

EMPLOYMENT PAPER

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# Labour Market Flexibility and Employment Security

## Czech Republic

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Employment Sector

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## **Preface**

This paper on the Czech Republic is the second in a series of five country reports evaluating labour market performance, reform in national employment protection legislation, the role of collective bargaining in improving employment security for workers, and labour market developments in transition countries. These reports have been prepared for the research project “Adjustment of labour markets to economic and structural change: Labour market flexibility, employment security and labour market policies”, undertaken by the Labour Market Policy Team of the ILO’s Employment Strategy Department. Alena Nesporova, Senior Labour Economist, coordinated the research on transition economies. The other four countries analysed are Bulgaria, Estonia, Poland and the Russian Federation.

With the introduction of economic and social reforms in 1990, earlier strong job stability and employment security were undermined by large-scale structural changes and consequent flows of labour between jobs and from employment to unemployment or inactivity (opposite flows were much smaller, especially in the first period of economic transition). Labour legislation was amended to allow more labour flexibility and mobility. While competitive workers of prime age, highly skilled, in good health and flexible, without direct family obligations, could benefit from emerging and attractive job opportunities, other workers were suddenly confronted with much looser employment security. Many were forced to leave their jobs. Some found new jobs immediately, but most were faced with shorter or longer (often repeated) unemployment spells and the necessity to change their occupation, undergo re-skilling, or accept commuting for work (rather than a change of residence) before being re-employed.

Newly established labour market institutions have increasingly provided job mediation, employment promotion and income-support assistance to those who are unemployed. Nevertheless, unemployment has become a widespread phenomenon, hitting hardest at persons with cumulative disadvantage. To solve the excess of labour supply over demand, policy measures often encourage workers to stay in unemployment, or to withdraw from the labour market (through early retirement, disability benefits, pensions, and social assistance). This approach has trapped many (especially the low-skilled) in joblessness or inactivity and is heavily burdening national social security systems. It is also leading to emerging labour supply shortages in connection with population ageing and, at the same time, feeding resistance to flexible adjustment of labour through changes in labour demand. This report examines these specific problems in the context of the Czech Republic, in order to contribute to the ongoing debate on the best policy mix – or how to achieve the right balance between flexibility for enterprises and reasonable employment security for workers, between employment promotion and social protection.

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## Abbreviations

|       |                                                                       |
|-------|-----------------------------------------------------------------------|
| ALMP  | Active Labour Market Policies                                         |
| CMKOS | Czech-Moravian Confederation of Trade Unions                          |
| CSO   | Czech Statistical Office                                              |
| CZK   | Czech crown/koruna (currency)                                         |
| EEA   | Economic Expectations and Attitudes (survey)                          |
| EU    | European Union                                                        |
| FES   | Family Expenditures Survey                                            |
| GDP   | Gross Domestic Product                                                |
| HN    | Hospodarske noviny (daily newspaper, published in Prague)             |
| IPF   | Investment Privatisation Fund                                         |
| ISSP  | International Social Survey Program (comparative surveys)             |
| LN    | Lidove noviny (daily newspaper, published in Prague)                  |
| LFS   | Labour Force Survey                                                   |
| MLSA  | Ministry of Labour and Social Affairs                                 |
| MFD   | Mlada fronta DNES (daily newspaper, published in Prague)              |
| NPE   | National Plan of Employment                                           |
| OECD  | Organisation for Economic Co-operation and Development                |
| PES   | Public employment service                                             |
| RILSA | Research Institute of Labour and Social Affairs                       |
| SIALS | Second International Adult Literacy Survey                            |
| SME   | Small and medium enterprises                                          |
| SSEE  | Social Stratification in Eastern Europe after 1989 (research project) |
| STEM  | Centre of Empirical Surveys (agency)                                  |
| WIIW  | Vienna Institute for International Economic Research                  |

### Note:

The newspaper, Soudy also referred to in this report, is published weekly in Prague by the Czech-Moravian Chamber of Trade Unions (CMKOS).

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## Introduction

After 1989, the transition countries of Central and Eastern Europe saw the re-emergence of the labour market. In the Czech Republic, it is slowly weakening the firmly internalized employment security. On the demand side, “hard” budgetary constraints are replacing the political requirements of full employment, which had been the main showcase of the communist system. On the supply side, skills and work performance are replacing – albeit hesitantly – loyalty to the regime and feigned fulfilment of occupational roles. Formerly isolated national economies operating on a “weak” Eastern market have been abruptly confronted with the challenges of the developed world and globalization.

In the Czech Republic, there is no systemic blueprint for change. Economic institutions are in the process of defining their form, function and incentives. The labour market is in constant flux in regard to adaptation, mobility, institutional settings and policies. The State, once sole provider of employment, has been replaced by a variety of independent providers. New contracts and working arrangements are altering the uniformity of a single, full-time, extremely stable (often lifelong) job. Tendencies away from regular full-time wage employment to irregular, time-limited and flexible employment are appearing, but more slowly than in the West.

In comparison with the communist era, jobs have become more precarious, in terms of job security, remuneration and working conditions. Under the market economy, some workers – highly qualified in management, finance and law – find their prospects have much improved. In other categories, jobs and conditions of work have worsened significantly since 1989. The employment outlook is particularly bleak for those who held jobs in mining and metallurgy, once-privileged positions now lost to the past. Low skills, mining regions and one-plant towns are among the main factors of job vulnerability.

In order to document the changes that have already occurred and to report those now being confronted, this report analyses a variety of information sources, including individual data on statistical and sociological surveys. If appropriate policies are to be designed, insight is needed into two aspects: a profile of the general population as workers and as recipients of social benefits. The policy aim should be to maintain social cohesion but avoid an excessive welfare safety net in lieu of a high labour market participation, activation and workfare. This is especially necessary in view of the serious imbalance between labour market requirements and welfare expectations in the Czech Republic.

Section 1 reviews trends in labour market development in the 1990s, starting with macroeconomic conditions and concluding with unemployment. In Section 2, the labour legislation and its substantial amendments since 1989 are discussed in detail. Section 3 assesses collective bargaining on labour and employment security, its agenda and its actors. Section 4 charts the links between employment protection, labour market policies and employment promotion in the Czech Republic.

## 1. Labour market development trends in the 1990s

### 1.1 Introduction

The command economy had a large, single, internalized labour market with control over labour but a total lack of market competition. From educational planning for future workers to workers' placement and specified wage tariffs, state bureaucracy kept the labour force under strict control. Still, a large category of workers – especially those with scarce and required manual skills, but also those who were unskilled but willing to perform heavy work – could profit from the labour shortage by moving from one job to another, each time demanding higher earnings.<sup>1</sup> This supply of cheap labour resulted in over-employment in all industrial branches and, consequently, technological backwardness.

A characteristic feature of command economies was a permanent shortage of labour that resulted from its inefficient or even wasteful use. There was a generally high employment rate in all the communist countries, and especially in the former Czechoslovakia. This country also had the highest employment rate for women in the world: in 1989, 84 per cent of women of active age were economically active. Similarly, the private sector was virtually non-existent in Czechoslovakia and the informal economy not nearly as significant as in Hungary or Poland. This served to increase the population's dependence on centrally administered job allocation, the rationale of which was economic as well as political.

The change in political regime, the opening of markets, artificial over-employment, low qualification levels, and the inefficient use of labour was mooted to turn into mass unemployment (Oxenstierna, 1990). This occurred in all transition countries and was also expected to occur in the Czech Republic, provided that market criteria were to be introduced together with clear corporate governance and the replacement of “soft” by “hard” budget constraints. Surprisingly enough, this did not happen in the initial period of transition. A largely nominal privatization and the continuation of generous credits to large enterprises through semi-state banks meant that labour was further hoarded and the country thus enjoyed a remarkably low unemployment rate among the Central and Eastern European (CEE) countries until the mid-1990s.

### 1.2 Wage policies and development

Seeking macroeconomic stabilization, two “cushions” were created: 1. a monetary cushion, in which Czech currency was heavily undervalued against the purchasing power parity (PPP) – for example, ERDI against the German Mark increased from 3.1 in 1989 to 4.5 in 1991; 2. a wage cushion wherein real wages were squeezed in relation to labour productivity and by which the share of labour costs in GDP sank from 64 per cent in 1989 to 48 per cent in 1992. While the first cushion is still in function, the second was largely removed by rapid wage increases – even advancing growth in the productivity of labour in early 1990s, at least in comparison with relative figures for (West) Germany as the main export country (Fassman, 1997). Removing the wage cushion occurred during 1994-95, when wages rose more rapidly than labour productivity (Hajek et al., 1997).

In 1991, real unit labour costs sunk to 80 per cent of the 1990 level, adjusted to PPP (Flek, 1996). Despite later wage drift, the early fall in real wages enabled large labour hoarding, otherwise supported by weak conditions for former state enterprises under blurred corporate governance and generous crediting. But it also served as an incentive for workers to leave former state enterprises and seek a better job in newly established firms or in companies

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<sup>1</sup> This explains the paradox of workers in jobs corresponding to their qualifications earning less than workers not working in the area of their specialization. The suitability of the job to formal education qualifications was carefully surveyed by pre-1989 labour statistics and administration.

owned by foreign owners. These offered relatively substantial premiums, counted often in multiples of original wage. It was foreign-owned firms in particular that prompted the wage-spill-over effect which led to a general wage increase (Flek and Vecernik, 1998:36).

Within the framework of the macroeconomic stabilization policy, a regulation through taxing the wage bill was agreed in the Tripartite Commission for all firms with more than 25 employees. As a result, the nominal wages increased in 1991 by a mere 15 per cent while the real wage fell by 25 per cent. Although in 1992, wages were partially liberalized, regulation continued in a less strict form for state-owned firms. The nominal wage increased by 21 per cent, the real wage by almost 10 per cent. After no wage control whatsoever in early 1993, a tax-based wage regulation was re-introduced and its removal scheduled for the completion of the large-scale voucher privatization (Flek, 1996). The wage regulation was definitively abolished in mid-1995, a move welcomed both by liberals (more market) and unions (more freedom for wage rise).

Regarding labour costs, the reality is somewhat contradictory. On one hand, the Czech republic is considered the “cheap workshop of Europe”, used for producing goods designed elsewhere and often even from raw materials transferred from abroad, with minimum value added. Such unprofitable jobbing, especially for German companies, is usual in textile and leather, electronic and plastic industries. Here, the only and very fragile comparative advantage is the low wage. Indeed, despite a considerable increase, the comparative wage level in the Czech Republic appears to be still lower than in Hungary (not to mention Slovenia) but higher than in Poland and, especially, in Slovakia (Table 1.1). Here, also the skills level of the Czech labour force should be taken into consideration.

On the other hand, the Czech labour force became more demanding and choosier, especially regarding “dirty” jobs. In many localities and regions with high unemployment, jobs remained vacant or were filled by workers from other Eastern countries (particularly from Ukraine, but also from Belarus and Mongolia). For heavy work in construction, employers prefer Ukrainian to Roma workers. About 40,000 foreigners and another 65,000 Slovaks (who do not need a work permit) currently work in the country legally but a much higher number are estimated to be working illegally. While the recent introduction of compulsory visas for Eastern countries might limit the flow of illegal workers, attracting more qualified foreign workers from Slovakia, Ukraine, Viet Nam or the Russian Federation is a policy mechanism of the Ministry of Labour and Social Affairs (MLSA). The aim is to fill the gaps on the labour market and improve the age composition of the population, in order to achieve a contributions/benefits balance. In the 1990s, about 10,000 people were immigrating yearly to the Czech Republic.

**Table 1.1 Exchange rates, monthly gross wages and unit labour costs (ULC), US\$-based annual averages**

|                                  | 1990  | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999<br>Prelim. |
|----------------------------------|-------|--------|--------|--------|--------|--------|--------|-----------------|
| <b>Czech Republic</b>            |       |        |        |        |        |        |        |                 |
| Average gross wage in CZK        | 3286  | 5817   | 6894   | 8172   | 9676   | 10691  | 11693  | 12658           |
| Average wages in US\$ (ER)       |       | 200    | 240    | 308    | 356    | 337    | 362    | 366             |
| Average wages in US\$ (PPP)      |       | 621    | 665    | 741    | 828    | 866    | 863    | 924             |
| Unit labour costs 1989=100       | 94.2  | 171.7  | 200.6  | 230.2  | 261.7  | 286.3  | 315.6  | 330.1           |
| ULC adjusted to ER, 1989=100     | 79.0  | 88.6   | 104.9  | 130.5  | 145.1  | 135.9  | 147.2  | 143.7           |
| ULC adjusted to PPP, Austria=100 |       | 16.72  | 19.21  | 20.77  | 25.19  | 27.28  | 29.81  | 30.10           |
| <b>Hungary</b>                   |       |        |        |        |        |        |        |                 |
| Average gross wage in Forint     | 13446 | 27173  | 33309  | 38900  | 46837  | 57270  | 67764  | 77187           |
| Average wages in US\$ (ER)       |       | 295    | 317    | 309    | 307    | 307    | 316    | 325             |
| Average wages in US\$ (PPP)      |       | 626    | 658    | 634    | 646    | 676    | 713    | 758             |
| Unit labour costs 1989=100       | 127.4 | 212.4  | 248.0  | 277.2  | 326.6  | 381.9  | 436.8  | 490.7           |
| ULC adjusted to ER, 1989=100     | 119.2 | 136.4  | 139.4  | 130.3  | 126.5  | 120.8  | 120.4  | 122.2           |
| ULC adjusted to PPP, Austria=100 |       | 26.01  | 25.82  | 20.97  | 22.21  | 24.52  | 24.65  | 25.88           |
| <b>Poland</b>                    |       |        |        |        |        |        |        |                 |
| Average gross wage in zloty      | 103   | 390    | 525    | 691    | 874    | 1066   | 1233   | 1363            |
| Average wages in US\$ (ER)       |       | 215    | 231    | 285    | 324    | 325    | 353    | 344             |
| Average wages in US\$ (PPP)      |       | 516    | 554    | 587    | 641    | 695    | 722    | 755             |
| Unit labour costs 1989=100       | 584.0 | 1968.7 | 2541.8 | 2991.2 | 3640.6 | 4271.3 | 4824.6 | 5153.2          |
| ULC adjusted to ER, 1989=100     | 88.9  | 156.9  | 161.8  | 178.4  | 195.3  | 188.3  | 199.7  | 187.9           |
| ULC adjusted to PPP, Austria=100 |       | 28.20  | 28.22  | 27.06  | 32.29  | 36.00  | 38.54  | 37.48           |
| <b>Slovakia</b>                  |       |        |        |        |        |        |        |                 |
| Average gross wage in koruna     | 3217  | 5379   | 6294   | 7195   | 8154   | 9226   | 10003  | 10728           |
| Average wages in US\$ (ER)       |       | 175    | 196    | 242    | 266    | 274    | 284    | 259             |
| Average wages in US\$ (PPP)      |       | 529    | 557    | 602    | 669    | 720    | 746    | 760             |
| Unit labour costs 1989=100       | 104.8 | 196.4  | 206.3  | 224.7  | 248.5  | 262.5  | 272.4  | 278.1           |
| ULC adjusted to ER, 1989=100     | 87.7  | 96.0   | 96.9   | 113.7  | 122.0  | 117.5  | 116.4  | 101.2           |
| ULC adjusted to PPP, Austria=100 |       | 19.18  | 18.80  | 19.18  | 22.44  | 24.98  | 24.97  | 22.45           |

Source: Vienna Institute for International Economic Research (WIIW).

### 1.3 The Czech “employment miracle”: Massive quits and shifts

In the first half of the 1990s, unemployment had been strictly local and there was no overall surplus of workers in the Czech Republic. On the contrary, in some regions (Prague), branches (construction) and educational levels (higher education, especially in economics and law), there was still a shortage of workers. Active workers profited from opened markets; huge mobility flows evolved between the “old” and “new” sectors, testifying to the high labour commitment and capacity for alternative strategies of this share of the population. The relative ease of horizontal mobility and workers’ promotions also had negative effects, in particular the low pressure on qualitative standards in job performance.

According to the first OECD study of the Czech labour market, three main factors contributed to the Czech “employment miracle” of the early 1990s: labour supply reductions, wage moderation and good initial conditions “in terms of the industrial structure of employment and the skill levels of the workforce” (OECD, 1995:132ff). On the other hand, explanations such as the slow pace of structural change, unrecorded employment or hidden migration have been dismissed as unfounded and of little relevance, while the role of labour market policies was stressed as being highly significant. Regarding changes in the structure of employment, by ownership, size of plants and major branches of economic activity, the study

stated that “in OECD member countries, changes in the structure of employment of any comparable magnitude tend only to occur over decades” (OECD, 1995:24).

To a large extent, the sudden reduction in the labour force was caused by quits of “working pensioners”, mass retirement (both regular and early) and also a decrease in women’s participation in the labour force. Sociological survey data (SSEE) show the largest increase in the number of pensioners in the pre-retirement cohort (age 45-60 for men and 45-55 for women). While in 1988, approximately 5 per cent of men and 6 per cent of women in this age group were already drawing pensions, in 1993 in both groups it had increased to around 13 per cent. Among women aged between 25-35, the proportion leaving the labour force for “other reasons” rose from 17 to 27 per cent. In addition, the postponement of entry into the labour market among the youngest cohorts owing to longer education, also contributed to an overall decrease in employment (Mateju, 1999).

The largest absorption capacity was expected among new entrepreneurs. Even though the launch of new firms was vigorous, it can hardly be called an explosion. According to labour force survey (LFS) data, in the spring of 1992 those who were self-employed represented 6.2 per cent of the total labour force, and entrepreneurs with employees 2.5 per cent, whereas by the end of 1999 these percentages were 10 and 4 per cent respectively, the same as at the beginning of 2000. In any case, the number of entrepreneurs and self-employed according to LFS data represent only a “full-time” fraction of the independent work. By the end of 1999, 2.2 million business licenses had been issued and there were 1.7 million registered entrepreneurs (Table 1.2). However, according to LFS data, the number of self-employed and entrepreneurs had reached only 667,000 in the first quarter of 2000. The majority of the self-employed are thus still employed and ran a business only as a second job.<sup>2</sup>

**Table 1.2 Number of business licenses (BL) issued and entrepreneurs (thousands) in the Czech Republic, 1992-1999**

| Numbers                             | 1992  | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999   |
|-------------------------------------|-------|--------|--------|--------|--------|--------|--------|--------|
| Total number of BL                  | 940.3 | 1263.8 | 1595.1 | 1859.2 | 2294.1 | 2611.4 | 2592.2 | 2837.8 |
| Of which:                           |       |        |        |        |        |        |        |        |
| Individuals                         | 799.1 | 1030.7 | 1276.2 | 1489.6 | 1813.2 | 2057.0 | 2068.9 | 2241.5 |
| Legal persons                       | 141.2 | 233.1  | 318.9  | 369.6  | 480.9  | 554.4  | 523.2  | 596.4  |
| Foreigners                          | -     | 8.8    | 19.9   | 43.3   | 54.7   | 77.1   | 52.7   | 68.6   |
| Entrepreneurs total                 | 656.1 | 889.9  | 1113.9 | 1243.6 | 1470.8 | 1648.9 | 1590.8 | 1713.1 |
| Of which:                           |       |        |        |        |        |        |        |        |
| Individuals                         | -     | 794.9  | 985.9  | 1116.8 | 1301.8 | 1456.8 | 1422.3 | 1523.6 |
| Legal persons                       | -     | 94.9   | 128.0  | 126.8  | 169.0  | 192.0  | 168.6  | 189.6  |
| Entrepreneurs-foreigners            | -     | 7.3    | 18.5   | 37.0   | 45.5   | 63.5   | 43.2   | 58.4   |
| BLs per 1,000 inhabitants           | 91.1  | 122.3  | 154.3  | 179.9  | 222.3  | 253.2  | 251.4  | 275.4  |
| Entrepreneurs per 1,000 inhabitants | 63.6  | 86.1   | 107.7  | 120.3  | 142.5  | 159.8  | 154.3  | 166.2  |
| BLs per entrepreneur                | 1.43  | 1.42   | 1.43   | 1.49   | 1.56   | 1.58   | 1.63   | 1.66   |

*Source: Ministry of Industry and Trade.*

Table 1.3 shows the macro-structural shifts in the changing sectoral distribution of employed persons. After the stability enjoyed under the command economy, the agriculture and manufacturing industries are rapidly diminishing while the traditional tertiary sector

<sup>2</sup> After 1989, the possession of a business license was a must for employment in many private firms. In order to avoid social security payments, many employers opted to employ only those people with their own business licenses. The practice is referred to as the “Svarc system” in the Czech Republic, the name of its creator.

(trade and private services) is expanding.<sup>3</sup> Within the public services, state administration has increased while education and health services have stagnated. Despite a considerable increase, the service sector in the Czech Republic is still relatively smaller than in European Union countries. The Czech Republic especially lags behind in services for manufacturing, research and development, public administration and social welfare (54 per cent of the labour force is employed in the tertiary sector, as against 63 per cent in Germany).

**Table 1.3 Employed workers according to industry, 1990-1998 (percentage)**

| Industry                     | 1990  | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Manufacturing industry       | 37.8  | 38.5  | 36.5  | 35.3  | 33.1  | 32.5  | 32.0  | 32.4  | 32.7  | 33.0  |
| Construction                 | 7.5   | 8.0   | 8.3   | 9.3   | 9.1   | 8.9   | 9.0   | 8.8   | 8.2   | 7.7   |
| Agriculture                  | 11.8  | 10.0  | 8.6   | 6.8   | 6.9   | 6.2   | 6.0   | 5.6   | 5.4   | 5.2   |
| Transport and communications | 6.9   | 7.3   | 7.4   | 7.9   | 7.2   | 7.1   | 7.2   | 7.0   | 6.9   | 7.3   |
| Trade and catering           | 9.8   | 9.6   | 11.0  | 12.6  | 14.4  | 17.8  | 18.4  | 18.2  | 18.5  | 17.7  |
| Health and welfare           | 5.2   | 5.3   | 5.4   | 5.4   | 5.3   | 5.2   | 5.3   | 5.4   | 5.4   | 5.5   |
| Education                    | 5.9   | 6.4   | 6.6   | 6.7   | 6.6   | 6.5   | 6.4   | 6.2   | 6.2   | 6.4   |
| Banking and insurance        | 0.5   | 0.7   | 1.0   | 1.3   | 1.6   | 1.7   | 1.8   | 1.8   | 1.8   | 1.9   |
| Administration, defence      | 1.8   | 2.0   | 2.5   | 2.7   | 3.0   | 3.2   | 3.3   | 3.5   | 3.6   | 3.8   |
| Other services               | 12.7  | 12.2  | 12.5  | 11.9  | 12.8  | 10.9  | 10.6  | 11.1  | 11.3  | 11.5  |
| Total                        | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

*Source: Statistical Yearbooks of the Czech Republic.*

Evidence of labour mobility is twofold. LFS statistics, covering at most one year, documents relatively small shifts between industries (Table 1.4). Conversely, surveys on workers' curricula report considerable cumulative changes. The large-scale SIALS 1998 survey shows that upward mobility on the vertical occupational hierarchy has far exceeded downward mobility (Table 1.5). EEA survey data from January 1996 indicate that voluntary shifts considerably exceeded changes resulting from plant closures, staff reductions or reorganizations: while 40 per cent of mobile people were actually laid-off from their previous job, 60 per cent were attracted by a better opportunity or resigned as a result of dissatisfaction with the employer or job conditions. The share of voluntary moves is lower among workers with elementary education and higher among workers with university qualifications.

