

# Challenges of EU Accession for Labor Market, Social Policy and Labor Migration in Slovakia



**Policy Forum**

**Sofia, 30 May 2003**

*supported by Freedom House*

*Luboš Vagač, Center for Economic Development, Slovakia*

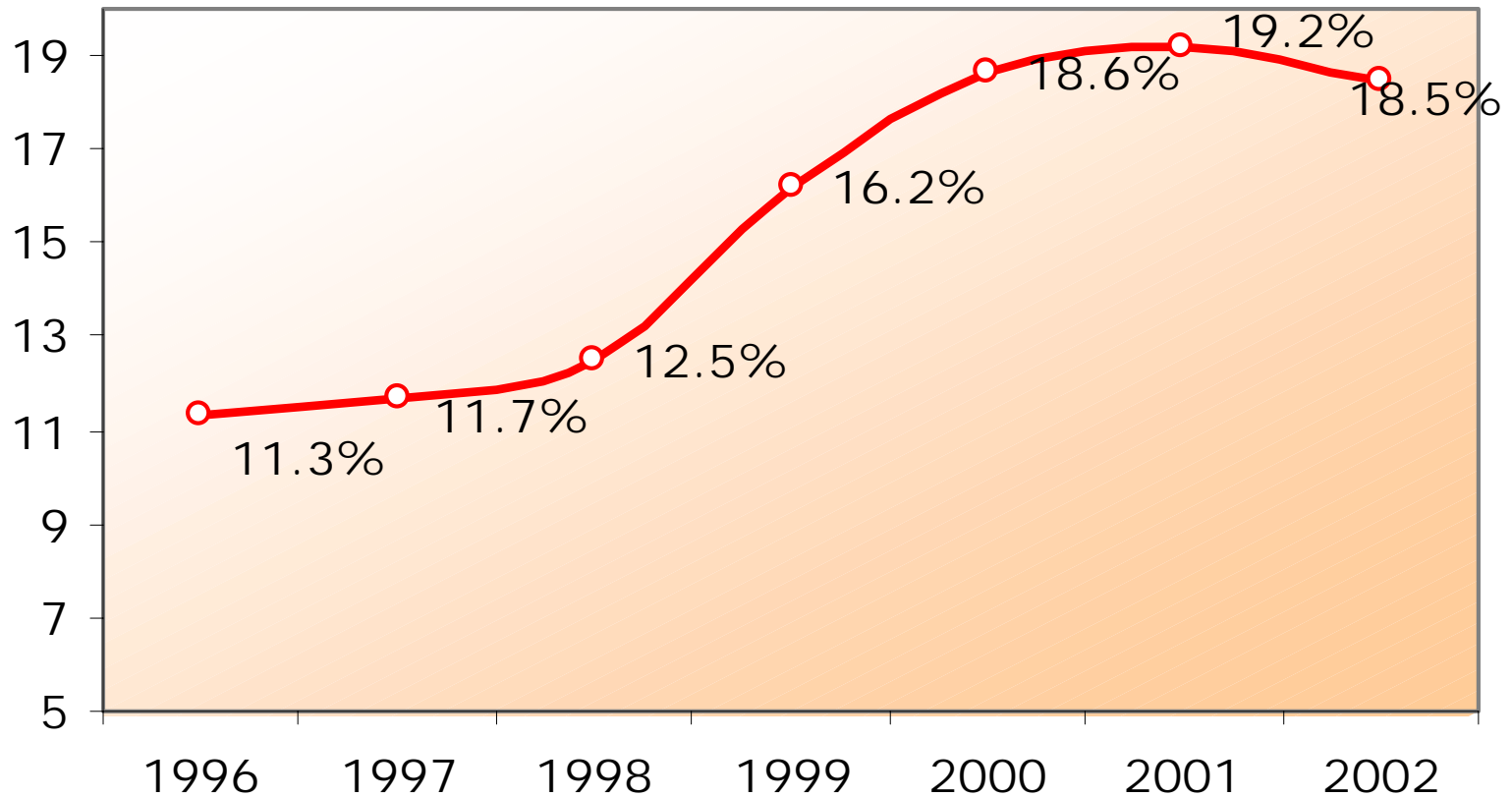
# Presentation focuses mainly on

- main developments, trends and problems of the Slovak labor market
- challenges of EU accession for the Slovak labor market, respective social policies and labor mobility

# Labor market in Slovakia is characterized by trends related to

- **growing number of economically active population**
  - labor force grew by 5.2% during 1997-2001
- **decreasing employment**
  - employment has a decreasing trend, since 2000 certain positive tendencies
- **high unemployment**
  - almost 1/5 of labor force is unemployed (18.5% in 2002)
  - high long-term unemployment (more than half of unemployed without job for more than 12 months)
  - youth unemployment among highest in Europe (double of total unemployment rate)
- **large regional disparities**
  - regional gaps in employment, unemployment, wages, but also education, health, shadow labor, social capital, values, etc.

