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Hilary Ingham and Mike Ingham

The Department of Economics
Lancaster University Management School
Lancaster LA1 4YX
UK

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POLAND'S JOBLESS GROWTH: A TEMPORARY CURE?

Hilary Ingham*

&

Mike Ingham**

* Department of Economics, Lancaster University Management School.

** Ansdell Consulting.

Abstract

Poland's post-communist economic performance has been generally good. However, for many years its growth was jobless, it exhibited very high unemployment rates and concomitantly made little progress in approaching the targets set for EU Member States under the Lisbon Strategy. Unexpectedly, in 2003 the country's labour market began to exhibit a new dynamism, with employment growing strongly and unemployment tumbling. This apparent improvement coincided with a liberalisation of its Labour Code. Unfortunately, the measures introduced to increase flexibility are seemingly at variance with the EU's Fixed-Term Work Directive and might need to be modified.

1. INTRODUCTION

Notwithstanding its sluggish performance in 2001-2002, Poland has generally delivered annual economic growth rates since 1992 that have been impressive in the context of the current European Union of 27 Member States (EU-27). Indeed, it was the first of the Central and Eastern European (CEE) transition economies to witness its gross national output (GDP) rise above its 1989 level and it remains a regional leader under this metric. Although simultaneously beset by various persistent problems, including high unemployment, delayed privatisation and excessive budget deficits, such achievements were to attract epithets such as “East European Tiger” and “Soaring Eagle” (de Broeck and Koen, 2000).

Although the country’s EU accession negotiations were not without difficulties on various fronts (Blazyca, 2002), the economic progress achieved was certainly a major factor contributing to the country’s inclusion in the first wave of post-communist EU enlargements in 2004. Nevertheless, the entry of these low income states brought into sharp relief the tensions between the enlargement project and various other ambitions of the Union, including the wide-ranging Lisbon Agenda (Ingham and Ingham, 2003). For example, while Lisbon was “designed to enable the Union to regain the conditions for full employment” (EC, 2000), Poland’s notable economic advances had been jobless and, at the point of entry, the country had an unemployment rate of 19.4%, the highest in the newly created EU-25. This might be contrasted with the rate of 7.9% that prevailed at the time across the previous EU-15 (Haröarson and Romans, 2005: 9). However, to the surprise of policymakers (E. Comm., 2004, 2005, 2006; MRD, 2007), the Polish labour market had actually entered an era in which it would experience a remarkable reversal of fortune. In particular, between 2003 and 2007, a

net total of over 1.6 million people entered employment and the unemployment rate fell to under 10%.¹

It is the aim of this paper to highlight some of the major factors that would appear to have stimulated these developments and to identify the broad characteristics of the beneficiaries of the recent labour market upturn. The next section provides a brief economic background. Attention turns specifically to the labour market over the years between 1992, when the Polish Labour Force Survey (LFS) was launched, and 2007 in Section 3. That discussion is cast in the framework of the various important policy initiatives launched by the EU during that period. This is followed in Section 4 by a focus on the nature of the changes that occurred between 2003 and 2007; from which it transpires that, while the observed employment growth was distributed reasonably evenly across labour market groups, it was composed in large part of temporary jobs. However, the legislative reform that would appear to have stimulated the explosion in such work is probably at variance with prevailing EU regulations, as detailed in Section 5. As such, Section 6 reviews the groups that might be risk, if the Commission were to force a revision of this aspect of Poland's labour law. Section 7 concludes.

2. POLAND'S ECONOMIC TRANSITION IN COMPARATIVE PERSPECTIVE

At the onset of transition in 1989 Poland had by far the largest economy among those countries in CEE embarking more or less simultaneously on the same journey from communist hegemony. However, its living standards were considerably lower than those of several of its neighbours, including Czechoslovakia, Estonia, Hungary and

Slovenia (Fischer and Sahay, 2000). Indeed, many of its initial conditions, including a huge monetary overhang, massive foreign debts, chronic shortages and a state budget in a critical situation, were most unfavourable (Balcerowicz *et al.*, 1997; Krajewska, 1996). Consequently, early prognoses of Poland's short to medium-term economic future were often pessimistic (Wellisz, 1991) and, in conjunction with what some saw as policy errors, worse than those for regional comparators (Winiecki, 1992).

In the event, as highlighted in Table 1, subsequent events were rather more benign than some had feared. In particular, Poland's transition induced recession was shallower and shorter than those experienced in other CEE countries and its 1989 real income level was surpassed more quickly than elsewhere. IMF economists have dated the latter event at 1995 (Berengaut and Elborgh-Woytek, 2005), although alternative data suggest that this could actually have occurred in 1994 (de Broeck and Koen, *op. cit.*). Poland exhibited remarkable resilience in the face of the Russian financial crisis of 1998-1999 and the associated loss of markets to the east. However, it suffered a sharp slowdown in 2001 and 2002, which, while reflecting a global economic reversal, has also been attributed to a combination of domestic factors, including a reduction in investment expenditure and excessively tight macroeconomic policies (E. Comm, 2002: 36). The set back was though relatively short-lived and growth rebounded to almost 4% in 2003, buoyed by the increase in exports stimulated by a depreciation of the zloty.

TABLE 1 HERE

Nevertheless, even though Poland recorded the highest average growth rate of GDP over the whole period under examination, other CEE-10 states often recorded stronger performances in individual years or sub-periods, as summarised in Table 2. To some extent, however, this was the result of the depth and persistence of the initial transition recessions in these other countries; most notably perhaps in the Baltic States. Unsurprisingly, the Polish record looks even more impressive in the context of the EU-15. Even so, individual old Member States have in some years outperformed Poland and, in the case of Ireland, its average growth rate over the years 1992-2007 was 7.4%, as opposed to the figure of 4.6% achieved by Poland.

