



Efficiency of Active Labour Market Policies in Poland

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Abstract: Unemployment is the most common symptom of disequilibrium on labour market and brings various issues of economic, social and political nature. Because of this, actions are taken in order to limit this phenomenon. The most popular tool of intervention into labour market are active labour market policies. Their importance and spending are systematically increasing. Evaluation reports of these actions indicate high employment efficiency, however there is very little data on significance of ALMP for labour market on macroeconomic scale. Hence the aim of this paper is to collect such data and analyse the real influence of active labour market policies on the situation on this market.

Keywords: unemployment, active labour market policies, efficiency

Introduction

Labour market is one of the market of production factors, similarly to real estate or financial markets. Although many similarities may be indicated between them, specificity of workforce clearly distinguishes labour market and affects its operation. One of characteristic features that impede consideration of labour just like other factors of production are the consequences of disequilibrium. This disequilibrium, similarly to other markets, stems from lack of adjustment between supply and demand for work. Unlike other markets, this equilibrium brings not only economic effects, but also social and political¹. Because of that, many countries undertake actions and spend public funds in order to prevent and mitigate this disequilibrium and its most common symptom – unemployment. As an effect, importance of evaluation of this spending is increasing, both in terms of singular efficiency and real influence on situation on labour market. This analysis of real influence of active labour market policies is the aim of this paper.

¹ E. Kwiatkowski, Bezrobocie, podstawy teoretyczne, Wydawnictwo Naukowe PWN, Warszawa 2001

Labour market itself as well as phenomena occurring on it are characterized by huge diversity. This is a result of many factors, such as highly varying structure of both labour supply and demand. Each subject offering their work – employee – is characterized by individual set of features, skills and competences as well as expectations pertaining salary and work conditions. Employers, who create demand for work also have specific preferences on people they hire, including not only aforementioned competences, but also level of commitment. The specificity of service of labour, significantly different from goods offered on other markets, is also of some importance. In face of this diversity, any intervention on labour market in order to confine unemployment and mitigate its effects is an incredibly complex and difficult undertaking.

Public intervention on labour market

In literature, three basic fields of public action for labour market are indicated, that are of importance for size of unemployment. These are: macroeconomic policy, labour market regulation and labour market policies. The use of macroeconomic policy for reducing the unemployment is still a subject of controversy among the economists. The issue is not only purposefulness and efficiency of such actions, but also possibility of occurrence and size of side effects of such intervention. In context of affecting the labour market, the macroeconomic policy is divided onto two key elements: fiscal policy and monetary policy. Although both these elements utilize different tools, in terms of unemployment reduction their objective is increase of global demand in domestic economy through increasing amount of money in circulation. These instruments are, however, highly imperfect. The assessment of their real influence on labour market is incredibly difficult task. Moreover, their application is strictly connected with occurrence of external effects which may negate the results of undertaken actions or trigger negative phenomena in other parts of economy.

Another field in which the authorities may intervene in labour market is its regulation, i.e. legal boundaries of its operation and contracts concluded there. Strictly connected to the regulation is labour market elasticity, which is also an important factor determining the unemployment. Increase in elasticity is achieved through process of deregulation, i.e. decrease of legal interference in operation of labour market. Authors point out that higher levels of elasticity may decrease unemployment rate and allow for more efficient allocation of workforce. On the other hand, increase of elasticity is indicated to trigger negative effects, such as

decrease in employment protection or strengthening of the employer, whose position is relatively superior anyway in conditions of unemployment².

Third element of public intervention in labour market are labour market policies. This general term represents a set of actions undertaken by the government strictly aimed at direct intervention in labour market. Passive and active labour market policies are distinguishable. The passive side is aimed mostly at mitigating the effects of unemployment by supporting people who lost their jobs, mostly through system of benefits. However, active labour market policies (ALMP) is mostly used to help people looking for work as well as to adjust the supply of workforce to existing demand³. Currently ALMP is the most common tool for unemployment reduction, financed not only from national government budget, by also by local authorities and from European Union funds. However, the author could not find any papers that would indicate the real significance of active labour market policies on macroeconomic scale. Analysis of real influence of actions undertaken within ALMP on situation on labour market is the objective of this paper.

Active labour market policies and its tools

Active labour market policies are aimed mostly at preventing and reducing unemployment. At first it was to be directed to people in particularly difficult situation, however, in face of low effectiveness of macroeconomic policy, ALMP became the basic tool for unemployment reduction. Instruments within active labour market policies are usually divided onto supply-oriented and demand-oriented.

