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Unemployment in Transition and Its Long-term Consequences

We examine the relationship between the experience of unemployment in the early years of the socio-economic transition in Poland and a number of wellbeing measures about two decades later. The analysis takes advantage of the rich content of data from the Survey of Health, Ageing and Retirement in Europe (SHARE) by matching retrospective information on labour market experiences with outcomes observed in the survey after year 2006. While there is a strong correlation between unemployment and general wellbeing measures such as life satisfaction, depression and subjective assessment of material conditions, the relationship cannot be interpreted as causal. On the other hand, we find that unemployment in the early years of the transition has strong, negative, long-term consequences for income and house ownership. The analysis sheds light on the implications of unemployment and on the nature of job losses in the follow-up of the Polish 'shock-therapy'.



Introduction

Next year, the countries of Central and Eastern Europe will celebrate the 30th anniversary of the political breakthrough and the beginning of a major socio-economic transformation which followed. In the Polish case, the ‘shock therapy’ approach to the reform process implemented by the Mazowiecki government, though not without faults, has generally been viewed as the origin of the country’s economic success story. Afterwards, Poland experienced nearly three decades of uninterrupted economic growth and the Polish GDP returned to its pre-reform level already in 1995.

However, discussions of negative implications of the reform package still fuel the academic discourse as well as the political debate. While the majority of the population managed to avoid significant economic difficulties, many families experienced the painful hardship of the transition period in the form of job losses, poverty and exclusion. Given the scale of the socio-economic change, surprisingly little is known about the long-term consequences of individual experiences at that time. In particular, it is unclear if the negative outcomes observed many years after the reforms started can be causally linked to individual experiences in the early 1990s.

This lack of evidence is not unique for Poland and is largely due to unavailability of good individual-level data spanning the time before and after the collapse of communism. Since the transition cannot be lived through again, we shall never know how socio-economic conditions would have looked like under numerous alternative reform scenarios. However, as we show in a recent paper (Myck & Oczkowska, 2018), much can be learnt from the combination of contemporary and retrospective information on the nature of labour market histories during the transition and their relationship to outcomes recorded many years later.

The analysis presented in Myck and Oczkowska (2018) relies on the treatment of the systemic changes in the early 1990s as a major exogenous shock and on differentiating between reasons behind individual experiences of unemployment. We demonstrate that the observed strong correlation between unemployment in the initial years of the transition and a number of subjective wellbeing measures in later life is endogenous, and may reflect unobservable individual characteristics. It seems plausible to argue that these characteristics were the reasons behind the recorded job losses once the economy was liberalised and firms could fire their least productive employees.

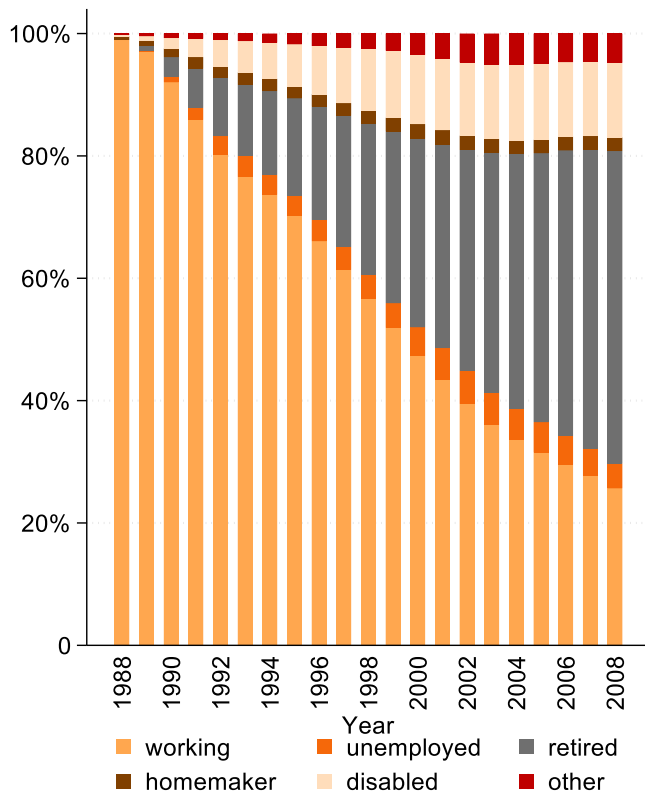
Work histories in the SHARE dataset

The analysis is based on individual-level data from the Polish part of the Survey of Health, Ageing and Retirement in Europe (SHARE). SHARE is a multidisciplinary biennial panel survey focusing on individuals aged 50 years and over. Since the start of the project in year 2004 seven waves of data have been collected, and the survey was conducted in Poland in waves 2, 3, 4, 6 and 7. While the standard waves of the survey focus on contemporary conditions of respondents such as health, economic conditions, labour market activity and social networks, in wave 3 (the so-called SHARE-Life), participants were asked about their life histories including their family history, mobility and labour market experiences. The detailed labour market histories recorded in SHARE-Life allow us to identify transition-related job losses, which can be matched with current information on several measures of material conditions and wellbeing for the same individuals.

