

# Influence of labour cost on business dynamics and the lowering of unemployment

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## Abstract

Relation between tax burden, employer contributions and other labor costs is define the “tax wage” name. Investigations have proved that the “tax wages” is one of the most important reason of unemployment. The OECD`s annual compendium of tax data, shows that Poland is in the front of the countries with the high burden of wages. It means that Poland is a very fiscal country. The value of “tax wages” is growing up in Poland from 2001. Maintenance of these high level employer contributions will be a barrier of economic development in next years.

**Key words:** Tax, labor costs, Entrepreneurs, employment

## 1 Introduction

Labour market situation stems from the changes introduced during the period of system transformation. The need for rapid closing of the distance between post-communist countries and Western European ones resulted in a swifter increase in work productivity among the newly joined countries than in the case of the “old” EU-15 members. High engagement of labour force resources, as well as low efficiency of resource usage had to be replaced by increased work effectiveness and a decrease in the cost-burdened wages and salaries.

The economic slump caused by the introduction of system changes resulted in a significant drop in labour demand

Polish labour market transformations which have taken place within the last decade or so years, are among the most important and socially problematic issues affecting the entire economy. The period of such changes initiated in the mid 1990’s by the need for system transformation seems to be nearing its end and reaching certain level of lasting stability, characterised by dropping unemployment indexes, as well as improved indicators characterising society’s activity on the labour market.

Entrepreneurs point to a number of barriers limiting their activity with the most bothersome being those of administrative-legal character including the ones stemming from current tax law regulations<sup>1</sup>. Research studies indicate that nearly 70 % of entrepreneurs regard as the most significant among those barriers the problem of low quality legislation. This obstacle is made even more bothersome by the unstable legal and tax system, unreformed labour law, unfair competition and non-wage labour costs<sup>2</sup>.

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<sup>1</sup> More on taxation barriers can be found in: W. Wyrzykowski – „Podatkowe uwarunkowania przedsiębiorczości w Polsce” – VI Scientific Conference: The Lisbon Strategy and the Management of Value, Gdańsk-Stockholm, 2006.

<sup>2</sup> Report from a study of operating conditions of MSE sector – carried out for the Polish Chamber of Commerce – January 2006.

## 2 Labour market changes

The years 1995-1997 were characterised by significant changes in ownership structure of the Polish economy, which in the initial phase, due to wage-personnel agreements usually did not result in radical lay-offs but still led to increased anxiety levels connected with future outlook. The market suggested the need to change employment structure, signalling a slump in the economy, and was characterised by ongoing curbing of cost-consuming industry sectors, the necessity for substantial increase in work efficiency, as well as the limiting of the level of public demand capability. This resulted in consequences which in the following years have had major influence on the shaping of the current labour market. Among the most important of them are: low wages, high unemployment, low levels of job market activity and employment indicators, neglected educational structure left unprepared for economic growth - especially in the vocational area, as well as very high economic immigration.

In 2002, one could notice first signs of slowing fall of labour market indexes, and in the two subsequent years even certain symptoms of the reversing of these processes.

Since the middle of 2003, following the period of several years of decreasing employment, we observe improvement on the labour market. In 2005 the average annual number of the employed in Poland amounted to 14, 124 000 and was higher by 4.2% from the lowest value of the year 2002. This tendency maintained itself in 2006 (increase of 5.2% in relation to 2002) and is also continuing in 2007<sup>3</sup>. The employment growth was accompanied by a corresponding drop in unemployment. One should expect that the improved labour market represents permanent and increasingly stronger phenomenon. The noticeable drop in unemployment should result in stronger demand for consumption in subsequent periods. However, in the view of the government the level of unemployment still in existence continues to be too high for its further drop to be able to significantly strengthen inflationary pressure<sup>4</sup>. Unfortunately, statistical data translates itself into actual social reactions with quite a delay, which explains why we may observe increase in public confidence and optimism levels as late as in the first half of 2007<sup>5</sup>. The situation is illustrated by the Diagram No1 below.

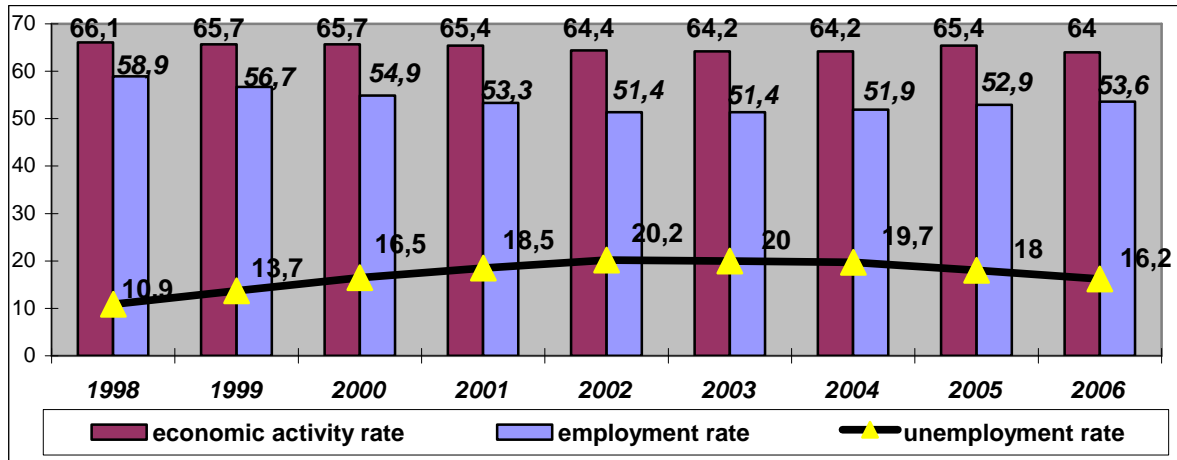
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<sup>3</sup> Data of Central Statistical Office (GUS)

