

# Explaining differences in labour mobility in Czech Republic and Slovakia

## Abstract

This article investigates the link between reform processes and migration dynamics in two central and east European economies: Czech Republic; and Slovakia. Unbundling development and socio-economic change along structural and institutional lines, the article argues that the timing, type and location of entry of the foreign direct investment which has served as the key driver of economic restructuring, in conjunction with adjustments to welfare states, enhances our understanding of why labour has migrated with very different rates from and to the Czech Republic compared with from and to Slovakia.

**Keywords:** labour migration, transition, restructuring, Czech Republic, Slovakia

## Introduction

Major geo-political and economic shifts took place in the eastern bloc in 1989, which substantively changed the basic living and working principles of people in central and eastern Europe. Prior to the fall of the Berlin Wall, communist regimes severely restricted the free movement of people across the borders. The shift to democratic principles in the east brought individual freedom to decisions to travel or migrate, while it also marked a transition from the planned to the market economy. Labour migration from the central and east European region has been a phenomenon present throughout the whole period of transition, but it took on an unprecedented magnitude after the 2004 EU enlargement.<sup>1</sup> The exact directionality of these flows towards the UK and Ireland was largely unexpected, as was the uneven distribution of migrants across the eight source countries.<sup>2</sup> Literature on labour adjustments and labour re-allocation within countries during the process of economic change and restructuring is abundant, but studies that try to understand the impact of economic and social reforms on between-country labour adjustments in the form of labour migration are scarce. This article seeks to fill this lacuna and investigate the link between reform processes and migration dynamics in two central and east European economies – Czech Republic and Slovakia.

1 Pawel Kaczmarczyk and Marek Okolski (2008) 'Demographic and labor market impacts of migration on Poland' *Oxford Review of Economic Policy* 24: 600-625.

2 Christian Dustman and Albrecht Glitz (2005) *Immigration, Jobs and Wages: Theory, Evidence and Opinion* Centre for Research and Analysis of Migration, CEPR: London; Thomas Bauer and Klaus F. Zimmermann (1999) 'Assessment of possible migration pressure and its labour market impact following EU enlargement to Central and Eastern Europe. A study for the Department of Education and Employment, UK' *IZA Research Report* No. 3; *Employment in Europe 2008* DG Employment, Social Affairs and Equal Opportunities: Brussels, 2008.

Through tracing the transition paths of these countries, the article aims to enhance our understanding of the impact of structural change and welfare system adjustments on the decisions of workers to migrate for work. Different opinions of the leading elites about the course of the reforms were among the main causes of the peaceful divorce of Czechoslovakia in 1993. Subsequently, political, economic and social reform processes have been gradually diverging in different areas of the socio-economic realm at different times. Surveys in the late 1990s show that Slovak and Czech citizens shared very similar intentions to migrate, and that the countries exhibited relatively similar net migration dynamics for most of the 1990s, but, interestingly, migration outcomes after the accession are very different and so is the degree of attraction of foreign labour into these economies.

In suggesting that the determinants of migration based on the neo-classical theory of migration fall short of explaining these differences, I propose my own framework for studying migration in the transition region. I analyse the effects over time of foreign direct investment (FDI) and of welfare state adjustments on migratory decisions in order to point out how a combination of these elements have either induced or reduced the propensity to migrate among Slovak and Czech citizens. Due to its aim to explain broad patterns and trends over time rather than micro-level behaviour, the article does not analyse extensively individual-level migrant rationales.

The article is structured as follows: I first demonstrate the varying migration dynamics from and to the studied cases both during the transition and after accession to the EU. The paper then briefly reviews the main explanations of migration determinants and considers how they fail to account for periodic and cross-country variation. In the following section, I briefly outline a new framework for understanding migration patterns, while the last section concludes.

### Migration dynamics: from similarity to difference

There are few data resources comparable across countries which allow the production of reliable comparisons about migration in transition economies. A survey of eleven central and east European countries carried out under the auspices of the IOM in 1998 is a notable exception, and provides reliable and comparable results about migration intentions for both Slovakia and the Czech Republic.

