

# IMPACT OF THE GLOBAL CRISIS ON LABOR MARKETS AND UNEMPLOYMENT IN SLOVAK REPUBLIC<sup>7</sup>

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## Abstract

Defining demand at a national level is problematic in terms of the total volume of the structure, as to the performance of transnational corporations. Reviving of unemployment can not only be assessed at the national level, but an important aspect affecting national labor market is the revival of global economy which leads to the growth of the global labor needs. Currently, the focus of new jobs is shifting from partial professions towards cross-cutting and systemic professions, which must give a comprehensive response to developments in a particular industry. Slovakia is a small market economy significantly tied to major European economies, dominated by linkage to the German economy. Due to the high openness of the economy, the crisis has significantly affected the rate of growth of country's performance and caused a drop in demand, a decrease in both production and unemployment. High unemployment in this period was related to revenue shortfalls in the state budget and deepening of the budget deficit.

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**Keywords:** Labor market , employment , unemployment , global crisis

## Introduction:

Unemployment is one of the phenomena of our time . This is a natural consequence of the development of market economies associated with the globalization of the world economy based on free choice and democracy coupled with the need for labor mobility. It also reflects the cyclical development of the economy, but may grow into uncontrollable dimensions which is reflected not only in economic but also in social consequences . Slovak economy, as well as other European countries were affected by the financial and economic crisis, not only by increasing unemployment, loss of performance but also decrease of capability to create new jobs. Economists, among others such as J. Stiglitz, or K. Rogoff note that currently there are changes in the link between economic growth and employment.

## The global crisis and the global labor market:

The most important aspects occurring in the labor market and also the Slovak labor market is the difficulty in defining the link between national labor market and economic growth. It is preferable to define the total amount of demographic resources affecting overall employment. At the same time defining demand at a national level is problematic in terms of the total volume of the structure, as to the performance of transnational corporations. Most of the production of these big companies is no longer tied to the sales of the national economy, but is dependent on the development of global consumption. We can not assess the recovery of an economy only at national level because an important aspect to generate employment in the national labor market is the recovery of the global economy which leads to the growth of the global labor needs. Slovakia is a small market economy significantly tied to major

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European economies dominated by the link to the German economy. Currently the recovering of Slovak economy is happening because German manufacturers's production was successfully placed on the Chinese market where the consumption increases as a result of the economic policy of the Chinese government. It turns out that the domestic consumption is losing in importance, even though that up to now consumption growth in the German market has been an important stabilizing factor of the European consumption. Empirical estimates of the Slovak Ministry of Finance indicate that a one-percent growth in the German economy has an impact on the pace of economic growth in the Slovak economy by two percent. At the same time, the time lag of changes in the performance of the Slovak economy against the German was reduced from two quarters in the past to one quarter currently. The lesson learnt from the crisis is the knowledge that the process of economic recovery restores jobs considerably slower and more structured than in the past and this does not lead to a rapid decrease in unemployment and boost in domestic consumption. Currently, the focus of new jobs is shifting from partial professions towards cross-cutting and systemic professions which must give a comprehensive response to developments in a particular industry. The main reason for loss of employment is a long-term depletion of potential in economic sectors to absorb new labor force due to the increase in productivity. For example, in the United States today only about 0.5 % of the employed are in agriculture and about 13 % in the industry.

This trend is being helped by outsourcing of work to external suppliers and machines.

Another type of outsourcing to low-cost countries is only temporary and created jobs can be terminated depending on wage growth. These trends are irreversible, because labor productivity growth is necessary for a decent life. Historically a new sector has always emerged and absorbed the surplus labor, e.g.: agriculture, industry, services and state.

Currently, the new sector is unlikely to show up, as advanced economies have exhausted in terms of employment all four economic activities of mankind - food production, manufacture things, services and "doing nothing".

Outsourcing and offshoring started to significantly affect the link between production capacities, the national labor market and the overall action of transnational corporations in the global economy. Simultaneously there is a redefinition of the various forms of employment.