TABLE 2 HERE

The prospect of EU membership for the CEE transition countries was an important weapon in the fight not only to embed irrevocably a democratic polity, but also to secure a standard of living for their citizens more akin to that enjoyed in Western Europe. The latter is often measured, albeit imperfectly (Layard, 2005; Sen, 1987), by GDP per capita. Although this typically mirrors the behaviour of aggregate output, given the relatively slow evolution of populations, it is instructive to highlight explicitly what the growth in the Polish economy has implied in this regard. Data from the European Commission's statistical arm (Eurostat) indicate that real GDP per head, measured in Euro terms, increased from 18% of the EU-15 average in 1995 to 25% in 2007 or from 37 to 48% if measured in purchasing power standards (PPS). Even if these observed rates of convergence were to be maintained into the future, it would take another 50 years for Polish living standards to attain the norm of the EU-15 in the former case or 33 years in the latter. At the same time, it might be noted that

the country's performance was not sufficiently good, given its initial deficit, to improve its standing on these scores amongst the CEE-10. Indeed, its standard of living in PPS now exceeds only that of Bulgaria within the EU-27, having fallen below that of the three Baltic States in recent years.

Even so, the advances made by Poland and its fellow transition states have been substantial and evidently more durable than envisaged by those who held that the imposition of market discipline on formerly socialist societies was doomed to be a lengthy process subject to periodic reversals. Reassuring as this might be, it is important to appreciate a little more about the forces underlying the improvements, if a firmer understanding of their implications is to be attained. Here attention is focused on developments in labour productivity as a prime mover in the evolution of the living standards of a nation.² The two most frequently encountered measures of this are labour productivity per hour worked and per worker, with the former being preferable insofar as it controls for variations in the length of the working week.

Whatever their respective merits, Table 3 provides a comparison of the annual growth in these two variables for Poland and the old EU-15 from the middle of the last decade through to 2007. The Polish performance is clearly strong, although one of the failings of the socialist economies was their inefficient use of labour and such differential movements in worker efficiency, at least in the early transition years, are to be expected. However, developments in labour productivity can have ambiguous implications and, notwithstanding their popularity, they must be interpreted with caution.

TABLE 3 HERE

Put most simply, a given increase in labour productivity can come about from either the same output being produced from less labour or from the same amount of labour generating a greater level of output. Of course, both of these tendencies can be operating at any point in time but, to the extent that the former influence is dominant, there will be a tendency for the level of employment to fall. With this in mind, the intention is to examine some of the more important developments in the Polish labour market during the post-communist era, beginning in the next section with an overview of the behaviour of certain critical indicators over the years between 1992 and 2007.

3. POLAND'S LABOUR MARKET 1992-2007 AND EU POLICY EVOLUTION

While official statistics reported a loss of over 2.3 million jobs between 1989 and 1992 (GUS, 1997: 217), attention here will focus on data from the Polish LFS that commenced in the later year in order to ensure consistency with the remainder of the paper. Figure 1 presents annual average employment data for the years to 2007.

Following an initial recovery between 1994 and 1998, employment crashed in the years to 2003 by over 1.7 million, notwithstanding the generally impressive economic performance highlighted above. Equally, if not more startling, however, was the upturn subsequently experienced to 2007, during which time there was no appreciable increase in the rate of expansion of the economy. Before examining the factors that might have underpinned this recovery, it is instructive first to explore some of the symptoms of the period of job loss and how they compromised Poland's position in relation to prevailing EU policy.

FIGURE 1 HERE

Unless coinciding with a radical decline in population, whether through mortality or emigration, of a size that did not occur in Poland, the employment losses after 1998 must translate into adverse values of other labour market ratios that have increasingly been the focus of EU attention over the past twenty years.³ Table 4 provides information on those to be considered here and serves to highlight the conflicts that can – and have – existed between the Union’s enlargement ambitions and certain of its other aspirations. First though, it might be noted that, while oddly largely ignored in later policy discourse, the EU’s concern about the labour market and its influence on wider economic and social indicators can sensibly be dated back to the Delors’ White Paper of 1993 (E. Comm, 1993). This, the author maintained, was inspired solely by the issue of unemployment, which had recently risen to around 10% of the labour force. With the prospect of eastern expansion looming larger on the horizon, as highlighted by the elaboration of the Copenhagen criteria later that year (EC, 1993), the level of unemployment in Poland provided an early indication of some of the associated concerns that the potential enlargement raised within existing Member States.

In 1997, when the European Council endorsed the Commission’s *Agenda 2000* proposals (E. Comm, 1997) at its December Luxembourg Council (EC, 1997) and formally opened the door for the accession negotiations to begin, the EU also passed the Amsterdam Treaty containing a new Employment Title. Although the Treaty did not formally enter into force until May 1999, the Council proceeded immediately, at an Extraordinary Meeting held in Luxembourg in November 1997 (EC, 1997a), to

agree a new European Employment Strategy (EES), as the Treaty required. This represented the first concrete attempt to co-ordinate formally the employment policies of Member States. Its stated purpose was to secure “a significant increase in the employment rate in Europe on a lasting basis” (*ibid.*:3) and to do this through convergence towards “jointly set, verifiable, regularly updated targets” (*ibid.*:1). The latter were, however, at this stage confined to inputs rather than outcomes.⁴ At the time that these ambitions were promulgated, the overall employment rate in the EU of those aged 15 to 64, the group in focus, was 60.7%. A cursory inspection of Table 4 might suggest that Poland did not seem particularly weak on this score, but the trajectory was entirely contrary to the Council’s ambitions.