<sup>4</sup> *Perspektywy Polskiej Gospodarki (Polish Economy Perspectives)*– The Ministry of Finance, Warszawa, September 2006

<sup>5</sup> Survey carried out by the Gdańsk Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową) showed that the value of the economic climate index in March 2007 was 26.8 points, in contrast to 14 points a month before. It is also decisively higher than In March 2006 when it amounted to 19.2 points.

**Diagram No 1: Indexes of economic activity, employment and unemployment in Poland during the years 1998 - 2006**



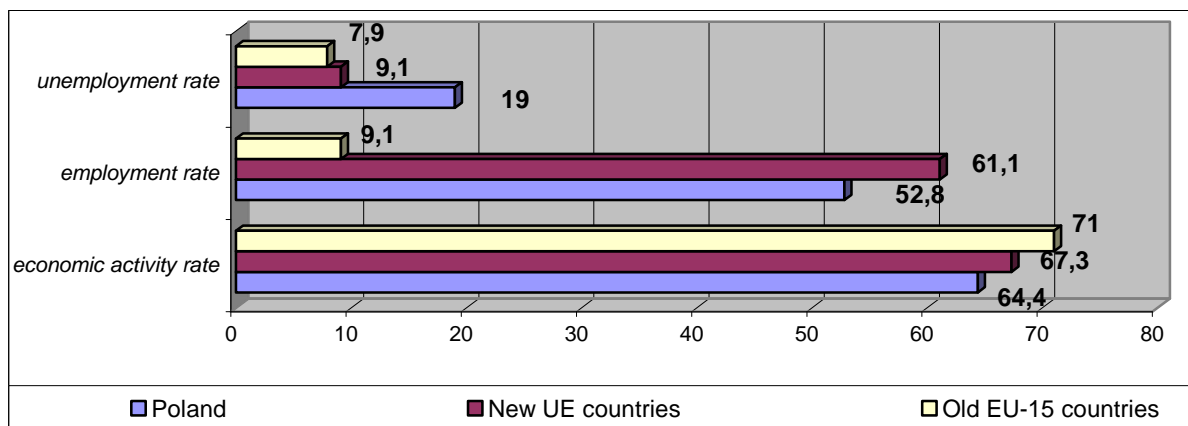
Source: prepared based on: *Employment in Poland in 2006, Productivity for work – The* (Ministry of Labour and Social Policy), Warszawa 2006.

As one may observe none of the indexes characterising the labour market in 2006 reached the levels of 1998.

## 2 Cost of labour - the unemployment determining factor.

The phenomenon of unemployment is usually perceived as the direct effect of drop in economic activity. In the last two years Poland has experienced significant economic growth and the level of unemployment is decreasing at a rate which is socially perceptible. This phenomenon is also being observed in a longer period of time. Within the last 15 years the rate of economic growth in Poland has indeed been greater than the European average. In Poland it has amounted to approximately 4.4% annually with the average value in the EU-15 countries being 1.9%<sup>6</sup>. At the same time, Poland has the highest level of unemployment in Europe, as well as the lowest employment rate<sup>7</sup>. The situation is presented in Diagram No 2

**Diagram No 2 - Comparison of economic activity, employment and unemployment indexes in Poland, newly joined EU member countries and the “old” EU-15 countries.**



Source: Eurostat.

<sup>6</sup> Source: Eurostat

<sup>7</sup> Source: Data of Central Statistical Office (GUS)

In Poland, economic growth occurs without a corresponding raise in employment. Certain studies indicate that the level of employment in our country goes up only when the increase in GDP exceeds 5%, while in the EU-15 countries the increase of 2.8% in GDP is sufficient to initiate the process of creating new workplaces. The conducted studies indicate that excessively high taxation costs of employment constitute the element of the tax burden which is most criticized by entrepreneurs. The unequivocal opinion of the business community on the destructive, especially in the context of the existing unemployment, character of the tax burden on labour costs should not be surprising - 89% of the surveyed entrepreneurs state that the tax and social insurance (“ZUS”) burdens discourage them from increasing employment, while only 7% describing them as encouraging new employment, with 4% seeing it as having neither positive nor negative effect. With such opinions it is indeed difficult to effectively try to limit the undeclared employment of the „grey” zone<sup>8</sup>.

