

The Impact of Globalization and Technological Innovations on Unemployment of Low-Skilled Labor Force in EU Countries

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Abstract

Globalization is usually perceived as a process of weakening of national social subsystems isolation (production-economic, socio-cultural and institutional-political). These subsystems are integrated within the process to the global level, resulting in their significant independence growth. The importance and intensity of globalization processes are usually demonstrated on examples of increasing turnovers of the world trade or on examples of increasing volumes of foreign direct investment. However, less attention has been paid to the impact of globalization processes on labor markets - of economically advanced and developing countries as well. This paper is focused on analysis of two processes that are contributing in a significant way to changes in the labor market in EU countries. These processes are globalization and technological innovations, as well as their synergy effect. In this paper, they are presented as factors, which reduce the need for a low-skilled labor force and consequently increase the probability of excluding individuals from participating in labor markets. Globalized economy using advanced technologies does not need no longer unskilled and low-skilled labor force to the extent that they were previously. This fact has a significant impact on labor markets in the European Union. After a brief review of the sources from this area in question, we have formulated a research question. Subsequently, we have defined the target population as well as the form of social risks that this population has to face on European labor markets. Social risks have been developed to the level of empirical indicators. For each identified form of risk, we observed two basic indicators reflecting, on one hand the extent of the risk and, on the other hand its intensity related to the population of low-skilled labor forces under examination. Based on our analysis, we have drawn the appropriate conclusions regarding changes in the concept of the essential pillars of Esping-Andersen's Triad: Family - Market (Labor) - Social State.

Key Words: globalization, technological innovations, low-skilled labor force, labor market, European Union

JEL Classification: J 21, J 64

1. Introduction

Globalization has economical worldwide effects. Globalization is understood to signify major increases in worldwide trade and exchanges in a progressively more open, integrated, and borderless international economy.

This freedom of mobility gave the big companies of advanced countries the opportunity to use the cheaper labor from developing countries.

Rising international trade, in particular with emerging economies, may have weakened the labor market position of low-skilled workers in EU countries. According to schoolbook economics, developed countries that are well endowed with skilled labor have a comparative advantage in the production of goods requiring a highly educated workforce. In contrast, developing countries that are well endowed with unskilled labor have a comparative advantage in the production of goods that make intensive use of less educated workers. Consequently, increased international trade between developed and developing countries may hamper the employment prospects of low-skilled workers in EU countries.

Thus, trade liberalization and globalization favored by rapid technological progress produce economic development opportunities for countries but also cause instability and employability difficulties for a significant part of the population.

In the documents of European Union, the formation of a knowledge-based economy, based on the development of knowledge and technological innovation, is seen as a means to achieve competitiveness under the conditions of globalization. Based on assumptions that in the longer term the importance of expertise available to workers will increase, it can be concluded that labor markets in the European Union (EU) countries will be characterized by increased demand for highly qualified workforce. This workforce has the potential to become the generator as well as competent user of technological innovation, thus contributing to overall economic and social development.

However, above mentioned shift in the structure of labor demand is not associated only with positive effects. It also creates a number of negative phenomena that are caused by the simultaneous decrease in demand for manual work, usually requiring a lower level of qualification. The lack of higher qualification, in view of the individual's chances of employment on the current labor markets, is a considerable disadvantage for its holders. Traditional job opportunities for this labor force segment in industrial production are dying out in the long term, while newly created job positions could be characterized either by low quality (poor working conditions, insecurity and low wage), or by education and skills requirements that low qualified workforce is simply unable to meet.

This paper focuses on analysis of the impact of two processes – globalization and technological innovations – on the changes occurring on the labor markets in EU countries.

The processes of globalization and technological innovations (as well as their synergic effect) are perceived as factors that reduce the need for a low-skilled labor force and consequently increase the probability of their exclusion from the individual participation in labor markets.

In this paper, we can see social risks elaborated to the level of empirical indicators. Their analysis is leading to the conclusion that the new risks faced nowadays by the low-skilled labor force on European labor market, may be a symptom of deeper changes in today's society.

