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## UNREGISTERED EMPLOYMENT IN POLAND – WITH A PARTICULAR EMPHASIS ON THE PROBLEMS OF YOUNG PEOPLE

*The study discusses the problem of unregistered employment, its scale and characteristics in Poland. Taking advantage of unregistered work in the employment of young people is viewed as the problem of a particular significance. The survey carried out among working students allowed for the identification of the scale and the perception of this phenomenon in the surveyed group.*

*Keywords: informal sector; unregistered employment; atypical employment forms; young people at the job market; Poland.*

Домініка Бак-Грабовська

## НЕОФІЦІЙНЕ ПРАЦЕВЛАШТУВАННЯ У ПОЛЬЩІ: АКЦЕНТ НА ПРОБЛЕМАХ МОЛОДІ

*У статті досліджено проблеми неофіційного працевлаштування, його об'єми та особливості у Польщі. Неофіційне працевлаштування молоді розглядається як суттєва проблема. Проведено опитування серед працюючих студентів, що дозволило виявити об'єми неофіційного працевлаштування у даній соціальній групі, а також сприйняття студентами даного явища на ринку праці.*

*Ключові слова: неформальний сектор економіки; неофіційне працевлаштування; нетипові форми зайнятості; молодь на ринку праці; Польща.*

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Доминика Бак-Грабовська

## НЕОФИЦИАЛЬНОЕ ТРУДОУСТРОЙСТВО В ПОЛЬШЕ: АКЦЕНТ НА ПРОБЛЕМАХ МОЛОДЁЖИ

*В статье обсуждены проблемы неофициального трудоустройства, его объёмы и особенности в Польше. Неофициальное трудоустройство молодёжи рассматривается как серьёзная проблема. Проведённый опрос среди работающих студентов позволил выявить объёмы неофициального трудоустройства в данной социальной группе и восприятие студентами данного явления на рынке труда.*

*Ключевые слова: неформальный сектор экономики; неофициальное трудоустройство; нетипичные формы занятости; молодёжь на рынке труда; Польша.*

### 1. Introduction

Informal sector is present in all types of economies, even though the scale of this phenomenon differs, influenced among others by the level of economic development. In Poland the free market economy has been developing for almost 25 years, while the informal sector, according to some estimates, is responsible for almost one third of GDP. The informal sector of employment, unregistered employment or illegal employment represents – in line with the legislation in force in Poland – the employment, by an employer, of a person without the written conformation, in the required time, of the type of concluded agreement and its terms and conditions, as well as the failure to register the person employed, or performing any other type of gainful employment to the adequate social insurance institution (The Act on Employment Promotion..., 2004). According to the studies conducted by the Central Statistical Office there are about 5% of illegally employed workers in Poland.

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Young people constitute a particular group among workers employed based on unregistered employment. The current situation at European job markets is characterized by high unemployment rate among young people, including university graduates. Among those who are under 25 years the unemployment rate in the European Union amounts to over 23% (Eurostat, 2013). The International Labour Organization (ILO) refers to this problem as the priority one.

In the discussed context it is worth considering the significance of undertaking unregistered employment by young people in terms of unemployment reduction. Within the framework of the research project the percentage of students who have experiences in undertaking illegal work and how they evaluate this form of employment comparing to other forms was identified. The added value of the author's research is the presentation of unregistered employment at the background of other atypical employment forms observed in Poland.

## **2. The informal sector in reference sources**

Reference sources discussing the informal sector are quite abundant. The review of approaches to the problem was presented, among others, in the studies performed by Polish research teams. The project entitled "The reasons underlying unregistered employment in Poland", coordinated by the Department of Labour Market of the Ministry of Labour and Social Policy, presents the theoretical perspective in the light of Polish and world literature. (Bednarski et al., 2008) Another project carried out by Polish researchers, reviewing the available literature on the subject, was performed by Cichocki and Tyrowicz (2010). Based on the quoted reviews it was observed that it is possible to distinguish certain dominating streams in the discussed problem in a given period.

