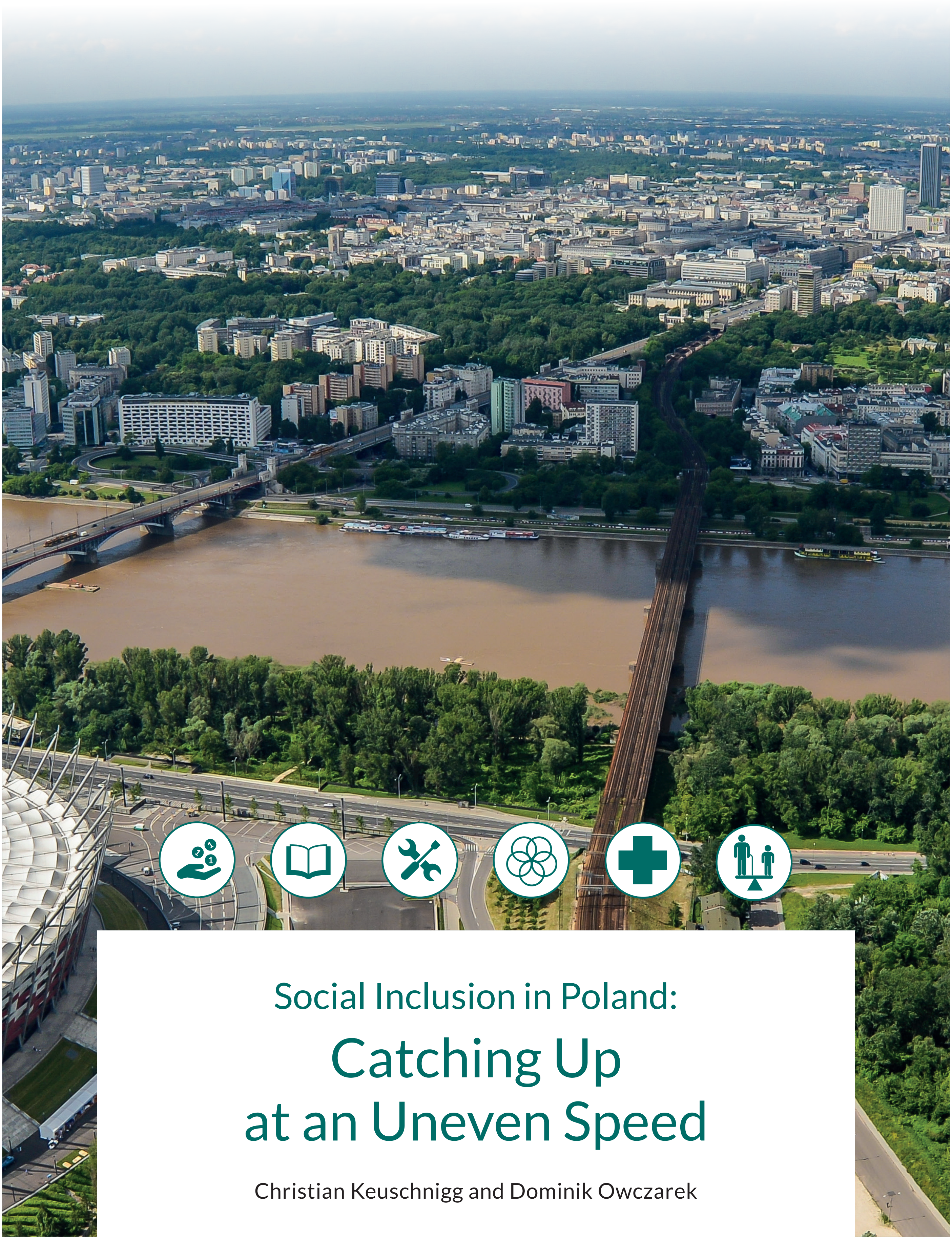
sim europe
social-inclusion-monitor.eu



Social Inclusion in Poland:

Catching Up at an Uneven Speed

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BertelsmannStiftung

Country abbreviations

AT	Austria	**EE**	Estonia	**IT**	Italy	**PT**	Portugal
BE	Belgium	**FI**	Finland	**LV**	Latvia	**RO**	Romania
BG	Bulgaria	**FR**	France	**LT**	Lithuania	**SK**	Slovakia
HR	Croatia	**DE**	Germany	**LU**	Luxembourg	**SI**	Slovenia
CY	Cyprus	**GR**	Greece	**MT**	Malta	**ES**	Spain
CZ	Czech Republic	**HU**	Hungary	**NL**	Netherlands	**SE**	Sweden
DK	Denmark	**IE**	Ireland	**PL**	Poland	**UK**	United Kingdom

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Abstract

Poland is growing faster than the rest of Europe, and is consequently catching up to wealthier countries. Rising incomes and declining unemployment rates are creating opportunities and prosperity for a growing majority of people. While still related to the level of per capita income, the degree of social inclusion is relatively high compared to other EU member states, and is continuing to improve. However, some vulnerable groups participate in society to a lesser degree than what might be deemed fair. For example, single-parent families with children, as well as workers with precarious jobs who live in conditions of in-work poverty, continue to present policy challenges. The Social Inclusion Monitor's Reform Barometer indicates a relatively high degree of reform willingness. As standards for social inclusion get more ambitious with rising incomes, and innovation and international competition continue to present challenges to the welfare state, reform performance must not slow down. Indeed, it must improve even more in order to ensure that growth remains inclusive and widely shared across Poland's society.

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“The Republic of Poland shall be a democratic state ruled by law and implementing the principles of social justice.”

The Constitution of the Republic of Poland, Art. 2

Introduction

Poland is catching up to the wealthier West. For many years, the country has been growing faster than the EU average, and significantly faster than considerably richer peers such as Germany or Austria. After growing at an impressive rate of 3.8 percent in 2015, and even more vigorously in earlier years, Poland recorded a real GDP growth rate of 2.7 percent in 2016. In contrast, the 2016 rate of real GDP growth was only 1.9 percent in Germany, 1.5 percent in Austria and an average of 1.8 percent across the euro zone countries. Between 1991 and 2016, Poland's GDP grew by an impressive 170 percent, the highest such growth rate among all post-socialist countries. Within the same period, the Czech Republic's economy expanded by 73 percent, and Hungary's by 69 percent. Clearly, Poland is closing the GDP gap with richer countries in the European Union – at a faster rate than are other Central and Eastern European (CEE) countries. In recent years, dynamic growth has expanded employment rates and reduced unemployment rates. The employment rate rose from 60.4 percent in 2004 (the lowest point after the shocks of 1989) to 67.8 percent in 2016, with further potential available, since it remains below the EU-28 average of 70.1 percent. The unemployment rate, at 6.2 percent in 2016, was at its lowest rate since the transformation to a market economy began in 1989, down from a peak level of 20 percent in 2002 (which was at that time double the EU average). Today's unemployment rate is significantly lower than the EU average of 8.6 percent.

The trend in wages is similar. While the first post-1989 phase of economic transformation saw wages depressed by a severe labour-market crisis and very high inflation, real wages started to grow in 1996, although much less than productivity.1 Consequently, the share of wages in GDP fell from 62.8 percent in 1992 to 48.5 percent in 2006, and has stayed at roughly this level since (47.5 percent in 2016). By way of contrast, Germany's share of wages in total GDP was 56.5 percent in 2016, while the average ratio across the EU was 55.7 percent. In nominal terms, the average hourly-wage rate in Poland was €5.66 in 2014, as compared to an EU average of €15.23. The transformation to a market economy also resulted in higher inequality. As measured by the Gini coefficient, income inequality increased from a coefficient of 0.27 in 1990 to 0.345 in 2005, thereafter stabilising at 0.33 in 2012. Inequality is significantly greater than in the neighbouring Czech Republic, where the Gini coefficient has been relatively stable throughout the whole period at a value of 0.26.