Characteristic of the changes on the Polish labour market during 1995-2006 was the fact that the increase in work efficiency significantly exceeded wage increases. This positive phenomenon was one of the foundations in the economic changes directed at adapting our country to the characteristics of the EU community. However, excessive disproportion between these values had an earlier pivotal effect on the scale of unemployment and subsequently shaped the scale of economic immigration. The failure to increase wages, especially for specialised professionals, may in the upcoming years cause a deficit of employees in certain sectors of the economy.

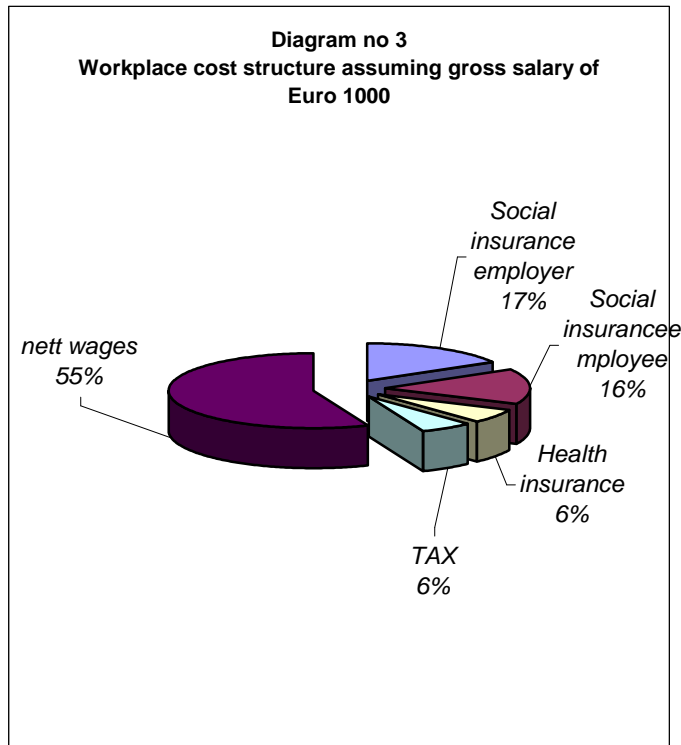
### 3 Labour cost structure in Poland

Labour costs are defined as the total costs incurred by the employer in connection with providing employment. The costs should be divided into wage and non-wage components. Thus, total labour costs include not only gross wages but also additional burdens of non-wage character (pension, disability and health insurance), as well as the burdens accompanying them, such as accident insurance or contributions to the Fund for the Rehabilitation of Disabled Persons (FRON).

The difference between net wage paid out to the employees and the total cost of a job position is defined as the *tax wedge*. In evaluating the real burden of non-wage costs of remuneration one should take into account also those burdens which are covered by employees themselves, consisting of social insurance contributions which are partially paid by the employed, income tax, as well as health insurance.

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<sup>8</sup> Study carried out In 2006 at the Institute for Commercial Law Research at the Faculty of Management and Economics of the Technical University of Gdańsk ( Zakład Prawa Gospodarczego Wydziału Zarządzania i Ekonomii Politechniki Gdańskiej



Thus, it refers to both direct (burdening the employee), as well as indirect (burdening the employer) remuneration components. They are high in Poland and their general structure with a gross salary of Euro 1000 is represented in Diagram No 3. The scope and structure of the burden is subject to change depending on the level of wages while the total value makes up the amount described as the “total wage cost of a workplace”. This usually becomes the main criterion in assessing the appropriateness of the employer-employee form of co-operation. However, the employed, due to the range of cooperation forms in practice in Poland, should be here referred to rather as a contractor than an employee.<sup>9</sup>

#### **4 The role of tax wedge in shaping rational employment system and development of the grey zone.**

The *tax wedge* is the greatest enemy of a rational employment system. First and foremost, it kills new work-places, making the production factor represented by labour too expensive through excessive taxation and thus less utilised in production processes, with employers starting to prefer solutions which while capital consuming are not labour intensive. The existing tax load structure limits the demand for low-wage labour of non-specialised workforce, which is made exactly of those who are in the most difficult situation on the market. These people may be offered employment in the grey zone. Persons with higher qualifications, as well as those who want to limit the excessive non-wage loads frequently turn to self-employment<sup>10</sup>, in relation to which the position of the government is very ambiguous, falling somewhere between preference for entrepreneurship and intensive

<sup>9</sup> The relations take in practice the form of employment contract, order contract, co-operation contraction (self-employment), temporary work and others.

<sup>10</sup> According to the author the term “self-employment” is often overused in a way which distorts the idea of consciously choosing to start individual economic activity. “Self-employment” in Poland has taken a somewhat negative connotation, implying a certain degree of pressure to resign from a regular employment contract in favour of starting economic activity.

attempts to limit fiscal revenue originating from the increased cost of obtaining income, lower taxes and smaller insurance premiums put on this form of cooperation.

The value of production and services carried out in the grey zone in Poland in 2006 amounted to PLN 130 billion (constituting approximately 13% of the Gross Domestic Product), doubling its value in relation to 1995. Financial loss to the budget from the title of non-taxed activity of the grey zone amounted to approximately PLN 26 billion in 2006.

The sectors having the greatest share in the creation of the grey zone are those areas of the economy in which it is relatively the easiest to illegally employ people without suffering wage burdening costs. These include commerce, catering, repairs and construction.