Assessing this inconsistency, we need to consider different time coverage and indicators used. Whereas LFS started by 1993, when the "revolutionary" changes were already over, survey questions span the retrospective period up to the very beginning of 1990. While LFS data can describe only year-to-year changes, surveys embrace the whole period at once. And while LFS concern only entries or exits to or from the labour poll and shifts between branches, sociological surveys inquire all possible job, occupation and position changes. It is also possible that respondents may overstate their occupational changes, ascribing importance even to minor shifts in job position or employer's status (we tried to disqualify these cases). The final outcome is that job-to-job movements dominate in the first years of transition (Flek and Vecernik, 1998).

<sup>3</sup> In 1990-1993, the highest employment reductions occurred in manufacturing (minus 314,000 workers) and agriculture (minus 300,000 workers). The trade sector dominated among those with increasing employment but the net change did not cross 85,000 workers (Flek and Vecernik, 1998).

**Table 1.4 Gross flows of the labour force between industries, 1993-1997 (percentage)**

| Industry                           | Total in original<br>period | Position one year later |      |     |     | Total in original<br>period | Position one year later |      |     |     |
|------------------------------------|-----------------------------|-------------------------|------|-----|-----|-----------------------------|-------------------------|------|-----|-----|
|                                    |                             | 1                       | 2    | 3   | 4   |                             | 1                       | 2    | 3   | 4   |
| 4/Q 1993                           |                             |                         |      |     |     | 4/Q 1994                    |                         |      |     |     |
| Agriculture, forestry              | 100                         | 83.7                    | 10.1 | 0.9 | 5.3 | 100                         | 91.2                    | 4.8  | 1.0 | 3.0 |
| Manufacturing                      | 100                         | 89.6                    | 5.7  | 1.8 | 2.9 | 100                         | 91.2                    | 4.8  | 0.7 | 3.3 |
| Construction                       | 100                         | 87.2                    | 8.4  | 2.3 | 2.1 | 100                         | 88.4                    | 8.2  | 1.1 | 2.3 |
| Trade and catering                 | 100                         | 86.1                    | 7.1  | 3.0 | 3.8 | 100                         | 87.6                    | 7.4  | 1.6 | 3.4 |
| Transport and<br>communications    | 100                         | 89.2                    | 6.6  | 1.0 | 3.2 | 100                         | 90.9                    | 5.4  | 0.9 | 2.8 |
| Financial and business<br>services | 100                         | 90.5                    | 6.5  | 1.3 | 1.7 | 100                         | 91.2                    | 5.7  | 0.7 | 2.4 |
| Public administration              | 100                         | 92.6                    | 4.6  | 1.5 | 1.3 | 100                         | 90.4                    | 6.2  | 0.2 | 3.2 |
| Education, health services         | 100                         | 90.1                    | 4.9  | 1.0 | 4.0 | 100                         | 91.2                    | 5.2  | 0.2 | 3.4 |
| Other services                     | 100                         | 86.7                    | 8.6  | 0.3 | 4.4 | 100                         | 80.8                    | 15.4 | 2.3 | 1.5 |
| 4/Q 1995                           |                             |                         |      |     |     | 4/Q 1996                    |                         |      |     |     |
| Agriculture, forestry              | 100                         | 89.5                    | 5.3  | 1.1 | 4.1 | 100                         | 88.9                    | 6.2  | 1.2 | 3.8 |
| Manufacturing                      | 100                         | 89.9                    | 3.9  | 1.8 | 4.4 | 100                         | 89.0                    | 6.8  | 1.6 | 2.7 |
| Construction                       | 100                         | 88.0                    | 8.9  | 0.8 | 2.3 | 100                         | 89.8                    | 6.1  | 1.9 | 2.2 |
| Trade and catering                 | 100                         | 89.6                    | 5.5  | 1.2 | 3.7 | 100                         | 87.2                    | 8.4  | 2.1 | 2.4 |
| Transport and<br>communications    | 100                         | 93.3                    | 3.7  | 0.4 | 2.6 | 100                         | 91.2                    | 5.1  | 1.5 | 2.2 |
| Financial and business<br>services | 100                         | 90.1                    | 7.6  | 0.7 | 1.6 | 100                         | 89.3                    | 7.5  | 1.6 | 1.6 |
| Public administration              | 100                         | 94.5                    | 3.4  | 0.7 | 1.4 | 100                         | 90.9                    | 7.1  | 0.9 | 1.1 |
| Education, health services         | 100                         | 92.7                    | 2.9  | 0.3 | 4.1 | 100                         | 87.7                    | 8.9  | 0.9 | 2.5 |
| Other services                     | 100                         | 90.5                    | 6.2  | 2.2 | 1.1 | 100                         | 85.2                    | 8.1  | 1.1 | 5.7 |

Notes: 1 = Employed in same industry, 2. Employed in different industry, 3. Unemployed, 4. Economically inactive. Calculations for the last period, which did not appear in the original article, were computed by its co-author, Ivo Makalous.

Source: Kux and Makalous, 1997

**Table 1.5 Labour force (LF), job and occupation changes since 1990 (percentage)**

| Type and number of changes | All respondents up to 65 in 1998 |       |       | In the labour force for the whole period |       |       |
|----------------------------|----------------------------------|-------|-------|------------------------------------------|-------|-------|
|                            | Total                            | Men   | Women | Total                                    | Men   | Women |
| Enters into the LF         | 17.9                             | 17.9  | 17.9  |                                          |       |       |
| Exits from the LF          | 12.3                             | 10.6  | 13.9  |                                          |       |       |
| Change of employer         | 39.6                             | 42.3  | 37.0  | 39.0                                     | 41.4  | 36.6  |
| Change of occupation       | 31.1                             | 32.7  | 29.5  | 29.1                                     | 29.3  | 28.9  |
| Run a private business     | 11.7                             | 15.3  | 8.4   | 12.8                                     | 16.4  | 9.2   |
| Promotion                  | 18.6                             | 20.9  | 16.4  | 19.1                                     | 21.3  | 16.9  |
| Demotion                   | 7.4                              | 7.8   | 7.0   | 7.2                                      | 6.9   | 7.5   |
| Experienced unemployment   | 18.2                             | 18.7  | 17.7  | 16.7                                     | 15.9  | 17.5  |
| <b>Number of changes:</b>  |                                  |       |       |                                          |       |       |
| No change                  | 30.9                             | 29.1  | 32.7  | 44.7                                     | 41.9  | 47.5  |
| One                        | 19.7                             | 18.7  | 20.7  | 18.4                                     | 19.8  | 16.9  |
| Two                        | 11.8                             | 12.0  | 11.6  | 15.5                                     | 16.5  | 14.6  |
| Three                      | 12.4                             | 13.5  | 11.3  | 13.7                                     | 13.1  | 14.3  |
| More                       | 25.2                             | 26.7  | 23.7  | 7.7                                      | 8.7   | 6.7   |
| Total                      | 100.0                            | 100.0 | 100.0 | 100.0                                    | 100.0 | 100.0 |

Source: Second International Adult Literacy Survey (SIALS).

### 1.4 Economic recession and the rise of unemployment

During first years of transition, large manufacturing companies exhibited pre-privatisation behaviour supportive of labour hoarding in response to an uncertain future, sometimes also “capitalist paternalism” in hope to be backed and supported by the personnel in the case of managerial privatisation. This was largely allowed by a mixed state/banks/private ownership and over-generous crediting of formerly state firms. This turned into economic difficulties and even failures of firms, once the beneficent hand of banks has closed up and instead their generosity a credit crunch appeared since 1997. Missing micro-level restructuring, little concern of the state about transparent framework for business and lacking pressure of economic environment on substantial change in behaviour of employers and employees became thus apparent.<sup>4</sup>

According to the most recent OECD study, reasons of the sudden increase of unemployment were the economic slowdown and more energetic steps towards firm-level restructuring which have led to deteriorating conditions in the labour market. “In addition, inflows into unemployment picked up, outflows slowed and vacancies fell, resulting in rising incidence of long-term unemployment. Worsening unemployment has also manifested itself through increased regional differentials, rising rates for women relative to men and high unemployment rates among the low-skilled and youths. The number of registered unemployed and people on early retirement benefits has, therefore, more than doubled in the past years” (OECD, 2000:105).

LFS data document uneven affection of people by unemployment. Women, in particular up to age 34, have been significantly affected, as employers are afraid of their maternity leave and abstention in times of children’s illnesses. The risk of unemployment is substantially higher among unskilled workers and persons between 15 and 19 years of age. The latter case includes school drop-outs without work experience and also very young people with only elementary education who find a job only with great difficulty before adulthood. The specific rate of unemployment in this group is rising, while the share of this category in overall unemployment has declined since 1991, to the benefit of people over 50 years of age. Disabled people have also been affected, whose unemployment has rapidly increased, and whose share in overall unemployment has doubled since 1991 (Frydmanova et al., 1999).

From a regional point of view, distribution of unemployment is increasingly disproportionate. Differences between regional labour markets continue to grow, both in the structure of the labour force and in the size and structure of available employment. Especially affected are certain micro-regions which are smaller than administrative districts and often cross their boundaries, most of them dependent on one company. Today, there are several district regions, where “pockets of poverty” have been formed, characterised by a higher rate of overall and long-term unemployment. This development suggests that problems exist not only in the branches and educational structures of the labour force, but also in the local infrastructure of certain regions.

### 1.5 Survival strategies: Second jobs, informal economy

One of the mysteries of transitional economies is how people manage to survive on such low wages. A possible explanation lies in the “alternative strategies” used by many households to gain secondary incomes. On this point, data considerably differ. According to LFS statistics, 250,000 workers declared a second job in 1993 and only 133,000 in 1999 (a fall from 5.2 to 2.8 per cent of the labour force). The results of the SSEE survey provide

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<sup>4</sup> For many people, the sudden turn in economic recovery was a surprise because they fervently shared the opinion about Czech exclusiveness, easy way to capitalism and thus accustomed with the idea that “the main transition steps are already over” (Vaclav Klaus in early 1994) and that the situation will improve further.

similar figures and report that secondary activities are much lower in the Czech Republic (5 per cent) than in Slovakia (9 per cent), Poland (17 per cent) and Hungary (27 per cent). This survey also reports that differences in extension (the number of workers involved) are greater than differences in intensity (the contribution to the family budget). In 1999, 3 per cent of employees declared secondary self-employment and 2 per cent had more than one employee contract (Ten Years of Social Transformation survey).

Such data include only legally contracted jobs and underestimate the whole range of secondary activities. In EEA surveys, we included a wider scope of activities and thus obtained higher figures. In 1994, a total of 35 per cent of economically actives declared a supplementary activity: 27 per cent active in a second job, 28 per cent self-employed and the remainder earn by some “other” way. It is precisely the “other” activities that are important. They produce most of the difference between the figures obtained in the statistical and sociological surveys and include unreported and mostly untaxed regular activities such as manual work, trade and consultancy as well as many irregular activities. While the trend of secondary activities is decreasing (28 per cent in 1998), their structure remains about the same.

**Table 1.6 Working hours in the main job and secondary activities (hours per week)**

| Only one job  |      | Secondary activities |               |       |       | Total time and workers |
|---------------|------|----------------------|---------------|-------|-------|------------------------|
|               |      | Employee             | Self-employed | Other | Total |                        |
| <i>Men:</i>   |      |                      |               |       |       |                        |
| Elementary    | 46.8 | 16.0                 | 15.0          | 10.3  | 11.7  | 50.4                   |
| Vocational    | 50.1 | 17.7                 | 20.0          | 14.9  | 17.2  | 56.0                   |
| Secondary     | 49.6 | 12.0                 | 24.6          | 14.4  | 16.2  | 56.6                   |
| University    | 52.1 | 7.0                  | 20.4          | 14.9  | 14.8  | 56.5                   |
| Total         | 49.9 | 13.4                 | 21.2          | 14.2  | 16.0  | 55.6                   |
| <i>Women:</i> |      |                      |               |       |       |                        |
| Elementary    | 40.6 | 15.7                 | 22.5          | 8.8   | 13.8  | 43.7                   |
| Vocational    | 45.9 | 12.5                 | 16.4          | 12.1  | 13.1  | 49.4                   |
| Secondary     | 45.7 | 11.3                 | 13.9          | 8.8   | 10.9  | 49.0                   |
| University    | 47.0 | 5.5                  | 12.7          | 11.8  | 11.4  | 51.8                   |
| Total         | 44.8 | 12.4                 | 14.9          | 10.1  | 12.0  | 48.7                   |
| <i>Total:</i> |      |                      |               |       |       |                        |
| Elementary    | 39.6 | 15.7                 | 20.0          | 9.7   | 12.9  | 46.6                   |
| Vocational    | 45.9 | 15.5                 | 19.0          | 14.0  | 16.0  | 53.0                   |
| Secondary     | 45.2 | 11.6                 | 19.5          | 12.1  | 13.7  | 52.5                   |
| University    | 46.3 | 5.9                  | 17.4          | 13.9  | 13.7  | 54.6                   |
| Total         | 47.2 | 12.9                 | 18.9          | 12.7  | 14.4  | 52.5                   |

Source: *Economic Expectations and Attitudes Survey, November 1994.*

Men in general and workers of both sexes with secondary education are clearly more active than women and workers with other educational levels. Two age cohorts are especially active in “extra” jobs and activities: 30-34 years and 50-54 years. Secondary activities increase the average working week by almost 15 hours for those performing them, and by 6 hours for the total population (Table 1.6). While the official hours were 42.5 hours, the actual working hours were 52.5, with new private entrepreneurs working a 62-hour week on average (EEA, November 1994). These figures testify to an intensive use of human resources and a strong work commitment. For many people, however, the burden of work has not changed – only its form and the amount of return have changed: even before 1989, people worked extra hours to reduce cash expenses.

The dual status, combining employment security and market freedom is in fact a typical transitional solution. In the 1990s, stability prevailed from the perspective of households. In 1992 as well as in 1998, about one-quarter of non-pensioner households declared some income from self-employment based upon a business license. Over time, the share of households possessing at least one business licence increased up to 40 per cent. Among these, those declaring income from self-employment as their only source of income was about 12 per cent; those declaring self-employment as the main source of income was about 33 per cent; and as only a complementary source of income, 42 per cent. The remaining 12 per cent declared no income from self-employment, even despite having a business license (EEA, April 1998). A clear separation of dependent and independent labour is rather unlikely in the near future.

Even though possibilities to earn some extra money covered by an explicit or implicit contract have increased under market economy and absorbed lot of former “bricolage” (home handy/do-it-yourself work) and “neighbourhood inter-help”, domestic activities replacing cash expenditures of households for goods and services are still important. A high percentage (87 per cent in 1991, decreasing only slightly to 76 per cent in 1998) of respondents in active age answered that they “do try to make or repair as much as possible by themselves”. In contrast, the percentage of respondents answering that “extra incomes are very important for their household” was 56 per cent in 1991 and 39 per cent in 1998 (EEA surveys). The latter data suggest that at least a part of informal economy income is replaced by primary market income.

Secondary activities have both positive and negative features. They may be perceived as a relict of socialism, reducing performance and further training in the primary job. Or else secondary activities are viewed as a channel for labour mobility or the transition to self-employment or entrepreneurship. According to a 1999 survey, 27 per cent of employees who were self-employed as their second job were considering a transition to full-time entrepreneurship in the near future (Ten Years Survey). Moreover, people active outside their regular employment are more prepared to invest in their human capital, work longer hours and take on managerial responsibility (EEA surveys).

## **1.6 Structural changes in the labour force since 1993**

### **Employment**

LFS surveys allow us to observe changes in labour market number and composition since 1993. After a test survey in late 1992, the survey (following ILO recommendations and under EUROSTAT consultancy) began as a regular quarterly survey on a rotating sample (one-fifth being replaced each quarter) of about 0.8 per cent of households. On the one hand, many important changes on the labour market were already over when LFS started – especially massive beginnings of self-employment and voluntary exits which reduced the overall labour supply, as well as large mobility directed from agriculture and manufacturing towards the undeveloped tertiary sector. On the other hand, the privatization process had only just started at the time and the true restructuring of former state firms would come (against expectations) only much later.

**Table 1.7a Employed by category of age ('000 workers)**

|                | 1993    | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    |
|----------------|---------|---------|---------|---------|---------|---------|---------|
| <i>By sex:</i> |         |         |         |         |         |         |         |
| Men            | 2 735.4 | 2 758.9 | 2 784.9 | 2 803.0 | 2 788.2 | 2 756.9 | 2 694.4 |
| Women          | 2 138.1 | 2 167.9 | 2 177.7 | 2 169.0 | 2 148.3 | 2 108.8 | 2 069.7 |
| Total          | 4 873.5 | 4 926.8 | 4 962.6 | 4 972.0 | 4 936.5 | 4 865.7 | 4 764.1 |
| <i>By age:</i> |         |         |         |         |         |         |         |
| 15 - 24        | 778.4   | 804.6   | 798.0   | 783.6   | 752.3   | 720.4   | 650.1   |
| 25 - 49        | 3 225.4 | 3 214.6 | 3 211.2 | 3 181.4 | 3 132.9 | 3 072.9 | 3 023.3 |
| 50 -           | 869.7   | 907.6   | 953.4   | 1 007.0 | 1 051.4 | 1 072.5 | 1 090.6 |
| Total          | 4 873.5 | 4 926.8 | 4 962.6 | 4 972.0 | 4 936.5 | 4 865.7 | 4 764.1 |
| <i>Men</i>     |         |         |         |         |         |         |         |
| 15 - 24        | 470.9   | 478.0   | 477.1   | 471.2   | 451.6   | 426.3   | 377.6   |
| 25 - 49        | 1 750.6 | 1 748.4 | 1 749.1 | 1 745.6 | 1 727.8 | 1 708.5 | 1 683.8 |
| 50 -           | 513.9   | 532.5   | 558.7   | 586.1   | 608.7   | 622.1   | 633.0   |
| Total          | 2 735.4 | 2 758.9 | 2 784.9 | 2 803.0 | 2 788.2 | 2 756.9 | 2 694.4 |
| <i>Women</i>   |         |         |         |         |         |         |         |
| 15 - 24        | 307.6   | 326.6   | 320.9   | 312.3   | 300.6   | 294.1   | 272.5   |
| 25 - 49        | 1 474.7 | 1 466.1 | 1 462.2 | 1 435.8 | 1 405.1 | 1 364.3 | 1 339.6 |
| 50 -           | 355.8   | 375.1   | 394.6   | 420.9   | 442.7   | 450.4   | 457.6   |
| Total          | 2 138.1 | 2 167.9 | 2 177.7 | 2 169.0 | 2 148.3 | 2 108.8 | 2 069.7 |

Source: LFS (yearly averages).

**Table 1.7b Employed by category of age (% workers)**

|                | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| <i>By sex:</i> |       |       |       |       |       |       |       |
| Men            | 56.1  | 56.0  | 56.1  | 56.4  | 56.5  | 56.7  | 56.6  |
| Women          | 43.9  | 44.0  | 43.9  | 43.6  | 43.5  | 43.3  | 43.4  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>By age:</i> |       |       |       |       |       |       |       |
| 15 - 24        | 16.0  | 16.3  | 16.1  | 15.8  | 15.2  | 14.8  | 13.6  |
| 25 - 49        | 66.2  | 5.2   | 64.7  | 64.0  | 63.5  | 63.2  | 63.5  |
| 50 -           | 17.8  | 18.4  | 19.2  | 20.3  | 21.3  | 22.0  | 22.9  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>Men</i>     |       |       |       |       |       |       |       |
| 15 - 24        | 17.2  | 17.3  | 17.1  | 16.8  | 16.2  | 15.5  | 14.0  |
| 25 - 49        | 64.0  | 63.4  | 62.8  | 62.3  | 62.0  | 62.0  | 62.5  |
| 50 -           | 18.8  | 19.3  | 20.1  | 20.9  | 21.8  | 22.6  | 23.5  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>Women</i>   |       |       |       |       |       |       |       |
| 15 - 24        | 14.4  | 15.1  | 14.7  | 14.4  | 14.0  | 13.9  | 13.2  |
| 25 - 49        | 69.0  | 67.6  | 67.1  | 66.2  | 65.4  | 64.7  | 64.7  |
| 50 -           | 16.6  | 17.3  | 18.1  | 19.4  | 20.6  | 21.4  | 22.1  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Labour force surveys (yearly averages).

Since 1993 no change in the gender composition of employed has occurred, unlike the previous period when many women left employment to return to household work: about 120,000 women less appeared in the labour force in 1992 than in 1989. The number of people in post-active (retirement) age among employed decreased by 238,000 (i.e. almost halved) between 1989 and 1992 but started to rise again since 1993. LFS data report increasing

numbers of workers aged 50 and over, their share rising from 18 per cent in 1993 to 23 per cent in 1999, in contrast to a decreasing share of young people up to 24 years of age. This change in age composition is framed by a general ageing of the population but was also substantially influenced by rising years of schooling, either obligatory or voluntary (Tables 1.7a and 1.7b).

