

# ANALYSIS OF CAUSES AND EVOLUTION OF UNEMPLOYMENT IN SLOVAK REPUBLIC AND ITS INFLUENCE ON ENTERPRISES

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## Introduction

An important socio-economic problem in many more or less developed countries is the problem of unemployment. Slovakia is not an exception. The unemployment appeared in the beginning of the transformation process from the command economy to the market economy, and continues until these days. Unemployment is a result of imbalance between demand and supply arising in the labour market. It reflects the economic and social situation in the country, which leads to worse health, higher divorce rate, criminality, drug addiction...

The aim of this research was to analyse the problems of unemployment on the level of macroeconomics with an impact on the

microeconomic sphere. The objectives of this research were as follows:

- to elucidate the impact of unemployment in the Slovak Republic on business organization
- to identify what activities are in progress for mitigating the problems of unemployment and to suggest acceptable solutions for the future
- to assess the impact of unemployment on business organization and regions
- to test the diagnostic analytical methods for their applicability in this field.

In the research we apply the methods of diagnostic analysis, comparison, deduction, mathematics and statistics, approach from the macro level (general level) to the macro spe-

cific level, questionnaire, observation and discussion with general managers.

### **The problem of unemployment in macroeconomic theory**

The problem of unemployment appeared particularly markedly during the Great Depression of 1929–1933, and it accompanies the economic progress from the 70s when the unemployment appeared as a result of oil shocks and international recession.

The recent processes of globalisation which intensify this problem are characterized by open economies, bigger migration of the population, massive automatization, robotization, spread of information technologies.

Analysis of unemployment should start from the labour market where the demand meets with the supply of the work. The supply of the work is formed by households and the demand by business organizations.

**The supply of the work** is expressed by the number of employees or the number of the work hours which are available in certain economy. The supply is created by the people who want to and can work. The basic factor of work supply in the labour market is the level of real salaries. The other factors of supply in the labour market are the number and age structure of the population, which are mainly influenced by the health care, the structure of the population from the qualification and profession point of view, the migration of the population, etc.

**The demand** in the labour market is strongly influenced by the interest and possibilities of the private sector (especially business organizations) and the public sector to produce products and services. This interest is influenced by the demand for products and

services and by the economic conditions. Demand for the products is influenced by their quality, the level of prices and the incomes of the population, including salaries. This part of the income directly depends on the price of the work in the labour market, thus on the level of the real salaries. The demand for work depends on the possibilities of substituting work with the capital, the part of the work costs in the total costs.

**Imbalance** between supply and demand in the labour market, which leads to unemployment, can be caused by many factors:

- the minimal salary which is determined by the state and is 6080,- SK (150 EUR) from 1.10. 2003, the average salary 13755,- SK (340 EUR) and the average inflation rate (8.5% in 2003 in Slovakia)
- the life minimum, which from 1.7. 2003 is 4210,- SK (104 EUR) per one adult
- the system of social welfare, which was very generous and did not motivate people to work. The system of unemployment compensation changed radically from 1.1. 2004 and urges people to find a job. The impact of this decision on the unemployment will show in the future
- a lot of people who work without registration (black work) increase the statistic rate of unemployment and are a heavy burden to the social system
- there is still low possibilities for creating new work places in the Slovak Republic
- discrimination of specific groups in the labour market. The discrimination in employing is officially prohibited by the law, but the Roms can hardly find a job. In most of the Romany villages the unemployment is more than 90%.

The following forms of discrimination are still present in the Slovak Republic:

- age discrimination. The organizations prefer employing young people and do not want to employ older people. Many organizations in Slovakia want to employ young people with many years of practice; it is not possible in real life. Young people are one of the risk groups of unemployed in Slovakia. Young people have no practice skills and that is the reason why they cannot find a job. It is a vicious circle of the unemployment of young people. On the other hand, organizations regard people aged 40–45 years too old and not perspective, as the age of retirement is 62 years
- discrimination of women – lower salaries of women in comparison with men. Salaries of Slovak women make only 70–75% of men's salaries.

