

Summary of doctoral dissertation

“The effect of labour cost on functioning of labour market in Lubuskie and Wielkopolskie Provinces”

mgr Łukasz Ziębakowski

The objective of the present dissertation is to fill in the gap created by the lack of multifaceted research on the impact of labour cost upon functioning of labour market. Previous analyses assessed exclusively the effect of remuneration on employment while non-wage cost was disregarded. The research was not thorough enough, particularly with respect to regions, and the results did not always provide an unambiguous answer.

The research problem of this dissertation is contained in two questions:

- In what way does labour cost influence employers' decisions on employment (the demand approach)?
- In what way does the tax wedge influence employees' readiness to take up jobs and their productivity (the supply approach)?

The main objective of the dissertation is to determine the impact of labour cost and components thereof upon employees' and employers' decisions concerning employment. The following specific objectives were assigned to the main objective of the dissertation:

- assessment of labour cost structure and tax wedge in Poland against other EU states and the cost distribution between employer and employee;
- defining the level of labour cost in Poland and its determinants in economic sectors and individual branches of business;
- proposing methods enabling employers to lower labour cost within the framework of available and legal organizational solutions;
- pointing out to solutions in the tax and social insurance laws that should be introduced in order to optimize labour cost and then identifying hypothetical social and economic outcomes thereof.

The present dissertation combines both theoretical and empirical character with an advantage of empirical approach. The achievement of dissertation objectives was possible due to application of both quantitative and qualitative methods. In the area of qualitative methods a study of literature was performed as well as an analysis of tax regulations, social insurance system and other determinants of labour market. A major part of the research was based on

quantitative methods. The quantitative tools used for this dissertation include: comparative descriptive statistics, analysis of financial statements of selected companies, statistical analysis based on Pearson linear correlation and linear regression models. The impact of labour cost on labour supply and demand was examined with a questionnaire addressed to employees and employers in Lubuskie and Wielkopolskie Provinces. In order to determine the potential fiscal and social consequences of proposed reforms, the author conducted a simulation which consisted in replacing the personal income tax and social insurance contributions with a different public levies while maintaining budget neutrality.

The research performed showed that both the level and structure of labour cost vary in individual EU states. In Poland labour cost is clearly lower than the EU average. A significant element of labour cost structure in Poland is high participation of insurance contributions paid by the employee and the employer. Comparative analyses of statistical data and financial statements made available by companies proved that the level and power of influence on functioning of economic organizations are not only determined by the size of economic entity but also by the type of business and particularly by the business branch in which they operate. An increase of labour cost in the researched entities was not always accompanied by an increase in productivity or cost efficiency, which may be indicative of inefficient wage system management.

The study of dependence of overall labour cost and labour market development in Lubuskie and Wielkopolskie Provinces indicated that the increase in labour cost corresponded to the increase of average employment level and productivity while the unemployment rate dropped. It might appear that the results obtained do not point out to a negative impact of labour cost on labour market. Nevertheless, a vital element that regulates labour market and at the same time constitutes the highest element of labour cost is the wage burdened with personal income tax and social insurance contributions. On the other hand, an analysis of the influence of non-wage cost on functioning of the researched labour markets showed that the tax wedge exerts a negative impact upon employment level and productivity and thus increases unemployment. Therefore, taxation of labour weakens the positive impact of wage increase upon labour market in both provinces. A negative impact on dependent variables was also found to be generated by the minimum wage, in particular its relation to average gross wage.

The dependencies presented above were confirmed in the questionnaire research conducted among employers and employees. The results confirmed the presence of alarming issues of labour cost optimization i.e. common use of flexible employment, pushing

employees towards self-employment or operating in the grey market. In the course of the research it was observed that the respondents were aware of the fact that high participation of parafiscal burdens in relation to wage level will not translate into higher pensions in the future. Despite being unconvinced of state guarantees as to their retirement benefits in the future, the respondents demonstrate low level of saving propensity and spend their available income on current needs.

The dissertation proposes directions for potential reform of wage tax system that would meet the expectations of both sides of labour market (introduction of civic pension, tax on wage fund or uniform income tax and negative income tax). Nevertheless, reforming the tax wedge is limited due to unfavourable relation between the number of employees and the number of social system beneficiaries. The dissertation shows demands and recommendations for fiscal policy and labour market policy with respect of positive and negative outcomes of postulated changes. A true challenge for the legislator will be to carry out the indicated reforms preceded with active information policy and social dialogue.