

Impact of the Financial Crisis on the European Labour Market

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Abstract

This article analyzes the main indicators of the labour market in the Czech Republic, Russia and European Union. The authors seek relation of labour market development and global financial crisis followed by recession in European countries. The main problems of high unemployment rate, structural differences and very strong youth unemployment and its possible consequences are discussed too. Attention is also paid to the development of nominal and real wages.

Keywords: labour market, unemployment, employment rate, unemployment rate, youth unemployment rate, average nominal and real wage

Introduction

The labour market development in each country is influenced by a large number of factors. Among the most important we can mention the demographic fluctuations, structural changes in the economy and development of the small and medium-sized enterprises sector, the level of labour productivity, regional dimension of employment, social factors and also employment of foreigners.

In a globalized world, where competition has intensified, labour markets strongly reflected the impact of foreign influences. For this reason, the global financial crises followed by recession in developed countries had a significant impact on the European economy and its labour market. The length and depth of the labour market crisis has worsened labour market imbalance and contribute to extended spells of unemployment in many countries. The aim of this paper is to analyze the main indicators of the labour market development in the Czech Republic, European Union and Russia.

Methodology and objective

The paper answers the questions: “What impact the financial crisis had on the development of unemployment in in the Czech Republic, European Union and

Russia and how unemployment has increased during an economic downturn?” The data based on which the paper was carried out was obtained from the Czech Statistical Office database, the Eurostat database and the Russian State Committee on statistics RF database and other public sources.

Unemployment has been a serious problem of market economies for decades. Unemployment is defined as a situation where someone of working age is not able to get a job but would like to be in full time employment. Unemployment is expressed by the unemployment rate which is defined as a percentage of the country’s work force which is unemployed (Kennedy, 2008). The basic formula for measuring unemployment is following:

$$u = \frac{U}{L + U}$$

Where: u is the unemployment rate;
 U is a number of unemployed people;
 L is a number of employed people.

The statistical definition of employment and unemployment is based on the Recommendation of the 13th International Conference of Labour Statisticians, convened in 1982 by the International Labour Organisation (ILO). The ILO methodology defines the unemployed as all persons above a specified age who during the reference period were without a job, did not work an hour for pay, and were in an active manner seeking job they would be able to join within two weeks at the latest. This methodology is uniform for all EU Member States and produces internationally comparable data.

The general unemployment rate according to the ILO definition includes in EU countries the age group 15–64 years. In Russia the general unemployment rate is also calculated by IOL methodology and the registered unemployment rate – in accordance with the Law on employment in the Russian Federation which says that at the employment service are not be recognized as unemployed persons who have not attained the age of 16, taking full-time tuition in educational institutions, pensioners by age, seniority or entitled to special benefits. Since retirement age in Russia is 55 years for women and 60 years for men, so this group of persons effects on the rate substantially.

The labour force is the total number of people employed and unemployed. The youth unemployment rate is the unemployment rate of people aged 15–24.

The employee income is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the income reference period.

Results and discussion

The labour market in the Czech Republic

The situation on the labour market in the Czech Republic is characterized in 2012 and early 2013, by a few contradictory phenomena. Although the economy

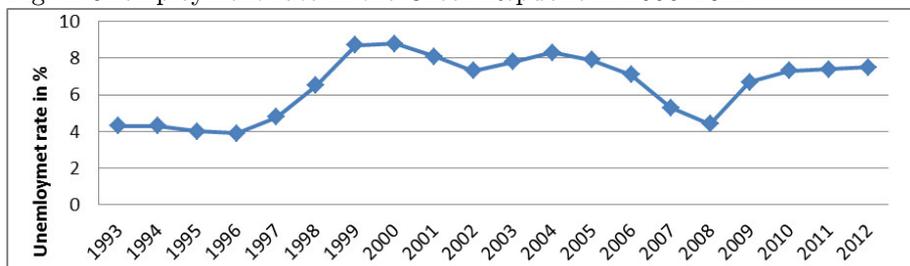
is the evolution of the GDP in a recession, the employment rate for several quarters in a row is steadily increasing. At the same time is a strong increase in the number of registered jobless people and increasing unemployment. These phenomena are explained by a micro-labour market related to the use of other types of jobs than those that are given by a relationship of employment or business. In addition to employment there was also atypical development in the area of wages.

