The possibilities of solving unemployment of workers in agriculture and construction

Možnosti riešenia nezamestnanosti pracovníkov z poľnohospodárstva a stavebníctva

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Abstract: The paper deals on theoretical level with the potential solution of unemployment of seasonal labour in agriculture and construction industry, i.e. in the sectors where the work is typically seasonal. It proposes compensation for salary and insurance premiums paid from the National Labour Office resources (so-called maintenance wage could be based on minimal wage or minimum subsistence income) during winter season. Recipients of those wage compensations would be employers who could employ these employees during winter season. The maintenance wage could substitute for unemployment benefit which is paid during their unemployment. This solution would not be applied nation-wide, only in regions where it would be economically efficient and socially required.

Key words: seasonal labour, minimum wage, subsistence minimum, unemployment, unemployment benefit, special regime of seasonal worker

Abstrakt: Článok sa v teoretickej rovine zaoberá potenciálnym riešením nezamestnanosti sezónnych pracovníkov z poľnohospodárstva a stavebníctva, t.j. v odvetviach, pre ktoré je sezónnosť práce typická. Navrhuje úhradu mzdových nákladov a príslušných odvodov z prostriedkov Národného úradu práce (tzv. udržiavacie mzdy by boli založené buď na minimálnej mzde alebo životnom minime) počas zimnej sezóny. Adresátom týchto mzdových kompenzácií by boli zamestnávateľské subjekty, ktoré by zamestnávali týchto zamestnancov počas vegetačného kľudu alebo zimnej sezóny. Tieto udržiavacie mzdy by kompenzovali podporu v nezamestnanosti, ktorí títo pracovníci počas svojej nezamestnanosti poberajú. Toto riešenie by nebolo celoplošné, ale aplikovalo by sa len tam, kde by bolo ekonomicky efektívne a spoločensky žiadúce.

Kľúčové slová: sezónnosť práce, minimálna mzda, životné minimum, nezamestnanosť, podpora v nezamestnanosti, osobitný režim sezónneho pracovníka

INTRODUCTION

Agriculture

The process of progressive and extensive growth of productivity of labour, with a marked ousting of a section of the labour force onto the register of the unemployed, has been the fundamental manifestation in restructuring of agriculture.

According to the agricultural census, at the end of 2001, 84 300 persons worked in the agricultural farms of legal persons, while 13 900 persons (of which 5 900 were farmers, i.e. legally liable for the activity of the farm) worked in the farms of registered physical persons, 6 300 were family members and 1 600 were not family members. There was the total of 98 200 persons working in agriculture. There was a 43.5% decline in the employment compared with the year 1994.

The agrarian employment in the organisations with 20 plus workers is primarily constituted by agricultural co-operatives (this category of organisations account for 70% of the agrarian employment). Agricultural co-operatives operate on more than 54% of the total agricultural land. In the period of declining agrarian employment, inevitably, there grew the unemployment of persons with previous jobs in agriculture, which we operationally define as agrarian unemployment, i.e. the employment of persons whose last job before getting onto the register of unemployed had been in agriculture (Table 1). The existing demand for labour in the period of recession in agriculture is considerably uneven and reduced and does not show any significant signs of revival.

With progressive pressure on cost savings particularly in respect of the labour force, the significance of seasonal work is beginning to be increasingly visible. For the time being, it is addressed by a combination of work-related earnings and social income. On the other hand, we need to note that in some cases, seasonality of work does not derive from an objective assumption of uneven need for labour in certain periods of the year, but rather

Table 1. The development in agrarian unemployment for the period of 1993–2001

	Number of unemployed whose last job was in agriculture and forestry								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture and forestry	37 799	34 748	33 018	33 852	34 946	40 153	48 848	44 248	41 140
Proportion in the total number of branched classified unemployed (%)	20.1	17.2	15.0	15.1	15.3	13.8	13.5	13.2	8.5

Source: NLO

from the economic problems these subjects face, which they solve by reducing their cost of labour, thus striving for increases in labour productivity and the overall gains.

