. 222, Rocznik Statystyczny Pracy 2010, p. 332) and retained this value in 2012. However, it is distinctly higher in the public sector (3.3%) than in the private sector (1.1%), in which big companies (1.3%) attach more importance to social spending than the small ones (0.5%) (*Koszty pracy w gospodarce narodowej w 2012 r.*, 2013, p. 90). The share of outlays on Employee Social Fund in general labour costs is also quite diverse depending on the economic sector: from 0.9% in construction and trade to 4.4% in education and 5.5% in public administration and national defence (*Koszty pracy w gospodarce narodowej w 2012 r.*, 2013, p. 104, 106, 122, 124).

In the recent years the following tendencies could be observed: 1) The share of outlays on Employee Social Fund in the general labour costs is decreasing, 2) there are significant differences in the share of the outlays on Employee Social Fund among companies depending on their form of ownership, size and financial situation as well as belonging to the given economic sector (the share of the above specified social benefits is relatively high in the following sectors: administration, education, culture), 3) the criteria for granting these benefits are changing – they are starting to play a motivational role to a larger degree, while the income situation of the given family is taken into account less and less frequently.

Conclusions

1. It turns out that out of the seven commonplace opinions about the labour costs in Poland which were not positively verified in the first stage of research, six remain unverified now, after taking into consideration the statistical data for the subsequent years. The statistical data confirm the conclusions drawn on the basis of the earlier analysis. The only factor that has changed is the companies’ attitude towards social benefits, which could not be seen clearly in the first years of Poland’s economic transformation.

2. Contrary to popular belief, labour costs are not a factor making Polish economy more competitive. Despite the low wages and relatively low labour costs our country does not have much to offer in comparison with either old EU countries or the new member states, a fact proven by the low level of FDI per capita in Poland. A serious challenge for Poland is the change of economic

structure, growth of workforce productivity and an improvement of economic and social infrastructure in order to make it more business-friendly.

3. The reduction of social security contributions rates, which are widely criticized as a major burden on labour costs, will be difficult to achieve in the upcoming years because of the disadvantageous proportions between the number of persons employed and the number of persons receiving social benefits which persists in Poland³. Although the lowering of social security contributions will be difficult to carry out, at least some changes are necessary. Worth considering are the solutions applied by EU countries, which consisted in selectively decreasing the contributions and tax burdens for persons with lowest incomes and those newly employed. Such policy encourages employers to employ low qualified persons (among whom the rate of unemployment is the highest), and, moreover, it creates additional demand in economy.

4. Employers' opinions concerning labour costs result from treating this category just like other elements of the costs. What the employers are aware of is the necessity of reducing the costs since the lower labour costs are, the better financial performance of companies are, and such a trend benefits the whole economy. However, they do not take into account that labour costs, similarly to the labour market, are not entirely free market categories and they include various elements which should not be approached solely from the point of view of minimizing costs.

Main elements of labour costs are wages, social and health insurance contributions and taxes. The lowering of wages increases companies' profits, but at the same time it decreases the income of households, which affects negatively consumption demand and hinders economic development. The budget revenues from taxes and social insurance contributions are also smaller. In addition, the state of public finances is worse, too, because of the lowering of taxes and social insurance contributions, which has negative repercussions, namely decreased supply of public goods and social benefits.

5. The proponents of slowing down the increase of labour costs are at the same time proponents of a competitive strategy based on low wages and low taxes, because this combination makes it possible to gain price advantage. However, this is a short-term strategy, typical for countries characterized by a relatively low level of economic development. A strategy of this kind is not conducive to improving the quality of labour resources and to making economy more innovative.

³ In 2012 Poland had 14.2 million people in employment, 7.7 million old age pensioners and retirees and 2.1 million persons unemployed. *Rocznik Statystyczny GUS*, 2012, p. 45 and 47.

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