In the past, and especially in the 1990s and early 2000s, growth was not equally distributed across society. Nevertheless, the country's highly educated population paired with positive economic trends create favourable conditions for a high level of social inclusion in Poland. In general, growth depends on investment, innovation and labour-force participation, and tends to be skill biased as a country becomes more technology intensive. Growth creates winners and losers. While globalisation and structural change certainly result in substantial gains on average, benefits and costs tend to be unevenly distributed. Economic growth involves risk-taking and creative destruction. Innovative companies expand rapidly while others are forced to downsize operations or even go bankrupt. When workers lose their jobs, they often encounter less favourable prospects elsewhere, and some workers may

About the Social Inclusion Monitor (SIM) Europe

The data for the *Social Inclusion Monitor* (SIM) Europe is based on two instruments:

- The *Social Justice Index* is based on statistical indicators, rounded out by expert assessments, and measures the status of social justice in the EU member states. The *Social Justice Index* 2017 provides data for the years 2008, 2011, 2014, 2015, 2016 and 2017.
- The *Reform Barometer* uses Europe-wide surveys of social policy experts as a basis for analysing how national governments react to their respective country-specific challenges. It collects assessments of the need for reform, the extent of the reform activities, and their expected impact. A total of 1,058 experts took part in a survey in March 2016 for the *Reform Barometer 2016*, which covers the period between July 2014 and January 2016. The survey for the *Reform Barometer* is conducted by the Bertelsmann Stiftung in collaboration with the European Bureau for Policy Consulting and Social Research Vienna and the Economic Policy Center (WPZ) at the University of St. Gallen.

Both instruments take six dimensions of social inclusion into account: poverty prevention, equal opportunity education, labour-market access, social solidarity and non-discrimination, health care and inter-generational justice.

On the basis of the results, proven experts in the field prepare in-depth analyses on selected countries and subjects, which are also used as a basis for events, such as *SIM Europe Debates* and other conferences in the capitals of EU member states. These analyses should make it possible to sketch out and compare across Europe strengths and weaknesses, challenges and opportunities for development, achievements and deficits, relapses and progress, and how societies are perceived by both themselves and others. This should show learning curves and policy success or failure over the time frame and the potential for learning from each other in the European Union. In other words, it asks: Which EU member state can learn what from whom?

end up unemployed or fall into conditions of poverty. Talented, skilled and entrepreneurial people tend to participate disproportionately in a country's growth, while the less advantaged may see their talents, efforts and investments depreciated in the wake of structural change.

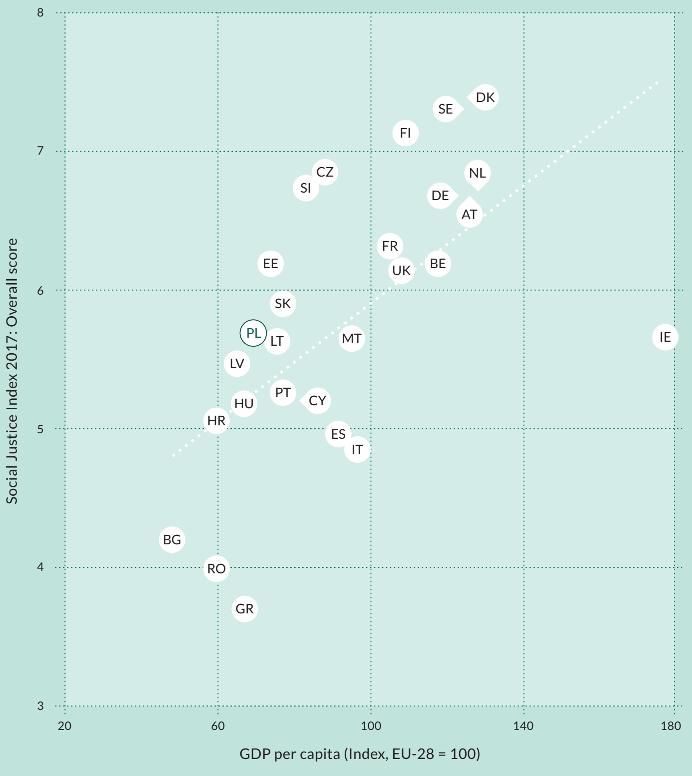
A country must implement a range of preventive and corrective policies if it is to achieve inclusive growth. All parts of society – rich and poor, men and women, the young and the old, the talented and the lucky, and the handicapped and the disadvantaged – should be able to benefit from common advances. An inclusive society emphasises equality of opportunity, giving all citizens a fair chance and creating a level playing field for competition between citizens and firms. However, because of risk and unforeseen events, people with effectively the same skills, investments and efforts can experience very different outcomes. It is a core responsibility of government to establish social insurance that enables all people, no matter what their experiences, to have at least a certain minimum quality of life. Establishing strong education and training systems, ensuring that health care is broadly accessible, achieving high levels of employment growth, and maintaining fair competition among firms and individuals are all critical preventative-policy goals. If these outcomes can be attained, citizens' average states of health will be good, access to jobs will be robust, unemployment rates will be low, companies will only rarely exact monopolistic profits and pay excessive top-level wages, and the market distribution of income and wealth will tend to be more equal than in the absence of these conditions. Social risks will materialise less often, and inequality of income and wealth will be moderate in the first place. In reducing social risks and market inequality, preventive policies should avoid excessive reliance on the welfare state, reducing the need to redistribute wealth or income from rich to poor on an ex post basis. If a country neglects preventive policies, the prevalence of social risks such as unemployment and poor health tends to be higher, and the distribution of income and wealth more unequal. What is neglected in advance must be addressed with high ex post costs, which produces rapidly growing social-spending levels and discouragingly high tax levels, while posing the risk that government finances will become unsustainable, at future generations' cost.

Where does Poland stand in relation to the rest of Europe? In general, the degree of social inclusion tends to be highly correlated with per capita income (see Keuschnigg and Busemeyer, 2017). Figure 1 plots the per capita incomes of all EU-28 countries against their degree of social inclusion, as measured by the Social Justice Index SJI 2017. The regression line shows that the two indicators are closely related. When per capita income is low, the per capita level of public spending must be low as well. In consequence, poverty rates, the average state of health, the quality and accessibility of education, and other social measures for comparatively poor countries cannot be at the same level as in the richest countries of the EU. Nevertheless, for the same level of per capita income, a country can implement more or less inclusive policies, and can perform better or worse with regard to social inclusion. The regression line in Figure 1 thus establishes a benchmark for judging the level of social cohesion, conditional upon the level of income. Viewed in isolation, the SJI portrays Poland as a country with a below-average degree of social cohesion. However, when its still relatively low level of per capita income is considered, Poland is actually a high performer within the EU-28, doing significantly better than what the regression-line benchmark would predict. In conjunction with catch-up growth, social policy should focus on ambitious reforms so that the country can move up along the regression line and achieve increasing social cohesion along with rising income.

The Social Inclusion Monitor (SIM) Europe provides an aggregate ranking based on numerous statistics, while also providing results across six important sub-fields of social

Figure 1

Per Capita Income and Social Inclusion



Social Justice Index 2017, Eurostat

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inclusion, as indicated in Table 1. The sub-field of *poverty prevention* reflects poverty rates and material deprivation overall, as well as across various groups such as children, old persons, single parents and the foreign-born population. *Equitable education* considers preschool, primary, secondary and tertiary education as well as life-long learning, and additionally includes measures relating to equality of opportunity in education, the volume of invested resources, teaching quality, the degree to which educational outcomes are independent of socioeconomic background, and the rate of early school leavers. *Labour-market access* includes employment and unemployment rates across categories of age, gender and nationality, while also distinguishing between youth, low-skilled and long-term unemployment rates, and additionally considers measures of temporary employment and in-work poverty. *Social inclusion and non-discrimination* assesses income and wealth inequality, gender equality and integration policies. *Health* assesses unmet needs for medical help, the society's average healthy life expectancy, and health-system access, range of services and outcomes. Finally, *intergenerational justice* assesses family, pension, environmental and energy policies, as well as government debt and R&D spending. Table 1 ranks countries on the basis of quantitative-measure scores ranging from 0 to 10 (respectively the worst and best possible outcomes). Poland ranks 15th among the 28 EU member states in terms of overall score. The country receives its lowest score in the area of health (rank 25), and its best in the area of equitable education (rank 9). Poland also performs rather poorly with regard to poverty prevention (rank 14) and labour-market access (rank 20).

