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**Title:**

Local Unemployment in Poland: Rural-Urban Contrasts

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**Running Title:**

Local Unemployment in Poland

**Abstract:**

Unemployment continues to bedevil Poland, albeit with striking sub-national differences, which this paper seeks to explain using random effects error component two-stage estimation for the country's NUTS 4 level powiats. Given the economy's peculiar configuration under communism, with its large private agricultural sector, emphasis is placed on rural-urban differences. While less densely populated areas do suffer higher unemployment rates, the effect is moderated by hidden unemployment in farming. On the other hand, powiats that housed the ex-state farms suffer a negative long-term legacy. Other notable results include an evident positive impact of foreign capital on local labour market fortunes.

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## 1. INTRODUCTION

Poland's headline unemployment rate has been consistently amongst the highest within the ten Central and Eastern Europe (CEE) countries that have recently acceded to the European Union (EU). Furthermore, in 2005 it housed four of the ten NUTS-2 (*nomenclature des unites territoriales statistiques*) regions with the highest unemployment rates in the then to be EU-27 (Mładý, 2006).<sup>1</sup> The general flavour of these observations is not particularly novel, of course, and there have been quite a large number of studies of Poland's national and major regional (voivodship) unemployment problems (e.g. Newell, 2006; Pastore, 2004; Walsh, 2003; Rutkowski and Przybyła, 2002; Góra and Lehmann, 1995). However, much less has been written about unemployment at more finely disaggregated spatial levels and detailed analysis of them has been rarer still. The purpose of this paper is therefore to examine the problem at the level of the powiat.<sup>2</sup> This accords better with the EU's ambition to reduce spatial unemployment disparities and its recognition of the need to enlist local actors in the process (CEC, 2005).

While the topic is of intrinsic interest, the study is also motivated by the greater opportunity that analysis at the powiat level affords to cast further light on what is widely recognised as the marked and enduring rural-urban divide within Poland (MARD, 2007; CEC, 1997). Important facets of this for current purposes include the fact that the raw statistics from the Labour Force Survey, although compiled on somewhat different conventions to the data utilised here,

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<sup>1</sup> The four French overseas regions (Guadeloupe, Martinique, Guyane and Réunion) are excluded from this comparison.

<sup>2</sup> To our knowledge, the only analytical, as opposed to descriptive, work at this level, whether in English or Polish, are two evolving working papers by Joanna Tyrowicz and Piotr Wójcik of the Faculty of Economics, Warsaw University. Even these, however, are concerned with the statistical convergence properties of the unemployment series rather than their economic modelling.

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2  
3 indicate that unemployment among the non-farm rural population remains above  
4 that among urban dwellers.<sup>3</sup> On the other hand, private sector agriculture has  
5  
6 often been seen as a buffer zone shielding workers from the external labour  
7  
8 market and economic upheavals of recent years (Ingham and Ingham, 2004).  
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10 Nevertheless, while the underlying data he used will be subject to wide margins  
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12 of measurement error, Frenkel (2001) suggested that the pattern is not uniform  
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14 across the country and it is hoped that the current work will generate further  
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16 insights into this.  
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22 The next section outlines the basic administrative structure of Poland.  
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24 This is followed by a consideration of the powiat as a labour market. Section 4  
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26 contains an overview of theoretical explanations of within country spatial  
27  
28 unemployment differences, including those focusing on transitional economies.  
29  
30 Section 5 reviews various atypical features of the Polish economy, which suggest  
31  
32 that standard models of systemic change should be applied with care. Thereafter,  
33  
34 the empirical specification and estimator to be applied in the current analysis are  
35  
36 developed in Section 6. The results of the estimation exercise are presented in  
37  
38 Section 7. A summary and conclusions close the paper.  
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## 46 **2. THE TERRITORIAL DELINEATION OF POLAND**

47  
48 The history of Poland's political transition has been widely documented and here  
49  
50 it is simply noted that the Polish elite, if not always the population at large, was  
51  
52 determined to pursue membership of the EU as an essential step in the country's  
53  
54 'return to Europe'. In order to achieve this goal, the country needed to comply  
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59 <sup>3</sup> Unless noted to the contrary, all data referred to in this paper are taken from official series  
60 compiled and held by the Polish Central Statistical Office (GUS). Precise references can be found  
in Ingham *et al.* (2008).

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3 with the *acquis communautaire*, including the requirement that new members be  
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5 in a position to participate in the Structural Fund programmes and Cohesion  
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7 Fund actions from the date of entry. This mandatory stipulation is obviously  
8  
9 central for poorer applicant countries and its fulfilment dictates that a NUTS  
10  
11 consistent classification of their territory be established, which the prevailing  
12  
13 local government structure in Poland was not. While other factors were also at  
14  
15 work, this dictated the need for a thoroughgoing and domestically controversial  
16  
17 local government reorganization (Gorzelaak and Jałowiecki, 2000).  
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22 The ultimate result was the Local Government Reform Act that came into  
23  
24 effect on 1 January 1999. This created sixteen NUTS 2 regions by reducing the  
25  
26 number of voivodships from the previous 49 and re-introduced the powiat tier of  
27  
28 government that had been abolished in 1974 as NUTS 4 (LAU 1 units from  
29  
30 2003).<sup>4</sup> Amalgamations of powiats known as sub-regions represent the NUTS 3  
31  
32 tier, but these are largely a statistical artefact. In addition, the reform retained  
33  
34 2,489 NUTS 5 (now LAU 2) level gminas. Unfortunately, the reorganization  
35  
36 made labour market analysis of the voivodships much less informative; for  
37  
38 example, the coefficient of variation of their registered unemployment rates fell  
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40 from 115.7 per cent to just 27.5 per cent under the old and new boundaries at  
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42 December 1998.  
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### 51 **3. THE POWIAT AS A UNIT OF ANALYSIS**

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53 As the only measure that can be made available on a comprehensive and reliable  
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55 basis at lower levels of spatial disaggregation, the current work seeks to model  
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60 <sup>4</sup> As a point of reference, the powiats, with an average population size of just over 103,000, are about three-quarters of the size of the districts that represent NUTS 4/LAU 1 regions in the UK.