The grey zone is described in the System of National Accounts as non-observed economy (NOE). It consists of four parts: underground production (productive, legal activity purposefully hidden from public authorities), illegal production (activity forbidden by law), informal household production for own use, as well as other, remaining forms of activity unaccounted for in official statistics due to imperfection of research programmes. One of the elements making up the amount of NOE is the value of unregistered labour, defined as all those paid types of activity which are legal by nature but which are not declared to public authorities.<sup>11</sup>

One of the most important, if not fundamental elements influencing the level of non-registered labour is the taxation of wages comprising the value of mandatory contributions to the State or its institutions connected with remuneration for provided labour, placed upon the employee and employer. It is this level that constitutes the primary motive in accepting non-registered labour or decreasing the actual value of disclosed income.

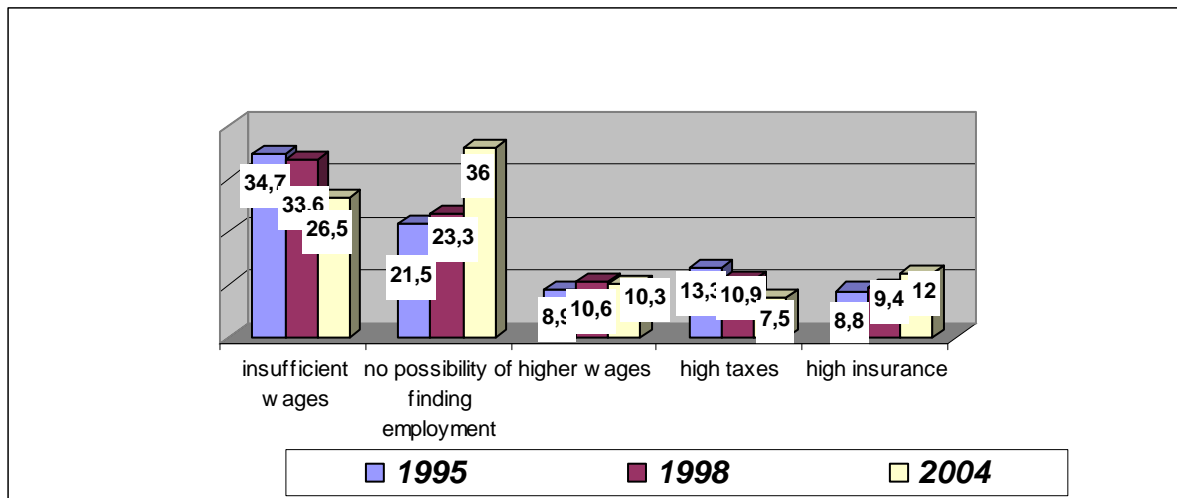
The *tax wedge* value directly shapes demand and supply on labour market. Change in the demand for labour takes place when the total amount of remuneration paid out by the employer along with all the additional charges increases. In such case, employers adapt to market demands by offering remuneration which is too low to encourage legal employment. In turn, the labour supply decreases since the increased taxation on wages drops the level of their attractiveness, all the way to the point of the decisive moment of choosing free time in place of providing labour. In such a scenario, potential employers search for those willing to work outside the sphere of legal employment. Thus, in the situation of increased wage cost burden, two destructive phenomena occur on the labour market. The first of them consists of increasing the sphere of non-registered labour, the second - conscious choice of inactivity. The influence of increased taxation of wages on the level of non-controlled labour takes place when both parties, i.e., the employer and the employee obtain concrete financial benefits as a result of circumventing the law - the employer through lowering the cost of labour and the employee through increasing the amount of received pay. Research indicates that the tax wedge size is not the sole cause of growing unemployment and the increasing sphere of non-registered labour. This factor is reinforced by other elements of poorly constructed taxation systems such as, e.g., unclear tax law which is unstable and has large area open to interpretation by public administration bodies. Paradoxically, a large number of tax deductions which was in recent years decisively eliminated in Poland for the purpose of increasing the tax base, was a forestalling mechanism in the development of the sphere of non-registered labour. The possibility of deducting significant amounts increases the attractiveness of legal forms of employment, while their lack encourages non-taxed labour.

The most significant elements having decisive character in starting non-registered work in the last 10 years were: the desire to increase income, lack of possibility of finding employment, high costs of insurance and the offered higher wages - as presented in Diagram No 4 below.

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<sup>11</sup> Definition created for the needs of the 1998 European Commission Report.

**Diagram No 4 – Most frequently cited reasons for starting non-registered work in Poland  
 (Comparison of the answers given in the years: 1995, 1998 and 2004)**



Source: *Employment in Poland in 2006 – The Ministry of Labour and Social Policy - Warszawa 2007.*

As one may observe, with the progression of time the main reason for escaping into the non-registered sphere had become the desire to find employment as such, and not the effort to increase one's own income. This indicates reinforcing the position of the employer as the party which dictates the conditions of employment and the way of paying for it.

