

# Chapter 6

## Impacts of the liberalisation and re-regulation of the labour market in Slovakia

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### 1. Introduction

Slovakia is a country which has been struggling with the poor performance of its labour market since the difficult transition to a market economy in the 1990s, which left the country with high structural unemployment as socialist-era heavy industry collapsed. Consequently, tackling unemployment has been a priority for all Slovak governments. Due to this need, Slovakia's nascent labour market institutions, initially shaped in line with Western social market economies, have always been under pressure to avoid burdening employers with too much regulation of employment relations.

The pressure was reinforced by the discourse of global 'competitiveness' through pro-market policies (Stark and Bruszt 1998: 104, 105). The outbreak of the Great Recession made this policy direction appear even more appealing to policy-makers (Clauwaert and Schömann 2013). That is because, as unemployment kept edging higher, governments came under increasingly intense pressure to come up with solutions. The cost of maintaining the status quo kept growing.

At this point, it is necessary to point out that this liberal orthodoxy espoused by policy actors does not necessarily represent academic debates on the subject. The relationship between labour market regulation and employment is quite a salient and well-explored subject in economics; nonetheless it remains controversial. Stricter worker protection laws, such as the most costly dismissals, tend to decrease the tendency of companies to lay-off workers at times of low demand. They might, however, also make them more reluctant to hire when demand is high.

In Slovakia, neither of these two narratives managed to establish itself as clearly dominant. The pressure for liberalisation in the country was countered by the general, although not uninterrupted, dominance of the political left-wing from the mid-2000s. One important reason behind this hegemony was the general tiredness of Slovaks with the precariousness and powerlessness caused by the pro-market policies of the radical reformist government of the early 2000s (Fabo 2015).

A result of the tensions between the external pressure for liberalisation and the popular desire for security was that the country saw rapid back-and-forth changes in the legal environment. These shifts happened chiefly through rapid contradictory amendments to the Labour Act passed by parliament according to the ideological preferences of successive governments. In this chapter, we are exploring these changes in the context of the logic behind their introduction. In a sense, our aim is to bring a degree of clarity

to a heavily ideological debate, often driven to a much higher degree by the ideological inclinations of the policy actors than by the facts.

We start the chapter with a short description of labour market policies from when Slovakia became independent. We focus in detail on the changes made during the period of economic crisis. We then analyse the impact of legislative changes on the labour market. We aim to show the effects of employment protection reforms on the level and structure of employment in Slovakia. Subsequently, the chapter presents the view of the social partners and their role in the frequent policy changes. We particularly scrutinise employers' arguments which have been (mostly) in favour of de-regulation against the empirical evidence of the labour market. The last part draws some conclusions.

## **2. Labour market policy development since independence**

### 2.1 Historical context

The concept of work flexibility is a relatively recent one in the Slovak environment due to the legacy of state socialism, where state-run organisations had a monopoly on employment which was, in turn, defined by law as a duty. Consequently, employment regulation was much more rigid than in the market system and the labour code (Law 65/1965) regulated every aspect of employment with great detail with the aim 'to ensure progress and prosperity for all.' In the late 1980s, however, the regime started to experiment with liberalisation of the rigid economic structure in the country under the influence of the Soviet-inspired perestroika movement. Labour code reform No. 188/1988 was the first that envisioned a more economically-driven approach to the hiring and firing of employees and which legislated a notice period of two months to lessen the impact of changes on workers.

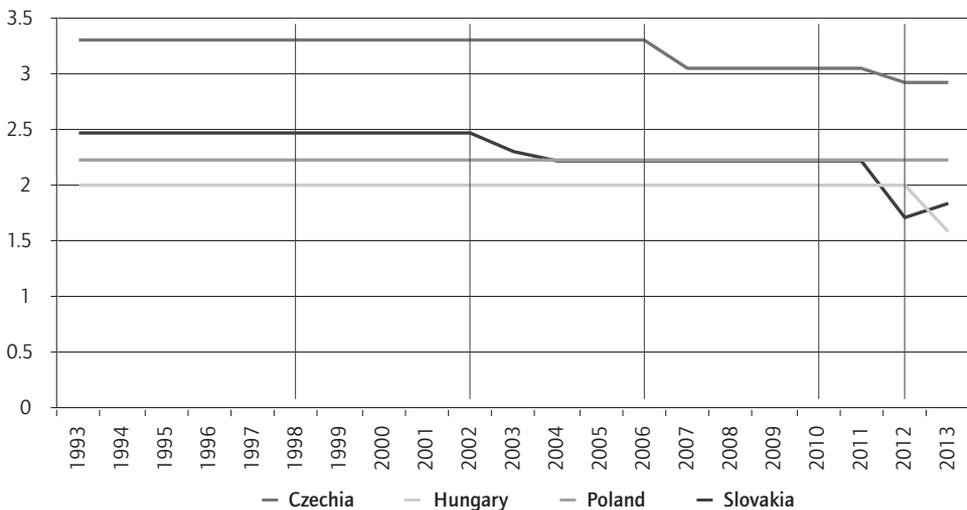
The regime's reform effort came to an abrupt end in 1989, when the regime collapsed to the Velvet Revolution, to a large degree thanks to a general strike of workers organised to support the demands of the Revolution. Afterwards, there was a high level of goodwill towards workers, leading to the establishment of Western-style tripartism and employment legislative protection (Fabo 2015). Government direction 312/1990 established, for example, a minimum severance payment of five months for laid-off workers. At the same time, the Revolution also unleashed the transformation of the economy, in which unemployment quickly spiralled to heights unprecedented since the end of World War II. The government reacted to poor labour market performance by decreasing the generosity of worker protection and reduced severance pay to two monthly wages through Law 195/1991.

From the outbreak of the 21<sup>st</sup> century, the labour law debate became heavily politicised. In 2001, the government, at the time including left-wing parties, strengthened the protection of workers through a new Labour Code 311/2001, which increased the notice period for organisational discharges from two to three months. In 2003, the tide turned as a right-wing government proceeded with liberalisation of the Labour Code through Amendment 210/2003 as part of its ambitious 'reformist' agenda in spite of

opposition from trade unions united in the Confederation of Trade Unions in Slovakia (Konfederácia odborových zväzov, KOZ SR). This Amendment made a notice period obligatory only for employers unwilling to make severance payments. More importantly, this legislative act followed the recommendations of the OECD to liberalise the labour market and address the rigidities in hiring and firing that were portrayed as a threat to employment creation in the country (OECD 2002: 102).

