

Solutions to high unemployment rates in V4 plus Ukraine

COMPENDIUM OF COUNTRY-SPECIFIC ANALYSES

INEKO and partners

Edited by Peter Goliaš, INEKO

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The document offers a brief overview of key facts and hypotheses about reasons of unemployment in Visegrad 4 countries and in Ukraine. It includes an overview of key applied or planned policies to solve this problem as well as some of key challenges discussed in respective countries.

The document comprises five country-specific analyses presented in a webinar “Solutions to high unemployment rate” that took place on January 29th, 2016 under the project “Hidden Triggers of Economic Growth in V4 plus Ukraine” supported by the International Visegrad Fund; see also <http://www.ineko.sk/projekty/visegrad-fund>.

Project partners:

- **INEKO – Institute for economic and social reforms** (Slovakia; <http://www.ineko.sk/>); leading partner. The INEKO institute is a Bratislava-based non-governmental non-profit organization established in support of economic and social reforms which aim to remove barriers to the long-term positive development of the Slovak economy and society.
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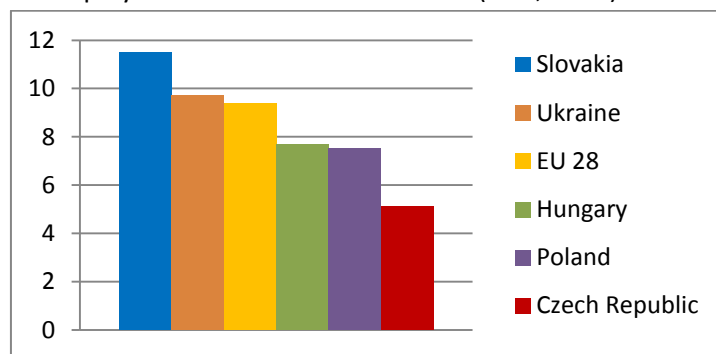
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Introduction

For a long time, the Czech Republic has been a champion from among Visegrad 4 countries in having low unemployment rate (5.1% in 2015, Eurostat). In the past few years, also Hungary (7.7%), Poland (7.5%), and Slovakia (11.5%) decreased their unemployment rates rapidly. In Ukraine, the official unemployment rate increased after recent Revolution of Dignity and military conflict in the eastern part of the country (9.7% in 2014, International Labour Organisation – ILO).

Relatively low unemployment rates in Poland and Hungary are partially distorted by higher shares of inactive people (mainly taking social benefits) and in Hungary also by the expansion of public works. In Ukraine, the official statistics does not reflect much wider shadow economy.

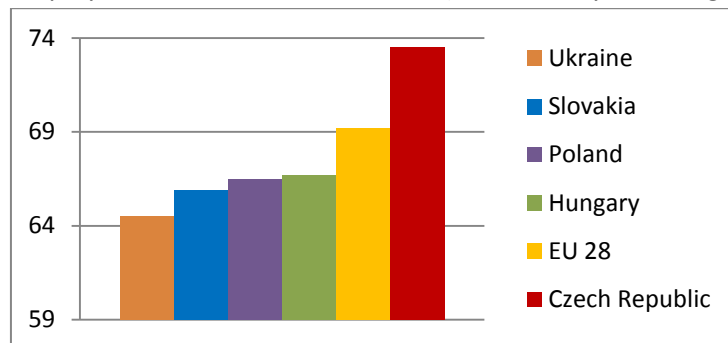
Unemployment rate in V4 and Ukraine (in %, 2015)



Source: Eurostat, International Labour Organisation (ILO) for Ukraine

If we look at the employment rates, the Czech Republic remains at the best position (73.5% in 2014, Eurostat) followed by Hungary (66.7%), Poland (66.5%), Slovakia (65.9%) and Ukraine (64.5%, ILO).

Employment rate in V4 and Ukraine (in %, 20-64 years of age, 2014)



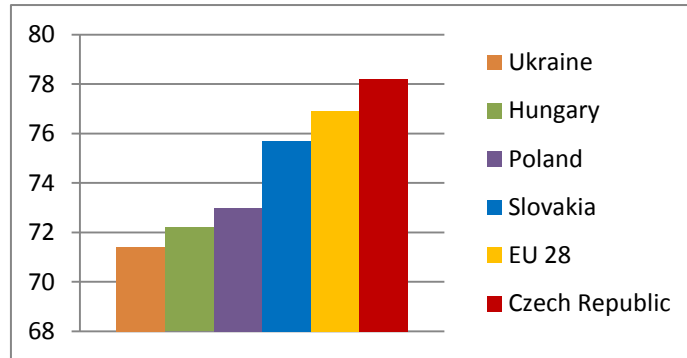
Source: Eurostat, International Labour Organisation (ILO) for Ukraine

Note: For Ukraine, so called “working age” is considered, meaning 15-57 years of age for females and 15-59 years for males.

The pattern changes if we look at the activity rates, which is calculated from the sum of unemployed and employed people. The Czech Republic is still on the top (78.2% in 2014, Eurostat), followed by Slovakia (75.7%), Poland (73.0%), Hungary (72.2%) and Ukraine (71.4%, ILO). It seems that in Poland and Hungary, compared to Slovakia, there are more people in the active age who do not work and, at the same time,

do not belong to the unemployed. These may be inactive people taking social benefits such as old-age and disability pensions, sickness benefits, people on maternity leave, but also students or simply discouraged people who believe there are no jobs available. Many of them meet the OECD definition of “marginally attached workers” who “are persons aged 15 and over, neither employed, nor actively looking for work, but are willing/desire to work and are available for taking a job”. According to the OECD statistics for 2014, there were 1.7% marginally attached people as a share of the labor force in Slovakia, compared to 3.7% in Poland, 4.0% in Hungary and just 0.9% in the Czech Republic.

Activity rate in V4 and Ukraine (in %, 20-64 years of age, 2014)



Source: Eurostat, International Labour Organisation (ILO) for Ukraine

Note: For Ukraine, so called “working age” is considered, meaning 15-57 years of age for females and 15-59 years for males.

ANALYSIS 1: Solutions to high unemployment rate – Case of Slovakia

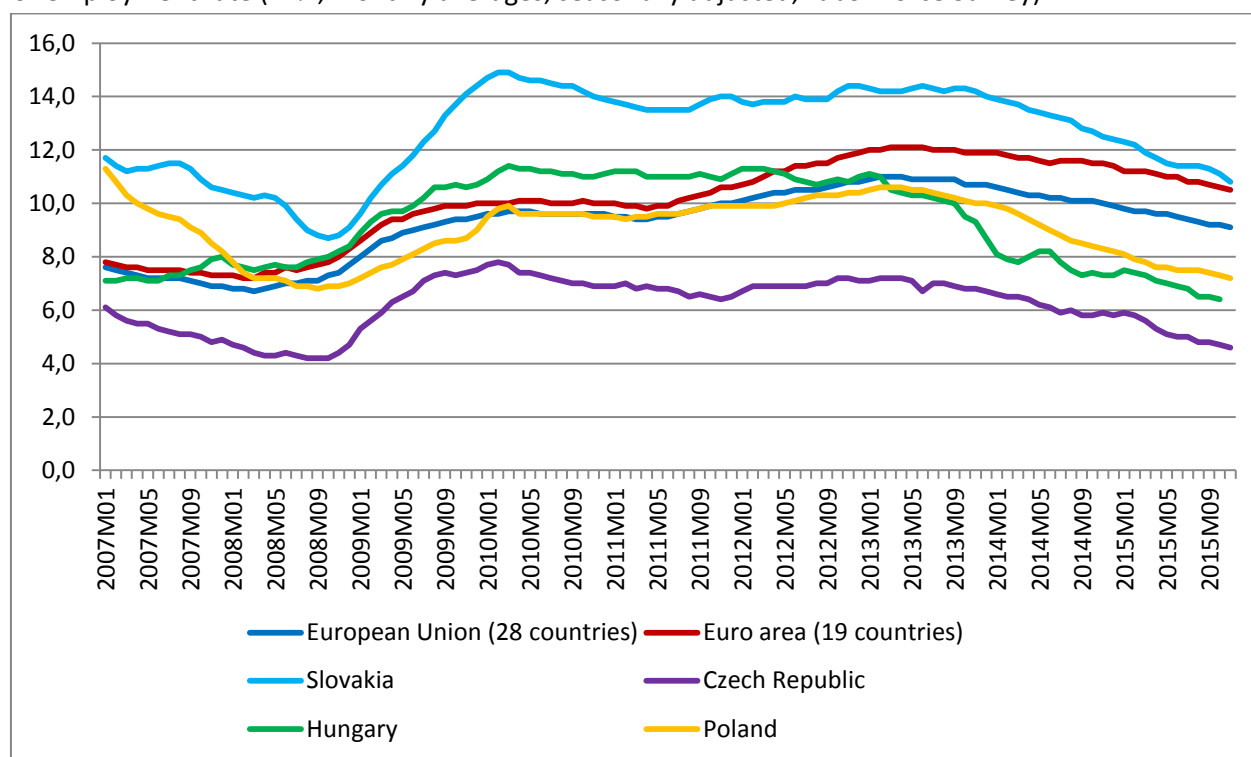
Peter Goliaš, INEKO, Slovakia

February 2016

Introduction

After 1998 Slovakia adopted major structural reforms starting with privatization of banking sector, telecommunications and energy sector. In 2003-2005 it adopted series of profound reforms in the labor market, taxes, social benefits, pensions and others. All this resulted in improvement of business environment, inflow of foreign direct investment, rapid economic growth and boosting employment. Slovakia succeeded to decrease unemployment rate to below 9% by the end of 2008 which was just above the averages of the EU and the Eurozone. With the onset of global financial crisis in 2009, the unemployment rate increased back to almost 15% in 2010 and remained almost unchanged until late 2013. The turn for better started in 2014 and the unemployment rate fell below 11% by the end of 2015. Despite recent positive development, the unemployment rate in Slovakia is still double of that in the Czech Republic and around 4 percentage points higher than in Poland and Hungary.

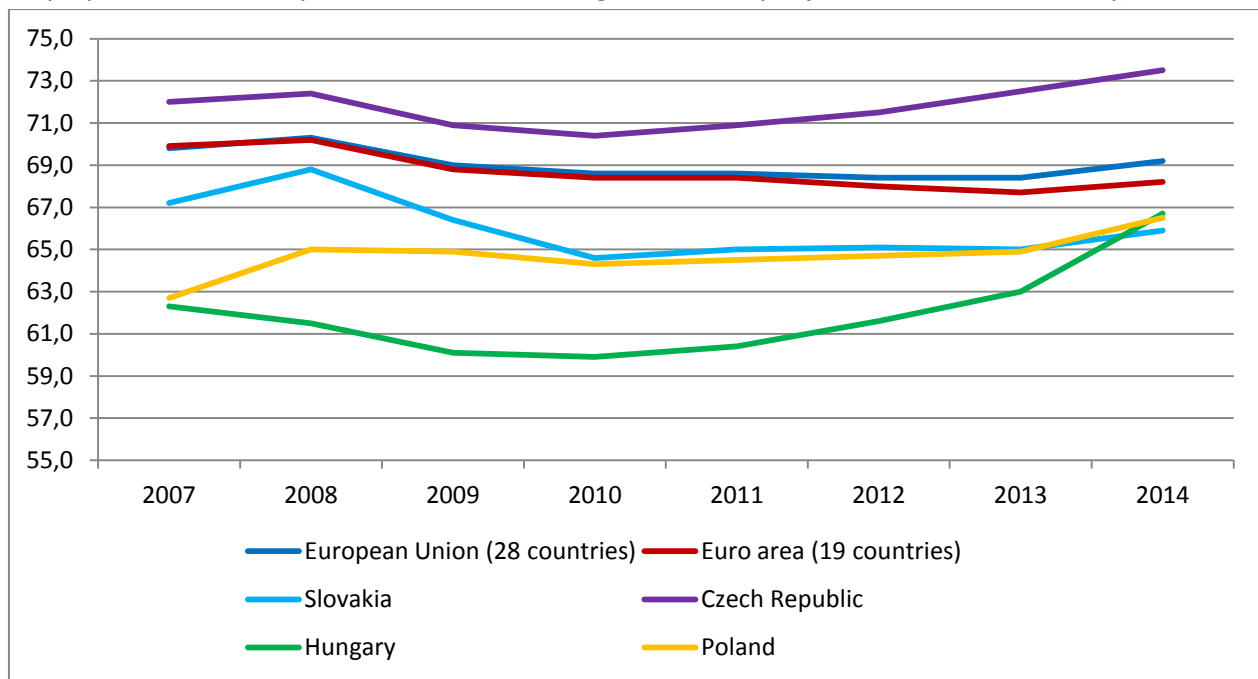
Unemployment rate (in %, monthly averages, seasonally adjusted, Labor Force Survey)



Source: Eurostat

The development of the employment rate is similar with increase until 2008, decrease after the onset of financial crises and improvement in recent years.

Employment rate 20-64 years (in %, annual averages, seasonally adjusted, Labor Force Survey)



Source: Eurostat

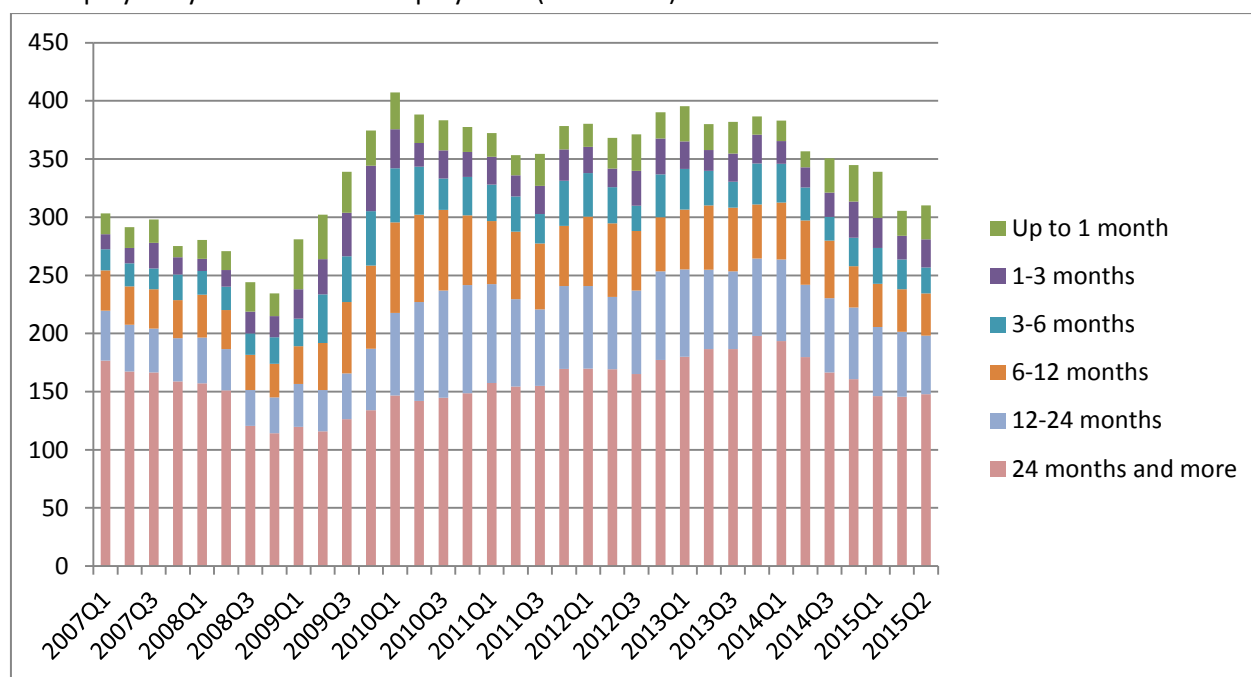
Hypothesis about the reasons of high unemployment rate¹

High structural unemployment: Slovakia belongs to European countries with the highest long-term unemployment rate. Around two thirds of unemployed people in Slovakia are without a job for at least 12 months, i.e. they are long-term unemployed. Around half of unemployed have no job for at least 24 months. Most of these people have low qualification. The unemployment rate of low-skilled (ISCED 0-2, people with primary education) is the highest in the EU with 36.9% in Q3/2015 compared to the EU 28 average of 16.3% (Eurostat). People with primary education account for almost 20% of unemployed, people with secondary education without final exam (former “apprentice” schools) for 33% and people with secondary vocational education for 24% of all unemployed (Statistical Office of the SR, Q3/2015).

Similar numbers can be observed over most of the existence of the Slovak Republic which points at structural reasons of high unemployment, i.e. it may be caused by wrong institutional settings rather than by short term fluctuations such as economic cycles. In other words it can be a result of wrong structural incentives set in the tax and social benefit systems, labor market rules, education system, etc.

