
Economic transition, partisan politics and EU austerity: a case study of Slovakia's labour market policies

Stefan Domonkos

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Introduction

This paper provides an overview of labour market policies in the Slovak Republic, from the beginning of the post-socialist transition to the recent period, characterised by growing pressure for fiscal stringency from the European Union (EU). It investigates the differences between the prevalent trends in labour market policies before and after 2010. Similarly to many other EU member states, the European Commission initiated an excessive deficit procedure against the Slovak Republic between 2010 and 2014. However, because of a number of economic and political factors, the emphasis on fiscal discipline has been nothing new in the Slovak case. Consistent with this, the analysis finds little difference between labour market policies before and after 2010. While EU-led austerity may have played a role, it rather prolonged and reinforced the existing tendency towards increasingly strict punitive measures, underfinanced active labour market policies and cuts affecting the capacity of public institutions to provide material and non-material help to jobseekers.

The paper focuses on four pivotal areas within labour market policies. These include unemployment protection, employment protection, active labour market policies and needs-based income support. The first three of these are commonly recognised as key parts of a modern labour market policy mix. Needs-based income support includes social transfers and measures provided on the basis of material deprivation rather than earned rights derived from past contributions to the social security system. While the primary objective of needs-based support is poverty alleviation, in the Slovakian context it is also employed as a pillar of activation policies. The close link between active labour market policies and needs-based support makes it necessary to extend the analysis of labour market policies also to these types of policy.

The study proceeds as follows. In Section 1, the Slovak macroeconomic and macro-institutional context is presented. Section 2 traces the development of labour market policies from the early 1990s to recent times. Section 3 discusses the most important differences between pre- and post-2010 labour market reforms, and evaluates the impact of the growing EU-wide pressure for budgetary stringency.

1. Macroeconomic and macro-institutional context

The Slovak Republic is one of those post-socialist countries that do not fit into any clear-cut welfare-state regime defined in the Western welfare-state typology literature. Some elements of the Slovak social security system, such as the strong link between past contributions and benefits, are remnants of the country's Bismarckian tradition, inherited from the Austro-Hungarian Empire and Czechoslovakia. Nevertheless, low benefits and the limited duration of entitlement in the case of unemployment protection represent significant deviations from the Continental-Bismarckian model. Most importantly, the country's social security system has undergone a number of large-scale paradigmatic shifts in the past decade. These reforms have been adopted despite the threat of severe electoral punishment by a public generally supportive of redistribution. Thus, the Slovak welfare state possesses most of the traits that Aidukaite (2009; 2011) associates with a distinctively post-socialist welfare regime, such as adherence to insurance-based social security, wide coverage, low benefits, the spread of neoliberal policies, but also a strong public preference for solidarity. This makes the country a good example for studying the typical development of labour market policies in post-socialist EU member states.

The trajectory of the post-1989 Slovak welfare state has been significantly influenced by the country's vulnerable political and macroeconomic situation as it unfolded after the fall of the semi-authoritarian left-wing/nationalist Mečiar government in 1998. In contrast to its neighbours, the Slovak Republic was a latecomer to the European integration process, internationally shamed for its government's poor performance with regard to democratisation and human rights (Mathernová and Renčko 2006; Tudoroiu, Horváth and Hrušovský 2009; Bohle and Greskovits 2012). The Mečiar government's loss of credibility after the country's exclusion from the first round of EU accession negotiations led to the rise of a free-market liberal coalition devoted to EU integration, foreign investors and the retrenchment of the welfare state (Fisher, Gould, and Haughton 2007; Bohle and Greskovits 2012).

Mečiar's government was replaced in 1998 by a grand coalition of reformed left-wing, Christian democrat and free-market liberal parties led by Prime Minister Mikuláš Dzurinda, then leader of the centre-right Slovak Democratic Coalition (SDK). Subsequently, the 2002 elections gave rise to Dzurinda's second, ideologically more coherent pro-market government, which carried out an overhaul of the Slovak tax- and social-security system, including the country's labour code. Confronted with growing unemployment and an acutely capital-poor economy,

one of the leitmotifs of the reform programme designed and adopted by the second Dzurinda government was the attraction of foreign direct investment (FDI). This objective was pursued successfully as the country became home to one of Europe's most important automotive-industry hubs (Frigant and Miollan 2014). However, according to the political rhetoric of those days, increasing competitiveness required a marketised social-security system, reducing needs-based income maintenance programmes and the marginalisation of trade unions.

The second Dzurinda government also developed the first plans to join the euro area by 2009 (Government of the Slovak Republic 2008) and decided to implement a shift from the country's mature state-run pay-as-you-go (PAYG) pension system to a mandatory funded retirement scheme similar to the one implemented in Chile (Drahokoupil and Domonkos 2012). These proved to be particularly important long-term policy choices, influencing Slovak government finances well beyond the 2006 elections, which led to a left-wing turn in domestic politics.

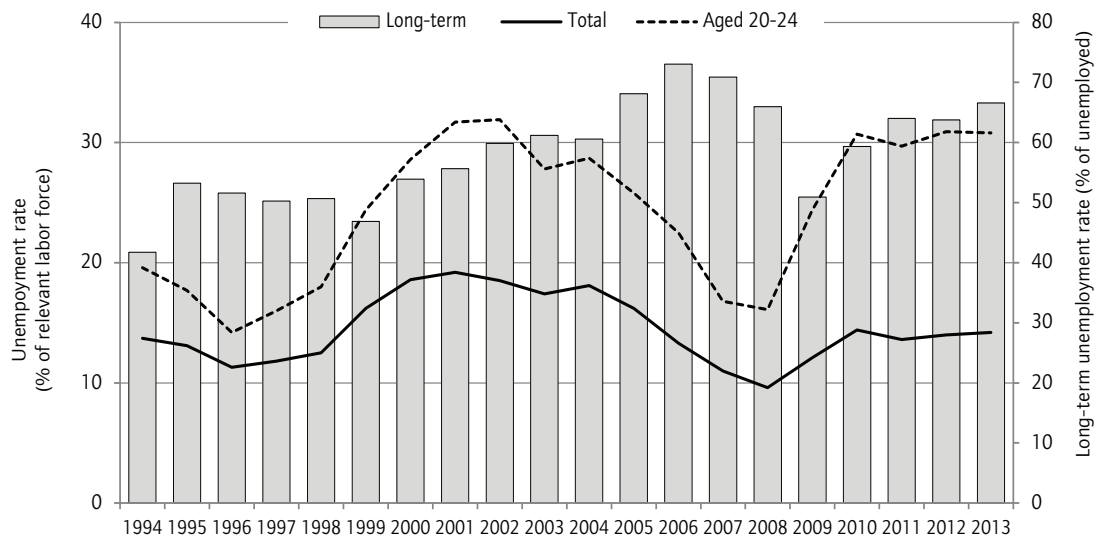
The plan to adopt the euro by 2009 required considerable fiscal effort combined with a need to limit monetary expansion. The introduction of mandatory funded pensions went hand in hand with significant transition costs¹ increasing the deficit of the old-age social security system (Drahokoupil and Domonkos 2012). Given these systemic reform choices (see Pierson 1994), Slovak governments were left with limited fiscal space to carry out an expansion of welfare policies, even at times of unusually high economic growth in 2005–2008. Thus, in the early and mid-2000s, the Slovak Republic not only joined the EU, but also underwent a rapid adoption of neoliberal 'reform' policies in practically all significant social policy areas. Much of the 2002–2006 reform package has successfully outlived its architects, leaving a lasting imprint on the Slovak policy environment up to the present day. It has also significantly influenced the policy trajectory of the left-leaning governments led by the Smer party, in office between 2006 and 2010 and since 2012.

