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Recent Labour Market Trends in the Visegrad Group Countries

Abstract

This study analyses labour market trends that appeared in Poland and other Visegrad Group countries during the global economic crisis, i.e. between 2007 and 2009. Special attention is paid to the changes in employment and unemployment rates that occurred in that period. For the sake of comparison, the labour market indicators are contrasted with average rates for the European Union and the euro area.

The presented analysis aims to identify the degree to which unemployment rates and indicators of employment changed in the selected countries in response to the global crisis and to explain why the labour markets in the sample countries reacted differently. It also addresses the changing production volumes and labour market flexibility, particularly towards wages, employment and working time.

The above analyses show that the labour markets of the Visegrad Group countries changed significantly during the global economic crisis, i.e. between 2007 and 2009; unemployment rates rose, while volumes and rates of employment decreased. In Poland, the two indicators changed their values relatively insignificantly, but in Hungary, Slovakia and the Czech Republic the changes were quite distinct.

In the crisis years, Polish employment fell and unemployment increased to a relatively small degree. Although the main reason for this was the quite

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favourable growth trend in the Polish GDP, cuts in real wage and working time reductions also played a role.

The relatively marked decline in the Hungarian employment is mainly attributed to the strong downward trend in the country's GDP, but the decline would have probably been much more extensive, if not for the reductions in working time, real wages and labour productivity.

The large declines in the Slovak and Czech employment appeared because the countries' GDPs grew smaller while real wages grew bigger. Shorter working hours and limitations on labour productivity that the two countries introduced could not reverse the unfavourable employment trends that occurred during economic downturn.

1. Introduction

Towards the end of the first decade of the 21st c. a global financial and economic crisis hit the world. Sparked off by the collapsing US property market in the years 2006-2007, it invaded the other segments comprising the financial sector of the US economy, infecting its real sector quite soon. As a result, the country's absolute GDP decreased already in 2008 (by about 0.2% in the first quarter of 2008 against the previous quarter, about 0.7% in the third quarter and another 1.4% in the fourth quarter)¹. This trend coincided with a relatively fast growing rate of unemployment (from 4.4% in the last quarter of 2006 to 4.8%, 7.0% and 10.0% in the last quarters of the years 2007, 2008 and 2009)². The negative economic impulses generated by the US economy travelled to other countries, including the EU member states (mainly via international trade and capital flows).

This study analyses labour market trends that appeared in Poland and other Visegrad Group countries during the global economic crisis, i.e. between 2007 and 2009. Special attention is paid to the changes in employment and unemployment rates that **occurred in that period**. For the sake of comparison, the labour market indicators are contrasted with average rates for the European Union and the euro area.

The presented analysis aims to identify the degree to which unemployment rates and **indicators** of employment changed in the selected

¹ Data from the OECD's website.

² See Eurostat website.

countries in response to the global crisis and to explain why the labour markets in the sample countries reacted differently. It also addresses the changing production volumes and labour market flexibility, particularly towards wages, employment and working time.

The discussion starts with the presentation of the quarterly unemployment and employment rates that the analysed countries noted between 2007 and 2009 (part 2). Part 3 presents factors that brought about employment and unemployment variations in the examined countries. The analyses have been designed to find out why the countries' labour markets responded with different levels of changes during the crisis years. Part 4 presents major conclusions.

2. Labour market indicators between 2007 and 2010

This analysis of the changes that took place in the selected labour markets is founded on two synthetic indicators, i.e. rates of unemployment and employment, which were examined on a quarterly basis for the period 2007-2010. The most recent unemployment rates that are available end in the first quarter of 2010 and the most recent employment rates in the fourth quarter of 2009. The quarterly frequency of the observations allows us to see how the rates reacted to the changing economic cycle. It is very important for the analysis to take account of these two indicators, because the rate of employment mainly changes following variations in labour demand, but the rate of unemployment reflects changes in both labour demand and supply, as well as the structural gaps between these two sides.

