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## *Current Prospects for Applying the EES in the Visegrad countries*

Materials for the presentation prepared for the seminar “How Can the European Employment Strategy Help the New Member States in Fighting Unemployment?”  
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### 1. INTRODUCTION

- All the Visegrad countries are expected to join the European Union (EU) in 2004. Therefore from that time on they will be formally obliged to follow the guidelines of the European Employment Strategy (EES). However practically they have been reforming their policies in that direction since the late nineties.
- EES history started in 1997. It is a strategic framework to solve the non-employment problem in Europe and it is based and organised upon the main four pillars of pro-employment policy:
  - Employability
  - Entrepreneurship
  - Adaptability
  - Equal Opportunities
- Every year the European Commission prepares a set of policy guidelines for member countries. The guidelines are being constantly reformed to keep on track with current needs of the European labour market.
- Following those guidelines Member States prepare annual National Action Plans (NAPs) presenting the activities planned and the goals of the labour market policies in the framework of the EES.
- This presentation would be structured to imitate the analytical part of an NAP-like document created for the Visegrad countries. Selected EC Guidelines for 2002 will be used as the baseline for presentation.

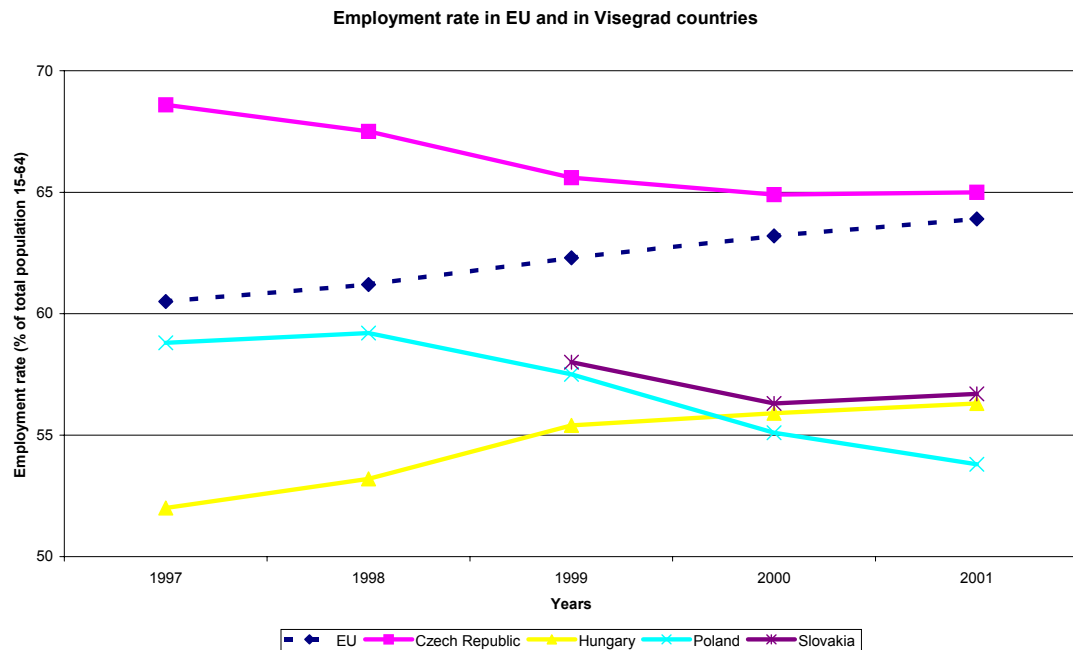
### 2. MAIN GOAL AND SITUATION IN THE VISEGRAD COUNTRIES (EMPLOYMENT AND UNEMPLOYMENT RATES) (chart 1)

#### 2.1. The main objective of the strategy is: (Horizontal Guideline A)

- Increasing of total employment rate to 70% in 2010 and 67% by 2005.
- Increasing of women employment rate to 60% in 2010 and to 57% by 2005
- Reaching the 50% employment rate for older persons aged 55-64.

#### 2.2. Currently the employment rates differ vastly among the Visegrad countries, as presented on Chart 1.

**Chart 1**



Source: EC Report - Employment in Europe 2002

- Only in the Czech Republic the situation is similar to the EU average.
- In Poland the situation is currently deteriorating indicating the need for rapid action to reverse the trend.
- Hungary and the Slovak Republic should accelerate the convergence process. The situation in these two countries is however different when looking at other labour market indicators. The unemployment level in Slovakia reaches 20 percent, in Hungary it is only slightly smaller than 6 percent. It indicates a strong problem of low activity of Hungarian population. We will come back to this problem further in the presentation.

### 3. PILLARS OF THE STRATEGY AND SELECTED PROBLEMS

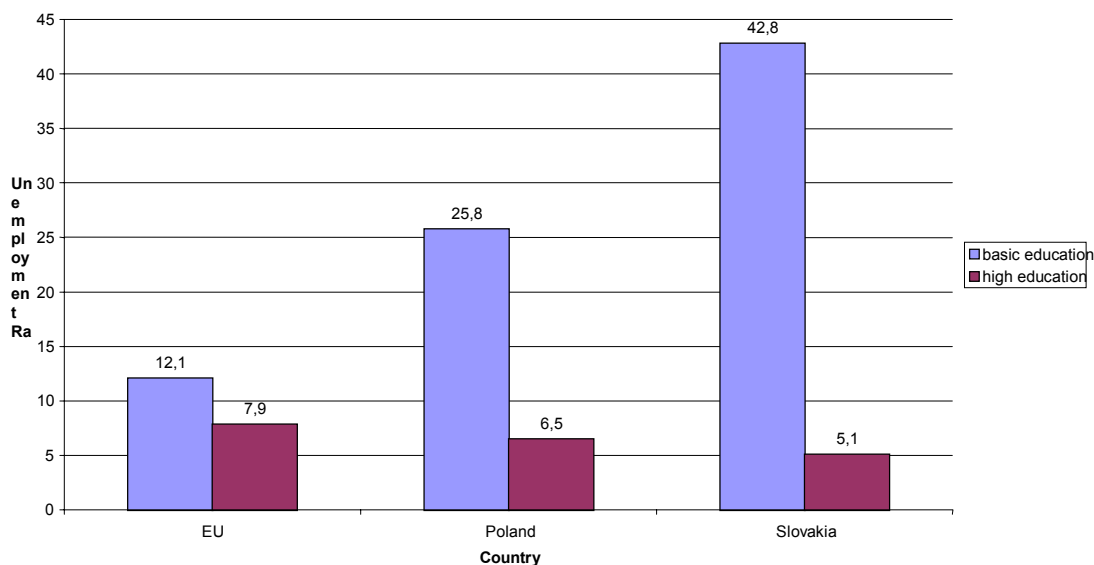
#### 3.1. EMPLOYABILITY

##### 3.1.1. EDUCATION SYSTEM (Guideline 4)

- Well functioning education system matching the needs of the modern labour market is a key issue in ensuring the increase in the employment rate of the population in the long run.
- Only highly educated persons will be able to cope with challenges of the modern knowledge based economy.
- Due to these reasons this problem has been put as the first in this presentation, although it appears later in the EC Guidelines. The importance of this problem, especially for the Visegrad countries can be easily illustrated with the following graph.