The system of employment and unemployment protection, active labour market policies and the regulation of needs-based income support have also been significantly reformed in this period (for example, Jurajda and Matherňová 2004; Bohle and Greskovits 2006). The increased importance of fiscal discipline during the euro-adoption process and the EDP between 2010 and 2014 left its mark on the quality of services provided by the Regional Offices of Labour, Social Affairs and Family (hereinafter labour offices). As will be discussed in greater detail, low spending on public services, including staffing at labour offices and active labour market policies constitutes a significant impediment to addressing many of the long-term problems of the Slovak labour market (Duell and Kureková 2013).

1. These transition costs result from the immediate decline in revenue once the state chooses to carry out such a transformation. While promises made to recent pensioners relying on the PAYG system cannot be (fully) avoided, there is much lower revenue collected from workers. The transition to funding is likely to lead to a decline in pensions payable from the PAYG system in the future, but it takes decades until the decrease in the yearly public pension costs evens out the annual revenue lost due to the transition to funding (Simonovits 2003; Ódor et al. 2004; Barr and Diamond 2008).

Nevertheless, in order to be able to evaluate the impact of concrete labour market policy reforms, one must first investigate the particularities of the Slovak labour market. Similarly to most state-socialist nations, unemployment was non-existent in the Slovak Republic before 1989. The state socialist regime guaranteed employment, which also meant that institutions comparable to unemployment protection and active labour market policies known from standard market economies remained underdeveloped. Following the implosion of the Eastern Bloc, a high unemployment rate has become typical of the Slovak economy. The first large increase in the number of unemployed in Czechoslovakia took place in 1991, when the unemployment rate rose from about 1 per cent to 4 per cent in the Czech Republic and almost 12 per cent in the Slovak Republic (Ham, Svejnar and Terrell 1995, 94). As can be seen in Figure 1, unemployment has remained above 10 per cent for most of the post-socialist period, peaking at 19.2 per cent in 2001. While the FDI-led economic upswing of the mid-2000s contributed to a significant decline in the unemployment rate, a more detailed look at the figures also shows that the country is suffering from deeply rooted structural imbalances that have not been sufficiently addressed during the 2000s.

Figure 1 Total, youth and long-term unemployment in the Slovak Republic (1994–2013)



Note: Data derived from the Slovak Labour Force Survey (Výberové zisťovanie pracovných síl).

Source: Slovak Statistical Office – SLOVSTAT Database (<http://www.statistics.sk/pls/elisw/vbd>)

As can be seen in Figure 1, long-term unemployment is particularly high. In 2013, two-thirds of all unemployed had been out of a job for more than twelve consecutive months. Moreover, it seems that the high share of long-term unemployed is not merely a consequence of the economic crisis of the late 2000s. Their share in total unemployment has exceeded 50 per cent for the past 15 years. Given the limited duration of unemployment protection, most long-term unemployed have to rely on the so-called Benefit in material need (BMN) and other needs-based benefits. The share of long-term unemployment in total unemployment was highest during the period of rapid economic growth, 2005–2008, indicating the presence of

a structural mismatch between the supply and demand sides of the labour market. Although governments on both left and right have shown an awareness of the severity of this problem (Government of the Slovak Republic 2010a; 2010b; 2012), the steps taken to address this phenomenon have been rather limited.

Besides long-term unemployment, high youth unemployment and large regional disparities are the two most important characteristics of the Slovak labour market. As Table 1 shows, some parts of western Slovakia, especially the capital city Bratislava, enjoy low levels of unemployment. By contrast, in the economically less advanced regions in the east unemployment rates have oscillated between 12 and 21 per cent for the past decade. Long-term unemployment is also primarily concentrated in central and eastern Slovakia (Švecová and Rajčáková 2014).

While youth unemployment represents a challenge, the share of young people not in education, employment or training (NEET) is lower than the data on joblessness alone may suggest. From a low of 16.1 per cent in 2008, the share of young people aged 20–24 falling into the NEET category rose to just above 20 per cent throughout 2010–2013. These numbers are considerably below the youth unemployment rate shown in Figure 1. Part of the explanation for this discrepancy is the broad availability of secondary and tertiary education opportunities. As has been suggested by some of the country's leading policy analysts, the expansion of secondary and tertiary education means that young people not in education has been a specific subgroup where the risk of unemployment is indeed higher (for example, Goliáš 2013).

Table 1 Economic environment and regional disparities in the Slovak Republic (2003–2013)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Macroeconomic environment¹											
GDP growth ^a	4.8	5.1	6.7	8.3	10.5	5.8	-4.9	4.4	3.0	1.8	0.9
Gov't deficit ^a	-2.7	-2.3	-2.9	-3.6	-1.9	-2.4	-7.9	-7.5	-4.1	-4.2	-2.6
Gov't debt ^{2,a}	42.4	41.5	34.2	30.5	29.6	27.9	35.6	41.0	43.6	52.7	55.4
Employment rate (Cohort 20–64) ^a	64.8	63.7	64.5	66	67.2	68.8	66.4	64.6	65	65.1	65
National currency in ERM II	No	No	Yes ³	Yes	Yes	Yes					
Excessive deficit procedure	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes
Unemployment rate⁴											
Bratislava Region ^b	3.97	3.39	2.6	2.29	1.98	2.27	4.36	4.63	5.41	5.72	6.17
Western Slovakia ^b	13.62	10.79	8.6	6.62	5.39	5.65	10.18	9.91	10.82	11.62	10.92
Central Slovakia ^b	17.92	15.3	13.78	11.55	9.78	10.18	14.93	14.77	15.82	16.74	15.39
Eastern Slovakia ^b	20.84	18.19	16.62	14.41	12.52	13.17	17.81	17.28	18.85	20.14	18.32

Notes: ¹ Government debt and deficit are given as percentages of GDP; Employment rate is given as percentage of total population aged 20–64; ² Quarterly data, fourth-quarter data provided; ³ since 28 November 2005; ⁴ percentages of the labour force registered as jobseekers at labour offices.

