

## DEVELOPMENT OF THE LABOUR MARKET IN THE CZECH REPUBLIC IN THE COURSE OF ECONOMIC TRANSFORMATION

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**Abstract:** The paper outlines basic tendencies in development of the Czech labour market in three different stages: up to 1992, in the period between 1992-1997, and after the year 1997. It focuses on the employment level and its structure, employment of foreigners, development of unemployment in the Czech Republic in 90 s. In detailed view deals with the structure of unemployment according to education level, age groups, regions, and in comparison with selected countries of the world. Outlined are also employment policy tools, costs of employment policy, national employment plan set by the government of the Czech Republic as well as patterns for coping with unemployment from abroad.

**Key words:** labour market, unemployment, employment policy tools, foreign experiences for coping with unemployment.

### 1. BASIC TENDENCIES IN THE DEVELOPMENT OF THE LABOUR MARKET

As far as the development of the labour market is concerned, it can be roughly divided into the following three periods. **The introductory period** (by 1992) is characterised by a decrease in the number of employees (or in the number of labour positions) in the national economy that was reduced by 700 thousand people (mainly in the field of industry and agriculture). The reductions in work places, that took place after the year of 1989, were compensated by the employment growth in service industry. Whilst in 1989 less than 42% employees were employed in the national economy, particularly in the service industry, transport industry including, the number increased to

50% in 1993. As for the unemployed, on average 160 thousand people were registered in the same year, which represented an average unemployment rate equal to 3.1%.

The economic activity of people in the post-productive age was lowered by more than 50%. 300 thousand workmen left either at normal retirement age or took early retirement. Furthermore, the number of housewives raised.

**The next period** (1993 - 1997) is characterised (considering the unemployment rate fluctuating around 3.5%) by little attention that was devoted to the functioning of the labour market, which consequently resulted in a decline in efficiency of the tools of active employment policy as well as in gradual raise of unemployment.

**At present** (i.e. since 1997) in connection with a slowdown and a consequent decrease in GDP, the situation in the development of unemployment has started to change rather dramatically. In comparison with other countries, the Czech Republic does not belong any more among the countries with exceptionally low unemployment.

However, a contemporary substantial accretion of unemployment cannot be considered as a consequence of restructuralization that is in progress or as a reflection of the economic cycle (cyclical unemployment). In the sphere of employment in the so-called transformation periods, some typical processes within the Czech Republic are in progress. One of them is a change in the ratio of the total number of population to the number of the economically active.

What is characteristic is mainly a decline in the proportion of active population to the total population, which decreased from 52.1% in 1989 to 50.3% in 1998. The reason for such development is mainly a considerable decrease in the number of people who are in their productive age. In addition, some measures introduced by economic policy contributed to this situation. Among them, there were measures that disadvantage employing pensioners, such as for instance an increase of tax burden on working pensioners' incomes, especially after the tax reform in 1993.

Yet, the level of this index is still slightly above the average in the so-called developed countries (nevertheless, for instance in the USA in 1994 this proportion was equal to 51.3%, and in Denmark it reached even 55.8%). However, what must be considered is the fact that in less developed countries is this variable below 40%. Besides that also characteristics of the development of employment viewed from the basic sectors of the national economy that are defined according to industries as well as according to the criterion of ownership brings interesting information.

From the point of view of industries, the share of the tertiary sector (service industry) dramatically increased. Its expansion was basically in progress at the same time as an adequate decline in employment in the primary sector (i.e. mining industry and agriculture). In the course of this period, we can observe stagnation of the share of the secondary sector, i.e. manufacturing and construction industries. This basic structural transformation of the economy (from the point of view of employment and the view of the share of particular industries on the product made) drew these characteristics nearer to the level typical for the so-called mature market economy (average employment in the

primary sector in EU countries is around 5%, in the secondary sector it is approximately 30%, and in the tertiary sector it makes about 60%).

