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1755 Massachusetts Avenue, N.W.
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This report describes in eight pages a 141 page, double spaced study, containing 34 tables, with the same author and title, available from the Council upon request [Tel. (202) 387-0168; FAX (202) 387-1608].
Introduction\textsuperscript{1}

In the space of a very few years, massive changes have been implemented in the economic and political structures of Eastern Europe. Poland has, in many respects, led the way, with a relatively radical program of economic reform. Evidence on the effectiveness of these policies, and the success of the economic transition in Poland and elsewhere, remains incomplete, and conclusions must be tentative and conjectural. However, this report focusses on economic conditions and socioeconomic change in Poland between the 1992 and 1993, the period roughly corresponding to the beginning of "recovery." Economic growth rates and productivity had become positive for the first time since 1989, inflation appeared to be under control, and unemployment, although still increasing, showed promise of being offset by vigorous growth in the private sector. Although a sense of crisis was still prevalent, monitoring economic change could hope to be an optimistic endeavor. Moreover, sufficient stability had been achieved to evaluate new fiscal and legal institutions, and the adequacy of the "safety nets," at least in a preliminary fashion. In addition, reliable data on microeconomic behavior and outcomes could be assembled for post-communist societies, and comparison among the transitional countries and policies would be possible.

The purpose of this report is threefold: first, to analyze the dynamics of economic transition from the point of view of households; second, to examine in some depth changes in the labor force over time, and in particular patterns of employment and unemployment, private sector growth and income returns; and, finally, to assess the usefulness of one of the major data sources inherited from socialist regimes for analyzing trends. The issues and problems addressed are summarized below, as well as a capsule description of the data set used to analyze these problems for the Polish case.

Household strategies for dealing with the economic transition are varied and depend on both the public and the private sector. Although labor force participation has not changed markedly, families have made substantial adjustments in their economic lifestyles. An essential factor, however, seems not to have changed. More than eighty percent of the households in

\textsuperscript{1}Compiled in part by National Council staff.
Poland receive half or more of their income from the state. Moreover, this percentage barely fluctuates during the two years studied.

State dependency, as defined here, is the percentage of the total household income derived from the state. It includes public sector employment -- still the largest source -- pensions, benefits, and unemployment compensation. Despite a rapidly growing private sector, the share of earnings from these sources is as large at the end of 1993 as it was at the beginning of 1992.

Despite a massive amount of restructuring, job changes, and economic reform, the bottom line seems to be that the degree to which households depend on the state for their livelihood changed very little during 1992 and 1993, and this is especially true for the most dependent households. The growth in pensions and to a lesser extent unemployment, has been almost equal to the declines in public sector employment.

Thus, the conclusion of this survey must stress the continuities, rather than or despite the changes. The dilemma created for social policy is, therefore, apparent, at least in the short term. Reducing or dismantling state employment does not -- or at least has not yet -- significantly reduce the costs associated with public sector support. Although the beneficiaries have changed, and many new endeavors have been created, shifting the burden of maintenance from the public to the private appears to be much more difficult than originally contemplated. Although many analysts have worried about the increasing inequalities in postcommunist countries, a more fundamental dilemma involves state finances and control. Unless private enterprise can reduce dependency, the system will remain much as before. And to the date of this study the dynamics of the market in Poland had not whittled this away.

