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In this Issue

In the fourth issue of Warsaw Forum of Economic Sociology, we would like to focus mainly on the steel industry in Poland. The sector appears a very interesting case of an industry impacted heavily by globalisation. Furthermore, economic restructuring (which is a noteworthy manifestation of the latest industrial shift in the modern economy) also left a deep mark on the face of the sector. Social implications of those processes have been enormous. In Poland, social dialogue seems to have played a crucial role in ensuring that restructuring of the sector proceeded relatively smoothly and no major conflicts erupted in course of its implementation. However, with global economic crisis underway, dark clouds have been gathering over the sector in Poland in recent years. Production capacity is to be reduced, and the multi-employer collective agreement for the steel industry has been revoked. Still, sectoral social dialogue continues.

This issue includes seven papers. Four of them deal with the theme of Polish steel industry and its restructuring.

Vera Trappmann delivers an account of her field research in the Polish steel-mills in the 1990s and 2000s. The author observes that while steel restructuring is usually described as a success, there is a darker side of this process and its consequences, especially at the level of individual biographies of redundant workers. She highlights the downside of the sectoral approach which prevailed in restructuring, at the expense of a regional one.

Sławomir Adamczyk and Barbara Surdykowska ask whether and how trade unions might help boost the competitiveness of the European steel industry. The authors focus on the role of social dialogue in developing qualifications and competencies of workers. The case of the Polish steel sector is given particular attention. The authors notice that successful restructuring in the sector was accompanied by a crisis in sectoral social dialogue.
Rafał Tówalski analyzes the impact social dialogue has had on restructuring process in Polish steel. The author compares the course and results of restructuring in Poland and the United Kingdom and concludes that the absence of strong union resistance in Poland, compared with the powerful resistance offered by unions in the UK, may be explained by active sectoral social dialogue in Poland, which was missing in the UK.

Leszek Gilejko, too, concentrates on the role of social dialogue in facilitating social peace during the process of industrial restructuring in the steel sector in Poland in the late 1990s and 2000s. The author maintains that social dialogue at the sectoral level was a major force behind the eventual success of restructuring.

Steel is not the sole topic of this issue. Three other pieces deal with themes ranging from tripartism in Poland, through EU structural funds, to professional sport.

Jerzy Hausner provides readers with reminiscences on a very interesting recent period in Polish social dialogue, from 2001 to 2005. During this time the author was one of the major actors in those events, serving as Minister of Labour and Deputy Prime Minister, as well as head of the Tripartite Commission for Social and Economic Affairs.

Agnieszka Kłos offers a comprehensive study of the system of funding the operational programmes in Poland based on the financial frameworks of the European Union for 2000–2006 and 2007–2013. While the membership of Poland in the European Union is an opportunity for gaining additional funds, the absorption of those funds brings about substantial costs. The relevant solutions adopted in Poland affect two basic macroeconomic parameters: public debt and budget deficit.

Łukasz Skrok, meanwhile, challenges the popular view that football players’ wages are excessive. The author argues that only a narrow elite achieves enormously high earnings in this particular sport, and even though astronomical incomes of football stars may be seen as outrageous, they are still legitimate, as professional football plays a prominent role in the entertainment industry, generating substantial revenues.

Finally, we continue with our review section. This time Adam Mrozowicki brings the book *Gra o jutro usług publicznych w Polsce* (*The Game for the Future of Public Services in Poland*) edited by Wiesława Kozek to the attention of our readers.

Following the focus on Poland in the current issue, our next one will turn comparative and international, with articles on varieties of capitalism not only from Europe but also other parts of the world.
Labour as Entrepreneurs: The Ambivalent Role of Labour in Restructuring in the Polish Steel Industry

Vera Trappmann*

Abstract
The paper analyses steel restructuring at one of the major steel companies in Poland. It traces the restructuring history from the 1990s up to recent times, arguing that restructuring was heavily influenced by EU-accession conditionality and by the sector-oriented policy of Polish trade unions. While steel restructuring is often considered a major success story in Poland, this article, basing its argument on the life trajectories of the redundant workers, highlights the downside of a sectoral approach which operates at the expense of regional restructuring.

Introduction
Restructuring has become an ongoing process in a globalised economy, and analysing the restructuring in the steel industry has been very a prominent topic among researchers across Europe (Stroud and Fairbrother 2008; Hertog, Iterson und Marti 2006; Bacon and Blyton 2003; Stuart 2005; Hinrichs et al. 2000; the EU FP7 project MEDEA, just to name the recent ones). Steel represents one of the old important

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industries which always got special attention in political discourse and activity, not least due to its traditional status as a strategic industry and the significance of the European Coal and Steel Community (ECSC) (Dudley and Richardson 1997). The restructuring of the steel industry was an immense process all over the globe with enormous employment cuts during the last quarter of the last century: 700,000 in the EU; 310,000 in the US; 250,000 in Japan; 80,000 in South Africa; 50,000 in Brazil, among others (IISI 2002). In Western Europe, however, the restructuring was (until 2002) heavily subsidized by the ECSC and the individual nation states, and unions played a very pro-active role in it, with the aim of socially responsible restructuring.

This paper examines the restructuring of the Polish steel industry with a particular interest in the role of labour. The steel industry in Poland enjoyed an exceptional position during socialism: it served as one of the showcase projects of communist modernization, and was one of the most important sectors in terms of employment, representing 11.5 percent of the Polish workforce (Vienna Institute for International Economic Studies 2005). The steelworkers were celebrated as the heroic ‘vanguard of the proletariat’ (Burawoy and Lukács 1992: 119), and given numerous privileges, such as comparatively high wages, better access to accommodation, and other amenities. Trade unions were particularly strong in the sector, given that the early ‘revolutionary’ Solidarity was rooted in the ship and steel industry, and many of its intellectual leaders came from these sectors. During transition, trade unions’ actions in the steel sector were often quoted as an example of the successful involvement of unions in restructuring in Poland. In this contribution, however, using some of the lessons learned in studies of the restructuring of steel industry in other, mostly West European, countries (Trappmann and Stuart 2006; Sznajder Lee and Trappmann 2010), the evaluation gets more nuanced, arguing that labour’s involvement in restructuring was ambiguous at best, and contained also negative consequences for the steelworkers. The analysis of the steel industry adds an empiric foundation to the prominent thesis of David Ost that trade unions in their neoliberal stance pursuing liberal economic politics contributed to their own demise (Ost 2005) and that it is the post-communist legacy that needs to be overcome if labour regeneration is to happen in Poland (Ost 2009).

**The argument:** The paper distinguishes two phases, restructuring during transition and restructuring under globalisation. It argues that restructuring during transition and in post-communism was shaped by a sectoral approach, intending to safeguard the viability of companies at the expense of a more regional approach that would look to safeguard employment and workers’ careers in the region. This strategy was, in its turn, however, backed by the trade unions who, during the transition from
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a planned economy to capitalism, behaved like co-owners of the company, promoting privatisation and favouring intensive restructuring programs. Furthermore, unions believed in the entrepreneurship of workers and therefore favoured redundancy packages over training programs for the workers. The overall belief in economic liberal values made them positive about the cure of private ownership both for the company and the workers alike. This policy led to a sense among the rank-and-file workers that the unions were no longer representing their interests by attempting to safeguard employment. With the final privatisation to new foreign investors, unions in the steel sector lost their constitutive role as co-owners, and now face a role conflict. This is a challenging process. But in analysing restructuring under the current conditions of globalisation, it seems that unions are about to reshape their self-understanding, to adapt their activities and to begin again to represent their constituency’s interest. Real capitalist conditions were required for unions to develop into real trade unions.

The paper analyses restructuring at ArcelorMittal Poland (AMP) and in particular it looks at one of its sites in Nowa Huta, now called AMP Kraków, formerly Huta Lenina and then Huta im. Tadeusza Sendzimira. The fieldwork started when the mill was called Huta im. Tadeusza Sendzimira, just shortly before it merged with three other major steel plants into Polish Steelplants (Polskie Huty Stali (PHS)). It was privatized, and in 2003 it was sold to Lakshmi Mittal, an Indian newcomer in the steel market. In 2006, Mittal merged with the French Belgium corporation Arcelor and became the largest steel producer in the world. The analysis of Nowa Huta is particularly revealing as Nowa Huta was not only a mono-industrial town, but one of the prestigious projects of Polish communism. Thus, while during the 1990’s, the mill was an independent state company, today it is only one production site of the Polish company within the multinational corporation, without any decision-making capacity. This of course had an impact on the role of the company in the community and the region, but also its diminished level of importance for local politicians. The case study is based on fieldwork, the core of which was carried out between November 2005 and September 2007, with follow-up interviews in 2008 and 2010. Early interviews were carried out in 2003. A total of 100 interviews were carried out with trade unionists from the two biggest trade unions, Solidarity and OPZZ, workers, management, ministry officials, EU officials, NGOs, and citizens.

The paper is divided into 6 sections. Section 2 will present the evolution of the restructuring of the mill, with a focus on employment, highlighting the ambivalent role of the European Union in restructuring steel mills. In section 3, I will elaborate on the role of trade unions in restructuring during transition, and indicate the signs
of a union renewal that has been forced by the ongoing restructuring in globalised capitalism. Section 4 deals with the effects of restructuring on the workers, how their relation to unions changed and how they experienced restructuring, in particular redundancies. Section 5 draws some comparisons with steel restructuring in other countries. The last section concludes.

2. Restructuring the Polish Steel Industry

On the eve of 1989, there were 25 steel enterprises in Poland with 147,000 employees. Huta Lenina (later called Tadeusz Sendzimir Steelworks; Huta im. Tadeusza Sendzimira) was founded in 1948. It is located eight kilometres to the East of Krakow, with a new residential district built around the mill called Nowa Huta, planned as an ideological prestige project as a city of the future. The mill was a fully integrated metallurgical plant, built as a flagship of Polish socialism. 30 years later, in 1979, a second huge mill was built, Katowice Steelworks (Huta Katowice), 60 kilometres from Krakow. Together, Huta Lenina and Huta Katowice produced 70 per cent of Polish steel in 1989. In the early 1990’s, the Polish steel industry was affected by a deep recession in the domestic market, and needed to redirect exports to the West; it was clear that the industry needed to engage in technological upgrading and the rationalization of production capacity, and to switch to products with higher value-added. The main modernisation requirement during the 1990’s concerned the modernisation of blast furnaces, the closure of open-hearth furnaces (the last in 2002) and their replacement with converters and electric furnaces. During the 1990’s, the question of how best to restructure the steel sector was marked by inertia. Only in 2001 was restructuring given a legal basis with the Steel Industry Restructuring Act of August 24, dividing companies in three categories: those that have to be closed due to bankruptcy; those not receiving any further state subsidies: and those receiving extended state aid until 2006 with the hope that they would then be viable. Privatisation was delayed until 2003. This was due to the failure in the attempt to privatise single companies, the government’s reluctance to sell the pearls of the sector, competition between the managers of the mills, and scepticism with regard to potential investors. Only when the four largest companies, Huta Katowice, Huta Sendzimira, Huta Florian and Huta Cedler were merged into PHS in 2003 was privatisation successful. Companies like Thyssen Krupp, Salzgitter AG, Arcelor,
US Steel, and the Indian LNM Ispat Group (Mittal) were interested. Mittal was a front runner in the privatisation bids as he was considered to be experienced in restructuring mills in Eastern Europe, having already bought steelmills in Romania and Ukraine. Most state aid was received by PHS and later then Mittal.

**Employment Restructuring: Subsidiaries, Early Retirement and Severance Packages**

In terms of employment, from the 147,000 workers employed in the sector in 1990 only 27,000 still worked in the sector at the end of 2006 (Polish Steel Association 2006). Reduction occurred in 3 waves: ‘naturally’ up to 1998; state-led from 1999–2003, with the sectoral framework of the HPS and HPA (see below); and company-based from 2004 to 2006. Up to 1998, reduction was mainly due to ‘natural wastage’ (employees becoming eligible for retirement or for disability benefits), reduced intake of new workers, and the transfer of employees to newly created subsidiaries. The state-led period was influenced by two sectoral tripartite agreements, the Steelworkers’ Social Package (Hutniczy Pakiet Socjalny, HPS) signed in 1999, and the Steelworkers’ Activation Package (Hutniczy Pakiet Aktywizujacy, HPA) signed in 2003, both targeted at accelerating downsizing. The most widespread restructuring instruments during this state-led period were the splitting off of many sections of the company from the core business into subsidiaries offering new employment for workers, and the introduction of early retirement schemes and redundancy packages.

In general, early retirement meant a reduction in the statutory age of retirement. For steel workers the eligibility was even further reduced to 25 years of service. This generous early retirement scheme ended in 2006. Today, early retirement is only possible for people who worked in hardship conditions for 15 years, at 55 with a full length of service of 35 years, or at 60 with 30 years of service. Up to 2004, additional pre-retirement schemes were available to those who became unemployed but did not meet the criteria of early retirement. Two forms existed:

1. Pre-retirement benefits were assigned permanently until retirement age, granting 120 or 160 per cent of unemployment benefit for laid-off workers with full service years but not yet at retirement age (Ministry of Economy and Labour 2005: 145).
2. Pre-retirement allowances covering 80 per cent of the pension and were granted to those who were not more than 2 years short of retirement age under certain conditions related to age and years of service.
At the steel mills, a special programme was designed to motivate older workers to retire despite the low pre-retirement benefit. This meant that the company paid a sum equivalent to the salaries workers would get up to retirement, plus jubilees. In addition, laid-off workers could register as unemployed and claim unemployment benefit during the first 12 months. These rather passive instruments were complemented by more active instruments of occupational activation laid down in HPA like training contracts, conditional severance payments, and partial reimbursement of wages paid to employers recruiting former iron and steel workers. However, the use of active measures like training has been limited.

Restructuring and the EU

Employment restructuring was seriously affected by accession negotiations between Poland and the EU and the asymmetrical relation between the two. The steel industry was a delicate topic in the competition chapter of the aquis communautaire: The EU was demanding the reduction in production capacity and employment as well as the abolition of state aid, regulating how and within what time schedule Poland had to fulfil the European Steel Aid Code forbidding state subsidies. In an extra protocol to the Accession Treaty, transitional periods and possible state subsidies in single company cases up to the end of 2006 were granted, under the condition of clear restructuring plans for those companies receiving state aid, defining precisely the instruments of capacity reduction (closure of mills, and restructuring of assets). Given the increasing pressure of the EU, Poland decided on its sectoral restructuring program HPS and HPA and adopted the Law on Restructuring of Iron and Steel Industry. Also the privatisation of PHS and its restructuring plan, including the amount of employment reduction, had to be approved by the European Commission. 10,411 was the final number of employment at PHS/AMP allowed by the EU.

We might read this an example of the great influence the EU had in shaping the Polish economy during accession in general (cf. Kutter and Trappmann 2006), but also argue that the EU policy was shaped by the strong influence of the Western steel-lobby groups. While Sedelmeier (2002) underlines that Western steel-lobby groups were not able to prevent state aid, I would argue that binding the candidates to the European Steel Aid Protocol was nevertheless to limit the competitiveness of the CEEC and to preserve as many advantages as possible with regard to the accession countries.
On a more general level, the EU enhanced eventually the completion of what some authors have called ‘dependent capitalism’ (King 2002; Staniszkis 2006; Greskovits and Bohle 2009). What is striking however is that the EU did not counterbalance its demands of harmonization in competition policy with a call for harmonisation of social policy. The European Employment Strategy was not part of the negotiations, a strategy where employment creation instead of employment cuts would have been fostered. Conditionality in the field of social policy was weak, subordinating social policy to the functioning of the Single Market. Only after 2004, with the European Social Fund becoming available to the new member states, were means provided for active labour market instruments that could counterbalance restructuring.

3. Restructuring and Trade Unions: the Myth of Polish Entrepreneurship

The role of the trade unions in restructuring has been ambiguous. Unions were very successful in shaping restructuring in the face of reluctant managers and undecided, often changing governments. They were able to define sectoral frameworks for restructuring. However, their activities were targeted only at the survival of the sites, at the expense of the workers’ fate. On the positive side, unlike in many other sectors, trade unions were able to conclude industry-wide collective agreements. The Supra-Enterprise Collective Agreement for Steel Industry Employees has been one of the rare extra-budgetary sectoral collective agreements in Poland, dating back to 1995. Furthermore, the unions pressed for the tripartite Steelworkers Social Package (Hutniczy Pakiet Socjalny, HPS) signed in 1999. The signing of the package was considered to be of great importance for the industry’s employees’ who were at risk of redundancy; it alleviated the conditions of layoffs by, for example, subsidising severance payments (Sula 2005). In 2003, the agreement was followed by a second one, the Steelworkers Activation Package (HPA), answering European Commission demands, focusing on active labour market instruments to be offered to laid-off steel workers. During privatisation, the unions reached an agreement with the investors, a so-called ‘social package’, guaranteeing employment protection until 2009, plus some advantages such as pay increases and a privatisation bonus and the presence of two employee representatives on the advisory boards of mills. Also, while during the early 1990’s, trade unions in the steel sector were opposed to
privatisation, mostly interested in defending the status quo of individual companies by mobilising strikes (including even hunger strikes) demanding modernization and state guarantees (Sznajder 2003), in the early years of this century, trade unions have become strong supporters of privatisation, and have opposed managements in favour of mergers and privatisations. The trade unions considered privatisation to a strategic investor entering the enterprise to be the key to the survival of the companies and thus they pressed for privatisation, even when the government was stalling. They considered the splitting up of the steelworks into smaller subsidiaries to be a cure-all and precondition for the viability of the enterprise, with the long-term goal of privatization and sale of shares in the companies. They even founded subsidiaries themselves, with the intention of providing employees with a positive example of how private economic initiatives can operate successfully. In terms of the consequences of restructuring for the employees, the union representatives tried to improve employees’ attitudes towards restructuring. Property ownership, so went the assumption, would encourage entrepreneurial behaviour and better labour productivity. In particular, Solidarity’s orientation to the free market economy and the strong belief in the virtues of free entrepreneurship caused the unions to follow a radically market-driven strategy. The unions understood themselves as ‘co-owners’; mostly concerned with preserving the parent enterprise and believing in the success of the entrepreneurial initiative, they advised employees to become entrepreneurs themselves. This means, on the negative side, instead of advocating the protection of employment contracts, the unions preferred to negotiate a suitable severance pay that would later allow the workers to become self-employed. To this end, the unions offered special courses on ‘How to start your own business.’ According to the unions, the redundancies were supposed to ‘make workers able to start up something of their own, [such as] open a small business’. Severance pay, like the splitting up of the enterprises, was thus considered to be a cure-all for the sector. This was emphasized during interviews with various union secretaries: ‘Our people are going freely, they want to go; they’ve got the money, maybe they’ll find another job and start up their own small company,’ or ‘The worker will get his money and then can open up a shop.’ Even as the sector packages ran out, the unions and management considered enterprise start-ups to be the best option for employees during the restructuring process. According to a union secretary in one interview, ‘We hope that the next internal enterprise restructuring program will contain still more generous severance packages, so that an employee can stand on his own feet and become self-employed’ (for more details see Trappmann forthcoming).
The Legacy of Post-communism as an Obstacle to Finding a New Role

While the influence of trade unions in Poland in general has declined dramatically, in the case of steel industry unions in the eyes of many observers preserved symbolic power and a good reputation for a long time (compare Gilejko in this volume). In the literature, explanations for the weakness of the unions generally focus on the macro level. Broadly, they can be divided into external and internal causes. External sources include the role of the state socialist legacy (Crowley 2004; Ost and Crowley 2001) and state etatism (Bluhm 2006), high unemployment levels (Greskovits 1998), and the EU and globalization pressures (Kutter and Trappmann 2010; Bohle and Greskovits 2006; Kubicek 2004). Internal ones emphasize the lack of cooperation and coordination (Meardi 2006), and the lack of a class consciousness (Ost 2000, 2001). The analysis of restructuring in the steel industry adds a micro foundation to the existing findings. It shows that adverse external pressures and conditions notwithstanding, it were the unions’ company-level strategies in relation to restructuring during transition and privatization that contributed to their weakness. Given that the historical phase of transition to capitalism is finished – a new owner has taken over the company and runs it autonomously – trade unions have become superfluous as co-owners. In the successfully operating transnational concerns, unions became practically irrelevant as a management function. The unions now face the need to redefine or reinterpret their mandate. But their identity conflict had almost disqualified them as interest representatives. It is only recent that the unions perceive the management as pure profit maximizers and recognize the need to represent workers’ interests. A very clear signal was the reaction to the financial crisis. In 2010, with the termination of the social package, the management laid off 1,300 workers, half of them re-employed as agency workers, half of them just laid off without any financial compensation. One manager frankly admitted: ‘I have no choice. Our production has to be competitive’; ‘People have the same choice like me. They can do it (accept a working contract at an employment agency) or they have to resign. The crisis showed us we won’t survive the next crisis’ (Interview with HR director 2010).

But also beyond the crisis, unions realize the daunting challenges they face: the increasing flexibilization of work and employment relations; competition among subsidiaries within the corporation; and the concomitant uncertainty about the
future of entire groups of workers. In reply, Solidarity at company level is expanding its activities to organize the agency workers. And on sectoral level, in 2010, they participated in projects on training and lifelong learning aiming at upskilling and qualifying the steelworkers working in the plants. Employability has become an issue.

4. Workers and Restructuring

It is obvious that one major task of restructuring has been achieved – to reduce the total number of employees significantly. The unions’ pro-active role in restructuring has however distanced them from the rank-and-file. With their orientation towards preserving the sector rather than creating jobs in the region, they lost legitimacy in the eyes of employees. As one employee of ArcelorMittal in Krakow said:

‘What was in fact the power of Solidarność? It was the motto: All for one, one for all. But today this solidarity doesn’t even exist among the union leaders themselves. Solidarność has a problem: through its splinter-groups and internal differences according to sector, the common interest has been lost. Everybody thinks now only of themselves’.

Even union members in the companies expressed criticism. As one worker said:

‘The unions have sold out. They’re not even unions any more. They teamed up with those who just wanted to sell the company. The workers were of no interest to them’.

Another one said:

‘The unions have failed. They’ve completely lost their power. They can’t do anything more for the workers. They simply don’t have any role now’.

That estimation is reflected in opinion polls carried out by the Warsaw School of Economics on the workers’ assessment of restructuring. 42 per cent of polled steelworkers felt that nobody represented their interests well. Though by comparison, at the national level, slightly more, 54 per cent of polled workers felt that nobody represented their interests well (Gilejko 2003: 49, 54–55). Steelworkers did not even feel well informed about restructuring. An opinion poll among steelworkers carried out by Kulpa-Ogodowska (2006) revealed that 43 per cent of steelworkers were not consulted about restructuring plans although they demanded so, further 25 stated they were not even informed about restructuring. Only 16 per cent stated that they got information on restructuring.
Among the instruments offered to the workers, the most prominent was early retirement and redundancy packages. Training under HPS and other active instruments as implemented by HPA seemed to be something virtual, because the promise of a new job was too artificial compared with the redundancy packages. Money for leaving was something visible, something that workers could touch, that they could spend. However workers did not become entrepreneurs. Most of the workers I talked to invested the money in personal expenditure, buying or renovating a flat, buying a car or consumer goods.

Let’s look at some of redundancy packages and trainings in more detail, asking why workers opted for them if they had a choice and what happened to them.

**Severance payment/redundancy packages**: The voluntary leavers before privatisation of the mill are the most interesting case: they took a more or less free decision in the middle of their working career, without a clear future perspective, in an institutional surrounding that was characterised by high unemployment and a passive labour market policy. They had to rely on themselves and find some way to muddle through.

Ewelina for example, 46 years old, worked in the steel company’s administration, in the same department as her husband. They were asked to decide upon one to leave. Her husband earned more, and she had good qualifications, so, convinced that she would easily find a new job, she took the redundancy package in 1999 under HPS and registered as unemployed. Her search for new employment was not successful; she was considered too old. Only by helping out at her daughters’ school, she found a new part-time job as a gate keeper. She has other, unofficial, tasks, closely related to her interest in art and theatre, preparing festivities and events for the school. She has worked there for 5 years, now having completed her years of service entitling her for retirement. She managed to get through a tough situation and she considers that it was her character that helped her:

‘It was the confidence and belief in myself. If I did not believe in myself, we wouldn’t be speaking now. There were many who did not cope with such a situation, losing the job. You know that your environment, your husband are important. I believed all the time that I have to do this and that I will do it, being capable of it. Being desperate sometimes, afraid, especially when I had too much time, I concentrated on positive thinking’.

Władysław, a former manager, 59, decided to leave the company in 2000, following the replacement of the general director. Władysław disagreed too much with the restructuring policy, therefore he left. He had many contacts so that he easily found a new job, only as he said, ‘you won’t be employed as a manager again, but just as
an ordinary employee. And this you need to handle.’ He was quite satisfied with his new position in public administration. Being a very active person, he started a distance-learning university program in psychology, assuming that this would help him to keep his new job. He considered these last years as very important:

‘If I look at these last years, I am regaining ground. I recover from the abyss.

It took many things: I had to learn many new things; I started an university program in pedagogy. I just defended last year, and I am still continuing learning. Some other people are now in early retirement or pre-retirement, and now they are only old men with a walking frame’.

After privatisation in 2003, given the demands by the European Commission to reduce the personnel down to 10,411 and given the promise of job protection until 2009 laid down in the social package, ArcelorMittal Poland had to introduce further incentives to stimulate voluntary departures. Besides making use of natural retirement, the voluntary redundancies motivated by financial compensation were the only way to really influence the number of lay-offs. New human resource departments mainly staffed with a younger generation of managers had to invent innovative incentive programs to make more people leave the companies. On very short notice, up to 31 times monthly income was granted for resigning. AMP lost mainly younger and higher paid white-collar workers, but considered it a success as most administrative sections were still considered overstaffed, and the employees regarded their chances on the labour market as good.

Grzegorz, a 48 year-old white collar worker, made use of this late offer in 2005. It took him 16 days to think it over, discuss it with is wife and to finally take the redundancy package. Though still unemployed almost a year afterwards, he was satisfied with his decision because he had been unhappy of late about worsening working conditions. He had already resigned from his management functions as he disagreed with the new personnel policies. Although he thinks that it will be more difficult for him as a specialist to regain employment than for blue-collar workers, and social downgrading seems a real fear to him, he does not regret his decision.

Maria, an accountant, 39 years old, having worked for 13 years in the finance department, decided also to accept the a redundancy package. She got an offer of 65,000 PLN as redundancy pay, and decided that it was the right incentive to leave. She wanted a job in the private sector with better pay and more challenges. As she put it, ‘I don’t know why, but I was convinced that I was right. I am not afraid, maybe that’s unreasonable, but that makes it much easier’. One reason for her decision was related to the consequences restructuring had on her employment. Accounting departments were closed in the divisions and centralised to the headquarters in
Katowice, so Maria had to commute every day. In order to be closer to her family, she applied for another job in the training department back in Nowa Huta, but which did not satisfy her professionally. So, her decision seems entirely reasonable to her.

The decisions to leave were more or less free. Particularly at the beginning of restructuring, some workers were encouraged to leave, others left because they were unsatisfied with the changes at the company. This concerns primarily white-collar workers and those in middle-management. They were in an uncomfortable position because they had to transmit decisions taken by the top management which often they were not in favour of. So the decision to leave seemed rational to them. Also white-collar workers considered their labour market chances much better and were more encouraged to leave. Interestingly, it was not as easy as they imagined. They often remained unemployed for some time and suffered from this personal trajectory. The redundancy packages were not used in most cases, as the unions had hoped, to start up businesses and to enable the workers to become entrepreneurs. Just the contrary, people looked for a new employment contract.

Gender played a decisive role in job searching priorities. While men were looking for full-time jobs, the women set other priorities. In the case of Ewelina, her primary concern was to complete the necessary working years to qualify for pension rights, second was the amount of money she would earn or the job she would do. In the case of Maria, she is lucky enough to be able to live on the income of her husband, so she wants to take time until she finds a new job that would meet her needs of being in Krakow, and that would represent a professional challenge. But also women were made redundant more easily due to the hidden assumption on the part of the management of a predominantly male-breadwinner society despite the time-honoured discourse of gender equality in socialist Poland (cf. Pollert 2003).

**Training contracts:** Workers with a training contract were even slightly worse off. They also suffered from the need to reorient on the labour market but did not get large financial compensation. And the training offered did not seem to be of much help: offers comprised flower arranging, basket weaving, aromatherapy or traditional handcrafts; the training courses were designed for one year, releasing the workers from work, but most of these courses could be terminated before time due, if you gained a new job contract. Those who undertook training often feigned a new job contract, thereby avoiding doing a training course but getting their salaries for the rest of the year as a kind of farewell bonus.

Pawel, for example, had a job opportunity as a warehouseman in a friend’s company and therefore he started a training course as a warehouseman, that would he do just pro forma, getting the new employment contract, signing off from the
training. But he did not in fact get the job, so he started the training, feigned another job contract, got the farewell bonus, and registered as unemployed. After six months, he found new employment as a construction worker, but only temporary and at a much lower pay level. He regretted his decision bitterly.

The training programs were not very well received. As a manager at AMP tried to explain:

‘...it’s very hard to incite workers, who were told “we will train you, we will give you compensation, but you will lose your job in the next twelve months. And we cannot guarantee a new job’… People did not like it and we had problems using the money effectively... Usually our package was considered a relatively modern tool. It was the very first package offering help for an employer who wants to employ a worker made redundant from the steel sector... but it didn’t work’ (interview with representative of management board).

In 2004, the training offers were improved thanks to the ESF and a more active labour-market policy. However, the implementation of active labour-market policies faced many problems. Experts point out that there is still a lack of recognition of labour-market needs, so training is not well adjusted to the market demands (Interview, November 2005). One exception which affects ex-steel workers has been welding courses. Welders were in demand, both in Poland as in other countries. Those who took these classes had a particularly interesting story to tell.

Marcin is 44 years old; he took the redundancy package in 2000. He then started working in the informal sector and the black economy. When his third son was born, he took parental leave and this way ensured himself an official status and access to healthcare. When the son went into a nursery school, he started working as a driver for an international company in Krakow, though officially still on parental leave from his regular employment. After two more years, he wanted to re-legalise his employment record, and registered as unemployed, looking for jobs. He got an offer from a Spanish company but lacked the official certificates for welding. So in 2005, he applied for a welding course. I met him when he was taking classes in English as part of the program; it was obvious that he and all his colleagues in this class wanted to work abroad. The motivation was clear: better pay. Marcin would prefer to stay with his family, but he had some outstanding debts and wanted a secure perspective for the future. As he told me:

‘It is all about money. Nothing else’.

And migration looks like the best opportunity:
‘In Poland you can’t work anymore. It is important that I got back some perspectives. And definitely I will emigrate, I am just waiting for my course to finish. I am really motivated’.

Marcin’s case demonstrates that once you lost your permanent employment, your labour market position became much more vulnerable. Employers force people into self-employment, or into working in the informal economy, as they are interested in reducing their social security contributions. Emigration often results as individuals escape poor working conditions and of low paid jobs.

Both men and women equally experienced the loss of employment as an existential loss of security, thrown back on themselves. Certainly, the difficult job situation had an influence on private and family life as well. What is notable however is that none of the workers considered redundancy and the difficult situation afterwards as a personal failure. This is in stark contrast to a study by Mrozowicki (2010), who found a broad variety in workers’ self-reflection on their fate, ranging from individual failure to collective fate. Those who experience their careers as individual failures in his typology are ‘patchwork’ and ‘dead-end’ careers, ‘patchwork’ careers being predominantly defensive and without any clear design. While Mrozowicki interviewed workers from many different sectors, I would hypothesise that in this case the steelworkers’ collective memory of being a privileged group, with a special pride of their profession, prevented them from seeing their careers as individual patchworks (cf Mrozowicki 2010 for a typology of careers). Redundancy was something happening to them without any fault of their own and they had to make the best of the situation in positive evaluations, dealing as well as they could in the less successful cases. Steelworkers’ careers after redundancy in Mrozowicki’s typology are of a bricolage type, based on recognising opportunities. Entrepreneurship was not widespread, it were single cases. The steelworkers’ coping strategies consist of looking for a new employment contracts, working in the informal economy or emigrating abroad. They experienced it as a collective destiny although their coping strategies were mainly individual. It was individual networks, family contacts in case of blue-collar workers, professional contacts in case of white-collar workers, that were the most helpful resource. But it did not lead to any kind of new collective action as on the contrary the workers were disappointed by the unions. Lets now take a look into how restructuring occurred in other European countries.
5. International Experiences in Steel Restructuring

The challenges to the steel industry are European and world-wide. The age profile worldwide is high with the majority being over 45, with a huge percentage of formally unskilled or low skilled workers. This calls for effective recruiting programs but also for intelligent programs ensuing the transfer of knowledge and preventing a polarisation of the two generations working in the companies. More pressing, however, is the upgrading of competences of workers, given the changes in work organisation (Hertog und Mari 2001). The steel industry has become more and more a high-tech industry with many workplaces in production being ICT jobs due to automisation processes. Looking beyond the internal issues, employability of workers is key. Many qualification initiatives have arisen in reply to this need. Also, those workers that have kept their jobs after harsh restructuring have had to learn how to adapt to the characteristics of the new business environment. In practice this has meant employers looking to increase the flexibility and adaptability of employees through increased multi-skilling, as they look to get increased productivity out of fewer workers (Stuart 2005). Multi-skilling is not an easy process, as it is often associated with redundancies, and a work intensification that destroys room for cooperative work (Greenwood et. al 2005).