Among the notable findings of the survey was that there are major differences between these countries in the post-communist region in the forms and rates of intended migration. In general comparison with other central and east European countries, both Czech Republic and Slovakia emerge as countries with preferences for short-term migration, so as to work temporarily in EU countries for higher wages. Very few people expressed a willingness to go abroad for longer and fewer still intended to emigrate for good. Importantly, the shares in the two countries were extremely similar, other than that slightly more Slovaks than Czechs answered positively. At the same time, more Czechs had made tangible steps towards realising their migration intentions: significantly more Czechs had learned a foreign language and obtained qualifications, which implies that they had carried out actual preparations for going abroad. As such, intentions to migrate in 1998 seem to have a greater actualisation potential in the case of Czech migrants than in the case of Slovaks. In addition, more Czechs than Slovaks

declared having a network of friends or relatives abroad in other central and east European countries or in western ones (see Table 1).

**Table 1 – Migration potential in Czech Republic and Slovakia, 1998 (%)**

	Czech Republic	Slovakia
<b>Would like to go abroad for ...</b> (percentage answering 'Very likely' and 'Likely')		
Few weeks	49	56
Few months	44	47
Few years	24	27
For the rest of life	10	11
<b>Friends or relatives abroad that could help with migration</b>		
Central and eastern Europe	21	17
Western countries	36	24
<b>Preparations for going abroad</b> (all countries)		
Learned a foreign language	24	17
Obtained qualifications	17	9
Sold property	1	2
Obtained information	13	14
Applied for jobs	5	5
Found a place to live	5	4
Applied for permit	3	3
Contacted people	3	2
Other	4	2

Source: IOM, 1998.

In contrast to migration intentions in the late 1990s, migration outcomes after the countries had joined the EU differ significantly. The number of Slovak citizens who decided to migrate for work to those countries which liberalised their labour market after accession is much higher than the number of Czech workers. Between May 2004 and December 2007, approximately twice as many Slovaks as Czechs registered with the Worker Registration Scheme in the UK or for Personal Public Service numbers in

Ireland.<sup>3</sup> When corrected for the size of population of these countries, approximately four times as many Slovaks migrated for work in the after-accession period than Czechs. In addition, the net migration rate throughout the whole period of the transition points to a rising gap between the countries.<sup>4</sup> In the 1990s, the net migration figures were relatively similar, but the gap has started to grow very quickly since 2002/2003.

These differences are in striking contrast to the similarities just described on intentions to migrate in 1998. In addition, not only is it the case that Czech workers in recent years are less prone to migrate for work abroad than Slovak workers, but the Czech Republic is, at the same time, much more attractive for foreign workers than Slovakia. The very strong and growing capacity of the Czech Republic to attract migrants, which is higher than any other new EU member state (except Hungary), compared to the lack of capacity to do so in Slovakia, points to systematic differences between the two economies.

How these came about and how they affect migration patterns will be analysed later but, before that, I first address the potential of the propositions of traditional migration theories to account for these developments.

### Traditional explanations of migration

Migration literature investigates the motives, patterns and mechanisms on the basis of which workers migrate. There is a variety of theoretical models which employ varying concepts, assumptions, frames and levels of analysis.<sup>5</sup> The common underlying assumption of the dominant theory, the neo-classical theory of migration, is that migration is stimulated primarily by rational economic considerations of relative benefits and costs, mostly financial but also psychological. In the research into expected migration propensity from central and eastern Europe after enlargement, the prevailing conceptualisations were based on the neo-classical theory of migration in its basic specifications and looked at the economic factors – wage, income differentials and probability of employment – as the main predictors of the behaviour of migrants.<sup>6</sup>

This article argues that wage differentials alone fail to account for the cross-country and periodic variation in migration patterns in the two studied cases. Below, I briefly explain how.

- 3 *Accession Monitoring Report. May 2004 – June 2008* (a joint Online Report by the Home Office, the Department for Work and Pensions, HM Revenue & Customs and the Department for Communities and Local Government, June 2008).
- 4 Eurostat: *Net migration*. Figures are based on the difference between total population growth and natural growth and show permanent migration.
- 5 For a review of migration theories, see: Douglass S. Massey *et al.* (1993) ‘Theories of international migration: a review and appraisal’ *Population and Development Review* 19: 431-466.
- 6 Bauer and Zimmerman (1999) *op. cit.*; Christian Dustmann *et al.* (2003) *The impact of EU enlargement on migration flows* Immigration and Nationality Directorate of the UK Home Office, Home Office Online Report 25; Tito Boeri and Herbert Brucker (2001) ‘Eastern Enlargement and EU-Labor Markets: Perceptions, Challenges and Opportunities’ *World Economics* 2; Richard Layard *et al.* (1992) *East-West migration. The alternatives* MIT Press and WIDER: Cambridge, MA.