The Post-Communist Labor Force

Transitional economies must massively restructure the organization of work, a process that invariably entails discarding obsolete and inefficient forms of production, and replacing them by more efficient forms. The labor force is, of course, one of the most problematic "factors of production," since transforming the means through which people earn their living creates hardship and dissension. When half or more of the labor force is employed by unprofitable state-owned enterprises, restructuring necessarily involves reducing employment. Unemployment then becomes the major problem for policy, both because it reduces standards of living and because it fuels opposition to change. Although privatization policies are often regarded as the chief culprit, restructuring and shedding labor by state enterprises have to date been a far more important source of job loss.
Throughout Eastern Europe, unemployment rates have soared. Although they have not reached the most pessimistic levels initially projected, they are very high, especially compared to fabled recollections of full employment prevailing under socialism. It is probably not coincidental that the only Eastern European country to have only small increases in unemployment --- the Czech Republic --- is also the only country in which liberal reformers have managed both to remain in power and to retain high levels of public support. Even disregarding the political ramifications, however, unemployment in transitional economies appears to have characteristics that set it apart from the patterns typical in established market economies. In particular, it does not appear to be "transitional." Spells of unemployment lengthen and persist, not as a temporary interval or the prelude to finding a better job, but as a relatively permanent status. Moreover, joblessness seems strangely impervious to economic growth. Although new jobs have been created in the private sector, these positions do not reduce the number of unemployed. People who have been laid off are seemingly unable to find new jobs, even after the loss of unemployment benefits. Hence, the average duration of unemployment is already longer than in most developed countries. Some analysts have speculated that post-communism creates a "stagnant pool" of the unemployed, without the skills or inclination for job search or retraining. Alternatively, a prolonged stretch of unemployment can easily lead to discouragement and labor force withdrawal, rather than greater efforts and increased productivity. Hence, unemployment is argued to reinforce apathy, passivity, and dependence --- the attitudes and work habits of socialism, in short --- rather than reversing them. Although joblessness has not reached epidemic proportions in Eastern Europe, there are fears that the market transition in Eastern Europe may breed a particularly virulent strain. But if the "disease" is unique to transitional economies, the "cure" is not at all self-evident. At the least, the costs incurred by new governments in dealing with job loss --- the need to provide unemployment compensation, benefits, and retraining --- are high, diverting scarce resources from investment and restructuring. Analysts who view economic restructuring and the control of inflation as the highest priority for transitional economies, tend to view unemployment as the inevitable, and perhaps necessary, price to be paid.

Virtually all analyses of unemployment have relied on cross-sectional indicators, rather than longitudinal data. Indicators of the duration and stability of unemployment rely on retrospective reports and on labor flows, rather than following individuals through time. Moreover, there are discrepancies between registration statistics and survey results that are difficult to resolve. Partly as a consequence, analysts do not agree about either the seriousness of the problem or about which policies are most appropriate as a remedy.
Data from the Household Budget Survey can provide complementary information on the extent and duration of unemployment in Poland, both for individuals and households. Moreover, it is possible to assess change in labor force behavior and in earnings. Longitudinal data, which have not been available previously, provide estimates of the source and stability of unemployment, and give some clues about the relative effectiveness of diverse programs. Analyzing these trends is the primary goal for this report.

The Private Sector

Throughout Eastern Europe, one of the most hopeful signs of economic regeneration has been the substantial increase in private sector economic activity. Observers disagree about the origin and ethics of the private sector, and about the degree to which it can be considered a durable phenomenon. But the universal presumption is that a robust private sector is the surest path to a market economy. In Poland, the growth of private trade and services since 1989 has been truly remarkable. Whether one interprets this flourishing new private sector as an extension of the informal economy, or as the inception of capitalist institutions and prosperity, it has surely grown and flourished far beyond expectation. Newly legalized forms of trade, imports, and retailing are justly credited with having ended shortages of consumer goods and transformed the nature of economic activity. The primary questions for the future, however, are whether the private sector will continue to grow and whether this growth can keep pace with unemployment and the closure of many state firms. Surveys of new private firms in Poland have provided some information on the size and economic activities of the private sector. Much less is known, however, about the private sector labor force as a whole. There are indications that wages and benefits are lower in the non-state sector, that work hours are relatively long and onerous, turnover high, and unionization non-existent. Opinion polls suggest that most workers regard private sector jobs with considerable ambivalence and dread, preferring to hold onto state jobs even with lower wages. Most new private firms are, of course, still quite small. Leila Webster (1992) estimated that the average size of private sector firms in Poland was 1.7 persons in 1991. On balance, however, it is clear that private business is surely a positive sign for the future. Hence, it is important to examine the source of personnel and the relative returns to private sector economic activity in Poland.