TABLE 4 HERE

In pursuit of its goals, the Employment Council of 1997 also desired to “turn back the tide of unemployment on a lasting basis” (*ibid.*:2). At the time, the overall unemployment rate prevailing across the EU-15 was 9.8%, little changed from when the Delors’ White Paper appeared. While remaining relatively high, the situation in Poland had in fact improved somewhat over those four years. However, both Delors and the EES were concerned not only with the numbers without work, but also with their composition. In particular, both documents placed considerable emphasis on the need to reduce youth and long-term unemployment. Defining youths as those below the age of 25, their jobless rate in the EU-15 at the time of the November Luxembourg Council was 19.6%. The situation in Poland was somewhat worse and about to deteriorate dramatically, as Table 4 indicates: in the Member States, on the other hand, the position was set to improve. As those out of work for more than 12

months accounted for almost half of the total unemployment pool in the EU-15, this actually cast Poland in a rather favourable light in 1997. Once again though, the underlying trends were in opposite directions and the ranking was to be reversed by 2002.

The next notable milestone in the evolution of EU labour market policy was the formulation of the Lisbon Strategy at the Lisbon European Council meeting of March 2000 (EC, 2000). This set Europe the strategic goal “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” (*ibid.*:2). Without exploring all of the complexities of this innovation, it might be noted that it ushered in an era of concrete outcome targeting, beginning with those of raising the overall employment rate of people aged 15 to 64 from 61 to 70% and that of women of the same age from 51 to 60%, both by 2010. The prevailing figures in Poland were then 55 and 48.9%, respectively, with their courses again being in the wrong direction. Following Lisbon, successive Councils advanced the target setting regime. Also, the Stockholm Council of March 2001 (EC, 2001) agreed to develop ways and means of actively involving the candidate countries in the goals and procedures of the Lisbon Strategy. Simultaneously, in the context of the need to promote active ageing in the face of advancing demographic pressures, it called for measures to increase labour market participation. At the time, the activity rate amongst those aged between 15 and 64 in the EU-15 was some 69.2%, which was rather higher than the downward drifting figure to be observed in Poland.

The ongoing amendments and refinements to Lisbon, however, proved insufficient to prevent the mid-term review of the Strategy from concluding that progress towards its goals “has at best been mixed” (E. Comm, 2005a:3). Without disputing either its diagnosis or its remedies, a new start was therefore proposed, focusing efforts around the twin tasks of greater growth and more jobs. This, it was claimed, was the key to unlocking the resources needed to meet Lisbon’s wider economic, social and environmental ambitions. Hence was born the Growth and Jobs Strategy, albeit typically prefixed by ‘Lisbon’, which integrated the Broad Economic Policy and Employment Guidelines into one unified cycle (*ibid.*; EC, 2005). Further consideration of these developments at this stage would be to stray too far from the current purpose, which is to attempt to uncover what lay behind the rather dramatic improvements on Poland’s labour market after 2003 that are revealed in Figure 1 and Table 4.

4. 2003-2007: TOWARDS A POST-TRANSITION POLISH LABOUR MARKET?

When employment grew by 565,000 in the years from 1995 to 1998, the average rate of annual output growth was 6.3%. However, between the years 2003 and 2007 when employment grew by 1,623,000, the average growth rate of GDP was actually somewhat lower at 5.1%. Furthermore, when employment declined by 521,000 between 1992 and 1994 and by 1,739,000 between 1998 and 2003 the average rates of economic growth were 3.9 and 3.0%, respectively. While by no means conclusive, this suggests that growth became radically more employment intensive in the last four years under consideration here. The question, of course, is why?

One possibility is that by 2003 Poland had more or less exhausted its potential to benefit from technological catch-up and that future growth would therefore need to be more factor intensive. Figures produced by Eurostat on labour productivity per hour worked in purchasing power standards, thereby eliminating price level differences between countries, effectively dismiss this as an explanation, however, with Poland still achieving barely half of the EU-15 standard.⁵ Another potential source of rising labour usage is a reduction in its price. One possible indicator of this lies in the behaviour of labour costs. However, while increasing somewhat less rapidly than in the later 1990s, the Polish labour cost index was actually trended upwards again in the years following 2002.⁶

More plausible, in fact, is to look to the reform of the Labour Code effective from 2002. Of most note for current purposes were the changes to the rules governing fixed-term employment contracts. Thus, in 1996, the communist era Labour Code of 1974 had been amended in an attempt to reduce the widespread use of civil law employment contracts, which, in addition to allowing employers to bypass the worker security provisions embedded in regular employment contracts, effectively served to reduce the government's tax base as such workers do not have to pay the non-wage costs associated with regular employees (Zientara, 2008).⁷ At the same time, fixed-term employment contracts were limited to a maximum duration of three months and the agreement of a third such arrangement was presumed to be an open-ended contract under the provisions of the Labour Code.⁸ Predictably, these moves attracted the opposition of employers, particularly in relation to their impact on smaller firms.

In the face of a seemingly ever growing pool of unemployment and steered by the Minister of Labour and Social Policy, Jerzy Hausner, in 2001 the government embarked on a course of introducing greater flexibility into the labour market (Czarzasty, 2002). This culminated in August 2002 with the passage into law of a new and more liberal Labour Code. Not only did this relax certain general obligations imposed on employers, it also re-introduced the possibility of employing workers on fixed-term contracts without any time limits. In addition, it established the right for firms to engage workers on the basis of ‘substitution agreements’ whereby they cover for the justified absence of regular employees; for example, through sickness or maternity leave.

The evidence on the composition of the jobs change between 2003 and 2007, presented in Table 5, is certainly consistent with the proposition that the legal environment in Poland is important. The central feature of the employment growth over the period for present purposes is that 85% of it was composed of temporary jobs. In consequence, fixed-term workers accounted for 28.2% of all employees in 2007, which means that Poland now has the second highest penetration of such work in the EU-27 after Spain. The significance of this development is perhaps most readily appreciated by noting that, ten years previously, less than 5% of Polish workers were on temporary contracts, which was lower than in any EU-15 Member State.