¹ See also Golias (2014)

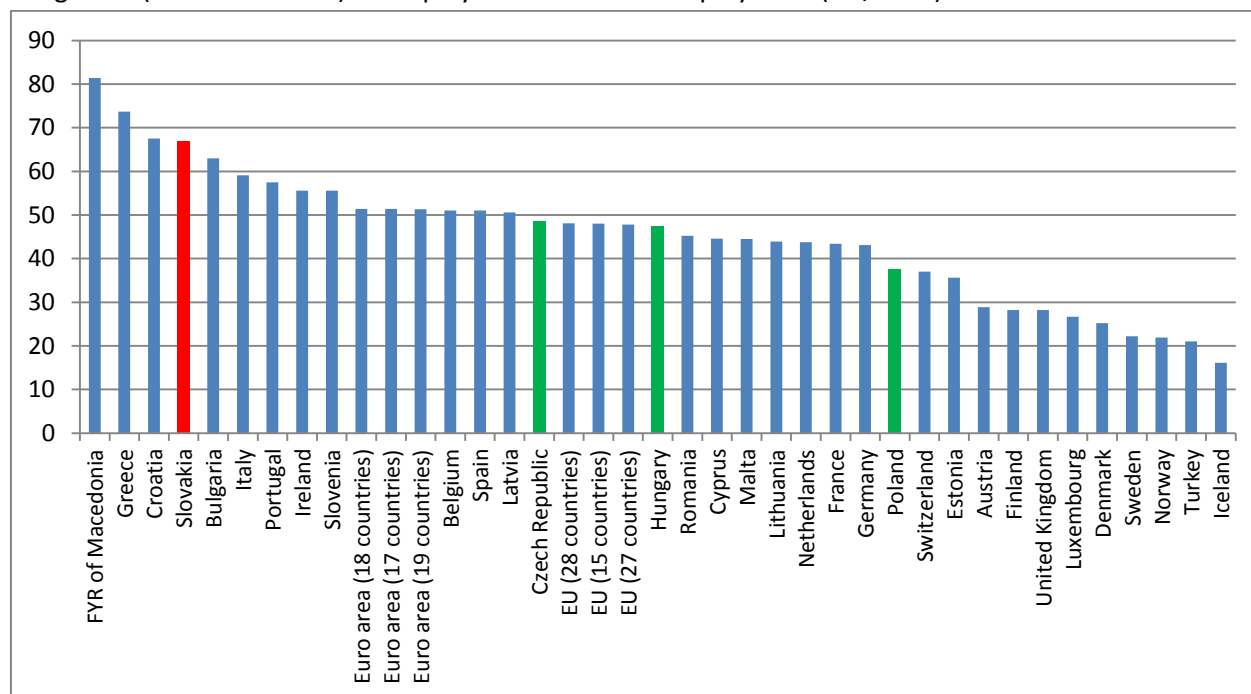
Unemployed by duration of unemployment (thousands)



Source: Statistical Office of the SR

The long-term unemployment is after Greece and Croatia the third highest in the EU when 67% of Slovak unemployed do not have a job for over 1 year (Eurostat, Q3/2015). The share of unemployed for longer than 2 years was 48% in Q2/2015 (Statistical Office of the SR).

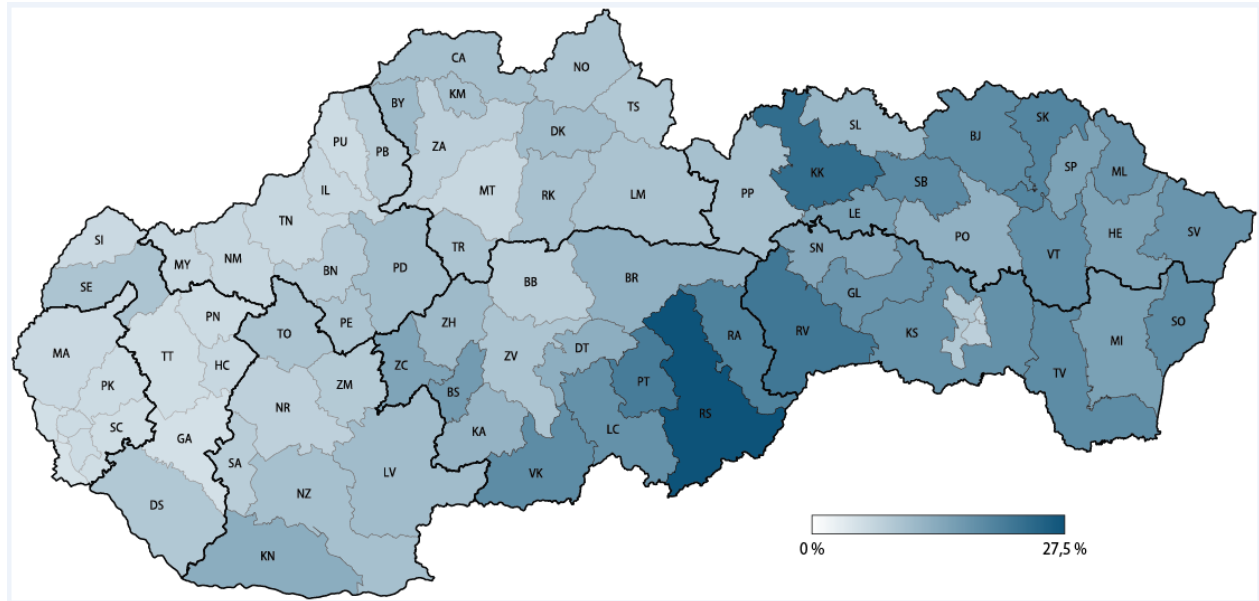
Long-term (over 12 months) unemployment in % of unemployment (Q3/2015)



Source: Eurostat

There are significant differences in the unemployment rate in various regions. The lowest rate can be observed in the western Slovakia and the highest in the southern and eastern Slovakia.

Unemployment rate in different Slovak regions (December 2015)



Source: INEKO based on data from the Central Office of Labor, Social Affairs and Family

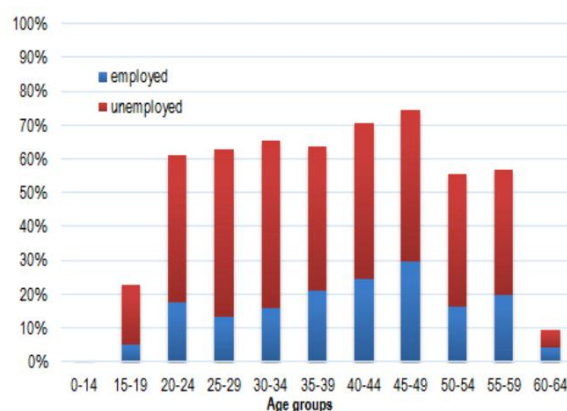
Roma factor: There is evidence that one of key reasons of high unemployment rate in Slovakia is a high number of Roma populations who are often low educated, discriminated and living in poverty in segregated settlements. For example, the Institute for Financial Policy at the Ministry of Finance of the SR writes in its 2014 study²:

“Estimates suggest there are approximately 400 thousand Roma in Slovakia, while about 130 thousand of Roma are registered as jobseekers. (...) If the Roma population on the labour market achieved the average results of the majority population, the overall unemployment rate would be approx. 4 percentage points lower.”

² Unemployment in Slovakia, Institute for Financial Policy at the Ministry of Finance of the SR, November 2014, <http://www.finance.gov.sk/Default.aspx?CatID=9888>

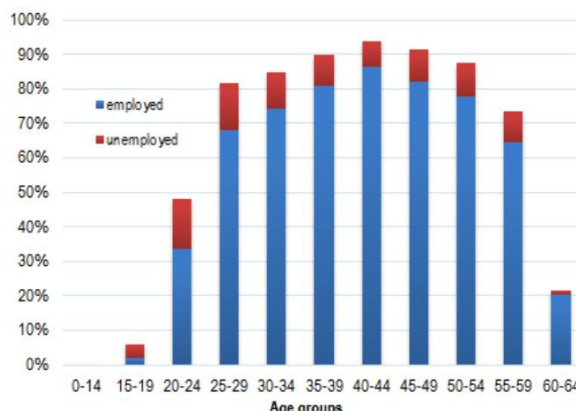
Most of the economic active Roma are unemployed

Figure 2.3: Economic active population – Roma



Source: LFS, IFP

Figure 2.4: Economic active population – Non Roma



Source: LFS, IFP

Source: IFP (2014)

Inactivity trap: Low-paid jobs are unattractive because of high taxes and rapid withdrawal of social benefits. For people taking social assistance every legally earned euro means a loss of 75 cents on social assistance.³ Moreover, they have to pay social and health insurance on their legal income. For an illustration, for the current level of minimum wage at 405 EUR monthly, the total labor costs for an employer are 514.55 EUR from which an employee receives net monthly wage of 355.01 EUR, i.e. his/her net income is 69% of the total labor costs. For self-employed people with revenues of 514.55 EUR monthly, the net income is just 61% of the total labor costs. In reality, net income can be higher depending on number of children of the working person. There is a Tax Bonus increasing net income by 21.41 € monthly for every child.

Tax burden on low income

	Employment		Self-employment
	Employee	Employer	
Gross monthly income	405 €		-
Labor costs (monthly)	514.55 €		514.55 €
Social insurance	38.02 €	102.05 €	142.20 €
Health insurance	3.00 €	7.50 €	60.06 €
Tax on income	8.92 €		0.00 €
Net income	355.01 €		312.29 €
Net income/Labor costs	69%		61%

Source: INEKO

³ The act Nr. 417/2013 on social assistance states in §15 that the assistance is calculated as a difference between nominal assistance and income decreased by 25%. For illustration if nominal assistance is 61.60 EUR (which is current level of the basic assistance) and an individual has legal income of 50 EUR, he would receive assistance of 24.10 EUR (=61.60-0.75*50). Thus, for 50 EUR earned he would lose 37.50 EUR on social assistance.

Weak motivation of schools to prepare students for successful entering the labor market: There are huge differences in the unemployment rates of graduates from particular schools. For example ranked by the ratio of unemployment rate of graduates and regional unemployment rate the best secondary vocational school had ratio of 0.17 (in Hnúšťa) or 0.22 (Business Academy in Bratislava) for 2013/14 compared to 4.45 for the worst school (Wine-Fruit school in Modra) or 4.36 for the second worst school (Veterinary school in Bratislava)⁴. All these schools had zero students from socially disadvantaged background. The unemployment rate does not influence the public funding of particular secondary schools. On contrary the funding is usually cost-based with more money flowing to schools with traditionally higher costs. This is also the case of schools mentioned above when the best school received 2238 EUR per student in 2013/14 compared to 4262 EUR per student for the worst school. If there are no financial consequences for weak results and if the public is not informed sufficiently about those results there is a high risk that the schools would have weak motivation to improve.

Unemployment and public funding of secondary vocational schools, 2013/14

	Unemployment index	Public funding per student
Secondary vocational school in Hnúšťa	0.17	2238 EUR
Business academy in Bratislava	0.22 (second best)	2049 EUR
All second. vocat. schools in Slovakia (average)	1.4 (average)	2382 EUR
Veterinary school in Bratislava	4.36 (second worst)	2643 EUR
Wine-Fruit school in Modra	4.45 (worst)	4262 EUR

Source: INEKO, <http://skoly.ineko.sk/>

Note: Unemployment index is the ratio of the unemployment rate of graduates of particular school and the regional/district unemployment rate.

Insufficient and inefficient active labor market policies (ALMP): In 2013, Slovakia spent 0.20% of GDP on ALMP compared to the EU average of 0.66% (Eurostat). It lagged behind mostly in supporting labor market services such as job-search assistance programs (with 0.05% of GDP compared to EU average of 0.20%) or training (0% of GDP in Slovakia compared with 0.19% of GDP in the EU) that belong to more efficient policies.

Overview of key existing and planned policies to decrease the unemployment⁵

Labor market reform: The labor market reform implemented in 2003 led to a significant shift of the Labor Code arrangements towards higher flexibility. It restricted the coercive character of the Labor Code – it only set basic frameworks and assumed that respective employment relations would further be specified at the corporate level, depending on specific circumstances of employers, regions and

⁴ Source: INEKO, <http://skoly.ineko.sk/>

⁵ See also Goliaš (2007) and Zachar (2010).

industries. The main measures included decreasing costs of hiring and firing, introducing more flexible overtime, working hours, fixed-term and part-time contracts, as well as weakening the Labor Unions.

Income Tax Allowance: Since 2004, the basic personal allowance deductible from the tax base has been increased from €968 to €2,021 per taxpayer in 2004 (€3,803 in 2015). As a consequence, everybody with wage below approximately 40% of the average wage in the economy (€317 in 2015) did not pay any income tax at all. Others paid a uniform tax of 19% on the difference between their income and the tax-free income (or 25% since 2013 in case of higher income).

Employment services⁶: Register of vacancies, register of job seekers, consulting, training, financing part of training costs, and various financial contributions such as:

- Contribution to support employment of a disadvantaged job seeker (above 50 years old, low-skilled, without regular job for at least 6 months, etc. the amount of contribution is up to 40% of average wage, during up to 12 months or 24 months in case of people unemployed longer than 24 months)
- Contribution in support of local and regional employment development (above 50 years old, low-skilled, long-term unemployed, etc., contribution amounts up to 50% of average wage, during up to 9 months)
- Contribution for activation activity in the form of small community services (the contribution is taken by a municipality or regional district to finance part of costs of activating long-term unemployed people eligible for social assistance benefits, the activation works can take up to 20 hours/week)
- Contribution for activation activity in the form of a voluntary service (up to 4.5% of average wage plus contribution for commuting to work, up to 20 hours/week, during up to 6 months)

Public works: As for December 2015, there were 18 thousand jobs created in total by using the contributions for the small community services and voluntary service (see above). Since 2013, these people are not counted as disposable to get a new job and, therefore, are not included in the official number of registered unemployed.

Youth Action Plan: Subsidizing youth employment (70 million EUR in 2013, almost 11 thousand new jobs). During one year state pays minimum wage and contributions for young people (who have been registered as unemployed for at least 1 month) up to 29 years of age employed by a firm. The employment has to last for other 6 months without subsidies.

Employee Tax Credit: The low-income employees are eligible for an annual tax credit (up to 42.98 EUR in 2014). The measure is not widely used because it is administratively complicated.

Allowance on social contributions for long-term unemployed: Since November 2013, the long-term unemployed (over 12 months) are temporarily (during 1 year) exempted from paying social contributions in case they find low-paid employment (up to 67% of average wage).

⁶ Source: The Act Nr. 5/2004 on Employment Services, Ministry of Labour, Social Services and Family of the SR, <http://www.employment.gov.sk/sk/praca-zamestnanost/podpora-zamestnanosti/>

Health Care Allowance for employment contracts: Since 2014, the employment contracts for low income have zero health insurance contributions that gradually increase to a standard level in case of higher income. So far, the measure has not been widely used probably due to administrative barriers – it is not applied automatically.

Youth Guarantee: The goal is to ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education.

Concurrence of social assistance and employment: Since 2015, more generous temporary social benefits for long-term unemployed who find a job have been applied. Based on this rule, the long-term unemployed can keep the full amount of the social assistance for 6 months after finding a job and half of it for another six months. The Minister of Labor claims this measure to be one of the most successful.

Dual education: Since September 2015, businesses can benefit from tax reliefs on contracts concluded with secondary vocational schools offering mixed work-school education. So far, the measure has had weak results, probably due to weak financial motivation.

Special law on regions with high unemployment (effective from December 15, 2015):

- More generous investment stimulus for SMEs: 50% in case of investing at least 200 thousand € and creating at least 10 new jobs in industrial production or 5 jobs in tourism
- More generous state aid for construction of social rental housing
- Extra public funds for municipalities in the region on projects aimed at reducing the unemployment

Current challenges – Overview of alternative policies to decrease the unemployment

Currently, the government considers applying following measures (details are not yet known):

- Broader and automatic use of Health Insurance Allowance
- Establishing Social Enterprises offering „inclusive employment“ for disadvantaged people, especially long-term unemployed

The options for integrating marginalized Roma have been a regular topic in the public discourse. The most preferred solutions include inclusive employment (see above), higher pre-school enrollment of Roma children and their inclusion in standard (i.e. non-special) primary schools. Less consent is about collecting ethnic data about unemployed and inactive people.

From among other measures, following are being discussed:

- Increasing capacity and more frequent use of pre-school facilities (to increase employment of mothers of children up to 3 years of age)
- Improving the transport infrastructure

- Introducing regional minimum wages with the aim to decrease labor costs for employing people with low qualification and productivity (this is rather academic debate as the Government refused it)

Other recommendations proposed by INEKO:

1. **Continue in reduction and expansion of social and health insurance contributions for people with low income.** The existing payroll-tax allowances should include self-employed people with low revenues as well as all low-income people working on Agreements (special contracts for part-time or one-off jobs). The allowance should be extended to include the social insurance contributions; not just health insurance.
2. **Slow down the reduction of social benefits with rising legal income.** The decrease should be implemented in a several-year transition period to allow for evaluating the impact on employment and public finances. For example the rate of reduction could be decreased from the current level of 75 cents for every legally earned euro by 10 cents every year for a period of three years to the final rate of 45 cents. Based on results further decrease might follow.
3. **Regularly measure and publish the unemployment rates and salaries of graduates of particular secondary and tertiary schools.** Include both indicators into the formula for calculating the public subsidies of particular schools. In both cases, the indicators should be adjusted for regional and sectoral differences.
4. **Regularly measure and publish the efficiency of active labor market policies** (results per euro spent), close inefficient programs and support those that prove to be more efficient. Focus on labor market services such as job-search assistance programs and training; reduce measures aimed at direct job creation. Publish a list of all subjects (both individuals and organizations) receiving financial contributions including the amount of that contribution, time of its spending, number of subsidized jobs, and length of their duration as well as education and age characteristics of participants.
5. **Regularly measure and publish the efficiency of the Labor Offices.** Gradually outsource the provision of employment services and other active labor market policies to private organizations.

