

Polish Confederation of Private Employers Lewiatan

Lewiatan 

# Flexicurity

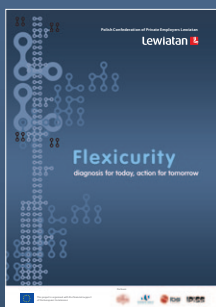
diagnosis for today, action for tomorrow



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Partners:





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*This report was prepared on the basis of the country reports from Poland, Hungary and Estonia, as well as documents and legal acts in force on 30<sup>th</sup> June 2009.*

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Warsaw, September 2009

*The report was prepared as part of the project: Flexicurity Pathways. Turning Hurdles into Stepping Stones, European Expert Group on Flexicurity, 2007*

Dear Sirs,

A deepening recession in the global economy and a growing financial crisis have resulted to a large extent in the reduction of economic activities in the countries of Eastern and Central Europe. Most European Union states are contending with budget deficits which, due to the recession manifesting itself in a decrease in tax revenues and greater expenditure on the unemployed, already exceed 3% of their GDPs. Additionally, a deteriorating economic situation has adversely affected the labour market. It is estimated that in 2010 over 8.5 million jobs will be lost in the EU, and unemployment will reach nearly 12%.

The current economic situation in Europe puts the achievement of the Lisbon strategy goals at risk in the area of the employment, and may undermine the long-term economic stability of the member states. Therefore, prevention of the increasing unemployment rate, the creation of jobs, as well as improving conditions for economic revival and economic growth should be thought of as crucial.

A tool which may modernise today's labour markets and increase their adaptability and competitiveness is *flexicurity* – a complex strategy which makes it possible to confront the impact of the crisis' on employment and social life, as well preparing for the improvement of the economic situation.

This report presents a vision of the *flexicurity* model in Poland, Estonia and Hungary. According to this concept, European states Member States should pursue such an organisation of the labour markets which, on the one hand, would ensure a high productivity level and competitiveness of companies, while on the other hand would support employment, adaptability to the market situation and the combination of professional responsibilities with family life of the majority of citizens.

Social partners should play a crucial role in the further shaping and implementation of national flexicurity models, while a changing economic situation throughout the EU, and specifically in Poland, Estonia and Hungary should mobilise and foster implementation of the proposed solutions. We must learn from our mistakes of the past and keep on a steady course of action in these uncertain times.



Henryka Bochniarz

President of Polish Confederation of Private Employers Lewiatan

## TABLE OF CONTENT

<b>1. INTRODUCTION</b>	<b>3</b>
<b>2. COMPARISON OF THE ESTONIAN, POLISH AND HUNGARIAN POINT OF DEPARTURE ON THEIR WAY TO FLEXICURITY</b>	<b>4</b>
2.1. Outline of the situation on the labour markets in Estonia, Poland and Hungary	4
2.2. Restrictiveness of labour law	9
2.3. Active labour market policies	11
2.4. Education and lifelong learning	12
2.5. Social security system	14
2.6. Social dialog	16
<b>3. RECOMMENDATIONS</b>	<b>18</b>
3.1. Active labour market policies (ALMP)	18
3.2. Lifelong learning and human capital investment	19
3.3. Restrictiveness of work organisation and employment contracts	24
3.4. Social security system and the labour supply	26
3.5. Unemployment benefits	27
3.6. Social and civic dialogue and fulfilment of the flexicurity concept	29
<b>4. SUMMARY</b>	<b>30</b>

## 1. INTRODUCTION

***Flexicurity** is the best method to ensure a high level of employment security for the citizens of Europe, so that at each stage of their professional lives they should have both a possibility to find good jobs and hope for a favourable career development in a quickly changing economic environment. This model brings a balance between the rights and obligations of the employees, enterprises and public authorities: each of these parties is required to act in favour of the employment, society and sustainable growth. We currently need the cooperation of all parties in order to ensure success of this model and its beneficial effects for the economy, employees and enterprises<sup>1</sup>.*

*Vladimír Špidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities, Brussels*

Assumptions of the model scheme, as well as pathways to reach it, were presented in the report prepared by the European Expert Group on *Flexicurity*<sup>2</sup>. The report singles out four areas of reforms:

1. **Flexible and reliable contractual arrangements** Flexibility and security of employment forms and of the organisation of the working conditions (from the points of view of both labour supply and enterprises), resulting from the modernisation of the labour law and rules of the labour provision.
2. **Effective active labour market policies (ALMP)**, making it easier for the workers to adjust to sudden changes in the labour market, to re-integrate after periods of the unemployment, as well as to change jobs smoothly.
3. **Comprehensive lifelong learning strategies**, appropriate to the labour market needs, aimed at the updating workers' qualifications and supporting growth of the enterprise productivity.
4. **Modern social security systems** Modernisation of the social security systems so that the state, when providing financial assistance to person in a difficult earning position, should at the same time support quick professional re-activation or re-engagement.

EU Member States are at different stages of implementing the recommendations contained in the Group report. Each of them should therefore take actions in the four areas corresponding to its specific challenges and construction of the labour market institutions, choosing from among the "pathways to reach the *flexicurity* model". Actions in individual areas should form a comprehensive approach to existing labour market challenges. What's more, in order to ensure the efficient functioning of the whole system, it is also necessary to develop multilateral social dialogue based on trust and cooperation between individual entities on the labour market.

This report proposes a *flexicurity* model for Poland, Estonia and Hungary. The policy recommendations are preceded by a diagnosis of the situation on the labour markets of these countries, pointing out the major problems and challenges they face today<sup>3</sup>. We draw attention not only to the common aspects, but also to aspects specific to each of these countries.

1 Statement by Vladimír Špidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities, Brussels, 27<sup>th</sup> June 2007.

2 Flexicurity Pathways. Turning Hurdles into Stepping Stones, European Expert Group on Flexicurity, 2007.

3 This report draws on the national reports prepared by experts from Poland, Estonia and Hungary for the purpose of the project Flexicurity Pathways. Turning Hurdles into Stepping Stones, European Expert Group on Flexicurity, 2007.

## 2. COMPARISON OF THE ESTONIAN, POLISH AND HUNGARIAN POINT OF DEPARTURE ON THEIR WAY TO FLEXICURITY

In many ways, the situation on the labour market in Poland, Estonia and Hungary reflect features common to all the Eastern European countries which joined the European Union in 2004, while in other ways it shows the polarisation that has appeared since 20 years of the collapse of the planned economy. This is, because a similar sequence of institutional changes, determined by the transformation to the market economy as well as by adjustments linked with the accession to the European Union, were accompanied with other macro-economic disturbances and different social and economic policy choices. As a result, both the general situation of the labour market and major challenges on the path to *flexicurity* are somewhat different in these countries. The first part of the report is dedicated to outlining similarities and differences between the labour market in Poland, Estonia and Hungary so that the policy recommendations are comprehensible and possible differences between strategies of individual countries are understandable.

### 2.1. OUTLINE OF THE SITUATION ON THE LABOUR MARKETS IN ESTONIA, POLAND AND HUNGARY

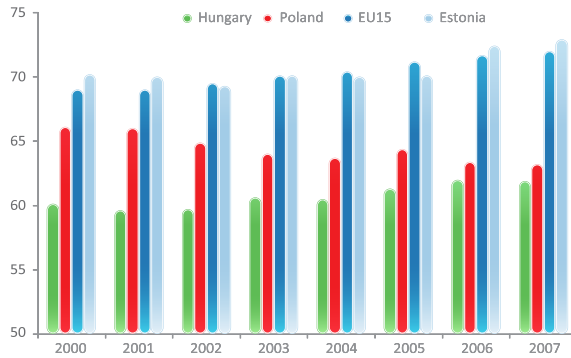
Out of the three countries analysed in this document, Estonia stands out with the highest rates of professional activity and employment. The Estonian labour market indices are also rated among the best within the EU27<sup>4</sup>, whereas Poland and Hungary are countries characterised by very low rates of professional activity and employment. It should be stressed that although in Poland they were accompanied with high unemployment rates during the last decade, the unemployment in Hungary affected only an insignificant part of the population, but the scale of the professional inertia was even greater than in Poland. The Estonian labour market stands out particularly positively as regards the situation of elderly people and women, whose professional activity and employment rate exceed the EU15 average. Poland is distinguished by a gradual reduction in the level of professional activity. However, in all three countries one can observe a low level of participation of young people (up to 25 years of age) in the labour market. This might be linked with the specific nature of the educational systems in the countries of the region in which simultaneous education and work are difficult.

In contrast to Poland and Hungary, the Estonian economy achieves the labour market goals laid down in the Lisbon Strategy – the rate of female employment at least 60%, and rate of employment of people between 55 and 64 years of age – 50 percent. Total employment is also close to the target one (70 percent). A low rate of employment of persons between 55 and 64 years of age is a substantial problem for Poland and Hungary, taking into account the low level of professional activity in this group. This is reflected by the average age of the professional deactivation, which in the case of Poland amounts to 59.3, Hungary – 59.8, and Estonia – 62.5 years.

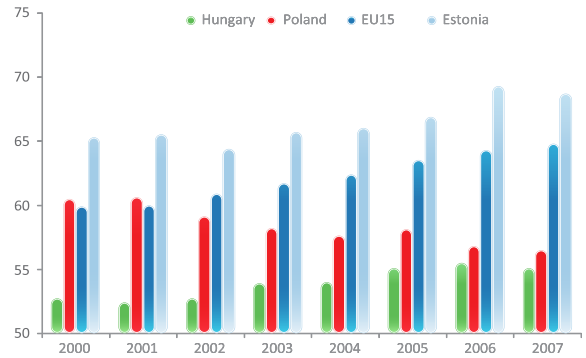
4 They were rated as such until 2007. A decrease of the employment level in 2008 and 2009, stemming from the crisis, changed the picture. How permanent that decrease will be and to what level the employment will be restored after disturbances of the crisis subside will depend on the adaptability of the Estonian economy to the new macro-economic situation. However, analysis of a possible course of such a process exceeds the framework of this document.

Chart 1. Professional activity rate

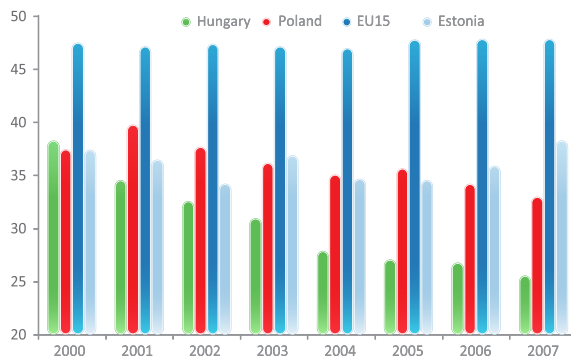
TOTAL



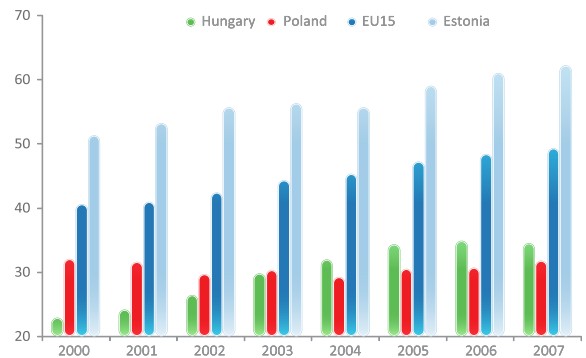
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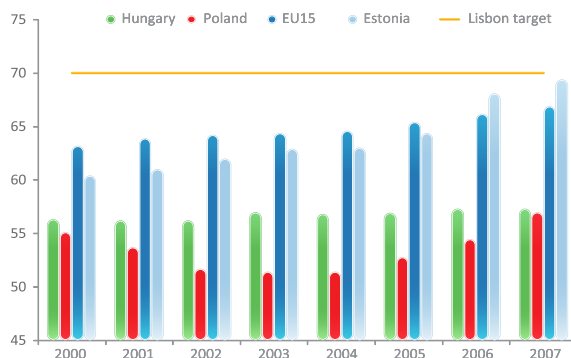
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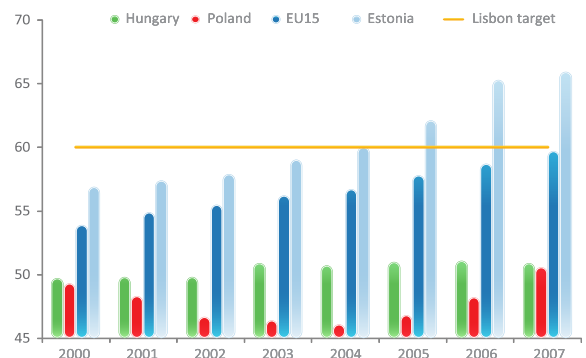
Source: Eurostat

