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Changes in the Polish labour market

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It is a pleasure for me to be here in Edinburgh, a place vital to the history of the economic thought. It is here, where upon his graduation, Adam Smith, the father of the classical economy, delivered a series of public lectures, which led to his collaboration with David Hume. These two icons of the Scottish Enlightenment force us even today to think about the moral dimension of the economic activity, about the dreams and the sentiments that drive our works.

I am here today to talk about issues relevant for prospects of the Polish labour market. But it is the health of the entire Polish economy that matters in this context. It is certainly worth looking at the European and global context, in which Poland is operating. Both are a challenging mixture of opportunities and risks.

As we look at the factors that shape Poland today, we are struck by how radically different Europe is today compared to what it was in 2004. It is also a radically different Europe to the one before the crisis. The Union has deeply transformed itself, not only due to the crisis, but also due to the unprecedented reform effort ignited by it. From economic governance to financial sector reforms, from a harsh lesson in austerity to a gradual shift towards growth friendly measures, today, Europe is a different Union. And we can assume that more changes will come over our way in the next few years.

Looking beyond European borders, we are also struck by the image of an increasingly globalised world, which over the past few decades has blurred a lot of borders. It has also brought onto the world stage new players. Globalisation is no longer built around a transatlantic consumer and a Chinese producer. Gradually, a demand driven growth model in emerging economies generates new demands from millions, if not billions, of new consumers coming to the world market. Consumption habits and geographic borders change in Europe, they change across the world. Two thirds of jobs seekers globally declare they would go ahead and it is not only the UK, but also Sweden, the Netherlands. If Poland is to remain competitive in the world of today, it will have to keep its windows open and measure its competitiveness against the global backdrop.

But the global world and our neighborhood is unstable, there are wars. Europe is rethinking its CFSP. Thus, today, Poland needs to think of itself as of a state that belongs to an evolving and different European and global context. Poland has to wisely internalize these changes and see how it can best mitigate the risks they bring along. Most of all, however, it will have to make a smart use of the opportunities that these changes create and avoid petrifying old patterns of growth.

And it is a shame that at the same time in Europe there are tendencies to bring restrictions to a single labour market. Talent market becomes global.

Over the past years, Poland has been one of Europe's best performing economies. It has weathered the crisis without a recession (having experienced its latest downturn back in 1992, before most of you were born), has accumulated more than 50% in terms of GDP since 1990 and sustained a modest growth rate over the recent years. We have been very proud of how our banking sector proved to be resilient to the crisis. At the same time, however, we have to remember that the financial sector remains shallow, banks still rely mostly on short-term deposits and we have to develop deep capital markets.

Looking at public finances, government debt stays below the 60% EU threshold, and low if compared to the 93% average level in the euro area and 87% in the EU.

Behind growth, there are not only external factors, in particular accession to the EU. Poland's economy today has been enjoying a systemic pick-up in private consumption and investment, with public investment in particular driven by a considerable inflow of EU funds. All of these factors combined promise good prospects for growth in Poland in the short and medium term. It is not that obvious for the long term.

Poland's growth is less impressive if we take into account the group of economies which the country belongs to: that of catching-up, emerging economies which offers higher returns on investments. Its growth should thus not be compared only to that of France or Germany, but also to that of fellow emerging markets. Once we do that, our growth rate might seem less impressive.

One of the biggest challenges for Poland's economy is to avoid the middle-income trap, getting stuck at its current level of growth potential. Some analysts believe the risk is still out there. Current saving and investing rates are too low to make a significant leap to an innovation economy. Between 2004 and 2011 the average saving rate was only 17% of GDP and the average investment rate was 21% of GDP, both below average EU levels. Current expenditure on R&D is only 0.85% of GDP, although it is expected to rise to 2% by 2020. Polish firms' productivity per hour still concerns only around 60% of companies in the EU15 countries.

Stagnating at the middle-income levels and failing to graduate into the ranks of high-income countries, we can get stuck in between if we do not get access to the top technologies while losing the advantage of lower wages. This is where Poland is today. There are trends in the Polish labour market worth mentioning in this context.

Since the 90s, countries such as Poland, the Czech Republic, Slovakia and Hungary have used labour and capital productivity increases as their main growth drivers and have not shifted forward technology and innovation, have not made the leap onto new innovation frontiers.

The era of cheap labour force is coming to its end. More and more employers must strive for employees. And it does not only concern highly qualified workforce.

However, the point is whether we are ready for this leap, since we lack an adequate innovation capacity, qualifications and talents on the labour market.

The worry of the trap materializing is also accentuated by an ageing population and by still rather low private investment.

There is one more challenge - a choice to be made. As a society, we have at disposal two options for growth. One is to put the focus on growing convergence in living standards. The second one is embarking on a home-grown growth model with different benchmarks and stronger incentives for progress. A tailor made, home-grown plan might be more successful in the long term.