Sources: ^a Eurostat; ^b Slovak Statistical Office – REGDAT database

The Slovak labour market is also characterised by limited use of temporary and part-time contracts. According to the estimates from the Slovak module of the European Working Conditions Survey (EWCS), almost 70 per cent of workers in 2005 and 67 per cent in 2010 were employed on the basis of a permanent full-time job based on an open-ended contract. The same figures for the EU15 stood at 53.5 and 55.5 per cent in 2005 and 2010, respectively. The share of workers employed in atypical forms of employment has been below the average of the EU15, and reached approximately 30 and 33 per cent in 2005 and 2010, respectively (see Baboš 2013: 181). While further research is needed on the subject, limited redundancy costs in both atypical and typical labour contracts may be one of the reasons behind the relatively large share of permanent job contracts in the Slovak labour market.

2. Labour market policies during the economic transition and beyond

2.1 Unemployment protection

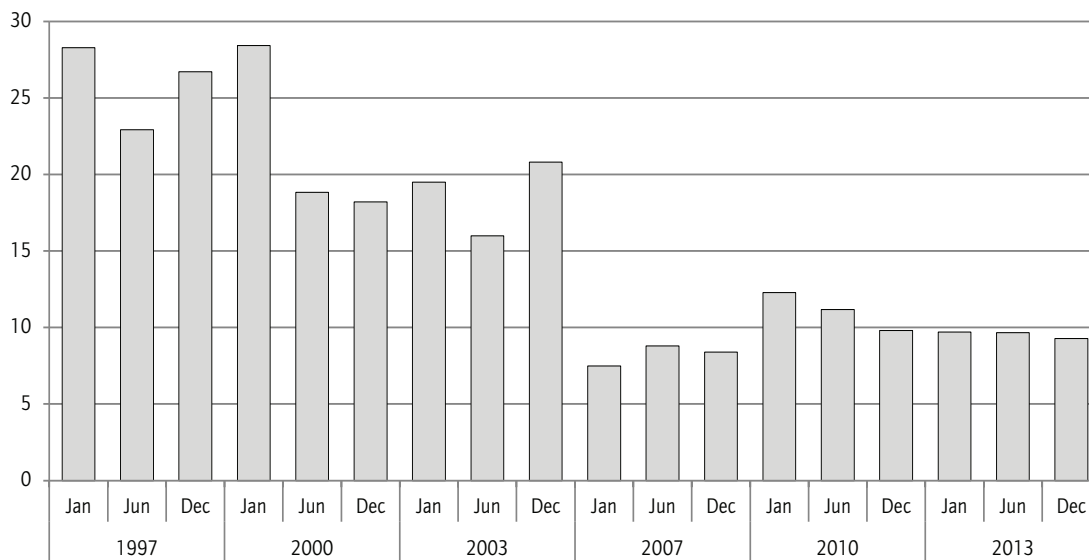
Labour market policies, both passive and active, had to be created practically from scratch in post-1989 Czechoslovakia. The legislation that entered into force in January 1990 provided for an unemployment protection scheme comparable in its relative generosity and institutional set-up to western European systems. Those paying contributions for at least 12 months in the past three years were eligible for unemployment benefits, but full-time study, military service and childcare also counted for this qualifying insurance period, making it fairly easy to obtain unemployment benefits. The entitlement period was set at twelve months. In the meantime, benefit levels were kept rather meagre: although the gross replacement rate was relatively high even by western European standards (between 60 and 90 per cent), the maximum unemployment benefit was first determined at CZK 2400 (approximately 80 US dollars), and later set at 1.5 and 1.8 times the minimum wage for a regular unemployed person and an unemployed person in retraining, respectively. Thus, the first unemployment protection scheme of the new Czechoslovak market economy was characterised by broad coverage, a relatively long entitlement period and low benefits (Terrell and Munich 1996).

Nevertheless, after the country's social welfare system was confronted with the first large increase in unemployment in 1991, limitations on benefits, the entitlement period and eligibility were introduced. Benefit levels were moderately reduced and the entitlement period decreased from 12 to six months (Ham, Svejnar, and Terrell 1995). Further restrictions came into force in 1993. Although entitlement to benefits was not linked to proving an active search for work, those who refused retraining or participation in public works programmes would lose their benefits (Terrell, Lubyova, and Strapec 1996). While some of these measures have been abolished in subsequent rounds of reforms, it became clear that unemployment protection was a badly needed, but costly and sensitive aspect of the Slovak welfare state. On one hand, loose eligibility criteria have been seen by some policy experts as a factor increasing the likelihood of free-riding on the welfare system (for example, Ham, Svejnar, and Terrell 1995; Terrell, Lubyova, and Strapec 1996; Terrell and Munich 1996). On the other, the country's turbulent transition clearly threatened a large part of the labour force with joblessness. In reaction to this, the 1995 amendment of the legislation introduced differentiated entitlement periods by age, granting preferential treatment to older jobseekers (Terrell, Lubyova, and Strapec 1996).

Cuts in the entitlement period and the tightening of eligibility criteria continued further throughout the 1990s and 2000s. As mentioned earlier, the legislation

initially provided easy access to unemployment protection for graduates, and workers were eligible for unemployment benefits after 12 months of insurance in the past three years. However, by the early 2000s, full-time study was no longer included in the qualifying period and the necessary insurance period for gaining access to benefits was increased to 24 months. At the same time, following the 2004 reform of the social security system, eligibility for unemployment benefits became independent of the reason for job termination. Until 2004, both termination by the employer for breach of labour discipline and termination by the employee without a serious reason had a negative impact on unemployment benefit. Thus, the reforms introduced stricter general conditions applicable to everyone, and abolished exceptions related to individual reasons for unemployment that had negatively influenced benefit levels in the past.