The objective is to minimize labor costs, which is understandable in terms of companies, but mainly to eliminate the obligation to pay taxes and social security contributions for workers and employers, resulting in a lack of revenues in the state budget and social security systems. It is additionally combined with moving company headquarters to countries with looser tax regimes and tax jobs in tax havens. Thus the following paradoxes are showing up more and more:

- Government support of business activities are primarily focused on large firms and is quite extensive, modified and structured. While small firms which are crucial for the formation of employment are in most cases left to themselves even if they are playing a significant role in the development of locally bound jobs. These companies have problems surviving the crisis period in the absence of venture capital and modification of tax systems, resulting in poor regional labor market and rising unemployment.
- Disparities in small regions between needs and resources of workforce now also appears to be problematic due to moving out of workers from distant regions as well as international mobility.

### **The labor market in the Slovak Republic during the global economic crisis:**

Slovak economy, as well as other European countries were affected by the financial and economic crisis, not only by increasing unemployment, loss of performance, but also by decrease in ability of Slovak economy to create new jobs.

Hours worked in 2009 declined significantly. Shortening of working time was achieved by flexible working hours, working time banking, shortened working time when Labour Office pays the employer and employee to a certain amount of social contribution for hours not worked. Adjustments in employment and hours worked led to a significant increase in labor productivity during this period. Young labor market participants were mostly affected by employment losses by up to 15 % in 2009, while employment of older workers has increased. The job losses were mainly related to the low and medium levels of education. Number of self-employed continued to grow even during the recession. Structural and cyclical factors are likely the cause of the growing trend of self-employment.<sup>8</sup>

Slovak economy during the global economic crisis found itself in the declining phase of the economic cycle. It was expected that even without the impact of the economic crisis, there would be a slowdown in economic growth. Due to the high openness of the economy the crisis significantly affected not only the rate of growth performance of the country but also a drop in demand, the decline in production and of course unemployment. High unemployment in this period is also related to revenue shortfalls in the state budget and deepening of the budget deficit.

In 2009, after Slovakia joined the euro area, fiscal policy became a major instrument affecting the economy. In particular, an increase in expenses, therefore expansionary fiscal policy is the main instrument for the stabilization of anti-crisis measures in order to maintain economic stability and keep public finances. The Government has adopted a fiscal strategy to maintain these goals.<sup>9</sup>

2010 was a year of parliamentary elections in Slovakia. European Commission has adopted an economic strategy " Europe 2020 " , under which participating countries have agreed , inter alia, to increase employment to 75 %. Consequently, these countries are taking action in their national labor market policies. Aftermath of the crisis and process of fulfilling the requirements of the strategy are expected to help to grow European economies. Still, some questions remain unanswered - influence and impact of certain factors on tackling unemployment in the Slovak Republic. " The current problem is when the primary objective is becoming the reduction of the government deficit, then you can not count on job creation through public sector. "<sup>10</sup>

While the decline of the production caused by the economic crisis lasted one year (until the first recession in the last quarter of 2009), the fall in employment lasted a little longer and post-crisis resumption of employment occurred at the end of 2010. Already during the whole of 2011, employment grew, albeit at a slowing pace. Likewise, in 2012, employment growth rate (rate compared with the previous year was even lower) gradually declined, and finally in the fourth quarter came stop in two year long employment growth. In 2013, the unemployment rate fell only slightly and remained at around 14 %. Slow process of recovery in employment, which started in 2010, came to a halt - current employment did not even come close to pre-crisis levels.