Nevertheless, when it comes to workers on standard contracts, the situation for them after the changes was still largely comparable to that of their peers in most surrounding countries (Figure 1). At the same time, it created a particularly precarious market for workers on temporary contracts and especially for workers with contracts of agreement for work performed outside an employment relationship, i.e. so-called ‘work agreements’ (dohody o prácach vykonávaných mimo pracovného pomeru; see Figure 7). Employees with work agreements (which are incorporated in the Labour Code in Slovakia as a more flexible alternative to a standard employment contract) did not enjoy the same level of protection as regular employees. Employers were not obliged to pay social security contributions, which left employees disentitled to sick leave, pension contributions, unemployment benefits, paid leave and meals allowances from the employer. The result was that work agreements were often abused as a replacement for standard employment contracts (Eurofund 2015). In the 2004–2007 period, Slovakia had the most lenient temporary employment laws in the region when it comes to temporary contracts (Figure 2).

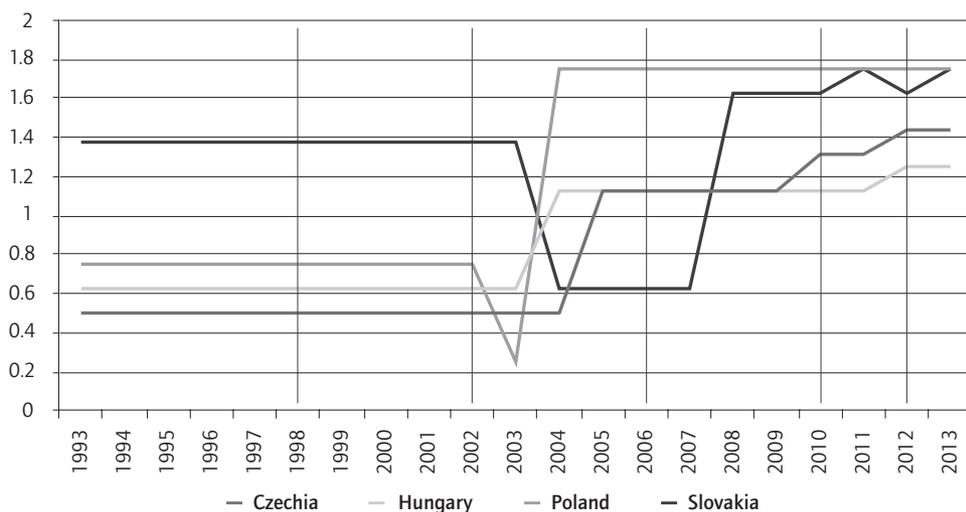
Figure 1 Strictness of employment protection index for permanent contracts 1993–2013



Note: Vertical lines represent changes in Slovak governments: the two nationalist authoritarian governments led by Mr. Mečiar in 1994–1998; the wide right-left coalition of Mr. Dzurinda from 1998–2002; the centre-right government of Mr. Dzurinda in 2002–2006; the left-leaning government of the social democratic party SMER led by Mr. Fico in 2006–2010; the short period of centre-right government of Mrs. Radičová in 2010–2012; followed by Mr. Fico's social democrats, in power during 2012–2016.

Source: OECD, own visualisation

Figure 2 Strictness of employment protection index for temporary contracts 1993-2013



Note: Vertical lines represent the terms of mandate of individual governments, as explained in Figure 1  
 Source: OECD, own visualisation

Following labour market liberalisation, as well as other liberalising reforms particularly in the area of taxation and the welfare state, a period of sustained very fast growth commenced in Slovakia, driven by foreign direct investment (FDI). Indeed, at the onset of the Great Recession, Slovakia was among the fastest growing countries in the world, with year-on-year GDP growth of 10.7 per cent. Slovak policy-makers in particular were very quick to dub the emergence of the ‘Tiger of the Tatra Mountains’ as clear proof of the success of liberal policies (Bohle and Greskovits 2012: 170). Sceptics, meanwhile, argued that much of the growth was simply a delayed recovery from the economic shock that struck the country hard as a result of the fall of communism and 1990s authoritarian governments which had scared away FDI at a time when neighbouring countries were a major destination for global capital. After the country’s 2004 European Union (EU) accession and the removal of barriers to FDI, the argument goes, capital flows were extended also to Slovakia (Pogátsa 2009).

Figure 1 and Figure 2 also illustrate just how much the liberal reforms undertaken by Slovakia – and, to a lesser degree, other countries in the region – politicised labour market regulation. We do not consider the OECD’s strictness of employment protection index to be necessarily telling the full story (see Myant and Brandhuber in Chapter 1), but the figures broadly illustrate how much political cycles matter to the protection of workers in Slovakia. Typically we see a rapid increase in flexibility not long after the ascent to power of right-wing governments, countered by increased regulation during periods of left-wing governments (c.f. Kahancová and Sedláková 2016). Table 1 contains an overview of labour market policies and the aims declared by individual governments in their official programme manifestos presented to parliament for approval.

Table 1 Overview of attitudes of successive governments towards labour market policies

Government	Period	Ideology		
DZURINDA II	2002-2006	Centre-right	Aim	'Reduction of unemployment' (Government of Slovakia, 2002: 21)
			Tools	Increase motivation of long-term unemployed to look for work by limiting welfare transfers; support for labour mobility and flexible labour legislation
FICO I	2006-2010	Centre-left	Aim	Achieve 'as high as possible employment' (Government of Slovakia, 2006: 23)
			Tools	Integration of disadvantaged groups in labour market; active labour market policies but also greater protection of workers in precarious job arrangements, mainly through pressuring employers to take on workers on permanent contracts
RADIČOVÁ	2010-2012	Centre-right	Aim	Combat 'extremely high social security contribution burden and inflexible labour market' (Government of Slovakia, 2010: 26)
			Tools	Motivate the unemployed to look for work through more generous welfare transfers for the working poor and for employers to hire them by promoting flexible work arrangements; decrease in non-wage labour costs
FICO II	2012-2016	Left	Aim	'Reduce the high level of unemployment, particularly long-term unemployment' (Government of Slovakia, 2012: 1)
			Tools	Focus on school to work transition; active labour market policies; lifelong learning; decrease in administrative burden associated with employing workers