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jobless rates based on the count of individuals who register their position at the local powiat labour office.<sup>5</sup> In order to avoid problems with boundary changes and the reclassification of agricultural activity, discussed further below, the current analysis focuses upon an eight quarter, balanced panel of observations covering the years 2000 and 2001. Nationally, the unemployment rate stood at 14.0 per cent in 2000, rising to 16.2 per cent in the following year, with more than three million people on the register. As shown in Table 1, the corresponding powiat unemployment rates ranged from a low of 2.8 per cent in 2000 to a high of 35.7 per cent in 2001.

Utilising data at the level of the powiat is subject to the important caveat that functional local labour markets have not been defined for Poland. A typical way of constructing these is on the basis of the commuting patterns of workers, as with the Travel-To-Work Areas (TTWAs) for the UK. In practice, however, it is normally not possible to divide countries into an exhaustive set of self-contained labour markets and the UK, for example, adopts a criterion of 75 per cent self-containment for its TTWAs.<sup>6</sup>

Approximations aside, the boundaries of TTWAs are generally not co-terminus with those of administratively defined districts. Using the latter can therefore render the calculation of unemployment rates problematic whenever, as here, the data on unemployment and employment come from different sources: local labour offices for the former and establishment surveys for the latter.<sup>7</sup>

While controls designed to counter this difficulty will be introduced in the

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<sup>5</sup> ILO consistent self-certification data are available from the quarterly Labour Force Survey, but they cannot be used at the local level.

<sup>6</sup> In areas where the working population exceeds 20,000 a level of containment of 70 per cent is deemed acceptable.

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3 empirical work to follow, it should be noted that the correlation of recorded  
4 powiat unemployment rates with residence based rates, defined as the  
5 unemployed stock divided by the working age population, as preferred by ONS  
6 (2002), was 0.81 in 2000 and 0.86 in 2001. These coefficients are highly  
7 significant. Furthermore, local authorities tend to have powers of policy  
8 intervention that abstractly constructed TTWAs typically do not.  
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#### 20 **4. THEORETICAL APPROACHES TO SPATIAL UNEMPLOYMENT** 21 **DISPARITIES**

22  
23 In most European countries at least, inequalities in unemployment across spatial  
24 units often persist over very long periods of time (e.g. Elhorst, 2003; Badinger  
25 and Url, 2002) and Poland represents no exception (Huber, 2006). Numerous  
26 theoretical approaches to the explanation of regional unemployment differentials  
27 exist, although those in the mainstream have common antecedents and therefore  
28 tend not to be mutually exclusive. They do, however, emphasise different factors  
29 as the major explanation of the failure of labour markets to clear through price  
30 flexibility and factor mobility. What follows reviews certain influential strands of  
31 the relevant literature.  
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45 One approach looks to compensating differentials to explain persistent  
46 differences in unemployment rates (Harris and Todaro, 1970). In such models, a  
47 zero migration equilibrium comes about as a result of some compensation  
48 (relatively high wages, social benefits, transaction costs or good regional  
49 amenities) offsetting a high risk of unemployment. In other words, utility is  
50 equalised across space and high wages (or non-wage benefits) are associated  
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60 <sup>7</sup> The only definition of a local labour market used in Poland is in fact based on powiat



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3 with high unemployment rates and the relationship persists over time. This  
4  
5 approach has also been labelled the amenity model (Marston, 1985).  
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8 Search models, on the other hand, predict a negative relationship between  
9  
10 unemployment and the real wage (Elhorst, *op. cit.*). The central idea is that  
11  
12 individuals maximise expected wages net of search costs, which underpins their  
13  
14 reservation wages. The optimal search strategy is then to accept the first wage  
15  
16 offer in excess of the latter. Migration and commuting expenses are transaction  
17  
18 costs to be added to search costs, while the regional distribution of job vacancies  
19  
20 is seen as part of the opportunity set. Unemployment benefits raise the  
21  
22 reservation wage, thereby prolonging search and raising the level of  
23  
24 unemployment. Within this framework, the size and dynamics of the local labour  
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26 market matter, with large or growing labour markets affording higher vacancy  
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28 rates and better job access, both of which speed up the job matching process.  
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34 Sector based models are also quite common explanations of spatial  
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36 unemployment disparities, with areas in which declining industries are  
37  
38 concentrated predicted to suffer relatively high unemployment rates. The malaise  
39  
40 persists through the depreciation of human capital stocks and deficiencies in the  
41  
42 adaptation of skill portfolios to the needs of growing sectors (Gripaios and  
43  
44 Wiseman, 1996). A related hypothesis is that the level of unemployment within  
45  
46 an area is likely to depend negatively on the degree of industrial diversity, insofar  
47  
48 as the latter promotes greater opportunities for labour redeployment in the face of  
49  
50 discriminatory demand shocks (Neumann and Topel, 1991).  
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55 The embarkation of numerous countries on the route from central  
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57 planning to a more or less free market configuration inspired various attempts to  
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boundaries.

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cast the attendant unemployment in a new light. One notable example, following *inter alia* Aghion and Blanchard (1994), is that focusing upon the Optimal Speed of Transition (OST). In essence, such models seek to establish the level of unemployment that is compatible with both the rate at which the state sector divests itself of labour and that with which the profit seeking private sector is willing to absorb it. A major conclusion is that the rate of release of workers by the former cannot be too fast, otherwise new firms will not be prepared to accept the tax burden implied by the unemployment benefits required to support those made redundant and the transition will fail. In turn, this lends support to a preference for gradualist rather than big-bang approaches to transformation.

The focus of attention on initial conditions, the rate of restructuring and intra-labour market flows implied by the OST approach are obviously potentially important considerations for analyses of transitional labour markets. It is a moot question, however, whether the differences between their situation and those involving transformations in other economic systems are often more than ones of degree. The impact of the closure of British coalfields during the 1980s and 1990s on their local labour markets (Beatty and Fothergill, 1996) represents just one example where similar concerns might be said to have arisen. What is more, OST was not originally conceived as a theory of regional unemployment differentials, although Walsh (*op. cit.*) and Lehmann and Walsh (1999), amongst others, have sought to explore its implications at the spatially disaggregated level.

