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## **Grey zone as an alternative labour market for the youth in Poland**

Szara strefa jako alternatywny rynek zatrudnieniowy dla osób młodych w Polsce

### **Abstract**

The purpose of this article is to describe the grey economy in Poland, being one of the post-communist countries, as an alternative labour market for young people. Achieving income in the grey zone is a complicated phenomenon determined by social, cultural and economic factors, resulting in such negative phenomena like social exclusion, poverty or specific lifestyle. Therefore, case studies are used as a method of specific research, based on analysing individual decisions and complex circumstances.

**Keywords:** grey zone, employment, young people

### **Streszczenie**

Celem niniejszego artykułu jest analiza szarej strefy w Polsce, będącej jednym z postkomunistycznych krajów, jako alternatywnego rynku pracy dla młodych osób. Podejmowanie zatrudnienia w nieformalnej strefie gospodarczej jest zjawiskiem złożonym, determinowanym społecznymi, ekonomicznymi i kulturowymi uwarunkowaniami. Stąd też, użyto w tej pracy studiów przypadku jako specyficznej metody badawczej, mającej na celu analizę indywidualnych decyzji oraz ich złożonych uwarunkowań.

**Słowa kluczowe:** *szara strefa, zatrudnienie, ludzie młodzi*

## 1. Introduction

Nowadays, many young people in the European Union face risk of poverty and social exclusion (Table 1). This problem concerns not only the new members of the EU, but also the older, richer states. One of the main reasons relates to a difficult situation on the labour market caused by current economic stagnation, especially in some countries of the Eurozone. According to the Eurostat, in the EU-28 in 2014 1.6 million people aged 15-24 were underemployed, part-time workers.

*Table 1. People at risk of poverty or social exclusion among the young aged 16-24 in Poland compared to 10 countries with higher wealth index in the UE (Eurostat 2013)*

*Tabela 1. Odsetek osób zagrożonych ubóstwem lub wykluczeniem społecznym wśród młodzieży w wieku 16-24 lat w Polsce, w porównaniu do 10 krajów w UE z wyższym wskaźnikiem dobrobytu (Eurostat, 2013)*

EU	Greece	Bulgaria	Hungary	Denmark	Ireland	Latvia	Spain	Italy	Portugal	Norway	Poland
31,60%	48,60%	48,10%	41,30%	39,80%	38,80%	38,70%	36,90%	36,10%	34,20%	33,70%	25,80%

*Source: Eurostat [1]*

Negative economic circumstances may affect the young, low-educated people without any professional experience. In post-communist countries such as Poland, social stratifications are usually stronger and more people are at risk of social exclusion, especially these youths who live in less-developed areas with higher level of unemployment.

One of the alternative employment opportunities for the youth is the part of economic system called an informal sector which is uncontrolled or untaxed by the government [2, p.8]. The informal employment<sup>1</sup> is difficult to define precisely, because there are various definitions of jobs, legal regulations and types of economic systems. For example, some studies define informal employment as employment without a contract; others state that all self-employed persons are informally employed; and still others look at the size of the enterprise and include as informally employed those who work in enterprises with fewer than, for example, five employees[3, p.12].

## 2. Historical background of informal economy in Poland

In all communist countries the shadow market was an important part of the economic systems. Shortages of goods and services generated rapidly growing shadow economy, especially in the late 1980s. Lots of people had to buy services and goods at the shadow market, because particular products were unavailable on the legal market. [4, p. 192-193].

<sup>1</sup> In this article, employment in informal economy is defined as all kinds of jobs without formal contracts and social insurance guaranteed by a state.

Between the late 1980s and the beginning of the 1990s Polish economy was changing from the socialistic, centrally-planned to liberal, market-oriented one. At that time, there were a lot of negative consequences, GDP dropped by 20%, unemployment reached 11.2% and poverty rate in 1993 jumped to 15% from 5-10% in the previous years. [5, p.3,4]

Later, Polish economy was modernised and the general situation improved, especially after joining the EU. However, restructuring of economy caused a persistent, long-term unemployment, particularly in less-developed regions. Moreover, there was a shift in the demand for low-qualified workers; they required better job positions and higher working standards. Requalification and adaptation to the situation on the labour market were difficult processes for low-educated people.

