



INEQUALITIES IN POLAND

**RAISING INCOMES THROUGH SOCIAL
PROTECTION AND DECENT WORK KEY
TO REDUCING INEQUALITIES**

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EXECUTIVE SUMMARY

Income

Poland has experienced unprecedented economic growth in the three decades since the collapse of the Soviet bloc. From 1991 to 2016, GDP grew by 170%, the highest growth rate among all post-socialist countries, and is now starting to converge with the Western European countries. Poverty and labour market indicators have improved significantly – especially after accession to the EU in 2004. Today's unemployment rate is significantly lower (4%) than the EU average of 8% and the employment rate (71%) is almost equal to the EU average (72%).

After the difficult years immediately after 1989, real wages started to grow in 1996. Productivity grew much faster, however,¹ and consequently the share of wages in GDP fell from 62.8% in 1992 to 48.5% in 2006 and has remained stable since then (47.5% in 2016). In nominal terms, the average hourly wage rate in Poland was €5.66 in 2014 as compared to the EU average of €15.23.

Poverty

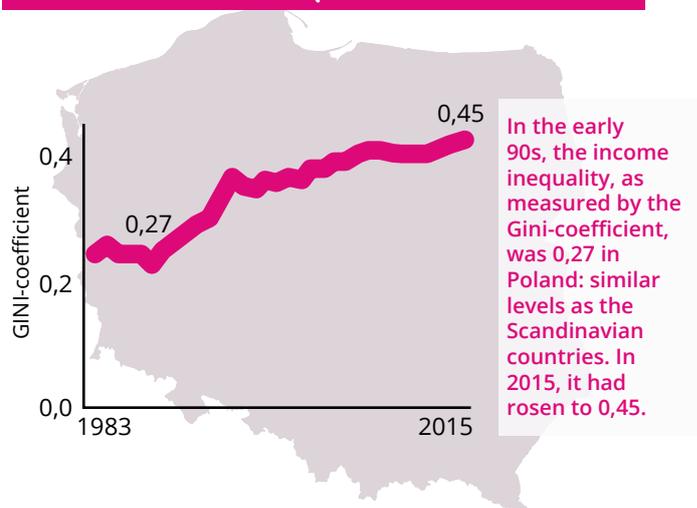
Poland's relative poverty rate peaked in 2003 at 20% of the total population. By 2017 it had dropped to 13.4%, while extreme poverty fell from a peak of 12.3% in 2005 to 4.3% in 2017 – a reduction in real terms of 4.2 million people. Not everyone has benefited to the same extent, however. In 2016 19.5% of the population (7.3 million people) were still living in poverty.² Transition to a market economy has also resulted in higher inequality, which increased from a Gini coefficient 0.27 in 1990 (equivalent to income inequality in Scandinavia) to 0.4 in 1995 and 0.45 in 2015, above the EU average.

Income poverty is the most significant component of inequality. Families with children aged 0-17 are at the highest risk of extreme poverty: 5.9% of this group, as against the average of 4.9% for all Polish families, were living in extreme poverty in 2016. Thresholds for social assistance were raised between 2012 and 2018 in response to pressure from the European Commission. The introduction in 2016 of the Family 500+ programme, a generous child benefit which is not means tested, has further reduced extreme poverty.³

Employment

Poland's employment rate for the 20-64 age group is 71%. Some groups, however, fall far below this average: labour force participation rates for persons

RISING INCOME INEQUALITIES IN POLAND



Source: <https://wid.world/document/bukowski-novokmet-poland-1983-2015-wid>
Source: <https://wid.world/document/bukowski-novokmet-poland-1983-2015-wid-world-working-paper-2017-21/>

with disabilities are 21%; young people, 28.4% (20-24 years old); people aged 55-64, 44.3%; and women 62.2%. The in-work poverty rate is 10.9% for workers and employees aged 18-64 (2016). 26% of employees have temporary contracts under which they have no rights to holidays or statutory notice periods and make no or only partial social contributions. In the last two years, however, the government has raised minimum standards of remuneration and the minimum wage, bringing it to roughly 48% of the average wage, thus making a significant contribution to reducing in-work poverty.