In the initial timeframe the majority of studies concentrated on defining the phenomenon itself and suggesting simple, statistical methods for its measurement. One of the first attempts to define the informal sector was undertaken by the International Labour Office in 1972 (Employment, Income and Equality..., 1972). "The Subterranean Economy" by Peter Gutmann, published in 1977 is considered the pioneer or the classical study in this field. The author, having applied measurement methods adequate for the discussed phenomenon, concluded that the informal sector in the USA is responsible for generating about 10% of the national income (Gutmann, 1977). The performed identification attracted the attention of economists and speeded up the development of research covering the informal sector.

In the following years of the 20th century the conducted research work concentrated on the definitional approach to the problem, its measurement methods improvement (Tanzi, 1983; Frey, Weck-Hanneman, 1984) and on the identification of the underlying reasons (Johnson et al., 1998). In the 1980s the first studies covering the problem of informal sector were also published in Poland. They mainly referred to the so-called "second cycle", meeting the needs of population living in the conditions of socialist deficit economy (Bednarski, Kokoszynski, 1988; Sowa, 1990). Therefore, it is hard to compare this output with the studies discussing the unofficial sector in capitalist economies.

The beginning of the 21st century represents the period when numerous methodologically advanced studies discussing the informal sector, unregistered employment and the reasons underlying these phenomena, were published. For example, Williams and Windebank (2005) applied the quality study in their research

project, based on the interview technique, and identified differences in motivation of the individuals undertaking unregistered employment, depending on their economic situation. Mateman and Renooy (2001) defined 3 types of factors influencing the occurrence and development of unregistered employment: market, institutional and personal ones. The cross-section analysis of global reasons indicating the size of informal sector was presented, among others, by Schneider and Enste (2002), Schneider (2007). The review of the above mentioned approaches illustrates that the research results and the conclusions drawn by the authors are not always consistent. The contradictions occur while comparing conclusions made based on the research conducted in different countries (e.g., the studies on unregistered employment determinants by Williams and Windebank (2005) carried out in Great Britain, comparing to those by Graversen and Smith conducted in Denmark (2002)).

Polish reference sources present changes resulting from transformations occurring while adapting the market economic system, following the centralized economy. According to Kozlowski, who explains the reasons underlying unregistered employment in both periods, the change in the nature of interaction should also be considered. In the system of real socialism the informal sector was, in a way, a sort of game played against the central planner, while after 1990 it was a game played against fiscal authorities (Kozlowski, 2004).

The particular place, in the output on unregistered employment, was given to the analysis of this phenomenon in the countries of former, centrally planned economies. The researchers, who studied this issue, showed that these countries, including Poland, were particularly affected by the problem of unregistered employment (Schneider, Enste, 2002; Eilat, Zinnes, 2002). The Central and Eastern European countries are also characterized by the traditions of informal relations between employers and employees, especially in certain economy sectors (Kalaska, Witkowski, 1996). This problem may disappear in the course of time, as it was suggested by Gardes and Starzec (2002), or persist as the permanent behavioural structure (Dupaigne, 2001).

In the recent period the problems of unregistered employment in developing countries, have been mainly discussed in relation to East Asia and China (Cooke, 2005). The growing number of research projects, covering the discussed problems, were also carried out in Africa (Yaw, 2007).

It has to be emphasized, that in spite of many research projects being implemented, many issues in the area of unregistered employment still seem insufficiently explained, while the occurring inconsistencies may result from the great importance of the research context referring to a given place and time.

### **3. The scale of unregistered employment in Poland**

The range of informal sector is measured by the share in the official GDP, or the participation of unregistered employment in the total employment. According to the share of informal sector in the official GDP the largest one is present in Africa (43,2%), in Central and South America (43,4%) and in Central and Eastern Europe, as well as in the former Soviet republics (40,1%). The lowest share was registered in OECD countries (16,3%) and in Asia (about 30%) (Schneider, 2006). It is indicated that the informal sector represents, to a great extent, the function of economic development level. In the course of economic growth, the increase of employment and the

reduction of unemployment rate, the share of informal sector was decreasing. Depending on the adapted measurement method the share of informal sector in the official GDP in Poland is estimated by the European Commission at the level of 14%, or even at 28,9% (Bednarski et al., 2008).

