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## Changes of service structure in Polish cities during system transformation

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## CHANGES OF SERVICE STRUCTURE IN POLISH CITIES DURING SYSTEM TRANSFORMATION

**ABSTRACT.** This article pertains to transformation of the service industry in Polish cities in recent years and describes the structure and character of service function changes, as well as the impact of these changes on the range of urban influence. Two basic development tendencies were identified: spatial dispersion and specialization. These tendencies result in a decrease or increase of the sphere of urban influence.

**KEY WORDS:** cities and towns, structure of services, system transformation in Poland

### INTRODUCTION

System transformation in Poland – the establishment of a market economy in the last decade of the 20<sup>th</sup> century – resulted in proliferation of the service sector, which addresses both individual and companies' needs. Restructuring processes also made the development of the third sector more dynamic through large layoffs in industry. As a consequence, the role of the service industry in the economy increased in respect to its market share and the total growth of employment (eg.: Maik, 1996, Matczak, 1992, Suliborski, 2001, Szymańska, 2004). To some degree, the rapid growth of the third sector in the recent period was also a result of the increased absorption capacity of the service market in the new economic circumstances. In these new circumstances, service industry is quickly filling the void created by the centrally planned economy of the previous era.

In the context of these profound changes it is essential to address the following questions: First, what is the functional service structure in Polish cities? Second, which course of change has dominated in recent years? Third, what is the impact of these changes on the range of urban influence?

The study included services that are in agreement with NACE (General Industrial Classification of Economic Activities within European Communities). Data from December 1993 and 2001 were included from structures of the following branches:

- G – Wholesale and retail trading; vehicle repairs,
- H – Hotels and restaurants,
- I – Transport, storage industry, and communication,
- J – Financial services,
- K – Real estate services, services associated with business management and renting,
- L – Public administration and national defense; social welfare guaranteed by law,
- M – Education,
- N – Health and social welfare,
- O – Remaining services.

In order to ensure the correlation of data from the initial and final periods of the study, we took into account all towns designated by town charters in 1993 and 2001 (total number 840). The analysis was conducted within the system of the following town categories:

- I – Capital of a country,
- II – Province capitals,
- III – Former province capitals degraded in 1999 (currently powiat (1) towns),
- IV – Remaining powiat towns,
- V – Incorporated powiat chartered towns, without their own land base,
- VI – Remaining towns with a population of at least 10,000,
- VII – Remaining towns with a population above 10,000.

## CHANGES IN SERVICE STRUCTURE

The total number of people employed (registered in REGON system) in 840 towns grew during the period 1993–2001 by 3.5% from 12.25 million to 12.68 million. In the same period, the number of people employed in the service sector increased by 22.5% from 6.77 to 8.30 million; the percentage share grew from 55.3 to 65.4% (Fig. 1). This growth of the service sector is comparable with tendencies observed in the last decades of the 20<sup>th</sup> century in developed countries; however, the pace of the transformation in Poland is faster. Most towns and all of the incorporated administrative categories were characterized by changes in a specific direction (Fig. 1).

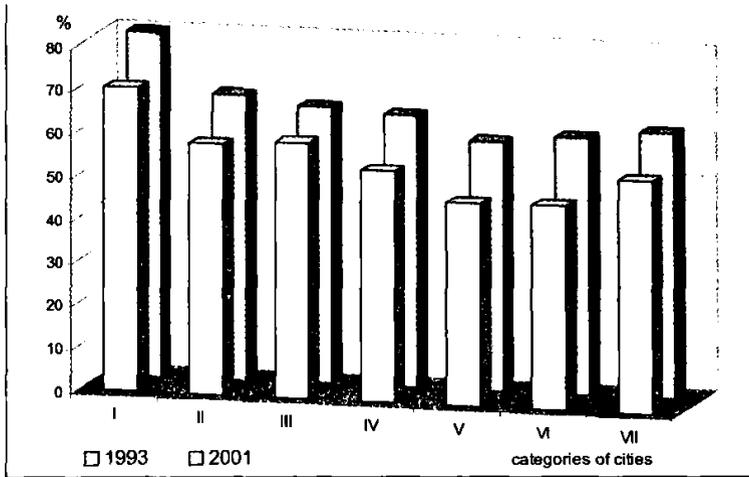


Fig. 1. The share of service sector jobs in the total employment in Polish towns

Among the large cities, the highest degree of service sector domination occurs in Warsaw, which increased from 70.7 to 80.3%, as well as Lublin, Wrocław and Białystok, in which it was over 70% of the total number of employed in 2001. In the remaining towns, service sector employment oscillated between 60 and 70% with the exception of Gorzów Wielkopolski, where it stayed below this level (58.6%).