Achieving a high degree of social inclusion requires active reform. Do governments in Europe deliver? The Social Inclusion Monitor (SIM) Europe project carried out an expert survey (Reform Barometer, RB) of 1,058 experts across the EU-28, including 43 in Poland, asking detailed questions regarding the six dimensions of social justice listed in Table 1. The Reform Barometer (RB, 2016) reports the results (see Figure 7 below for an overview). Across all dimensions, on a scale ranging from 0 and 3, experts rated Poland's need for reform to improve social inclusion as being relatively high, with a score of 2.13. In line with the country's comparatively unfavourable initial conditions, as reflected in the country's position in the SJI, reform urgency seems to be higher than the cross-EU average level (2.09). Asked if there was any reform in the period under review here, 49 percent of experts answered positively, compared to the EU average of 45 percent. Expert opinion thus attests to a rate of recent reform activity that is higher in Poland than in other member states, in line with the higher reform need. However, in judging a country's performance, reform quality matters in addition to reform quantity. With experts evaluating this feature on a scale ranging between -2 and +2, the quality of reform in Poland was assigned an average value of 0.68, significantly higher than the cross-EU average (0.58). Taking both aspects together, Poland seems to achieve a relatively high reform-performance score of 0.34 (= 0.49 activity x 0.68 quality), which is clearly above the European average of 0.27, and ranks the country at 7th place among the 20 member states with a sufficient number of expert responses to be included.

One should note that the SJI measures the current state of social inclusion, which is the cumulative result of past reform activity. By contrast, the Reform Barometer is meant to capture the change in the degree of social inclusion resulting from current reform activity (the RB covers the July 2014 to January 2016 period), as perceived by the experts. One would expect

Table 1

Social Inclusion in Poland compared

	Social Inclusion	Poverty Prevention	Equitable Education	Labour Market Access	Social Cohesion and Non-discrimination	Health	Intergenerational Justice
DK	7.39	7.00	7.84	7.63	7.31	7.43	7.19
SE	7.31	6.60	7.77	7.03	7.50	8.16	7.97
FI	7.14	7.00	7.62	6.73	7.46	6.99	7.20
CZ	6.84	7.81	6.35	6.46	6.11	7.61	5.66
SI	6.74	6.60	7.30	6.61	7.07	6.44	6.24
NL	6.73	7.00	6.09	6.82	7.53	7.70	5.27
DE	6.71	6.30	6.54	7.18	6.97	8.05	5.69
AT	6.69	6.70	6.33	7.06	6.72	7.22	6.10
LU	6.55	6.58	6.08	6.47	7.24	7.82	5.65
FR	6.29	6.60	5.93	5.92	6.20	7.50	5.59
UK	6.22	5.70	6.10	7.11	6.14	7.09	5.47
EE	6.19	5.23	7.14	6.97	6.26	5.17	6.69
BE	6.18	6.19	6.06	6.02	6.41	7.64	5.12
SK	5.91	6.67	5.99	5.49	5.64	5.38	5.13
PL	5.79	5.77	6.86	5.85	5.77	4.69	4.73
Rank	**15**	**14**	**9**	**20**	**18**	**25**	**22**
MT	5.79	6.20	4.54	6.48	4.89	7.66	4.73
IE	5.66	4.80	5.87	6.09	6.56	6.35	5.39
LT	5.61	3.80	7.26	5.97	5.79	5.75	6.24
LV	5.46	4.21	7.25	6.24	5.02	3.91	6.07
PT	5.31	5.00	4.92	5.96	5.86	6.04	4.89
CY	5.20	4.40	6.72	5.34	5.54	6.27	3.91
HU	5.18	4.73	5.20	6.33	4.46	5.33	4.72
HR	5.07	4.21	6.91	4.35	4.85	6.00	4.72
ES	4.96	4.35	5.32	4.10	5.88	7.04	4.75
IT	4.84	4.16	5.40	5.17	4.88	5.79	4.10
BG	4.19	1.40	6.23	5.44	4.02	5.20	5.20
RO	3.99	1.80	4.91	5.50	4.33	4.21	5.18
GR	3.70	2.50	5.27	3.46	4.36	3.99	3.60

2 4 6 8

10 = best possible score | 1 = worst possible score

Social Justice Index 2017

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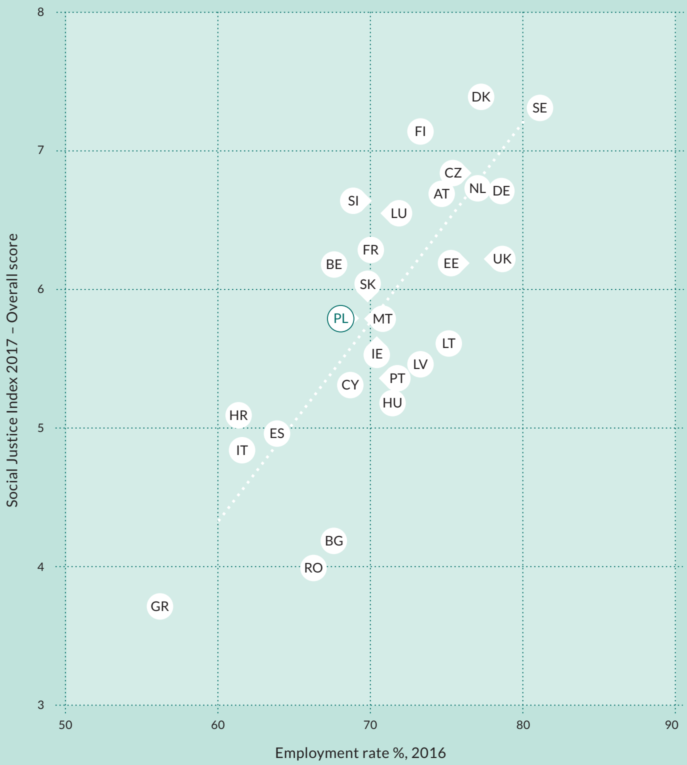
a negative correlation between the current state of social justice and the perceived need for reform. That is, in a country inheriting a relatively low degree of social inclusion as compared to European average, experts should recognise a high need for reform to improve the situation. Indeed, Keuschnigg and Busemeyer (2017) find a clear negative relationship between the SJI score and the need for reform as measured by the RB. The measure of reform performance in turn assesses whether governments are indeed actively addressing the need for reform. According to expert opinion, Poland performs slightly better than the EU average in this area. However, as the country catches up to its wealthier peers, it must satisfy higher standards and additional reform is required to enable the degree of social inclusion to improve in conjunction with rising per capita income, as Figure 1 suggests.

Figure 2

Employment Rate and Social Inclusion



SJI score: 1 = worst possible score | 10 = best possible score
Employment rate among people aged 20–64 years, 2016.
The correlation between the two measures is very high, at a level of 0.91.

Social Justice Index 2017, Eurostat | BertelsmannStiftung

Reform activity and quality must continue at high levels in order to assure that the gains from catch-up growth remain widely shared in Poland's society. Arguably, the most important determinant of social inclusion is the rate of employment, as Figure 2 suggests (taken from Andersen and Keuschnigg, 2017, who provide a more detailed discussion). For the vast majority of citizens, employment is the most important vehicle for the accumulation of useful skills and experience, the acquisition of a work ethic, and the facilitation of a high standard of living, participation in community life and upward social mobility. A competitive economy that creates good jobs and high levels of household labour-market participation can prevent many social problems such as unemployment, poverty, high levels inequality, poor health outcomes and other aspects of social exclusion. Unfortunately, the employment rate in Poland was just 67.8 percent in 2016, below the EU average of 70.1 percent (see SGI 2016). Arguably, policymakers should give labour-market access a top priority, with the goal of creating better opportunities especially for vulnerable groups, and thus assuring progress towards greater social inclusion. Failures in labour-market policy are one obvious reason for the country's widespread poverty. Consequently, the focus of this policy brief is on labour-market access and poverty prevention, with particular attention paid to vulnerable groups.

The Bertelsmann Stiftung's Social Inclusion Monitor project, along with the Social Justice Index and Reform Barometer, seeks to provide a benchmark usable across EU member states, while identifying best practices able to inspire policy innovation based on lessons learned from other countries. According to the subsidiarity principle, labour-market and social policies are largely the responsibility of individual member states, with the European Union providing coordination, benchmarking and progress monitoring. The EU must also assure that national policies are in line with common market principles and the protection of the four freedoms (see, e.g., EC 2015). Given its focus on inclusive growth, the OECD has developed a scoreboard based on indicators assessing job quantity, job quality and inclusiveness. For its part, the EU has initiated a process to develop a European Pillar of Social Rights. This proposal contains 20 principles structured around three themes: equal opportunities and access to the labour market, fair working conditions, and social protection and inclusion. The aim is "to serve as a guide towards more efficient employment and social outcomes when responding to current and future challenges which are directly aimed at fulfilling people's essential needs, and ensuring better enactment and implementation of social rights" (EC, 2017). The Pillar project uses the open method of coordination, with the main responsibility for implementation resting with the member states. Monitoring of progress will take place via a social scoreboard with a limited set of indictors assessing employment and social trends.