Surprisingly, little attention has been devoted by the unions in Poland to identifying any lessons from previous experiences of restructuring in the West (compare also Blazycza 2002: 264), even though unions in the West have been extensively involved in such activities as a response to the challenges of the sector. Unions in some areas of the West took over a constitutive role in order to combat not only redundancies but also the demise of regions, and involved themselves in a broad range of initiatives aimed at cushioning structural and regional change (Dörre and Röttger 2005). In the Ruhr-Area, for example, unions created strategic alliances with many local agents such as scientists, business, administration, and local NGOs, putting pressure on companies that reduced personnel, and committing themselves to the creation of new jobs in the region. The policy consensus model, based on codetermination, creating strong regional networks, proved of value for coping with later crises and redundancies (Dörre and Röttger 2005). One idea in many former mono-industrial regions was the tourism in the industrial region, heritage tourism...
becoming fashionable. In the Ruhr and the Lausitz areas, both in Germany, as well as in Wales or Northwest England, just to give a few examples, industrial sites were preserved as industrial heritages or transformed into museums or offices.

Other noteworthy innovative programs developed by the unions deal with training. In the Netherlands, unions at the steel company Corus, now Tata steel, invented a training program for older and lower skilled workers to protect them against unemployment in case of redundancy. The so called ‘Practical Craftsmanship Programme’ aimed at educating workers who were lacking in formal education, in order to raise their chances in the internal and external labour market. The qualification was voluntary, lasted a maximum of two years and took place one day a week. The subsequent modules were built around the operational requirements of the company and dealt with topics such as health, occupational safety, work organisation and commitment to work, but also with basic education in learning how to learn, reading, writing and arithmetic.

In the UK, unions established training companies directed at assisting union members to cope with the experience of redundancy. The training company Knowledge Skills Partnership (KSP; formerly Steel Partnership Training) has developed a series of activities like information and consultation, support; advice and guidance, financial support for learning, and initial training courses to deliver opportunities for displaced workers and those under threat of redundancy, to learn new and transferable skills that should increase employability in the labour market (Trappmann and Stuart 2005). Furthermore, unions trained special so called union learning representatives (ULRs) to promote and facilitate learning processes at the company. Among the goals of the ULRs are analysis of individual learning needs; information, advice and guidance for workers regarding all aspects of learning and further education; organisation of continuing vocational training and education; cultivation of the idea of learning; and advice to the employer on the learning needs of workers. Indeed, ULRs have been particularly successful in winning over groups of workers who are seldom reached by management (Wallis, Stuart, Greenwood 2005). In Sweden, unions organised special training programs for redundant steelworkers to prepare them for the healthcare sector. While this might at first glance be the most unexpected program, it was very successful in preparingsteelworkers for a new professional biography in local areas that had a need in healthcare jobs (Randle 2006). To summarize these union initiated learning activities, we can distinguish two approaches in the European steel industry: a more pro-active and a more reactive arrangement. It remains to be seen which path Polish unions will take in the long run. They have been quite pro-active in restructuring but not in training and learning
activities, and did not consider these earlier European experiences fitting to their conditions of transition. That this might have been a disadvantage is becomes evident with the Polish unions’ recent policy shift.

Conclusion

The restructuring of Arcelor Mittal Poland during transition from planned economy to market economy has been successful in terms of modernising the assets, reducing the workforce, increasing productivity and making the company viable. However, the restructuring approach was targeted at the sector. New employment for redundant steelworkers in the region, or indeed the employability of the redundant steelworkers was not a major concern for any of the actors involved. Unions restricted themselves to being proud of the rather peaceful way restructuring occurred compared to other sectors, due to their deals realised with the sectoral agreements and the social package. However, this has distanced them from the rank and file, as well as from non-unionised workers. With globalisation, unions have become more sensitive to employment protection and to workers’ needs, they have adopted a more regional restructuring approach. This is due to changed restructuring conditions when it has become less important to reduce the workforce than to enable a qualified up-to-date competent workforce that can be competitive within the global market, and competitive even within the own multinational corporation. In the global corporation, the local management has lost power. Decisions on investments, on the closure or maintenance of sites are made by the top management in Luxembourg who has even already closed viable sites. Decisions thus have become contingent.

But the turnabout is also due to a change in the role perception on the part of the unions themselves. Having been convinced that the capitalist economy is better than the socialist economy (cf Ost 2005 for a general view on this issue), and now confronted with the realities of capitalism, unions are realising the arbitrariness of employers’ decisions, like redundancies without social compensation or the forced change of employment contracts, with worse conditions for the same job, as happened in AMP. Unions no longer behave like co-owners or co-managers, but are starting to act more like workers’ representatives. A shift from entrepreneurs to workers’ interest representatives is becoming visible. They now invest in the training of workers, both to enable individual employability but also to guarantee a competitive position of
AMP within the corporation. It is to be seen if this will affect their legitimacy among the rank and file and the workers. The advantages of, and need for, a worker-oriented restructuring policy are clear.

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Can Trade Unions Contribute to the Future Competitiveness of the European Steel Industry? The Role of Social Dialogue in the Development of Qualifications and Competencies

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Barbara Surdykowska**

Abstract

The aim of this paper is to present trade union views on the challenges facing the European (and global) steel industries. This refers especially to calls for the development of social dialogue around the issue of human capital investment. Since most of the EU steel sector is under control of multinational corporations, cross-border co-ordination of trade union activity is becoming more and more crucial. Proactive policies for training and lifelong learning, moving beyond a nation-state focus, are also high on the agenda. The authors then look at social dialogue in the Polish steel industry aimed at the improvement of qualifications, an issue becoming increasingly important due to anticipated repercussions of the generation gap in this sector.

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Introduction

The European solidarity Action Day of workers (including Polish ones) of ArcelorMittal, the largest global steel corporation, held on 7 December 2011, was not only focused on protesting against definitive closure of blast furnaces in Liege, Belgium – one of the cradles of European steel industry. It was also a warning sign to the entire steel sector. The union members protested against ‘a completely absurd policy regarding competencies and skills, where one redundancy follows another, well-trained temporary workers are asked to leave and former employees are regularly asked to come back due to the lack of available know-how to operate equipment’ (EMF 2011). Union members also demanded action to be taken to focus on the development of future-oriented steel industry, based on innovation. Furthermore, they wanted to highlight a need for an ambitious policy aimed at maintaining and further development of competencies and human capital. It was an important voice. ArcelorMittal employs over 30 per cent of European steel industry workers.

In the Piombino Declaration adopted on 8 November 2011, the European Metalworkers Federation (EMF) stated that the European steel industry is facing fundamental challenges determining its future (EMF 2011a). The threat of restructuring, delocalisation of production, closures and decrease of production have become a frightening reality. Trade unions showed that the sector must be reoriented towards an economic model based on balanced consumption and production, on innovation, on technologies, on environmental efficiency and on high quality products. These cannot be achieved without a European strategy for the steel sector, that would include the allocation of structural funds and investment in new technologies, improvement of health and safety and protection of European production against unfair competition. The EMF is of the opinion that there is a necessity to invest in future-proof jobs.

It seems that the conflict in ArcelorMittal has become an embodiment of the general problems connected with the need to face the challenges that the European steel industry has, especially in reference to competition capacity-building based on skilled and competent workforce. A question must be asked, whether it is possible without the participation of those who are primarily impacted – the workers and their collective representation.

It is worth to call upon a broader perspective. The pressure of globalisation, change of labour models and ageing of the European societies has made the issue of skills improvement a key challenge for the EU labour markets in the 21st century.
Can Trade Unions Contribute to the Future Competitiveness of the European Steel Industry?

The European Council, attempting to diagnose the reasons behind the difficulties surrounding the vision had presented in Lisbon Strategy, i.e. the creation of ‘the most competitive and dynamic, knowledge based economy of the world’ (European Council 2000: 5) has decided that human capital is the biggest European advantage and that life-long learning is essential for achieving the Lisbon goals (European Council 2005: 34). Following that, it was stated that economic growth is impossible to achieve if investment in skills and competencies is limited only to a narrow group of well educated people. Significant economic success is within reach through the improvement of basic competencies and skills, via the sectoral methods of skills improvement in the area of vocational education and training (Council of the European Union 2005).

Although the goals of the Lisbon Strategy were not achieved – not only due to the economic crisis, but also due to the lack of co-ordination of a too broad a list of goals and a nonchalant approach to the social dialogue with social partners – life-long learning has become an important element of the new strategy Europe 2020 (European Commission 2010). Well qualified workforce, according to the new strategy, is the basic condition needed for the development of a competitive, sustainable and innovative economy. The European Commission points out that workers of the EU Member States should be able to contribute to technological evolution and adapt to it.

Among the EC documents published at a time of visible economic slowdown in Europe, there is one worth mentioning: New Skills for New Jobs (European Commission 2008). The Commission pointed out that the future of global economy is unpredictable due to a deepening financial crisis. However, in order to return to the path of revival, it was important to improve the quality of human capital and to increase the employability through skills improvement. Increased skills, in the short term, are crucial for restoring economic revival in Europe, and in the long term, for economic growth and effectiveness. For the labour market, it signifies adaptability to changes, equal access, gender equality and social cohesion.

It is vital that high importance is attached to the sectoral approach – inclusion of social partners and scientific centres in the process of building the industrial base of Europe. This especially refers to the steel industry. Although this sector directly generates only 3 per cent of the EU industrial turnover, its role as the backbone of European economy is unquestionable.
Brief review of available literature

It should be noted that a discussion on the restructuring of the steel sector is not the aim of this article. However, it was clearly this very process that has led to the mobilisation of trade unions, who began to look for new solutions that could lead to securing the workers’ rights on global and European scale. The dynamics of global steel sector restructuring have been discussed comprehensively in numerous publications, i.e. Hudson, Sadler (1989); Hogan (1991); Stephen Labson (1997); D’Costa (1999); ILO (1997); Madar (2009).

The changes taking place in Europe have been uniquely fascinating, due to the links with economic integration and the long standing habit of Western European countries to consider steel factories as non-disposable assets – i.e. ancestral silverware plants (Mény, Wright 1987; Houseman 1991; Hudson 1994). The restructuring in the Central and Eastern European countries were also considered, where the accelerated changes were brought on by the perspective of joining the EU (Kotas 2000; Szulc, Kardas 2009). The crucial role of trade unions in the accelerated restructuring of the sector in post-communist countries was emphasised as well (Sznajder Lee 2009).

Research also focused on transnational consolidation of the industry at the end of the 20th century, including the change of ownership. (Mangum, Kim, Tallman 1996; Freeman, Gopalan, Bailey 2009).

Due to the systemic transformation after 1989, the changes in the Polish steel sector, in terms of technological and labour force restructuring were particularly dynamic. This has resulted in numerous referenceable papers. The subject was discussed by i.e.: Borkowski, Jeziorski (2006); Gajdzik (2007); Garbarz, Szulc, Łaszczyk, Torz, Talarek (2000); Grondys, Ślusarczyk (2010); Paduch, Kłos, Bogolubow (2001); Paduch, Kardas, Kłos, Sankowska-Śliwa (2007); Szulc, Garbarz, Paduch (2011); Ślusarczyk (2006); Wiederman (2002).

However, a significant gap can be seen in the holistic research concerning involvement of trade unions in the managing of change in the steel industry, especially related to enhancing employees’ job qualifications. A comprehensive trade union approach to vocational training on a European scale is discussed by Stroud (2011). Bacon and Blyton (1996) point to the need of reformating the trade union approach to this challenge in the steel sector. The same issue is discussed in wider relation of capital and labour by Levesque and Murray (2002).
In Poland, the need to enhance workers qualifications in the steel sector have been the subject of research for a number of years by i.e. Gajdzik (2008); Kardas, Sankowska-Śliwa, Paduch (2008); Kluska-Nawarecka, Adrian, Durak, Głowacki, Marek (2003); Lis, Ocieczek (2008); Prusak (2009); Sabela, Szczepańska (2003); Szczepańska-Woszczyna (2010). However, except for a paper by Kwiatkiewicz (2011), no other publication was found, that would discuss in detail the involvement of trade unions in this area.

**Challenges in the EU Steel Industry**

The steel industry has been the engine of development of the industrial economy for over 100 years, at the same time developing due to the demand of industry for constructional materials. Currently the sector experiences fundamental changes in terms of technology, employment and geography.

The production and processing of steel is no more the labour-intensive industry it used to be. Systemic introduction of new technologies and automation of production processes quickly reduced the demand for labour in this sector, resulting in a snowballing reduction of employment. In 2004, it was estimated that since the 1980s global employment in steel industry declined by some 57 per cent (International Iron and Steel Institute 2004). The process was especially severe in developed countries. USA and Germany eliminated some 70 per cent of jobs, and the UK as much as 80 per cent. In total, the EU Member States\(^1\) lost over 560 thousand jobs in the years 1980–2003. The emerging economies (China, Korea) noted a slight increase up until the early 1990s, but later on the general decline was also felt in these countries, although to a smaller extent. It seems that the reduction of employment in this sector, induced by technological advancement is an irreversible phenomenon regardless of the level of economic development of a country.

The global process of geographic transfer of production centres continues. If by the end of the 20\(^{th}\) century North America and Europe (including former USSR) supplied over 50 per cent of the world production of steel, today it is the Asia that takes the lead. In 2007, 56 per cent of steel production originated in Asia, mainly due to rapid development of Chinese metallurgy (almost 16 per cent increase of production in

\(^1\) Data apply to EU-15.
comparison to 2006.) (WSA 2011). The last economic crisis only accelerated this trend. For instance, China and India successively increased their output while the EU-27 and North America suffered significant decrease in 2009, which was not compensated by the next year’s revival. In 2010, the world production of crude steel amounted to 1,4135 billion tonnes, out of which 44 per cent was produced in a single country – China (WSA 2011).

Inclusion of the steel industry into the globalisation process is another distinct tendency which manifests itself in an advancing consolidation of the sector by multinational corporations operating on a global scale. In 2010, twenty top producers – members of World Steel Association (WSA) supplied almost 35 per cent of the world crude steel production (WSA 2011a).

Table 1. Top crude steel producers in 2010 (members of WSA)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Country of origin</th>
<th>Mmt</th>
<th>Presence on EU market (production sites)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ArcelorMittal</td>
<td>India/EU</td>
<td>98,2</td>
<td>+</td>
</tr>
<tr>
<td>2</td>
<td>Baosteel</td>
<td>China</td>
<td>37,0</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>POSCO</td>
<td>South Korea</td>
<td>35,4</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Nippon Steel</td>
<td>Japan</td>
<td>35,0</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>JFE</td>
<td>Japan</td>
<td>31,1</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Jiangsu Shagang</td>
<td>China</td>
<td>23,2</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Tata Steel</td>
<td>India/International</td>
<td>23,2</td>
<td>+</td>
</tr>
<tr>
<td>8</td>
<td>U.S. Steel</td>
<td>USA</td>
<td>22,3</td>
<td>+</td>
</tr>
<tr>
<td>9</td>
<td>Ansteel</td>
<td>China</td>
<td>22,1</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Gerdau</td>
<td>Brasil</td>
<td>18,7</td>
<td>+</td>
</tr>
<tr>
<td>11</td>
<td>Nucor</td>
<td>USA</td>
<td>18,3</td>
<td>+</td>
</tr>
<tr>
<td>12</td>
<td>Severstal</td>
<td>Russia</td>
<td>18,2</td>
<td>+</td>
</tr>
<tr>
<td>13</td>
<td>Wuhan</td>
<td>China</td>
<td>16,6</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>ThyssenKrupp</td>
<td>Germany</td>
<td>16,4</td>
<td>+</td>
</tr>
<tr>
<td>15</td>
<td>Evraz</td>
<td>Russia</td>
<td>16,3</td>
<td>+</td>
</tr>
<tr>
<td>16</td>
<td>Shougang</td>
<td>China</td>
<td>14,9</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Riva</td>
<td>Italy</td>
<td>14,0</td>
<td>+</td>
</tr>
<tr>
<td>18</td>
<td>SAIL</td>
<td>India</td>
<td>13,6</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Sumitomo</td>
<td>Japan</td>
<td>13,3</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Hyundai</td>
<td>South Korea</td>
<td>12,9</td>
<td></td>
</tr>
</tbody>
</table>

* Although ArcelorMittal especially after 2006 merger can be described as an international company the patterns of decision making processes suggest substantial influence of its Indian roots.


This trend to consolidate is also visible in the EU steel sector. It must be said that this is an industry of merit in the post-war history of Europe, and it was the steel industry which was the starting point of the integration of the European economy.
As a result of the creation of the European Coal and Steel Community in 1952, a single continental market was established for these products. This led in a short time to the unification of the principles of cross-border trade. It was at the same time that the process which eventually led to creation of the European Union, was began. Due to its strategic significance, the steel industry long remained under direct state control in most western European countries, and its history was full of alternating attempts of privatisation and renationalisation for those companies that were in dire straits i.e. the cases of such national corporations like the French *Usinor* or UK’s *British Steel*. The development of the western steel industry, connected to the post-war investment boom, was halted by the economic crisis of the mid-70s, which revealed a huge surplus of production power and labour. The sector became ‘sensitive’ in all European Community states with all the consequences of the fact. Restrictive principles of the Community’s competition policy were extensively applied and included i.e. the reduction of public aid and its use only in case of controlled ‘putting out’ of production. It forced governments to implement radical restructuring programmes accompanied by the withdrawal of state from direct ownership. In 1988, *British Steel* was once again ultimately privatised, in 1995 the same happened to *Usinor-Sacilor*, and in 1997 to *Aceralia* in Spain. This opened the road to intensive cross-border consolidation processes. In 1999, the *Corus Group* was established as a result of a merger of *British Steel* and a Dutch corporation *Hoogovens*. In 2001, *Usinor, Aceralia* and *Arbed* from Luxemburg merged to form the largest steel conglomerate at the time: *Arcelor*. Changes on the German market were more internal in character, in 2000 as a result of a merger of two German producers *ThyssenKrupp AG* was created. Similarly, mainly through internal takeovers, Italian corporation *Riva* was expanding.

In the 21st century, Indian-based multinational corporations joined actively in the game. As a result of (partly forced) merger of *Mittal Steel* and *Arcelor* (2006) and takeover of *Corus* by *Tata Steel* (2007) the European steel market was ultimately divided and shaped, where beside these two leading companies a few of others maintained strong positions: Italian *Gruppo Riva*, German *ThyssenKrupp* and *Saltzgitter*, Austrian *VoestAlpine*, Swedish *SSAB* and Spanish *Celsa*. There are some American and Russian corporations present on the EU market, although their assets are not as significant as their aspirations. Smaller, weakly internationalised companies often specialising in special steel alloys complement the steel landscape in Europe.

In general, in 2007 raw steel production in Europe amounted to 209.7 million tonnes (WSA 2011). Almost a quarter of this amount came from German steel companies, Italy supplied 15 per cent of the EU output, and France came third with
9 per cent. Poland was sixth largest producer of steel with 10.6 million tonnes. Due to the economic crisis which harshly hit the European steel sector, the output dropped in 2009 and only presently has it started to grow reaching 172.9 million tonnes in 2010. The EU-27 as a whole is still the second largest world producer of crude steel. According to the European employers’ organisation EUROFER, some 360 thousand workers at over 500 sites are employed in the steel industry in the EU (EUROFER 2011).

European steel industry is going through a difficult time. The challenges of globalisation stem from pressures of external competition. Expansion of the steel sector of BRIC countries (Brazil, Russia, India, China) exerts growing pressure of external suppliers on the European market. According to EUROFER, the share of import in the EU consumption of steel reached 30 per cent in 2010 (EUROFER 2011). Presently, external producers are unable to compete in the segment of highly processed products and they are mainly focused on their internal markets, but this situation may change. Expected development of the production potential of the BRIC countries will make them significant net exporters competing using cheap labour and reduced social standards. We also must remember that a significant part of European companies is under control of multinational corporations from outside of the EU. Therefore, decisions on delocalising and closures may be taken without an emotional attachment i.e. the case of the Liege steel mill.

The issue of potential ‘putting out’ of production is tightly linked to the challenge concerning ambitious programme of reducing the CO\(^2\) emissions by the EU. The mechanism of auction (EU ETS – Emissions Trading Directive) that is the basic method of distribution of emission rights is impacting the steel sector painfully, inducing an increase of costs and thus reducing competitiveness against the largest steel suppliers from outside Europe. This made EUROFER sue the EC in the European Court of Justice in 2011. The so-called carbon leakage, being the transfer of production outside Europe, is perceived as a real threat.

Another serious problem for the entire steel sector is the increase of prices of raw materials caused by monopolised supply. Three global players, Rio Tinto, BHP Billiton and Vale control 70 per cent of the world supply of iron ore, which causes rapid increase of prices.

Ageing of the European workforce is yet another challenge. The latest prognosis presented in the report on ageing of the society in 2009 said that the population of Europe will be at the same level in 2060 as it is today, thanks to slight increase of the fertility rate in some European countries and immigration (European Commission 2009). However, the population will be much older and by 2060 the total number of
employed will be reduced by some 19 million. This will also affect the steel industry, where a generation gap has emerged due to earlier intensive restructuring of employment. In 2007 it was estimated that the age structure in most steel producing companies was such that almost 50 per cent of the present workforce would go into retirement in the next 20 years (EDLESI 2007).

Considering the above, creation of mechanisms of attracting young workers to steel industry, and ensuring the development of their skills within sector structures of education and vocational training becomes the key issue.

Since it seems that increasing of the competitiveness of the sector against BRIC countries may only be achieved through a quick action for innovative technologies, the European Steel Technology Platform (ESTEP) was created in 2004 as part of the 7th European Framework Programme to coordinate joint activities aimed at increasing competitiveness (ESTEP 2009). The initiative is supposed to enable balanced technological development of production of steel and steel products. It facilitates the exchange of practical knowledge concerning testing of new technologies focused for instance on reduction of CO₂ emissions in steelmaking processes.

**Trade Unions Approach – Human Capital is the Future of the Steel Industry**

The main representatives of the steel workers’ interests are: the International Metalworkers’ Federation (IMF) on the global level, and the European Metalworkers’ Federation (EMF) on the European level. The IMF represents the interests of over 25 million workers globally from over 100 countries, while the EMF created in 1971 gathers some 75 federations from 34 European states (the EU, Norway, Switzerland and the EU candidate countries). Through its affiliates, the EMF represents some 5.5 million workers of various sectors of the metal processing industry.

Both organisations have been emphasising the importance of the human capital for sustainable future of the steel sector. In October 2011, the IMF addressed a statement to the governmental and business elites, in which it highlighted the need to invest in education, training and skills improvement (IMF 2011). The capacity to maintain skilled and secure workforce may be the only key to the success of the sector. In order to achieve its goals, the IMF actively promotes building of global networks of trade unions in leading steel corporations. For example – establishment
of Tata Steel Network is planned for March 2012 (IMF 2011a). It is interesting that one of the incentives for this closer formalised co-operation were the problems European unionists were facing in getting in touch with the central management of Tata Steel. In this they were assisted by Indian trade unions. This example reveals the change in pattern of transnational trade unions’ co-operation in globalised economy. To date the European trade unions have played the leading role in such cases.

Co-ordination of trade union action of the EU states is of utmost importance when we consider the fact that the process of economic integration imposes close co-operation of business in the steel sector and in the entire industry of metal processing. Therefore, the EMF has long ceased to be a casual platform for informal co-operation of national trade unions. The main tasks of the EMF include: to defend trade union, social and political interests of the affiliated organisations versus European employers’ organisations; to co-ordinate and implement joint initiatives of national trade unions on the European level; to represent the interests of European workers of metal sector on an international level. These tasks are performed through four organised action platforms: collective bargaining policy, industrial policies, enterprise policy and sectoral social dialogue.

The policy of collective bargaining includes co-ordination of wage demands of the affiliated unions, harmonisation of statements on work time and joint approach for including vocational training in collective agreements. The EMF also plays an active role in inter-sector negotiations on the European level, e.g. so-called NEPSI agreement (EMF 2008).

Industrial policy is aimed at maintaining and development of solid production base in Europe and creation of prospects for employability of the European metal sector. The EMF attempts to influence the direction of structural changes in the metal sector caused by globalisation, and aims at maintaining a balance between the workers’ interests and the need for competitiveness of European companies.

The policy of enterprises is focused on all the elements influencing the situation of workers employed in multinational corporations – starting with economic development of a company through restructuring, reorganisation and working conditions. It is especially focused on supporting the workers’ rights to information and consultation on the European level (European works councils – EWC) and the right to participation (European Company). At the same time, the EMF supports the development of the role of negotiations in multinational corporations.

Social dialogue focuses on constructing sustainable structures for dialogue on the European level with branch employers’ organisations in the metal sector. Thus,
the EMF attempts to work out joint solutions responding to globalisation challenges and changes of the European metal industry.

Contrary to stereotypical perception of trade unions solely through the fight for higher wages, the EMF attaches primary importance to the dialogue for skills improvement of the workers.

As has been mentioned above, for the last few years the EMF has tried to effectively co-ordinate national collective bargaining rounds. During its Congress in Rome in 2005, the organisation formulated so-called First Common Demand on collective bargaining (EMF 2005). According to the decision of the Congress, the demand was focused on life-long learning, individual right to training and vocational schemes. The demand was composed of following elements:
– individual right to training and life-long learning;
– annually 5 days of training for all workers;
– yearly training plan;
– preparatory training free of charge for the workers;
– certificate based training;
– training is a right in case of restructuring or group redundancies;
– training as a right of the unemployed;
– involvement of trade unions at all levels.

In the Second Common Demand formulated in 2009 referring to decent employment, there were elements of professional development as well (EMF 2009). Work is considered precarious when it is deprived of access to vocational training and professional development.

The EMF continuously highlights the necessity of investing in life-long learning of workers, as a must in the conditions of globalised economy characterised by fast technological change and ageing workforce (EMF 2010).

A testimony to the EMF's determination to develop a dialogue on professional training is the active involvement of the organisation in initiatives aimed at establishing the European Steel Council on Jobs and Skills (EMF 2011b). It is supposed to become the platform for various stakeholders (business, trade unions, scientists) to jointly forecast future needs of the labour market and search for solutions to the skills gap in the European steel industry. The initiative is supported by the EC as an element of the programme ‘New Skills for New Jobs’ promoted within the framework of implementation of Europe 2020 strategy.

It should be mentioned that there is still a gap between ambitious European initiatives and actions taken on the national level. Co-ordination of actions even in such obvious areas like information and consultation of workers encounters a number
of problems stemming from the general trend to decentralise industrial relations and reduce the significance of the sectoral level arrangements. This is a tendency that has become visible during the economic crisis in such highly unionised sector as the steel industry. In Polish, Croatian and German steel companies preventive measures taken by trade unions were rather of internal nature not of sectoral one (Adamczyk, Surdykowska 2011).

Lack of an effective transmission of European demands onto the national level is another obstacle. Trade unions focused exclusively on internal problems related to restructuring may fail to cope with broader challenges of cross-border nature (Hyman 2007). This also refers to actions for human capital. Most commonly, it is said that trade unions are still too focused on ‘service providing’ for their members instead of focusing on the development of a proactive policy of direct engagement in life-long learning and skills improvement (Fairbrother, Stroud 2008).

Active involvement of the EMF in the development of the dialogue within the EWCs may provide an opportunity to change the situation. It is where real Europeanisation of industrial relations is taking place in a practical dimension due to the wise trade union’s strategy at the EU level.

The EMF, as the only European branch federation, has developed precise internal rules for transnational bargaining in multinational corporations and principles of their implementation on a national level. As a result, the effects of such negotiations can be very encouraging. Let us to mention, for instance the Agreement on managing and anticipating change signed in ArcelorMittal in 2009. It includes the company’s role in the active policy promoting training and skills improvement in co-operation with trade unions (EMF, ArcelorMittal 2009). Of course the reality has its ups and downs. The Action Day mentioned at the beginning partly referred to respecting of this very agreement.

It is significant that employers’ investment in human capital is more often perceived by trade unions as an important factor of security of the metal workers. Both the IMF and EMF point out that investment in qualifications and knowledge is the basis of ensuring the competitiveness of the sector (EMF, IMF 2010). Therefore, access to training should be guaranteed for all workers.

The alarming data published by World Steel Association confirms that the issue has become even the more topical. In 2006 the average number of training days per worker in global steel industry was 11.1 days, in 2010 it was only 6.7 days (WSA 2011b). Trade unions want this tendency to be stopped and reversed through the new coordinated approach across transnational corporations. As a result it will build more strategic forms of leverage, questioning management’s only prerogatives on workforce
development and planning. This requires trade unions to move beyond the prevailing nation-state focus, to re-examine their position in relation to the management of change, and to argue for proactive policies with regards to lifelong learning agendas (Stroud 2011). Such efforts are noticeable, especially at the European level.

Polish Situation – Successful Restructuring
Yet Crisis of Sectoral Social Dialogue

Polish steel industry after 1992 was subject to intensive restructuring of employment accompanied by implementation of technological changes aiming at improvement of competitiveness of Polish steel mills. The decrease of employment was rapid but controlled and monitored by trade unions. The unions also provided support for workers leaving the industry. The programme was enabled by the Steel Social Package (HPS) and Steel Activation Package (HPA) that were negotiated with the unions. According to Polish Steel Association (HIPH) in the years 1990–2004, the employment in Polish steel sector was reduced by some 120,000 workers (HIPH 2011). In order to depict the rapid pace of the process one may notice that a similar redundancy in French steel industry took 19 years (1974–1993) (Stachowicz, Wawrzyniak 1995: 29). In 2010, average employment stood at 25.5 thousand employees (HIPH 2011a).

As far as effectiveness is concerned, the facts speak for themselves. In 1991, 10.4 million tonnes of raw steel were produced in Poland. Similar output was noted in 2004 – 10 million tonnes. Comparing this data with the fluctuation of employment shows fundamental change of competitiveness of the sector. In 2010, 8.08 million tonnes of steel were produced in Poland, the decrease was caused by the still perceptible results of the economic crisis (Talarek 2009).

As a result of such deep restructuring, it became possible to conduct comprehensive privatisation of most companies of the industry (Szulc, Kardas 2009). The process took place in the years 2003–2005 when most Polish steel mills were bought by foreign companies. Presently, a multinational corporation ArcelorMittal is the steel tycoon in Poland, followed by American CMC, Ukrainian ISD and Spanish Celsa.

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2 Huta Warszawa was the first Polish steel mill to be partly privatised. It took place in 1992 as a joint-venture with Italian Lucchini. At present it is a subsidiary of ArcelorMittal.
In total all these companies hold 95 per cent of production potential of Polish steel industry. The new owners continued modernising the production base (Gajdzik 2009). It is worth noticing that investment was continuous even in the time of the crisis, e.g. ArcelorMittal invested 3.8 billion PLN in the period between 2005–2009 (Warpechowska 2009). It was facilitated by continuous increase of steel consumption by the Polish economy – tripled in the years 1992–2007 (Kwiatkiewicz 2011: 15). It stemmed from serious infrastructural investment and growth of consumption goods based on steel (car industry, home electric equipment). The quality demands of this segment facilitated investment in highly processed production (e.g. cold and hot rolling mill in ArcelorMittal, products of increased endurance in Celsa, ISD and CMC), and in turn provided a comprehensive steel offer for consumers.

In February 2012, Polish Steel Association announced that as a result of completion of government’s restructuring programme, the sector – no longer dependent on public aid – should not be treated as a ‘sensitive’ one (HIPH 2012). Therefore, employers within the sector could apply for EU funds to develop innovation and new technologies.

Despite visible positive trends in Polish steel industry, one issue may rise concerns – the lack of systemic approach to investment in human capital. Technological change, including automation and computerised production lines, calls for a workforce with increased professional qualifications. Although between 1994–2006 the percentage of employees with higher education increased from 6.6 per cent to 12.2 per cent and with middle education increased from 27.3 per cent to 35.8 per cent, it was at the expense of widened generation gap: the share of 50+ workers increased and the number of young workers slumped (Dudała 2007). Another problem is the fact that workers leaving the industry are replaced by relatively lower skilled workforce requiring basic practical training. This is currently organised through ad hoc programmes introduced by specific companies (e.g. ‘ZainStalujsię’ in ArcelorMittal) but the permanent meeting of requirements of generation transformation will call for an integrated approach ensuring attracting workers of proper profile to the sector and for developing of career paths.

