CONSEQUENCES OF SOME EMPLOYMENT-RELATED POLICIES FOR NATIONAL WEALTH OF A TRANSITION ECONOMY

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National wealth, understood as a sum of natural capital, produced assets and human resources, plays a growing role in the globalized economy. Wealth at the disposal of the country's subjects is an important condition for the long-term growth and development of individual countries. In the processes of globalization, the main actors be it multinational corporations or individual countries, are seeking control over those resources to get foothold in the new international division of labour. National wealth is also important for consumption. The feeling of being rich stimulates consumption, spending without bothering about the future. Loss of wealth has the opposite consequences in the longer perspective.

Transition processes in Central and Eastern Europe brought about important transfers of wealth among different countries. Improved consumption levels thanks to, among others, unemployment and foreign debt are just some of the consequences of transition. The paper investigates the effects of transition processes on national wealth and speculates about long-term sustainability of the present Polish human resources-related policies.

Key words: *national wealth, transition economy, human resources*

Introduction – National Wealth

The transition process has started almost 20 years ago. It was initially thought to be completed in a relatively short time in a "big bang" manner. It has brought a number of positive changes, in particular as far as the average level of living of the populations is concerned. However, transition economies of Central and Eastern Europe still have a big gap to close to reach the level of development of the most developed post-industrial economies, and that in spite of the impressive growth rates of their GDPs. The process of changes should be looked at from the long-term perspective of the global economy, where the new players are taking a more prominent, it seems permanent, position. At present, when the new world economic order, called globalization, has not yet been fully established, major global actors (both countries as well as multinational corporations are seeking access to resources through acquisition of wealth. From this perspective GDP cannot be the only indicator of economic performance. Short-term cyclical fluctuations of the GDP might bring about positive long-term effects by adjustments made to the productive structure of the country. Fluctuations of economic activities entail reassessment of the value of national assets and verify investment decisions made in the past. When past investment decisions estimated correctly the future market and technology changes, the value of national assets should appreciate, and vice versa. Consequently, long-term economic objectives should be linked to national wealth allowing generation of the flow of GDP in the future.

The category of national wealth, although intuitively understood, has been more precisely defined relatively recently in the context of discussions on sustainable development. Fast economic growth of any national economy is not possible indefinitely (Meadows et al., 2004). Sustainable development has been defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Report..., 1987).The definition has been formulated in the context of the over-exploited natural environment and non-renewable resources. However, natural capital is only one of the components of national wealth. National wealth is understood as the sum of natural capital (the item of major concern for the environmentalists), human-made assets and human resources. The definition, of sustainable development could be therefore extended and formulated as the level of present consumption that does not compromise future consumption of at least at the same level. Under this definition, national wealth as a whole should not be a victim of the excessive present consumption. In extreme, a cases higher present consumption is possible at the cost of national wealth – sold to foreign entities or not properly maintained during transition periods after major events (war, structural adjustment, etc.). The problem becomes of particular importance during breaks in the continuity of economic processes such as transition (to market of the formerly centrally planned economies, to global economy, system turn-around after a major shock).

The term of national wealth is not very popular among economists who usually prefer to deal with data easily measurable. National wealth is more difficult to be estimated. The scope of the term is not universally understood in the same manner. Accounting of human resources, considered generally to be very important, is a basic difficulty.

Additionally, there are measurement problems. The market value of national assets might fluctuate accordingly to the market situation of a sector and accordingly to the international position of the country vis à vis foreign partners. The term of national wealth encompasses also human capital. Its estimation involves future flows of incomes generated by human resources as well as the estimation of the appropriate discount rate used for the calculation of its present value. The absolute value of national wealth has a meaning only if it serves for international comparisons – between countries or to examine changes of national wealth of a country over time as a result of specific national policies. It could be also useful to analyse the distribution of national wealth between different social groups within a country.