In 2012 in the CR 5,091,500 persons there were employed, i.e. about 0.39% more than in 2011, when employment also grew by 0.26%, while in the previous two years we have seen annual declines – in 2009 1.78% and in 2010 by 1.02%. A loss of employed persons was recorded in agriculture, industry, construction and utilities sectors. The increase was detected in the real estate sector (5.8%), financial services (+4%) and the total for the professional, scientific, technical and administrative activities (+2.1%). Most of the new jobs were created in the trade sector, which provides jobs for more than a quarter of employees in the Czech economy, as well as industry, however, jobs in 2012 decreased. In construction the number of employed decreases for three years in a row. Growth in total employment affected the group of persons without the status of employees, consisting of people doing business individually and helping family members, but also people working on contracts for work and business owners of companies. It can be assumed that this group is increasing overall employment in the Czech Republic during the ongoing recession. The number of workers in an employment relationship, however, in contrast to total employment is declining, and it has been four years in a row. The employment rate in the age group 20–64 reached in the first quarter of 2013 71.6% of which 80.1 for men and 63.0 for women (CSU, 2013).

The Czech Republic is characterized by relatively low level of unemployment. In 2013 the labour market from the view of unemployment already only stagnated between 6.9% – 7% unemployed persons. The rate of unemployed persons, according to new methodology, is calculated as a proportion of all unemployed people in the age 15–64.

Long-term development of the unemployment rate is reflected in the following chart 1. After the formation of the CR there was general unemployment rate around 4%. Since 1997, the unemployment rate began to rise sharply, while in 2000 it reached almost to 9 percent. Since that time gained values about 7–8 percent. There is also apparent progressive decline in unemployment after joining the European Union up to a value of 4%. In the consequence of the financial crisis and the long-term recession of the Czech economy there is again an increase in the unemployment rate. Unemployment rate again exceeds 7%.

Fig. 1 Unemployment rate in the Czech Republic in 1993–2012



Source: CSU, 2013a

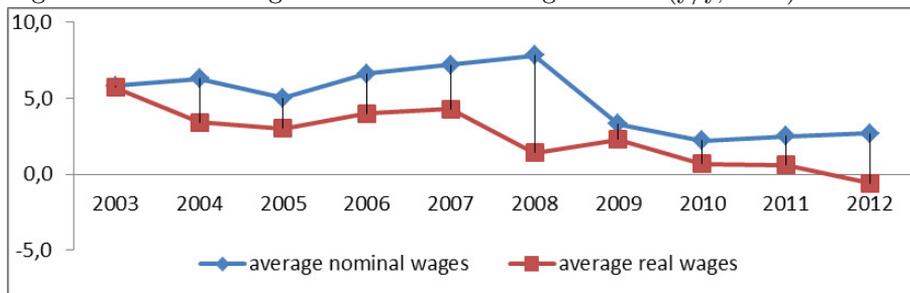
In the Czech republic there are distinct regional differences in the situation on the labour market. The highest unemployment rate is in a long-term in structurally afflicted regions, i.e. in the Ustecky, Karlovarsky and Moravskoslezsky regions. Apart from Prague low unemployment rate are to be found in Plzensky, Jihocesky and Stredocesky regions.

Risk groups on the job market comprise especially women with small children, people with low qualification, handicapped people, people over 50 years of age, new graduates and young people without work experience. The main risk factor on the labour market is a low level of education. Groups where different handicaps cumulate, e.g. young unqualified people, face the greatest threat. The specific rate of unemployment of young people to 24 years of age has reached 19.5% at present. The key problems in the labour market are the growth in long-term unemployment, unemployment among young people and the shortage of vacancies (CSU, 2013).