## Chart 2

Unemployment rates for poorly and highly educated labour force in Poland and Slovakia. Years 2001/2002

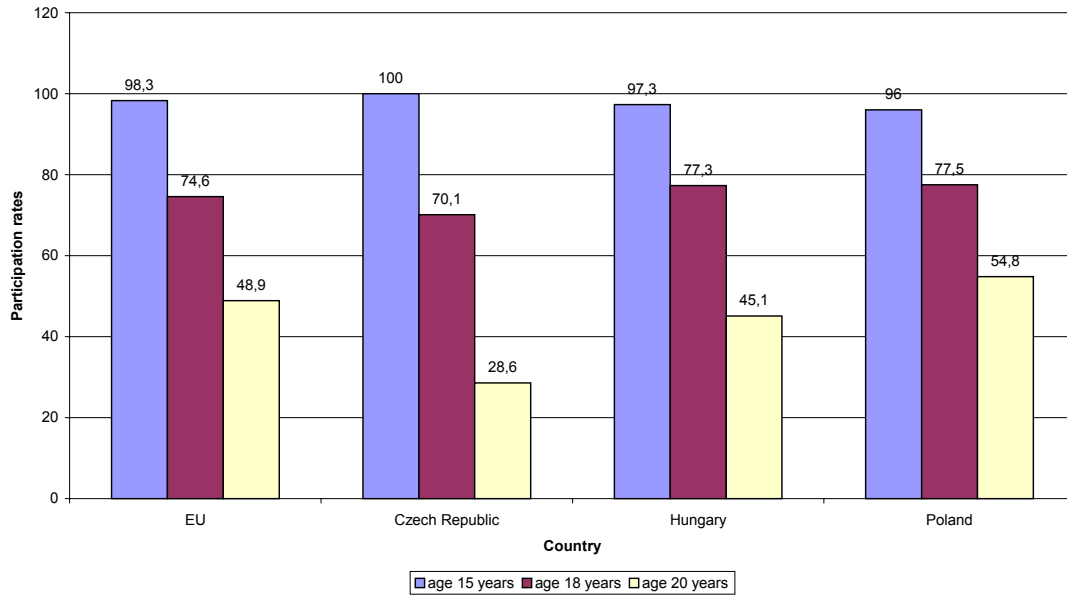


Source: EC, Polish LFS and Slovak Ministry of Labour web page.

- The difference between unemployment rates for poorly and highly skilled labour force is much higher in the Visegrad countries than in EU. This difference originates from the shortage of highly educated persons on the Visegrad labour markets but also from the old-fashioned curricula in basic and vocational schools. This problem is often mentioned in the EC reports concerning our countries.
- Comparing the graphs 3 and 4 shows us that official data about the participation in education system are not correlated with real literacy of students from the Visegrad countries. The reform of teaching programs is strongly needed, especially in Poland. (The educational reform started in the year 2000 is an attempt to address this need, although in EC report 2002 it has been noticed that in the last period the reform is being reversed)

### Chart 3

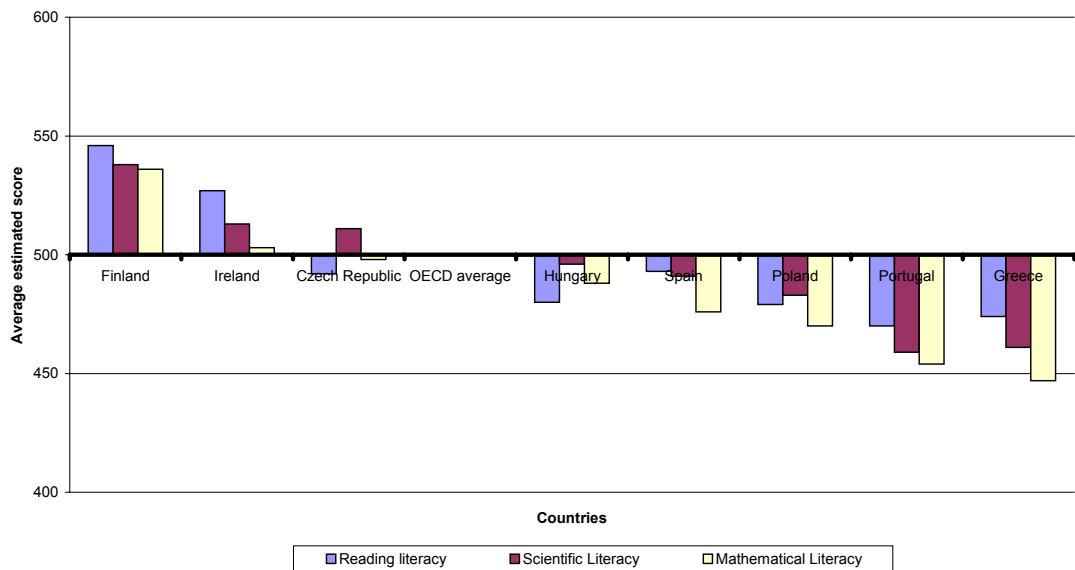
Participation in education by age in EU and Visegrad countries. Data for 1999/2000



Source: EC report - Employment in Europe 2002

### Chart 4

Selected results of OECD PISA research showing the practical literacy of students from different countries. Year 2000



Source: The results of the OECD - PISA study in the EC report: Commission Action Plan for Skills and Mobility, COM(2002)/72

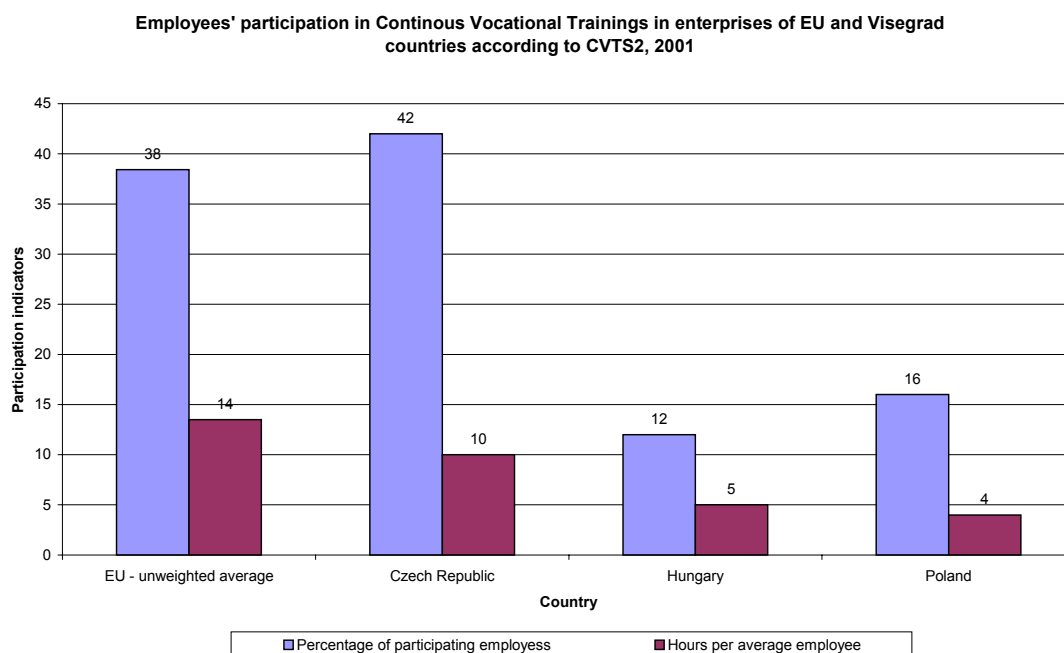
- Participation rates in the Visegrad countries are similar to the EU average with the exception of the Czech Republic, where the participation rate of the youth in the age of 20 is much smaller.
- The results of the OECD study of real applied knowledge of students show however that Czech Republic is the only Visegrad country falling above the