Poverty Prevention

Poverty has corrosive effects with regard to social inclusion. Poor unemployed people cannot benefit from social contacts in the working community, and do not actively participate in public life. They miss out on the experience and qualifications acquired on the job. They are often trapped in a negative cycle, with their skills and working ethos deteriorating with every year of inactivity, making access to the labour market even more difficult. Poverty is often a matter of bad luck, arising from a comparative lack of talent, involuntary unemployment, disabilities or other severe health problems, bankruptcy or divorce, or a poor family environment. At least to some extent, poverty can also be related to systemic incentives, as some people spend little effort in acquiring marketable skills or searching for jobs, and instead choose to rely on social benefits.

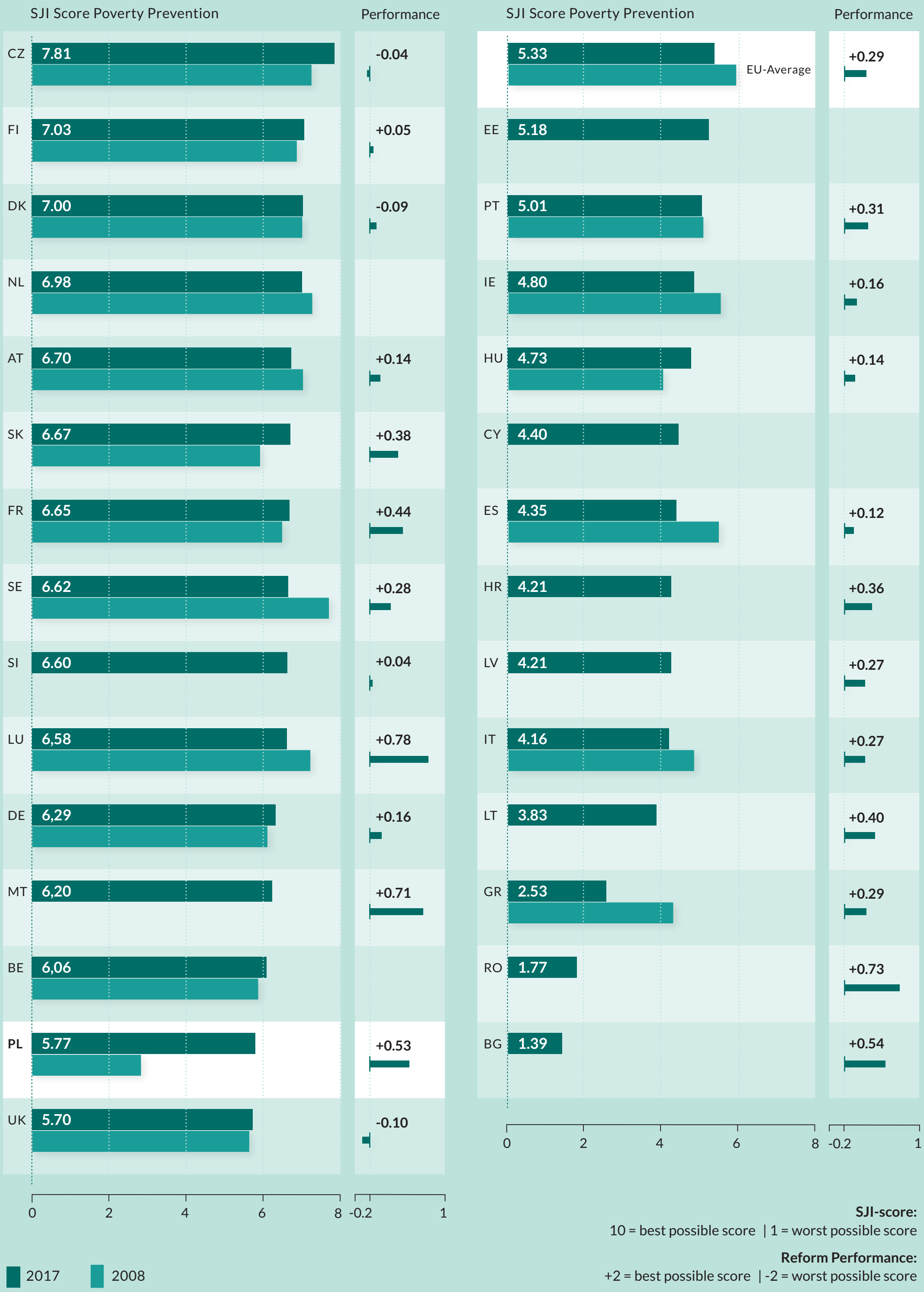
The risk of poverty is unevenly distributed in society. Some groups, such as low-skilled workers, single mothers with children, older people no longer able to work, and the chronically ill, face a comparatively high risk of becoming impoverished. In general, poverty is also (inversely) related to the ability of a productive economy to grow and generate new jobs and higher incomes. Poverty rates rise in economic crises and decline in booms. In a country such as Poland, which started from difficult initial conditions, is experiencing strong catch-up growth and is endowed with a highly skilled population, poverty should become less of a problem over time.

Where do we stand?

The Bertelsmann Stiftung's Social Inclusion Monitor (SIM) project benchmarks EU member states in six areas of social inclusion, including poverty prevention. The SJI collects a range of statistical indicators, assessing the status quo inherited by each country as a result of past developments and policies. The RB in turn surveys experts regarding the perceived need for reform and national governments' actual reform performance. High scores for reform performance should lead to an improvement of the status quo after some delay. Figure 3 contrasts reality with the expert evaluations (note: RB scores have been omitted for some countries due to insufficient number of responses). Reform performance as evaluated by experts is obtained by multiplying the activity rate (a value between 0 and 1) and the perceived quality of reform (a value between -2 and +2). In the poverty-prevention dimension, the SJI ranks Poland at 14th place within the EU-28. With a score of 5.77 on a scale of 0 to 10, Poland's success in poverty prevention is better than the EU average (score 5.33), but well behind the index's top performers in this area, in this case Czech Republic and the Nordic countries. However, Poland also showed the EU's greatest degree of improvement in the 2008–2016 period. Given the country's policy-reform activity and above-average growth rates, one might expect further success in Poland's fight against poverty. And indeed, experts give Poland's reform performance a score of 0.53,

Figure 3

Measured Poverty Prevention and Reform Performance



Social Justice Index 2017, Reform Barometer 2016

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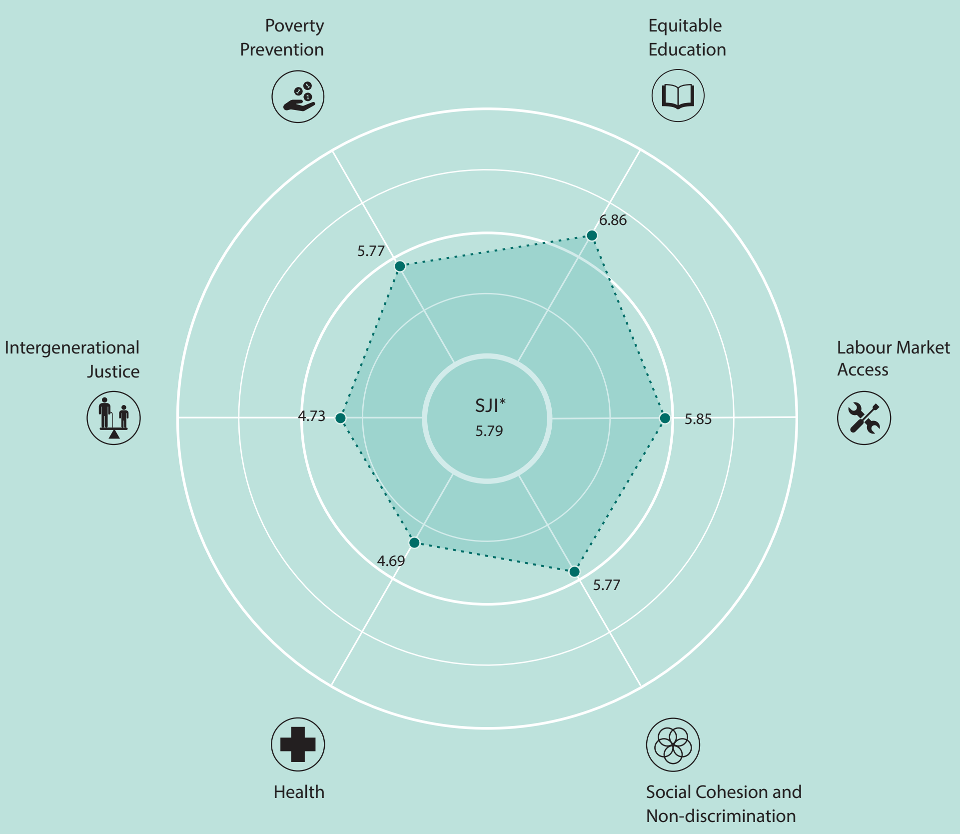
Figure 4

