The Struggle of Trade Unions and Slovenian Labor Market Reform

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THE STRUGGLE OF TRADE UNIONS 
AND SLOVENIAN LABOR MARKET 
REFORM 
Bridget Joyce

Introduction

In the summer of 2012, reforms were proposed in Slovenia that aimed to address both youth unemployment and labor market rigidity. As the negotiations over Slovenia’s labor market reforms began to take shape, the country’s Labor Minister, Andrej Vizjak, was not too optimistic about the amount of real change reforms could bring about. On February 12, 2013, The Slovenia Times reported that Vizjak had stated, “radical labor market reform is not possible in Slovenia as the negotiating process is too complex” (“Confession: Radical Labour Market Reform Impossible”). While he was certain the talks would produce the best possible outcomes under current political conditions, radical change was impossible because it would provoke a revolt on behalf of either the trade unions or employers and would therefore halt negotiations indefinitely.

This article addresses issues faced in Slovenia’s labor market today. First, the history of labor relations and the transformation of trade unions are summarized and then why reform efforts have been disappointing is analyzed. The dynamics of the Slovenian labor reform negotiations framework are analyzed and the impact of major actors, namely the trade unions, employers, and government, on the reformation process assessed. The article concludes by prescribing changes for the labor negotiation system that could help to make future reforms successful.

A History of Stalled Labor Market Reforms

A 2008 report from the Institute for Economic Research at the University of Ljubljana, “Labour Market Reforms in the Context of Political Power Theory: The Case of Slovenia,” analyzed Slovenia’s economy since transition. The authors focused specifically on the effect of inadequate government policies concerning the labor market. The initial transitional
Labor Code had been introduced in August 1990 through a collective agreement between the Trade Union Organization and the Chamber of Commerce. This agreement set the initial wages—or minimum wages—for workers by category and outlined the process by which amendments could be made. The by-product of this agreement was the multi-layer bargaining structure, which left too much power in the hands of trade unions and created wage dispersion and rapid wage growth. As the country grew during the 1990s, the public began to understand that the original labor code would not suffice in the more open market environment. Evidence of a declining unemployment rate since transition seemed appealing on the surface. However, once it was realized that this declining rate masked an increased average duration of unemployment, it became clear that much of the country's unemployment was structural (Cok et al.).

Significant reform was necessary to combat this problem of structural unemployment. The major structural problem with Slovenia's labor market was its rigidity. Rigid labor markets are not uncommon in Europe, and once they develop it is difficult to increase flexibility due to "vested interests"—the concentration of interests of certain groups—that hold political power. In 2000 a pension reform measure came into effect in Slovenia that gradually increased the retirement age. One consequence of this measure was that the labor market became tighter and more difficult to enter, further pushing young workers toward university education because there were fewer jobs available. Cok and colleagues reported in 2008 that certain aspects of Slovenia's labor market, such as employment protection legislation (EPL) and the regulation of working schedules or the length of time a person could work, resulted in a low degree of competitiveness on the international scale for Slovenia's labor market. Consequently, Slovenia's overall international competitiveness was inhibited because employees in other countries did not need to abide by these rules and were, ultimately, more competitive (Cok et al.).

A new Labor Code became effective in January 2003; yet, because not much had really changed with the new code, many voters were unimpressed. The drastic changes voters sought to increase labor competitiveness had been watered down during negotiations with unions. When the new government of Janez Jansa and the Slovenian Democratic Party came to power in 2004, it did so riding on the promise of a deep labor reform program in which it sought, ultimately, to increase Slovenia's international competitiveness. The reforms the new government proposed sought to increase labor market flexibility by easing restrictions on employers, such as complex hiring and firing procedures, and also reducing the flat tax rate. Reducing the flat tax rate was appealing because it would reduce the total tax rate on income and provide greater incentives to work (Banerjee et al.).