### *Economic factors: wages and unemployment*

The Slovak part of Czechoslovakia was, during the whole period of the existence of the common country, poorer and, until the 1970s, relatively less developed. The Czech lands hosted a mixture of industries, whereas heavy industries of steel and armaments were established in the Slovak part. At the outset of the transition, this resulted in Slovakia being hit harder, both in terms of the length and the severity of the first transitional recession. It also explains the high unemployment with which Slovakia has been struggling throughout the whole of the transition period: unemployment jumped to a high level due to the high share of heavy industry, especially in armaments and steel, which went bankrupt due to the loss of export markets and to old-fashioned ways of production which were not able to survive in competition with western markets.

The level of development of the two countries as measured by GDP per capita differed in 1990 by over 20 % and the countries have retained this relative difference in GDP.<sup>7</sup> A return to 1989 wage levels was much faster and more successful in the Czech Republic, which surpassed its wage level from before the transition towards the end of the 1990s. Wages in Slovakia grew more slowly, while the annual change in real wages was much more volatile and affected by economic cycles as well as the economic problems that the country was facing at multiple points in the period prior to joining the EU.

It is known that, over the course of the transition, the countries exchanged a great deal of labour between each other. In more recent years, there has been a prevalence of Slovak workers going to the Czech Republic who have found employment mostly in the industrial segments of the Czech labour market. Higher wages and the strong Czech currency are proposed as the main explanations of the more recent Czechoslovak migration dynamics, which has been characterised by short-term flows and a return home of migrants on the termination of work. Wage differentials, in combination with strong language and cultural ties, are a good explanation of the migration exchange between the Czech Republic and Slovakia, but alone they are less powerful in explaining why many more Slovaks migrated to western Europe after the accession or why the Czech Republic has been attracting so many migrants of other nationalities while Slovakia has not.

Furthermore, my work acknowledges that the incidence and structure of unemployment is an important determinant in explaining the higher migration propensity from Slovakia, but I will argue later in this article that it gains its explanatory validity only when understood in the context of structural and institutional determinants and policy decisions.

### *Proximity to the west*

Proximity to richer economies is another factor considered in migration theory as having an impact on propensity to migrate. Causality anticipates that more migrants will leave from countries which lie geographically closer to rich economies due to higher wages and, most importantly, lower transaction costs of mobility based on

7 All figures: author's own calculations based on Transmonee data.

smaller distances between the countries. According to that, the Czech Republic, which borders Germany and Austria directly, should have seen more outwards migration than Slovakia. This was partly the case during the initial phase of the transition, when a considerable rate of cross-border commuting, or short-term migration, from Czech Republic to Germany and Austria was taking place, but the nature of this phenomenon has declined over time and it is currently considered marginal.<sup>8</sup>

Additionally, proximity as an explanation of migration dynamics to Britain and Ireland after the accession of Slovakia and Czech Republic to the EU again falls short of accounting for the variation. In this case, the distance of the sending countries to the UK and Ireland is very similar and is lessened by easy access to cheap transport, i.e. the readily available cheap flights that have mushroomed between the central and east European region and western Europe generally.

### *Internal mobility*

The degree of internal mobility is of importance for migration dynamics in two ways. First, internal mobility can effectively serve as a substitute for outwards mobility. Second, internal mobility can serve as a proxy for 'attitudes' towards migration. Internal mobility has traditionally been low in all transition economies, with minor cross-country differences.<sup>9</sup> Both the Czech and the Slovak labour markets share a feature of low internal mobility, which can be explained historically and culturally as well as by deficiencies in the housing and other markets.<sup>10</sup> All in all, internal mobility is unlikely to be a significant explanation of the different migration dynamics in Czech Republic and Slovakia due to the levels of internal mobility being equally low.

### *Networks, diaspora and the culture of migration*

The existence of a diaspora, or networks of nationals of a sending country in a receiving country, is likely to influence the decisions of migrants when they choose their destination. Analyses have demonstrated the tendency of new immigrants to move to enclaves already established by their compatriots or ethnic kin. In the context of transition economies, this explanation is partly weakened by the history of communist oppression, which did not allow free movement for work or travel. Mobility was restricted, but thousands of people were emigrating from the region in the quest for a politically freer life.