According to the World Bank (A. Kunte et al., 1998) publication, although not officially approved by the Bank, the national wealth is composed of natural capital, produced assets and human capital. The estimated amount of national wealth changes in time. It is a function of relative simultaneous changes in the world and in the national economy due to technological innovations, population growth and appropriate policies applied nationally to adjust to the changes in the global economy. Due to the multitude of factors influencing national wealth, the paper concentrates only on those which were of importance during transition. The paper does not attempt to estimate the national wealth of Poland, but looks only into incremental changes resulting from policies applied during transition.

National wealth is necessary to produce GNP, and therefore it determines the level of living of the population in the long run. Theoretically, it is possible to increase consumption by selling national assets and/or natural capital. This operation, however, would jeopardize the long-term consumption prospects of the population. The economy should therefore attempt to increase consumption and make sure that the national wealth would stay at such a level to guarantee the sustainability of this consumption growth also for future generations.

National wealth can only be estimated. It is impossible to calculate it as exactly as GDP/GNP. The estimated amount fluctuates over time. Particularly vulnerable are the countries exporting one or few exhaustible natural resources. Their national wealth could dramatically grow, if the world demand (and prices) grow as a result of technological change. The opposite would be true, if research in technology finds a good substitute for this raw material. The cited World Bank sponsored research into the national wealth of over 90 different countries gave an insight into the structure of national wealth according to the proposed method of calculation. Human resources (capital) is the most important component of national wealth in most countries under study. It accounts for 60–80% of national wealth. On average, the natural capital is the smallest component, in particular in some industrialized countries (e. g. in Japan and Switzerland it makes up less than 1% of the estimated national wealth, and in poor countries or in some oil-exporting countries it exceeds 40%).

For most countries, the share of produced assets is generally higher than the share of natural capital. It is difficult, however, to detect any rule that would determine it. A similar share of produced assets has been registered both in the industrialized and in some developing countries. In general, the structure of national wealth would depend on the reliance of the economy on particular sectors (mining, agriculture, industries, services).

Due to the complexity of the task, the amount of national wealth can only be approximated. It seems that the value of produced assets is the easiest to be estimated. In spite of the investments adding every year to the stock of fixed capital and annual purchases of consumer durables, the amount of produced assets grows very slowly[1] due to of depreciated and/or obsolete assets and replacement of the consumer durables. Additionally, markets keep adjusting the value of fixed assets in accordance with the demand for the goods produced with those assets. The market price of assets is determined by the expected future flow of benefits accruing to their owner.

The natural capital component of national wealth is estimated as a present value of the net benefits and services received and ge-

[1] Interesting arguments on this subject presents Nobel Laureate W.Vickrey in Fifteen Fatal Fallacies of Financial Fundamentalism. A Disquisition on Demand Side Economics, Oct. 1996, http://www.columbia.edu/dlc/wp/econ/vickrey.html

nerated by the natural endowment of the country (mineral resources, environment, agriculture, landscape, etc.).

The value of human resources, by far the most important item of national wealth, could be estimated as the present value of the return on human resources[2]. There is no place here to get into the details of the value of human resources estimation procedures[3]. In short, it depends on the number of people in the country and their expected average remaining productive years taken together with the human capital represented by the level of education. The better educated the citizens of a country the higher their expected future income.

Calculations of national wealth involve adding today's estimate of produced assets and the present value of future flows of income from natural and human resources. The final result would depend, therefore, on the applied discount rate. A higher discount rate would give more importance to the present consumption, a lower discount rate would favour future consumption, with all the consequences for policy decision-making in the country. The policy choices could involve e. g. a shorter schooling period with the earlier entry into the labour market or a longer education with better perspectives for higher incomes in the future.

Transition and national wealth

Transition to market economy of the formerly centrally planned economies has been dictated by the necessity to improve micro economic efficiency. Full employment guaranteed by the state in the mostly state-owned productive sector, did not stimulate improvement of the productivity of labour, innovation, entrepreneurship and all the other positives associated with the market economy. Transition was a new experience both to the local authorities in charge of the process as well as to the foreign advisors and institutions providing assistance. There were no parallels in the past, no theories to follow. The decision makers and their advisers[4], influential at the starting point of transition, were aware of what they did not want – the centrally planned economy. However, they had not a clear understanding of the consequences of the decisions they were making. They understood that the process would be painful to a large section of the population. So it was supposed to be as short as possible to prepare the ground for the future growth under "normal" market conditions. Priority given to the time element of transition pushed the cost element out of focus. Like in any revolutionary change, transition politics dominated over economics, although there were nice-sounding justifications of some costly elements of the reforms under implementation. The "big bang" policy ap-

[2] Includes return on education (traditional human capital), raw, labour and social capital.