OECD average in at least one fields of knowledge. Other countries are close to the level of less developed EU countries.

### 3.1.2. CONTINUOUS EDUCATION

- The challenge of life-long learning and continuous education appears also in guideline 4.
- Modern labour market with quickly changing technologies and constantly increasing skill-intensity requires continuing learning during the entire job career.
- This requirement is even more apparent in the Visegrad countries experiencing the unprecedented process of economic restructuring and institutional transformation.
- The chart 5 shows however that the participation of employees in the vocational training is still very low in the Visegrad countries (with exception of the Czech Republic) calling for more active policy measures in this respect.

**Chart 5**



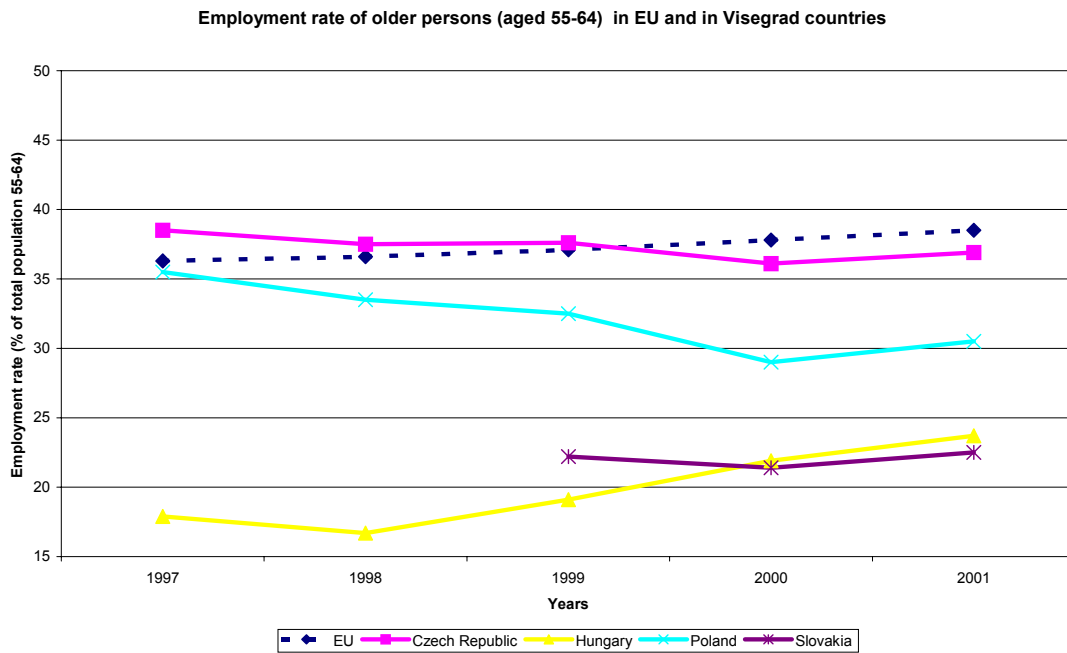
Source: EC report - Employment in Europe 2002

### 3.1.3. ACTIVE AGEING (Guideline 3)

- In OECD countries and also in the Visegrad countries at the beginning of market reforms there has been a practice of early retirement in order to decrease tensions on the labour market. (Still continued in Poland, this policy has been criticised in the last EC report on Polish preparations to EU membership)
- This policy, although in the short run led to decrease in registered unemployment, resulted in a decrease in activity rates of persons approaching the retirement age (mainly aged 55-64). In the longer run it increases the dependency ratio leading to an increase in the pension system costs and consequently to higher cost of labour.
- The situation is improving only in Hungary, however the starting point (as for the year 1997) in this country was extremely low. In the remaining Visegrad countries the employment rate of elderly is still decreasing calling for immediate change of deactivating policies such as,

- already mentioned early retirement schemes
- non-reformed pension system (without economic motivation to stay on the labour market)
- easy access to disability benefits
- All the Visegrad countries (and also the EU, so it is a common problem) are still far from reaching the objective set by the EC Guidelines (Horizontal guideline "A") which assumes achieving the employment rate of 50% for elderly persons aged 55-64.