The scale of unregistered employment is identified less often than the share of informal sector in GDP. Based on the data provided by ILO and the studies performed by Pedersen it is indicated that the highest share of workforce in the informal sector occurs in Africa, Asia, Central and South America. The share of informally employed workforce in Poland is estimated at the level of 8,2%. The data for selected countries in the Central and Eastern Europe are as follows: Macedonia – 27,8%, Slovakia – 23%, Lithuania – 8,5%, Ukraine – 4,9% (Bednarski et al., 2008).

The empirical studies which diagnose the scale of unregistered employment in Poland were conducted by the Central Statistical Office in 2010. The "Labour Force Survey" (the LFS) and the module survey "Unregistered employment" were carried out by means of applying the sample survey method which allowed the generalization of the results over the entire population. The module survey was performed by the statistical offices in all the regions. The main objective of the survey was the estimation of the hidden economy range from the perspective of changes occurring at the labour market. It was achieved based on the scale assessment of the population involved in unregistered employment and by obtaining information on the range of services provided by individuals performing unregistered work. In the research on unregistered employment, the fact of performing work in the shadow economy was defined as below. Unregistered employment was referred to as:

a) the employment performed without any formal labour relationship, i.e. not based on employment contract, commission agreement, work-piece agreement or any other written agreement between an employer and an employee, regardless the ownership form. Work cannot be performed on the basis of call-up, appointment or election; an employee is not subject to social security for unregistered employment and thus is not entitled to social benefits; the duration of such work is not observed as the contribution from the standpoint of social security and therefore an employer does not allot contributions from employees' wages and salaries to the Social Security and Employment Fund; unregistered employment is not taxable;

b) self-employment providing that financial obligations to state (e.g., taxes) resulting from the conducted business activity are not paid.

The survey on unregistered employment, carried out in 2010, indicated that the scale of this phenomenon is significant in Poland. In the period between January and September 2010, unregistered work was performed by 732 ths persons, i.e. 4.6% of the total workforce. Crucial changes regarding the number of the employed in the shadow economy took place in the first decade of the current century, since even in 2004, 1.317 ths persons declared performing illegal work, i.e. 9.6% of the total workforce. The survey results indicate that gardening and farming were the most frequent types of work performed in the shadow economy. This type of work was performed by every fifth person employed informally (20.8%). The high share of persons involved in unregistered occurred in such sectors as construction and installation maintenance and also repairs (16.8%), as well as construction and installation services (13.9%) (Unregistered employment..., 2011).

Polish Confederation of Private Employers "Lewiatan" indicates that the currently observed economic downturn results in the increase of unregistered employment. According to the research conducted by the Confederation, as many as 33,2% of enterprises in Poland takes advantage of unregistered employment and entrepreneurs declare that they can use this solution much more often (Co trzecia firma ..., [Every third company...], 2013).

As the conducted research shows, including the project entitled "The Balance of Human Capital" prepared by The National Agency for Enterprise Development and the Jagiellonian University, in Poland, among the employed based on unregistered employment the majority is constituted by young people aged between 20 and 30. The significant part of this group is made up of university graduates who are registered in Labour Offices in order to be covered by insurance and, in fact, carry out unregistered employment, usually much below their actual qualifications (Wesolowska, 2011).

#### **4. The scale and perception of unregistered employment among Polish students**

In 2011 the research was carried out among working students who studied management at the Faculty of Economics at Wroclaw University of Economics. Random and non-random sampling was applied. 120 people were surveyed, 91 of them were students under 26 years old. The research had a quantitative character. The survey, which included questions about facts and opinions, was prepared. Questions about the employment form, in which the respondents were involved, were included in the first group. Among the questions qualified in the second group the request was presented to define the attractiveness of a particular form on the six-point scale. Additionally, the respondents provided their attitude to 20 statements offering opinions about the atypical employment forms by the four-point Likert scale (Dyduch, 2011). The objective of the research was to define the perception of non-standard employment forms among working students. The study presents only the selected research results, mainly the ones referring to the problems of unregistered employment.