Here, mention should be made of significant changes in school enrolments (Table 1.8). Once strict state control over education was removed, the number of students attending lower vocational training declined dramatically in the early 1990s. A total of 328,637 learners in secondary vocational schools in 1990/91 decreased to 201,150 in 1995/96 and further decreased to 139,600 in 1997/98. Later, it starts to rise again, reaching 186,327 in 1999/2000. However, increasing numbers of learners wish to enter general secondary schools, which give the best chances for university studies. Such an escape from blue-collar occupations (which has also occurred in other transition countries) may be interpreted as a reaction to the former (and longlasting) totalitarian control over educational channels. It was considerably fostered by the better use of and increasing return to higher education under market economy conditions (Vecernik, 2000).

**Table 1.8 Number of students by type of school (thousands)**

| Type of school                          | 1990/91 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/00 |
|-----------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Secondary general                       | 110.4   | 126.8   | 132.1   | 125.6   | 125.9   | 125.4   | 126.8   |
| Secondary technical                     | 190.6   | 247.1   | 259.4   | 205.0   | 200.4   | 191.5   | 180.1   |
| Apprentice school<br>with <i>Matura</i> | 37.6    | 21.8    | 21.1    | 16.1    | 21.9    | 23.6    | 23.3    |
| Higher professional                     | -       | -       | -       | 14.9    | 23.5    | 29.6    | 31.1    |
| University                              | 118.2   | 129.5   | 139.8   | 155.9   | 165.8   | 174.2   | 184.0   |
| Total                                   | 456.8   | 525.2   | 552.4   | 517.5   | 537.5   | 544.3   | 545.3   |

*Source: Statistical Yearbooks of the Czech Republic.*

But in the mid-1990s, it was the secondary vocational schools (many of them new private) which expanded while in the general secondary schools (gymnasiums) the number of new students has remained almost the same. In addition to the four-year gymnasium, which was the only type in existence before 1990, an eight-year and gradually six- and seven-year gymnasiums have also come into being. While the total number of students at four-year gymnasiums dropped between 1989/90 and 1997/98 from about 100,000 to 43,000, the number of students at six-year (and longer) gymnasiums grew from zero to 85,000 in 1997/98. Overall in 1997/98, approximately 15 per cent of the population of the 15-19 year cohort were enrolled in gymnasiums of all types, in contrast to approximately 80 per cent of young people who enrolled in vocational secondary schools (Cerych, Koucky and Mateju, 1999).

However, changes in school enrolment in the Czech Republic are slow in comparison with advanced European countries. Thus, the change in qualification composition of the labour force is slight. The share of workers with secondary vocational education increased by 5 per cent in 1993-1999, replacing the almost disappearing share of workers with elementary education. Workers with tertiary education (almost all of them with at least a master's degree) increased their proportion by only about 1 per cent. Looking at gender division of the labour force by education, women especially have enjoyed better access to higher education and increased their numbers and percentages of higher categories considerably more than men.<sup>5</sup>

<sup>5</sup> Tables of these calculations, based on LFS data, have been prepared by the author. Unfortunately, space limitations prevent their publication. They are available for consultation by contacting Jiri Vecernik ([vecernik@soc.cas.cz](mailto:vecernik@soc.cas.cz)).

In the composition of employed persons by sector of industry, a steady decrease of the share of primary and secondary sectors continued in favour of the tertiary sector, in both cases more among women than among men. The only exception was the construction industry, which retained its strong position. Among the tertiary sector, banking and financial services inflated, but started to decrease again in 1999, after the final privatization of bank giants. The overall rise of the tertiary sector was much slower since 1993 than previously. Within the tertiary sector, public administration and services for firms underwent considerable expansion, especially in comparison with stagnating personnel in health services, education and research.

In connection with changing composition by industry, occupational structure has also changed. While manual workers (both unskilled and skilled) reduced their numbers, higher occupations – managers, professionals and top officials – expanded. Again, we should bear in mind important pre-1993 changes, evolved by expanding private business and self-employment. However, post-1993 changes are also important. For example, the number of so-called legislators (managers and top officials) increased by 70,000 and the number of professionals (white-collar specialists) by 60,000 workers. While the composition of “legislators” by gender has changed little (about one-quarter are women), the share of women among professionals increased slightly, from 50 per cent in 1993 to 53 per cent in 1999. Occupational hierarchy is increasingly manifested in wage disparities, encouraging workers to further skills and higher education.

Self-employment in communist Czechoslovakia was much lower even in comparison with Hungary and Poland and the original gap seems not be filled up to now (Mateju, 1999). The number of entrepreneurs (with employees) has risen very slowly from 3 per cent in 1993 to 4 per cent in 1999, while basic (simple) self-employment increased from 6 to 10 per cent. Therefore, the dependent employee status remains the most prevalent form of job, encompassing 85 per cent of workers. Men do own-account work twice as much as women. The production cooperatives left over from the communist era have now disappeared and the status of “helping family member” (as categorized before 1948 but not re-established since) was reported by only 1 per cent of women in the labour force (author’s calculations, see <sup>5</sup>).

In contrast with self-employment as the main job, self-employment as a second job has expanded and its share is constantly increasing. Here again, the incomplete coverage of supplementary work in the LFS surveys should be born in mind, which report only about 3 per cent of workers at end 1999. Of those reporting a second job, 55 per cent of men and 45 per cent of women declare it as on their own account. However, in contrast to what is officially declared, the second job of self-employment may well be the “first” in terms of the effort invested. Also, premises and other conditions of the first (dependent) job are often used for the second one. Consequently, the second job may provide higher earnings in comparison with the basic wage received for dependent employment. Unfortunately, information about the actual state of matters is scarce and can hardly be otherwise.<sup>6</sup>

The most prevalent type of employment contract is an open-ended, full-time job contract. Only 8 per cent of employees have a non-standard contract, a percentage that so far shows no tendency to increase. Similarly, fixed-term contracts are also not on the increase: since 1994 their proportion has remained stable at about 7 per cent of all employees’ work

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<sup>6</sup> Typically, although some people declared more than one job in the 1999 survey “Ten Years of Social Transformation”, only 58 per cent of them reported any income from supplementary activities. The amount of income was about one-third of reported earnings from the primary job activity.

contracts.<sup>7</sup> Part-time jobs are even decreasing, from 6.6 per cent in 1994 to 5.6 per cent in 1999 (in contrast to a 17 per cent EU average). Women work in part-time and fixed-term contracts more frequently than men (author's calculations, see <sup>5</sup>). Most fixed-term contracts are in manufacturing and trade, but also in education, research and health services. Typically, professionals in public service (teachers, physicians, researchers and journalists) are often bound to accept fixed-term contracts.<sup>8</sup>

Apart from full-time employment being a legacy of communist times, two other reasons for its prevalence are 1) since the national wage level is low, part-time employment would often mean falling under subsistence income level and 2) among employers' declared reasons is that it remains more advantageous to let employees work overtime rather than part-time, especially for women workers. In any case, it is clearly employees, not employers, who prefer part-time jobs. Reasons most frequently cited by male employees are health and continuing education; for women, childcare is their most frequent reason. While men reported a constant percentage of underemployment, slightly crossing one-tenth of workers in part-time work, women report an increasing level of underemployment, reaching almost 30 per cent of workers in part-time work in 1999.

Since 1994, the proportion of long spells of employment (over 3 years) is increasing. This is valid for the labour force in general and for self-employed in particular.<sup>9</sup> The reason is that while in 1990-1994, workers suddenly faced a largely open space of labour mobility which induced considerable sector shifts, the 1994-1998 period saw a considerable stability, when the economy as a whole was under protection of "bank socialism" (meaning the support of former state firms by bank giants, operating under political demand). Such unsustainable economic policy entered into recession in 1997, in the process shaking up the labour market into slightly more mobility. Unlike the mostly voluntary shifts of the first phase of transition, the late 1990s mobility was mostly involuntary and to the detriment of workers.

With closing channels of labour mobility, a decreasing percentage of employed people were searching another or additional job. Clearly the dominant reason for employed people to continue job-searching is a better-paid job (especially among men), and the second reason is perceived job insecurity. With rising unemployment, the weight of the first reason is decreasing while the weight of the second reason is increasing. The most prevalent method of job-search is networking through friends and other personal contacts (Granovetter, 1995). The second is advertisements.

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<sup>7</sup> In contrast to the belief that, since 1994 (when fixed-term contracts were released by law) the majority of new work contracts are fixed-term and that open-ended contracts are rather the exception (Eva Simeckova in *Ekonom* 45/2000).

<sup>8</sup> In some cases, teachers are hired for the 10-month school-year period only. In some media firms (like *Economia*), journalists are hired for short periods, usually 6 months. The Academy of Sciences of the Czech Republic provides only fixed-term contracts to researchers, between 1 and 5 years according to skill level and at the directors' discretion.

<sup>9</sup> On special request, a more detailed categorization of spells of employment was provided, which showed that more than half (53 per cent) of employees with open-ended contracts (or self-employed) worked more than 5 years and more than one-quarter (27 per cent) more than 10 years in the same job (LFS, second quarter, 2000).

**Table 1.9 Annual flows on the labour market (per 1,000 workers, percentage)**

|                                                               | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   |
|---------------------------------------------------------------|--------|--------|--------|--------|--------|--------|
| <i>Flows between labour market states:<br/>(‘000 workers)</i> |        |        |        |        |        |        |
| UE (unemployment-employment)                                  | 119.5  | 113.5  | 101.4  | 104.6  | 104.7  | 100.7  |
| NE (inactivity-employment)                                    | 248.3  | 217.1  | 176.5  | 147.8  | 188.9  | 166.6  |
| EU (employment-unemployment)                                  | 82.7   | 65.5   | 61.0   | 74.6   | 88.1   | 147.0  |
| EN (employment-inactivity)                                    | 257.3  | 209.9  | 281.4  | 197.4  | 185.6  | 183.4  |
| UN (unemployment-inactivity)                                  | 25.5   | 35.0   | 35.4   | 20.2   | 23.9   | 24.9   |
| NU (inactivity-unemployment)                                  | 52.7   | 31.5   | 29.6   | 29.0   | 53.2   | 72.1   |
| EE (job-job)                                                  | 723.1  | 572.2  | 446.7  | 353.5  | 315.0  | 247.2  |
| Total flows                                                   | 1509.1 | 1244.7 | 1132.0 | 927.1  | 959.4  | 941.9  |
| <i>Average labour market aggregates:</i>                      |        |        |        |        |        |        |
| Employed                                                      | 4838.7 | 4843.7 | 4987.3 | 4957.9 | 4841.4 | 4898.2 |
| Unemployed                                                    | 214.7  | 228.5  | 218.6  | 221.1  | 268.8  | 315.6  |
| <i>Annual gross labour market flows (percentage):</i>         |        |        |        |        |        |        |
| Employment inflows                                            |        |        |        |        |        |        |
| $H=(NE+UE+EE)/E$                                              | 22.55  | 18.64  | 14.53  | 12.22  | 12.57  | 10.50  |
| Employment outflows                                           |        |        |        |        |        |        |
| $S=(EU+EN+EE)/E$                                              | 21.97  | 17.50  | 15.82  | 12.62  | 12.16  | 11.79  |
| Unemployment inflow                                           |        |        |        |        |        |        |
| $(EU+NU)/(E+N)$                                               | 1.34   | 0.96   | 0.90   | 1.03   | 1.41   | 2.20   |
| Unemployment outflow                                          |        |        |        |        |        |        |
| $(UN+UE)/U$                                                   | 67.55  | 65.00  | 62.54  | 56.43  | 47.84  | 39.82  |
| Gross labour turnover                                         |        |        |        |        |        |        |
| $(H+S)$                                                       | 44.52  | 36.14  | 30.35  | 24.84  | 24.73  | 22.30  |

Source: LFS statistics (Computations by Ivo Makalous).

Abbreviations: E-employment, U-unemployment, N-inactivity, S-separation rate, H-hiring rate, EE - job-to-job movements.

From 1995 to 1997, the Czech labour market reached its turning point (Table 1.9). In 1995, employment stock peaked and unemployment stock shrank. This year was still quite favourable for labour mobility as job-to-job movements amounted to almost a half million workers. In 1996, the labour market was its most rigid, displaying the lowest amount of flows between individual states. Since 1997, the number of flows started to rise again but – in contrast to the previous period – was fed by mounting numbers of employees becoming unemployed and also of employees becoming inactive (mainly from early retirement). In 1998 (the last year we can currently observe from the point of view of labour market flows), the employment inflow was the lowest and unemployment inflow highest, with gross labour turnover representing a mere half of the 1993 figure.

### Unemployment

Unemployment stock more than doubled between 1993 and 1999, reaching almost half a million people in the end of 1999 but later stagnated somewhat. In the stock, women slightly prevailed over men, their percentage decreasing recently from 56 to 53.5 per cent. Tables 1.10a and 1.10b show that while unemployed men are usually young or over 50, middle-aged unemployed men prevail over women. In the long run, unemployed people are increasingly those aged over 50 (their share has tripled since 1993) while the share of young people is decreasing somewhat. The specific unemployment rate is considerably biased to the disadvantage of young people. This is apparent for men up to 24 years old, while among women middle-aged categories are also hit by unemployment. Unlike the period immediately

after 1993, in the recent past, the unemployment rate is lowest in pre-retirement age. Both protection of workers in pre-retirement age and frequent early retirement are probable factors.

**Table 1.10a Unemployed by category of age (thousands)**

|                | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| <i>By sex:</i> |       |       |       |       |       |       |       |
| Men            | 97.0  | 102.4 | 98.1  | 95.4  | 112.7 | 146.2 | 211.2 |
| Women          | 123.1 | 118.7 | 110.0 | 106.1 | 135.6 | 189.5 | 242.9 |
| Total          | 220.0 | 221.2 | 208.1 | 201.5 | 248.3 | 335.7 | 454.1 |
| <i>By age:</i> |       |       |       |       |       |       |       |
| 15 - 24        | 71.5  | 76.4  | 67.4  | 60.7  | 70.9  | 102.2 | 133.3 |
| 25 - 49        | 121.2 | 120.8 | 115.5 | 110.8 | 142.0 | 187.1 | 256.6 |
| 50 -           | 27.3  | 23.9  | 25.1  | 30.0  | 35.4  | 46.4  | 64.2  |
| Total          | 220.0 | 221.2 | 208.1 | 201.5 | 248.3 | 335.7 | 454.1 |
| <i>Men</i>     |       |       |       |       |       |       |       |
| 15 - 24        | 35.3  | 40.8  | 36.8  | 32.3  | 36.4  | 51.2  | 71.3  |
| 25 - 49        | 47.8  | 47.4  | 47.9  | 46.4  | 58.2  | 72.1  | 105.9 |
| 50 -           | 13.9  | 14.3  | 13.4  | 16.6  | 18.1  | 22.8  | 34.0  |
| Total          | 97.0  | 102.4 | 98.1  | 95.4  | 112.7 | 146.2 | 211.2 |
| <i>Women</i>   |       |       |       |       |       |       |       |
| 15 - 24        | 36.3  | 35.7  | 30.6  | 28.4  | 34.5  | 51.0  | 62.1  |
| 25 - 49        | 73.4  | 73.5  | 67.6  | 64.4  | 83.8  | 115.0 | 150.8 |
| 50 -           | 13.4  | 9.6   | 11.7  | 13.3  | 17.3  | 23.5  | 30.1  |
| Total          | 123.1 | 118.7 | 110.0 | 106.1 | 135.6 | 189.5 | 242.9 |

Source: Labour Force Surveys (yearly averages).

**Table 1.10b Unemployed by category of age (percentage)**

|                | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  |
|----------------|-------|-------|-------|-------|-------|-------|-------|
| <i>By sex:</i> |       |       |       |       |       |       |       |
| Men            | 44.1  | 46.3  | 47.1  | 47.3  | 45.4  | 43.6  | 46.5  |
| Women          | 56.0  | 53.7  | 52.9  | 52.7  | 54.6  | 56.4  | 53.5  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>By age:</i> |       |       |       |       |       |       |       |
| 15 -24         | 32.5  | 34.5  | 32.4  | 30.1  | 28.6  | 30.4  | 29.4  |
| 25 - 49        | 55.1  | 54.6  | 55.5  | 55.0  | 57.2  | 55.7  | 56.5  |
| 50 -           | 12.4  | 10.8  | 12.1  | 14.9  | 14.3  | 13.8  | 14.1  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>Men</i>     |       |       |       |       |       |       |       |
| 15 - 24        | 36.4  | 39.8  | 37.5  | 33.9  | 32.3  | 35.0  | 33.8  |
| 25 - 49        | 49.3  | 46.3  | 48.8  | 48.6  | 51.6  | 49.3  | 50.1  |
| 50 -           | 14.3  | 14.0  | 13.7  | 17.4  | 16.1  | 15.6  | 16.1  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| <i>Women</i>   |       |       |       |       |       |       |       |
| 15 - 24        | 29.5  | 30.1  | 27.8  | 26.8  | 25.4  | 26.9  | 25.6  |
| 25 - 49        | 59.6  | 61.9  | 61.5  | 60.7  | 61.8  | 60.7  | 62.1  |
| 50 -           | 10.9  | 8.1   | 10.6  | 12.5  | 12.8  | 12.4  | 12.4  |
| Total          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Labour Force Surveys (yearly averages).

There is an increasingly negative correlation of unemployment with education. Moreover, when the unemployment rate increases, disparities between educational categories grow, as Table 1.11 shows. Two factors are interrelated here: the distinction between manual

and non-manual labour, and the level of skills. In fact, the non-manual and higher educated workers were once less vulnerable on the labour market, not only under transition but also in a standard economy. However, this general rule is counterbalanced by a high exposure of school leavers to unemployment, which is on the increase (12 per cent in 1998-1999 against 10 per cent in 1993). In regard to manual workers with only an elementary education, lack of skills and frequent Roma ethnicity are two of the factors in their sharply rising unemployment rate.

**Table 1.11 Gender- and age-specific unemployment rates (percentage)**

| Category of employees                  | 1993 |       | 1996 |       | 1997 |       | 1998 |       | 1999 |       |
|----------------------------------------|------|-------|------|-------|------|-------|------|-------|------|-------|
|                                        | Men  | Women | Men  | Women | Men  | Women | Men  | Women | Men  | Women |
| <i>Age categories:</i>                 |      |       |      |       |      |       |      |       |      |       |
| 20–24                                  | 4.8  | 5.0   | 4.5  | 5.6   | 5.6  | 8.7   | 11.5 | 14.4  | 16.7 | 18.4  |
| 25–29                                  | 2.4  | 6.9   | 3.0  | 8.4   | 3.6  | 9.5   | 6.4  | 14.8  | 7.0  | 16.6  |
| 30–34                                  | 2.9  | 4.9   | 2.3  | 6.1   | 3.6  | 7.9   | 4.2  | 12.2  | 6.7  | 15.5  |
| 35–39                                  | 2.0  | 2.8   | 2.6  | 4.1   | 3.8  | 5.8   | 4.2  | 8.4   | 5.2  | 10.7  |
| 40–44                                  | 2.0  | 3.9   | 2.2  | 3.4   | 3.4  | 4.7   | 4.3  | 7.4   | 6.6  | 8.2   |
| 45–49                                  | 1.8  | 2.4   | 2.4  | 2.7   | 2.8  | 4.5   | 4.0  | 6.9   | 6.5  | 9.3   |
| 50–54                                  | 1.5  | 2.1   | 2.0  | 2.7   | 2.8  | 4.1   | 3.6  | 5.5   | 6.7  | 7.0   |
| 55–59 years                            | 1.7  | 3.6   | 2.3  | 3.1   | 2.2  | 3.4   | 6.2  | 4.4   | 5.7  | 4.9   |
| <i>Education:</i>                      |      |       |      |       |      |       |      |       |      |       |
| Primary                                | 8.4  | 7.6   | 12.6 | 9.3   | 14.9 | 12.8  | 21.4 | 18.5  | 33.6 | 24.5  |
| Vocational training                    | 2.7  | 4.7   | 2.9  | 5.3   | 3.7  | 6.8   | 5.6  | 10.7  | 8.4  | 13.5  |
| Lower secondary                        | 2.5  | 5.0   | 2.4  | 4.7   | 2.9  | 7.6   | 5.9  | 11.8  | 8.2  | 13.3  |
| Vocational training with <i>Matura</i> | 4.7  | 7.3   | 1.0  | 3.1   | 1.0  | 7.5   | 7.3  | 15.3  | 7.1  | 13.0  |
| Secondary general                      | 5.8  | 3.7   | 4.2  | 3.3   | 4.9  | 6.7   | 5.7  | 9.5   | 10.8 | 11.4  |
| Secondary vocational                   | 1.9  | 3.1   | 1.8  | 4.0   | 2.7  | 4.9   | 3.8  | 7.8   | 4.8  | 8.7   |
| University                             | 1.4  | 1.6   | 1.0  | 1.7   | 1.3  | 2.7   | 2.1  | 3.6   | 2.3  | 4.2   |
| Total                                  | 3.0  | 4.5   | 3.2  | 4.9   | 4.0  | 6.7   | 6.0  | 10.2  | 8.3  | 12.0  |

Source: Labour Force Surveys (end of each year).

Low educational level appears as a less important factor influencing the long-term unemployment. The stock of unemployed longer than 1 year was five times higher in 1999 than in 1993, and its share among unemployed rose from 18 to 40 per cent. While few changes occurred in age composition of long-term unemployed, some important changes saw their educational composition (Table 1.12). In 1993, the main category was workers with elementary education only; in 1999 there were workers with vocational training in manual occupations. Also, the share of secondary-educated people among long-term unemployed has increased, unlike workers with tertiary (university) education.

If unemployed are considered in light of their last economic status, in the 1993-1999 period the share of employees has decreased, while the percentage of school leavers has increased. The percentage of women entering the unemployment stock from household increased considerably, apparently because of advantageous conditions (insurance paid by the State). Among reasons for entering the unemployment stock, lay-off for redundancy started to dominate by 1998. Even though the number of early retirements is increasing, its percentage among reasons for terminating the last job is decreasing. Family and health reasons are also decreasing, indicating an overall trend towards prevailing involuntary exits from the active labour force (author's calculations, see <sup>5</sup>).