Chart 2. Employment rate

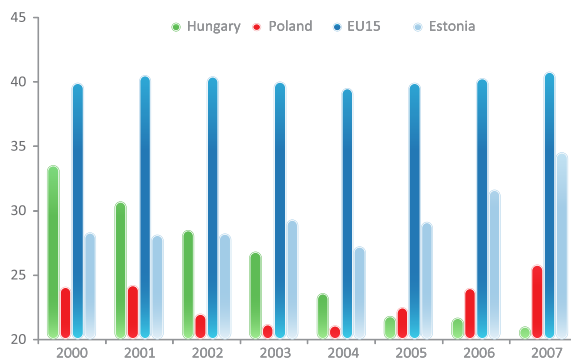
TOTAL



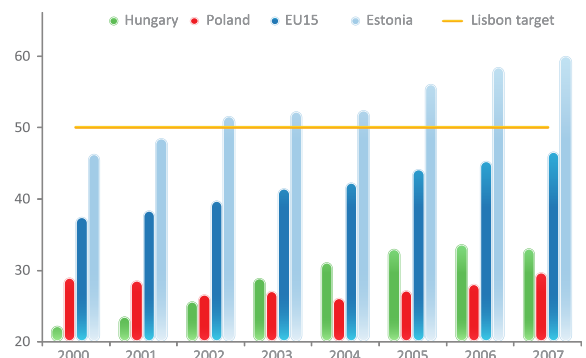
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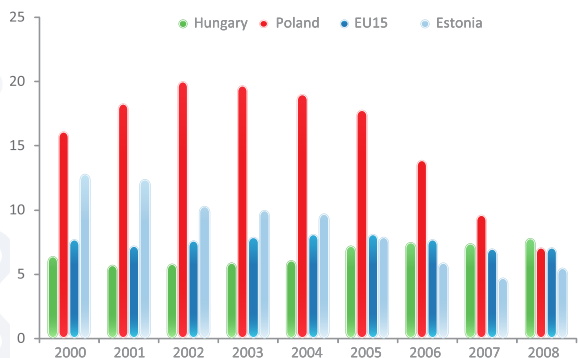
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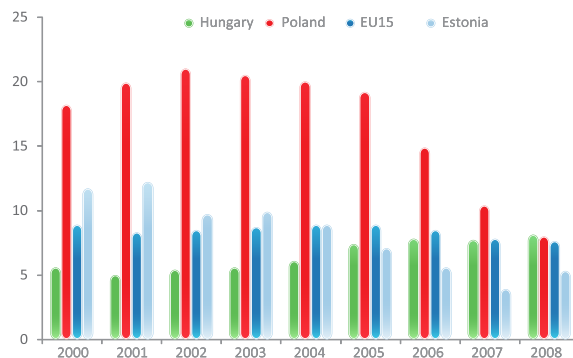
Source: Eurostat

Chart 3. Unemployment rate

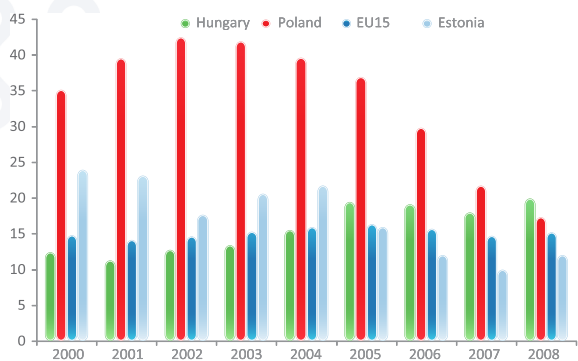
TOTAL



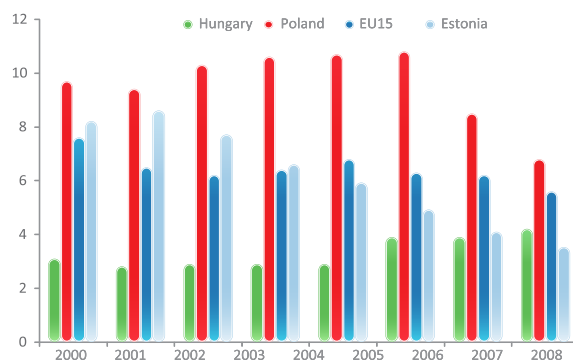
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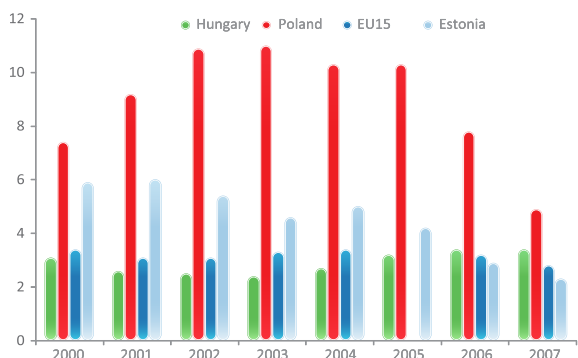
\* In the case of Estonia, the rate was calculated for 2005-2007 on the basis of the employment and professional activity rates.

Source: Eurostat

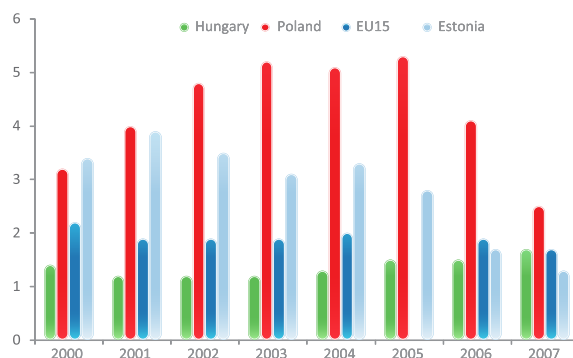
In recent years, Poland has been characterised not only with the highest average unemployment rate, but also its highest scale of fluctuation. Admittedly, the unemployment rate in 2008 dropped in Poland to the EU15 average level, while only 5-6 years ago it had reached 20 percent. In the current decade, the unemployment level in Hungary, though low, has been rising gradually, particularly in case of the younger generation. High professional activity and employment levels in Estonia resulted in a low unemployment rate, however in 2008 it rose as a result of the economic crisis.

Chart 4. Long-term unemployment

SHARE OF PERSONS UNEMPLOYED FOR A PERIOD EXCEEDING 12 MONTHS  
IN THE TOTAL NUMBER OF PROFESSIONALLY ACTIVE PERSONS



SHARE OF PERSONS UNEMPLOYED FOR A PERIOD EXCEEDING 24 MONTHS  
IN THE TOTAL NUMBER OF PROFESSIONALLY ACTIVE PERSONS



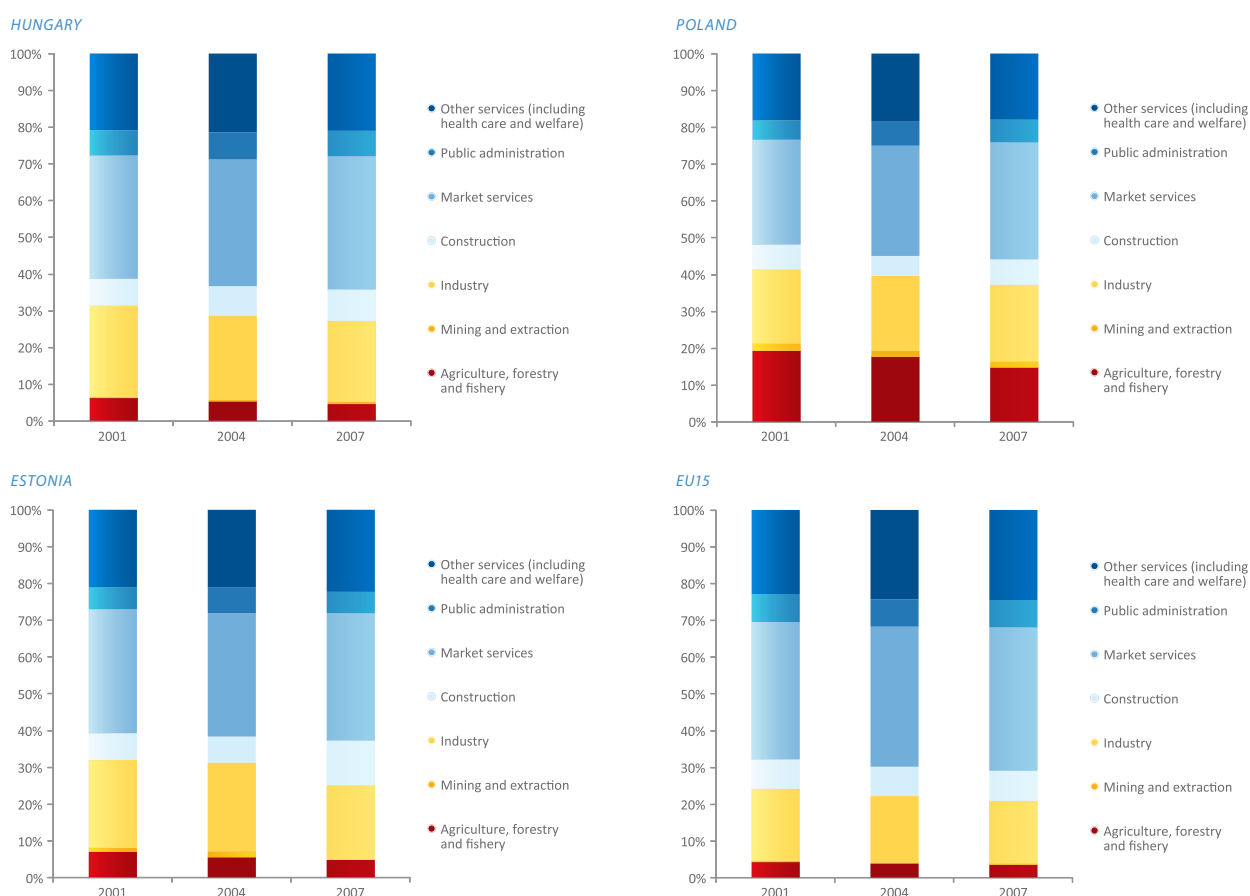
Source: Eurostat



Long-term unemployment in Poland is a substantial labour market problem and is a consequence of both a difficult situation in the labour market in general and tensions linked with restructuring the economy. In the two other countries, this phenomenon is much less common. Long-term unemployment rate dropped in Poland only in 2007, after three years of rapid economic growth and a rising labour demand. However, it is still relatively high<sup>5</sup>. In Estonia, long-term unemployment rate has been consistently decreasing since 2001, reaching a level below the EU15 average in 2007. In contrast, Hungary has for several years been witnessing a noticeable growth in long-term unemployment.

A crucial challenge, linked with both the system transformation and the EU accession adjustments, was the re-allocation of the labour resources, both between individual enterprises and sectors of the economy. Currently, the structure of the employment sector in Estonia and Hungary is similar to that of the EU15 countries, although a slight industrial shift “at the cost” of market services is visible<sup>6</sup>. That being said, the role of services in the employment sector and added value in the economy increased over the years 2001-2007.

Chart 5. Employment structure



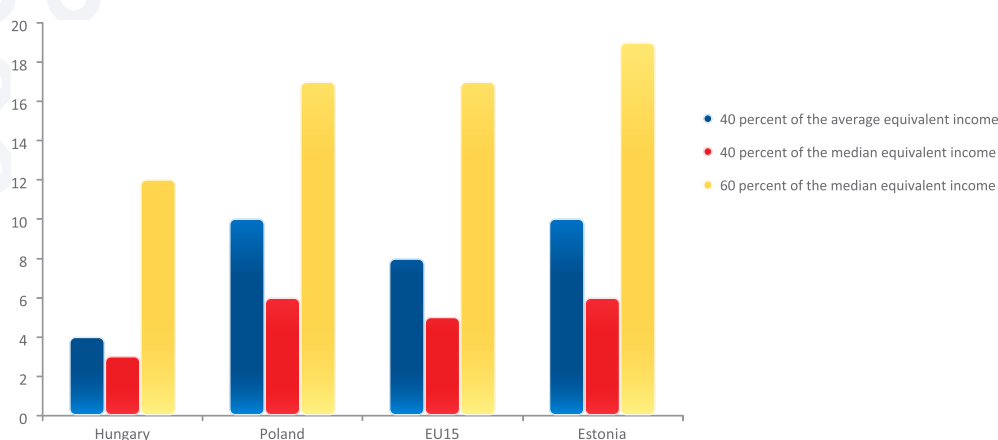
Source: Eurostat

<sup>5</sup> In 2008, out of EU27 countries, only Slovakia had a higher long-term unemployment rate than Poland.