Currently in Poland, supply-oriented instruments include vocational courses or training and apprenticeships. Supply orientation of this tools means that they are designed to affect the quality and structure of available workforce. Their role is particularly important in process of creating knowledge-based economy and in reducing of structural maladjustments on labour market.

This second objective is achieved mostly through vocational courses and training. They allow the unemployed to obtain or improve their competences and qualifications, which, in turn, should hasten the process of finding gainful employment. According to bill in Polish law that defines active labour market policies (Employment promotion and labour market institutions act⁴), activities

2 Z. Wiśniewski, Kierunki i skutki deregulacji rynku pracy w krajach Unii Europejskiej, Wydawnictwo Uniwersytetu Mikołaja Kopernika, Toruń 1999

3 L. Calmfors, Active Labour Market Policy and Unemployment – a Framework for the Analysis of Crucial Design Features, OECD Economic Studies 1994, no. 22

4 Ustawa z dn. 20 kwietnia 2004 o promocji zatrudnienia i instytucjach rynku pracy. Dz.U. 2015 poz. 149

towards improvement of competences are not limited only to strict vocational courses. Other possible forms of support are financial benefits or loans for postgraduate studies or exams required to obtain certain professional authorization. Scholarship are also granted for finishing paid studies. The amount of benefits that one person may obtain are directly derived from other values in economy, particularly minimal wage. Some authors indicate that vocational courses have become the most important tool of ALMP. This is a result of great dynamics on labour market and risk of existing qualifications becoming outdated. Development of knowledge-based economy as well as rising expectations of employers in terms of preparation for employment are predicted to intensify this phenomenon⁵.

Another tool of supply-oriented active labour market policies are apprenticeships. These were introduced as form of support of young people who are only just entering the labour market. As they do not possess any professional experience, their chance of finding work is significantly lower. The possibility of apprenticeship without the necessity of all the legal obligations connected to formal employment contract create a chance for obtaining such experience which should help these people find gainful employment later. Primarily apprenticeships were dedicated to people under the age of 25, however changes to the law allowed this instrument to be offered to all the people in particularly difficult situation. As can be noted, both vocational courses and apprenticeships serve not only to improve qualifications of the unemployed, but also fulfil other roles, such as activation of the unemployed or verification of their readiness to start work. This last function is of particular significance, since readiness for work is the factor distinguishing people who are unemployed from those occupationally passive (not willing to find work) who are usually not counted among the existing workforce.

In contrary to the aforementioned supply-oriented ALMP, the second group does not affect the structure of labour supply. According to its name, demand-oriented instruments are mostly used to increase the demand for work by helping create new workplaces. Because of that, this group of tools is sometimes called by general term of subsidized employment. According to Polish law, this group consists of such elements as subsidies for starting new enterprise or creating new workplace, public works and interventional employment.

The most promoted form of subsidized employment are subsidies for creating new enterprise of new workplace. Their premise is to support small and medium businesses, promoting self-employment and helping to increase number of employees. According to the aforementioned bill, every person registered as an unemployed may apply for subsidy for new enterprise, however, local authorities may introduce additional requirements. Also the volume of such subsidy is left to

5 E. Dolny, M. Maksim, Podażowo zorientowane instrumenty polityki rynku pracy, [w:] Z. Wiśniewski, K. Zawadzki (red.), Aktywna polityka rynku pracy w Polsce w kontekście europejskim, Toruń 2010, s. 59

discretion of local authorities – the bill only states the maximum value. Similar limitations also apply to subsidies for new workplace. Noteworthy, these funds may only be used for preparing and equipping a new workstation. Additionally, workplace created using one of this subsidies must exist for at least 12 months, otherwise the whole subsidy must be returned with legal interest.

The other demand-oriented instruments, public works and interventional employment, are much less common but are still used. This form of job creation is probably the oldest measure against unemployment, first used in 1930s to help mitigate effects of Great Depression. These two terms represent practically the same tool, basically consisting of (partially or wholly) government-funded employment; they are however distinguished in Polish law. The main difference is the entity where the person benefitting from this form of support is employed. Public works indicate that the employer must be from public sector, usually a department of local authorities. In interventional employment, every entity, including private-owned company may apply for subsidy for employing a new person. In such case, public labour office covers half or whole of the salary of newly employed. Should such subsidy be obtained by private-owned company, the workplace must be upheld for another three to six months after the end of support program. In both cases, the subsidy is granted for period of 6 to 12 months, depending on what part of salary is paid from ALMP budget.