**Chart 6**

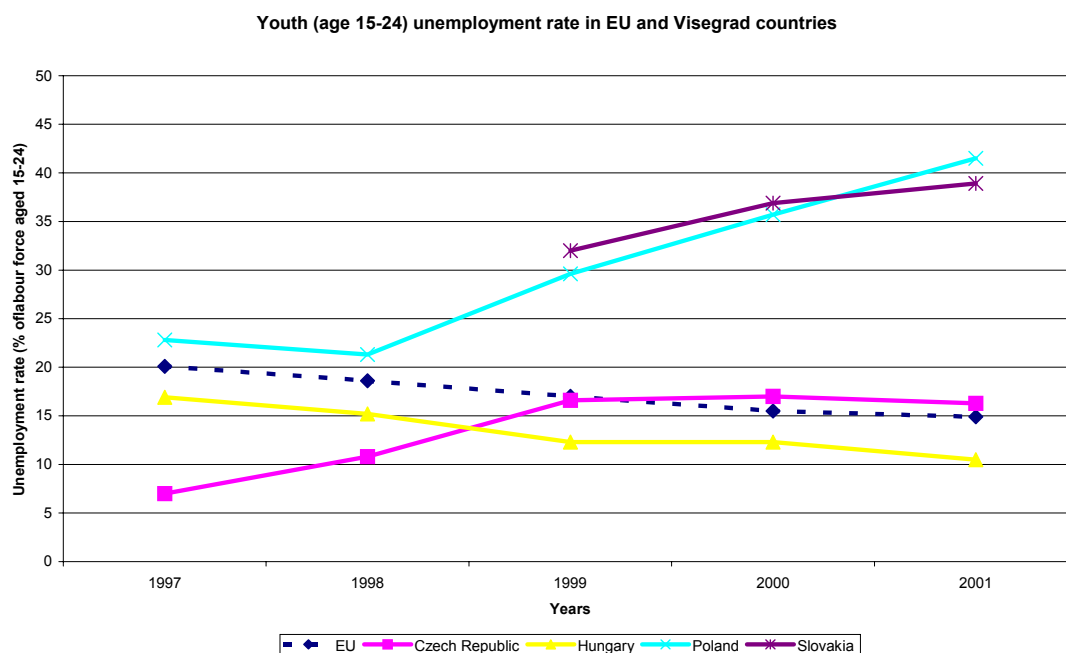


Source: Employment in Europe 2002, EC-report

#### 3.1.4. YOUTH AND LONG TERM UNEMPLOYMENT (Guideline 1)

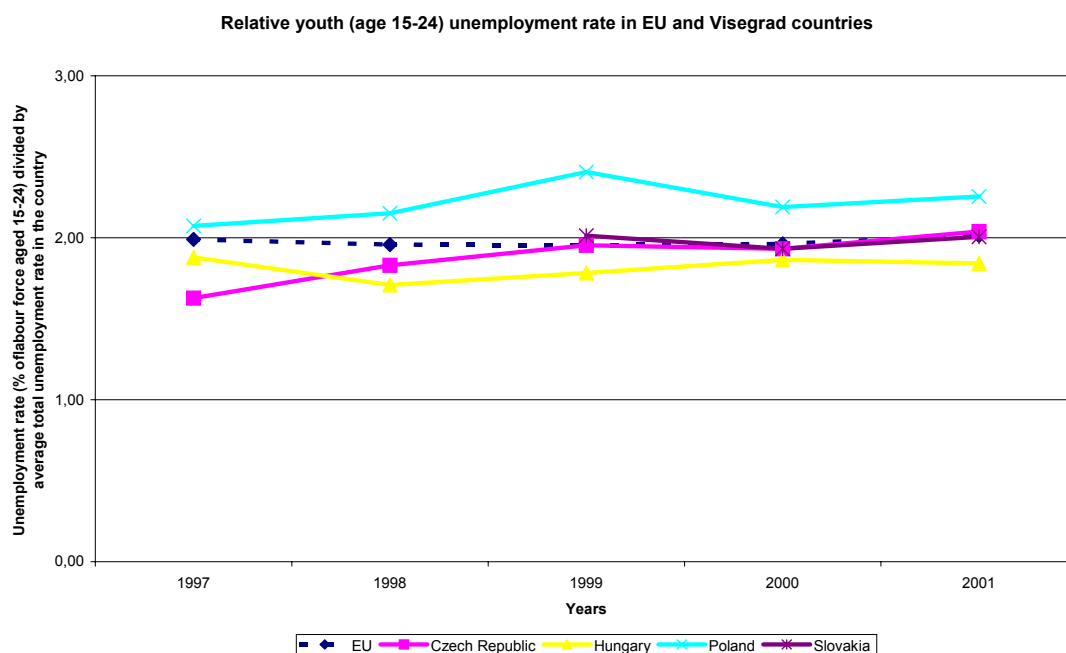
- Decreasing unemployment among the youngsters is one of the basic objectives of the EES. Therefore already in 2002 all Member States are obliged to provide every unemployed young person (aged 15-24) with an active measure increasing her/his chances for being employed ie:
  - training or retraining
  - on the job training (work practice)
  - other employability measures
 within the period of SIX MONTHS since the beginning of the unemployment spell.
- The situation of the youth on the labour market in all countries is strictly related to the overall situation. However it is always much worse then average. This is also a truth for EU and the Visegrad countries, what has been illustrated by charts 7 and 8.

### Chart 7



Source: EC report, Employment in Europe 2002-10-15

### Chart 8

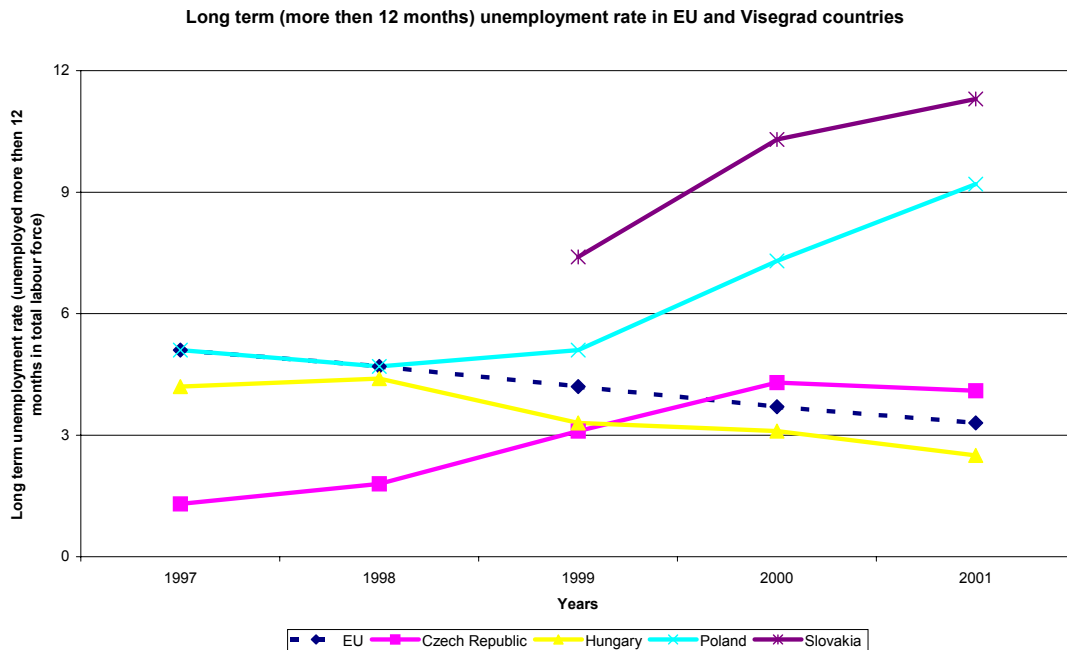


Source: Own calculation based on data as for Chart 7.

- The relative situation of youth on the labour market is in all countries similar to the EU. It is slightly worse in Poland - possibly due to the demographic situation.
- Special active labour programs for youth are already underway in all the Visegrad countries.
- Long-term unemployment is also a serious problem in the Visegrad countries (especially in Slovakia and to some extent in Poland) as illustrated on the Charts 9 and 10.

- The EC Guideline 1 assumes that every unemployed should be offered a chance for employment or retraining during the first year of his unemployment spell, ie. before entering the group of long-term unemployed.
- The long-term unemployment rates are the highest in Slovakia and Poland, ie. in the countries with the highest overall unemployment rate. In Hungary and in the Czech Republic the rates are similar to the EU average.
- The proportion of long-term unemployment in total number of unemployed is also the highest in Slovakia. However it is rising in both Poland and the Czech Republic indicating the rising share of structural unemployment in the total unemployment in both countries.
- Obviously the scale of the problem in the Czech Republic is incomparable to the Polish and to the Slovak situation, especially taking into account that the long term unemployment rate in the Czech Republic is actually falling.