Sources: Official programme manifestos of the governments

## 2.2 Changes over the crisis period

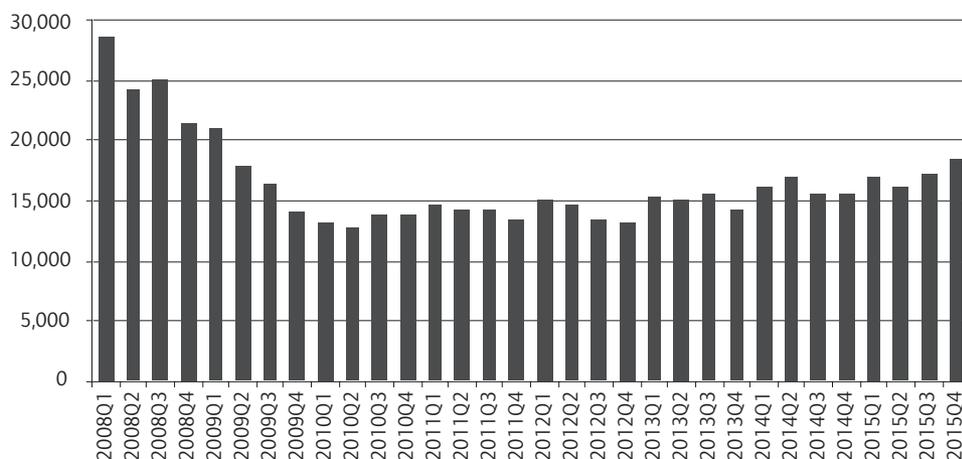
The radical liberal direction espoused by the previous right-wing government in various economic policy areas, including labour legislation, was put to a test soon after the ascent of the centre-left government in 2006. The new administration moved quickly to restore the coexistence of notice periods and severance payments through Labour Code Amendment 348/2007 that came into effect in September 2007. The same law also put limits on subsequent temporary contracts to promote the prevalence of permanent contracts. Additionally, the Amendment represented an attempt to fight the rapidly-growing share of self-employed workers who, in many cases, could be qualified as cases of bogus self-employment. The aim of the changes was, according to the justification submitted by the sponsors of the act along with the proposal,<sup>1</sup> effectively to restore the balance between the interests of employees and employers.

1. Source: <http://www.epi.sk/dovodova-sprava/Dovodova-sprava-k-zakonu-c-348-2007-Z-z.htm> (in Slovak). Accessed 15 June 2016.

This change of laws was met with staunch resistance from several employer associations. The Business Alliance of Slovakia<sup>2</sup> (Podnikateľská aliancia Slovenska, PAS), which annually publishes a Business Environment Index (IPP), argued that such a correction to the business model introduced by the previous government would lead to a slowdown in economic growth and high unemployment (PAS 2009). Likewise, the Entrepreneurs Association of Slovakia (Združenie podnikateľov Slovenska, ZPS), a founding member of an umbrella organisation of employers, the National Union of Employers (Republiková únia zamestnávateľov, RUZ), published a statement in which it strongly disagreed with the Labour Code Amendment since it increased labour costs and limited flexibility for employers.<sup>3</sup>

However, in reality the change in the labour law had no clear effects in terms of increased unemployment. Up until the end of 2008, unemployment kept declining, on average by 0.5 percentage points per quarter, in spite of gross domestic product (GDP) growth grinding to a halt as a result of the collapse in foreign demand due to the outbreak of the Great Recession. Indeed, not only was there no immediate growth in unemployment but employers did not even put a stop on hiring plans (Figure 3).

Figure 3 New job vacancies created



Source: Central Office of Labour, Social Affairs and Family

When, however, companies caught wind of a long and deep crisis, unemployment started growing quickly, increasing by five percentage points over the course of 2009, following an 8.5 per cent quarter-on-quarter fall in Q1 2009. This shows that, even after the 2007 reform, the Slovak labour market remained capable of flexibly adapting to changing circumstances (Fidrmuc *et al.* 2013: 6). Nonetheless, the calls for a return to more

2. PAS is a business lobbying organisation representing influential private sector actors, including Slovak branches of Phillips and Orange Telecommunications Company. It is connected with politicians representing the liberal reformist part of the political spectrum.

3. Source: [http://www.zps.sk/userfiles/file/Stanoviska%20ZPS/Stanovisko%20ZPS%20k%20n%C3%A1vrhu%20novely%20Z%C3%A1konn%C3%ADka%20opr%C3%A1ce%20\(26\\_%202\\_%202007\).doc](http://www.zps.sk/userfiles/file/Stanoviska%20ZPS/Stanovisko%20ZPS%20k%20n%C3%A1vrhu%20novely%20Z%C3%A1konn%C3%ADka%20opr%C3%A1ce%20(26_%202_%202007).doc), in Slovak. Accessed 29 August 2016.

flexible labour market regulation definitely grew louder. This argument is supported by the speed of the growth in unemployment, far outpacing the speed of job creation in the good years, in spite of the recession being rather short and shallow (Figure 4). For instance, PAS promoted a rollback of the Labour Code as an anti-crisis measure arguing – quite in contrast with the reality – that employers might hold back on hiring due to fears about the cost of letting workers go in the case of another downturn (PAS 2009).

Up to the June 2010 elections, such calls did not have any effect on policy. Even the right-wing government, in spite of its ideological inclinations, did not move fast to tackle the flexibility of the Labour Code, most likely because the need for change became less clear as the country appeared to have returned to quick growth, both in terms of the decline of unemployment and GDP growth (Figure 4). Instead, its efforts became focused on implementing a major austerity programme.