2. Literature Review

The current stage of globalization, in synergy with technological innovations, is resulting in the new social risks creation. They are social in the sense of being out of individual control, they are generated by social mechanisms [Taylor-Gooby, 2004].

As we have already mentioned, the economic transformation (which is occurring at the current stage of globalization under the conditions of a knowledge-based economy) is resulting in the disappearance of a considerable number of job opportunities in industrial production. There is a shift from manual to non-manual work, which implies changes in the structure of skills required by employers. Strengthening the relationship between the obtained education and the possibility to enter the labor market, becomes significant.

The new social risk that has emerged in this context is in fact a risk of social exclusion for those who do not obtained a sufficient level of education. Employees with certain social characteristics are getting into disadvantageous, marginal positions that are placed on the secondary labor market.

The concept of the secondary labor market is a part of "the vertical segmentation" which questions the classical concept of the labor market as an inherently homogeneous entity and considers its division into two hierarchical segments – primary and secondary (Sirovátka, 1995, p. 25).

Job opportunities concentrating in the primary segment and generally requiring higher qualifications, are usually better remunerated, have a higher prestige and provide a broad scope for further professional growth. In the primary sector, the working conditions as well as the level of the protection of workers from dismissal, are more favorable. From our point of view, it is also important to maintain a good attitude of employees at that kind of jobs to initiate further increase of their qualification, thereby enabling the increase of chances to keep them in this privileged sector. (Kuchař, 2007, p. 33).

The adjective 'secondary' indicates lower quality job positions – minimal social prestige, poorly paid and unstable. They are commonly referred to as occasional or seasonal work, where the possible job career is periodically interrupted by periods of unemployment. As far as the periodicity of segments is concerned, upward mobility from the secondary to the

primary segment is almost impossible. Workers in the secondary labor market have in fact almost zero opportunities to increase their own qualifications, which excludes them from being able to apply for jobs in the primary market. The whole problem is actually a vicious circle.

For a better understanding of the meaning of the new social risk, it is considered as useful to make a brief outline of the Fordist model of growth. It will serve as a basis for explaining the later changes that have occurred in the context of the post-fordist (knowledge-based) economy and have led to the fact that low education has become a significant disadvantage for the workforce.

The main economic characteristics of the Fordist model of growth were: full employment, relative income equality, but especially enough paid job opportunities for all who were able and willing to be employed. It was also significant that national governments were able to control the boundaries of their own economies¹ [Scharpf, 2000], while at the same time using the Neokeynesian economic policy that enabled to regulate the rate of unemployment as well as the level of wages. The Neokeynesian economic-political measures also implied relatively high and still continuous economic growth rates [Taylor-Gooby, 2004], which generated new job opportunities during this period. The basis for full employment and continued economic growth was mass industrial production. Its main pillars were large national corporations. However, the whole system could work only under the condition of ensuring sales of mass production. This condition was met due to mass consumption. Relation between production – consumption took place in a circle: the quantity of produced goods implied their mass purchase, which then motivated to the next mass consumption, which strengthened the mass production retroactively [Reich, 2003, p. 34] and thus full employment and economic growth.

The Fordist model of growth was also characterized by a high level of predictability that was the main aim for all participants – both employers and employees preferred stability to effectivity [Sennett, 2006].

Lifelong full-time job – this generally accepted standard of industrial system of working characterized by reliability and predictable wage growth, limited work efforts and wage policy system of based on levels [Beck, 2004] can be considered as one of the consequences of this preference.

The social risks mentioned in the introduction of this paper were essentially marginal in the Fordist model of growth. Involuntary exclusion from the labor market was unlikely for the segment of low-skilled workers. The mass production system (in addition to creating enough job opportunities for all) even slightly favored the low-skilled workforce – labor markets were

¹ Due to the borders closures, governments were de facto immune to the threat of investor departure to the other countries

characterized in particular by demand for those types of workers who performed mechanical monotonous activities within the production process.