### Chart 9



Source: EC report - Employment in Europe 2002



**Chart 10**



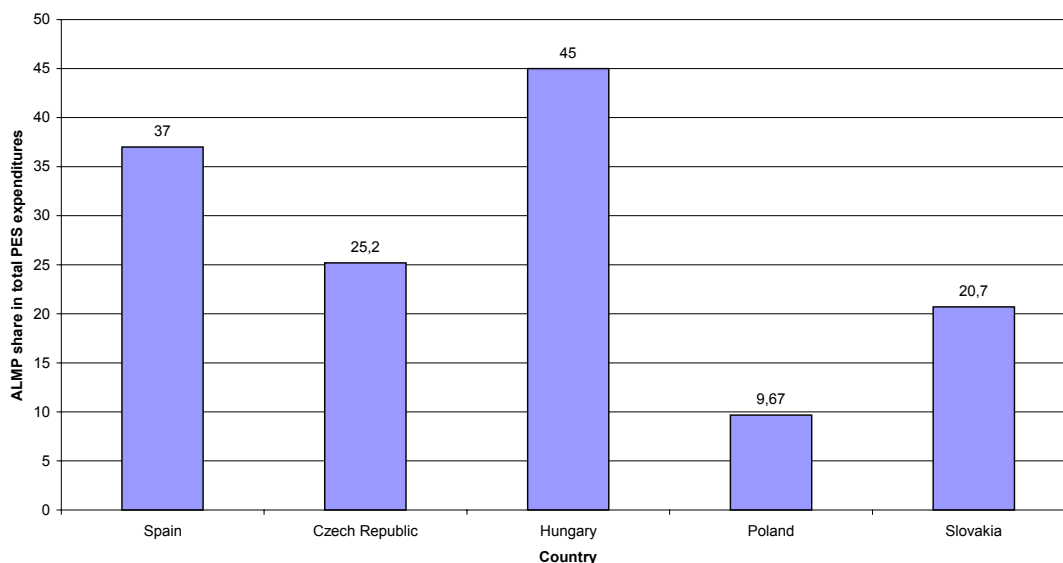
Source: Own calculations based on data as for Chart 9.

### 3.1.5. ALMP (Guideline 2)

- The use of Active Labour Market Policies is strongly supported by the EU. They are considered to be a very important tool not only in improving the employability of the unemployed but also in improving social inclusion.
- Training and other similar measures seem to be the most effective sorts of Active Measures. Subsidised jobs or public works seem to be much less effective, therefore the EC guidelines declare training as the most preferable measure. The spendings for these measures should constitute at least 20% of all PES' (Public Employment Services') spendings.
- Poland is the country in which the share of the ALMP in total PES's spendings is certainly too low. The budget of the PES is not following the dramatic changes in the labour market situation.
- All the countries (according to EC Regular Reports for 2002) should increase the pro-active role of the PES. In CASE of Slovakia there is a clear recommendation to provide unemployed with more training at the expense of other measures such as sponsored jobs or public works.

**Chart 11**

**Expenditures for Active Labour Market Policies as a share in total expenditures of Public Employment Services in Visegrad countries and in Spain. Various years 1999-2001**



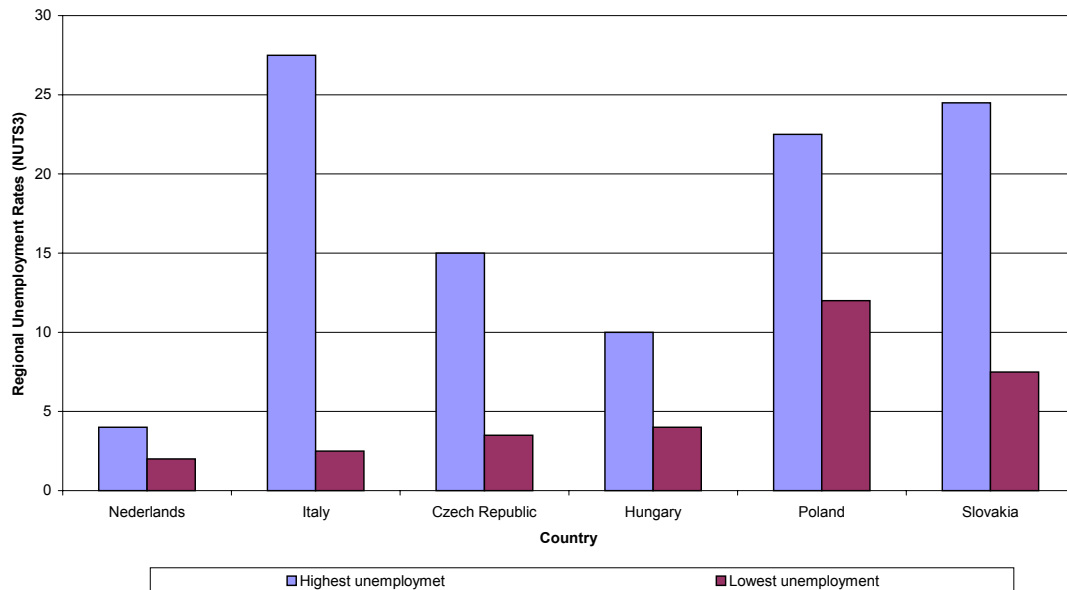
Source: NAP for Spain, year 2000; JAP - The Czech Republic, 1999; JAP-Hungary, 2000; Sectoral Operational Program for HRD, Poland, 2001; National Strategy for HRD in Slovakia, 2001.

### 3.1.6. PREVENTION OF BOTTLENECKS (Guideline 6)

- Lack of regional and occupational mobility as well as the weak effectiveness of the PES is considered to be the main bottlenecks on the Visegrad labour markets.
- Occupational mobility is strictly related to the promotion of the life-long learning attitude and to the creation of sufficient supply of educational services for adults. Current situation in this respect is illustrated by Chart 5.
- Lack of regional mobility is also a serious problem in the Visegrad countries, as illustrated on chart 11.
- Slovakia is most severely hit by regional disparities, Hungary is in the best situation in this respect. All the Visegrad countries are in between the extreme cases that can be found in the EU, that is between Netherlands (the least regionally differentiated country) and Italy (the most differentiated one).
- Housing problems (especially in the case of Poland - the lack of infrastructure) are to be blamed for the low spatial mobility.
- Both JAPs and last EC Regular Reports do stress the need for the improvement of regional mobility in all the Visegrad countries.
- Special regional development measures are set as priorities for Slovakia and Poland.