Initially, these proposals garnered broad voter support with an approval rating close to 70 percent. However, as time passed, voters began to perceive these changes as too liberal and interpreted increasing flexibility as a measure that would harm workers, with the proposed tax change to benefit the rich. This evolving distaste was coupled with a negative public relations campaign organized by the unions. Union members rallied under a banner to maintain worker rights and avoid any loss to welfare benefits. Ultimately the campaign paid off as support for the government's measure dropped to 45 percent in November 2005. In 2007 the government was finally able to pass a very watered-down version of the program, which excluded the originally fundamental elements of increased flexibility. Instead, the measure was solely one of income tax reform and a reduced flat tax rate rather than a weakening of restrictions on employers. Although the 2007 tax reform program was able to increase the income of most taxpayers, an often overlooked side effect was that it increased income inequality (Cok et al.). Evidence that the tax reform in Slovenia increased income inequality is found in a 2009 report by Majcen and colleagues. The authors studied the impacts of different tax reform strategies on Slovenia's macroeconomy and taxpayers' welfare. They

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1Structural unemployment refers to the unemployment that is produced as a result of structural changes in the demand for labor (e.g., shifting international trade patterns, which force workers out of certain increasingly obsolete industries) (Hyclak et al., p. 416).
argued that according to the data they had collected, the flat tax system would not be the best policy for the country’s long-term development (Majcen et al.).

One possible reason for the increased success the more recent reforms have garnered compared with the failure of prior reform efforts is that workers have become disenchanted with the promises from unions. Perhaps workers have finally begun to realize that increased flexibility may, indeed, be to their advantage and that the promise of more jobs should supersede the promise of secure ones.

Trade Unions in Slovenia

Many reports disagree on the actual level of trade union density in Slovenia and the extent to which union density has declined since independence, but nearly all agree that there has been a significant decline in union density. The European Industrial Relations Observatory On-line reported that union density declined with transition, falling from 64 percent in 1994 to 43 percent in 1998, and has remained relatively constant since (Banerjee et al., p. 3). However, the Faculty of Social Sciences at the University of Ljubljana has reported a much lower rate of union density, one between 25 percent and 30 percent of all workers.\(^2\) In 2008, this Faculty reported that Slovenia’s union density of 27 percent indicated that more than 210,000 citizens were represented by trade unions (Fulton). According to the Organisation for Economic Co-operation and Development (OECD), in 2012 the average trade union density across member countries was 17 percent (OECD 2014). Although it may be difficult to find an exact measure of union density in Slovenia, the country has a relatively high rate.

Trade unions have a long history in Slovenia. Although numerically their membership has declined since the country’s 1990 transition, their influence on political decisions seems to remain quite strong. Evidence of their influence can be seen in their impact on the most recent labor legislation. In order to decipher the impact in the present day, the history of the country’s trade unions is discussed.

The structure of today’s trade union system is highly fragmented and nearly unrecognizable from the pre-transition era. Prior to 1990 there was only one trade union to represent all Slovenian workers: the Association of Trade Unions of Slovenia. Today, this institution still exists as the Association of Free Trade Unions of Slovenia (Zveza Strobodnih Sindikatov Slovenije), more commonly known as the ZSSS. Yet, rather than having the representation of a single confederation, today’s system of trade unions is pluralistic. The system is made up of seven major national union confederations, which act on the behalf of smaller and more local unions. In addition to ZSSS, the confederations are Pergam; KNSS (Confederation of New Trade Unions of Slovenia [Konfederacija Novih Sindikatov Slovenije]); KS-90 (Trade Union Confederation 90 of Slovenia [Konfederacija Sindikatov 90 Slovenije]; Alternativa (Alternative); Solidarnost (Solidarity); and the KSJS (Confederation of Public Sector Trade Unions [Konfederacija Sindikatov Javnega Sektorja]) (“About ZSSS...”). Many public-sector employees are in unions outside these larger confederations, and, since 2006, many have become members of KSJS, which is not listed among the confederations because it is a single trade union rather than a confederation. Within KSJS is the Slovenian teachers’ union, SVIZ, which is estimated to consist of 39,100 members (Fulton).