Employment after the recession in 2009, reflected the rebound in the economy and the recovery of production with about three quarters of a year's delay due to a slowdown in the product (or output and value added ) in 2011 and with unchanged elasticity of employment a subsequent downturn in its growth or even fall was to be expected. The picture of the size of the fall in employment at the end of 2012 illustrates the fact that the decrease in the number of workers below the level of 3.2 million workers occurred since 2006 only once, immediately

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<sup>8</sup> OECD 2010

<sup>9</sup> STOLIČNÁ, Z. 2012. Dlhová kríza a protikrízové opatrenia. In *FIN STAR NET 2012* : zborník recenzovaných príspevkov z III. medzinárodnej vedeckej konferencie. Bratislava : Vydavateľstvo *Fin Star*, 2012. ISBN 978-80-970244-5-1,

<sup>10</sup> STANĚK, P. 2010. Globálna kríza – hrozba alebo výzva? Bratislava : Sprint 2010. s. 155/219. ISBN 978-80-89393-24-4.

after the recession, therefore 1st quarter of 2010. In 2013, employment stagnates, respectively declined by about 1 % in 2012. Unemployment still maintains at about 14 %.

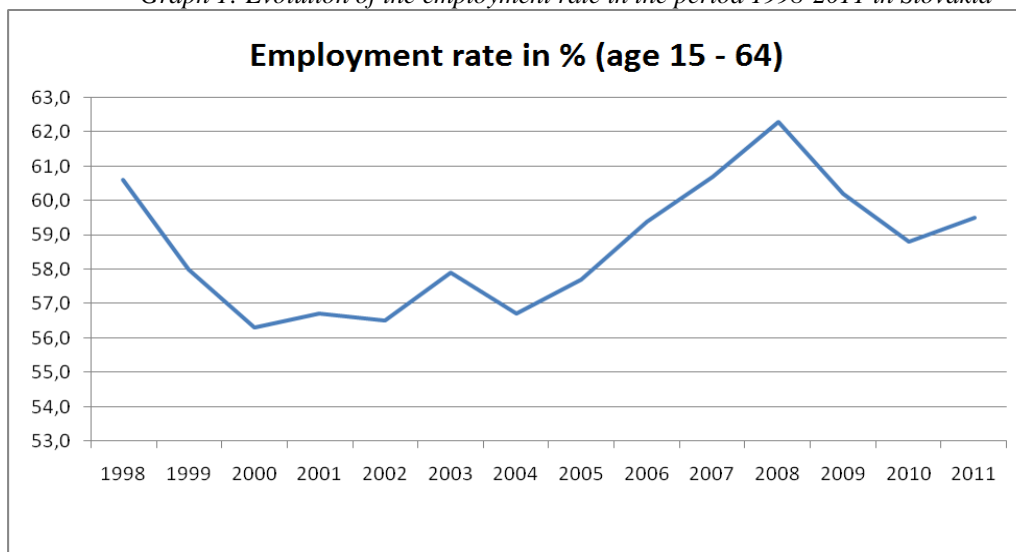
Pronounced deterioration in employment at the end of the year can be linked with the negative impact of approved legislative changes affecting labor relations and labor costs . The amendment to the Labour Code (adopted in October with effect from 1 January 2013 ) tightens the definition of dependent work (to prevent substitution of employment contracts with other flexible agreements, contractual forms), increases the cost of the employer (restores concurrence of the notice period and severance pay, in conjunction with the amendment of social insurance increases social cost, compounded by the first stated change - attempts to prevent the circumvention of using contracts under the Civil Code or hiring self-employed to work in the nature of paid employment) and reduces flexibility in certain decisions of the employer (repealed to agree the length of the probationary period beyond the statutory standard, reduced maximum time to conclude fixed-term contracts even with possibility of renewal and restoration, strengthening the employment of agency staff, strengthening the provisions on working time, etc.). Legislative changes leading to higher costs for hiring and firing and less flexibility in labor relations should lead to the fact that the company prepared and any planned ( or unplanned ) downsizing implemented even by the standards in force for 2012.