**Table 1.12 Long-term unemployed among all unemployed (percentage)**

| Category of unemployed                 | 1993 |       | 1996 |       | 1997 |       | 1998 |       | 1999 |       |
|----------------------------------------|------|-------|------|-------|------|-------|------|-------|------|-------|
|                                        | Men  | Women | Men  | Women | Men  | Women | Men  | Women | Men  | Women |
| <i>Age group:</i>                      |      |       |      |       |      |       |      |       |      |       |
| 20–24                                  | 21.9 | 9.4   | 19.9 | 17.2  | 19.3 | 13.8  | 22.9 | 23.0  | 25.6 | 35.8  |
| 25–29                                  | 12.2 | 17.2  | 31.7 | 28.0  | 28.5 | 25.5  | 25.1 | 26.6  | 30.7 | 39.7  |
| 30–34                                  | 20.1 | 16.8  | 38.1 | 35.0  | 34.7 | 30.0  | 42.4 | 41.4  | 47.7 | 43.7  |
| 35–39                                  | 24.2 | 31.1  | 30.2 | 31.7  | 41.5 | 21.4  | 35.8 | 48.8  | 41.5 | 50.7  |
| 40–44                                  | 26.9 | 12.3  | 38.7 | 21.2  | 43.9 | 36.7  | 27.8 | 48.5  | 47.2 | 50.4  |
| 45–49                                  | 16.2 | 24.1  | 32.3 | 27.0  | 24.4 | 38.2  | 42.1 | 33.6  | 46.1 | 50.8  |
| 50–54                                  | 26.2 | 31.2  | 38.7 | 11.4  | 45.3 | 33.2  | 33.6 | 34.7  | 46.0 | 56.9  |
| 55–59                                  | 22.5 | 40.4  | 32.6 | 20.5  | 22.5 | 27.7  | 50.0 | 19.5  | 38.2 | 48.0  |
| <i>Education:</i>                      |      |       |      |       |      |       |      |       |      |       |
| Primary                                | 34.9 | 31.8  | 40.3 | 41.7  | 52.8 | 40.2  | 44.3 | 40.6  | 50.9 | 53.3  |
| Vocational training                    | 13.5 | 9.9   | 20.3 | 19.3  | 20.3 | 23.8  | 23.4 | 28.3  | 32.6 | 45.8  |
| Lower secondary                        | 13.6 | 17.0  | 20.8 | 25.9  | 31.1 | 17.2  | 15.2 | 15.2  | 40.2 | 39.3  |
| Vocational training with <i>Matura</i> | 7.2  | 19.7  | -    | 35.0  | 41.3 | 7.9   | 8.5  | 18.4  | 11.9 | 57.1  |
| Secondary general                      | 8.2  | 13.8  | 15.5 | 17.5  | 11.9 | 18.1  | 20.0 | 16.8  | 43.9 | 35.9  |
| Secondary vocational                   | 6.9  | 6.1   | 28.5 | 19.1  | 15.6 | 16.0  | 10.4 | 18.4  | 29.2 | 32.8  |
| University                             | 10.5 | 9.5   | 18.5 | 9.2   | 19.6 | 15.2  | 22.9 | 15.3  | 25.3 | 34.1  |
| Total                                  | 18.1 | 17.9  | 26.8 | 25.8  | 28.8 | 25.5  | 28.4 | 32.1  | 36.8 | 43.2  |

Source: Labour Force Surveys (end of each year)

**Table 1.13a Specific rate of total unemployment by industry (percentage)**

| Industry                                      | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------------------------------------------|------|------|------|------|------|------|------|
| <b>Total</b>                                  | 3.7  | 3.6  | 3.2  | 3.1  | 3.9  | 5.1  | 7.1  |
| Agriculture and hunting                       | 4.2  | 3.8  | 3.8  | 3.2  | 3.6  | 4.0  | 7.2  |
| Forestry and fishing                          | 2.4  | 3.6  | 2.4  | 2.9  | 6.0  | 7.1  | 8.8  |
| Mining and quarrying                          | 4.6  | 5.0  | 4.2  | 6.8  | 7.8  | 10.3 | 12.4 |
| Manufacturing                                 | 3.8  | 3.7  | 3.5  | 3.4  | 4.1  | 5.5  | 9.0  |
| Electricity, gas and water supply             | 1.4  | 1.6  | 2.3  | 1.8  | 2.2  | 2.7  | 4.3  |
| Construction                                  | 4.9  | 4.7  | 4.3  | 3.6  | 4.4  | 5.4  | 8.3  |
| Wholesale and retail trade, repair services   | 4.9  | 4.2  | 3.8  | 3.6  | 4.9  | 6.8  | 8.2  |
| Hotels and restaurants                        | 10.1 | 8.4  | 6.4  | 6.6  | 8.6  | 9.6  | 12.7 |
| Transport and communications                  | 2.1  | 2.4  | 2.1  | 2.0  | 2.5  | 3.9  | 5.0  |
| Financial services                            | 0.7  | 0.9  | 0.7  | 0.8  | 2.4  | 3.5  | 3.9  |
| Real estate, renting and business activities  | 2.9  | 2.3  | 2.0  | 2.1  | 2.4  | 3.1  | 4.5  |
| Public administration and defence             | 1.7  | 2.1  | 2.3  | 2.3  | 2.2  | 2.8  | 3.2  |
| Education                                     | 2.5  | 2.5  | 1.6  | 1.8  | 2.2  | 3.2  | 3.0  |
| Health and social services                    | 2.0  | 2.3  | 1.9  | 1.8  | 2.6  | 4.0  | 4.3  |
| Other community, social and personal services | 5.0  | 5.5  | 4.6  | 3.7  | 4.2  | 4.5  | 6.6  |

**Table 1.13b Specific rate of unemployment by industry (percentage)**

| <b>Industry</b>                               | <b>1993</b> | <b>1994</b> | <b>1995</b> | <b>1996</b> | <b>1997</b> | <b>1998</b> | <b>1999</b> |
|-----------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Men</b>                                    | 2.9         | 2.9         | 2.8         | 2.7         | 3.2         | 4.0         | 6.1         |
| Agriculture and hunting                       | 2.8         | 2.4         | 2.8         | 2.8         | 2.6         | 2.3         | 4.9         |
| Forestry and fishing                          | 2.2         | 2.5         | 2.3         | 2.3         | 5.6         | 5.9         | 7.3         |
| Mining and quarrying                          | 4.7         | 4.7         | 3.6         | 6.5         | 6.7         | 8.7         | 10.1        |
| Manufacturing                                 | 2.7         | 2.7         | 2.5         | 2.6         | 3.2         | 4.1         | 6.9         |
| Electricity, gas and water supply             | 1.3         | 1.1         | 1.3         | 1.8         | 1.3         | 2.2         | 4.2         |
| Construction                                  | 4.5         | 4.5         | 4.3         | 3.7         | 4.3         | 5.2         | 8.3         |
| Wholesale and retail trade, repair services   | 3.1         | 2.6         | 2.6         | 2.3         | 3.1         | 4.2         | 5.5         |
| Hotels and restaurants                        | 8.0         | 6.5         | 5.1         | 4.6         | 7.6         | 7.7         | 11.9        |
| Transport, storage and communications         | 1.8         | 2.2         | 2.0         | 1.6         | 2.1         | 3.3         | 4.6         |
| Financial services                            | 0.5         | 0.4         | 0.7         | 0.3         | 1.9         | 2.9         | 2.7         |
| Real estate, renting and business activities  | 2.0         | 1.6         | 1.5         | 1.7         | 1.9         | 2.3         | 4.2         |
| Public administration and defence             | 1.5         | 2.2         | 2.5         | 2.2         | 1.9         | 2.3         | 3.2         |
| Education                                     | 1.4         | 1.5         | 0.6         | 1.5         | 1.4         | 2.2         | 1.2         |
| Health and social services                    | 1.2         | 1.3         | 1.7         | 1.6         | 3.4         | 2.0         | 3.5         |
| Other community, social and personal services | 4.6         | 5.7         | 4.7         | 3.4         | 3.4         | 4.8         | 7.4         |
| <b>Women</b>                                  | 4.7         | 4.4         | 3.9         | 3.7         | 4.7         | 6.5         | 8.3         |
| Agriculture and hunting                       | 6.4         | 6.1         | 5.2         | 3.9         | 5.4         | 7.1         | 11.6        |
| Forestry and fishing                          | 3.9         | 6.2         | 2.8         | 5.4         | 7.6         | 12.1        | 14.0        |
| Mining and quarrying                          | 4.3         | 6.9         | 8.1         | 8.1         | 12.5        | 19.3        | 30.3        |
| Manufacturing                                 | 5.2         | 5.2         | 5.0         | 4.6         | 5.6         | 7.6         | 12.2        |
| Electricity, gas and water supply             | 1.8         | 2.5         | 5.1         | 1.8         | 5.2         | 4.3         | 5.0         |
| Construction                                  | 7.9         | 5.8         | 3.8         | 3.0         | 4.8         | 7.8         | 8.0         |
| Wholesale and retail trade, repair services   | 6.3         | 5.4         | 4.7         | 4.6         | 6.3         | 9.0         | 10.5        |
| Hotels and restaurants                        | 11.6        | 9.9         | 7.4         | 8.1         | 9.4         | 11.1        | 13.3        |
| Transport, storage and communications         | 2.7         | 2.6         | 2.2         | 2.9         | 3.3         | 5.1         | 5.9         |
| Financial services                            | 1.1         | 1.0         | 0.7         | 1.3         | 2.6         | 3.9         | 4.6         |
| Real estate, renting and business activities  | 3.9         | 3.1         | 2.8         | 2.7         | 3.0         | 4.1         | 4.9         |
| Public administration and defence             | 2.0         | 2.0         | 2.1         | 2.3         | 2.7         | 3.5         | 3.2         |
| Education                                     | 2.9         | 2.8         | 2.0         | 1.8         | 2.5         | 3.5         | 3.5         |
| Health and social services                    | 2.2         | 2.6         | 1.9         | 1.8         | 2.5         | 4.5         | 4.5         |
| Other community, social and personal services | 5.4         | 5.4         | 4.6         | 4.1         | 4.8         | 4.2         | 6.0         |

Source: Labour Force Surveys (end of each year).

Looking at the composition by economic sector and branch, the majority of unemployed previously worked in mass industries, such as manufacturing and construction for men and manufacturing and trade/catering for women (author's calculations, see <sup>5</sup>). Tables 1.13a and 1.13b show that regarding the specific branch unemployment rates, the most exposed industries are mining and catering for men, and agriculture, trade and catering for women. As far as high exposure of the catering industry to labour instability and

unemployment is concerned, the main characteristic of a job in catering was that it was a transient job done by a mass of unskilled people trying their new chances under transition. Since 1999, even transitory privileged branches in the finance sector have announced large lay-offs (albeit the number of redundant bank officers is less than that made redundant in the catering industry).

**Table 1.14 Specific rate of unemployment by occupation (percentage)**

| Category of occupation       | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|------------------------------|------|------|------|------|------|------|------|
| <b>Total</b>                 | 3.7  | 3.6  | 3.2  | 3.1  | 3.9  | 5.1  | 7.1  |
| Legislators and top managers | 1.6  | 1.7  | 1.2  | 1.1  | 1.1  | 1.8  | 2.7  |
| Professionals                | 1.4  | 1.4  | 1.0  | 1.0  | 1.4  | 1.7  | 2.2  |
| Technicians                  | 2.4  | 1.9  | 1.6  | 1.4  | 2.0  | 3.2  | 3.9  |
| Clerks                       | 3.3  | 3.3  | 3.0  | 2.5  | 3.6  | 5.7  | 7.0  |
| Service and sales workers    | 6.1  | 5.6  | 4.8  | 4.7  | 6.1  | 7.7  | 10.2 |
| Agricultural workers         | 4.8  | 4.2  | 3.3  | 3.3  | 4.2  | 5.2  | 9.6  |
| Skilled production workers   | 3.5  | 3.1  | 3.0  | 2.8  | 3.2  | 4.3  | 7.3  |
| Plant and machine operators  | 3.1  | 3.2  | 3.1  | 3.3  | 4.1  | 5.1  | 8.1  |
| Unskilled workers            | 7.9  | 9.3  | 9.3  | 9.2  | 11.4 | 13.2 | 16.8 |
| <b>Men</b>                   | 2.9  | 2.9  | 2.8  | 2.7  | 3.2  | 4.0  | 6.1  |
| Legislators and top managers | 1.2  | 1.6  | 1.1  | 0.8  | 0.8  | 1.4  | 1.9  |
| Professionals                | 1.1  | 1.1  | 0.6  | 1.1  | 1.1  | 1.3  | 2.0  |
| Technicians                  | 1.6  | 1.3  | 1.1  | 1.0  | 1.4  | 2.3  | 3.4  |
| Clerks                       | 1.4  | 2.4  | 2.6  | 1.4  | 2.7  | 3.9  | 6.2  |
| Service and sales workers    | 5.2  | 4.2  | 3.7  | 4.2  | 5.2  | 5.8  | 9.3  |
| Agricultural workers         | 3.3  | 3.1  | 2.2  | 2.7  | 3.3  | 3.1  | 6.8  |
| Skilled production workers   | 3.2  | 2.8  | 2.6  | 2.4  | 2.7  | 3.8  | 6.6  |
| Plant and machine operators  | 2.4  | 2.4  | 2.5  | 2.6  | 3.3  | 3.9  | 6.5  |
| Unskilled workers            | 8.4  | 11.6 | 11.9 | 11.8 | 14.6 | 15.7 | 19.7 |
| <b>Women</b>                 | 4.7  | 4.4  | 3.9  | 3.7  | 4.7  | 6.5  | 8.3  |
| Legislators and top managers | 3.1  | 1.7  | 1.5  | 2.3  | 2.2  | 3.1  | 5.3  |
| Professionals                | 1.9  | 1.7  | 1.4  | 1.1  | 1.6  | 2.1  | 2.5  |
| Technicians                  | 3.0  | 2.5  | 1.9  | 1.8  | 2.4  | 4.0  | 4.4  |
| Clerks                       | 3.7  | 3.6  | 3.1  | 2.8  | 3.8  | 6.2  | 7.2  |
| Service and sales workers    | 6.5  | 6.3  | 5.4  | 4.9  | 6.5  | 8.7  | 10.7 |
| Agricultural workers         | 6.3  | 5.3  | 4.3  | 3.9  | 5.1  | 7.6  | 13.1 |
| Skilled production workers   | 5.1  | 4.7  | 4.8  | 4.6  | 5.5  | 7.3  | 11.0 |
| Plant and machine operators  | 5.2  | 5.6  | 5.0  | 5.4  | 6.8  | 9.2  | 13.2 |
| Unskilled workers            | 7.6  | 7.7  | 7.5  | 7.5  | 9.2  | 11.3 | 14.9 |

*Source: Labour Force Surveys (end of each year).*

Regarding shares of individual occupational categories, there are no striking tendencies or sudden shifts in the composition of unemployed. Since 1996, the percentage of unskilled workers – still prevailing – among unemployed is not increasing, as their stocks were already drained out by previous waves.<sup>10</sup> Among both unemployed men and women, non-manual occupations are being increasingly affected (technicians and clerks) in recent years (author's calculations, see <sup>5</sup>). As Table 1.14 shows, the continuing disfavouring of unskilled occupations and the increasing gap between manual and non-manual occupations on

<sup>10</sup> In fact, missing unskilled workers, especially in the construction industry, are replaced by foreign labour force, usually from Ukraine. To the 50,000 Ukrainians with official work-permits, another 50,000 workers should be added, according to moderate estimates (prior to mid-2000 and the introduction of entry visas for several Eastern countries).

the labour market is apparent in occupation-specific unemployment rates, where exposure to unemployment risk is clearly distributed down the occupational hierarchy.

The “Ten Years of Social Transformation” survey allows us to surmise the intentions and limitations of unemployed people. In retrospect, 623 respondents with unemployment experience since 1990 were identified (18 per cent of the labour force was covered by the survey; 42 per cent of respondents with an unemployment experience are people unemployed at the time of survey). Unlike the initial period of transition, when most job changes were voluntary, people are now declaring increasing difficulties in searching for another job (30 per cent of respondents consider it “very difficult” and another 32 per cent “rather difficult”).

Table 1.15 lists institutional and personal barriers, as perceived by unemployed men and women, particularly the lack of jobs in their locality and their own insufficiency of skills. They also perceive prejudices on the part of employers. The most frequently cited barriers are age, family burden and lack of self-confidence. Table 1.16 shows that those who are currently or formerly unemployed express readiness to accept a lesser job just to be employed; to undertake training or retraining, accept non-standard working hours (weekend and/or night work) or a part-time job or one with lower skill requirements. To a much lesser degree, people declare their disposition to accept worse working conditions, work for a lower wage or, even, to change their residence.

**Table 1.15 Institutional or personal barriers in job-searching: Percentage of positive answers by respondents currently unemployed or having unemployment experience)**

| Barrier                                           | Men  | Women | Total |
|---------------------------------------------------|------|-------|-------|
| Offered job is in distant locality                | 38.7 | 44.9  | 42.0  |
| Small children or care of family member           | 9.8  | 31.6  | 21.2  |
| Insufficient money to travel to labour off office | 8.4  | 9.2   | 8.8   |
| Necessity to acquire skills, retraining           | 31.3 | 29.7  | 30.5  |
| Difficulties to read/write/speak Czech            | 3.1  | 3.0   | 3.0   |
| Sick or disabled                                  | 17.1 | 11.7  | 14.3  |
| Too old for employers                             | 19.8 | 20.3  | 20.1  |
| Too long time-lapse since previous job            | 12.0 | 8.6   | 10.2  |
| Lack of self-confidence                           | 15.2 | 27.0  | 21.4  |
| Lack of ability to impress, convince employer     | 19.3 | 14.6  | 16.8  |
| Lack of good recommendation, problems from past   | 9.9  | 2.8   | 6.2   |
| Facing prejudices on the side of employers        | 33.9 | 35.5  | 34.7  |

*Source: Ten Years of Social Transformation Survey, 1999.*

**Table 1.16 Readiness to accept a job with lower conditions: Percentage of positive answers by respondents currently unemployed or having unemployment experience)**

| Type of condition                             | Men  | Women | Total |
|-----------------------------------------------|------|-------|-------|
| <i>Job at a lower skill level:</i>            |      |       |       |
| Yes                                           | 52.4 | 43.9  | 48.1  |
| No                                            | 14.0 | 21.1  | 17.6  |
| Maybe                                         | 23.5 | 28.4  | 26.0  |
| Don't know                                    | 10.2 | 6.6   | 8.4   |
| <i>Requirement of training or retraining:</i> |      |       |       |
| Yes                                           | 70.6 | 74.9  | 72.8  |
| No                                            | 9.2  | 9.0   | 9.1   |
| Maybe                                         | 15.7 | 11.8  | 13.7  |
| Does not know                                 | 4.5  | 4.4   | 4.5   |
| <i>Worse working conditions:</i>              |      |       |       |
| Yes                                           | 24.8 | 13.3  | 18.9  |
| No                                            | 32.7 | 57.4  | 45.2  |
| Maybe                                         | 36.0 | 16.6  | 26.2  |
| Does not know                                 | 6.6  | 12.6  | 9.7   |
| <i>Lower wage:</i>                            |      |       |       |
| Yes                                           | 16.2 | 17.1  | 16.7  |
| No                                            | 54.4 | 50.9  | 52.6  |
| Maybe                                         | 24.7 | 22.4  | 23.5  |
| Does not know                                 | 4.7  | 9.6   | 7.2   |
| <i>Night work:</i>                            |      |       |       |
| Yes                                           | 54.9 | 31.4  | 42.6  |
| No                                            | 23.3 | 48.1  | 36.2  |
| Maybe                                         | 19.0 | 14.5  | 16.6  |
| Does not know                                 | 2.8  | 6.1   | 4.5   |
| <i>Weekend work:</i>                          |      |       |       |
| Yes                                           | 51.6 | 37.7  | 44.3  |
| No                                            | 14.5 | 34.9  | 25.2  |
| Maybe                                         | 30.2 | 24.2  | 27.1  |
| Does not know                                 | 3.7  | 3.2   | 3.4   |
| <i>Change of residence:</i>                   |      |       |       |
| Yes                                           | 10.2 | 10.6  | 10.4  |
| No                                            | 64.5 | 67.8  | 66.3  |
| Maybe                                         | 17.3 | 16.6  | 17.0  |
| Does not know                                 | 8.0  | 5.0   | 6.4   |
| <i>Part-time work:</i>                        |      |       |       |
| Yes                                           | 32.8 | 55.6  | 44.7  |
| No                                            | 27.3 | 11.1  | 18.8  |
| Maybe                                         | 30.2 | 27.6  | 28.8  |
| Does not know                                 | 9.7  | 5.7   | 7.6   |

Source: *Ten Years of Social Transformation Survey, 1999.*

If currently employed people would become unemployed, they would prefer – of course – the same job in their locality. Aversion to moving localities is somewhat stronger than the aversion to change their previous occupation or the field of work. This is most striking among manual workers. Strategies such as starting their own business or searching for a job abroad are in the minority but still significantly declared. Surprisingly high is also the readiness of people becoming unemployed to retrain and/or to use the time of unemployment for education (although considerable wishful thinking may be suspected here!). Surprisingly

high is also the option to live from other than labour income which is partly confound with unemployment and social benefits, however (Table 1.17).