Currently, the National Labour Office (NLO) indirectly subsidises employment in agriculture, forestry and construction through financing seasonally deposited workers in the relevant labour offices.

The Act No. 556/2001 of the Collection of Laws, which amends the National Council of the SR Act No. 387/1996 of the Collection of Laws, on employment, as later amended, has extended the number of subjects which may employ registered unemployed in negotiated public works jobs for long-term unemployed, by "physical and legal persons carrying on activities in the branches of agriculture and forestry". This means that from 2002, agricultural businesses may use this new instrument of active labour market policy. In this social group, a strong risk and danger arises of "ousting" seasonal workers from the labour market and replacing them with persons from the public works scheme, whilst it may involve identical workers.

Construction

Employment in construction industry (total) fell by 31 300 persons (by 15.6%) over the course of 1997–2001. In 2001, there were 169 500 workers working in construction (Labour Force Survey). In the identical period of 1997–2001, the organisations with 20 plus employees have seen a decline in employment by 36 400 persons (41.8%), in these organisations in 2001 worked 51 809 persons (Employees and Average Wages, Statistical Office of the SR, 2001). The largest proportion of employees of this industry works in small businesses, or in licensed small trades and the process of decline was significantly higher in organisations with more than 20 employees. Apart from different dynamics of change in employment between small and large firms, restructuring changes did also occur by size of businesses. Significant segmentation of business entities has taken place, with small businesses emerging that were flexible in responding to seasonal fluctuations in the demand for labour. It was particularly in small businesses that the seasonal fluctuations of the need for labour showed more significantly and they used fixed term employment contracts more widely.

THE PROPOSED SOLUTION FOR SEASONAL WORKERS IN AGRICULTURE

The need for labour in agriculture is significantly higher than the corresponding labour force figures. Particularly private farmers (in the period 1997–2001 their number went down from 20 571 to 11 722, i.e. by 43%, *with the agrarian census putting their figure at only to 5 874 persons having the status of private farmer, i.e. a person having legal liability for the activity of the farm)* and small trading companies fill up the significant seasonal fluctuations of the need for labour from local resources, prevailingly from registered unemployed, often for in kind wage or a service in return. Of the plurality of all employer subjects, the businesses in agriculture use "black" illegal labour most widely. Yet, it is evident that this form of illegal labour in the countryside almost cannot be wiped out.

We see the solution in the application of the *status or special regime of seasonal worker (employee)* in the relevant branch with cyclical seasonal need for labour) and its legislative provision.

Seasonal works should be institutionalised in a special *regime of seasonal jobs***,** which would have the nature of year-round job places. The basis of the solution would be the introduction of the maintenance wage during the winter season, which would in greater part be paid by the NLO and in lesser part by employers as well. These persons would not be registered as job-seekers with the la-

Table 2. The development of unemployment in workers having their last job in construction for 1997–2001

	Number of unemployed having their last job in construction (as of end-year)				
	1997	1998	1999	2000	2001
Construction	31 260	45 620	62 721	53 512	47 676
Proportion in the overall number of branch classified unemployed (%)	8.99	10.65	11.72	10.57	8.93