### Unemployment in Slovakia at present

The sources of information about unemployment in Slovakia are the statistics of the National Work Office, NÚP (from the 1 January 2004 Headquarters for Social affairs and Family) and the Selective Identification of the Labour Forces (VZPS), which are realized by the Statistics Office of the Slovak Republic (SOSR). On the basis of the mentioned sources, the following types of unemployment were determined:

- a) **the rate of unemployment in %** represents part of the unemployed people in the economically active population. The information is found from VZPS
- b) **the rate of unemployment calculated from the whole number of the unemployed people** is the registered unem-

ployed people in the economically active population in %.

According to the agreement with the International Labour Organization (ILO) No. 160/1985 on labour statistics it is monitored in Slovakia from 1997

- c) **the rate of registered unemployment**, which is calculated as the quotient of the available number of the registered unemployed and the economically active population.

*The economically active population (labour force)* encompasses all employed and unemployed people older than 15 years. *The registered unemployed* are inhabitants who are seeking a job and are in the register of unemployed people. *The disposable number of registered unemployed* embraces those unemployed who can start work immediately in the presence of a free position. They are the registered unemployed after considering their requalification, work rehabilitation, those who are doing graduate practice, temporarily unable to work and receivers of maternity benefits.

From these ways of calculations it is evident that the rate of registered unemployment can be different from the rate of unemployment calculated from all registered unemployed. There are some little differences in resultant numbers, which come from different methods used by VZPS and NÚP.

The information about the number of unemployed people and the unemployment rate are important indicators of the economic development of the country and provide a very important information for the application of the tools of economic policy.

The reason for the expansion of unemployment in 1991 was the process of transformation of the national economy, which included conversion of the armaments industry, ex-

tended restructuring of the industrial production, privatisation and bankruptcy of many non-transparent organizations. The other factors what boosted unemployment were the rise of prices of imported goods, decline of the east markets, the lack of competitive advantage of Slovak products on the liberalized foreign markets.

The unemployment expressed by the average rate of unemployment was rising from 6.6% in 1991 to 14.6% in 1994. There was a little drop after 1994, but after 1996 the unemployment rose from 12.6% to 18% in 2000–2001. The average rate of registered unemployment was 15.2% in 2003.

The majority of unemployed in Slovakia are people with basic education (in 2003 almost 62.9% from all unemployed). People with university education do not face big problems with employing. Their part in unemployment was 3.6% in 2003 (Table 2). The unemployment of university graduates has for a long time re-

mained on the level of 3%, but this can be the result of the disharmony between the structure of the field of studies in our universities and the structure of the professions required on the labour market.

A relevant problem that relates to unemployment in Slovakia is the fact that long-term unemployment is higher than mid-term (6–12 months) and short-term unemployment (6 months and less). Long-term unemployment (over 12 months) has grown rapidly from 1999 and reached 61.1% from all unemployed in 2003 (Table 3). The risk for long-term unemployed is the loss of work habits and often psychological disorders as a result of feeling inferiority. This leads to the apathy and bitterness when they are trying to find a job, and to social isolation.

According to [1], the majority of long-term unemployed are “unemployable people”. They are not able and willing to adapt actively to the changing conditions. This group of popu-

Table 1. The average rate of registered unemployment in Slovakia in the period 1991–2003 (%)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
6.66	11.4	12.7	14.6	13.8	12.6	13.0	13.7	17.3	18.3	18.2	17.8	15.2

[NÚP]

Table 2. Unemployed people according to their education in Slovakia in 1999–2003 (%)

Education	1999	2000	2001	2002	2003
Basic	21.1	19.6	19.8	20.6	23.2
Trained	38.0	40.3	41.8	41.9	39.7
Secondary (without exam)	5.8	4.7	2.8	2.5	2.6
Trained with leaving exam	4.1	4.8	4.7	4.6	4.2
Full secondary comprehensive	5.5	4.9	4.5	4.1	4.3
Full secondary specialised	2.3	22.4	23.3	23.4	22.4
University	3.0	3.2	3.0	2.9	3.6
Without school education	0.2	0.1	0.1	0.0	0.0
<b>Unemployment rate</b>	<b>16.2</b>	<b>18.6</b>	<b>19.2</b>	<b>18.5</b>	<b>17.4</b>

