

PROBLEMS OF UNEMPLOYMENT THROUGH THE EMPLOYMENT POLICY IN THE LABOUR MARKET: THE CASE OF THE SLOVAK REPUBLIC AND THE CZECH REPUBLIC

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Abstract

A qualitative positive shift in regional development largely depends on human resources that create value and transform other development factors. A significant part of the emerging regional disparities in individual national economies also causes disparities in regional development at the achieved level of employment and unemployment. One of the significant quantifiable negative impacts on the level of regional development is the decline in gross domestic product as a key indicator of the economic progress of the country. The unimportant impact of the growth of unemployment is the decrease in economic growth both in the short and long term. Due to the fact that one of the goals of public administration organisations is to ensure the continuous positive economic and social development of the administered territory, the problem of identifying the dominant development trends in the labor market from the legislative and economic point of view can be considered highly topical. The main focus of the study is to analyze selected economic and legislative aspects of unemployment through the selected instruments of employment policy in the labor market and in the context of changes in gross domestic product. We used quantitative data characterizing the labor market and the economic development of the regions as well as the valid legislative norms as part of the desk-based analysis. To prove the dependence of the unemployment rate on real growth and vice versa, we used the theory of Okun's law. Applying Eurostat data, we analyzed labour markets in the Czech and Slovak Republic. The labour market situation is examined in the context of the development of selected labor market indicators from

28-member states of the EU, collected from 2007–2016. The calculated regression model shows that the Czech Republic unemployment rate is more dependent on variation in real GDP growth rate than the Slovak one. The authors are worried that on the other hand, the trend of increasing the number of people of productive age plus the extension of the retirement age can act as a problem in terms of long-term unemployment and the imbalance on the labour market. The question of regularly increasing retirement (and its possible cessation) is a current problem in the Slovak Republic and also in the Czech Republic. And in this context, it could be also said that the current employment policy implemented in both countries does not satisfactorily reflect the merits of addressing the issues of unemployment.

Keywords: regional disparities; employment; unemployment; gross domestic product; Okun's law; labour market policy; public administration; the Czech Republic; the Slovak Republic.

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Introduction

National regional policy in the Member State of the European Union attempts to support individual regions by evaluating the level of development of those regions and identifying other potential possibilities of economic growth. In the literature we come across numerous different ways of evaluating the regional development rate using both, direct and indirect indicators. Individual theoretical methods for this regional progress rating differ from each other in factors used as an input for the analysis as well as in varying methodological approaches. One of the elements that certainly appears to be a significant factor influencing regional development is human resources. This can be described from two points of view. One is of a quantitative nature (characterizing trends in natural population increase as well as analyzing trends concerning migration moves of a population). The other point of view is qualitative (examining the age, educational and national structure of a society and last but not least, analyzing characteristics of a labour market). Employment and unemployment labour market rates can be evidently regarded as one of the leading socio-economic issues directly influencing achieved levels of GDP in a country. From an economic and legal point of view, the factor that is undoubtedly worthy of close examination is the factor of human potential, which is, as a consequence of unemployment, not contributing to creating national wealth. As a result of long-term unemployment, this production factor decreases. Only correctly and consistently executed identification of factors influencing the situation on the labour market, which take into account regional specifics, will lead to exercising effective regional policy. The mutual relationship between achieved economic growth and GDP increase rate as well as between the unemployment rate variations was verified by the calculation of corresponding correlated coefficients and by constructing linear regression formula. This formula's theoretical base is known as Okun's Law (Okun, 1962).

The aim of the study is to analyze selected economic and legislative aspects of unemployment through the selected instruments of employment policy in the labor market and in the context of changes in gross domestic product. The source of data for analysis describing conditions in the Czech and the Slovak Republic in comparison to average data collected in member states of the EU was the Eurostat database. The study was conducted for the reference term of 2007–2016.

Literature review

The regional disparities that were found in a comparison of the development of selected economic indicators of the labour markets in the Czech and Slovak Republic have arisen as a consequence of the contrary evolution of the economy. In the past 25 years, both economies' labour markets have undergone extensive reforms, which were only responses to local economic factors and to changes that happened within the European and world context. Gajdoš (2008) has it that the growing regional differences concerning unemployment rates – regions with high unemployment rates and at an economic disadvantage, and marginal ones negatively influenced not only by structural changes but also by lower quality education and by sizeable social marginalization – are the most significant trend in regional development.