<sup>6</sup> This is in service industry, with the exception of the public services, comprising of trade, transport, hotel and restaurant, IT and business services.

The structure of the Polish labour market is defined by a very large share (although a decreasing one) of persons employed in traditional industries, such as, agriculture, forestry, fishery and mining. The dynamic level of change which have been taking place in the recent years is too low to resolve the problem in the near future. A low professional and geographical mobility of workers employed in these sectors is a potential limitation in increasing the productivity level in the Polish economy. It is worth remembering that within the last ten years Estonia was seen to have had a particularly high growth of labour productivity, which was considerably lower in Poland.

Chart 6. Poverty risk – share of the society households with the income lower than 40 percent of the average and with 40 percent of the median level of the equivalent income (2007).



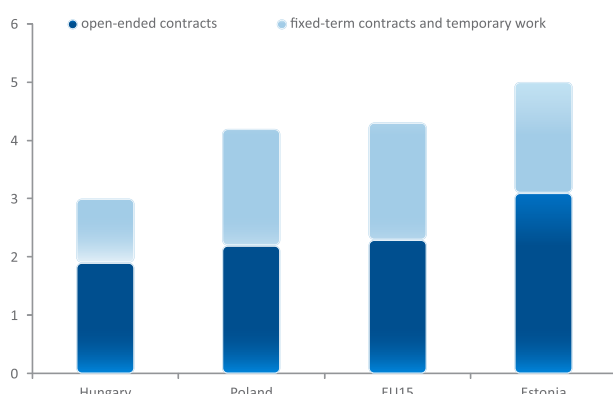
Source: Eurostat

Differentiation of the poverty risk of households in the countries in question is a consequence of the differentiated: economic growth dynamics, pace of the sector structure convergence to the structure typical for the EU15, as well as different employment and unemployment rates. Analysis of the poverty risk measures indicates lower inequalities in the income distribution and a higher concentration of the household income around the average level in Hungary than in Estonia or Poland. Slightly larger inequalities in Poland than the EU15 average might be associated with a higher level of the unemployment and professional inertia. In Estonia, this may result from a larger differential of the income earned by the workers since the percentage of people living in non-working households in Estonia is five times lower than in Poland.

## 2.2. RESTRICTIVENESS OF LABOUR LAW

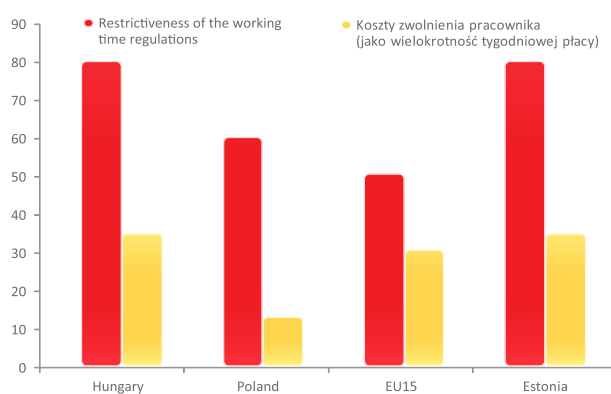
According to the EPL index developed by the OECD, regulations regarding laying off and employment of workers in Hungary and Poland are in general, less restrictive than in Estonia and the average in the EU15. In both countries, termination of employment for an unlimited period of time is relatively easy, i.e. no payment is made and long periods of notice do not have to be maintained. In Estonia, these restrictions and costs are higher<sup>7</sup>. Hungarian regulations concerning fixed-term jobs (a job for limited period of time and a temporary job) are not very restricted, in Poland and Estonia they are relatively lower, also when compared to the EU 15. Nevertheless, Polish law is quite restrictive in respect of flexibility of the organisation of working time. Regulations regarding fixed-term work are determined in all countries by the relevant EU directive. Those regulations, therefore, are quite homogenous throughout the EU. Also, it should be noted that all countries of the region have restricted regulations pertaining to the organisation of working time exceeding the EU average.

Chart 7. Employing and laying off employees – restrictiveness of the labour law - the EPL index (2006).



Source: OECD

Chart 8. Restrictiveness of the regulations concerning organisation of the labour time and costs of laying off employees (2009)



Source: Doing Business (World Bank)

Jobs provided by temporary work agencies are not subject to severe restrictions in Hungary. In Estonia the regulations are more restrictive, but still less restrictive than the average in the EU15. In Poland, this kind of job has been burdened by significant formal and administrative difficulties since 2004 – Poland is the only EU country, besides Romania, where equal rights have been introduced by law, e.g. with regard to the remuneration for sick leave or annual leave, for temporary employees and employees employed on the basis of an employment contract<sup>8</sup>, regulations regarding acceptable reasons for the application, restrictions concerning the time of the temporary job carried out by an employee in one enterprise, and restrictions regarding permissible professions/branches<sup>9</sup> have also been introduced. The principles of taking up employment in forms other than a contract for unlimited period of time are shown in Table 1.

<sup>7</sup> Since 1 July 2009 both the restrictions and costs for Estonian employers were reduced.

<sup>8</sup> A similar requirement was introduced by the EU directive of October 2008, so the remaining EU member states are obliged to make it a part of their national legislation.

<sup>9</sup> See more: Employment in Poland 2007, ed. M. Bukowski, MPiPS, Warsaw 2007.

Table 1. Forms of flexible employment in individual countries

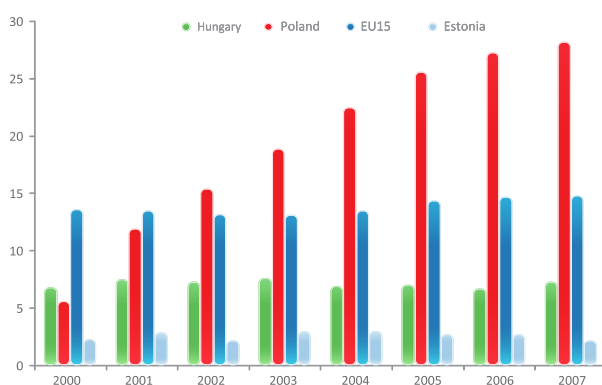
	ESTONIA	HUNGARY	POLAND
Fixed-term work	Third contract between the same persons is automatically an open-ended contract; they may not be longer than 5 years in total	It may be valid for 5 years maximum.	For a probationary period (3 months), for a limited period, for a time in which a job in question is to be carried out; third contract between the same persons is automatically an open-ended contract.
Temporary job agency	Provision by a temporary job agency; in practice more than 90% of contracts regard less than one year – a solution more and more applied	Provision by a temporary job agency; a solution rarely applied	Provision by a temporary job agency; during a 36-month period a temporary employee may work for one employer for 12 months maximum in total; a solution rarely applied
Telework	Allowed, low degree of regulation – the use depends on agreements between employers and employees	Regulated work requiring IT to be used – other types of telework occurring in practice, are not subject to regulations	Regulated by law (since 2007); principles similar to rules of employing in an enterprise
Civil law contracts	Their importance has been decreasing. They are used most of all in relations with so called self-employed persons. Prohibited, if the subject of the contract may be interpreted as employment	Impossible to be used in the case of employment – severe restrictions imposed by courts in such cases	Contracts determined by provisions of the civil law, e.g. a contract for a specific task, a fee-for-task contract.  Prohibited, if the subject of the contract may be interpreted as employment

Source: national reports

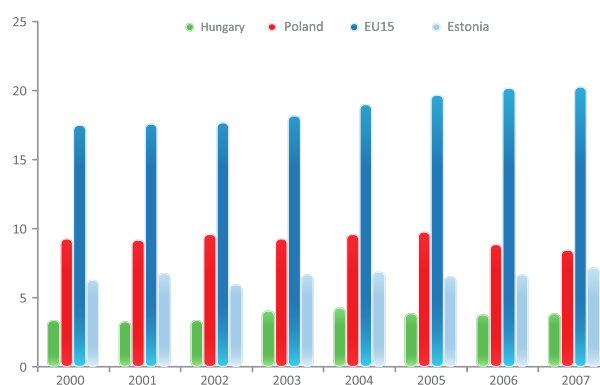
It is worth emphasising that analysis of the way in which enterprises on the Estonian labour market operate indicates a comparatively high level of flexibility in adjusting the volume of work. This manifests itself through considerable intensity of the labour force flow as well as processes of the job loss and creation of new jobs. This is reflected by a low level of long-term unemployment. An apparent contradiction between the co-existence of a high protection of employment and intensive flows on the labour market may be caused by a gap between the *de iure* and *de facto* status – arguments are put forward claiming that restrictive legislation is in practice often infringed. (Eamets, Masso, 2004).

Chart 9. Atypical forms of employment

SHARE OF THE EMPLOYED FOR A LIMITED PERIOD OF TIME IN THE NUMBER OF ALL EMPLOYEES (15-64)



SHARE OF THE PART-TIME EMPLOYEES IN THE NUMBER OF ALL EMPLOYEES (15-64)



Source: Eurostat

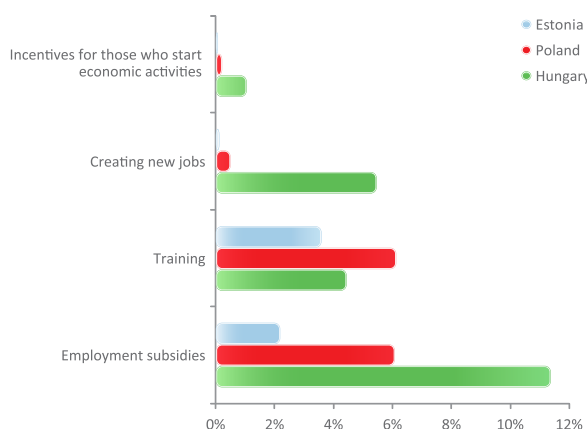
It should be noted that frequent conclusion of fixed-term contracts has been typical for the Polish labour market in recent years, as it enables a more flexible adjustment of the amount and structure of work in line with the needs of enterprises. However, in comparison with the EU15 countries, the economies in question seldom use part-time work. In the case of Estonia, it should be noted that its labour market regime policy potentially discourages providing of a part-time work. Both full- and part-time employment result in losing benefits for the unemployed. At the same time, payments in respect of unemployment and incentives for those starting economic activities are used only to a limited degree. In Poland, persons getting a job in a period in which they have the right to unemployment benefits receive an activation allowance equal to 50% of the benefit. In Hungary, an unemployed person who concludes a contract for an unlimited period of time equal to 4 hours at least will have the right to a higher part of the benefit.

### 2.3. ACTIVE LABOUR MARKET POLICIES

Usage of the active labour market policies (ALMP), compared to the EU15 countries, in particular Scandinavian or German language countries, as well as the Netherlands, is very limited in the analysed countries, especially in Estonia<sup>10</sup>. This is true for both the scale of the ALMP and the proportions between “traditional” instruments, such as public works, and modern ones such as individualised professional consultancy. The process of modernisation of public interventions and labour market institutions is underway in most countries of the region, however, progress has been quite moderate so far. On the positive side, a tendency to shift the pressure from costly and rather ineffective forms of ALMP in the long run, such as public works, towards training and organising internships in the work place has been observed in Poland in recent years. However, it should be borne in mind that these forms, just as incentives for persons engaging in economic activities, involve a high risk of so called futile loss, i.e. financial support for those who would take up a job anyway. Due to the high level of their skills even before participation in the labour market programmes, this may create an impression of a very high efficiency of these forms of support<sup>11</sup>.