The two largest labor confederations in Slovenia are ZSSS and KSJS. According to Stanojevic at the University of Ljubljana, 90 percent of all union members belong to one of these two confederations. Professor Stanojevic has estimated that ZSSS has approximately 155,000 members, whereas KSJS has between 60,000 and 70,000 members. Since 1991, when approximately 65 percent of employees were union members, the public sector has managed to maintain a fairly consistent membership base whereas unions in the manufacturing sector lost members before numbers stabilized at the turn of the century (Fulton).

Negotiations in the Slovenian labor market system are complex and operate at three different levels. At the top is the general, national level agreement, which determines the

\(^2\)The Slovenian use of the term “Faculty” in a university setting is akin to the term “School” or “College” in many American universities. Therefore, in the United States, the “Faculty of Social Sciences” could be read as the “School of Social Sciences at the University of Ljubljana.”
private sector’s wage indexation mechanism. All wage increases beyond the national index are determined at the sectoral and enterprise levels and are based on factors such as financial performance and productivity growth (Banerjee et al., p. 3). Yet, after the national level agreements are passed and before any further negotiations proceed between employers and unions or employees, the basic rights outlined in the Employment Relationships Act (ERA) must be satisfied (“Employment Relationships Act”).

### The Post-Transition Labor Market

Economic growth is often accompanied by a changing occupational mix. As economies develop, they utilize the capital resources most readily available to them to enable domestic industries to grow. However, over time the type of capital they possess tends to evolve. For example, many countries initially possess abundant labor, characterized by low labor costs. These countries utilize this cheaper labor to build their economies; they may gain a comparative advantage in capital and shift toward being capital—rather than labor—intensive. The changes in an economy’s structure may be due to newly developed technology and a transformed global or regional economic climate. Today, occupations such as social media specialists or fuel cell engineers exist that were unheard of only a few decades ago. Workers rarely react well to technologically driven changes in employment. For example, the introduction of the automated teller machine (ATM) could have been thought to increase unemployment because there would be fewer job opportunities for bank tellers. However, a deeper look into the effects of this new technology on the labor market reveals that rather than a decrease in the number of jobs available, there has simply been a shift in the type of labor demanded. Although there may be less demand

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### Table 1

**Cumulative Growth in Employment in Selected Sectors**

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<tbody>
<tr>
<td>Manufacturing</td>
<td>-10.4</td>
<td>0.0</td>
<td>-24.4</td>
<td>45.6</td>
<td>38.2</td>
<td>36.6</td>
</tr>
<tr>
<td>Construction</td>
<td>64.5</td>
<td>-31.1</td>
<td>13.3</td>
<td>7.9</td>
<td>11.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Wholesale and retail trade and repair of motor vehicles and motorcycles</td>
<td>18.2</td>
<td>-7.4</td>
<td>9.5</td>
<td>16.9</td>
<td>17.7</td>
<td>18.7</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>32.2</td>
<td>-2.9</td>
<td>28.4</td>
<td>4.8</td>
<td>5.8</td>
<td>6.4</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>34.1</td>
<td>-4.0</td>
<td>28.7</td>
<td>2.8</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Information and communication</td>
<td>80.6</td>
<td>-3.8</td>
<td>73.7</td>
<td>2.3</td>
<td>3.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>-28.6</td>
<td>-19.6</td>
<td>-42.6</td>
<td>3.6</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Professional, scientific, and technical activities</td>
<td>41.9</td>
<td>1.3</td>
<td>43.8</td>
<td>4.8</td>
<td>5.8</td>
<td>6.7</td>
</tr>
<tr>
<td>Administrative and support activities</td>
<td>128.6</td>
<td>-1.0</td>
<td>126.3</td>
<td>2.2</td>
<td>4.3</td>
<td>4.8</td>
</tr>
</tbody>
</table>

*Source: Banerjee and Jesenko, p. 37.*
for bank tellers, there may well be an increased demand for the engineers and mechanics who produce and repair ATMs (Hyclak et al., p. 48).