# Labor market's main problem - high unemployment



Source: Labor Force Survey

# Unemployment - specific situations

- **high long-term unemployment**
  - 56% unemployed for more than 12 months, 21% for more than 24 months in 2001
- **growing unemployment of young generation**
  - 37% of youth aged 15-24 unemployed in 2001
- **mismatch problems**
  - 28 registered unemployed per 1 official job vacancy in 2002
- **regional disparities**
  - east - west, urban - rural, between regions but also neighboring districts (district unemployment rate varies between 4% and 36%)
- **high unemployment of Roma**
  - available data suggests a catastrophic labor position of Roma (unemployment rate four times higher than overall rate)

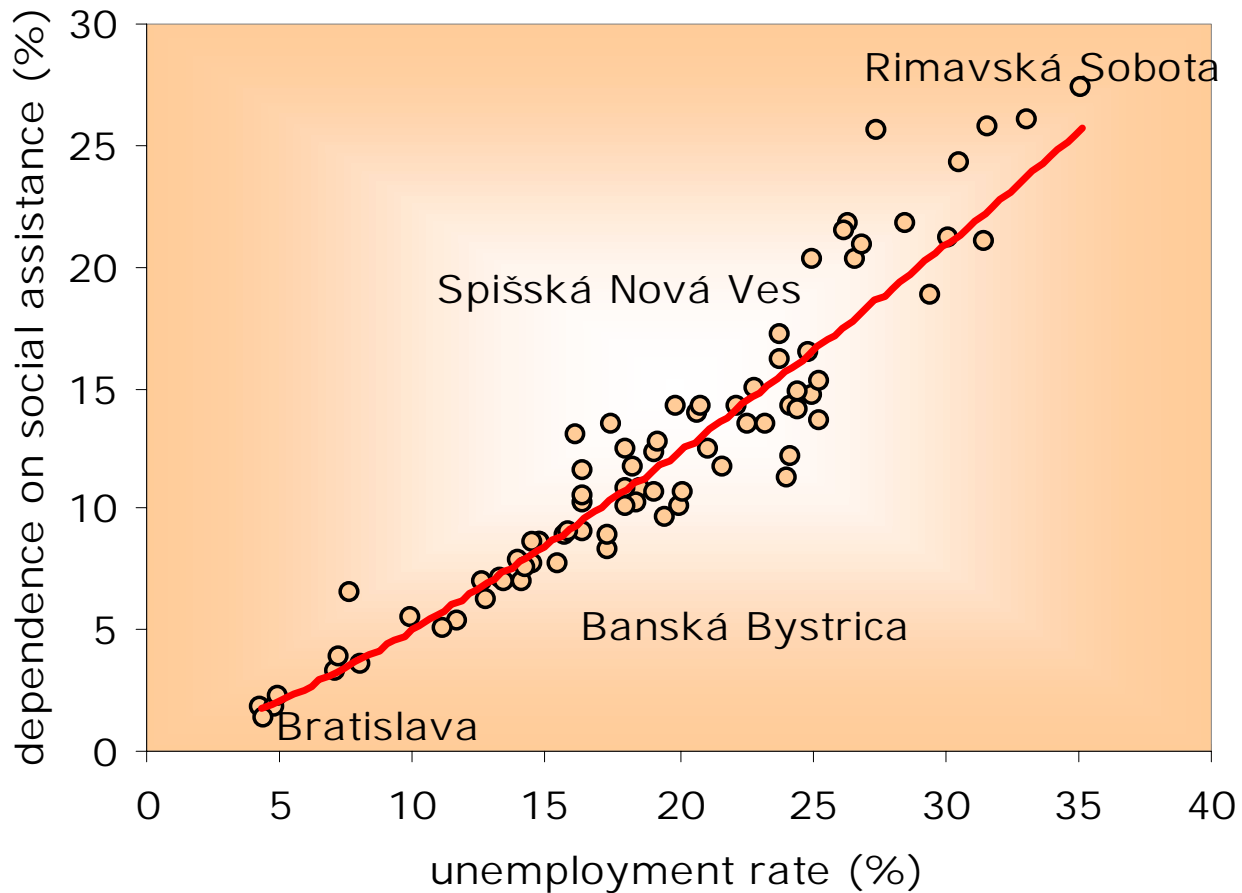
# Labor market problems - main causes

- **ineffective social system** (relatively generous, with disincentives, high redistribution and solidarity, and prevailing passive measures)
- **insufficient educational attainment and skills** (low education and qualification of a considerable part of labor force, hard core of unemployable persons)
- **poor links between school system and labor market** (skills mismatch)
- **barriers to business environment** (high tax and payroll tax burden, instable legislation, rigid labor law, insufficient law enforcement)
- **low labor mobility**, rigid housing market, underdeveloped infrastructure
- **other** (e.g., restructuring of economy, demographic trends, passivity, underdeveloped informal rules, etc.)