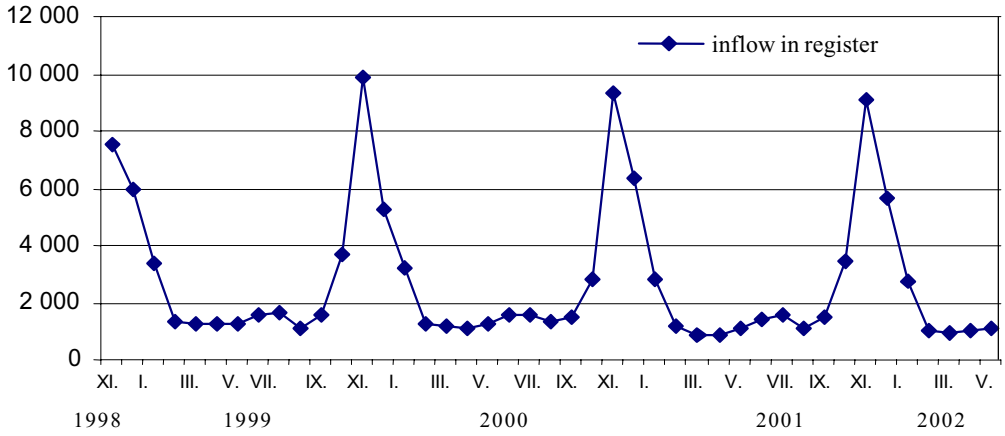

Figure 1. Inflow in the register from agriculture

bour office registers (a blanket reduction in the rate of employment would entail). With the assumed financial contribution of the NLO in the form of minimum wage (SKK 5 570), there would be a slight increase in the NLO outlays, which are currently spent on passive labour market policy in respect of this social group of workers. In the event of decreasing this contribution to the level of subsistence minimum (SKK 3 930), the NLO might even achieve savings on passive labour market policy outlays.

The employers would be provided with maintenance wage in the form of non-returnable contribution for the retention of job opportunities connected with seasonal nature in agriculture and forestry for four months at most (i.e. December, January, February and March). The amount of contribution would comprise the minimum wage + transfers on this contribution and would be provided, for example, per registered unemployed during the minimum of 4 consecutive years (i.e., time limited).

Of the total number of around 40 000 registered unemployed from agriculture and forestry, approximately 16 000 register each season (Figure 1). This number of registered unemployed receives an average unemployment benefit of SKK 4 570 for 4 months (the average wage in agricultural primary production in 2001 was SKK 9 148), and adding insurance fund levies on their behalf of SKK 1 382, this means that *the NLO pays in average SKK 5,952 monthly for every person. With roughly 16,000 registered unemployed from agriculture who are in the labour office register for full four months, the NLO pays SKK 380.9 million (with 5 months on the register, the amount would be SKK 476.2 million) (Figure 5 and 6).*

The minimum wage-based model

Minimum wage (5 570 SKK)

The NLO would remit the employer the minimum wage: 5 570 SKK + 1 950 SKK (35% for insurance) i.e. SKK 7 520. The employer could also contribute optionally towards the worker's wage from his own resources.

With 16 000 registered unemployed (RU) from agriculture, which would be in the register for 4 months, these payments of the NLO would amount to SKK 481.3 million (with 5-month period on the register, it would amount to SKK 601.6 million), i.e., *the increase in outlays of the NLO, as compared with the situation where these RU would only pas-*

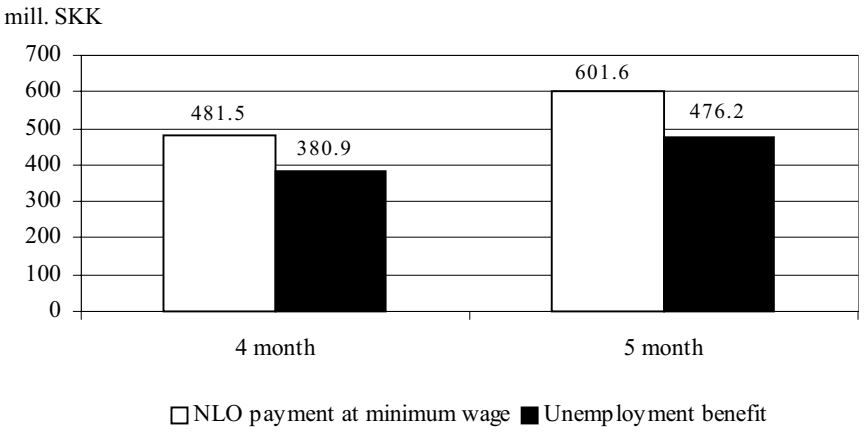

Figure 2. Minimum wage-based model (5 570 SKK)