In spite of high natural population growth, net migration for both Slovakia and Czech Republic for the period between the 1960s and the late 1980s was prevalingly negative; it was driven politically, by attempts to escape the oppressive regime and start

- 8 Marie Vavrejnova (2006) 'Mobilita pracovní síly před a po vstupu ČR do EU' Institut integrace ČR do evropské a světové ekonomiky Fakulty mezinárodních vztahů Vysoké školy ekonomické v Praze.
- 9 Pierella Paci *et al.* (2007) 'Internal Labor Mobility in Central Europe and the Baltic Region' *World Bank Working Paper* No. 105.
- 10 *Ibid*; see also Stepan Jurajda and Katarina Maternova (2005) *How to overhaul the labor market: Political economy of recent Czech and Slovak reforms* background paper prepared for the World Development Report 2005.

anew in freer, as well as more prosperous, western countries. In the Czech case, one can observe relatively smaller degree of outflows in the late 1960s, characterised by greater optimism for the regime and by expectations of the fruits of Dubček's socialism with a human face. Disillusionment with the 1968 Soviet oppression, and increased normalisation in the 1970s, are also reflected in higher rates of outwards migration, as shown by greater negative net migration in the early 1970s in both countries.<sup>11</sup>

All in all, however, there are no significant differences in the outflows of people during communism from the two parts of Czechoslovakia which would create a greater network capacity in one or the other country. Moreover, the nature of migration during the old regime was very different, with political incentives prevailing. The extent to which people who fled were able to keep ties with home, or who were interested in doing so, is questionable, not least due to the fear of persecution of those who stayed behind. This is yet another element why emigrants who had left communist countries during the Cold War are unlikely to have served as a source of networks and assistance for the wave of migrants after the fall of the regime, and even less so after EU accession.

The network theory is more useful in explaining directionality and the perpetuation of flows rather than decisions to migrate. However, it falls short of accounting for the variation across the two countries also as a result of the denser links declared by the Czech migrants presented in Table 1, which would have predicted greater outwards migration from the Czech Republic which, as we have seen, was not the case.

### Towards a (macro) explanation of migration

Why do we see different migration dynamics in the Czech Republic and Slovakia during the course of the transition and after accession to the EU, in spite of their similar legacies? Traditional explanations of migration fall short in explaining the difference in migration dynamics between these countries in *both* these circumstances. In this section, I would like to outline alternative ways of explaining the dynamics that the countries have witnessed in terms of outgoing and incoming migrants. I argue that the migration patterns in the two studied cases can be understood when analysed as part of the socio-economic transformations that the countries have experienced. The account is anchored in macro- and mezzo-level explanatory frameworks of migration, inspired by different theories both within and outside of the migration literature (world systems theory; dual labour market theory; welfare state literature; the varieties of transnational capitalism school; and the transition literature).

Rather than looking at the demographic determinants of individual decisions to migrate, I propose a theoretical approach which combines structural and institutional variables. This facilitates an examination of the processes of transition and structural change, as well as adjustments to the welfare states, in these two countries, on the grounds that these may illuminate why workers from the Czech Republic have migrated on fewer occasions than their counterparts from Slovakia, and why the Czech Republic has been attracting significantly more foreign labour than Slovakia, especially in the 2000s.

11 All figures from *European Social Statistics. Migration* European Communities, 2002.

The next section is, therefore, structured in two parts and seeks to map the differences and similarities in, first, the dynamics of restructuring of the economies, mainly through the lens of the impact of FDI; and, second, in welfare state reforms and retrenchment.

### *Foreign direct investment and structural change*

All central and east European countries share a common communist legacy, characterised by state-led development and full employment, mainly in large state-owned enterprises or collectives. In the process of transition, a major re-allocation of labour took place when employment had to drift away from the state (large firm) sector into the new private sector and small and medium enterprises.

The key driver behind economic restructuring has been foreign direct investment (FDI), which entered the region in the framework of the privatisation of state enterprises, absorbing a large proportion of workers released from the state sector, but also as greenfield investment. The transition literature has generally argued that FDI has a beneficial role as regards growth in central and eastern Europe and has also demonstrated that it has served as a source of capital and technological and organisational knowledge.<sup>12</sup> In addition to the effects on aggregate employment, FDI has a strong influence on domestic employment through affecting the:

Types of jobs created, regional distribution of new employment, wage levels, income distribution and skill transfer.<sup>13</sup>