Figure 4 Quarter-on-quarter change in GDP and unemployment rate, 1998-2015



Source: OECD, own visualisation

The liberalising reform only came in 2011, paradoxically when unemployment was already edging lower due to a quick and robust recovery from recession. The employers, nonetheless, argued that labour market recovery would be much faster with a more flexible labour market regulation (PAS 2011). The so-called 'big Labour Code reform' passed by Act 257/2011 limited eligibility for severance payments only to situations in which a notice period was not feasible because the position had been discontinued or the worker could not continue working for health reasons. This change caused Slovakia briefly to become the country with the most flexible labour market regulation in the region for workers on permanent contracts (Figure 1). At the same time, the regulation of temporary contracts also progressed towards liberalisation, in terms of allowing the chaining of temporary contracts for three years, as opposed to the previously allowed two, but also towards de-liberalisation in the form of regulating agency employment (Figure 2).

To increase labour market flexibility, the 2011 Amendment to the Labour Code also introduced several new forms of employment, such as job sharing, working hours accounts and so-called ‘flexikonto’, allowing for flexible working hours. Flexikonto was commonly used during the crisis period in sectors such as metalworking (especially in the automotive industry), but there are no instances of job sharing in Slovakia despite it being aimed at increasing employment among vulnerable groups, especially employees with young children and students. One of the reasons is the existence and popularity of work agreement contracts that, to a large extent, overshadow other flexible forms (Eurofund 2015). The amendment also allowed for derogations from the Labour Code through collective agreements, for instance to allow the extension of probationary periods (Kahancová *et al.* 2014).

The liberalisation of labour legislation failed to foster job creation. Indeed, as the economy slowed down towards the end of 2012, threatening another recessionary dip, unemployment started growing once again (Figure 4). Politically, the situation also shifted. The left regained power and quickly proceeded to roll back the changes introduced in 2011 with the aim of enhancing employment protection. SMER, led by Robert Fico, aimed at a better balance in employer-employee relations and emphasised consultation with the social partners, all manifested in a memorandum of cooperation with the largest trade union confederation, KOZ SR (Kahancová *et al.* 2014; Kahancová and Sedláková, 2016). LC Amendment No. 361/2012 reintroduced the coexistence of notice periods and severance payments, although only for workers who had been laid-off after at least two years with the same employer. In addition, the amount of severance pay progressively increased up to four months’ pay for workers laid-off after 20 years of tenure.

In addition, Act No. 361/2012 introduced several other important provisions. Regarding temporary agency work, and to prevent hiring on the basis of work agreement contracts, the Amendment stipulated that agencies could hire workers only on the basis of a standard employment contract. Moreover, the government stepped up the fight against precarious work arrangements by specifying a definition of ‘dependent work’ to counter bogus self-employment, which had become a popular way in which employers managed to dodge the responsibilities associated with employing people. According to the Slovak Statistical Office, bogus self-employment accounts for up to one-third of all self-employed people in Slovakia (Kahancová 2016). Changes to fixed-term contracts were also introduced, in fact to revoke previous LC changes (Kahancová *et al.* 2014). The maximum duration for successive flexible contracts was again decreased to two instead of three years – which is significant in Slovakia, as temporary contracts are very rarely used for very short commitments<sup>4</sup> – and so was the number of renewals of such contracts.

An important further step was the introduction of mandatory social contributions for employees with work agreement contracts, which were considered to be among the most precarious contracts in Slovakia until 2013 (Kahancová and Martišková 2013: 15). Here, the employer was obliged to make a social security contribution of slightly more than

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4. Only about one in four temporary contracts in Slovakia lasts for less than six months, according to LFS.

1 per cent of the wage; this was later changed and, with the 2013 Amendment to Act No. 461/2003 on social insurance, work agreement contracts with regular income are subject to the same level of social protection as regular full-time employees (Eurofound 2015).

In spite of the tightening of regulation, economic growth picked up and unemployment started to decrease, although still lagging behind pre-crisis levels.

Table 2 contains an overview of the important legislative changes discussed above. It is evident that, starting with the 2002 centre-right second Dzurinda government, each Slovak administration rushed to unmake the labour regulation changes introduced by its predecessor.

Table 2 The most important Labour Code amendments between 2001 and 2013

Legal act number	Effective from	Subject
		<b>The new Labour Code</b>
ACT NO. 311/2001 COLL.	April 2002	- increased the notice period from two to three months for organisational discharges
ACT NO. 210/2003 COLL.	July 2003	- notice period obligatory only for employers unwilling to pay severance payment - duration of fixed-term contract limited to three years
ACT NO. 348/2007 COLL.	September 2007	- coexistence of notice period and severance payment reintroduced - annual working time for work agreements increased from 300 to 350 hours - definition of 'dependent work'
ACT NO. 257/2011 COLL.	1 September 2011 and 1 January 2012	- increased maximum period for successive fixed-term contracts from two to three years - increased renewals of fixed-term contracts from two to three - new flexible forms of employment introduced (e.g. job sharing) - limited severance payment eligibility to situations when the notice period was not feasible because the position was discontinued or the worker cannot continue working for health reasons
ACT NO. 252/2012 COLL.	1 January 2013	- mandatory social contributions for work agreement contracts - shorter basic statutory notice period from two months to one

The continuing dominance of SMER and the stabilisation of the economy led to a stabilisation of labour law, even though occasional adjustments continued. Of particular note is the government's efforts to lower the taxation of low-income work while simultaneously increasing the minimum wage. Analysis of this policy goes, however, beyond the focus of this chapter.

### 3. Impact of policy changes on the labour market

Earlier in the chapter, we discussed the centrality of unemployment in the Slovak policy discourse. A quick look at the numbers shows why this was been the case. Slovakia, from the early 1990s, experienced a persistently high unemployment rate. Particularly after the collapse of the authoritarian regime in 1998, the adjustment of the economy was accompanied by unemployment rising from about 13 per cent to almost 20 per cent in 2001. The liberal reform period in the early 2000s coincided with a decline in the unemployment rate to about nine per cent. However, this trend was reversed after the outbreak of the Great Recession and, in 2012, the unemployment rate reached 14 per cent. The current (2016) unemployment rate is declining, but still amounts to 11.5 per cent, a very high level in the European context for a non-southern country. Furthermore, long-term unemployment in Slovakia is particularly high. Currently, 68.4 per cent of unemployed Slovaks have been without work for at least 12 months (Figure 5). Besides structural unemployment, joblessness in Slovakia appears strongly driven by the condition of the global economy; while cyclical unemployment is determined by the high level of dependence of the Slovak economy on foreign direct investment and exports (D'Apice 2014).