TABLE 5 HERE

At this juncture, it is necessary to inject a note on terminology. In recent years, it has become increasingly common to label those employed directly by an organisation on non-permanent contracts as fixed-term workers and to reserve the term temporary workers for those engaged by the organisation through an intermediary temporary work agency (TWA). Indeed, owing to the general growth in the latter form of employment, at least within Europe overall, the two types of worker are now subject to distinct strands of legislation, albeit with the same non-discriminatory intent. More concretely, Poland's legislation governing temporary agency work entered into force on 1 January 2004 (Dziennik Ustaw, 2003); however, the EU's Directive on the subject was only passed on 19 November 2008 after many years of debate (OJ, 2008). This distinction is not made here for three practical reasons. First, the Polish LFS did not seek to identify the two groups separately prior to 2006. Second, the data from that year onwards indicate that TWA staff accounted for only 1.6 and 1.7% of the total number on short-term assignments in 2006 and 2007, respectively. Third, to cover both groups explicitly would place an unacceptable burden on the length of the paper. As such, the terms temporary and fixed-term are here used interchangeably to describe those on contracts of finite duration.

Various other aspects of the increase the increase in employment are, however, also worthy of note. First, the fillip benefited both the urban and rural territories of Poland. This must be regarded as a notable achievement given that rural development has been a major Achilles heel of the Polish transition (MRD, *op. cit.*; E. Comm, 1997a). Second, the impact was rather stronger for industry than for services, which might be regarded as a somewhat unexpected outcome. In fact, the sum of the employment gains in these two broad sectors outweighs the total change recorded

throughout the economy. This reflects the 10% decline reported over the four years in agricultural employment. While far from sufficient to herald the needed modernization of farming (Ingham and Ingham, 2004), it is at least a move in the required direction, particularly given the more than offsetting growth in rural employment overall. Third, both males and females saw their situations improve as a result of the labour market upturn. Fourth, all of the gains were recorded in the private sector of the economy.

Nevertheless, it should be recognised that the net fall in unemployment was slightly greater than the increase in employment, which points to a further small increase in the Polish inactivity rate over the period. This is testimony to the ambitious nature of the Lisbon targets insofar as they seek simultaneous improvements on several fronts. It is also evident that total employment rose somewhat less than the number of paid employees, which stems from decreases in both the numbers of self-employed and of unpaid family workers. The first of these reductions seemingly adds some weight to the view that at least some of the increase in self-employment in Europe in recent years has been “false”, insofar as it has been the outcome of attempts by erstwhile employers to circumvent labour regulations applying to contracted employees (see Eyraud and Vaughan-Whitehead, 2007).

Notwithstanding these additional developments, the primary focus remains on the rise in temporary employment and attention will now focus on just two of the numerous questions that this provokes. First, whatever the merits or otherwise of increased flexibility – it could represent a springboard or a trap for those in temporary jobs (Ichino *et al.*, 2008) - is the current situation legally sustainable? Second, who has

taken these newly created positions and might therefore be affected if their legitimacy was challenged?

5. THE EU DIRECTIVE ON FIXED-TERM WORK: POLAND'S UNDOING?

While the unions were opposed to many of the measures contained within the Hausner legislation, what is perhaps more serious is that its temporary contract provisions were knowingly in direct contravention of the EU's 1999 Directive on Fixed-Term Work (OJ, 1999) and would need to be amended upon accession. The Directive itself was the result of a framework agreement between the European social partners that sought to achieve a better balance between flexibility in working time and security for workers, as called for by the EES. In particular, the legislation demanded non-discrimination measures on behalf of temporary employees and insisted that Member States introduce one or more of the following in order to prevent abuse arising from the use of successive fixed-term employment contracts or relationships:

- (a) objective reasons justifying the renewal of such contracts or relationships;
- (b) the maximum total duration of successive fixed-term employment contracts or relationships;
- (c) the number of renewals of such contracts or relationships.

The problem with the 2002 Polish reforms regarding temporary employment was that they effectively permitted such arrangements without restriction. As such, Poland was failing to comply with the *acquis communautaire* and its Labour Code was

therefore revised again upon accession with the re-introduction of the clause from the 1996 Code that any third successive fixed-term employment contract with the same worker automatically qualifies as an indefinite arrangement. However, the new law is very weak and there are various exceptions to it.

With a view to the exceptions, it should be noted that the Hausner legislation was an element of quite a comprehensive package of measures (“Entrepreneurship – Development – Work”) attempting to revitalise Poland’s sclerotic labour market. Amongst these was the First Job programme for school leavers, later extended to all unemployed youths under the age of 25, which included provisions for young people to be employed on temporary internships. While the participants were not covered by the provisions of the Labour Code, this situation was not in fact counter to the 1999 Directive, as elaborated in its Clause 2 covering initial training and publicly supported integration initiatives. In attempting to understand the surge in temporary employment, however, First Job, which was never evaluated fully, probably only placed around 150,000 young people in temporary posts in each full year of its operation and the programme was terminated in December 2005 (Surdej, 2008; Czarzasty, 2004). Notwithstanding the fact that this particular exemption from the Labour Code was admissible, various other aspects of the design of the legislation almost certainly do violate the precepts of the Directive and have attracted the critical attention of the Commission (E. Comm, 2008).

