

## Deregulation of the labour markets in the countries of Central and Eastern Europe – selected issues

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**Abstract.** *The countries of Central and Eastern Europe in the 1990s pursued the transformation processes which were to result in introducing systemic changes and building market economies. It was a process requiring adjustment of the regulatory and system framework to the requirements of the EU. One of the areas covered by the changes was the labour market. The reforms related to the functioning of national labour markets necessitated taking many decisions, often difficult ones, as they were associated with incurring high social costs.*

*The aim of this study is to examine how the processes of labour legislation deregulation influenced the situation in the labour markets of individual countries of Central and Eastern Europe, and in particular their employment levels. The study was based on data from years 2004 and 2015. The study used available Eurostat statistics databases. Elements of descriptive statistics were also used as a tool.*

**Keywords:** *labour market, labour market deregulation, regulation of the labour market.*

**Raktažodžiai:** *darbo rinka, darbo rinkų dereguliacija, darbo rinkų reguliacija.*

### Introduction

The beginning of the 1990s was a period of transition for the economies of Central and Eastern Europe. This process laid the foundations for the construction of market economies, as well as systemic and economic changes or the elimination of a series of disruptions related to the functioning of labour, commodi-

ties and money markets (Stoop&Stamboliev, 2006, p. 10-11,19, 33 and Rozmahel & Kouba&Grochova& Najman, 2013, p. 4-12).

The dynamic structural changes observed in this period created the foundations for a new economic system. From the point of view of this study particular attention should be paid to the processes of privatization and restructuring of enterprises, which led to both negative and positive changes in the labour market. The negative impacts of implemented reforms include i.a. declining employment, increasing unemployment, reducing the economic activity of the population and the growth of employment in the informal sector (Romith&Festić, 2008, p. 1-9 ).

The positive effects of the changes in the labour markets include the processes related to rationalization of the labour resources by adjusting the structure of the resources involved and the ways of using them in the existing economic conditions. The enterprises began to pay more and more attention to labour productivity (Cazes&Nesporova, 2004, p. 7). The available work equipment generated by the engaged capital required the adaptation of labour to a level that resulted from the economic calculation.

Bearing in mind that rationalization of work is a continuous process characteristic for every market economy, it is worth paying attention to the factors affecting these changes. One of them is striving to achieve a competitive advantage of enterprises and their further development related to such advantage. The growing international mobility of factors of production necessitates the flexible adaptation of resources to the current needs of the market, which makes it possible to maintain the competitive position of country economies in the international scale.

In the Central and Eastern Europe countries, in the initial period of transformation the labour market policy focused mainly on the reduction of employment and the use of various types of social protection for laid-off workers (e.g. early retirement or severance payments). Significant changes related to increasing the flexibility of the labour market and the introduction of active programmes for the unemployed were initiated in the Central and Eastern Europe countries in the second half of the 1990s. Some researchers believe that these were the preliminaries, aimed at laying the foundations for the implementation of major reforms in the area of employment, which were launched at the beginning of the 21st century (Keune, 2003, p. 799-800). For example, numerous changes in the Labour Code governing non-standard forms of employment were introduced in 2002 in Poland and in 2009 in Hungary. Latvia, in turn, adopted for the years 2010–2014 a document aimed at reducing informal employment and improving the efficiency of the functioning of the labour market institutions, including employment services. In 2010, the Czech Republic introduced a programme aimed at reducing non-wage labour costs. In Estonia, measures were taken to increase the security of workers employed under non-standard forms of employment in connection with the deregulation of the labour market. All these changes resulted from the adoption of the Europe 2020 Strategy. This document obliges the UE member states to develop and implement

their own employment policies, while taking into account the main objectives of the said strategy.

The aim of this study is to examine how the processes of labour legislation deregulation influenced the situation in the labour markets of individual countries of Central and Eastern Europe.