In Poland there exist such problems as high poverty rate, social stratification and the shadow market as a significant part of the national economy. Such situation is caused by the transition of poverty from parents to their children, who get used to living as poor people, and the informal market is their way to earn money.

### **3. The informal sector of economy in Poland**

According to the Ministry of Finance, the Central Statistical Office and the Institute for Market Economics, the scale of grey economy in the revised GDP was estimated at 19.5% in 2014 [6, p. 24], but other studies reveal a higher level of shadow economy in Poland. The Central Statistical Office in 2010 also revealed that 732,000 Polish citizens worked in the grey zone [7, p.19].

Taking into consideration the official labour market, in 2013 only 24.4% of the youth (18-24 years old) were employed legally. People aged 18-24 generally still continue their studies and they live with their parents and thus, they usually take only casual jobs and seasonal jobs, frequently performed without a formal contract. In 2013 only 20% of young people in Poland were employed on the basis of permanent contracts (open-ended). The vast majority of the youth have to work according to various types of unstable employment forms such as self-employment or temporary contracts with low salaries [8, p. 136-138].

Additional problems are also related to the mismatch between the labour supply and the demand in terms of courses offered to young people. On the one hand, there is an overproduction in certain professions and specialties such as humanities or social studies; on the other hand, there is a shortage of young people who graduated only from secondary schools, technical courses and vocational schools. For these reasons, the Polish labour market is saturated with the graduates specializing in many "soft" fields with not enough number of experts in technical and vocational areas. Furthermore, professional career advancement is also difficult, because on the labour market there are a lot of people born in the 1970s and 1980s during the so-called "baby boom" period. In such a demographic and economic situation, young people with low or inadequate education and lacking professional skills may experience many obstacles on the official market [8, p.5].

On the basis of the hypothesis of cycle of life defined by A. Ando and F. Modigliani, young people are not able to earn enough money to finance their needs associated with starting up a new household. For this reason, they are looking for a better-paid job, because they need money for education and development of a new household. [9, p.12-14].

In these circumstances, one of alternatives is the shadow market, where young people may achieve unstable, but usually higher income. Sometimes people working in the informal economy zone can achieve large, untaxed revenues (eg. construction workers). It is worth noting that from worker's perspective, temporal and unstable employment on the legal market with usually inadequate social security may not be as interesting as employment in the grey zone with higher salary.

#### **4. Determinants of informal economy development in Poland**

Generally, there are two concepts concerning factors which determine the development of the informal economy. The first concept is purely economic and as of it, people are employed in the grey zone, because they are interested in avoiding taxes and achieving higher income [10, p.82-84]. The other idea is wider and takes into consideration also socio-economic factors which are noticeable particularly in the post-communist countries; the factors are, for example: rapid structural change, which causes deformations on the labour market and creates niches for undeclared working activities, and unemployment [11, p.148-152]. In Poland this second concept is more accurate and relevant, because the informal economy is a more complex phenomenon and non-economic factors are also crucial.

As stated in the European Commission Report [11, p.148-152] about undeclared work in an enlarged union, the most essential elements of the socialist economic culture are:

- a negative perception of the role of the state (which takes much but gives little in return),
- opposition to all sorts of official institutions and established norms,
- lack of trust in public institutions,
- lack of understanding of the linkages between paid taxes and received social services,
- an egalitarian way of thinking: negativism towards any disproportions in income, especially between private and public sector, as well as to all sorts of social inequalities,
- the underestimation of the postponed benefits from social security as compared to the benefits of today, provided through undeclared work,
- the idea of a priority of producer over consumer, inherited from the “shortage economy” (e.g. a service is valuable as such, and the consumer of that service

should be thankful to its provider) and, as a result, limited understanding and practice of consumer protection,

- primitive understanding of capitalism as being driven by “the law of the jungle”, where any way of getting an income is justified.

Other determinants are connected with the market (lack of job offers) and institutional problems (overregulation). These problems are crucial during the periods of financial crises and economic stagnation, which may affect especially the youth who start their professional careers. In this article, mainly social and cultural aspects are taken into consideration in a broad, economic perspective [11, p.148-152].