These forms of subsidized employment are usually directed to people in particularly difficult situation, especially those who remain without employment for a very long time. Their objective is to support such people in their return to the labour market and prevent them from giving up attempts to find work, mostly through means of occupational activation and allowing them to gain professional experience.

Efficiency issues of active labour market policies

Labour market policies create substantial costs. The complexity and multitude of tasks realized within ALMP significantly impede coherent evaluation and assessment of efficiency of undertaken actions. Although analyses summarizing each project connected to intervention on labour market are mandatory, these usually are limited to singular assessment. Most frequently used indicators are employment index, which shows how many of the people who participated in given project found work after the program ended, or singular participation/employment cost, which is the cost of the whole project divided respectively by the number of people who participated in it or found employment later. The former indicator, frequently called re-employment index, is usually measured three months after the end of given project, which should allow for some conclusions on persistence of results of intervention. In practice however,

some of the instruments have legally indicated periods during which a person who obtained the subsidy must be working. Considering these periods are ranging from 3 to 12 months, the three-month analysis horizon does not bring any valuable data. There is also no research covering longer periods of time, so determining real persistence of results of active labour market policies is practically impossible.

Assessment or real influence of active labour market policies on unemployment rate is furtherly impeded by occurrence of external effects. These are phenomena taking place whenever public funds are used to intervene in the market, partially derivative from undertaken actions. Although their influence might be positive, it usually is negative. Character of this influence is varying – external effects may directly affect the objective of proceedings, indirectly affect other values in economy or simply obfuscate data required for complex assessment of effectiveness of given policy. In literature, multitude of external effects are described, however, for the purpose of this paper, only several should be mentioned which are particularly obstructive to assessment of significance of labour market policies⁶.

First of such effects is the effect of substitution, occurring in various fields of economy. Increasing intervention involving public funds may discourage private investors from engaging their own resources. As a result, public spending does not support and subsidize company investments but replace them. In case of labour market this effect may take particularly unfavourable form, when employers terminating existing workplaces in order to replace them with subsidized ones. As a result, number of employed people does not increase, the only change being a shift in entity providing salaries. Hence, the results of ALMP introduction are significantly limited or totally negated. This effect concerns only demand-oriented instruments⁷.

Another important external effect, in turn concerning all tools available to ALMP is deadweight. Its consequence is also lack of real changes in employment rate due to program introduction. This may be caused by the fact that people who participated in given program would have found employment regardless of their participation. The deadweight effect is practically impossible to eliminate. It is usually a result of improper targeting of the project. However, introducing countermeasures, which would probably consist of stricter rules concerning who may participate and tighter screening process may discourage people who could benefit from support from even attempting to obtain subsidy. As was mentioned, this issue concerns practically all instruments within active labour market policies, however subsidies for new enterprises and new workplaces seem to be affected more than other instruments.

6 Z. Wiśniewski, K. Zawadzki (red.), *Aktywna polityka rynku pracy w Polsce w kontekście europejskim*, Toruń 2010

7 *Ibidem*

Improper addressing of public subsidies may not only affect the results of the program itself but also obscure or falsify data pertaining its efficiency. Dedicating the support to people who seem to have better chance of finding employment, such as young, educated and highly motivated may significantly inflate data on results of any given project. This is partly because of aforementioned deadweight effect. On the other hand, addressing programs mostly to people in particularly difficult situation, standing on the verge of occupational passiveness may lower the final results, as many of these people will have problems finding employment despite participation⁸.

These external effects, lowering the efficiency of active labour market policies, are practically impossible to eliminate. Even mitigating their influence by administrative means is extremely hard. Moreover, the analysis of their influence requires significant spending and is difficult to conduct as no control group is available. As a result, all the data pertaining effects and efficiency of active labour market policies are encumbered by the existence of these effects in an unknown degree.

Results and discussion

As was mentioned before, research undertaken in order to evaluate the efficiency of ALMP are mostly focused on employment efficiency. This is measured by dividing number of people who found employment after participation in ALMP program by the number of all participants. This index is used in reports summarizing all the undertaken programs as well as aggregate analysis combining data from multiple projects and responsible units. The most comprehensive of these reports is the one undertaken annually by Ministry of Family, Labour and Social Policy which is responsible for planning and implementing of all the labour market policies. This analysis collects data pertaining implementation of ALMP from all of the regional employment offices and presents aggregate indexes for whole country and voivodeships (highest unit of administrative division in Poland) for all of the instruments of active labour market policies. It is considered the most comprehensive and veritable source of data on results and cost of ALMP.