In September 2015, INEKO organized a survey⁷ among 18 local economic analysts asking for the evaluation of the efficiency of applied or proposed measures to sustainably increase employment in Slovakia. The top three most efficient measures included:

1. “Measure and publish the efficiency of adopted measures; phase-out inefficient and support the most efficient measures” – this was a reaction to current situation when no regular measuring of the efficiency of active labor market policies is taking place.
2. “Reduce the administrative burden especially for small firms, e.g. ease the employment regulations, the hygiene and security requirements and mandatory reporting to official authorities”
3. “Link the public funding of secondary vocational and tertiary schools to graduate’s success in joining the labor market”

⁷ See the results here (only in Slovak): <http://www.ineko.sk/clanky/vysledky-ankety-ako-udrzatelne-zvysovat-zamestnanost>

The bottom three (least efficient) measures included:

1. “More intensive construction of rental housing in regions with high unemployment rate”
2. “More intensive support of employing young people by subsidizing labor costs”
3. “Introduction of permanent inclusive employment for long-term unemployed – subsidizing/creating permanent jobs by state”

References

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ANALYSIS 2: Fight against unemployment: The case of Hungary

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February 2015

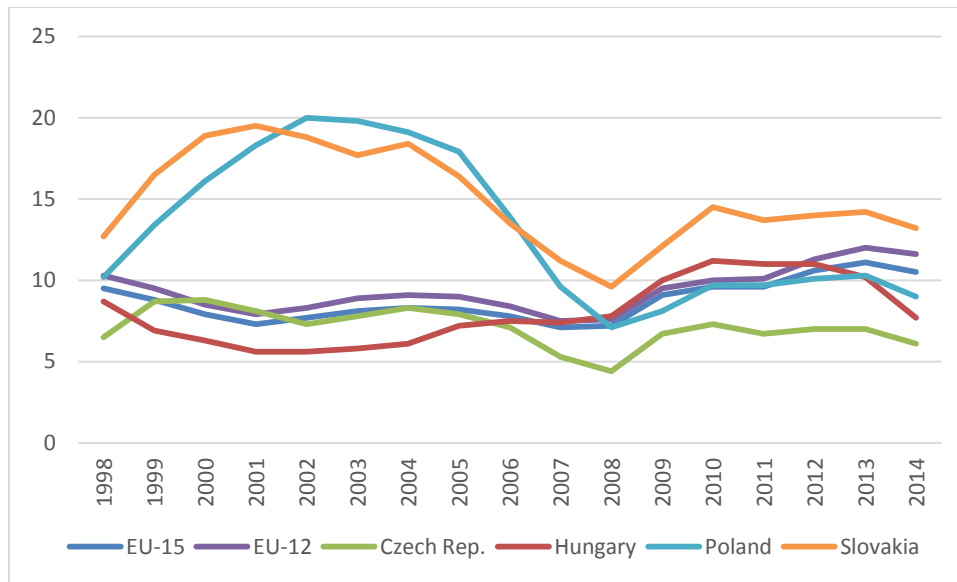
Summary

Hungary has been a special case of post-socialist transition in Central and Eastern Europe with respect to labor market developments. First, Hungary inherited a relatively lax public finance system from state socialism in which episodes of fiscal populism were rather the rule than exceptions. In this tradition, fiscal concessions are made on a recurring basis so that pacifying social conflicts. Applying this approach, the number of working age pensioners rose by about 200 thousand, whereas the number of working age inactive persons did by about 800 thousand in the 1990s. As a result, Hungary became characterized by comparatively low levels of both employment and activity, whereas unemployment also remained comparatively low. This placed a large burden on public finances that became unsustainable by the mid-2000s. The subsequent fiscal stabilization created severe social strain and political tensions. In reaction, both left and right wing governments in the following years implemented a wide range of public employment schemes that became the major anti-unemployment policy tool of the 2010s. Hence, unemployment gradually decreased, but close to half of the newly created jobs in the early 2010s were created through public employment. This, again, entails large fiscal expenditures and results in a rather questionable policy outcome as those involved in public employment do not experience an improvement of their labor market relevant skills and often find themselves locked in public work.

1. The Hungarian labor market after 1990 – a birds' eye view

Although Hungarian labor market developments many ways followed the typical CEE transition path, Hungary in the past 25 years became a special case within the region with respect to labor market issues. Hungary, in general, has been characterized by comparatively low unemployment, employment and activity rates. In other words, a comparatively high share of the working age population became inactive and remained so, even though a gradual job recovery started in 1998 and a fast expansion of public employment programs occurred since 2010.

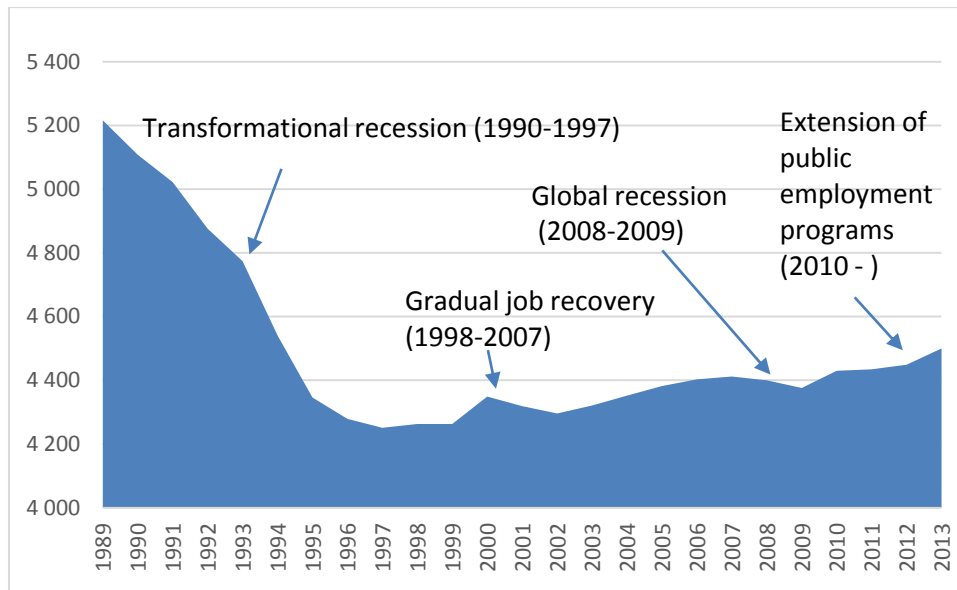
Figure 1. The rate of unemployment in the EU and in the Visegrád countries (in percent)



Source: Eurostat

Employment in Hungary had reached its highest rate at the end of the 1970s, when total employment existed along a new, in some ways still emerging socialist welfare state. Practically the entire working age population had a job in the formal economy, including women. The number of employed persons reached its climax in 1977 with 5 million 777 thousand. Following that, the number of employed had been declining throughout the entire 1980s. This probably had to do with the emerging informal economy that was a concession by the “reform-socialist” regime of János Kádár: so that they can improve their standard of living by producing goods and services and sell them legally. People could work in part time or – with some restrictions – in full time jobs in the emerging (semi) private sector. However, once one could legally make money without being employed in the state sector, official employment was no more an undisputed condition of normal life. In this sense, the job decline of the 1990s had been heralded by the micro-transformations of the 1980s. Nevertheless, the 1990s brought about a fundamentally new mass-phenomenon: unemployment.

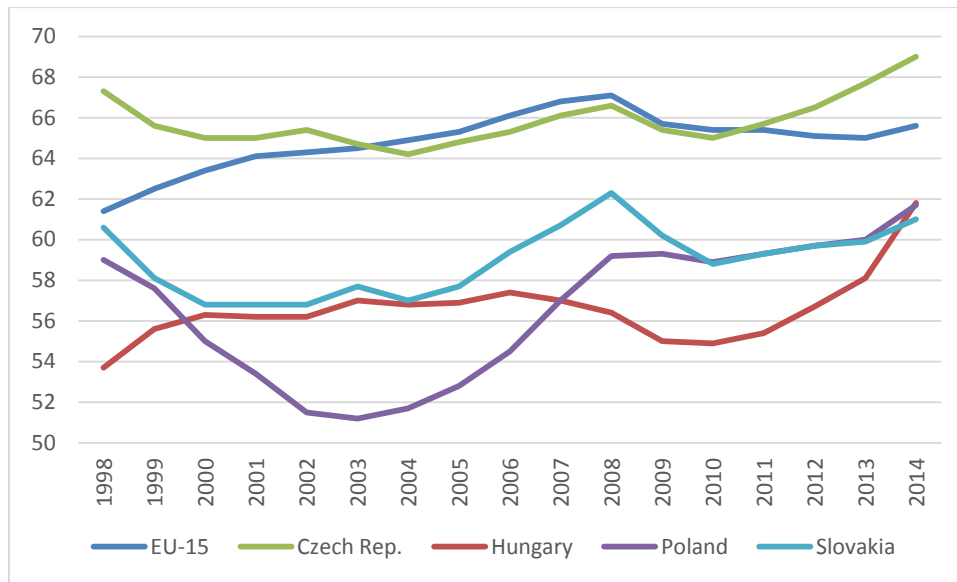
Figure 2. The economically active population of Hungary in thousand persons in 1989-2013



Source: Central Statistical Office

Between 1989 and 1997, during the so called transformational recession (Kornai 1994) close to 1 million jobs were eliminated, and the number of employed persons was cut from 5.2 million to 4.3 million. It is important to recognize that such a dramatic drop in employment was not considered to be an economic failure by the ruling elites and the public discourse dominated by them. On the contrary, the dominant Hungarian view associated unemployment with “real” economic transformation, adopting the Schumpeterian view of creative destruction. Those countries, such as the Czech Republic, that had a significantly lower level of unemployment were considered to be faking the transition process.

Figure 3. Employment rate among 15-64 years old in the EU15 and in the Visegrád countries (in percent)



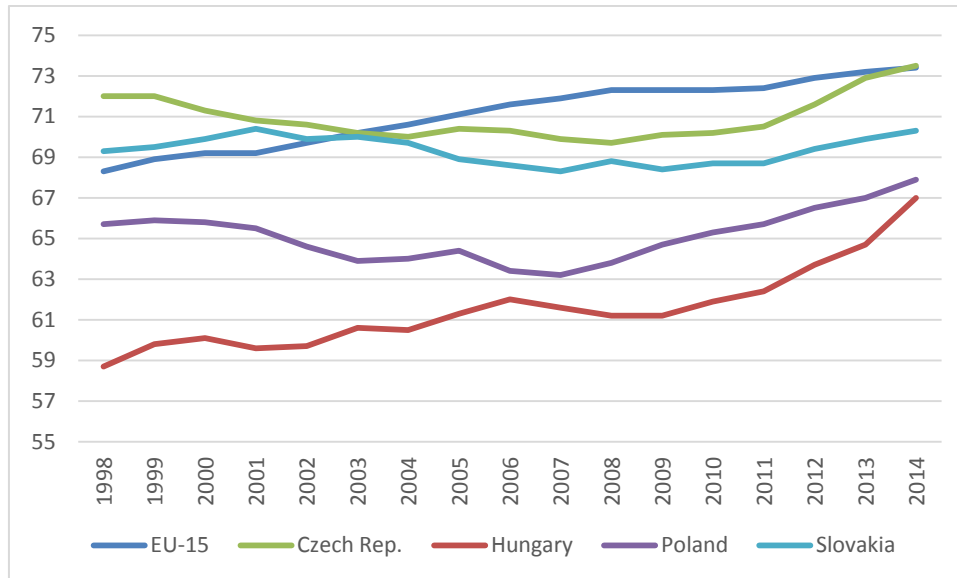
Source: Eurostat

Employment hit bottom in 1997 and slowly and gradually improved thereafter until 2008. However, job creation was limited and occurred in a particular economic context. First, during the transformational recession, a large number of domestic firms were eliminated. “Hardening of the soft budget constrain” (Kornai 2001) was particularly fast and thoroughgoing in Hungary, with strict credit conditions and a particularly harsh bankruptcy law. Hence, as Kornai showed, the number of corporate bankruptcies in Hungary significantly exceeded those in both the Czech Republic and Poland. Secondly, due to the fast Hungarian privatization method through direct sales, most competitive firms were privatized by multinational firms, and a dual economic structure emerged (Hamar 1999). In this, the economy consists of an internationally non-competitive domestic sector that, although lost a large number of jobs, still employs the majority of workers, and an internationally competitive, FDI-dominated foreign sector, whose competitiveness implies limited labor demand, and a high degree of capital and/or technology intensity.

Although the emergence of a dual economy was hardly unique in the region, the structural gap between the domestic and the foreign sector in terms of competitiveness has been the largest in Hungary (Palócz 2015). In short, this is an economy in which no major player can be expected to generate a large number of jobs. The foreign sector needs a limited number of highly skilled employees who operate high-tech production. The technologically much less advanced, internationally much less connected, and hence much less competitive domestic sector, although relatively much more labor intensive, cannot significantly expand employment because of the lack of its development capabilities.

2. Inactivity as a social policy tool

Figure 4. Activity rates among the 15-64 years old in the EU15 and in the Visegrád countries (in percent)



Source: Eurostat

East European state socialist regimes in general and the Hungarian one in particular had been characterized by a wide range of social benefits since about the 1970s. Such broad social policy coverage served political reasons: it helped the regime legitimize itself and pacify social opposition. In this sense, populism in economic policy making had already appeared in Hungary before the political transition (Benczes 2011). This policy tradition continued in the 1990s, implying generous social policy coverage (Kornai 1995-1996).

The fast hardening of the soft budget constraint in the 1990s was coupled with soft social policies, including the expansion of early retirement and disability retirement schemes. A large share of those who got redundant were offered retirement status, especially those being only in a few years in age from the statutory old age retirement (at that time 55 years old for women and 60 years for men). As a result, the number of inactive persons soared, and Hungary became characterized by the lowest activity rate in the region.

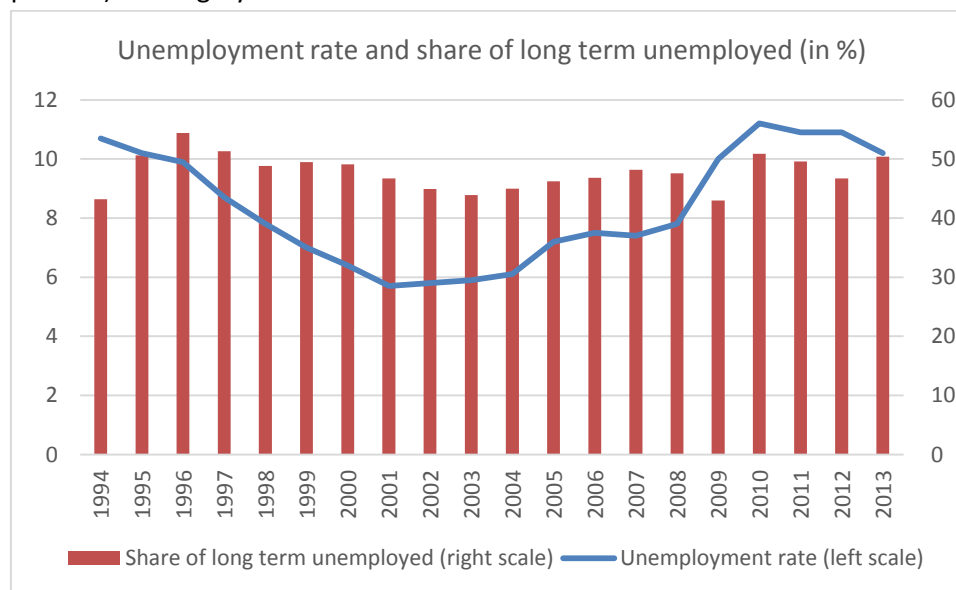
Table 1. Newly determined disability pension claims and detailed data on the number of newly determined old-age pension claims

Year	Disability and accident-related disability pensions	Old-age and old-age type pensions ^a			From the total: at the age limit			From the total: under the age limit		
	Total	Male	Female	Together	Male	Female	Together	Male	Female	Together
1996	59 967	31 770	59 939	91 709	9 893	20 073	29 966	18 681	31 857	50 538
1997	48 262	37 886	32 614	70 500	10 630	1 138	11 768	24 308	28 154	52 462
1998	42 975	12 908	17 841	30 749	385	882	1 267	11 461	15 244	26 705
1999	46 701	15 181	24 418	39 599	2 601	5 808	8 409	11 494	16 922	28 416
2000	55 558	18 071	29 526	47 597	613	813	1 426	16 089	26 859	42 948
2001	54 645	28 759	14 267	43 026	2 200	4 882	7 082	25 175	7 396	32 571
2002	52 211	30 209	25 719	55 928	2 593	646	3 239	26 346	23 503	49 849
2003	48 078	32 574	13 574	46 148	3 058	5 098	8 156	28 064	6 537	34 601
2004	44 196	35 940	36 684	72 624	3 842	989	4 831	30 234	33 817	64 051
2005	41 057	33 175	48 771	81 946	4 035	6 721	10 756	27 719	40 142	67 861
2006	36 904	34 207	47 531	81 738	4 013	732	4 745	29 025	45 675	74 700
2007	34 991	51 037	62 168	113 205	3 722	6 660	10 382	45 731	54 177	99 908
2008	19 832	25 912	39 423	65 335	3 154	288	3 442	22 180	38 761	60 941
2009	21 681	37 468	15 468	52 936	4 193	6 692	10 885	32 452	8 289	40 741
2010	24 094	37 394	13 719	51 113	6 350	7 213	13 563	29 990	5 801	35 791
2011	19 340	43 240	84 922	128 162	9 058	7 938	16 996	32 400	76 019	108 419
2012	–	21 996	53 581	75 577	11 054	9 471	20 525	8 317	42 624	50 941
2013	–	19 163	38 512	57 675	17 270	12 497	29 767	282	24 991	25 273

Source: Fazekas K. and Neumann L. eds. (2014).