Causes of unsteady regional development of the labour market in the Czech and Slovak Republic go back to 1970s' when the delay in the progress of the technology sector started to be an issue and the rate at which work production had been growing fell rapidly. The other factor causing the low output of the workforce was the fact that social support for individuals was based on the assumption that everybody was employed, so there were no unemployment or social benefits. As the state attempted to secure the full employment status of the society, even non-functional enterprises were not shut down (Kotýnková, 2017). Back then, the labour market depended on industrial production that was mainly focused on heavy industry (weapons, mechanical, and metalworking or the rubber industry.) From the perspective of the national market, the employment rate in the Czech Republic was higher in the tertiary sector, while in Slovakia the most significant capacity for employees was concentrated in agriculture. The beginning of the 1990s' saw political, economic and social reforms that brought a significant socio-economic transformation of society (liberalization of trade, an opening of an economy by the world market which led to a decrease in economic productivity as well as a decrease in demand for the workforce). One of the key factors negatively influencing the overall growth of the world's economies is a gradual increase in unemployment. The question of unemployment and labor market mismatch in the countries of the European Union is covered in the study by Dimian, Begu & Jablonsky (2017). After 2000, the world economic situation in Europe, as well as the Czechs and Slovaks entering the European Union (2004), had a positive impact on the labour markets in both countries. The positive outcome was a massive flow of direct foreign investments and a gradual decline of unemployment rates. In 2009–2010, the newly developed favourable circumstances in the economy were influenced by the financial crisis, which, again, increased the unemployment rate. The rate fell only after 2014. With that being said, we should

bear in mind that although the development process of unemployment is identical for both countries, the unemployment rate is higher in Slovakia (see Figure 2).

The labour market is profoundly governed by a sphere of law in a given country, mainly by labour and social regulations, such as flexible forms of employment (working at home, working through a phone etc.), but also by minimum wage levels regulated by the state, conditions that make one entitled to retirement benefits, etc.

The minimum wage relates to employees obtaining a monthly wage (Pernica, 2016). The minimum wage is considered a form of social protection for employees as well as an economic motivation to enter the labor market and be employed instead of being dependent on social benefits (Uhrová & Skalka, 2016). From the point of view of employees, the minimum wage presents the basic guaranteed wage right of an employee, which has to provide him/her with a minimal standard of life at a certain, socially acceptable level and maintain his/her living standards. A high minimum wage is believed to lead to an increase in unemployment. If, on the contrary, the lowest possible wage is set too low, there is a risk of a decrease in the standard of living of the population. This can mean that economically active people who work only for the minimum wage, which is subjected to taxation, cannot be provided with an adequate regeneration of the workforce, health care, and so forth. The minimum wage can also affect health. Lenhart (2017) studied the relationship between minimum wages and several measures of population health by analyzing data from 24 OECD countries for a time period of 31 years. He emphasized that the minimum wage can also affect health, and apart from this, a higher minimum wage can even decrease the mortality rate of economically active people. The minimum wage can, to a certain level, provide stability, strengthen the relationship of employees towards their work, support the growth of productivity, and help to reduce poverty (Juríčková, 2008). The effect of the minimum wage on employment in Europe is analyzed in the work of Dolado et al. (1996); this study indicates the positive influence of the minimum wage on the reduction of poverty, as well in combination with tax tools that increase net income, and destroys the myth that these tools could efficiently replace the fight against poverty with the minimum wage. Another study points toward an important positive influence of wage increase (that fuels the increase of the minimum wage as well) on economic growth (Ondruš et al., 2017). This issue is discussed in more details in the study by Žofčinová, Horváthová & Čajková (2018).

Economic determinism is reflected in Section 3 of Article 35 of the Constitution of the Slovak Republic. Within the meaning of this act, everybody has right to engage in a workforce. It, however, does not oblige the state to employ every single individual; it only states that making an effort to create new working positions should be a part of the state's policy. The right to work is expressed in the Article 35(3) of the Slovak Constitution, according to which citizens that are not able to exercise this right, through no fault of their own, are entitled to adequate financial support from the state. Therefore, the right for work remains one of the most important rights in the complex of social rights even after the change of political and economic conditions (Katz & Harry, 2018). Such law concept serves as a basis for Slovak legislature when creating laws, specifically Act No. 5/2004 Coll On Employment Services as subsequently amended. The necessity of a legislative frame that would regulate the

unemployment situation accrues from the whole complex of socio-economic factors, including the ones above. The final form of legal regulation on solving the questions of efficient rules that should govern the labour market with the aim to achieve regional development should be seen through the optic of current significant stimuli coming from working practices, which calls for action from the side of the law regulations creators. Similarly, in the Czech Republic, a legal regulation that deals with unemployment policy is Act No. 435/2004 Coll On Unemployment.