## Chart 11

Regional Disparities in unemployment rates in Netherlands, Italy and in Visegrad countries. 2001



Source: EC report, Employment in Europe 2002

### 3.1.7. HANDICAPPED GROUPS (Guideline 7)

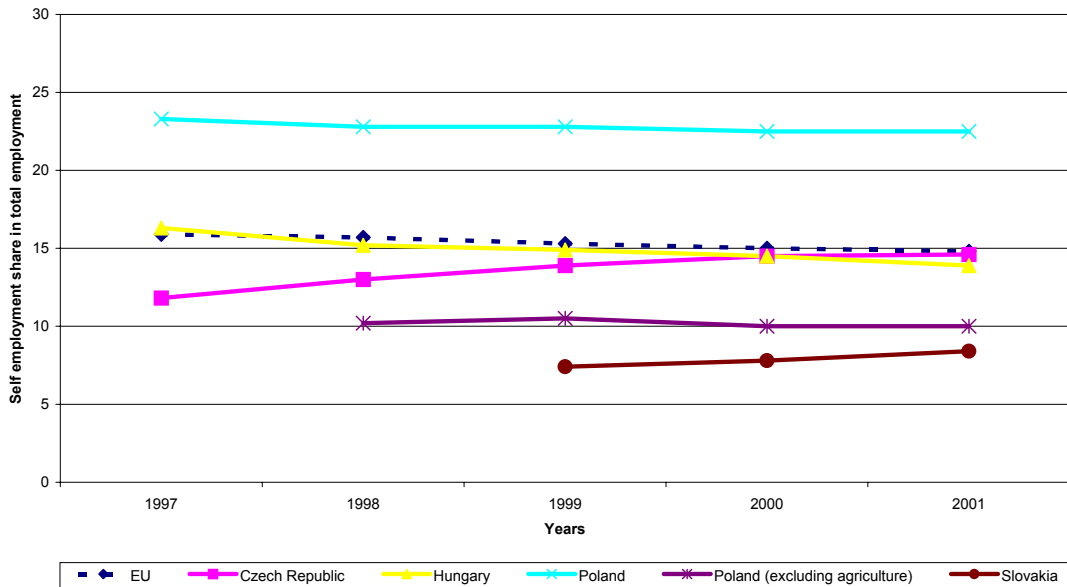
- Special attention has to be paid to the problem of social inclusion of Roma Population in Hungary, in the Czech Republic and in Slovakia. In some Roma communities the Slovakia the unemployment rates are close to 100 percent.

### 3.2. ENTREPRENEURSHIP (Guidelines 8-12)

- Small and medium enterprises active mainly in the developing service sector are the most important place where persons loosing their jobs in industry and agriculture may find new job.
- Therefore creation of friendly environment for them is one of the four pillars of the employment strategy.
- This pillar seems to be especially important for the Visegrad countries, where shrinking of industry and/or agricultural sectors is supposed to be especially rapid.
- The share of self-employment in total employment may be treated as the good proxy for the stage of development of entrepreneurship in a country. These data are presented on the chart 12.
- The results for Poland have to be presented separately for the entire employment and then without agriculture due to the large number of individual farms in Poland.
- The level of entrepreneurship in Hungary and in the Czech Republic is similar to that observed in the EU. Figures for Slovakia and for Poland (when agriculture is excluded) are much lower.

**Chart 12**

Self employment as the percentage of the total employment in EU and in Visegrad countries



Source: EU report - Employment in Europe 2002. For Poland without agriculture own estimations based on officially published LFS results.

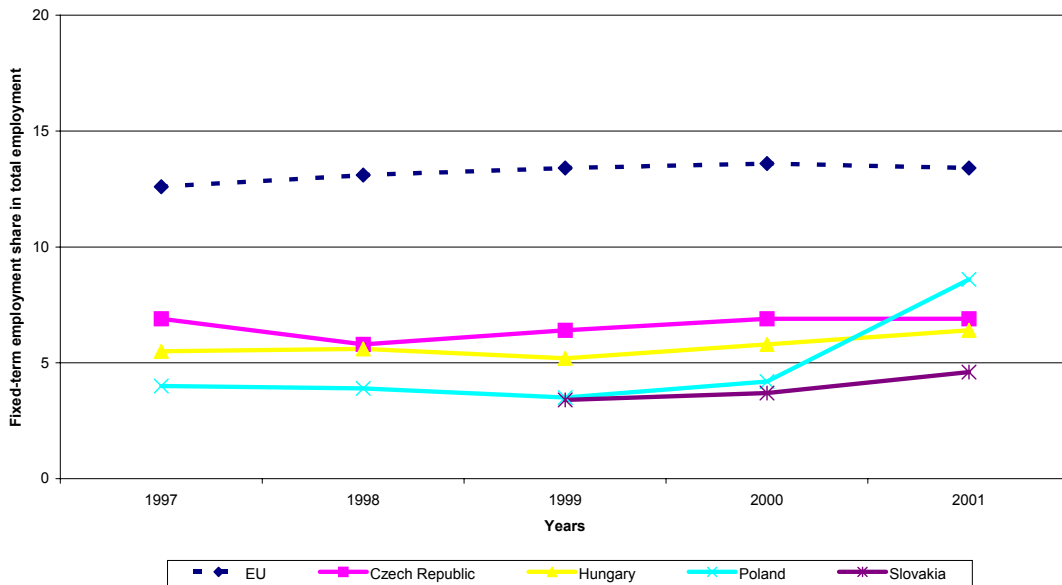
- All the Visegrad countries (with the exception of Hungary) are criticised for:
  - not sufficiently transparent registration procedures for new firms
  - lack of sufficient system of financing for the SME
  - over-regulated labour market, hampering the SME development (past changes in Polish labour code can be considered as a step in a good direction).
  - high tax wedge on the labour costs
- Regional authorities should actively support the development of SME, they should co-operate closely with the PES to verify constantly the needs of the local labour markets in order to be able to adopt the most appropriate measures. (Guideline 11)
- Regional Pacts for employment designed by local authorities, Public Employment Services and other local social partners are strongly encourage.
- Active attitude of the local authorities, with rising competencies and responsibility will allow for effective use of Structural and Social Funds after joining the EU.

### 3.3. ADAPTABILITY (Guidelines 13,14)

- Modernising of the work organisation is another challenge of the modern labour market. Development of the service sector and increasing share of small companies in total employment means that both: number of employees and organisation of labour time have to respond timely to changing situation.
- The best measures of the current level of modernisation of the labour market are the share of the fixed-term contracts and part-time employment in total employment.