In Slovenia it is possible to identify a specific point in time at which its occupational mix went through a drastic change: its transition from socialist Yugoslavia to an independent, market-based economy in 1991. Upon gaining its independence from Yugoslavia, Slovenia was faced with the large task of a transition from socialism to capitalism. It is often noted that Slovenia's transition process was much more gradual than the rest of its former communist cohort. However, structural reform was not the only issue that it needed to address. In severing its connection to the rest of Yugoslavia, Slovenia cut off its internal goods markets and lost its major trading partners. While Slovenia may have been a titan of the Yugoslavian industrial sector, the sectors for which it had previously relied on greater Yugoslavia now needed to be cultivated at home. Therefore, since transition, industries that traditionally had a high note of unionization, such as mining, textiles, leather, and basic metals, experienced significant downsizing (Banerjee et al., p. 3). As these industries shrunk, Slovenia embraced the opportunity to expand its service sector. However, in order to do so, it needed to develop a knowledge-based economy. Therefore, the demand for more general education, higher qualifications, and advanced degrees increased. Meanwhile, certain technical skills were becoming outdated as a result of the rapid de-industrialization process—the decline of products that were supported as a part of the Yugoslav domestic market. Table 1, from Banerjee and Jesenko’s article, “Dynamics of Firm-Level Job Flows in Slovenia, 1996–2011,” illustrates where some of these sectoral changes took place.

The most notable decline in jobs came from the manufacturing sector, which held 45.6 percent of total employment in 1996 but by 2011 had fallen to 36.6 percent. Job creation, on the other hand, is most notable in the information and communication sector as well as in the administrative and support activities sector (Banerjee and Jesenko, p. 37). These shifts support the theory that Slovenia’s labor market was affected by changing product markets after transition, and jobs were reallocated across sectors as a result. The Slovenian education system responded to these employment changes with educational reforms, which focused more on general and technical skills than on vocational skills (Ivancic et al., pp. 166–88).

**Issues in Slovenia’s Labor Market Today**

The issues that confront Slovenia’s labor market today are the result of labor institutions that were inadequately prepared to deal with the country’s other changes in the post-transition period. As discussed previously, industries that typically have high trade union membership, such as manufacturing, began to decline. The changes to Slovenia’s education system that occurred during the transition period pushed students toward a path of more general education, which was better suited for tertiary-level studies and less-favorable, lower-skilled careers, which, coupled with the traditional promise of free tuition for tertiary education, resulted in high youth unemployment, a product of the mismatch of skills attained through the education system and jobs available. As a result, too many students now graduate with high-level degrees, such as master’s and doctoral, and end up unemployed or underemployed on graduation. This skills mismatch issue is exacerbated by a rigid labor market, which, as discussed previously, has a complex hiring and firing system and makes employers reluctant to hire new employees. Collective bargaining organizations also contribute to the rigidity of the system because they have lobbied against measures to increase employer flexibility. Thus, youth unemployment has become a structural problem debilitating the potential of Slovenia’s labor market.

**Youth Unemployment**

Slovenia’s overall unemployment rate of 9 percent as of 2014 is not too far off the OECD average of 8.2 percent (OECD 2014). However, Slovenia’s youth unemployment problem can be seen by the youth unemployment rate of 20.6 percent, which is far higher than the OECD average of 16.3 percent. There is a mismatch between labor market skills and needs—an imbalance between certain supply-side and demand-side elements in
Slovenia’s market for youth labor.

Historically, and increasingly in recent decades, the labor force participation rate of the young population, those in the 15- to 24-year-old age group, has been low. According to the OECD (2014), the labor force participation rate for the youth population in member countries is 47.4 percent compared with a labor force participation rate of 70.9 percent among the total working-age population, those between the ages of 15 and 64. Even among similar OECD member states, Slovenia is unique. OECD data indicate that the labor force participation rate among the country’s youth is 34.5 percent, whereas the participation rate of all working-age citizens is 70.3 percent. Although Slovenia’s total labor force participation rate does not differ too much from that of its counterparts, the country’s youth labor market participation rate is a clear outlier (OECD 2014).