First, the Polish legislation does not provide equal protection for all classes of temporary worker. In particular, it excludes those on contracts for a trial period; those employed on substitution contracts and those employed for the performance of

specific work, including seasonal labour. Second, it is easier in Poland to terminate a temporary contract than a permanent one, with the notice period being two weeks in the former case and up to three months, depending on length of service, in the latter. Third, there are no limits on the possible duration of a fixed-term employment contract. Furthermore, while the Labour Code does state that the maximum number of successive temporary contracts that can be concluded between an employer and a worker is three, with the third being treated as indefinite; the definition of successive is that there be less than one month between them. The Commission (*ibid.*) has queried whether the latter time limit is long enough. Fourth, no objective reasons are needed to enter into or to renew a fixed-term contract. It is apparent from the language of the report on the transposition of the Fixed-Term Work Directive (*ibid.*) that the laxity of Poland's efforts in these four areas is unlikely to go unchallenged into the future.

6. POLAND'S TEMPORARY WORKFORCE

The issue of labour market flexibility has a long and contentious history in the social sciences. In more recent times, the topic has become more or less synonymous, in one branch of labour economics at least, with that of attempting to identify the impacts of employment protection legislation (EPL). The first problem that must be faced in such work is the construction of a measure of the severity of EPL, which is not captured by the Eurostat labour cost index discussed above. Even though it has its own shortcomings, the force of such regulation is better gauged by indicators such as the EPL index enumerated periodically by the OECD. In the latest compilation (OECD, 2004), Poland was adjudged to have liberal regulations regarding fixed-term

appointments, but relatively severe ones in the case of regular jobs.⁹ While variations in the strictness of EPL can influence a variety of labour market stocks, flows and dynamics, Addison and Teixeira (2003) concluded that, overall and having surveyed a large literature, empirical observation points to a net reduction in total employment the tighter the rules are.¹⁰ However, they also note that this is an average result and that there is considerable evidence pointing to greater impacts for some groups than for others.¹¹ As it might be assumed that a tightening of the terms on which fixed-term employment contracts can be concluded, as the Commission's stance implies will come to pass, would tend to reduce the extent of temporary working, it is of considerable interest to highlight those who might be most strongly affected.¹²

In order to identify in any detail the characteristics of those filling Poland's temporary posts, it is necessary to move from the published summary findings of its LFS exercises that have formed the basis of the discussion so far to the raw data files that underpin them. For this purpose, it was decided to focus attention on the results for the second quarter of each year under study.¹³ Table 6, which describes the traits of all those observed in fixed-term positions across the five observation points between 2003 and 2007, expressed in relation to the relevant total, presents the requisite information. In each case, the data are unweighted. The figures in the second column of the Table provide the composition of the fixed-term workforce by characteristics. For each sub-aggregate, the figures are exhaustive and sum to 100%. The figures in the third column provide detail on the intensity of temporary working for different sections of the labour force; so, for example, 51.1% of all of those aged less than 25 responding to the Surveys were on fixed-term contracts. Finally, the fourth column

disaggregates total observed employment, with the figures again being exhaustive, save for rounding error, by characteristic vector.

TABLE 6 HERE

Clearly, many of those in the temporary workforce are below the age of 25, which is at least consistent with the emphasis of the First Job initiative and the fact that most of its participants took up internships (Surdej, *op. cit.*). However, there is no way of knowing from the LFS questionnaire that this is actually what the data is picking up. Nevertheless, the heavy representation of young people in temporary jobs is a feature repeated in other EU Member States (E. Comm, 2007a). However, it is equally important to recognise that, in Poland, three-quarters of those in temporary jobs over the period were not eligible to enter the First Job scheme and that such work is of some importance for those aged over 24. The precise nature of their contracts would therefore come under scrutiny if the Commission were to require Poland to adhere more rigorously to the letter of the Directive. Somewhat unusually (E. Comm, 2006a), women neither formed the majority of temporary contract holders and nor were they over-represented relative to either their weight in aggregate employment or their own presence in the workforce.

It is also rather surprising given the experience in other Member States, both old and new, that there is no real educational bias evident amongst the fixed-term staff observed by the LFS exercises under scrutiny. In particular, the differences in the likelihood of temporary working between highly and lowly educated workers are not of the magnitude typically observed across OECD countries (OECD, 2002). However, notwithstanding the growth in temporary working amongst certain professional groups, the strongest concentration of temporary workers is to be found

in unskilled occupations. This is the normal finding (*ibid.*), but taken in conjunction with the outcome for educational groupings, it does point to a concentration of workers in jobs for which they are evidently over-qualified.

While by no means absent from the public sector, it is clear that the bulk of temporary work is to be found in the private sector of the economy. It is evident, however, that this has very little to do with staffing patterns in agriculture. While this may seem counter-intuitive, given the seasonal character of farming, the exceptionally high levels of self-employment and family working, coupled with the obverse paucity of paid employees, rationalises the observation. Although the differences are in general not large, it is rare in western economies to observe higher concentrations of temporary working in industry rather than services (*ibid.*). The contrary finding for Poland is perhaps a reflection of its unusual, persistent comparative advantage in traditional and low-to-medium skill industries (E. Comm, 2006b).

Poland's temporary workforce is evidently not only large, but also diverse. It certainly does not appear to accord particularly well with standard portrayals of fixed-term contract employees as being those at the margins of the labour force, such as youths, older people, the poorly qualified and women with intermittent attachment to the market. However, the size and character of the protracted unemployment bulge that preceded its emergence was also extraordinary. At least one segment of the country's labour market now displays the increased flexibility that many saw as a precondition for overcoming the problem of more than three million jobless individuals and, by 2007, the unemployment rate was in single digits for the first time since the LFS began. A true causal link between the two has not, of course, been established, but tightening the regulatory framework would seem to carry with it the

risk of reversal. As the EU has repeatedly called upon Poland to consolidate its fiscal position (e.g. EC, 2007), with reductions in the cost of its inefficient social protection system always being to the fore (e.g. E. Comm., 2006b), the danger would then be that there will not be the resources available to respond by attempting to substitute an alternative approach. In particular, an imitation of the more comprehensive Danish model of flexicurity, which involves relatively liberal EPL, generous unemployment benefits and compulsory activation measures, would undoubtedly be too costly at this juncture (OECD, 2004; Madsen, 2002). After all, the First Job initiative was abandoned largely on financial grounds (Surdej, 2008).