[3] A. Kunte et al., (op. cit., p. 13) use a residual approach in their estimation procedure of national wealth. It consists in attributing wealth contribution to natural resources and produced assets and then deducting it from the present value of thenet national product over the mean remaining years of productive life of the population. This residual value is the value of human resources.

[4] A very interesting perspective on the work of advisers is presented by a World Bank insider W. Easterly, *The Elusive Quest for Growth. Economists' Adventures and Misadventures in the Tropics* – Cambridge, Mass. MIT Press 2002; much more critical about their role in transition design is N. Klein, *The Shock Doctrine. The Rise of Disaster Capitalism* – London, Penguin Books, 2007, p. 170–184.

plied at the start of the transition period, thought as a shock therapy, brought about the collapse of a number of traditional industries incapable to compete on the markets now open to international competitors. At the same time, local markets have been opened to foreign investors. They were expected to be the dynamic element bringing managerial skills and technologies not available locally. There were several consequences of this policy for the three components of national wealth.

Produced assets

The value of produced assets, in particular fixed productive assets, depends on the use of those assets and might be of no relation to the initial investment cost which often goes several years back. The productive structure of centrally planned economies has been built with orientation on import substitution. Transition processes, with a wide opening on international trade, put local industries to test which they could not pass without necessary adjustments. The value of pre-adjusted assets calculated as a present value of expected future net cash flows was consequently very low. This was the moment suggested by foreign advisors[5] and selected by local authorities for privatization. At this initial phase, when the uncertainties were high, there were not many buyers ready to take over the state property. Under the privatization programmes, the government was selling public property at a price that someone was ready to offer[6]. The lack of national capital, after years of central planning, left an empty space for foreign investors. They had hardly any competition offering higher prices for state assets for sale. Consequently, assets of the usually overstaffed and not always well managed state companies were sold well below their accounting value. What is more, the politics made it difficult, if not impossible, to increase the sales price of those assets. True, restructured state companies would fetch better prices. The government, however, was not willing to take charge of restructuring, which would require to fire a good number of staff, the move for which the government would be to blame. From the government's point of view, it was better (and politically cheaper) to sell the company at a lower price and let the new owner to do the necessary restructuring in order to make the company profitable. Such a policy had two important long-term consequences: it increased unemployment (which would happen anyway had the government been involved in the restructuring of state assets), and it reduced national assets by transferring their ownership to foreign investors at a price promising quick capital gains. This system of privatization reduced national wealth in two ways. First, it did not use the opportunity to upgrade, modernize the companies for sale. It could have been done usually in a very cost-efficient way allowing to negotiate a better selling price. Second, the sales' proceeds have not been directly linked to the funding of infrastructure modernization, but were rather used to pay unemployment benefits to those who lost their jobs due to privatization.

[5] The Privatization Manual Volume II prepared in 1993 by EBRD and Commission of the EC for the State Committee of the Russian Federation for the Management of State Property, chapter 9, p. 7 suggests what can be called "a rush privatization".

[6] The author witnessed negotiations where a potential serious foreign buyer offered $40 million for a relatively new plant built at the initial investment cost estimated at $660 million!

Multinational corporations, who play a major role in the globalization processes, have been the first to participate in Polish privatization. Their approach to business cannot be ignored in the long-term strategies of national governments. Traditionally, businesses were searching maximum profits in the long run. This was supposed to guarantee their survival or expansion of their market share. It also provided long-term prospects for shareholders' profits. In the last 20 years, however, the objectives of the corporations' managements have gradually changed. The investors are impatient and expect to get rich much quicker than in the past. They do not keep their stocks awaiting dividends over a longer period. They sell and buy and expect appropriate returns possibly on each transaction. The shareholders evaluate the managers on the market value of the company, i. e. the share prices, rather than on the amount of dividends received. Consequently, a virtual wealth is created, on the base of which the actual investment and consumption decisions are made. "Financial" investors (as opposed to traditional entrepreneurs building businesses from scratch) consider, therefore, a much shorter perspective within which to expect the return on their capital. The new investors prefer to see just the figures. Any long-term attachment to investment might be detrimental to the rational approach to such an investment.