The analysis of wages is very interesting. The average monthly nominal wage in 2012 amounted to CZK 25,101, median salary is 22,247 CZK. Median wages as the mean value is not as sensitive to extreme values on average. While in the CR roughly two-thirds of employees earn less than the value of the average wage, the median exactly bisects the set of employees in half. By comparing the average and median also provides the opportunity to monitor the variability of wages. A tenth of workers with low earnings have lower wages than 11,929 CZK (1st decile), while the tenth best remunerated had higher wages than 40,715 CZK (9th decile) and decile ratio was 3.4. Significantly higher average wage growth compared with an increase of the median wage indicates the extreme earnings growth. The most significant effect on the wage level of employees was level of education achieved. Undergraduates received by median values of double wages (CZK 32,786) than workers with primary and early school leavers (15,695 CZK). The tenth best remunerated undergraduates receive a wage higher than CZK 72,808, on the other hand, had a tenth of workers with primary education less than 9,962 CZK (Holý, 2013).

When monitoring the development of average wages is evident that the growth of nominal and real wages gone through two distinct phases as shown in Figure 2.

Fig. 2 Trends in average nominal and real wages in CR (y/y, in %)



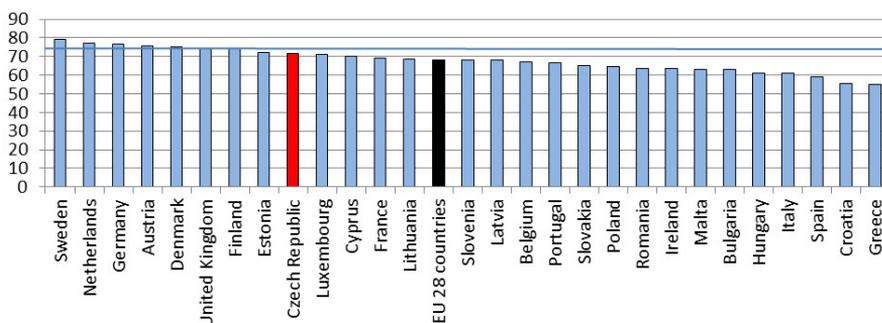
Source: CSU, 2013b

After joining the EU annual growth in nominal and real wages increased every year since 2005, but after 2008 there was a significant reduction in real and nominal wages due to labor cost savings. In the years 2010–2012 there is indeed an apparent stagnation and slight increase in real wages but due to the very restrictive economic policies of the Czech government there was a decrease in real wages, which in 2012 reached a value of even -0.6% (IPSV, 2013).

EU labour market and position of the Czech labour market within the EU

EU countries adopted a fundamental strategic document Europe 2020, part of which are also targets for providing jobs and deals with the situation on the labour market. The main goal is to increase the employment rate of people aged 20–64 years to 75% in this decade (Eurostat, 2011). The labour market of the EU, however, shows significant differences. The following chart shows how this goal is implemented in member EU countries at present.

Fig. 3 Employment rate of age group 20–64 in the EU countries (in %)



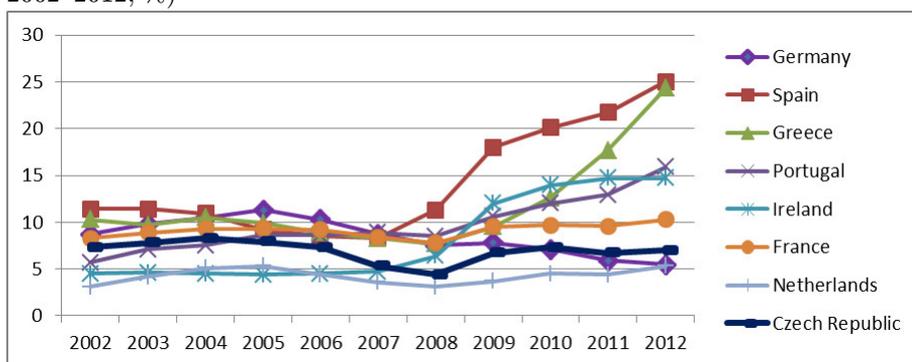
Source: Eurostat, 2013b

The graph shows that the employment rate is high in the Nordic countries and the countries of Western Europe. The required limit surpassed in Sweden, followed by the Netherlands, Germany, Austria and Denmark. On the other hand, southern European countries are generally characterized by low employment. Czech Republic is located on the 9th position above average of