# Labor market problems - main consequences

- **unemployment of highest public concern** (82% of population consider unemployment as the most pressing social problem)
- **expansion of shadow economy** (estimated 18.3% of GDP in 2000-2001)
- **misuse of social system and public sources**
- **growing dependence on the social system** (unemployment support and social assistance overlap, more than 90% of recipients of assistance benefits are unemployed)
- **growing risk of poverty and social exclusion** (poverty risk of unemployed four times higher than average)
- **extreme poverty in Roma colonies**
- **depreciation of human and social capital**
- **deepening regional differences**

# Unemployment and dependence on social assistance





# Low mobility - not solely a labor market issue

Low international mobility of Slovaks can be derived from intra-national mobility factors:

- culture and tradition of low mobility (rather immobility)
- housing market (high ownership housing, low rental housing)
- transportation (underdeveloped infrastructure, relatively high cost)
- costs of moving (including administrative - civil registration)
- transferability of social agenda
- social contacts and family solidarity
- lack of incentives (e.g. tax)
  - despite significant regional gaps, mobility is not viewed as a means of solving labor market problems
  - only 1.5% of population migrated nationally in 2001 (lowest mobility in OECD)

# Some facts on international migration/mobility in Slovakia

Country	Immigrants to Slovakia from			Emigrants from Slovakia to		
	1999	2000	2001	1999	2000	2001
EU	218	170	243	247	348	397
EFTA	30	41	38	26	36	34
EU candidates	1,048	1,408	1,116	230	335	422
Russia&Ukraine	266	217	156	8	13	6

- 2,386 citizens of EU candidate countries were working in Slovakia in 2002
- 1,082 EU citizens were working in Slovakia in 2002
- share of foreigners on total population 0.5% (1998)
- share of foreign workers on employment 0.3% (1998)
- cross-border migration is limited in size and frequency (short-term and seasonal workers dominate)

# Labor mobility potential

- Slovaks migrate/commute for work mainly to
  - Czech Republic (approx. 60 thous. persons)
  - Germany (approx. 12 thous.)
  - Austria (estim. 8 thous.)
- Foreign workers in Slovakia come mainly from
  - Czech Republic
  - Ukraine
  - Poland
    - totaling officially less than 3 thous. workers
- international labor mobility is fairly low in Slovakia and no dramatic changes are expected after EU accession
  - psychological factors, geographical distance, low internal labor mobility, limited language skills, work qualifications, etc.

# Projected number of residents from CEECs in Germany (given introduction of free movement of labor in 2002)

Country	2002	2003	2005	2010	2015	2020	2030
Bulgaria	61,659	82,251	117,526	178,472	212,235	228,967	235,022
Estonia	6,500	10,114	16,339	27,269	33,562	36,933	38,915
Slovakia	16,532	25,464	40,950	68,672	85,365	95,080	103,050
CEEC10	754,329	952,131	1,292,799	1,890,933	2,235,498	2,420,513	2,531,556

Source: Boeri - Bruecker (2001)

# Labor market and social policy responses

## Responses

- are broad in scope and relatively generous
- help to reduce incidence of poverty, but have disincentive effects on active approach
- remain fragmented
- are dominated by passive measures
- redistribution is deemed more important than generation of sources
- individual merit is subordinated to solidarity, insufficient relation between contribution and benefit

## Changes in responses are inevitable

- to reduce disincentives and motivate individuals to activity (better targeting of LMP, social support and social assistance)
- to balance social solidarity and individual participation (pension reform, health care reform, decentralization)
- to develop social policies adjusted to economic, social and demographic reality
- to facilitate mobility after EU accession

# Challenges of EU accession for national policies

- implement remaining social reforms in ways that
  - contribute to solution of major social problems (unemployment, aging, etc.)
  - ease accession and membership
- consider changing factors and patterns of mobility
- prepare for higher diversity of social systems in an enlarged common market
- take into account transferability/portability of social schemes
- face higher competition, including competition of social systems
- utilize structural funds

**Which measures are needed to better cope with challenges and facilitate mobility within EU?**

# Policy recommendations (with respect to higher mobility)

- adjust key social schemes (e.g., pensions, health insurance) to be most compatible and portable
- adjust passive labor market and social transfers to regional conditions
- fight misuse of social system and shadow labor by addressing causes
- assess costs&benefits of traditional labor market tools
- focus on improvements in business environment
  - more specifically, refine respective legislation, strengthen enforcement of law, carefully reduce tax and social security burden, etc.
- create more effective links between labor markets and school system
- improve information flow on job vacancies
- address rigidities of housing market and transportation
- further decentralize provision of social transfers, fiscal decentralization
- develop a targeted immigration policy
- utilize EU know-how and support