**Chart 13**

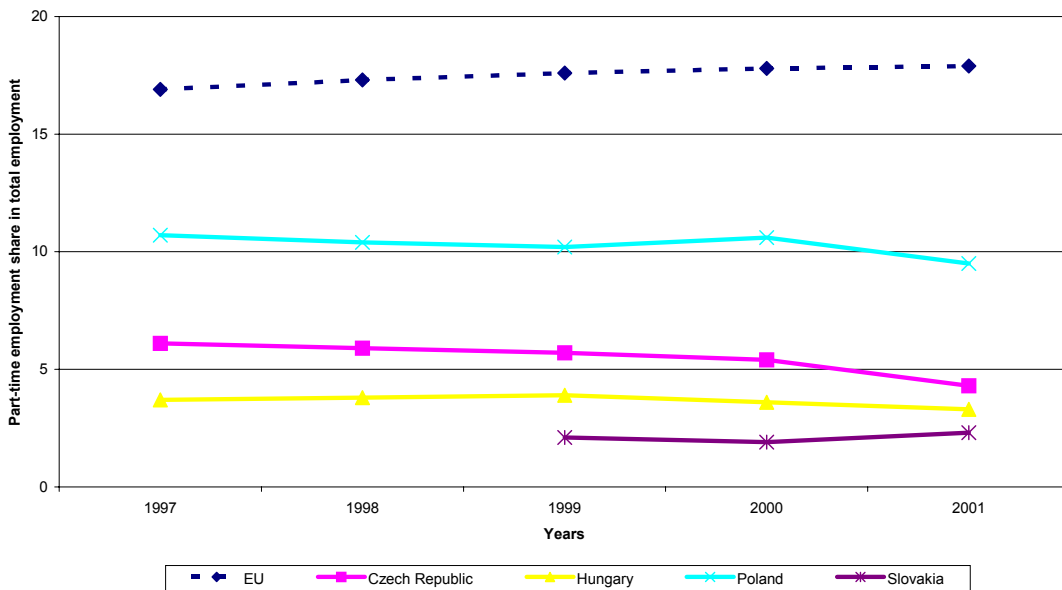
**Fixed-term employment as the percentage of the total employment in EU and in Visegrad countries**



Source: EC report - Employment in Europe 2002

**Chart 14**

**Part-time employment as the percentage of the total employment in EU and in Visegrad countries**



Source: As in chart 13

- Both part-time employment and fixed contracts shares in total employment are much smaller in the Visegrad countries than in EU.
- Labour market, as far as these two measures are concerned, seems to be relatively flexible only in Poland. However it must be stressed that in all the Visegrad countries, including Poland, the majority of persons working with fixed-term or part-time contracts have been forced to accept such a situation. The situation is different in EU. Therefore the increase of the share of fixed term contracts in total

employment should be rather explained by the difficult situation and not by the labour market liberalisation. The more that the relevant reforms of the Labour Code are only just about to be implemented.

- Increase of the number of these two types of contracts might slightly improve the labour market situation in Slovakia as argued by the EU experts in the Regular Report for the year 2002.
- Any changes in Labour regulation should, according to EC guidelines, be negotiated with social partners. A system of social negotiations is currently working in all the Visegrad countries.

### 3.4. EQUAL OPPORTUNITIES (Guidelines 16 - 18)

- Promoting equal opportunities for men and women are the last pillar of the European Employment Strategy, although the employment rate targets to be achieved by member countries are lower for women. (57% in 2005 and 60% in 2010).
- Employment rate, showing the effective economic activity of women, and unemployment rate, showing the relative position of women on the labour market, are the two main measures of labour market gender gaps. They are presented on charts 15 and 16.

**Chart 15**

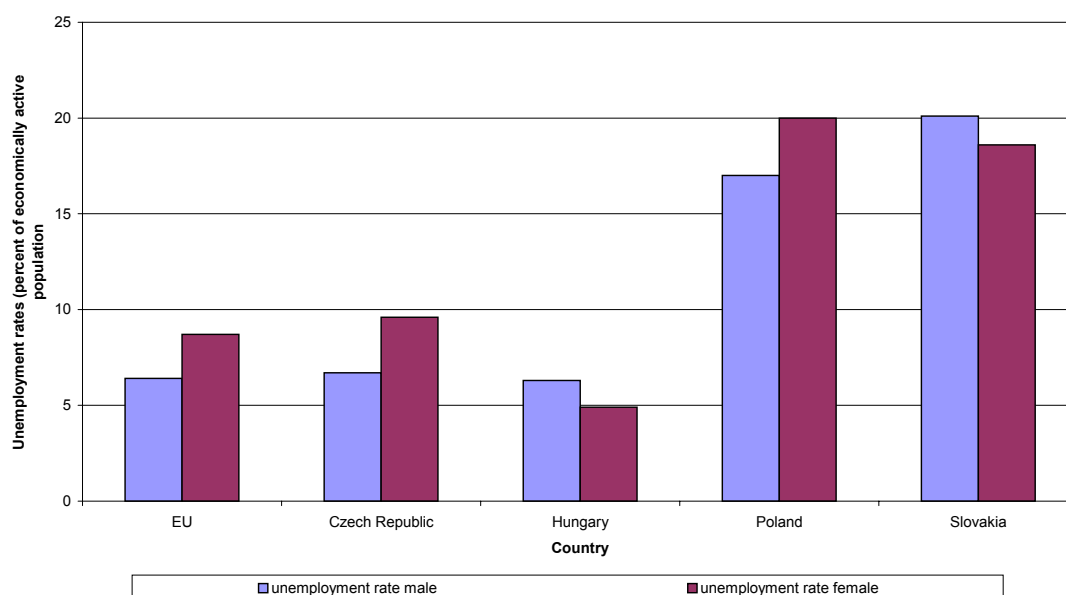


Source: EC - report, Employment in Europe 2002

- Employment rate for women is smaller than for men in all the countries. In the Visegrad countries however this difference is smaller than in EU, although the absolute values for both sexes are obviously lower (with the exception of the Czech Republic). It means that the relative share of women on the labour market is higher in the Visegrad countries than EU average.

**Chart 16**

Unemployment rates of men and women in EU and Visegrad countries. Data for 2001



Source: As in chart 15

- The situation does not look differently when we look at the relative position of women when looking for the job.
- Unemployment rate for women is lower than for men in both Slovakia and Hungary, which indicates large inactivity of women in these two countries, given the low employment rates.
- It seems that relative situation of women on the Visegrad labour markets is at least not relatively worse than EU average.
- The EC indicates for the need of minor legal or institutional changes concerning the equal treatment policies in all countries.

#### 4. COUNTRY PRIORITIES - INSTEAD OF A SUMMARY

- The priorities of the employment policy for the Visegrad countries have been all summed up in countries' JAPs and are presented in Table 1

**Table 1 Summary of the Visegrad countries employment policy priorities defined in Joint Assessments of Employment Priorities prepared in years 2000-2002. Ordered according to the EES pillars.**

EES Pillar	JAP priorities	Czech Republic	Hungary	Poland	Slovakia
1	strengthen the pro-active role of PES	+	+	+	+
1	reform general education system, rise participation in higher level education		+	+	+
1	modernize vocational education	+	+		+
1	expansion of continuing training		+	+	+
1	raise participation of Roma minority		+		+
1	reduce drop-out rates from education		+		
1	monitor existing labor market programs		+		