This aside, formulations in this tradition have been criticised for their over-simplicity. Boeri (2006), for example, highlighted the need for the re-consideration of more traditional supply side rigidities in addition to the OST

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2  
3 emphasis on demand factors, if a firmer understanding of the behaviour of  
4  
5 transitional labour markets is to be achieved. As various surveys of the OST  
6  
7 literature already exist, including Ferragina and Pastore (2006) and Boeri (*op.*  
8  
9 *cit.*), this brief overview will not be developed further. Instead, the following  
10  
11 section undertakes a review of certain features of the Polish economy that would  
12  
13 indeed suggest the need for caution in applying the OST methodology too  
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15 literally in that country. The discussion will also serve as a prelude to the  
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17 empirical work that follows.  
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## 25 **5. THE POLISH BACKGROUND**

26  
27 A convenient simplification adopted by basic OST models is that transition  
28  
29 involves the reallocation of labour from an omnipresent state sector to an *ab*  
30  
31 *initio* private one. In fact, following an initial failed attempt to impose  
32  
33 agricultural collectivisation, Poland always had a sizeable private sector in the  
34  
35 post-war era in the form of its family farms, which employed 4.2 million workers  
36  
37 by 1989 or about one-quarter of all employment.<sup>8</sup> What is more, controls on  
38  
39 private enterprise were relaxed somewhat in the 1980s and, by 1989, the private  
40  
41 sector non-agricultural workforce accounted for nine per cent of all jobs. To  
42  
43 these rather stark departures from the normal characterisation of the socialist  
44  
45 economies must, of course, be added the underground activity that was a  
46  
47 ubiquitous adjunct of central planning. It is therefore unrealistic to view state  
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49 restructuring as necessarily preceding the emergence of the private sector.  
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<sup>8</sup> Notwithstanding the private ownership of the farms, the state did, however, at various times exert a strong influence over their activities, although this waned in the 1980s (Wilkin, 1989).

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Nevertheless, Poland did display many of the intended characteristics of the planning process, including forced industrialisation whereby particular areas were turned over to the production of a limited range of commodities. In addition, most agricultural activity – although not all of it (Wilkin, 1989) – was concentrated in the countryside, which gave rise to a frequently noted urban-rural dichotomy that partially reflected the uneasy relationship of the authorities with the private farming community. This does indeed then suggest that initial conditions might be important in determining future development trajectories, while at the same time highlighting the importance of structural change for the transition process.

Caution is also necessary regarding the assumption that unemployment was a phenomenon to emerge instantaneously. In truth, as might be expected in a labour market characterised by excess demand and narrow wage differentials, job changes were frequent.<sup>9</sup> While unemployment was not recognised officially, the authorities did report the existence of a small number of job seekers. Admittedly, these were always minute in relation to the number of vacancies seemingly registered with the labour offices, although Witkowski (1993) presents official figures showing that the latter placed an annual average of 1.8 million workers in employment over the years 1985-1989. Furthermore, the same source notes that labour turnover (hires plus quits) amounted to 36 per cent of total employment in the socialised sector of the economy over that period.<sup>10</sup> In addition, Poland exhibited very high levels of disguised unemployment, amounting to at least a quarter of the work force (Góra and Rutkowski, 1990).

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<sup>9</sup> Sometimes generous company specific non-pecuniary benefits acted as one brake on this.

<sup>10</sup> In fact, the planned economies have long been known to have exhibited all forms of unemployment other than that associated with business cycles (Bornstein, 1978).

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The last observation suggests a concern that simple OST models ignore productivity growth and posit a constant wage differential between the public and private sectors. However, successful transition hinges on improved economic performance and increased living standards for the population. As Table 2 makes clear, Poland has achieved strong gains in labour productivity since the reforms began and this might be expected to hasten the pace at which the private sector grows, provided the advances were more heavily concentrated therein.<sup>11</sup>

It is also unrealistic to assume that the public sector withers to nothing at the close of the transition process and more helpful to think in terms of restructured and unstructured activities. Thus, as shown in Table 3, public sector employment in Poland over the first four years of the current decade appeared relatively stable at something more than 3.5 million workers. At the same time, inflows to the unemployment pool have not emanated solely or even mainly from the public sector. As the Table confirms, the state sector only accounted for half of those on the unemployment register even in 1992 and the proportion declined thereafter.

Finally, it can be noted that the Aghion and Blanchard (*op. cit.*) assumption of a fixed labour force sits ill at ease with the facts. In particular, the Polish economic activity rate declined quite markedly in the years after 1989. Some part of this was undoubtedly attributable to an inflation of payrolls during the communist epoch. More important, however, was the liberal policy regime surrounding the granting of early retirement and invalidity pensions as a means of easing the personal burdens of transition; a practice that is still attracting critical comment from the OECD (2006). On the other hand, the working age

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<sup>11</sup> In the context of Aghion and Blanchard (1994), the hiring function should drift upwards.

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3 population continued to increase throughout the 1990s as a result of an earlier  
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5 baby boom.  
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## 10 **6. AN EMPIRICAL MODEL OF POWIAT UNEMPLOYMENT**

11  
12 Modelling unemployment across powiats controls for a good deal of the intra-  
13 regional variation that is suppressed in voivodship level studies, as Table 4  
14  
15 makes clear for 2001. However, the availability of data with which to test  
16  
17 hypotheses regarding the determinants of unemployment is less rich at the more  
18  
19 disaggregated level. Such problems sometimes therefore necessitate the use of  
20  
21 proxy measures. Nevertheless, the model developed in this section retains  
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23 theoretical underpinnings and the findings from the associated analysis should  
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25 yield further insights on the determinants of local unemployment disparities in  
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27 Poland.  
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### 36 *Rurality*