Report on year 2014 indicates aggregate employment efficiency on level of 76,2%, i.e. over three quarters of people who participated in ALMP projects found work after these projects⁹. However, the efficiency strongly varies between the

8 M. Maksim, D. Śliwicki, Wybrane problemy adresowania aktywnych polityk rynku pracy w Polsce, „Acta Universitatis Nicolai Copernici Oeconomia” 2012, vol. 43, nr2

9 Efektywność działań aktywizujących realizowanych przez powiatowe urzędy pracy w ramach programów na rzecz promocji zatrudnienia, łagodzenia skutków bezrobocia i aktywizacji zawodowej w 2014 roku, Ministerstwo Pracy i Pomocy Społecznej, Warszawa 2015

instruments. The highest index, 100% employment efficiency, is presented by subsidies for new enterprises and workplaces. This, however, is a result of legal construction of these tools – job created through this instruments are required to be maintained for at least 12 months after the end of the project, otherwise the project is regarded as not completed and excluded from the data pool. Therefore, 100% efficiency presented in analysis realized three months after the end of the project is actually a formal part of the instrument basics. Moreover, these instruments are characterized by the highest singular cost of participation of ca. 20 000 PLN (approximately 4 600 €¹⁰). On the other hand, the lowest employment efficiency of 55,6% – and the lowest singular cost of approximately 1000 € - characterize vocational courses.

As was mentioned before, these reports are the most comprehensive analysis of results of active labour market policies, however, they still focus solely on efficiency of implementation and costs thereof, and do not include any data on needs of labour market. However, only such analysis may allow for presenting real influence of ALMP on situation on this market. Only juxtaposition of data on labour market and unemployment together with data on ALMP may approximate such influence.

Year	Number of people participating in ALMP programs ¹¹	Number of people who found employment after participating ¹¹	Average number of unemployed registered in employment offices ¹²	Number of people deregistered from employment offices due to finding employment ¹²
2013	460 773	290 310	2 174 715	1 262 900
2014	442 187	314 542	1 825 180	1 285 700

Table 1.

Selected data on registered unemployment and participation in ALMP programs

Data presented in Tab. 1. indicate, that ca. one out of four people who found employment did so after participating in ALMP program. Noteworthy, one person can participate in more than one support program, decreasing, however slightly, number of individuals who participated. Moreover, there is huge rotation among registered unemployed – only in 2014 over 2,4 million people were registered as unemployed and total outflow from unemployment was almost 2,8 million. Over

¹⁰ exchange rate of Polish central bank on September 19, 2016

¹¹ Efektywność działań..., op. cit.

¹² Registered Unemployment, I-IV quarter 2014, Central Statistical Office of Poland, Warsaw 2015

80% of people registered as unemployed were those, who had been in the register earlier. This indicates recurrence of unemployment and difficulty of finding work for person who was unemployed.

Moreover, decrease in number of unemployed is only slightly bigger than number of people who found work after participating in ALMP programs and, to some degree, is a result of improving prosperity and general economic situation observed in 2014. Considering the general number of all people who found work in this period, this may indicate short-livedness of results of implemented programs. The longest period of lasting results characterizes the most expensive instruments of active labour market policies. However, their singular cost of approximately 4 600 € practically prevents them from being used on larger scale, particularly since their expansion will most likely increase the occurrence of external effects. Basing on collected data, a conclusion may be drawn that real influence of active labour market policies on situation on this market is rather meagre despite significant and consistently rising spending. Moreover, the presented data is encumbered by the existence of external effects which furtherly mitigate their macroeconomic efficiency.

Summary

This paper is an attempt at initial analysis of efficiency of active labour market policies in reducing labour market disequilibrium and preventing unemployment. Presented deliberation indicates that applied instruments do show high efficiency on microeconomic scale, particularly in case of activation of the unemployed. However, expanding the analysis to include data describing situation on labour market leads to the conclusion that real significance of active labour market policies seems to be limited.

Support and benefits granted within ALMP includes only a fraction of unemployed population. This is mostly a result of high singular costs of participation, additionally rising alongside the efficiency. Increase in number of people benefitting from this kind of support must lead to rapid increase in public funding required. Significance of undertaken actions is furthermore reduced by relative short-livedness of obtained results as well as occurrence of external effects. Additionally, the magnitude of these effects will be rising with increase of public funding, thus further limiting effectiveness of undertaken actions. Limited influence of ALMP is a result of inherent characteristics of particular tools, occurrence of negative external effects and relatively high cost required for realization as well as lack of instruments for long-term assessment. In practice, significant increase in rationality of labour market policies using its tools in their current form seems impossible.

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