As for the employee structure according to ownership, changes that are even more characteristic took place. The private sector became dominant. At the same time, state and co-operative ownership, the forms of budget organisations, of contributory and non-profit organisations have become only supplementary. The share of employment in the state sector decreased to 1/4 of the total employment. On the contrary, the share of employment in the private sector increased to variables higher than 30%. However, even the so-called mixed sector basically consists of enterprises that are mainly of a private character. At this point, it is necessary to remind a fact, that the particular changes in the employee structure did not usually happen in the form of real deployment of labour among enterprises, but as a consequence of ownership (enterprises becoming private) changes happening in these establishments. An important index from the point of view of structural employment changes is the development of employment in small and larger enterprise. As for smaller economic subjects, the employment is raising. While in 1991 the number of employees in small-scale enterprise was 121, 556, i.e. 2.4% out of total number of employees in the national economy, in 1998 it was already 1,879,400, which makes 38.5% out of the number of the employed. In addition, there came to a considerable decrease in employment in larger economic subjects. As for the social structure of employment, it is equally important.

The largest proportion belongs and will belong to wage labourers including members of co-operatives and tradesmen. Employing foreigners is a very specific and at the same time, a very delicate issue. In the course of the passed period, a number of foreigners employed were gradually increasing, reaching its peak in 1996 (according to official numbers). During recent years an influx of foreign labourers into the Czech Republic has markedly strengthen up. In 1997, more than 130,000 foreigners were legally employed in the Czech Republic. Out of this number 61,044 labourers had work permits issued by Labour Office.

Apart from this roughly the same number of citizens of the Slovak Republic, who do not need a work permit, were employed. Expert estimates (for example Research Institute for Labour and Social Affairs) suggest that roughly the same number of foreigners work in the Czech Republic illegally. In general, it can be claimed that there are approximately 250-300 thousand foreigners in the labour market. This number represents 5-6% of the total employment, and thus cannot be disregarded. The most characteristic feature of a qualitatively new form of the labour market is, undoubtedly, **unemployment**.

Unemployment means that economic sources (living labour), that the society has at its disposal, are not utilised and, hence, lead towards a loss in the form of not turned out production. According to some views this negative effect can be eliminated or even outweighed by a positive incentive impact in relation towards productivity of labour either on an individual level or it can be viewed as possibility to adapt flexibly organisation of labour. Social impacts of unemployment are generally seen as negative and are connected especially with long-term forms of unemployment. In this connection,

a term hysteresis in the market is used, through which we identify a situation, when long-term unemployment leads to an irreversible exclusion of whole groups and strata of population from the labour market as well as from active life. Now, I will try to sum up basic data characterising the development of unemployment in our country.

As for long-term unemployment (i.e. longer than 12 months), its volume raises continuously but moderately. In 1994, the proportion of the long-term unemployed to the total was 20.2%. In 1997, it even fell down to 19.6% despite an increase in the number of the long-term unemployed from 37,600 to 52,900 people. In addition, in 1998 the proportion of the long-term unemployed relatively came up to 22.4%, and what is more, the average length of registered unemployment is continuously extending (to 30th June 1998 it was 294 days).

The proportion of unemployed women on the total unemployment has been increasing. In 1997, women represented 56.5% out of the total unemployment. As a consequence, a proportion of economically active women has been decreasing - in the year stated, it made 47.5%.

Recent development is typical of relatively rapid growth of the unemployed that finished their studies at apprentice and secondary schools, which is a consequence of a non-conceptual attitude towards the development of the educational system. Another specific unemployment rate, that is often used, is measuring of unemployment according to age groups. According to statistical data, the level of unemployment was raising continuously (in the years 1996-1998) in all the categories as for the mutual relation, higher unemployment rate is in younger age groups. The highest share of the total unemployment in 1998 was that of the age group from 20 - 29 years (to 30th June 1998 it was 34.7%). Disadvantaged citizens represent another endangered category, in which an absolute unemployment growth in the period 1997 -1998 increased by 7 thousand people. A very characteristic feature of the development of the labour market in the Czech Republic is **a marked regional differentiation**. The most recent data claim that the districts with the highest **unemployment** rate at the end of 1998 were as follows: Most (15.6%), Louny (15.5%), Chomutov (14,8%) and Karviná (13.8%). On the contrary, districts with the lowest unemployment rate are mainly agglomerations of some big cities (such as Prague, Brno, Pilsen), some areas in which successful development projects were carried out (Mladá Boleslav), and some other areas that have not been considerably affected so far by a decline in economic activities (for example Southern Bohemia).