The most common reason why a young person elects not to participate in the labor force is that he or she has chosen to be a full-time student. In Slovenia, many young people see a bleak employment picture due to high youth unemployment; therefore, rather than joining the labor force, they elect to continue their education. This trend is exacerbated by the promise of free tertiary education. Rather than looking for work in an unwelcoming market where it is likely to be difficult to find employment, by pursuing a college or post-graduate degree they can delay their entry into the labor force, increase their chances of getting a high-paying job, and be provided free food and shelter.

The decision to stay in school in order to increase the probability of obtaining a higher-paying job in a field of study can, in some ways, be compared with the model of rural-urban migration by Harris and Todaro. They argue that the urban labor market can be split into two sectors: the formal sector with good jobs that are hard to get and the informal sector with jobs that are relatively easy to get but not very desirable because they do not pay well (Harris and Todaro). In a simplified sense, this model can be translated to a student’s decision of whether or not to pursue a higher degree. Rather than basing a decision on the current income in the “rural economy,” students would consider the wages they are likely to earn during their lifetime without the degree, including wages earned when they would otherwise be in school.

During my time in Slovenia I was able to speak with several Slovenian university students to discuss their perception of the job prospects that await them after graduation. It became clear to me that they view the post-graduation job market as split into two sectors. Although they have some chance of obtaining a job in the high-paying primary sector, one that utilizes their degree, they feel it is more likely that they will end up with a job unrelated to their studies. Therefore, they would theoretically only choose to pursue an advanced degree if such a calculation resulted in lifetime earnings greater than the amount they would receive upon starting to work earlier with a lower level of education. The forces that push Slovenian youth out of the work force and toward higher education are revealed through labor force participation rate statistics, which identify specific attributes of the Slovenian labor market supply. The hypothesis that tuition-free education provides students with an incentive to stay in school as opposed to entering the labor force is one way to describe an employment reality for many of Slovenia’s youth.

According to Banerjee, a visiting scholar at the Bank of Slovenia, recent university student employment programs intended to decrease youth unemployment have not achieved their goals. In fact, Banerjee reasoned that the programs actually increased youth unemployment.

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1Assuming the odds of getting a job in the high-paying formal market are random, whether migration to an urban area is rational can be calculated. If an individual’s current pay is less than the probability the individual will get a job in the informal sector, multiplied by the wage in that sector, plus the probability of receiving a formal sector job, times the higher wage, then the individual will likely choose to migrate to the urban area (Harris and Todaro). I translate this model to one applicable in the discussion of unemployment by substituting the decision to move to an urban area with the decision to pursue further education.

2In this article, “youth” refers to those ages 15 to 24 and “working-age” refers to those ages 15 to 64, which are the criteria used by the World Bank and other international institutions.
unemployment because they allowed students to get on-the-job training at below-market wages while still in school. Although these programs provide students with the training they need to succeed in their field after graduation, by giving these jobs to students at below-market wages, employers are actually making it more difficult for students to find a good-paying job after graduation. If tasks can be accomplished at little cost and without any of the additional stipulations of longer-term employment contracts, such as complicated hiring and firing procedures, there is little incentive for employers to hire graduates to do the same job (Banerjee and Jesenko).

The main consequence of students pursuing degrees that are more advanced than they would otherwise have chosen is that too many students end up underemployed after graduation. If an individual's characteristics are best suited to a hands-on occupation, such as carpentry, but he or she is encouraged to pursue a knowledge-based profession because of the structure of Slovenia's education system, both the individual and the economy lose in the long run. Free education thus acts as a powerful and superfluous incentive for over-education. For example, if those who may be more productive as, for instance, lumberjacks pursue an education in the field of IT advising, they may reduce their own productivity and, at the same time, contribute to a surplus of labor in IT advising. Therefore, unemployment in this sector will increase and the wage will be driven down. Over time, market-equalizing forces should come into effect and provide students with the incentive to stop pursuing these types of jobs.