Unemployment benefits were also relatively broad and provisions for the long-term unemployed (benefits of those who remained without formal employment but did not enjoy a pension), although modest, relatively easy to reach. Hence, not only economic activity declined, but also long term unemployment stabilized at a high level, partly due to economic rigidities and the mismatch between labor demand and supply, partly due to relatively generous social policies used as a political tool (Tóth 2009). A sizable electorate of populist economic policies was created whose wellbeing was solely dependent on government transfers and had nothing to do with economic cycles.

Figure 5. The rate of unemployment and the share of long term unemployed (among the unemployed, in percent) in Hungary

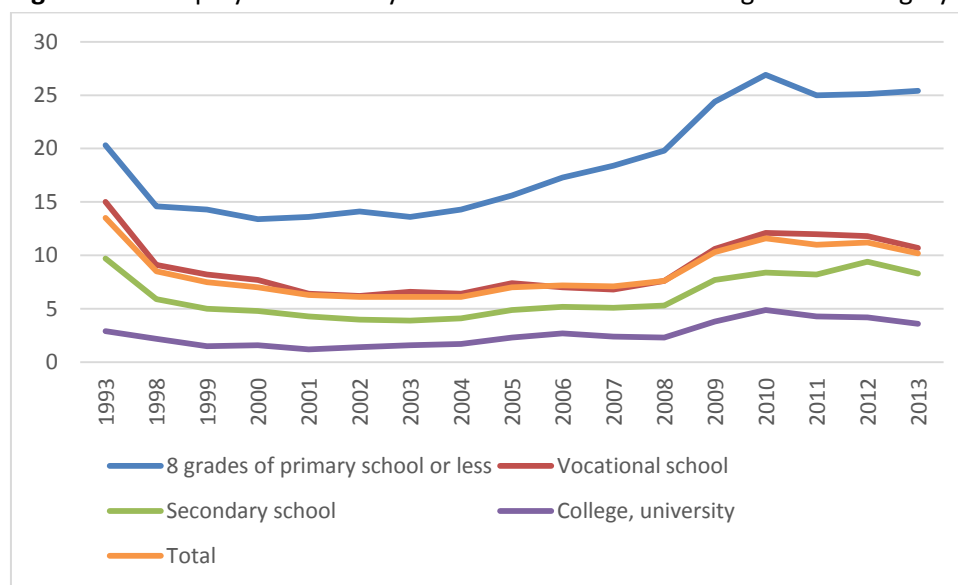


Source: Fazekas K. and Neumann L. eds. (2014).

3. The lack of labor market integration: causes and consequences

The Hungarian labor market has been traditionally characterized by a high degree of segmentation. Segmentation, in fact, already appears in elementary schools: social inequalities in the compulsory public education system are among the largest in the OECD (Radó 2014). As educational trajectories are highly selective along social status, labor market integration at different educational attainment level is so. Unemployment of unskilled labor is dramatically and persistently high, constituting a structural problem that partly related to the low level of social integration of the Roma minority. According to Kertesi and Kézdi (2011), who analyze data for 1993-2007, the ethnic employment gap between the Roma and the non-Roma has been about 40 percent for both men and women since 1993 and has remained remarkably stable. The most important factor behind is education: the worse educational attainment of the Roma, which in itself is a very complex phenomenon, also having to do with educational segregation and discrimination, is mostly responsible for this structural difference.

Figure 6. Unemployment rate by the level of education among men in Hungary (in percent)



Source: Fazekas K. and Neumann L. eds. (2014).

At the same time, the Hungarian labor market does particularly poorly in employing unskilled labor regardless of ethnicity, which is also the result of the dual economy structure described above as well as a number of other factors, including inadequate post-school skill formation and the insufficient number of functioning small businesses (Köllő 2015).

A particularly harmful set of policies with respect to labor market integration has been introduced since the beginning of the 2000s on minimum wages. As a large number of employees and self-employed persons received (or declared to be receiving) minimum wages, successive government initiated considerable minimum wage rises. This was, on the one hand, politically popular among most “real” minimum wage earners, and was also beneficial for the budget, as income taxes and social security

contributions have been attached to nominal wages, on the other one. However, as a result, a large part of low skilled employees were effectively priced out from the labor market as their productivity did not allow them for producing the value added corresponding to the cost of their employment. According to Kertesi and Köllő (2003), the 57% minimum wage hike of 2001 could be held responsible for eliminating 11 thousand jobs in the small firm sector, and turning positive employment growth into negative. Since then, the statutory minimum wage has been raised several times with paying practically no attention to the labor market integration needs of low skilled workers. On the contrary, most recent minimum wage hikes since 2011 has been associated with a substantial rise of the minimum wage tax wedge that reached 49% in 2012, up from 36.2% in 2010.

Table 2. Changes in the magnitude of the tax wedge in the case of minimum wage

Year	Minimum wage				Total wage cost in the case of minimum wage		Minimum wage tax wedge, %
	gross, HUF/month	gross, HUF/day	net, HUF/month	net, HUF/day	HUF/month	HUF/day	
1997	17 000	783	15 045	693	26 450	1 196	43,1
1998	19 500	899	17 258	795	30 297	1 369	43,0
1999	22 500	1 037	18 188	838	34 538	1 546	47,3
2000	25 500	1 175	20 213	931	38 963	1 746	48,1
2001	40 000	1 843	30 000	1 382	58 400	2 638	48,6
2002	50 000	2 304	36 750	1 694	71 250	3 226	48,4
2003	50 000	2 304	42 750	1 970	70 200	3 191	39,1
2004	53 000	2 442	45 845	2 113	74 205	3 376	38,2
2005	57 000	2 627	49 305	2 272	79 295	3 572	37,8
2006	62 500	2 880	54 063	2 491	85 388	3 910	36,7
2007	65 500	3 018	53 915	2 485	89 393	4 095	39,7
2008	69 000	3 180	56 190	2 589	94 065	4 310	40,3
2009	71 500	3 295	57 815	2 664	97 403	4 464	40,6
2010	73 500	3 387	60 236	2 776	94 448	4 352	36,2
2011	78 000	3 594	60 600	2 793	100 230	4 619	39,5
2012	93 000	4 280	60 915	2 803	119 505	5 500	49,0
2013	98 000	4 510	64 190	2 954	125 930	5 795	49,0

Source: Fazekas K. and Neumann L. eds. (2014).

4. The crises of the 2000s

Structural problems of the Hungarian economy became increasingly salient in the 2000s, and the prevalence of a large stock of inactive people appeared to be an increasingly difficult burden for the general government, first of all as a result of considerable pension and public servant wage hikes. In fact, the 2000s witnessed an increasingly fierce political competition for the pensioner vote: as the number of pensioners sharply rose in the 1990s, they had become a decisive electoral force. Obtaining a large amount of pensioner votes became a politically lucrative venture, and competing parties offered considerable concessions for pensioners actually. One of the most important reasons the center-left coalition took over power in 2012 was the Socialists' promise to gradually introduce a 13th month

pension in 2002-2006 that the Socialist-Liberal government did indeed. At the same time, wages in the public sector were raised considerably, first by the right-wing coalition in 1998-2002, than the left after 2002. In addition, the left-wing government in 2002-2006 took a number of other fiscally expansionary measures, such as the cut of the personal income tax and the VAT. Hence, economic populism once again became a dominant policy line, continuing the tradition of the late Kádár-regime of the 1970s and 1980s (Benczes 2011).

Table 3. Labor force participation of the population over 14 years, in thousands

Year	Population of male 15–59 and female 15–54							Population of male over 59 and female over 54				
	Employed	Unemployed	Inactive					Total	Employed	Unemployed	Pensioner, other inactive	Total
			Pensioner	Full time student	On child care leave	Other inactive	Inactive total					
1980	4 887,9	0,0	300,8	370,1	259,0	339,7	1 269,6	6 157,5	570,3	0,0	1 632,1	2 202,4
1990	4 534,3	62,4	284,3	548,9	249,7	297,5	1 380,4	5 977,1	345,7	0,0	1 944,9	2 290,6
1991	4 270,5	253,3	335,6	578,2	259,8	317,1	1 490,7	6 014,5	249,5	0,0	2 045,2	2 294,7
1992	3 898,4	434,9	392,7	620,0	262,1	435,9	1 710,7	6 044,0	184,3	9,8	2 101,7	2 295,8
1993	3 689,5	502,6	437,5	683,9	270,5	480,1	1 872,0	6 064,1	137,5	16,3	2 141,2	2 295,0
1994	3 633,1	437,4	476,5	708,2	280,9	540,7	2 006,3	6 076,8	118,4	11,9	2 163,8	2 294,1
1995	3 571,3	410,0	495,2	723,4	285,3	596,1	2 100,0	6 081,3	107,5	6,4	2 180,6	2 294,5
1996	3 546,1	394,0	512,7	740,0	289,2	599,4	2 141,2	6 081,3	102,1	6,1	2 184,6	2 292,8
1997	3 549,5	342,5	542,9	752,0	289,0	599,9	2 183,8	6 075,8	96,9	6,3	2 189,0	2 292,2
1998	3 608,5	305,5	588,8	697,0	295,5	565,7	2 147,0	6 061,0	89,3	7,5	2 197,6	2 294,4
1999	3 701,0	283,3	534,7	675,6	295,3	549,8	2 055,4	6 039,6	110,4	1,4	2 185,2	2 297,0
2000	3 745,9	261,4	517,9	721,7	281,4	571,4	2 092,4	6 099,7	130,3	2,3	2 268,0	2 400,6
2001	3 742,6	231,7	516,3	717,9	286,6	601,6	2 122,4	6 096,7	140,7	2,4	2 271,8	2 414,9
2002	3 719,6	235,7	507,1	738,3	286,8	593,0	2 125,2	6 080,5	164,1	3,2	2 263,9	2 431,2
2003	3 719,0	239,6	485,0	730,7	286,9	595,0	2 097,6	6 056,2	202,9	4,9	2 245,6	2 453,4
2004	3 663,1	247,2	480,5	739,8	282,4	622,4	2 125,1	6 035,4	237,3	5,7	2 236,1	2 479,1
2005	3 653,9	296,0	449,7	740,8	278,6	590,3	2 059,4	6 009,3	247,6	7,9	2 258,3	2 513,8
2006	3 679,6	308,8	432,9	810,9	270,0	500,7	2 014,5	6 002,9	250,5	8,4	2 268,0	2 526,9
2007	3 676,6	303,7	426,8	832,6	267,2	475,8	2 002,4	5 982,7	249,5	8,2	2 296,1	2 553,8
2008	3 631,4	318,5	408,6	819,6	279,8	493,1	2 001,1	5 951,0	248,1	10,7	2 327,7	2 586,5
2009	3 516,8	406,4	364,5	814,6	278,7	529,3	1 987,1	5 910,3	265,1	14,3	2 348,0	2 627,4
2010	3 485,7	455,2	338,7	814,6	267,0	500,7	1 921,0	5 861,9	295,5	19,6	2 356,0	2 671,1
2011	3 484,2	444,1	290,7	794,4	280,5	519,0	1 884,6	5 813,0	327,7	23,8	2 357,6	2 709,1
2012	3 552,2	451,6	250,6	770,0	269,2	496,5	1 786,3	5 790,1	325,6	24,0	2 376,2	2 725,8
2013	3 599,2	425,1	245,8	751,2	257,2	368,4	1 622,6	5 647,0	339,2	23,8	2 346,2	2 709,1

Source: Fazekas K. and Neumann L. eds. (2014).

However, just as in the 1980s, when Hungary had to be effectively bailed out by the IMF in 1982, as well as in 1995, when the Bokros package was introduced, the fiscal trajectory once again became unsustainable. The re-elected Socialist-Liberal coalition imposed fiscal restriction in 2006 and took further restrictive measures in 2008-2009, once again under IMF control. These included the suspension of the 13th month salary of public employees, a nominal freeze of public sector wages and the elimination of the 13th month pension. In this environment, the still prevalent long term unemployment of a substantial part of the working age population, a heritage from the 1990s that economic development did not mitigate, became a source of increasing social and political tension. The rising far right mobilized an expanding electorate with an increasingly loud anti-Roma discourse, describing them as lazy, not working people who tend to commit crimes and threaten the honest, hard-working people of villages and remote suburban areas. In this political climate, mayors and local governments claimed a more extensive mandate to discipline the non-working population, first of all the Roma, with more stringent controls over their social benefits. In response, the Socialist-Liberal coalition in 2008 decided to extend considerably the already existing public employment schemes, and making it criteria for receiving the long-term unemployed social benefit that those who are offered public employment accept it.

5. The No. 1 Hungarian anti-unemployment policy weapon: public employment schemes

The annual average number of participants in public employment programs jumped, from 21.2 thousand in 2008 to 135.3 thousand in 2009. Their number rose further to 164.5 thousand in 2010 (that was an election year) to witness considerable decline in 2011-2012. Yet, as the 2014 elections were approached, the number of participants in public employment programs once again rose substantially in 2013, to 149.5 thousand. At the same time, the number of unemployed who did not receive any provision showed an inverse trend, peaking at 281.1 thousand in 2012.

Table 4. Benefit recipients and participation in active labor market programs

Year		Unemployment benefit	Regular social assistance	UA for school-leavers	Do not receive provision	Public employment	Retraining	Wage subsidy	Other programmes	Total
1990	In thousand	42,5	—	—	18,6	..	..	..	..	61,0
	Per cent	69,6	n.a.	n.a.	30,4	..	..	..	..	100,0
2000	In thousand	117,0	139,7	0,0	106,5	26,7	25,3	27,5	73,5	516,2
	Per cent	22,7	27,1	0,0	20,6	5,2	4,9	5,3	14,2	100,0
2001	In thousand	111,8	113,2	0,0	105,2	29,0	30,0	25,8	37,2	452,2
	Per cent	24,7	25,0	0,0	23,3	6,4	6,6	5,7	8,2	100,0
2002	In thousand	104,8	107,6	—	115,3	21,6	23,5	21,2	32,8	426,8
	Per cent	24,6	25,2	—	27,0	5,1	5,5	5,0	7,7	100,0
2003	In thousand	105,1	109,5	—	125,0	21,2	22,5	20,1	36,6	440,0
	Per cent	23,9	24,9	—	28,4	4,8	5,1	4,6	8,3	100,0
2004	In thousand	117,4	118,4	—	132,3	16,8	12,6	16,8	28,5	442,8
	Per cent	26,5	26,7	—	29,9	3,8	2,8	3,8	6,4	100,0
2005	In thousand	125,6	127,8	—	140,2	21,5	14,7	20,8	31,0	481,6
	Per cent	26,1	26,5	—	29,1	4,5	3,1	4,3	6,4	100,0
2006	In thousand	117,7	112,9	—	146,4	16,6	12,3	14,6	13,8	434,3
	Per cent	27,1	26,0	—	33,7	3,8	2,8	3,4	3,2	100,0
2007	In thousand	128,0	133,1	—	151,8	19,3	14,6	23,4	6,8	477,0
	Per cent	27,6	28,7	—	32,7	2,7	2,3	3,7	2,3	100,0
2008	In thousand	120,7	145,7	—	158,2	21,2	21,2	25,0	14,1	506,1
	Per cent	23,8	28,8	—	31,3	4,2	4,2	4,9	2,8	100,0
2009	In thousand	202,8	151,9	—	215,0	135,3	13,6	17,8	54,1	790,5
	Per cent	25,7	19,2	—	27,2	17,1	1,7	2,3	6,8	100,0
2010	In thousand	159,6	163,5	—	222,4	164,5	17,8	26,7	40,3	794,8
	Per cent	20,1	20,6	—	28,0	20,7	2,2	3,4	5,1	100,0
2011	In thousand	122,8	168,2	—	239,8	91,6	13,6	20,4	39,9	696,3
	Per cent	17,6	24,2	—	34,4	13,2	2,0	2,9	5,7	100,0
2012	In thousand	56,3	185,6	—	281,1	92,4	15,4	30,0	2,2	663,0
	Per cent	8,5	28,0	—	42,4	13,9	2,3	4,5	0,3	100,0
2013	In thousand	55,3	169,3	—	264,0	149,5	42,0	31,7	3,8	715,5
	Per cent	7,7	23,6	—	36,9	20,9	5,9	4,4	0,5	100,0

Public-type employment: community service, public service, public work programmes.