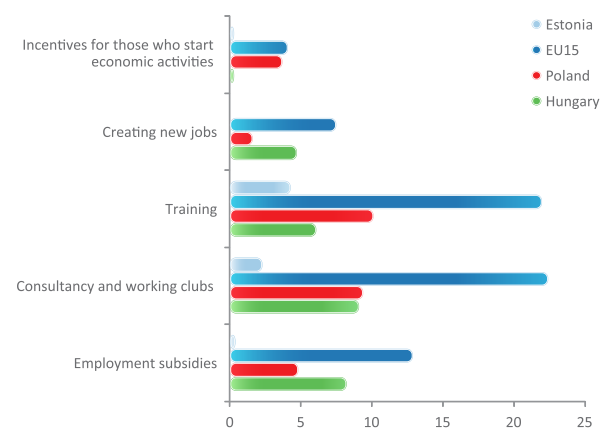
Chart 10. Active labour market policies

NUMBER OF THE BENEFICIARIES OF INDIVIDUAL POLICIES IN RELATION TO THE NUMBER OF THE UNEMPLOYED PERSONS (2006)



Source: Eurostat

SHARE OF EXPENDITURES ON THE INDIVIDUAL POLICIES IN THE GDP (HUNDREDTHS OF A PERCENT)



<sup>10</sup> To some extent, a relatively smaller scale of the ALMP application in Estonia is a result of it having a lower unemployment level than Poland and Hungary. However, expenditures for the ALMP as a percentage of the GDP are significantly lower in Estonia than other European countries with a similar unemployment rate

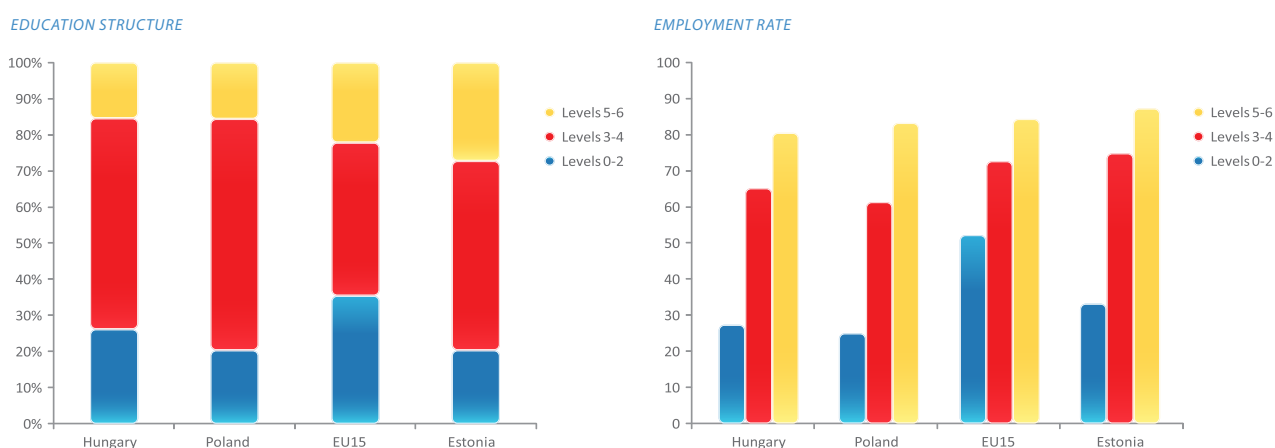
<sup>11</sup> We will put forward proposals concerning development and streamlining of the ALMP system in the next part of the document.

At the same time, countries in question have different levels of effectiveness and efficiency of the public employment services (those applying ALMP). In Estonia, the percentage of unemployed and enterprises benefiting from their services substantially decreased between 1997 and 2007. On the one hand, it is from the self-dependence of the unemployed, and on the other hand a low reputation of the institutions concerned<sup>12</sup>. In Hungary, training and subsidising jobs created by enterprises are connected with the creaming type effects, which are quite significant. An overall strategy to implement the ALMP in Poland is consistent with the directions determined at the Community policy level. Insufficient personnel and infrastructure, as well as insufficient willingness of the employers to co-operate, caused by the low reputation of the services, reduce the impact of the ALMP on the labour market. Nevertheless, their effectiveness in recent years has increased.

## 2.4. EDUCATION AND LIFELONG LEARNING

All three countries experience fundamental problems with a smooth transition to professional careers of graduates (OECD Employment Outlook 2008) and the updating of skills of older employees, in particular those for whom the majority of their professional career took place in a centrally planned economy. The problem of entering the labour market relates mostly to graduates of vocational schools. In Poland and Hungary, this manifests itself in a comparatively low employment rate of graduates from vocational and secondary schools, as well as from colleges (ISCED level (3-4), particularly vocational schools, which account for about half of the group. In Estonia, this is discernible by a higher share of persons with vocational education being those who register for the first time as the unemployed. Secondly, countries undergoing a transition experienced educational booms which increased the level of education as a result of the development of non-public higher education. The diverse quality of graduates' education increased increasing the unemployment rate and/or engaging in professional activities requiring qualifications below nominal education.

Chart 11. Education and labour market in Estonia, Poland, Hungary (2007)

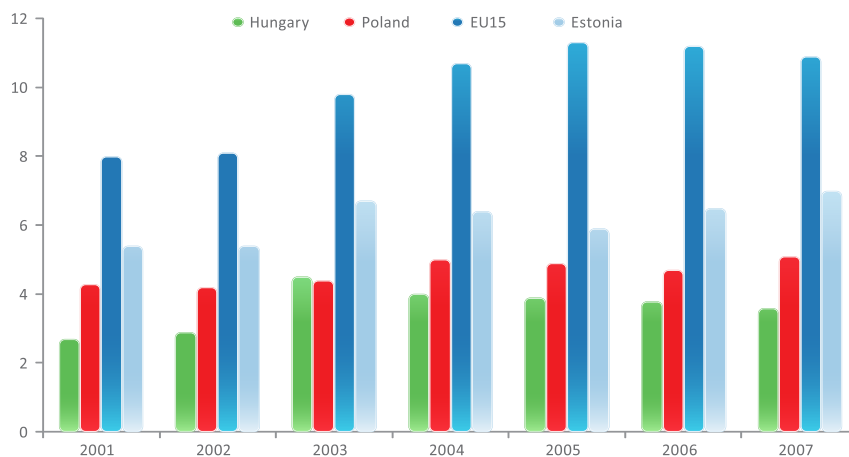


Source: Eurostat

<sup>12</sup> To provide labour market services more efficiently in Estonia in May 2009 two labour market institutions, Estonian Labour Market Board (Tööturameti), which provides active labour market measures, and Estonian Unemployment Insurance Fund (Töötukassa), which provides unemployment insurance benefits, were merged.

All countries are characterised by a quite low level of participation of adults in lifelong learning the percentage of employees who improve their skills is low compared to the EU25 average, which amounts to 34%. It ranges from 16 % in Hungary, 21% in Poland to 23% in Estonia<sup>13</sup>. In those countries, the context determined by the education structure for persons older than 40/50 is somewhat different – in Estonia almost 1/3 of people of that age have a university degree, in Poland this is 13% and in Hungary 16%.

Chart 12. Percentage of persons in economically productive age participating in the lifelong learning within 4 weeks before the survey.



Source: Eurostat

Persons with low levels of education are particularly at risk of their skills becoming rapidly outdated, and consequently, of permanent unemployment. In the case of older people with a university degree, the rate of technological and structural changes also contributes to the depreciation of their skills. As mentioned before, the lifelong learning education system is poorly developed in all countries in question. Selected social and demographic groups – young and unemployed persons on the one hand (traineeships, professional education), and very productive persons having the highest remuneration, on the other hand (trainings), participate in it. Elderly people, however, take part in updating skills only to a very limited extent. Furthermore, in all countries, reservations regarding the adjustment of the education system to the requirements of the labour market are voiced (especially in relation to permanent and professional education). For example, in Poland, a report of the Supreme Chamber of Audit from 2009 indicates that a considerable amount of people participating in professional education for adults did not acquire sufficient skills to begin working directly after the completion of their education<sup>14</sup>. This is, to a large extent, a result of the weaknesses of the education system – inadequacy of offers to the needs of the labour market and the lack of appropriate education quality standards.

Both the willingness to take part in lifelong learning and its effectiveness depend on the level of education received in the form of formal education, i.e. before starting work<sup>15</sup>. An important factor is the level of the knowledge taught. Education which is too general, spe-

<sup>13</sup> Eurostat data, 2005.

<sup>14</sup> Information on the results of the audit of the adult education for the purposes of the labour market, the Supreme Chamber of Audit, Warsaw, 2009.

<sup>15</sup> Hammori S. - Adult education in the European Union – with a focus on Hungary, Budapest Working Papers on Labor Market, Budapest, 2008.

cific and one-sided, is not advantageous. The former means it is necessary to acquire many practical skills which consequently lengthens the time needed to adjust to labour market requirements.

The disadvantage of the latter is that, in the face of rapid modernisation processes, the specific knowledge acquired can become suddenly outdated. Persons who received specialised education, in particular a professional education, are in principle less flexible, have lower educational capacity and encounter more problems when they adapt to the changing requirements of the labour market. Therefore, formal education provides conditions for lifelong learning.

The level of specialisation in the Polish educational system is estimated to be higher than in Estonia, which contributes to a lower mobility of employees and, as a consequence, to a higher unemployment rate in 2000-2007 than in Estonia<sup>16</sup>. Moreover, in Poland and Hungary, those with higher education are by far overrepresented in the emigration flow to the EU-15, and, in the case of Estonia, they are underrepresented<sup>17</sup>. At the same time, after enlargement of the European Union, the *brain drain*<sup>18</sup> phenomenon can be observed with regard to the emigration wave from the countries in question, i.e. emigration of young people who engage in work below their qualifications. With regard to Poland, this is confirmed by the results of Lamo et al. (2006) - individuals from Poland who have lower or secondary education are not flexible enough to adjust their skills to the labour market requirements.

## 2.5. SOCIAL SECURITY SYSTEM

In the years 2000-2006, Poland had the highest share of social expenses by GDP among the countries in question. In Hungary, this percentage was successively approaching that of Poland and exceeded it in 2007. The Estonian economy was characterised by a substantially lower redistribution range. At the same time, the number and percentage of unemployed in Poland entitled to unemployment benefit was relatively lower. A considerable majority of employees receive social security benefits (12% – old age pensioners and 4 % – pensioners<sup>19</sup>). This means that a considerable amount of resources earmarked for social security benefits are consumed by persons professionally inactive. What is more, existing possibilities enabling persons to be professionally inactive, including pre-pension benefits, may encourage more individuals to retire. This observation relates in particular to Poland and Hungary. Between 2004 and 2007, 55% of men on average in Poland were estimated to retire under 65 – the retirement age provided for by law. As regards women, on average 87% retired at the age 60. The average retirement age in Poland in 2007 was 59.3, in Hungary – 59.8 and in Estonia 62.5.

<sup>16</sup> Lamo A., Messina J., Wasmer E. - Are specific skills an obstacle to labor market adjustment? Theory and an application to the EU enlargement, European Central Bank Working Paper Series 585, 2006.

<sup>17</sup> Labour mobility within the EU in the context of enlargement and functioning of the transitional arrangements – European Integration Consortium, Nuremberg, 2009, p. 90.

<sup>18</sup> Ibidem, p. 89-103.

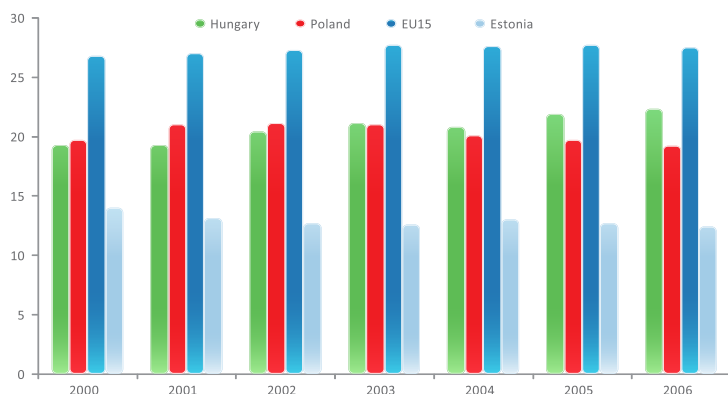
<sup>19</sup> Major data on the social security 2007, ZUS, Warsaw 2008.