Transition takes place within this new context of investment decision-making, in particular in relation to FDI. Foreign investors whose objective is profit, but through capital gains, get into the new markets where this approach is not yet fully understood by most of the local market players and regulators. Privatization processes and foreign financial investments in Poland have considerably changed the structure of the assets ownership. Although it has helped to modernize the productive tissue of the country, it also had some negative consequences. Part of produced assets, previously under national control, is owned by foreign entities giving them title to expatriate a growing share of GDP, thus reducing national income. So far, Polish investments abroad do not bring about a comparable stream of profits to compensate for the outflow of capital. Takeovers of Polish companies by foreign corporations rationalized employment. It meant, however, a growing number of unemployed who had to be taken care of by the state.

Natural capital

From the purely calculable point of view, the value of national capital would be estimated as the present value of services (incomes) generated by natural resources at the disposal of the nationals. However, the nature of this capital is different. A good part of it is made up of non-renewable resources. The known non-renewables, mainly mining raw materials, have a limited period of exploitation. The ownership of other resources (land) gives the owner the right to use them indefinitely, with only some loose limitations relatively easy to overcome. The nature's reserves are the third category of natural capital. The term "nature's reserve" is not synonymous here with a protected area which enjoys a special status prohibiting certain activities.

Transition processes relaxed state control over national resources. It had several consequences for the amount of natural capital. The market value of Polish sub-soil resources, mainly coal, went down at the wake of liberalization of foreign trade.

At the initial phase of transition, the prices of agricultural land in Poland were low (very high interest rates set by the Central Bank to control inflation) in comparison with prices of land in the EU countries – main trading partners. It was to some extent natural that the foreigners were not allowed to buy land in Poland. Since then, the market value of land, agricultural and the one used for industrial and housing purposes, has considerably increased. This increase has been caused by the investors' expectations of price increases once the market for land is finally open to foreigners used to higher prices in their respective countries.

The impact of transition on the value of nature's reserves could be considered as neutral. On the one hand, market-oriented entrepreneurs, together with local authorities, tend to promote new investments. Priority is given to investment and its profitability. Environmental concerns, in spite of public declarations, are of secondary importance. The existing laws make it easy for the entrepreneurs to "legalize" illegal constructions provided they pay a fine only slightly increasing the investment cost. Often it reduces the value of landscape and has a negative impact on other activities in the region (tourism), with all the consequences for employment.

Negative consequences for the natural capital are counterbalanced by important public investments intended to repair the environment damaged during years of intensive industrialization of the central planning period.

Human resources

The restructuring of the economy during transition reduced employment in the formerly state enterprises to the necessary minimum determined by the profit-oriented new private owners. The result was what was expected to be only a short-term unemployment to be later absorbed as the economy would eventually pick up its regular pace of development. The shock nature of the initial phase of transition made it easier for the population to accept this new negative phenomenon, unknown to most.

The authorities introduced many measures to compensate for the loss of jobs, unemployment benefits being only one of them. Other measures involved offers of early retirement for some categories of labour, promotion of all types of education, which postponed the entry of young people into the labour market as well as widely tolerated disability benefits paid in very many cases to individuals who acquired the rights through corruption of the officials in charge of social security.

The above-mentioned temporary measures proved to be more permanent than initially envisaged. Privileges awarded to several social groups, aimed at the momentary help, proved in the longer run to bring adverse effects difficult to be corrected. At the beginning, they made the transition shock easier to be socially accepted. However, they created the phenomenon of the acquired rights politically difficult to be withdrawn. Although politics do not interfere too much with the functioning of the economy in Poland today, they make any rationally driven regulation practically impossible. The "sins" committed at the initial period of transition, when today's social status quo has been established, are politically difficult to overcome. The delicate balance between the main political parties makes them to shy away from socially unpopular decisions, even though they would be necessary for a more efficient use of national resources, labour in particular.