28 member countries. The situation on the Czech labour market is strongly dependent on economic development in Germany.

When analyzing unemployment in EU countries there are again large differences. Among the 28 EU countries with the lowest unemployment rate ranks Austria, Germany, the Netherlands and Luxembourg. The unemployment rate is still maintained at high levels especially in the southern states of Europe and the Baltic region. In Spain reached 25.2% and in Greece 25%. The general unemployment rate in the Czech Republic is below the long term average of the EU. In Figure 4 there are trends in unemployment rate in selected EU countries in 2002–2012.

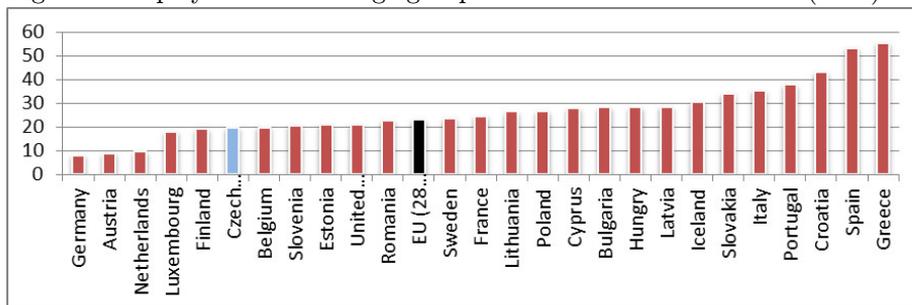
Fig.4 Trends in unemployment rate in chosen EU countries (annual average, 2002–2012, %)



Source: Eurostat, 2013

Youth unemployment has become a serious problem in many European countries. Young people have been hit particularly hard by the crisis. At present, nearly 6 million people in the EU under the age of 25 are unemployed and a total of 7.5 million are not in employment, education or training. Youth unemployment rates in Europe stood at 23.5% in the first quarter of 2013, more than twice the – already very high – rate for the population at large. In some countries (Spain, Greece) more than half of the young people who want to work are unemployed (Eurostat, 2013a).

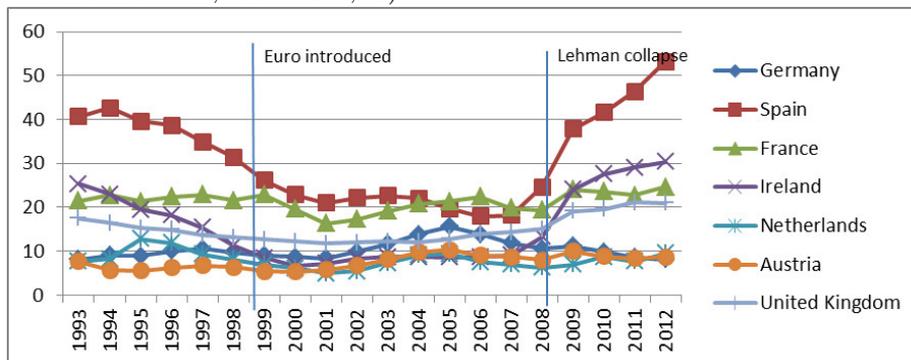
Fig. 5 Unemployment rate of age group less 25 in the EU countries (in %)



Source: Eurostat, 2013a

The chart in Fig. 6 shows that unemployment among the youth is increasing faster after the global financial crises.