In the past years the age structure of people undertaking non-registered employment had also undergone a change. In 1995 persons between the ages of 45-59 comprised the smallest group undertaking non-taxed work (17.6%). In 2004 this group became the one having the highest share (29.2%). However, the educational structure had remained unchanged. During the entire period, the sphere of non-registered labour was entered most frequently by those with basic vocational education. This fact was connected with the market offer which was directed towards such persons (construction and renovation, services).

## **5 Self-employment – a form of lowering labour costs or a market alternative**

In recent years, Polish labour market has experienced significant increase in the number of people starting one-person firms. This type of economic activity has given rise to numerous controversies stemming mostly from the lack of unequivocal assessment as to what degree it has become a natural form of entrepreneurial development in Poland and to what degree such business activity was initiated under the conditions of economic pressure aimed at lowering labour costs and tax burden. In the Polish economic practice of recent years, the phenomenon of self-employment sprung from both of these reasons but it is important to keep in mind that such form of entrepreneurial development is definitely of positive nature. It constitutes a certain incubator for entrepreneurs who in a natural way learn the formal aspects of conducting a business, with their firms sometimes developing into larger structures. The potential abuse of the institution of self-employment has two causes.

The first of them is a cause of fiscal nature originating from a large disproportion between tax burden levels carried by employees and individuals conducting business activity. The latter may settle their insurance contributions in a form of a flat amount, while the employed must do it in the form of a linear rate. In turn, co-operating ordering party is not burdened by a number of obligations. It is also exempt from the obligation to pay for vacation time or sick leave. Those conducting single-person firms also have much more beneficial conditions for

settling their income tax, since the taxable base is established with taking into account the actual cost of obtaining their income. Usually, the effect of their labour is definable more clearly than in the case of regular employment. The second of the reasons for abusing the institution of self-employment rests with the employers who in relation to the self-employed are not obligated by regulations of the Labour Code and other legal acts which regulate the organizing of workplaces and duration of work time.

Attempts to limit the negative effects of self-employment in Poland so far may not be classified as successful since actions aimed at limiting self-employment through introduction of additional restrictions, sanctions and controls should be deemed as incorrect - of course with the exception of the pathological aspects of this phenomenon. These measures do not apply solely to the selectively chosen group of fictionally self-employed but also cover the healthy part of sound entrepreneurs. Instead, the measures should be directed at abolishing legal and economic differences between regular employment and self-employment.

Conducted research indicates that the main reason for undertaking single-person economic activity is the belief in obtaining higher income (25% of answers), as well as the need for a greater dose of independence than in the case of regular employment contracts (27.1% of answers)<sup>12</sup>. Negative motivation, such as, being forced by employer to switch to self-employment are marginal. It is estimated that only 10% of people currently conducting business activity, do not do it of their own accord. Those firms whose setting up was the effect of suggestions by former employer are the most stable sector-wise and least influenced by market fluctuations. Strong relationship and co-operation with the former employer which ensures proper business start-up, point-out that such connections may serve as a model for setting up a certain patronage like style in making first steps in own business. The moment of becoming fully independent comes with time.

On the other hand, the persons whose self-employment was forced on them by their former employer do not see any benefits from having their own business; in their view the only beneficiary of such cooperation is the former employer. Research also indicates that reason for deciding on self-employment does not have any significant influence on changing the original type of activity.

The level of self-employment in Poland is approximately 10% of the workforce and does not differ much from the average EU level (around 11%). Among the new EU members - Bulgaria and Romania it is 15%, and among the countries aspiring for membership in the EU - Turkey and Croatia - approximately 40%. Self-employment levels significantly higher than in Poland can be seen in Greece, Spain, Portugal and Malta, where they shape at about 20% of the total workforce<sup>13</sup>.

Thus, the latest attacks on this form of conducting business activity find their justification rather in the “myth” behind the subject and the desire to increase tax revenue rather than in actual need to fight against “economic pathology”.

## 6 Relations between work time, wages and labour costs

Among the EU members, Poland is the country with the highest level of actual weekly work-time while having the lowest monthly salary (Diagram No 5).

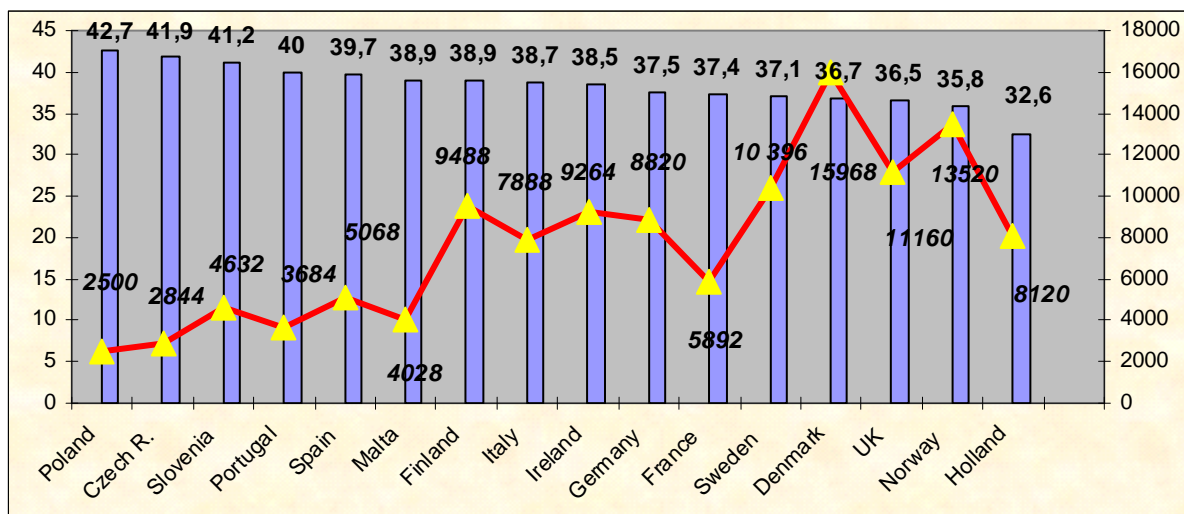
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<sup>12</sup> Public Profits Study conducted in 2004, commissioned by the Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości).