Retirement and Pensions

Today income poverty among older persons is relatively low, amounting to 3.9% of pensioner households, equal to that of employee households. However, in October 2017 the retirement age was reduced by the current government to 65 years for men and 60 for women from 67 for both sexes. In years to come, if a woman chooses to retire at or near the age of 60, she will lose a significant part of her retirement income. Depending on the degree of indexation, her pension income is likely to fall below the poverty threshold.

Energy poverty

Energy poverty, a relatively new phenomenon, affects about 6.44 million people (17% of Poles).⁴ It also has a gender dimension since there are more energy-poor women than men.⁵ The government has introduced an energy benefit for vulnerable customers but these benefits reach only 7% of energy poor households.

Migration

In 2016, some 2.5 million Poles, 7% of the population, were living and working abroad, sending home remittances of USD 7.5 billion, 1.7% of GDP.⁶

Domestic labour market participation did not increase to compensate for the vacuum created by their emigration but was filled by an inward flow of migrants, 1.3 million in 2017, 96% of whom are Ukrainian. This indicates a low ability of government to increase labour market participation of certain groups.

Recommendations

- Introducing a more progressive system tax system e.g. by increasing the tax-free allowance.
- Improvement of working conditions, e.g. by combatting bogus self-employment.
- Strengthening demographic policy, e.g. by developing care services for children, for persons with disabilities and for older persons, to free women to take up paid employment.
- Developing regional policy, e.g. by sustaining community public institutions.
- More democracy and social dialogue, e.g. by fortifying collective bargaining.

The period of transition from command economy to market economy turned out to be unsustainable, resulted in growth of various forms of inequalities and was not enough inclusive for many social groups. Therefore, it has to be assessed as far from being a just transition. Poland should implement a range of preventive and corrective policies to achieve inclusive growth in the future decades.

KEY FORMS OF INEQUALITIES AND THEIR DRIVERS IN POLAND

While recent developments are encouraging, poverty prevention is still an area deserving higher priority among policy makers.

Data show that major poverty indicators have been decreasing since the Polish accession to the EU in 2004. According to national data (Central Statistical Office, 2017), the relative poverty rate peaked in 2003 with a share of 20% of the total population. By 2017 (latest available data), the rate dropped to 13.4% (17.6% in 2008, 16.3% in 2013). In addition, the rate of extreme poverty fell since 2005 from a peak of 12.3% of the total population to 4.3% in 2017. However, the decline of extreme poverty was not linear. Reflecting the negative social effects of the global crisis, the indicator jumped up in the period 2009-2014 before it reverted to the falling trend again. Current poverty levels are among the lowest since 1989.

Already in 2012, Poland has reached the Europe 2020 goal of reducing poverty and social exclusion by 1.5 million people. Until 2017, 4.2 million people were lifted out of poverty and social exclusion (Eurostat). After 2015, Poland shifted to the group of countries with the poverty rate below the EU average. However, still the level of poverty and social exclusion continues to be high. In 2016, as many as 19.5% of Poles were still suffering from poverty and social exclusion, compared to an EU28 average of 22.4%.

A decomposition of the poverty group shows that the largest part of the still low performance relates to income poverty. The Statistical Office records the largest risk of extreme poverty among families with children aged 0-17 years. The extreme poverty

rate in this group amounted to 5.9% in 2016, which substantially exceeds the average rate of 4.9% among all Polish households and 3.7% among households without children. Poverty risk is highest among households with more than 3 children, amounting to a rate of 9.9%. Extreme poverty among families with children was even significantly higher before the introduction of the generous family program "Family 500+" in April 2016 and amounted 16.7% in 2015.⁷

Based on data of 2016, the most important causes of high extreme poverty rates in Poland are:

- Households receiving social benefits: 10%;
- Households of farmers: 10% and living in rural areas: 7%;
- Disabled pensioners: 7%;
- Families with three and more children: 6%;
- Households with low education (secondary education and below): 10%;