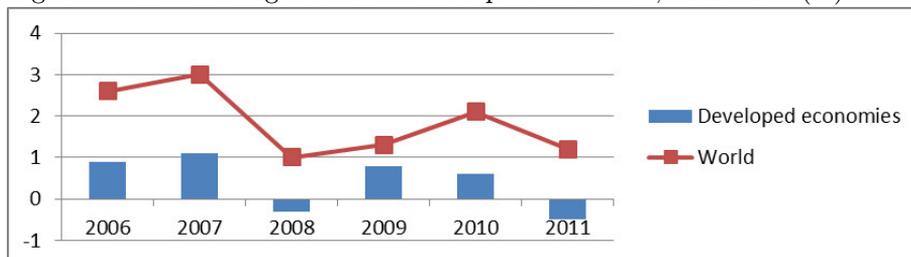
Fig. 6 Trends in European youth unemployment rate (under 25 years old, selected countries, 1992–2012, %)



Source: Eurostat, 2013

Youth unemployment has a profound impact on individuals as well as on society and the economy. Unless current trends are reversed quickly, today's levels of youth unemployment risk damaging the longer-term employment prospects for young people, with serious implications for future growth and social cohesion. This is a reflection of broader, deep-rooted problems in the functioning of labour markets.

Fig. 7 Annual real wage trends in developed economies, 2006–2011 (%)



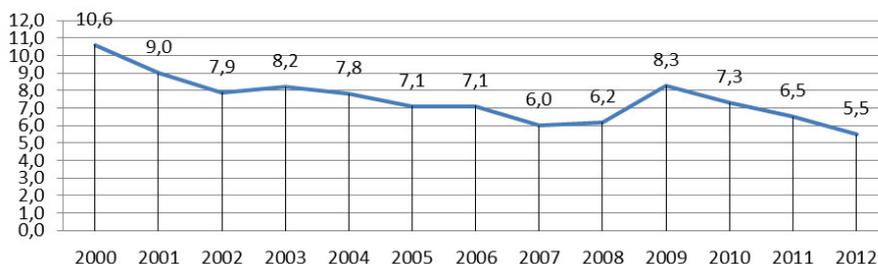
Source: ILO, 2013

The labour market in Russia

The situation on labour market in Russia in 2012 and in the first half of 2013 can be characterized as stable. All the main indicators have reached the level of 2008. Long-term evolution of unemployment rate is reflected in the following chart 9. The progressive decline in unemployment had continued to the crisis of 2008. In 2009 unemployment rate reached its maximum point of 8.3% for last ten years. Negative trends were broken thanks to the anti-crisis program of the Government enacted in 2009 (Russia, 2009). It provided for strengthening

of social protection of the population and the creation of jobs; boosting domestic demand for the products of Russian enterprises; stimulating small business development and support of innovative activity in the economy; reducing the tax burden on business and people; reduction of administrative pressure on business; increase of stability of the national financial system. These measures produced an effect and the unemployment curve come down.

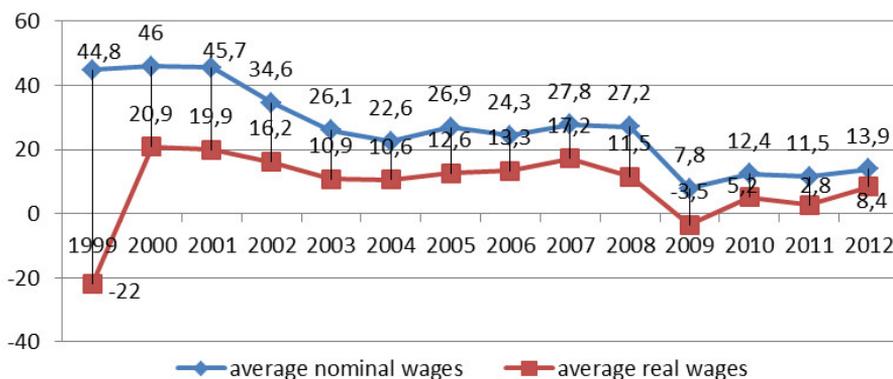
Fig. 8 Unemployment rate in the Russian Federation in 2000–2012 (y/y, %)



Source: Rosstat, 2013

When monitoring the development of average wages it is evident that the growth of nominal and real wages has gone through four distinct phases as shown in Figure 9.