Figure 2 Unemployment benefit recipients as a percentage of registered unemployed



Sources: For 1997–2003: Central Office of Labour, Social Affairs and Family (http://www.upsvar.sk/statistiky/nezamestnanost-mesacne-statistiky.html?page_id=1254); for 2007–2013: Central Office of Labour, Social Affairs and Family and the Social Insurance Agency (<http://www.socpoist.sk/647/1615s>)

Another package of important legislative amendments was introduced between 2002 and 2004. The standard entitlement period was set at six months for all age groups without exceptions. Access to benefits was further tightened. From 2004, social insurance contributions for at least 36 months in the past four years were needed to qualify for unemployment benefits and the preferential treatment of seasonal workers, present in the legislation since the early 1990s, was abolished. In addition, besides registering with a labour office, jobseekers have been required since 2003 to demonstrate an active search for employment. This involves providing written evidence, every other week, that the jobseeker has established contact with prospective employers. Failure to meet this requirement results in the deregistration of the jobseeker from the labour office's register and the loss of unemployment benefits (Gyarfášová et al. 2006). These changes happened while unemployment was sharply rising, from approximately 12 to almost 20 per cent (see Figure 1, p. 9). Between the mid-1990s and mid-2000s, the share of people drawing unemployment benefits in

the total number of registered jobseekers declined from above 25 per cent in 1997 to approximately 10 per cent by 2007 (see Figure 2, p. 13). While other circumstances might have also contributed to this trend, the tightening of access to benefits has certainly been a major factor.

The generosity of unemployment benefits was affected less strongly by the austerity measures applied in the late 1990s and early 2000s, although gross replacement rates were decreased to 50 per cent of the assessment base by 2004. The new social security legislation introduced a more significant differentiation based on past contributions, which also meant that high-income workers saw the replacement rates of their unemployment benefits increase fairly sharply between 2003 and 2004. While until 2003 benefits were maximised at 1.5 times the minimum subsistence level, the maximum unemployment allowance was raised to approximately 1.5 times the average wage in 2004. This led to a threefold increase in the level of the maximum unemployment benefit. According to official OECD data on the net replacement rate of unemployment benefits, the replacement rate of single childless individuals earning 150 per cent of the national average wage increased from about 38 per cent in 2003 to 66 per cent in 2005 (OECD 2014). Therefore, it appears that the post-2004 unemployment protection system with its tightened eligibility criteria and increased maximum benefit levels has catered primarily to higher-income individuals with a stable labour market position.

Subsequent reforms carried out during the left-leaning Smer governments led to modest adjustments. With the exception of a two-year incumbency of a free-market liberal coalition between the summer of 2010 and April 2012, Smer has been continuously in government since 2006. First, since 2008, the maximum base for the calculation of unemployment insurance contributions has increased from approximately three to four times the national average wage. In 2013, this was further raised to five times the national average wage. The maximum level of benefits receivable remained, until 2012, approximately 1.5 times the average wage. In 2013, this was decreased to the average wage. Nevertheless, while these measures increased the compulsory payment wedge of high-earning workers, and at the same time restricted maximum benefits, important loopholes were left open that allow the avoidance of social security payments (for example, Kollárová 2014).

Besides increasing the redistributiveness of the system, eligibility criteria have been loosened again for seasonal workers. In addition, since 2013 the social security code has been reformed in order to include people employed on the basis of specific atypical contracts (so-called agreements on work performed outside an employment relationship) in regular old-age social security and unemployment protection. Some of these changes, such as the enrolment of atypical workers in the social security system and the decreased maximum unemployment benefit rate, may have been partly motivated by the government's need to raise additional revenue in the social security system.

To sum up, while a comprehensive evaluation of the redistributive consequences of these measures is beyond the scope of this study, it is fair to say that the reforms of income protection for the unemployed after 2010 have led to improved coverage. In congruence with this, most of the restrictive measures have targeted high-

earning individuals with a stable labour-market position. Most importantly, the general unemployment protection scheme, which after its reform in the early 2000s provided benefits closely commensurate with past contributions, has been gradually changed into a more redistributive system. The programme's coverage has also been improved, thus providing greater social security for people in precarious working conditions, although this goes hand in hand with increased labour costs.

2.2 Employment protection

In contrast to unemployment protection, employment protection was part of the Czechoslovak Labour Code before 1989. The pre-transition Labour Code defined differentiated rights and requirements for the employee and the employer in case of job termination. In theory, employees were allowed to resign, with or without stating a legitimate reason for resignation listed in the Labour Code. However, resignation without stating a reason would drastically increase the notice period. The employer's right to fire workers was considerably more restricted.

The new post-1989 regulation gave greater freedom to both employers and employees. While some of the regulations for employers were retained, the Slovak Labour Code does not provide for particularly high employment protection. Employers are allowed to fire workers in order to increase the efficiency of their organisation, which provides considerable discretion in employment matters. Nevertheless, people on sickness and child-care leave are protected from job termination. For most of the 1990s, redundancy costs were kept fairly low. Employees to be fired were protected by a general notice period of two to three months and severance pay equal to two to three months of the employee's average wage. Notice-period wage and severance pay were provided independent from each other.

In the 2000s and 2010s, redundancy costs became an object of frequent changes. The reform package of the second Dzurinda government abolished the accumulation of notice-period wages and severance pay. However, the 2007 overhaul of the Labour Code under a left-leaning government reintroduced the general right to severance payments. Those working fewer than five years at their employer were entitled to two months' wages, while those working longer than five years were entitled to three months' wages, on top of their notice-period wages. In specific cases, such as job termination because of the employee's inability to carry out their work due to occupational health risks, the severance pay was increased to 10 times the employee's average monthly wage.² Taking into account a number of other amendments providing for a more equal treatment of contracted workers and core employees, it appears that the overall trend during the Social Democratic government between 2006 and 2010 was a deflexibilisation of the Labour Code, primarily by increasing redundancy costs. However, an important exception is the introduction of the so-called *flexikonto* in 2009, allowing more flexible organisation of working time through the use of work-time accounts.

2. It should be noted that the redundancy cost-measures discussed refer to the legal minimum that employers are required to provide. Deviations to the benefit of the employees can be agreed upon within the framework of individual contracts and collective agreements.