Economic growth and employment are closely associated, and we cannot look at them separately. The close association between the two economic factors has been examined in numerous empirical studies. Nikulin (2015) analyzed the relationship between wages, labour productivity and unemployment rate in new EU member countries concluding that correlations between salary and unemployment rate ratios are of smaller significance. Numerous studies have dealt with the question of the mutual relationship of employment and its influence on the real GDP. In their research, Simionescu, Dobeš, Brezina, Gaal (2016) verified, that previous real GDP growth and employment had an impact on the current real GDP rate. Similarly, in determining the relationship between growth and unemployment, Schubert and Turnovsky (2017) used a survey based on the unemployment rate and wage bargaining. They concluded that while the long-run trade-offs between unemployment and growth are weak, the short-run trade-offs are much stronger. Stanila, Andreica, Cristescu (2014) focused on analyzing the evolution of the primary relevant macroeconomic EU indicators by studying the changes that occurred in previous years. Based on their research they claim that GDP has a positive influence on employment.

Employment policy and its effect on the labour market

The structure of public policy is always complicated. It consists of macroeconomic policy, social policy, communication and information, cultural-symbolic, ethno-national, environmental policy, security policy (Nikovskaya & Yakimets, 2017), but also labour market policy.

The labour market policy can be characterized merely as a system aiming to support and help citizens when integrating into their jobs in the labour market. It is a collection of forms, activities, regulations, and tools, which should be put to use when working with a registered job applicant. The aim-oriented regulations on the labour market, as well as an increase in economic productivity, are undoubtedly the positive economic influences. These facts are positively reflected in a rise in employment and a decrease in unemployment respectively. One of the negative factors is disagreement between the structure of job vacancies and the structure of job applicants. The trend of higher job supply than demand for work or a low number of job applicants inclined to the spatial mobility is observed mainly in the weakest regions. Their other typical characteristics are a decrease in mobility when looking for a job (decline in job offers from EU), abuse of having the status of temporarily unable to work due to the illness, and little flexibility in wages in comparison to the flexibility of social benefits, etc. We distinguish between the passive and active labour market policy.

The passive policy is historically older. It was put into practice in the 1920s' and it is aimed at providing of unemployment benefits, social benefits, and bonuses added to social benefits. Unemployment benefits work as a substitution for a wage. The right to attain those is based on the so-called insurance principle (unemployment insurance) under the conditions that are accurately described in the Act No. 461/2003 Coll. on Social Insurance as subsequently amended. In the Czech Republic, these terms are defined by the Act No. 435/2004 Coll. on Employment and its subsequent provisions as amended. The institution constructing a frame for the system of unemployment benefits in the Czech Republic is the Labour Office of the Czech Republic and in the Slovak Republic it is the Ministry of Labour, Family and Social Affairs and Social Insurance Company. According to Kupets (2006), the amount of unemployment benefits has very little impact on the term for which an individual is unemployed. Social benefits are the benefits included in the subsystem of social assistance, the minimum income guaranteed by the state that is granted to a person whose wage falls under the subsistence minimum. Granting such benefits is preceded by close calculation of total income in a household. In the Czech Republic, the conditions that make one eligible for such support are stated in the Act No. 111/2006 Coll. on the Assistance Guaranteed to Individuals in Social Need as subsequently amended. Passive policy on the labour market means mainly providing money transfers and social services without necessity of any reciprocity (Gerbery, 2007). Active labour market policy is historically younger. In Europe, this began to develop only after WWII, and more significantly during the 1970s'. At this time, the regulations of passive policy became insufficient, benefits deterred and discouraged people from looking for a job and expenses to pay those benefits rose rapidly. Consequently, the centre of the politics shifted to its dynamic variation as a more effective tool. The key task of the labour market active policy (LMAP) is, first of all, to smooth and accelerate the transmission of the unemployed to their new jobs and to maintain people's ability to work or to find new jobs. They do so by applying for specific programs. Neither the labour market nor the LMAP can secure optimal solutions to the unemployment problem on their own. Markets and policies are considered to be an imperfect alternative (Kaufmann, Majone & Ostrom, 1986). The regulations, programs, projects, and activities, which smooth the integration and reintegration of job applicants, mainly groups of people being at a disadvantage, are organized within the sphere of this active policy.