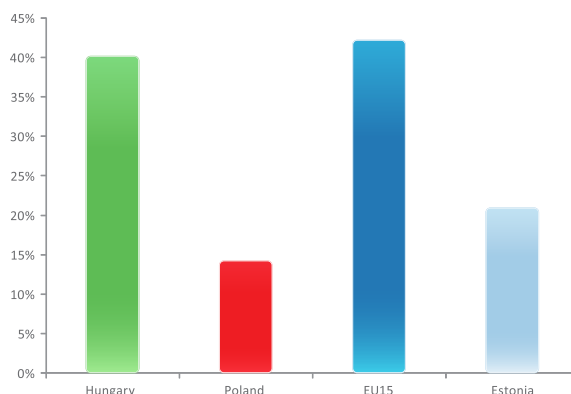


Chart 13. Social transfers

SHARE OF PUBLIC EXPENDITURES ON SOCIAL PURPOSES IN THE GDP



PERCENTAGE OF THE UNEMPLOYED RECEIVING BENEFITS (2007)



Source: Eurostat, prepared by IBS on the basis of the Eurostat data, Ministry of Labour and Social Policy, Estonian Country Report.

Among the countries in question, only the Polish unemployment benefit system is characterised by a constant amount paid out through the whole period of the provision, however, the amount of benefit depends on the length of employment before the date when the benefit became due. So far, the equal amount of benefit for the unemployed has not motivated them to look for a job. Besides, the benefits are relatively low, therefore there is a risk that they are treated as a source of income only by the least economically productive employees. Another problem facing the Polish system is making the period in which the right to benefit is due, dependent on the situation of the local labour market. Currently this system discourages the unemployed from mobility and seeking jobs outside their place of residence. This situation will change on 1 January 2010 – the person entitled to benefit will receive a basic sum (in the statutory amount of PLN 717, i.e. 27% more than in 2009) for 3 months and afterwards – a sum lower by more than 21%. Lack of connection between the amount of benefit and the record of the unemployed person's remuneration deprived the system of the insurance features, as it only assumed an assistance and redistributive role.

In Estonia and Hungary, support for the unemployed is reduced after 3 months during which benefit was received. The scale of reductions seems quite considerable particularly in the second case – during the initial period the beneficiary receives 60% of the last remuneration, the upper limit being 120% of the minimum wage. This means that, for a major part of recipients, the value of benefit may be reduced by half. Economic literature<sup>20</sup> clearly indicates that the above feature of the Estonian and Hungarian systems may positively influence the unemployed person's efforts to find a new job. This motivation in Estonia is reinforced by a very low replacement rate, i.e. the proportion between the amount of benefit and previous remuneration. However in general, a "too low" relation between the benefit and the previous remuneration may hinder the financial safety of persons who lose their jobs and their ability to cover such expenses as loans, housing costs or children's education. In Estonia the provisions regarding the increase of the amount and the availability of benefits for the unemployed will be put into force in July 2013.

<sup>20</sup> For instance, P. Fredriksson, B. Holmlund – Optimal Unemployment Insurance in Search Equilibrium, Journal of Labor Economics, University of Chicago Press, vol. 19(2), p. 370-99, 2001.

Table 2. Description of the unemployment benefits in 2009 (net replacement rates – 2006)

	HUNGARY	POLAND	ESTONIA
Net replacement rate (average remuneration, single person) when the job is lost	62%	51%	50% (gross replacement rate)
Changes of the amount when the right to receive is maintained	The amount of benefit (potentially) reduced after 91 days of the benefit payment period	No	The amount of the insurance benefit reduced by 10 percentage points after 100 days of its payment
Connection with the previous remuneration	Yes – for the first 91 days, in the amount equal to 60% of previous remuneration (the upper limit equal to 120% of the minimum wage); after that period the amount of the benefit depends on the minimum wage (60%)	No – provided for by the law (but it depends on the work record – from 80% to 120% of the basic rate)	Yes (initially 50%) – applies to the insurance part, additionally aid benefits provided for by the law
Period of the right to the benefit	Up to 270 days	6 or 12 months (depending on the situation on the local labour market)	180, 270 or 360 days (depending on the period of insurance) of the insurance, right to the aid benefit for 270 days

Source: Ministry of labour and social policy, Estonian country Report, Net replacement rates (NRR) during the initial phase of unemployment, 2001-2006, OECD.

The labour market is affected by the total labour taxation, the so-called tax wedge, social insurance system is financed through income taxes and contributions. They burden wages, thus negatively affecting the labour supply. If enterprises are not able to “offload” the para-taxes they pay onto their employees through lowering wages, then such para-taxes increase the labour-related costs of the enterprises. Therefore, it may be expected that a higher level of total taxation negatively impacts the employment level, potentially on both the demand and supply sides.

Taxes imposed on labour in Poland and Hungary are high, in particular in comparison with other Central and Eastern European states, as well as the Baltic countries (including Estonia). At the same time, both countries redistribute a major part of their GDP in the form of transfers earmarked for the unemployed. It is no wonder that both the level of professional activity and employment in these countries are lower not only than in Estonia but also the majority of EU countries.

## 2.6. SOCIAL DIALOG

The system transformation in Central and Eastern European states re-modelled working relationships. A considerable rise in the share of the private sector and employment was accompanied by more infrequent setting up of trade unions by employees and their concentration in public sectors and traditional industry branches. At the same time, domestic enterprise began to develop in the countries of the region and international firms started to play an important role. Two decades following the beginning of the transition, Central European economies are now full participants in the world economy, however, they

have not established a modern industrial relations model. In Poland, Estonia and Hungary the specific nature of the social dialogue is to some extent of a different nature, though membership of employees in trade unions is at quite a low level. However, the dialogue in Poland and Hungary is to a large extent institutionalised and plays a formalised role at the central level, whereas Estonia has chosen a model whereby a central trilateral dialogue plays an insignificant role and negotiations are carried out most of all at the level of enterprises.

Table 3. Importance of trade unions in Estonia, Poland and Hungary

	ESTONIA (2006)	HUNGARY (2005)	POLAND (2006)
Membership in trade unions (in % of employees)	13,2	17,8	14,4
Coverage by collective agreements (in % of employees)	22,0	35,0	35,0

Source: Visser J. – ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 countries between 1960 and 2007, AIAS, Amsterdam, 2009 - <http://www.uva-aias.net/>

In Poland, a strong position of social partners in the dialogue centralised within the framework of the Tripartite Commission on Social and Economic Issues is *de facto* accompanied by a lack of any dialogue at the branch and regional levels, a small scale of the cross-enterprise collective agreements and an atomised model of working relationships in the private sector. Employees' representation, promoted by the European Commission, plays no important role. Decentralised wage negotiations in the private sector allow relatively free shaping of the salaries in the case of most enterprises and employees, however, they are very poorly developed.

In Estonia, weak social partners are not granted any power to decide on issues relating to the whole economy and all employees. At the central level, only the national minimum wage is fixed regularly, but the Estonian Social and Economic Council does not act as a platform for the dialogue. Also, regular cooperation is done in the boards of the Estonian Health Insurance Fund and the Unemployment Insurance Fund where the social partners are represented. However, consensus achieved on the implementation of the labour law reform in 2008 between the national level social partners was not followed in practice by the government, indicating to the poor possibilities of the social partners in participating in policy development. One should also pay attention to the legal and institutional background established for solving conflicts in the area of employment relations, which are often solved not in courts but by institutions of arbitration.

The dialogue model in Hungary seems to be a contrast to the Estonian one, although membership in trade unions is equally low. Dialogue is conducted at the level of enterprises, where many collective agreements are entered into, but also at the sector and central levels. The latter in particular involves several representative entities and those uniting branch organisations and the government. For a long time, not only the minimum wage but also recommendations for increasing salaries in the economy and for civil servants have been established.

### 3. RECOMMENDATIONS

#### 3.1. ACTIVE LABOUR MARKET POLICIES (ALMP)

All the countries in question (Estonia to the largest extent) are characterised by a low (insufficient) use of active labour market policies. Additionally, from the point of view of efficiency and effectiveness, the structure of expenses and involvement of the unemployed in ALMP is unsatisfactory – especially in the case of Hungary, where a relatively large number of the unemployed took part in programmes of “socially useful work”. However, these forms are expensive and contribute neither to the stability of employment nor improved qualifications<sup>21</sup>. Therefore, the following is recommended:

- » **To move away from public works and intervention works in favour of training, internships and traineeships, which are effective forms of support (particularly in enterprises), as well as in favour of promoting activities engaging in business activities.**
- » **To regularly examine the effectiveness of individual policies with a view to identifying the most efficient instruments in individual countries with respect to different social and demographic sub-groups of the unemployed.**
- » **To increase the scale of application of the most efficient ALMP elements and the funds spent on them.**
- » **To develop cooperation between public employment services and employers, as well as to support development of a network of private institutions providing professional consultancy services.**

All ALMP forms identified as efficient (training, internships, professional traineeships, supporting one's own economic activity) display the occurrence of so called futile loss. i.e. subsidising persons who would get a job or would engage in economic activity also without support. Additionally, if entities (e.g. labour offices) responsible for implementing activation policies are valued on the basis of the measured effectiveness of the undertaken activities., e.g. the number of people who, following the completion of the programme, find a permanent job, that risk is higher. In such a situation, the most productive individuals can expect to be selected for participation in the programmes (e.g. university graduates entering the labour market). Therefore, the following should be enhanced:

- » **Activation programmes should be specifically aimed at people in the most difficult situation – especially training for those who have been unemployed for a long time and those who are professionally inactive and whose skills are particularly at risk of becoming outdated, as well as young people with low productivity (young school leavers as well as young unskilled/trained workers).**
- » **Increase the scale of expenditure on the ALMP, including usage of the ESF funds to this end. Currently, Poland seems to be the most advanced country in that process.**
- » **Extend access to ALMP by groups other than registered unemployed persons, in particular to professionally inactive persons and employees (especially the elderly ones and those working in less prospective branches) jeopardised by planned redundancies, including collective redundancies.**

<sup>21</sup> See J. Martin, (2000), What works among active labour market policies: Evidence from OECD countries' experiences. OECD Economic Studies 30; A. Betcherman, K. Olivas, A. Dar, (2004), Impacts of active labor market programs: evidence from evaluations with particular attention to developing and countries, World Bank Social Protection Discussion Paper 0402; Kluve J., ed. (2007), Active Labor Market Policies in Europe. Performance and Perspectives, Springer. Besides, O'Leary Ch. J. in Evaluating the Effectiveness of Active Labor Programs in Hungary (Upjohn Institute Technical Report No. 98-013, 1998) and Evaluating the Effectiveness of Active Labor Programs in Poland (Upjohn Institute Technical Report No. 98-012, 1998) indicates that participation in the programmes consisting in a time limited, direct creation of jobs by the labour market services results in substantially smaller chances (as compared to non-participating persons) to find a permanent job after the end of the participation in the programme.

- » **Introduce system solutions allowing the selection of those in the most difficult situation to take part in the programmes. In particular, develop individual activation plans for individuals registering with the employment services (so far, in the countries concerned, only Estonia has introduced such a requirement):**
  - › introduce in Poland and Hungary, a requirement for the National Employment Services (NES) to create individual action plans for registering unemployed persons. If this recommendation cannot be promptly implemented due to technological and organisational aspects (e.g. insufficient staff, no harmonised systems for gathering data on the unemployed), the NES activities should be re-oriented from selecting participants for the used methods to the selection of appropriate methods for specific groups of recipients (including the groups mentioned above as the key groups - older people, workers with low levels of qualification, persons unemployed for long time) and preferential treatment of these groups in the process of developing ALMP programmes in a given area.
  - › In Estonia – to improve promptness and completeness of the development of programmes for registering unemployed persons, as well as to more effectively use information obtained during development of the plans, selection of the ALMP instruments and duration of the programmes with regard to individual unemployed must be done.

In the face of the crisis, a better use of ESF resources and a better accessibility to ALMP by other groups seem particularly necessary.

It should be emphasised that the direction of activities in the area of active labour market policies is the same for all countries, i.e. improved effectiveness of the selection and implementation of tools, as well as a wider scale use of ALMP. It is only the initial position that is to some extent different. Poland seems to have expanded ALMP use on the largest scale in recent years, mostly thanks to the use of ESF, however, the organisation of the NES/ALMP system has remained ineffective. In Estonia, the modernisation of the system was not accompanied by higher expenditures. Hungary allocates relatively few funds for ALMP while the system organisation, selection of participants and structure of expenditures suggest serious ineffectiveness.