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38 Rural development remains a priority concern in Poland (Ingham and Ingham,  
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40 2008). Unfortunately, there is no unambiguous definition of rurality, with  
41  
42 adopted classifications based on administrative, contextual and functional criteria  
43  
44 all being common and frequently yielding dissimilar territorial divisions.  
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48 Attention here focuses upon population density based measures and the Polish  
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50 administrative definition.  
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53 The approach adopted by the OECD is straightforward. It defines NUTS  
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55 5 level communities as rural if they possess population densities of less than 150  
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3 people per square kilometre.<sup>12</sup> In Poland, rural areas are actually defined as  
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5 'territory situated outside town administrative boundaries' (MARD, 2002). Using  
6  
7 this definition, the Polish Ministry of Agriculture calculated that 38.1 per cent of  
8  
9 the country's population and 93.4 per cent of its land would be classified as rural  
10  
11 whereas, under the OECD definition, the corresponding figures are 35 per cent  
12  
13 and 91.7 per cent, respectively (*ibid.*).<sup>13</sup> The basic unit of enumeration for such  
14  
15 calculations is the gmina, although their actual division is not simply into urban  
16  
17 and rural communities. Thus, while such are defined, there is an additional  
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19 category of mixed urban and rural gminas. The practice in official Polish  
20  
21 publications is to classify these sub-populations separately in computing urban  
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23 and rural population totals.  
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30 Seemingly arbitrary schema aside, probably the simplest approach to  
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32 classification is the continuous one relying on population density. At the very  
33  
34 least, it is a measure that has been subject to a good deal of rationalisation in the  
35  
36 labour market literature. Thus, density has been positively associated with  
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38 agglomeration and scale economies (Krugman, 1991; Fagerberg *et al.*, 1997),  
39  
40 with lower search costs and quicker matching (Badinger and Url, *op. cit.*) and  
41  
42 with worker (dis-)amenity (Partridge and Rickman, 1997).  
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46  
47 Whatever the system of classification, there are various reasons for  
48  
49 expecting Polish rural areas to have higher levels of unemployment than urban  
50  
51 localities. Thus, the rural population is poorly educated (MARD, 2007) and low  
52  
53 levels of human capital are inimical to the conduct of modern economic activity.  
54  
55 With no measure of the stock, as opposed to flow, of educational attainment  
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59 <sup>12</sup> At higher levels of spatial aggregation, the Organization's definitions focus on the percentage  
60 of the population living in rural communities (European Commission, 1997).

<sup>13</sup> The implied difference of 1.4 million people was considered 'insignificant' (MARD, 2002).

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3 available, any measure of rurality will, at least partly, track this influence.  
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6 Further, many of Poland's rural areas are connected but poorly to the more  
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8 dynamic centres of the country's economy as a result of inferior physical  
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10 communications networks (MARD, *op. cit.*), which reflects the contextual  
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12 dimensions of isolation and peripherality. However, the distinctive characteristics  
13  
14 of Polish farming lead one to suspect that this posited relationship may not  
15  
16 always prevail.  
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20 The country's agriculture is certainly declining, insofar as its share of  
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22 GDP fell from 12.9 per cent in 1989 to just 2.6 per cent in 2003. However, its  
23  
24 employment total did not adjust accordingly and the sector still accounted for  
25  
26 almost 29 per cent of all in work in 2003.<sup>14</sup> In short, the sector's more than four  
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28 million workers include many who are disguised unemployed. Furthermore,  
29  
30 given that prevailing regulations prevent individuals connected to family farms  
31  
32 receiving unemployment benefit, there may be little incentive for them to register  
33  
34 themselves as out of work. As such, it is natural to hypothesise that *cet. par.* the  
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36 more agricultural is an area the lower would be its unemployment rate.  
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41 As the powiats do not necessarily represent self-contained labour market  
42  
43 areas, they may experience commuter flows across their boundaries; that is, there  
44  
45 may be spatial spillovers. Certainly in the years prior to 1989, numerous workers  
46  
47 from the countryside were known to travel daily to industrial complexes in urban  
48  
49 localities for their employment. However, it is often remarked that those with  
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51 agricultural plots were the first to be laid off as enterprises rationalised in the  
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53 post-communist environment (Góra, 1991). Also, public transport services have  
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<sup>14</sup> Statistical sophistry subsequently erased some two million peasant farmers from the labour market map (GUS, 2004; Ingham and Ingham, 2004).



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3 been curtailed in rural areas, thereby reducing the ease of commuting and  
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5 increasing peripherality. Nevertheless, some account needs to be taken of the  
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7 possibility that labour mobility could contaminate analyses of powiat  
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9 unemployment, with such flows regarded as more likely the more buoyant or  
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11 metropolitan are surrounding areas.  
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### 17 *Initial Conditions, Structural Change and Industry Mix*

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19 As already noted, discussion of labour markets in transition economies  
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21 frequently places emphasis on the importance of initial conditions inherited from  
22  
23 the era of central planning. In general, this might be captured by the initial degree  
24  
25 of industrial diversification of local economies as a measure of their ability to  
26  
27 withstand the shocks of systemic change. However, in the particular case of  
28  
29 Poland, studies have tended also to stress the location of the ex-state farms as an  
30  
31 important negative structural inheritance from the past (Dzun, 2004). It is  
32  
33 certainly the case that this particular segment of agriculture has dwindled almost  
34  
35 to nothing. That said, the obverse of the size of private farming was a state sector  
36  
37 of limited proportion and the pure state farms, excluding co-operatives,  
38  
39 employed just 470,000 workers in 1990. Furthermore, not only were the state  
40  
41 farms relatively diversified enterprises in order to shield them from seasonal  
42  
43 fluctuations, early retirement and invalidity pensions were often used to shed  
44  
45 labour post-1989. Nevertheless, they were concentrated spatially, as shown in  
46  
47 Table 5, and the possibility that their demise generated localised problems should  
48  
49 be explored more formally than has been the case to date.  
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57 The difficulty with an emphasis on initial conditions, particularly after a  
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59 reasonable lapse of time, is that economies evolve, as does the identity of those  
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3 participating in them. This implies a need to control for structural change.  
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6 Unfortunately, the industrial classification in use in Poland was revised with  
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8 effect from 1994 and the boundaries of the country's administrative areas  
9  
10 changed in 1999. This compounds the problem of only having employment data  
11  
12 available at the level of the voivodship and suggests that, in addition to  
13  
14 attempting to measure change over time, it might be necessary to explore the  
15  
16 power of point modernity measures. Natural candidates in this regard would  
17  
18 seem to be contemporary indicators that attempt to account for the degree of  
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20 diversification or the importance of the service sector.  
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#### 27 *Economic Activity: Investment and FDI*