Methods

To analyze the mutual dependence of these two economic quantities, we employed a correlation coefficient. When calculating the correlation coefficient, we used the CORREL function in Excel – one of our variables is the GDP growth rate and another variable is unemployment rate variation. The mutual association between economic growth and unemployment is expressed in so-called Okun's Law (Okun, 1962; Hsing, 1991; Neely, 2010), which has its base in the finding that a larger amount of products requires a larger amount of workforce. Therefore, if GDP increases, employment increases as well, and at the same time unemployment decreases. The law expresses quantitative variations of GDP and un-

employment, in case that economic growth increases or decreases. To verify the relationship between changes in the unemployment rate and the GDP growth rate, we used the first version of Okun's Law (difference version):

$$\Delta U = a + b \times (g \text{ GDP})$$

ΔU – annual change in the unemployment level

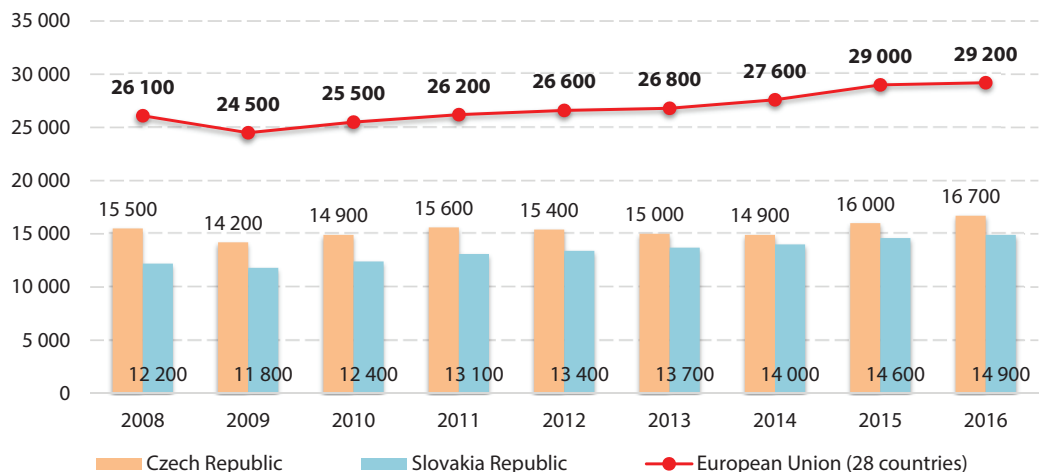
a – constant indicating, what the unemployment level is when the variation of GDP equals 0

b – Okun's coefficient, which describes intensity of the relation between economic growth and unemployment (it indicates, what the rise in employment will be, when the rise in GDP decreases or increases by one unit). This value is usually negative as growth of GDP is related mainly to a decrease in unemployment. The source for data for analysis describing conditions in the Czech and the Slovak Republic in comparison to average data collected in member states of the EU was the Eurostat database. The study was conducted for the reference term of 2007–2016.

Descriptive analysis of the labour market in the Czech Republic and Slovak Republic

In this section, we present a descriptive analysis of the selected economic indicators for the Czech and Slovak Republic in 2007–2016 (the most recent year as of writing this paper). To evaluate the economic situation in general, we have used regional GDP per capita (Figure 1) and GDP per capita in PPS (Table 1). For the analysis of the labour market in these countries we used selected data from regional labour market statistics (annual average of unemployment (percentage of active population) (Figure 2), long-term unemployment from 15 to 74 years (percentage of unemployment) (Figure 3) and data concerning minimum wage (Table 2).

Figure 1: Gross domestic product at market prices (current prices, euro per capita)



Source: Eurostat (2018a).

During the reference period, the slight increase of GDP values per capita in overall GDP development was noted in both countries that we are examining in our paper (Figure1). When comparing the absolute rate of GDP in the Slovak and Czech Republic, GDP increases in both states.

Subsequently, it can be concluded, that the difference between values the indicator attains decreases during the reference period. While in 2008 the difference in the average rate of GDP per capita in the Czech Republic and the rate of GDP in the Slovak Republic totalled 3,300 euro, in 2016 this difference decreased by more than 54% (i.e., down to 1.800).

In comparison to the values of the indicator expressing an average value for all countries in the EU, the values acquired in both countries in 2016 are only at the level of 51% (in the Slovak Republic) and approximately 57% (in the Czech Republic). Table 1 contains calculated data of GDP per capita in the member states of the European Union compared to the average of all member states (28) recorded in 2016. Looking at the given data we can conclude that the most favourable values were measured in Luxemburg (reaching almost 270% of the European average) on the other hand, the lowest values of GDP were recorded in Bulgaria (just under 50%). Figure 1 shows that the Czech Republic maintains a higher economic standard than the Slovak Republic, but neither of the two countries attains the values that are the average of the 28 European states.