Source: Fazekas K. and Neumann L. eds. (2014).

The number of participants in public employment programs rose further in subsequent years: in Q1 2014, right before the 2014 elections it reached 181.3 thousand. Although it dropped to 166.7 thousand in the next quarter, since then it has been increasing steadily, to having attained 232.3 thousand in Q4 2015, 30.4% more than a year earlier. (The number of employees outside of public employment was 4.027 million in Q4 2005, 1.6% up year-on-year.) Hence, public employment still plays a major role in reducing unemployment, although ordinary job creation has also resumed as the economy has been expanding since 2013.

Subsidized employment, mainly although not exclusively within public employment schemes, played an increasingly important role in 2008-2013 in making registered unemployed persons landing in a job. In 2013, 60.2% of newly hired registered unemployed persons were recruited in public employment, making it the sole most important active labor market policy tool.

Table 5. The number of registered unemployed who became employed on subsidized and non-subsidized employment

	2008		2009		2010		2011		2012		2013	
	Persons	Per cent	Persons	Per cent	Persons	Per cent	Persons	Per cent	Persons	Per cent	Persons	Per cent
Subsidised employment	118 703	34,0	170 464	40,0	198 974	38,5	282 673	48,5	261 631	50,0	359 962	60,2
Non-subsidised employment	230 558	66,0	255 356	60,0	317 622	61,5	299 716	51,5	261 581	50,0	237 795	39,8
Total	349 261	100,0	425 820	100,0	516 596	100,0	582 389	100,0	523 212	100,0	597 757	100,0

Source: Fazekas K. and Neumann L. eds. (2014).

The dramatic expansion of public employment as a policy tool, however, raises a number of policy questions. First of all, those recruited in public employment schemes on a recurring basis get used to fulfil non-market based, in many cases artificially created jobs without any development of their skill basis. The way out of public employment seldom leads toward the regular job market: most low-skill public employees remain oscillating between public employment and unemployment (Köllő and Scharle 2012). Secondly, public employment schemes are very expansive and prevent spending on other more effective active labor market policy tools. For instance, personalized tutoring or subsidized private employment schemes promise better policy outcomes according to international evidence (Hudomiet and Kézdi 2012). Thirdly, as public employment used as a substitute form of employment and characterized by particularly low productivity, it reduces potential GDP and renders participants into a second-rank employee status (Messing 2012). Participants of public employee programs tend to perceive themselves so, impacting negatively on their job search intensity. In other words, they internalize the perception of their social environment on them, locking them in to the public employment schemes (Csoba and Nagy 2012).

6. Other active labor market policy tools

A number of other active labor market policy tools have been implemented in past years. These included the reform of vocational education; the (theoretical) introduction of job rotation and job sharing schemes; special job incentives and job protection schemes for people below 25 and above 55, for the permanently unemployed, and for those having little children in their household. In addition, companies investing at least 100 million forint in the most deprived regions of Hungary while increasing employment can pay no social security contribution after new employees in the first two years, and a reduced rate from the third to the fifth. The following description of these measures is based on Cseres-Gergely and Varadovics (2014).

- The reform of vocational education was introduced in 2012-2013, stipulating new rules for the official licensing of adult training activities, requirements for specific training programs, and the support framework and the supervision of institutions.

- Job rotation and job sharing are in theory promoted by reduced social security contribution rates introduced in 2011-2012. Its extent is 7% of either the gross salaries of the two employees added together, or, as a maximum, of the double of the minimum wage.
- Employment incentives were introduced as part of the so called Job Protection Act. They seek to promote the employment of young adults below the age of 25, people over the age of 55, the permanently unemployed, employees having small children and employees working in low skill requirement jobs. For them, again, a reduced rate of the Social Contribution Tax (financing social security services) and a reduced vocational education contribution apply. Reduced rates can apply for those already employed as well as just recruited. Depending on the target group of employees, rate reduction varies, but can be effected in any case up to a 100 thousand forint part of a gross salary and up to 14.5 percentage points (more than half of the statutory Social Contribution Tax).
- Since 2013, so called free enterprise zones have been created to stimulate the development of the most deprived parts of Hungary. The status is assigned for 5 years on a renewable basis. Employers in these zones carrying out at least 100 million forint investment while increasing the number of employees can claim a tax credit. The rate of the Social Contribution Tax payable after the first 100 thousand forint part of a gross salary per month is reduced by 27 percentage points in the first two years and by 14.5 percentage points in the third year of employment. Companies can get exemption from paying the 1.5 percentage points Vocational Education Contribution in the first two years of employment after the first 100 thousand forint wage per month, effectively implying full exemption from paying social security contributions for the first 100 thousand forint wage of new employees. The tax credit can be claimed for a maximum of 5 years.

7. Policy lessons

- Letting market forces eliminate a large number of jobs while not improving the skills of job losers entails the risk of massive long term unemployment.
- If economic transformation results in a dual economic structure with a weak domestic sector and a lack of competitive small and medium sized companies, unskilled labor will have an even smaller chance of getting (re)employed.
- Letting job losers leave the labor market and cease to exist as economically active persons, places a large burden on public finance and creates an electorate for populist economic policies.
- Fast rising minimum wages may prevent a sizeable part of the low skill labor force from getting employed.
- At times of economic hardship, social and political tensions may make benefits of inactive persons difficult to sustain. Such tensions may be utilized by the far right that can also mobilize ethnic tensions.
- Large scale public employment schemes, used to mitigate the problem of long term unemployment and structural inactivity, are expensive and carry the risk of locking in participants. Although activity rates can be raised fast and unemployment decrease, large scale public employment tend not to improve participants' chances of getting employed in the regular labor market.

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ANALYSIS 3: Shaping labor market in Poland – Case of Poland

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February 2016

Introduction

The labor market in Poland is relatively one of Poland's 'brands' in the EU: the exceptional combination of skilled labor with moderate wages on the market. This feature was one of the advantages during the crisis, which helped Poland to keep manufacturing and economic growth at the moderately high level up to 2015.

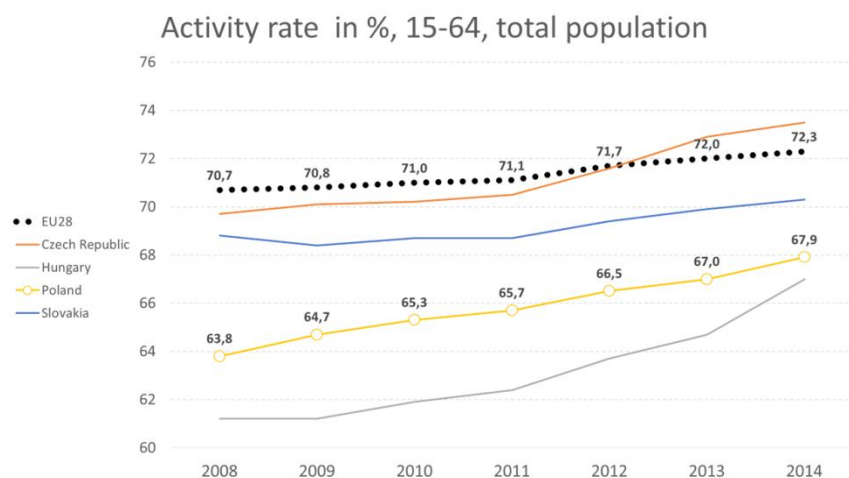
The overall picture on Poland's labor market is relatively optimistic. In 2014, the total population reached 38.02 million people, out of which 17.43 million people are active on the market. 15.86 million citizens are working in 2014 whereas 1.57 million Poles are unemployed, which means that the unemployment rate reached 9%.⁸

The activity in Poland's labor market

The relatively low unemployment rate may create bias on the overall picture of the labor market. But when this figure is compared with the activity rate (which was at the level of 67.9%), the Polish market appears to be less perfect. Fortunately, the upward trend of this indicator points at the improvement in the field of labor market participation of the citizens.

8 This figure may vary, depending on the applied methodology. According to the Eurostat using Life Force Survey, 9% is a correct figure, while for unemployment registered by the local employment offices and measured by the Central Statistical Office of Poland it is 11,4% (see: <http://stat.gov.pl/obszary-tematyczne/rynek-pracy/bezrobocie-rejestrowane/bezrobotni-oraz-stopa-bezrobocia-wg-wojewodztw-podregionow-i-powiatow-stan-w-koncu-grudnia-2014-r-,2,28.html> (date of entry: 11.01.2016)). The differences between these two figures arise from some changes in the methodology. First of all, the main difference is the measuring method: LFS bases on quarterly surveys (a share of the total population is surveyed, there exists a sample), the national methodology bases on the registers prepared by the local authorities (a citizen needs to register to be qualified officially as the unemployed) on a monthly basis. The other main issues are the difference in the age (LFS 15-74; national method 15-retirement age) and the time constraints (LFS: not employed citizen was seeking a job within 4 last weeks and is able and willing to take a job within two next weeks; national methodology: a citizen is not currently employed and he/she is willing and able to take a job). More about both methodologies: http://stat.gov.pl/cps/rde/xbcr/gus/Zasady_metodyczne_stat_rynku_pracy_i_wynagrodzen.pdf.

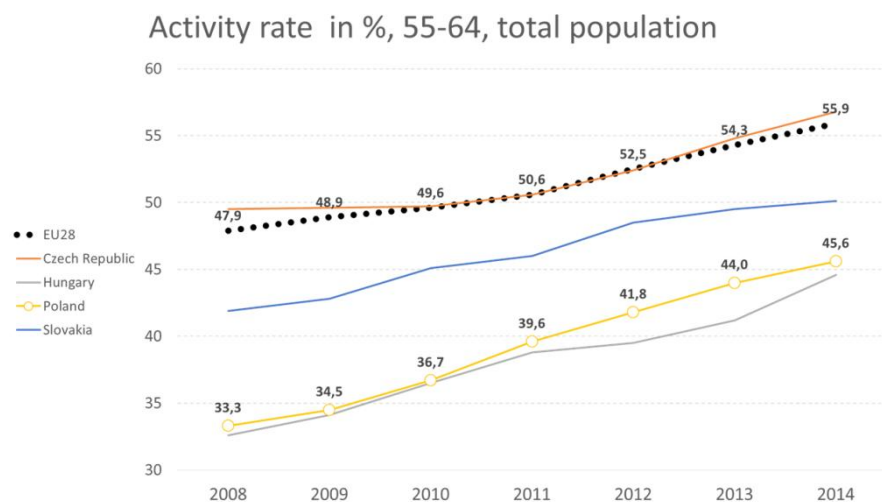
Graph 1. Activity rate in 2008-2014, 15-64 years old



Source: Eurostat

This trend is particularly visible regarding to the older citizens (55-64 years): more than 12 percentage points increase of the activity rate in 2008-2014 took place. This was the effect of the changes in the pension system, which limited the possibility to go for an early retirement. Still the activity rate of this group is much lower (45.6%) than the activity rate of the entire population.

Graph 2. Activity rate in 2008-2014, 55-64 years old



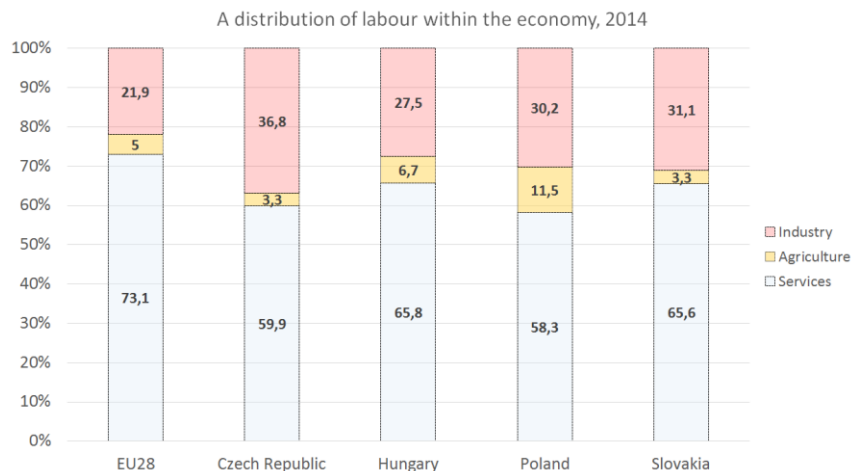
Source: Eurostat

Structure of the employment

Regarding the structure of economy, although it is changing, still in Poland, the distribution of labor is disadvantageous compared to the other EU countries. Contrary to the other Visegrad countries and the EU, a share of employees in the agricultural sector is relatively high (see graph 3). This is due to the cultural reasons in the agricultural sector, where the small family farms dominate. On the other hand, Poland, compared to the rest of the EU, such as the other V4 countries, has also significantly higher share

of labor in industry, which at the moment gives a competitive advantage in manufacturing at the EU-level. Still, however, as many of the jobs in the industry moderately require not so much sophisticated skills, they are relatively exposed to relocation to countries with more cost-competitive labor markets.

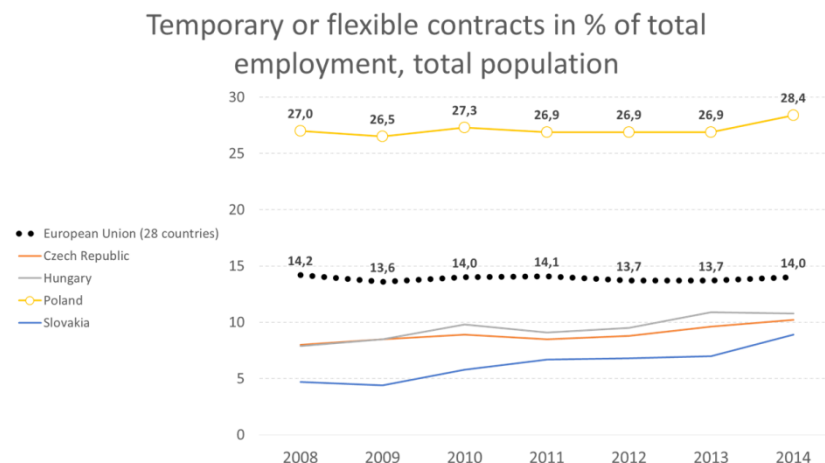
Graph 3. Division of labor in 2014



Source: Eurostat

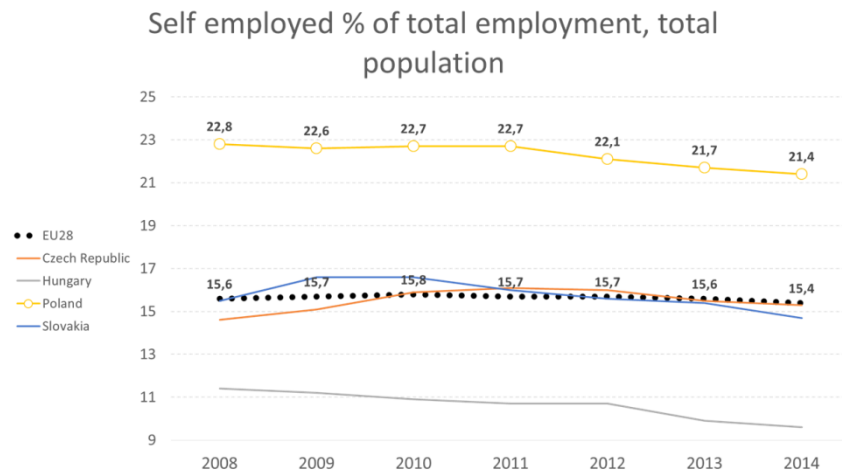
A huge problem in Poland is the abuse by the employers of the flexible contracts, which is a result of the high tax wedge on labor. The prevalence of these contracts is extraordinary in the EU (see graphs 4 and 5). In Poland, this kind of contracts is commonly named as “junk contracts”. Partly it also refers to self-employment, which is also one of the highest in the EU. Whereas it enabled the entrepreneurs to keep the competitive edge, it in many cases increased uncertainty on the side of the employees.

Graph 4. Temporary and flexible contracts as % of total employed in 2008-2014



Source: Eurostat

Graph 5. Self-employed as % of total employed in 2008-2014

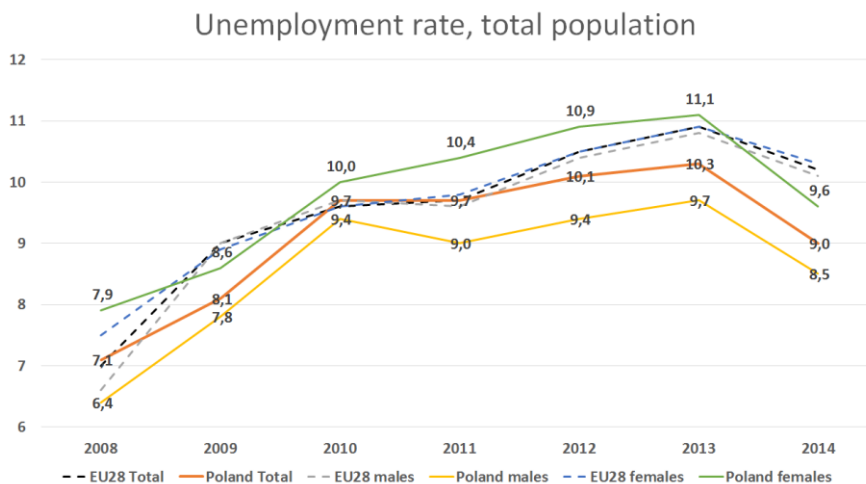


Source: Eurostat

Structure of the unemployment

While since the beginning of the crisis the unemployment rate tended to raise from 7.1% in 2008 up to 10.3% in 2013, in 2014 the trend was reversed (9%). It is partly the effect of the slow recovery in the EU, which is the main Poland's export market. The women, compared to the EU-28 are however slightly more often unemployed than the men (a gender gap in Poland is 0.6 p.p., while in the EU this difference is only 0.1 p.p.)