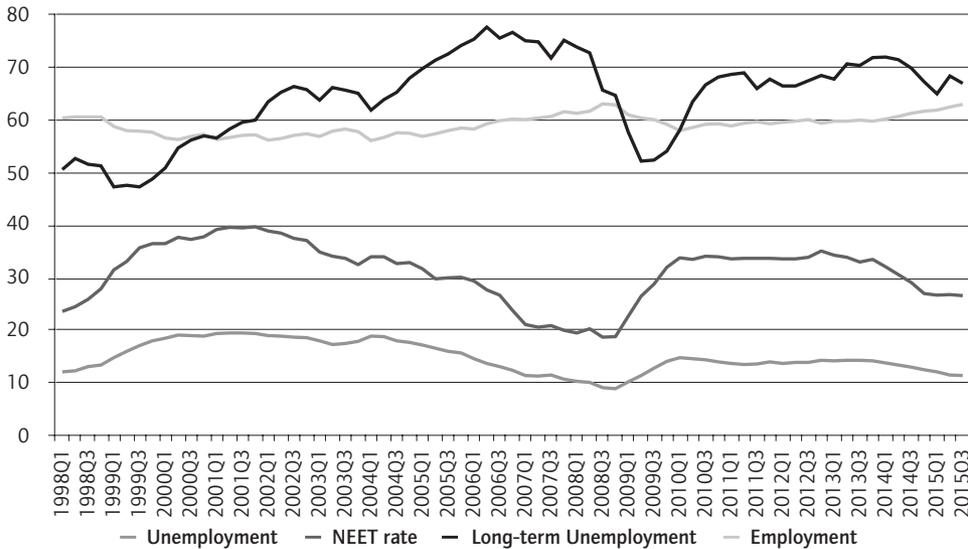
Paradoxically, the only period in which the Slovak labour market showed resilience was at the outbreak of the crisis, right after the government passed a major re-regulation of the Labour Code (Figure 4, see the 2008-2009 period). Nonetheless, it is evident from the previous discussion that all Slovak governments that administered the country during the Great Recession were very keen on passing labour market reforms. According to Kahancová and Martišková (2015), there were ten amendments to the Labour Code in the 2011-2014 period and this figure does not include the six amendments made in 2007-2010. Since 2002, legislative changes to the Labour Code amount altogether to 29 amendments, which demonstrates the importance of the Labour Code in the eyes of the government. Not all the amendments were substantial, but their high frequency over a relatively short period of time further complicates the analysis of any impact that a change in the direction of labour policy might have. Thus, it is no surprise that, as is evident from Figure 4, the unemployment rate tends to be driven by growth while the legislative changes do not seem to have a major impact.

Likewise, the frequent changes in the labour law do not seem to have been able to resolve the problem of the structure of unemployment in Slovakia. In the period of robust growth just before the crisis, the share of long-term unemployed increased to up to 70 per cent. This decreased sharply during the crisis as unemployment spiked, bringing many new 'short-term' unemployed into the statistics, and then went back to 60 per cent and remained at that high level through the recovery. That suggests that, even in the good times, employers shy away from offering jobs to the long-term unemployed.

Youth unemployment (as well as the NEET rate) is another issue in spite of the high levels of enrolment in tertiary education and also, particularly since the country's 2004 EU accession, relatively substantial emigration (Kahanec and Fabo 2013; Fabo and Mudroň 2014). The youth unemployment rate reached its historic low in 2008, of about 18.6 per cent; however, only two years later, it sharply increased to 33.8 per cent. Since

2013 we have seen a positive development and, currently, youth unemployment stands at 23.5 per cent (January 2016). Nevertheless, just like long-term unemployment, the increase in this measure came with the outbreak of the crisis and it had not yet recovered its pre-crisis level (Figure 5).

Figure 5 Unemployment rate for the whole population and for youth (< 25); share of long-term unemployed in the unemployment rate

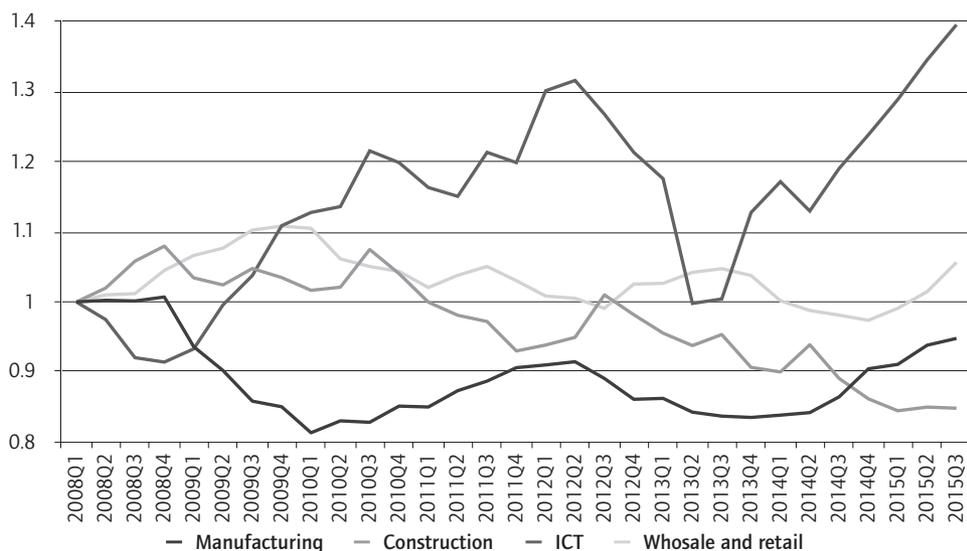


Source: Eurostat, own visualisation

We do not see the legislative changes having any effect on the aggregate level of unemployment. One study makes the theoretical argument that the 2008 reform made it harder for the unemployed to exit unemployment, but it also fails to discover statistically significant empirical support for such a claim (Baboš and Lubyová 2016). Thus, we may conclude that there is very little such evidence. Instead, it appears to be fruitful to consider the structure of the labour market, in particular with regards to the changes caused by the Great Recession. Service sectors were not severely hit by the crisis, while sectors such as manufacturing or construction had not returned to pre-crisis employment levels (Figure 6).