In terms of the decision-making formula for students of whether or not to pursue a degree, students stay in school if earning an advanced degree is likely to be more profitable than going directly to work. Eventually the forces of supply and demand either boost the lifetime earnings possible without getting a degree or reduce the probability of obtaining a high-wage job enough so that pursuing one is no longer rational.

**Labor Market Rigidity**

The nations of the European region as a whole are known for their characteristically high unemployment rates compared with other high- and middle-income nations. One contributing factor that many European economies share is a rigid labor market. The International Monetary Fund (IMF) describes a rigid labor market as one in which the market is heavily directed by institutional determinants—factors inherent in the structure of the market—that produce unemployment, which include EPL; tax wedges, defined as the difference between gross income and income after taxes have been taken out; benefits for the unemployed; and high employer costs of hiring or firing. Bernal-Verdugo and colleagues' report published by the IMF states, "rigid labor market institutions may obstruct job creation and tend to be associated with higher levels of unemployment" (Bernal-Verdugo et al., p. 3). Thus, it recommends that countries that possess institutions that constrain the natural functions of the labor market move toward greater flexibility.

The OECD has argued that certain labor market institutions, such as EPL, need to be modified and made more dynamic in order to relax restrictions on employers and create additional and better-quality jobs for both young and older workers. Thus, a more flexible labor market with fewer restrictions on employers could spur sustainable economic growth by creating quality jobs. Figure 1 illustrates Slovenia's estimated rigidity compared with those of other OECD countries based on scores of how strict their labor regulations are. Slovenia is ranked among countries with some of the strictest EPL scores, which means that it is one of the nations with the most protection for employees; when employers are the most protected, employers tend to be more constrained. As stated previously, if employers do not have flexibility in the hiring and firing process, it may cause them to be more conservative in their hiring process, which does not bode well for an economy with high unemployment (OECD 2009, p. 61).

In an effort to understand high and persistent unemployment that can result from strict EPL legislation, the OECD created a 2006 report, “Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Jobs Strategy,” which showed that Slovenia's EPL was higher, thus stricter, than the
average OECD member country. The reasons why Slovenia stood out included difficult hiring and dismissal procedures, high severance pay guidelines, a relatively high minimum wage, and significant labor market segmentation, an aspect of Slovenia’s labor market discussed previously (OECD 2006).

In the post-transition period, Slovenia crafted the foundation of labor protection measures through negotiations with unions. However, once these employee protection measures were in place, the government found it difficult to reverse the changes that unions prized so much. Thus, strict labor institutions— institutions that limit the impact of market forces within the labor market, most importantly unions—became cemented into the Slovenian labor market system. The initial post-transition labor agreements would have far-reaching adverse macroeconomic implications. When factors such as severance pay guidelines have been fixed at a high rate that has not naturally been determined by the market, employers are forced to ignore economic realities to comply with the system’s regulations because the employee protection measures are so confining.

Recent Labor Legislation Framework and 2013 Labor Market Reforms

The Employment Relationships Act is often cited as the single most important component of the Slovenian labor legislation system, and its main purpose is to regulate individual employment relationships. It defines a minimum level of rights guaranteed to workers in areas as broad as the definition of an employment relationship to such specific regulations as those concerning employer liability, breaks and rests, and annual leave. Once these basic rights are met, collective agreements are left to draw up more favorable regulations (“Employment Relationships Act”). As discussed previously,

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Figure 1
Strictness of Employment Protection Legislation in 2008


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5 For the complete text of the Employment Relationships Act, see www.mddsz.gov.si/en/legislation/veljavni_predpisi/zdr_1/#c16914.
the major issues in Slovenia's labor market center around youth unemployment and labor market rigidity, which can produce or amplify youth unemployment. When it is difficult or expensive for companies to hire or fire employees, they are less likely to hire new ones. Therefore, it was believed that both of these issues could be addressed by reducing labor market segmentation and increasing labor market flexibility (“Labour Market Reform Passed”).