As major reasons that have its impact on the deepening of the regional unemployment are usually reasons such as restructuralization and modernisation of production, a decrease in infrastructure (a decline in transport services) and in infrastructure investments in general) in some especially peripheral regions (peripheral from the point of view of location), that leads to the global decline in economic activity.

## 2. PROGNOSSES CONCERNING THE DEVELOPMENT OF THE LABOUR MARKET

To forecast the development of the labour market is similar to forecasting other economic and social variables - it is a very complex issue that is connected with a high precariousness rate. The reason for this unreliability is a fact, that this area is influenced by a great number of factors and processes, whose development and consequences of their mutual combinations is very difficult to interpret even shortly before. The situation in the market will be, undoubtedly, influenced by a demographic development.

According to the situation in the labour market, it is the tendency towards the weakening of the market supply from the quantitative and qualitative point of view that can be interpreted on the grounds of the presupposed trends mentioned. Nevertheless, just on the contrary, the prognosis forecast a continuous state, in which off demand will outstrip supply on the labour market.

A decline in the proportion of productive population is expected as a consequence of the worsening of the age structure in population. What is expected is the pressure on shifting the retirement age limit (the pressure on the change of revenue system including) on the one hand, and its confrontation with a lower demand of labour positions and higher unemployment particularly in the group of productive population on the other.

In a shorter-term horizon (i.e. in several forthcoming years) the opinions concerning the development, of unemployment are generally unanimous. Estimates suggest an increase of unemployment to 10% that is generated mainly by a tendency towards the saving of the labour force (A. Bálek, 1998).

Basically, a shared kind of expectation for all industries is further growth of the employment level, however, its structure differs according to the character of a particular branch of industry, such as for example the proportion between blue-collar and white-collar professions.

## 3. UTILISATION OF EMPLOYMENT POLICY TOOLS

Crucial tasks of the state employment policy (institutionally provided by labour offices) can be summed up into the following points:

- ♦ to provide a proper records of employment and unemployment
- ♦ to provide information and advisory services to entrants to the labour market, especially to job applicants
- ♦ to provide social welfare to the unemployed

- ♦ to monitor and organise activities aiming at creating new labour positions
- ♦ to encourage cooperation with social partners in the labour market

The aim of the so-called **passive employment policy** is mainly to provide job applicants with social benefits in order to help them to create presuppositions for finding a new job. More specifically, it is providing of social benefits what is in question.

Let us remind basic tendencies in limiting social security benefits during the time of unemployment. Firstly, the length of payment was reduced from 12 to 6 months (in 1992).

Secondly, the relative standard of these benefits was gradually lowered to today's 50% of the average month net wage paid during the first 3 jobless months, to 40% in the following 3 months and to 60% during a re-training. The last adjustment was issued in 1997, and this step led to the decline of the absolute value of social benefits paid - from 2530 CZK in the first half of 1997, to 2356 CZK in the first half of 1998. Consequently, this led to its further fall in relation towards the average wage.

An integral part of the employment policy is the so-called **active employment policy** followed as a standard concept used in developed countries. The aim of activities of this type is to extend an absorbent capacity of the labour market and to raise adaptability of labour force. The concrete mechanisms, that are legislatively specified and used in our country, are for example creating socially useful labour positions, implementing public utility works, organising introductory practical training for graduates and juveniles. Furthermore, establishing protected workshops for disabled citizens and subsidies to reduced working hours belongs here, too.