### **Regulation and deregulation of labour markets**

The accession of the Central and Eastern Europe countries to the EU in 2004 and the intensifying globalization processes have led to amending the rules on the functioning of labour markets. The interventions of the state in the functioning of the labour market are related to the legal norms that determine the behaviour of economic entities employing certain labour resources. Thus, the state establishes legal framework for the functioning of the labour market, as well as controls and enforces the execution of law. In addition, the state is a party to the social dialogue, an arbiter, a mediator and an advisor for the social partners. It also plays the role of an employer for employees performing work in the public sector. The state is also the body that shapes the labour market situation in terms of activation and/or mitigating the negative effects of unemployment. The interventions of the state associated with regulations concerning the functioning of national labour markets thus appear to be unquestioned, and a lot of emotions are caused by their scale and form.

Regulation is one of the elements of the social life mechanisms and is understood as a way of building a particular social order (Frieske, 2003, p. 229). A common opinion holds that the labour market is a system of regulations, including elements of the demand for and supply of labour. The legal standards indicate what conditions should be met from the point of view of legal protection of work in order for an exchange between the performance of work and the remuneration obtained to take place. Regulation of the labour market is a result of interventions of the state in the process of its functioning (Gregg&Manning, 1997, p. 395). Z. Wiśniewski (1999, p. 34-39) singled out four main forms of state interventions in this market:

- social security system,
- setting the minimum wage,
- legislation related to the protection of labour relations,
- trade union rights.

Regulation of the labour market is analysed from the point of view of its rigidity related to a lack of adaptability to changing market conditions – in this case attention is drawn to wage rigidity. This concept is supplemented by the theory formed in the neoclassical tradition and based on the lack of labour force mobility (Kwiatkowski 2003, p. 19-27). Regulation may affect labour law regulations, employment protection, wages or working hours.

The opposite of labour market regulation is its deregulation. This process consists in the removal of restrictions for the free operation of the labour market

(Grotkowska&Socha&Sztanderska, 2005, p. 126-150), increasing the freedom of action of economic operators and reducing the legal regulations in the area of collective labour relations (Wiśniewski, 1999, p. 41-44). Regulation and deregulation of the labour market have an impact on its flexibility or rigidity.

It is sometimes stated that the deregulation of the labour market complements the deregulation of other markets and the structural transformations occurring in them (Borkowska, 2003, p. 30-35).

According to proponents of deregulation, regulation makes it difficult to react flexibly to changes in the labour market, particularly with regard to the adjustment of employment to the economic situation, causing a rise in structural unemployment and an increase in labour costs (Wisniewski, 2003, p. 53).

According to Z. Wiśniewski, deregulation of the labour market is equivalent to relaxing existing restrictions based, first of all, on the impact of statutory standards related to labour relations, working time or wages on the employment policy implemented in enterprises. Secondly, it is assumed that greater freedom of hiring and dismissing employees increases the efficiency of resource allocation in the labour market.

The specificity of the characteristics of the work as the object of buy-sell transactions and the functions of work entails a different perspective on the notion of labour market deregulation, which, according to E. Kryńska, should be seen as a process implemented after reaching the limit degree of regulation, beyond which the functioning of the labour market becomes ineffective (from the point of view of different criteria). Deregulation of the labour market limits the rights of one of the parties to the transaction – the labour force being the subject of the transaction taking place in this market – which is not accepted by among employees. According to many specialists dealing with the labour market, rigid regulations and labour market institutions limit the dynamic development of the economy and its potential for adaptation (Kryńska, 2002, p. 93-100).

In 1990s in many European countries the need for liberalization of labour market regulations and changes in economic policy was noticed. The individual labour markets of the EU countries should not be treated as a unified whole, as they are saturated with regulation to a varying degree – also the fact that there are cultural or language differences affecting the internal regulations of the labour markets should be taken into account (Grotkowska&Socha&Sztanderska, 2005, p. 126-150). The basis for introducing labour markets reforms was the conviction that (Wiśniewski, 2003, p. 58):

- the fundamentals of employment relationship protection system should be maintained,
- new solutions for atypical forms of employment should be liberalized and updated while maintaining the protection of workers,
- wages and working time should result from wage negotiations,
- the amount of benefits for the unemployed and the time of their collection should be reduced to increase the financing of active labour market programmes.