National statistics indicate that income poverty among the elderly is relatively low, amounting to 3.9% of pensioner households, which is the same rate as that of employee households. The current pension system still seems successful in preventing poverty among the old. However, a negative trend emerged in recent years, and future prospects appear rather pessimistic. The retirement age reform introduced by the 'Law and Justice'-government in October 2017 reversed the increase in retirement age up to 67 years equally for men and women which was mandated by the previous government. This decision contradicts the need for longer working lives in an ageing society and potentially undermines the sustainability of the pension system. As a result, men are currently

eligible for retirement at the age of 65 and women at 60. The European Commission's Country Report as part of the European Semester (EC, 2017) pointed out that women would lose the most if they chose to retire close to the lower new retirement age. Under current rules, retiring just two years below 67 reduces pension levels by roughly 10%. As a result, a significant share of women would then receive only a minimum pension. Depending on the degree of indexation, pension income over the years is likely to fall below the poverty threshold.

In recent years, a new poverty phenomenon has been diagnosed, namely energy poverty. Rising energy prices erode real income and can lead to impoverishment of dependent households. According to recent estimates, about 6.44 million people or 17% of Poles are materially affected by energy poverty (see Owczarek and Miazga, 2015). The highest shares of energy poverty are found among residents of single-family buildings (35%), residents of old buildings (32%), rural residents (32%), pensioners (29%), large families (five children and more, 26%) and among those living on social benefits (24%). Energy poverty has also a gender dimension since there are more energy-poor women than men (3.58 million versus 3.25 million, see Owczarek, 2016). Among all energy-poor households, there are four times as many women only than men only households. Energy poverty among women is most frequent in the largest cities (over 500,000 inhabitants, women 11.1% vs. men 9.9%) and among single parent (18.2% vs. 11.1%) and retired households (19.0% vs. 17.7%). Current policy measures aim to provide relief to "vulnerable customers". In 2016, the government converted an EU directive into national law and introduced an energy benefit. However, these benefits reach merely 7% of energy poor households (see Owczarek and Miazga, 2015).

Some groups are particularly vulnerable with respect to employment risks.

The overall state of labour market access suffers the most by weak performance in the following dimensions. First, the unfavourable rating with respect to in-work poverty, low pay and temporary employment points to a substantial problem with a low quality of jobs. Various forms of precarious employment is currently the biggest problem in Poland. Second, the relatively low employment rate, especially among the disabled, also contributes to weak performance in labour market access. Finally, unemployment in total and in different groups is not much of a problem in Poland. Spending on labour market policies in Poland is one of the lowest in the EU and amounted 0.73% of GDP in 2015.

For 2016, Eurostat reported an in-work poverty rate of 10.9% for workers and employees aged 18-64, which ranks the country only at 21 out of 28 EU countries (Eurostat). Poland made little progress since 2007 when this rate was 11.7%. For a significant number of households, accepting employment apparently offers little relief. More than a quarter (26.1% precisely) of employees were hired with temporary contracts which is one of the highest rates among EU member states (Eurostat).⁸ Young people aged 15-24 are particularly affected. Temporary employment has been stable since 2007 when the share was 28.2%. A significant proportion of temporary workers are employed under civil law contracts, rather than the usual labour code contracts. This type of employment is not covered by labour code protection. Employees are not entitled to any form of leave or notice period (other than stated in the contract) and are not at all or only partly subject to social contributions, which tends to undermine the revenues of pension and healthcare systems. Moreover, temporary employment is most frequent among young workers. It creates general life uncertainty and may as well discourage from starting a family or taking a mortgage. A high rate of in-work poverty and a high share of fixed-term contracts indicate labour market segmentation. However, giving hope for improvement, job creation in 2015-2017 was mainly associated with permanent contracts.

Since Poland joined the EU, the employment rate continuously increased. Only the crisis period 2009-2013 shortly interrupted this trend. In 2018, as much as 71% of the 20-64 year old population were employed (Eurostat), which means that the Europe 2020 goal has been achieved in the country. If current trends continue, Poland may exceed the threshold already before 2020. The employment rate reached an all-time record, although it currently still falls short of the EU average. According to 2017 data, the main reasons are low labour force participation of certain groups such as disabled persons (21%), young people (28.4%, 20-24 years old), people aged 55-64 (44.3%), and women (62.2%). Such low participation rates are in stark contrast with the much higher employment rate of 77% among men aged 20-64. Realistically achieving the Europe 2020 goal requires special targeting of these low participation groups to help them access the labour market.