It is worth noticing that trade unions were the first to decide to examine these challenges. Evaluation of adaptability of companies and employees in Polish steel industry was the aim of a research project run by Metalworkers’ Secretariat of Solidarity in co-operation with a consulting company BPI Polska (Kwiatkiewicz 2011).

The picture presented by the research is quite disturbing. Vocational education system is generally perceived as unsatisfactory and a lack of closer links between...
companies and different levels of education is visible almost everywhere. Co-operation between trade unions and employers leaves much to be desired in terms of skills improvement (for instance, no company has established a training fund as set by the act on employment promotion and labour market institutions). The issue of training is not effectively negotiated by social partners and what is worse, they seem not to be interested in discussing it as a part of possible joint agenda.

The report also highlights serious challenges referring to human resources management and adaptability building. Firstly, due to mass redundancies during the restructuring processes (in 1990s and 2000s) and recruitment freeze up until 2007, the average age of employees has increased. Therefore, high rate of retirement in the near future is to be expected, which in turn will call for significant recruitment of workers with skills which are much needed but quite scarce on the market. The long period of frozen recruitment disturbed the natural process of transfer of knowledge at the workplace. Another drawback was decomposition of the system of vocational education, which reduced the pool of available candidates.

It is concerning that the research showed lack of sectoral approach to this problem. There is no formalised co-operation among companies, either. Training activities are organised at the level of specific companies and are financed mostly by employers’ own funds (without any EU or Labour Fund financial support).

It is worth emphasising that involvement of social partners was a characteristic feature of the restructuring process of the steel industry in Poland. Social dialogue was developed around that process. Thanks to it, it was possible to conduct very significant redundancies in social peace. The conclusion of supra-enterprise collective agreement for the steel industry workers in 1996 was one of the symbols of developing social dialogue. Unfortunately, it seems that this process was restrained along with privatisation of the sector. Competition among private owners reduced the importance of sector level arrangements. Not all foreign investors joined the employers’ association being de facto an emanation of one employer – ArcelorMittal – due to its predominant position in the sector. Finally, sectoral collective agreement had been terminated in 2008 (Dudala 2008) and attempts of concluding a new one were unsuccessful up to now. Thereby, there is no possibility for developing a formalised bipartite dialogue on issues crucial for the sector. Joint actions are taken only ad hoc, in case of serious threats for the industry, e.g. the reaction to CO2 emission quotas unfavourable for the Polish industry.

At present, the only accessible platform for social partners’ debates is Tripartite Sectoral Team for Social Conditions of Restructuring in Steel Industry, that has been in existence since 1995. This body was very useful in the first years of transformation
in Poland. It had been created against a backdrop of often sharp industrial conflict related to the trade unions’ fears (shared by managers of state owned enterprises) about the future of the sector and its workforce. The team quickly became a platform for real dialogue on restructuring issues and thanks to its existence it was possible to agree social packages mentioned earlier and to build social consensus concerning privatisation. Unfortunately, it seems that this formula has been exhausted in new ownership’s reality.

Within the project run by the Metalworkers’ Secretariat of Solidarity’, conclusions pointing to the necessity for systemic development of skills in steel industry were drawn. However, one can be afraid that no such actions will be taken without state involvement. The problem is that according to project’s interviews most of the respondents both from the labour side and the human resources units see no will of the state to be proactive towards the sector and accusations are made that after privatisation, the industry was left alone (Kwiatkiewicz 2011: 11). This seems to be an emanation of a more general approach of Polish public authorities to conduct, or rather to avoid, any industrial policy in privatised industries.

Conclusions

Rapid globalisation and consolidation of the steel industry which took place in the last few decades imposed the need to find a joint trade union answer to the challenges of employment security. What is interesting, apart from natural demands of remuneration increase and observing the social standards, demands for perspective investment in human capital are voiced more and more frequently.

This issue is especially important to the steel industry of the EU. This once leading and still strategic sector faces crucial challenges of survival in Europe due to globalisation pressures, risky EU attitude towards managing climate change on its own (without global commitment on CO² emissions) and changes of demographic structure (ageing European workforce).

It seems that trade unions are well aware of this danger. They point to the need for a comprehensive approach to the vision of industry’s development. Apart from technological innovation, there is necessity for systemic action for vocational training and skills improvement. Trade unions in steel industry try to redefine their approach...
towards challenge of comprehensive and widespread restructuring and change – ranging from closure and redundancy, to the new and broader implications for work and the employment of restructuring processes (Stroud 2011). At European level attempts are made to foster cross-border co-ordination of this area. This means that trade unions more frequently step beyond the classic, purely claim oriented schemes of activity.

This approach shows the picture of trade unions as a responsible partner worth listening to in the debate on the future of the European steel industry. Such debates take place in different forums and at various levels including European Sectoral Social Dialogue Committee set up in 2006. Future developments depend very much on the proactive attitude of other stakeholders – employers’ association EUROFER, central managements of transnational corporations, and finally European authorities. There are grounds for some hope. In our opinion the answer to the question asked in the title is a positive one.

Against a European background, the situation of the Polish steel sector looks disturbing. Privatisation and modernisation processes were not accompanied by development of sectoralsocial dialogue. It seems that one can talk about atrophy. It is a paradox that developed dialogue influencing human capital of Polish steel sector takes place at a European level within the EWC of ArcelorMittal and a social partners’ discussion about such topics at national level is still not an option. Considering the possible significant impact of demographic problems and distinct skills gap in Polish steel industry being a result of employment restructuring, one should stress once again that it is crucial to take up sectoral dialogue around skills and competency improvement.

Since similar obstacles occur in other privatised sectors, it seems they have deep roots stemming from the state authorities’ double reluctance: to adopt active industrial policy within the sectors regardless of their ownership structure and to stimulate social partners’ dialogue around the problems essential for the quality of human capital. This does not bode well for Polish economy.

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Social Dialogue as a Supporting Mechanism for Restructuring Processes

Rafał Towalski*

Abstract

This paper analyzes the impact of social dialogue on the restructuring process in the Polish steel industry, using the history of restructuring in the same sector in the United Kingdom as a frame of reference. Despite steep declines in employment, due to technological, organisational, and ownership changes in the sector, restructuring in Poland did not encounter particularly strong resistance on the part of organised labour, in contrast to the powerful union response seen in the UK. The difference is attributed to the presence of active social dialogue at the sectoral level in Poland and the absence of such dialogue in the UK.

Introduction

In 2009 Eurofound – the European Foundation for the Improvement of Living and Working Conditions published a report entitled Representativeness of the European social partners organizations: Steel industry by Franz Taxler, which was devoted mainly to the issues of social dialogue in the steel industry in individual countries of the united Europe. In case of Poland, the social aspect of this process was stressed with emphasis kept on the large-scale changes in the number of people employed,

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as over a span of 15 years, i.e. from 1991 to 2006 (when the restructuring process of the steel sector had officially ended), the employment in the industry decreased from 123,000 to 30,000, that is, by more than 80 per cent (see figure 1) (Towalski 2009).

![Figure 1. Number of employees at the end of year (in thousands)](image)


There may be many examples of other countries which also pursued restructuring programmes that affected similar or greater number of employees, nevertheless the characteristic feature that distinguishes Poland from those other countries is the undeniably peaceful pattern of restructuring.

One might have expected that such massive layoffs would surely lead to protests and demonstrations of the sector’s employees. Why, therefore, in Poland, in the country where the traditions of consensus in the world of work and capital are notably less established than in corporatist West European countries such as Germany, the radical restructuring project ‘managed’ to be implemented successfully in the atmosphere of relatively peaceful social moods? In the United Kingdom, when at the end of 1979 the state-owned concern British Steel Corporation announced that within a year 52,000 employees were forced to be made redundant, lengthy negotiations took place in order to accommodate the strike.

In the article two countries, Poland and the United Kingdom, which both experienced a restructuring in the steel industry are compared. Apart from the fact that the steel sector plays an important economic role in both countries, it is worth remembering that many restructuring phases in those countries took a similar shape. Such features as nationalizations, privatizations, restructuring in employment, attempts of cooperation between management boards or long-term plans of sector’s
restructuring are common to the steel industries both in Poland and in the United Kingdom.

1. Restructuring Projects in Poland and the UK

In general, restructuring is a process of changes triggered by external and environmental signals that are crucial for the company’s development (in this case, the industry’s) which aims at creating a competitive company (here, a competitive industry). The objectives of this process are adjustments in terms of organisation, production, economy and technology, as well as change of the legal and ownership status of a company (in this case, of enterprises in the industry) (Lachiewicz, Zakrzewska-Bielawska 2005: 13).

Both in Poland and in the United Kingdom, we can say that deep restructuring of the industry took place and it was a result of the ineffectiveness of the nationalized iron and steel industry.

The main difference is the scale of this process. In a smuch as in the United Kingdom the restructuring process was boiled down to one entity – British Steel Corporation – which was playing a similar role in the British metal smelting industry that the Accellor Mittal concern currently plays in Poland, this process in Poland included 24 enterprises. Moreover, the periods of time in which the restructuring projects were to be implemented were unlike.

In Poland the beginning of the transition period was connected with the collapse of the metal processing industry, which was then functioning as an association of enterprises. And the state, which was still remaining an owner, had completely abandoned its former role, without even trying to monitor these transformations (Towalski 2003: 125). The crisis that affected the industries in 1990 forced the enterprises to undertake adaptation action independently. The key challenge was the technological and organisational adaptation of companies, which was obviously related to the reduction of excessive employment. Since in many cases these redundancies included entities functioning in regions and towns which were particularly threatened by high unemployment, the decision was made to appropriate central and assistance resources for employment restructuring and protection measures.
The systematic and coordinated restructuring began in 1992 with the adoption of the *Study of restructuring of the steel and metallurgy industries in Poland to 2002*, which was compiled with the help of foreign experts and where the authors concluded that after suitable transformations, the Polish metal processing industry may become a sector that is thoroughly competitive on the international market.

Despite the fact that a year later the schedule of the programme implementation was developed and, in the presence of the Council of Ministers, the means of financing the restructuring processes were established, the works on deploying the systemic restructuring were suspended until 1997. It was not sooner than December 1997 when the Polish government and the European Commission agreed it was necessary to update and implement a coherent and complete restructuring programme for the metal and steel industries until 2005 as well as to identify the strategic objectives which are to be met before 2010.

However, the programme started in 1998 did not produce the expected results. The sector’s deteriorating situation and the world’s economic crisis forced the government to update this programme as early as two years after its start (Towalski 2001: 100).

Finally, in 2002 the *Restructuring Program for the Polish Iron and Steel Industry – Update 2002* was adopted, defining emergency short-term goals for the years 2002–2003, an action plan up to 2005, and strategic objectives up to 2010.

Table 1. The objectives and tasks of the Iron and Steel Industry Restructuring Plan from 2002

<table>
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<tr>
<th>Short-term objectives</th>
<th>Action plan and strategy directions</th>
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<tr>
<td>– improvement of the financial situation</td>
<td>– implementation of the investment plan</td>
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<tr>
<td>– sector’s consolidation by creating the Polskie Huty Stali SA (PHS SA) holding</td>
<td>– continuation of financial restructuring</td>
</tr>
<tr>
<td>– restructuring of manpower concerning 3 thousand employees.</td>
<td>– completion of privatization by involving the international investors from the industry</td>
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<td></td>
<td>– further restructuring of manpower</td>
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The restructuring programme officially came to an end in December 2005. During that time practically the entire iron and steel industry had been privatized and the manpower was radically reduced. Furthermore, the positive results of financial restructuring are also often emphasized.

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1 The effects of financial restructuring are described in more detail by A. Kulpa-Ogdowska (2006: 105–107).
The analysis of the available publications allows to assume that the restructuring process of the iron and steel industry in Poland, despite numerous modifications and problems, followed a clearly defined logic of the sector’s complete privatization and the adjustment of production capacity to the market’s needs.

The study of the papers published on the transformation in the steel processing sector in the United Kingdom leaves the reader with a quite different impression. It all began similarly though. After the war is was decided to nationalize the steel industry in both countries.

Between 1945–1951, when the ‘reign of power’ was wielded by the Labour Party, they managed to nationalize those industries that were perceived as crucial for the development of the country, including the steel processing industry (Hyman 1995: 134). A year before the end of the Labour term in office, the Iron and Steel Corporation of Great Britain was established (Richardson, Dudley 1987: 311). From the very moment when the Conservatives came to power and up to 1988 when the British Steel shares hit the stock market, the path of transformations in the steel and iron sector reminds a rollercoaster ride, whose breakthroughs are marked by successive privatizations and nationalizations.

As already mentioned, in 1951 the Conservative Party came to power in United Kingdom with an intention to re-privatise steel industry. In order to achieve that goal, in 1953 the Tory government adjourned the Nationalisation Act and introduced the Industry Denationalization Act. It was the Iron and Steel Holdings and Realisation Agency which was assigned to deal with coordination of the sector’s privatisation and the Iron and Steel Board became responsible for the control over this process. Strong politicization of the privatisation process resulted in deteriorating financial performance of the sector as well as decline in the investment level and technological development (Richardson, Dudley 1987: 313).

In 1964, the Labour Party returned to office with a commitment to fix the situation in the sector through re-nationalization. In March 1967, the Iron and Steel Act came into force whereby the state became the owner of 90 per cent of the manufacturing facilities in the industry. A few months later, the British Steel Corporation (BSC) was created on the basis of 14 mills and 200 cooperating facilities (History of British Steel). Since then the discussions on the British iron and steel industry were basically pertaining to the BSC holding.

It was in May 1972 when the Minister of Industry Tom Boardman presented the plan for modernisation and development of British Steel Corporation. It was confirmed in the document Steel. British Steel Corporation; Ten Years Development Strategy which introduced the project of organisational changes that included, among others,
the manpower restructuring that would lead to further technological development and the increase of production in the holding. It will not be an exaggeration to treat this document as a long-term restructuring programme for iron and steel making industry.

Meanwhile, in October 1979, the European Community adopted the Davignon Plan – a steel industry restructuring project. It was calling for the reduction of excess capacity in order to deal with the crisis in the European steel industry. Furthermore, the plan established the minimal prices and production limits as well as to enter into agreements with several countries to reduce some part of the steel products import (The Davignon plan for Europe’s steel).

For the holding that was mired down in the slow restructuring, the acknowledgement of the Davignon Plan’s measures appeared to be a great challenge, as BSC was forced to undertake radical modernisation actions, mainly concerned with the decentralisation and limitation of business, thus followed with radical personnel policy.

The Conservative Party government chosen in 1979, in turn, interpreted the Davignon Plan as a signal to begin the privatisation of the holding (Richardson, Dudley 1987: 347–348)). This intention, timidly expressed at the beginning, became the destination of the British Steel Corporation and its privatisation plan was formally announced in 1987.

2. Layoffs and Social Unrest

It is not difficult to notice that almost every restructuring process, no matter if in micro scale or in relation to whole industries, always arouses a great deal of emotions in terms of employment problems. The phrase ‘layoffs’ in the title of this chapter is used purposely instead of ‘manpower restructuring’, as I believe they are synonymous. The restructuring experiences, and not only in Poland, show that when there is a talk about manpower or employment restructuring then with almost 100 per cent certainty one may assume that reductions will take place.

In both countries the restructuring of iron and steel resulted in massive layoffs of thousands of employees.
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Dismisslas in Poland

The reduction of employment was taken as one of the priorities of the iron and steel making industry restructuring in Poland. The layoffs were justified by the following reasons:

– the need to adjust the scale and structure of employment to the level of production resulting from the market demand,
– the need to simplify the organisational structure of mills,
– allocation and emancipation of complementary and service facilities,
– withdrawal from the social functions of mills (Towalski 2001: 90).

The workforce reduction proceeded with variable dynamics. In the first stage, i.e. in years 1992–1998 almost 45 thousand employees left the mills. In most of the cases there were voluntary terminations, then next were transfers to partnership enterprises, social or early retirement benefits.

In early 1999 the Steelmakers’ Social Package (HPS) was signed; it was an agreement on the conditions of social protection throughout the restructuring process of steel industry with the absorption of state budget means and assistance resources from the European Union.

The implementation of this package became a symbol of the further reductions in employment. In the course of the next three years, i.e. until the end of 2001 the steel works were left by about 41 thousand employees. This means that of the 78 thousand employed in the industry at the end of 1998 only less than 31 thousand were left at the end of 2001.

Initially, it was assumed that the basic mechanism of employment reduction in the restructured industries will be transfers to the specified partnerships (see figure 2).

Undoubtedly HPS had protective function and was to ensure the minimal economical safety to the mills’ employees that were made redundant. They were particularly often taking an advantage of the opportunity to take an early retirement.

From 2004, in accordance with the European Commission’s provisions, the support from the public means in terms of employment restructuring could only apply to active forms of aid, which meant that HPS had drained all its possibilities.

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2 In years 1990–1991 the employment in iron and steel industries decreased by almost 30 thousand employees.
Therefore, a new document was adapted to settle all regulations on the employees’ terminations – *Activation Packet for the Metal Smelting Industry (HPA)* which, contrary to HPS, concentrated mainly on active forms of aid, only partially funded by the state. According to the accepted logic it is the owners of steel mills that were supposed to provide an all-around service to the dismissed employees, aimed especially at finding new jobs. Although the HPA project guaranteed a spectrum of privileges for the employers from outside the industry who were willing to hire the steel mill workers, the interest in the project in such a form was scarce. In most cases, with the help of own resources, severance pay programmes were developed, like in case of Mittal Steel Poland where thanks to negotiations between the management board and trade union, the rate of payoffs was established for the employees who decided to leave their job voluntarily.

As a result of the industry’s transformations, at the end of 2005 employment decreased to almost 30 thousand people. In spite of those radical changes in the manpower levels, no serious protests took place, not counting the first half of 1990 when the industry faced a wave of strikes. It is confirmed by the research conducted under the guidance of professor Leszek Gilejko in years 2001–2002 in the iron and steel industry. The collected questionnaires that were aimed at management boards
Social Dialogue as a Supporting Mechanism for Restructuring Processes

and trade unions of the industry show that throughout the year 1990 forty percent of them had experienced protests. Nevertheless, all these strikes took place before 1995, so before the beginning of the restructuring process (Towalski 2003: 138). What is interesting, people who protested repeatedly had listed among their claims demands for the government to take restructuring actions\(^3\). Since the very start of the restructuring programme’ implementation, the strike moods in the steel sector had clearly weakened.

**Employment Restructuring in United Kingdom**

Modernisation of metal smelting industry in the United Kingdom proceeded in a much more tense atmosphere. Among the largest protest of the workers in this country in the years 1971–1994 was the great strike of steel workers in 1980 (Towalski 2001: 103). Despite numerous problems and transformations that the metal smelting industry underwent in the post-war period, there was no other such a serious conflict like in 1980\(^4\).

It was the restructuring programme in the iron and steel industry that caused strikes, unlike in Poland, where the strikes implicitly induced the coordinated restructuring project.

In 1973 the BSC ten-years-plan was announced, and it was declared that about 20 thousand employees would have to be made redundant due to organisational changes and another 30 thousand – due to the closure of steel mills. Overall it was estimated that in 1980 about 180 thousand people would be able to find employment at BSC (Richardson, Dudley 1987: 330). Unfortunately, in 1979 the performance of the state-owned concern brought huge losses, which prompted the decision to reduce more than 50 thousand jobs within a year (Richardson, Dudley 1987: 343). Roughly in the same time the negotiations on conclusion of the Steel Contract between Iron and Steel Trade Confederation (ISTC) and BSC collapsed.

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\(^3\) Such situation, for example, took place in Huta Ostrowiec where in 1992 strike readiness was announced or in T. Sendzimir Huta where in the same year 5 members of the Self-governing Trade Union ‘Solidarity’ went on hunger strike.

\(^4\) In 1926 there were strikes on a similar scale. In the post-war period there were only few short strike actions limited to single companies. These are mentioned, among others, by Richard Hyman (1973).
Despite the information provided in a British Steel History leaflet available at Tata Steel Europe website and the information given by BBC in January 1980, the main cause of strikes were not the steelworkers’ pay demands (1980: Steel workers strike over pay) but the fear of a drastic plan of job layoffs (1980: Steel workers strike over pay). The action began with a one-day-long strike in Corby plant (Northamptonshire) in November 1979 when the decision of closing the mill was announced surprising the mill’s employees who back in 1973 had been assured that Corby plants’ viability would not be endangered as they had been the main tube-making facility in the country. Six years later the plants were to be shut down. It was a clear signal for trade unions that neither mill’s size nor the profits achieved would secure survival of iron and steel plants (Kelly 1981: 12).

In this circumstance, the industry-level unions announced the general strike. After thirteen hours of protests, steelworkers came back to work as they had been promised almost 70 million pounds, allocated for social shielding.

The following years brought further restrictions in the industry’s employment; in the years 1981–2000 the number of employed in iron smelting declined to 60 thousand people (The Steel Industry and Manufacturing in the UK 2001: 4). Never again had it caused such a violent reaction from the union as in 1980.

3. Social Dialogue as a Mechanism for Mitigation of Restructuring-related Conflicts

It might be argued that ‘abrasive’ progress of smelting industry restructuring in United Kingdom a crucial place belongs to the deficiency of social dialogue.

Restructuring is a process of change and every change is a distraction in homeostasis. It is connected with necessary rejection of a current state of affairs and
replacing it with a developed standard, which can all evoke fear and uncertainty. What often comes along with these feelings are the objectification of employees and informational blockade. Such situation is bound to generate resistance.

Application of social dialogue mechanisms – even in a narrow form – may be factor that supports and mitigates the negative consequence of restructuring. However, it requires the company’s board to apply a cooperation-oriented model of management (Ruszkowski 2004: 162)5, and the trade union to implement participation strategies.

In case of BSC, both elements were missing. Jonathan Morris, in his work *McJobbing a region industrial restructuring and the widening socio economic divide in Wales*, described the employment restructuring mechanisms used by the managing boards of steel mills at the turn of the 70’s and 80’s, which implies that they generally did not consult their plans with the unions, often putting the crews in a hopeless situation. This happened in Ravenscraig plant in Scotland, where executives announced the need for reorganisation, retraining of staff and adapting the human resources to technological potential and, at the same time, threatened that if the crew and trade unions will not agree to the proposed changes, then there is always a possibility to contract the services from outside. According to the author, the crucial changes in work organisation were introduced against the will of all steel trade unions (Morris 1995: 52). As follows from the already quoted study *Steel Policy in the UK: The politics of Industrial Decline*, lack of consultation mechanisms and limited communication between the management boards and social representatives were a common occurrence in BSC plants (Richardson, Dudley 1987: 327).

It seems that the management strategies in relations with the unions are part of a wider picture of industrial relations in the United Kingdom at that time.

The Tories, led by Margaret Thatcher, recognized the labour market deregulation, promotion of competitiveness, flexibility and value of entrepreneurship, as well as market facilitation of the public sector as the key elements of their political programme. This plan’s success depended on the limitation of the trade unions’ role; therefore, when taking all the decisions on a macro scale, the union’s voice remained

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5 Cooperative leadership is based on social game mechanisms which rules are not rigidly imposed but they are established (sometimes discovered) by the game’s participants and thus they create an instrument that regulates their cooperation. The essence of cooperative leadership is to convince the members of an organisation that the game’s aim is achieving a commonly established goal and at the same time personal benefits, conditioned by participation in the game. In practice, this model requires a skilful use of developed conciliation procedures, aimed at the pursuit of understanding, not confrontation (modes of consultation, negotiation, mediation and freedom of expression).
ignored, while the role of market labour institutions, in which the representatives of the unions seated, was weakened. At the same time, the modifications to labour law were introduced to curb the rights to strike for unions, conditions for starting up a trade union and collective bargaining (Waddington 2000: 578–580).

Concurrently, the government clearly declared that it would like to reduce its interference in the relations between employers and employees to the minimum. Thus in 1980, although the most serious industrial conflict since years took place, it was refusing to involve in the dispute for a long time. That is also why the new body, created during BSC’s restructuring, which could coordinate and supervise its progress, did not involve the representatives of all the stakeholders in the process. However, it is the Labour who could be blamed, as it is them who started the restructuring.

Another noteworthy case is the industry’s unity that apparently was really difficult to achieve due to various circumstances. Along with BSC, private enterprises were operating, able to take over the orders which weakened the bargaining position of ISTC. During the restructuring process, the particularisms of given mill works of British Steel Corporation surfaced very quickly. When it was announced that Port Talbot plants are to be shut down, Bill Sirs, then the president of ISTC, declared the readiness to fight in their defence. Meanwhile, the local trade union activists quickly accepted the severance packages plan for the redundant workers (Kelly 1981: 15). While this thesis may be unjust, I think that in the face of the unpredictability of BSC management actions, the prevailing logic at the individual plants was ‘run for your lives’. As it turned out later, this attitude was infectious: in 1984 during the major miners’ strike, it was none other than Bill Sirs who was blamed for the breakdown of the Triple Alliance of steel workers, miners and railwaymen unions. When it appeared that the Yorkshire miners are to completely stop coal excavation, it was Sirs who famously said: ‘I’m not here to see the iron and steel industry sacrificed on someone else’s altar’ (Gouiffes 2007: 323).

In the Polish smelting industry, the transformations proceeded in a quite different atmosphere. The year 1996 was a symbolic date for industrial relations in metallurgy and smelting as then the Company-wide Collective Bargaining Agreement for Steel Industry Employees was signed. This agreement was negotiated on the forum by the Tripartite Sectoral Committee Committee for Employment Restructuring and Social Protection in the Iron and Steel Industry Restructuring Period. It was one of the first tripartite committees to deal with social effects of restructuring on the industry level; it includes public administration representatives, the five federations of trade unions and the steel industry employers’ association. Until 2007 the committee was dealing with the implementation of steel industry restructuring. At that time many
meetings between the stakeholders took place which resulted in numerous solutions to support the restructuring process and mitigate its social effects. Among these solutions was the already mentioned collective bargaining agreement, but also the Steelmakers Social Package and Activisation Packet for the Metal Smelting Industry. The research carried out during and at the end of restructuring process shows that the experiences of social dialogue had pushed aside the threat of open and violent conflicts (Kulpa-Ogdowska 2006: 121; Towalski 2003: 132). The committee members claimed that long-term experiences created trust between the parties. Anna Kulpa-Ogdowska mentions the words said by one of the union members which I would like to quote here: ‘...we managed to get to know each other, to see that all shareholders had the same intentions: to arrange something useful for this industry. And we saw that we all had the good will...’ (Kulpa-Ogdowska 2006: 132). The committees’s success is based on its constancy and identity built on the pioneering experience. As one of the committee members said: ‘...we were the first committee to ‘try out’ the works related to sector’s restructuring...’ (Towalski 2003: 132).

Although restructuring is completed, the committee remains active and currently deals with problems related to early retirements and the use of EU funds for upgrading the professional skills of the sector’s employees.

The effectiveness of dialogue within the committee was undoubtedly based on the traditions developed on the company level. During restructuring, iron and steel smelting was one of few industries where each company has signed a collective work agreement and the trade unions were representing the vast majority of workers in the sector. One may say that this forced the management boards and public administration to cooperate with the trade unions.

Finally, I would like to broach the subject that will slightly disturb this ‘idyllic’ picture of the Polish steel restructuring and which, from the perspective of particular mills, raised many doubts. They were related to the layoff rates, examples of winding-up and too much dependence on the decision-making process at EU level (Kulpa-Ogdowska 2006: 110–111). The research mentioned above carried out under Leszek Gilejko showed that every third respondent thought that restructuring was done under pressure from the EU and it was beneficial mainly for the EU (see: table 2).
Table 2. Negative effects of the governmental restructuring programmes according to the respondents (in per cent)

<table>
<thead>
<tr>
<th>What are the current negative effects of restructuring government programs? Please choose max. 3–4</th>
<th>Employees</th>
<th>Unionists</th>
<th>Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reductions in employment</td>
<td>72.9</td>
<td>100.0</td>
<td>75.0</td>
</tr>
<tr>
<td>Winding-up of plants</td>
<td>49.3</td>
<td>66.7</td>
<td>37.5</td>
</tr>
<tr>
<td>Restructuring is done under pressure from and beneficial for the EU</td>
<td>30.6</td>
<td>28.6</td>
<td>37.5</td>
</tr>
</tbody>
</table>

Source: Kulpa-Ogdowska 2006: 111.

Summary

The comparison of restructuring in Poland and the United Kingdom shows that the social dialogue mechanisms may serve to mitigate conflicts which are inevitable in such processes.

While working on this article, one thought became more and more intrusive – that Hall and Soskice, who in their famous work *Varieties of capitalism* mentioned the advantage of coordinated market economies over the liberal ones, are right. One of the co-ordination features is the presence of institutions that urge the actors to cooperate and create a space for deliberation. Whereas, the key to the industrial development is the cooperation between the actors of the economic scene.

Perhaps it is a far-reaching interpretation but it is difficult not to agree that the appearance of institutions coordinating social dialogue in Polish steel industry helped to reduce social tensions and contributed to acquiescence for transformations in the industry. Meanwhile, the unitary strategies of management boards in BSC have led to a serious conflict which ending was associated with enormous costs.

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Social Dialogue as a Supporting Mechanism for Restructuring Processes

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Steel Industry: the Most Successful Example of the Sectoral Social Dialogue in Poland?

Leszek K. Gilejko*

Abstract

The paper discusses the role of social dialogue in facilitating social peace during the process of industrial restructuring in the steel sector in Poland in the late 1990s and 2000s. It is argued that the sectoral social dialogue proved to be a critical factor for the ultimate success of the restructuring, securing cooperation between the major actors of industrial relations within the branch and providing for welfare of employees exiting the sector due to organisational and technological change.

1. The Topics and the Forms of Sectoral Social Dialogue

A specific feature of the sectoral social dialogue in Poland is that it was developed in branches undergoing fundamental restructuring. Its scope and the issues under negotiations were deeply influenced by the past situation of the particular sector concerned and its state at the moment of beginning of the process.

In the steel sector the restructuring depended on the following key conditions: special position of the sector in the former (socialist) political system, large scope of restructuring, involving mostly redundancies, spatial concentration of the sector

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and its crucial role played in the local labour markets, and the European Union accession requirements. These circumstances resulted in the process being very complex and challenging for all the actors involved. In addition, the restructuring programmes also involved relatively quick privatization. The steel industry, just like other privileged sectors in the state economy, was in crisis. Its adaptation to the developing market economy and to the growing competition, fuelled by opening the market for foreign import, was even further complicated. In such a situation single enterprises had almost no chance to succeed on their own. This created a need to develop restructuring programmes for the whole branch and to transform these programmes into governmental documents. The dialogue had to take the tripartite form. Its most important participant was the state: the central government administration and the legislative.

The Tripartite Sectoral Team for Social Conditions of Restructuring in Steel Industry was created in 1995. It was a second such team. The first one, the Tripartite Team for Restructuring of Coal-mining, was established already in 1992. It had started its activity three years later though. The reason was a strong pressure exercised by trade unions active in the mining industry. The Team included representatives of the Union of the Steel Industry, representing the employers, and representatives of employees – leaders of National Section of Steel Industry of Solidarity, Federation of Trade Unions in Steel Industry of All-Poland Alliance of Trade Unions (OPZZ), the Trade Union Engineers and Technicians and other trade unions.

Since the beginning of its operations till 2001, the Team conducted 25 meetings (12 in 1999, 5 in 2000 and 6 in 2001). In following years the meetings were far less frequent. The topics and the dynamics of the Team’s proceedings were dictated by governmental programs of restructuring the sector. The Team prepared a series of documents, which became an integral part of restructuring programs as a parallel set of social protection instruments. On one hand, they increased the transaction price – the agreement of trade unions to restructuring, on the other they created a model of decreasing the social costs of the process. They provided a basis for social dialogue. The social dialogue had its clear subject and was indispensable.

The most important documents prepared by the Team are: the Steel Social Package – the Agreement Concerning Social Protection Instruments in Restructuring of the Iron and Steel Industry (signed in 1999), the programs concerning restructuring of the iron and steel industry accepted by the Government in 1998, mentioned above, as well as their updated versions from the following years, the Steel Industry Revitalization Package, etc. The Team has also discussed problems concerning the privatization, situation in some steel plants, EU accession requirements, etc.
The scope of the restructuration is illustrated in the table below.

### Table 1. The Crucial Points of the Sectoral Restructuring Programme

<table>
<thead>
<tr>
<th>Specification</th>
<th>Initial state (1992)</th>
<th>Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limiting the production(^a)</td>
<td>16 million tons of steel</td>
<td>12 million tons of steel</td>
</tr>
<tr>
<td>Employment reduction</td>
<td>123 thousand employed</td>
<td>40 thousand employed</td>
</tr>
<tr>
<td>Consolidation and diversification</td>
<td>25 steel enterprises</td>
<td>Consolidation of the largest producers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(development of P.H.S.S.A.) and companies,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 plants included in NFI program</td>
</tr>
<tr>
<td>Privatization</td>
<td>State ownership (100%)</td>
<td>Privatization of P.H.S.S.A., privatization of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Częstochowa, Ostrowiec and other steel plants</td>
</tr>
<tr>
<td>Bankruptcy(^b)</td>
<td>Deep crisis</td>
<td>Disposal of the least profitable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and ‘dirty’ steel plants</td>
</tr>
</tbody>
</table>

\(^a\) Limiting production was a precondition of applying for public support for restructuring (support for researches concerning social protection, ecology and development).