Fig. 9 Trends in average nominal and real wages in RF (y/y, %)

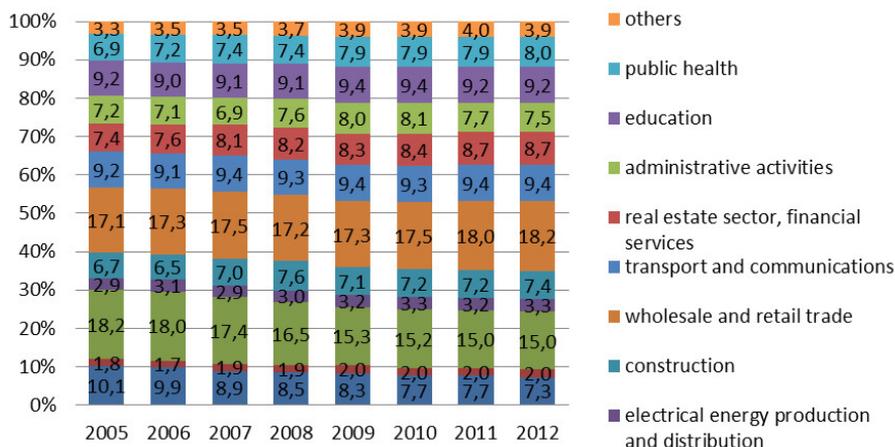


Source: Rosstat, 2013

Since 1990, the rate of decrease in real wages constituted about 30–50% per year. In 1999 its value was 34.8% of the level of 1991. And only in 2007 it reached the pre-reform level, and in 2008 exceeded it at 16.6%. However, since 2008, the situation is the opposite – the wage growth rate began to decline and in 2009 accounted for -3.5%. Thanks to the Government’s anti-crisis policy trends were reversed and in 2012 its growth rate was 8.4 (Russia, 2012).

Structural change of the Russian economy was deepened by the economic crisis that accelerated rate of the real sector reduction – from 37.5% in 2008 to 35.9% in 2009 (by 1.6 pct). In 2012 the reduction practically stopped – percentage of the real sector fell by 0.1 pct to the share of 35%. You can find details in the chart 10.

Fig. 10 Employment structure by types of economic activities in RF in 2000–2012 (y/y, %)



Source: Rosstat, 2013

Conclusions

Impact of the financial crisis on the European labour market is significant in the EU countries including the Czech Republic, in both the short and long term. The length and depth of the labour market crisis has worsened labour market mismatch. The analysed data showed the short-term impact in terms of reduced employment and increase in unemployment, but also strong pressure to reduce costs in the form of reducing the level of labour costs. Long-term effects are manifested in changes in the structure of unemployment. The most serious consequence is high youth unemployment and unemployment of the generation 50+. The crisis and subsequent recession have also intensified labour market differences between stronger and weaker EU economies. The huge divergences between countries are a powerful reminder of the still enormous economic imbalances inside the EU countries. Negative trends can be broken thanks to the anti-crisis programs of national governments and EU labour market policy.

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Dopady finanční krize na evropský trh práce

Článek analyzuje hlavní indikátory trhu práce v České republice, Rusku a zemích EU. Autoři hledají souvislosti mezi vývojem na trhu práce a globální finanční a ekonomickou krizí, kterou následovala recese ve většině evropských zemí. Zabývají se problémy vysoké míry nezaměstnanosti, strukturálními rozdíly v nezaměstnanosti i vysokou nezaměstnaností mladých lidí a jejich možnými důsledky. Pozornost je věnována také vývoji nominálních a reálných mezd.

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