Table 1

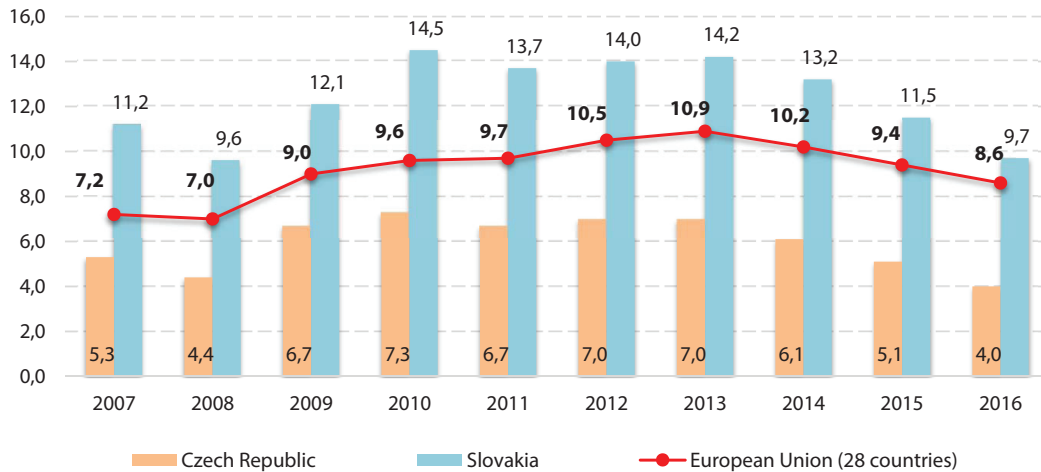
GDP per capita in PPS (EU_28=100)

Country	2000	2008	2016	Country	2000	2008	2016
Luxemburg	245	264	267	Czech Republic	68	81	88
Ireland	131	132	177	Slovenia	80	91	83
The Netherlands	134	134	128	Cyprus	89	100	81
Austria	131	125	126	Slovak Republic	50	73	77
Denmark	131	125	125	Portugal	81	78	77
Sweden	127	126	124	Lithuania	39	64	75
Germany	118	116	123	Estonia	49	69	74
Belgium	126	116	118	Poland	48	56	69
Finland	117	115	109	Greece	84	93	67
France	115	107	108	Hungary	55	64	67
Great Britain	119	106	105	Latvia	37	59	65
Italy	117	104	96	Croatia	51	63	59
EU_28	100	100	100	Romania	26	47	59
Malta	84	81	95	Bulgaria	28	44	48
Spain	97	104	92				

Source: Eurostat (2018a); Authors' calculation.

Based on the construction of the indicator, it may be concluded that the main influencing factors are the rate of household consumption, amount of state expenses, number of investments as well as values of attained pure export. The unemployment rate in the Slovak Republic has become one of the most severe economic and social issues, which is a long-term obstacle to making use of growth potential that our economy has.

Figure 2: Unemployment
(annual average, percentage of active population)

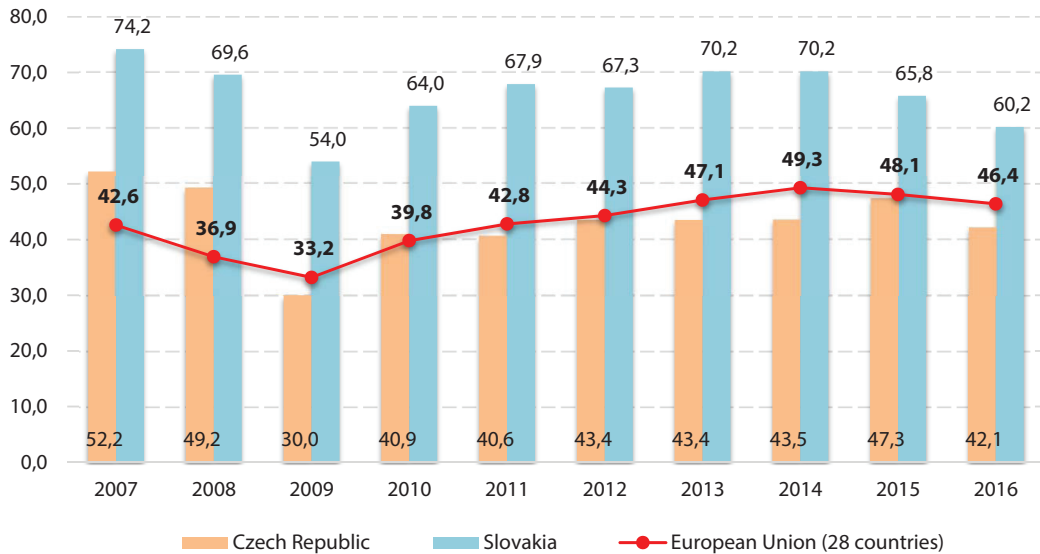


Source: Eurostat, 2018b.