**Table 1.17 Strategies posited in the event of becoming unemployed: Percentage of positive answers by respondents currently employed or self-employed**

| Strategy                                        | Self-employed | Non-manual | Manual workers | Total |
|-------------------------------------------------|---------------|------------|----------------|-------|
| Living from welfare benefits                    | 35.4          | 40.6       | 47.7           | 44.2  |
| Seeking job in the same field and same locality | 79.2          | 82.4       | 79.7           | 81.0  |
| Seeking any job in the same locality            | 51.1          | 53.7       | 67.8           | 61.0  |
| Seeking job in the same field anywhere          | 45.0          | 45.2       | 45.5           | 45.2  |
| Seeking any job anywhere                        | 24.7          | 24.8       | 33.3           | 29.0  |
| Trying own-account work                         | 61.8          | 31.1       | 25.5           | 28.9  |
| Seeking occasional work                         | 37.6          | 41.0       | 51.5           | 46.3  |
| Trying retraining                               | 47.5          | 52.2       | 48.5           | 50.4  |
| Living from other non-labour income             | 15.8          | 20.1       | 20.2           | 20.1  |
| Seeking job abroad                              | 18.4          | 20.3       | 23.0           | 21.7  |
| Using time for further education                | 46.6          | 50.4       | 32.4           | 41.7  |

Source: *Ten Years of Social Transformation Survey, 1999.*

### Internal migration

It was assumed that the removal of bureaucratic control over the population's work and life would evolve a large territorial mobility. After suppressing socialist over-employment, new job opportunities, in tandem with the necessity of job relocation, were expected to increase migration. According to a survey conducted in the early transition period, one-quarter of people in active age expected they would be obliged to move due to rent rises or to a job change (EEA, May 1990).<sup>11</sup> In fact, the very opposite has occurred in the Czech Republic: paradoxically, migration decreased by 20 per cent during the first 4 years after 1989. The total amount of migration, which represented 267,000 migrants in 1990 (26 per 1,000 inhabitants) decreased to 204,000 in 1998 (20 per 1,000 inhabitants). However, demographers suspect that a share of migration goes unrecorded (people moving to unofficially rented apartments (Population Development, 1998 and 1999).

While the relative level of short-distance migration (from locality to locality within the same administrative district) and long-distance migration (from region to region) decreased somewhat, middle-distance migration (from district to district within the same region) fell considerably (Table 1.18a).<sup>12</sup> It appears that migration encloses itself into small territorial areas. However, this does not hold true for migration within the city of Prague, where migration is measured across 726 detailed urban areas and where it has decreased by one-quarter, culminating in a complete stability (Population Development, 1998 and 1999). This reflects limited housing construction (with the exception of luxury apartments) and a lack of willingness to move on the part of tenants.

<sup>11</sup> Eight years later, a similar survey question "If you had no job and were offered on it a distant locality, would you be willing to change your place residence?" only 18 per cent of respondents already in the labour force answered "Certainly yes" and another 27 per cent "Rather yes". Respondents currently unemployed are more predisposed to move (25 per cent "Certainly yes") as well as people who perceive themselves as exposed to unemployment within the coming two years (32 per cent "Certainly yes") (EEA, April 1998). This suggests serious problems within the housing market.

<sup>12</sup> It should be noted that distinctions between localities (*obec*), administrative districts (*okres*) and regions (*kraj*) do not necessarily measure territorial distance. People migrating a few kilometres can cross district or even regional borders. However, this approximation is the only one provided by demographic statistics.

**Table 1.18a Internal migration by territorial level (numbers of people and percentage)**

| <b>Territorial level</b>            | <b>1993</b> | <b>1994</b> | <b>1995</b> | <b>1996</b> | <b>1997</b> | <b>1998</b> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Migration total                     | 241 261     | 210 207     | 203 877     | 195 554     | 197 226     | 203 719     |
| Migrating between:                  |             |             |             |             |             |             |
| Region-region                       | 57 315      | 50 663      | 49 190      | 46 200      | 46 910      | 48 896      |
| %                                   | 23.8        | 24.1        | 24.1        | 23.6        | 23.8        | 24.0        |
| District-district within a region   | 48 993      | 43 460      | 42 355      | 39 981      | 40 821      | 41 448      |
| %                                   | 20.3        | 20.7        | 20.8        | 20.5        | 20.7        | 20.3        |
| Locality-locality within a district | 94 166      | 82 105      | 80 695      | 78 273      | 79 935      | 83 629      |
| %                                   | 39.0        | 39.0        | 39.6        | 40.0        | 40.5        | 41.1        |
| Inside the city of Prague           | 40 787      | 33 979      | 31 637      | 31 100      | 29 560      | 29 746      |
| %                                   | 16.9        | 16.2        | 15.5        | 15.9        | 15.0        | 14.6        |

Source: Population Development of the Czech Republic.

**Table 1.18b Balance of internal migration by the size of locality (numbers of persons and percentage)**

| <b>Size of locality</b> | <b>1990<sup>1</sup></b> |           | <b>1994</b>    |           | <b>1997</b>    |           | <b>1998</b>    |           |
|-------------------------|-------------------------|-----------|----------------|-----------|----------------|-----------|----------------|-----------|
|                         | <b>persons</b>          | <b>%o</b> | <b>persons</b> | <b>%o</b> | <b>persons</b> | <b>%o</b> | <b>persons</b> | <b>%o</b> |
| - 1 999                 | -7 565                  | -3.5      | 2 454          | 0.9       | 10 001         | 3.8       | 13 045         | 5.0       |
| 2 000 - 9 999           | -148                    | -0.1      | 3 603          | 1.8       | 4 451          | 2.2       | 4 538          | 2.3       |
| 10 000 - 49 999         | 3 498                   | 1.4       | -1 849         | -0.9      | -4 812         | -2.1      | -5 549         | -2.5      |
| 50 000 - 99 999         | -2 831                  | -2.8      | -2 556         | -2.2      | -3 816         | -3.3      | -5 226         | -4.2      |
| 100 000 -               | 9 445                   | 3.6       | -1 652         | -0.7      | -5 824         | -2.5      | -6 808         | -3.1      |

Note: <sup>1</sup> Including migration with Slovakia (positive balance 2,399 persons)

Source: Population Development of the Czech Republic.

**Table 1.18c Internal migration within cities/surrounding districts (numbers of people and percentage)**

| <b>City</b> | <b>Surroundings</b>     | <b>1990</b> | <b>1994</b> | <b>1997</b> | <b>1998</b> |
|-------------|-------------------------|-------------|-------------|-------------|-------------|
| Prague      |                         |             |             |             |             |
| Turnover    | Districts Prague-East   | 4 410       | 3 585       | 3 735       | 4 540       |
| Balance     | and Prague-West         | 272         | -623        | -1 479      | -2430       |
| Efficiency  |                         | 6.2         | 17.4        | 39.6        | 53.5        |
| Brno        |                         |             |             |             |             |
| Turnover    | District Brno-          | 2 666       | 1 918       | 2 269       | 2 126       |
| Balance     | countryside             | 468         | -172        | -647        | -556        |
| Efficiency  |                         | 17.6        | 9.0         | 28.5        | 26.2        |
| Ostrava     |                         |             |             |             |             |
| Turnover    | Districts Frydek-Místek | 5 513       | 3 925       | 3 554       | 3 920       |
| Balance     | Karvina, Opava          | -23         | -287        | -428        | -438        |
| Efficiency  | and Nový Jicin          | 0.4         | 7.3         | 12.0        | 11.2        |
| Plzen       |                         |             |             |             |             |
| Turn-over   | Districts Plzen-South   | 2 139       | 1 530       | 1 518       | 1 684       |
| Balance     | and Plzen-North         | 185         | -196        | -388        | -458        |
| Efficiency  |                         | 8.6         | 12.8        | 25.6        | 27.2        |

Source: Population Development of the Czech Republic.

Another perspective on migration observes its net balance according to the size of locality. Here again, the result is somewhat paradoxical as, since 1994, middle-sized towns and cities are losing their population while small towns have gained somewhat (Table 1.18b). The increase of differences in migration balance is even greater than data show, as some middle-sized towns have lost so large a share of their population that they were ranked into a lower size category from one year to another. While in the lowest categories of localities,

migration is huge enough to compensate the natural decrease of the population, both effects of natural and mechanical decrease cumulate and strengthen each other among middle-sized towns and cities. It should be born in mind in regard to the data for main cities, that considerable commercial use is made of their centres for business premises, banks and enterprise administration offices.

The trend to de-urbanization is compensated for by the process of suburbanization. Important migration flows have thus occurred between cities and their surroundings (Table 1.18c). While the amount of migrants from and to Czech and Moravian cities has somewhat stagnated, the efficiency of migration (ratio of net balance to migration turnover) increased. For instance in the Prague region, the efficiency of migration from the city of Prague to two surrounding districts (Prague-East and Prague-West) from 1990 to 1998 has increased from the value of 6 to a value of 54. The region of Central Bohemia currently represents the main inflow region, while Prague and North Moravia are the main outflow regions. This de-urbanization and suburbanization are tied to scarcity of land and escalating housing prices in traditional cities, counterbalanced by rising housing construction in their suburbs.

According to forecasts by the agency TERPLAN, in 2010 less people will live in small localities up to 2,000 inhabitants (minus 2.7 per cent) and in towns with more than 10,000 inhabitants (minus 2.6 per cent). Also the share of population living in cities over 100,000 inhabitants will decrease from 22 to 20.7 per cent.

A major reason for decreasing migration is the underdeveloped *rental market*. After 1989, restitution of real estate property was made to the original owners or their descendants, while most other houses were handed over to local governments. Whether the new owner was a private person or a municipality, rents for apartments remained regulated. This certainly helped to moderate the rise of living costs of many households (about one-third) but simultaneously also limited needed investment (many properties had not been modernized or repaired since 1938). In part, it is also the reason why the amount of new construction has dropped dramatically to one-third, with a second factor being the escalating costs of construction, which have multiplied by 3.5 times since 1989, according to price indices (Statistical Yearbook of the Czech Republic, 2000).

While the situation is advantageous for people already housed (the tenants of former state-owned apartments in particular), it has become critical for young people and families obliged or willing to move. The shortage of apartments which young couples can afford undermines labour mobility and indirectly contributes to distortion of the vital statistics. The deregulation of rents proposed for 2003 was announced by the government in 2000 to be again frozen. The black market thus continues to flourish.<sup>13</sup> Non-existent distribution criteria for a few remaining apartments allow speculation and enrichment of bureaucracy. Since no restrictions are placed on protected tenants in communal apartments, they can use their apartments not only as personal good for their own housing needs, but also as a business capital for sub-renting, a market price amounting to multiple times the official rent.

No systemic housing policy was launched by the post-1989 governments. The only substantial change has been the newly introduced mortgage schemes whose conditions are still (despite additional unloading) too tight to address a wider section of households than the upper income category.<sup>14</sup> Another innovation was the construction savings scheme subsidized by the State. Although broader in scope and very popular due to high interest rates, it can only

<sup>13</sup> The situation is such that the Minister of Regional Development in charge of housing construction recently replied Yes when asked if he would personally resort to a "black" (clandestine) method of acquiring a flat in a case of necessity.

<sup>14</sup> Only about 26,000 mortgage loans for individuals were accorded by 9 licensed banks by the end of 2000. The State contributes 4 per cent of interest from a total 7.5 per cent on average. This contribution is insecure for the future, however (HN 28.12.200).

cover 20-30 per cent of the current apartment prices.<sup>15</sup> The main criticism of state housing policy is that the measures introduced are only taken up by those in the owner-occupier area and only advantageous for a third of the population. In contrast, little encouragement and support is actually given to the construction of houses for rent, despite the possibility of renting new apartments at market price. In fact, state support for new construction is much lower than the State's intervention into the price of heating.

The decreasing trend of housing construction stopped in 1996 and, in parallel, migration started to rise, although very slowly. In 1998 and 1999, significantly more apartments were newly constructed and completed than in previous years. This trend might be reversed by the fact that the 2001 budget of the Ministry for Regional Development (also responsible for housing) is to be reduced considerably, implying no increase in state support for social or any other low-cost construction. However, against plans to downgrade the state subsidy of mortgage loans, it was retained at the same level and the number of participants rose somewhat.

In practice, the amount of work performed outside the region in which people live is much higher than shown in statistical migration flows. Since migration flows comprise about 3 per cent of the population, 17 per cent of the population (one-third of the labour force) are working outside the region in which they live. This is caused by the high dispersion of the settlement structure in the Czech Republic. The highest commuting is directed to the large cities, especially to Prague, where the daily population is estimated at 1.6 million workers – in comparison with 1.2 million inhabitants. A high flow level is also seen in Moravia, caused by higher unemployment (Joint Assessment, 2000).

However, as mentioned earlier, employers consider the Czech population as commuting-averse. This is attributed both to the surviving communist legacy of the residence and workplace stability, in addition to the low value added of commuting. The monetary difference between wage offered (minus travel and other expenses) and social benefits is very small – or non-existent. The intention of the MLSA is to include – into an amendment of the Employment Code (currently under preparation) – a special transport benefit for unemployed persons, which would be distributed by labour offices as a mechanism of active labour market policy implementation. This would be in addition to the transport allowance that is already granted to low-income families within the state social support scheme. As this solution has been considered by some to be both complicated and not very motivating, a return to the former practice of special students' and workers' tickets is also under consideration.

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<sup>15</sup> About 3 million contracts on construction saving were concluded up until mid-2000. The interest rate reaches almost 15 per cent yearly. The Government is thus considering a reduction of state support.

## 2. Labour legislation

The current Labour Code originated in 1965. It has since been amended more than 20 times. After 1989, its structure changed substantially to adjust to the needs of a market economy. Engagement of the State in labour relations was reduced and their contractual character strengthened. Collective labour relations also changed substantially, especially collective agreements. In parallel, Czech labour law was harmonized with binding international agreements, the foremost being the incorporation of EU directives into Czech national law (Labour Code Amendment 2000, General Section), which is required for the EU accession process.

A prolonged debate preceded Amendment 2000. In the early 1990s the leading party (ODS), in agreement with a majority of employers, intended to incorporate labour relations into the Civil Code. The trade unions vehemently disagreed, perceiving an overstated liberalization of labour relations. Demands during the subsequent strike of March 1994 centred on collective bargaining, better information for employees, restriction of fixed-term contracts, freedom to negotiate a higher severance pay, and limitation of night work for women. The Tripartite Committee finally agreed and Amendment 2000 was passed in Parliament, valid from 1 January 2001 onwards.

Its main goal is harmonizing Czech legislation with that of the European Union, including the social dimension of the common market and the Chart of Basic Social Rights of Employees. The fields of special concern are equal opportunities for men and women, work conditions, employment security and health protection, and employees' representation. From the point of view of work flexibility, the following changes (or lack of them) are the most important:

- No discrimination is allowed in access to job, to salary, to training and job promotion, and in labour legal relations; for equal work, equal pay.
- Employees have the right to more information about the firm and the firm's situation should be negotiated with them; if trade union organization is not in the firm, employees' councils might be established with support of the employer.
- Contracts for an unlimited period of time are preferred (as previously) but also fixed-term contracts were maintained against the pressure to limit them; there are no legal limits in concluding fixed-term contracts and sequencing them except regarding adolescents, school leavers and categories of workers exempted by the collective agreement;<sup>16</sup> disabled persons are no longer protected.<sup>17</sup>
- Fixed-term contracts are not administratively limited;<sup>18</sup> employees working in fixed-term contracts are equal in labour relations and have the same rights as employees in standard contracts (but not the severance pay).
- Compulsory severance pay is limited on two months as before; newly, instead of additional three-months limit which could be concluded in collective agreement no limit is set; the lack of limit for negotiated severance pay concerns also budgetary organisations.

<sup>16</sup> However, if a person belonging to this category of workers agrees in writing to a fixed-term contract, it can be concluded. The exemption is thus only formal, since the employer can set such consent as a hiring condition.

<sup>17</sup> In fact, this was asserted by the "disabled lobby" in Parliament, with the intention that disabled persons would not be discriminated against by employers because of such obligation.

<sup>18</sup> MLSA asked for the insertion into the Amendment of a statement that, in a fixed-term contract, its reason should be stated, so that the time period of the contract would conform with the reason stated. This was, however, not accepted by Parliament.

- Overtime work was reduced to 150 hours per year, with the possibility to agree on more hours up to the absolute upper limit of 416 hours per year. Work stand-by was reduced to 24 hours per week and 400 hours per year.
- Collective dismissals and related obligations for employers were newly arranged according to EU legislation.
- Flexible working hours were set by the Amendment.

The general view of Amendment 2000 is that it is beneficiary for employees. It corresponds to the rationale that the employee represents a weaker party in labour contracts. Trade unions evaluate the amendment very positively, stressing its harmonization with EU legislation. Overall, they consider it as a departure from “mafia capitalism” and the “wild capitalism of Eastern Europe” and a significant step on the journey towards the civil rights practices of Western Europe. They expect that Amendment 2000 will contribute to increasing the nation’s stability and give it higher credibility for foreign investors (vice-president Milan Stech in LN 27.4. 2000). However, they are not satisfied with maintaining the wide discretion of fixed-term contracts, which was asserted against trade union efforts to reduce them and make them stricter. They also object to the so-called “competition clause” stating that managers cannot be employed immediately in the same field (in exchange for unlimited “golden handshakes”).

The opposition, especially ODS, anticipate problems for both employers and employees. They argue against the reduced possibility of uneven distribution of working hours, which is allowed only in agriculture, forestry and construction. The same concerns hold true for limited stand-by hours and night work, which is stricter than the EU requires. The party also view unlimited severance pay, including the public sector as an excessive generosity, which might burden the state budget in the future. Unlimited “golden handshakes” evolve debate even among the rightist parties. Similarly, employers argue against the amendment because of increasing burden for them (longer holidays, less overtime work, higher severance pay) and warn that it will limit the competitiveness of Czech firms. Limits on overtime work and work standby might cause problems in health services, warn their managers (MFD 27.4. 2000).

Here, a difference in the application of overtime work, which differs in large companies and small firms, should be noted. As trade unions in large companies strictly require higher wages for overtime work (up 50 per cent during the week, 100 per cent at weekends), managements already reduce overtime to a minimum. In small firms, people work overtime without extra payment, be it by employers’ wilfulness, or in consequence of replacing hourly wage by contracted wage without any regard to working hours. While in 1998, almost one-third of employees worked in paid overtime work, only one-quarter did so in 1999. The current tendency is towards a further reduction of overtime work.

The following pages provide an overview of current legislation and the changes introduced by the Labour Code Amendment valid from the beginning of 2001.

## **2.1 Recruitment**

The employment relationship is agreed for an indefinite period, unless a fixed-term contract is agreed. A fixed-term employment relationship cannot be entered into with graduates of secondary and university-level schools or apprentice schools, who enter into an employment relationship taking a job corresponding to their qualifications; adolescents; and categories of employees specified in the collective agreement. This prohibition does not include the case of an individual who makes a written request for a fixed-term employment relationship. The employment contract may also include a probationary period that should last

three months, unless a shorter period is agreed by the parties. Once agreed, the probationary period cannot be subsequently extended.

## **2.2 Individual and collective dismissals (see Annex 1, Table A1.1)**

### **Individual dismissals**

Employers may give notice of termination to employees only for the following explicitly stated reasons:

- a) the employer, or their organizational section closes
- b) the employer, or their organizational section relocates
- c) the employee becomes redundant as a result of the employer's decision to change the firm's orientation or its technical equipment, to reduce the number of employees in order to increase firm efficiency, or to make other organizational changes
- d) the employee's health is such that, according to the opinion of a medical expert or a decision by the state health service or social security authority, (s)he has suffered a long-term inability to perform the work
- e) the employee does not meet requirements prescribed by statutory provisions for performance of the agreed job or (s)he does not meet the requirements for its proper execution. If failure to meet these requirements leads to unsatisfactory working results, the employee may be served by a notice only if during the prior 12 months the employer called upon him/her in writing to address the shortcomings, and the employee failed to rectify them within a reasonable period of time
- f) serious breaks in work discipline which may result in immediate termination of the employment relationship. For persistent but less serious misconduct the employee may be served notice if, during the previous six months, (s)he was notified in writing of the possibility of termination as a result of such misconduct.

The employer may serve notice of termination to his/her employee in cases other than breaking work discipline or in cases permitting immediate termination only if:

- a) it is not possible for the employer to employ him/her further in the agreed workplace or in the employee's place of residence, even after retraining, or
- b) the employee is not willing to be transferred to other suitable work in the agreed workplace, or in the place of the employee's residential address, or if the employee is not ready to undertake retraining for this other appropriate work.

In any case, reasons for termination of employment relationship must be specified so that ulterior motives are precluded. Otherwise, the termination notice is not legally enforceable. Once notice has been given, the grounds for termination cannot be subsequently changed.

### **Definition of unfair dismissal**

If the employer serves an invalid notice to his/her employee or does not validly terminate his/her employment relationship immediately or during the probationary period, and the employee announces his affirmation of insistence to continue in employment with the employer, then the employment relationship continues. The employer is required to reimburse the employee's earnings to the amount of his/her average earnings as of the day when (s)he announced his/her affirmation on continued employment, to the day when the employer enables the employee to resume his/her work, or to the day the employment relationship is validly terminated.

If the entire period to be reimbursed exceeds 6 months, the court acting after the employer's petition may decide to reasonably reduce the required wage reimbursement for any additional period (i.e. above the first six months) or not to concede any further entitlement to compensatory earnings. The court is required to take into consideration whether the employee was employed elsewhere in the meantime, the kind of work (s)he performed subsequently, his/her later earnings, or the reasons (s)he did not take up another job.

If the employer does not validly sever the employment relationship, but the employee does not insist on continuation of the employment relationship then, unless the employee otherwise agrees with the employer in writing, his/her employment relationship is regarded as having been terminated by agreement as follows: (s)he was served by an invalid notice, upon expiry of the required period of notice; his/her employment relationship was not validly terminated either with immediate effect or within the probationary period, on the day in accordance with its termination. In such cases, the employee is entitled to compensatory payment to the amount of his/her average earnings for the duration of the period of notice.

If the employee serves an invalid notice, or does not validly terminate his/her employment relationship immediately or during the probationary period, and the employer announces his/her insistence that the employee continue to perform his/her work, the employment relationship shall continue. If the employee does not comply with the employer's announcement, the employer may ask from the employee a compensation for losses caused to him/her, starting from the day the employer notified the employee of his/her insistence that the employee continue to work. Compensation of losses for the period preceding the employer's assertion in court that severance of the unemployment relationship was invalid is 1 month at most.

If an employee does not validly sever his/her employment relationship and the employer does not insist on the continuation of his/her job, and if the employer otherwise agrees with such an arrangement, the employment relationship can be terminated by mutual agreement: if the employee served an invalid notice, it terminates upon expiry of the required period of notice; if the employee had not validly terminated his/her employment relationship immediately or during the probationary period, it terminates on the day of terminating the employment relationship.

### **Notice period**

Once a notice of termination is given, the employment relationship will end upon expiry of the notice period. This is the same for the employer and employee and is 2 months, unless provided for otherwise. The notice period begins the first day of the calendar month following delivery of the notices and finishes at the end of the last day of the corresponding month.