Additionally, it has been pointed out by Toth and Valkova (2015: 17) that Slovak's economy exhibits very little potential for reducing workers' salaries in times of crisis which, the argument suggests, forces companies to decrease costs through lay-offs. This is, curiously, not due to the power of trade unions but to fears of a negative effect on employee morale with a detrimental impact on employee retention. Likewise, this structural shortcoming receives very little attention.

Figure 6 Indexed changes in employment by sector since Q1 2008



Source: Eurostat

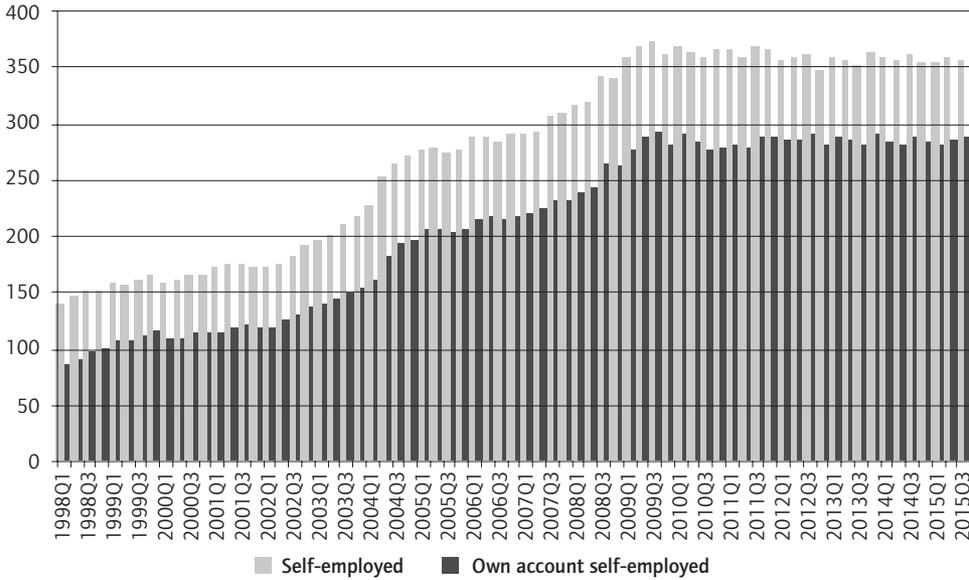
### 3.1 The rise of atypical forms of employment

The permissibility of precarious forms of employment became quite a salient topic, both as a way of addressing the structural problems of the labour market and the apparent difficulties of vulnerable groups, such as young people and the long-term unemployed, in accessing the labour market and also as a threat to workers' well-being. Consequentially, the numerous labour market reforms focused on the regulation of non-permanent workers nearly as much as on the rules of dismissal. Here, the rate of success was a mixed bag.

First, the number of all self-employed workers stabilised since the outbreak of the crisis, at about 350 000 people, the majority of them having no staff of their own (Figure 7). However, this is likely to be due to the job destruction caused by the crisis. There is very little evidence that the efforts of the early 2010s to combat bogus self-employment led to a decrease in this practice and, in 2014, a figure of around 100 000 bogus self-employed people was reported by the Slovak Statistical Office (Kahancová 2016). Incomes data show that self-employment is still a common way of avoiding the reporting of income and thus lowering tax and social security obligations – the share of taxes and social contributions paid by the self-employed compared to that paid by employees decreased from 130 per cent to 30 per cent between 1996 and 2014 (Institute for Financial Policy 2014).

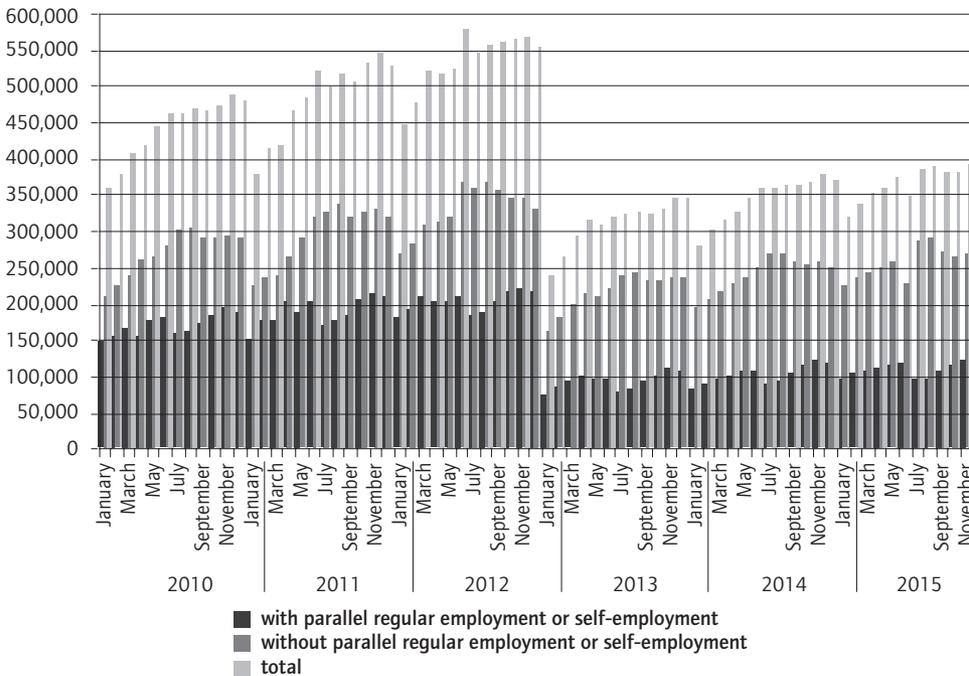
Second, the fight against work agreement contracts was more successful. The number visibly decreased after the 2012 reform introducing mandatory social contributions, although it does seem to be picking up again (Figure 8).