Social Justice Index, Poland 2017



* Social Justice Index 2017

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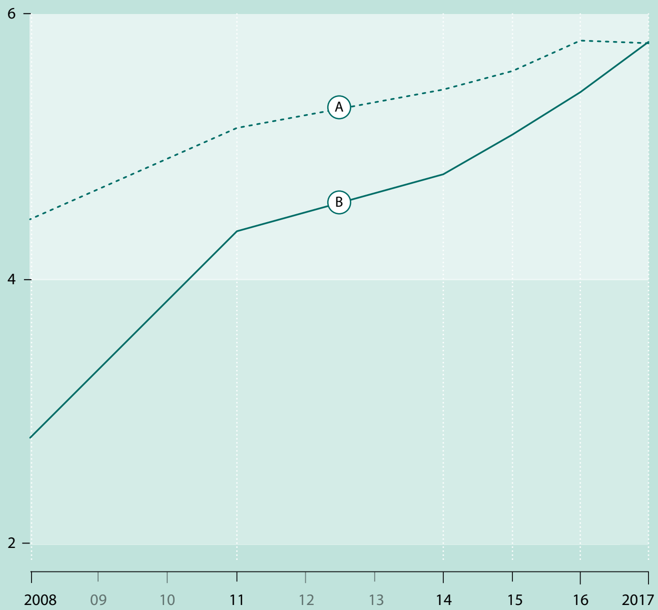
considerably higher than the average EU value of 0.29. The RB thus places Poland in the top group of countries with regard to reform performance. While these recent developments are encouraging, poverty prevention continues to deserve a higher priority among policymakers. Figure 4 disaggregates the overall measure of social justice into six components. The state of social inclusion is problematic in the areas of health (4.69) and intergenerational equity (4.73). This contrasts heavily with the comparative success in the area of equitable education (6.86). Indeed, Poland is one of the EU's most successful countries with regard to educational achievements, ranking ninth among the EU-28. This is in turn an auspicious condition with regard to potential progress in other areas of social inclusion. In the dimensions of social cohesion and equality[1] (5.77), poverty prevention (5.77) and access to the labour market (5.85), the country receives scores quite close to its average total SJI score.

1 This dimension includes measures relating to gender equality, non-discrimination against foreigners, and income and wealth inequality, among others.

Figure 5

Poverty Prevention and Overall Social Justice in Poland, 2008–2017



A Social Justice Index – Overall Score

B Poverty Prevention – Dimension Score

10 = best possible score

1 = worst possible score

Social Justice Index 2017

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Thus, poverty prevention seems to be among the areas in which policymaker attention is still needed. As Figure 5 illustrates, poverty became a less burdensome societal problem during the 2008–2017 period. In addition to strong economic growth rates, the anti-poverty reforms of the recent past seem to have had a notable positive effect. The biggest improvement in the poverty-prevention score occurred between 2008 and 2011, with an increase of 1.56 points.

Reconstruct Figure with SJI 2017 values, delete columns 2008-2016, keep only 2017, and last column on changes since 2008. Take RB2016 excel data, sheet "P Dim and POs", and add a second bar with values of reform performance for all contries with available values (Poland 0.53, EU average 0.29). Visibly highlight the bars relating to Poland and EU average. Scales of RB and SJI values should be such that bars have not too different length.

The results of the Social Justice Index are in line with national statistics. Data show that major poverty indicators have been decreasing since Poland's EU accession in 2004. According to national data (Central Statistical Office, 2017), the relative poverty rate peaked in 2003 at a share of 20 percent of the total population. By 2016 (latest available data), the rate had dropped to 13.9 percent (17.6 percent in 2008, 16.3 percent in 2013). In addition, the rate of extreme poverty fell from a peak of 12.3 percent in 2005 to 4.9 percent in 2016. However, this decline in extreme poverty has not been linear. Reflecting the negative social effects of the global crisis, the indicator jumped up during the 2009–2014 period before again reverting to the falling trend. Current poverty levels are among the lowest since 1989.

By 2012, Poland had already reached the Europe 2020 goal of reducing poverty and social exclusion by 1.5 million people. By 2016, 3.27 million people had been lifted out of poverty and a condition of social exclusion (Eurostat database, ilc_peps01). Yet in 2015, Poland was still below average among the 28 EU countries. That means poverty and social-exclusion levels continue to be comparatively high. In 2016, as many as 21.9 percent of Poles were still suffering under conditions of poverty and social exclusion, compared to an EU-28 average of 23.4 percent, placing the country at rank 13 among all member states.

A closer examination of Poland's performance on the poverty-prevention index shows that the largest contributor to the country's still-low score is income poverty (see Figure 6). Single-parent households with children and youth under 17 years of age are especially vulnerable in this area. The Statistical Office records the highest risk of extreme poverty among families with children aged 0–17 years. The extreme poverty rate in this group was 5.9 percent in 2016, which substantially exceeds the average rate of 4.9 percent among all Polish households and 3.7 percent among households without children. Poverty risk is highest among households with more than 3 children, with a rate of 9.9 percent. The extreme-poverty rate among families with children was significantly higher before the introduction of the generous Family 500+ programme in April 2016, amounting to 16.7 percent in 2015.

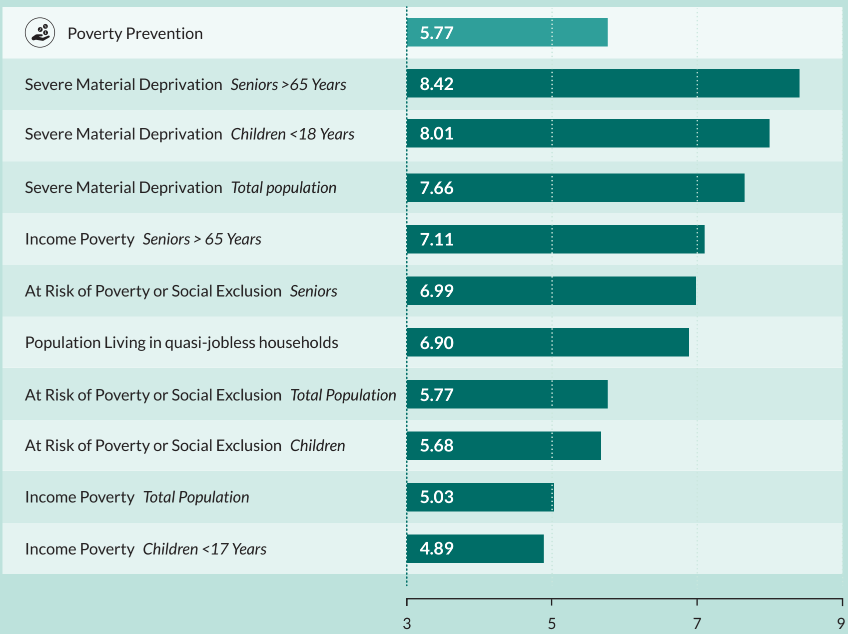
Based on 2016 data, the most significant contributors to high extreme-poverty rates in Poland include:

- Unemployment: 15 percent of households with at least one unemployed person and 33 percent of households with two unemployed persons (data for 2014).
- Inadequate education: 12.4 percent of people with education less than lower-secondary school (gimnazjum).
- Disability: 7.5 percent of households with at least one disabled person;
- Rural areas: 8 percent of people living in rural areas;
- Underdeveloped regions: 9 percent of people living in the Warmińsko-Mazurskie voivodeship, 8.8 percent in the Podkarpackie voivodeship and 7.8 percent in the Lubelskie voivodeship (northeastern provinces in Poland).