The strategy adopted in this report is largely descriptive, although there is an implicit analytic focus. Household data provide a perspective on the private sector that is more pertinent to transitional economies than either labor force surveys or interviews with new firms. By far the largest share of private sector growth has been centered on family enterprise --- typically owned, organized, and managed by a single household. While this is not a
surprising development, few analysts have noted the implications of this for labor force policy. The main question is not whether the new private sector will grow fast enough to absorb the labor shed by state enterprises; the question is how many of these firms can survive and are likely to grow beyond a single household. New businesses and family enterprises are notoriously precarious, even in stable market economies. Only rarely do they recruit or employ non-family members. If the bulk of the involvement in private sector economic activities is rooted in domestic production, such new firms will not and cannot soak up mass unemployment. The incentives and the capacities of small firms are altogether different than those governing employment in large firms that can operate and recruit in an open, unregulated labor market.

The implications of this are twofold. First, shoddy labor conditions in the private sector may be intractable; if new businesses lodged in entrepreneurial households exploit their members, neither legislation nor unionization is likely to improve matters very much. Second, although new firms deserve support and the chance to sink or swim in competitive post-communist waters, these fledgling endeavors are unlikely to be the panacea for restructuring in the state sector. Household enterprises are generally closed shops; they do not create open labor markets that function according to free market rules. To ignore the reality of these small new firms, in terms of either risk or potential, is to do a great disservice to the emerging private sector.

The Household Budget Survey

The third objective involves introducing and evaluating a new set of data for research relevant to the substantive issues discussed above and to a variety of other policy questions. Household Budget Surveys have few counterparts in western social science and policy analysis; consequently, they have been largely ignored as a resource for data analysis outside of Eastern Europe. They were, however, one of the most widely used instruments for data gathering and analysis throughout Eastern Europe, and a primary resource for socialist policy. As a result, questionnaires and interview protocols are standardized and repeated frequently; the Survey is familiar to respondents and interviewers alike. Samples are typically very large, and the procedures for enumerating and checking responses are institutionalized and similar in most other countries in the region.

In the rush to modernize data collection and to build new data bases, East European countries have adopted or adapted analytic tools from western social science, including measures of labor force participation, unemployment, and private sector economic activity. While there is surely good reason for standardizing both the definitions and the wording of
survey questions used to operationalize these concepts, ignoring the wealth of data and analysis collected under state socialism would be a mistake. Recent innovations, such as the Polish General Social Survey or the Labour Force Surveys in Poland and Hungary, have borrowed items and concepts from international studies, thus generating measures and methods that are familiar to any western analyst. Such surveys provide enormously valuable comparative information, of course; but they do not collect data comparable to that of the prior regime; hence, the quantitative study of the process of systemic change is difficult. In contrast, the primary value of the Household Budget Survey is not comparability with western surveys, but continuity between the past and the present.

Concepts such as unemployment or labor force participation depend fundamentally on how employment is construed; when a system is in flux, both the social facts and the conceptual images used to describe work are changing. If we wish to understand how employment changes, we need to study response patterns on a series of questions asked over time, and to compare the meaning and the wording of questions with care. For this purpose, existing surveys are often much better than new empirical tools. Despite changes in sampling techniques, format, and additional survey questions, the Household Budget Surveys provide one of the richest large-scale empirical bases for assessing how households coped with a command economy, and how they are managing the transition. For both historical and comparative purposes. Household Budget Surveys can provide baseline estimates of social and economic conditions prior to the onset of market transition, as well as a detailed account of how particular systems actually worked, and, of course, how they failed to work. Although many of the questions and response categories seem outmoded and even quaint, these surveys provide an enormously detailed picture of the household economy under socialism.