### **Case studies**

The research includes young people (aged 18-30) who have been employed in the informal economy for more than 1.5 years. They were asked about key aspects of their economic situation, with particular emphasis on their situation on the labour market (i.e. profession, level of education, skills, professional experience) and outcome. Besides, questions were related to other important aspects of their social and economic life, including their income, health status, household size, structure and size of financial obligations.

- 1) man, 28 y.o., primary education, construction worker, divorced, without children. He does not possess any valuable assets. His parents are also divorced and currently he lives with his mother. In the past, he overused drugs and alcohol and for that reason there were many family conflicts. However, he declared that he had not taken drugs for a longer time now and he had also limited his consumption of alcohol. He works in the grey zone, but sometimes he is also employed on the legal market, when the job is well-paid. Working in the grey area is for him a more interesting option, because in such companies, there is usually less work discipline than in companies, operating on the official market. In past, he had problems with adopting to the work discipline and for this reason he prefers working in the grey zone. For him, having free time and partying is more important than having a profitable and stable work.
- 2) woman, 22 y.o., incomplete secondary education, waitress, single. When she was eighteen, she decided to move to Wroclaw from a small town situated in the neighbourhood. She has worked in Poland, Belgium and Great Britain. She is willing to change her place of living if she finds an interesting job. She earns about 2000 PLN (including tips). She is indebted and enforcement procedures are carried out against her. Therefore, she prefers earning money in the grey zone, because her income is hidden from her creditors. Moreover, she does not know the level of her debts and what is the total scale of her financial obligations. She is not interested in fulfilling her financial obligations in the consumer bankruptcy procedure.

- 3) men, 24 y.o., a confectioner with the master's diploma in this profession. He has three children with two women. For a longer period of time, he had been working abroad, where he had been earning a lot of money. Due to eye disease, he had to return to Poland. Currently, he lives with a new concubine in her mother's house in a small town in Upper Silesia. He is obliged to support financial this older son from the previous concubinage. In order to reduce his expenditure on the child, he tried to persuade the court that he is a very poor man because he is formally on unemployed person. However, his income is high and his standard of live is quite high (e.g. expensive car, which formally belongs to somebody else).
- 4) man, 26 y.o., primary education, unfinished secondary school, one child. He attended the welding course, but he did not complete it, because he decided to be employed in an odd job. He lives with his parents, in a small village, away from bigger cities, but there are lots of jobs in the nearby Czech Republic. He is not interested in a legal job, because he does not want to pay taxes. After the political and economic transformation his parents faced serious difficulties on the labour market. For a longer period of time they were unable to find any employment. His father worked in neighbouring farms as a seasonal worker and he was recognized as a good construction worker. As a consequence, he is hired by local inhabitants to perform usual house renovations and his son helps him in these works. However, sometimes there are periods of unemployment, so financially their situation is difficult, because in their family no one is officially employed on the legal market.
- 5) woman, 29 y.o., primary education, mother of three children (of two fathers). She lives in a small social apartment (36 m<sup>2</sup>) with the children and their fathers (6 people in total). Social benefits constitute her main income. She gives an impression of a strong, resourceful woman. As an economical person, she is able to meet elementary needs of her household, but her financial condition is tough (monthly less that 150 euro per person). Thus, sometimes she has to take odd jobs (e.g. housekeeping) as a part-time worker, usually in the grey zone, because she has to take care of her children. Therefore, she is not interested in full-time employment.
- 6) man, 30 y.o., married, one child. He was born in a small town, where his parents had a farm and were well-situated citizens. The parents bought him a flat in Wroclaw, where he started studying at a private, expensive university with the low level of education. The studies lasted five years, but he had been studying for eight years and eventually graduated the political sciences, but he has never worked in this profession. During studies, his family farm was destroyed (serious fire damages) and for that reason, the parents could not support him financially at the same level as in the past, because they had to rebuild the farm. He wanted to live on the same high standards, so he started to take credits, but he was unable to pay instalments. As a consequence, he became indebted and insolvent, and he started working in the grey zone, where his salary cannot be traced.

## **5. Determinants of work in the informal economy based on case studies**

The case studies reveal the variety of factors which determine the young people's employment in the grey zone. Some of them are connected with purely economic and financial conditions, but others are more complicated, socio-cultural, resulting from a specific lifestyle and demographic factors, depending on the model of a household.