In Figure 1 we present labour market profiles since 1988 of those in the sample who were working prior to the start of the reform process.



Figure 1. Labour market status 1988 – 2008 conditional on working in 1988 in Poland



Source: Myck and Oczkowska, 2018.

The figure shows that along with rapidly increasing unemployment rates, the degree of inactivity of the Polish population grew substantially in the two decades following the transition. This data confirms that in the follow-up of the ‘shock-therapy’ reforms many individuals faced unemployment, while others, especially among older groups of employees, used several other labour market exit options, such as retirement or disability.

Analysing long-term consequences of economic shocks

To examine the role of unemployment experiences in the initial years of the transition for outcomes observed a few decades later, we use data from waves 2, 3 and 4 of the SHARE study. The analysis focuses on two groups of later-life outcomes – objective measures of material conditions such as

household income, real assets and house ownership, and subjective indicators of wellbeing such as life satisfaction, depression or reporting difficulties in making ends meet.

We are able to control for an extensive set of individual characteristics which are usually unobservable to the researcher, through a complex set of background variables available in SHARE. These include respondents’ childhood conditions, parental background as well as health and labour market experience prior to 1988. With regard to the experience of unemployment we differentiate the instances of unemployment between the initial (1989-1991) and later (1992-1995) period of the transition to examine the potential differential implications of the rapid pace of the reforms in the early 1990s. Most importantly though, the data allows us to distinguish between different reasons behind job losses and we can separately examine the relationship with plant/office closures and other reasons for unemployment. Following other examples in the literature (Farber, 2011; Jacobson et al., 1993), we argue that plant closures can be treated as reasons for exogenous job separations. This in turn allows us on the one hand, to give a causal interpretation to the estimated coefficients, and on the other, to interpret those on other reasons for unemployment in the light of the causal relations.

Effects of unemployment experience on later-life outcomes

We find that experiencing unemployment due to plant/office closure between 1989 and 1991 is associated with almost a 30 percent lower level of household income and a lower probability of house ownership of about 10 percentage points (pp) some two decades afterwards. There is also a strong relationship between unemployment in the early years of the transition and wellbeing measures two decades later - individuals who experienced unemployment in the first three years



of the transition have a 14 pp. higher likelihood of reporting great difficulties in making ends meet, a 10 pp. lower probability of high life satisfaction and a 11 pp. higher likelihood of depression. However, since these relations do not hold for unemployment due to plant closures, they cannot be treated as causal. The results are therefore most likely driven by unobserved factors which simultaneously determine the lower level of outcomes two decades after the 'shock-therapy' reforms, and the likelihood of experiencing unemployment in the early 1990s.

Conclusion

In this policy brief we outline recent results on long-term implications of labour market developments in the early years of the economic transition in Poland. The analysis is based on a combination of contemporary and retrospective data from the SHARE survey, and focuses on the associations between the experience of unemployment in the initial years of the transition in Poland and a number of outcomes measured about two decades later. Using plant/office closures as exogenous sources of job separations during the early 1990s, we find a strong and

statistically significant, negative, long-term effect on income and home ownership, which can be treated as causal.

We also find strong negative associations between unemployment for other reasons than plant / office closures and a number of subjective measures of wellbeing. This relationship however, does not hold for the exogenous reasons for job losses, which suggests an important role of unobservable factors that lead to unemployment and at the same time are responsible for the lower level of outcomes in later life. This is consistent with the labour market reality of central planning characterised by labour hoarding and maintaining employment regardless of workers' productivity. When the economic reality changed in 1989, the least productive individuals were the first to be fired, and as our analysis shows, these are also the individuals with lower subjective levels of wellbeing two decades later. We confirm thus that those who lost their jobs in the early 1990s have lower measures of the subjective wellbeing outcomes, although the latter cannot be identified as specific consequences of unemployment in the first years of transition.

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