[VZPS SO SR]

Table 3. Unemployment according to duration in Slovakia in 1999–2003 %

Duration of unemployment	1999	2000	2001	2002	2003
Up to 1 month	4.4	3.6	7.2	6.5	6.8
More than 1 up to 6 months	25.7	21.6	19.4	15.8	16.8
More than 6 up to 12 months	21.2	19.6	19.6	17.8	15.2
More than 12 months	46.9	53.9	53.7	59.8	61.1
Not identified	1.8	1.3	0.1	0.1	0.1
<b>Unemployment rate</b>	<b>16.2</b>	<b>18.6</b>	<b>19.2</b>	<b>18.5</b>	<b>17.4</b>

[VZPS SO SR]

Table 4. International comparison of the trend of overall rate of unemployment in 1992–2003 (%)

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
EU	8.9	10.1	10.5	10.1	10.2	10.0	9.4	8.7	7.8	7.4	7.7	8.0
Belgium	7.1	8.6	9.8	9.7	9.5	9.2	9.3	8.6	6.9	6.7	7.3	8.1
Denmark	8.6	9.6	7.7	6.7	6.3	5.2	4.9	4.8	4.4	4.3	4.6	5.6
Germany	6.4	7.7	8.2	8.0	8.7	9.7	9.1	8.4	7.8	7.8	8.6	9.3
Spain	14.9	18.6	19.8	18.8	18.1	17.0	15.2	12.8	11.3	10.6	11.3	11.3
Ireland	15.4	15.6	14.3	12.3	11.7	9.9	7.5	5.6	4.3	3.9	4.3	4.6
Austria	-	4.0	3.8	3.9	4.4	4.4	4.5	3.9	3.7	3.6	4.3	4.4
Portugal	4.3	5.6	6.9	7.3	7.3	6.8	5.1	4.5	4.1	4.1	5.1	6.4
Great Britain	9.8	10.0	9.3	8.5	8.0	6.9	6.2	5.9	5.4	5.0	5.1	5.0
Czech	-	-	-	-	-	-	6.4	8.6	8.7	8.0	7.3	7.8
Hungary	-	-	-	-	9.6	9.0	8.4	6.9	6.3	5.6	5.6	5.8
Poland	-	-	-	-	-	10.9	10.2	13.4	16.4	18.5	19.8	19.2
Slovenia	-	-	-	-	6.9	6.9	7.4	7.2	6.6	5.8	6.1	6.5
<b>Slovakia</b>	-	-	-	-	-	-	-	<b>16.7</b>	<b>18.7</b>	<b>19.4</b>	<b>18.7</b>	<b>17.1</b>
USA	7.4	6.8	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0
Japan	2.2	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3

[EUROSTAT]

Different data on unemployment in Slovakia are caused by using different methods of calculation.

lation becomes more and more socially risky in connection to an integration of Slovakia into the European Union.

In accordance to an international comparison, Slovakia and Poland have the highest unemployment from all candidate countries. Spain and Ireland had been in the same situation before they became members of the European Union. The rate of unemployment in these countries decreased gradually after their entry into EU. The number of unemployed is decreasing in Slovakia, too. This is the result

of reactivating the economy development, a positive influence of the active policy in the labour market and particularly the influence of new foreign investments in Slovakia over the recent years.

#### 4. The possibilities of reducing the unemployment in Slovakia

There is no unified opinion about the causes of unemployment and how to deal with the problem of unemployment (in economic

theory and in praxis). According to the representatives of classic economy, unemployment is only a short-term and temporary phenomenon and relates to the voluntarily unemployed. J. M. Keynes' approach is oriented to rising governmental expenses. The recession in 1970s and 80s accompanied with mass unemployment led to a great disappointment as a result of the state regulation of economy. The present monetarists claim that new work places should be created with the help of an appropriate monetary policy (realized by the central bank) oriented towards the support of investments. Representatives of the supply side economy suggest to solve the problem of unemployment by state deregulation, privatisation and lower taxes. This should motivate people to become an entrepreneur or to seek a job.