In addition, the data that characterise relation between costs of active and passive employment policy can also contain interesting information. The data stated above give clear information about a continuous fall of costs ratio of active forms of employment policy. Yet, they show a particular change in the trend in the course of last year. Costs ratio of the employment policy was continually falling down; during the period from 1992 (when the number was 54.8%) it decreased to 13.9% in 1997. The real cost value in 1997, in comparison with the year of 1992, decreased by 81,3%.

As far as effectivity of the ruling type of employment policy is concerned, then, the views of it can be opposing. Official Government sources (Czech Ministry of Labour and Social Matters - for instance in the National Employment Plan), regard the present effects of the employment policy as positive. The preceding period (up to 1997) in the labour market is characterised as a period of relative stability and low unemployment. The official sources enumerate some factors that led to this development. They are as follows:

- ♦ relatively rapid growth of economy
- ♦ absorbent ability of the tertiary sector
- ♦ reductions in the number of pensioners employed
- ♦ low share of the labour forces released from agriculture
- ♦ intensive implementing of the active employment policy

Some other materials add further potential reasons for this development, such as for example relatively low wage-drift, their globally low standard, that did not become a stimulus to substituting technologies for work and also an insufficient level of restructuralization of economy.

#### **4. THE NATIONAL EMPLOYMENT PLAN OF THE GOVERNMENT OF THE CZECH REPUBLIC**

What are the most important reasons for the development of this plan is solving crucial problems that occur in the labour market as well as preparation of the Czech Republic for the entry into EU. The following issues belong to the main pillars of the National Plan: firstly, government's encouraging employability, secondly, promoting enterprise and the ability of businesses and employees to be flexible to changes and thirdly, encouraging equal labour market opportunities.

The National Employment Plan puts **emphasis on the following issues:**

- ♦ encouraging creation of new labour positions
- ♦ higher motivation to work
- ♦ to bring about a reconciliation of the preparation of labour force with labour market needs
- ♦ an increase in effectivity of activating measures
- ♦ to provide necessary organisational, professional, and financial services in the labour market.

Currently, the means that the Czech Republic expends on the employment policy makes 0.3% of gross domestic product on average, whilst in the EU countries it is 3% on average, which is tenfold more.

#### **5. PATTERNS FROM ABROAD FOR COPING WITH UNEMPLOYMENT**

All the EU countries and many countries that are in the process of transformation are outlining and implementing **innovations** that should help to solve this problem. They can be divided into **two basic groups: innovations of macroeconomic policy as a part of employment policy, and innovations of the policy that have a narrower focus on the labour market alone.**

### **Examples from the first group:**

In Poland, for instance, labour market policy was up to 1994 considered by the then neoliberal government to be the only way to promote employment. However, after the change of government, there came to a significant change. From that very moment macroeconomic policy started to be regarded as one of the tools for creation of labour positions. For instance, the firms that re-invest their profits are exempt from payment half of the tax burden. As a consequence, a considerable increase in investment occurred. At the same time, establishing and developing small and medium-size businesses was promoted (with the help of various reliefs and other stimulus).

A very specific approach was developed by Italy. Since 1986 the programme called "Promoting Enterprise of the Young" has been developing. Not only do the young Italians below the age of 36 have financial subsidies at their disposal but they can also make use of advisory services as well as they can go through a systematic preparation for their new work. Since 1996, this programme has been supplemented with an extra subsidy for the unemployed that decided to become businessmen. This programme is entitled "Honorary Subsidy" and it combines non-repayable and repayable subsidies with an offer of preliminary preparation of people interested in solving their situation in such a way.

### **Examples from the other group:**

In France, the problems concerning the shortening of working hours and "loosening" the barriers between work, studies, and personal life were approached in a specific way. French Parliament adopted a decision concerning a gradual shortening of working hours from 39 to 35 per week. This means that from January 2000 the latest, the enterprises with more than 10 employees will have to introduce short working hours. The main reason for this decision, which was also backed by trade unions, was unemployment of 12.5%.