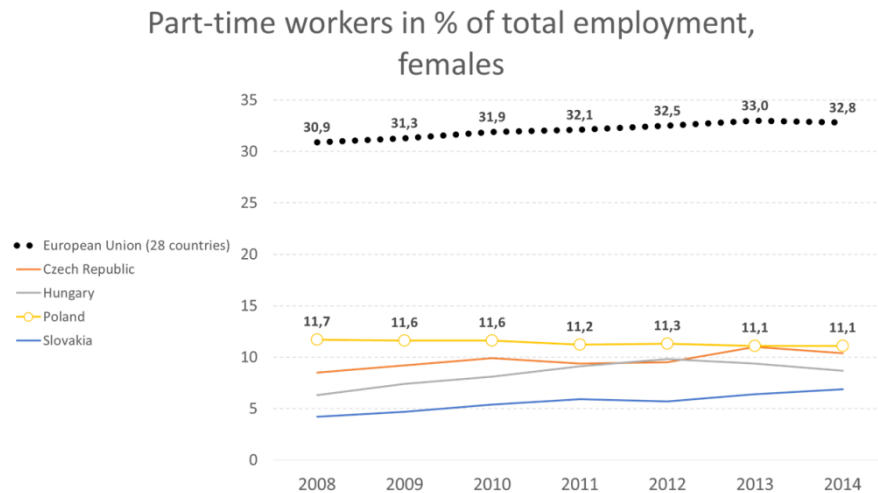
Graph 6. Unemployment rate in 2008-2014



Source: Eurostat

The main reasons for this bigger feminine unemployment are: cultural conditions and still a low appearance of state-induced facilitations to the women to help them keep work-life balance, resulting in a relatively low number of the part time contracts in the country (whereas it is a significant form of contract in the EU, see graph 7).

Graph 7. Female part-time workers as the share of total employment in 2008-2014



Source: Eurostat

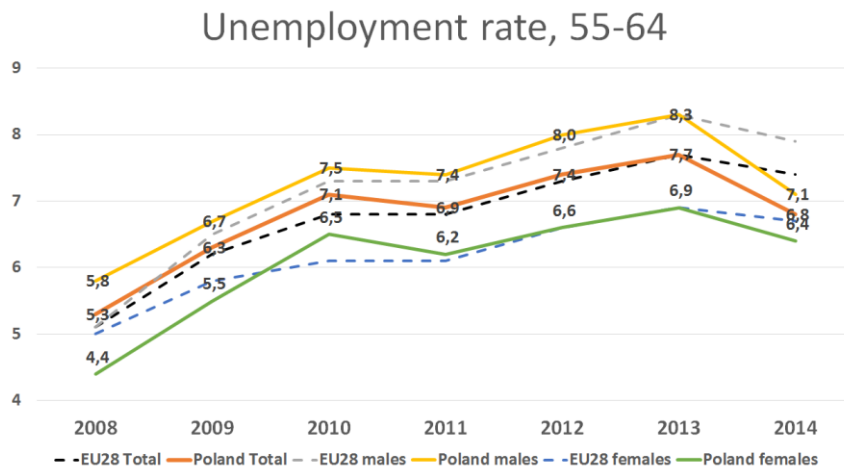
The other significant problem is the youth unemployment. Especially, there is relatively stable group of young citizens not only unemployed, but also not in education process. The share of the NEETs group (“neither in employment nor in education and training”) under 25 years old (in 2014 it reached 12%) is similar to the EU share (12.5%).⁹

Opposite to this, the unemployment rate of the senior workers is low (see graph 8). But the upward trend is visible. Both, the number of unemployed and the rising tendency are a derivative of the functioning and the changes of the pension system. In the past workers could decide whether to early retire or not. This resulted in the low activity rate of this group (see graph 2) and thus a low unemployment rate. However because of new regulation limiting such option, the activity rate and the unemployment rate are increasing. In 2014 this trend was stopped.

9 Source: Eurostat database

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tesem150&plugin=1> (date of entry: 11.01.2016)

Graph 8. Unemployment rate, 55-64 years old, 2008-2014



Source: Eurostat

The long term unemployment of Polish citizens, compared to the rest of the EU, is moderate. However the problem still exists and it grows over time. While in 2008 it stood for only 33.5% of total unemployment, in 2014 it increased to 42.7% of the total unemployment.¹⁰ This figure is a result of employment problems in some voivodships (i.e. Warmińsko-Mazurskie or Zachodniopomorskie) with high unemployment rate as they cannot create new jobs either by attracting investments or by boosting entrepreneurship. The other reason is the mismatch of the preferred skills by the employers and actual skills possessed by the unemployed and a relatively low mobility of particular unemployed persons.

General solutions to improve the labor market conditions

In general, the process of the improvement of the labor market and of the reduction of the unemployment in Poland has some common features with the other Visegrad countries. There are some general long-term activities, including the better targeting of the education and training system offered to the unemployed. The educative part of the unemployment assistance system currently consists of facilitating the internship for the unemployed, during which the employer does not bear the financial costs (including taxes, contributions to the pension system), while the intern obtains a grant. Similarly, there exists a system of financing the training course (up to 12 months) for unemployed. Additionally, the potential employer may sign an agreement with training institution and the local authority to better tailor the training to the current employer needs on a particular recruitment. There exists a National Education Fund¹¹ within a Labor Fund¹² which finances such initiatives.

¹⁰ Own calculations based on

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tesem130&plugin=1> and <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tipsun20&plugin=1> (date of entry: 11.01.2016).

¹¹ See: <http://psz.praca.gov.pl/-/55453-krajowy-fundusz-szkoleniowy> (entry date 11.01.2015=6)

¹² See: <http://www.sejm.gov.pl/Sejm7.nsf/BASLeksykon.xsp?t=s&id=5DE16143B290CC23C1257A5A0047F037&q=Fundusz%20pracy> (entry date 11.01.2016)

The employers may apply for a grant for preparing a job post for a new unemployed person. The value of this aid cannot exceed 6 times the mean salary and it bases on the registered costs of these preparations.¹³

Also, there is a system of public (and intervention) works that incentivise the entrepreneur to apply for public works compensation (reimbursement of the social insurance).¹⁴ In the case of intervention works a part of salary is also refunded by the local authority. The unemployed persons may work within the framework of the public works for 12 months at the longest and the wages are at least at the minimum level.

Alternatively to that¹⁵, the employers can take a credit (up to 23 372 złoty, that is roughly 5 000 euro) with a reduced interest rate (0.44%),¹⁶ when they create a new job, either it is a completely new economic activity or just a development of a firm. The employer may take bigger credit if it creates more jobs. This facilitation is offered by the Bank of National Development, within a project „My first business – Support at the Start II”.¹⁷

The unconventional solution related to boost employment was a gradual deregulation of the professions. It took place in four stages and lifted the regulatory entry barriers in around 200 professions.¹⁸ Still, according to the European Commission,¹⁹ 350 professions remain regulated.²⁰

There exists as well some ad-hoc solution related to the current negative conditions. For instance, as a reaction to the deteriorating trade prospects with Russia, which would affect the labor market, the government offered a special purpose aid for the farming industry related to jobs. First the entrepreneurs obtained a repayment of the social and healthcare insurance. Second, the government offered co-financing of the training to the workers in the threatened sub-sectors.

Specific solutions for the youngest market participants

An important part of the system supporting finding jobs is the one related to fight the youth unemployment within the so called “Youth guarantee” framework. The authorities have applied specific solutions for the young people related with the training system. If an unemployed is under 30, he/she

13 <http://psz.praca.gov.pl/dla-pracodawcow-i-przedsiębiorców/wsparcie-tworzenia-miejsc-pracy/refundacja-kosztów-wyposażenia-lub-doposażenia-stanowiska-pracy> (entry date 11.01.2016)

14 See: <http://psz.praca.gov.pl/dla-pracodawcow-i-przedsiębiorców/wsparcie-tworzenia-miejsc-pracy/roboty-publiczne> (entry date 11.01.2016)

15 As the public aid can come only from the one public source.

16 But the credit requires a collateral. Additionally, the value and the interest rates of the loan vary and are dependent on the mean salary in Poland and the interest rate of the National Bank of Poland.

17 See: <http://wsparciestarcie.bgk.pl/program/pozyczka-na-miejsce-pracy/> (entry date 11.01.2016)

18 See: <https://www.ms.gov.pl/pl/deregulacja-dostepu-do-zawodow/> (entry date 11.01.2016)

19 See: http://ec.europa.eu/growth/tools-databases/regprof/index.cfm?action=map_regulations (entry date 11.01.2016)

20 But this includes even those professions partly deregulated by the government.

may be offered a training voucher (its value is no higher than a mean salary in Poland) with which this person may choose a training that suits his or her needs²¹.

The employers have several alternative options (in order not to violate the EU law on the state's *de minimis* aid) how to use the facilitation of the employment. The first option is the refund of social insurance for young employees within the "Job for Youth" programme implemented in 2015. It may be also relieved from paying contribution to the Labor Fund and Guarantee Fund.

If the young person (up to 30) wishes to found its own firm, the Bank of National Development offers a credit with a reduced interest rate (0.44%) for a total value of 77 907 złoty, that is roughly 16 000 euro.²² Additionally the young debtor enjoys one year of credit vacations, which enables him or her to focus on managing the firm.

In order to increase a mobility of the young people, the local authorities also offer a relocation voucher. If a young person changes a residence which is at least 80 kilometres from the previous one in order to start working, the local authorities grant the young people with voucher worth 7 500 złoty (around 1 600 euro)²³.

Solutions to decrease gender discrimination

The most important reason for a decreased employment among the women is the maternity period, which partly puts females at the disadvantageous situation to males. Because of parenting they are excluded for at least half a year from the labor market, and the return to employment is challenging to many of them.

The government, in order to improve the return rate, focused on development of the system of the childcare institutions. This improvement includes the increase of the number of childcare units, kindergartens and pre-schools. The government guarantees that each child will find a place in a public pre-school (this however does not mean, that it will be placed in the nearest one). The government also offered simplified rules to run private childcare units, which allowed opening small ones. Since 2014, the "Toddler" programme, enabling the academics to leave children in public pre-schools close to the universities, has been launched.

But one of the most interesting reforms was an incentivisation of partly re-entry to the market by introducing a new benefit. A so-called telework grant worth 6 minimum salaries is paid to the employer, who agrees to employ for at least one and half year a parent wishing to return to the labor market on the telework basis. The employer can hire more than one such persons and thus he or she may obtain more than one such grant.

21 It is under condition that the unemployed proves this training course improves the chance to find a job.

22 Collateral required. The value and the interest rates of the loan vary and are dependent on the mean salary in Poland and the interest rate of the National Bank of Poland.

23 See: <http://finanse.wp.pl/kat,1013819,title,Bezrobotny-dostanie-75-tys-zl-Jakie-warunki-musi-splenic,wid,16343458,wiadomosc.html> (accessed: 11.01.2016)

Improvement of the activity rate among the older citizens

The most important assistance framework launched in 2008 aiming at the increase of the activity rate is the “Solidarity of generations” programme called in short “50+”.²⁴ Its goal was to reach 50% of activity rate in the 50+ group. The main action within this framework includes the deduction of the employer's contribution to the Employment and Guarantee Funds or a system of targeted trainings. Like the other programmes, it is co-financed by the EU funds.

Main challenges

The biggest flaw in the Polish labor market is an excessive burden on salary, which makes firms to use unconventional contracts on a broad scale or keep the workers in the grey economy, in order to maintain low costs. According to calculations presented in graph 9, the amount of money finally reached to the employees stand for 60% of total costs borne by the employers.

Graph 9. The magnitude of the tax wedge in salary

Tax wedge on labour in 2016 – regular job contract

Mean gross salary	919,07 EUR*	Mean gross salary	919,07 EUR*	Total costs
Healthcare Insurance	103,46 EUR*	Accident Insurance	71,36 EUR*	453,37 EUR*
Social Insurance (incl. Pension and old age contribution)	71,36 EUR*	Social Insurance (incl. Pension and old age contribution)	149,41 EUR* (higher since 2012)	Net salary/gross „gross” salary
Sickness insurance	22,51 EUR*	Employment fund	22,51 EUR*	59,1%
PIT	66,4 EUR*	Guarantee fund	0,9 EUR*	
Mean net salary	655,11 EUR*	Gross „gross” salary	1 108,49 EUR*	Net minimum salary/gross „gross” minimum salary
Employee's costs	263,95 EUR*	Employer's costs	189,42 EUR*	60,8%

* According to mean NBP exchange rate 1EUR=4,473 PLN, 27.01.2016

Source: own calculation based on Central statistical office, Ministry of Finance, the Social Insurance Institution, National Bank of Poland

The response made by the previous government to minimise the usage of the inappropriate contracts was the increase of costs of the unconventional flexible contracts. After the reform, the mandatory contracts is burdened almost as heavily as the regular job contract and only special purpose contracts (i.e. for artists, some cases in the healthcare sector) are much less burdened.

The other challenge is remaining high long-term unemployment rate (in particular cases in the least developed regions, but also in the cities, this kind of unemployment is even “inherited”). The lack of mobility and quickly changing requirements of the employers only aggravate the problem.

The issue to address is the fact, that the actual unemployment rate is hidden thanks to the freedom of labor's movement within the EU, which made an exodus of Polish workers to the other Member States. According to the Central Statistical Office, in 2014 the number of Poles being temporarily abroad is 2 300 thousands (that is 13.2% of the active population). If the borders were closed, the unemployment rate could reach 20%. On the other hand, the existence of the grey scale distorts the picture in the opposite way.

The other discussed problem is the fact, that addressing the issue of the dual labor market is complex and sensitive. Some critics of the reform on the mandatory contracts pointed, that only a certain share of workers are forced to choose such contract, whereas the others enjoy this flexible agreements due to their particular circumstances.

The next challenge is linked with preparing the labor market to the external market needs and conditions. Still, too many workers are in the agricultural sector, thus decreasing the efficiency of the whole economy.

Recommendations

1. The decrease of the tax and insurance burden on salary.
2. The improvement of the mobility (especially in the rural regions).
3. More focus on conditions incentivising flexible solutions (flexi hours, part-time, telework).

ANALYSIS 4: Solutions to high unemployment rate – Case of the Czech Republic

Michal Hejl, Centre for Economic and Market Analyses, Czech Republic

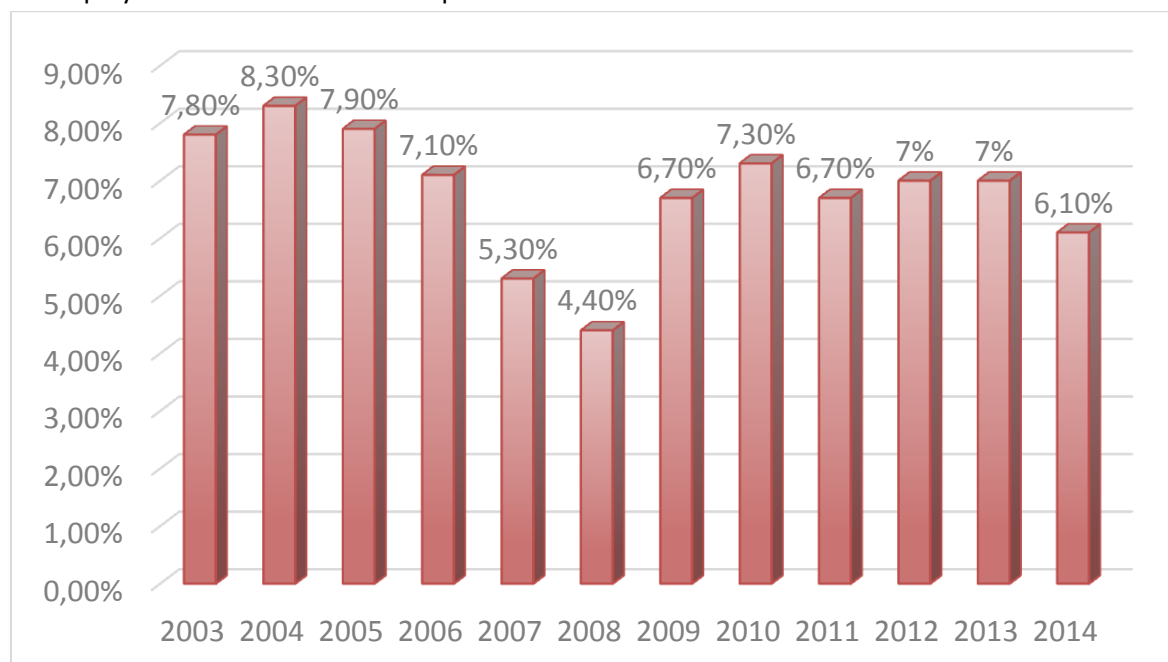
February 2016

The document offers an overview of key unemployment indicators in Czech Republic. It also includes few governmental initiatives in the past year and commentary on their success or failure.