<sup>13</sup> Compare with: „Samozatrudnienie: patologia czy norma naszych czasów”- Rzeczpospolita No 56, 20 March 2007.



Diagram No 5- Comparison of average weekly real work-time (in hours) and average monthly salaries (in PLN) in selected EU Member States, calculations in PLN for the year of 2006.



Source: Data of EIRO Foundation

As one may observe, while Poland is a cost attractive market for foreign investors, the structure of non-wage burdens in labour costs constitutes an internal barrier in developing entrepreneurship, and more importantly in decreasing unemployment. Statistical data, unequivocally points out that wage increases have for a number of years been falling behind the increase in efficiency and economic growth. Increase in work efficiency has significantly exceeded wage increases. This is a beneficial phenomenon and one of the fundamentals of economic transformation bringing Poland closer to the values of indexes typical of the European Union. However, a too large disproportion between these values had an earlier decisive influence on the scale of unemployment, and later on the level of economic immigration.

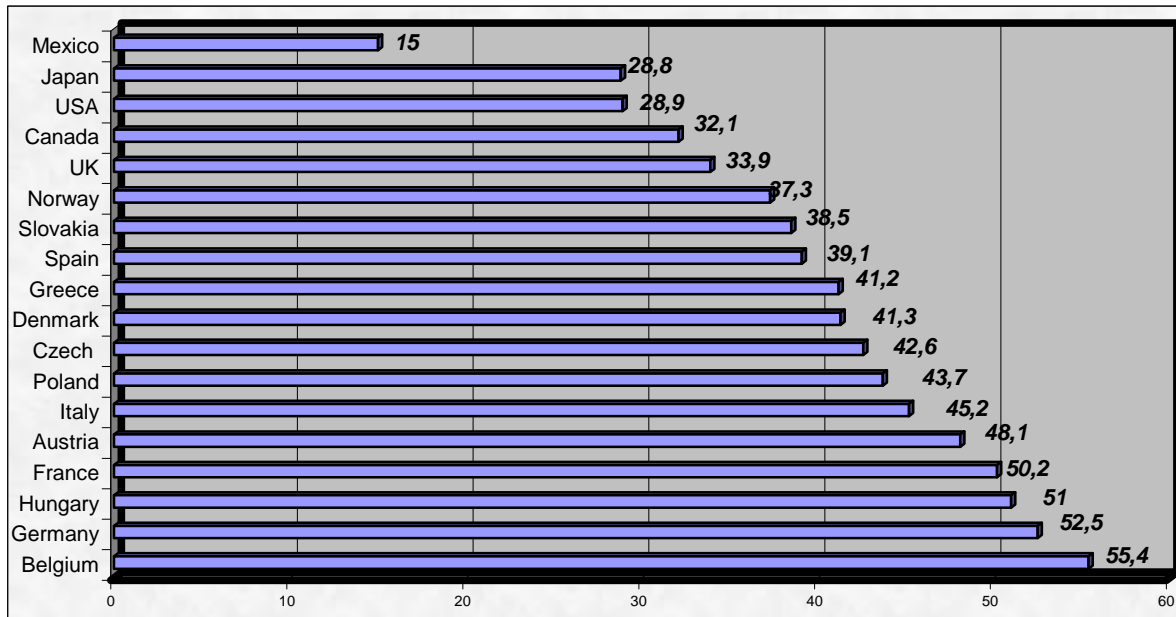
As it stems from the newest OECD Report, Poland finds itself in the direct lead of the countries having high burdens placed on labour<sup>14</sup>, which means that the country has one of the most fiscal systems of premiums and contributions. In addition, as one of only a few OECD countries Poland is not actively reducing the labour burden. This creates difficulties in decreasing unemployment, causing development of the grey zone and increasing economic emigration, thus decreasing the future tax base. Additionally, the burden is anti-family in character - not taking into account the costs of bringing up children.

On one hand, this means significant competitiveness of labour cost, on the other it has a determining basic influence on the growing economic emigration, constituting in connection with the insufficient number of newly created workplaces, a substantial threat to future rate of economic development.

According to the OECD study, Poland is classified in the 11th place among the members of this organization in the criteria of the level of total taxation-contributions burden. Only four OECD countries have burden on the scale exceeding 50% of work-place costs ( Diagram No 6). The differences in the group of countries having burden levels even higher than Polish ones are not significant anymore. However, one should point the attention to the countries which have decisively lower burdens. In some of them, the total value of the burden is as much as 60-70% smaller.