Theoretical opinions on the causes of unemployment, suggestions how to deal with it and the interest of state in solving the problem of unemployment in Slovakia are objectified in the Active Labour Market policy which is realised by Headquarters for Work, Social Affairs and Family together with the Ministry of Work, Social Affairs and Family in Slovakia.

#### *Active Labour Market policy*

The Headquarters for Work, Social Affairs and Family opens up through the active Labour Market policy financial benefits oriented to the support of creating new or sustaining existing work places. Financial benefits are oriented also to creating new work places for handicapped people, graduates and for people who move for work and for development of the education of employees and unemployed. There is also an activating benefit for activating work, which helps to sustain work habits of unemployed people. Activating work

can be implemented through small services or voluntary activities for some individuals or organizations. These institutions together with unemployed citizens are receivers of this benefit.

#### *The program for development of small and medium organizations in 2003–2009*

The National Work Office (Headquarters for Work, Social Affairs and Family from 2004) will provide on the basis of this program an irrecoverable financial benefit for small and medium entrepreneurs, which will compensate the interests from the bank credit. This credit will be oriented to the growth of employment and support of the regional policy of labour market. The amount of the benefit will depend on the number of new work places. Registered unemployed will be placed here after considering the regional criteria.

#### *Industrial parks*

One possibility of solving the problem of unemployment is building industrial parks in the country. Industrial park is an area where industrial activities or activities of at least two entrepreneurs are concentrated. This area is set by the area plan of a town or of a zone. A town can get a grant from state budget to build a park.

Industrial parks are an effective way to make an area more favourable. Building industrial parks is a way to attract home and foreign investors who could reactivate the entrepreneurial environment and create conditions for new economic relations. People that are employed create demand for products and services; this is a multiple result of building industrial parks with a strong influence on the development of the area [3].

The advantages of the parks are: strategic investments (in Slovakia), long-term development of the region, expansion of the production in preferred technological areas with a high added value, and creation of new work places and thus a decrease of unemployment in the area [4].

According to the number of work opportunities that arose as a result of building industrial parks in Slovakia in the first half of 2003, the Slovak districts range as follows:

Table 5. Participation of industrial parks in creating new work opportunities in Slovak districts

District (region)	Participation of the industrial parks in creating new work opportunities (%)
Bratislavský	42
Banskobystrický	22
Košický	20
Žilinský	5
Nitriansky	5
Prešovský	4
Trnavský	2
Trenčiansky	0

[3]

Table 6. Participation of industrial parks according to their extent in Slovak districts

District (region)	Participation of the industrial parks according to extent (%)
Bratislavský	54
Banskobystrický	3
Košický	12
Žilinský	14
Nitriansky	0
Prešovský	0
Trnavský	17
Trenčiansky	0

[3]

The building of industrial parks is of great importance for Slovakia because of great regional differences in unemployment between its eastern and western parts. Paradoxically, there are only few industrial parks in the eastern part of Slovakia which has the highest rate of unemployment, and many new parks have been built in the western part in which the unemployment is lower than in any other district of Slovakia.

Building industrial parks brings direct foreign investments, which can help to unify the economic level of the regions and to lower regional unemployment. Slovakia has great expectations connected with investments of big car factories such as Peugeot-Citroën and Hyundai-Kia Motors.