If domestic labour market participation is not increasing, expanding labour demand due to strong catch-up growth could increasingly attract migrant workers. While traditionally a sending country, Poland has to some degree turned into a receiving country of migration. The number of work permits issued serves to estimate the level of immigration. Data of the Ministry of Family, Labour and Social Policy indicate that immigration started to rise in 2014 and reached 1.3 million in 2017 (an increase of 240%), of which as much as 96% relate to employees from Ukraine. At the same time, 2.5 million Poles live and most of them work abroad. To some extent, the vacuum created by Polish emigration did not contribute to rising domestic labour market participation but rather attracted immigrant workers from Ukraine, which indicates a low ability of state institutions to activate labour market participation of certain groups.

The unemployment rate in 2018 was 4% and reached a historic low record since early 90ties (Eurostat). The highest unemployment rate was 20% in 2002 when it was seen as one of the most dramatic social problems of the country. Since then, unemployment receded to 7.1% until 2008, and especially so after Poland became an EU member in 2004. The global financial and economic crisis reversed this trend until 2013 when the rate reached 10.3% again. A rapid

recovery set in after 2014 and re-established the pre-crisis trend of falling unemployment rates. At least for the near future, unemployment has disappeared from the list of painful economic problems in Poland. However, several groups still remain vulnerable, among them young people (youth unemployment is 14.6%); low skilled workers (secondary school / gimnazjum or less, unemployment rate of 12.5%); disabled persons (7.6%); and those living in rural areas (5.1%) and in underdeveloped provinces (voivodships of podkarpackie 8.4%; warmińsko-mazurskie 6.8%; lubelskie 6.5%; kujawsko-pomorskie 5.9%; dolnośląskie 5.8%; and świętokrzyskie 5.7%).

Recent policies addressing inequalities

Poverty

In recent years, the strongest force in reducing the poverty rate was good economic performance rather than policy reform. Recent economic development is often associated with “the Polish golden age” or “the green Polish island” in the global downturn. Important drivers have been competitive advantage based on well-skilled and low-paid employees; strong export growth which exceeded the volume of imports in 2016; direct foreign investments (FDI); broad inflow of EU Structural Funds; but also a big internal consumption market (Czarzasty and Owczarek, 2017). These favourable trends contributed to rising real wages and declining unemployment, thereby shrinking poverty levels (Central Statistical Office, 2017). Another significant factor contributing to reduced poverty was emigration. In 2016, 2.5 million Poles were temporarily living abroad, which is nearly 7% of the total population, and sent back remittances to families staying back in Poland. According to an estimate by the World Bank, remittances amounted to 7.5 billion USD or roughly 1.7% of GDP in 2014.⁹

Responding to pressure by the European Commission, the coalition government of the Civic Platform and the Polish Peoples' Party (PO-PSL) and current government of Law and Justice have been consequently raising household income thresholds entitling to social assistance. In the period 2012-2018 the thresholds

increased by approximately 50%: from 467 PLN (110 EUR) per month before 2012 to 701 PLN (170 EUR) per month in 2018 for single-person households; and from 351 PLN (83 EUR) per month before 2012 to 528 PLN (130 EUR) per month in 2018 for each person in households with two or more persons. Currently, basic social assistance amounts to 645 PLN per month (155 EUR). Raising thresholds expands entitlements. In consequence, the share of dependent households (those below the 'statutory poverty line') which are entitled to social benefits, increased from 7.2% in 2012 to 12.8% in 2013 and stayed on this level until 2016 (12.7%). Due to introduction of child benefit "Family 500+" the group decreased down to 10.7% in 2017 according to most recent data.

The public policy initiative with the strongest impact on poverty reduction in Poland is the programme *Family 500+* which the 'Law and Justice'-government introduced in April 2016. As part of this programme, families receive 500 PLN per month (120 EUR) for their second and subsequent children up to the age of 18, regardless of their income. Families with one child are also entitled if their monthly income is below 800 PLN (190 EUR), or if their child is disabled and their income is below 1.200 PLN (285 EUR). The Ministry of Family, Labour and Social Policy reported that as much as 3.8 million children in 2.5 million families benefited from *Family 500+* in 2016, at a fiscal cost of 17.2 billion PLN (4.1 billion EUR). The government estimated further cost increases to 25 billion PLN (5.9 billion EUR) in 2017 when the programme is in effect for the first time over the entire year.