### 3.2. LIFELONG LEARNING AND HUMAN CAPITAL INVESTMENT

None of the analysed countries uses lifelong learning in adequate enough way to ensure a constant updating of the labour force's qualifications. In order to change this situation, it is not enough to barely raise expenses on that purpose while repeating solutions used to date as these are burdened with structural weaknesses in all three countries. In particular, institutional reforms improving adjustment of the educational system to the needs of the labour market are necessary. This refers to the educational system understood as a whole - lifelong learning should not be associated only with educating adults and be treated separately from school education. Positive results of training and workshops addressed to those who are professionally active depend to a large extent on the participants' education path before entering the labour market<sup>22</sup>. Therefore, a crucial element of the lifelong learning policy is to set up a formal education system which will prepare its beneficiaries to learn throughout their lives. That is why these elements of the educational system which, in principle, are the last stage of the education process before entering the labour market, i.e. vocational schools and universities, should be reformed *first*. The *Second pillar* consists of the development of the infrastructure allowing one to improve skills in parallel to the professional career. The *third* is an efficient policy promoting adjustment to the needs of the modern labour market by those

<sup>22</sup> Which is proved, for instance, by Vignoles A., Galindo-Rueda F., Feinstein L. – The labour market impact of adult education and training, *Scottish Journal of Political Economy*, Vol. 51, No. 2, 2004.

already present on this market. In order to increase the adaptability of the labour force, the following steps are suggested in each of the analysed countries:

- » **To develop and implement a model of forecasting labour and skills needs (in the case of Estonia – development of the solutions currently applied), and distinguishing particular types of qualifications. This would allow the educational policy at the central level to be oriented to supporting the accumulation of skills meeting (to the maximum possible extent) the current and future needs of the economy<sup>23</sup>.**

Modernisation processes result in constant changes in the work demand structure based on skills. However, the educational process takes many years and its participants often have incomplete information about trends in the economy and their future directions. Therefore, at the moment the education process is completed, the acquired qualifications may have become outdated. That problem might be alleviated through promoting prospective education tendencies in the form of a centrally implemented education policy (which optionally could be carried out at a regional and local level).

Therefore, development of an instrument forecasting the needs of the labour market, also in the long run, with respect to particular skills is essential for improving the adequacy of the educational structure. It is also vital to establish a permanent education system adjusted to the current needs of the labour market, which would complement the above system. The knowledge of future trends, even imperfect, is essential for building the appropriate education structure and staff. It is not an easy task and one should not expect infallibility. However, if the implemented education policy does not follow the changing economy and demand for skills, even erroneous forecasts, which take into account the technological progress, will be a step forward compared to the education structure relevant for the economies of previous decades. Model forecasts should be subject to expert analyses and form a starting point in the process of formulating educational policy instead of being just a set of the only correct recommendations<sup>24</sup>.

The following recommendations concern formal education – vocational schools and university studies, as well as lifelong learning (institutions).

- » **Within the budget's capacity, to adjust educational sector resources (through current financing and adjustments of the infrastructure and human resources) for changes caused by mid- and long-term economy modernisation trends, as well as expectations formulated on the basis of the model which is the subject of the first recommendation.**

In the case of the current financing, the point is to finance education entities in such a way as to encourage them to alter the ratio of the number of pupils/students educated according to individual programmes and faculties, in order to adjust them to the assumptions of the central strategy. As a positive example, earmarked subsidies by the European Social Fund may be indicated. They allow universities to increase the number of students in certain faculties and specialisations, characterised by strong links with research and development sphere.

<sup>23</sup> The need to formulate forecasts and projection with regard to the skills and knowledge which will be required on the labour market was emphasised by the European Commission through the 2007 initiative New skills for new jobs aimed at the development of a map of current and future needs in this area. The EC Report "Employment in Europe 2008" stresses that "a regular assessment of the future needs is necessary in order to draft appropriate lifelong learning strategies and effective labour market policies, and thus to facilitate implementation of the flexicurity model". National strategies for the educational policy should complement and detail indications formulated at the Community level.

<sup>24</sup> Model improvements will be necessary in the process of its practical application. This is confirmed by the example of Estonia, where such a solution has already been implemented. Its usefulness should be assessed in a longer (at least more than ten years) perspective.

As for the infrastructure and human resources, adjusting processes are much more difficult to initiate. In addition, they are hard to reverse. All the more then, a long term development strategy for the capital and human development of the public education system should be based on expected economy development directions and, in particular, changes on the labour market.

A difficulty translating formal education into professional skills has been encountered in all countries, especially among persons with a vocational secondary education.

- » **In order to increase persons' capacity to adapt to changes taking place in the economy, education should be reoriented to be more general. This refers both to professional education, higher education and the education of adults. More focus should be placed on skills used in a given profession than on specific knowledge or methods of performing specific tasks<sup>25</sup>. In particular, education should contribute to the "ability to learn".**

Ultimately, the recipients of education system services (formal ones and those in the area of the adult training) should be capable of adjusting their skills independently. Following that, the following is necessary:

- » **To raise requirements with respect to the relevance of the teaching staff's knowledge.**

The fact that teaching staff's knowledge in the education system and adult education is outdated and not adapted to the modern economy is one of the reasons why educational programmes are not adjusted to the needs of the labour market. The requirement that the personnel should revise their skills and the system should absorb people able to teach new qualifications is necessary to eliminate the gap between expectations of the modern labour market and what the educational system offers. This task complements the task discussed above, which concerns modification of the structure and training programmes with respect to the modernisation trends. The following seems useful in relation to both of them, as well as the possibility to improve adaptability of the employees already present on the labour market:

- » **To facilitate and support a close cooperation between enterprises and educational entities, as well as a better use of traineeships at the level of higher and vocational education and the adult education.**

It is important both from the point of view of the effectiveness of lifelong learning and in the context of a low level of professional activities in young people. Even if a low participation in the labour market, especially in the case of those between 20 and 24 years of age, is accompanied by an increased participation in the higher education system, it should not be seen as a definitely positive phenomenon. A partial financing of the studies from one's own funds (referred to as "free of charge" studies) provides a spur to "escape" from the market by persons whose productivity will not be higher as a result of the studies in a degree compensating for their financing and late entry on the labour market.

In other words, promotion of professional activities of students through a system of, among other things, internships is of vital importance, both from the viewpoint of a smooth transition from the educational system to the labour market and the total effectiveness of that market. Therefore, promotion of taking up jobs by people who learn, especially students and pupils of vocational schools, should be one of the priorities of the labour market policies and the educational policy. As an example, Germany applies a dual system of professional education, whereby internships

<sup>25</sup> For instance, greater focus should be put on the understanding how a given type of machines works instead of a profound knowledge of technical solutions currently applied in selected models.



in enterprises form an integral part of the education and facilitate entrance of the graduates on the labour market with certain experience and recognition of their qualifications by potential employers. This solution is just an illustration of how to include professional experience in formal education. The German system might be unsuitable for other countries, however, the goal it pursues could be relevant. An alternative example, Finnish lifelong learning model which is perceived as probably the best developed and most effective one in Europe is presented in the box below. This purpose may be also achieved by increasing the actual availability of flexible forms

of labour, which is discussed in the part of this report dedicated to the restrictive nature of the Organisation of work and employment contracts.

Closer cooperation between employers and educational entities also covers a “contracted education”, i.e. development of special courses or even classes and study faculties, in which enterprises have/would have a significant impact on the shaping of educational programmes and would result in a later cooperation with the classes participants.

Activities supporting the promotion of cooperation between enterprises and education entities should focus on the reduction of formal barriers, promotion of the discussed solutions at the level of formulating education programmes and principles of functioning of the public education entities. In addition, co-financing of workshops and internships from public funds should take place within the framework of ALMP, i.e. it should be addressed to working people in an unfavourable situation on the labour market. Here, we refer to the suggestion of addressing the ALMP programmes to working people facing the risk of their skills becoming outdated and/or being laid off.

Employers’ participation is essential because, as the studies indicate<sup>26</sup>, the quality of the work provided is best influenced by training initiated by enterprises. Therefore, the following is recommended:

- » **To implement a temporary education policy for adult education, first of all through incentives for enterprises and, in the case of people facing the risk of long-term unemployment or whose professional skills may become outdated, within the framework of ALMP.**

Due to insufficient information which would guarantee a reliable examination of the effectiveness of lifelong learning in the countries in question<sup>27</sup>, the following is suggested:

- » **To monitor and evaluate education effectiveness of adults in the context of their situation on the labour market.**

26 Among others Almeida R., Carneiro P. – The Return to the Firm Investment in Human Capital, IZA Discussion Paper No. 1937, 2006, Barret A., O’Connell P. J. – Does Training Generally Work? The Return to In-Company Training, IZA Discussion Paper No. 51, 1999, Dearden L., Reed H., Van Reenen J. – The Impact of Training On Productivity and Wages: Evidence from British Panel Data, IFS Working Papers, No. W05/16, 2005, Pfeifer H.U. – Train to gain – The benefits of employee-financed training in Germany, Economics of Education Working Paper Series, No. 0037, 2008

27 Teaching, Learning and Assessment for Adults: Improving Foundation Skills, OECD, 2008.



## FORMAL ADULT EDUCATION IN FINLAND

Finland is a European Union country with one of the highest rates of the adult participation in the formal education (according to Eurostat data, 43 percent of people between 25-54 years of age in 2005). It is an example of an effective educational policy in this area.

The system of professional education in Finland allows the confirmation of qualifications with the issuance of certificates on the basis of competence exams. Their form and contents do not depend on the educational experience and do not require participation in training. However, participation in special preparatory courses organised by entities dealing with professional education happen frequently. Individual training plans are prepared for the participants, taking into account their previous qualifications and professional experience. 90 percent of the costs of participation in the courses are financed by public funding. A partial usage of the educational programmes is possible without obtaining complete formal qualifications. Previous professional experience and informal education may result in a shortened period of the formal education.

Adults also have the possibility of participating in the higher education in the same way as persons below 25 years of age (organisation of the education is adjusted to their limited time possibilities). This is fulfilment of one of the principles put forward with regard to the Finnish educational system – its universality and openness to all.

Enterprises employing at least 30 people are obliged to prepare annual training plans for their workers. An enterprise is also bound to send an employee facing the risk of dismissal to a training programme if new qualifications would let them avoid the loss of their job. Training programmes organised at the workplace enjoy 50% co-financing from public funding, while the theoretical part of traineeships are co-financed in 100%. Enterprises receive subsidies for the work posts intended for the trainees. They may also, in cooperation with the public labour services, finance training for the current/future workers in educational establishments. Division of the costs is agreed upon in the negotiation process.

Training programmes for the unemployed are certified by the educational entities. Public financing does not depend on whether the entity is a private or a public one. The majority of them are subordinated to the Ministry of Education. There is a statutory obligation to evaluate one's own effectiveness. The educational entities are assisted by the evaluation council in the performance of this task. Each person looking for a job receives (within five months) an individual plan which takes into account possibilities of developing the qualification updating qualifications.

Educational programmes are based upon a vaguely determined set of competences established by central authorities. Their details are laid down in a de-centralised manner – methods and topics of education are developed by the educational entities, often in cooperation with enterprises and other social partners. The result is a diversity and flexibility of educational programmes on offer.

*Prepared on the basis of: Kyro M. - Vocational education and training in Finland, Cedefop Panorama series 130, 2006.*

### 3.3. RESTRICTIVENESS OF WORK ORGANISATION AND EMPLOYMENT CONTRACTS

In the countries in question, two different situations concerning restrictiveness of labour law were discovered. In Poland and Hungary, labour law is relatively flexible, its restrictiveness is lower than the EU15 average. Estonia, in turn, is characterised by a relatively high regulatory level in the area of employment, which only to a small degree limits the dynamics on the labour market, estimated from the point of view of flows between workplaces or between employment and unemployment. Recently, however, social partners in Estonia have concluded /an agreement on the reconstruction of the legal protection of the employment<sup>28</sup>.

At the same time, alternative forms of employment are rarely used both in the case of part-time work and (outside Poland) fixed-term work, and temporary agency employment are quite poorly developed in terms of the employment rate in the economy<sup>29</sup>. A weak use of the former is reflected by a low employment rate amongst the youngest and (outside Estonia) of the oldest portions of the population, i.e. those entering and leaving the market.

Taking this into account it may be assumed that the common element for all three countries is an insufficient use of alternative forms of employment. Especially in the case of those social and demographic groups who might combine a professional career (e.g. part-time job) with other activities, such as running a household or education. Therefore, the following recommendations should be considered:

- » **To broaden the spectrum of atypical forms of employment used (especially part-time work and jobs received through temporary job agencies).**
- » **To consider introducing contracts for limited periods, associated with particular projects (so called specified purpose contracts), to which deadlines pertaining to classic contracts for limited periods of time would not apply. Instead, such contracts would be concluded for the project duration<sup>30</sup>.**
- » **To make the organisation of working time more flexible – be it through special forms of contracts or in the form of a traditional contract. In particular, this refers to forms whose application in an enterprise requires the formal consent of labour organisations.**

Flexible organisation of working time would be advantageous for both persons combining a professional career with other activities (education, family duties), and for enterprises encountering a different scale of activities (within a day or a week), especially when the demand for their goods or services may differ. In order to reduce the risk of problems on any part, the autonomous dialogue between the employer and the employee should allow the possibility to make work organisation significantly more flexible (more on this issue in a further part of the text).