What is more, French Government accepted a project aiming at creating 700,000 new job opportunities for young people aged from 18 to 26 (in specified cases even up to 30 years) in the course of next five years. A half of the job opportunities planned is to be created in the public sector, the other half in the private sector. The state will bear the majority of the expenses on the realisation of this plan, a community and entrepreneurs will share the rest.

A trend towards decentralisation and pluralization of the institution of employment services is noticeable in the world. These institutions, often functioning on the tripartite principle, become a place of a fruitful cooperation among representatives of the public, private, and civil sector in a given locality. The Netherlands has probably gone the furthest in this direction. Nevertheless, what is interesting is the fact that in 1997 after the years of seeking and reforms, a similar structure was chosen also by Slovakia. Its public National Labour Office organises employment services based on the tripartite principle and supports them by means of obligatory unemployment insurance, separated from the state budget (Homola-Kotrusová 1998).



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## Resume

### Vývoj trhu práce v České republice v období ekonomické transformace

Vývoj trhu práce v ČR po roce 1989 je charakterizován zejména snížením počtu pracovníků v průmyslu a v zemědělství, růstem zaměstnanosti ve službách, poklesem ekonomické aktivity osob v poproduktivním věku a zvýšením počtu žen v domácnosti. V

další fázi dochází k poklesu účinnosti nástrojů aktivní politiky zaměstnanosti a k znepokojivému růstu nezaměstnanosti. Vedle toho také zesílil příliv zahraničních pracovníků do ČR. V roce 1997 jich bylo legálně zaměstnáno více než 130 tisíc, odhady nelegálních zahraničních pracovníků se pohybují mezi 250 - 300 tisíci.

Dlouhodobá nezaměstnanost (trvající déle než 12 měsíců) vzrůstá a v roce 1998 představovala 22,4% z celkového počtu všech nezaměstnaných. Trvale roste podíl nezaměstnaných žen (v roce 1997 56,5% ) a naopak klesá jejich ekonomická aktivita (47,5%). Poměrně rychle roste nezaměstnanost v kategoriích vyučených a středoškolačků. Při sledování podle věku nejvyšší podíl na celkové nezaměstnanosti v roce 1998 vykazovala kategorie 20 - 29 let (v roce 1998 34,7%). Nezaměstnanost má také výrazné regionální diference. Na konci roku 1998 byly jako okresy s nejvyšší mírou nezaměstnanosti vykazovány Most (15,6%), Louny (15,5%), Chomutov (14,8%) a Karviná (13,8%). Naopak oblastmi s nízkou mírou nezaměstnanosti jsou především aglomerace některých velkých měst (Praha, Brno, Plzeň), okres Mladá Boleslav a jihočeský region. K hlavním příčinám patří důsledky restrukturalizace a modernizace výroby, útlum v rozvoji infrastruktury apod. Prognózovat vývoj trhu práce je obtížné vzhledem k působení velkého množství faktorů. Situace na trhu práce bude nepochybně ovlivněna demografickým vývojem. Většina prognóz však trvale konstatuje prohlubující se převis poptávky na pracovním trhu. Předpokládá se pokles podílu produktivního obyvatelstva a současně také nižší nabídka pracovních míst. Není vyloučeno, že nárůst nezaměstnanosti dosáhne úrovně 10% a to mimo jiné také v úsledku tendencí k úspoře pracovních sil. V pasivní politice zaměstnanosti je především poskytováno hmotné zabezpečení uchazečům o zaměstnání. V aktivní politice zaměstnanosti jde o rozšíření absorpční schopnosti trhu práce a zvýšení adaptability pracovních sil.

Letos schválený Národní plán zaměstnanosti vlády ČR má hlavní pilíře v podpoře zaměstnatelnosti, podpoře podnikání, podpoře schopnosti podniků a zaměstnanců přizpůsobit se změnám a v podpoře rovných příležitostí na trhu práce. Zkušenosti ze zahraničí ukazují, že inovace na podporu řešení nezaměstnanosti lze zařadit do dvou základních skupin: inovace hospodářské politiky jako součásti politiky zaměstnanosti a inovace politiky zaměřené úžeji na samotný trh práce.