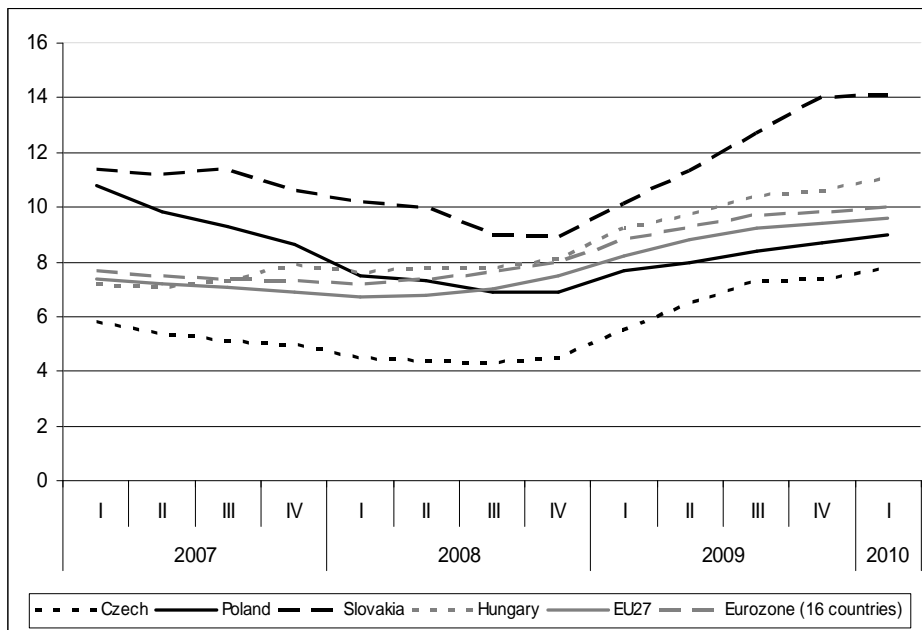
Graph 1 shows how the quarterly unemployment rates in the Visegrad Group countries behaved between the first quarters of 2007 and 2010, i.e. when the impacts of the global economic crisis appeared. The rates are presented against the average rates in the euro area and the European Union as a whole.

The graph allows formulating several conclusions. Firstly, after the period of falling unemployment rates the trend reversed and the rates grew in all the analysed countries. These uptrends can be attributed to the global economic crisis at that time. Unemployment rates in the euro area and the European Union changed similarly.

Secondly, it is worth noting that the points in time when the trends in unemployment rates changed their directions were country specific. In Poland and Slovakia the lowest unemployment rate (i.e. the quasi upper turning point of the economic cycle) appeared in the fourth quarter of 2008 and in the Czech Republic in the third quarter of the same year. The Hungarian (and the euro

area) unemployment rate reached its nadir much earlier, in the first quarter of 2008. Interestingly, the countries' minimum unemployment rates were considerably different (4.3% in the Czech Republic, 6.9% in Poland, 7.6% in Hungary and 8.9% in Slovakia). This may suggest that the countries have their specific levels of equilibrium unemployment, but this hypothesis naturally requires verification.

Graph 1. Unemployment rates between 2007 and 2010, quarterly averages (%)



Source: Eurostat website.

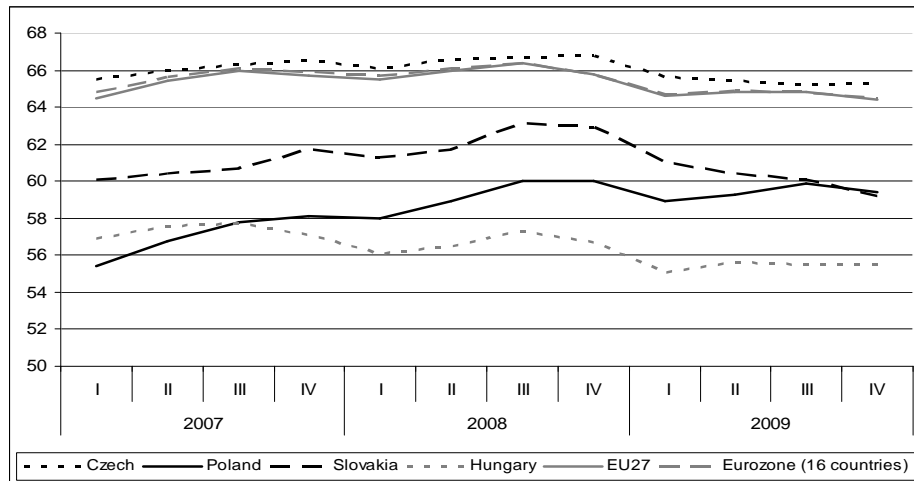
Thirdly, the graph shows that once they crossed the “upper turning point level” unemployment rates grew differently in the sample countries. In the four successive quarters they grew the most in Slovakia (by 5.1 p. p.) and the Czech Republic (3.0 p.p.), much less in Hungary and Poland (1.6 and 1.8. p.p., respectively). In the euro area and the European Union as a whole the growth rates of unemployment were almost equally low (by 1.6 and 1.5 p.p., respectively). This suggests that in Poland and Hungary the rates' sensitivity to the global crisis was relatively weak, unlike Slovakia and the Czech Republic where it was much higher.