Figure 7 Number of all self-employed and self-employed workers without staff



Source: Eurostat

Figure 8 Number of people with work agreements

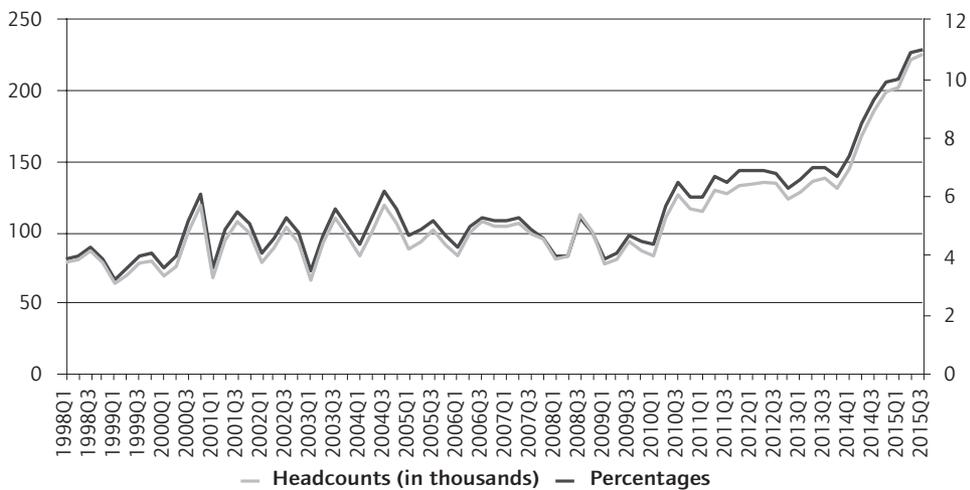


Source: Slovak Social Security Authority

At the same time, the stagnation in self-employment rates and the decline of work agreement contracts coincided with no immediate growth in total employment but a rather sharp growth in the share of workers on temporary contracts which, in the Eurostat methodology – unfortunately – also extends to work agreements, making it impossible to separate the two types of atypical work arrangements (Figure 9). Rather than signifying a strengthening of the position of permanent work contracts, however, the decline in the number of work agreements is likely simply to reflect their conversion into other legal forms of temporary contract and the combining of regular work contracts with additional work agreements (Dinga 2013). We see these other irregular forms of employment growing with a time lag, which is likely to represent new contracts being signed in place of expired work agreements.

In addition, the growth of temporary work is accompanied by a growth in the number of people whose reason for temporary employment is that they were not able to find a permanent job, rising from 74 per cent in 2008 to 87.3 per cent in 2014 and 86.5 per cent in 2015.<sup>5</sup>

Figure 9 Share of temporary work contracts (including work agreements) in employment



Source: Eurostat

Third, part-time work is not particularly popular among Slovaks and amounts to only about five per cent compared to an EU average of about 20 per cent, but the rise of involuntary part-time employment was continuously observed after 2002. The rise is particularly visible after 2008, when the share of involuntary part-time employment, expressed as a percentage of all part-time employment, increased from 44.6 per cent in 2008 to 61.8 per cent in 2016.<sup>6</sup> This increase is accompanied by a stable development

5. Source: Eurostat [lfsa\_etgar]. Accessed 26 July 2016.

6. Source: OECD, Involuntary part time workers, available at: [https://stats.oecd.org/Index.aspx?DataSetCode=INVPT\\_I#](https://stats.oecd.org/Index.aspx?DataSetCode=INVPT_I#). Accessed 29 August 2016.

in instances of part-time work which, according to Bulla *et al.* (2014), shows that part-time work was not affected by the legislative changes in 2011 that aimed at its increase.

Finally, the regulation of temporary work and TAW agencies was tightened up, although no data are available in regards to the number of people working through agencies. Nevertheless, unofficial data from employers suggest that the TAW sector is growing both in terms of people and in terms of revenues (Bulla *et al.* 2014). Indirect evidence points out that, in spite of the tightening of the legislation, there was no visible decrease in the number of temporary work agencies (Kahancová and Martišková 2015).

To summarise, the rapid changes in labour legislation in Slovakia seem to have had little to no effect on unemployment while the effect in tackling precarious work seems to have been limited and, possibly, temporary. From the presented evidence, we argue that there is no clear effect of legislative changes on GDP growth, employment and unemployment. Instead, employment in Slovakia is more responsive to the business environment and company practice rather than dependent on changes in employment legislation (Kahancová *et al.* 2014). In addition, de-regulation is followed by the rise of non-standard, often precarious forms of employment. The effects on job creation and labour market segmentation are not clear.

The reasons why we cannot establish a clear effect of regulation vs. deregulation efforts are twofold. First, as reflected by the OECD's index, Slovakia is an illustrative example of a country without a continuous labour market policy. Rather, changes are influenced by the political preferences of the prevailing government. In result, aggregate data fail to reflect quick changes to labour market policy. Second, political cycles are also crucial for alliances with the social partners, as outlined below.

#### **4. Flexibility of labour law – political or economic agenda?**

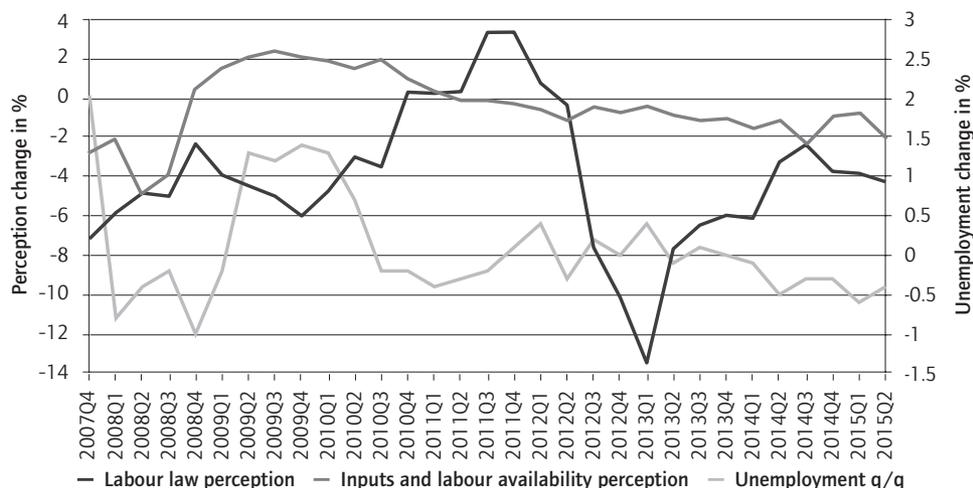
On the margins of the previous discussion was the role of the social partners. At national level, the social partners meet with government representatives at tripartite meetings and, although they do not conclude any legally-binding agreements, such events serve as an important space for discussions about labour legislation. In addition, rather exceptionally for the CEE region, sectoral collective bargaining exists in crucial sectors of the Slovak economy.