The post-2010 development of employment-protection legislation does not appear to point towards a prevailing trend in favour of or against greater flexibility. The Labour Code was liberalised to some extent during the 2010–2012 term of a centre-right government. The *flexikonto*, initially introduced as a temporary crisis-related measure, became an integral part of the Slovak Labour Code in 2011. The accumulation of notice-period wages and severance pay was again abolished, while a limitation of employers' liability in case of unlawful dismissal and a more flexible treatment of fixed-term contracts were introduced. Nevertheless, several of these changes were withdrawn shortly after the Social Democratic Smer returned to power in 2012. The Labour Code reforms of 2012 again stipulated a stricter limitation on the chaining of fixed-term contracts and more equal treatment of contracted workers and core employees. As Table 2 shows, the accumulation of notice-period wage and severance pay was also reintroduced.

Table 2 Minimum notice period and severance pay in the Slovak Republic (2002–2015)

Year	Notice period/severance pay
2002–2003	2–3 months depending on the reason for job termination/2 months' a.w. (accumulation of n.p.w. and s.p.)
2003–2007	2–3 months depending on seniority/2–3 months' a.w. depending on seniority (no accumulation of n.p.w. and s.p.)
2007–2011	2–3 months depending on seniority/2–3 months' a.w. depending on seniority, 10 months' a.w. for specific occupational health-risk related job termination (accumulation of n.p.w. and s.p.)
2011–2013	1–3 months depending on seniority, reasons for job termination and contractual party terminating the work contract/severance derived from notice period (no accumulation of n.p.w. and s.p.), severance pay of 10 months' a.w. for specific occupational health-risk related job termination
2013–present	1–3 months depending on seniority, reasons for job termination and contractual party terminating the work contract/ 1–5 months depending on reason for job termination and seniority, 10 months' a.w. for specific occupational health-risk related job termination (accumulation of n.p.w. and s.p.)

Notes: a.w.= employee's average wage, n.p.w.= notice-period wage, s.p.=severance pay

Source: National legislation (available at jaspi.justice.gov.sk)

To conclude, it appears that alteration in power between left- and right-wing governments, rather than EU austerity, has been the key factor influencing the post-2010 development of employment protection legislation in the Slovak Republic. While the economic crisis has had a negative impact on the Slovak labour market, these pressures have only led to limited changes toward flexibilisation, of which the introduction of the *flexikonto* is the most important. Other amendments to employment protection legislation, be they related to redundancy costs or the legal treatment of temporary and contracted workforce, can be best characterised as marginal. The development of Slovak employment protection legislation clearly demonstrates the importance of the government of the day's ideological preferences. The left-leaning Smer has introduced several measures increasing the protection of employees through higher redundancy costs and stricter regulation of various forms of work contract. However, past experience shows that these policies can be easily reversed if a free-market liberal government is formed in the future. Therefore, it is not possible to identify a prevalent trend in employment protection legislation, let alone to offer a prediction of future developments in this policy field.

2.3 Active labour market policies

Active labour market policies have been incorporated into the Slovak LMP framework since the early 1990s. The first post-1989 Labour Code already included a number of measures aimed at job creation and the retraining of jobseekers (Ham, Svejnar, and Terrell 1995). Most important among these have been the 'socially purposeful jobs' and the 'publicly useful jobs' schemes, both aimed at job creation. 'Socially purposeful jobs' covered job subsidisation in existing companies and support for start-ups for the unemployed. 'Publicly useful jobs' provided for placements within municipal services (Terrell and Munich 1996). The share of spending on 'socially purposeful jobs' and 'publicly useful jobs' in total ALMP expenditure exceeded 80 per cent throughout 1991–1995, 'socially purposeful jobs' being the dominant measure (see Terrell, Lubyova, and Strapec 1996: 258). In the same period, half of all ALMP participants were employed within the framework of a 'socially purposeful jobs' scheme (the same figure was between 22 and 26 per cent for 'publicly useful jobs'). By contrast, retraining and graduate placement programmes played a considerably smaller role (Terrell, Lubyova, and Strapec 1996). As Table 3 (p. 18) shows, active labour market policies have gone through several important amendments since their initial introduction in the early 1990s. The Labour Code and the law governing the functioning of the labour offices has been thoroughly revised several times and, as part of these revisions, the system of active labour market policies has also evolved.

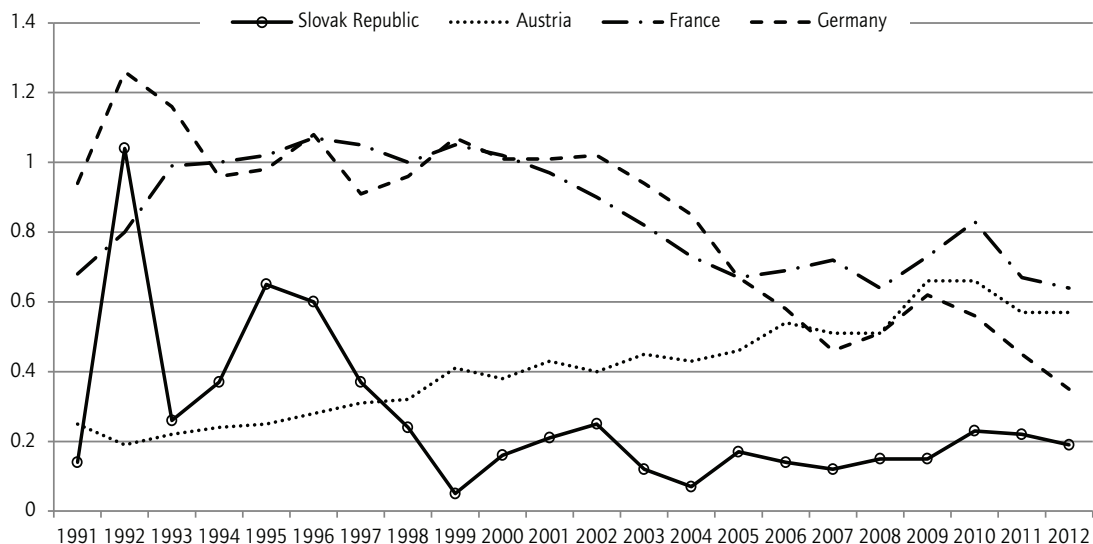
Despite a number of significant legislative changes throughout the 1990s and 2000s, the afore-mentioned main characteristics of Slovak active labour market policies have remained largely unchanged. The emphasis has been on direct job creation and subsidised employment, while other measures have played a smaller role. Importantly, as Figure 3 (p. 19) demonstrates, with the exception of a few years during the early transition, expenditure on active labour market policies relative to GDP has remained below the level spent in more advanced EU member states. While in Western European economies ALMP expenditure typically approximates or exceeds 0.4 per cent of GDP, the Slovak Republic spends only around 0.2 per cent of GDP on such measures (see OECD 2015). After 2004, finances from the European Social Fund became the key source of financing for active labour market policies. Nevertheless, this change has not led to a significant improvement. In addition, the day-to-day administration of active labour market policies at the regional labour offices has been adversely influenced by understaffing. Labour offices went through several rounds of downsizing in 2007 and 2011, when the number of their employees was decreased by approximately 14 and 9 per cent, respectively. This decline in personnel and increasing unemployment have led to a major rise in the workload of employees in recent years (see Duell and Kureková 2013: 21–25). According to the 2015 National Reform Programme, the average case load of first-contact consultants had reached 569 clients. While it is too early to evaluate the effectiveness of measures aimed at reversing this negative trend, the government realised that understaffing was a serious problem and expressed an intention to reduce the case load to 226 throughout 2015 (see Ministry of Finance of the Slovak Republic 2015: 33).