Segmented labor markets exist within an economy that has dual labor markets in which one is considered primary (Hyclak et al., pp. 271–72). A major concern in Slovenia is that young graduates are forced into the secondary labor market because there is an excess supply of educated labor. A secondary labor market has evolved as a result of Slovenian reliance on fixed-term contracts that valued older workers (because they generally had more experience and presumably greater loyalty to the firm). Thus younger workers with less experience were at a disadvantage. The omnipresent rigidity of Slovenia’s labor market cements the dual nature of the Slovenian labor market and makes movement out of the secondary labor market to higher-quality jobs extremely difficult. During its 2012 consultation with Slovenia, the IMF pointed to labor market segmentation as a key issue in the country’s labor market. It stated that employment protection policies prevented allocation of labor between sectors and companies. Furthermore, it concluded, “most of the burden thus falls on unprotected workers, who are typically younger, leading to an inefficient and unfair segmentation in the labor market” (International Monetary Fund, p. 17).

Fundamental flaws in Slovenia’s labor market, such as labor market rigidity, have far-reaching consequences, as evidenced in both high youth unemployment and market segmentation. Both the Slovenian government and international organizations such as the OECD have identified these as major problems in the labor market. These institutions have gone so far as to prescribe certain policy changes that could ameliorate some of the pressures on the labor market. Yet, because of political disagreements, coupled with the strength and prevalence of collective bargaining in Slovenia, many of these measures have not come to fruition. The most recent labor market reform is one example of the country moving in the right direction but still unable to surmount the fundamental problems that plague its labor market and hinder its economic growth.

In June 2012, the Ministry of Labor announced its “Starting Points for Labor Market Reform,” which outlined the direction in which the government would like to see its negotiations with various unions proceed. In an ideal world, one of the first points for reform, according to the Ministry, would be to establish broader acceptance of a single permanent employment contract because such a contract would de-emphasize the fixed-term contracts that have perpetuated labor market segmentation and youth unemployment. In the Slovenian system, fixed-term contracts would fall under the secondary labor market because they are less desirable contracts. Employers often issue fixed-term contracts as a way to protect themselves from the strict employee protection legislation that makes procedures such as firing difficult. Reliance on these fixed-term contracts, rather than better and more flexible permanent contracts, strips some employees of the rights they might otherwise have received when dismissed, for instance certain unemployment benefits (Clauwaert and Schömann, p. 4). In the reform legislation’s final form, which was passed in early 2013, fixed-term contracts became less attractive because employers using them had to pay for both severance and unemployment insurance. Meanwhile, the legislation softened some of the rules concerning indefinite-term contracts. For example, it decreased the maximum notice period for dismissal from 120 to 80 days, giving employers

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6Workers generally prefer jobs in the primary labor market where jobs are usually more secure, prospects for a long tenure are high, working conditions are good, wages are higher, and employees generally benefit more monetarily for higher levels of education. The secondary market, on the other hand, is much less attractive and often characterized by “dead-end” jobs in which prospects for promotion are low and pay does not increase with experience (Hyclak et al., pp. 271–72).

7I define “fixed-term contracts” as temporary working contracts where employees are only employed for a set period of time and, therefore, generally lack the benefits of indefinite or permanent employment contracts.
more flexibility when dismissing their workers (“Labour Market Reform in Force”).

Next, the Ministry sought to create a severance payment fund, which would make it less expensive for companies to fire workers and thereby increase the flexibility of the labor market. Initiatives to increase flexibility did not stop here; among the proposed revisions was a simplification of employment procedures, such as those followed when signing contracts or in disciplinary proceedings. These initiatives could increase flexibility by softening some of the institutional detriments to the labor market. Some of these topics would be dealt with in the early stages of the legislation as the reform gained momentum in 2012. However, according to Clauwaert and Schönmann (p. 4), most proposals would appear almost unrecognizable once employers and unions became involved.

