

**Suggested Rules for
An Unemployment Insurance Law
for Poland**

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Part One

Introduction

This document is submitted in partial fulfillment of the terms of deliverable D5 under the contract for the World Bank funded project TOR 2.

An earlier version of this report was submitted in July 1993 to assist the effort by a team headed by Director Anatol Szurmak in the Polish National Labor Office which prepared a draft unemployment insurance (UI) law submitted to the Polish parliament in the Autumn of 1993.

In November 1995 there remained interest in reforming the UI system in Poland. At that time Director Irina Wolenska of the Polish National Labor Center requested that a revision of my July 1993 proposal be prepared, with the emphasis in the revision being the financing system. To that end, an entirely new part has been added to this report.

After the introduction, this document includes four parts. The next part gives background information, which provides a brief summary of the economic and administrative context in which a UI law would be introduced in Poland. The third part presents the proposed rules for a UI system for Poland. The attempt was to present these rules as clearly as possible; no attempt was made to state the rules in a legalistic style. So as to clearly illustrate the proposed rules, in many cases explicit formulae or parameters are given in the proposed rules. The fourth part of this document is an analysis of the suggested rules for a UI system for Poland. The analysis considers each important feature in the sequence in which it appears in the suggested law. The fifth and final part presents detailed discussion of alternative financing schemes for UI together with a set of simulation results to illustrate how these systems work.

Part Two

Background

For this part of the TOR 2 project, the task presented to the Upjohn Institute was to draft rules for an unemployment insurance (UI) system which included a financing mechanism. The Polish Ministry of Labor and Social Policy hoped that the financing system would operate on a trust fund basis and tend toward solvency over the business cycle. During April, 1993 the Poles accepted the argument that for the UI system to have a chance at solvency, it should be used to pay for only UI benefits and not active labor policy (ALP) measures such as retraining and intervention works. The Institute argued that ALPs should be paid for out of general revenues on a discretionary basis.

Currently a 3% tax is levied on total payrolls to fund employment programs. the tax is paid by employers. Taxes collected by this mechanism amount to only about 40% of all benefits currently paid out. With the severe unemployment situation in Poland, about 95% of all expenditures on labor market programs are for unemployment compensation (only 5% goes to ALPs). Also because of the situation, there is a fixed benefit amount, equal to 36% of the average national wage (it amounts to about USD 80), paid each month to eligible beneficiaries. There is also a 45% social insurance tax which is to be paid by employers on total wages; the National Labor Office (NLO) is required to pay this for unemployment compensation beneficiaries. In practice this tax is not being paid now because of the financial difficulties. Furthermore, there is a progressive income tax system. The lowest rate of 20% applies to UC beneficiaries, and again because of financial problems this withholding is generally not transferred from the NLO to the tax authority.

There is a widespread problem in Poland which is referred to as “Black Labor.” In the United States this type of employment is said to be part of “the underground economy.” Many people, including UC recipients, have jobs on which they are paid cash under-the-table. While this phenomenon is probably more due to the 45% social insurance tax than the 3% employment tax, the Poles would be interested in a UI law which recognizes this and attempts to deal with it.

There are 49 voivods (states) in Poland. Currently labor market programs operate under national laws with nationally provided funding. Naturally, the programs are administered and monitored at the voivod and local levels.

In Warsaw, during a March, 1993 trip some preliminary ideas about features to be included in a new UI law for Poland. the following were received with interest:

- (1) Separate the UI system from active labor market programs (ALPs). UI benefits should be an entitlement for persons with a work history and continuing labor force attachment—it is a passive measure of labor market policy. UI should be paid for from special tax revenues which are held in a UI trust fund. UI is the first line of defense against unemployment and

the payment of benefits should be guaranteed by a promise to make loans from general revenues if needed. ALPs should be operated as discretionary programs which are paid for out of general governmental revenues with the design and funding level changed periodically to depending on economic and political conditions.

- (2) The current UC program contains elements of both social welfare and UI. These must be separated. For example, if social policy calls for maternity benefits, they should be paid from the social welfare fund not from the UI fund. Also, eligibility for UI benefits should not be based on the current income of the spouse or other household members.
- (3) A required waiting period (perhaps two weeks long) might be included at the beginning of the period of compensable unemployment. This acts as a kind of co-payment by the benefit recipient. It may greatly reduce benefit payments, and reduces compensation when need is the least and other sources of income are less likely to be exhausted—at the beginning of a spell of unemployment.
- (4) Provisions to reduce “black labor” should be considered. These might include use of “experience rating of UI taxes” to encourage employers to increase their reporting of wages, an incentive for workers to want earnings reported in order to qualify for UI benefits, and a “partial benefits” schedule to encourage part time work with reporting of earnings by the worker.
- (5) The current system for benefit denials must be stated more clearly. That is, the conditions for denial and the period of denial, temporary or permanent, must be clearly stated for as many objective cases as possible.
- (6) Provisions for “work sharing,” which is popular in the German UI system, might also be considered.

Among the above points, item (4) having to do with experience rating and partial benefits raised the most questions from the Polish side. Details about these points are given in what follows.

Among members of the Steering Committee for TOR 2, Director Olejarz guidance regarding preparation of a proposed UI system for Poland was the most substantive. His opinion was that the Upjohn Institute should propose some explicit design for a system including a discussion of the advantages and disadvantages of the various parts of the system, and that the presentation should include a description of the role of the institutions involved. Director Olejarz suggested that, in order to avoid creating new institutions, the UI Fund should be operated by labor offices. He asked that the role of the Ministry of Labor and Social Policy and the National Labor Office as well as voivod and local labor offices to be described in the proposal. The content and style of presentation of what follows is in accordance with the request of Director Olejarz.