Job relocation and labour shedding in the transition were driven by a combination of the pick-and-choose decisions of foreign investors and the policy choices made in respect of the subsidies offered to foreign and domestic firms. Non-employment benefits (unemployment, social security, sickness, early retirement), which central and east European governments introduced to a greater extent than did post-Soviet countries, affected wage dispersion and were instrumental in helping the population to adjust.<sup>14</sup> Studies into the links between FDI and employment generation in transition economies have concluded that foreign investment enterprises, after the first transition recession,

- 12 See, for example: Tomasz Mickiewicz, Slavo Radosevic and Urmaz Varblane (2000) 'The Value of Diversity: Foreign Direct Investment and Employment in Central Europe During Economic Recovery' *ESRC Working Paper 05*; Dorothee Bohle and Bela Greskovits (2005) *Capital, Labor and the Prospects of the European Social Model* paper prepared for a workshop at Hamburg Institute of International Economics, September; Alojzy Nowak and Jeff Steagall (2001) 'Foreign Direct Investment Patterns and Consequences in Central and Eastern Europe, 1990-2000' *Yearbook of Polish European Studies* 5: 67-95. For a more critical account, see Werner Sengenberger (2002) *Foreign direct investment, industrial restructuring and local labor markets in the transition economies of Central and Eastern Europe: Issue for debate* UN Economic Commission for Europe.
- 13 Mickiewicz *et al* (2000), *op. cit.* p. 5.
- 14 Tito Boeri and Katherine Terrell (2002) 'Institutional Determinants of Labor Reallocation in Transition' *Journal of Economic Perspectives* 16: 51-76.

operated as an important buffer to the further erosion of employment,<sup>15</sup> while in the 2000s greenfield investments generated employment directly.<sup>16</sup> All in all:

Any recovery in CEE was most often FDI-led or FDI assisted.<sup>17</sup>

This section will emphasise the importance of the timing, type and location decisions of foreign investors in affecting restructuring paths across the two countries in very specific ways.

Central and east European economies have opened up to the inflow of FDI to different degrees and at different points in time during the transition.<sup>18</sup> This is also the area where a key difference rests between the Czech Republic and Slovakia: the dynamics of incoming foreign direct investment – which, in turn, has affected inter-occupational employment (and, indirectly, unemployment trends) – have differed between the two countries, especially during the initial decade of the transformation. Specifically, the Czech part was, in the early 1990s, already an above-average performer in attracting FDI, while Slovakia lagged behind and started to become a regional attractor of FDI only towards the end of the 1990s. Net FDI inflows into Slovakia were marginal relative to inflows to the Czech Republic for most of the 1990s, and only started to rise from 1999 onwards. Similarly, cumulative FDI stock as a share of GDP in Slovakia significantly lagged behind that of the Czech Republic until the early 2000s when the countries started to converge.<sup>19</sup>

This period of a lagged opening up of Slovakia for FDI in comparison to its neighbour was, in my view, crucial in affecting migration dynamics both between the countries but also in terms of realised migration outside the territory of Czechoslovakia. The precise importance of this difference can be outlined in three ways.

First, as already demonstrated, FDI has played a crucial role in job preservation and job creation in transition economies. In this respect, a more significant inflow of foreign investment to the Czech Republic directly affected employment levels in the country which, at the same time, suffered lesser misfortune in its initial industrial structure than the Slovak Republic.

Second, the earlier and more massive entry of FDI into the Czech Republic has – via the demand for more skilled labour – increased the skill premium and the returns

- 15 Mickiewicz *et al* (2000), *op. cit.* p. 18; Guilia Faggio and Josef Konings (2001) ‘Job creation, job destruction and employment growth in transition countries in the 1990s’ *IZA WP No. 242*, p. 11.
- 16 Malgorzata Jakubiak *et al* (2008) *The Automotive Industry in Slovakia: Recent Developments and Impact on Growth* Commission for Growth and Development: World Bank; Bob Hancke and Lucia Kurekova (2008) *Varieties of capitalism and economic governance in Central Europe* New Modes of Governance FP7 Project Ref. No: 20/D092008.
- 17 Mickiewicz *et al* (2000), *op. cit.* p. 24.
- 18 Nina Bandejl (2008) *From Communists to Foreign Capitalists. The Social Foundations of Foreign Direct Investment in Postsocialist Europe* Princeton University Press: Princeton and Oxford; *Slovak Republic Living Standards, Employment and Labor Market Study* World Bank, 2002.
- 19 Data from UNCTAD and EBRD *Transition Report 2008*.

to education.<sup>20</sup> This higher premium is tied to greater wage dispersion and, potentially also, to a greater rise in wages. This latter is the next link through which FDI has – indirectly – contributed to the essentially lower propensity to emigrate from the Czech Republic in comparison to Slovakia, where these potential FDI effects were missing and, hence, wages grew more slowly.