Let us look now at graph 2 showing the behaviour of the analysed countries' employment rates.

The main conclusion is that the changing economic cycle did affect the employment rates between 2007 and 2009. The period of their growth was

followed by the period of declines that started in the third or fourth quarter of 2008. One of these quarters can be assumed to represent the period when the economic cycle change its direction.

Graph 2. Employment rates between 2007 and 2009 (% of population aged 15-64 years)



Source: Eurostat website.

Secondly, it is interesting to see that the employment rates varied strongly from country to country. If the second half of 2008 were the only period of our analysis, i.e. when the rates reached their maximum values, then the Czech economy would be the only one to have employment rates equal to or even greater than all the rates in the euro area. The Polish employment rate was smaller than the Czech one by 6.8 p.p. and the Hungarian rate was even smaller than in Poland.

Thirdly, the weakening economic cycle reduced employment rates in all the analysed countries, but the amounts by which they grew smaller were country specific. In the four successive periods that followed the peak period of the economic cycle (the third or fourth quarter of 2008) employment rates dropped to the lowest levels in Slovakia (by 3.0 p.p.) and Hungary (1.8 p.p.), slightly less in the Czech Republic (1.5 p.p.) and in Poland they decreased the least (by only 0.6 p.p.). Their declines in the euro area in the same period were quite marked.

Summing up, the global economic crisis affected both employment and unemployment rates in the countries sampled. The changes in the rates were the most distinct in Slovakia, while in Poland they were the weakest. This makes us consider why the countries' labour markets differently reacted to the global crisis?

3. Factors determining changes in labour markets

The statistical data presented in section 2 show that the investigated labour markets changed considerably between 2007 and 2009, particularly after the second half of 2008. The Slovak and Czech unemployment rates reached relatively high values, but in Poland and Hungary their growth was much weaker. The Slovak and Hungarian employment rates dropped substantially, but the Polish rate did not fall that much. In this situation, it is rational to ask what were the key change determinants in the selected countries' labour markets between 2007 and 2009 and whether they can explain why the labour market indicators changed differently in particular countries?

The financial crisis triggered by the US economy affected the real sector, first at home and then overseas, including the Visegrad Group countries. As a result, the countries' economies and their labour markets had to adapt to the new situation. Let us look at the adaptation processes.

Let us assume that a negative demand shock has occurred. This assumption is quite legitimate when the European economies are analysed, because international trade is an important channel through which the US economy transmits negative impulses shaping economic cycle to other countries. International trade hampered by a global crisis is a good reason for the net export and aggregate demand in the European economies to decrease. With that in mind, let us consider the possible consequences of a negative demand shock and particularly the post-shock adjustments that are likely to occur in the affected economy.

The first thing to appear following a negative demand shock is direct adjustments in the goods market. Reduced production is a natural consequence of shrinking aggregate demand for goods. This adjustment is explained at length by Keynesian economics, but other economic theories also take note of this mechanism. The shock may produce other adjustments too, such as lower prices of goods, expanded inventories or rescheduled delivery periods. The adjustments, particularly those concerning inventories and delivery schedules, are of quite limited significance, though. When a negative demand shock is deep and rather long, adjustments to the scale of production seem inevitable. Let us remember that during this global crisis falling net export was a major source of the negative demand shock. We can assume therefore that the strength with which production reacts to a negative demand shock is largely determined by the degree of economic openness. The more open the economy, the stronger reaction from production can be expected, when some external impulse occurs.

When a negative demand shock decreases the volume of production, the labour market must adapt too. The literature discusses several types of

adjustments that are likely to appear in a labour market hit by a crisis, namely (see S. Smith, 2003, pp. 47-73; P. Cahuc, A. Zylberberg, 2004, pp. 193-214; D. Bosworth, P. Dawkins, T. Stromback, 1996, pp. 124-127 and 194-196):

- cuts in real wages,
- shorter working hours,
- limited intensity and productivity of labour,
- cuts in employment.