Trade unions try actively to influence labour legislation in Slovakia and are, in this sense, political actors. Kahancová and Martišková (2013) illustrate, using the example of precarious work, that the first instinct of Slovak trade unions is always to use their leverage on the government to pass legal changes in line with their policies. The success of their lobbying activities (Drahokoupil and Kahancová, 2017) depends to a large extent on the political cycle and the political agenda of the current government. This focus on shaping legislation, where law and politics play a crucial role, is characteristic of a static model of industrial relations (c.f. Kohl and Platzer 2003; Kohl and Platzer 2007; Kahancová and Sedláková 2016). Collective actions typical of trade unions in other

countries, such as strikes, are very rare and limited to the public sector.<sup>7</sup> Trade union coverage was historically at a very high level, due to the specificities of the socialist regime, but collapsed to just 32 per cent in 2011 (Voss *et al.* 2015). The sharp decline in membership further closes the trade union window of opportunity for collective action, making a strategy of lobbying the government increasingly necessary.

Meanwhile, as illustrated in the previous debate, employers engage in similar tactics, attempting to lobby for labour law liberalisation by making arguments to policy-makers that labour market flexibility is good for economic growth and job creation.

Figure 10 Quarter-on-quarter changes in perceptions of labour law favourability, inputs and labour availability and unemployment



Note: 'Labour law perception': the share of respondents that are satisfied with the influence of labour law on the business environment, expressed as a percentage.

'Inputs and labour availability perception': the share of respondents that are satisfied with the influence of the quality and the accessibility of primary inputs (the labour force) on the business environment, expressed as a percentage. Data are extracted from the Business Environment Index (IPP), calculated by PAS, which monitors changes in the business environment in Slovakia. Entrepreneurs evaluate the improvement or deterioration during the reporting period in three main areas: 1) the influence of the main components of the legislative and regulatory framework on business 2) the influence of other significant external macroeconomic factors on business and 3) the influence of the company on the quality of the business environment. Base period for calculating IPP is 1 July 2001 with the benchmark index of 100 points.

Source: PAS and Eurostat

Interestingly enough, this political stance is not necessarily reflected in employers' actions. The results of the regular quarterly survey of members of PAS (Figure 10) shows that employers' perceptions of the availability of inputs, including labour, is quite highly correlated with unemployment. In other words, employers seem to be very realistic when it comes to evaluating the situation on the market. At the same time, however, their perceptions of labour law go through much more radical upwards and downwards swings which do not seem to be in any way related to the pace of job creation, which was

7. Based on ILOSTAT data on number of strikes and lockouts by economic activity, available at: [www.ilo.org/ilostat](http://www.ilo.org/ilostat)

generally quite stable after the outbreak of the crisis. Rather, their perceptions correlate with the changes introduced to the Labour Code, and their pessimism is especially visible when re-regulation occurred, most notably after the 2012 changes introduced by the social democratic government. Therefore, we would argue that perceived labour market flexibility is not reflected in employers' practices (more hiring and more permanent contracts), at least as far as standard employment arrangements are concerned.

## 5. Conclusion

We argue that the story of Slovakia shows that legislative changes and policies are not necessarily the main driver of job creation and destruction in the environment of a very open economy, whose well-being largely depends on the fortunes of global capital. Attempt after attempt by politicians from the right to inject a new dynamism into job creation by making it easier to fire people and introducing new forms of employment failed to have an immediate, measurable impact on the aggregate level. The unemployment rate tends, meanwhile, to follow the economic fundamentals closely.

Similarly, the left likewise struggled meaningfully and durably to tackle precariousness in the labour market, which increased since the outbreak of the crisis and which remains at a heightened level in spite of the rapid change of policy on temporary contracts, from the most liberal in the region to one that is, along with the Polish, the most restrictive. The effects of these changes appear to be limited over time and mostly shift precarious work from one form to another rather than expand the creation of permanent jobs.

Table 3 summarises the most important developments and their apparent effects.

Table 3 Overview of changes in Slovak labour market regulation and the apparent effect of these changes

Direction	Legislative changes	Main aim	Apparent effect
Liberalisation	Liberalisation of LC introduced by Law 210/2003 and the 257/2011 reform	To increase appetite for hiring by making it easier to dismiss workers	The reforms in early 2000s, including LC reform, were credited with launching a period of very fast growth of the economy and of employment. Nonetheless, this happened in the time of a great economic boom; therefore, it remains unknown if such a trajectory could be sustained in crisis times. Besides, the subsequent re-regulation of the LC did not seem to decrease the appetite for hiring until the effects of the crisis manifested themselves. The 2011 Amendment was abandoned shortly after coming into effect.
Re-regulation	Re-regulation of LC under 348/2007 and 361/2012	To counter the changes introduced by liberal reforms of the LC and to fight against precarious employment	The increase in protection for workers did not seem to have any negative effects on aggregate employment. Nonetheless, the efforts to fight precarious employment seem to have led merely into changes in the forms of such practices rather than their elimination.

In light of this, it is surprising how much both trade unions and employers focus on influencing legislation as a key to influencing the functioning of the labour market. This is particularly puzzling in the case of employers, whose perception of labour law does not appear to be related at all to job creation, although their association continues to

lobby the government heavily for liberalisation. Meanwhile, important issues such as an unsatisfactory education structure and skill mismatch remain ignored by all the industrial relations actors in the country.

Therefore, our conclusion to the Slovak story is that, in spite of the high ideological politicisation of the labour market discourse, policy changes are not what primarily drives employment. Labour legislation does indeed play a crucial role in shaping the individual working conditions of employees, but the Slovak story shows that policy itself does not prevent the rise of precarious types of contracts or employees feeling that working under non-standard contracts is, to a large extent, not their choice. The frequent changes to the Labour Code that Slovakia regularly experiences thus amount more to a political demonstration of different governments of their alliances with the social partners than to evidence-based policy-making.

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