<sup>14</sup> OECD Taxing Wages 2005/2006: 2006 Edition

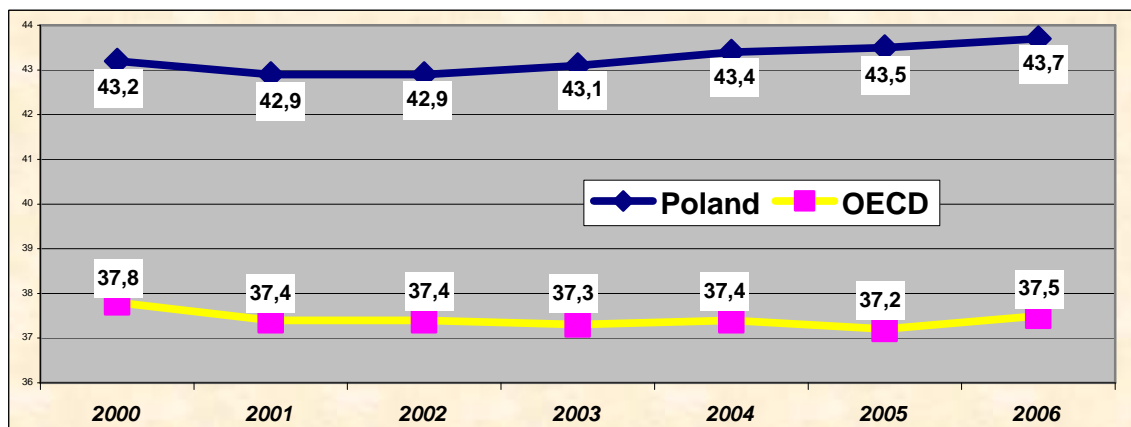
**Diagram No- 6 - Total value of taxation-contributions burden on labour cost in selected countries in 2006 (income tax + social insurance)**



Source: prepared on the basis of “OECD Taxing Wages - 2006”

It should be underlined that the burden level in Poland is not decreasing but in fact has been continually increasing since 2001, when the value of the tax wedge amounted to 42.9%. This was not just the effect of the increase of the burden itself but rather the lack of systematic and regular correcting of the base for calculating the loads. (Diagram No 7) This included lack of valorisation of income tax brackets and tax exempt amounts, abolishing of nearly all tax relieves and write-offs, raising the health insurance contributions which was financed directly from taxpayer’s pocket. Maintaining those trends, even small ones, constitutes a significant threat to the sustaining the competitiveness of the Polish labour market and decreasing the grey zone of unemployment.

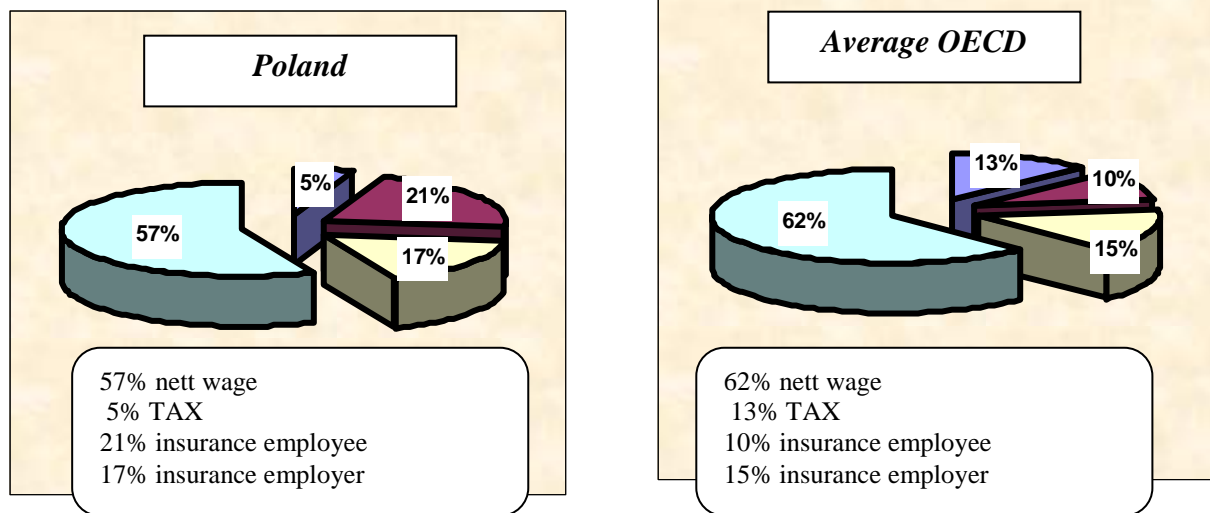
**Diagram No 7- Rate of labour cost increase in % of the burden (PIT + insurance) in Poland and in OECD countries (average) during the years 2000-2006.**



Source: based on the OECD report ‘Taxing Wages – 2006’

There is a definite difference between the structure of non-wage labour costs in Poland and in other OECD countries with a decisive variation in the level of social insurance contributions in the employee covered part. This significantly lowers the actual share of paid income tax, and most of all shapes at a level well below the average in those countries, the share of net wages in overall labour costs (Diagram No 14).