7. CONCLUSION

Poland entered its transition epoch as a large, but relatively poor economy. In its quest to 'return to Europe', it recorded generally impressive rates of growth although, owing to a very low level of labour utilisation, the standard of living of its population remained conspicuously low. As the EU grappled increasingly seriously with the problems of improving its competitiveness and injecting greater dynamism into its labour market, while simultaneously embarked upon an ambitious eastern enlargement project, Poland's weaknesses became ever more evident and problematic. In particular, while these were most evidently manifest by its eventual possession of the highest unemployment rate in Europe, they could also be observed in its failure to converge towards numerous specific targets of the Lisbon Strategy.

Somewhat unexpectedly, however, the situation on Poland's labour market began to improve dramatically in the years from 2003: unemployment tumbled, the employment rate rose and joblessness amongst youths halved. These improvements

coincided with a relaxation of the country's employment protection legislation, particularly as this relates to fixed-term workers, and the great majority of the new posts created between 2003 and 2007 were of a temporary nature. While the impacts of variations in the severity of such laws remain hotly debated on both theoretical and empirical grounds, the evidence explored in this paper indicates that Poland's temporary workforce is reasonably diverse in character. This though is perhaps less surprising in a situation in which almost 1.4 million new temporary positions are created when one-fifth of the labour force is without work.

The Lisbon Strategy, however, is concerned with much more than the achievement of numerical labour market ratios. For example, it also seeks to increase flexibility while simultaneously enhancing worker security. Unfortunately, Poland's recently liberalised temporary work provisions seem likely to be adjudged to be in breach of the EU's Fixed-Term Directive and will probably require tightening. If this comes to pass, it is possible that, given the country's difficulties in complying with the Stability and Growth Pact and consequent lack of resources for new policy initiatives, the question may extend beyond that of whether temporary work provides a stepping stone into the world of work or a dead end to one of whether some labour market exposure, however tenuous, is better than none at all.

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Table 1
GDP at constant prices (1989 = 100)

	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI
1989	100	100	100	100	100	100	100	100	100	100
1990	90.9	98.8	97.8	96.5	97.7	105.5	92.8	94.4	99.6	92.5
1991	81.1	87.4	90.0	85.0	85.4	99.5	86.3	82.2	83.8	84.3
1992	74.3	84.6	70.6	82.4	58.0	78.3	88.1	75.0	78.2	79.6
1993	65.7	85.0	64.7	81.9	51.4	65.6	91.9	76.1	75.3	81.8
1994	63.2	87.8	63.6	84.4	52.5	59.2	96.7	79.1	80.0	86.2
1995	62.2	93.4	66.8	87.3	51.4	59.9	103.2	84.8	84.6	89.7
1996	57.2	87.2	70.1	88.4	53.4	63.0	109.6	88.1	89.9	93.0
1997	53.9	96.5	77.7	92.5	57.9	68.3	117.4	82.8	94.0	97.5
1998	56.1	95.8	81.9	97.0	60.6	73.4	123.2	78.8	98.2	101.3
1999	57.4	97.1	81.8	101.0	62.6	72.3	128.8	77.9	98.2	106.8
2000	60.5	100.6	89.6	106.3	66.9	75.3	134.3	79.6	99.6	111.2
2001	63.0	103.1	96.5	110.6	72.3	80.3	135.9	84.1	102.9	114.7
2002	65.8	105.0	104.0	115.4	77.0	85.9	137.9	88.4	107.8	118.8
2003	69.1	108.8	111.4	120.3	82.5	94.7	143.2	93.1	113.0	122.2
2004	73.7	113.7	119.8	126.0	89.7	101.6	150.8	100.9	118.9	127.6
2005	78.3	120.9	130.8	131.2	99.2	109.7	156.3	105.1	126.7	132.9
2006	83.2	129.1	144.3	136.3	111.3	118.3	166.0	113.4	137.5	140.5
2007	88.3	137.6	153.5	138.1	122.8	128.9	177.1	120.3	151.7	149.0

Legend: BG = Bulgaria, CZ = Czech Republic, EE = Estonia, HU = Hungary, LV = Latvia, LT = Lithuania, PL = Poland, RO = Romania, SK = Slovakia, SI = Slovenia.

Source: Derived from IMF World Economic Database October 2008, with imputations from Berengaut and Elborgh-Woytek (2005) for Estonia and Slovakia (1989 – 1992) and for Latvia, Lithuania and Slovenia (1989 – 1991)

Table 2
Average Annual GDP Growth Rates for 1992-2007 and Sub-Periods (%)

	1992-1996	1997-2001	2002-2007	1992-2007
Bulgaria	-6.7	2.0	5.8	0.7
Czech Republic	2.2	1.2	4.9	2.9
Estonia	-4.3	6.6	8.1	3.7
Hungary	0.8	4.6	3.8	3.1
Latvia	-7.9	6.3	9.2	3.0
Lithuania	-8.2	5.0	8.2	2.1
Poland	4.9	4.4	4.5	4.6
Romania	1.6	-0.8	6.1	2.5
Slovakia	1.6	2.8	6.7	3.7
Slovenia	2.1	4.3	4.5	3.7

Source: As Table 1.