For misconduct at the workplace or during work, or if there are reason/s for immediate termination, the employer is required to announce it to the employee within a period of 2 months after the day on which (s)he learned of the reasons for termination. If the employee breaks work discipline in a foreign country, announcement of termination may be made within 2 months of his/her return from abroad. In all cases, the notice may be served no later than 1 year from the day on which the reason/s for dismissal occurred.

If during the 2-month period the alleged break in work discipline becomes a subject of an investigation by another body, the employer is required to give notice within 2 months from the day of revealing results of the investigation. If approval by the state authority is required before notice may be served, the time from the day when an application of such approval was submitted, until the day when the decision of the state authority becomes legally binding, shall not be included into the said period.

### **Severance pay**

An employee is entitled to severance pay amounting to twice his/her average earnings at the end of his/her employment relationship, providing that his/her employment relationship is severed by notice for legal reasons or by agreement due to the same reasons. The proportionate amount of severance pay is determined according to the number of calendar days from his/her re-entry into employment until expiry of the time period. An employee is not entitled to severance pay if his/her legal rights and duties are transferred to another employer in the course of organizational changes or if (s)he performs work for the employer in a auxiliary employment relationship. The entitlement does not concern fixed-term contracts.

In the case of an invalid agreement on termination of the employment relationship, the same procedure as above applies to assess an employee's claim for compensation of lost earnings, as in the case of an invalid notice of termination served upon an employee by his/her employer. The employer cannot require losses due to agreement being invalid.

### **Sanctions**

If an employee is dismissed for reasons on the employer's side, the employer is obliged, in cooperation with the appropriate state authority, to actively assist him/her in finding other suitable employment. When serving notice to a single mother or father with a child under 15 in her/his care, or to a disabled employee who is not the recipient of any benefits, or when serving notice to an employee because (s)he is no longer able to continue his/her current job as a result of potential occupational illness, or when serving notice to an employee because (s)he has been subjected to the highest allowed level of exposure in the workplace, the employer is bound to ensure that the employee secures other suitable work, if need be, with the assistance of the employer's superior body. In such cases the notice period *does not terminate until the employer accomplishes this duty*, unless the employer agrees otherwise with the employee.

The employer is not obliged to actively assist his/her employee in securing other suitable job or to ensure that (s)he provides it if the employee is not willing to transfer to another job which is suitable for him/her and which the employer offered him/her prior to serving him/her the notice. The employer is relinquished from this obligation if, for no significant reason, his/her employee refuses other suitable employment.

### **Exemptions**

- Immediate termination of the employment relationship is allowed only in cases of:
- a) unconditional sentencing for a crime for more than 1 year, or at least 6 months if the criminal act was related to performing working tasks or
  - b) for an especially serious break in work discipline. This should be done within the period of 1 month from when the employer learned of the break in work discipline and within 1 year of its occurrence.

The employment relationship with a pregnant woman employee or with an employee caring for a child up to aged 3, or an employee on paternal leave within the legal leave period, cannot be immediately terminated.

### **Collective dismissals**

Collective dismissals are terminations of employment relationships within a period of 30 calendar days, issued because the employer, or his/her organizational section closes or

relocates, or because the employer decides to change the firm's orientation or its technical equipment, to at least:

- a) ten employees by employers employing 20-100 employees
- b) 10 per cent of employees by employers employing 101-300 employees
- c) 30 employees by employers employing more than 300 employees.

The employer is required to notify the local trade union organization at least 30 days in advance and discuss with it any measures to prevent or reduce collective dismissals and attenuate their negative consequences for employees, especially their placement in other suitable jobs within the employer's firm. For this discussion, the employer shall provide the trade union with all needed information and documentation.

At the same time, the employer shall inform in writing the local labour office of the measures proposed, their reasons, the number and categories of workers affected by redundancies and the time of dismissals. Further, employers are obliged to inform the local labour office of proposed criteria for the selection of laid-off employees, and about the commencement of bargaining with the trade union organization or employees' council. A copy of this information must be given to the relevant trade union organization.

The employer is bound to deliver to the local labour office the report of the final decision concerning the number and categories of workers affected and the results of bargaining with the trade union organization or employees' council. If the trade union organization or employees' council is absent, the employer is required to inform each employee separately. The trade union organization or employees' council can express their attitude to the report separately. The employment relationship of a collectively dismissed employee can terminate by a notice given no earlier than 30 days after delivery of the written report of the employer to the local labour office, unless the employee declares that h/she does not require the continuation of employment relationship.

## **2.3 Non-standard forms of employment (see Annex 1, Table A1.2)**

### **Fixed-term contract**

The employment relationship is agreed for an indefinite period, unless it is a fixed-term contract, wherein the term must be explicitly stated. A fixed-term employment relationship may not be concluded with graduates of secondary and university-level schools, specialist apprentice schools or apprentice schools who enter into an employment relationship for work that corresponds to their qualifications. Here, the term "graduate" refers to an employee who has been in employment or analogous relationship for less than two years since the successful completion of his/her studies; adolescents; employees specified in the collective bargaining agreement. The prohibition does not apply in cases where an individual makes a written request for a fixed-term employment relationship with his/her employer. No administrative restriction for fixed-term contracts and their chaining is applied in the amendment. Employees working in fixed-term contracts are equal in labour relations and have the same rights as employees in standard contracts.

### **Temporary employment**

#### ***Restrictions on firms***

Employers are required to ensure their tasks primarily with employees in standard employment relationships. Exceptionally, they may also conclude agreements with individual employees on work performed outside the regular employment relationship. Such an agreement concerns achievements which cannot be feasibly reached by the employer within the framework of standard working hours or working shifts fixed in advance, and which are

necessary for effective management and which could not be efficiently achieved within regular employment contracts. Such agreements can be concluded with adolescents, only if it does not negatively impact or impede their healthy development or job training. Such agreements may not be concluded for activities that are protected under copyright law. The prohibition of certain kinds of work for women and adolescents is valid also for work performed on the basis of such agreements.

### ***Restrictions on workers***

On the basis of concluded agreements, employees are obliged to perform work carefully and properly according to their strength, knowledge and ability. They are required to observe the conditions of the agreement; to perform the work personally or with assistance of family members named in the agreement; to observe the statutory provisions specific to the work performed by them, especially provisions ensuring safety and protection of health at work; to properly manage the means and equipment entrusted to them and to safeguard and protect the property of the employer against damage, loss, destruction and misuse.

There are only two forms of work performed outside an employment relationship. Both are expected to be exceptional and limited to cases when the employer cannot ensure the work tasks by its permanent staff or if it would be unjustified or inefficient to so do. The two forms are *Agreement on the performance of work task* (used mainly for individual work tasks) and the *Agreement on working activity* (used mainly for long-term activities).

### ***Agreement on the performance of work task***

An employer may conclude such an agreement if the expected duration of the working activity is no longer than 100 hours. All periods of work performed by the employee for the same employer in the same calendar year within different agreements on the performance of work must be calculated as part of the total time.

### ***Agreement on working activity***

An agreement on working activity may be also concluded if the expected duration will be not longer than 100 hours. Usually, the duration is longer; nevertheless, it should not exceed one half of regular weekly working hours. An agreement on working activity can be concluded either for a fixed-term or an indefinite period. If the method of termination is not stated in the agreement, it may be terminated by agreement of the parties and unilaterally only by notice served, for any reason or for unstated reasons, with a 15-day notice period beginning the day on which the written notice of termination is issued.

### ***Part-time work***

Employers can also set a shorter working time, for operational reasons on their side or for health or other serious reasons on the employee's side, if it is not prevented by operational reasons. Employer is obliged to create conditions to comply with such requests of employees. Working time can be concluded accordingly. Wage is reduced proportionally.

## **2.4 Regulation of working time (see Annex 1, Table A1.3)**

### **Standard weekly hours**

The working week shall be no longer than 43 hours (40 hours since 2001). The weekly working hours of employees under 16 shall not exceed 33 hours (30 hours since 2001). According to the Amendment, the working week shall be a maximum 40 hours. The weekly working hours of employees in mining and related activities, in operational units with three-shift and non-stop operation are 37.5 hours, in operational units with two-shift operation

38.75 hours and for workers under 16 years of age – 30 hours. The MLSA shall set the maximum period by which working time may be reduced without an accompanying reduction in earnings, as well as conditions for the introduction and scheduling of reduced working hours. The introduction of shorter working time without earnings reduction below the ceiling shall be permitted by the MLSA in agreement with the Ministry of Health Care, after negotiation with the authorized branch trade unions and the authorized employers' association. A further shortening of working hours without a reduction in earnings may be agreed in collective agreement or set by internal regulation.

The employer shall decide about weekly working hours according a decree of the MLSA after consultations with the authorized trade union organization. The employer shall set the weekly working hours such that, when scheduled evenly over individual weeks, the difference in the amount of working time allotted to particular weeks does not exceed 3 hours, and so that working time on individual days does not exceed 9.5 hours (9 in the Amendment). At the same time the average weekly working hours for a given period, generally 4 weeks, may not exceed the limit fixed for weekly working time.

In accordance with labour-law provisions issued by the authorized central authority, or in accordance with a collective agreement concluded at a higher level and after consultations with the authorized trade union body, the employer may distribute working time unevenly such that average weekly working hours over the period of a whole calendar year do not exceed the limit fixed for weekly working hours. The employer may also re-schedule hours for the weekly uninterrupted period of rest to take into account both fluctuating demand and the conditions set in the government decree. The uneven settings of working hours can also be agreed with an employee.

### **Flexible working hours**

Flexible working hours are set by the amendment. The arrangement can be set as:

- a) flexible working day, when employees self-set the beginning of their work shift and are obliged in a given day to work the entire shift following the schedule of weekly working time
- b) flexible working week, when employees self-set the beginning and end of their work shifts and are obliged in a given week to work the entire weekly hours
- c) flexible 4-week period, when employees self-set the beginning and end of working shifts and are obliged in a given 4-week period to work the hours assigned to this period.

### **2.5 Short-term work (see Annex 1, Table A1.4)**

(Also refer to Section 4.2, Legal protection of employment.)

### **Employment assistance**

Citizens arrange a suitable job themselves, or with assistance from the authorized Labour Office. Citizens may seek assistance in job search by contacting the labour office in whose district they have their permanent residential address. Citizen may also request information on employment opportunities and job vacancies, as well as advice, in any labour office.

A citizen who is not in an employment or similar relationship, and who has no independent gainful activity, or who is not involved in regular job training and personally applies in writing to the Labour Office for assistance in finding a suitable job is registered as a jobseeker. The jobseeker is obliged to cooperate with the Labour Office for the purposes of securing employment. The jobseeker shall confirm details relevant to the jobseekers' list for

assistance in finding employment; (s)he shall subsequently notify of any changes in these facts within seven calendar days of their occurrence.

Jobseekers may be de-registered if they refuse to accept a suitable job without good reason, or if they are not cooperative with the Labour Office's efforts to find them suitable employment; such individuals may only be re-entered on the list of jobseekers after a period of 3 months.

### **Retraining**

Retraining is understood as a change in the qualifications of jobseekers whereby they acquire new knowledge and skills through theoretical education and practical training which will enable them to work in suitable employment. When the contents and scope of such retraining is determined, a jobseeker's current qualifications are considered, so that these can be effectively used in the acquisition of new knowledge and skills necessary for the execution of the new job. Retraining is undertaken on the basis of a written agreement between the jobseeker and the Labour Office that offers to arrange such retraining. The agreement shall state the concrete contents of retraining, its arrangements, duration and the conditions under which the jobseeker will receive financial support during the retraining period.

Retraining conducted by employers to extend the skills of their employees shall be set down in a written agreement between the employee and employer. Retraining shall be carried out during working hours and treated as an impediment to work for the employee, who shall be entitled to reimbursement of his/her earnings to the amount of his/her average earnings. Retraining shall take place outside working hours only if necessary. It shall not be regarded as retraining if: an employee participates in theoretical or practical education which the employer is obliged to provide for employees under the relevant statutory provisions, and which the employees must attend subsequent to the performance of their job; or retraining which employees undertake in their own interest and without a change in their existing qualifications being required. In such cases, the appropriate labour-law provisions regulating the participation of employees in training and external studies are applied.

### 3. Collective bargaining

In transition to a market in 1990, the division of tasks between labour, capital and the institutional framework of the State was dismantled. At enterprise, branch and national level, new, specific, and increasingly conflicting interests appeared. Industrial relations started to simulate those in advanced capitalist countries. Instead of formal mechanisms of mediation asserted by the voluntary socialist system and its “leverage institutions”, standard relationships between employers and employees were established after 1989. International conventions accepted by former Czechoslovakia (and since 1993 by the Czech Republic) stipulated the respect of rights – for people as citizens and workers, as well as the rights of collective bodies established for the preservation of individual interests. The amended Labour Code, together with the new Employment Act and Collective Bargaining Act, established premises for granting rights in the implementation of employment policy. A top-level tripartite body including trade unions, employers’ organizations and government was established and the bargaining process introduced.

#### 3.1 Establishment of corporate bodies

Replacing the command economy by a market economy and compulsory employment by free labour contracts is far from a continual and harmonious process. The opening of markets and setting up “capitalist” labour market institutions is heavily path-dependent and, thus, hampered in various ways by the communist past. Its legacy is exemplified in the Czech society’s large reliance on state protection and their limited flexibility in jobs and type of contract. Institutions, although bearing new names and forms, are keeping their old manners. The same holds true for employment relations and their collective actors involved in the bargaining process. If we consider the three standard partners of corporate debate, we confront a triple legacy of the previous regime, which is fading only slowly:

A. **Trade unions** bear the stigma of their collaboration with the communist regime, in which they represented the wealthy but powerless “transmission leverage” of the ruling communist party. Formally, the former *Revolutionary Union Movement (ROH)* disappeared and new trade unions have arisen nominally “from below”, meaning from strike and enterprise committees massively constituted in the revolutionary days of November 1989, whose activity peaked in the General Strike held on 27 November 1989. However, except for the top leaders, there is an overwhelming organizational continuity, which downgrades the courage of its functionaries and undermines the confidence and activity of its members. Huge property holdings (embodied especially in a network of recreational premises) transmitted to intermediary private bodies ensure the good economic position of trade unions but spoils the communication between union leaders and ordinary members.

The largest union body is the *Czech-Moravian Chamber of Trade Unions (CMKOS)*, which associates 30 individual unions and, through them, almost one million of members and supposedly addresses over 1.4 million workers (Table 3.1). It is the most visible union body and the most represented by important international organizations like the ILO and the OECD. Among unions not participating in the CMKOS, the most energetic are *Trade Unions of Railway Workers (OSZ)*, identified with wage pressures and often (sometimes not correctly negotiated) strikes, and the *Trade-Unions Club of Physicians (LOK)*, well-known for its uncompromising pressure to increase the salaries of doctors and nursing sisters to a relatively Western level. Some 10 other, mostly independent, unions exist but are less important and less visible.

**Table 3.1 Trade union (TU) membership and enterprise collective agreements (CA) among unions organized in the Czech-Moravian Chamber, 1994-1999**

| Indicator                                                               | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    |
|-------------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|
| Number of firms with TU organization                                    | 12 895  | 13 178  | 12 371  | 11 380  | 10 499  | 9 561   |
| Number of employees in firms with TU organization (thousands)           | 2408.9  | 2161.4  | 1885.7  | 1736.9  | 1430.4  | 1431.4  |
| Number of unionized employees in firms with TU organization (thousands) | 1954.3  | 1818.8  | 1524.2  | 1351.1  | 1053.5  | 920.3   |
| Number of TU organizations having right to conclude CA                  | -       | 6 565   | 8 423   | 7 512   | 6 561   | 5 203   |
| Number of TU organizations that did not conclude CA                     | -       | 1 150   | 1 749   | 1 309   | 1 318   | 925     |
| Number of concluded collective agreements                               | 5 506   | 8 888   | 6 299   | 5 332   | 4 971   | 4 694   |
| Number of employees covered by CA (thousands)                           | 1 883.3 | 2 044.7 | 1 884.3 | 1 709.8 | 1 412.0 | 1 425.1 |

Source: CMKOS.

B. The **unions of employers** were created in inconsistent and even conflicting conditions. On one hand, as the corporate governance of privatized firms was unclear and old/new managements holding power had little responsibility in the restructuring of firms, they sometimes tended to conclude a hidden “social contract” with workers, corrupting them in order to get their support. On the other hand, as many managers and owners felt their dominance over firms as considerably strengthening (becoming their true rulers), they often considered trade unions and collective bargaining as undesirable relicts of communism. Consequently, they often try to avoid a dialogue with them and thus strengthen their own decision-making. Between these two extremes, a great variety of individual cases and, also, a considerable change evolves over time.

Among **employers' organizations** created after 1989, the largest are the *Confederation of Employers' and Entrepreneurs' Associations* which shelters eight individual unions. Of these, the largest are the *Unions of Entrepreneurs' Federation* and the *Union of Entrepreneurs in Construction*. Sector SME is represented by the *Association of Entrepreneurs of the Czech Republic*. Another is the *Union of Industry and Transport of the Czech Republic*, sheltering a total of 31 industrial unions and associates 1,600 firms, ensuring 80 per cent of manufacturing production. Both of these large bodies are fully autonomous and represented in the Tripartite Commission. The other important body is the *Economic Chamber*, which associates about 15,000 firms assumed to produce 80 per cent of GDP. As it is now, the Economic Chamber is not a member of the Tripartite Commission and negotiates directly with the Government.<sup>19</sup>

C. The role of **the State** is ambiguous. On one hand, it has its ownership role as a stakeholder in not-yet-fully-privatized banks and firms, mediated through the *Fund of National Property (FNM)*. On the other hand, it plays its role as guardian of legal framework, general representative of the population and guarantor of social cohesion and the common good. The ownership role was questioned by prime minister Vaclav Klaus and his government after 1992, when a considerable effort was invested to withdraw the State from

<sup>19</sup> As the former President Zdenek Sommer stated, the *Economic Chamber* is reluctant to negotiate with trade union issues other than social conditions. He considers labour legislation to be considerably biased in favour of employees (Sondy 14.6.1999).

the Tripartite Commission, arguing that the State is involved in national economy as a direct owner in a rapidly decreasing degree, if at all. Presumably, the prime minister was addressing a triple message to unions: speak exclusively for your members, worry about the firm-level only and do not engage yourself in the overall welfare sphere.<sup>20</sup>

Engagement of the State in employment and labour relations is derived from and connected to its general role in the drawing up and the enforcement of law. This role was rather underestimated by post-1989 governments, especially by Klaus-led government in 1992-1996, when it was presumed that “economists should run before lawyers”, contributing to a largely “wild capitalism” in which law, rights and justice were insufficiently asserted and, therefore, hidden power and lobbying networks continued and expanded, with the necessary accompaniment of corruption. Declared reliance on the “iron rationality of market forces” served as the argument for neglecting market regulations and, consequently, establishing a facade of wilfulness of powerful actors of both the old and new provenance.

### 3.2 The tripartite body and social dialogue

In contrast to a standard, continuously developed capitalism, the new arrangements of industrial relations during post-communist transition had two particular and interrelated characteristics. First, social dialogue was asserted from above, in the logic of “political capitalism” (Staniszki, 1991). Trade unions, only partially restructured from the former “red unions” established by communism in the 1945-1948 period (centralized, politicized and strictly hierarchical, only formally autonomous), took the role of labour representation under new conditions. True or false, objective or only “psychological”, these communist roots placed a heavy burden on representational action, especially in the initial years of transition, giving a free hand to the government, its liberal rhetoric and the game of presumably free “market forces”.

Second, in the specific Czech conditions, the establishment of social partnership had a preventive function, following the distinction made by Wiesenthal (1995) between the “reactive” and “preventive” establishment of institutions. In this sense, the situation in the Czech Republic differed substantially, for example from Poland, where alternative trade unions had already been created under the communist regime and powerfully acted against the regime. The trade union situation also differed from Hungary and other transition countries, because the “original state” of the Czech economy was much better than elsewhere. As most of the former state firms continued (and were generously hoarding labour), the agenda of trade unions was somewhat confined during early transition.

However, social dialogue originated smoothly enough, due to the socio-liberal character of the first *Civic Forum* government. Later, the status of corporate bodies and dialogue was marked by two turning points. The first related to the aftermath of the 1992 elections, in which the *Civic Democratic Party (ODS)* led by Vaclav Klaus, won and conceptualized the “market-without-adjectives”, a simplistic version of liberal West-style economic reform. In its design, all other actors except “free market forces” and political parties (representing the political market) were not welcome. The second turning point is related to the 1998 elections, in which the *Czech Social Democratic Party (CSSD)* led by Milos Zeman was the winner and established a minority government supported by ODS. The

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<sup>20</sup> In this sense the post-1992 politics of Vaclav Klaus was resumed by the President of CMKOS, Richard Falbr at its 2<sup>nd</sup> Congress (Sondy 1.6. 1998).

covet alliance between the CSSD and trade unions manifested itself in the formation of Government.<sup>21</sup>

Earlier (October 1990), the *Council of Social Agreement of the Czech Republic* had been established as a tripartite body, which in 1991 was renamed the *Council of Economic and Social Agreement (RHSD)*, established on two national levels (Czech and Slovak) and the federal level (Czechoslovak). According to its statute, RHSD's main tasks were to negotiate General Agreements, to seek agreement and take up positions on the course and measures in the field of employment, wages, working conditions and standards of living. It also launched directives concerning the content of collective bargaining at higher-level collective agreement. According to later modifications (November 1992 and January 1994), the subject was gradually reduced to labour relations and collective bargaining, economic framework, employment conditions and social protection (Smolcnp, 1999).

The first General Agreements after 1989 were signed at the level of Czechoslovakia (1991 and 1992) as well as at the level of individual national republics (1991 and 1992 in Slovakia, 1992 in the Czech Republic). The first General Agreement of the independent Czech Republic was signed in early 1993. A hot issue was their obligatory nature: employers objected to putting effort into making agreements obligatory for firms not actually involved but to which the territorial or branch principle was automatically applied. Against the will of private employers, a statement was also asserted about not obstructing the right of free association and collective bargaining, in order to hamper anti-union efforts of employers.