Diagram No 8 – Workplace cost structure in 2006 in Poland and OECD countries



Analysing the division of the burden between employee and employer is a significant element permitting a comparison of the values and more importantly allowing for defining the characteristics of taxation-contribution policies of individual countries. The heaviest burden upon the employer can be found in Ireland and the United Kingdom, shaping at 23.1% and 33.9% respectively<sup>15</sup>. In Ireland, the country with the highest GDP per inhabitant in the European Union (behind Luxembourg), within the last 6 years the contribution burden on the employer has been reduced by 6 percentage points. Similar decrease is characteristic of other highly industrialized countries which furthermore are generally considered as being very “pro-social” such as, for example, Sweden (drop from 50.1% in the year 2000 to 47.9% in 2006), Finland (from 48% to 44.1% respectively), Germany (from 54% to 52.5% respectively). During the same time Poland has experienced an increase in the burden.

Among the OECD countries Poland is characterised by one of the highest percentage shares of social insurance contributions paid by employee. As a result, one might say that in our country the burden of non-wage labour-costs rests to the greatest degree with employees themselves and has the most significant influence on decreasing their net wages.

In Poland, the taxation-compensation burden placed on families with children is characterised by very low level of flexibility. This is yet another element which makes us different from the majority of OECD countries in which the burden varies according to the number of children supported by the taxpayer. In the majority of OECD countries the difference in the taxation-contribution burden between a single person and a married couple raising two children amounts of up to 10% (Hungary) with the difference in this amount for families with one and two children being the average value.

In Poland the above difference amounts only to approximately 1%, which testifies to the lack of preference for families with children.

<sup>15</sup> OECD Taxing Wages

## 7 Conclusion

Current research studies and statistical data point to an incomplete use of the growth potential of Polish enterprises, especially in the SME sector. One of the elements constituting a development barrier consists of excessive burdens placed on wages. The fundamental element of market strategy of an enterprise is the pricing of its product or service. The guarantee of price attractiveness consists of lowering costs; otherwise the competitive edge of a small or medium sized enterprise is weakened. Non-wage labour costs are constantly in the first place among the barriers which limit entrepreneurship, being ahead even of the taxation burden. In shaping rational relations” wage - non-wage labour costs on should bear in mind that with no changes in the net amount of remuneration, the increase of the tax wedge leads to rising labour costs and the limiting of employment. In case, when in an attempt to limit one’s own costs in fighting the tax wedge, the net wage is lowered - which may result in maintaining an unchanged level of total labour costs, the effect is the limiting of employment since the supply of labour drops. The value of the tax wedge directly shapes the supply and demand on the labour market. Excessively high labour costs also distort objective reasons, as well as objective evaluation of the changes in the area of employment structure in Poland. The data points out that each lowering of the level of contributions which burden labour costs results in increasing entrepreneurship levels, and the expectations of young people being at the starting point of their careers are quite high<sup>16</sup>.

Decreasing the non-wage labour costs is essential for facilitating a faster increase of net wages which would result in decreased tendency for economic emigration, while not allowing for an increase in labour costs higher than increase in efficiency, and in this way preventing decline of the competitiveness level of Polish business. The sources for increasing remuneration should be also searched for in the lowering of non-wage labour costs. One should bear in mind, that absolute, market forced increase of wages could lead to a lowered level of competitiveness.

As the data of the Central Statistical Office (GUS) indicates, in the first quarter of 2007 a significant growth of wages in the company sector did take place. In March, it amounted to 7% in relation to January 2007. While this definitely is a positive sign of improving economic situation, we should bear in mind that the wage increases should be accompanied by reforms limiting non-wage labour costs without which Polish economy may lose its momentum and experience a significant slow down. Lowering the non-wage labour costs will constitute a chance for decreasing the pressure on wages with no additional financial outlays on part of the employers. For this reason, one should welcome the proposals of the government aimed at lowering the non-wage burden on remuneration through the reduction of the load connected with pension contribution. While limiting the pension contribution might not be the definite breakthrough in lowering labour cost, it still is a good first step towards future reforms.

The reached, very significant increase in industrial production<sup>17</sup> creates most beneficial conditions for the introduction of regulations decreasing tax burden, including the ones connected with labour cost burdens. For this reason, adopting as soon as possible, solutions decreasing the size of the tax wedge and resulting in increasing the actual wages, decreasing

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<sup>16</sup> Research of the Foundation of Academic Incubators of Entrepreneurship (Fundacja Akademickie Inkubatory Przedsiębiorczości) has shown that 91% of young people just starting their own business would like to be relieved from paying the social insurance contributions (ZUS) for at least the first, most difficult year of their activity.

<sup>17</sup> Based on the Central Statistical Office (GUS) data, in January 2007 industrial production increased by 15.6% (year to year). This allows for forecasting the economic growth of at the annual level of 6 to 7%.

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production costs and in this way allowing the Polish economy to maintain appropriate level of competitiveness, is definitely strongly called for.