\(^b\) Three steel plants were filed for bankruptcy and one was disposed.

The following table provides information concerning social protection instruments accepted by the Team.

### Table 2. The Steel Industry Packages: Social Protection and Professional Revitalization

<table>
<thead>
<tr>
<th>The most important social protection instruments (1999)</th>
<th>The most important conclusions in the Professional Revitalization Package (2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earlier retirements</td>
<td>Retraining of employers</td>
</tr>
<tr>
<td>Pre-retirement benefits</td>
<td>Raising qualifications</td>
</tr>
<tr>
<td>Unconditional severance payments (including voluntary discharge and high severance payment)</td>
<td>Training contracts</td>
</tr>
<tr>
<td>Moving to other companies</td>
<td>One-time severance payments for retiring employees or employees starting business activity</td>
</tr>
<tr>
<td>Training contracts</td>
<td>Refinancing part of wages for employers from the outside of the steel sector employing former steel plants employees</td>
</tr>
</tbody>
</table>

| Counseling and one-time trainings                      |

\(^a\) Author’s compilation.

Changes in programs concerning instruments of social protection introducing new systemic solutions were deeply influenced by EU accession requirements. In case of steel industry they were particularly complex. One of the requirements concerned introducing proactive employment policy instead of the passive system based on pensions and benefits.
Privatization process in steel sector was one of the fastest and conducted on the largest scale. Foreign capital played an important role in the process. Privatization talks and negotiations had a substantial influence on the dynamics of dialogue on the enterprise level. They involved strategic investors, boards and very actively participating trade unions. Thus the dialogue in the steel sector functioned in many dimensions: governmental in tri-partite formula, sector in bilateral formula and in individual enterprises in a company formula. This also was a specific feature of the steel sector.

The company level dialogue referred mostly to collective agreements. ‘Steel was one of few sectors were collective agreements were reached in every enterprise’ (Towalski 2003: 137). Apart from consensus reached on a sector level, the agreements included additional conclusions

A specific feature of the dialogue in the steel sector and its effectiveness was a parallel character of negotiations in bilateral and tripartite formula. The tripartite negotiations were autonomous from bilateral collective agreement negotiations on the branch level. The collective agreement was signed already in March 1996, in the beginning of the restructuring process. It is very important that it was prepared and signed by all the most important trade unions active in the steel sector.

The information concerning the collective agreement is shown in the table below.

Table 3. The Main Conclusions of the Collective Agreement of 1996

<table>
<thead>
<tr>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed minimal wage equaling 120% of the minimum wage</td>
</tr>
<tr>
<td>Introducing 40 hours working week in enterprises under agreement within three years from its validity</td>
</tr>
<tr>
<td>25% bonus for night shift, according to the wage guaranteed in the agreement</td>
</tr>
<tr>
<td>100% overtime bonus according to individual wage level</td>
</tr>
<tr>
<td>Bonus for working in challenging environment, according to the list of challenging environmental features listed in the agreement</td>
</tr>
<tr>
<td>More beneficial – compared to the Labour Code – solutions for employees in case of outage</td>
</tr>
<tr>
<td>Benefits for substitution of an employee with a better wage conditions</td>
</tr>
<tr>
<td>Anniversary prizes for employees, with first prize possible after 20 years of work.</td>
</tr>
<tr>
<td>Special additional annual bonuses, so called Steel Industry Worker Card</td>
</tr>
<tr>
<td>Employer's obligation to inform every collectively discharged employee about opportunity for extra employment</td>
</tr>
<tr>
<td>Trainings and changing qualifications (contracts for the change of the profession) in large part organized and financed by the employer</td>
</tr>
<tr>
<td>More beneficial pensions and benefits conditions than guaranteed in the Labour Code</td>
</tr>
<tr>
<td>Longer denouncement period, with an shorter option on employee's demand, more paid days off for the search of work</td>
</tr>
</tbody>
</table>
The new agreement emphasized the rights of trade unions, making the scope of some of them broader compared to the Labour Code. These included: introducing trade unions to plans of employees discharges and forms of severance payments, introducing agreements between trade unions and employers concerning trade unions’ activity, trade unions free access to technical rooms and installations in particular, leaves etc. the restructuring programs, the collective agreement for the whole sector and the social protection package were all subjects of social dialogue and its effect. Thus they formed a ‘model’ of restructuring of a difficult and complex branch. A model for which social dialogue was of strategic importance.

The negotiation strategy, especially on the side of trade unions in the sector, did not mean that the situation was still and calm. Just like in other sectors, conflicts and tensions accompanied the restructuring process. However most of them took place before 1995, in the first period of the ‘shock therapy’.

2. The Role of Trade Unions

The researches, which form a basis of the article, concern the first and the second phase of restructuring. The employers, the trade union leaders and the managers were asked to give an opinion on the activity of trade unions (particularly two main ones) in the process of restructuring1.

Activity of Solidarity was perceived positively mostly by the managers and the union’s leaders themselves. Employees’ opinions were mostly negative, almost half of them was positive though. OPZZ activity was also viewed positively by the majority of managers and union leaders who agreed with the opinion that ‘trade unions participated in preparation and realization of the restructuring programs’. Employees’ opinions were similar to the Solidarity case. It was symptomatic that employees in both cases have often chosen the ‘I don’t know’ answer. It is an important signal regarding the employees – union leaders relations, or in other words unions’ democracy. The opinions of trade unions in the second phase of restructuring became more and more negative.

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1 The results of the researches were published in: Gilejko, L.K. (ed.) (2006), Aktorzy drugiej fazy restrukturyzacji. Trudne role i wybory, Warszawa: Oficyna Wydawnicza SGH.
While referring to different researches concerning the first phase of restructuring in the Nineties and the beginnings of the first decade of the 21\textsuperscript{st} century we may state that trade unions employed various strategies with preference for negotiations and consensus. They had also exercised direct pressure, organized strikes and strike emergencies, got involved in collective disputes, etc. The most important trade unions prepared own restructuring programs or substantial propositions of their changes. Strategies of trade unions were different in regards to proportions between negotiations and contestation, sometimes involving very spectacular forms of protest. In steel industry sector negotiations and dialogue prevailed.

In the second phase of the restructuring process the trade unions’ strategies remained the same. A new dimension of conflict and negotiations between boards (owners) and trade unions (employees) emerged. More and more often companies’ boards or external strategic investors have been becoming a party of negotiations and conflicts. This referred also to other sectors. Strikes, demonstrations and other forms of protest concerned privatization, closing mines and developing new collective agreement in mining sector, transport, railroads and financing changes in PKP (Polish National Railroad), layoffs and social packages.

The most important conflicts in the steel industry sector are presented below.

<table>
<thead>
<tr>
<th>Form of protest</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hunger strike in T.Sendzimira Steel Plant, Cracow – Nowa Huta</td>
<td>1992</td>
</tr>
<tr>
<td>Strike in Lucchinii Steel Plant, Warsaw</td>
<td>1994</td>
</tr>
<tr>
<td>Strike in Katowice Steel Plant</td>
<td>1998</td>
</tr>
<tr>
<td>Strike in Gliwice Steel Plant</td>
<td>2000</td>
</tr>
<tr>
<td>Strike emergency and strike in Ostrowe Steel Plant, Ostrowiec Świętokrzyski</td>
<td>2003</td>
</tr>
<tr>
<td>Strike emergency and strike in Częstochowa Steel Plant</td>
<td>2003</td>
</tr>
<tr>
<td>Strike emergency in Mittal Steel Companies\textsuperscript{a}</td>
<td>2005</td>
</tr>
</tbody>
</table>

\textsuperscript{a}The British-Indian concern became the owner of the largest steel enterprises, encompassing 70\% of the sector.

Assessment of trade unions attitudes toward restructuring is particularly important in context of large employment reduction in its first phase. That’s why employees’ opinion is the most important. The managers’ opinions are also important, though. The employees’ opinions are presented in the table below. As it encompasses also other sectors, it is comparative in nature.
<table>
<thead>
<tr>
<th>Branch – sector</th>
<th>Steel</th>
<th>Energy</th>
<th>PKP</th>
</tr>
</thead>
<tbody>
<tr>
<td>'S' OPZZ</td>
<td>37.9</td>
<td>37.1</td>
<td>49.9</td>
</tr>
<tr>
<td>'S' OPZZ</td>
<td>49.9</td>
<td>38.8</td>
<td>41.7</td>
</tr>
<tr>
<td>OPZZ</td>
<td>41.7</td>
<td>40.8</td>
<td></td>
</tr>
</tbody>
</table>

The trade union participated actively in preparation and realization of restructuring program

The trade union is not interested in restructuring and cares only about social protection for employees

The trade union does not support restructuring and is oriented to protest against it

Union leaders care mostly about their interests and securing the place in the supervisory board

Employees’ opinions concerning the trade unions in the sector do not differ from opinions in other branches. Only employees in the energy sector state more often that Solidarity actively participated in preparation and realization of the restructuring program. Managers and obviously trade unions’ leaders opinions are different. Over 50% of managers and 76% of unions’ leaders in the sector state, that the unions participated actively in development of the program. The situation in the other two branches looks the same. It’s characteristic, that according to a larger number of employees the trade unions organized strikes against restructuring more often in the second half of the last decade than in the first one. This concerns especially Solidarity. However, the biggest increase refers to the number of employees who stated that ‘the union leaders care mostly about their interests and securing the place in the supervisory board’. This was an opinion shared by 50% of steel sector employees 45.9% of energy sector employees and 52.5% in PKP. The opinions referred mostly to Solidarity leaders. The opinions were negative and were showing that union leaders are perceived as an independent group of interest.
3. The Price of Negotiation and Dialogue Strategy

When the trade unions preferred the dialogue and negotiations strategy, they enjoyed employees’ legitimacy. According to many researches conducted in employees’ circles, when they were asked about the best form of representing their rights, they pointed at tripartite talks between representatives of government, managers and trade unions. Strikes and protests were also perceived as effective forms of activity supporting employees’ rights, but they have never reached the first position.

Employees in the steel sector also assumed, that the most effective form of trade unions’ activity in regards to representing their interests were the tripartite talks with the government. However, the union leaders, when asked about effectiveness of various forms action most often pointed at the direct talks with the representatives of the government and later the tripartite branch teams, than at the threat of strike or demonstration and the strike emergency. Contestation was more often supported by Solidarity representatives, while the participation in branch teams by representatives of OPZZ.

In the steel branch the leaders’ support for protests against restructuring was rising during the process: in 2002 this opinion was shared by 13% of Solidarity representatives and 30.1% in 2005. The amount of likely thinking OPZZ representatives had risen from 15% in 2002 to 24% three years later. This was caused by the attitudes of government representatives as well as violating obligations by new owners of steel companies or by the threat of bankruptcy.

The critique regarding the trade unions was manifested by assessment of its leaders attitudes and by shrinking numbers of their members.

The employees of steel companies under research, when they were answering questions concerning the motives of action of different actors, were asked to develop their own negative ranking list reflecting how much the actors are acting out of self interest. According to the employees:

- Solidarity union leaders are mostly interested with their own fate, they care about their place in the board – 52.1%,
- during the restructuring the directors are mostly preoccupied with their own interests (57.1% employees, 57.1% union leaders, 12.5% managers),
- during the restructuring the government officials are mostly preoccupied with their own interests (73.6% employees, 81.0% union leaders, 50.0% managers),
- representatives of voivodship administration gain private profits from restructuring (60.0% employees, 28.0% union leaders, 25.0% managers).
The negative list of egoists, benefiting directly or indirectly from the restructuring process or caring mostly about own interests, consisted mostly from public administration representatives - the representatives of the third, most important partner in the dialogue. Public administration was also accused of compliance, even servitude to the external environment – European Union and foreign capital. Public servants were ‘accused’ of following personal interests by 73.6% of steel industry employees and even 81% of trade union leaders. The voivodship administration was perceived less negatively, probably because of its smaller perceived part in developing and realization of restructuring programs. The motives and attitudes of companies’ boards were also perceived less negatively.

Union leaders in steel companies and in other branches are not on the first position among ‘egoists’. Their negative perception is rising though. This was one of the issues influencing the feeling of loneliness of employees’ environment, the abandoned class syndrome. All the researches show that employees feel that their interests are not effectively represented by anyone. These opinions concerned also the trade unions.

A factor additionally fostering such opinions in the sectors under reconstruction, including the steel industry, was the strong spatial concentration. The restructuring was the most important factor and obviously the reason of de-industrialization of regions where the sectors concerned dictated the level of regional development and of its economic importance. In the former economic system these sectors were particularly important and privileged. Lack of a new development strategy of these regions generated additional social costs of restructuring and frustration of the employees. In eyes of the employees the trade unions, by preferring dialogue, actively participating in the restructuring process and even actively supporting social packages or developing new collective agreements became a member of ‘reformers coalition’, kind of a new party. Thus, they were paying the price for choosing the negotiation strategy.

An additional feature that has influenced the employees’ assessment of the unions leaders was a lack of information and of consulting employees’ opinion concerning the strategy. The employees under research more often pointed to mass media as a source of information concerning the restructuring than to the trade unions. Although the trade unions organized referenda among employees, this usually happened in case of strike or strike emergency. This also was obligatory procedure in light of legal regulations concerning collective disputes. Rising support of the union leaders for contestation, exploiting the threat of strike or organizing one was caused
not only by negligence of boards but also by rising negative attitudes of employees. These also concerned opinions about trade unions’ leaders.

Despite rising criticism of employees in regards to trade unions’ leaders and companies’ boards, the branch dialogue in the steel industry may be perceived as the most successful one. Thanks to negotiation strategy the trade unions have managed to keep a strong position in privatized companies which are now owned by the large international foreign investor. The later events, including the agreements between trade unions and company board during the crisis, which also concerned the steel sector, confirm the thesis above. Trade unions started to effectively realize their new function – developing employees qualifications while employing EU funding promoting human capital.

One of the major reasons of rising critical perception of trade unions’ leaders by employees was inadequate amount of information concerning restructuring and trade unions’ activity passed to the employees. The researches show that according to 44% of employees, they were not consulted in regards to the restructuring plans, although they demanded to be informed. Only 16% of employees stated, that their environment was not interested in restructuring plans. The majority of managers (57.1%) stated that plans were consulted with employees. The opinion was shared by 50% of trade unions’ leaders.

The steel sector is not an exception. Various researches revealed, that employees gained information concerning restructuring programs more often from media than directly from major actors involved in their development and realization. Informing and consulting employees could have had a positive impact on the restructuring process as well as on development of social packages or programs of professional training of dismissed employees.

Without a doubt, the insufficient involvement of local government authorities’ in restructuring process was its drawback, especially in regards to developing alternative programs of local and regional development. The major actors of restructuring and the employees perceived the attitudes of regional authorities negatively, despite the existence of government – local government program of countering the negative effects of restructuration and of another program for alternative development actions for Małopolska region. As the restructuring, especially its social consequences, always has a local impact, the problem of local government involvement is and will be of substantial importance.
Emerging Capitalism in Poland: Challenges and Dilemmas

Jerzy Hausner*

Abstract

This statement provides an account of an eventful period in the recent history of Polish social dialogue (2001–2005). The author shares his experiences and reflections from the time when he served as the Minister of Labour and the Deputy Prime Minister, as well as the head of the Tripartite Commission for Social and Economic Affairs. The statement heavily relies on the author’s book ‘Loops of development’ (Pętle rozwoju) published in 2007. The author argues that while structural reforms are inevitable in societies in transition, such as Polish, they should be introduced with caution. The role of public institutions and their viability is also stressed out. As the author claims, social dialogue, albeit of undeniable value, is prone to serious deficiencies, especially, if it retains a specific corporatist profile (that is, supporting special interest groups), which was the case in Poland in the early 2000s.

Introduction

Upon the request by the Warsaw Forum of Economic Sociology, I am going to share my thoughts and reminiscences on the meanders of economic and political transformation in Poland, the process I used to actively participate in. I wrote extensively on those issues in the past, so I would like to build my testimony around

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my earlier publications and critical responses they triggered. Furthermore, I would like to address the phenomenon of Polish social dialogue. In the first place, let me remind the comment regarding my book ‘Loops of development’ (Pętle rozwoju) made by Henryka Bochniarz, the President of the Polish Confederation of Private Employers.

Henryka Bochniarz expressed an opinion, that my book lacks emotion. That kind of emotion which was visible in my activity. As we talked, she also added that everyone would like to learn more about the dispute in which the Deputy Prime Minister Grzegorz Kołodko and myself became engaged.

I provide the account of the dispute in the book, but I avoid presenting it as a clash of two personalities – which by the way was also true – with an aim to depict it instead as a clash of two concepts, that it also was. I do so not to ‘rewrite history’ but to emphasize what is the most important for me in the book – the mechanisms of economic politics. I did not want to disrupt the solid description of these mechanisms with anecdotes and personal emotions, which would preoccupy the reader while turning me egocentric.

I do not believe that ‘the human factor’ is of no importance while describing the mechanics of politics. After all, I write about ‘the ambitious and fussy radicalism’ which became the brand mark of Polish reforms. However, I must instantly add that for the sake of explaining our problems and failures the institutional issues are more important than personal ones. On a scale of a single undertaking or while explaining a specific situation, relying to personal issues might be sufficient. To understand a development process it is certainly not.

Let me go back in time to the early 2000s, when I served as the Minister of Labour. If I wanted to explain only why I did not manage to prepare, and eventually pass the bridge pensions statute, I would emphasize that I was not able to control the actions of my depute Krzysztof Pater, who managed many issues as I was expecting, but in some other he acted as if he were calculating what was politically profitable for him personally. It seems, that he was constantly taking into consideration the fact, that while I was subjecting myself to Democratic Left Alliance (Sojusz Lewicy Demokratycznej, SLD) parliamentary faction’s criticism, my position was not strong and I could have lost my office. Thus, if he had been more acquiescent he might have had become a minister. He was playing both sides.

However, what is valid in this specific – and by all means important – example is no longer valid when I try to explain the course of the pensions’ reform. At that level it is institutions that make a difference, while individuals much less. Thus I may safely state that if certain positions were occupied by different persons, the outcomes
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would still be more or less the same, and certainly if there were someone else in place of deputy minister Pater, the state of pensions’ reform in 2005 would be similar.

I also try to avoid the personal tone because it is almost impossible to escape from the ‘Balcerowicz syndrome’ in Poland. His personality and actions became a frame of reference and a measure for actions of everyone else active in the economic policy. The problem is not to turn ‘Balcerowicz syndrome’ into ‘Balcerowicz complex’. Our economic reforms are inseparable from those of Leszek Balcerowicz. He is responsible for their direction and momentum. He, therefore, deserves a better public image and recognition for his achievements.

Nevertheless, it would be an oversimplification to say that ‘the Balcerowicz reform or programme’ should be a standard. He is responsible for bringing our economy from one world to another, from central planning to the market. That transformation could not have been taken in small steps. It had to be done instantly. The radical transformation was possible in the circumstances resulting from the downfall of Communism. Jumping to the market reality made the restoration of the former system impossible once and for all. This also began the process of a new institutional system formation. However, the progress in these matters means that the institutional vacuum, which enabled and drove the radical change, is no longer present.

Nowadays political initiatives, regardless of their scope and radicalism, have to take into account the developing system and the systemic balance of power. The politics are no longer about breakthrough but more about continuity. The politics are ordinary rather than extraordinary. To use a military metaphor, instead of a ‘Blitzkrieg’ we should get accustomed to a long lasting war in trenches. Thus, it is pointless to wait for another Balcerowicz. Besides, when Leszek Balcerowicz became Deputy Prime Minister and Minister of Economy again, at the end of the last century, his mission turned into an absolute disaster, what his avid followers seem to conveniently forget. ‘The second Balcerowicz’ could not win much while employing the instruments use by the first one. The times and circumstances changed. It makes no sense to emphasize that during his second tenure in the office the so called Four Reforms were conducted (pensions, local government, public health care and education). Firstly, not all of them were prepared by AWS-UW government and backed up by Balcerowicz. Secondly, it is hard to see them as a fully successful, especially in case of the public health care reform. The accumulated financial consequences of those reforms led to public finances collapse in 2001 (famous ‘Bauc deficit’).

The fate of the Four Reforms of 1999 helps to prove the argument that reforms that have a greater chances to succeed are those adaptation-oriented, which envisage
reorganisation of existing institutions, rather than those aimed at activating institutional breakthrough and destruction of old institutions in order to replace them with new ones. Building an institutional order depends much more on continuity and adaptation rather than on institutional change. The permanent reorganization leads to institutional chaos and void, uncertainty and selective pathological institutional adaptations of actors. The public health care reform provides a meaningful example of what radical institutional change may produce.

While holding power, one constantly faces crisis situations and critical moments. For every such situation there are number of potential solutions, which, if implemented, may translate into various possible actions. While making a decision, it is of utmost importance to have a compass, that is, a reasonable vision of institutional order. Are we conscious of the rules which both guide and limit our actions or do we let ourselves to be driven by emotions and random impulses which may give a wider spectrum of options but also increase risk of chaos. The choices made earlier determine our future options in future crisis situations. As a consequence, our range of potential options and assets at our disposition may either shrink or widen. If, while nourishing some vision of institutional order, we are really able to make it happen, our opportunities become more and more abundant. If not, they become more and more limited.

Building an institutional order involves forming a set of rules of conduct concerning each participating actor. The rules limit and bind but also multiply the assets, what in turn enables actors to deal with crisis situations and overcome them makes more easily. Deterioration of the institutional order leads to destruction of the norms, limiting the communication and the ability to cooperate. The actors may gain a greater freedom of action but their cooperation becomes more difficult, challenging and much more expensive. The opportunities to counteract the crisis situations are definitely smaller. When they become slim the solution of the crisis is an outcome of the situational balance of power. This in turn creates space for provisional and, possibly, pathological solutions. They allow the actors and organizations to continue their activity but also introduce institutional pathologies and undermine the system. If the scale of the process is large, it may lead to destruction of the constitutional system.

Nowadays, in the globalizing world, opportunities for complex, well prepared and planned in advance institutional reforms become extremely rare. It is not because of absence of capable politicians, statesmen, but by environment in which they operate. Thus, rational expectations addressed to the politicians in power should concern solutions, which may lead to reproduction of available opportunities and
assets in the social system. If politicians are unable to do so, their chaotic actions may eventually paralyse the system. In such circumstance, introducing any form of a new order is necessary, even if it needs to be enforced somehow. However, social change introduced in such a way is very costly and increase the risk of the nation being pushed away to the peripheries of the modern world.

Before any social system falls apart, its collapse may be preceded by a relatively long period of social disintegration. That creates multiple opportunities for pathological forms of adaptation, which only prolongs agony of the decomposing system. However, the longer such period lasts, the harder it is then to introduce a new order, because all the pathologies have more time to become entrenched. They are going to reappear in new circumstances and will continue to negatively influence the process of social change.

The relatively slow progress observed in the process of ‘information society’ emerging in Poland is certainly not a result of the technological backwardness, or lack of infrastructure. It is more a problem of collective mind. ‘Information society’ is based on probabilistic and hierarchic understanding of social reality, while ‘industrial society’ relies on deterministic and uniform vision of the world.

In both cases the type of leadership is different. In ‘industrial society’ a leader is usually a great modernizer, sort of super-manager, who imposes his vision and will upon society, and who is determined to bring a universal project into life, someone who is able to define a clear goal and attain it despite the obstacles. The state under such leadership should be an effective organization whose aim is to achieve the strategic goals defined by the leader.

In ‘information society’, with its probabilistic and multilateral nature, the key to effective leadership is not imposing one’s will but steering the collective discourse, not setting goals for specific features of the state bureaucracy but initiating dialogue and promoting partnership involving variety of actors who are in control of assets critical for social and economic development. The dialogue and partnership should be focused on development. So it is not about goals set by a superior leader but about defining them collectively as points of reference, against which actions of multiple actors – independent, autonomous and acting in public space whose boundaries are set by institutional order, culture, law and communication. – engaged in development may be directed harmonized. In such a formula a leader is a strategy-maker, a guide, a moderator but by no means a superior decision-maker. Immanent components of such type of leadership are not power and control but competence and partnership. The power and effectiveness of the state does not come from political force and repression but from institutionalized partnership that enables assessing, using and
reproducing the assets crucial for development. Strategic advantage and ability to act arises not from the monopoly for power and coercion but from communication and agreement.

The right reaction to ‘the soft state’ syndrome (as defined by Gunnar Myrdal) would not be to strive for ultimate control, unilateral order and strong government, but to develop a multilateral order on the basis of ‘partnership management’. Following the latter route requires replace routine, recurrence and dependency with innovation, adaptation and partnership. That is the way modern economic organizations act. So should modern states as well. Otherwise they will lose their ability to regulate the economy and to control direction of development. They would become powerless and parasitic organisms wasting assets and hampering development.

As we are talking about helplessness of Power, it is worth to mention the inspiring book by Jadwiga Staniszkis (2006). In general, I do not agree with the author’s arguments, as far as analysis of current politics is concerned, but nevertheless, I appreciate the approach to phenomena of power and politics presented in the book. Staniszkis’s main thesis is that political power in the contemporary world should be seen as ability of the political system to accomplish strategic endeavours leading to institutional change of the system. In terms of economic policy, its should follow a structural approach, and introduce institutional changes aiming to boost the nation’s competitive advantage in the long run. The role of the state in the economy is to solve structural problems, so that institutional recovery of the market is ensured, and the economic actors are able to increase their assets, and to adapt on continuous basis to the evolving environment.

While searching through the eminent work by Staniszkis, I discovered number of ideas and concepts potentially interesting to those involved in economic policy making. I would like to mention some of them:

– The network-based approach to the analysis of power (institutional webs); the power is the function of the ways the actors perceive problems and communicate them (moving from ontological to epistemological approach to power);
– Emphasizing the issue of various institutional orders coexisting in the same social space;
– Understanding the political sphere not only in terms of power or as a political system, but rather as a sphere of discourse allowing to defining the situation; limiting political-party power and rebuilding public space;
– ‘The structural violence’ concept – structural violence means imposing a new structure (post-industrial institutions) onto another (post-communism), which
result in deformation of the latter by the logic of the former (asymmetry of rationality);
– Acknowledging the role of pathological forms of adaptation, which allow the system to continue working but also undermine it, and the ultimate result is uncontrollability of the system;
– Underlining the importance of the non-interference, that is controlling intensity in changes without examining the consequences of earlier actions.

Thorough exploration of the abovementioned issues needs is matter for another time. Hereinafter I only would like to emphasize that adapting the Jadwiga Staniszis approach makes it easy to notice that the government aspiring to control others behaviour, putting their watchmen everywhere, is helpless as far as the merits of governing are concerned. If one seriously thinks about socio-economic development, they must consider the need to impact and coordinate behaviour of many actors in many webs. for example, only such policy may effectively provide for the national energy security. Placing trusted people all over ministries and state-owned companies will not do any difference. Those who believe in deterministic political power, the state’s omnipotence can only make what is necessary impossible, if their beliefs are transformed into action. In order to turn what is impossible into feasible, a government has to cooperate with multiple actors and respect their autonomy.

It should be remembered, that the state may experience a ‘work overload’. That could happen when the state aspires to perform too many functions or when it initiates too many endeavours at the same time. The latter case may occur especially with states suffering from ineffectiveness of public administration. In such circumstances, what once was just a crisis of government, may suddenly turn into a crisis of state. I am afraid that Poland is getting close to that point. Bringing the notion of the ‘weak state’ once again, I can only say that in my books and articles written at the turn of the century, I warned about symptoms of ‘the soft state’ becoming noticeable in Poland.

To my understanding ‘the soft state’ is a term depicting a low quality of governance. The issue was addressed also by myself, only I coined another label for it, namely ‘institutionalized ir-responsibility’. I discussed its main attributes in social, political and administrative terms in my joint work with Marody (2001). These are as follows:
– Social ir-responsibility – passing the responsibility for social life to the state, privatizing the public assets by individuals and special interest groups, at the cost of the public.
– Political ir-responsibility – colonization of the state’s apparatus by the political parties, political cronyism, indifference of the political class to the pathologies of
the public life, politicians’ aspirations to collect ‘political benefits’, institutionalised corruption and abundance of semi-public funds beyond control of the parliament.
– Administrative ir-responsibility – public officials hold too much discretionary power and are personally irresponsible for their actions, low quality of administrative decisions, low effectiveness and lack of transparency of administrative procedures.
– The institutionalization of the ‘ir-responsibility’ is the main reason behind ‘the soft state’ syndrome emergence in Poland. Eliminating this syndrome will not be easy, because ‘institutional ir-responsibility’ involves decline of internal self-correcting political mechanisms which ensure improving quality of governance.

Overcoming ‘the soft state’ syndrome requires adequate institutional changes and introduction of an institutional order which, while sweeping away the ‘ir-responsibility’ laso helps mobilization assets for development policy. Recommended forms of change involve: decentralization, deregulation, self-governance and civic dialogue. In my opinion, all those elements combined may become a foundation of a partnership for development.

In 2005 the parliamentary elections were won by a party that emphasized the importance of building a viable state. However, the party’s vision was essentially different from the vision I have presented above. They saw the state as solid, unilateral and centralized organism. The state that is based on ‘power’s technological course’ (in Polish: technologiczny ciąg władzy). Two years later is appears quite clear that such issues as economic policy or economic development are not in the centre of this party attention. It is keen to employ the old-style propaganda fireworks to cover the progressing intrusion into economy. This involves increasing party’s monopoly in managing the public property and growing public presence in the economy. The symbol of these politics is freezing the statute on freedom of entrepreneurship and replacing it with loudly heralded ‘Kluska package’. In the meantime, the government consequently, with help of the party nominees, tries to develop vast state dominions in the energy, bank and insurance sectors, which could enable it to impose the rules concerning entrepreneurship on the private sector.

What Type of Political Economy is Needed in Poland?

Tadeusz Kowalik, while reviewing my book ‘Loops of development’ (Pętle rozwoju) writes: ‘his diagnosis of strategic abilities of the state was clashing with his strong
faith in advantages of the dialogue. He thought that the state was weak and because of that fact it cannot effectively function in strategic dimension. The major reason of its weakness was the fact that it was dominated by department-corporatist networks and their supporters. He faced a dilemma: how to develop social dialogue while fighting these networks’. I eagerly agree with the diagnosis but not with all of my old friend’s conclusions.

First and foremost, I have never treated ‘corporations’ as responsible for all the evils and I am not their sworn enemy. I understand that both branch and public corporations must exist and have their place in social dialogue. I may give dozens of examples showing that I acted accordingly to this view. It was not my intention to destroy corporations but to make them function according to certain regulations. It was one of the goals of the draft legislation concerning professional self-government.

To me corporations themselves do not appear as the major problem, what truly concerns me are specific bonds linking corporations to central administration. That is why I deliberately use a phrase ‘department-corporatist networks’ (in Polish: układy resortowo-korporacyjne). These networks are the major institutional problem and their activities hinder development. In my eyes, breaking those networks is crucial to create space for development-oriented policy. That does not mean destroying corporations or dissolving governmental departments. However, it requires preventing the administration from formation of branch-centred, hierarchical structures, and using them to maintain control over certain types of institutions, like schools, universities, hospitals, or enterprises. The domain of governmental body responsible for a specific branch of the economy should be limited to preparing legislation, programming and implementing of major development projects, managing public finances, setting standards and developing international cooperation. This would prevent alliances between corporations and administration that are obstructive to modernisation and development-oriented policy. In other words, corporations must be truly independent from the government, not only in legal or formal but also in systemic, organizational and material sense. They should be a partner, but not a client of the government.

I persistently opted for an institutionalized social partnership and dialogue and I maintained dialogue with corporations on regular basis. However, I tried to channel the branch and professional interests and views to the Tripartite Commission. Trade unions were to play an important role in this process. The problem was, that very often because of weak leadership, they were unable to transcend the domination of the branch structures.

Tadeusz Kowalik is a consistent Keynesian and a supporter of public intervention in economy, especially, on the demand side and, redistribution. In such circumstances
the state assumes responsibility for economic and social equilibrium, and economic growth and development. In order to achieve those goals, the state needs to build institutions of corporatist dialogue, and then secure its proper work by maintaining understanding and peace between social classes. The core subject of the dialogue is redistribution, aiming in particular at balancing income from capital and labour. The foundation of such concept is ‘welfare state’, which is supported by ‘social market economy’.

The problem is that already for a long time the contemporary economy and the state do not reflect those theoretical assumptions. It regards not only Anglo-Saxon and continental countries but Scandinavian as well. The issue can be reduced to the differences between competing models of capitalism no more.