Neoclassical labour market theory assuming high elasticity of wages strongly emphasises that real wages fall when aggregate demand and production decrease. This mechanism can be explained on the grounds of employers' behaviour. When production falls, employers tend to cut wages in an attempt to reduce labour costs. The question should be asked, though, whether wage elasticity in the modern world full of trade unions, collective labour agreements and minimum wage laws is sufficient to absorb the main impact of labour market adjustments during crisis. Saying yes to this question would be quite risky. Contract theory also emphasises that the stability of wages is an important factor shaping employees' behaviour during their negotiations with employers (see E. Kwiatkowski, 2006, pp. 174-179). The modern economic mechanisms make it more rational to use the sticky wage concept to describe wage formation. This concept implies that external shocks bring about also non-wage adjustments.

Adjustments to employment are among the major non-wage adjustments that appear after external shocks. They are emphasised in Keynesian theory, where labour demand is viewed as dependent on the demand for goods and on the volume of production. According to this theory, falling demand and production reduce demand for labour and employment. In real life, however, employment does not immediately adapt to a varying volume of production, because employers have to take into account their workforce adjustment costs, mainly those related to redundancies (particularly the severance money), but also the costs of new recruitments and of training new personnel that have to be paid when the business conditions improve and more employees are needed again after the period of reduced employment. The costs prevent quick adaptation of the size of employment to the volume of production. When they are relatively high, employers may find it more profitable to pursue alternative adjustments, for instance in the area of working time and labour intensity and productivity.

When production is declining, employers choose their preferred adjustments taking into account the ratio between the workforce adjustment costs (i.e. the costs of redundancies, recruitment and training) and the costs of

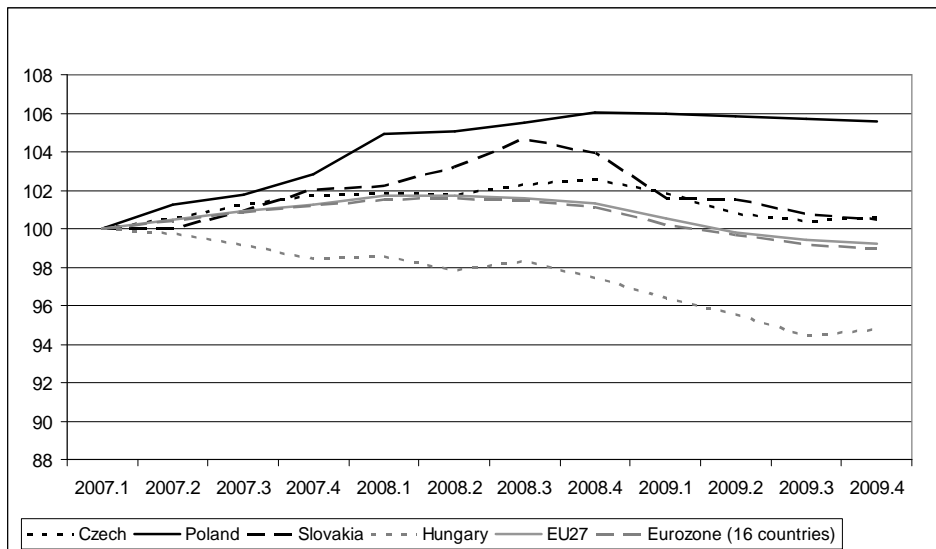
wages (see P. Cahuc, A. Zylberberg, 2004, pp. 196-197). When the former are relatively high compared with the latter, then employers may decide not to reduce their workforce even though production is falling. Shorter working time that in most cases also allows decreasing total labour costs may be a better option than redundancies. This approach reduces labour productivity per employee. It can also involve lower labour productivity per one working hour, if the shorter working time cannot compensate for declining production. If the workforce adjustment costs are relatively high, labour hoarding³ that occurs then does not necessarily have to stir opposition among employers.

This course of events suggests that there are at least several factors to determine the amount by which employment shrinks during crisis. One of them is falling production and the deeper the fall, the more severe – *ceteris paribus* – cuts in employment. The second factor is the cuts in real wages, with larger cuts implying smaller reductions in employment. It must be borne in mind, though, that this statement is underpinned by the neoclassical interpretation of the determinants of employment, so the Keynesian economists may not necessarily be willing to support this view. The third factor is reductions in working time and labour productivity. A sort of trade-off can be observed here. The more the working time and labour productivity are reduced, the less painful employment cuts can be expected during crisis.