Introduction

As other former COMECON countries, Czech Republic was forced to radically change its economy following the end of the communist dictatorship. This caused many problems, since much of the industry was obsolete and far too reliant on manual labor. This was mostly achieved in the last decade of the 20th century. While some significant companies did not make it, often due to mismanagement or due to corruption, the overall economy managed. More troubling was the lack of political consensus how to manage the economy on the elementary level. This disagreement still continues.

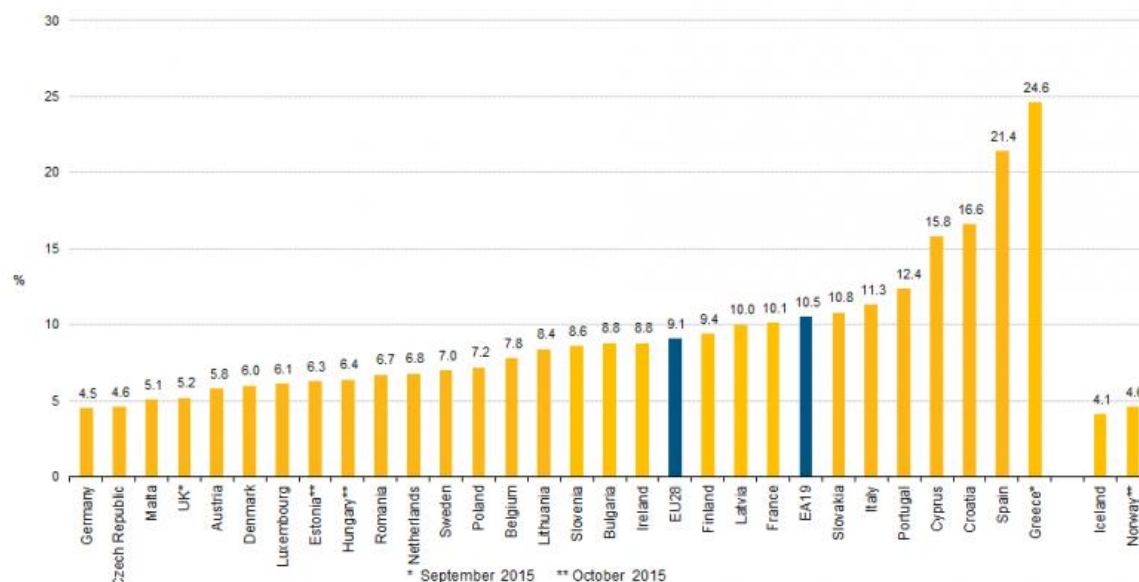
Unemployment rate in the Czech Republic



Source: Czech statistical bureau

By the 21st century, the economy was in relatively good shape, the GDP was growing by a few percentage points every year. The unemployment was also relatively low and slowly decreasing. All of this of course changed due to the worldwide recession, but even then, the growth of unemployment rate was not all that great. In 2014 the unemployment rate started to dip again and at the end of 2015, the Czech Republic recorded the second lowest unemployment in the EU (behind Germany).

Unemployment rate – international comparison (end of 2015)



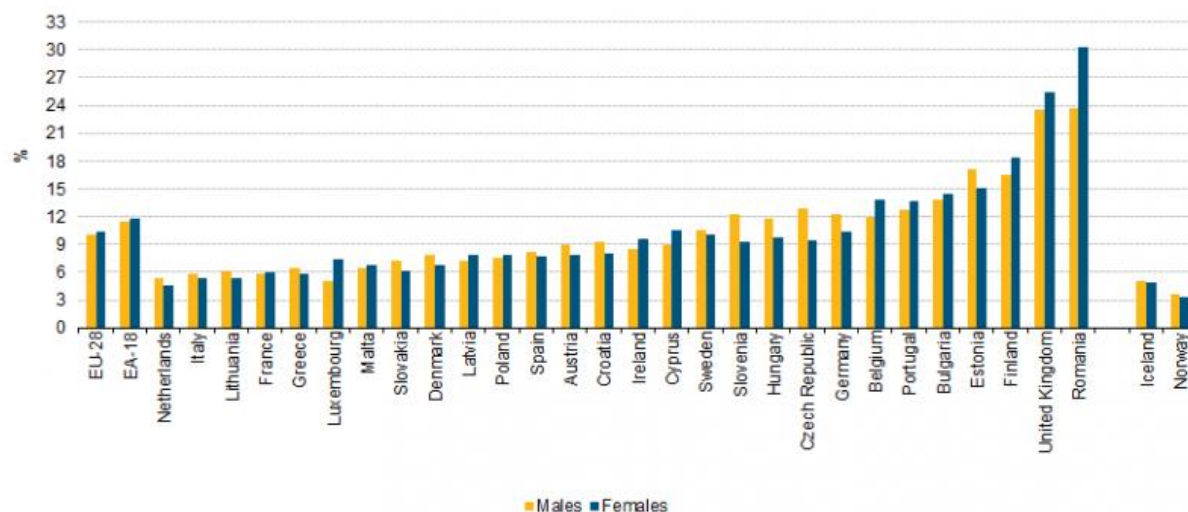
Source: Eurostat

Key unemployment indicators

Age: As in other countries, the two age groups most endangered by unemployment are the young immediately after leaving school and the older workers over 55 years. The young are handicapped by their lack of experience and work habits. Generally speaking, the lower the educational attainment is, the higher the unemployment rate after leaving school. The old on the other hand are victims of the “cult of youth” that is present in the mind of many managers. They are commonly thought to be slow workers, that are set in their ways and unable to adapt to the changing world. Many of the old choose to resolve their unemployment by taking preliminary or disability leave, this however means that they will receive lowered income for the end of their lives and also means that instead of contributing to the social security system, they become its beneficiaries.

Sex: In Czech Republic, there are considerably more men unemployed than women as shown in the graph below. This statistic is quite misleading though, since paid maternal leave can be up to 4 years long. Women are still expected to be the primary caregivers for young children which sometimes results in sex based discrimination. Czech government has identified the poor position of women in the jobs market as one of the key challenges to solve.

Unemployment rate by sex – international comparison



Source: Eurostat

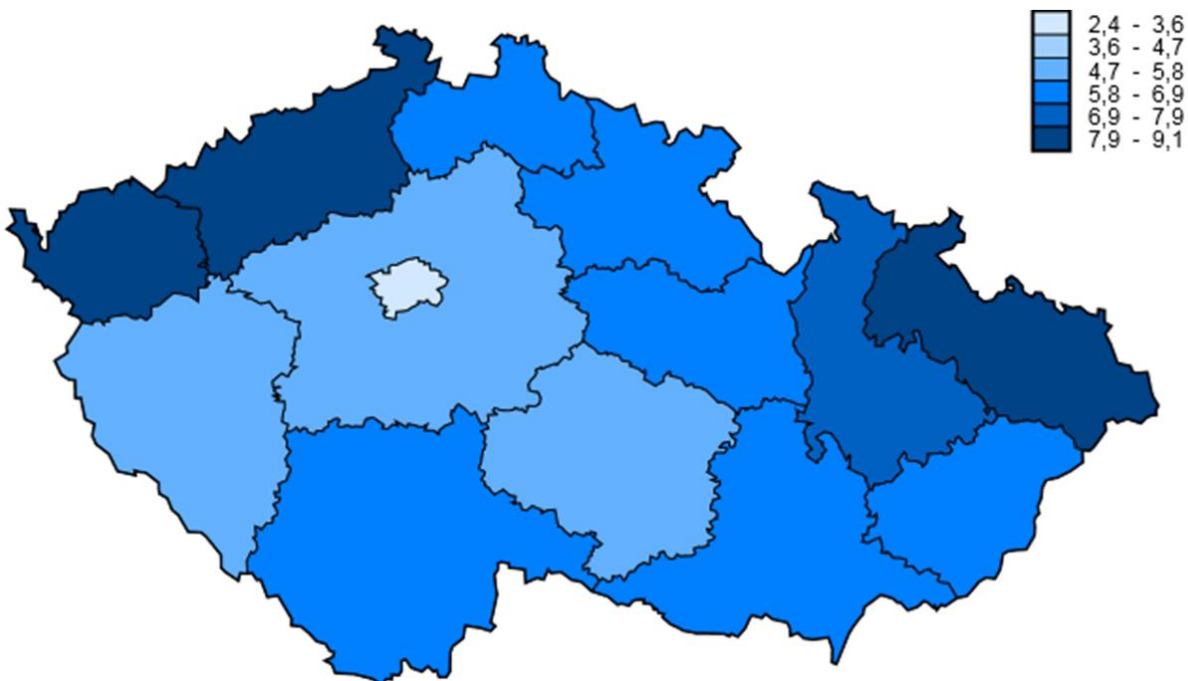
Education: As noted above, the higher education one achieves, the lower the chance of unemployment. While situation is very different between different field of study, university graduates usually find and keep work quickly. The situation is much worse for vocational secondary schools, graduates of some have more than 50 % unemployment rate. This is in direct contrast with the demands of employers who continue to press for more vocational training.²⁵

Regional differences: There are significant regional differences in the unemployment rate. The situation is best in Prague and central Bohemia and is worst in the old mining regions in north Bohemia and Silesia. Those regions suffer from serious problems, for example the devastation of environment caused by surface strip mining. Also many miners are unwilling to accept another job and often have their health damaged by working in the mines which makes the unemployment situation hard to solve. The environmental damage is also a serious block to attracting investment into those regions.

Generally speaking, the farther away from big cities, the worse the unemployment is. While this tends to be the case all over the world, it is made worse by the fact that Czechs are very reluctant to accept work which would require them to move or to commute for more than an hour each way.

²⁵ For more detail, please refer to the analysis for the previous webinar on education on October 2nd 2015.

Unemployment rate in regions (in %)



Source: Czech statistical bureau

Overview of social security system in Czech Republic

When a person loses employment he/she is directed to his/her local labor office (úřad práce). This institution is theoretically supposed to attempt to find work for them, but in practice, people who want to find work do it on various private jobs websites. Nonetheless, since registering at the labor office is a prerequisite to receiving social security, most people do, which means that the unemployment statistics are quite accurate. Labor offices also offer various requalification courses; these are usually designed to allow their graduates to perform qualified manual labor.

Aside of normal social security, assistance in unemployment (i.e. benefits) is available to those who have worked for at least 1 year in the last 2. Depending on age, the payout is limited at 5-11 months (the older the unemployed person is, the longer he gets paid). The payout is a % of person's income in the last year with an upper cap of 60 % the average wage. This assistance is considered by most in Czech Republic to be a sort of insurance (in fact, part of what really is the income tax is called social insurance in Czech republic) and as such, efforts to reduce the payout, or put more conditions on it are very unpopular.

Notable governmental initiatives to reduce unemployment, the problems with them and lessons that can be learned from them

Obligation to do community service while on social security: This was undoubtedly the most controversial attempt to reduce unemployment. It was introduced by the previous center-right government. The key portion of the law allowed municipalities to order those unemployed for more than

three months to perform up to 20 hours of community service per week. There were several problems that made the law very unpopular. Firstly, the law employed only negative enforcement – the work was unpaid and refusing to perform it meant losing all benefits. Secondly, it was arbitrary; the municipalities could order all/some/none of the eligible unemployed to do the work. Thirdly, it was immediately decried by the opposition as forced labor and the name stuck which of course did much to damage the public perception of the law. Fourthly, in some cases unemployed found themselves working next to convicts sentenced to community service which generated immense displeasure. Lastly, as I already noted, Czechs generally consider assistance in unemployment as something they earned, in other words an entitlement, not a benefit and as such, the fact that the law could be used to compel people still drawing it to work was very poorly received. The law was eventually declared unconstitutional by the Constitutional court.

This is one of the cases where other states thinking about implementing a measure like this might learn a lesson or two even if it does not mean transferring best practices, but avoiding worst practices. In my opinion, any law mandating the unemployed must apply to all of them after some cutoff, the workers must not work alongside convicts and most importantly, there must be some monetary reward for the work done.

Increasing the minimal wage: This is an initiative dear to the social democratic party (now the biggest governmental party). The current government is committed to incremental increases of the minimal wage over years 2014-2017. The argument for it is that it increases the motivation to work instead of remaining dependent on social security. While this incentive can probably create some jobs, it can also destroy some, as employing some workers may become unprofitable. Since the first increase was done in 2014 it is too early to evaluate the impact (if there was any) on the jobs market.

Tax breaks for foreign investment: This was a very popular tool in the first decade of the 21st century. In return for building a factory in Czech Republic, companies would be exempted from paying corporate tax for some years (usually 10-15). This tool has not been used so much lately for several reasons. Firstly, EU rules greatly restrict its use. Secondly subsidizing the biggest companies is considered unfair by many. Thirdly the jobs this brings are most often poorly paid. Lastly, companies seeking just cheap labor have moved on to poorer countries. This tool has had mixed results, on one hand it brought quite a lot of jobs, but those are most often menial jobs, where the pay is poor. Also some companies relocated when their tax exemptions were about to run out. But poorly paying jobs are better than no jobs.

Wage subsidies: This is a tool most often used in regions with high unemployment, the government simply agrees to pay a portion of new worker for some time. This reduces unemployment in the short term, but many of the workers are fired when the subsidy runs out. There is also a risk of running afoul of the EU rules on public assistance to private companies. But properly used, this tool can be useful, especially if used in conjunction with requalification courses.

Free preschool care for children: This tool is meant to accelerate the return of mothers from parental leave, since the longer a person is not working, the lower their employability. The primary mean of achieving this is building more crèches and maternal schools, but also reducing the bureaucratic obstacles for private child minding.

Duty to employ the disabled: In order to increase the employment of the disabled, the government has decreed that all companies that have 50 or more workers must employ a set percentage of workers or buy products from specially designated companies that employ mostly the disabled or pay a fine. This policy has been a failure since most companies just choose to pay the fine. This is primarily because once hired, it is almost impossible to fire a disabled worker. Also the expense required to allow the disabled to move around the workplace can be considerable, especially in older buildings. The obvious way to at least partially remedy the situation would be to remove the extra anti-firing protections from the disabled. Also grants to make a “barrier-less” workplace might make companies more amenable to hiring the disabled.

Best practices

This is a section I write with some reluctance. I remain deeply skeptical about the ability of a medium sized EU state to positively impact the unemployment rate. Especially if the state is an export-based economy with one dominant trading partner. To demonstrate my point: Czech Republic spends only half (percentage wise) the EU27 average on active employment policies, yet its unemployment rate is now the second lowest in the EU.

Nonetheless I will make a few generalized suggestions: Cut the red tape, make it easier and faster to create new enterprises, make it easier to hire and fire workers.

Data sources:

Czech statistical bureau: www.czso.cz

Eurostat: <http://ec.europa.eu/eurostat/>

ANALYSIS 5: Unemployment in Ukraine: prevailing trends and measures to reduce it

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The unemployment rate, which is one of the major macroeconomic indicators in the developed countries, has not become significant in the context of macroeconomic policies and has not reflected the actual employment situation in Ukraine since its independence. In practice employment has not been the key objective of economic policy and the issue has been solved as a residual one. Moreover, a review of the scientific literature indicates a lack of in-depth methodological research into the subject. A high level of the shadow economy, which makes significant adjustments to the labor market and distorts the system performance, is one of the underlying reasons for the situation. Thus, the official statistics (the International Labour Organization (ILO) measure as well as the estimates by the State Statistics Committee of Ukraine according to Ukrainian legislation) provide incomplete and fragmentary perception of the current situation. Besides, a high level of the shadow economy adversely affects the state's potential to influence the labor market.

Major trends in the labor market

Labor market analysis shows that unemployment tended to decline from 2000 to 2008, which primarily related to economic growth during this period. In 2009 unemployment climbed, which reflected the global crisis and decline in economic activity. According to unofficial estimates, Ukraine lost 2 million jobs from 2008 to 2013. The situation worsened in 2014 after the Revolution of Dignity, which led to the annexation of Crimea, the beginning of the military conflict with Russia and the deployment of anti-terrorist operations in Donbas and eventually aggravated economic and political crises. Not only did it bring the typical problems associated with a sharp decline in economic growth accompanied by rising unemployment and the negative impact on the labor market. Ukraine faced an additional problem – the employment of internally displaced persons affected by the hostilities in Donbas. Local companies and companies with regional offices in these areas suffered serious disruption or destruction, which caused staff cuts or even closures. Besides, levels of migration increased.

Today we deal not only with labor migration but also with migration of refugees from unstable regions. The labor market of central and western regions of Ukraine is burdened with internal migration, which affects the level of unemployment. In addition, qualified Ukrainian specialists are in great demand abroad due to their low level of financial expectations despite high qualifications. The closure or isolation of some markets as a result of political events, a Russian one in particular, should not be overlooked.