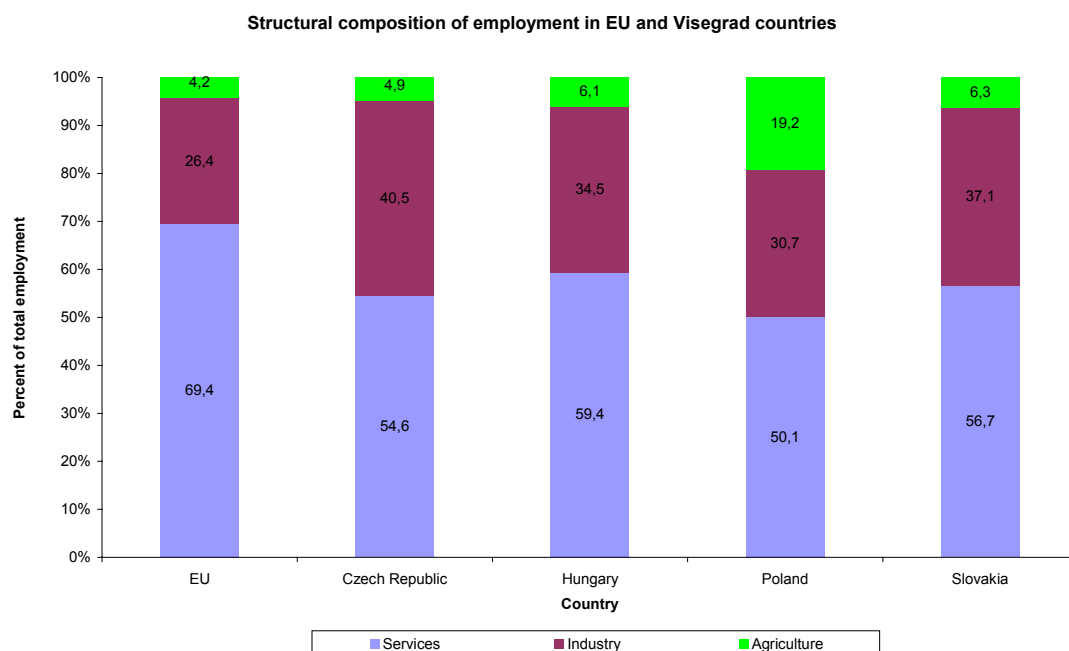
1	review pension system	+			
1/2	create tax and benefit system friendly for job creation	+	+	+	+
1/2	promote and facilitate geographical mobility	+	+	+	
2	develop regional development measures			+	+
2	reduce tax wedge				+
2	develop job creation capacities in SME, service sector and high-tech sector		+		
3	involve social partners into employment policy		+	+	+
3	keep wages on track with productivity growth	+		+	+
3	monitor the impact of minimum wage increase		+		
4	address gender gaps - non discrimination legislation		+	+	+
	prepare institutions for ESF utilization	+	+	+	+
	<b>NUMBER OF AGREED PRIORITIES</b>	<b>7</b>	<b>14</b>	<b>10</b>	<b>12</b>

Source: Joint Assessments of Employment Priorities for Hungary (2000), Czech Republic (2000), Poland (2001) and Slovakia (2002).

- As one can easily notice, most of the priorities are common for at least two of the four Visegrad countries. A few of them have been agreed and explicitly articulated in all the JAPs, these are:
  - strengthening of the pro-active role of PES
  - creation of employment friendly tax-benefit system
  - preparation of countries' institutions for ESF
- Others, such as reducing tax wedges, keeping wages on track with productivity growth, promoting and facilitating of spatial mobility, modernising of vocational education and expansion of continuing training could possibly be also applied in all the countries, although these points been articulated explicitly only in some of them JAPs.
- The Visegrad countries however differ a lot in most of labour market characteristics and their problems seem to be different. Therefore the actual policies implemented should be differentiated to meet the most severe needs of particular labour markets.
- Charts 17 and 18 illustrate additional differences which have not been discussed earlier. These are:
  - structural differences
  - differences in activity rates

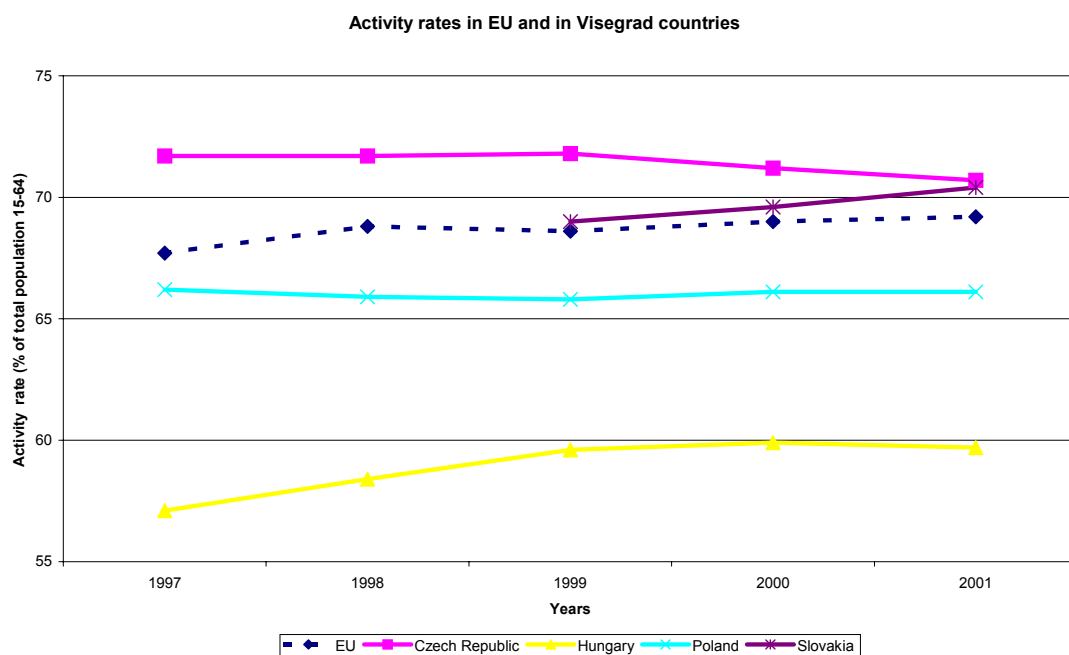


### Chart 17



Source: EC report - Employment in Europe 2002

### Chart 18



Source: As in Chart 17

- There are huge structural differences among the Visegrad countries that have influence on their labour market and should necessarily be taken into consideration while designing their employment policies:
  - Poland has a large share of labour force working in agriculture, these people are mostly uneducated, not mobile and unwilling to accept and understand the need for economic change. It indicates a need of special efforts and active policy to integrate this people into the productive part of the economy.

- Both Slovakia and the Czech Republic have a big share of employment in industry. Possibly, different initial structures of industry (smaller share of heavy industry in the Czech Republic), longer history of market reforms and foreign investments are the decisive factors behind the fact that labour market problems in the Czech Republic are much less severe than in Slovakia. Nevertheless it seems that in both countries the pace of economic restructuring after the entering EU will have to be much faster than it had once been in the current EU countries.
- Extremely low rate of economic activity seems to be the most visible problem for Hungary. Activating the society should be the main task for the Hungarian employment policy in the nearest future.
- The Hungarian problem seems to be possible to solve by the means of the European Employment Strategy. The problems of the three remaining Visegrad countries will additionally require a bunch of other macroeconomic, structural, and social policies.