Table 3 Selected ALMP instruments in the Slovak legislation (1991–2014)

Programme name	Period in force	Short description
Act 1/1991 Coll. on employment and Act 83/1991 Coll. on the powers of the Slovak authorities in the area of employment policy		
Socially purposeful jobs (SPJs)	1991–1996	Jobs created by the private sector, based on a contract between the job provider and a labour office, to be filled with jobseekers registered at a labour office.
Publicly useful jobs (PUJs)	1991–1996	Short-term jobs created by the public sector, based on a contract between the job provider and a labour office, to be filled with jobseekers registered at a labour office.
Retraining	1991–ongoing	
Programmes for graduates	1991–1994 (merged into SPJs)	Subsidised practical training at a prospective employer and generic courses in a variety of areas.
Act 387/1996 Coll. on employment		
Subsidisation of existing jobs	1997–2003	Subsidies to be paid to employers in case of organisational changes leading to temporary underemployment in the enterprise.
Subsidised jobs for jobseekers (including PUJs)	1997–2003	Subsidised jobs for jobseekers and graduates, including the subsidisation of self-employment. Specific programmes for vulnerable groups, such as jobseekers older than fifty, the disabled (for example, protected workshops) and jobseekers returning from maternity leave.
Large-scale job creation	1997–2003	Subsidies for large-scale investment projects creating several hundred jobs.
Retraining	1997–2003	
Graduate practice	2002–2003	Programme helping recent graduates to gain practical work experience.
Act 5/2004 Coll. on employment services		
Activation work programme	2004–ongoing	Mostly unqualified work for municipalities providing access to activation benefit (a component of needs-based income assistance).
Subsidisation of start-ups	2004–ongoing	Aimed at jobseekers registered with a labour office taking up self-employment. Until 2013, support was claimable if a jobseeker met all conditions stipulated by law. Since 2013, the support has been conditional on approval by a labour office.
Graduate practice	2004–ongoing	Programme helping recent graduates to gain practical work experience.
Financial support for commuters (and relocation)	2004–ongoing (2008–ongoing)	
Protected workshops	2004–ongoing	Enterprises with an increased share of disabled employees who could not find employment on the regular labour market.
Subsidisation of regional and local employment	2010–ongoing	Subsidy to cover part of the costs of employing disadvantaged job seekers. Subsidy may be received by municipalities and regions.
Subsidisation of employment in flood-protection programmes	2010–2013	Subsidy to cover part of the costs of employing jobseekers registered with the regional labour offices in flood protection programmes. Subsidy may be received by municipalities and regions or public authorities responsible for flood protection.
Subsidisation of regional employment	2014–ongoing	Subsidy to cover part of labour costs of municipalities and regions employing disadvantaged jobseekers.

Sources: Terrel and Munich (1996); Terrell, Lubyova and Strapec (1996); Uldrichova and Karpisek (1994) and national legislation (available at jaspi.justice.gov.sk)

Figure 3 Expenditure on ALMPs in the Slovak Republic as a percentage of GDP



Note: Data refer to expenditure on policy measures 20–70 according to OECD methodology.

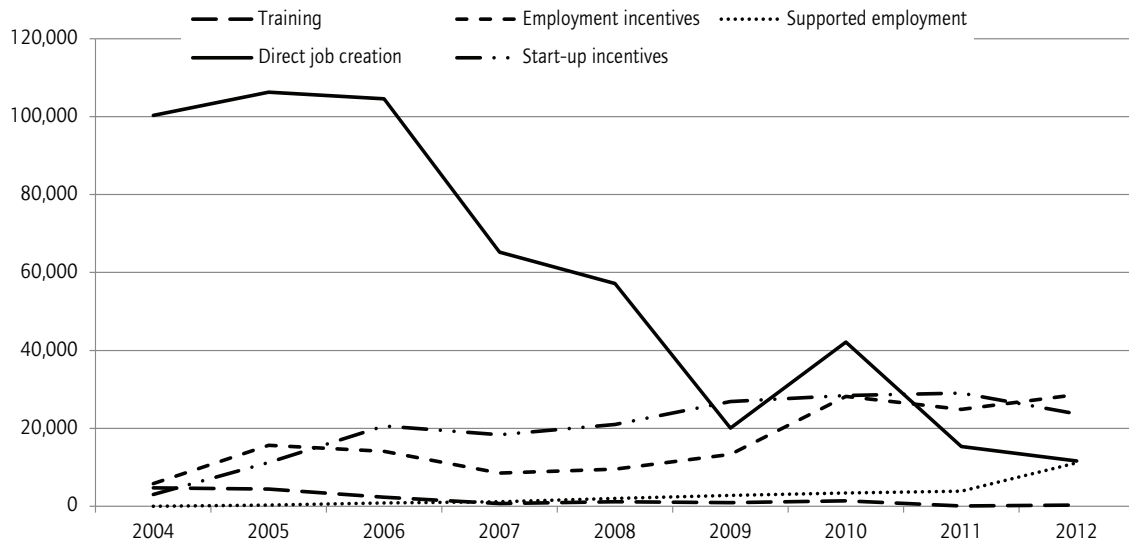
Source: OECD (2015)

The most important overhaul of active labour market policies in the post-1989 period took place in 2004, under the aegis of the second Dzurinda government. A significant shift towards workfare was made by cutting needs-based income support and partly replacing it with the activation benefit payable for participation in the activation work programme.³ At the same time, ‘publicly useful jobs’ were phased out entirely (Gyarfašová et al. 2006; Mýtina Kureková, Salner, and Farenzenová 2013). Travel subsidies have also been introduced into the list of active labour market policies.