Contemporary state is no longer interventionist and redistributive but facilitative and regulatory. It does not possess the assets, competencies and instruments that could influence the demand. It is no longer a Keynes welfare nation state but a Schumpeter labour state, a participant in international and global order. This means limiting its economic sovereignty.

One of the major consequences of this process refers to approach to wages. In Keynes state wages are above all a factor of domestic demand. In Schumpeter state they are perceived as a factor of costs and international competitiveness. In the first case the state aims to directly influence the wages and forms dialogue institutions enabling that. In the other the wages are just one of the economic parameters which could be influenced only indirectly and on a limited scale.

It is not pointless to remind that economic policy in a modern state is no longer an exclusive domain of the government. Development of public bodies independent from the government became a persistent institutional solution. These bodies are reacting to changes of wages on the macroeconomic scale. The microeconomic dimension of the regulation also becomes more and more autonomous from government policies by introducing independent dialogue of social partners and ongoing privatization, decentralized collective agreements and more and more often civil agreements.

In Polish case this is supplemented by European integration, which curbs many attributes of the Keynesian-type state. Labour market and employment policy are still in the centre of the integration process, however, issues like: entrepreneurship, adaptability and equal treatment are more in the fore than wages and incomes. The approach concentrates much more on the supply than on the demand, so it is closer to structural than social policy and ‘welfare state’.

Traditional European social model – based on the ‘welfare state’ – in principle exemplified an attempt to neutralize the effects of the market, mostly by centralized
redistribution and shielding some social groups from influence of market rules while offering them a system of social security. In practice this turned out to be costly and inefficient, thus ineffective. Setting the opposition of ‘social’ against the ‘market’ did not save people from poverty and exclusion but weakened competitiveness. That is why today the search is going in the reverse direction: not against but according to the market. Not to decommodificate the individual but to guarantee them equal conditions and opportunities in commodification process. The state does not concentrate its efforts on the demand side and incomes redistribution but on the supply side and forming institutional context for the market in a way structurally guaranteeing its growth, competitiveness and cohesion, and thus development.

This is a deep intellectual, political and institutional change which is reflected in the following tendencies:
– from ‘the welfare state’ to ‘the workfare state’,
– from ‘the welfare state’ to ‘the welfare society’,
– from ‘politics of compensation’ to ‘politics of cohesion’,
– from corporatist to civil dialogue,
– generally toward social economy and corporate social responsibility.

In my opinion Tadeusz Kowalik’s proposal seems outdated. Redistribution income policy in Keynesian form will not be back. The state that tries to run such policies makes itself powerless and is sentenced to strategic failure.

Weaknesses of Polish Social Dialogue

According to the Article 20 of the Polish Constitution, the principles of solidarity, dialogue and cooperation of social partners make fundaments of social market economy. In Poland social partners’ cooperation evolved into a form of corporatist dialogue involving trade unions, employers organisations and the government. The institutions of social dialogue include: Tripartite Commission for Socio-Economic Affairs and Regional Social Dialogue Commissions. Another form of corporatist dialogue is a cooperation of state agencies with economic self-government (chambers of crafts, co-operatives, agricultural and economic chambers) and professional corporations.

The model of social dialogue present in Poland, petrifies the government-corporatist relations and paternalistic ways of interest representation. In the early
1990s tripartism was an important social innovation, which helped to ease the social conflicts emerging during the first period of the economic restructuring. However, as time went by tripartite social dialogue, instead of softening the impact of foreseen actions in the field of economic policy, began to obstruct them. That turn in tripartite social dialogue happened because trade unions used dialogue not to negotiate compromise but to win public recognition and additional resources that would boost a given union in relation to other unions and to ameliorate the position of specific trade union leaders.

Corporatist dialogue – especially at the central level – always turns social partners into a part of governmental structures to a certain extent, thus somewhat limits their autonomy. The extent of this process depends on many variables, like volume and role of public sector in the economy or a scope of state’s centralization. That is why in Poland the challenges for social dialogue are serious. The price of maintaining social peace is usually high. If there are no alternative forms of dialogue, the price has to be paid, having in mind, however, that social dialogue does solve at least part of the problems instead of pushing them away and leaving the solutions for the future.

Another important characteristic of tripartite, social dialogue in Poland is constituted by growing political ambitions of trade union leaders and, most of all, political affiliations of unions. Hostility of Solidarity to left-wing governments, and OPZZ to rightist ones results in hampering, or even aborting the dialogue after each parliamentary elections. That happened after formation of AWS-UW government in 1998, when OPZZ left the Tripartite Commission, in fact paralyzing its proceedings in effect. Likewise, Solidarność responded negatively to every single initiative of SLD–UP–PSL government between 2001 and 2005. I believe, that the Solidarność’s decision of not leaving the Tripartite Commission in 2001 (when AWS lost the election), was taken because according to the new law, each side of collective labour relations could be represented even by a single organisation, and the Commission would still be able to function, as the tripartite nature of the body was retained. Thus, leaving the Commission by Solidarność would not have serious impact on the body (because OPZZ still represented the labour), while participating in the proceedings gave it an opportunity to obstruct the consensus, which required consent of all participants present.

In my opinion, the Tripartite Commission, was very active in 2001–2005. However, the intensity of the social dialogue did not result in any important conclusions, mostly because of high political involvement of the trade unions.

The Act on the Tripartite Commission for Socio-Economic Affairs and Regional Social Dialogue Commissions, enacted in 2001, recognised two trade
unions organisations: Solidarity and OPZZ, and three employees’ organisations: Confederations of Polish Employers (since 2010 Employers of Poland), Polish Confederation of Private Employers and Polish Craft Association, as representative social partners in the Commission.

One of the very first problems was a question of representativeness of the social partners admitted to the Commission. The problem became acute, when in 2002 the status was acquired by Business Centre Club and Trade Unions Forum by court order. Other organisations, already seating in the Commission were reluctant to increasing the number of member organisations present in the body. Inclusion of the new partners triggered a reflection on legal criteria of representativeness, and, especially on how to solve the problem of double membership. Now the Commission included three representative labour unions’ structures and four employees’ organizations. Everyone understood that its further enlargement could even paralyze the proceedings. None of the partners looked forward to stronger competition, so they advocated an ad hoc amendment to the law with a view of keeping the status quo. The proposal for introducing 500 thousand members threshold for acquiring a status of representative social partner at the central level. As a result, a status of representativeness is never permanent. Each organization, including those explicitly named in the earlier regulations, has to confirm its status every four years.

Establishment of the Regional Social Dialogue Commissions (WKDS) was one of the key achievements of tripartite social dialogue in 2001–2005. WKDS turned out to be quite effective instruments of solving conflict on a local and regional level as well as issues involving individual firms. Generally, participants of such conflicts tried to get government involved. Channeling the problems to WKDS, which often included a government representative, made such an involvement more difficult.

WKDSs played an important role in appeasing the tensions concerning restructuring or bankruptcy of such enterprises like: Stocznia Szczecińska, Huta Stalowa Wola, ‘Tonsil’ Września, Fabryka ‘Wagon’ in Ostrów Wielkopolski, Fabryka Kabli in Ożarów or Huta Częstochowa. The Commissions were also involved in sectors where conflicts were arising, like health care, and in projects substantial for regional development of various voivodships (like construction of A1 highway in Pomorskie). WKDSs created additional space for mobilization and activity of NGOs. To a certain extent they developed space for civil dialogue, broader than corporatist one.

The Tripartite Sectoral Teams also became a frequently used platform for social dialogue. In most cases, their creation was directly related industrial conflict in a given sector, and was normally a vital part of a compromise putting the conflict to an
end. They emerged especially in branches undergoing profound restructuring, as well as in those dominated by public sector. They served as a forum for consultations of restructuring programs and of negotiations over the ‘social packages’ accompanying the employment restructuring. Dagmir Długosz observed that sectoral structures of social dialogue lacked clear legal basis and. Despite proving useful in building consensus for the sake of sectoral restructuring programmes, tripartite social dialogue conducted within the sectoral teams also produced disproportionate privileges for some strong industries (e.g. mining, steel or arms industry) whose cost were borne by public finances. Furthermore, ex post analysis of the long-term effects of the restructuring programmes allowed for by tripartite agreements reached by the sectoral teams shows that they did not contribute to the full recovery of the sectors concerned (Długosz 2005a; Długosz 2005b).

When the Tripartite Commission started its work in a new organisational context, a difficult question arose: what should be the relation between the Teams and the Commission, and should the Teams continue their work at all? The views of social partners in that matter were divergent. The employers’ organisations, Polish Confederation of Private Employers in particular, were against retaining the Teams. Trade unions supported the idea of prolonging existence of the Teams, but insisted they would remain outside of the Commission’s structure. The government realised that dissolution of the Teams was not possible, and the best solution at the moment would be preserving them but in a more regulated form than before.

Finally, following my proposal, the existing Sectoral Teams were to continue their activity, but their status was defined as ‘by the Tripartite Commission’ and not ‘as a part of the Tripartite Commission’. They were also obliged to act under rules which were always to be agreed upon by all the parties involved. I had also pointed out that tripartite sectoral dialogue could only be seen as legitimate, if a governmental sectoral restructuring programme was taking place in a given branch. Only in such circumstance social dialogue could involve government. Otherwise autonomous social dialogue is possible, but without governmental involvement. For example, the Team for steel industry aimed to build bi-partite branch dialogue, which was a consequence of a final stage of governmental restructuring program for the sector, accepted by the European Commission and leading ultimately to its privatization. The following Teams continued their activities in this new formula: the Team for social security of miners, the Team for steel industry restructuring, the Team for energy sector, the Team for sulfur mining, the Team for restructuring of defense industry and the Team for light industry.
I openly opposed limiting social dialogue to government-branch formula. New status of the Teams, recognised as bodies acting ‘by the Tripartite Commission’ partly prevented from such scenario. In each team the government was represented by various ministries and the chairman of the Commission had formal means to discipline the government representatives and to oppose turning governmental position into articulation of the branch interests. However, it was not always successful and in some cases the governmental-branch perspective was strongly supported by ministries’ representatives.

Creating new Sectoral Teams stirred another controversy. The health care exercised a constant pressure, dissatisfied with allocating health care issues to the Team for Public Services of the Tripartite Commission. Also coal miners demanded a team separate from general mining one. Another controversy concerned a Common Commission for Maritime Navigation and Sea Fishery, established in October 2000 (Longin Komołowski, coming from Szczecin, then a vice-prime minister and the Minister of Labour and Social Policy agreed to that). Under governmental regulations its status was different from other Sectoral Teams. I made the government not to agree to the continuation of the Team’s extraordinary formula and to overrule the regulations concerning it. At the same time the government was ready to create a new team, this time in accordance with general rules. However it was not formed – it was not possible to identify its members and defined regulations.

Pact for Labour and Development

Already in 2003, being the Minister of Economy, Labour and Social Policy, I initiated talks with social partners over the Pact for Labour and Development. Originally, I conducted bilateral talks with members of the Tripartite Commission, that is, leaders of all organisations present in the Commission. Next step was a joint position of, which was later accepted by the Commission. The position confirmed the will of all parties to prepare the Pact, and specified terms and subjects of negotiations.

In the position it was stated that: the Pact for Labour and Development is designed to counteract economic stagnation, positively influence social and civic activity and neutralize the threat of destabilization. We had also pointed out to the potential threats: high unemployment, rising difficulties in structural adaptation of Polish economy to demands of global competition, political radicalisation of a society,
growing support for radical-populist groups contesting democratic order and its norms as well as market economy.

The main objective of the negotiations was to reach agreement on how to positively influence entrepreneurship, economic growth and employment. These were the tasks which Polish economy had to tackle in order to successfully compete at the global level. The negotiations on the Pact for Labour and Development focused on the following issues:

a. Balancing public finances (eliminating ineffective administrative structures, decentralizing public finances, tightening discipline and increasing effectiveness of public spending);

b. Increasing freedom of entrepreneurship to accelerate enterprises’ competitiveness;

c. Introducing market rules in public services sector (public-private partnership in regards to financing important enterprises and projects);

d. Rules concerning privatization, which should promote modern economic structures, generate employment and take into consideration the interests of privatized firms;

e. Scope and ways of delivering public assistance to enterprises active in deficit or declining sectors of economy;

f. Ways to lessen the income tax burden to promote consumers and investment demand;

gh. Labour law, including collective agreements and regulations concerning contracts;

h. Mechanisms influencing wages in public sector, public services and enterprises’ sector;

i. Labour fund, including analyzing possibilities to increase the share consecrated to active help for unemployed to find new job in relation to welfare benefits;

j. Guaranteed Employee Benefits Fund, which should regain the ability of independent financing and should stay under control of social partners;

k. Creating a training fund which would help employers to motivate employees to expand their qualifications;

l. Creating mediation services which would help Regional Social Dialogue Commissions to solve conflicts between employers and employees.

However, the negotiations concerning the Pact never begun because due to opposition by Solidarność. Its attitude greatly disappointed other parties and myself. I was disappointed even more, because Janusz Śniadek, the leader of Solidarność actively participated in the preparation of the joint position which was to be the point of departure for further negotiations on the Pact.
When we were summing up the initiative concerning the great social agreement in the Tripartite Commission, I said that for many months we were stuck between protests and talks, fight and agreement, pressure of the street and dialogue. Exchange of views is always needed, even if it does not lead to a joint conclusion. However, talks without results do not strengthen social dialogue or its partners. None of the parties of tripartite social dialogue can say that it enjoys a good deal of social trusts. Even worse, none has any clear back up from its social base. What is the point then in actions aimed to weaken any of the parties? And, above all, what is the sense to treat the government as a political adversary instead of a partner in the dialogue? The fact that we cannot find an agreement weakens not only the Tripartite Commission, but also the dialogue and us – as parties of the dialogue. It also means that we block actions, without which real economic and social changes cannot take place and Poland will keep on wasting its chances.

The Solidarność attitude made it impossible to reach a social pact. However, it did not mean that the idea of the Pact for Labour and Development turned out to be absolutely unproductive. The other partners continued intensive talks in many important areas. Its results were visible in support for a bill on entrepreneurship freedom and for lowering CIT tax rate.

Summary

Years 2001–2005 showed that corporatist form of social dialogue is less and less useful in solving the most pressing social and economic problems. Governments under Leszek Miller and Marek Belka were taking social dialogue very seriously and tried to develop some new legal and formal context for it. That was one of the goals of an innovative and complex programme document called ‘The Rules of Social Dialogue’. It was not only a declaration of a good will and intentions, because it also introduced intra-governmental regulations which became a foundation of a partnership between government and social partners. Respecting the rules set by the document – even though were not perfect – was a decisive factor for intensity and orderly manner of social dialogue in the discussed period. No effective negotiations and problem solving followed, though.

The best direction of dialogue’s evolution would be limiting its corporatist dimension and expanding civic dialogue, not only on central but also on regional
and local level, with local government and NGOs as participants. That would mean that in the field of labour relations and labour law instead of the tripartite system an autonomous bilateral dialogue between representatives of employers and employees, especially on the enterprise level, would be strengthened. The state, represented by courts, would be an arbiter not a party in such a dialogue. Such a concept is present in a project of Collective Labour Relations Code prepared in 2005 by the Codification Commission for Labour Law (Kodeks 2005). It assumed introducing, through elections, a representation of employees empowered to negotiate collective agreements with the employer in all but small enterprises.

The failure of talks concerning the Pact for Labour and Development finally made me see the limits of corporatist dialogue. Since then I consciously aimed to develop civic dialogue instead. In particular, I initiated the Public Spending Reorganization and Reduction Program (in 2003 and 2004) and National Development Plan in 2007–2013 (in 2004–2005). I just want to express my hope that both these initiatives will become a starting point for a new form of social dialogue, which will create the actors of social and economic development, and the partnership between them. The space for civic dialogue also needs to be developed. Without these the politics turns into a struggle for influence and power, something we have been witnessing up to date.

References


The System of Funding Operational Programmes in Poland: Implications for Public Finance

Agnieszka Kłos*

Abstract

The paper explores the issue of funding the operational programmes effectuated in Poland based on the financial frameworks of the European Union for 2000–2006 and 2007–2013. The membership of Poland in the European Union provides an opportunity to receive additional funds, however the funds absorption also brings about costs. The author’s aim is to evaluate the influence of the Polish systems of funding the operational programmes co-financed by the EU structural funds on the public finance. The systemic solutions implemented in Poland affect two basic macroeconomic parameters: public debt and budget deficit.

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Introduction

In the times of economic crisis the implementation of structural and cohesion policies of the EU becomes more and more challenging. Both the European Union institutions preparing the EU budget drafts under growing financial needs, but also the member states with high level of public debt and budget deficit are facing the problem of funding the regional development. According to the author, the issue of funding the regional development deserves special attention within the contemporary economic thought and within a practical aspect of functioning of the fund system of operational programmes carried out based on public funds, also the EU structural funds. The issue is particularly relevant in regards to both: alarming level of public debt and budget deficit and attempts to balance public finance in Poland and beginning of the negotiations about the shape of regional policy of the EU and its funding in the forthcoming preparatory period 2014–2020. The implementation of new methods and instruments of the public finance management in order to overcome the growing public debt and budget deficit remains a crucial issue in the current debate in Poland and at the international level. All actions for improvement public finance are one of the strategic goals of public governance. According to the author, the issue becomes even more relevant as Poland (a candidate country to the euro zone) must complete the convergence criteria: maintain public debt level no higher than 60% of GDP and budget deficit level no higher than 3% of GDP.

Some issues examined by studies on the socio-economic development are analyses of types and scope of use of the EU structural funds and evaluation of quantified indexes of this founds, such as social value of implemented projects, independent studies of unemployment level and employment growth, number of roads and expressways built, number of new schools and educational pre-schools, which confirm the economic potential growth of particular regions. These valuable analyses serve the purpose to corroborate a practical connection between absorption of the EU structural funds, economic growth and higher competitiveness of regions. However, analyses that prove the connection between expenditure on the regional policy and its impact on macroeconomic parameters of public finance (public debt and budget deficit) are missing in the conclusions in regards to influence of expenditure on a level of the regional development indexes, Similarly, research on the influence of expenditure on the implementation of operational programmes financed by the EU public funds on the public finance indexes is missing in the public finance studies. Nevertheless, the issue deserve special attention in regards to the fact that
since the Polish accession to the EU, the European Union budget funds and structural funds have become an integral part of public finance system and the national budget.

The author’s aim is to present an evaluation of the funding system of operational programmes carried out in Poland based on the EU financial frameworks for the years 2002–2006 and 2007–2013 on a level of indexes of public finance, such as public debt and national budget deficit.

1. Review of Selected Theories of Public Debt and Budget Deficit

The theories of the public finance presented below have been selected in respect to their practical application. The theories have determined state policy in regards to imposing fiscal burdens and scope of public expenditure. The public debt issue in the theoretical meaning is a part of general economic theory, the public finance theory in particular.

The theoretical framework for economic liberalism has been created by Adam Smith in the eighteenth century. The last, fifth book of Adam Smith’s ‘An Inquiry into the Nature and Causes of the Wealth of Nations’ is dedicated to the public finance issue (Smith1954; Buchanan 1999). Adam Smith supported the laissez-faire theory opposed to government intervention in economic activity of citizens. The book ‘The Wealth of Nations’ of Adam Smith contains the principal assumptions of liberal economic thought. The role of state in national economy, public expenditure in particular, should be reduced to its basic functions, such as exterior defence, protection of personal property rights, system of justice, organization of public works. He also argued that the national budget should be reduced to the minimum (Fedorowicz 1965: 161). According to Adam Smith’s thought, public expenditures should be limited. He did not believe the public debt itself was destructive, however he argued that the generated public debt had detrimental effect on capital. The Adam Smith’s theory was developed by D. Ricardo. He stated that the capitalized value of future tax payments by citizens living at the times of debt creation transformed the interest payments on the debt into a regular transfer. In his opinion, this transfer is not shifted to future generations. In this situation, public debt does not transfer the real cost of public expenditure to the future (Poniatowicz 2005: 42).
Both Adam Smith and David Ricardo claim that financing the expenditure through public debt offering shifts the burden of expenditure, antill the time of maturity of outstanding public debt. The debt service and payments bring about a growing tax burden, which costs are shifted from generation to generation. The authors note that future generation may benefit from the debt, dependently on type of a governmental expenditure. However, the risk of creation of an excessive debt by present tax-payers must be also considered (Jajko 2008: 10–11).

J. S. Mill, classic of English liberal thought, stated that public debt brings about a double burden. The first burden refers to the costs beared by present generation. The possible expenditure on the support of labour market are taken away from employers. The second burden is shifted to the future, as the debt service brings about new taxes (Poniatowicz 2005: 42; Adams 1975).

The classic theories can be seen as containing contradictory elements. Some of the classic authors opt for balanced budget and minimal tax burden. However, they indicate the more and more active role of the state, what requires a growth of public expenditure. J. Tucker argues that a liberal government policy does not relieve the government of an active role in economic growth, high employment ratio and protection of national production. D. Ricardo indicates an additional role of the state: repeal of the international trade restrictions. Still, an extreme liberal J.M. Mill stated that the number of government initiative’s are as broad as societies initiatives (Moździerz 2009:15–19).

According to M. Poniatowicz, Paul Leroy-Beaulieu, a French economist from the eighteen century, was one of the scientists that contributed to the development of public debt theory. He strongly opposed to the statements of Jean Francois Melon and Francois Arouet Voltaire concerning the public debt issue. He defines the statements as ‘sophismata’, apparently true and difficult to refute by non-economists. The most relevant sophismata that he mentions are following:
- Internally held debt does not make a state poorer,
- Internally held debt is like a debt of the left hand owed to the right hand; from the perspective of the nation, if the amount is held by lender or a loaner the wealth of nation is the same.
- Public debt is detrimental if it brings about an interest payment on externally held debt.

Paul Leroy-Beaulieu argues that interest on the capital lent to state is an advantage taken by renters only, at the loaners (tax-payers)’ expense. In that case, lack of loans let the loaners keep the amount of money which would be paid through taxes for the purpose of loan service. Additionally, renters who don’t lend to state don’t lose
their interests. However, he states that a loan brings about a lost for one of the parties. If a loan is not taken, both parties dispose of money; in the opposite case the whole amount is owned by one of them. He also argues that a loan can be beneficial or detrimental for the society. The effect of loans depends on the effectiveness of the public debt use. J. P. Beaulieu also distinguishes consequences of public debt creation from the consequences of financing the public expenditure (Poniatowicz 2005: 43–44).

The public expenditure growth (in regard to revenues possible to achieve) can lead to creation of a revenue gap. Then the deficiency of revenue must be reduced by undertaking particular actions, i.e. internal or external debts. The economic and legal dimensions of a debt incurred by governments can be explained by comparing a debt to a tax. According to one theory, cost of a debt is bigger than cost of a tax in regards to the interests paid. Tax reduces the purchasing power of tax payers, however it brings about smaller liabilities for a state. Another theory is opposed to the statement concerning voluntariness and conventionality of a loan. The conditions of a loan are imposed by state. Loaners are not authorised to negotiate the loan conditions nor to put psychological and material pressure on the state.

However, according to the assimilation theory, there are identical consequences of both loan and tax:
– consumption of economic subjects is reduced in both cases,
– both forms of financing are not a burden for economy nor society in the long term.

Debt service brings about a transfer of revenues from tax-payers to the owners of government bonds. In this situation the domestic product is not reduced.

A realistic theory draws attention to a particular character of a public debt. According to this theory, a possibility of psychological pressure of the loaners on a state is not excluded completely. However, the pressure cannot be compared to the legal obligation of paying taxes (Gradoń 2004: 26–28; see also Krawczyk 2007: 14–16).

The orthodox approach to theory of public finance is based on an assumption that the national budget (public expenditure and tax revenues) need to be balanced (Zajda 1958: 165–166). J.B. Say is a founder of this theory. He argues that the amount of public expenditure determines the size of capitalization. An excessive growth of public expenditure causes growth of interest rates and reduction of wages and other revenues. In regards to the fact, the public expenditure should cover only the necessary governmental activities. A national budget should be balanced permanently, as a budget deficit can lead to bankruptcy and it constitutes a burden for future generations.
A postulate of the strict balance of a national budget was formulated i.e. during the International Financial Conference, organized in Brussels in the year 1920. Participants stated that governments using budget deficit will economically destroy their countries (Poniatowicz 2005: 45). According to the Nobel Prize winner, P.A. Samuelson, public finance is interpreted analogically to a household finance in the orthodox theory. Public debt is considered as a burden for future generations. As such, it should not be applied by governments (Samuelson, Nordhaus 2000: 525). In the situations of an inevitable public debt, the orthodox fiscalism supporters recommended an use of loans and credits for the investment purpose. The loans and credits should be used in long-term operations. Also, they should be paid as soon as possible to not to grow the costs of debt service (Poniatowicz 2005: 46; Hyman 2002; King 1992).

A relevant statement of public finance theory says that a government should determine a clear source and destination of the taken loans. Supporters of this theory claimed that budget deficit (if inevitable) must serve the purpose to finance expenditures stimulating economic growth. If there is a need for a loan, it should have a long-term character to not to reduce current capitals necessary to private entities. The orthodox fiscalism accepts an opportunity to use the collected taxes for the fiscal purposes only (pays for the fiscal, customs and other administration service) (Gaudemet, Molinier 2000: 166).

The attempts to develop a protectionist state policy were undertaken also by German scientists. A. Wagner postulated a stronger state intervention into the market mechanism. He is an author of a growing public expenditure rule (a Wagner’s rule). This concept was applied in an economic doctrine of several Western countries. It was also one of foundations of welfare state. A. Wagner’s concept of state became a basis for development of social security and for growth of social expenditure. The theory of A. Wagner is based on an assumption of the market failure. Market mechanism rewards factors of production (land and capital). However, it cannot satisfy growing social needs. In regards to the fact, state interventions are required to resolve social problems (Ziółkowska 2005: 32).

The contribution of A. Wagner to the interventionism stream had an impact on the theory of J.M. Keynes, created in the twelfth century. After the crisis of the years 1929–1933, the normative postulates of economic were revised. A budget policy was supposed to become a crucial instrument of anti-cyclical policy. The virtue of maintaining a balanced budget were not that appealing anymore (Bugaj 1998). According to his statements, the capitalist economy is not balanced. The productive potential is not fully used and the phenomenon is accompanied by unemployment.
The main source of disturbances is a limited capacity of private entities to invest. This factor brings about a need for interventionism. State can regulate a demand using the instruments of revenues and expenditure. J. M. Keynes accepts a budget deficit in the times of economic crisis. Then a budget deficit can help the economy to enter to the growth path (Ziółkowska 2005: 33).

J.M. Keynes created a concept of an unbalanced budget. It was due to a significant growth of public expenditure during economic depression, when budget revenues were lower. He opposed to the financing based on a growth of fiscal burden. In his opinion, if the fiscal burden grows, the purchasing parity ‘is shifted from one hand to another’. In consequence, the effective demand is growing but the individual demand is limited. Public debt should be financed by emission of national bonds in the banking or individual sector. According to J.M. Keynes, public debt can be an effective instrument to create aggregate demand (Poniatowicz 2005: 49).

Theories of J.M. Keynes were applied for the first time by a New Deal Policy in the 1930’s in the USA. New Deal was a programme of social and economic reforms introduced by president Roosevelt in the years 1935–1939. The aim of the programme was to counteract to detrimental effects of the economic crisis. Instability of market mechanism was interpreted as a reason of the economic depression. A state intervention was needed to stabilize the economy and make it more effective. The programme counted several instruments: unemployment benefits, public works, actions to reduce the unemployment level. Some legal instruments were also applied to stabilize industry, agriculture and banking sector. After the second world war, this conception became a leading macroeconomic theory (Bartkowiak 2003: 41; Fischer, Dornbusch 1983: 607).

The ideas of J. M. Keynes were developed in twentieth century by A. H. Hansen. He was strongly opposed to the conservative statement about the detrimental effect of public debt on the national economy. He argued that the impact of public debt depended on conditions and situational context of its creation. The most significant purpose for the economy is to limit fluctuations of conjunctural cycle (Ziółkowska 2005: 33).

In the 1940’s, the fact to incur a debt was not considered anymore as a proof of a weakness of a state. It started to be interpreted as a source of funds for the public expenditure. It served the purpose to balance global demand and global supply, in particular the expenditure for investments creating a multiple effect on production. Public debt management became a basic instrument of reduction of fluctuations of conjunctural cycle (Bitner, Chojna-Duch 2007: 118). From the perspective of a national economy, the goals achieved thanks to the debt emission are the most important.
Other relevant issues are the debt level and structure. Public debt can be favourable for the economic development. However, it can be also damaging or limit further sustainable development of a country (Jajko 2008: 9).

J. Tobin mentions two threats related to public debt. The first one is a push out effect, as earnings that could be invested in productive capital what raises real wages of future generations must be used to finance a deficit connected to public debt. The second one refers to growing costs of debt service. They increase budget deficit and consequently also public debt. J. Tobin created a concept of acceptable level of growth of public debt. It assumes a constant relation of public debt to GDP (Moździerz 2009: 31; Tobin 1980).

In the contemporary economic thought a neo-Keynesian school unites the Keynesian analysis and elements of monetarism. British economist W. Beveridge developed a systematic deficit theory based on Keynesian thought. He assumes that public deficit can be beneficial for the national economy. A more significant volume of public expenditure increases global demand and stimulates economic growth. However, this concept neglects some possible negative effects of an increase in public expenditure. A constant budget deficit brings about a burden of costs of growing public debt. In this situation a state becomes less creditworthy, what leads to an increase in interest rates. There is also likely that a state will need to cover the deficit by printing money. However, the monetisation escalates inflation processes (Poniatowicz 2005: 50; Duverger 1978).

M. Poniatowicz mentions also a cyclical deficit theory and a deadlock theory. According to the cyclical deficit theory, budget deficit results from conjunctural fluctuations in the economy. Shortages in budget that appear in the times of economic crises may be covered by budget surpluses in the times of economic prosperity. However, M. Poniatowicz argues that the theory may be difficult to apply in practice. It is little likely to preview precisely duration of an economic cycle. Also, there is a possibility of political pressure to use a budget surplus to fund public expenditure. There is no guarantee that budget surpluses will cover future deficits.

As opposed to the cyclical deficit theory, the deadlock theory questions a balanced budget rule. According to the deadlock theory, the budget deficit determines a surplus of defined liabilities over defined incomes. It does not either take under consideration the differences resulted from provisional operations, i.e. loans. This theory allows a deficit under specific conditions. In the times of prosperity, an additional money creation that could cover an increase in expenditure is compensated by an increase in production. It can be concluded that the phenomenon consists in distribution of an additional purchasing power through budget operations. However, it does not bring
about inflation and depreciation of money as the increase in production balances the mass of money. According to P.M. Gaudemet, this is a safe and allowed deadlock. The deadlock is allowed only if a surplus of public expenditure is used to fund productive expenditure, at least to the level of earnings possible to collect by state to cover this additional expenditure. However, there is no guarantee that an additional money creation will be compensated by an appropriate increase in supply of goods and services. Additionally, it is difficult to preview a scope of deadlock in regards to the economic conjuncture previewed (Gaudemet, Molinier 2000: 51).

A.H. Hansen states that a recovery of economic balance should be based on the following sequences:
– Incurring credits in the times of economic depression in the commercial banks. It may stimulate economic growth and increase both in domestic product and earnings,
– Intensification of public expenditure from progressive income taxes and actions for a full employment in the times of a recovered balance of economy,
– Restraining of inflation processes in economy by applying a consumption tax. Takings from the tax would be used to fund public expenditure (Owsiak 2004: 41–42).

A. H. Hansen postulated elaboration of two budgets: an operational budget, meant for service of current public tasks, and an capital budget. The second one would constitute a long-term plan of public expenditure and a fund for an investment activity of a state. The author is opposed to a typical for the orthodox theory search for analogies between private and public economies. In his opinion, satisfaction of citizens’ needs, not reaching profits, is a purpose of a state.

Abba Lerner, an American economist, supporter of Keynesian theory and author of functional finance theory is more radical in regards to application of public finance and instruments of economic policy. He recommends the application of all effective instruments of a government’s financial policy, like: taxation, public debt or control of money supply. He opts for a public expenditure growth when full employment is not secured by consumer spending (Poniatowicz 2005: 52; Laffer, Miles 1982).