National statistics indicate that the rate of income poverty among the elderly is relatively low, amounting to 3.9 percent of pensioner households, the same rate as that among households headed by employed individuals. The current pension system thus still seems successful in preventing poverty among the old. However, a negative trend has emerged in recent years,

Figure 6

Poverty Prevention in Poland, 2017



Social Justice Index 2017

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portending future challenges. The retirement-age reform introduced by the Law and Justice government in October 2017 reversed the previous government's retirement-age increase, which had raised the age of full pension eligibility to 67 both for men and women. The new government's reversal of this policy ignores the need to extend working lives in an ageing society, and potentially undermines the sustainability of the pension system. Under the new policy, men are currently eligible for retirement at the age of 65, and women at 60. The European Commission's Country Report on Poland, published as part of the European Semester (EC, 2017a), pointed out that women would lose disproportionately more if they chose to retire close to the new, lower retirement age. Under current rules, retiring at the age of 65 (just two years under the previous retirement age) reduces pension levels by roughly 10 percent. Women who retire close to the new age of 60 would thus receive only a minimum pension. With these new changes, pension income over the years is likely to fall below the poverty threshold, particularly if indexation does not keep up with inflation.

In recent years, the new phenomenon of energy poverty has been also been observed. Rising energy prices erode real income and can lead to the impoverishment of households. According to recent estimates, about 6.44 million people or 17 percent of Poles are materially affected by energy poverty (see Owczarek and Miazga, 2015). The highest shares of energy poverty are found among residents of single-family buildings (35 percent), residents of old buildings (32 percent), rural residents (32 percent), pensioners (29 percent), large families (five or more children, 26 percent) and among those living on social benefits (24 percent). Energy poverty has also a gender dimension, since there are more women than men experiencing difficulties in covering their energy bills for a reasonable price experiencing (3.58 million versus 3.25 million, see Owczarek, 2016). Among all households suffering from energy poverty, there are four times as many women-only than men-only households. Energy poverty among women is most frequent in the largest cities (in cities of over 500,000 inhabitants, 11.1 percent of women vs. 9.9 percent of men) and among households headed by single parents (18.2 percent vs. 11.1 percent)[2] and retired individuals (19.0 percent vs. 17.7 percent). Current policy measures aim to provide relief to "vulnerable customers". In 2016, the government converted an EU directive into national law, and introduced an energy benefit. However, this benefit reaches just 7 percent of households suffering from energy poverty (see Owczarek and Miazga, 2015). In 2017, the government formed an expert team to develop solutions to this problem.

Key challenges for reform

Based on a common set of questions, the Reform Barometer reveals experts' assessment of the perceived need for reform and of reform performance in EU-28 member states. In Poland only four following dimensions were assessed: poverty prevention, equitable education, labour market access and health. According to expert opinion, the need for reform in the area of poverty prevention is relatively low in Poland. On a scale of 0 to 3, experts assigned the country's need for reform a score of 1.8; by contrast, reform is perceived as being more urgent in other member states, with an average

2 single woman households vs. single man households

Figure 7

Perceived Need and Reform Performance in Poland

	Performance PL	Performance EU	Performance Rank	Need Rank	Need PL	Need EU	Activity PL	Activity EU	Activity Rank	Quality PL	Quality EU	Quality Rank
Poland *Overall*	+0.34	+0.27	7 /20	10 /23	2.13	2.09	49%	45%	7 /23	+0.68	+0.58	11 /20
Poverty Prevention	+0.53	+0.29	5 /24	7 /22	1.80	2.01	51%	39%	7 /27	+1.04	+0.67	6 /24
Equitable Education	+0.08	+0.20	14 /21	6 /22	1.68	2.02	45%	33%	5 /22	+0.17	+0.52	15 /21
Labour Market Access	+0.44	+0.26	5 /17	18 /19	2.61	2.22	53%	51%	9 /19	+0.83	+0.46	5 /17
Health	+0.26	+0.36	12 /19	15 /20	2.43	2.15	47%	56%	15 /20	+0.56	+0.58	11 /19

Need: 0 = no need at all | 3 = very strong need
Activity: 0% = worst possible score | 100% = best possible score
Quality/Performance: +2 = best possible score | -2 = worst possible score

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score of 2.01 across the entire EU. Poland ranks at 7th place out of 27 countries (see Figure 7). This favourable rating stands in marked contrast with the low score of 5.77 in the SJI 2017, which ranks the country at only 14th place out of 28 member states. Interestingly, the relatively low perceived need for reform is paired with good reform performance. Experts rate Poland as one of the most active countries in the EU, having addressed nearly half of its need for policy reform across all fields (rank 7/23), and even a slightly greater share within the poverty-prevention dimension (51 percent, rank 7/27). On a scale ranging between -2 and +2, the quality of Poland's overall reform received a relatively moderate score of 0.68 (rank 11/20), which still exceeds the EU average of 0.58. However, Poland scores significantly better in the dimension of poverty prevention, with an expert rating of 1.04 (rank 6/24), well in excess of the cross-EU rating of 0.67. Poland received its highest score among all four dimensions in the area of poverty-prevention reform quality.

Experts identified three groups as facing the highest risk of poverty: children (need for improvement 2.68), single parents (1.95) and senior citizens (1.68). Though experts see no more than a low need for reform concerning poverty prevention among foreigners (1.29) and refugees (1.58), a few specifically pointed out that the integration of refugees in the labour market and in the education system is crucial to fighting poverty. The issue of energy poverty was raised as a new but largely unrecognised phenomenon that requires public-policy intervention.

In recent years, good economic performance has played a greater role in reducing the poverty rate than has policy reform. The strength of the country's recent economic growth has led to allusions to the "the Polish golden age" and "the green Polish island" in the global downturn. This growth has been driven by competitive advantages based on highly skilled yet low-paid employees; strong growth in exports, with exports exceeding the volume of imports in 2016; direct foreign investment (FDI); a strong inflow of EU structural funds; and strong domestic consumption (Czarzasty and Owczarek, 2017). These favourable trends have contributed to rising real wages and declining unemployment rates, reducing poverty levels accordingly (Central Statistical Office, 2017). Emigration has been another significant factor contributing to reduced poverty rates. In 2016, 2.5 million Poles, or nearly 7 percent of the total population, were temporarily living abroad and sending remittances to families still in Poland. According to an estimate by the World Bank, remittances totalled $7.5 billion or roughly 1.7 percent of GDP in 2014.[3]

Responding to pressure by the European Commission, the coalition government of the Civic Platform and the Polish Peoples' Party (PO-PSL) raised the income thresholds under which households were entitled to social assistance in 2012. These thresholds were increased from PLN 467 (€110) to PLN 542 (€130) per month for single-person households, and from PLN 351 (€83) to PLN 456 (€108) per month for each person in households with two or more persons. Currently, basic social-assistance benefits amount to PLN 529 per month (€125). Raising thresholds expands entitlements. In consequence, the share of dependent households (those below the statutory poverty line) – that is, those entitled to social benefits – increased from 7.2 percent of all households in 2012 to 12.8 percent in 2013 and to 12.7 percent in 2016, according to the most recent data.

The public-policy initiative with the strongest impact on poverty reduction in Poland has been the Family 500+ programme, which the Law and Justice government introduced in April 2016. As part of this programme, families receive PLN 500 per month (€120) for their second and subsequent children, until those children reach the age of 18, regardless of income. Families with one child are also entitled to this benefit if their monthly income is below PLN 800 (€190), or if their child is disabled and their income is below PLN 1,200 (€285). The Ministry of Family, Labour and Social Policy reported that as much as 3.8 million children in 2.5 million families benefited from Family 500+ in 2016, at a total fiscal cost of PLN 17.2 billion (€4.1 billion). The government recently forecast further cost increases to PLN 25 billion (€5.9 billion) for 2017, when the programme will be in effect over an entire year for the first time.

The Statistical Office additionally reported that Family 500+ resulted in a significant reduction in extreme poverty among households with children under 18. This rate dropped by 2.9 percentage points, from 8.8 percent to 5.9 percent, between 2016 and 2017. In households with three or more children, the extreme-poverty rate declined by 6.8 percentage points, from 16.7 percent to 9.9 percent (see Central Statistical Office, 2017). The extreme-poverty rate among families with children is expected to decline further in 2017.

Even before implementation of the Family 500+ programme, economic conditions for families with children started to improve in 2014, when the

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

PO-PSL coalition enacted a reform of the family tax-credit system. The reform quadrupled the amount that families with three or more children could deduct from their tax bill. When tax credits exceed the amount of tax liability, families receive the difference in cash. However, this programme excludes families without any taxable income. Expert assessment of the overall quality of reforms targeted at poverty prevention is remarkably good (score of 1.04, rank 6/24). The quality rating is particularly favourable when it comes to the impact on child poverty (1.38). However, a few experts pointed to potentially negative side effects of the Family 500+ initiative, including the prospect of discouraging low-skilled, low-paid women from participating in the job market in order to augment family incomes. On the other hand, family benefits could also motivate employers to improve working conditions in order to address labour supply shortages.