28  
29 Ideally, a measure of local economic activity such as gross regional product  
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31 (GRP) would be used as a proxy for labour demand. Unfortunately, no tolerably  
32  
33 accurate measure of this is available at the powiat level and, in an attempt to  
34  
35 avoid over-reliance on variables relating to higher levels of spatial aggregation,  
36  
37 other indicators are employed.<sup>15</sup> The first is the level of investment per capita,  
38  
39 which is itself an important component of GRP and might therefore be expected  
40  
41 to be inversely related to unemployment. However, it might also be an indicator  
42  
43 of the extent of modernisation being undertaken. While this could take the form  
44  
45 of more progressive and more competitive enterprises that create new work  
46  
47 opportunities, it might also herald the rationalisation of existing operations and,  
48  
49 at least initially, the destruction of jobs. The *a priori* net outcome of investment  
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51 on unemployment is therefore unclear.  
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<sup>15</sup> The relationship between GRP and unemployment has been shown to be complex (Elhorst, 2003: 732).

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3 One might also look to the significance of companies with foreign capital  
4 participation in the powiat business base, as recorded in the official REGON  
5 register, in view of the attention paid to the potential role of FDI in transforming  
6 economies. The most prevalent attitude, although not uncontested, is that it can  
7 support transition by transferring technologies, managerial and labour skills,  
8 marketing channels and a market-based business culture, while at the same time  
9 supplementing domestic savings in the process of catching up with western  
10 living standards (Lankes and Venables, 1997). Such developments might be  
11 expected to reduce unemployment. While direct evidence is scarce, the numerical  
12 weight of companies with foreign capital participation provides one test of the  
13 role of the latter in local labour markets.<sup>16</sup>  
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### 32 *Labour supply and migration*

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34 Having considered some important influences on the demand for labour,  
35 attention here focuses on supply. Empirically, labour supply can be approximated  
36 by the population of working age multiplied by the participation rate.<sup>17</sup>  
37  
38 Unfortunately, the participation rate is not available for powiats, although  
39 working age population data are released and these are used as the basis for  
40 examining labour supply pressures.  
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48 The actual labour supply of working age is the outcome of a number of  
49 flows, of which migration often receives emphasis in the literature on local  
50 unemployment. Some, such as Marston (*op. cit.*), see it as a powerful and rapid  
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56 <sup>16</sup> The monetary volume of FDI, whether measured as a stock or a flow, is not available at the  
57 level of the powiat.

58 <sup>17</sup> The measure is an approximation because some people participate even though they are outside  
59 the accepted working age limits. Commuting across local area boundaries represents a further  
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3 equilibrating mechanism when unemployment rates diverge across space. If his  
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5 theoretical perspective is the correct one, there arises an endogeneity problem  
6  
7 when migration is introduced into an unemployment equation. However, the  
8  
9 evidence for countries other than the U.S. does not support the causal link from  
10  
11 unemployment through to migration nearly so strongly (Ferragina and Pastore,  
12  
13 *op. cit.*; Elhorst, *op. cit.*). Also, the housing shortage in Poland has been a  
14  
15 notorious constraint on mobility and, even though the situation has improved  
16  
17 somewhat in recent years, it still gives rise to concern (Ingham and Ingham,  
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19 2008). Nevertheless, movement does occur and the potential endogeneity of the  
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21 migration rate needs to be considered.  
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### 29 *Model Specification and Preliminary Screening*

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31 In view of the preceding discussion, attention focused on variants of the  
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33 following general model:  
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$$35 \quad U = f(\text{Rurality, Initial Conditions, Structural Change, Economic Activity, Labour} \\ 36 \quad \text{Supply, Controls})$$

37  
38 in which  $U$  is the registered unemployment rate. The precise variables used as  
39  
40 regressors and their mnemonics are given in Table 6.  
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46 Initial estimation revealed that  $LS$  was highly negatively  
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48 correlated with  $AG$  and had to be excluded. The measure of agriculture's  
49  
50 importance is therefore capturing both industry mix and population age structure  
51  
52 effects. As expected,  $RUROECD$ ,  $RURPOL$  and  $DENS$  were collinear, critically  
53  
54 so in the case of the former two, and they were therefore retained for alternative  
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59 distortion. However, other possible measures of labour supply, such as total population multiplied  
60 by the overall participation rate, lead to even more serious problems.

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3 specifications. However, notwithstanding evident stability, collinearity between  
4 these rurality measures and agricultural intensity remained a concern. As the  
5 problem was much less severe when population density was employed, its  
6 inclusion defines the *a priori* preferred version of the model.  
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12 Data on a group of observational units over time raise questions about the  
13 choice of modelling strategy. The straightforward option would be to ignore  
14 heterogeneity within the sample and to pool the data. However, if heterogeneity  
15 across powiats is present, it results in biased and inconsistent estimators. This  
16 work therefore adopts a panel data approach and utilises the one-way error  
17 correction model proposed by Baltagi (2008). Initial testing rejected the null of  
18 no endogeneity for two of the model's explanatory variables, *INVPC* and *MIG*,  
19 and Baltagi's (*op. cit.*) random effects error component two-stage estimator  
20 (EC2SLS) was used to generate consistent, asymptotically efficient estimates of  
21 the model.<sup>18</sup> The estimator is explored more fully in Ingham et al. (*op. cit.*).  
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## 37 7. RESULTS

38 Results from estimating four variants of the model by means of EC2SLS on the  
39 available 2,984 observations are presented in Table 7. Equation (1) represents the  
40 preferred specification and explains over 57 per cent of the variance in powiat  
41 unemployment rates. Most of the regressors are significant at the five per cent  
42 level or better and attract the expected signs. The findings indicate that higher  
43 population densities – less rural areas – are associated with lower unemployment  
44 rates, having controlled for the importance of agriculture, with the result being  
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58 <sup>18</sup> There has been much discussion in the literature on the relative merits of the fixed and random  
59 effects approaches to panel data (Nerlove, 2002). However, with time-invariant regressors  
60 (*PERIPH*, *STATEAG*, *HERF*, *STCH*<sub>0</sub> and *STCH*<sub>1</sub>), the individual-specific variables in the fixed  
effects model are collinear with the constant term, hence this specification cannot be employed.