J.M. Buchanan, author of the theory of social choice argues that maximizing the social utility or general welfare should be reckoned a determinant for public expenditure. His concept is based on the assumption that public debt may be beneficial for society when its positive effects surpass costs of an increase in tax burden caused by debt service. However, there are doubts concerning the appropriate measures of social utility of public expenditure, especially in regards to its subjectivity (Poniatowicz 2005: 53; Buchanan 1958).
In the 70’s, the effectiveness of government interventions was lower. The economies of Western developed countries were affected by stagnation: low economic growth rate, increase in unemployment and high inflation. Traditional instruments of government intervention were not effective anymore to fight the economic difficulties. There was a need for new actions for economic development. Some specialists in the domain of public finance argued that the way of government economic policy lead to an increase in inflation, budget deficit and public debt (Postula 2007: 29). Economic schools based on classic economy assumptions were becoming more popular than Keynesian school. Monetarists and their representative Milton Friedman argued that economy was stable ‘by nature’ and would come back to its natural state after every period of temporal instability. They reject all forms of government intervention as it counteracts the natural market forces. They accept the monetary policy only. According to monetarists, a disturbed balance of budget and increase in public debt bring about inflation, especially in a case when budget deficit is funded by creation of additional money instead of loans taken in the capital market (Poniatowicz 2005: 54; Musgarve 1984: 682, see also among many others Dumas 1985; Faeber 2002; Missale 1999). They postulate a passive role of government, as the government intervention is considered to be detrimental for the economy. They also argue that the cause of economic fluctuation is due to insufficient price elasticity. According to this theory the price elasticity grows over time and prices play more and more important role in regulation of economy. Economic policy should be limited to monetary policy. The last should be based on the control of money aggregates. However the use of interest rate should not be applied (Ziółkowska 2005: 36).

Supply-side economics appear in the late 70’s. Supporters of this theory are opposed to both Keynesian an monetarist school. They state that the both theories does not include the social aspect of economy. In their opinion a government intervention should be limited to guarantees of private property rights, security and cautious monetary policy. They state that reducing the tax burden is a best way to eliminate barriers to economic growth. It prompts to work, save and invest money, therefore it contributes to creation of supply. Supporters of the supply-side economics are critical of budget deficits that always limit investments and contribute to inflation growth (Poniatowicz 2005: 55).

M. Poniatowicz mentions also a theory of social choice. J.M. Buchanan, author of this theory is particularly interested in the economic theory of bureaucracy, political parties, democracy, collective and individual decisions. He aims to explain how governments make decisions in regards to economic policy. He argues that policy makers act in their own interest and not necessarily represent the interest of society.
Therefore they create a regime of constant budget deficits what favours inflation and destabilises economy. However Buchanan points that constitutionally regulated limits to the uncontrolled increase in public debt may resolve the indicated problem (Poniatowicz 2005: 55–56).

2. Budget of the European Union and the EU Financial Framework

The funding of the European Union activities is being seen as a controversial issue that provokes public debate. The institutional system of funding and methods of funding the structures of European integration have been evolving through the years of development of European Communities. Present European Union system of funding is complicated as structures of European integration include organs, rules and mechanisms serving the purpose of funding both the European institutions and the European Union policies established based on the EU Treaties (Treaty 1951: art. 2, 3 and 78; Treaty1957: art. 199; Treaty1957: art. 174; Treaty 1965: art.1, 9 and 20; Treaty of Nice 2011).

The main core of the EU integration process has been to create a large common European market. The member states have recognized the primary role of market mechanism in the common market creation. In capitalist economy, one of the basic instruments of economic policy is budget (Soboń 2008: 7). The European Union activities are funded from the following sources: general budget, European Development Fund and credits and loans from financial markets. Additionally, the EU activity is supported by such financial institutions as European Investment Bank, European Investment Fund and European Bank for Reconstruction and Development. However the main source of funds is the EU general budget. It encloses 95% of the amount of revenues and expenditures of the EU (European Union 2002: 128).

The general budget of European Union constitutes a financial plan of the EU activities. It is elaborated and executed by the European Commission and its subordinated subjects. This plan includes revenues and expenditures of the European communities forecasted for a budgetary year. The EU general budget is also a supranational and redistributive fund. It has a redistributive character as it contains revenues collected from internal sources which are spent according
to established rules. The mechanism of redistribution is based on principles of universality and constraint. Payments to the budget are irrecoverable. Also, there is no mutual performance from the European Communities. The budget is supranational as it is in its own sources of revenues which were formerly sources of revenues to the national budgets. The EU member states have been obliged to collect and transfer revenues from tax, custom and other sources to the EU general budget. The EU general budget is supranational also in regards to the fact that expenditures are executed in all the EU member states. Revenues and expenditures of the EU budget are enacted by the Council of European Union and European Parliament. According to law, the European Commission has a right to collect revenues and execute expenditures. However it is not allowed to impose tax burden on particular tax payers. All actions of the European Commission in regards to expenditures must be based on an appropriate executive budget act (Cieślukowski 2006: 15–16). Socio-economic policy of the European Union and functions of the EU budget have been determined by principles of subsidiarity and equilibrium. The principle of subsidiarity means that public actions should be undertaken at the lowest possible level of public administration. If an undertaken action is not successful as expected it should be transferred to higher level administration (Begg, Grimwade 1998: 104). In case of the European Union the principle of subsidiarity means that the EU actions are limited by its treaties. The EU is enabled to undertake countermeasures when actions of a particular member state are not successful as expected (European Union 2002: art.2).

The European Union system of funding has evolved considerably since its creation. The evolution has been due to many reforms that have been introduced to mitigate political crises related to budget negotiations. The EU budget expenditures differ from the national budgets expenditures. Expenditure for education, health or public debt service are not built into the EU budget. The main part of expenditure is dedicated to agriculture, in particular to the EU interventions on agricultural markets. The aim of the interventions is to stabilize prices of agricultural products and keep the EU market prices higher than world market levels. The EU budget differs from national budgets also in regards to the fact that expenditure is divided into obligatory and non-obligatory. The obligatory expenditure are related to functioning of the European Union, enabling the EU to meet its internal and external obligations established in treaties and other related legal acts. The obligatory expenditure include spending on agriculture and external spending ensued by international agreements with third countries. The non-obligatory expenditure includes structural funds, spending on administration and internal policy. The obligatory expenditure is
established by the Council of the European Union and is enacted by the European Parliament. However, the non-obligatory spending is enacted ultimately by the European Parliament which is enabled to vote down by a 3/5 majority vote of the present deputies the draft expenditure plan proposed by the Council of the European Union (Soboń 2008: 23–25).

Taking under consideration the EU financial framework is essential when elaborating the EU budget. The EU financial framework is a seven-year framework for its spending and budgets set every year. It has been a relevant political decision of the EU member states in regards to the EU system of funding. A financial framework include all expenditure divided into categories which reflect present political priorities of the EU. A ceiling for expenditure and annual spending amount is assigned to every category (Małuszyńska, Gruchman 2005: 80–81). The EU financial framework is a general plan of revenues and expenditures of the EU in the mid-term. A basic relation between financial framework and general budget consist in a fact that an amount of revenues and spending determined in the financial framework for particular years delimits the amount of revenues and expenditure from the EU budget (Cieślukowski 2002: 146–150). Arrangements made by the EU member states in the time of creation of the EU financial framework are confirmed by the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management. The legal act is in force during 7 years. All institutions taking part in preparing annual budgets are obliged to comply with the ceilings for all categories of expenditure established in the EU financial framework. However the financial framework cannot be seen as a simple financial programming as the ceilings for expenditure (in total and for every category of spending) are binding in the process of the annual budget preparation. Also the annual budget specify expenditure in a more detailed way. Therefore the determination of expenditure in particular categories is not that restricted. However there is a need for adjustment of financial framework to the every year particular context. It is due to the following reasons:

– Inflation, that is not taken under consideration while preparing financial framework,
– Need for knowledge about a current GDP value with the purpose of estimating limit of domestic funds,

The EU general budget expenditure, including the spending on structural funds, Cohesion Fund etc. is established according to the European Union law. The EU member countries must create a system of implementation the funds based on the EU regulations. The EU regulations determine mode of preparing the programming document. Based on the document, every country can precise its priorities of socio-economic policy that would be compatible to the EU directions of development and the EU socio-economic policy. According to the Council Regulation (EC) No. 1260/1999 (OJ L 99.161.1) that enacts general provisions on the structural funds and to the regulation (EC) No. 1083/2006 of the 11th July 2006 that enacts general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and that overrules the regulation (EC) No. 1290/1999 (OJ L 06.210.25), the Commission Regulation (EC) No. 1828/2006 of the 8th December 2006 that sets out rules for the implementation of Council Regulation (EC) No 1083/2006 and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (OJ L 06.371.1), a strategic programming document must be elaborated by every EU member state willing to carry out projects funded from the structural funds (more about strategy and planning: Domański 1995: 8; Kołodziejski, Tyszecki 1991: 126; Klasik 2002: 29; Karpiński 2002: 17, Kłosowski, Warda 2001: 16; Breński, Oleksiuk 2008: 86). This document is a base for an appropriate development policy. The aim of creating the document is to order goals, therefore to get a clear picture of goals and directions of socio-economic development, to subordinate short-term actions to long-term actions, to coordinate economic and social transformations, to maximize strengths and opportunities for development, to manage better resources and to get additional, external funds (Potoczek 2000: 79–80).

3. Financing Projects from the European Union’s Structural Funds Based on Financial Framework for the Years 2004–2006 and the Public Debt in Poland

Selected theories of public finance being part of a general economic theory have been presented in the first chapter. According to M. Poniatowicz, there are two contradictory doctrines about public debt. The first one assumes that growing budget deficit and consequent public debt prove the malfunction of system of public finance.
Additionally, it is opposed to the neutral role of state, it is damaging for the economy as a whole and unethical. The other extreme theory assumes that state is allowed to incur a debt and should do so. This doctrine points at the obligatory role of state in stimulation of economic growth. The budget deficit and public debt are perceived just as instruments of the intervention.

In regards to Polish membership in the European Union since the 1st May 2004 and the consequent opportunity to obtain the European Union funds for various projects, introduction of new accurate regulations to the Polish public finance system was necessary. By virtue of the amended public finance act from the 26th November 1998¹ the European Union funds, including the funds for implementation of pre-access programs, structural funds, European Agricultural Guarantee and Orientation Fund ‘Guarantee Section’ were incorporated to the public funds. These funds as being public funds could have been allocated to public expenditure or national and regional budget expenditure. According to the act, the expenditure included loans given to finance assignments carried out based on co-funding from the European Community budget – pre-funding funds, being re-funded by the European Commission. Consequently, the pre-funding of assignments carried out based on co-funding from the European Union budget was a source of loan needs of the national budget and it was classified as public debt.

According to the above definition included in the public finance act, public debt constitutes a nominal liability of the public finance sector entities after consolidation and elimination of mutual liabilities). This value in relation to GDP is one of the basic measures of the condition of public finance. Levels and dynamics of growth in the public debt in Poland in the years 2004–2008 are presented in the Table 1. The data shows that the public debt in Poland had been increasing since the year 2004. In 2004, the debt amounted to 431 431,1 mln PLN, in 2005 – 466 601,0 mln PLN, what constituted 47.5% of GDP, in 2006 – 506 263,5 mln PLN (47,8% of GDP), in 2007 r. – 527 441,8 mln PLN (44, 9% GDP) and in 2008 – 597 795,6 (47% GDP). It is worth noting that the dynamics of growth in public debt were more significant than the growth in GDP. Dynamics of growth decreased in 2007 as a result of a good situation of the national economy. However in 2008 the dynamics of public debt grew of 5.1 pp. in relation to the GDP growth.

¹ Polish Journal of Laws 2003/15/148 with later amendments. The author begins the analysis of legal regulations based on the public finance act of 1998, as the regulations determined by this act were applicable during the first year of membership of Poland in the European Union, when the rules of funding the Sectoral Operational Programmes were elaborated.
Table 1. Public debt of the state

<table>
<thead>
<tr>
<th>Position</th>
<th>Debt of the State Treasury</th>
<th>Public debt of the state</th>
<th>Public debt of the state with outflows related to pre-financing deducted</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>402 860.3</td>
<td>431 431.1</td>
<td>430 402.1</td>
<td>924 538.0</td>
</tr>
<tr>
<td>% GDP</td>
<td>43.6</td>
<td>46.7</td>
<td>46.6</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>440 167.4</td>
<td>466 601.0</td>
<td>459 965.0</td>
<td>982 565.0</td>
</tr>
<tr>
<td>% GDP</td>
<td>44.8</td>
<td>47.5</td>
<td>47.5</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>478 526.4</td>
<td>506 263.5</td>
<td>478 526.4</td>
<td>1 060 194.0</td>
</tr>
<tr>
<td>% GDP</td>
<td>45.1</td>
<td>47.8</td>
<td>45.1</td>
<td></td>
</tr>
<tr>
<td>Dynamics</td>
<td></td>
<td>108.5</td>
<td>107.0</td>
<td>107.9</td>
</tr>
<tr>
<td>2007</td>
<td>414 223.2</td>
<td>527 441.8</td>
<td>516 575.8</td>
<td>1 175 266.3</td>
</tr>
<tr>
<td>% GDP</td>
<td>35.2</td>
<td>44.9</td>
<td>44.0</td>
<td></td>
</tr>
<tr>
<td>Dynamics</td>
<td></td>
<td>104.2</td>
<td>104.9</td>
<td>110.9</td>
</tr>
<tr>
<td>2008</td>
<td>456 090.8</td>
<td>597 795.6</td>
<td>589 795.6</td>
<td>1 271 714.6</td>
</tr>
<tr>
<td>% GDP</td>
<td>35.9</td>
<td>47.0</td>
<td>46.4.9</td>
<td></td>
</tr>
<tr>
<td>Dynamics</td>
<td></td>
<td>113.3</td>
<td>113.3</td>
<td>108.2</td>
</tr>
<tr>
<td>2009</td>
<td>669 881.4</td>
<td>665 513.3</td>
<td>1 344 037.4</td>
<td></td>
</tr>
<tr>
<td>% GDP</td>
<td>49.8</td>
<td>49.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamics</td>
<td></td>
<td>112.1</td>
<td>112.9</td>
<td>105.7</td>
</tr>
<tr>
<td>2010</td>
<td>747 906.3</td>
<td>737 490.3</td>
<td>1 415 385.4</td>
<td></td>
</tr>
<tr>
<td>% GDP</td>
<td>52.8</td>
<td>52.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamics</td>
<td></td>
<td>111.6</td>
<td>110.8</td>
<td></td>
</tr>
</tbody>
</table>


The increase in public debt in the years 2004–2006 was due to an increase in treasury and local government entities debt. The increase in public debt resulted, in particular, from funding the loan needs of the national budget and funds applied to reform the social security system. Additionally, the necessity to finance the pre-finance balance, expenditure due to structural funds and Common Agricultural Policy, and providing funds for next year’s budget brought about another increase in public debt. In regards to remaining factors of the increase, conversion of liabilities of Social Insurance Institution (ZUS) to Open Pension Funds (OFE) due to not transferred insurance premium and indexation of 12-years fixed rate treasury bonds were also significant (NIK 2007: 132). Similar conclusions were also drawn in the
‘Information on the results of control of Treasury debt and liquidity of national budget’ of Supreme Audit Office (NIK). The last indicates that in regards to remaining loan needs, pre-funding of assignments financed by structural funds of the European Union contributed the most to an increase in public debt. In the years 2006–2008, it brought about a necessity to provide funds and consequently caused a total increase in Treasury debt of 7.7 billion PLN (NIK 2009: 16) what came to 86% of the national budget loan needs in relation to the total amount assigned to loans.

In 2007, the public debt growth rate began to fall in relation to previous years. It was due to lower loan needs related to funding budget deficit and relatively high nominal GDP growth (NIK 2008: 140). In 2008, public debt grew sharply of 13.3% with reference to the year 2007. Consequently, ratio of public debt to GDP increased from 44.9% in 2007 to 47.0% in 2008. The Supreme Audit Office warned that maintaining or subsequent increase in disproportion between public debt and GDP, by 2010, could lead to crossing the first threshold of public debt, per article 79, section 1, clause 1 of the public finance act (NIK 2009: 144).

Graph 1. Dynamics of increase in public debt in the years 2005–2008

![Graph 1](image)


Ratio of expenditure due to loans given to pre-finance to public debt in a budget year constitutes a proportional measure of influence of loan needs on the amount of public debt. In 2005, funds for pre-financing brought about an increase in public debt of 1.4%, in 2006 – of 2.8%, in 2007 – of 2% and in 2008 – of 1.4%. It means that ratio of public debt to GDP could have been lower of these measures and could have amounted in 2005 – 46.8%, in 2006 – 46.4%, in 2007 – 44% and in 2008 – 46.4%. The presented data should be referred to the level of risk and thresholds of public
debt determined by the public finance act. According to the act, when the public debt approaches to the level of 50–55% of public debt to GDP ratio, the Cabinet of Ministers enact a budget act that determines the ratio of deficit to budget revenues at a level no higher than in the present year. Therefore, if the same system of pre-funding the operational programmes carried out based on a new financial framework was applied (and it is worth noting that Poland could have used 11 billion EUR from the European Union budget based on financial framework for the years 2004–2006 and 59 billion EUR based on financial framework for the years 2007–2013), the ratio of public debt to GDP could be even more adverse. It is due to the anticipated increase in loan needs that could be detrimental to public finance.

In the years 2006–2008, in spite of unstable market conditions and irregular distribution of loan needs, liquidity of public finance was guaranteed. However, in 2008 funds from pre-payments of the European Union structural funds, amounted to 4,657.2 millions of PLN, were temporary used to finance the deficit and other loan needs. This solution can be perceived as economical, as it reduced costs related to the emission of treasury bonds. However it was contrary both to the article 98, section 2 of public finance act of 30th June 2005 that did not include this form of funding loan needs and to the article 202, section 1 of this act that commands use of the European Union funds according to its destination determined by international agreements, separate regulations or declaration of donor. These documents do not include this form of application of the European Union funds (NIK 2009: 8–9).

Analysis of expenditure bore by Poland based on financial framework 2004–2006 should also focus on other costs that affected the public debt, such as over-contracting, payments due to payments 5% and exchange rate differences. The mechanism of over-contracting was elaborated in order to use all funds intended for Poland for the years 2004–2006. Based on the mechanism, additional contracts were drown up, exceeding allocated funds. The surplus was supposed to be compensated by positive exchange rate differences and savings on projects. However, the mechanism entailed a risk related to accounting projects and exchange rate differences. The following solution was implemented: in case of over-contracting exceeding the European Union structural funds allocated to carry out operational programmes, the costs of a particular operational programme will be bore by national budget. The applied mechanism was due to the fact that contracts were based on calculations in Polish zloty but calculations with the European Commission were kept in euro. Accordingly, savings related to exchange rate differences could be used to carry out additional projects.
At the introductory stage of the implementation of the structural funds, funds intended to refund expenditure were transferred from the European Commission as pre-payment. Both pre-payment and periodic payments were transferred from the European Commission to a fund account, e.g. European Social Fund, European Regional Development Fund that was opened by Ministry of Finance in the Department of Paying Authority. Afterwards, the funds were transferred to a programme fund appropriate for every operational programme. Next, the funds were transferred to the Managing Authority of an operational programme. Based on a programme, the beneficiary received the re-payment of expenditure that had been bore. All calculations were kept in euro, except the beneficiary account.

Due to Repair Programme introduced by Ministry of Regional Development in 2005, beneficiaries received accelerated fund transfers. The payments were transferred from the accounts of Managing Authority that managed operational programmes that were lacking in funds necessary to re-pay the beneficiaries expenditure due to prolongation related to time from a certification of applications for payment to refund from the European Commission. Therefore, introduction of supporting funding the accounts from national budget was necessary. The financial support was supposed to come to an amount that guaranteed flow of funds certificated by Paying Authority to beneficiaries. However, difficulties in funding arose as the substantial and financial involvement of projects increased and the certificated amounts came to 95%. The European Commission, according to the system of fund implementation and the system of fund regulations, suspended payments of the remaining 5%, until a project was closed and motion for final payment was submitted. Consequently, Poland had to involve additional funds to close the projects that had been carried out.

In case of prior transfer of funds from programme account to the Managing Authority and subsequently to beneficiary, funds from the European Commission remained in the programme account. They were used as revolving funds. They could also been transferred as re-payment of ‘loan’ or to the national budget account.

The funds transferred to programme account constitutes loan needs of national budget, therefore they influence level of public debt. Once the Paying Authority accepted payment application, the accepted amount was paid from the programme account. The payment was calculated based on average exchange buying rate announced by National Bank of Poland. The payment application to the European Commission was verified first by Paying Authority. Afterwards, it was prepared based on the EUR/PLN exchange rate set by the European Central Bank. Negative

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2 A general schema of the financial flow is presented in Figure 1.
exchange rate differences related to the calculations of expenditure according to rates of National Bank of Poland and European Central Bank, if existed, were covered from national budget.

Figure 1. General schema of financial flows from the European Commission based on NPR (National Development Plan 2004–2006)

Source: Analysis of the author.

In regards to the analysis of impact of the system of funding projects based on financial framework 2004–2006 on public debt, the author concludes that
undoubtedly the pre-funding mechanism that was introduced and regulated by public finance act had an influence on level of public debt.

The mechanism also contributed to the increase in public debt of 7.7 billion PLN and consequently affected ratio of public debt to GDP. The costs of over-contracting, exchange rate differences and other loan needs related to closure aid could also burden the national budget. It is impossible to determine precisely the amount of additional public expenditure. It is also difficult to estimate public expenditure due to over-contracting, as they are closely connected with exchange rate variation, however it might be possible at the closure of the operational programmes. Due to the complicated mechanics of account settlements, access to specific financial statements from the national budget is not possible. Additionally, it is difficult to estimate amount of non-qualified expenditure included in contracts for additional funding that was necessary to bear as a part of particular projects. In case of national budget entities and local government entities the costs were bore also by the national budget.

4. Expenditures Refundable by the European Commission and Its Impact on the National Budget

By virtue of the amended Act on Public Finances of 30 June 2005, from 2007 on, financial means acquired from the budget of the European Union (EU) deemed refundable, are included in the national annual budget. As a result, public expenses related to the 2004–2006 EU budget were treated as expenditures of the budget, while the financial means from the EU structural funds became seen as a part of budget revenues. Thus, completion of specific expenses and revenues of that type affected the level of national budget deficit. During the first year (2007) of using the new rules of fund transfers, the national budget was refunded by the EC a total of PLN 7.534 million as a result of public expenditures, where PLN 1.699 million came from structural funds, representing 22.8% of the planned revenue from that source of funds (Table 2).

The much lower than expected amount is attributed to the following factors:
a. Only 41.1% of the refundable expenses were carried out as planned;
b. A fact that that the actual date of carrying refundable expenses out and the term of actual refund vary have been overlooked during the planning of the budget (NIK 2008: 52).

In 2007 the higher than expected overall revenues for the national budget were registered due to a higher than forecasted GDP growth rate. A sudden good performance in execution of the budget revenues from PIT and CIT was a result of a good shape of the economy and fiscal discipline of the taxpayers.

As far as completion of the national budget revenues from the refundable expenditures by the EC is concerned, it should be noted that some 45% of the national budget deficit could be attributed to not receiving transfers from the EC, and 36.2% of the deficit should have been covered by the anticipated but not received structural funds. In 2008 the gap became even wider, as only 41.8% of the refundable expenditures were actually reclaimed by the state, and merely 18.5% of the structural funds were transferred to Poland’s central budget that year. In effect, 86% of the national budget deficit emerged from not receiving transfers from the EC, and as much as 67.6% of the deficit should have been covered by the projected but eventually not received structural funds.

Those poor results may be explained by the unsatisfactory level of attainment of the targets set by the National Strategic Framework. Another factor that should be taken into account is that some of the receivables to be borne by the EC comprised the funds from the 2004–2006 EU budget. In that EU budget, there were specific measures devised to increase the efficiency of the transfers made to the beneficiaries. Furthermore, lack of proper regulations on the national level at the time had impact on the decisions by the Polish Ministry of Finance on assigning the financial means from the EC to a separate account on the revenue side of the national budget. The national auditor (the Supreme Chamber of Control) referred to those issues in their reports regarding the completion of the national budget and monetary policy targets of the state (NIK 2008: 51; NIK 2009: 56).

As late as 2009, the Ministry of Finance, in response to the national auditor’s concerns raised in their reports, introduced internal procedures on how to transfer the EU funds from the accounts denominated in euro (EUR) to the national budget. According to the new procedures, transfers were to be made based on the preliminary expense statements presented by the administers of specific parts of the budget, as well as their reports of expenses actually made submitted every half a year. There is, however, a noticeable inconsistency in such a procedure: a statement of preliminary expenses is, by definition, only a plan, and, as such, not necessarily can be fulfilled in its entirety within the timeline given, because closing
of a specific project can take longer than originally expected or savings are achieved in course of the project’s completion. In 2009 the national budget revenues from the EC refundable expenditures increased, as 76% of the planned revenues were actually received. Furthermore, 74.6% of the revenues from the structural funds included in the amended national budget were effectively collected. As of the deficit of the national budget, only 41.5% of it resulted from not received paybacks for the refundable expenditures by the EC, and approximately 29% of the deficit came from unrealized structural funds payments.

The generally low level of efficiency in financing the EU-supported projects was a result of overtly optimistic assumptions about the capacity for implementation of operational programmes made at the stage of national budget planning in 2007 and 2008, as well as ineffective project management and coordination by the relevant institutions. Moreover, lack of appropriate regulations and procedures regarding classification and allocation of the financial means was an additional hindrance in effective spending, especially at the project preparation stage (before signing of the contract for co-financing). Even tough the Ordinance of the Minister of Regional Development of 7 September 2007 regarding the spending related to operational programmes3 dealt with the issue, the decision to actually release the funding was left to the Ministry of Finance. Such a decision, if made, would mean deliberate acceptance of the fact the financial means for the project could be not included as a revenue of the national budget, as they, as uncertified, would not be considered refundable by the EC. Thus, the national budget would have to carry additional burden.

A desire for sudden reduction of the public debt could be the reason for adopting a specific system of operational programmes financing for the 2007–2013 EU budget, based on the principle of incorporating cash flows into the national budget. The decision was taken at the times of swift economic growth, when the state recorded a high level of revenue from income and indirect taxes, which translated into a lesser than anticipated level of national budget deficit. Such a choice appears to be politically motivated, as it allowed for increasing of the revenue and decrease the budget deficit. It also indicates how short-sighted was the approach of the government towards the issue of financing operational programmes. The decision-makers simply assumed that the economic growth would continue at a relatively high pace, so national budget revenue would constantly be on the rise, and eventually revenues

and expenditures would become more or less balanced. Furthermore, the issue of institutional efficiency was also apparently overlooked. The volume and pace of financial transfers from the EC depends heavily on smooth work of the entire system of institutions responsible for implementation of structural funding. Therefore, a question arises whether financing of operational programmes can be accurately planned? The public expenditure forecasts and their actual execution are summarized in the Table 3.

**Table 3. The National budget expenditure borne for the purpose of financing projects under the frame of the National Development Plan and the National Strategic Framework 2007–2010**

<table>
<thead>
<tr>
<th></th>
<th>Refundable spending as planned (amendments included) (in PLN thous.)</th>
<th>Refundable spending – completion (in PLN thous.)</th>
<th>%</th>
<th>National contribution as planned (amendments included) (in PLN thous.)</th>
<th>National contribution – completion (in PLN thous.)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4 708 140</td>
<td>2 888 048</td>
<td>61.34</td>
<td>5 235 320</td>
<td>4 084 858</td>
<td>78.02</td>
</tr>
<tr>
<td>2008</td>
<td>17 948 533</td>
<td>4 774 807</td>
<td>26.60</td>
<td>9 881 121</td>
<td>3 977 563</td>
<td>40.25</td>
</tr>
<tr>
<td>2009</td>
<td>15 515 448</td>
<td>14 523 810</td>
<td>93.61</td>
<td>3 444 341</td>
<td>3 277 703</td>
<td>95.16</td>
</tr>
<tr>
<td>2010a</td>
<td>1 447 400</td>
<td>335 423</td>
<td>23.17</td>
<td>6 093 021</td>
<td>3 868 467</td>
<td>63.49</td>
</tr>
</tbody>
</table>

* The 2010 data include spending borne for the technical assistance within the frame of operational programmes and national co-financing of operational programmes.

Source: Author’s own account based on the reports on completion of the national budget in the years 2007–2009 and monthly reports by the administers of the specific parts of the national budget.

The data presented in the Table refer to the spending actually made, that is, to spending included in the budgets of the administers of specific parts of the national budget enhanced with financial means from the appropriated reserves of the national budget. Analysis of the data allows seeing that so called ‘national share’ in the projects ran within the frame of operational programmes was financed more effectively than the expenditures to be covered externally, that is, with the EC funds.

In 2007 the volume of funds allocated in the national budget to the task of co-financing of EC-funded projects exceeded the volume of refundable spending. Total of 78% of the financial means assigned to co-financing was actually spent, while the figure for refundable spending amounted to only 61% of what had been intended. At the time projects covered by the 2007–2013 EU budget were already underway, and the ‘national share’ required for the projects is not deemed refundable. Furthermore,
in 2007 some projects covered by the former EU budget (2004–2006) were still being implemented.

In 2008 the volume of EC refundable spending from the EU structural funds, as planned, was nearly four times higher than in the preceding year. Nevertheless, performance of the relevant administrators of the specific parts of the national budget was poor in terms of meeting the target set by the annual budget legislation: only 27% of the refundable expenditure planned was eventually completed that year (Graphs 2 and 3), significantly less than in 2007 and 2009, respectively. On the other hand, in 2009 over 90% of the planned expenditure (‘national share’ and EC refundable spending) was eventually completed, yet such a good result was mainly an effect of amending the 2009 national budget legislation.

Graph 2. Completion of the EC refundable spending in 2007–2010

[Graph showing completion of EC refundable spending from 2007 to 2010]

Source: Author’s own account based on the reports on the national budget legislation for the years 2004–2010 and monthly reports on completion of the national budget in 2010.

In 2010 (as of 30 April) the volume of EC refundable expenditures included in the national budget amounted to only 9% of what had planned a year earlier, while the volume of ‘national share’ increased nearly twice. As of the end of April, only 23% of

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4 Financing of projects under the 2004–2006 EU budget was prolonged until June 31, 2009 by decisions of the European Commission.
planned EC refundable spending was actually executed, whereas 63% of the volume allocated to the national share were put into use.

**Graph 3. Completion of the national contribution 2007–2010**

![Graph showing completion of the national contribution 2007–2010](image)

Source: Author’s own account based on the reports on the national budget legislation for the years 2004–2010 and reports on completion of the national budget in the years 2004–2010.

Considering that the EC refundable expenditure was, in a substantial part, not carried out as originally planned, no revenue from this particular source could boost the national budget. Having that in mind, one must come to a conclusion that unrealistic planning of the national budget revenue from the refundable expenditures which ultimately cannot be made blurs the picture of the state of public finances. The 2009 national budget provides a very meaningful example of the consequences of using potential proceeds from the EC to enhance the revenue side of the budget: originally, the revenue was to reach a level of PLN 20,087,937 thousand, while the spending would amount to PLN 28,778,259 thousand. However, following amendments made that year to the national budget legislation in response to the onset of the economic crisis, volume of the revenue was set at PLN 27,087,780 thousand, and the expenditure – at PLN 21,790,987 thousand. Comparison of those figures may lead to a following question: did the national deficit disappear as a result of a deliberate increase in the forecasted sum of the EC refundable expenditures? The ex post analysis of the actual efficiency in collecting the EC transfers covering the public expenditure conducted above casts shadow of a doubt over feasibility of such approach to budget-planning.

All things considered, a closer look at the shape of the system of financial transfers from the EC to the national budget of Poland being in place from 2007 on implies
that the revenue collected within the budget year cannot match expenditure actually carried out within the same budget year. Spending usually proceeds at a faster pace than receiving revenues, with the latter depending on how quickly the beneficiaries of the EU projects request payment from the EC.

The data on revenues and expenditures of the national budget over 2007–2009 period (Table 4) indicate that in 2007 58% of revenues due to be received from the EC in return for the refundable spending made were completed, yet, based on the data, it remains unclear what portion of those revenues should be attributed to the former (2004–2006) EU budget and what was the share of the current (2007–2013) EU budget. A similar question arises while analyzing the data for 2008. In 2009 the national budget actually received total of 128% of the forecasted amount of revenue. Revenue to be received from the EC in return for the refundable spending could be effectuated by requests for payment submitted to the EC. As a result, national budget could receive transfers from the EC on continuous basis. The transfer of the funds was actually conducted based on the pre-scheduled expenditures prepared by the administers of the specific parts of the national budget. The actual amount of revenue in 2009, just like in 2008, could be achieved thanks to the down-payment made by the EC. The down-payment was in fact used to support not only the revenue side of the national budget but also to accomplish other objectives, for instance, to finance the cost of service of public-debt, free of interest. Only in 2009 total of 1,200,000 million euro was spent for that purpose.