The third link is materialised through the type of FDI that the countries have been able to attract, which has shown to be essential in explaining the success of the Czech transformation in terms of its record low unemployment rates. Munich *et al.* argue that the exceptionally low unemployment rate in the Czech Republic relative to Slovakia was brought about by a rapid increase in vacancies alongside unemployment, which has resulted in a relatively balanced unemployment-vacancy ratio both at the aggregate as well as at the district level. Importantly, the vacancies that were being created in the country matched rather well the existing profiles of labour throughout the transition.<sup>21</sup> This was perhaps due not least to investments into the Czech Republic already early on following a more balanced distribution in terms of their sectoral and regional orientation, which was hardly the case in the Slovak counterpart.<sup>22</sup>

The distribution of foreign direct investment in Slovakia over the period of the transition, both across sectors and across the regions of the country, has been very uneven. In the late 1990s, the allocation was skewed towards the manufacturing sector, which attracted nearly 50 % of investments, followed by trade and financial intermediation, each gaining over 19 % of foreign investments. At that time, the Bratislava area attracted roughly two-thirds of all FDI, a factor explaining why the employment performance of the region around the capital city has far surpassed that of other areas in the country throughout the transition.<sup>23</sup> The unfavourable patterns of FDI distribution in Slovakia have remained largely unchanged up to now. Consequently, differences in the unemployment-vacancy ratio in the early part of the transition (between 1991-1995), and throughout in the two countries, have been prominent and highlight both a greater balance between job seekers and vacancies and a more balanced distribution of labour market tightness across the regions in the case of the Czech Republic.<sup>24</sup>

I propose that a combination of the above factors – the timing of FDI entry (sooner in the Czech Republic and later in the Slovak case), as well as the sectoral composition

- 20 Giovanni S. F. Bruno *et al.* (2004) 'Foreign Direct Investment, Wage Inequality and Skilled Labor Demand in EU Accession Countries' *Development Studies Working Paper No. 188* Centro Stidu Luca D'Agliano, October; Mickiewicz *et al.* (2000).
- 21 Daniel Munich, Jan Svejnar and Katherine Terrell (1998) 'Worker-firm matching and unemployment in transition to a market economy: (why) are the Czechs more successful than others?' *CERGE-EI Working Papers No. 141*.
- 22 See also: Stepan Jurajda and Katherine Terrell (2002) 'What drives the speed of job reallocation during the episodes of massive adjustment?' *IZA DP No. 601*; Vit Sorm and Katherine Terrell (1999) 'Sectoral Restructuring and Labor Mobility: A Comparative Look at the Czech Republic' *William Davidson Institute Working Papers Series 273*.
- 23 *Slovak Republic Living Standards, Employment and Labor Market Study* p. 84. SARIO.
- 24 *OECD Lessons from Labor Market Policies in the Transition Countries* OECD: Paris, pp. 209, 255.

and regional orientation of FDI (more balanced in the Czech lands than in Slovakia) – have contributed to the very high unemployment rates that have defined the transition experience in Slovakia, as well as to the labour market mismatches. It is clear that the pool of unemployed people at least partly made up the migration pool from Slovakia to the Czech Republic before accession, and it is known that Slovak labour has been coming from the more depressed regions of the eastern, central or southern parts of the country.

### *Welfare state reforms, labour markets and migration*

The role of welfare states through social and labour market policies has been crucial in the transition, not only in mitigating the negative impact of privatisation and liberalisation processes but also in making economic restructuring successful.<sup>25</sup> The most immediate response to initially rising unemployment was the introduction of unemployment benefit schemes, in addition to which some of the countries in the region (i.e. Hungary) introduced wide schemes for early retirement or disability pensions, hence decreasing the official unemployment figures.

Social security schemes and other aspects of (post-socialist) welfare states have played a crucial role in affecting migrant decisions, both directly and indirectly. Welfare states affect migration decisions by offering opportunity structures and safety nets in cases of struggles on the labour market. For people at high risk of unemployment, this would primarily reflect policies related to the labour market – both passive (unemployment schemes, social welfare assistance, early retirement); and active (retraining, start-up grants, job creation support). Both have been directly relevant in shaping the range of options and opportunities in respect to employment options at home versus those on offer abroad. Other areas of welfare schemes, such as health care, education, housing or family benefits, embody *indirect* forms of ‘income’; these are likely to be important elements in assessing the costs and benefits of migration when potential migrants make decisions within (future) households and would inhibit rather than induce migration, or else contribute to its temporary and/or circular nature.