1  
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3 highly significant. However, the results are in general not sensitive to the precise  
4 definition of rurality adopted, with only the peripherality measure losing the  
5 significance it attains elsewhere when *DENS* is included in the first specification.  
6  
7 Nevertheless, the exclusion of any rurality measure (column (4)) renders the size  
8 of agriculture wholly insignificant. The evident negative impact of agriculture on  
9 the registered jobless rate undoubtedly reflects the hidden unemployment in  
10 Polish farming, which is obscured when the sector's importance also has to  
11 identify rural areas in general.<sup>19</sup>

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22 On the other hand, powiats that historically formed centres of state  
23 farming (*STFARM*) are still confronted with a statistically significant legacy  
24 working in the opposite direction. Given the erstwhile concentration of such  
25 activity, as highlighted above, the impact is also rather large. This finding  
26 contrasts somewhat with that for the other initial condition included in the model;  
27 the general industrial concentration measure, *HERF*<sub>0</sub>. Thus, while this is both  
28 large and of the expected sign, it only attains statistical significance at the ten per  
29 cent level in the preferred specification and is weaker still in the other variants  
30 reported. There is, therefore, at least some suggestion that the footprint of early  
31 handicaps on local labour markets in Poland eventually fades.

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46 Both of the restructuring indices employed, *STCH*<sub>0</sub> and *STCH*<sub>1</sub> are  
47 statistically significant, although they exert opposing influences on the  
48 unemployment rate. Powiats located in voivodships which experienced the most  
49 restructuring during the period 1989-1993 were suffering from high  
50 unemployment a decade later. Closer inspection revealed that the most

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<sup>19</sup> The negative relationship between agriculture and unemployment is the opposite of that found by Fagerberg *et al.* (1997) for regions within the old EU-15, where the social role of farming is much less significant.

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3 significant component of the index was the collapse of manufacturing  
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5 employment, which was not offset by the increase of jobs in the commerce and  
6  
7 service sectors. The natural suggestion is that the employment lost was in the  
8  
9 most worthless of state enterprises, possibly situated in inappropriate locations  
10  
11 and with an eye to markets that have been largely lost. Restructuring between  
12  
13 1994 and 1998, however, was found to exert a negative influence on  
14  
15 unemployment. For this period, the largest components of the index were the  
16  
17 increased employment shares for the commerce, business service and financial  
18  
19 intermediation sectors. This represents the first piece of current evidence to  
20  
21 confirm that modern local economies generate jobs.  
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27 The last finding is reinforced by the downward pressure exerted on the  
28  
29 unemployment rate as the importance of *TOURISM* increases. Somewhat  
30  
31 perversely, however, the coefficient on the size of the overall service sector,  
32  
33 *SERV*, attracts a positive coefficient. One possible explanation for this result is  
34  
35 that small service sectors reflected concentrations of still to be privatised  
36  
37 industrial enterprises that continued to house hidden unemployment.<sup>20</sup>  
38  
39 Alternatively, the variable used may have been measured inappropriately insofar  
40  
41 as the available service sector employment data contain not only those in the  
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43 supposed growth industries, such as business services and financial  
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45 intermediation, but also those in publicly provided services, such as health and  
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47 education.  
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53 Both investment and the presence of foreign capital are associated with  
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55 economic modernisation and the negative and significant parameter estimates for  
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60 <sup>20</sup> In this regard, it might be worth noting that OECD (2006) criticised Poland for its tardiness in completing its privatisation programme.

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*INV* and *PRCCFOR* indicate that both serve to lower unemployment, notwithstanding possible theoretical suggestions to the contrary. Although the FDI test applied is admittedly not very strong, the result does at least provide some concrete evidence in a field that has been noted more for introspection and circumstantial conclusions (Ferragina and Pastore, *op. cit.*).

The coefficient on net migration is negative, indicating that population inflows are not associated with higher unemployment, a finding that is in line with the contention that ‘people cause jobs’ (Layard, 1997) and one that reiterates the results for other countries reported in OECD (2000). On the other hand, the weighted average of contiguous powiat unemployment rates, *SPOVER*, is both positive and highly significant. This is consistent with restricted commuting, as opposed to migration, flows in depressed areas of the country. However, *PERIPH*, which indicates whether or not a powiat is either a city, or is adjacent to one, fails to achieve statistical significance in the preferred specification, even though it does attract the anticipated negative sign; a finding that may once again reflect limited commuting flows.

Finally, the three seasonal dummy variables are all negative and significant, reflecting a tendency for unemployment rates to be lowest in the summer.

## 8. SUMMARY AND CONCLUSION

Poland has been plagued with stubbornly high unemployment in the years since 1990, although the severity of the problem has long been recognised to be spatially uneven. Numerous attempts have previously been made to analyse the factors driving the variation in experience across the macro regions of the



1  
2  
3 country, but the Local Government reform of 1999 rendered subsequent such  
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5 exercises much less incisive. The present work adopted a more disaggregated  
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7 perspective and analysed the issue at the level of the 373 powiats that existed in  
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9 the years 2000 and 2001, across which there was and remains a tremendous  
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11 variation in unemployment rates.  
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14  
15 In addition to high aggregate unemployment, the country continues to  
16  
17 exhibit a marked rural development deficit. The findings of this paper indicate  
18  
19 that this goes hand in hand with higher jobless rates. However, the relationship is  
20  
21 tempered by the role that agriculture evidently plays in containing unemployment  
22  
23 totals, although, for the most part, this is but another facet of the failure of rural  
24  
25 reform efforts to date. The recent decision to reclassify many erstwhile farmers  
26  
27 as economically inactive will not effect any improvement in this regard. At the  
28  
29 same time, while consistent with a good deal of popular speculation, the finding  
30  
31 that the legacy of the dissolution of the ex-state farms remains was somewhat  
32  
33 surprising and a further indication of the depth of the country's rural malaise and  
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35 of the need for renewed policy initiatives in the area.  
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41 Other strong findings from the estimation of the chosen model, which  
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43 was well determined and evidently robust, were that the rate of investment and,  
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45 as has often been hypothesised, the presence of foreign capital, help to reduce  
46  
47 local unemployment rates. In-migration and contiguity with localities possessing  
48  
49 relatively healthy labour markets were also found to be benign influences.  
50  
51 Beyond the localised finding for the presence of state farming, there was not  
52  
53 strong evidence that conditions at the onset of the transition retained a lasting  
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55 influence. Furthermore, while past structural change seemingly has a role to play  
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57 in explaining later unemployment rates, the process appears to be complex and  
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3 would merit further study; as would the ambiguous influence of service sector  
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5 activity uncovered in the current work.  
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8 Greater understanding of the factors determining local unemployment in  
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10 Poland is overdue as it grapples with the challenges posed by membership of the  
11  
12 EU in what must now be regarded as its post-transition era. This paper reported  
13  
14 the results of work attempting to proceed towards that goal. Future research  
15  
16 efforts in this rather neglected field will hopefully carry it forward.  
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Table 1  
Dimensions of Powiat Unemployment: Descriptive Statistics (June)