The Fordist model of growth, as well as all of its characteristics mentioned above, is now a thing of the past. The current European economies are different, and their labor markets are different. A core sector of the economy is no longer industry but the services sector. Similarly, the demand for workforce is different. Globalized economies, fully exploiting modern technologies, no longer need unskilled and low-skilled workforce to the extent that they needed previously. They are dynamic economies of high performance and with opportunities of huge profits but not economies of full employment and smooth access to paid work for everyone interested in it. Employment and access to the labor market are increasingly linked to the value of human capital. The worst perspective is connected with those individuals representing low volume of human capital (low-skilled ones), it means, they cannot meet the qualification requirements of new jobs.

Globalization and technological progress are perceived as external factors that have transformed the overall economic context of the functioning of labor markets. They have caused the decline in demand for low-skilled workforce in two ways. On the one hand, they reduced the number of existing jobs with low qualification requirements (it was relocated to the economically least developer countries or replaced by machinery), on the other hand, they contributed to the creation of new jobs (in the service sector or in automated production), but with higher qualification requirements – higher demand on skills and knowledge of the workforce.

The globalization process radically transformed the shape and structure of the world economy. From the point of view of our paper, we find it useful to briefly analyze how it changed the structure of labor force segment and why the low-skilled workforce was put in a very disadvantageous position in the European economies. We consider the term ‘globalization’ as a ‘process during which the current barriers to the financial capital movements and the movements of goods across the borders of states and entire continents disappear, while the movements of people has been liberalized highly selectively’ [Keller, 2010, p. 53]. Unrestricted capital mobility enables transnational corporations to reduce production costs by moving production to the countries with low-cost workforce [Keller, 2010, p. 53]. As a result of moving a part of production to more favorable conditions, mass industrial production stops being a generator of full employment.

In the new situation of unrestricted global capital mobility, firms are free to decide where to invest, while national governments are losing their ability to control the boundaries of their own economies.

Low-skilled workers in European economies are no longer protected by Keynesian protectionism or import protection in the form of customs barriers. They have to enter into

competition on the open global labor market. Their competitors are strong opponents – workers from economically less developed countries who have a competitive advantage of lower wage costs combined with high work discipline [Esping – Andersen, 1999, p. 101]. In the Fordist model of growth, workers could afford to demand higher and higher wages, because the disruption of large-scale production would mean enormous loss of profits. However, the new global economy does not know these obstacles. As production facilities can be installed anywhere in the world, workers find themselves in direct competition with the rest of the world and have to decrease their wage requirements [Reich, 2003]. Keller observes in this context that ‘low-skilled individuals in rich countries start being ineffective in a rivalry for higher competitiveness of companies and become a burden for the social systems’, so it means unemployed.

Besides the cheap workforce from economically less developed countries, low-skilled workers have nowadays another serious competitor in European countries – modern technologies. They create the background of globalization as a necessary condition – without technological progress in the field of communication, it would be very hard to imagine the coordination of delocalized parts of production [Reich, 2003].

Globalization and the development of technologies have been intensifying their own effects. It leads to the certain synergy effect. Globalization increases competition between manufacturers and forces them to innovate technologically. Innovations are immediately expanded worldwide, and they lead to further efforts for more technological processes, that can cause further savings in human workforce. However, the intelligent technologies can do much more than become ‘just’ a work replacement. They imply not only a decline in demand for labor, but also bring about significant changes in the structure of this demand.

In case of workers who have been replaced by machines, so-called technological unemployment [Mareš, 2002, p. 47], which occurs in post-industrial economy as a consequence of the new investment wave connected with the increase of capital intensity. Contrary to cyclical unemployment, work and the entire type of professions are disappearing permanently and inevitably (so-called ‘work reduction’). Labor productivity is rising, and economies are growing due to innovation that saves more and more work. Thus, there is a dichotomy of the two, so-far strongly connected processes: economic growth and job creation [Beck, 2000].