Economic factors are associated not only with poverty, but also with indebtedness and avoidance of enforcement procedures. From this perspective, a more serious problem is insolvency and inability to pay debts, because such problems may lead to financial and social exclusions in the future. Eventually, people excluded from the labour market may also be excluded from the financial market; in particular they are not able to take credits, due to lack of legal income. Without credits, constituting a stable household for young people may be extremely difficult, because they do not possess financial resources for education or the purchase of apartments for a new household.

Their economic strategies are short-term, without taking into account their future life and so they are not interested in securing themselves an assurance for unforeseen future events (e.g. serious illness resulting in an inability to work). As a consequence, they may face difficulties as a result of being outside the social insurance system and may be deprived of all kinds of pensions.

Besides, from the economic perspective, young people may also be excluded from the labour market as a consequence of their low skills and lack of education, which are not adopted to current demands (picture 1). The youth need to develop their skills and raise their level of education, which is even more difficult during usually unstable and temporary employment in the grey zone, without opportunity for professional career.

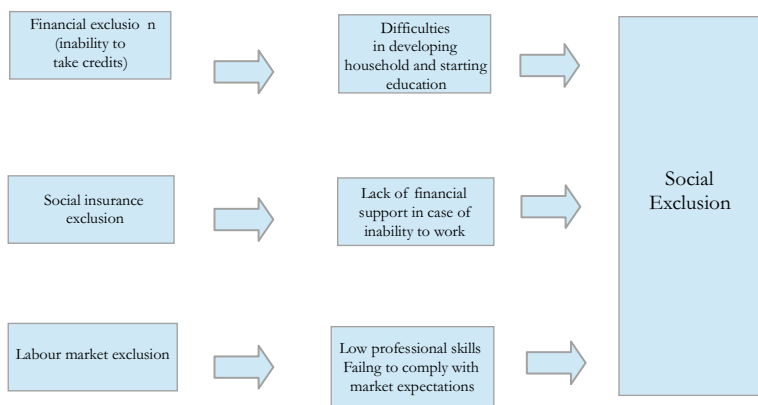


Fig. 1. The process of social exclusion of the youth caused by employment in the grey zone

Rys. 1. Proces wykluczenia społecznego młodzieży spowodowany zatrudnieniem w szarej strefie

Source: own work

Demographic determinants are associated with the type of household and the socio-economic values and strategies for rising income. In the households where parents are employed in the grey zone, their children may reproduce this behaviour. Individual members adapt to the economic situation of the whole household and their strategies of increasing revenues. Therefore, there the poverty could be transmitted between generations, creating problematic socio-economic exclusion, especially in the post-communist states like Poland.

Cultural factors are connected with lifestyle and specific economic values. Free time is more important than work and some young people are more interested in taking part-time jobs, because then they can have more spare time for themselves. So, they work in such jobs which satisfy the needs of having fun and entertainment.

According to the research conducted by the Central Statistical Office in Poland from 2013 [12, p.33], the strongest impact on life satisfaction of the youth was attributed to living conditions which comprised housing, providing durable goods, and the ability to satisfy various consumption needs, both material and non-material. Living in poverty affects the quality of life of the youths in a negative way. Among the three aspects of the material situation surveyed (i.e. household income, living conditions and budget standing), living conditions contributed most to life satisfaction, and current income - least. Thus, the Polish young people who are indigent and socially excluded do not take into account their incomes and the type of job they perform but rather their general economic situation, while they evaluate their life standards.

## 6. Summary

Regarding the youth, there are lots of different determinants which influence employment in the grey zone. They are connected with the economic situation



such as organization of a household, the number of children underage, socio-economic problems (eg. indebtedness, single parenthood) and also a specific lifestyle of young people. On the basis of case studies, it can be noticed that the youth researched do not make plans for the future and they concentrate on their current needs.

Young people who get used to working in the grey zone may continue working this way in their future life, especially when they achieve high, untaxed income. The official and legal employment is not seen as beneficial, so they are more interested in earning money in the grey zone. Therefore, in the future they may suffer from economic difficulties and even be socially excluded.

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