The activation work programme subsequently became the most important active labour market policy until the late 2000s. As Figure 4 (p. 20) shows, direct job creation – namely, within the framework of the activation work programme – played the most important role among all active labour market policies between 2004 and 2007. Nevertheless, as Mýtina Kureková, Salner and Farenzenová (2013) note, activation is a hybrid policy instrument whose aim is not only to integrate the long-term unemployed into the labour market, but also to provide a badly needed complement to the rather limited needs-based income support. In fact, the success of the programme as a tool of job-market (re)integration is debatable at best (for example, Harvan 2011).

3. Only members of households in material need can receive activation benefit. Each member of such a household is entitled to the activation benefit if they improve their qualifications (for example, studying for a secondary-school diploma or university degree), are employed and earn above the minimum wage, or if they are long-term unemployed and participate in the activation work programme. The activation work programme requires jobseekers to carry out 64 to 80 hours of work per month. The unemployed can also qualify for the activation benefit if they work 64 to 80 hours for a municipality or as volunteers. As of 2015, the monthly activation benefit amounted to 63.07 euros. While receiving remuneration for their work, participants of the activation work programme are not insured under the social security scheme during their engagement in the programme.

Figure 4 Participation in ALMPs in the Slovak Republic (2004–2012)



Source: Eurostat LMP statistics (<http://ec.europa.eu/eurostat/data/database>)

In 2004, 88 per cent of all ALMP participants took on activation work. Although there has been a non-negligible decline in the relative and absolute number of activation-work participants since the mid-2000s, the official Eurostat data overestimate the importance of this trend. Activation is partly organised through local labour offices and partly through municipalities. As the number of free positions offered by labour offices decreased, the number of positions available through the municipalities increased. As Mýtna Kureková, Salner and Farenzenová (2013, 27) point out, the monthly number of activation benefits paid out has been stable at around 55,000 since 2010. Nevertheless, these empirical data still indicate a 50 per cent decline in the number of activation work participants between 2004–2005 and the early 2010s.

Since the late 2000s, the government's focus has gradually shifted towards contributions to commuting to work, start-up incentives and protected workshops. Nevertheless, attempts by the 2006–2010 left-leaning government to increase the importance of protected workshops and other social enterprises were jeopardised by the lack of transparency and subsequent fraud allegations associated with this policy instrument (for example, Onuferová 2010; Prušová 2011). Following several scandals, the programme has been largely discontinued.

A somewhat more successful shift in active labour market policies concerned the targeting of vulnerable groups. After 2010, a number of measures were introduced in order to improve the labour-market situation and long-term prospects of young jobseekers. As of 2013, individuals younger than 18 years were not entitled to activation benefit for activation work. This measure takes away a major disincentive to continuing education. Several new job-subsidisation schemes have been introduced with the specific aim of supporting the employment of people younger than 29 years of age who have been registered as jobseekers for a longer period of time (three to six months, depending on the programme).

To summarise the most important aspects of the development of active labour market policies, direct job creation has been the most commonly used active measure in the Slovak Republic. Since the 2004 reform that de facto replaced a large part of needs-based income support with remuneration for participation in the activation work programme, an increasingly strong connection between the system of poverty relief and active labour market policies can be observed. While many people are activated through such programmes, it is questionable whether these policies are of use for long-term reintegration of the unemployed in the labour market. The most recent changes in active labour market policies foster more concrete targeting of disadvantaged groups of jobseekers. The draft of the 2015 National Reform Programme envisages further strengthening of policies aimed at tackling youth and long-term unemployment (Ministry of Finance of the Slovak Republic 2015).

2.4 Needs-based income support

Needs-based income support has been provided to those individuals and households whose income has been below the minimum living standard (MLS, '*životné minimum*', see Table 4, p. 22). Residence in the Slovak Republic and passing the test that the household's monthly income is below the minimum living standard are the main requirements to be fulfilled by BMN claimants. Personal movable and immovable assets are considered as possible sources of income through sale and renting, but the claimants cannot be forced to sell or rent out property used to meet their own housing needs.

In absolute terms, needs-based income support has been very limited since the transition to a market economy. However, several important reforms over the past two decades have also led to a gradual decline in the relative generosity of needs-based income support. Terrell, Lubyova and Strapec report that social assistance for a household of four could reach up to 2.5 times the minimum wage in the mid-1990s (1996: 247). By contrast, in 2014, a similar family could receive needs-based benefits, comprised of the BMN, housing allowance and activation and childcare benefits amounting to approximately 1.2 times the minimum wage, assuming that both parents receive an activation benefit (Kusá 2014: 6). Most importantly, the Slovak legislation does not guarantee that nobody falls below the minimum living standard. Needs-based income support is provided only as a relief from extreme poverty.

Social assistance to the poorest has been increasingly conditioned upon participation in active labour market policies. The 2004 reform of the BMN decreased the level of needs-based allowances and introduced the activation benefit that could be earned by members of households in material need who took on activation work or participated in education. The shift towards a system emphasising activation, mainly through the application of punitive measures, has been further strengthened since 2004. As of 2014, a household's needs-based income support could be decreased by the sum of the BMN for each adult person who declined an offer to take up municipal work, provided that such an offer had been made by the labour office. In practice, this means that at least some BMN recipients may be required to work up to 32 hours a month for their basic allowance.

Besides increased pressure on benefit recipients to accept work within specific active labour market policies, the level of the BMN and other allowances has also been left to erode over time. As can be seen in Table 4, the BMN is not adjusted on a regular basis to inflation or wage growth. By contrast, the minimum wage has increased rapidly in recent years.⁴ This development appears to be independent of EU austerity or the ideology of the domestic government.

Table 4 Needs-based income support in the Slovak Republic (2004–2013)¹

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MLS for one-person household	139.7	152	152	165.3	170.3	178.9	185.2	185.4	189.8	194.6
BMN for one-person household	50.8	51.8	51.8	55.8	58.4	60.5	60.5	60.5	60.5	60.5
Activation allowance	49.8	56.4	56.4	63.1	63.1	63.1	63.1	63.1	63.1	63.1
Minimum wage ²	201.8	215.8	229	252.3	268.9	295.5	307.7	317	327.2	337.7
Average wage	525.3	573.4	622.8	668.7	723	744.5	769	786	805	824

Notes: ¹ Values are given in euros rounded to first decimal; values for 2004–2008 converted from Slovak koruna to euros using the official exchange rate of 1 euro=30.126 SKK; ² Values valid for low-skill routine jobs on January 1 of the given year.