The Statistical Office reported that *Family 500+* resulted in a significant reduction of extreme poverty among households with children under 18. The rate dropped by 2.9 percentage points from 8.8% to 5.9% between 2016 and 2017. In households with 3 or more children, extreme poverty declined by 6.8 percentage points from 16.7% to 9.9% (see Central Statistical Office, 2017). The government announced that the child benefit will be extended also to the first child in family starting from July 2019, just before the parliamentary elections in Autumn 2019. One might expect further reduction of extreme poverty among the group of families with children.

Already before implementation of the *Family 500+* programme, the economic position of families with children started to improve in 2014 when the PO-PSL coalition enacted a reform of family tax credits. The reform quadrupled the amount that families with three or more children could deduct from tax. When tax credits exceed the amount of tax liability, families receive the difference in cash. However, the programme excludes families without any taxable income.

Labour market

In 2015, the Civic Platform and Polish Peoples' Party (PO-PSL) coalition amended the Labour Code to address the excessive use of temporary employment contracts. The amendment limited the maximum number of consecutive fixed-term employment contracts to three, and the combined length of those contracts to 33 months. Adding a three-month trial period, any employee may work with a limited duration contract no more than three years. The new law came into effect in January 2016. Its full impact on the share of temporary employment contracts is probably materializing only by the end of 2018. However, already in 2015-2016, job creation mainly led to hiring with permanent contracts. This favourable development may be due to the strong recovery from the global crisis, but also to educational effects of the law in advance of its actual implementation.

The PO-PSL coalition adopted another reform in 2015 regarding civil law contracts and proceeded with implementation in 2016. The Parliament introduced an obligation for civil law contracts to pay full social security contributions up to the level of the minimum wage (1680 PLN gross in 2016 / 400 EUR). As a result, civil law contracts became less attractive to employers due to higher labour costs.

The impact of both reforms are yet to be seen in the near future. No major decrease in the share of temporary contracts is expected since the corrections of the current system are rather mild. Even though the measures intended to reduce labour market segmentation, the use of open-ended contracts remains discouraged. Two codification committees with government representatives, social partners and independent experts were set up to prepare a

new draft of individual and collective labour codes. Unfortunately, the proposals of both individual and collective labour codes were highly criticised by the public opinion and none of the proposed set of reforms has been put into force so far.

The Law and Justice Government raised the minimum wage in 2017 from 1680 PLN per month (400 EUR) to 2000 PLN per month (475 EUR) which refers to those employed under a Labour Code contract. The minimum wage increased by 8% in nominal terms. For recent labour market entrants taking up their first job, the increase was as high as 35% since new regulations equalised the minimum wage regardless of age (previously, minimum wage in the first year of employment was 80% of regular minimum wage). The minimum wage rise was higher than originally proposed by social partners. The ratio of the minimum wage to average wage is now roughly 47-48%, and some 10-15% of employees have earnings close to the minimum wage. In the two consecutive years, the minimum wage was increased: up to 2080 PLN per month (495 EUR) in 2018 and up to 2250 PLN per month (535 EUR), thus the pay rise policy is continued. This policy plays a significant role in combating in-work poverty.

On top of significant minimum wage growth in 2017, the 'Law and Justice' government adopted a new law setting for the first time a minimum hourly wage for 'contracts of mandate' (a specific type of a civil law contract). Before that reform, there was no bottom limit for the hourly wage. The hourly wage is set as a ratio of the monthly minimum wage so that both must rise in the same proportion. This indexation mechanism safeguards a minimum standard of remuneration. In 2017, the minimum hourly wage amounted 13 PLN (3.1 EUR) and will rise to 13.5 PLN (3.2 EUR) in 2018. A substantial increase of the monthly and the introduction of an hourly minimum wage could contribute to a significant reduction of in-work poverty.