Table 4. Completed expenditure and completed revenue of the national budget in 2007–2009

<table>
<thead>
<tr>
<th>Year</th>
<th>EC refundable spending – completion (PLN mln.)</th>
<th>EC refundable revenue – completion (PLN mln.)</th>
<th>EC refundable revenue completed to EC refundable spending completed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2 947.0</td>
<td>1 699.4</td>
<td>57.7</td>
</tr>
<tr>
<td>2008</td>
<td>5 045.0</td>
<td>3 737.0</td>
<td>74.1</td>
</tr>
<tr>
<td>2009</td>
<td>14 523.0</td>
<td>18 554.7</td>
<td>127.8</td>
</tr>
<tr>
<td>2010a</td>
<td>33 542.3</td>
<td>74 046.0</td>
<td>22.1</td>
</tr>
</tbody>
</table>

*As of the end of April 2010.
Source: Reports on the national budget completion for the years 2007–2010, Ministry of Finance

The system based on the principle of incorporating the financial streams from the EU budget (structural funds included) into the national budget was in operation for only three years. When the Polish economy began to experience a noticeable slowdown in the GDP growth, decrease in the fiscal efficiency of the state, negative impact of specific decisions taken by the government in the previous year’s regarding
the field of public finances (lowering the level of a mandatory contributions to
disability pensions, cutting PIT rates in 2009 and amending the VAT regulations in
favour of the taxpayers), increase of the expenditures related to the 2007–2013 EU
budget and volatility in the financial streams from the EC, the public finances were
struggling to stay in balance. As a result, the national budget deficit rate grew from
the level of 3.7% of GDP in 2008 to 7.1% in 2009. Considering a rapid deterioration of
the macroeconomic conditions, sustaining that system in the years to come would
certainly lead to a continuing increase in the level of the public expenditures related
to the 2007–2013 EU budget, thus only add to a further swelling of the national budget
deficit. In order to take full advantage of the financial streams to be channeled into
the operational programmes in Poland within the 2007–2013 period, the Ministry of
Regional Development assumed that the volume of EC refundable spending would
have to reach its peak in 2011, when the total amount of public expenditure to be
reclaimed by Poland from the EC would grow by 178% compared to the 2010 figure
(see Graph 4).

**Graph 4. Completion of the national contribution 2007–2010**

![Graph showing completion of the national contribution 2007–2010]

Source: Author’s own account based on the reports on the national budget legislation for 2011.

Nevertheless, it remains to be seen when the transfers from the EC will arrive.
So the current state of the public finance in Poland is not only a result of the ongoing
economic slowdown but also of the fiscal imbalance of structural nature. Refraining
from introducing a major reforms in that field during the times of economic prosperity
(2006–2007) had a clear negative effect on the state of public finances. During those
years, when the national economy performed well, the decision to incorporate the
EC transfers (structural funds included) to the national budget was taken with
a view of reducing public debt, whose level at the time was getting close the first safety threshold set by the domestic law (public debt to the GDP volume ratio at 50%). That move, however, inevitably led to worsening in the public debt/GDP ratio. Poland is by no means a country, which could afford to take such a step without considering its potential disastrous impact on public finances.

Number of EU-15 member states, more affluent than Poland, like Germany and France, either abstained from taking such a direction in their public finance policy or decided to abandon it, had it been in place. Both in Germany and France the system of financing operational programmes remains outside of the national budget frame, so that the EC refundable spending is not covered with the budgetary financial means. The revenues and expenditures incurred due to the EC transfers are only included in the annual reports on the national budget completion or, in an even more loose form, summarized in appendices to the national budget legislation. In both countries, the government puts a pressure on the beneficiaries to ensure that the requests for payment are timely submitted to the EC.

The worsening state of public finance in Poland had not gone unnoticed by the EU. On 7 July 2009 the Ecofin officially recognised there was an excessive level of the national budget deficit in Poland and issued a recommendation to reduce it in line with the EU Treaty5. Poland was called to reduce the excessive national budget deficit until 2012 in durable and credible manner. As a consequence, Poland has to curb exaggerated public spending by introduction of a ‘golden rule’ on expenditures. The rule applies to both expenditures to be taken by decision (non-fixed) and those which are determined by law (fixed). The ‘golden rule’ will remain in use until the excessive deficit vanishes, and the procedure launched by the Ecofin is terminated. In the next step, the former ‘golden rule’ should be replaced by a new one, which will ensure that deficit stays on acceptable level. That new rule is not likely, however, to apply to the expenditure on operational programmes within the 2007–2013 EU budget.

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5 As stipulated by the Article 126, item 7 of the European Union Treaty.
5. Financing Operational Programmes from 2010 – en Route to Higher Public Debt?

In order to counteract the process of increasing national budget deficit (of which inclusion of the EU structural funds was one of the reasons), the amended Public Finance Act of 29 August 2009 named the state-owned Bank Gospodarstwa Krajowego (BGK) the payer of structural funds, responsible for making transfers to beneficiaries. In 2004–2006 BGK played a role of a loaner to beneficiaries carrying out EU-funded projects. The budget of the EU founds was deliberately excluded from the national budget frame. The question should be raised whether the EU funds should become part of the national budget and how it should be financed or should it be represented separately. There are no straightforward answers to any of those questions. According to the amended Public Finance Act of 29 August 2009, the deficit of the budget of the EU financial means is not a part of the national budget deficit, so that figure of the latter obviously becomes smaller. A portion of the expenditures to be covered by the European means budget will be reclaimed from the EC. However, being aware of the preliminary expenditure schedule for 2011–2013 period prepared by the Ministry of Regional Development, as well as of the methodology currently employed in planning the revenue from the EC refundable spending, one should be skeptical about the feasibility of collecting the whole sum as intended. In effect, a necessity to cover the gap with the means obtained directly from the national budget is likely to become unavoidable. The amended Public Finance Act of 29 August 2009 has broadened the definition of the ‘borrowing needs’ of the state by adding a new, previously unrecognised by national law, type of a deficit, that is, the ‘European means deficit’. It is likely that at least a part of that type of deficit is going to be financed with the means acquired from issues of government bonds, which will clearly be reflected in the rising level of the public debt. Naming the BGK as the payer may be seen as a new solution in a way, yet it closely resembles the role the bank already played during the 2004–2006 period (under the ‘old EU budget’), when it was responsible for granting loans to the beneficiaries of operational programmes by the ‘prefinancing’ scheme using the means transferred from the Ministry of Finance (the loans would be repaid once the respective means was transferred by the EC). Under current regulations, the Ministry of Finance still transfers the financial means to the BGK, which subsequently releases them to the beneficiaries, only not as loans (as it was previously) but as payments.
Comparing the ‘prefinancing’ scheme and the system of direct payments made by the BGK to beneficiaries, one should remember that while implementing the former caused the public debt to rise by PLN 7.7 billion, borrowing for the sake of having the sufficient funds for payments to beneficiaries can also easily translate to higher public debt and worse public debt/GDP ratio. Additional pool of European funds assigned to Poland for the purpose of the National Strategic Reference Framework 2007–2013 might turn out to be another factor possibly causing increase in the level of public debt. Furthermore, the process of preparing the next EU budget (2014–2020) is already underway and Poland is likely to receive as much as EUR 80 billion within its timeline. Another pivotal point will then be reached in 2014, when the current EU budget is almost over, while the new one is about to commence. In the Table 5 and Va, the data illustrating the dynamics of public debt in Poland is shown, as well as the volume of debt excluding the borrowing needs of the national budget related to the operational programmes financing. The conclusions are very much alike with those drawn upon analysis of the public debt dynamics in 2004–2008 period. The public debts has continued to rise. While in 2008 the public debt/GDP ratio amounted to 47%, in 2009 it was already as high as 49.8%, and in 2010 the public debts reached the level of 52.8% of the GDP. All those figures are calculated by the Polish Ministry of Finance, which uses different methods for that purpose than the EU, according to whom the public debt/GDP ratio was 54.9% in 2010. The Public Finance Act sets the second ‘prudence level’ at 55% of GDP. If the public debt exceeds 55% of GDP but remains below 60% of GDP, then the government is obliged to prepare a draft budget legislation for the next year which needs to ensure that no deficit is allowed or the gap between the revenue and spending will fall below the second ‘prudence level’. In order to secure accomplishment of such goal, the public sector pay has to be frozen, old-age pensions and disability pensions may only be raised by the increase in the Consumer Price Index (CPI) for the previous year, no credits or loans from the national budget may be granted (except for continuing of the lines of credits released prior to introducing the new, restrictive budget rules), and, last but not least, level of spending cannot increase. Yet, the two methods employed for the sake of calculating the actual volume of national budget deficit vary significantly. In the author’s opinion, the EU method seem more reliable than the domestic one. The volume of debt of the general government is calculated to establish whether the member state meets the Maastricht convergence criteria. If the EU method is employed, the special public funds such as the National Road Fund and the National Railways Fund operated by the BGK and used as a source of financing of the strategic infrastructure projects (also ran within the frame of the Infrastructure and Environment Operational
Programme) (NIK 2011: 193). According to NIK report, the public debt could be maintained under the 50% GDP level because of a part of the borrowing needs of the national budget could be satisfied with the funds acquired as down payments from the EU, and some of the infrastructure projects in the national road network became financed by the National Road Fund, which formally remained outside the national budget frame. Ministry of Finance’s positions is that the funds acquired as down payments from the EU are not treated as state debts, even though they eventually have to be returned to the national budget. It is argued that once such funds are acquired as a down payment, they are formally owned by the state, so when they are subsequently put into use, for example to cover the borrowing needs of the state, the level of public debt is not affected, as no new liability emerges in effect. However, if the amount of funds obtained as down payments from the EU and used to satisfy the borrowing needs of the state in 2009 had been acquired from the market through auctioning of the government bonds, the level of public debt at the end of the year would have amounted to 50.1% (the official figure was 49.8%) (NIK 2010: 153).

Tables 5 and 6 provide an insight into the completion of the revenues and expenditures of the EU funds budget, which figures are put next to the financial plan included in the national budget legislation for 2009–2011. Apparently, there was a tendency to increase the planned spending for the sake of operational programmes in 2007–2013, as well as revenues from EC refundable expenditures. In 2010 the revenues planned rose by 54% in comparison to the 2009 figure but the revenues from the structural funds amounted to only 94% of what was planned a year earlier. In 2011 the revenues planned increased by 94% in comparison to the 2010 figure but the revenues from the structural funds planned were nearly twice as high as the year before. As far as expenditure side is concerned, there was also a growing trend observable, only the dynamics of spending is higher than in the case of revenue, thus the burden on the national budget triggered by the spending on the regional development becomes considerably heavier. The difference between the actually completed revenue and expenses of the EU funds budget, that is, its deficit, translates to the borrowing needs of the state, as stipulated by the Public Finance Act. In 2006–2008 period the borrowing needs of the state related to the ‘prefinancing’ amounted to PLN 7.7 billion, in 2009 its amount was PLN 4.4 billion and in 2010 – PLN 10 billion (NIK 2011: 141; NIK 2010: 165).
Table 5. Completion of the ‘European funds budget’ revenue 2009–2011

<table>
<thead>
<tr>
<th>Position</th>
<th>Financial means from the EU and other sources – non-refundable</th>
<th>Common Agriculture Policy and Common Fisheries Policy</th>
<th>Structural funds and other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial plan after 2009 amendments(^a)</td>
<td>27 087 780.0</td>
<td>1 773 449.0</td>
<td>25 314 331.0</td>
</tr>
<tr>
<td>Completion</td>
<td>18 058 751.0</td>
<td>116 421.0</td>
<td>17 942 330.0</td>
</tr>
<tr>
<td>%</td>
<td>66.7</td>
<td>6.6</td>
<td>70.9</td>
</tr>
<tr>
<td>Financial plan after 2010 amendments</td>
<td>41 728 303.0</td>
<td>17 936 118.0</td>
<td>23 792 185.0</td>
</tr>
<tr>
<td>Completion</td>
<td>37 706 686.0</td>
<td>13 974 561.0</td>
<td>23 732 125.0</td>
</tr>
<tr>
<td>%</td>
<td>90.4</td>
<td>77.9</td>
<td>99.7</td>
</tr>
<tr>
<td>Financial plan after 2011 amendments</td>
<td>68 443 429.0</td>
<td>21 765 264.0</td>
<td>46 678 165.0</td>
</tr>
<tr>
<td>Completion</td>
<td>42 953 999.0</td>
<td>15 903 671.0</td>
<td>27 050 328.0</td>
</tr>
<tr>
<td>%</td>
<td>62.8</td>
<td>73.1</td>
<td>58.0</td>
</tr>
<tr>
<td>Planned revenue dynamics 2010/2009</td>
<td>154.0</td>
<td></td>
<td>94.0</td>
</tr>
<tr>
<td>Planned revenue dynamics 2011/2010</td>
<td>164.0</td>
<td>121.3</td>
<td>196.2</td>
</tr>
</tbody>
</table>

\(^a\) 2009 data on national budget revenue to serve as benchmark in the analysis of planned revenue dynamics.
\(^b\) 2009 data reflects only the revenues planned to be collected under the Rural Development Programme.
\(^c\) prior to amending the 2009 national budget legislation the planned revenue amounted to PLN 20 631 937 thous.

Source: Author’s own account based on operational reports on completion of the national budget in the years 2009–2011, Ministry of Finance.

Table 6. Completion of the ‘European funds budget’ expenditure 2009–2011

<table>
<thead>
<tr>
<th>Position</th>
<th>Financial means from the EU and other sources – non-refundable(^b)</th>
<th>Common Agriculture Policy and Common Fisheries Policy(^b)</th>
<th>Structural funds and other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial plan after 2009 amendments(^a)</td>
<td>21 253 876.0</td>
<td>6 792 885.0</td>
<td>14 460 991.0</td>
</tr>
<tr>
<td>Completion</td>
<td>16 466 248.0</td>
<td>2 993 251.0</td>
<td>13 472 997.0</td>
</tr>
<tr>
<td>%</td>
<td>77.5</td>
<td>44.1</td>
<td>93.2</td>
</tr>
<tr>
<td>Financial plan after 2010 amendments</td>
<td>56 270 072.0</td>
<td>17 979 781.0</td>
<td>38 290 291.0</td>
</tr>
<tr>
<td>Completion</td>
<td>48 124 677.0</td>
<td>14 612 625.0</td>
<td>33 512 052.0</td>
</tr>
<tr>
<td>%</td>
<td>85.5</td>
<td>81.3</td>
<td>87.5</td>
</tr>
<tr>
<td>Financial plan after 2011 amendments</td>
<td>84 004 046.0</td>
<td>19 172 295.0</td>
<td>64 831 751.0</td>
</tr>
<tr>
<td>Completion</td>
<td>45 925 282.0</td>
<td>13 964 438.0</td>
<td>31 960 844.0</td>
</tr>
</tbody>
</table>
Having in mind all those recent events, one may wonder whether the current financing system will prove viable in providing the smooth cash flow and at the same time will not have negative impact on the state of public finance.

Among other strategies for combating public debt, the public debt theory mentions imposing of the constitutional restraints which prevent the state from assuming excessive debts. Poland’s system of public finance is quite unstable, as it is changed periodically following the upswings and downswings of the national economy, and whose shape depends heavily on the economic policy agenda of the government administration currently in power. The condition of public finance is far from satisfactory and its frequent changes have been driven by the desire to improve the main financial indicators, that is, the volume of public debt and national budget deficit. Nevertheless, creative accounting produces a false picture of the public finance in the long run. Considering Poland’ aspirations to join the Eurozone, the fate of Greece and other countries which had adopted euro and recently experienced a full blown crisis of public finances should be seriously taken into account.

Instability of the public finance system (to which volatility of investment schemes using EU structural funding contributes), marked by frequent changes in relevant legal regulations, results in a blurred and complicated picture. The national regulations dealing with the issues of EU structural funding currently in place result in a severe financial burden borne by the national budget. On the other, Poland is not the only member state which struggles with the challenge of excessive public debt and national budget deficit. The Constitution of Poland explicitly sets the acceptable level of public debt at 60% of GDP. The national budget deficit ought not to exceed the 3% of GDP

<table>
<thead>
<tr>
<th>Position</th>
<th>Financial means from the EU and other sources – non-refundable</th>
<th>Common Agriculture Policy and Common Fisheries Policy</th>
<th>Structural funds and other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>54.7</td>
<td>72.8</td>
<td>49.3</td>
</tr>
<tr>
<td>Planned revenue dynamics 2010/2009</td>
<td>264.8</td>
<td>264.7</td>
<td>264.8</td>
</tr>
<tr>
<td>Planned revenue dynamics 2011/2010</td>
<td>149.3</td>
<td>106.6</td>
<td>169.3</td>
</tr>
</tbody>
</table>

*a* 2009 data on national budget expenditure to serve as benchmark in the analysis of planned expenditure dynamics.

*b* prior to amending the 2009 national budget legislation the planned expenditure amounted to PLN 28 778 259 thous.

Source: Author’s own account based on operational reports on completion of the national budget in the years 2009–2011, Ministry of Finance.
threshold. The analysis of the available data conducted thus far in the article allows formulating a conclusion that the current regulations on EU structural funding and its impact on the state of public finance have noticeable negative implications both on the national budget deficit and the public debt.

Among other factors, efficiency of the operational programmes under the EU multi-annual budgets depends on how smoothly and uninterruptedly the financial transfers can be made. The domestic level arrangements adopted in Poland, due to their complicated nature and negative influence on the state budget, may in fact become a serious hindrance to timely and correct completion of the operational programmes. When drafting the national budget, the government should take a realistic approach to the issue of public expenditures related to the operational programmes and revenue which can be collected as a result of EC refunds. On the other hand, planning of the national budget spending is interlocked with the EU structural funds allocation in line with the N+3 and N+2 rules. As a consequence, there is a fixed-time period during which Poland as a member state has to actually spend the financial means obtained from the EU budget, otherwise the remnants of those funds have to returned. In the case of growing needs for public expenditures related to the operational programmes, the public finance would further deteriorate, provided no constitutional ‘safety valve’ in a form of 60% of GDP threshold of the public debt volume was in place.

Discussing the issue of operational programmes financing and its impact on the state of public finances, one must not forget to take into consideration the matter of efficiency of investment projects financed with the EU structural funds. Should the investment enhance the GDP growth in the future, than a temporary leap in the level of public debt could be treated as unpleasant, yet necessary sacrifice. Unfortunately, not all the spending made within the frame of operational programmes is channeled into investment projects, as there is some current expenditure involved. Furthermore, not all the spending is deemed eligible and refundable, as part of it is eligible but non-refundable, and, finally, some expenses are non-eligible and non-refundable but, nevertheless, have to be made for the sake of carrying out the EU funded projects successfully. No one can accurately predict whether the debt incurred today will be redeemed in the future thanks to the EC refunds. In addition, the debt is not interest-free, so yet another category of costs to be borne by the public finance enters the

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6 N+3 and N+2 rules determine that expenses originally planned for a specific year may be actually made later, over two or three following years, for example expenses planned for 2010 may be postponed until 2012.
picture. Certainly, the EU structural funds are aimed at generating the economic growth, accelerating the economic development in a country that still is to catch up with the leading economies in the entire EU, but they trigger substantial costs which put the stability of public finance at risk.

Regular increase in the volume of the expenses on the operational programmes translates into the rise of the borrowing needs of the state on annual basis, which in the long run may drag the public finance into a downward spiral of indebtedness. There are other negative consequences of the enduring excessive public debt and national budget deficit mentioned by the literature such as current account deficit, crowding out effect or accelerated inflation (Wernik 2007: 90; Horsman 1988; Parkin 1987: 310–337; Dornbusch 1986: 184–185 Stargent, Wallace 1981: 1–17; Heilbroner, Bernstein 1989: 9–10). Those phenomena remain, however, beyond the author’s focus.

In the literature, financial means from the EU structural funding are considered a type of instrument of public economic intervention (Żukrowska 2003: 122; Behrens, Smyrl 1999: 423–425; Ederveen, de Groot, Nahius 2002: 2; Taylor, Wren 1997). Such instruments, if put in to use in a relatively closed economy, may produce negative effects leading to a growing dependency on external sources of financing, which are mainly used to satisfy current consumption needs. The policy of EU structural funds implementation currently exercised in Poland leave a deep mark on the face of the public finance.

Conclusions

European Unions makes up a system in legal, institutional and socio-economic sense. Regional policy of member states is determined by financial obligations to and involvement of the European Commission. Regional policy is arranged in the mid-term perspective, which is determined by the EU budget, where revenues and expenditures are set. The EU budget also directs the dimensions and priorities of the regional policy, as long as they are financed by the EU. Poland’s membership in the EU brings an opportunity to catch up with the other member states in terms of economic development. A member state seeking to take advantage of this opportunity needs to create a viable system of allocating the EU funds. Effectiveness of such a system depends mainly on the system of public finance and its condition, which is measured by the volume of public debt and the national budget deficit. There are
two contradictory doctrines dealing with the two aforementioned issues; the first doctrine sees indebting of the state as unacceptable, while the other allows it. The public debt and the national budget deficit may, nevertheless, become the subject of creative accounting.

The paper aims at analyzing the impact of the system of financing of the EU-funded operational programmes on public debt and national budget deficit. The author explores ex post the process of structural funds implementation within the frame of the 2004–2006 National Development Plan and the 2007–2013 National Strategic Framework. Based on the available secondary sources, the point is made that the current system of financing of the EU-funded operational programmes has indeed an impact on the volume of public debt and national budget deficit.

In the 2000–2006 and 2007–2013 EU budgets structural funds made up vast parts of the liabilities\(^7\). The fact that the balance of financial flows between the EC and Poland (EC refundable spending versus the member state dues) was positive from Poland’s perspective is undeniable. Nevertheless, in an attempt to assess the state of budget completion and estimate the volume of public debt and national budget deficit in a given budget year, one should take into account the planned revenue and expenditure, because the annual budget legislation is in fact a financial plan for a year to come, where such parameters as public debt and budget deficit must be included. Furthermore, the fiscal policy of the state is based on the budget legislation. The data on the state of public finance included in the annual budget legislation, especially the public finance parameters, determine the direction and pace of the economic development. For those reasons, it seems crucial to compare the plans concerning the inflow of financial means to be received from the EU (which is reflected in the national budget) with the amount actually received.

Comparative analysis reveals that since 2007 Poland has continued to plan the revenues from the EC refundable spending in an overtly optimistic way, as the volume of financial means actually received from the EU turned out to be significantly smaller than expected. As the result, even though the balance of financial flows between the EC and Poland remained positive over 2004–2009 period, it has not improved the state of Poland’s public finance. In the balance sheet only the relation between the membership dues paid by Poland to the EU budget and the inflow of financial means from the EC is reflected. Membership dues, however, do not make up the total costs borne by Poland due to implementing the operational programmes. It might be

\(^7\) Under the 2004–2006 EU budget Poland received total of EUR 14,891.5 mln, and under the 2007–2013 EU budget – total of EUR 69,2 bln. The amounts given comprise both the EU and national shares.
assumed that the decision to include the revenues from the EC refundable spending in the national budget was taken primarily to indicate another important source of revenue, which would lead to a decrease in the volume of the national budget deficit.

In exploring the issue of what effect the EU structural funds had on the volume of public debt and national budget deficit, the author reached for the financial data on borrowing needs of the national budget and actual completion of the EC refundable spending compared to the revenues actually collected.

While Poland’s membership in the EU opens a wide spectrum of chances for external sources of financing before the country, it also brings serious financial costs related to use of EU structural funds which need to be borne by the beneficiary. Considering growing national budget deficit and public debt, it is not an easy task to assess opportunities and threats to the public finance entailed by the current system of absorption of the EU structural funds. Public finance system in Poland is constructed in such a way that EU structural funds have to be counted either as revenues which subsequently affects the level of public debt or expenditures and, then, the national budget deficit is impacted. In an attempt to curb the national budget deficit, the special, separate ‘European funds budget’ was created by the Public Finance Act and the national budget legislation in 2010. Within the ‘European funds budget’ the refundable spending from the following sources is included: EC (means dedicated to operational programmes under the 2007–2013 National Strategic Framework), the Swiss-Polish Cooperation Programme, the 2009–2014 Norwegian Financial Mechanism, and the Common Agricultural Policy and the Common Fisheries Policy. While the deficit of the ‘European funds budget’ does not increase the national deficit budget, the means included in that budget still translate to borrowing needs of the state. So whatever strategy on positioning the EU structural funds within the national system of public finance is employed, the two key public finance parameters (national budget deficit and public debt) will be affected anyway.

With no solution which would allow preserving the two key parameters unaffected at hand (it is unfeasible to even try to balance the public spending related to EU structural funds and the actual inflow of those funds), the state probably might simply accept the fact. Furthermore, the two EU budgets will certainly come across each other, at least at the early stage of the 2014–2020 EU budget implementation. It will be necessary to secure means for closing the projects financed from the ‘old’ EU budget, and to facilitate the national contribution for the projects financed from the ‘new’ EU budget at the same time, so the borrowing needs of the state will inevitably grow as a result. If the national economy performed well enough, such a challenge to the public finance could probably be successfully coped with. Let us not forget that
the decision to recognize the EU structural funds as a part of the national budget was taken in 2007, when Polish economy enjoyed prosperity. However, in the times of economic stagnation (and possibly, even a recession), when the revenues of the national budget keep decreasing, gaining additional financial means for the budget can only be achieved through borrowing, which translates to a higher public debt and an increased interest to be paid on the debt. Provided the Polish government continued on that path, the country might soon find itself in a debt trap. Should the public spending dedicated to the implementation of operational programmes continuously increase, the borrowing needs of the state would grow proportionally. Whereas the EC refundable spending might be redeemed even after the next EU budget expires, there is still a considerable risk from the recipient’s point of view hidden in the floating of exchange rates: most likely, the PLN/EUR exchange rate at the moment of requesting funds from the EC will differ from the exchange rate at the time of the financial means being actually transferred to the account of the national budget. Moreover, some irregularities may occur in course of implementing operational programmes, and the funds which had already been received from the EC will have to be returned in effect.

In the paper, not only the issue of national contribution into financing the projects under the operational programmes is mentioned but also other factors which may negatively impact the national budget such as the costs of overcontracting (contracts whose amounts exceeded the volume of total allocation), exchange rates and additional borrowing needs related to the pressures of closing the operational programmes under the 2004–2006 National Development Plan are highlighted. Considering how lengthy is the process of closing the financing lines from the EU budget as it is nearing to an end, it was not possible to determine accurately the amount of extra spending. Assessing the volume of spending borne due to overcontracting is equally difficult, as it mainly depends on the exchange rates floating. As the clearing rules established for the current system are very complicated, accessing all the data relevant for this study is not doable. Difficulties encountered in the process of assessing the level of eligible costs to be borne for the sake of carrying out the projects are also noteworthy. Last but not least, in case of state budgetary agencies and local government, eligible costs were also borne by the national budget. However, due to the methodology currently employed in presenting the financial data in the annual budget reports, it is not feasible to precisely determine their amount.

8 In 2009 total of PLN 53 mln was returned to the EC, and in 2010 the amount returned was PLN 7 mln.
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The Peculiarities of Labour Relations in Professional Football – are Players’ Wages ‘Fair’?
Łukasz Skrok*

Abstract
Public opinion on professional football in Europe tends to the view that the salaries of athletes are ‘too high’. Existing empirical studies, as well as economic theory, suggest the opposite is true. Only a few players earn high wages, due most likely to innate characteristics of the market both on the demand and production sides. A substantial rise of salaries during the second half of the 20th century came chiefly from the introduction of TV broadcasting and the increased interest in watching sports as a form of entertainment. While the peculiar institutional setup of the labour market long contributed to the underpayment of athletes, reforms over the last several decades have improved player wages. Moreover, it is difficult to present a strong argument for limiting athletes’ salaries, from the perspective either of fans or society.

Introduction

According to Kahn (2000), as well as Rosen and Sanderson (2000), analysis of sports labour market might provide conclusions of more general use. Due to availability of the various data on players’ performance and abundance of institutional peculiarities it allows for conducting natural experiments. On the other hand, the specificity

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of this market as such is a strong argument against generalisation of the outcomes and their application to other labour market. Moreover, one has to bear in mind that compared to ‘American sports’ – baseball, basketball, hockey and American football, the analysis of European version of football is relatively scarce. The main reason is the lack of data on individual wages. Nevertheless, the analysis of the European labour market in the professional football is surely worthwhile.

Fort (2005) cites a survey conducted in 1994 in the United States that showed that in public opinion professional athletes earn ‘to much’ – more than 70 per cent of surveyed thought so. At the same time, little more than 50 per cent of questioned said the same about club owners. One could also provide substantial anecdotal evidence on the public view on the salaries level (as well as transfer fees), citing not only anonymous fans, but also respected journals¹, and high-power officials². Assuming that the public opinion is right, it would mean not only that wages are ‘unfairly high’ but also that labour markets in professional team sports (including European football) are inefficient.

The main reason for the before mentioned critics is the strong growth of wages during the past decades. One can also add the conviction about lesser loyalty of the current players than of the ‘past masters’. In this case, however, as Fort (2005: 278–279) aptly pointed it’s difficult to talk about faithfulness when any movement is forbidden. It should also be mentioned that even in case of increasing absolute quality one could come to a conclusion that the opposite is accurate. If the first is true and at the same time is accompanied by the intensification of competition there would be less instances of periodic dominance of one team. Therefore, some could reach a conclusion that there were more stars in the game earlier.

The aim of the article is to discuss the reasons of the before mentioned intense growth of payers’ salaries and make an attempt to formulate an opinion whether their level is ‘fair’ or not. While the problem of salaries level has already been discussed in the sports economics literature³ and the analysis of athletes’ productivity began with the seminal work of Scully (1974). The article is constructed as follows: at first

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¹ Papal state’s newspaper L’Osservatore Romano criticised the record transfer fee paid by Inter Milan to Lazio Rome for Christian Vieri in 1999 calling it ‘disgusting’.
² FIFA president Sepp Blatter publicly criticised Roman Abramowicz for purchasing players from all over the World for exorbitant transfer fees.
³ See, e.g., Fort (2005), Leeds, von Allmen (2004) and Szymanski (2009). The latter poses the question about ‘fairness’ of athletes’ salaries but the author of this article believes that this issue could be extended.
the reasons of the high level of salaries is discussed. After that a comment on the wages distribution is made. The second part of the article is devoted to the problem of ‘fairness’ analysed with a use of economic concepts. To sum up some conclusions are provided. It should be emphasized that the author of this article abstracts from perspectives other than the economic ones, most notably of the psychological or philosophical nature.

Why Are the Wages so High?

Rosen and Sanderson (2000) and Fort (2005) compare ‘social values’ stemming from teaching with those arising from the work of an athlete. The latter explained that while the former seems to be incomparably greater (which translates into demand for their services), a rigid supply of sports stars implies that their wages are much higher. Moreover, the sports event is a so-called club good, which means that its quality does not decrease with increasing the number of consumers, but it is possible to effectively prevent behaviours such as free-riding. This means that if demand is increasing in terms of quantity (i.e., number of potential viewers), and not quality, one should expect the occurrence of the increasing economies of scale. Importantly, such a nature of production in the sport can be justified only in case of direct transmission of visual spectacle. In the pre-TV times, ability to satisfy the demand were arbitrarily limited by the capacities of the sports facilities. Their expansion is associated with large fixed costs and, more importantly for this part of the analysis, the quality of the meetings depended strongly on the type of object and location of the viewer (in other words the marginal utility for the audience was decreasing). For this reason, the development of the media may be one of the reasons for the rapid growth of players’ wages (assuming that wages are at least proportional to marginal productivity) and their disparities. Increasing demand for sport could be (and sometimes is) also attributed to an increase in the general wealth level, resulting in the rise of households’ expenditures on the entertainment and cultural services.

Furthermore, as Szymanski (2009: 95–96) suggests, the rise of athletes’ salaries could be partly attributed to growing bargaining power of players that lead to the increase of their revenue share. Szymanski cites occurrences of the threats of strikes since 1960s as a sign of that. Nevertheless, he points out as well that the growth of
revenues, resulting from the introduction of TV broadcasts, had much stronger\textsuperscript{4} impact than the increase of revenue shares.

Another important feature of the sports sector mentioned by Rosen and Sanderson is very high labour intensity of the production process, which also contributes to the high salaries of athletes. One could also point to the fact that due to the higher technological level of production of sports (broadcasting and better support for pharmacological and equipment), resulting in the enhanced labour productivity, their share in value added should increase as well. This relation can be illustrated by the ratio of wages to revenues top English clubs in recent years (see Table 1).

Table 1. Wages/turnover ratio of chosen clubs in the English Premiership

<table>
<thead>
<tr>
<th>Year</th>
<th>Arsenal</th>
<th>Chelsea</th>
<th>Everton</th>
<th>Liverpool</th>
<th>Manchester City</th>
<th>Manchester United</th>
<th>Tottenham</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994/1995 or 1995/1996</td>
<td>48.0</td>
<td>44.4</td>
<td>59.2</td>
<td>48.3</td>
<td>50.6</td>
<td>No data</td>
<td>33.3</td>
</tr>
<tr>
<td>1999/2000</td>
<td>55.5</td>
<td>68.6</td>
<td>79.4</td>
<td>86.1</td>
<td>54.2</td>
<td>38.6</td>
<td>54.6</td>
</tr>
<tr>
<td>2004/2005</td>
<td>53.6</td>
<td>78.6</td>
<td>51.4</td>
<td>52.4</td>
<td>61.4</td>
<td>60.8</td>
<td>47.0</td>
</tr>
<tr>
<td>2007/2008</td>
<td>52.7</td>
<td>84.5</td>
<td>58.8</td>
<td>56.4</td>
<td>65.9</td>
<td>56.7</td>
<td>46.1</td>
</tr>
</tbody>
</table>

Source: www.footballeconomy.com

One should note that the wage/turnover ratio concerns all the employees, not only athletes. Nevertheless the vast part of the salaries is paid to the sports staff – players, coaches and managers.