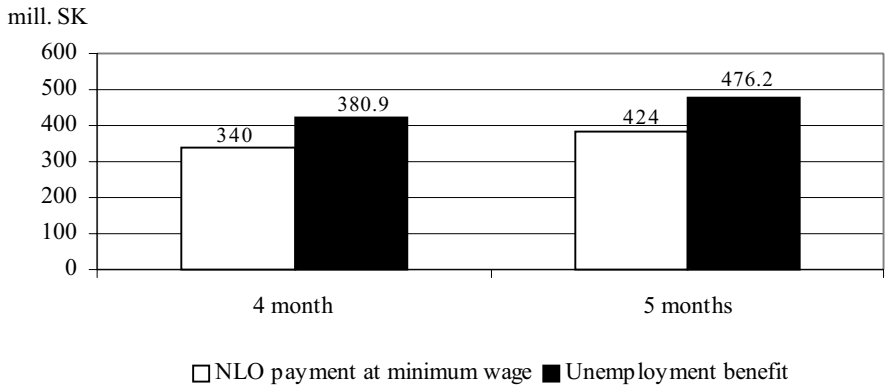

Figure 3. Subsistence minimum-based model

sively draw unemployment benefit (with 4 months on the register), would be SKK 100.4 million or SKK 125.4 million, with 5-month period on the register.

The subsistence minimum-based model (3 930 SKK)

The NLO would remit the employer a contribution for the wages amounting to subsistence minimum: 3 930 SKK + 1 376 SKK (insurance), i.e. 5 306 SKK. The employer would obligatorily contribute towards the worker's wage at least up to the amount of the minimum wage. With 16 thousand RU from agriculture, which would be in the register for 4 months, these payments of the NLO would amount to SKK 340 million (with 5-month period in the register, it would amount to SKK 424 million), which means that this model would bring the NLO savings of SKK 40.9 million (with 4 month-period on the register), or SKK 52.2 million (with 5-month period).

The reduction of the number of registered unemployed by 16 thousand persons (maximalist variant) would correspond to a monthly reduction of the rate of unemployment by 0.59 percentage points, and this namely in the most vulnerable winter months. Additionally, a secondary aspect of the solutions outlined above would not only be the continuation of the employer-employee relationship with the current business employer and hence the creation of economic values, but also potential elimination of this group's involvement in informal economy and black labour.

THE PROPOSED SOLUTION FOR SEASONAL WORKERS IN CONSTRUCTION

The number of seasonal workers in construction has been declining over the recent years and in 2000 and 2001 it ranged from 14 to 15 thousand persons. With the assumption that a "deposited" employee draws average unemployment benefit at SKK 5,895 for four months (1.5 times the sum of subsistence minimum), and adding insurance funds transfers (1 382 SKK), then the NLO pays SKK 7 277 monthly in respect of such registered unemployed. The average wage in construction (the organisations with 20 and more employees) in 2001 was SKK 13 266. With 14 000 registered unemployed from construction (maximalist variant), who are in the labour office register for four months, the NLO pays SKK 407.5 million (with 5 months in the register, the amount would be SKK 509.4 million).

The minimum wage-based model

The NLO would pay the employer the minimum wage of SKK 5 570 (in force from 1 October 2002) + SKK 1 950