At the initial point in the transition, the Czech and Slovak welfare systems were institutionally identical, although the levels of spending were naturally higher in Slovakia which had to spend more on dealing with its unemployed. With time, however, the countries have started to differ significantly.<sup>26</sup> Behind such changes in spending is a series of comprehensive reforms of the social security system in Slovakia. This started with the first Dzurinda government (1998-2002) but only took a full course between 2002 and 2006 during the second Dzurinda government, which was unified by the common pro-reform and neo-liberal ideology of the coalition parties. The window of opportunity for distancing the government from the infamous Mečiar regime allowed a series of far-reaching and radical reforms in virtually all segments of public governance, including all aspects of the welfare state other than education, shortly before

25 Boeri and Terrell (2002), *op. cit.*

26 Eurostat: *Social expenditure.*

Slovakia joined the EU; in contrast, however, the Czech Republic did not undertake any significant reforms until after its EU accession.<sup>27</sup>

Hence, the ways to address labour market problems in the two countries have been very different, as well as being marked by the different ideologies and political preferences of the governing parties since separation in 1993. The difference in the trends in the size of funds allocated to dealing with labour market problems over time cannot be more striking: spending on labour market policies (LMP) has risen continuously since the mid-1990s in the Czech Republic, but has been declining sharply in Slovakia from the early 2000s, essentially converging on the levels of spending in the two countries shortly before accession. Thus, increasing unemployment in the Czech Republic has been reflected in a concomitant rise in spending on active and passive labour market policies, whereas labour market expenditure in Slovakia significantly declined from 2000 onwards, in spite of unemployment reaching its peak and attaining levels three times higher than in the Czech case (Figure 1). Passive LMP spending declined rapidly while active LMPs, which would have been in line with the 'activation logic' of the governments in power, have not only not risen but have continued to decline in the country.<sup>28</sup>

Furthermore, Slovakia significantly changed its labour market rules towards greater flexibility. The Slovak economy was, in 1998, more rigid overall in terms of employment protection legislation, but it introduced greater flexibility in the areas of the dismissals of workers in both regular and temporary employment, fixed-term employment and collective agreements by 2003. At this point, it had a less regulated economy than the Czech Republic, which had not undergone any substantive changes in labour market regulation.<sup>29</sup>

Labour market regulation in the two countries could have affected migration in two major ways, although the direct causality of the effect of employment protection legislation is not straightforward.<sup>30</sup> It seems, however, that the stricter regulation of dismissals in the Czech Republic provided more stability and security to those in employment, making firing but also hiring more stringent. Given employment opportunities and high employment levels, it does not seem to have had any negative effects on the Czech labour market. On the other hand, liberalised dismissal regulation has made both firing and hiring more flexible in the Slovak labour market and which, just before the accession, has had specific implications on, first, the feeling of security in respect of domestic employment; and second, the ease of re-entering the labour market after working abroad.

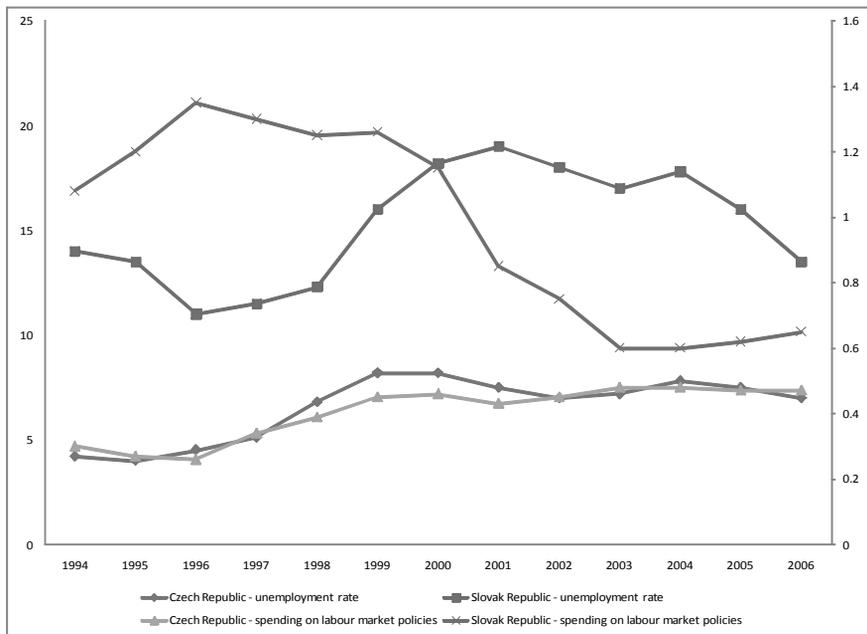
27 Jurajda and Maternova (2005), *op. cit.*