According to E. Kwiatkowski, the deregulation of the labour market should be considered a factor that streamlines its functioning. He draws attention to the arguments for the introduction of labour market deregulation, which would contribute to the achievement of the benefits related to its functioning. The most important of these include (Kwiatkowski, 2003, p. 19):

- the increased role of market mechanisms causing the labour market to function effectively,
- reduction of labour costs, which may result in a decrease of unemployment and an increase in the competitive position of enterprises,
- improving the flexibility of employment in enterprises (the efficient use of labour resources),
- reduction of long-term unemployment, contributing to the freer flow of resources between the unemployed pool and the labour force.

The OECD report from 1994 highlighted the relationship between pay and employment/unemployment levels, stressing the role of wage negotiations and their impact on a flexible response to the scale of unemployment that creates the conditions for a rapid return to work for the unemployed and enables long-term unemployment reduction. It is the wages that should be flexible enough to guarantee automatic adaptation to the level of increasing unemployment (OECD, 1994).

Nevertheless, the literature of the subject also provides the arguments against the deregulation of the labour market (Kwiatkowski, 2003, p. 19):

- strengthening the position of employers in the labour market,
- limiting the privileges of employees, or
- the instability of employment.

The presented examples of labour market regulations are consistent with the regulations in force in EU countries, being the subject of many executive regulations or EU directives, which include i.a. (Matey-Tyrowicz, 2003, p. 154-155):

- Directive 97/81/EC concerning the Framework Agreement on part-time jobs, respecting the equal treatment of employees in terms of working conditions, wages, leave, etc.;
- Directive 91/383/EEC supplementing the measures to encourage improvements in the safety and health at work of workers with a fixed-duration employment relationship or a temporary employment relationship; or
- Directive 99/70/EC concerning the Framework Agreement on fixed-term employment, improving the quality of temporary work by ensuring the application of the principle of non-discrimination and the establishment of a system to prevent abuse related to the use of successive contracts.

In the last two decades, there have been major changes in the labour market regulation in the countries of Central and Eastern Europe, which contributed to greater liberalization of labour law. It is worth noting in the further part of this study how the deregulation of labour markets in these countries has affected the level of employment.

## Changes in the labour markets in the countries of Central and Eastern Europe in the period 2004–2015

The study included 7 countries of Central and Eastern Europe, i.e. Poland, Czech Republic, Slovakia, Hungary, Latvia, Lithuania and Estonia. The research period covers the years 2004 and 2015. The first of these years was adopted as a result of admission of all the above-mentioned states to the structures of the European Union, which may have necessitated introducing numerous significant reforms related to the functioning of national economies, as well as creating stable environment for the construction and further development of market economies. The year 2015, in turn, represents the most up-to-date, accessible and compatible data devoted to the labour markets of states covered by the study. All the data used in the article come from public Internet sources, i.e. the Eurostat statistical database.

Given the changes in the regulations concerning the labour market, it is worth considering how the liberalization of labour laws affected the level of employment in individual economies covered by the study (Table 1).

*Table 1. Employment in the countries of Central and Eastern Europe in the period 2004–2015*

Specification	Total employment in thousands of people		Dynamics (in %)	Employment rate (in %, in the 15–64 years group)	
	2004	2015		2004	2015
Poland	13,322	15,736	118.1	67.6	67.8
Lithuania	1,393	1,296	93.0	61.6	73.3
Latvia	917	862	94.0	61.0	72.5
The Czech Republic	4,607	4,13	106.6	64.2	74.8
Slovakia	2,143	2,396	111.8	57.0	67.7
Hungary	3,852	4,154	107.8	56.8	68.9
Estonia	573	607	105.9	63.1	76.5

*Source:* own work on the basis of Eurostat data (2017)