Labour Market Access

Employment and social inclusion are tightly linked. Figure 2 provides an illustration of this phenomenon. High employment rates depend on strong incentives for both households and firms. Robust job creation is a precondition for good labour-market access. The character of existing welfare-state policies significantly affects firms' competitiveness, and thereby also the economy's ability to create jobs. High levels of social spending come with obvious benefits in terms of social inclusion, but also require higher taxes and social-security contributions and raise firms' gross wage costs, thereby to some extent weakening companies' ability to grow and create jobs. The economy must also cope with the challenges of innovation and globalisation, which cause structural change and job turnover. An innovative and globally oriented economy is characterised by creative destruction. Employment must shift from declining to growing firms and from downsizing to expanding sectors where wages, career opportunities and opportunities for upward mobility are better. The ability of the economy to reallocate labour and investment to new uses generating higher incomes is a key determinant of productivity growth.

The economy must be able to create opportunities, and households must seize them. Good labour-market access is a precondition for active societal participation. When more people escape from dependence on social benefits and are able to earn higher wages, poverty rates fall and income inequality declines at the lower end of the distribution. In addition, upward social mobility is realised on the labour market in the form of career advances and even entrepreneurship, which often follows an initial phase of employment. Successful careers depend on access to good jobs. Career patterns in which people are able to be poor at the age of 20 yet rich at 60 allow upward social motion over the course of a life, further contributing to a more even income distribution. Such patterns can only favour social cohesion as more of the rich remember their early days being poor. The most important precondition for favourable labour-market opportunities and upward social mobility is strong performance in schooling and education at all levels. Thus, conditions for upward mobility should be excellent in Poland, where the population is highly educated and skilled.

The government, as well as the people, benefits from a strong labour market and upward social mobility. When a person leaves unemployment, obtains a job and advances her labour-market status, she is transformed from a recipient of social benefits into a taxpayer. The government gains doubly, since reductions in unemployment and non-participation rates reduce social spending, while higher employment rates augment wage-related tax revenue. Good labour-market access and high employment levels should be key policy priorities in order to prevent inequality and social risks from materialising in the first place. Neglecting a longer-term preventive approach tends to lead to an unfavourable situation in which the government must address at high cost what it could have avoided in advance.

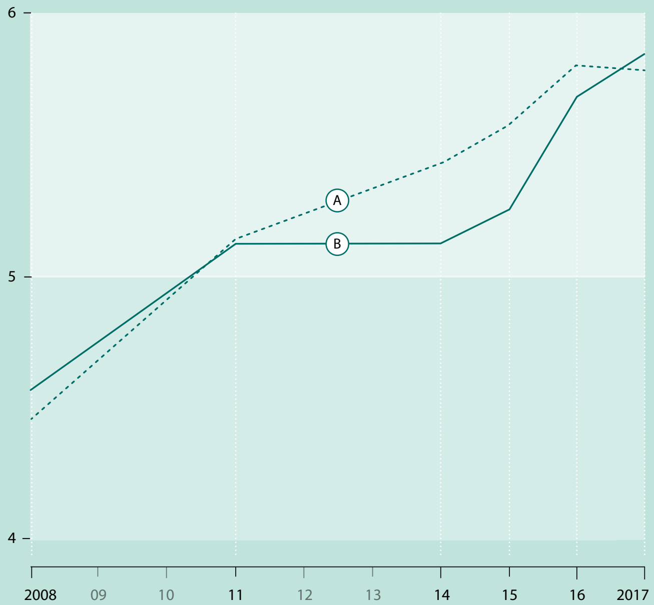
Where do we stand?

Based on a range of statistics, the SJI 2017 assesses labour-market access in Poland, with a score of 5.85, as being about as positive as the overall state of social inclusion (score 5.79, see Figure 4). The fact that the area of equitable education received an even better score of 6.86 indicates the presence of favourable preconditions for future labour-market performance since a lack of skills and qualifications is a significant social risk leading to job loss and impoverishment. As Figure 8 shows, both indicators have improved substantially since 2008. The only interruption in this positive development is the decline in the overall social justice score by 0.02 points from 2016 to 2017. Both the labour-market and education indicators improved largely in parallel with each other, although labour-market access lagged somewhat behind in the 2014–2016 period.

Some groups are particularly vulnerable with respect to employment risk. The overall state of labour-market access shows the weakest performance in the following individual dimensions (see Figure 9). First, the comparatively low scores with respect to in-work poverty, low pay and temporary employment point to a substantial problem with low job quality. The prevalence of various forms of precarious employment seem to be the biggest problem in Poland's labour market. Second, the relatively low employment rate, especially among the disabled, also contributes to weak performance within the labour-market access category as a whole. Finally, unemployment rates both overall and within different groups are not seemingly much of a problem in Poland. Quite interestingly, unemployment rates among foreigners, youths and the low skilled, as well as the share of long-term unemployment, seem to be low, thus contributing to the generally favourable overall assessment of labour-market access. In other member states, these segments typically constitute high-risk groups calling for particular attention in social and labour-market policies. Poland spends less on

Figure 8

Labour Market Access and Overall Social Justice in Poland, 2008–2017



A Social Justice Index – Overall Score
B Labour Market Access – Dimension Score

10 = best possible score
1 = worst possible score

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Figure 9

Labour Market Access in Poland, 2017

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labour-market policies than most other EU countries, devoting only 0.73 percent of GDP to this area in 2015. Only seven other countries – all within Central and Eastern Europe – spent less. By way of contrast, the Czech Republic invested more than 1 percent of GDP in this area, with many EU-15 countries spending over 1.5 percent of GDP (France and Denmark allocating even more, at roughly 3 percent of their respective GDPs).

Eurostat reported an in-work poverty rate of 10.9 percent for workers and employees aged 18–64 in 2016, ranking Poland only at 21st place out of the 28 EU countries (Eurostat database, [ilc_iw01]). In this area, Poland has made little progress since 2007, when this rate was 11.7 percent. For a significant number of households, accepting employment apparently offers little relief from poverty. More than a quarter of employees (27.5 percent) were hired on the basis of temporary contracts, the highest such rate among EU member states (Eurostat database, [lfsa_etpgan]).[4] Young people aged 15–24 are affected particularly strongly by this phenomenon. The share of temporary employment has been stable since 2007, when the share was 28.2 percent. A significant proportion of temporary workers are employed

4 Polish law allows for the following types of employment: a) labour-code employment governed by an employment contract (e.g., open-ended contract, fixed-term contract); b) civil-law contracts in the form of contracts of mandate (umowa zlecenie) or contracts to perform a specific task (umowa o dzieło); and c) self-employment. Eurostat categorises both fixed-term employment contracts and civil-law contracts as temporary contracts.

under civil-law contracts rather than under the more usual labour-code contracts. This type of employment is not covered by labour-code protections. Employees are not entitled to any form of leave or notice period (other than what is stated in the contract), and are not at all or only partly subject to social contributions, which tends to undermine the revenues of the pension and healthcare systems. Moreover, the fact that temporary employment is most frequent among young workers creates general life uncertainty for this group, and may discourage people from starting a family or taking on a mortgage. A high in-work poverty rate and a high share of fixed-term contracts are indicators of labour-market segmentation. However, job creation in 2015–2016 was mainly associated with permanent contracts, offering hope that the situation is improving.

Poland's employment rate has steadily increased since the country joined the EU. Only the crisis period of 2009–2013 showed a short interruption in this trend. In 2016, a total of 69.3 percent of the population between 20 and 64 years of age were employed (Eurostat database, [lfsi_emp_a]). The Europe 2020 Strategy aims at an employment rate of 71 percent in Poland (general aim for the EU countries is 75 percent). If current trends continue, Poland may exceed this threshold before 2020. Even 2016's rate represented an all-time record for the country, although it still falls short of the EU average. According to 2016 data, the main contributors to this gap include relatively low labour-force participation rates among certain groups such as disabled persons (21 percent), young people between 20 and 24 years old (28.4 percent), people between 55 and 64 years old (44.3 percent), and women (62.2 percent). Such low participation rates are in stark contrast with the much higher employment rate of 76.4 percent among men aged 20 to 64. Realistically, if the Europe 2020 goal is to be achieved, these low-participation groups must be specifically targeted with the aim of improving their access to the labour market.