As a consequence of such passive policy on the labour market, the value of human resources has been reduced, or at least its actual value is below its nominal equivalent[7]. In a very simplified way, the (nominal) value of human resources could be presented as the present value of the stock of a potential number of years of work at the disposal of the nation, multiplied by the average per capita level of human capital. The labour-related policies considerably reduced both the number of people ready to work and the human capital actually used. The actual value of human capital, it seems to be well below its nominal value.

Poland belongs at present to the countries with one of the lowest ratios of working population to total population[8]. The maintained policies of social protection are at fault. They were justified at the beginning of transition, but over the years they brought considerable damages to social capital – demoralized those living on state welfare and considerably increased the informal, shadow sector of the economy[9]. Poland is plagued now by a large number of retired people at the age well below the official retirement age of 60 and 65 respectively for women and men, who receive different sorts of pension benefits paid from the social security fund closely linked to the state budget. Different professional groups, represented by numerous trade unions, strongly oppose the withdrawal of privileges of early retirement, which they gained in the past (police, army personnel, miners, teachers). Those who do not enjoy early retirement often abuse disability privileges. The procedure has been tolerated in the past as a means to reduce the official unemployment figures; now, however, it becomes an additional burden for the social security and health financing schemes in their need for money to pay the growing numbers of beneficiaries.

Another factor which eased the labour market situation was a dramatic increase in the number of higher education institutions and their students. It had two aspects. On the one hand, it has reduced the pressure on the labour market and respectively the unemployment figures. On the other, better education was supposed to build human capital and improve the chances of young people to get better paid jobs. The first objective has been achieved, and the achievement of the second is not very easy to estimate[10].

Similarly to the produced assets, the value of human capital is determined by the market demand[11]. Without entering into a discussion of the importance of general education, a specific education type selected and acquired by individuals has to match the market demand for skills, otherwise the human capital of tho-

[7] If the methodology proposed in the World Bank publication were applied.

[8] According to Pracujacy w gospodarce narodowej w 2006, GUS, Warszawa 2007., less than 35% of Polish population were professionally active. Polish employment figures have been also low compared with the EU15. The 2004 employment rate by age groups (in brackets EU15): 15–64 years 51.7% (64.7%), 15–24 years 21.7% (40.0%), 25–54 years 68.2% (77.6%), 55–64 years 26.2% (42.5%) (Rocznik statystyczny pracy 2006, GUS Warszawa 2007, p. 411).

[9] According to F. Schneider ("Shadow Economies and Corruption All Over the World: New Estimates for 145 Countries" Economics. The Open Access, Open Assessment E-Journal No.2007-9, July 2007), the shadow sector of the economy, the one that escapes any government control, accounts in Poland for 27–29% of the official GDP in recent years, still below the unweighted average for the transition countries of Eastern Europe and the Former Soviet Union (38–40%). The same percentage for the most industrialized countries of OECD goes systematically down between 1999 and 2005 from 16.8 to 14.8%.

[10] The ongoing discussion on the need for a reform of the university education is the best proof that the present system does not provide the expected quality of education.

[11] The future of the market demand for labour has been widely discussed, in particular after publication of J. Rifkin's *The End of Work* – Tarcher/Putnam, New York, 1995.

se who work below their qualifications would not reflect the expenses on education. The statement is true in case of individuals as well as in case of the economy in transition as a whole, where the demand for some skills went down (e. g. coal miners). Without proper retraining programmes, those who were once considered to be a highly appreciated asset, became a liability in need of maintenance from the state budget.