Some authors, however, believe that the ideas of crowding out jobs through technologies, are unrealistic. For example, Reich assumes that new technologies do not eliminate working places but they ‘only’ force individuals to the job change. Workers formerly in the production, will find the job for sure, the remaining question is how much they get paid. As a result of the new way of organizing production, the companies increase the numbers and wages of creative and innovative employees and they try to reduce the numbers and wages of

workers in production (easily substitutable by work of foreign workers or machines) [Reich, 2003, p. 51].

Beck highlights three major organizational changes that have occurred as a result of technological progress in production and that have helped to strengthen the relation between employability and qualifications. Firstly, the part of production itself is done by machines; on the contrary, the new tasks related to supervision, machine control and maintenance are in hands of highly qualified workforce. Secondly, instead of work fragmentation to smaller actions, individual activities are synthesized at a higher level of qualification and expertise. Finally, large numbers of low-skilled workers are replaced by a small number of professionalized ‘automation workers’. In such an organized economy, the importance of fixed human skills is diminishing, and ‘highly skilled workers have a comparative advantage because they learn easier how to handle new technologies’ [Klimplová, 2011, p. 45]. A higher adaptability level in relation to new technologies is crucial for companies in a situation of continuous technical innovations in the context of global competition. That is why companies are deciding for workers with higher formal education.

3. Methodology

3.1 Research Question

The research question of this paper is whether a low qualification of the workforce is a factor that significantly increases the probability of its exclusion from participation within the current (globalized) labor markets in the EU or not.

3.2 Data

The paper is based on more theoretical methods than on principles of empirical analysis. This research does not include collecting original empirical data. Our empirical research is based on official data and their analysis obtained from Eurostat databases. Secondary data is analyzed with help of appropriate statistical tools of analysis.

For the purposes of this analysis, we define low-skilled workers as those with a highest completed educational attainment of primary level. Converted to the categories of the International Standard Classification of Education UNESCO ISCED 1997², it involves the level of 0-2, so individuals who have not been able to complete at least three years of the secondary education after the end of compulsory education. The definition used is a standard and it is commonly used for the purpose of comparative analysis in Europe.

In the paper, social risk have been developed to the level of empirical indicators. For each identified form of risk, we observed two basic indicators reflecting, on one hand the extent of risk and, on the other hand its intensity related to the population of low –skilled labor forces under examination.

² Classification distinguishes 7 levels of education: 0-6. The level of 0 means pre-school education, 1-2 is primary education, 3-4 secondary education, 5 and 6 are representing bachelor to post gradual university education.

Indicators of extent are the ones, currently available indicators from Eurostat database, and we will take into consideration always their general values for the whole population and separately for the subpopulation of low-skilled workers.³ Index reflects the amount of relative disadvantage of workers with a low level of qualification compared to the total working population.

Our analysis result in the formulation of certain conclusions regarding the new approach of understanding the role in the conditions of globalization.

4. Results and Discussion

Based on the findings in the literature review, we can summarize the problems of low-skilled workers in globalized labor markets in the EU countries as following. Low qualification may have a negative effect on its representatives. This effect is especially apparent in their disadvantageous position on the labor market, in comparison with other participants with higher level of qualification. In the extreme case, low qualification might lead to exclusion from labor market participation. In other word, low-skilled workers find themselves out of the job competition. After that, social risk is coming to light in the form of unemployment, either (a) ordinary or (b) long-term. Both negative effects can ultimately lead to social exclusion.

For each form of the identified risk, we will observe two basic indicators that correspond to (a) the extent of the risk and (b) the intensity of the risk.

Table 1: Operationalization of social risks resulting from low qualification

Factor	Social risk	Form of risk	Empirical indicator	Index
Low qualification	Exclusion from labor market	Ordinary unemployment	Unemployment rate	Unemployment risk index of low-qualified workforce
		Long-term unemployment	Long-term unemployment rate	Long-term unemployment risk index of low-qualified workforce

Source: Personal collection

4.1 Unemployment

When analyzing the social risk faced by low-skilled workers in globalized labor markets in the EU, we have chosen a standard unemployment rate (for the 15-74 years-old population), which can be characterized by the willingness to be employed, however, despite this fact, the individual will not be able to find a paid job. Given data on this indicator can be seen in the following Table 2.