Within the framework of the study unregistered employment was referred to as one of the non-standard employment forms used by employers, apart from the non-employment agreement (based on civil law contracts), self-employment, work obtained through the temporary employment agencies or any other outsourcing company. The participation of students, experienced in work based on all forms of employment including the mean attractiveness rating of particular forms, are presented in Table 1.

91% of the students taking part in the survey declared having some professional experience. In this group the largest number of students was experienced in performing work within the framework of unregistered employment (63,4%). Informal employment constitutes, in the surveyed group, the most frequently used possibility in obtaining the first professional experiences. Among 45% of unregistered employment cases the informal type of employment constituted the only possibility offered by the employer.

Unregistered employment was identified as one of the least attractive employment forms (the average rating is 3,14 on the six-point scale). The lower rated form of employment was the one through temporary employment agency. This result should be taken into consideration while providing recommendations on the reduc-

tion of unregistered employment. Temporary employment arranged through an agency is frequently presented as an attractive alternative of work in the informal sector. Moreover, it seems important to pay attention to the best rated forms of employment – permanent employment agreement and self-employment. The individuals expecting flexible working conditions and considering themselves entrepreneurial prefer self-employment, while others mainly choose the option of permanent employment agreement. The remaining forms of employment, including the unregistered one, have received the relatively low rating. Additionally, the indepth survey of students' opinions indicated that even if they currently undertake employment within the framework of non-standard solutions, still after they graduate from university they prefer employment agreements or self-employment. The unregistered employment may, therefore, be mainly regarded as the temporary alternative for unemployment or as an opportunity for obtaining first professional experience (Bak-Grabowska, Jagoda, 2012).

*Table 1. Participation of students in a particular form of employment and the assessment of employment forms attractiveness*

No.	Form of employment	The participation in the particular form of work, %	The mean rating of the particular form attractiveness assessment on the 1-6 scale (6 stands for the most attractive)
1.	Permanent employment agreement	7,3	5,65
2.	Fixed-term employment agreement	26,8	4,30
3.	Commission agreement	52,4	3,54
4.	Work-piece agreement	25,6	3,20
5.	Without agreement (unregistered employment)	63,4	3,14
6.	Self-employment	3,7	4,58
7.	Through temporary employment agency	36,6	2,98
8.	Through an outsourcing company	13,4	3,22

*Source:* Author's compilation.

## 5. Final remarks

In the course of the research covering unregistered employment 3 periods, characterized by the domination of particular problems, can be distinguished. The definitional problems, measurement methodology problems and the reasons underlying informal employment represent the streams mainly analyzed in the initial period of research development on the discussed phenomenon, even though they have been continued until today. The development of a given country economy represents the crucial determinant for the implementation of research projects. In this context Poland, similarly to other Central and Eastern European countries, constitutes the specific area in terms of less than 25-year period in the development of free market economy.

The significance of particular problems of unregistered employment should be evaluated in terms of the current economic situation. The economic downturn observed in Poland had a particularly strong impact on the situation of young people at the job market. It is estimated that the actual unemployment rate among youth in Poland is, as a rule, twice higher than the registered unemployment rate. Polish

Human Resources Management Association stated that at the end of 2013 unemployment among university graduates would exceed 30% (Bezrobocie wsrod absolwentow..., [Unemployment among university graduates...], 2013).

In the above context it is considered important to analyze the extent to which students take up gainful work within the framework of unregistered employment and what their assessment of these experiences is. The given research confirms that unregistered employment is referred to by students as an unattractive form. They expect that after graduation they will be provided with opportunities of undertaking employment based on work agreement or be able to open their own businesses based on self-employment. What is important, unregistered employment is considered as undesirable comparing to other non-standard forms, such as employment based on civil law agreements, or employment via temporary employment agencies. The following research problems seem to be worth continuing or initiating their exploration: the range in which students and university graduates take up unregistered employment, as well as the impact of the diagnosed tendency on their professional development and personal life. On the other hand, in the context of the extended range of unregistered employment it seems important to keep observing this process influence on the broadly understood area of human resources management.

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