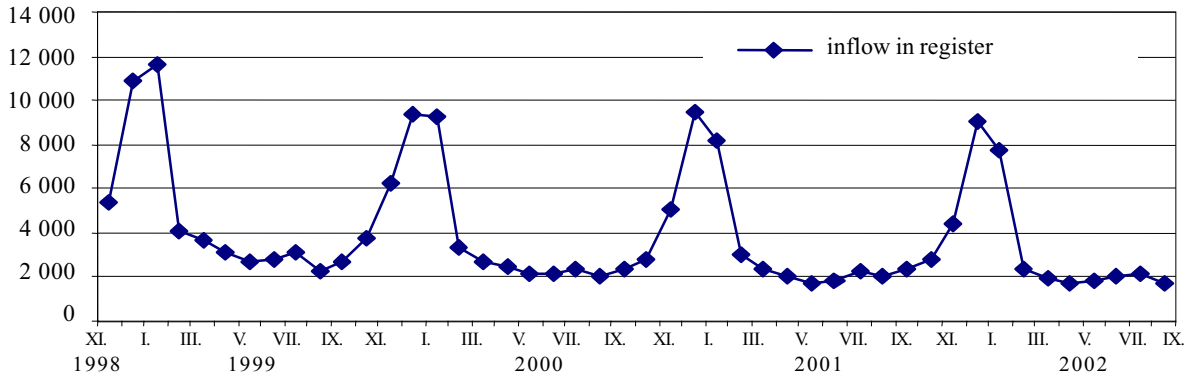

Figure 4. Inflow in the register from construction

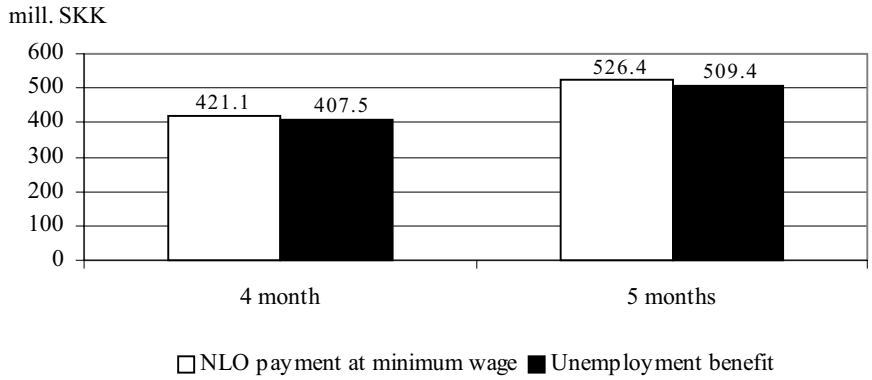

Figure 5. Minimum wage-based model (construction)

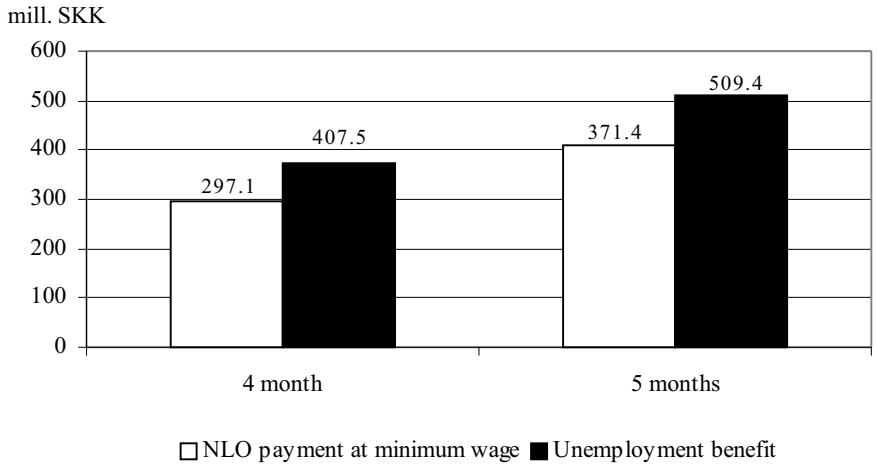

Figure 6. Minimum wage-based model (construction)

(35% for insurance), i.e. 7 520 SKK. The employer could optionally contribute toward the employee's wage also from his own resources.