When comparing the specific town categories, the following pattern can be observed: towns that function as administrative centers are characterized by a higher rate of service sector employment than towns that are not part of the administrative system. What is also apparent is a certain hierarchical structure of the service employment rate with the country capital (I level) at the top of the hierarchy, followed by the capitals of provinces (II), and finally by the poviats towns (III, IV). The towns that are not part of the administrative system (VI, VII) as well as poviats chartered towns without the poviats land base (V) are characterized by the lowest rates of service sector employment.

The "trade and repairs" branch of the service industry (G) is the most common and it concentrates over 25% of the total number of employed in this economy sector (Fig. 2); its share increased only insignificantly during the study period: from 26.6 to 27.8%. The importance of trade and repair services is greater in towns with lower administrative rank. In the capital, the share of these services equaled 17.5% in 2001 and was lower than in 1993, while the average percentage in the province capitals equaled 28.6% and was 36–37% in small towns.

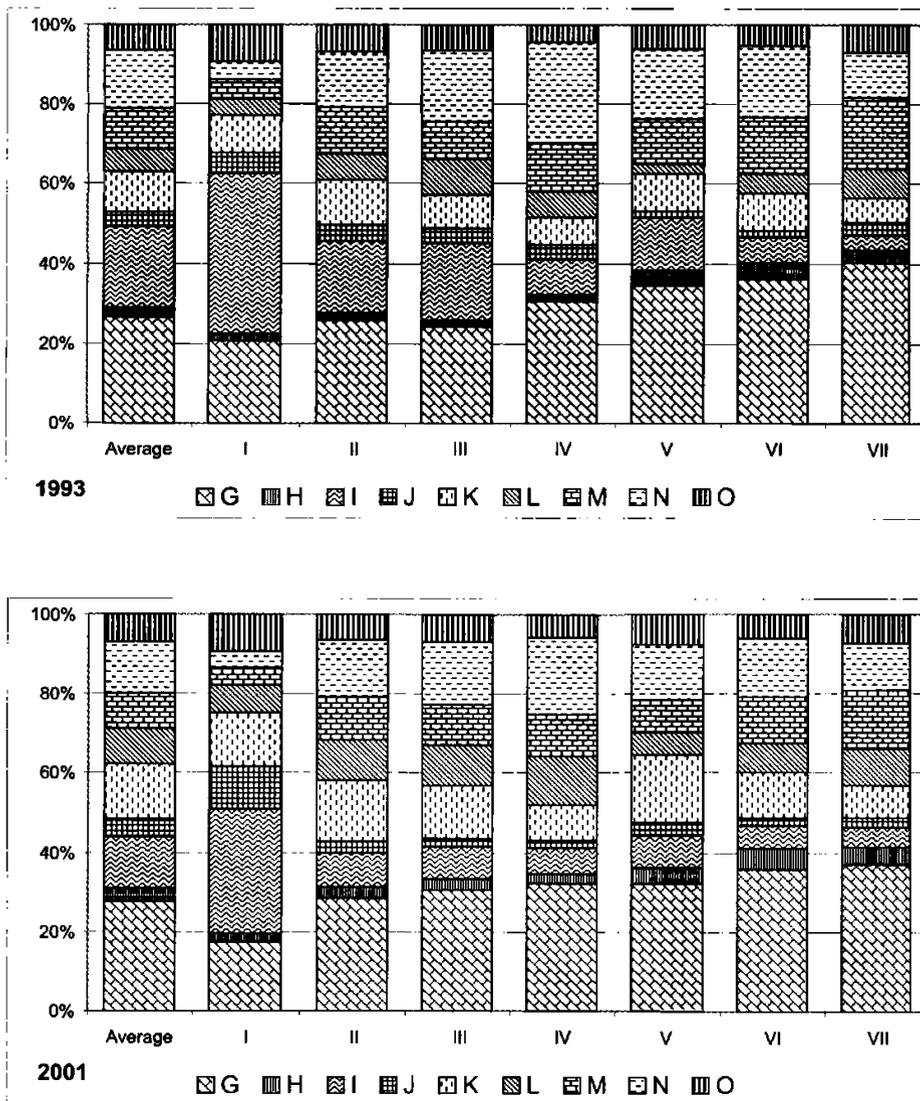


Fig. 2. Service structure in Polish town categories (sections marked in the text)

However, we observed a growth of K, J, and H branches of service, which was mainly a result of the pace and character of the economic transformation (business support), as well as of expansion of the L service branch, which is an indication of bureaucratic expansion. Employment in administration and associated services (L) increased in all town categories (total increase was over 90%) including the degraded province capitals (2). Both a relative and absolute decrease of the employment rate was observed in the I service branch. On average, the employment rate in towns in this service sector fell from 20.4 to 13.0%.

This service branch is particularly important for the economy of the country's capital, where, despite its rate decrease (from 40.2 to 31.0%), it remained the dominating branch of services. Additionally, in towns belonging to the levels II and III, the employment rate in the I service branch fell from 18-19% to around 8%. As a result, in 2001 these towns began to resemble other towns in respect to the employment rate in the I service branch.

M and N are examples of service branches whose share in the service industry decreases slowly but continuously. In the capital, education (M) as well as social and health care (N) provide employment for only 4-4.5% of the total number of service sector employees. In the individual town groups this rate oscillates between 10 and 20%, while employment in the N branch is usually slightly higher. The largest share of health services (N) is observed in the poviat towns (III level), whose