| Year | National | Minimum | Maximum | Mean | Standard Deviation | n   |
|------|----------|---------|---------|------|--------------------|-----|
| 2000 | 13.6     | 2.8     | 31.3    | 15.6 | 5.9                | 373 |
| 2001 | 15.9     | 4.1     | 35.7    | 18.5 | 6.5                | 373 |

For Peer Review



Table 2  
GDP per Worker: 1990 Prices (1990 = 100)

| 1991 | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 97.2 | 102.6 | 108.3 | 112.7 | 120.2 | 123.1 | 127.7 | 134.1 | 141.6 | 152.4 | 159.0 | 170.7 |

For Peer Review

Table 3  
Employment and Unemployment: Poland

|      | Employment (000) | Unemployment                      |                        |
|------|------------------|-----------------------------------|------------------------|
|      | Public Sector    | Previously employed<br>% of total | From public sector (%) |
| 1989 | 9277.8           | n.a.                              | n.a.                   |
| 1990 | 8243.4           | n.a.                              | n.a.                   |
| 1991 | 7052.1           | n.a.                              | n.a.                   |
| 1992 | 6606.4           | 78.3                              | 63.9                   |
| 1993 | 6060.3           | 77.0                              | 58.2                   |
| 1994 | 5878.4           | 77.0                              | n.a.                   |
| 1995 | 5623.1           | 78.9                              | n.a.                   |
| 1996 | 5412.5           | 83.4                              | 36.8                   |
| 1997 | 5072.8           | 80.9                              | 34.6                   |
| 1998 | 4671.3           | 77.4                              | 33.8                   |
| 1999 | 4338.9           | 76.3                              | 30.0                   |
| 2000 | 3988.6           | 76.2                              | 24.3                   |
| 2001 | 3702.7           | 76.3                              | 21.3                   |
| 2002 | 3905.2           | 76.1                              | 20.6                   |
| 2003 | 3780.2           | 75.9                              | 20.4                   |
| 2004 | 3695.6           | 75.8                              | 20.1                   |

Table 4  
Powiat Unemployment Rates 2001

| Voivodship          | Total (%) | Minimum (%) | Maximum (%) |
|---------------------|-----------|-------------|-------------|
| Dolnośląskie        | 19.3      | 8.5         | 33.3        |
| Kujawsko-pomorskie  | 20.1      | 10.7        | 29.3        |
| Lubelskie           | 14.3      | 10.9        | 19.4        |
| Lubuskie            | 22.4      | 11.5        | 32.1        |
| Łódzkie             | 16.8      | 7.6         | 23.0        |
| Małopolskie         | 12.9      | 7.4         | 20.3        |
| Mazowieckie         | 11.7      | 4.1         | 28.5        |
| Opolskie            | 16.3      | 8.9         | 25.0        |
| Podkarpackie        | 16.3      | 9.1         | 22.0        |
| Podlaskie           | 13.8      | 7.3         | 21.3        |
| Pomorskie           | 17.6      | 6.8         | 34.0        |
| Śląskie             | 14.3      | 6.2         | 26.2        |
| Świętokrzyskie      | 17.2      | 8.4         | 25.1        |
| Warmińsko-mazurskie | 26.8      | 11.8        | 33.5        |
| Wielkopolskie       | 13.5      | 4.3         | 26.3        |
| Zachodniopomorskie  | 21.7      | 9.9         | 35.7        |

Table 5  
Employment in State Agriculture in 1990 (% of total employment)

| Voivodship     | %    |
|----------------|------|
| Kozalińskie    | 11.1 |
| Elbląskie      | 10.9 |
| Olsztyńskie    | 9.0  |
| Pilskie        | 9.0  |
| Gorzowskie     | 8.4  |
| Leszczyńskie   | 7.5  |
| Suwalskie      | 7.4  |
| Szczecińskie   | 7.4  |
| Zielonogórskie | 5.7  |

*Note:* Only those old voivodships where state agriculture accounted for 5% or more of total employment are included.

Table 6  
Variable Definitions<sup>1</sup>

|                           |  |
|---------------------------|--|
| <u>Rurality</u>           |  |
| <i>RUROECD</i>            | % of the population resident in whole or part gminas with population densities below 150 persons per square kilometre. |
| <i>RURPOL</i>             | % of the population resident in wholly rural gminas or in the rural part of mixed gminas.                              |
| <i>DENS</i>               | Population density.  |
| <i>AG</i>                 | Agricultural employment as % of population of working age.   |
| <i>PERIPH</i>             | Dummy variable = 1 if powiat contiguous to a city powiat, = 0 otherwise. <sup>2</sup>                                  |
| <i>SPOVER</i>             | Simple average unemployment rate across all contiguous powiats.  |
| <u>Initial Conditions</u> |  |
| <i>HERF<sub>0</sub></i>   | Herfindahl index of industrial concentration across 17 sectors measured at the voivodship level in 1989. <sup>3</sup>  |
| <i>STFARM</i>             | % employment in state farms (excluding co-operatives) in 1990 measured at the voivodship level.                        |
| <u>Structural Change</u>  |  |
| <i>STCH<sub>0</sub></i>   | Index of structural change 1989-1993 across 17 sectors measured at the level of 49 voivodships. <sup>4</sup>           |
| <i>STCH<sub>1</sub></i>   | Index of structural change 1994-1998 across 14 sectors measured at the level of 49 voivodships.                        |
| <i>SERV</i>               | % employment in the service sector measured at the voivodship level. <sup>5</sup>                                      |
| <i>TOURISM</i>            | Number of tourists accommodated per head of powiat population.   |
| <u>Economic Activity</u>  |  |
| <i>INV</i>                | Investment (real zloty) per capita.  |
| <i>PRCCFOR</i>            | The proportion of REGON commercial law enterprises with foreign capital participation.                                 |
| <u>Labour Supply</u>      |  |
| <i>LS</i>                 | % of powiat population of working age.   |
| <i>MIG</i>                | Net internal and international migration (inflows minus outflows) for permanent stay per 1000 population.              |
| <u>Controls</u>           |  |
| <i>S1</i>                 | Quarter 1 seasonal dummy.  |
| <i>S2</i>                 | Quarter 2 seasonal dummy.  |
| <i>S3</i>                 | Quarter 3 seasonal dummy.  |