Based on the values of indicator of unemployment rate, which is expressed as % share of unemployed out of active population (Figure 2) we conclude, that when making mutual comparison of the countries analyzed, as well as when comparing average values of all the nations of the European Union, the unpleasant situation appears to be in the Slovak Republic where higher unemployment rates were recorded during the whole reference period (attained values of unemployment as a percentage of the total population moved within the interval from 7% in 2007 to 6.2% recorded in 2016 with its peak at 9.1% recorded in 2010).

On the other hand, in the Czech Republic, the unemployment rate steadily keeps its values under the average level of unemployment (as a percentage of the total population or percentage of the active population). The years 2013–2016 saw a decreasing trend in unemployment values. This pattern did not change its course during the entire term. When investigating long-term unemployment figures (Figure 3), we conclude that the values measured in the Czech Republic recorded in 2007 and 2008 exceeded the average of European Union countries by 9.6% in 2007 and by as much as 12.3% in 2008. During the following years, the long-term unemployment figures in the Czech Republic were close to the average values collected in all of countries of the European Union. Therefore, development of the labour market was heading in a positive direction.

**Figure 3: Long-term unemployment from 15 to 74 years
(percentage of unemployment)**



Source: Eurostat, 2018c.

The figures recorded kept to be higher than values of the long-term average of all countries of the EU during the whole reference term (value of the % share exceeded averaged values by 31.6% in 2007 (in 2007, the highest value of the long-term unemployment was recorded). In the last years of our analysis, the values of this indicator decreased to 60.2% (in 2016) which is value by 13.8% higher than the average recorded in EU countries.

We should not restrict our analysis to the process of monitoring the unemployment rate itself. The significant indicator is also the employment rate, which stands for a share of employed people and people in their productive age out of the entire population. The employment rate shows us the percentage of people in their productive age for which an economy can generate new jobs. In their ten years strategy called Europe 2020, the European Union set itself the target that on average at least 3 out of 4 active citizens of EU younger than 64 years will have been employed before 2020. Consequently, the average rate of employment should rise to 75%. Taking into account the Slovak Republic's long-term position as one of the weaker European countries when it comes to the labour sphere, the Slovak target was set slightly underneath the European average – it is 72%.

Within the entire European sphere of law, employees are entitled to adequate compensation for their labor and it was set as such that even its lowest level should secure a decent living standard for workers and their families. The majority of European Union states, including the Slovak Republic, ensures exercising employees' right to a decent living standard when introducing a minimum wage level (Barancová, 2009). The minimum wage has its supporters and opponents, in the Slovak Republic as well as in other European Union countries. The most common argument against it is its negative impact on employment.

If the minimum wage is too high, this can result in the dismissal of low-skilled employees. Its supporters emphasize its social function, as well as the improvement of employees' work status and security. It is as Macková (2008) puts it in her statement: "The significant financial difference between minimum wage and social benefits is doubtlessly an important incentive element in the process of decreasing unemployment".

Approximately 4% of the Slovak population earn the minimum wage. The minimum wage set in 2018 is 480 euro monthly, or 2.759 euro per hour (this is mainly for workers that get paid monthly). In 2017, the minimum monthly wage was 435 euro and the minimum hourly wage was 2.50 euro (Table 2). As taxes and statutory deductions must be taken from each paycheck, the workers were left with the net pay of 403 euro (in 2017). The lowest possible minimum monthly wage differs from country to country. Luxemburg is the European Union country with the highest minimum wage; the lowest recorded is in Bulgaria.

Table 2

Overview of minimum wage rate within the EU member states in 2017 (€)

Country	Minimum wage	Country	Minimum wage	Country	Minimum wage
Luxembourg	1 999	Slovenia	804	Czech Republic	420
Ireland	1 563	Malta	735	Hungary	410
Netherlands	1 552	Greece	684	Croatia	410
Belgium	1 533	Portugal	650	Latvia	382
Germany	1 486	Estonia	470	Lithuania	381
France	1 480	Poland	454	Romania	274
United Kingdom	1 400	Slovak Republic	435	Bulgaria	220
Spain	825				

Source: Eurostat, 2018d.

As Table 2 shows, when it comes to an hourly wage, the Slovak Republic is behind the well-developed countries. However, even their minimum wage keeps rising on regular bases. In 2017 it was 435 euro, in 2018 it rose to 480 euro, and predictions are that in 2019 it will rise again to 520 euro. The Slovak Republic is classified as a country, whose national minimum wage in 2017 was still lower than 500 euro a month.