Andrej Vizjak, Slovenia’s Labor Minister, mentioned early on in the negotiations that the volatile mix of union and employer interests within the current structure of Slovenia’s labor negotiation system would make radical change impossible. Both sides had control of a “self-destruct lever,” which they could use to halt negotiations indefinitely. To end progress toward reform and self-destruct, either the union or employer representatives needed to merely walk away from the negotiation table. Thus, throughout the negotiations process, the government was walking on eggshells so as to not upset either side to the point of mutiny. Reactions of the members of Parliament reflected their political interests and willingness to cater either to unions or employers. Although in this case cohesion among the actors was ultimately achieved in the form of passed legislation, again the goals for reform had become diluted during the negotiation process (“Confession: Radical Labour Market Reform Impossible”).

The Future of Labor Market Reform in Slovenia

The main problems in Slovenia’s labor market are rooted in its rigidity. The major concern of youth unemployment is perpetuated by the rigid, dual market. Market forces that could match employers’ needs with young workers’ skills are inhibited by the inflexible nature of labor institutions. As evidenced by previous Slovenian efforts to make the labor market more dynamic, negotiations are currently structured in a way that prevents the necessary drastic changes from succeeding. Tripartite negotiations between trade unions, employers, and the government need to continue, but they should take place in a system that puts less emphasis on maintaining the status quo.

The continuing strength of trade unions in Slovenia is not consistent with their declining membership and declining importance in the country’s economy. The decreased union density is likely associated with a decline in industries that typically have higher rates of union membership, such as manufacturing. The power of trade unions to influence the country’s politics must be thoroughly reviewed. Perhaps large confederations, such as the pre-transition relic that is ZSSS, ought to be broken down into component parts that more accurately reflect the desires of individual workers who directly feel the effects of slow growth.

At the bargaining table, Slovenian employers rely on well-established employer associations that represent a range of employers from enterprises to craftsmen (OECD 2009, p. 66). With a pattern of watered-down reform bills attributed to the strong influence of trade unions, one of the employers’ foremost objectives is to deal with the country’s strict EPL. As in many other countries, the OECD reports that in Slovenia “many employers seek to avoid signing labor contracts of the mainstream, indefinite-duration type and prefer temporary contracts, which can lead to labor market segmentation” (OECD 2009, p. 16). Thus, in an effort to protect their short-term interest in Slovenia’s current labor climate, employers put themselves at a long-term disadvantage by favoring policies that could result in lower economic growth and greater market segmentation.

In an effort to protect their own interests, neither trade unions nor employers in Slovenia will concede much on reform legislation. As discussed previously, the Slovenian system provides each side with a virtual self-destruct button that could end negotiations instantly. In order to spur sustainable economic growth, the government needs to hold both sides
accountable for the effects of their stubborn attitudes on the nation’s economy. Therefore, I would advise that the tripartite negotiation structure be adjusted to put more power in the hands of the Ministry of Labor. As a body subject to the scrutiny of the electorate, the Ministry should act in the public’s interest, and its actions should be in accordance with, and with support from, the public. The Ministry could potentially act as an entity independent from unions or employers, focused solely on the growth of the Slovenian economy. If this were the case, the Ministry would then be able to respond more quickly and more efficiently to any labor market shocks that required intervention.

**Conclusion**

Isabell Koske, a senior economist at the OECD, argues that in order to improve the operation of its labor market, Slovenia must address specific structural problems: the average length of time spent on tertiary education and the preeminence of temporary work contracts. Koske is correct in her assessment that incentives to graduate earlier, not pursue advanced degrees, and join the workforce need to be strengthened for Slovenian students. Her research shows that the financial burden on the government to pay for prolonged tertiary education is not justified by the contribution to the economy that this extra education makes. As Koske argues, reducing the number of temporary work contracts also would help combat labor market dualism (Koske, p. 3).

Slovenia’s labor market is in urgent need of reform. Employment needs to be generated in a system where growth is lacking and the future job market for Slovenia’s youth looks grim. Koske’s focus on the structural issues of tertiary education and work contracts affirms the argument made in this article—that slow and minimal reform in Slovenia is a product of structural deficiencies, which are perpetuated by the bargaining power of trade unions in the negotiation system. Adjusting the labor market system to be more responsive to, and more efficient in, dealing with these issues will put Slovenia on the correct path toward achieving its full economic growth potential.
REFERENCES