28 OECD, *op. cit.*

29 *Ibid.*

30 Faggio and Konings (2001), *op. cit.* p. 7.

**Figure 1 – Czech Republic and Slovakia: unemployment rate vs. spending on labour market policies**



Source: OECD and Laborsta.

Welfare states can, therefore, be linked to migration dynamics in three ways. Their relevance manifests itself in the labour market in the provision of safety nets at times of labour market problems (PLMPs), either in mediating the impact of the transition (ALMPs) or otherwise in offering public employment. At the same time, the existing social structures create expectations among citizens and, therefore, downward trends in adjustment might lead to reactionary behaviour such as migration. In addition to these ‘push’ effects of the welfare state, it can also function as a ‘pull’ factor via health care and education systems which gain importance if decisions are made within (future) households.

### Summary and conclusions

This article has explored the link between reform processes leading to different socio-economic regimes and the divergence in migration dynamics in two central and east European economies: Czech Republic; and Slovakia. The comparison of the Czech Republic and Slovakia is formed by a counterfactual: the countries have made opposite choices in crucial areas of transition policies since separation and, in effect, have essentially experienced very different migration patterns both from and to them. I argue

that the effect of FDI, which has served as a key driver of economic transition and restructuring in conjunction with adjustments to welfare states, helps us to understand better why labour has migrated with very different rates from and to the Czech Republic compared to those from and to Slovakia. I have shown that the countries shared initial similarity, but have moved towards dissimilarity on the welfare state dimension. The initial divergence on the structural dimension and attraction of FDI had been closed by the time the countries joined the EU, but it was insufficient to prevent vast outwards migration from Slovakia.

The transitional path in respect to the attraction of FDI and subsequent restructuring in the Czech Republic ended up being very different to that of the Slovak. First, the Czech Republic attracted more FDI and much earlier than was the case in Slovakia, which joined the quest for FDI only at the break of the millennium. Given the crucial importance of multinational companies in the process of job creation, this directly and indirectly affected the rates of migration from and to the Czech Republic, as well as migration from Slovakia to the Czech Republic in the late 1990s/early 2000s.

Second, this article argues that the motivations for such mobility were not purely driven by wages but equally – if not more so – by the employment opportunities which were on offer in the Czech Republic to Slovak (industrial) labour. Very high rates of outwards migration from Slovakia mainly to the UK and Ireland after accession can be fully explained only when the broader reform trajectory, primarily but not only in social welfare and labour market interventions, is considered. Here, the cases again show variation and divergence.

Reform in the Czech Republic generally, and in the social sphere specifically until very recently, has retained the basic pre-1989 features and its comprehensive, universalist and inclusive elements. Such a system is likely to provide wide-ranging safety nets and, in many aspects, broadens and improves the quality of life for all strata of society. Slovakia, on the other hand, and gradually from 1998 onwards, introduced a series of far-reaching reforms. This overhauled the old system, which originally had been very similar to the Czech system due to a common institutional legacy dating from communism and the early transition period. Most of the Slovak labour market and social system reforms had been launched in full before the country joined the EU in May 2004. Both direct and indirect links can be made between these comprehensive changes and increased rates of migration from Slovakia. At the time of joining the EU, Czech citizens lived in a country which had more work than it could fill with domestic labour, as well as a relatively extensive and comprehensive welfare system. In contrast, Slovakia was only entering the period of mushrooming job opportunities and had just re-adjusted its social system downwards for most segments of society, which were to get less from the government also in other spheres of public spending.

In sum, this article has applied a macro-level structural-institutional framework for studying migration patterns across countries and over time, and has shown that reform processes affected by different policy choices can be traced down and empirically connected to migration patterns. Migrant decisions – while rational – are undertaken in the context of the specific economic, social and institutional environments of the domestic countries.