Another General Agreement was signed in early 1994, but it was formulated only on a very general level. Although the main issue under discussion was actually the wage regulation, nothing explicit was eventually stated in the Agreement. More freedom was given to employers, as varying conditions within branches were acknowledged. A general direction that "employers and unions will support enlargement of collective agreement of higher level under agreed conditions" was also included. Although no concrete results were finally reached in individual areas, the road to collective bargaining had basically been paved (Mansfeldova, 1997).

However, from 1995 the coalition government led by Klaus's Civic Democratic Party (ODS) started to hamper the conclusion of a new general agreement. Under pretext of the neediness of a new statute of the Tripartite Commission (which would reduce the range of bargained issues), the government has actually blocked preparation of the agreement. After acceptance of the new statute, another problem has appeared, i.e. valorization of the minimum wage. Government argued that this would lead to extreme burden on the state budget. Although the percentage of workers paid at the minimum wage level is very low, its amount is used as a base for pension and health insurance contributions paid by the State (for children, pensioners and unemployed persons). Finally, the Government refused to sign the agreement.

Up to 1996, no agreement was concluded. The *Council of Economic and Social Agreement* was transformed into the *Council for Dialogue of Social Partners (RDSP)* as a voluntary tripartite body of trade unions and employers with the participation of government representatives. Its action area was reduced and focused on labour relations, collective bargaining, employment, wages, work security and social protection. However RDSP has met semi-annually during 1995-1997, but no social agreement was reached. Disappointed unions reacted by strikes or strike warnings. Only after facing economic recession and in connection with austerity measures in 1997, did the government renew the *Council of Economic and Social Agreement* in November 1997 (Governmental Report, 1999). In November 1998, RHSD refused any discrimination of trade unions. Representatives of government and

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<sup>21</sup> The close relationship of the CSSD to trade unions is illustrated by the fact that leading union functionaries and experts found important positions in the government, e.g. as deputy ministers and ministers' advisers. Two Labour deputy ministers came from unions.

employers declared their full support to collective bargaining and agreements (Sondy 2.11. 1998).

In 1998, tripartite partners aimed to conclude the so-called *Pact of Social Stability* which would be a long-term agreement about “harmonization of the interests of all social groups and institutions, directed at enhancing the performance and competitiveness of the Czech economy and its inclusion into EU”. The Pact was to guarantee equal position and rights of all partners, including the government. Presumably, the Pact should be a “specification of principles of the social-market economy, following the past successful development of Western European countries” (The Strategy of the MLSA to 2002). However, in consideration of the problematic of political feasibility with the Pact, the RHSD decided to prepare a General Agreement 2000 instead (assumed also as the first step to the Pact). This aimed to agree about strategic and legislative measures of the government in employment and social policy, outline the contents of collective agreements and determine the cooperation of social partners. This goal was not reached either.

Trade unions – represented especially by CMKOS – vigorously challenged the Klaus government’s effort in 1994 to include labour legislation into the Civil Code. Instead, they asserted a unified labour legislation which would “balance unequal rights of employers and employees”. Debate evolved about representation of employees in companies where the trade union organization had insufficient support. Instead of a dual system (trade union organization and employees’ council), priority was given to trade unions, which are only entitled to represent employees in labour disputes and conclude collective agreements. Unlike trade union organizations, employees’ councils (introduced by the 2001 Amendment of the Labour Code) can only intermediate between employers and employees in cases where employment measures are implemented.

### 3.3 Collective bargaining

Already in December 1990, the Czechoslovak Federal Assembly passed the *Collective Bargaining Act*, valid since 1991. Since then, practices have been developed and considerable experience gathered in an area which, although it formally existed under the communist regime, was applied only in a doctrinal, formalized way. However, even after 1989, development in this area was far from continuous and is marked by several ups and downs. As various circumstances have hampered social dialogue, the number of concluded collective agreements permanently decreased and, simultaneously, the number of employees covered by them shrunk. Reasons for the decline include the atomization of employers (a great number of very small firms) and the lack of ethics in labour relations (endorsed by simplistically perceived liberalism).

Even after 10 years of democratic development, workers’ confidence in collective agreements is limited. The main stumbling blocks are not legal or strictly economic, but rather of a social and moral character. People are not aware of the links between the prosperity of a firm and social peace and, consequently, of the importance of the social dialogue leading to such peace. In contrast with the opinion that work incentives should be involved in a climate of cooperation and a fair attitude towards workers at lower ladders of firm hierarchy, many employers are reluctant to negotiate with employees, often displaying a hostile attitude towards company trade union organizations. This is no surprise, taking into account the characteristic features of the Czech transition: as long as business ethics remain low, relationships between managements and employees are considered of lesser importance (Subrt, 1999).

The law on collective agreement distinguishes between the enterprise (company) level and higher levels (branch or sector). While the first are concluded between the company trade union organization and the individual employer, the others are concluded between industry

unions and employers' organizations. According to law, no direct links of superiority or complementarity is set between the enterprise and higher-level collective agreements. Regarding the higher collective agreements, employers can accept or reject the involvement of their firm. According to law, all provisions of enterprise-level agreement which are less favourable for employees than the higher-level agreement are invalid. In these cases, the employer is bound by such an agreement, which is more advantageous for workers (Kubinkova, 1999:138-139).

The "model" collective agreement on the enterprise level includes the following sections:

- I. Introductory provisions
- II. Relationship between employer and company trade union organization
- III. Procedure used for clearing employee's complaints
- IV. Working entitlements and conditions
- V. Protection of employment
- VI. Rewarding of work
- VII. Travel compensation
- VIII. Safety and health protection during work
- IX. Social conditions of employees
- X. Concluding provisions

In section V, "Protection of employment", the employer is bound either to inform or to dispute with company trade unions the intended structural changes, organizational or rationalization measures leading to redundancy of employees. This is to be performed in time, usually 3 months before, by delivering notices of dismissal to each dismissed employee.

In selecting employees to be dismissed, the employer shall consider employees' work performance, chances to advance professionally and their overall duration of employment with the firm. Special processing should be given to single parents, disabled employees and workers over 50 years of age not yet entitled to retirement. In cases of employees with higher protection, if company trade unions take a negative stance, such dismissal should be reconsidered in consultation with a trade union representative. The protection of other categories of employees is only morally binding, without consequence for the validity of dismissal; however, it can be solved later as a labour dispute.

Severance pay entitlement was reduced by the law: originally, up to 5 monthly earnings, in addition to a compulsory 2-months' salary. However, the 1994 Labour Code amendment removed this possibility and only 2-monthly earnings were agreed as obligatory. Only in special cases and with special agreement from the Ministry of Finance, could higher severance payment be paid, before the 2000 Labour Code amendment was put into practice. This was the case, for example, at the Koh-i-noor mine. In conclusion of a 22-day occupation strike against planned massive lay-offs, 5-months' salary was negotiated and promised to the laid-off miners.

The activity of trade unions on employment protection and compensation of employees over and above legal requirements is documented by the following examples.

- \* In *Skoda-Volkswagen Mlada Boleslav*, 2,000 jobs were removed when production of the brand Felicia was terminated. But employees were shifted onto jobs previously occupied by foreign workers (mostly Poles). Only 7 people refused jobs proposed to them and left the firm. In the collective agreement, the programme "Seniority" was included, according to which compensations are granted to older workers. The formula considers the number of working years in the firm and the number of months before retirement (e.g. if an employee is 5 years before retirement and 20 years with the firm,

compensation amounts to CZK 76,000). Because the district has a very low unemployment rate, the firm is searching for employees in other, more distant districts, but mostly fails – even if it offers company transport.

- \* *Electricity plant Tusimice* (branch of the CEZ company) attempts to transfer redundant workers from core activities to newly created auxiliary departments. Retraining is paid by the firm (if agreed with trade unions); and legal compensations are granted even if employees move to a subsidiary firm. Massive lay-offs are expected in connection with the activation of Temelin nuclear power station, but there will be no supply of jobs at the time. The annex of the collective agreement states that a multiple of legal severance pay would be granted. A compensation payment is made to workers according to the number of working years in the firm and the number of months before retirement (up to CZK 180,000). A motion was presented to give 10 per cent of income from the privatization of energy plants to employment support and development of regional infrastructure.

Other firms also grant financial compensation above the legal amount of severance pay, usually according to the number of working years with the firm and number of years before retirement age. Workers willing to leave a firm by agreement are compensated by several monthly earnings – e.g. the light machinery plant *Zdarske strojirny* compensates such employees by 5 monthly wages given in a lump sum, if the employer and employee agree about the date of job termination. Such mutually advantageous formulae are widespread, because firms economize wages for the notice period and employees collect additional wages without additional work. Frequently, compensations or special advantages are not expressly formulated in collective agreements and the concrete measures are set in other, less binding documents.

Following the Government's decision in mid-2000, *metallurgy workers* will be compensated by 10 times their earnings (up to a maximum CZK 160,000 gross). A condition is to be at least 10 years with the company and to be a maximum of 10 years (or a minimum of 10 months before retirement age) – presumably workers with less possibility for retraining. However, if they start to work on their own account, they can receive additional support (up to CZK 30,000) and to be given access to credit from the governmental programme START (up to CZK 500,000). This is a part of a comprehensive social programme developed in cooperation with the Ministry of Industry and Trade, the employers' organization, the branch trade union KOVO and other state authorities. The aim is to compensate outcomes of restructuring of the metallurgy industry, which is estimated to hit 50,000 workers, mostly in North Moravia and North Bohemia (HN 24.8. 2000 and Soudy 11.9.2000).

A similar arrangement is currently under preparation for North Bohemian miners, to be compensated by severance pay amounting to 10 previous salaries. The rationale is presumably the difficult retraining of miners, who are moreover concentrated in one region, accustomed to high wages and reluctant to take other, considerably lower-paid jobs. According to estimates, about 6,000 miners will be endangered by launching of the Temelin nuclear power station. The programme also involves also the creation of new jobs, especially in the construction of highways, the recultivation of the countryside, and also in new SMEs offering a couple of hundreds new jobs yearly (MFD 1.9. 2000).

The banking industry is also hit by redundancy, after spectacular expansion in the early 1990s. One example is the *Commercial Bank* (the biggest bank in Central Europe) where the number of employees reached 17,000 employees in 1994 and is slowly decreasing (to 13,500 in 1999). While until 1999 the reduction of staff was mostly voluntary or to early retirement, the subsequent decrease is forced by necessary efficiency increases. All released

employees are compensated by 5 months' salary instead of 2 months. In regions with high unemployment, the bank engages outsourcing firms helping the people to find a new job or to retrain them. Part of the "trimming" of the bank is done through shifting employees to expanding subsidiaries active in leasing, insurance, investment and pension funds (*Economic Trends*, 2000).

The 2001 Labour Code amendment re-allows the negotiation of unlimited severance pay. This was asserted in reaction to the social partners' search for alternative ways of compensation. But former practices will be restrained by other factors. First, most of the generous programmes of large firms are being removed because firms are facing financial troubles. A limiting factor is that financial compensation should be paid only from the net firm revenue. Therefore, there is often only a general statement (if any) in the collective agreement while the concrete compensation is set in other, less binding documents. Second, following the Labour Code amendment, currently widespread compensation for employees in pre-retirement age could be considered somewhat discriminatory, following the trade union's statement.

Later sections of the model collective agreement concern topical measures for *ensuring employment*, meaning maintenance of current jobs and the creation of new jobs; retraining of employees, including retraining of those who are laid off due to organizational changes or for job-related disability; ensuring jobs for disabled persons; ensuring jobs for school leavers including apprentices; training of new unskilled employees. The measures also include subsidized employment (creation of so-called socially effective jobs); retraining programmes and youth programmes (subsidy of new jobs for secondary and university school leavers).

Collective agreement should also stress the right of employees to apply for a vacant or a new job within the organization, the offer/competition of which – regarding the requirements of skills, experience and health status – has to be approved by the company trade unions. This same right is extended to all employees already laid-off from the company because of organizational changes. The company is obliged to offer the job to those previously dismissed workers who fill the conditions announced by the offer or competition.

A special section of collective agreement is focused on *training*, as an obligation of the employer to concern themselves with workers' skills. The employer can conclude an agreement with the employee for further training through time opportunities and income support (paid leave). The law distinguishes between the maintenance and renewal of skills (so-called deepening of qualification) on the one hand, and acquisition of new skills and enlargement (so-called increase of qualification) on the other hand.

Following the terms of the agreement, the employee undergoing training has the obligation to stay in the firm (but at most five years) or reimburse the employer. If the employee is not obliged to participate in training, s/he has the right to choose one educational activity each year, if it is deemed necessary for his/her job. During training, the employee is entitled to use working time and receive a wage compensation – provided that the training corresponds to the employer's needs.

**Table 3.2 Main issues concluded in enterprise collective agreements among unions organized in Czech-Moravian Chamber (percentage of agreements involving the issue), 1992-1999**

| Issue                            | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|----------------------------------|------|------|------|------|------|------|------|------|
| Wage development                 |      |      |      |      | 66.0 | 66.0 | 65.0 | 67.5 |
| of which:                        |      |      |      |      |      |      |      |      |
| - rise of nominal wage           |      |      |      |      | 41.2 | 40.6 | 32.9 | 32.4 |
| - maintenance of real wage       |      |      |      |      | 2.8  | 7.9  | 9.2  | 12.2 |
| - rise of real wage              |      |      |      |      | 5.5  | 4.1  | 5.2  | 7.4  |
| - rise of the total wage bill    |      |      |      |      | 5.7  | 4.6  | 3.7  | 4.2  |
| - minimum wage                   |      | 18.6 | 27.7 | 31.7 | 9.5  | 6.9  | 20.9 | 11.9 |
| Working hours                    |      |      |      |      |      |      |      |      |
| of which:                        |      |      |      |      |      |      |      |      |
| - shortening working hours       | 90.4 | 91.0 | 85.9 | 91.0 | 91.6 | 92.6 | 90.1 | 94.0 |
| - longer holidays (by one week)  | 88.0 | 81.0 | 76.0 | 81.0 | 81.0 | 81.7 | 78.4 | 80.5 |
| - longer holidays (by two weeks) | -    | -    | -    | 1.0  | 0.8  | 0.2  | 0.2  | 0.2  |

Note: Until 1995, tax-based wage regulation was applied, so there was no way to conclude its more rapid rise in collective agreement. Longer holidays (by two weeks) have been allowed since 1995 and could not be negotiated in the preceding years.

Source: CMKOS.

While unionization of workers declines rapidly, the number of trade unions entitled to conclude a collective agreement and the number of workers covered by an enterprise agreement is declining at a much slower pace. This occurs even though collective agreements cover all workers in a firm, be they members of trade unions or not. In 1999, almost 1.5 million workers were covered by a collective agreement, only three-quarters in comparison with the number of workers covered in 1994 (see Table 3.1 above). The share of workers covered by an enterprise collective agreement represents about 30 per cent of the Czech labour force.

Since 1993, the main contents of collective agreements are surveyed by the MLSA and the agency company Trexima, with the *Information system on labour conditions*. In 1998, the survey involved 963 enterprise agreements and in 1999 1,293 enterprise agreements of a total of 4,694 has been surveyed. Surveys document that agreements concentrate especially on wage development and working hours (Table 3.2). Working hours are settled only for full-time jobs, with other arrangements of working time usually not settled (Sondy 18.1. and 8.11.1999). The other frequent topic is the use of enterprise social funds (also called incentive funds), mainly addressed to the support of canteens, contribution for pension insurance, recreation and personal loans for workers.

Unlike the communist regime, which was quite attentive to the stability of employment ensured through housing, the current support of employees' housing is weak. Loans still survive from the regime's *Fund of social and cultural needs* but their amounts became negligible in view of the escalating prices of new apartments. According to anecdotal evidence, foreign firms in particular are providing soft loans for the provision of apartments for their employees. Former enterprise apartments were mostly purchased or transferred to private companies: these often become subject to speculation, facilitated by non-transparent ownership rights. Only about three per cent of 1999 housing stock is provided for employees, but almost exclusively for army and police officers.

Support or loans for starting self-employment or a business were not found in collective agreements or other enterprise-level documents. In fact, it was an earlier practice that seemed not very successful. For instance, *Tatra Kopřivnice* afforded guarantees for loans to their former employees who started a business. Not many did, a figure of several dozens or so, but many of these new enterprises have failed; one of the largest being a firm for the

production of protection facilities which hired disabled persons. Measures such as these are mainly solved in cooperation with labour offices within the official active labour market policy (ALMP) measures.

There are about 30 *higher collective agreements* in the Czech republic. While their number has remained almost unchanged, the number of employers involved increased from 12 in 1995 to 2,289 in 1999. However, some employers refuse to join such agreements by preferring an enterprise-level collective agreement. The Tripartite Commission established by the MLSA reflects reasons given by reluctant employers. If a firm joins a higher collective agreement, it is binding also for firms in which trade union organization is absent and the relevant information is generally available. The 2000 Labour Code amendment even amplifies information obligations of employers and also introduces employees' councils which have to be informed by employers (Sondy 24.7.2000).

Trade unions are attentive to the protection of and assistance to specific categories of workers. This concerns workers in pre-retirement age and all other groups exposed to discrimination. Higher collective agreements were analysed by the Research Institute of Labour Affairs (RILSA) from this point of view. It was found that almost no special attention was given to unskilled workers and women returning from maternal leave; only scant attention was devoted to leavers of secondary and tertiary schools; that they bind employers to special protection of workers in pre-retirement age, especially if their duration in the firm is 20 years and more. Some agreements oblige employers to compensate workers leaving to early retirement by an amount filling the gap between the full and reduced pension benefits until reaching retirement age. Adolescents entering labour force after elementary school are also frequently treated, especially in the prevention of performing hazardous work, and the issues of non-standard working hours, etc. Wide protection is given to disabled persons, and the most attention is given to lone-parent mothers, especially regarding time arrangements and leave (Hala, 1999).

Not only the State and trade union institutions but also other civic institutions are concerned with the development and cultivation of collective bargaining. Among them, the *Association for Development of Collective Agreement and Labour Relations (AKV)* involves about 100 collective members, among them big employers and employers' unions, six branch trade unions and professional firms. The association advises or helps to produce enterprise collective agreements. It also asserts inter-firm agreements and recommends obligatory higher collective agreements which would bind all members of various employers' unions, not only those who explicitly agree (Sondy 17.5. and 2.8. 999).

Summarizing the advantages of collective bargaining for employment, the current situation in the Czech economy is poised mid-way into transition. Trade unions are being conservative and indeed are reluctant to fight for too much protection of workers against dismissal. They share employers' reasons for the necessary firm restructuring when companies are searching for an optimal number of workers (effective labour). Thus, no special sections of collective agreements are devoted to the protection of jobs and trade union activity is directed to workers who survive lay-offs. However, experience is also showing that employers side-step dismissals that are not urgent, under the pressure of obligation to inform employees prior to such dismissals and consult the entire agenda with trade union organizations.

### **3.4 Prevalent attitudes to trade unions and social dialogue**

Notwithstanding that trade union membership was not formally compulsory under the communist regime, membership reached almost hundred per cent of employees. Leaving aside the informal political pressure of the regime, the rationale was the access to various advantages in terms of canteens, recreation for employees and their families, cheap personal

loans, etc. After 1989, the coverage of trade unions decreased rapidly and membership is now barely one-third of the labour force, a level approximately the same as Germany's – the difference being that there is probably considerably more nominal and passive trade union members in the Czech Republic. Nevertheless, according to union leaders, Czech unions are still the most consolidated and effective ones among transition countries (CMKOS vice-president Milan Stech in Sondy 14.2. 2000)

To investigate further than the trade unions statistics, the data according to the EEA survey of November 1994 showed that 77 per cent of employees in firms with 25 and more employees testified to the existence of union organization in their firm. At that time, as much as 72 per cent of employees in such firms declared their membership in a trade union organization but most of them (55 per cent) declared themselves as formal members only. Of members, 70 per cent affirmed they were more or less informed about the activity of their organization. The level of confidence varied: 52 per cent of members were confident in the national confederation and the same percentage in their branch union, but as many as two-thirds of members were confident of their enterprise organization.

At the same time, 65 per cent of workers perceived the relations between management and local trade union organizations as good, and 72 per cent assumed that management adequately respects the union organization. A low level of the "union way of thinking" experienced during the "liberal period" of Czech transition in the Klaus era of government is documented by low acceptance of the opinion that employers should ensure no important decision would be made without their employees' agreement. Only 21 per cent of all employees and 25 per cent of union members were sure about this opinion, while the other 48 per cent of all employees and 49 per cent of union members shared it to a certain degree (EEA, November 1994).

**Table 3.3 Trade union membership by ownership status of the organization and the number of employees (percentage)**

| Ownership status                         | 25 - 100 | 101 - 500 | 501 - 1000 | 1000 - | Total |
|------------------------------------------|----------|-----------|------------|--------|-------|
| Company with mostly foreign capital      | 20       | 36        | 33         | 77     | 46    |
| Company with mostly domestic capital     | 55       | 60        | 27         | 64     | 55    |
| Other private firm with foreign capital  | 14       | -         | -          | -      | 8     |
| Other private firm with domestic capital | 18       | 30        | -          | -      | 24    |
| State-owned firm                         | 52       | 47        | 72         | 50     | 54    |
| Public organization                      | 25       | 50        | 33         | 62     | 38    |
| Total                                    | 29       | 42        | 40         | 64     | 44    |

*Source: ISSP Survey 1997 "Work Orientations".*

According to the ISSP survey from 1997, only 44 per cent of employees in firms with 25 and more employees declared themselves as members of trade unions. This figure differs according to origin and type of firm. Whereas in formerly state firms, unionization was 50 per cent, in new enterprises, it was only 12 per cent. Viewing differences by ownership, the highest level of unionization was found in state firms and companies with a majority of domestic capital (55 per cent), lower in companies with a majority of foreign capital (46 per cent), yet lesser in small domestic firms (24 per cent) and the lowest in small foreign firms (8 per cent). According to the size of company, unionization systematically increases from 24 per cent in small firms (25-100 employees) to 64 per cent in large firms over 1,000 employees (Table 3.3).