³ E.g. the values of the risk index of low qualification in relation to unemployment we get as a division of unemployment rate of low-qualified workers and the total unemployment rate. Important is the value 1 that corresponds to the absolute equality of chances of low-skilled workers. Each higher figure shows their disadvantage in terms of the total working population.

Table 2: Unemployment rate in the EU-28 in 2017

	Unemployment rate		
	Total	Low qualification	Risk index
EU-28	7,6	14,7	1,9
Belgium	7,1	14,6	2,1
Bulgaria	6,2	18,1	2,9
Czech Republic	2,9	13,1	4,5
Denmark	5,7	9,0	1,6
Germany	3,8	9,5	2,5
Estonia	5,8	10,9	1,9
Ireland	6,7	11,9	1,8
Greece	21,5	24,3	1,1
Spain	17,2	25,0	1,5
France	9,4	17,0	1,8
Croatia	11,1	19,8	1,8
Italy	11,2	15,5	1,4
Cyprus	11,1	14,0	1,3
Latvia	8,7	18,8	2,2
Lithuania	7,1	20,9	2,9
Luxemburg	5,6	8,9	1,6
Hungary	4,2	11,1	2,6
Malta	4,0	5,9	1,5
Netherlands	4,9	8,3	1,7
Austria	5,5	13,0	2,4
Poland	4,9	12,2	2,5
Portugal	9,0	9,8	1,1
Romania	4,9	6,8	1,4
Slovenia	6,6	11,1	1,7
Slovakia	8,1	29,8	3,7
Finland	8,6	17,9	2,1
Sweden	6,7	18,5	2,8
United Kingdom	4,4	7,3	1,7

Source: Eurostat and our calculations

The figures in Table 2 confirm our assumption that the low-skilled workers in the labor markets in EU countries are facing more difficulties than the normal population. While the average unemployment rate in EU countries reached 7.6% in 2017, it was about 7% more (14.7%) in the category of low-qualified workers. Thus, low-qualified individuals are at a disadvantage in finding a job within EU almost twice. The probability that those jobseekers will remain unemployed is 1.9 times higher based on the average risk index. The worst employment perspectives have the low-skilled workers in Slovakia where their unemployment rate reaches 29.8%. On the contrary, the lowest rate of unemployment is reached by this category of workers in Malta (5.9%), where it is approximating to the overall low unemployment rate of 4%. However, at the same time, it cannot be claimed that countries with lower unemployment represent better environment for low-qualified workers, because of their relative disadvantage. As the risk index values show, even in the countries with low unemployment rate, we can observe a significant disqualification of low-skilled workers, for example the case of Czech Republic, where the low-qualified workers are relatively the most disadvantaged within the EU countries (4.5 times).

Surprisingly, the almost equal chances in the job competition have the low-skilled workers in Portugal and Greece (the risk index for both countries is 1.1). However, looking at unemployment figures, it is clear that the situation in Greece is expressing the equality of population as a whole in the impossibility to find a paid job, regarding the high overall unemployment rate (21.5%) as well as the unemployment rate of low-skilled workers (24.3%).

4.2 Unemployment (long-term unemployment)

As the indicator of potential unemployment, we have chosen a long-term unemployment rate of 12 or more months (for the 15-74 years-old population). Relevant data for the total workforce, the low-qualified workforce category as well as the risk index for 2017 are presented in Table 3.