*Notes:*

1. All variables measured at powiat level for the years 2000 and 2001 unless stated.

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2. City powiats are treated as contiguous to themselves. Also, Warsaw Central was not designated officially as a city powiat until 2002, but has been treated as one in the current analysis.

3. When a powiat does not map completely into one old voivodship, a weighted average of the  $H$  measures for the voivodships involved is used, with weights equal to the powiat's resident population that would have been located in each.

4.  $STCH_0 = \sum_i 0.5 |S_{i,t_1} - S_{i,t_0}|$  where  $S_{i,t_1}$  is the employment share of industry  $i$  in time period  $t_1$  and  $S_{i,t_0}$  is the corresponding share for time period  $t_0$ .  $STCH_1$  is defined analogously.

5. Services comprise trade and repair, hotels and restaurants, transport, storage and communication, financial intermediation, real estate, renting and business activity, public administration and defence, compulsory social security, education, health and social work and other community, social and personal social services.

Table 7  
Error Component Two-Stage Least Squares Estimates

|                                 | (1)                 | (2)                 | (3)                 | (4)                 |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| <i>Constant</i>                 | -1.7563<br>(0.91)   | -4.6920<br>(2.32)   | -3.9371<br>(1.95)   | -2.2991<br>(1.15)   |
| <i>DENS</i>                     | -0.0022<br>(5.96)   |                     |                     |                     |
| <i>RURPOL</i>                   |                     | 0.03728<br>(4.15)   |                     |                     |
| <i>RUROECD</i>                  |                     |                     | 0.02710<br>(3.03)   |                     |
| <i>AG</i>                       | -0.0247<br>(2.64)   | -0.0258<br>(2.59)   | -0.0204<br>(2.06)   | -0.0070<br>(0.78)   |
| <i>INV</i>                      | -12.3802<br>(4.63)  | -12.2650<br>(4.56)  | -12.4828<br>(4.63)  | -12.6263<br>(4.72)  |
| <i>PRCCFOR</i>                  | -15.0676<br>(13.81) | -14.8142<br>(13.55) | -14.6222<br>(13.38) | -14.7292<br>(13.44) |
| <i>MIG</i>                      | -0.1342<br>(6.22)   | -0.1320<br>(6.09)   | -0.1292<br>(5.96)   | -0.1287<br>(5.95)   |
| <i>TOURISM</i>                  | -0.6479<br>(2.91)   | -0.6269<br>(2.82)   | -0.6339<br>(2.85)   | -0.6412<br>(2.84)   |
| <i>SERV</i>                     | 0.1887<br>(7.00)    | 0.1908<br>(7.12)    | 0.1884<br>(7.01)    | 0.1927<br>(7.00)    |
| <i>SPOVER</i>                   | 0.7102<br>(52.68)   | 0.7139<br>(52.83)   | 0.7147<br>(52.82)   | 0.7155<br>(52.99)   |
| <i>PERIPH</i>                   | -0.7053<br>(1.34)   | -1.7105<br>(3.61)   | -1.7894<br>(3.74)   | -2.1094<br>(4.33)   |
| <i>HERF<sub>0</sub></i>         | 7.0343<br>(1.72)    | 6.8720<br>(1.70)    | 6.3482<br>(1.57)    | 5.4569<br>(1.29)    |
| <i>STFARM</i>                   | 0.3175<br>(3.64)    | 0.3760<br>(4.39)    | 0.3511<br>(4.07)    | 0.3754<br>(4.19)    |
| <i>STCH<sub>0</sub></i>         | 36.6977<br>(3.24)   | 39.3462<br>(3.51)   | 38.8727<br>(3.44)   | 35.5399<br>(3.03)   |
| <i>STCH<sub>1</sub></i>         | -42.6423<br>(2.19)  | -42.1989<br>(2.19)  | -41.9755<br>(2.16)  | -50.0674<br>(2.48)  |
| <i>S1</i>                       | -0.5734<br>(13.03)  | -0.5700<br>(12.88)  | -0.5690<br>(12.85)  | -0.5682<br>(12.90)  |
| <i>S2</i>                       | -0.7270<br>(15.94)  | -0.7221<br>(15.75)  | -0.7210<br>(15.71)  | -0.7200<br>(15.76)  |
| <i>S3</i>                       | -0.5697<br>(13.03)  | -0.5664<br>(12.88)  | -0.5656<br>(12.85)  | -0.5649<br>(12.90)  |
| <i>NT</i>                       |                     |                     | 2,984               |                     |
| <i>R<sup>2</sup> - within</i>   | 0.7500              | 0.7490              | 0.7487              | 0.7497              |
| <i>R<sup>2</sup> - between</i>  | 0.5629              | 0.5517              | 0.5464              | 0.5259              |
| <i>R<sup>2</sup> - overall</i>  | 0.5725              | 0.5619              | 0.5569              | 0.5374              |
| $\sigma_u$                      | 4.1168              | 4.0610              | 4.0728              | 4.2319              |
| $\sigma_e$                      | 0.8000              | 0.8049              | 0.8042              | 0.804               |
| $\rho$                          | 0.9636              | 0.9622              | 0.9624              | 0.9660              |
| <i>Wald <math>\chi^2</math></i> | 8063.31             | 7969.16             | 7863.42             | 7980.25             |