The other states in this category are the following: Bulgaria, Romania, Latvia, Lithuania, the Czech Republic, Hungary, Croatia, Poland, and Estonia. Their national minimum wage levels ranged from 220 euro in Bulgaria up to 470 euro in Estonia. It seems quite evident that concerning minimum wage levels, the Slovak Republic cannot compete with the advanced European countries.

Discussion

The rate of GDP increase and rate of unemployment are the key indicators when evaluating macroeconomic development. Unemployment is very closely associated with economic growth. When an economy progresses, it becomes necessary to satisfy higher profit which results in the formation of a requirement for new job openings. Consequently, the number of unemployed, therefore, decreases. When, on the other hand, economic growth stagnates or declines, enterprises tend to reduce their production and dismiss employees. The existence of a reciprocal relationship between real GDP rate and the unemployment rate was identified by calculating correlation coefficients. Therefore, our assumption that there was an inverse relationship between the two variables proved to be false. We supposed that when GDP increases, employment increases as well, therefore unemployment decreases. The calculation is recorded in Table 3.

Table 3

Correlation coefficient for real GDP growth and unemployment

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Correlation coefficient
Real GDP growth rate	EU 28	3	0.4	-4.3	2.1	1.7	-0.4	0.3	1.8	2.3	2	-0.1366486
Unemployment rate		7.2	7.0	9.0	9.6	9.7	10.5	10.9	10.2	9.4	8.6	
Real GDP growth rate	Czech Republic	5.6	2.7	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.6	-0.5426875
Unemployment rate		5.3	4.4	6.7	7.3	6.7	7.0	7.0	6.1	5.1	4.0	
Real GDP growth rate	Slovak Republic	10.8	5.6	-5.4	5	2.8	1.7	1.5	2.8	3.9	3.3	-0.2514448
Unemployment rate		11.2	9.6	12.1	14.5	13.7	14.0	14.2	13.2	11.5	9.7	

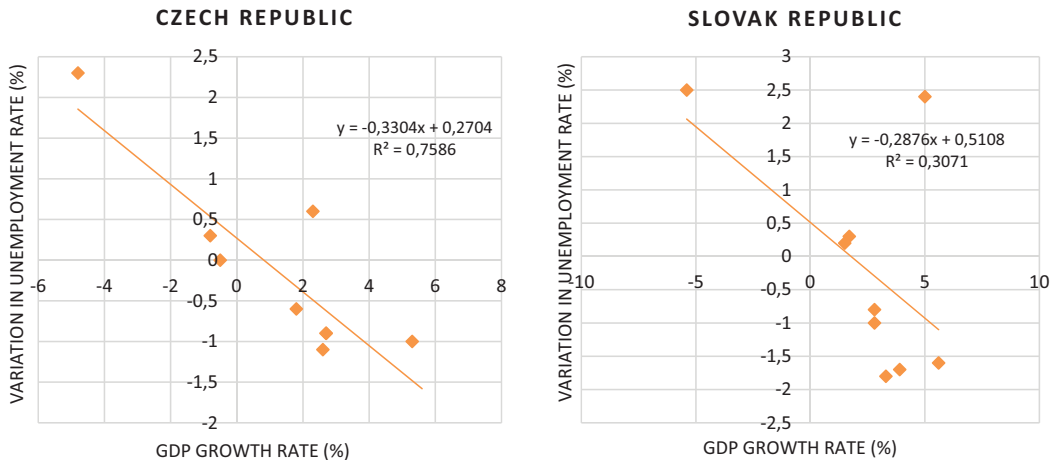
Source: Eurostat (2018a, 2018b); Authors' calculation.

The most obvious expression of the relationship between economic growth and unemployment is the previously mentioned Okun's Law. The law states that the unemployment rate is a decreasing function of the rate of increase in the efficiency of an economy. In the following section of our paper, we shall focus on the chosen indicators of the labor market. Their long-term development can significantly influence the element of household consumption primarily. It becomes clear that changes in the values of labour market indicators explain the occurrence of changes in the process of variation of values of acquired GDP per a citizen.

We have found that the average rate of mutual dependence of analysed indicators exists in the Czech Republic, while in the Slovak Republic, as well as in EU countries on average, only slight mutual dependence of these indicators was identi-

fied during the whole reference term. It is, however, undeniable, that GDP increase rate and unemployment varies in each in the opposite direction. Values of correlation coefficient are, therefore, negative. Consequently, our assumption that mutual dependency between analysed variables is reciprocal proved to be right.