If domestic labour-market participation rates do not increase, the rising demand for labour due to strong catch-up growth could increasingly attract migrant workers. While traditionally characterised more by outmigration, Poland has to some degree turned into a destination country for migrants. The number of work permits issued serves to estimate the level of immigration. Data provided by the Ministry of Family, Labour and Social Policy indicate that immigration volumes started to rise in 2014, with a total of 1.3 million permits issued in 2016 (an increase of 240 percent). Employees from Ukraine constitute as much as 96 percent of this total. At the same time, 2.5 million Poles live abroad, with most working there. Thus, the vacuum created by Polish emigration to some extent failed to increase domestic labour-market participation rates, and instead attracted immigrant workers from Ukraine. This indicates that state institutions have only a minimal ability to activate certain groups within the labour market.

The unemployment rate in 2016 was 6.2 percent, and even reached a historic low of 5 percent in the second quarter of 2017. This is the lowest value recorded since the start of the economic transformation in 1989 (Eurostat database, [une_rt_a]). By contrast, the highest unemployment rate was 20 percent in 2002, when it was seen as one of the country's most dramatic social problems. After this point, the unemployment rate receded to 7.1 percent by 2008, with particularly strong gains coming after Poland became an EU member in 2004. The global financial and economic crisis reversed this trend through 2013, by which time the rate had again reached the level of

10.3 percent. However, a rapid recovery set in after 2014, re-establishing the pre-crisis trend of falling unemployment rates. At least for the near future, unemployment has disappeared from the list of painful economic problems in Poland. However, several groups still remain vulnerable, including young people (the youth unemployment rate is 14.6 percent), low-skilled workers (among those who have reached only the secondary-school (gimnazjum) level or less, the unemployment rate is 12.5 percent), disabled persons (7.6 percent); and those living in rural areas (5.1 percent) and in underdeveloped provinces (Podkarpackie voivodeship 8.4 percent; Warmińsko-Mazurskie 6.8 percent; Lubelskie 6.5 percent; Kujawsko-Pomorskie 5.9 percent; Dolnośląskie 5.8 percent; and Świętokrzyskie 5.7 percent).

Key challenges for reform

Experts participating in the Reform Barometer survey identified Poland's strongest need for reform – among all areas of social inclusion – in the area of improving labour-market access (see Figure 7). On a scale of 0 to 3, they assigned the need for reform a score of 2.61, corresponding to rank 18 out of the 19 member states with a sufficient survey response (in this case, with lower scores corresponding to higher ranks). As a cross-EU average, the perceived need for labour-market reform appears to be significantly lower, given the average score of 2.22. Labour-market reform is thus perceived as being more urgent in Poland than is reform in the areas of health (2.43, rank 15/20), poverty prevention (1.8, rank 7/27) or equitable education (1.68, rank 6/22). Experts pointed to the need to reduce the prevalence of temporary contracts and in-work poverty as the most pressing and challenging problems (each receiving a score of 2.83, with Poland ranked last in the EU, 16/16, for each). Increasing the employment rate also appears to be perceived as an area in which significant reform is needed (2.18, rank 10/22), although it seems to merit slightly less priority than the average of all sub-dimensions.

At the same time, expert opinion views Poland as being more active in the area of labour-market reform than in any other dimension of social inclusion (53 percent of experts recognised some reform activity, rank 9/19). However, the government seems to be nearly as active in the area of poverty prevention (activity rate of 51 percent, rank 7/27), and somewhat less so in the realms of health (47 percent, rank 15/20) and equitable education (45 percent, rank 5/22). Regarding labour-market access, reform activity in Poland seems to have given a high priority to reducing the prevalence of involuntary temporary contracts (activity rate 71 percent, rank 3/16) and somewhat less so to reducing in-work poverty (47 percent, rank 9/18) or raising employment rates (39 percent, rank 18/22). However, experts deemed existing labour-market reforms to be of only moderate quality (0.83, rank 5/17), with a score slightly above the EU average.

In 2015, the Civic Platform and Polish Peoples' Party (PO-PSL) coalition amended the labour code to address the excessive use of temporary employment contracts. The amendment limited the maximum number of consecutive fixed-term employment contracts to three, and further limited the combined length of those contracts to 33 months. With the addition of a three-month trial period, this means no employee may work with a limitedduration contract for more than three years. The new law came into effect in January 2016. Its full impact on the share of temporary employment contracts will probably thus materialise only by the end of 2018. However, even in 2015 to 2016, new job creation was driven by the use of permanent contracts. This favourable development may be due to the strong recovery from the global crisis, but could also be related to the law's educational effects in advance of its actual implementation.

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

The impact of both reforms will be felt in the near future. No major decrease in the share of temporary contracts is expected, since the policy changes have been rather mild. Even though the measures cited were intended to reduce labour market segmentation, disincentives to the use of open-ended contracts remain in place. Two committees, each containing government and social-partner representatives as well as independent experts, have been tasked with preparing new drafts of the individual and collective labour codes by early 2018.

In 2017, the Law and Justice government raised the minimum wage from PLN 1680 (€400) per month to PLN 2000 (€475) per month for those employed under a labour-code contract. Thus, the minimum wage increased by 8 percent in nominal terms. For recent labour-market entrants taking on their first job, this increase was as high as 35 percent, since new regulations also equalised the minimum wage regardless of age (previously, minimum wage in the first year of employment was 80 percent of the regular minimum wage). The minimum-wage increase was higher than originally proposed by the social partners. The ratio of the minimum wage to the average wage is now roughly 47 to 48 percent, with some 10 to 15 percent of employees having earnings close to the minimum wage. In September 2017, the government decided to raise the minimum wage once again, this time to a level of PLN 2080 (€495) per month, to take effect in 2018.

In addition to mandating significant minimum-wage increases in 2017, the Law and Justice government adopted a new law that for the first time set a minimum hourly wage for so-called contracts of mandate (a specific type of civil-law contract). Before this reform, there was no bottom limit for the hourly wage. The new law sets the hourly wage as a ratio of the monthly minimum wage, so that both must rise in the same proportion. This indexation mechanism ensures a minimum standard of remuneration. In 2017, the minimum hourly wage amounted to PLN 13 (€3.1), and it will rise further to PLN 13.5 (€3.2) in 2018. A substantial increase in the monthly minimum wage, along with the introduction of an hourly minimum wage, could ultimately contribute to a significant reduction in the in-work poverty rate.

Expert opinion gives a favourable assessment of the quality of labour-market reform as measured on a scale from -2 to +2. Experts expect that existing reforms will have a clearly positive impact on overall labour-market access (quality in this area is assigned a score of 0.83, rank 5/17), with reforms intended to reduce the prevalence of involuntary temporary contracts regarded as being of even higher quality (score of 1.00, rank 4/12). Reform Barometer survey respondents were similarly optimistic that reforms would increase employment rates (0.55, rank 9/19) and reduce the prevalence of in-work poverty. In general, experts consider existing reforms in Poland to be of significantly higher quality than the cross-EU average.

Conclusion

Poland continues to grow at a rate faster than the EU average. It is catching up with richer member states, narrowing the GDP gap. Growth creates jobs and expands employment, which translates into better economic opportunities for the vast majority of citizens. Widespread unemployment is no longer on the country's list of urgent policy problems, and poverty rates are decreasing significantly. In parallel with this economic progress, social inclusion is improving in general. However, not all groups in society are sharing equally in the new wealth. Significant disadvantaged groups include families with children and workers with precarious jobs that produce in-work poverty, for example. Moreover, many Poles have elected to leave the country in search of better opportunities elsewhere. These and other problem spots require greater attention from policymakers.

Poland's benchmark with regard to social policy cannot be the rich Nordic countries. Given the country's still relatively low per capita income, Poland's public spending remains limited in areas such as support for those with low incomes, social services and health care. Given the low level of average income, Poland actually turns out to be doing relatively well with regard to social inclusion, though the Czech Republic fares better with regard to reconciling growth and social justice. However, as incomes increase, standards also rise, requiring continued reform to increase the degree of social inclusion. Ageing, innovation, the digitisation of the economy and structural change present steady challenges to the welfare state, demanding continuous policy reform in order to keep growth inclusive and widely shared across the society in such a way as to avoid excluding vulnerable groups. The EU's European Pillar of Social Rights initiative could serve as a catalyst for reform that helps to reconcile further integration and economic convergence within the EU with social-cohesion improvements within individual member states.

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