Before the factors determining labour market adjustments are analysed, let us take a look at the changes in the volume of employment, which is a characteristic of the labour market that is directly affected by the variations in the factors. Graph 3 presents data illustrating the dynamics of the quarterly employment change in the four analysed countries as well the aggregate indices for the euro area (EU-16) and the European Union as a whole (EU-27). According to the graph, between the first quarter of 2007 and the fourth quarter of 2009 Hungarian employment decreased the most (by more than 5%) and the downward trend started there quite early (in 2007). In the other countries the trend appeared later, basically at the end of 2008. It was quite strong in Slovakia, but slightly weaker in the Czech Republic, EU-16 and EU 27. Regarding Poland, the downward trend in employment appeared in 2009 and was definitely the weakest among the analysed countries.

³ In the Polish literature labour hoarding is extensively described by P. Strzelecki, R. Wszyński, K. Sączuk, 2009, pp. 77-104.

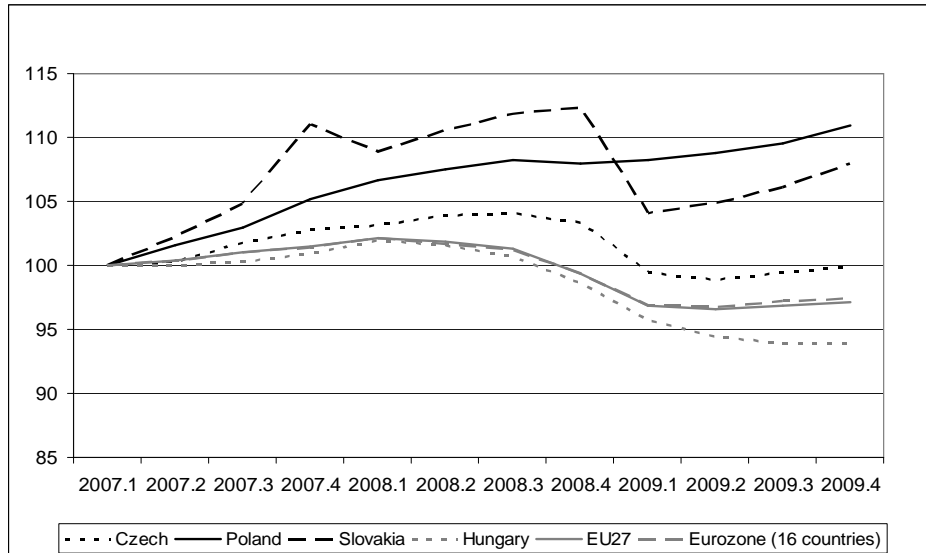
Graph 3. Quarterly indices of employment change by country, years 2007-2009 (1 qr. 2007 = 100)



Source: Eurostat online database.

Changing production volume is quite commonly recognised as a factor significantly determining changes in the economy's employment. Graph 4 illustrates the quarterly variations in the selected countries' real GDPs between 2007 and 2009. As the graph shows, the GDPs showed pro-cyclical changes then, but the trends were of different strength and appeared in different periods. Hungary and the euro area were the first to see their GDPs decrease (mid-2008); the Czech and Polish GDPs grew smaller somewhat later (at the end of 2008). In Slovakia, this trend appeared in early 2009. The Hungarian GDP declined the most (by approx. 7% between the second quarter of 2008 and the fourth quarter of 2009). In the Czech Republic and in the euro area the declines in GDP were also significant, particularly between the third quarter of 2008 and the second quarter of 2009. The dynamics of the Slovak GDP varied quite strongly; after a relatively fast growth that initially appeared between the first quarter of 2007 and the fourth quarter of 2008 (over the two years Slovak GDP increased by more than 12%) a rapid decline occurred in the first quarter of 2009 (by 7.4% compared with the previous period). In contrast, the Polish GDP grew almost steadily and relatively fast (expanding by almost 11% throughout the period). The pro-cyclical character of the changes in the Polish GDP during the global economic crisis can only be proved by the small decrease in its value in the fourth quarter of 2008 (by 0.3% in relation to the previous quarter).

Graph 4. Quarterly indices of GDP change (constant prices) by country, years 2007-2009
(1st qr. 2007 = 100)



Source: Eurostat online database.

It is noteworthy that in the period in question the Polish GDP showed rather advantageous changes. The changes were the smallest among the selected countries and additionally the Polish GDP grew the most in relative terms between the first quarter of 2007 and the fourth quarter of 2009. The global crisis obviously did not have more significant effects on the behaviour of the Polish GDP and the fact should undoubtedly be attributed to many factors⁴, such as relatively high and stable consumption, efficient absorption of EU funds, fast depreciation of the zloty between August 2008 and April 2009, more relaxed monetary policy, cuts in the income tax rates and pension contributions, as well as the measures implemented in relation to the anti-crisis package.