#### Flexibility of the work time

Questions related to the support and growth of employment using the flexible models of work time in organizations are more important in relation to the growth of unemployment. The flexible models eliminate downtimes and intensify work. This does not always have

Table 7. Registered unemployment rate according to Slovak districts (31 December 2003)

District (region)	Registered unemployment rate
Bratislavský	4.0
Banskobystrický	22.8
Košický	22.2
Žilinský	13.2
Nitriansky	19.1
Prešovský	19.6
Trnavský	11.1
Trenčiansky	9.9
<b>Slovakia total</b>	<b>15.6</b>

[NÚP]

to be a reason for employing other people, especially in small organizations and in an uncertain economic environment. Flexible models of the work time in an organization give a lower effect related to the decrease of unemployment, but on the other hand these models are connected with the reorganization, technological changes and rationalization of work, which positively influence the employment. It is difficult to assess this influence exactly. Nevertheless, the flexible models of work time are an important part of the active employment policy in many countries [2].

One of the possible forms of flexible work organization models is work at home represented by telework. It is "work at a distance" which is realised by new info-communication technologies, but conditions for this kind of work are different in all countries. An essential precondition of telework is accessibility of info-communication technologies and a relatively high qualification of the employees. Telework is growing rapidly in Slovakia and other European countries, which face the big problem of the ageing of the population. It is not too popular in Slovakia, but it could be a promising form of employing after overcoming technical and other barriers in the future.

#### *Investments to the human resources*

"Intensive technical development brings new discoveries and new orientation to increasing the technical level of the products and services which are oriented to the customer. This requires continuous improvement and extension of the knowledge, skills and formation of new working abilities. Investment to the education creates strong and flexible labour who will be able to react to the changing conditions in the market." [5]

An individual who decides to invest into development of his own human capital can

expect many benefits in the future: higher salary, growth of intellectual disposition, self-confidence and adaptation to new socio-economical, technical and working conditions, a higher value in the labour market and thus elimination of the risk of unemployment. Many organisations in Slovakia underestimate this reality and find investments into real capital (modern information technologies) more important.

#### **4. Conclusions**

Slovakia and other European countries face the big problem of ageing of the population. The decrease of the number of economically active people can be balanced only by the higher performance of the economy. To meet this aim, it is necessary to integrate educated people and people who are able to work with demanding modern technologies into the working process. Investments into human capital represent the most advantageous form of improvement of the situation in the labour market from the perspective point of view.

Economically active people can be balanced only by a higher performance of economy. To achieve this goal, it is necessary to integrate educated people and people who are able to work with demanding modern technologies into the working process. Investments into human capital represent the most advantageous form of improvement of the situation in the labour market from the perspective point of view.

The main results of the research presented in the paper are as follows:

The diagnostic analytical methods are suitable not only for solving the problems of microeconomics, but also for exploration of problems associated with macroeconomics. To solve the specific problems of unemployment

in the Slovak Republic, it is important to account for the peculiarities of each region, to support business organizations in their devel-

opment, to encourage labour workforce to increase their flexibility and to develop their potential through knowledge.

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## NEDARBO SLOVAKIJOS RESPUBLIKOJE PRIEŽAŠČIŲ ĮVERTINIMO ANALIZĖ IR JOS ĮTAKA VERSLUMUI

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Santrauka

Aktuali socialinė-ekonominė problema daugumoje išsivysčiusių šalių yra nedarbas. Slovakijoje taip pat. Nedarbas Slovakijoje prasidėjo ekonomikos transformacijos proceso pradžioje, pereinant iš komandinės prie rinkos ekonomikos, ir trunka iki šių dienų. Nedarbą galima suprasti kaip paklausos ir pasiūlos disbalanso, kylančio darbo rinkoje, rezultatą. Būtent tai rodo ekonominė ir socialinė situacija šalyje, ji lemia

blogesnes gyvenimo sąlygas, prastesnę sveikatos būklę, narkomaniją ir t. t.

Pagrindinis šio straipsnio tikslas – pateikti teorinius nedarbo problemas aspektus, nagrinėjant ekonomikos teoriją, atkreipti dėmesį į nedarbo tendencijas nuo 1991 iki 2003 metų bei pasiūlyti tinkamus šios problemas sprendimo Slovakijoje būdus.

*Įteikta 2004 m. birželio mėn.*