Figure 4: Application of Okun's Law (Czech and Slovak Republic)



Source: Eurostat (2018a, 2018b); Authors' calculation

The determination coefficient (R^2) expressed in % reflects what percentage of overall variability of the dependent variable is indicated by the regression model (Figure 6). It is a rate of balance quality, through which we can identify any association existing between real and balanced figures. Given these calculated data, we conclude that the estimated regression model reflecting dependency of unemployment rate variations on GDP increase rate is more reflective of the situation in the Czech Republic than in the Slovak Republic. The estimated regression function indicating the position in the Slovak Republic is less accurate, and the model explains approximately as little as 31% of the overall variability of the variable expressing a change in unemployment. Looking at the values of the constant U , we deduce that in the case of a 0 GDP increase rate, the unemployment rate would rise by 0.27% in the Czech Republic and by 0.51% in the Slovak Republic. According to Okun's regression coefficient, if the GDP increase rate goes up by 1%, the unemployment rate decreases by approximately 0.3%.

Okun's Law, however, should not be understood as an unchanging rule that is true under any circumstances. There are numerous exceptional situations in which a decrease of economic growth is not associated with an increase in unemployment rate. This state of affairs may arise (Slušná, 2011) when firms do not dismiss employees, but decrease their working hours or hire only part-time employees. By contrast, economic growth does not have to mean a decrease in unemployment, especially when this progress happens after a more extended period of recession. This is a period following the end of a recession when GDP increases but the employment rate remains steady. This GDP increase and result-

ing decrease of the unemployment rate could have its origins in the fact that people who lost their jobs in the previous stagnating period have already lost their working habits as well or that expenses for their requalification have become too high. The term 'hysteresis effect' has been coined to name the kind of impact that results from such a lasting period of structural unemployment. Also, bear in mind the existence of time lag in the relationship between economic growth and unemployment. Concerning this, employers tend to respond to changes that occur in legislature and environment which is reflected in the hiring of new employees. This factor influences the length of unemployment status of an individual and the probability of changing this situation respectively. As a result, effective public policy-making should not ignore the predictable response of the activists to changes evolved in a sphere of law (Lubyová, Štefánik et al., 2016).

Under the conditions of the Slovak and Czech Republic, the measures (and control) of the public administration authorities to mitigate the negative impact of unemployment on the overall economic and social development of the regions appear to be necessary. At the same time it can be stated that an effective employment policy is and will be effective if control mechanisms are used to make employment policy more effective as a part of public administration. A good example is active labor market policy instruments that have been applied in Germany (Zoelner, Fritsch & Wyrvich, 2018) should focus on making the new start-up subsidy attractive for more target groups. Besides further changes of current ALMP measures institutional adjustments such as elevating the retirement age or creating incentives for keeping skills up to date are important to counteract demographic change and the challenge of technological transition.

Conclusion

In the present paper, we focused on comparing selected aspects of labor market developments in the context of public administration institutions in the Czech and Slovak Republics and also in the context of other European Union countries. The reason for our territorial focus was, in particular, the fact that labor markets in the Czech and Slovak Republic have arisen as a consequence of the opposite evolution of the economy. In the past 25 years, both economies' labor markets have undergone extensive reforms which have been, and also currently are, an attempt to keep pace with the labor market situation in the developed countries of the European Union.

Disparities occurring in the development of individual economies reflect the fact that economic growth in less developed regions is not sufficient. Some regions progress faster, while others are behind. Suggested inequality in the development of national economies also results in the emergence of different causes of dependency between the increase rate of real GDP and the unemployment rate. Applying Okun's Law, we identified the dependency relationship between economic growth and unemployment rate. The more intense dependency was detected in the Czech Republic. The reason for this may originate from historical relations concerning development on the labour market in the country. Its labour market development does not include any long-term harmful

disparities. By contrast, the Slovak labour market has been influenced by lasting negative consequences of insufficient industry structure, by a lack of a qualified workforce, or regions lasting with an unsatisfied need for long-term investment capital. Legislative regulations too, are being influenced by changes dynamically. From the overall point of view, this leads to the weak ability of orientation in possibilities concerning exercising one's entitlements as one becomes lost in the profusion of laws as well as in possibilities to maximize our use of employment services offered by a state as part of its employment policy. Even though employment rate increases, we still trace people's willingness to work for the minimum wage, which, as we have shown before, is also increasing, but surely cannot be seen as a sufficiently decent level of compensation for one's work efforts. Another possible cause for the stagnating employment rate is the global strategies of multinational corporations, as well as the arrival of new technologies and processes such as outsourcing and offshoring. Looking at the unemployment rate, we can conclude, that besides GDP increase, its figures are influenced by numerous other factors such as the branch structure of an economy, production demand for capital, technological changes and development of flexible types of employment (time-restricted contracts, part-time contracts, working through a phone, continual jobs).

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