After comparing the trends in the selected countries' GDPs and the changes in employment we can conclude that GDP variations largely explain the course of employment during the global crisis. The Hungarian GDP decreased the most, so the country lost the greatest number of jobs. On the other hand, Poland lost relatively few jobs in 2009, because her GDP showed a rather strong upward trend. Similarly strong correlations between the changes in the two indicators were also found for the Czech Republic, EU-16 and EU-27. Slovakia

⁴ The problem of the emerging economies' susceptibility to crisis has been dealt with by A. Wojtyna, 2010, pp. 39-43.

was the only country where large differences between the trends characterising the two indicators were observed in the second half of 2008.

Comparing relative changes in GDP and changing volumes of employment we can calculate simple indicators showing employment sensitivity to variations in GDP. Table 1 presents the calculations for the analysed countries.

Table 1. Indicators of employment sensitivity to GDP variations, years 2007-2009 (annual averages)

Year	Czech R.	Hungary	Slovakia	Poland
2007	0.713	3.094	0.198	0.580
2008	0.801	0.711	-0.063	0.177
2009	0.491	6.050	-0.147	-0.158

Source: calculated by the author based on Eurostat data.

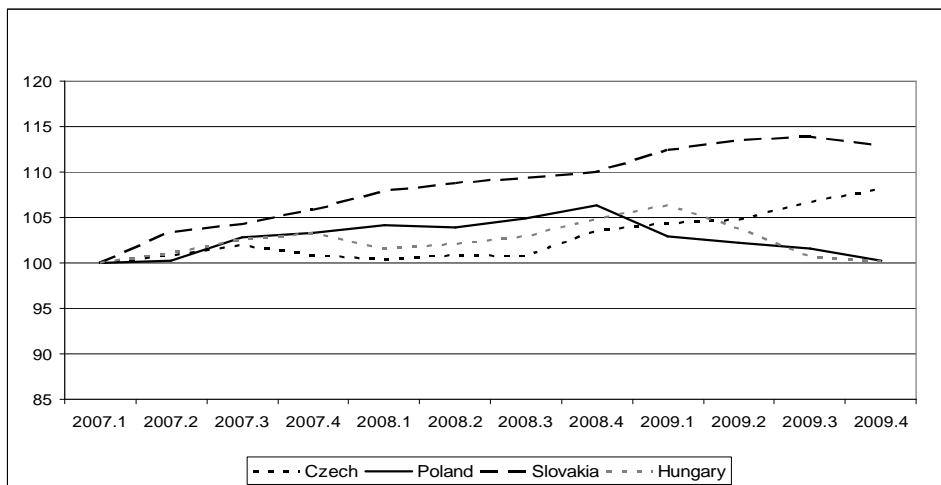
The figures in the table are annual averages that were calculated using the quarterly indicators and disregarding any lags. Particularly interesting are the indicators for the years 2008 and 2009, when the impacts of the global crisis materialized. According to the data, in 2008 employment was very sensitive in relative terms in the Czech Republic and Hungary (the expanding Czech GDP stimulated a relatively strong growth of employment, but the falling Hungarian GDP significantly limited the number of jobs); in Poland and Slovakia employment sensitivity was found to be much weaker (in Slovakia, GDP and employment followed different directions). In the crisis year of 2009, the Hungarian and Czech employment displayed significant sensitivity again (their falling GDPs coincided with relatively large numbers of jobs lost). In Poland and Slovakia the 2009 indicators of employment sensitivity were quite low, but it should be borne in mind that growing GDPs were then accompanied by decreasing employment.

Employment sensitivity to production changes is determined by a whole set of factors. Among these factors, the legal measures protecting labour are perceived as important, particularly those prescribing recruitment and dismissal procedures, severance pay and the types and length of employment contracts. The basic argument for giving legal protection to employment is that the workers should be guaranteed that their jobs are secure. However, the experiences of many different countries show that overly restrictive legal measures aimed to protect employment have a bad effect on the employment of some groups of employees as well as on employee flows in the labour market

(Bassanini, Nunziata, Venn, 2009). It is interesting to note in this context that not only did Poland have the highest total employment protection index (developed by OECD) among all the Visegrad Group countries (2.41 w 2008 r.), but it also grew the most in this group between 1999 and 2008 (OECD website). The index values were probably important for the employment sensitivity indicators presented above.