Active employment policy in Slovakia is not sufficiently evaluated and its impact on labor market remains unclear . Among the 29 existing programs in 2011, only 22 were actually used, and of these only 12 involved more than 1,000 participants. Among the 400,000 registered unemployed only 123,456 candidates are participating in AEP programs. ( World Bank, 2012).<sup>11</sup> In the graphs we can see the evolution of employment and unemployment in Slovakia between 1998 and 2011. Since 2000, we see an increase in employment, pending the impact of the economic crisis in 2008, when the employment rate begins to decline. Since 2010, the employment rate began to increase slightly in 2011 reached 59.5 % in the category of people 15 to 64 years. In the framework of the Europe 2020 objectives achieved Slovakia in 2011 the value of 65.1 % of employed aged 20-64. The aim of Slovakia is the value of 72 % compared with Strategy's aimed value of 75 %, a desired increase of almost 10 %. Within the next chart we see that in 2001 the unemployment rate has seen an slightly upward trend, but from that year until 2008 it gradually fell to 9.5 % , which represented a record low for Slovakia. From this period, however, unemployment is rising again and in 2011 it came to a level of 13.6 %.

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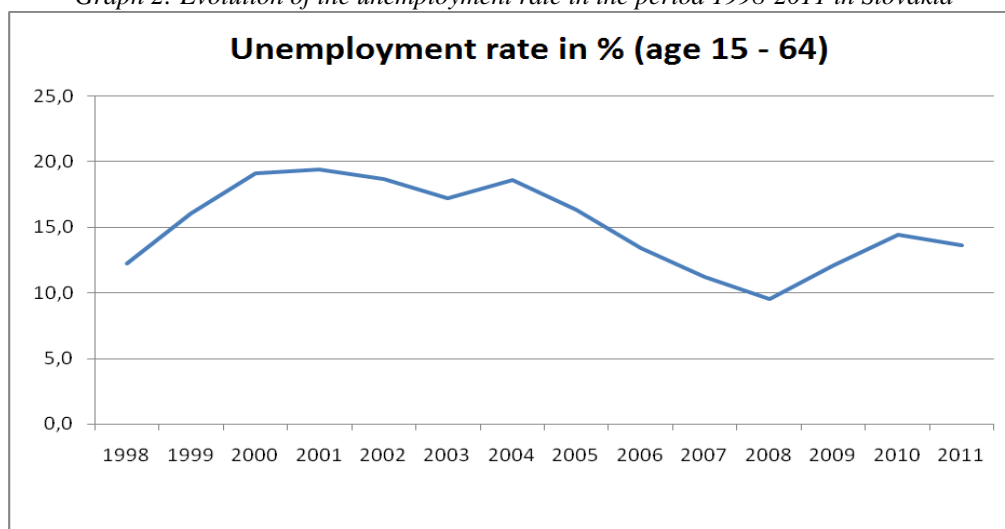
<sup>11</sup> World Bank. 2012. *Protecting the Poor and Promoting Employability, An assessment of the social assistance system in the Slovak Republic*, Washington, DC : World Bank. 2012. Dostupné na <<http://employment.gov.sk/protecting-the-poor-and-promoting-employability-an-assessment.pdf>>

Graph 1: Evolution of the employment rate in the period 1998-2011 in Slovakia



Source: autor, Eurostat database

Graph 2: Evolution of the unemployment rate in the period 1998-2011 in Slovakia



Source: autor, Eurostat database

### Conclusion:

The most important aspect occurring in the labor market and also the Slovak labor market is the difficulty in defining the linkage between national labor market and economic growth. It is preferable to define the total amount of demographic resources affecting overall employment. Slovak labor market was significantly affected by the global financial and economic crisis. The unemployment rate has increased gradually since 2009. Gradual recovery in the labor market noticeable in the years 2010 - 2011 has stalled and the results of the year 2012 were rather embarrassed: weak year in terms of employment growth and vice versa - increase in the number of unemployed especially towards the end of the year. The year 2013 was characterized by large-scale adoption and changes in legislation on employment associated with more negative expectations that match certain groups of public sector employees for better ( not just salary ) conditions.

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