The data in Table 1 show that total employment in 2015 increased in 5 countries, i.e. in Poland, Czech Republic, Slovakia, Estonia and Hungary. The highest rate of growth was recorded in Poland, where it exceeded 15%. More than 10% increase was observed in Slovakia. In the Czech Republic, Estonia and Hungary, the increase was between 5,9% and 7,8%. Only in Lithuania and Latvia a fall in employment was recorded, which is confirmed by the rate of decline of over 5%. It should be noted that the increase in employment in the national economy depends on many factors, i.a. the activity of the economy or the scale of capital expenditure. Although this aspect is very important, due to the needs of this study this problem has been omitted. It should also be noted that it increasing the activity of a given

economy measured by GDP growth does not always contribute to the growth of employment in the national economy. Also, not all investments in the economy generate an increase in total employment, since they may contribute to its restructuring or modernizing, as well as changes in demand for certain professional qualifications of workers. Nevertheless, the legislation in the area of labour law is important, as it may contribute to reducing the level of employment due to e.g. increasing labour costs.

Changes in the number of employees were accompanied by the changes associated with employment rates in the national economies of the studied countries. The presented data show that in Poland, despite the high growth rate of the number of employed individuals, there has been no significant increase in the employment rate, which in 2015 was only 0.2 percentage point higher than in 2004. In Lithuania and Latvia, despite a fall in the number of employed individuals, employment rates increased by more than 10 percentage points in the same period. On the other hand, in Estonia the increase in total employment by almost 5% was accompanied by an increase in the employment rate by as much as 13.4 percentage points. This situation can probably be explained primarily by changes in the level of economic activity of the population, the size of working-age population and migrations.

Deregulation of law created the possibility of using non-traditional forms of employment in the countries of Central and Eastern Europe. Legislation provided legal protection to certain individuals employed based on various types of non-standard forms of employment and working time. An example might be the percentage of individuals working part-time (Table 2).

*Table 2. Part-time employment in the countries of Central and Eastern Europe in the years 2004 and 2015 (as % of total employed)*

Specification	2004	2015
Poland	9.6	6.8
Lithuania	8.4	7.4
Latvia	10.2	7.2
The Czech Republic	4.4	5.3
Slovakia	2.5	5.8
Hungary	4.3	5.7
Estonia	6.9	9.5

*Source:* own work on the basis of Eurostat data (2017)

The data presented in Table 2 show that the share of people working part-time, based on a non-standard employment contract, rose in four of the studied countries. These countries include the Czech Republic, Slovakia, Estonia and Hungary. In Poland, Lithuania and Latvia a decline in the share of part-time employment was observed. It is worth noting that for example in Poland in 2015 the total number

of employed individuals grew by over 18% and at the same time a decline in the percentage of individuals working part-time was observed. This situation probably resulted from the upturn in the Polish economy, which promoted the creation of new jobs and changes in labour laws that protected workers employed based on non-standard contracts. On the other hand, in 2015 Slovakia recorded an increase in the total number of the employed by over 11%, while the number of part-time workers grew by over 3 percentage points. It can therefore be concluded that in this case the employment growth probably resulted from the application of new regulations related to the employment of workers. An interesting situation was also observed in Latvia. In 2015, there was a 6% drop in the number of employees in the national economy compared with 2004, accompanied by a 3% decrease in the share of part-time employment.

Another important area of research related to changes in legislation on the labour market is the minimum wage, which is determined in co-operation with representatives of various social groups. For example, in Poland the minimum wage is determined by the Tripartite Commission for Socio-Economic Issues, constituting a forum for social dialogue. It is composed of representatives of government, employers and trade unions representing the employees.

It is worth analysing whether changes in the level of the minimum wage had an impact on changes in the level of employment in the various countries of Central and Eastern Europe (Table 3). The study assumes a minimum wage paid per month in terms of the same currency, in this case the euro.