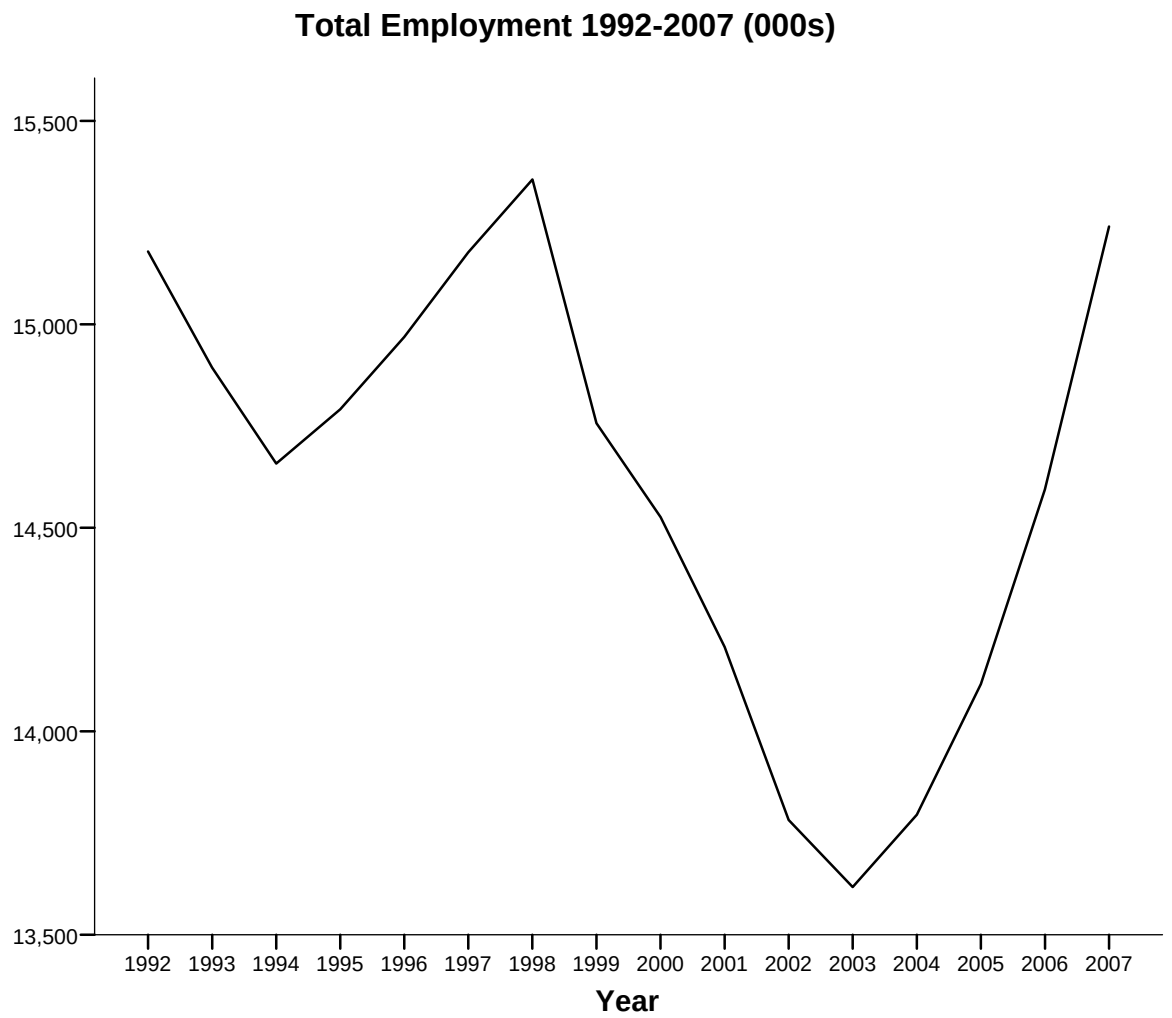
Table 3
Annual Growth in Real Labour Productivity (%)

	Per Hour		Per Worker	
	Poland	EU15	Poland	EU15
1994	5.5	2.7 ¹	n.a.	n.a.
1995	6.7	1.8 ¹	n.a.	n.a.
1996	4.1	1.4	4.3	1.2
1997	5.7	2.4	4.4	1.6
1998	4.9	1.3	3.6	1.2
1999	8.9	1.4	5.4	1.2
2000	6.4	2.7	6.8	1.7
2001	4.1	1.1	4.6	0.5
2002	4.2	1.6	3.4	0.5
2003	4.7	1.4	14.2	0.7
2004	4.0	1.4	4.1	1.5
2005	0.7	1.2	1.4	0.9
2006	3.2	1.6	2.9	1.4
2007	2.6	0.9	2.1	1.0

Notes: 1. Excludes Austria.

Sources: productivity per hour from OECD *Labour Productivity Growth Database*; productivity per worker from Eurostat *National Accounts Indicators Database*.

Figure 1



Source: GUS Labour Force Survey, various years.