- » **In the case of Estonia, to neutralise the discouraging impact of loss of social benefits when an unemployed person starts a part-time job.**

<sup>28</sup> The national report was drafted in the first half of 2009. By now the flexibility indices for the Estonian labour market are most probably increased as a result of the new Employment Contracts Act adopted on 1 July 2009. Also, the social protection provisions were postponed.

<sup>29</sup> Termination of contracts concluded for a limited period of time is quite easy from the procedural point of view and free from costs such as gratuities or (long) notice periods. However, flexibility of adjusting the work load in enterprises may be high even in the case of "traditional" contract forms if they do not involve high financial and administrative burdens. On the other hand, work for a limited period of time may facilitate verification of a given employee in a given post, as well as work possibilities for persons who were previously inactive or unemployed for a long period of time.

<sup>30</sup> They are applied, for instance, in Slovenia, provided that a project lasts from 2 to 5 years and the contract is terminated after completion of the project.

Moreover, in the context of the current economic crisis, the following is recommended:

- » **To consider subsidising new part-time jobs and/or jobs with reduced number of the working hours. Any new rules would have to safeguard against employees leaving a company only to be re-employed in a subsidised role. This solution is permissible exclusively as a temporary one, using appropriate criteria for selecting enterprises which could benefit from it<sup>31</sup>.**
- » **To decrease differences between levels of the regulatory restrictiveness of particular forms of employment contracts. Such changes should focus on a level oscillating between the present ones. In other words, the point is to strike a balance of the legal protection of employees engaged on the basis of different employment contracts.**

This proposal should not be perceived as a recommendation to raise the regulatory degree of atypical forms of employment to that of open-ended employment contracts of indefinite duration. Nor should it be seen as a recommendation for the unconditional reduction of the protection of employment for an unlimited period of time. The point is to maintain the adequacy between restrictiveness of this protection and the principles of using alternative forms (which should be clearly determined), such as fixed-term contracts or jobs provided by temporary job agencies. For example, a simultaneous introduction of the maximum reduction in the duration of fixed-term contracts may be considered, while at the same time shortening notice periods of open-ended contracts.

Economic recessions, during which a fall in the level of employment is inevitable, also affects the best formulation of labour law. Fixed-term contracts and temporary jobs are, in a very uncertain environment, a useful tool both for enterprises, which may wait for the end of economic problems, and for persons facing the risk of unemployment – though a temporary job may in fact be the only job available for them during a crisis, it allows to avoidance of the negative consequences of unemployment. However, institutions of the labour market should, facilitate transfers between consecutive “jobs” for persons providing such type of work. This means:

- » **Transferring protection from the “job” to the protection of the employee.**

We understand it *de facto* as a reduced role of the code regulations aimed at the protection of employment, while intensifying the activity (scope and effectiveness) of the entities (public employment services, employment agencies, temporary employment agencies) supporting labour market participants in the search for work and acquisition of new skills. Their customers should include not only unemployed persons but those employed on of fixed-term contracts and workers of enterprises particularly affected by economic problems.

Furthermore, in order to combine the possibility of flexible work provided by persons for whom this is the only possible form (regardless of whether it is caused by the demand or supply side) and to not jeopardise security of those who wish to maintain it, the following is recommended:

- » **Actions aimed at flexibility, decentralisation and autonomy of determining the content, organisation and possibilities to modify the subject of the employment relationship.**

<sup>31</sup> A solution consistent with the above postulate was already recommended in Poland by social partners and included in the parliamentary schedule as a governmental proposal. Evaluation of this solution exceeds framework of this document. In the case of Estonia and Hungary, a precise shape of the possible solution (criteria concerning enterprises and employees, size and duration of the subsidy etc.) should be developed on the national level.

This should be understood as a possibility to abandon, by mutual consent, a normally accepted level of restrictiveness by introducing solutions favourable both to the employer and to the employee. For example, by consenting to a shorter notice period, the employee would be allowed to work at home. A set of (indicative) solutions, which may be the starting point for such “transactions” to be concluded by the parties to the employment relationship, might include: flexible (determined by the employee) or non-standard (determined by the employer - evening, night, weekend, holidays) working time, task-based working time, a compressed working week, extension of a standard settlement period, temporary increase of the average number of working hours per week, work at home, telework or job sharing.

The labour law in the countries of our region is traditionally based on semi-imperative standards which provide for the employee’s protection. However, it should be borne in mind that standards allowing bidirectional waivers, subject to the consent of both parties, are present, for instance, in the codes of Sweden, which is commonly (and rightly) perceived as a safe labour market for the employees.

In addition, in the specific case of Estonia, due to a (relatively) high restrictiveness of the labour law and its low enforceability, the following should be suggested:

- » **Liberalisation of the labour law, which should be accompanied by an increased level of its enforceability (possible only through a simplification of the procedures). This recommendation is consistent with changes in the labour law introduced in the middle of 2009.**

A reform envisaging such changes would enhance, on the one hand, the role of the labour law in Estonia. On the other hand, strengthening the role of alternative forms of employment should not considerably disturb the actual freedom of economic activity in this country.

### 3.4. SOCIAL SECURITY SYSTEM AND THE LABOUR SUPPLY

A basic problem the economies of the majority of developed countries must face is an ageing society and the need to adjust their pension systems to these processes. All three analysed countries have implemented reforms in this area, which puts them in a favourable position compared to most other EU countries. Possibilities to receive pre-pension benefits or earlier pension benefits in the case of ceasing professional activity remain from the previous pension systems. These instruments are still exceptionally significant in Poland. In Hungary their scale has been reduced while in Estonia they were generally unimportant, which is reflected by the level of professional activity and employment of elderly people being significantly higher than in the two other countries. In many situations these possibilities are used as a way to escape potential unemployment, and this option to some extent “justifies” termination of the employment by enterprises. This is definitely an unhelpful phenomenon from the point of view of the economy and the adaptability of the labour force to changes, as it decreases the work supply and motivation to improve professional qualifications when the peak of the professional activity is reached (about 40 years of age), and raises employees’ taxation.

Therefore, it is necessary to:

- » **Continue the process of eliminating the possibility of earlier inactivity through pension benefits.**
- » **Address activation programmes (based on the active labour market policy) to persons in the pre-retirement age who face the risk of losing their job.**

- » **Ensure a possibility to use the social allowance system exclusively for a purpose consistent with the assumptions, i.e. as insurance against the inability to work for health or family reasons. For example, in the past the system was used in Poland as a channel of retirement before reaching the retirement age.**

In addition, the reformed pension system provides for benefits received by persons entitled to them to be based on payments they made during their lives. This means that the earlier the termination of the professional activity took place, the lower the monthly payments were paid by the system. In order to ensure that the funds collected during the professional activity are sufficient after its termination, it is necessary:

- » **To remain professionally active long enough by extending the retirement age. For Poland, the starting point should be an equal retirement age for women and men at the age of 65.**

Participants of the defined contribution systems (i.e. reformed systems), will not suffer any financial losses when they re-start labour market activity as their contributions, paid after their re-activation, will boost a pool of payments made after re-suspension of the activity on the labour market. However, current pensioners are in the vast majority participants of traditional pension systems, i.e. systems whereby benefits are not directly connected with the contributions paid at the level of the system participant. Regulations in force generally indicate that restarting working activity and exceeding a certain level of received remuneration result in the suspension of the pension rights. No doubt, this is a discouraging factor and one of the reasons for a low working activity level of persons below 55 years of age in Poland and Hungary. In Estonia working and receiving pension is allowed, except in a few special cases. In addition, the higher potential salaries of such persons, the higher their productivity, which means that their inactivity brings higher social losses. Therefore, it would be profitable for labour markets to:

- » **Maintain the rights to benefits for pensioners and old-age pensioners taking up work (the recommendation does not concern participants of new pension systems, because their structure with respect to the working activity is neutral).**

This solution aims at encouraging those on early retirement and receiving pensions to take up work.

### 3.5. UNEMPLOYMENT BENEFITS

Among the countries in question, Poland is a negative example – for a relatively long period of time benefits are paid to those groups of unemployed who are most susceptible to abandon the search for jobs, and the amount of the benefit they receive does not change and does not depend on the amount of remuneration due before the job is lost. The second aspect is to be changed in 2010 – after 3 months of receiving benefit its amount will be reduced.

In the European countries which are the source of good practices in the area of constructing and managing benefit systems, i.e. in Denmark, the Netherlands and Switzerland, benefits to a large degree replace income from work – however, this is true only for a certain period of time and only on condition that the beneficiary intensively looks for a job or participates in ALMP programmes. In other words, the benefit is higher for those unemployed persons who are more active. Furthermore, after the implementation of appropriate reforms in Poland, the following should be suggested for all analysed countries (Hungary to the least extent):

- » **Enhance the use of employment benefits in labour market policy, through ensuring its better availability to the unemployed, to increase monitoring of the process of job seeking by persons receiving benefits and to implement/extend the actual system of sanctions for persons who do not seek jobs.**

One of the ways to increase the accessibility of benefits in the case of Poland is:

- » **A practical extension of the system of benefits to persons who work on the basis of fixed-term contracts.**

This would also contribute to the earlier proposed reduction of differences in the labour market positions held by persons employed in different ways. In particular, this recommendation refers to part-time work, which frequently provides an income too low to guarantee the right to benefit. A solution to this problem would lie in a close relationship between the amount of the benefit and the salaries earned so far. In light of a rising heterogeneity of legal forms in which the labour is contracted, the benefit system should treat all employed equally, regardless of the legal form they use. For persons employed (solely) on the basis of civil law contracts, the right to benefit should be preceded by payment of appropriate contributions. A voluntary participation, that is unemployment insurance for such employees, may be considered.

Attempts to minimise the risk of transfers of public funds to persons who do not need them (in the light of tasks set for particular instruments) should also cover other benefits allowed for persons in difficult material situation. In particular:

- » **Legitimacy of the granted social benefits such as: housing allowance or social aid benefits, should be verified at the level of households (often referred to as means-testing) – rights should be granted on the basis of the evaluation of the whole household income.**

The last element of reforms of the social insurance system are changes in the way it is financed, i.e. the tax burden on work. The so called tax wedge contributes to reductions of the labour supply and/or demand for it. Its reduction is an obvious recommendation exceeding the framework in the labour market policy. At the same time, reduction of the tax burden in the case of forms of income other than remuneration for the work means, *de facto*, subsidising professional inactivity. Therefore, we recommend:

- » **To increase tax deductible costs which constitute “a relief in respect of income from work”.**

Such a solution would reduce the taxable base for employees, resulting in an increased attractiveness to work when compared with social benefits. This would also introduce a certain progression “at the beginning” of the tax scale, meaning that persons with the lowest remuneration (and least productive), i.e. those particularly facing the risk of job loss and lasting unemployment, but also those for whom income from social transfers is a potential alternative, would benefit from the largest burden reliefs. The increased tax deductible costs would limit the financial attractiveness of transfer incomes compared to income from labour.

### 3.6. SOCIAL AND CIVIC DIALOGUE AND FULFILMENT OF THE FLEXICURITY CONCEPT

The report contains a catalogue of recommendations aimed at the fulfilment of the *flexicurity* concept in Poland, Estonia and Hungary. However, taking into account the challenges posed by *flexicurity*, the ability to hold both a traditional social dialogue and a large scale public debate is of a paramount importance for the successful achievement of goals laid down in the report. This refers not only to the development of a model and a path leading to *flexicurity*, which would meet the needs and realities of individual countries, but also to the ability of possible modifications of the adopted solutions. The concept of *flexicurity* is based on social trust between the state and citizens, as well as between employers and employees. In other words, *flexicurity* needs social capital. Therefore, strengthening social dialogue and its increased effectiveness may be deemed essential in pursuing the *flexicurity* appropriate for the countries of our region.