**Table 3. Minimum wage and unemployment rate in selected Central and Eastern Europe countries in years 2004 and 2015**

Specification	Minimum wage (in EUR per month)		Unemployment rate (in %, as of Q4 2016)	
	2004	2015	2004	2015
Poland	175.2	409.5	18.0	6.9
Lithuania	130.3	300.0	10.5	8.8
Latvia	118.9	360.0	11.8	9.8
The Czech Republic	206.7	331.7	8.2	4.5
Slovakia	147.7	380.0	17.3	11.0
Hungary	201.9	332.8	6.3	6.2
Estonia	158.5	390.0	9.5	6.4

*Source:* own work on the basis of Eurostat data (2017)

In the countries covered by the study there was an increase in the minimum monthly wage for full-time workers. The highest growth in 2015 compared to 2004 was recorded in Latvia (about 240 EUR), Poland – about 234 EUR, Slovakia – about 232 EUR and Estonia – about 231 EUR. The lowest minimum wage growth was



recorded in the Czech Republic, Lithuania and Hungary (in the range from 130 to 160 EUR). The question arises whether the increase in the minimum wage has had an impact on the functioning of particular labour markets, and in particular on the scale of unemployment? In all the countries surveyed the total unemployment rate, reflecting the situation in the labour market, decreased in 2015. Nevertheless, the scale of changes in the various countries of Central and Eastern Europe was different. E.g. in Poland there was a significant increase in the minimum wage in 2015, by 234 EUR, accompanied by an increase in the number of employed individuals in the national economy. The unemployment rate in the analysed period decreased by more than 11 percentage points compared to 2004. Consequently, the situation should be viewed positively, as despite the increase in the burden of employers resulting from the increase in the minimum wage the conditions in the labour market improved significantly.

In turn, in Latvia there was an increase of the monthly minimum wage by more than 240 EUR, a decline in the number of employees in the national economy and a drop in the unemployment rate by 2 percentage points.

On the other hand, the increase in the minimum wage in Slovakia was significant, as it exceeded 200 EUR, and at the same time there was an increase in the number of individuals employed in the national economy, while the unemployment rate decreased by 6.3 percentage points.

## **Conclusions**

6. Most countries of Central and Eastern Europe recorded an increase in the number of employed individuals despite the introduction of legislative changes in labour law related in particular to the performance of work within the framework of non-standard forms of employment.
7. Also, an increase in the minimum wage in all of the countries studied, confirming the intervention of the state in the protection of individuals performing work, did not contribute to a reduction in the level of employment in various countries of Central and Eastern Europe. Despite the implementation of many changes in the definition of working time, wages and the protection of workers or changes aimed at adapting national legislation to EU directives, no increase of unemployment was recorded.
8. The above considerations lead to the conclusion that it cannot be assessed unequivocally what is the appropriate degree of labour market deregulation. This means that the degree of state intervention should be largely related to the development of a given labour market and the government policy towards it. There are expert opinions confirming the need for greater deregulation of the labour market and those that pay attention to the significant negative social consequences resulting from the excessive liberalization of labour laws. The degree of liberalization of labour laws should

be continuously monitored by national governments, as the position of one of the parties participating in this market (employers and employees) cannot be weakened.

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## **Darbo rinkų dereguliavimas Vidurio ir Rytų Europos šalyse – pasirinkti pavyzdžiai**

Anotacija

Vidurio ir Rytų Europos šalys 1990 metais patyrė transformacijos procesus, dėl kurių buvo įvesti sisteminiai pokyčiai kuriant rinkų ekonomiką. Tai buvo procesas, reikalaujantis sistemos reguliavimų pritaikymo prie ES reikalavimų. Viena iš sričių, kurią palietė pokyčiai, buvo darbo rinka. Reformos, susijusios su nacionalinių darbo rinkų funkcionavimu, privertė priimti daugybę sprendimų, dažnai sudėtingų, nes jos buvo susijusios su didelėmis socialinėmis išlaidomis.

Šio tyrimo tikslas – išnagrinėti kaip darbo teisės dereguliavimo procesai įtakojo atskirų Vidurio ir Rytų Europos šalių darbo rinkas, ir ypatingai jų užimtumo lygį. Tyrimas buvo pagrįstas 2004 ir 2015 metų duomenimis. Tyrime buvo naudotasi patikimomis Eurostat statistinėmis duomenų bazėmis. Taip pat buvo taikomi aprašomosios statistikos elementai

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