Table 4
Major Labour Market Ratios 1992-2007 (Annual Averages Across Four Quarters)

Year	Unemployment Rate	Employment Rate (15-64)	Unemployment 15-24 (%)	% of Unemployment > 12 Months	Female Employment Rate (15-64)	Economic Activity Rate (15-64)
1992	13.5	59.9	28.3	32.9	53.1	69.5
1993	14.0	58.9	30.1	37.7	52.1	68.8
1994	14.4	58.3	32.6	40.2	51.9	68.4
1995	13.3	58.1	31.2	40.0	51.8	67.4
1996	12.4	58.4	28.7	39.1	51.8	66.9
1997	11.3	58.8	25.0	37.8	51.8	66.5
1998	10.6	59.0	23.2	37.6	52.2	66.1
1999	13.9	56.4	31.2	33.1	50.1	65.8
2000	16.1	55.0	35.2	37.9	48.9	65.8
2001	18.3	53.5	41.0	43.1	47.8	65.7
2002	19.9	51.5	43.9	48.4	46.3	64.6
2003	19.7	51.2	43.2	49.7	46.0	64.0
2004	19.0	51.7	41.1	48.0	46.2	64.0
2005	17.8	52.8	38.0	52.2	46.8	64.5
2006	13.9	54.5	29.8	50.4	48.2	63.4
2007	9.6	57.0	21.7	45.7	50.6	63.2

Variable Definitions: Unemployment = % of economically active without work; Employment Rate (15-64) = % of population aged 15-64 in work; Unemployment 15-24 (%) = % of economically active population aged 15-24 without work; % Unemployment > 12 Months = % of total unemployment pool out of work for more than twelve months; Female Employment Rate (15-64) = % of female population aged 15-64 in work; Economic Activity Rate (15-64) = % of population aged 15-64 in labour market (employed + unemployed).

Sources: Labour Force Survey, Warsaw: GUS, various years; employment and activity rates, Eurostat from 2002 onwards.

Table 5
Employment Changes 2003-2007

	Change 2003-2007	% Change 2003-2007
Total Employment	1,624,000	11.9
Total Unemployment	-1,710,000	-51.4
Total Employees	1,761,000	17.7
Urban Employment	1,063,000	12.7
Rural Employment	561,000	10.7
Industry Employment	789,000	20.3
Services Employment	1,092,000	15.1
Male Employment	971,000	13.1
Female Employment	653,000	10.6
Private Sector Employees	1,909,000	34.6
Public Sector Employees	-147,000	-3.3
Permanent Employees	389,000	4.9
Temporary Employees	1,373,000	71.6

Source: GUS Labour Force Survey, various years.

Table 6
Temporary Workers 2003-2007

Characteristic	% of Total Temps	Temps as % Own Group Employed ¹	Group as % of Total Employed ¹
Age			
15-24	25.8	51.1	9.0
25-64	73.3	14.8	88.6
65+	0.9	7.2	2.3
Sex			
Male	55.8	18.3	54.4
Female	44.2	17.3	45.6
Education			
Tertiary	14.4	14.0	18.4
Vocational Secondary	27.9	17.2	28.9
General Secondary	9.9	23.5	7.5
Basic Vocational	35.2	19.4	32.5
Lower Secondary or Worse	12.6	17.7	12.7
Sector¹			
Public	19.5	12.0	40.7
Private	80.5	33.9	59.3
Economic Activity			
Agriculture	3.8	3.3	20.7
Industry	42.4	26.4	28.7
Services	53.8	19.0	50.5
Occupation			
Professional	10.2	9.9	18.4
Skilled/Semi-Skilled	73.0	17.8	73.4
Unskilled ²	16.8	36.5	8.2

Notes: 1. The employed comprise paid employees, the self-employed and unpaid family workers. In the case of the sector figures, the denominator in the third and fourth columns is just paid employees. 2. Those in the army have been classified as unskilled, but the numbers involved are very small.

Source: GUS Labour Force Survey data 2003-2007, second quarter.

NOTES

¹ Rapacki (2003) had previously estimated that the natural rate of Polish unemployment was around 10%.

² To see this, it is only necessary to recognise that:

$$\frac{\text{realGDP}}{\text{Population}} = \frac{\text{realGDP}}{\text{LabourInput}} \times \frac{\text{LabourInput}}{\text{Population}}$$

where the term on the left hand side is a measure of living standards, the first term on right is a measure of labour productivity and the second term is a labour utilisation rate. For a more comprehensive review of productivity and its measurement, see OECD (2001).

³ In fact, while the total population decreased by about 400,000 between 1998 and 2003, that of people aged 15 and over and therefore eligible for inclusion in the LFS increased by almost one million.

⁴ For example, every unemployed young person was to be offered training, retraining, work practice, a job or other employability measure before being out of work for six months (EC, 1997:6).

⁵ See the Structural Indicators database at <http://epp.eurostat.ec.europa.eu>.

⁶ See the labour market section of the theme 'population and social conditions' at <http://epp.eurostat.ec.europa.eu>.

⁷ Civil law contracts are effectively contracts of commission for one-off job assignments.

⁸ Previously, no constraints had been applied, whether to the length of any single fixed-term assignment or to their successive number. It must, of course, be recalled that, at the time the 1974 Code was drawn up, the standard presumption was that employment contracts would be of indefinite duration.

⁹ There were relatively minor relaxations of the regulations for permanent staff on sick leave, overtime, interrupted working time, daily breaks and time off for job search under the 2002 Labour Code reforms (Czarzasty, 2002). However, these were insufficient to affect the assessment of the strictness of EPL for such workers by OECD (2004).

¹⁰ Account needs to be taken of institutional features, such as the effectiveness of active labour market policy and the unemployment benefit regime, that might interact with the EPL framework before arriving at such empirical conclusions.

¹¹ The need to examine the differential impact of EPL on separate sub-groups within the labour market is a recurrent theme, reiterated more recently in, for example, Sa (2008), Siebert (2007) and Bassanini and Duval (2006).

¹² At the very least, it might be expected to induce at least some previously legal temporary work to gravitate toward the underground economy. Perhaps ironically, one of the aims of the 1996 and subsequent Polish Labour Code reforms was to introduce greater clarity into the law and to flush such employment into the open. Tackling undeclared work has, of course, long been a target of the EES (E. Comm., 2007).

¹³ Since 1999 the LFS has been based on continuous observation and 1/13th of its quarterly sample of dwellings is surveyed each week. Each quarterly sample covers around 17,000 households containing over 40,000 persons aged 15 and over.