With 14 thousand RU from construction, which would be in the register for 4 months, these payments of the NLO would amount to SKK 421.1 million (with 5-month period on the register, it would amount to SKK 526.4 million**),** i.e., *the increase in outlays of the NLO, as compared with the situation where these RU would only passively draw unemployment benefit (with 4 months on the register), would only be SKK 13.6 million or SKK 17 million, with 5-month period on the register.*

The subsistence minimum-based model

The NLO would remit the employer a contribution for the wage amounting to subsistence minimum: 3 930 SKK + 1 376 SKK (insurance), i.e. 5 306 SKK. The employer would obligatorily contribute toward the worker's wage at least up to the amount of the minimum wage. With 14 000 RU from construction, which would be in the register for 4 months, these payments of the NLO would amount to SKK 297.1 million (with 5-month period in the register, it would amount to SKK 371.4 million), which means that *this model would bring the NLO savings of SKK 110.4 million (with 4 month-period on the register) or SKK 138 million (with 5-month period).*

PROJECTION OF THE POTENTIAL APPLICATION OF THE PROPOSED SOLUTION

The model costing was based on the maximalist variant, which is practically unrealistic. In practice, there will always be a need to address the uneven need for labour and short-term employment contracts will have their logical justification. Therefore, a blanket inclusion of this group of employees in a special regime of seasonal worker is unlikely. We base our thinking on three levels of model costing:

– *minimalist variant,* based on the level of 25% of the total number of all projected seasonal workers,
– *realistic variant,* based on the level of 50% of the total number of all projected seasonal workers,
– *maximalist variant*, based on the comprehensive (100%) number of all projected seasonal workers.

The future reality will probably be somewhere in the room created between the minimalist and the maximalist variant (around the level of the realistic variant).

If the *realistic variant for both branches held* (it would concern 15 000 persons, i.e. there would be a 0.55 percentage point reduction in the rate of unemployment), the

Table 3. Variant costing of potential solution of seasonal work in agriculture (million SKK)

Variant	On register for 4 months				On register for 5 months			
	subsistence minimum		minimum wage		subsistence minimum		minimum wage	
	NLO payments at minimum wage	volume of actually paid unemplyoment benefits	NLO payments at minimum wage	volume of actually paid unemplyoment benefits	NLO payments at minimum wage	volume of actually paid unemployment benfits	NLO payments at minimum wage	volume of actually paid nemplyoment benfits
Minimalist	85	95.2	120.3	95.2	106	119.1	150.4	119.1
Realistic	170	190.5	240.7	190.5	212	238.1	300.8	238.1
Maximalist	340	380.9	481.3	380.9	424.0	476.2	601.6	476.2

Table 4. Variant costing of potential solution of seasonal work in construction ((million SKK)

Variant	On register for 4 months				On register for 5 months			
	subsistence minimum		minimum wage		subsistence minimum		minimum wage	
	NLO payments at MW	volume of actually paid benefits	NLO payments at MW	volume of actually paid benefits	NLO payments at MW	volume of actually paid benefits	NLO payments at MW	volume of actually paid benefits
Minimalist	74.3	101.9	105.3	101.9	92.9	127.4	131.6	127.4
Realistic	148.6	203.8	210.6	203.8	185.7	254.7	263.2	254.7
Maximalist	297.1	407.5	421.1	407.5	371.4	509.4	526.4	509.4

potential payments of the NLO for wages at the amount of the *subsistence minimum* (under the condition of 4 month-period on the register) would be SKK 318.6 million. For 4 months in the register of unemployed, this group of unemployed would be paid SKK 394.3 million in unemployment benefits, i.e. there would be savings for the NLO at SKK 75.7 million. Potential payments of the NLO for wages amounting to subsistence minimum, under the condition of 5-month period in the register, would amount to SKK 397.7 million. This group of registered unemployed would be paid SKK 492.8 million in unemployment benefits, which means there would be savings for the NLO amounting to SKK 95.1 million.