Another phenomenon that should be clarified in this context is the effect of superstars. Rosen (1981) provided a model that explains how small differences in the talent of competing manufacturers translate into much greater differences in their revenues. This is due to imperfect substitutability between ‘performers’\textsuperscript{5}, which is the reason for the difference in the quality of goods and, therefore, for the consumption choices of the consumers. As a result, the value of the marginal product of manufacturer’s talent is increasing. As Rosen assumes that the market is competitive, this model is in line with previous observations, that it is rather applicable in situations when consumption is possible through the broadcasts. A crucial assumption of the model is the existence of at least one type of the disadvantages

\textsuperscript{4} In the example cited by Szymanski it was around six-fold stronger.

\textsuperscript{5} Rosen as the examples of his model’s application gives the markets of comedians, musicians and authors of the basic economic textbooks.
of scale: internal, arising from the increasing marginal costs, or external, resulting from a slight reduction of quality services from each of the following consumer\(^6\). In a situation where only one of those effects is in power there is only one of these effects the multiplying effect is greater. Thus, much better football team than your opponent is able to achieve much higher revenue. As players of one team are complement each other, a team consisting of a few stars can obtain a much stronger effect. What’s more, if the quality of the sports product (e.g. a game) is an increasing with the total talent hired by both teams, revenues of two very good competitors will be even more magnified\(^7\).

An interesting expansion on the above model was presented by MacDonald (1988). The author, using two-period stochastic model, justified why a large number of potential stars at a young age decide to work on wages lower than available for them in other industries and to carry out difficult tasks that only give a small increment of utility to the recipient. The motivation is the chance to become a future star. In comparison with ‘young’, group of ‘old masters’ is small, and their wages high. The model in a formalized way shows a fairly intuitive phenomenon, showing why many young people decide on a difficult and highly uncertain career needing specific human capital obtained through long and arduous training. Over time, successive claimants to being the stars give up and move to other markets\(^8\).

One might draw further conclusions from the Rosen’s and Macdonald’s models – without institutional measures used in American leagues that increase the lowest wages of sportsmen, the disparities between them should be significant. That would mean that a majority of athletes do not earn a lot despite diminutive differences in talent when compared to the top stars. Furthermore, those disparities are usually impossible to observe several years in advance – i.e. when the decision about future career is made. Unfortunately, due the lack of individual level data for football players it is impossible to test this hypothesis empirically for European League. However, Major League Soccer Players Union (operating in Canada and United States) has

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6 This would correspond to an earlier reflections on the negative changes in quality of show at the too large sports facility. Although this is no longer the only way to meet the demand for services of the club, it still constitutes a significant source of revenue, even in case of the richest clubs – Football Money League (2008).

7 In this context, the commonly held perception that ‘in football anything is possible’ gains new interpretive possibilities – with a little difference of quality, the chances of victory may be similar, while revenues diverge drastically.

8 In this respect one could point to the work by Levitt, Venkatesh (2000) that discusses the motivation of drug sellers.
been publishing the information about MLS players since 2007\(^9\). Using this dataset, one can observe that for example in 2009 around 25 percent of 322 athletes earned less than the average personal income in USA. Although such situation is a result of a specific institutional setup that eliminates the competition between MLS clubs on the labour market\(^{10}\), it provides some insight into the problem of wage disparities. In that year, the best-paid player earned more than 300 times more than the least paid ones. One can interpret such a situation in two ways. The first is that the most of the athletes were unable to avoid strong monopsonistic exploitation, while the best ones had an alternative of playing in Europe and, therefore, could have negotiated salaries closer to their productivity levels. On the other hand it could simply mean that the impact on revenues of the first group is immensely lower than of the stars, which would be consistent with the Rosen’s model. While most probably it is necessary for those two effects to be in power to obtain disparities as the cited one, one conclusion is obvious – a lot of athletes do not receive considerably high wages.

An important aspect of the superstar effect is the fact that part of the income does not come directly from the fans, but is derived from the demand for ‘talent’ of the player. Namely, contracts for advertising and sponsorship agreements often exceed the wages of sportsmen\(^{11}\). This might provoke allegations that in this way the star not only receives a salary for their work, but also benefits from popularity of a given sport or club. On the other hand, empirical work indicates the opposite – a strong external effect of superstars on the entire industry. As mentioned before, those concentrate rather on team sports other than football, mainly due to the lack of obvious criteria for singling out stars in the latter sport.

Among the most interesting are the analysis of basketball. Hausmann and Leonard (1997) presented the estimates of positive external effect on other teams’ away revenues meetings of the biggest stars of the NBA in season 1991–1992. According to their findings, the greatest positive effect concerned Michael Jordan. Due to his popularity, the revenues of any other team than the Chicago Bulls, due to the increased ticket sales, broadcast television viewing and sale of souvenirs, grew by $53,300,000. Such an amount, however, is the effect of the redistribution of the income from the sale of official memorabilia (the factor responsible for the external

\(^9\) http://www.mlsplayers.org/

\(^{10}\) MLS acts as a single entity and players negotiate their contract with the league, not the clubs.

\(^{11}\) According to Fort (2005), the case of Michael Jordan, who was ranked as one of the top earners among sportsmen for several years after finishing his playing career shows the long-term sustainance of the superstar effect.
effects in the form of more than $15 million) and nationwide broadcast. Berri and Schmidt (2006) presented the research on the influence of the ‘guest’ team’s quality and its stars on the number of spectators in the NBA in 1992–1996. The results confirm a significant, positive impact of all these variables. Nevertheless, the general quality of the team (measured by the number of wins) had a greater influence than the popularity of its stars. The authors also present estimates for the 25 biggest stars of the NBA 1995–1996 season. The largest positive externality is generated by Michael Jordan and was over $930,000. This suggests that at least the superstars are unable to earn as much as they create in terms of value added of the whole industry. Therefore, additional income from using their image might be perceived as some kind of compensation.

Compared to the analysis of the impact of superstars on the demand for spectator sport in North American professional leagues, the market for football in this context was rarely tested. Brandes, Franck and Nüesch (2008) presented the results of an econometric analysis of panel data on the number of spectators at the German Bundesliga games in 1995–2004. Controlling the economic and demographic characteristics and using the approximations of long-term reputation of the team, the authors estimated the impact of match statistics and presence of the ‘media superstars’ and ‘local heroes’12 on the demand for tickets.

The analysis pointed to a positive and statistically significant effect of the weighted average of goals and assists by a ‘superstar’, both during the games as ‘domestic’ and played ‘away’. At the same time, this second effect is weaker. In the case of ‘local heroes’ the only significant and positive impact on the number of spectators in the stadium during the ‘home’ games was measured by the number of mentions about the player in national and local newspapers. The possible interpretation is that stars attract audience of their own club but only when they really play well they are able to appeal to the ‘away’ fans. Moreover, only in such a case they are paid significantly more. Furthermore, when the authors changed the threshold for qualification for being a ‘superstar’ to 5 percent or 8 percent, the stardom effect became irrelevant. This confirms that an element of uniqueness is affiliated only with a very small group of players. The authors estimate that the positive externality of average ‘superstar’ amounted to 430 thousand euro.

The effect of football superstars in the market was supported by the individual level data by the work of Lucifora and Simmons (2003). When regressing players’

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12 An ‘superstar’ players acknowledged receiving a salary of 2 percent. highest in the league. ‘Local heroes’ were called the highest-paid players in the team if it had not ‘superstars’.
match statistics (based on data from the Serie A season 1994–1995) on their basic wages a convex dependence on the career record of goals and assists (the second only in case of strikers) was obtained. Using a binary variable for a certain threshold of goals scored the authors could assign the stardom effect to only six players among the 533 respondents.

Are Athletes Overpaid?

According to popular belief, in the absence of institutional constraints, the wages of the players would grow excessively. According to the most elementary economic theory, under perfect competition any worker would be rewarded according to his productivity. If the labour market was monopsonic, wages would be lower. Moreover, as already mentioned, the product market rather is not perfectly competitive. Monopoly on the product market would further reduce employment and wages, by restricting the supply of the product.

Empirical research on the productivity of individual players makes use of the assumption coming from the pioneering work by Scully (1974), stating that the impact of labour on the revenues is equal to its marginal product multiplied by the marginal revenue. The author, while controlling the variables describing the team’s quality, estimated the impact of successful plays of each player on the chance of winning the game. The percentage of victories, in turn, combined with (among others) the analysed market size, the quality of the stadium and possible discrimination against dark-skinned players, explains the level of club’s revenues. Comparing players’ salaries with the obtained values indicated strong monopsonistic wage exploitation. Subsequent work has followed this line of reasoning by enriching the model with a differentiation of professional players according to their experience\(^{13}\). The resulting estimates indicated a greater exploitation of younger players who are not allowed to change employer even without a valid contract (see Leeds, von Allmen 2004: 276–277, MacDonald, Reynolds 1994).

A fundamental problem in analysing the productivity of individual players is the necessity of assumptions about the supposed goals of a sports club. While before

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\(^{13}\) In Major League Baseball (MLB) the institutional constraints of labour mobility are decreasing with years played by a given player.
mentioned works assumed profit-maximising behaviour, some (mainly European but not exclusively – see, e.g., Késenne 2007: 4–5) authors believe that some owners seem to be more fans than the entrepreneurs. In this case a more appropriate assumption would be maximization of the percentage of victories. In such case, the productivity of each player would not depend on the marginal impact on revenue of victories – it might be either lower or higher than the one in the case of profit optimization. Wages and employment of talent would, however, be higher.

One could argue that professional athletes (that have not become media superstars) usually can only obtain a high level of productivity as employees in the sports market, which stems from the specificity of human capital and a long-term nature of the investment process. This means that they are bereft of comparable sources of remuneration. On the other hand, in case of limited competition in the labour market (and assuming either a high degree of heterogeneity of the labour supply or constituency of an effective players association, which takes place in North American professional leagues), a proper theoretical model for determining the remuneration would be a negotiation game. According to it, the lack of comparable employment alternatives for the players greatly reduces their negotiating power and ultimately wages.

In addition to monopsonistic exploitation and undercut negotiation position, the reason of the underpaying of the athletes one should mention the institutional restrictions on the labour flow.

The most significant restraint in European professional football is the transfer system. It main aspect is the fact that player cannot change the team that she or he plays for while she or he has a valid contract. Furthermore, by 1995 even the lack of a valid contract did not mean that players had been allowed to change employer without the latter’s consent. Moreover, not in every case a fee were set that would automatically lead to the release of the athlete. In practice, this meant granting clubs monopsonistic power over players.

The major breakthrough was the case of Jean-Marc Bosman who appealed in 1995 to the Court of Justice in Luxembourg when his then-club had not allowed him to move despite the absence of a valid contract. Since then the players were able to negotiate with other clubs for half a year before the end of their contract and their current clubs could not claim for any compensation. If the players had valid contracts, the club having the rights to them had to agree for a transfer (usually for a fee, determined by negotiation)\textsuperscript{14}.

\textsuperscript{14} For the discussion of the reforms of transfer system in football see Feess, Muehlheusser (2002).
The main postulate for the regulations of labour markets in team sports was an alleged positive correlation between the demand of spectators and the balance of teams. However, the significance of such a relation is not obvious. Both institutional analysis and empirical research provided arguments against perceiving so-called competitive balance as an important determinant of the demand for professional football in Europe (See e.g. Zimbalist 2002, Forrest, Simmons 2002, Garcia, Rodriguez 2002, Benz, Brandes, Franck 2006, Forrest, Simmons, Buraimo 2006, Alavy, Gaskell, Leach, Szymanski 2006. Moreover, the effectiveness of transfer system in dealing with the supposed imbalance of teams is ambiguous. Rottenberg (1956) formulated so-called *invariance principle* that postulated that the rights for best players would be eventually possessed by the clubs located in the major markets, irrespective of their initial distribution. Thus, allocation of production factors is the same as it would be in case of unrestrained market allocation. The difference lies in the fact that part of the product is redistributed from the ‘big’ clubs and players to those ‘small’ clubs that initially have more talent than efficient. As Sloan (2006: 4) points out, the *invariance principle* might be perceived as a specific case of Coase theorem, although it had been published around four years earlier.

As was shown by Késenne (2007) and contrary to the invariance principle, the transfer system would affect positively the competitive balance, but in order to do so the clubs should maximize the percentage of victories and the ‘small’ ones should initially possess rights to a sufficiently large part of the talent. The appropriateness of the first condition is ambiguous and, as Fort and Quirk (2004: 27) pointed out, it might be impossible to falsify. The latter requires either the use of so-called draft (described later) or the concentration of the youth training in the ‘small clubs’. The latter, due to the limitation of resources, seems unlikely.

In 2001, the European Commission forced the FIFA and UEFA to the further adjustment of the transfer system. Depending on the age and the time elapsed since the signing of the contract the player might leave the club, with which she or he has a valid contract. The club would receive a transfer fee and/or compensation for training. The two-year ban from playing would be only put on those players who have broken the contract within two years after its signing (See Feess, Muehlheusser 2002).

Whether the transfer system in its present form (i.e., restricting the mobility of players with valid contracts or sufficiently young) affects the salaries level is not obvious when one takes into account the long-term perspective. If a few years ago, it could be assumed that each club was a monopoly for its fans the same could be said about its position on the market of training for potential players. For many years, however, clubs from Western Europe have been seeking out the potential
stars from the whole World in order to recruit them (often circumventing the law), train and then hire or sell for a transfer fee. For this very reason, the current system, which makes the clubs are co-owners of human capital of players, could potentially have a positive impact on wages. Namely, if clubs were deprived of the contractual protection against loss of this capital the spending on training would most likely be reduced. To avoid the hold-up problem it would require individual financing by the potential players. Even if the restrictions on the labour movement of youth were upheld, the problem still would not be solved. At a time when the club would not be institutionally protected against the loss of players anymore (i.e., when they cease to be trainees) further investment in human capital would require them to participate in the costs - to the greater extent the greater would be the likelihood of their departure. Thus, the salaries would be lower. For this reason, long-term impact of the current transfer system on wages is ambiguous.

Fees and Muehlheusser (2002), using the two-clubs model of the labour market with integrated, stochastically modified development process of young, talented players, pointed out that the three regimes of the transfer (the one before the Bosman case, in force until 2001 and the one after) lead to the same level of talent development. The prerequisite, however, was the permissibility of any length of contract. In the oldest system, the player share in supernormal profits could be too low so the players would have less incentive to develop their own talent. Therefore, the club would hesitate to invest in it. On the other hand in the newest system, the player share might be too high. Given the club’s lesser incentive to invest and a more motivated player, the net effect is ambivalent.

In order to find the possible solutions of the labour market problem in European football one might draw from the experience of the American professional league. The institutional system include a broad spectrum of regulations, such as guaranteed minimum wages, maximum wages, maximum and minimum ratio of all wages in relation to takings (salary cap), defined the permissible maximum length of contracts and centralized negotiations regarding these conditions, often backed by real threat of a strike by the players or a lockout by employers. The extensive description could be found in many sources, e.g. in Fort (2005) and Leeds, von Almen (2004).

To sum up, despite the problems in determining the actual productivity of the athletes, it is expected to surpass the salary level. On the other hand, the observed opening of product and labour markets, both through legal and technological changes, most probably led to an increase in employment, productivity and wages. Nevertheless, a pure comparison of pay and efficiency is not enough to discuss the
problem of ‘fairness’. The next paragraphs constitute an attempt to broaden the hitherto, possibly overly simplistic approach.

**Is the Level of Athletes’ Wages Fair?**

The departure from the approach basing on comparison of wages and productivity level does not mean adopting psychological concepts. Most of all the fair-wage efficiency formulated by Akerlof and Yellen (1990) that takes into account a subjective perception of fairness is not considered. The comment on the impact of players’ salaries on the well being of fans and, more generally, society is made instead.

The answer to the question ‘whether the level of athletes’ wages is vital for the fans’ welfare?’ which would be crucial in determining whether is it ‘fair’, is ambiguous. The often-cited argument against the high salaries is their impact on ticket prices. However, if better wages are correlated with greater value of the product (through increased productivity of workers), the increase in ticket prices should not be regarded as ‘exploitation’ of fans. Common problem with too low supply of tickets for games of some of the best teams, even in case of the extremely high prices seems to confirm this. Matheson (2003) presents the English market analysis using Granger causality tests, which indicate that rather higher revenues and wages lead to better results on the pitch, not vice versa. Moreover, ‘exploitation’ of fans by the owners could only occur in case of a limited market competition, which in turn results in the reduction of wages. In fact, Walras equilibrium model developed by Kéenne (2007) suggests the negative impact of pay per unit of talent employed on the price of tickets. Lower wages result in an increase in demand for talent, which in turn will lead to an upward shift in the demand for tickets. The ticket price in equilibrium, in case of profit-maximisation, will therefore be higher. The crucial assumption of the model, however, is that clubs are price takers in the labour market and price makers in the goods market. Therefore, the model assumes perfect competition between the players and the clubs monopolisation of their own markets for sports entertainment. Nevertheless, it might be concluded that even if the level of players’ wages influences the prices of tickets, the impact is rather negative. Furthermore, as Szymanski (2009: 120–121) points out, the level of salaries influences the incentives to cheat. While high wages might lead athletes to doping, they discourage from match-fixing. Which form
of cheating is worse depends on the possibilities of screening them and, to some extent, on fans’ preferences.

Moving to a broader social context, one has to acknowledge that the size of the professional sports industry is not substantial, at least when measured in monetary terms. As Fort (2005: 2) shows in 1994 revenues of the whole league (MLB) were almost three times smaller than the value of the production of cardboard boxes. Whereas the influence of sports is supposed to exceed their financial size, one can conclude that is difficult to expect a direct impact of any considerable scope on either national economy or society. Similarly, as was pointed out during the analysis of superstar effect, only few athletes earn really high salaries.

An important issue is the specificity of sport as a segment of the labour market and its requirement when it comes to skills. It might be argued that for some extreme cases this could the only legal way possible to obtain high-wage jobs. By simplifying reality, if a person with high productivity of ‘physical’ kind in comparison with any other (or with little prospect of investing in human capital other than sports-specific as a result of external conditions) is to choose a career path described by Levitt and Venkatesh (2000) and a sporting career, it seems that the latter is better from the social viewpoint.

An alternative point of view is provided by work of Chung and Cox (1994). They show that the distribution of records sold by top musicians and bands could be sufficiently well described by a stochastic Yule-Simon model. The main conclusion is that celebrity status can be a result of random consumer choices. What is crucial, there are no assumptions about any individual characteristics of producers. The consumption choices are sequential and the probability of purchase of every recording is proportional to the number of copies bought previously by other consumers. Chance of selling any CD for the first time is constant. This process implies, therefore, herd behaviour of consumers, which is motivated by minimization of the cost of finding a possibility to talk about a given artist. The article’s conclusion is to follow Simon with stating that the diversity of biological, social and language phenomena that can be described by this distribution, suggests a similar underlying process of stochastic nature. Was the same applicable to professional sport, it would mean the high salaries of top athletes could be perceived as randomly distributed. In other words, the significant discrepancies between incomes might not result from small differences in talent (as explained by Rosen), but from ‘luck’. Therefore, one could argue that some players earn ‘unfairly’ high wages. The only losing side in this situation, however, are the other athletes. On the other hand it does not necessarily mean that any kind of redistributional measure should be taken. As shown by
MacDonald (1988), such high wages might be necessary to entice young adepts to this industry. Moreover, the high demand for professional sports in the most developed countries suggests that fall in the supply of athletes’ talent resulting from decrease in training effort would most probably decrease the well-being of consumers.

A contrasting view was presented by Szymanski (2009: 98–99). Namely, the prospect of high wages and a demanding training means that educational effort is minimized. Moreover, while it is not significant from the point of view of the whole society, it might be significant on the individual level. From the argument of Szymanski one additional conclusion could be drawn. Namely, the quality and complexity of youth training is vital. Therefore, one can commend policies of at least some of the European football clubs that provide their youngster not only with sports education but also with the general one. Moreover, assuming that process of becoming a professional athlete relies rather on innate skills and gift than pure luck, development of talent assessment system becomes vital not only for the profitability of clubs. Another example of a similar attempt is the American system basing on high school and college leagues. In this case, however, young athletes are strongly discouraged from the participation in the latter by the complete ban on paying salaries. Furthermore, one could argue that the decision made by youngsters (or their parents) to pursue a career in sports might be a rational albeit risky one. On the other hand one could argue that the same could be said about numerous other educational and occupational choices. Nonetheless an empirical study of the effect suggested by Szymanski might be an interesting one.

Conclusions

The arguments presented in the article suggest that there it is difficult to provide an argument for the hypothesis that wages of professional athletes (with special attention paid to football players) are ‘unfairly’ high. First of all, their increase does not lead to increase of ticket prices. It does not harm fans in any other way. In case of an efficient anti-doping system higher wages might decrease incentives to cheat. Secondly, one cannot argue that it influences economy or society in any negative way. Therefore, the main issue is how are the incomes and any other benefits distributed between athletes and owners. Cited researches, as well as more general economic theories, suggest that the wages of the first are rather unfairly low.
An indirect argument for the latter is the activity of players’ unions across the Western countries. It is highly probable that the publication of salaries in MLS is a response for a monopsonistic exploitation. Apart from the well-documented labour disputes in American leagues one could recently observe threats of strikes in Europe in December 2010 and January 2011. Moreover, those were in two of the three best football leagues (Italian Serie A and Spanish Primera Division). It is worth mentioning that they did not solely deal with issues of wages level or labour movement restrictions but also with problems such as a right to have a Christmas break. This shows that the athletes as a group should not be perceived as stars but as employees in any other industry.

While institutional changes led to the increased well-being of athletes the technological change seems to be more significant in this aspect. Nevertheless the question about the relations between them remains open. In essence, one could argue that the introduction of TV broadcasts redefined both labour and product market and led to shift of bargaining power. On the other hand the institutional reforms, such as those imposed by the European Commission, might have influenced the technological processes in the industry. Such considerations remain subject to future research.

References


In the context of the highly politicised public debate in Poland on the rationale, scope and effectiveness of the liberalisation and (possibly) privatisation of public services, there is an urgent need for ‘cold’ academic analysis of the relationship between the restructuring of the public sector and the quality of the public services. There is also a widespread tendency in the mainstream liberal mass media to ‘explain’ an inadequate quality of services by the ‘Polish’ or ‘post-socialist’ conditions, too little competition and privatisation and employees’ lack of commitment. Based on shaky beliefs in self-regulating market mechanisms, the marketisation of the public services is often presented as a panacea to all problems encountered by their users. In order to avoid the shortcomings of the existing discussions and to grasp more universal institutional and organisational factors that contribute to the overall quality of the public services, cross-country comparative research on changing employment and labour relations in the public sector is needed.

The book ‘A Game on the Future of Public Services in Poland’, edited by Wiesława Kozek and published in 2011 by University of Warsaw Publishing House, comes exactly on time to deliver up-to-date comparative information about the public sector restructuring in Europe and its impact on the quality of the public services. The editor and the authors of nine chapters (Wiesława Kozek, Agnieszka Maciuk-Grochowska, Beata Radzka, Julia Kubisa, Damian Podawca, Piotr Ostrowski, Joerg Flecker, Christoph Hermann) draw from the results of three-year project PIQUE (Privatisation of Public Services and the Impact on Quality, Employment and Productivity), as well as research of the Sociology of Work and Organisation Unit of
the Institute of Sociology, University of Warsaw. The PIQUE project was carried out in the years 2006–2009 and founded by the European Commission 6th Framework Programme. Based on the project’s results, the book cover four sectors, electricity, postal services, local public transport and health services/hospitals in six European countries (Austria, Belgium, Germany, Poland, Sweden and the UK). The sectors were chosen to reflect the differentiated levels of liberalisation and privatisation and the variety of regulatory solutions. Obviously, the main focus of the book is on Poland, but the authors pay particular attention to the international contextualisation of their sectoral and company cases.

The book consists of four parts. The first part describes the main developments related to liberalisation and privatisation of public services. The second and the third parts concern the changes in employment and labour relations in the wake of restructuring. The fourth part explores the consumers’ opinions about the quality of the public services and the public sector restructuring. Each part consists of well-elaborated theoretical discussion and illustrative case studies from the research. The main argument of the book, summarised in policy-recommendations on p. 244, is that ‘the provision of public services in Europe cannot be left to market forces. There is the need to adequate regulations regarding various aspects of services provision to secure both their real availability to all citizens and a comprehensive improvement of their quality. However, these regulations should protect not only consumers, but also the employees of the public sector, whose working conditions often deteriorated and workplaces became insecure’. The authors make use of a rich set of methods and techniques to substantiate this thesis, including discourse analysis, semi-structured interviews with relevant stakeholders and a large representative quantitative survey of consumers covering 57 841 interviewees in 6 countries (including 4514 in Poland). In the substantive chapters, they also refer to a range of theoretical backgrounds, including institutional economics, sociology, gender studies and comparative labour relations.

The first part of the book starts from the Wiesława Kozek’s chapter. Drawing from institutional approaches in economics, Kozek suggests that both the liberalisation of public services (involving the increase in the number of competing companies providing public services) and the privatisation of public services are unlikely to achieve their goals without an adequate government’s regulation (p. 32). Thus, government’s legislative intervention is necessary to create and sustain a competitive market of affordable and good quality public services. As suggested by the metaphor of the ‘game’, other stakeholders are also involved in the liberalisation and privatisation processes. They include trade unions, employer organisations, new private companies,
public and local authorities, professional interests groups and consumers. Inspired by the works of Claus Offe, two types of stakeholders are distinguished: ‘the hostages to politics’, including those who are created and sustained by the state, and ‘class organisations’, whose power depends on their market position. Kozek applies this theoretical framework to a systematic analysis of the restructuring processes in health care/hospitals sector, local public transport, energy supply and postal services in Poland and (comparatively) in other 5 countries studied. The research suggests that liberalisation and privatisation in Poland is the most advanced in energy supply companies, even though this sector in Poland is still less privatised than in other European countries. The scope liberalisation and privatisation is lesser in the case of local transport and hospitals and the least advanced in the postal services. The first part of the book is completed by a chapter by Agnieszka Maciuk-Grochowska, who presents a case study of the privatisation of an energy supply company (called Gama Poland SA). Maciuk-Grochowska suggests that a consensual model of privatisation of Gama Poland, involving the transmission of employee-friendly corporate culture of a multinational company, made it possible to avoid social conflicts (despite layoffs) and secured both high profits and good working conditions.

The second part of the book discusses the employment-related changes triggered by privatisation and liberalisation. The analysis in the first chapter (written by Wiesława Kozek and Beata Radzka) suggests that the main strategy adopted by the restructured public sector companies was based on attempts to reduce employment costs by both technological improvements and job cuts, outsourcing, outplacement and the introduction of the new types of contracts (e.g. self-employment, short-term and freelance contracts) and new types of workers (e.g. migrants). The authors note that several new feature of the employment in companies providing public services: (1) work intensification; (2) increased control over employees; (3) growing divisions between ‘core’ employees in relatively secure jobs and ‘peripheral’ employees, whose jobs are increasingly insecure. This is an excellent analysis as compared to some earlier research (e.g. ‘Three Polands: strategies of social behaviour’ by Mirosława Marody, Polish Sociological Review 2000: 1: 3–16) that claimed that employment security is the main feature of the public sector employment. The remaining chapters in the second part include two fascinating case

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1 It is assumed that the majority of stakeholders, in particular trade unions and employer organisations, are initially the hostages to politics, because their claims can only be directed to policymakers. It is only with the progress of liberalisation and privatisation that they might be transformed into class organisations.
studies of flexible employment practices in a local transport company (the chapter by Wiesława Kozek and Julia Kubisa) and the self-employment of postal couriers who are forced to start their own single-person companies by large multinational courier service providers (the chapter by Damian Podawca).

The part three of the book discusses the changes in labour relations in the studied sectors in the wake of their liberalisation and privatisation. In the opening chapter, Julia Kubisa and Wiesława Kozek explore to which extent labour relation system is capable of reducing the competition based on lowering wages. Based on comparative research, they propose an interesting typology of labour relations (p. 161). They suggest that the only model which can constrain competition based on lowering wages is the model of ‘sectoral continuity’ based on the persistence of bidding sectoral collective agreements in liberalised market which are respected and accepted by trade unions and employers. While this model is dominating in Sweden, it is only present in Poland in the energy supply sector. Two other types of labour relations include the ‘new dualistic model’ and the model of ‘dispersed labour relations’. The former is based on the persistence of company-level collective agreements in ex-monopolist companies (guarantying higher wages and employment security) and the lack of collective bargaining, lower wages and limited employment security in their new competitors in the private sector; the example in Poland is the postal sector. The model of dispersed labour relations denotes the situation of the radical decentralisation of collective bargaining, with no supra-company collective agreements (the case of local transport and hospitals in Poland) and the dominance of company-by-company pay deals between employers and trade unions (or disorganised workers). In the second chapter, Julia Kubisa explores the case of militant protests of the middle-ranked medical personnel in Poland led by the Nationwide Trade Union of Nurses and Midwives in the hospital sector (as an example of dispersed labour relations model). Drawing from the economics of care literature and gender studies, Kubisa enriches the understanding of nurses and midwives’ actions (e.g. the occupations of hospitals and the Polish Ministry of Health) and presents them as a struggle for high quality care services rather than ‘pure and simple’ pay protests.

The fourth (and the last) part of the book includes the chapters by Piotr Ostrowski and by Joerg Flecker, Christoph Hermann, Wiesława Kozek and Beata Radzka. Based on the representative quantitative survey of the public services’ users (N=4514) within the PIQUE project and selected opinion polls by the Public Opinion Research Centre (CBOS), Ostrowski suggests that the Poles expect ‘good quality of public services, available to all and offered on a competitive market which is efficiently controlled by public agencies’ (p. 241). While an overall satisfaction of the quality of public
services in Poland is lower than in Western Europe, the Poles are also aware of the improvements of these services in the last 5 years. Similarly to other Europeans, they are against the privatisation of the public service provision whilst supporting their liberalisation (internal competition among service providers). However, as noted by Kozek in her conclusions to the book (p. 257), the actual involvement of consumers as stakeholders in the restructuring of the public sector is still very limited. In their policy-recommendations chapter, Flecker, Hermann, Kozek and Radzka suggest that liberalisation did not directly lead to high competition between new service providers (except for the case of electricity supply companies in Poland and in the UK and local public transport in the UK and in Sweden). Instead, the liberalisation and privatisation have contributed to the increasing role of private sector providers of the public services and a relative decrease in the quality of working lives of employees in the restructured companies. In order to counteract these tendencies, the authors recommend the improvements of regulatory mechanisms at the European Union and national levels. The regulation of the public services markets should aim at better availability of good quality public services and the greater participation of all relevant stakeholders, trade unions and consumers including, in the regulatory process. As suggested by the authors, ‘the provision of high-quality public services requires high quality work’ (p. 244), which is impossible to achieve in the context of current ‘race-to-the-bottom’ regarding working conditions in the public services provider companies in many countries.

The book ‘A Game on the Future of Public Services in Poland’ is a landmark publication not only for the public sector researchers and experts, but also for policymakers and stakeholders involved in the debates on the future of public services in Poland and Europe. The authors’ major achievement is the development and systematic application of a solid, multidisciplinary approach to the analysis of the public sector restructuring and its impact on the quality of employees’ working lives and the quality of services. Nevertheless, two shortcomings of the book can be noted. The first one refers to the language used to describe the stakeholders of liberalisation and privatisation. The category of ‘hostages to politics’ (as opposed to ‘class organisations’) seems to imply that the state and the EU institutions should cease to be the main addressee of claims for better quality public services. Even if it explicitly opposes authors’ conclusions, it echoes a ‘transitology’ discourse with its condemnation for any claims towards the state. Similarly, I would personally prefer to see the notion of the public sector ‘users’ instead of ‘consumers’ as the latter implicitly refers to the marketisation of public services. Second shortcoming is a limited attention paid by the authors to the effects of austerity measures in the public
sector adopted in the European Union as a result of global economic recession from 2007 onwards. To which extent these recent developments intensified employment and labour relations changes in the public sector? What were their outcomes for public services employees and consumers? The excellent book edited by Wiesława Kozek, published in the middle of global economic downturn, came too early to address these questions. However, it has certainly set very high standards for all further research on the public sector in Poland which could help us to answer them.

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