Emigration further reduces the contribution of human resources to national wealth. Opening of the borders after Poland's joining the EU, coupled with better job opportunities in the "old" EU countries, provoked a wave of emigration. It is a very complex problem whose impact on the national economy has not yet been fully analysed. In spite of a number of articles on this important subject, the period of observations is too short to draw conclusions valid for a long or even a medium period. The present Polish emigration is considered mostly to be a short- or medium- term phenomenon. Such a statement is based on the interviews with Poles working abroad. Most of them declare that they would like to return once they have made enough money to buy a house/flat. Some would be satisfied with just earning better money to buy consumer durables. However, the experience of the "Gastarbeiters" in Europe of the 60s and 70s has shown that large numbers of them have settled down. Although they are often not assimilated, they do not plan to go back to their countries where living conditions are much lower. As a rule of thumb, we can assume that at least 50% of Polish émigrés of the last years are going to spend at least their working life abroad. It is going to have several consequences for the national wealth, and it might also provoke long-term gradual changes in the social, ethnic and economic tissue of the country. The today's émigrés are mostly younger, dynamic people ready to undertake risks in an unknown environment. They belong mostly to a group which would normally generate more entrepreneurs than the average of the country's population. To find jobs abroad, they must have better skills than those whom they substitute and/or accept lower remuneration. Due to such qualities they are appreciated by the entrepreneurs and are made to stay abroad.

Poland, like most of the European countries, has a low population growth, and the share of older people grows. The departure of the estimated to at least one million people in the reproductive age further reduces the chances for the future rejuvenation of the population. It is a quantitative loss for the country of origin. The country of origin also suffers qualitative losses in terms of national wealth and measurable losses in terms of spending on education of the émigrés. The émigrés usually work below their qualifications and below their educational level, in particular university diploma holders. Although they earn more than they would get in their countries of origin, they rarely acquire any valuable professional experience useful in the country of origin once they decide to go back home.

The negative consequences of transition policies for the value of human resources are difficult to correct. They are going to cost the country in the long run. Postponement of corrective measures in respect to social protection motivated budget spending initiated by transition leads to:

continuous budget deficit exceeding the Maastricht criteria, due mainly to social spending;

envisaged difficulties in meeting future obligations of the pension funds;

- difficulties of the health care system;
- loss of motivation of the unemployed to undertake legal jobs, take part in the retraining programmes which would allow them to find easier jobs;
- demoralization of the long-term legally unemployed, with all the negative social and economic consequences like work in the "grey zone", abuse of the acquired rights to social security, corruption, social pathologies – alcohol abuse, small delinquency, etc.[12];
- loss of the revenues of the state budget due to uncontrolled shadow economy (those officially unemployed rarely remained idle. They usually work part time in the "grey zone", however, instead of paying taxes they collect state benefits (social security, health insurance and some unemployment benefits).

Conclusions

National wealth is an important factor for economic development in the long run. It determines the capacities of the economy to assure a sustained consumption growth of the country's population. The fast growth of consumption in the last years could be attributed to some extent to "cannibalization" of national wealth like using proceeds from privatization for solving social problems,

The transition process brought about improvements of the microeconomic efficiency. It contributed, however, to the reduction of national wealth, to some extent compensated by a short-term inflow of foreign capital. On the other side, the external debt of the country keeps growing. In the future, debt service, coupled with the outflow of dividends from foreign capital invested in the country, is bound to reduce the growth rate of consumption. This would be the delayed cost of transition.

Polish economy, in spite of the impressive GDP growth rates in the last years, has not been using its human resources efficiently. The rapid drop in unemployment figures during the last three years was due to a large extent to the temporary (or permanent in some cases) emigration of young people, mostly those well trained. Theoretically, the marginal productivity of the unemployed labour is zero. What's more, it has to be maintained through different transfer payments. For political reasons, the state (or rather political parties in power) is unwilling to introduce a stricter control of those payments. This contributes to the lack of transparency in the system. True, the approach helps a more equal distribution of income in the country by imposing higher taxes on those who work – workers, employees and entrepreneurs. However, this system is a relic of the central planning which was killing productivity incentives. Without a proper addressing of the problems of labour, the Polish transition process to market economy would not be completed.

[12] Practically every day the media inform about pathologies on the Polish labour market where the official unemployment figures, still above 10%, are incompatible with the unsatisfied demand for skilled labour and fast growing wages in all sectors of the economy (J. Blewąska, Bezrobotni uciekają przed pracą, Gazeta Wyborcza, 27/5/2008.

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