hospitals provide employment for a few hundred people each and are among the largest employers. A different situation occurs in the smallest towns (VII), where the proportions are reversed to the advantage of education, which can be explained by the absence of hospitals. In contrast, the relatively small shares of the health and education services in the Warsaw service industry are a result of significant excess in employment in other types of services (especially branches I and J). Generally speaking, the employment rate in education and health services slightly increased (5-10%) during the period 1993-2001, which was translated in the majority of towns into a decrease of their respective shares in the service sector.

It is worth noting the significant changes that took place in the scope of culture, entertainment and media (part of branch O). The employment rate in these service branches is fairly low, but the role of these services is quite special due to their opinion-forming character and broad, often regional or even nationwide, influence. It was the service branch that, besides education and health services, experienced a relative fall in employment rate from 2.1 to 1.7% in all towns. In the group of the province capitals the greatest reductions in employment occurred in Wrocław, Katowice, and Szczecin (at least 33%), and none of these cities experienced a significant quantitative increase. The above data demonstrates that Polish culture is in a state of crisis.

### CHANGES OF THE SERVICE RANGE

In order to determine if a range of specific types of service covers only the urban section of a town or much larger area, we used a method of localization coefficient. Using this method, we determined if the town had an excess of functional significance in the given scope, which, for the most part, are associated with central functions. The survey was conducted in the detailed description, taking into account NACE groups and classes (with three or four digit codes).

Diversification of the range of each activity type is particularly large. Employment in basic sales, secondary education, administration, and social welfare services occurs in almost all towns. More than half of them show an excess of significance in this scope, therefore the spatial range of their influence is described as local. Other types of institutions operate in an area, which on average includes from a few to around a dozen village districts and a few towns. It pertains to some types of trading institutions, courts, hospitals and others. These functions possess a meso-regional character. Some types of activities occur sporadically, most often in large cities. They often cover vast areas, and direct contact with them happens only rarely (that is the case with, for example, universities, where daily commuting is possible only over short distances). These functions are classified as regional and extra-regional.