It should be borne in mind that Denmark, as the precursor of that model, stands out not only for its long tradition of social dialogue, but also has very high social capital in all its basic dimensions – social standards, social trust, civic activity and strength of the social bonds. However, development of a social dialogue institution and confidence in it is quite mediocre in the Central and Eastern European countries, as compared to the EU15. This partly a result of the fact that employer associations have operated there for a short period of time, membership in trade unions is limited, and the social partners, apart from a low level of their representation nature, express a limited willingness to co-operate and often have a challenging relationship with the government.

A modern labour market security involves a certainty that persons losing their jobs will receive assistance with income, with seeking a new job and with upgrading their ability to adapt to changing market requirements. In the local dimension, implementation of such tasks means cooperation of the administrative bodies not only with the private sector and trade unions, but also with the non-governmental sector. In particular, implementation of the assumptions in the area of active labour market policy, lifelong learning and professional education requires efficient cooperation between public institutions and the private sector (at least in the form of the flow of information on the demand for workers and training possibilities at the workplace). Thus, activities supporting development of the regional and local social dialogue are advisable, such as use of structural funds available for the improvement of regional dialogue.

## 4. SUMMARY

The starting point for Poland, Estonia and Hungary on the way a labour market with flexibility and security is for a common effort of all parties of the social dialogue to be made. A different historical, legal and institutional context, as well as demographic, spatial and structural conditions do not contribute to one universal *flexicurity* model. Nevertheless, all three countries should change four aspects of the *flexicurity* (on different scales) mentioned in the report of the European Expert Group on Flexicurity. It is necessary, therefore, to combine elements from all four “paths” defined by the above mentioned Group.

It seems, however, that the major focus should be put on the third path, that is resolving the problem of labour force skills inadequate to the situation on the labour market. In the case of Poland and Hungary, particular attention should be paid to the fourth path, that is the modernisation of the social security system so as to promote professional activation. As for Estonia, the second path should also be emphasised, i.e. practical use of the assumptions for the active labour market policy. The first path, i.e. liberalisation of the labour law and reduction of the asymmetry between the standard and non-standard forms of employment, should be explored to the highest degree by Hungary (in the second aspect) and Estonia (in both aspects). In all three countries, changes, which in a relatively short time should result in the facilitation of economic activities and increased activity of persons in a difficult situation on the labour market, should concern making the work time and work organisation more flexible.

In all countries, social dialogue should become an element of a wider civic dialogue increasing social capital through a cooperation of the partners with the administration and non-governmental sector at central, regional and local levels.



Table 4. Major recommendations – summary

	ESTONIA	HUNGARY	POLAND
ALMP	Increasing the scale of ALMP use, increasing the importance of such forms as training, internships and traineeships within the framework of the ALMP. Regular examination of their effectiveness. Development of cooperation between public employment services and employers, as well as promoting development of private networks. Maximum possible individualisation of the cooperation between employment services and customers while using individual contracts. Minimising the creaming type effects through concentrating efforts on persons with the greatest needs.		
Education and lifelong learning	Establishing/constant development of a long-term forecast model defining structural changes of the labour demand. Re-allocation of funds for the current financing and subsidising the growth of the educational sector infrastructure using the results of this system. Increasing requirements with respect to the relevance of the teaching staff's knowledge. Facilitating cooperation between educational entities and enterprises, the need of harmonization of lifelong learning and education inside school system (particularly in the vocational education system). Attempts to transfer decision processes to the level of enterprises in the case of trainings.		
	-	-	Enhanced role of general skills and skills transferable between professions in the process of vocational education, and at the same time a wider use of internships.
Flexibility of the labour law	Extending the spectrum of the applied flexible forms of employment. Making working time more flexible (covering also other elements of the flexible work organisation).		
	Liberalisation of the labour law while enhancing its enforceability	-	-
Social security system	Reducing the possibility of the "premature" use of benefits by persons who are permanently inactive in systems other than those based on individual „accounts". Addressing activation programmes and eliminating of factors discouraging inactive elderly people from work.. Raising the statutory retirement age. Toughening and increasing the degree of use of sanctions against the unemployed persons receiving benefits and not engaging in activities to enhance opportunities to get employed.		
	Extending the coverage of unemployment benefits	Increasing tax deductible costs	Equal retirement age for women and men. Increasing gradation of the amount of the unemployment benefit. Activities aimed at changing nature of the unemployment benefit to an insurance type. Increasing tax deductible costs.

## PARTNERS

### POLISH CONFEDERATION OF PRIVATE EMPLOYERS LEWIATAN



The Polish Confederation of Private Employers Lewiatan seeks competitiveness of the Polish economy and success of Polish enterprises. It embraces 57 industry and regional associations of employers, as well as 17 individual members, representing in total 3500 companies which employ over 600 000 workers.

PKPP Lewiatan represents employers in the Tripartite Commission for Social and Economic Issues. Since its establishment in 1999, members and experts of the PKPP Lewiatan have issued opinions on over 2000 drafts of legal acts and regulations concerning different aspects of the economy, striving for the suggestions of the entrepreneurs to be taken into account in the law-making process. We also develop our own legislative drafts.

The PKPP Lewiatan fosters a high quality of legal and economic expert reports. They are prepared by Confederation specialists in cooperation with experts from the member enterprises, supported by a group of eminent specialists.

As the only Polish organisation of employers, the PKPP Lewiatan has its office in Brussels and is a member of BUSINESSEUROPE, the largest employer organisation in the European Union.

The Polish Confederation of Private Employers Lewiatan makes effective use of the rights to which employer organisations are entitled in Poland. Since its establishment, members of the PKPP Lewiatan and our experts have prepared opinions on over 2000 drafts of legal acts and regulations concerning different aspects of the economic, tax, financial, labour, insurance or sector-specific legislation, striving for the suggestions of the entrepreneurs to be taken into account at all stages of the law-making process: from inter-ministerial consultations through government drafts and parliamentary works to motions concerning presidential veto (for instance, in the case of the law on bio-fuels, the law amending the Labour Code, the law on financial statements) or applications to the Constitutional Tribunal to examine compliance of legal acts with the Constitution of the Republic of Poland.

Since 2001, we have been preparing our own reports on the state of small and medium size enterprises, which are unique insofar as the research is carried out on the basis of a large number of enterprises (ensuring their industry and regional representative nature) and covers also micro-enterprises employing at least one worker. In 2005, the fifth edition of the research was published. It allows us to analyse and evaluate trends in the development of this sector, which covers over 98 percent of all economic operators in Poland.



## ESTONIAN EMPLOYERS' CONFEDERATION

(Eesti Töoandjate Keskliit, established in 1917 as first business organization in Estonia), is the representative organisation based on long term traditions, who's mission is to ensure the future of Estonian business. Confederation is acknowledged by the Government of Estonia and trade unions as a social partner and participates in tripartite and bilateral negotiations and commissions.

Estonian Employers' Confederation is the most representative employers' organisation in Estonia. This non-profit, independent umbrella organisation joins based on membership employers of the Republic of Estonia. The confederation represents the interests of 24 branch organisations who join more than 1500 companies and 73 single large enterprises who employ 35% of private sector employees of Estonia.

Estonian Employers' Confederation is a member of IOE (International Organisation of Employers) and a member of BUSINESSEUROPE (Confederation of European Business).



## CONFEDERATION OF HUNGARIAN EMPLOYERS AND INDUSTRIALISTS

The origin of the Organisation goes back to 1902, where the first "Federation of Industrialists" (GYOSZ) was formed as a result of a concrete need of an independent body to represent the interests of the industrial sector. In 1948 the organisation was suspended, and could only recover its status and function in 1990. In 1998 the Federation of Industrialists and the Hungarian Employer's Association merged, creating the largest employers representative organization (MGYOSZ).



The Confederation is based on the principles of voluntary decisions and the freedom of association and it operates independently from the government. The Confederation counts among his members around 50 sectoral professional associations and 16 regional employers' associations. Beside these members many large corporations have joined the Confederation directly.

Through its functions of mediating and representing the member interests, the Confederation influences economic and labour policy-making. It represents the interests on a macro level and passes on the proposals worked out by its members.

The Confederation is present in the following major consultation forums the National Reconciliation Council (OÉT), the National ILO Council and the Social Council. In terms of economic importance of enterprises belonging to the member organisations, the Confederation can rely on the widest base among employer's federations on the employer side of the National Council.

.Organisation is member of BUSINESSEUROPE (HAS BEEN RUNNING A REPRESENTATION OFFICE IN BRUSSELS SINCE 2002), INTERNATIONAL Organization of Employers (IOE). Business representation is extended to such global spheres as the Business and Industry Advisory Committee to OECD (BIAC) where MGYOSZ experts have been expressing the Hungarian opinion and position since 2006.



## NOTES



Polish Confederation of Private Employers Lewiatan



Estonian Employers' Confederation



Confederation of Hungarian Employers and Industrialists



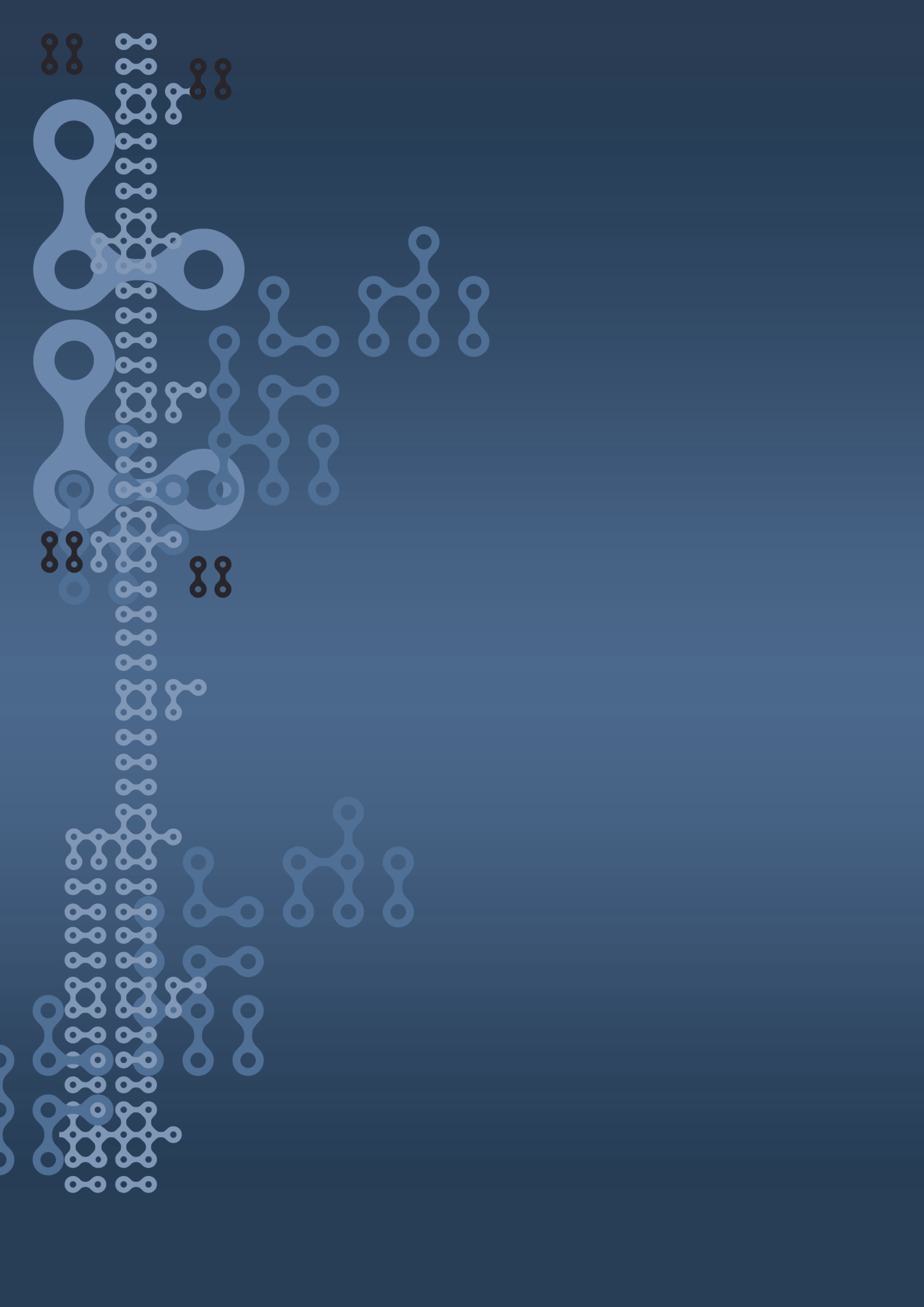
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