Graph 5 shows real wages plotted for the four analysed countries, but the wages' indices are limited to industry, building and services. As shown, in Poland and Hungary and in Slovakia and the Czech Republic real wages followed different paths during the global economic crisis. Poland and Hungary can be said to have pro-cyclical real wages in 2009, as they clearly decreased in that year. In contrast, in Slovakia and the Czech Republic real wages rose in that year. If the real wage variations affecting employment were to be interpreted along the neoclassical lines, we could say that in Poland falling real wages helped curb the decline in employment, but in Hungary decreasing real wages could not prevent substantial losses of jobs during the global economic crisis. As far as Slovakia and the Czech Republic are concerned, their growing real wages contributed to smaller employment.

Graph 5. Quarterly indices of real wage change by country, years 2007-2009 (1st qr. 2007=100)

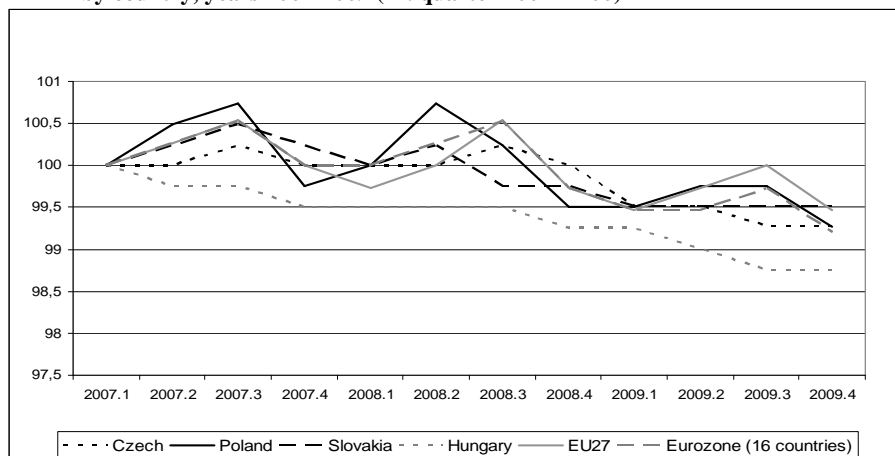


Source: Eurostat online database; online database OECD.Stat Extracts.

Between 2008 and 2009, all the analysed countries tended to cut working time. This fact is well illustrated by graph 6 where the changes in the weekly working time at the primary employer's are shown. The cuts were particularly marked in the fourth quarter of 2008 and throughout 2009. This means that the

average number of hours worked per week varied pro-cyclically in that period. We can therefore conclude that regardless of the country shorter working time reduced the number of jobs lost due to the global crisis.

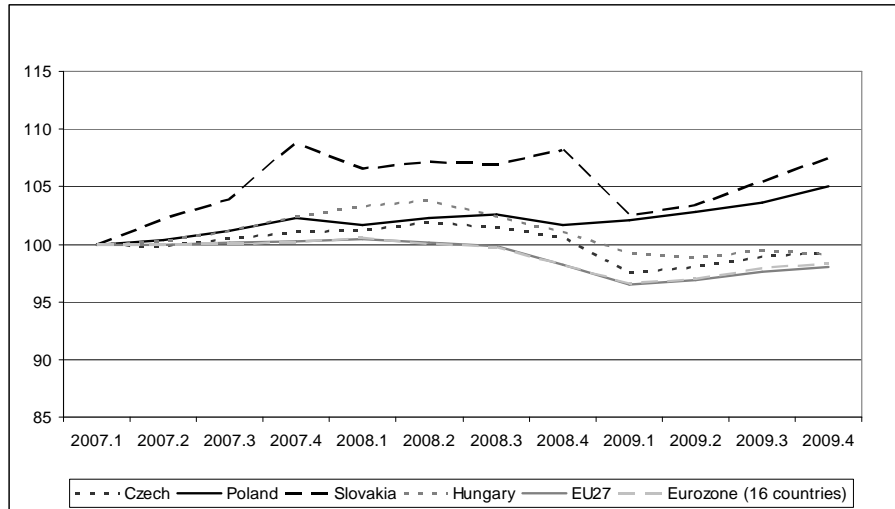
Graph 6. Quarterly indices of changes in the average numbers of hours worked per week by country, years 2007-2009 (1st. quarter 2007 = 100)



Source: Eurostat online database.