Table 1. Unemployment rate in Ukraine (Number of people in thousands)

	Total population	Economically active population	Employed population	Unemployed population*	Unemployment rate*	Registered unemployed
2000	48923,2	21150,7	18520,7	2630	12,40%	1178,7
2001	48457,1	20893,6	18453,3	2440,3	11,70%	1063,2
2002	48003,5	20669,5	18540,9	2128,6	10,30%	1028,1
2003	47622,4	20618,1	18624,1	1994	9,70%	1024,2
2004	47280,8	20582,5	18694,3	1888,2	9,20%	975,5
2005	46929,5	20481,7	18886,5	1595,2	7,80%	891,9
2006	46646	20545,9	19032,2	1513,7	7,40%	784,5
2007	46372,7	20606,2	19189,5	1416,7	6,90%	673,1
2008	46143,7	20675,7	19251,7	1424	6,90%	596
2009	45962,9	20321,6	18365	1956,6	9,60%	693,1
2010	45778,5	20220,7	18436,5	1784,2	8,80%	452,1
2011	45633,6	20247,9	18516,2	1731,7	8,60%	505,3
2012	45553	20393,5	18736,9	1656,6	8,10%	467,7
2013	45426,2	20478,2	18901,8	1576,4	7,70%	487,6
2014	42928,9	19035,2	17188,1	1847,1	9,70%	458,6

* the ILO measure

Table 2. Population of Ukraine (in thousands)

Date	Number (thousand)		
01.01.1990	51838,5		
01.01.1991	51944,4	+105.9	+0.204%
01.01.1992	52056,6	+112.2	+0.216%
01.01.1993	52244,1	+187.5	+0.360%
01.01.1994	52114,4	-129.7	-0.248%
01.01.1995	51728,4	-386.0	-0.741%
01.01.1996	51297,1	-431.3	-0.834%
01.01.1997	50818,4	-478.7	-0.933%
01.01.1998	50370,8	-447.6	-0.881%
01.01.1999	49918,1	-452.7	-0.899%
01.01.2000	49429,8	-488.3	-0.978%
01.01.2001	48923,2	-506.6	-1.025%
01.01.2002	48457,1	-466.1	-0.953%
01.01.2003	48003,5	-453.6	-0.936%
01.01.2004	47622,4	-381.1	-0.794%
01.01.2005	47280,8	-341.6	-0.717%
01.01.2006	46929,5	-351.3	-0.743%
01.01.2007	46646	-283.5	-0.604%
01.01.2008	46372,7	-273.3	-0.586%
01.01.2009	46143,7	-229.0	-0.494%
01.01.2010	45962,9	-180.8	-0.392%

01.01.2011	45778,5	-184.4	-0.401%
01.01.2012	45633,6	-144.9	-0.317%
01.01.2013	45553	-80.6	-0.177%
01.01.2014	45426,2	-126.8	-0.278%
01.01.2015	42928,9	-2497.3	-5.497%

Table 3. Unemployment rate in Ukraine in 2015 (Number of people in thousands)

	Total population	Economically active population	Employed population	Unemployed population*	Unemployment rate*	Registered unemployed
1 st quarter	42873,6	17335,6	15605,3	1730,3	10,00%	519
2 nd quarter	42823,2	17375,8	15710	1665,8	9,60%	498
3 rd quarter	42800,5	17437,7	15801	1636,7	9,40%	472,9

* the ILO measure

Comments:

- The number of “economically active”, “employed” and “unemployed” population, as well as the number of officially registered unemployed are given on average over the period (from the beginning to the end of a quarter or a year). The total population of Ukraine is taken at the end of the reported year.
- The number of unemployed population is calculated by the ILO (International Labour Organization). The ILO classifies a person as unemployed if they have not had a job, have sought work and have been able to start work for four weeks. It is obvious that this figure differs significantly from the number of officially registered unemployed.
- To calculate the unemployment rate, the ratio between unemployed population calculated by the ILO and economically active labor force is taken into consideration.

Table 4. Economically active population in 2014, by sex and place of residence

	Unit	Total	Females	Males	Urban settlements	Rural areas
Economically active population						
aged 15-70	thousands person	19920,9	9428,3	10492,6	14070,3	5850,6
of working age		19035,2	8878,4	10156,8	13552,7	5482,5
Economic activity rate of population	percent of the total population in respective age group					
aged 15-70		62,4	56,1	69,3	62,6	61,8
of working age		71,4	66,5	76,4	72,4	69,1
Employed						
aged 15-70	thousands person	18073,3	8718,9	9354,4	12780,9	5292,4
of working age		17188,1	8169,4	9018,7	12263,7	4924,4
Employment rate of population	percent of the total population in respective age					
aged 15-70		56,6	51,9	61,8	56,9	55,9

of working age	group	64,5	61,1	67,8	65,5	62
Unemployed						
aged 15-70	thousands person	1847,6	709,4	1138,2	1289,4	558,2
of working age		1847,1	709	1138,1	1289	558,1
Unemployment rate of population	percent of the total population in respective age group					
aged 15-70		9,3	7,5	10,8	9,2	9,5
of working age		9,7	8	11,2	9,5	10,2
Economically inactive population						
aged 15-70	thousands person	12023	7370,3	4652,7	8407,1	3615,9
of working age		7617,7	4481,6	3136,1	5161,1	2456,6

Table 5. Employed population by economic activities in 2012-2014* (thousands of persons)

	2012		2013		2014	
Total	19261,4	100%	19314,2	100%	18073,3	100%
Agriculture, forestry and fishing	3308,5	17,18%	3389	17,59%	3091,4	16,05%
Industry	3236,7	16,80%	3170	16,46%	2898,2	15,05%
Construction	836,4	4,34%	841,1	4,37%	746,4	3,88%
Wholesale and retail trade; repair of motor vehicles and motorcycles	4160,2	21,60%	4269,5	22,17%	3965,7	20,59%
Transportation and storage	1150,9	5,98%	1163,6	6,04%	1113,4	5,78%
Accommodation and food service activities	326,7	1,70%	328,9	1,71%	309,1	1,60%
Information and communication	297,9	1,55%	299,9	1,56%	284,8	1,48%
Financial and insurance activities	315,8	1,64%	306,2	1,59%	286,8	1,49%
Real estate activities	322,2	1,67%	314,3	1,63%	286,1	1,49%
Professional, scientific and technical activities	504,1	2,62%	493,6	2,56%	456	2,37%
Administrative and support service activities	343,9	1,79%	343,3	1,78%	334,3	1,74%
Public administration and defence, compulsory social security	1003,62	5,21%	962,3	5,00%	959,52	4,98%
Education	1633,2	8,48%	1611,2	8,36%	1587,7	8,24%
Human health and social work activities	1181,4	6,13%	1171,8	6,08%	1150,5	5,97%
Arts, entertainment and recreation	225,6	1,17%	226,5	1,18%	221,2	1,15%
Other types of economic activity	414,3	2,15%	423	2,20%	382,2	1,98%

* Excluding the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol.

Table 6. Employment rate in 2014, by sex, age group and place of residence (percent of the total population in respective age group in average for period)

	Total	Of which share of age groups, years							Of working age*
		15-24	25-29	30-34	35-39	40-49	50-59	60-70	
Total population	56,6	29,5	71,6	74,9	77,9	78,4	59,4	15,5	64,5

females	51,9	25,2	62,7	67,7	74,6	78,7	54,6	13,8	61,1
males	61,8	33,6	80,2	81,9	81,2	78,2	65,3	18,1	67,8
urban	56,9	28,4	74,2	76,6	78,9	79,3	58,6	12,5	65,5
rural	55,9	31,8	65,2	69,8	75,4	76,6	61,2	22,9	62

* Females aged 15-57, males aged 15-59.

Table 6. Basic indicators on labor market (annual data)

	Economically active population				of which							
	aged 15-70		of working age		employed				unemployed (following ILO methodology)			
	in average, thousands person	% of the total population	in average, thousands person	% of the total population	aged 15-70		of working age		aged 15-70		of working age	
					in average, thousands person	% of the total population	in average, thousands person	% of the total population	in average, thousands person	% of the total population	in average, thousands person	% of the total population
2010	20 894,1	63,6	19 164,0	71,9	19 180,2	58,4	17 451,5	65,5	1 713,9	8,2	1 712,5	8,9
2011	20 893,0	64,2	19 181,7	72,6	19 231,1	59,1	17 520,8	66,3	1 661,9	8,0	1 660,9	8,7
2012	20 851,2	64,5	19 317,8	72,9	19 261,4	59,6	17 728,6	66,9	1 589,8	7,6	1 589,2	8,2
2013	20 824,6	64,9	19 399,7	72,9	19 314,2	60,2	17 889,4	67,3	1 510,4	7,3	1 510,3	7,8
2014	19 920,9	62,4	19 035,2	71,4	18 073,3	56,6	17 188,1	64,5	1 847,6	9,3	1 847,1	9,7

At the end of 2015, the market situation remains tense and is characterized by a decrease in demand for labor. The main trends in the labor market are the following:

- **Employment rate is extremely low:** The number of employed persons for 9 months 2015 amounted to 16.5 million. The employment rate stood at 56.9%, including 57.6% in urban areas and 55.5% in rural. Employment rates among men were higher than among women – 62.5% and 51.9% respectively.
- **Despite depressed growth of unemployment, the unemployment rate remains high, especially among young people:** The number of unemployed people reached 1.6 million. The unemployment rate, by the ILO measure, was 9.0%, and among people of working age it was 9.4% of the economically active population. Among young people aged up to 25 years, the unemployed rate was twice as much as the national average – 21.8% of the economically active population. The unemployment rate in urban areas was 8.9% and 9.2% in rural areas. Among men, the figure was 9.9% and among women – 8.0%.
- **Permanent depopulation and population aging lead to the employment potential decrease in Ukraine**
- **The number of unified social contribution taxpayers decreases:** The number of insured persons subject to obligatory state social insurance (according to the Pension Fund of Ukraine) in November 2015 was only 10.6 million. In comparison with November 2014, the number dropped by 500 thousand people.
- **The average number of full-time employees is decreasing in all kinds of economic activity and in almost all regions:** In November 2015, according to the State Statistics Service of Ukraine, the average number of full-time employees was only 7.9 million. In comparison with November 2014, it decreased by 560 thousand people, most significantly in industry, education, health care and social assistance, wholesale and retail trade, repair and transport.
- **Involuntary part-time employment is high:** The number of people on unpaid holiday entitlement amounted to 58 thousand for 9 months 2015 and the number of employees transferred to part-time day (week) for economic reasons reached 698 thousand, or 8.6% of average number of staff. Among employees working part-time, 50% worked in industry and every third was employed in the transport and warehousing.

- **The number of employees warned about the planned large-scale redundancy increases:** In 2015, employers informed the public employment service about planned large-scale redundancy of 444 thousand employees, which is almost twice as much as in 2014.
- **The demand for workers is declining in almost all economic activities and in major sections of the Standard Occupational Classification:** The number of vacancies reported by employers to employment centres on January 2016 amounted to 26 thousand. However, compared with the corresponding data in 2015, the number fell down by a quarter. It should be noted that the number of vacancies at the beginning of 2016 is the lowest for the entire observation period (since 1991). On January 1, 2016, there were 19 unemployed people for a vacancy (January 1, 2015 – 14 people).
- **There is a tendency towards gradual decrease of the economically active population**
- **The number of employed persons in the informal sector of economy is still significant:** The number of employed in the informal economy was 4.4 million (26.5% of the employed population). The most widespread informal employment comprised agriculture, forestry and fisheries, wholesale and retail trade, repair of motor vehicles and construction.
 - Comparing trends in formal and informal employment in Ukraine in the last three years, their opposite orientation is striking. If the level of informal employment since the beginning of 2013 to mid-2015 increased by 2.8%, the level of formal employment during this time decreased by 2.3%. Generally, over the last decade the level of informal employment of the population aged 15-70 decreased from 57.7% to 57.0%. Nevertheless, the rate of informally employed in this age group increased by 1.2 times from 21.5% in 2005 to 26.4% in 2015.
 - The analysis of informal employment in different age groups shows that mainly people of working age worked in the informal economy - 94.2% in the first half of 2015.
 - The highest level of informal employment represents people aged 15-24 (35.8%) and 60-70 (36.2%). These are the categories which are the most vulnerable and socially unprotected in modern conditions.
 - Young people are interested in informal employment because they want to earn money while getting education. People of retirement age are involved in informal employment because of low pension replacement rate, which leads to high levels of poverty among older people and encourages them to seek more informal sources of livelihood. The desire to continue careers makes older people agree to informal employment and take posts that are not attractive to younger workers.
 - Widespread practice of “grey” wages in Ukraine contributes to shadow employment. It attracts a large number of already employed people to informal economy as well, which jeopardizes the socio-economic situation in the country and does not promote the welfare of the population. According to various experts, as a result of the shadow segment of the labor market in Ukraine, 30-50 percent of payrolls are now in the shadow, reaching 200 billion UAH. This means that annual revenues are reduced by about 30 billion UAH, social security funds lose 70-90 billion and pension fund lacks about 70 billion UAH. However, people who do not pay insurance premiums are entitled to the state health services, fully or partly, and receive other social benefits, for example, maternity, unemployment, low income, pension etc. All this encumbers the social security funds and the state budget of Ukraine.

The crisis of the labor market has posed dire threats to the social security of the country:

- less public confidence in the economic and social institutions, which leads to lack of faith in the government reform potential and aggravates readiness for necessary changes;
- substantial reduction in collecting taxes from personal income and unified social contribution (USC), which complicates the fulfilment of the state's social obligations;
- widespread poverty, which blocks reforms in housing, medicine, education and critically reduces the internal purchasing power;
- deskilling and marginalization of an increasing number of people of working age who find themselves in a state of prolonged inactivity, which becomes an obstacle to further economic human resources development;
- the scope and depth of deviant behaviour caused by sudden impoverishment, severe material losses and a sharp decline in living standards and social protection, a sense of despair, high level of a family and interpersonal conflict.

However, there are positive trends along with the problems in the Ukrainian labor market:

- Association Agreement between the European Union (EU) and Ukraine and the launch of DCFTA on January 1, 2016 create opportunities for new jobs and professional realization of Ukrainian specialists;
- Pharmaceutical sector and information technology industry continue to preserve relative stability despite the general economic crisis;
- A shift in the political elite enables top managers of the commercial sector to apply their knowledge and experience to public administration.

Measures to combat unemployment and normalize the labor market

Relatively effective tools currently used by the state are the following:

- Setting up a unified database of vacancies in Ukraine;
- Encouraging employers to create new jobs and employ insufficiently competitive jobless people in the labor market by paying compensations to employers in the amount of the single fee for the compulsory state social insurance;
- The possibility of temporary employment for the jobless and for those who work and aim at additional income with the help of public and other temporary works.
- The amendments to the Tax Code that reduce the tax load on the payroll have been beneficial. Since 2016, the unified social contribution (USC) is cut to 22% from 41% and the USC of 3.6% withheld from salary is abolished. Meanwhile, the taxable base of USC increases from 17 to 25 minimum statutory monthly salaries (about 34.45 thousand UAH). These innovations do not directly solve the issue of unemployment but create positive preconditions for the labor market legalization and its normalization.

In 2015, the Labor Code underwent several amendments. They partially harmonize Ukrainian labor legislation with the EU legislation. Besides, the law "On external labor migration" was adopted at the end of 2015. The law is expected to facilitate and streamline the process of labor migration and to promote social and legal protection of citizens working abroad.

Overall, in 2015, the public employment service provided 716.9 thousand people with jobs, including 444.7 thousands of registered unemployed. Every fourth person belonged to socially vulnerable groups, including internally displaced persons and participants of anti-terrorist operations; 15.4 thousand of them started their own business by obtaining a single unemployment benefit. New jobs were given to 14.0 thousand by compensating a single fee for obligatory state social insurance to the employer, including 4.7 thousand people not competitive in the labor market and 9.3 thousand employed by small businesses.

As for the public employment service's assistance to internally displaced persons (on December 31, 2015), the Department of Labour and Social Welfare registered 1 million 679 thousand internally displaced persons by December 30, 2015. Of these, 991 thousand are retired people, 213 thousand are children and 69 thousand are disabled; 403 thousand were people of working age and 129 thousand asked for employment.

Since the beginning of Crimea occupation and anti-terrorist operation, 62.7 thousand of residents of Crimea, Donetsk and Luhansk regions have requested help with employment. The public employment office has assisted in employing 17.2 thousand people. 5.4 thousand internally displaced persons have participated in public and other temporary works.

Recommendations

Labor market policies aim to implement the following measures:

- to liberalize hiring and firing process along with the elimination of discriminatory phenomena and protection of employees;
- to eliminate informal regulation of employment in enterprises and regions;
- to stimulate internal labor mobility, redistribute human resources as a result of reduced employment in agriculture, extractive industries and public sector;
- to stimulate educational services and health care with the aim of increasing competitiveness of the national labor force;
- to encourage competition among regions and eventually attract better labor force and investments;
- to develop mechanisms and methods for quantification of economic jobs, their monitoring, certification and inventory aimed at defining units of intensity, complexity and extent of work effort, as well as aligning them with the size of labor remuneration;
- to develop national and regional models of alignment and depolarization of employment conditions for different categories of workers, economic activities, cities, towns and rural areas by providing them with necessary organizational and financial support and agreement between the social dialogue participants and social structures;
- to prompt public-private partnership;
- to develop and implement regional programs on micro crediting small businesses