Need for further reforms

Despite the fact that many improvements have been observed in regards to counter-fighting various forms of inequality in Poland, there is still much to achieve in the next decades. A list of directions for further reforms are presented below:

■ Tax reform towards progressive system and level playing field for companies:

- further increase of the tax-free allowance up to the level of yearly amount of social minimum (thus those who experience difficulties with fulfilling the basic existential and social needs do not pay any income taxes),
- liquidation of tax privileges for self-employed that enjoy flat tax (19%) also after exceeding the second tax threshold that otherwise would have to be paid under employment contract,
- introduction of next tax thresholds for higher-earners in order to have at least three effective tax thresholds and to avoid current situation when low-earners effectively contribute more to public budget as compared to middle- and high-earners,
- introduction of the taxation rule for multinational companies – 'pay taxes in a country of operation, not in a country of registration',
- liquidation of special economic zones enabling full or partial tax-reliefs for foreign direct investments;

■ Improvement of working conditions by:

- further limitation of temporary employment by covering civil law contracts with full social and health contributions and setting hourly minimum wage exceeding the statutory minimum wage for employment contracts,
- counter-fighting bogus self-employment by prohibiting fraudulent single-contractor clauses,
- continuing policy of progressive growth of minimum wage and wages in the public sector in order to fill the gap in share of wages in GDP and productivity growth in the long-term perspective,
- adopting workplaces to the needs of those groups with lower employment rates, namely: disabled, older workers, women, young workers,

- empowering Labour Inspectorate to more effective labour law enforcement,
- developing skills among workers in order to prepare for digital transformation;

▪ **Strengthening demographic policy by:**

- developing care services (child- disability- and elderly-care), thus women can contribute to the labour market in wider extend,
- extending child benefit to all children,
- developing social housing policy for parents;

▪ **Establishing migration and integration policy for newcomers and those who come back from migration;**

▪ **Developing regional policy in order to assure sustainable growth for all regions by:**

- revitalising local rail and bus connections,
- sustaining public institutions (schools, libraries, social centres, police stations, post offices, etc.) as long as they organise local community,
- deconcentrating of public institutions;

▪ **More democracy and social dialogue by:**

- developing public consultation mechanisms at all level of public administration,
- reforming electoral law towards more proportional rules of democratic representatives selection,
- invigorating collective bargaining and social dialogue bodies through legislative reforms of collective labour code and public policy of the state and local authorities (especially sectoral social dialogue).

¹ From 2001 to 2012, productivity increased by an average of 3.3% annually, but real wages only by 0.9%.

² https://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion

³ The proportion of households with children living below the statutory poverty line fell from 12.7% in 2016 to 10.7% in 2017.

⁴ Agata Miazga, Dominik Owczarek (2015). Domzimny, Domciemny – Czyli Ubóstwo Energetyczne w Polsce <http://ibs.org.pl/app/uploads/2015/11/Miazga-Owczarek-Dom-zimny-dom-ciemny-czyli-ubo%CC%81stwo-energetyczne-w-Polsce.pdf>

⁵ 3.58 million women as against 3.25 million men. See Owczarek, D. (2016) (Un)equal weight of energy poverty among women and men in Poland, ClientEarth, Warsaw, online publication. <https://www.documents.clientearth.org/library/download-info/nierowny-ciezar-ubostwa-energetycznego-wsrod-kobiet-i-mezczyzn-w-polsce/>

⁶ See www.bankier.pl/wiadomosc/Polscy-emigranci-przeslali-nam-1-7-polskiego-PKB-7264780.html.

⁷ See reference do the child benefit "Family 500+" in the subsequent part

⁸ Polish law allows for the following types of employment: A. Labour code employment in the form of employment contract (i.e. open-ended contract, fixed-term contract); B. Civil law contracts in the form of contract of mandate (pol. umowa zlecenie) or contract to perform a specific task (pol. umowa o dzieło); and C. Self-employment. Temporary contracts that Eurostat refers to include: fixed-term employment contracts and civil law contracts.

⁹ See www.bankier.pl/wiadomosc/Polscy-emigranci-przeslali-nam-1-7-polskiego-PKB-7264780.html.



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<https://gcap.global/faces-of-inequality>

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