Sources: MLS, BMN, Activation allowance, Minimum wage – national legislation (available at jaspi.justice.gov.sk); Average wage – Slovak statistical office, Slovstat database (available at <http://www.statistics.sk/pls/elisw/vbd>)

Nevertheless, alongside these rather punitive measures, legislative changes since 2013 have also included a number of enabling policies. Most important among these is the possibility to retain the activation benefit for six months if a long-term unemployed BMN recipient finds a regular job. In addition, the long-term unemployed and their prospective employers are not required to pay social security contributions for the first twelve months of employment. These measures indicate that the system of needs-based income support is being intensively reshaped to lure the long-term unemployed back into the regular labour market, using both enabling and punitive approaches. While this tendency started before 2010, the steps taken since 2010 show that there is growing emphasis on this goal. Nevertheless, the impact of such policies is questionable in an economy characterised by job scarcity.

In conclusion, needs-based income protection has been weakened considerably in the past twenty years. While budgetary considerations have played an important role in these reform processes, they have just as much been the expression of an increasingly prevalent perception, shared by the political left and right, that people have to be motivated to return to the labour market. Most of the measures used to achieve this have been punitive, but a few enabling and rewarding measures have also been implemented.

4. The minimum wage listed in Table 4 refers to the minimum wage applicable to employees working in routine jobs requiring low qualification. However, the Slovakian minimum-wage legislation recognises 6 different levels of difficulty of work. The minimum wage for more demanding jobs is higher. Those working in the most difficult roles as high-level professionals (category 6) have a minimum wage equal to twice the minimum wage of low-skill routine workers. It should be noted, that this legislation is often circumvented by classifying employees in a category with lower wage than the one they belong to, based on the nature of their job.

3. Conclusions: assessing the impact of EU austerity on labour market policies

Since 2010, there have been a number of significant changes in EU-level policies, fostering both fiscal consolidation and the social dimension of European integration. The policy instruments aimed at fiscal policy coordination have led to greater enforceability of the Stability and Growth Pact (SGP). This also means that the fiscal aspect of European integration is likely to be given preference over social cohesion within the EU (De la Porte and Heins 2015). Taking into account the growing prominence of EU-led austerity since 2010, the main purpose of this study was to provide an overview of key trends in Slovak labour market policies with an emphasis on differences between reforms that took place before and after 2010. As the availability of finances for a more generous welfare state have been missing in both the pre- and post-2010 periods, the differences in labour market policies have been rather limited between the two periods. Nevertheless, the overall picture of the past few years is one of austerity predominantly targeted at high-earning individuals with well-established social security rights. While some of the measures introduced also impacted the long-term unemployed, most of the cuts have had a more negative effect on high-income workers.

The EDP initiated against the Slovak Republic between 2010 and 2014 required significant efforts to consolidate public finances. Nevertheless, the present analysis of labour market policies suggests that, while fiscal limitations have had an impact, recently increased EU-wide pressure for fiscal discipline has not been among the most significant policy determinants. The Slovak Republic's fiscal room to manoeuvre was limited well before 2010, mainly because of the difficulties of post-socialist economic transition, the adoption of the euro and the decision to partially privatise public pensions. Thus, in the case of the Slovak Republic, the onset of strict EU-led austerity has rather acted as a factor prolonging an already existing trend.

Expenditure on active labour market policies has stagnated at around 0.2 per cent of GDP, both before and after 2010. No apparent trend is observable in the development of the number of ALMP participants. The most important parameters of unemployment protection have not been changed. For an average-income worker, the gross and net replacement rate of unemployment benefits remained at 50 and approximately 65 per cent, respectively, while the entitlement period was left at six months. Similarly, changes in employment protection have been fairly limited and influenced primarily by the ideological leaning of the government in office.

However, it is important to note that unemployment, as well as the likelihood of long-term unemployment has increased considerably between 2009 and 2014. The unemployment-protection system has not reacted to this new reality, leading to a hidden form of retrenchment. In the meantime, the maximum base for calculating social-security contributions increased in 2008 and 2013, while the maximum unemployment benefit was decreased. Finally, the 2013 reform of the legislation provided for the enrolment of various categories of atypical workers in the social security system. The reluctance to address the problem of prolonged unemployment and the changes concerning contributions and benefits have been partly motivated by the need to raise more revenue and limit social security payments. However, the majority of these reforms put the burden of fiscal consolidation onto the shoulders of high-income individuals, partly sheltering low-income groups from cuts.

By contrast, reforms in the system of needs-based income maintenance, carried out with the declared objective of bringing people back into the world of work, have been prevalently inimical towards the poor, especially the long-term unemployed. The Slovak Republic has witnessed a gradual erosion of basic needs-based benefits and the introduction of new conditionalities for claimants. Most importantly, governments at both ends of the left–right axis have made efforts to link needs-based income maintenance to participation in active labour market policies. In the meantime, several enabling measures supporting (re)integration into the labour market have been introduced, particularly since 2012. Nevertheless, these have been less important than the punitive measures.

Probably the most significant influence of EU austerity on Slovakian labour market policies is related to the administrative capacity of labour offices. Labour offices were already understaffed before 2010 and their situation has become even more pressing since then. Despite rising unemployment, the government decided to decrease the number of labour office employees by approximately 10 per cent in 2011. The high workload at the labour offices might also jeopardise efforts to increase the efficiency of active labour market policies. While no significant reforms have been applied to tackle this weakness of the labour market policy system, the 2015 National Reform Programme acknowledges the problem and foresees measures to decrease the workload of consultants in the labour offices. Taking into account the non-adjustment of unemployment protection legislation and the labour offices' staffing to match soaring unemployment rates, as well as the gradual erosion of basic income maintenance policies, it appears that policy drift (see Hacker 2004) has been among the most important means of retrenchment in the Slovak Republic in the past decade.

The EDP initiated against the Slovak Republic in 2010 was successfully concluded in 2014. The end of the EDP, in combination with increased economic growth, might give more fiscal space to future governments. It remains a question for future research whether, and in what form, this opportunity will be used to improve the country's main labour market policies and the administrative capacity of the central and regional government.

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