What kind of home-grown model should we aim at having in Poland?

When 25 years ago, as individuals and as a society, we decided to move towards a great change that was democracy and a market economy, we found ourselves in a new democratic reality with enormous consumption ambitions based largely on very traditional patterns coming from the West.

Moreover, we inherited an economy where investment had never cared about the environment, about resource efficiency, about, in particular, energy efficiency or quality of life. We moved quickly on catching up, with higher growth rates than in countries around, growing income and consumption hunger with all its consequences. Even today many people still believe in this path for change, where first you grow and later you go sustainable, and start caring about the externalities of growth.

However, we do face gradually a growing individual and collective feeling of responsibility for sustainability of development and of solidarity with future generations and this is increasingly connected with the desire of looking anew at our own life quality, at the role of education and skills which enable social mobility. This is very much in line with trends in labour markets.

Employers mobility becomes global, money matters, but also what you can do off time, good work-life balance matters as well. Good school, clear air, culture.

Secondly, Poland's economic activity is, to a large extent, based on small and medium enterprises, without overwhelming concentration in a single sector. This diversity and the lack of a dominant sector give the Polish economy resilience.

But, in the long term, this may become problematic in terms of competitive advantage. Such a type of economy may provide for domestic needs – but, at the same time, it may be too dependent on it. In 2013, for example, private consumption grew by 0.8%, but domestic demand shrank by 0.2%, which had a negative GDP effect. Thus, the domestic-demand driven economy can have its limitations.

This can result in a weak, stagnant labour market, stuck on low-end jobs with additional entry barriers to scarce jobs at the top.

Poland has the advantage of having a sizable cohort of young people. Quite a number of them are prepared to undertake new challenges and opportunities. High mobility is going ahead, salaries still matter, but the change will come.

Adam Smith was quite prescient when he said: *“Upstart greatness is everywhere less respected than ancient greatness.”* When I go around Poland and speak with aspiring entrepreneurs, I often hear how much effort they have to put in order to be listened by those who should create a good environment for start-ups. How inadequate our legislation is, how problematic it is to get financing for particular projects by someone who is not known and who just starts his or her own business. How determined you have to be in order to get over the obstacles that are completely unnecessary and just sap your spirit off. As Smith notices, we only see greatness where it is ancient, we do not see it when it is being born. This has to be changed – and it is the responsibility of the government, but also of the private sector, to create viable partnerships to make it happen. Especially important here are the areas that have great potential for the future, like information technologies and digitalization, biomedical research, but also revitalization of industry. But a pressure has to be exerted from below, by potential young entrepreneurs, because the best way out of the contracting market is to expand it into new venues!

What we need in Europe, in Poland, and in every other country of the EU is a change of “Gestalt” of our thinking about jobs and growth. It is, in my mind, a mistake to concentrate on a goal to reduce unemployment only. Instead, we need to work out a comprehensive programme that would retool our jobs and growth agenda, at the European and national levels in the direction of better compatibility, so that instead of having 28 separate job markets, limited by scale, size and scope, we will work towards a real European single labour market with various customized policies and mechanisms, to incorporate national needs and skills into a general pool of knowledge, skills and abilities. Of course, it does not happen overnight, but we should be aware that despite various levels of development and different models of professional learning, we all strive to make Europe the most competitive, the most inclusive and the most advancement-oriented place.

In this context, I could not talk about the singular success that is the Erasmus program. Since January of this year, the Erasmus+ has replaced the old Erasmus Programme and has integrated all the other sectoral programmes (Leonardo da Vinci, Comenius and Grundtving, Jean Monnet Action, Life-Learning Program, and some others). It has given to the educational arm of the Union a cohesiveness that is very much needed. The Erasmus+ programme aims at boosting skills and employability, as well as increasing mobility of young people. The seven year programme will have a budget of 14.7bln Euro. This is a 40% increase compared to current spending levels, reflecting the EU's commitment to investing in these areas. For this year only the budget was 1,8 bln euro, out of which 102 mln euro were allotted for programmes in Poland. Erasmus Plus also accentuates supporting partnerships between universities, institutions of higher learning, mid-level education, enterprises and NGOs for the strengthening of innovation and knowledge-building. The inter-sectoral cooperation and searching for synergy between education and a potential workplace is especially underlined – so that the contact is initiated at a relatively early moment in the education process. In the long-term, the fruit of that approach should be the pairing of businesses with the promising start-ups. This is an example of what I called

a “Gestalt” change – making the obvious connection between education and employment and generating long-term professional prospects from a short term experience of being a part of the Erasmus Programme. The European Union chose consciously this path and I am convinced that it will serve the people of Europe well for the future.

Now all of us have to contribute to this effort collectively and individually, drawing on our life-time experiences, our abilities and our dreams as well.

Thank you for your kind attention.