Let us finally see how labour productivity per capita varied in the period in question. Graph 7 presents the indices of productivity change (calculated as the ratios between GDP and the number of persons in employment). According to the graph, labour productivity fell in all the countries, but the strength and duration of the trend were country specific. In Hungary and the Czech Republic the trend was quite distinct (between mid-2008 and mid-2009). In Slovakia, labour productivity declined dramatically in the first quarter of 2009. The euro area also noted lower productivity of labour in 2008 and in the first quarter of 2009. Regarding Poland, labour productivity dropped only twice, in the first and second quarters of 2008. This proves that the occurring symptoms of the pro-cyclical character of labour productivity eased the downward trends in employment induced by the global crisis.

Graph 7. Quarterly indices of labour productivity change per capita by country, years 2007-2009 (1st quarter 2007 = 100)



Source: Eurostat online database.

4. Conclusion

The above analyses show that the labour markets of the Visegrad Group countries changed significantly during the global economic crisis, i.e. between 2007 and 2009; unemployment rates rose, while volumes and rates of employment decreased. In Poland, the two indicators changed their values relatively insignificantly, but in Hungary, Slovakia and the Czech Republic the changes were quite distinct. Those observed in the euro zone were also much bigger than in Poland.

The degree to which employment and unemployment may change during a crisis depends on many factors. The more important among them are changes in production, real wages, working time and labour productivity. Falling employment and growing unemployment are not the only symptoms indicating that the labour market is adapting to a negative external shock. There are also cuts in real wages and in working time, as well as limitations imposed on labour productivity. A kind of a trade-off can be observed: higher elasticity of real wages, better working time flexibility and lowered productivity of labour imply smaller changes in employment and unemployment.

After analysing the statistics on the Visegrad countries we can conclude that their macroeconomic indicators, i.e. employment, GDP, real wages, working time and labour productivity, behaved pro-cyclically between 2007 and 2009. Particularly in the second half of 2008 and throughout 2009 upward trends in unemployment and downward trends in employment, GDP, real wages, working time and labour productivity could be observed among the countries. Therefore, the scale of changes in employment and unemployment were shaped then the other variables.

In the crisis years, Polish employment fell and unemployment increased to a relatively small degree. Although the main reason for this was the quite favourable growth trend in the Polish GDP, cuts in real wage and working time reductions also played a role.

The relatively marked decline in the Hungarian employment is mainly attributed to the strong downward trend in the country's GDP, but the decline would have probably been much more extensive, if not for the reductions in working time, real wages and labour productivity.

The large declines in the Slovak and Czech employment appeared because the countries' GDPs grew smaller while real wages grew bigger. Shorter working hours and limitations on labour productivity that the two countries introduced could not reverse the unfavourable employment trends that occurred during economic downturn.

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Streszczenie

TENDENCJE ZMIAN NA RYNKU PRACY W KRAJACH GRUPY WYSZEHRADZKIEJ

Artykuł podejmuje analizy tendencji na rynku pracy w Polsce i innych krajach Grupy Wyszehradzkiej w okresie globalnego kryzysu lat 2007-2009. Szczególna uwaga poświęcona jest zmianom wskaźników zatrudnienia i bezrobocia. Dla celów porównawczych wskaźniki skonfrontowano z przeciętnymi wskaźnikami dla Unii Europejskiej i strefy euro.

Analiza ma na celu określenie skali zmian stóp bezrobocia i zatrudnienia w relacji na globalny kryzys oraz objaśnienie dlaczego reakcje te były zróżnicowane w badanych krajach. W objaśnieniu zwraca się uwagę na zmiany produkcji oraz elastyczności rynku pracy, zwłaszcza w odniesieniu do płac, wydajności pracy i czasu pracy.

Analizy dowodzą, że sytuacja na rynkach pracy w krajach Grupy Wyszehradzkiej zmieniła się zasadniczo w okresie globalnego kryzysu lat 2007-2009: stopy bezrobocia wzrosły, zaś stopy zatrudnienia spadały. W Polsce oba wskaźniki zmieniły się nieznacznie, zaś na Węgrzech, w Słowacji i Czechach zmieniły się istotnie.

Zmiany zatrudnienia i bezrobocia w Polsce były nieznaczne głównie z powodu korzystnych tendencji wzrostowych PKB, ale także z powodu redukcji płac realnych i czasu pracy.

Znaczące spadki zatrudnienia na Węgrzech były spowodowane obniżkami PKB; spadek zatrudnienia byłby większy, gdyby nie redukcje czasu pracy, płac realnych i wydajności pracy.

Duże spadki zatrudnienia w Słowacji i Czechach były związane ze słabym wzrostem PKB i silnym wzrostem płac realnych. Redukcje czasu pracy i wydajności pracy nie były w stanie odwrócić niekorzystnych tendencji w zatrudnieniu.