With the potential payment of the NLO for wages at the amount of the *minimum wage* (under the condition of 4 month-period on the register), these payments amount to SKK 451.3 million. These persons would thus be paid SKK 394.3 million in unemployment benefits, which means that there would be an increase in outlays for the NLO by SKK 57 million. With payment of the NLO for wages at the amount of the *minimum wage* (under the condition of 5-month period on the register), these payments would amount to SKK 564 million. In such case, SKK 492.8 million would be paid in unemployment benefits, which means there would increase in outlays of the NLO by SKK 71.2 million. From the costing, it is clear that

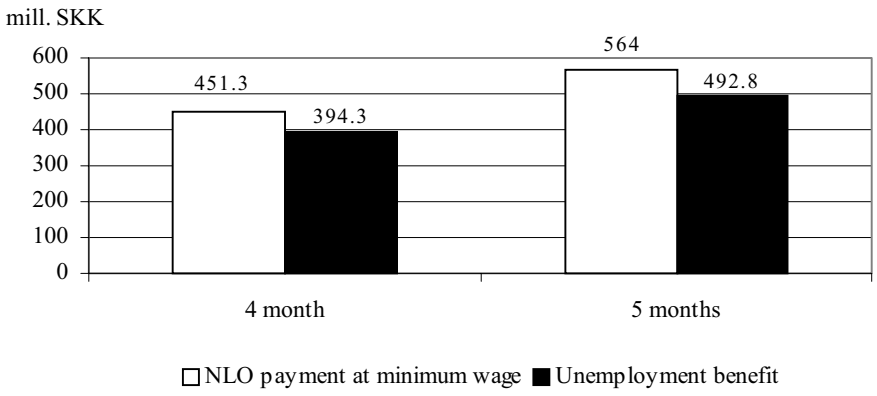

Figure 7. Realistic variant based on minimum wage

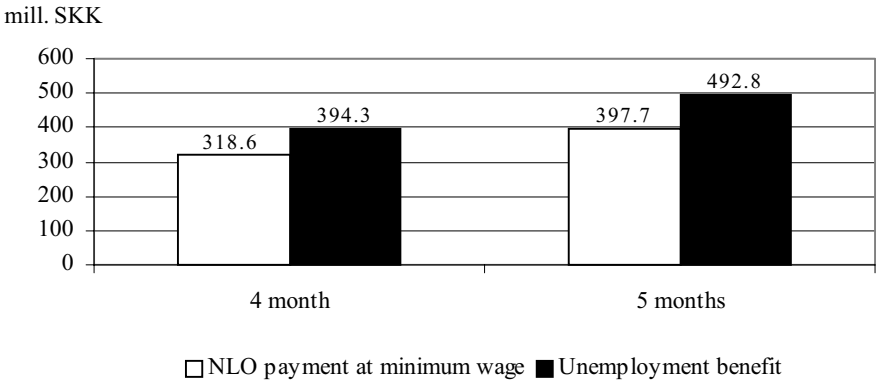

Figure 8. Realistic variant based on subsistence minimum

even the increased outlays of the NLO (under the variant of the minimum wage) to solve seasonal work would be acceptable from the aspect of their total volume and they would not erode in any significant way the financial budget of the NLO (Table3, 4 and Figure 7, 8).

CONCLUSION

The outlined solution is one potential way of reducing unemployment of a particular segment of the unemployed. It should be directed at only those employers who regularly make their unemployment insurance contribution transfers and have no obligations outstanding in respect of the NLO. The proposed solution would not cover all cases of seasonal work in the branches referred to above. That is not the purpose of the proposed solution. A certain measure of seasonality, solved by the fragmentation of the employer career and a combination of work earnings and social income, will continue. On the other hand, a portion of these employees (in whose case the reason for termination of the employment contract was more related to the economic problems of employers and the reduction of wage costs) will be able to continue their employment relationships with the wage support from the NLO. Thus not only will they contribute to creating economic values in their employing subjects, but the "stigma" of recurrent unemployment will be eliminated in the persons concerned, and at the same time, to some extent, the resorting of this social group to shadow economy and black labour will be removed.

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