The transformations that happened in recent years led to an expansion of many types of services, which mainly resulted in a growing number of cities with an excess of significance. The above phenomenon can be described as spatial dispersion. Few types of activities evolve in the opposite direction – specialization. This phenomenon rests on the fact that these types of activities occur in relatively small number of towns from at least two ranks of the administrative hierarchy (and thus are not typical for any of them). At the same time, no town group can be considered dominating other groups in respect to their share. The spatial range of influence regarding the above-mentioned activities of individual urban centers was expanded.

Comparisons of the average employment excess enabled us to describe the state and character of functional changes with great detail. regional and extra-regional. in finance and insurance related activities were observed. A multiple-fold decrease in the number of towns with employment excess in these services was accompanied by intensive concentration of these services in the hands of small group of individuals. The capital dominates in this respect: it accumulated over a half of the total town employment and most of the increase. Relatively large increases were observed in Wrocław, Kraków, and Sopot, which in recent years has become the financial center of the Trójmiasto (triple-city). The remaining types of activities associated with business and advertisement were characterized by an increase in the average employment excess.

The following regional and extra-regional activities were characterized by different transformation tendencies: radio and television, gambling, betting, and also to a smaller degree: architecture, engineering, technological consulting, technical surveys and analyses, and information agencies. All of the above activities showed significant decrease in the average excess. Simultaneously, the number of towns with exogenous employment increased. This demonstrates a clear spatial dispersion of these functions.

At the national level, the spatial dispersion process of a function is represented by the increase of the numbers of local range activities at the cost of the activities from higher ranks (meso-regional, regional and extra-regional). Em-

ployee recruitment can be an example of the above activity. This type of activity was represented in 1993 in 87 towns and in 2001 in 771 towns. The excess of employment was observed in this period in 48 and 303 towns, respectively.

## CONCLUSIONS

Service functions are characterized by considerable inertia; however, the system transformation period was distinguished by the escalation of transformation dynamics (see among other things: Sokołowski, 1999). The frequent changes of the scope of services as well as changes in their locations are particularly apparent in the market economy. Individual market entities adapt themselves to local conditions and react to signals from the market much faster than was taking place under the planned economy. At this point we can state a thesis about the limited self-regulation of the service system, which occurs within the scope of certain services. It does not pertain to the branches whose location depends on arbitrary decisions, and decisions that are made without considering environmental and social conditions. As an example, we would like to mention hospitals, which were closed in recent years, despite large public demand for their services, and schools whose network was adapted to the requirements of governmental reform. In both cases, spatial accessibility of the institutions, which is a component of market mechanisms, was often ignored.

In general, between 1993 and 2001, the service sector share in the economy grew significantly (Fig.1), with simultaneous profound changes in their structure (Fig.2). Firstly, we observed a decrease in services that were well developed in the previous era (education, culture, health care) and an increase in services related to financial and business activities, which were underdeveloped in the previous era. These changes reflect a redefinition of values in people's mentality and everyday life, when money and profit of the enterprise become the primary value. The financial aspect is often a priority for local and national governments, whose activities have negative social consequences (degradation of culture, increase in unemployment).

From the point of view of the location of service institutions, the proliferation of numerous types of activities was the dominating direction of the changes. The spatial dispersion was accompanied by the increase in the number of town with an employment excess. This resulted in reduction of the range of spatial influence of the institutions and caused lowering of the specific function ranking. A small group of activities is characterized by spatial concentration tendencies, which is related to the phenomenon of town specialization.

It appears that in near future, some of these directions of changes will continue. Furthermore, the progress towards functional specialization, which is described as an excess concentration in fewer and fewer number of towns,

seems real. This mainly refers to activities associated with business, banking, mail-order and internet sales i.e. activities that do not require face to face contacts. On the other hand, though, the growth of spatial dispersion in many fields may be suppressed by the market saturation. Numerous types of service institutions approach the limit of profitability and increase in their number should not be expected – the newly established institutions may drive the existing ones out of business. These changes manifest themselves through a slight decrease in the number of certain types of service institutions in recent years (especially after 2000).

## NOTES

- (1) Powiat – administrative regions of the 2-nd order.
- (2) When we isolated administration (group 7.51 in NACE) from the branch L we observed a slight and absolute decrease in employment rate only in this group of towns. These towns lost some of their administrative offices and were force to reduce the number jobs.

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