Table 3: Long-term unemployment rate (population 15-74 years) in EU-28 in 2018

	Long-term unemployment rate		
	Total	Low qualification	Risk index
EU-28	3,4	7,1	2,1
Belgium	3,5	7,8	2,2
Bulgaria	3,4	18,2	5,4
Czech Republic	1,0	11,5	11,5
Denmark	1,3	4,0	3,1
Germany	1,6	7,8	4,9
Estonia	1,9	12,7	6,7
Ireland	3,0	15,7	5,2
Greece	15,6	20,0	1,3
Spain	7,7	8,3	1,1
France	4,2	7,5	1,8
Croatia	4,6	13,5	2,9
Italy	6,5	8,8	1,4
Cyprus	4,5	4,1	0,9
Latvia	3,3	5,6	1,7
Lithuania	2,7	7,9	2,9
Luxemburg	2,1	3,8	1,9
Hungary	1,7	5,7	3,3
Malta	1,7	5,0	2,9
Netherlands	1,9	4,5	2,4
Austria	1,8	3,6	2,0
Poland	1,5	7,7	5,1
Portugal	4,5	7,2	2,4
Romania	2,0	10,8	1,8
Slovenia	3,1	9,3	3,0
Slovakia	5,1	17,5	3,4
Finland	2,1	4,2	2,0
Sweden	1,2	3,8	3,2
United Kingdom	1,1	5,0	4,5

Source: Eurostat and our calculations

Disadvantages of low-skilled workers have also been demonstrated in this area, even at a higher rate than in the case of ordinary unemployment. The risk of long-term unemployment within this population is 2.1 times higher than the European average. The country with the

lowest rate of long-term unemployment is the Czech Republic. On the contrary, the highest value of this indicator is achieved in Greece (15.6%).

The lowest long-term unemployment rate for low-skilled workforce is in Austria (3.6%). The paradox situation can be seen in the case of Cyprus, where low qualification is even favorable from the long-term unemployment point of view (the probability that low-skilled workers will remain long-term without work is 0.9 times the probability of the total population). A similar situation is in Spain, where the probability of long-term unemployment of low-skilled workers is almost the same as the one for the total population. The risk index of low qualification for long-term unemployment is 1.1.

5. Conclusions and Recommendations

The main aim of our paper was to analyze the access of the low-qualified individuals to employment in the labor markets in the EU countries that are characterized by demand for workers with a higher level of human capital. As the changes in the structure of this demand were analyzed as a consequence of the socio-economic changes associated with the current stage of globalization, the disadvantage resulting from the inadequate qualification level was considered as a new social risk.

New social risks have arisen as a result of the socio-economic processes associated with economic changes that have led to changes in the trend in demand for workforce. They are new, but they are still considered as social risks, that as well as the old ones, are generated by social mechanisms and have negative impact on the lives of individuals and on the functioning of the society as a whole. The social responsibility is usually taken over by the state, its policies should be innovated and upgraded. In this context, there are reflections on changing the paradigm of social policies – from old policies to the policies of new social risks that are trying to increase the ability of individuals to earn through labor market participation instead of passive financial compensation of missing income [Klimpová, 2010]. However, the overall framework of thinking is not fundamentally changed: the main instrument of risks management is still the Esping – Andersen's Triad: family – market (labor) – social state. However, in the new situation, there is a change in the division of labor among the pillars. If, for example, the transformed globalized labor market is failing to integrate a low-skilled part of the workforce, it is necessary to make this integration easier – through new policies (for example by increasing employability, subsidizing the wages of low-skilled workers...). In other words, paid job can and should be the main source of income for all individuals, but under the new conditions it is important to improve access to work for low-qualified ones.

This conclusion closely correlates with the idea that the current stage of globalization and technological innovation generates substantial content and level shifts in state functions.

The content progress is mainly in the fact that the functions of the state are being significantly modified – on the one hand, focused mostly on support of using own comparative advantages by domestic entrepreneurs and on support of their penetration abroad, on the other hand there are protectionist practices. Their content is becoming more and more adaptable to the conditions of globalization processes in order to participate in the best way on the effects of the global use of comparative advantages. It is primarily about investing in the creation of new comparative advantages attractive to foreign investors (all kinds of infrastructure, modern education system, science and research, quality business environment etc. [Šikula, 2008, p. 10].

The level shift in state functions is reflected in the fact that a large part of its functions – regulating economic and social processes, should shift to the international level, as the level of globalization of these processes is making difficult or impossible to regulate them effectively within the national framework [Šikula, 2008, p. 10].

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