Household Budget Surveys retain much of the collectivist flavor of socialist inquiry. Arguably, the familiarity of the definitions and classifications used should yield more reliable estimates of change than the newer forms that provide estimates more strictly comparable to standardized Western measures. Although this report does not explore early studies or research on households prior to 1992, demonstrating the usefulness of these data for studies of the economic transition supports the proposition that data from prior years are also useful and of high quality. Private sector labor markets and unemployment are new phenomena for the post-communist countries; household consumption, work status, and sources of income are not. The question becomes whether the categories of analysis can be modified, combined, or collapsed in order to compare the results with recent data. If the categories can be rendered comparable and sufficiently precise, the fact that the survey design and techniques are well-established, the procedures consistent, and the staff longstanding should yield superior measures of change.
Although I will conclude that these data are both useful and relevant for specifying the
determinants of labor force and household behavior in transitional economies, in order to make
the case convincing, it will be necessary to provide more than the customary amount of
documentation and comparison. The reader should, therefore, be forewarned. Each analysis
presented will include as many questions about the quality of the data analyzed as conclusions
or implications for policy.

Household Strategies for Economic Change

Each of the analyses presented above depend on the complete set of households for the
twenty-four months analyzed, with individual data on labor force participation and
unemployment. The analyses presented in this section in contrast, deal with special kinds of
households or special problems of comparability uncovered in previous analyses. Three sets of
issues are central. The first concerns farmers and farm income. The second focusses on
pensioners, both those living alone and those in households. And the third deals with
generational issues and changes in the composition of households. To some extent, these
analyses extend and clarify the questions regarding employment, and address other issues about
change. Farming, for example, is one likely explanation for some of the discrepancies in
registered and survey data on unemployment. I will argue that although farming has declined
as a commercial activity, an increasing number of households depend on small plots for
domestic consumption. Pensioners constitute a second special case. As numerous studies have
shown, the retired population is large and increasing throughout Eastern Europe. The evidence
that early retirement is an alternative to unemployment is weak and circumstantial, but if labor
force participation is declining, this is surely not conducive to economic growth.

Numerically, these groups are large; taken together, farmers and pensioners constitute
thirty percent of the working age population in Poland.\footnote{I refer to the population aged 18-60 (women) or 18-64 (men) as the adult or working-age population. In 1992, 30.3\% of the matched sample were either farming or pensioned, and in 1993, 30.6\%.} The very size of these categories, and
the fact that a sizeable fraction either work or hope to work, allows ample room for a wide
range of estimates of "hidden unemployment" or, alternatively, "hidden employment." This
section, as well as the data on unemployment provides limits for such estimates, and helps to
specify the assumptions needed to make the case.

Finally, the last chapter provides descriptive data on how the composition of households
has changed during the economic transition. In Eastern European countries, the market
transition has generated a parallel demographic transition. Rates of marriage, fertility, and
family formation have declined precipitously; the best evidence on mortality and migration suggests continuous --- and high --- levels.

Demographic change has implications for the composition of households, but even more intriguing, for the degree to which families live in multi-generational households. Poland has probably had a larger number and proportion of extended families than any other country in the region, particularly in rural areas. One of the notable shifts during the last two years has been a sharp decline in the number of families living with three or four generations in the same household. Although one might predict that economic hardship would force more families to stay together, or even to take in needy kin, this does not seem to have occurred. The families that increased in size or generational complexity during these two years were better off than the average, and more likely to improve their relative status over time. Moreover, the dominant trends, which were decreasing size and a decline in the number of multi-generational families, appear to have occurred in households of every type, whether in urban centers or small villages. Both market-oriented and traditional households became more nuclear or "streamlined" during this period. To be sure, agrarian households are still the largest, but household size fell in farm families as well as among modern, urban couples. Whether these changes are simply the extension of a long-term secular trend or a special response to market conditions cannot be determined with the data in hand. However, these data clearly suggest that changes in family structure coincide with rapid economic change, whether as a strategy for dealing with the economic transition or as an unintended consequence, change in the organization of households appears to be a concomitant of the market transition.

These, then, are the issues addressed. The organization of this report roughly follows the outline sketched above, except that introducing the Household Budget Survey is the logical first step.