**Table 3.4 How much power have trade unions, companies and the government in the society? (percentage)**

| Response to | Trade unions |         |             | Companies | Government |
|-------------|--------------|---------|-------------|-----------|------------|
|             | Total        | Members | Non-members |           |            |
| Too much    | 1.0          | 0.0     | 1.5         | 9.0       | 18.7       |
| Much        | 6.0          | 3.0     | 7.6         | 30.6      | 39.3       |
| Moderate    | 34.7         | 33.3    | 35.2        | 44.1      | 33.1       |
| Little      | 40.2         | 43.9    | 39.0        | 13.6      | 7.9        |
| Too little  | 18.0         | 19.7    | 16.7        | 2.7       | 1.0        |
| Total       | 100.0        | 100.0   | 100.0       | 100.0     | 100.0      |

Source: *International SSP 1996 "Role of the Government"*.

According to the 1996 ISSP survey on prevailing attitudes on the power of trade unions, 64 per cent of members and 56 per cent of non-members think that they have little or too little power and only 3-9 per cent think that they have much or too much power (Table 3.4). There is a striking difference in the attitude to union power in comparison with the attitude to the power possessed by companies in manufacturing and trade (40 per cent of respondents share the opinion that they have much or too much power), and the government (according to 58 per cent it has much or too much power). Union members and non-members differ – but only somewhat – in sharing the attitude that managements will always try to take an advantage over staff (80 vs. 70 per cent of agreement).

A more recent public opinion survey conducted in late 1999 investigated general opinions about trade unions (Sondy 20.12.1999) and found that about two-thirds of all respondents consider the role of trade unions in the society as inevitable and useful (25 per cent "certainly yes", 40 per cent "rather yes", 28 per cent "rather no" and 8 per cent "certainly no"). Respondents not having confidence in trade unions are young and middle-aged, better educated and more financially secure. However, even they often share general views about the serious social problems that exist and agree with some protective activities accomplished by trade unions. Among all respondents, the issues which the unions should be attentive to were the following:

- require more public works financed by the state (84 per cent)
- require more frequent retraining for redundant workers (79 per cent)
- ask for a higher state support for domestic and foreign investors (69 per cent)
- put pressure on the government to preserve vulnerable firms (57 per cent)
- refrain from pressure on wage increase (48 per cent)
- organize strikes against enterprises closing down and dismissals (41 per cent)
- assert a higher and longer unemployment support (39 per cent)

Probably the largest survey concerning the trade unions was commissioned in 1997 by the CMKOS among trade union members and functionaries. Financed by the PHARE programme and carried out by the agency EDUCA under advice from the University Warwick, United Kingdom, this survey addressed 8,200 trade union members and 1,800 functionaries using a mail questionnaire. Unfortunately, only about 27 per cent of questionnaires returned and no control of refusal was ever made or even attempted. Results are thus biased by the lack of representativeness, which was not analysed in the survey report (*Unified information*, 1997).

According to this survey, trade union members are usually middle-aged and older workers (70 per cent of members and 80 per cent of functionaries are over 40 years of age. Recruitment after 1989 was minimal, with only 7 per cent of new trade union members (here

again, perhaps young and new members were more reluctant to complete the questionnaire). Of surveyed union members, 40 per cent work in holding companies and 30 per cent in state firms. Their interests in trade unions concern especially wage increase, fair career system, better retirement conditions and protection against lay-offs. They appreciate assistance from trade union organisation when solving job and work problems, but do not value social and financial services, except the contribution to private pension insurance.

The survey makes new information available (although only estimated by respondents of a biased sample) on various changes in type of contract and changes in the organization of work. Trade union functionaries asked to estimate these changes between 1994-1996 (Table 3.5) considered the main change was the use of "distant strategies", i.e. temporary work, based on contracting external employees from the labour market periphery (agencies, countryside, occasional workers). Much smaller changes were seen concerning permanent staff. Respondents also considered that while contracting of external employees framed by the Labour Code has increased to a negligible degree, in contrast, the contracting out through agencies (outside the Labour Code) has greatly increased. The amount of such changes was by far the largest among multinational companies, while state firms score especially when engaging foreign workers.

**Table 3.5a Estimates made by trade union functionaries on recent changes in employment contracts and work organization (percentage)**

| Form of change                                         | More | Same | Less | Summary change |
|--------------------------------------------------------|------|------|------|----------------|
| Part-time contracts                                    | 39.7 | 44.7 | 15.5 | +24.2          |
| Overtime work                                          | 24.3 | 42.0 | 33.7 | -9.4           |
| Use of occasional work                                 | 52.4 | 35.4 | 12.3 | -40.1          |
| Use of labour from rural areas                         | 53.4 | 40.0 | 6.6  | +46.8          |
| Contracting external employees within the Labour Code  | 31.2 | 42.4 | 26.4 | +4.8           |
| Contracting external employees outside the Labour Code | 57.5 | 33.7 | 8.8  | +48.7          |
| Subcontracting work                                    | 34.3 | 39.5 | 26.2 | +8.1           |
| Changes in shift work                                  | 26.2 | 54.0 | 19.9 | +6.3           |
| Use of foreign workers                                 | 48.1 | 24.8 | 27.2 | +20.9          |
| Use of agency work                                     | 59.2 | 33.1 | 7.7  | +51.5          |

*Source: CMKOS/PHARE Survey 1997.*

**Table 3.5b Estimates made by trade union functionaries on recent changes in employment contracts and work organization by form of ownership (percentage of summary change)**

| Form of change                                         | Private | State | Multi-national | Mixed |
|--------------------------------------------------------|---------|-------|----------------|-------|
| Part-time contract                                     | 31.7    | 19.3  | 26.3           | 28.6  |
| Overtime work                                          | -18.1   | 0.6   | -47.6          | -17.3 |
| Use of occasional work                                 | 39.5    | 34.8  | 66.7           | 27.6  |
| Use of labour from rural areas                         | 44.2    | 50.3  | 58.8           | 35.8  |
| Contracting external employees within the Labour Code  | 0.8     | 0.7   | 9.5            | 0.0   |
| Contracting external employees outside the Labour Code | 43.4    | 51.2  | 64.7           | 41.4  |
| Subcontracting of work                                 | -5.8    | 16.7  | -11.8          | 3.6   |
| Changes in shift work                                  | 9.3     | 4.6   | -31.5          | -11.1 |
| Use of foreign workers                                 | 2.4     | 38.4  | -15.0          | 20.0  |
| Use of agency work                                     | 44.7    | 50.9  | 62.5           | 41.4  |

*Source: CMKOS/PHARE Survey 1997.*

Another set of survey questions concerned reorganization of work. Trade union functionaries were asked to estimate whether the measures implemented concerned a larger number of trade union members in 1996 than three years earlier (Table 3.6a). The direction of the changes indicates the effort to individualize labour contracts and insert some flexibility into them. Individual labour contracts and individual rewarding were, according to survey results, currently much more frequent than they were three years earlier, while collective forms of rewarding did not change their frequency. In the management of human resources, universality and flexibility of jobs are supported. Also, the larger frequency of multiple skills refers to the effort of employers to provide employees with training and re-training. While state organizations are somewhat rigid in this regard, individualization and flexibility of work is more frequent in private firms and especially in multinational companies (Table 3.6b).

**Table 3.6a** Estimates made by trade union functionaries on recent changes at the workplace (percentage)

| <i>Form of change</i>                     | Three years ago | Currently | Change |
|-------------------------------------------|-----------------|-----------|--------|
| Individual rewarding according to results | 41.3            | 61.7      | +20.4  |
| Collective rewarding according to results | 39.6            | 39.4      | -0.2   |
| Extra premiums                            | 50.9            | 52.2      | +1.3   |
| Evaluation of jobs                        | 28.4            | 37.7      | +9.3   |
| Self-control                              | 22.3            | 23.8      | +1.5   |
| Quality of work                           | 26.1            | 42.5      | +16.4  |
| Team work                                 | 28.0            | 29.7      | +1.7   |
| Job universality                          | 23.6            | 45.1      | +21.5  |
| Job flexibility                           | 17.1            | 33.7      | +16.6  |
| Individual contracts                      | 13.3            | 35.4      | +22.1  |
| Multiple skills                           | 26.9            | 40.2      | +13.3  |

*Source: CMKOS/PHARE Survey 1997.*

**Table 3.6b** Estimates made by trade unions functionaries on recent changes at the workplace by form of ownership (percentage)

| <i>Form of change</i>                     | Private | State | Multi-national | Mixed |
|-------------------------------------------|---------|-------|----------------|-------|
| Individual rewarding according to results | 25.4    | 14.2  | 20.0           | 13.4  |
| Collective rewarding according to results | 3.6     | -2.4  | 33.4           | 0.0   |
| Extra premiums                            | 0.6     | -4.6  | 5.2            | 2.8   |
| Evaluation of jobs                        | 24.4    | 10.8  | -7.6           | 7.2   |
| Self-control                              | 1.4     | -5.2  | 14.2           | 20.0  |
| Quality of work                           | 28.4    | 5.8   | 36.8           | 28.6  |
| Team work                                 | -3.8    | -5.4  | 80.0           | -10.0 |
| Job universality                          | 45.0    | 18.2  | 33.4           | 28.0  |
| Job flexibility                           | 46.0    | 17.0  | 28.6           | 18.2  |
| Individual contracts                      | 40.4    | 38.4  | 81.8           | 50.0  |
| Multiple skills                           | 16.3    | 12.8  | 57.8           | 30.4  |

*Source: CMKOS/PHARE Survey 1997.*

In general, confidence in trade unions has increased somewhat during the post-1989 period, relatively to rather falling confidence into the government and parliamentary bodies (Table 3.7). In late 1999, the level of confidence in trade unions was second after confidence in the President and before confidence in the government and parliament. Little difference in levels of confidence in trade unions was found between manual workers, non-manual workers and pensioners, against considerably less confidence in trade unions among self-employed

and unemployed. While the former result is hardly surprising, the latter indicates the perception of those who are unemployed that trade unions are not adequately active in the field of employment protection (a perception that is probably well-founded).

**Table 3.7 Confidence in political bodies and institutions by social group (percentage)**

| Body or institution | Self-employed | Non-manual | Manual workers | Pensioners | Unemployed | Total |
|---------------------|---------------|------------|----------------|------------|------------|-------|
| President           | 57.9          | 56.6       | 50.6           | 52.9       | 49.6       | 54.2  |
| Government          | 33.2          | 35.1       | 31.6           | 32.7       | 29.5       | 33.2  |
| Parliament          | 33.1          | 34.0       | 29.1           | 28.0       | 26.8       | 31.4  |
| Trade Unions        | 34.8          | 43.9       | 43.6           | 45.9       | 38.0       | 42.5  |
| Entrepreneurs       | 55.5          | 40.0       | 35.0           | 33.4       | 25.5       | 38.6  |

*Source: Ten Years of Social Transformation Survey, 1999.*

The following section 4 charts the links between employment protection, labour market policies and employment promotion in the Czech Republic.

## **4. Links between employment protection, labour market policies and employment promotion**

### **4.1 Privatization and labour hoarding**

Ensuing from the specifically “Czech way” of privatization, protecting labour was by means of a large labour hoarding in the first phase of transition. The privatization process was in principle political-administrative, with little account being taken of targeted economic efficiency. It tacitly relied on the assumption (according to Coase’s theory), that the distribution of ownership rights is sufficient in itself to create conditions for the gradual allocation of property to responsible owners – overlooking that this is valid only if there are no or minimum transaction costs. Instead of attracting strategic investors, investment privatization funds (IPFs) arose, which were motivated to concentrate on the most advantageous allocation of capital but not on management and the restructuring of firms. Both from a long-term economic perspective and the transparency requirements for corporate governance, to date the results are cause for doubt.

Of particular concern is the ambiguous form of cross-ownership in which the State is an important shareholder in large banks. These, in turn, control the most important IPFs and through them the firms themselves. In this connection, Stark (1992) referred to a “recombined ownership” and Mlcoch (1997) to “state capitalism”. The continuity of managers’ rule and their extraordinary power within this tangled web of ownership, together with the State’s resignation from the operation of remaining ownership rights, is accurately described by the term “managerial capitalism”, coined by Szelenyi (Eyal et al., 1998). The term “bank socialism” is also used in the same context. Such arrangement of ownership rights could only be prevented with the privatization of five banking giants, activated no earlier than 1999 and – paradoxically enough – by the Social Democrat government.

The poor results of Czech privatization are evident in a comparison between foreign-owned firms with coupon-privatized large companies. According to an analysis of 8,118 firms monitored in the database of the Czech Statistical Office, domestic manufacturing companies have achieved only 64 per cent of the productivity level of companies with foreign investment. The sole improvement of labour organization by the new management is estimated to increase performance of companies by 25 per cent. Foreign investors do not rely on cheap labour but rather on skills and human resource capabilities. Foreign companies tend

to emphasize long-term objectives, including their higher concern for a qualified labour force (Zemplinerova and Benacek, 1997). Unlike Czech firms that reduce their personnel, most foreign firms increase their labour (Czechinvest, 1998). According to *PricewaterhouseCoopers*, productivity of labour affects earnings in only 7 per cent of Czech firms, in comparison with 56 per cent of foreign-owned firms.<sup>22</sup>

After 1996, the recession arrived and massive lay-offs occurred. The largest firms fell into financial difficulty, many of them stopped paying social contributions and, some of them, even wages. In formerly dominant industries such as mining, metallurgy and heavy machinery, the State had to intervene. A special law was passed allowing workers hit by wage arrears to be compensated from state revenue. In parallel, as the role of IPFs declines, ownership structure is slowly consolidating. Most privatized companies have a majority or a dominant owner with long-term plans. Together with increasing FDI inflows, this contributes to an accelerated pace of enterprise restructuring. Foreign-owned companies take greater share of markets and create new industrial networks, thus upgrading the whole economy. In mid-2000, industrial growth is fed by foreign-owned firms and their suppliers, and by small and medium enterprises (SMEs) which are more flexible on the market (HN 8.8. 2000).

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<sup>22</sup> The question here is, how much the original selection by foreign investors influences the results and perspectives of foreign-owned firms. According to one expert's estimate (Vladimir Benacek, see also Zemplinerova and Benacek, 1997), only about one-tenth of their success is due to the original condition of the firms selected; one-half to the selection of Czech staff (paid from 20-100 per cent higher in comparison to salaries in Czech firms); and about 40 per cent is due to foreign management and better internal organizational structures adapted for the Czech environment, including: networks of customers and suppliers, accounting standards, work control and reward systems. Last but not least, of considerable importance is their overall management strategy, based on long-term goals rather than sudden enrichment.

**Table 4.1 Workers' opinions on firms' prospects, intensity of work, earnings, and the use of skills (percentage)****a) Firm in which I work has good prospects**

| Ownership status of firm | Certainly yes | Rather yes | Certainly no | Rather no | Total |
|--------------------------|---------------|------------|--------------|-----------|-------|
| Before privatization     | 11.3          | 57.7       | 21.1         | 9.9       | 100.0 |
| After privatization      | 19.0          | 47.0       | 24.6         | 9.5       | 100.0 |
| Other state institution  | 23.4          | 42.1       | 25.7         | 8.8       | 100.0 |
| Self-employed            | 24.4          | 55.6       | 15.6         | 4.4       | 100.0 |
| Employer                 | 52.3          | 41.5       | 6.2          | 0.0       | 100.0 |
| Employee in new firm     | 21.8          | 52.5       | 22.8         | 3.0       | 100.0 |
| Total                    | 22.3          | 48.4       | 22.7         | 6.6       | 100.0 |

**b) Intensity of my work has increased since 1989**

| Ownership status of firm | Certainly yes | Rather yes | Certainly no | Rather no | Total |
|--------------------------|---------------|------------|--------------|-----------|-------|
| Before privatization     | 34.8          | 46.4       | 18.8         | 0.0       | 100.0 |
| After privatization      | 40.7          | 40.7       | 16.5         | 2.2       | 100.0 |
| Other state institution  | 32.5          | 36.1       | 27.1         | 4.2       | 100.0 |
| Self-employed            | 56.3          | 37.5       | 6.3          | 0.0       | 100.0 |
| Employer                 | 60.3          | 33.3       | 6.3          | 0.0       | 100.0 |
| Employee in new firm     | 42.9          | 41.3       | 13.8         | 2.0       | 100.0 |
| Total                    | 22.3          | 48.4       | 22.7         | 6.6       | 100.0 |

**c) My earnings are directly dependent on my performance**

| Ownership status of firm | Certainly yes | Rather yes | Certainly no | Rather no | Total |
|--------------------------|---------------|------------|--------------|-----------|-------|
| Before privatization     | 21.2          | 21.1       | 36.6         | 21.1      | 100.0 |
| After privatization      | 24.0          | 25.8       | 29.6         | 20.6      | 100.0 |
| Other state institution  | 10.6          | 16.5       | 37.1         | 35.9      | 100.0 |
| Self-employed            | 80.9          | 10.6       | 6.4          | 2.1       | 100.0 |
| Employer                 | 70.8          | 9.2        | 15.4         | 4.6       | 100.0 |
| Employee in new firm     | 37.9          | 26.6       | 20.7         | 14.8      | 100.0 |
| Total                    | 31.8          | 21.7       | 26.9         | 19.7      | 100.0 |

**d) My skills are better utilized than before 1989**

| Ownership status of firm | Certainly yes | Rather yes | Certainly no | Rather no | Total |
|--------------------------|---------------|------------|--------------|-----------|-------|
| Before privatization     | 11.6          | 42.0       | 31.9         | 14.5      | 100.0 |
| After privatization      | 13.3          | 29.2       | 41.2         | 16.4      | 100.0 |
| Other state institution  | 10.2          | 38.9       | 32.9         | 18.0      | 100.0 |
| Self-employed            | 43.5          | 34.8       | 21.7         | 0.0       | 100.0 |
| Employer                 | 50.8          | 30.2       | 19.0         | 0.0       | 100.0 |
| Employee in new firm     | 23.3          | 31.2       | 33.3         | 12.2      | 100.0 |
| Total                    | 19.3          | 33.8       | 33.7         | 13.1      | 100.0 |

Source: *Economic Expectations and Attitudes Survey, April 1998.*

Since the beginning of Social Democrat rule, the privatization of companies has accelerated. Remaining state shares in banks, mines, Telecom, Czech Airlines, distribution and communication companies are to be privatized in the next one to three years. The consequences of initially fragmented ownership and a weak corporate governance still continue, manifesting themselves in poor incentives for restructuring within enterprises (Transition Reports 1998 and 1999). In May 1999, the public *Revitalisation Agency* was established, aimed at targeting a limited number of large companies in trouble in order to restructure by safeguarding and later developing their industrial capacity and employment. Simultaneously (in May 2000), the previously free hand of the State in selective support of failed firms was placed under the strict control of the *Office for Economic Competition* and EU authorities (however, exceptions can still be allowed by the government). Progress in the restructuring of several key companies, assisted by bank privatization and by the efforts of the *Revitalisation Agency* was being made in 2000, according to the Transition Report (2000).

Table 4.1 reflects the attitudes and expectations of economically active respondents regarding their firms and jobs. The mix of answers reflects various perceptions, ranging from

owners of new firms (who see the most positive prospects for economic and job performance) to employees in state firms before privatization (negative perceptions). Second, these employees also perceive the intensity of their work effort as increasing significantly since 1989, in contrast to other state institutions (mainly public administration). Third, in those who perceived their earnings as “certainly related to their performance”, the differences between type of firm are considerable: 21 per cent of employees in not-yet-privatized state firms; 24 per cent of employees in already privatized state firms; 38 per cent of employees in new firms; and 80 per cent of self-employed. Fourth, employers, self-employed, but also employees in new firms were of the opinion that their skills were better utilized now than before 1989 (Economic Expectations and Attitudes Survey, April 1998).

#### **4.2 Legal protection of employment**

Along with the visible and generous hand of the State in supporting employment by an indirect (preventive) but – up to the mid-1990s – successful mechanism (however costly and thus inefficient), employment was also protected by standard formal legal mechanisms that are direct but often much less impressive because of their formal character. According to the current Labour Code, the employer is obliged to provide the employee with work according to contracted weekly hours. The employer who is unable to do so normally should compensate the employee with a full average earning. Only if any of serious impediments of firm activity – explicitly enumerated in the agreement of employer with the trade union organization – occurs, does the Labour Code allow the employer to compensate the employee with only 60 per cent of employee’s average earnings.

In order to avoid redundancies, or at least reduce them partly and temporarily, the employer can be assisted by the State with a contribution, intermediated by the local labour office. Indeed, the employer is entitled to be reimbursed only in cases of restructuring or a newly introduced programme which will necessitate a substantial technological change that temporarily and seriously limits the manufacturing process and thus limits the work capacity the employer is normally able to give employees. The aim of the support is to maintain existing work teams and avoid useless payment of unemployment benefits, provided that the firm has a good prospect. All circumstances and conditions must be clearly agreed in written form with the enterprise trade union organization.

Having this agreement, the employer is entitled to conclude an agreement with the local labour office; this provides for an enterprise support covering a part of wage compensation paid to employees. Such an agreement must set down the extent and period of limited manufacturing activity, the number of employees affected by the intended reduction in work capacity, the level of employers’ own contribution and the total amounts of contributions, conditions of reimbursement to the labour office, and proposed organizational measures aiming to restore the firm activity in full extent. The reduction of working hours should be at least 10 per cent, and the period of reduced payment cannot exceed six months. The state contribution can reach a maximum 75 per cent of the total amount if the wage is reimbursed in full, or 40 per cent of the total amount if the wage replacement reaches only the 60 per cent level.

#### **4.3 Public employment service**

Since early 1990, the public employment service has been organized by the MLSA, largely using the experience of advanced market economies. Not without great effort, a modern system of job mediation was established, which also encouraged people to start their own business (mainly self-employment). The public employment service (PES) is responsible for monitoring and evaluation of the labour force and implementation of an efficient labour market policy. Regional labour offices were implemented in each administrative district (77)

and, in addition, there are auxiliary branch labour offices in important towns and localities (238). For all these offices, new employees had to be found who could quickly acquire proficiency in hitherto unknown types of work.

**Table 4.2 Registered unemployment in 1990-1999 (yearly averages)**

|                                       | 1990 | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  |
|---------------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <i>In thousands:</i>                  |      |       |       |       |       |       |       |       |       |       |
| Registered jobseekers                 | 17.3 | 141.5 | 163.3 | 155.2 | 172.1 | 155.6 | 160.7 | 219.5 | 311.7 | 443.2 |
| Newly registered                      |      | 38.6  | 32.3  | 35.8  | 32.2  | 29.4  | 31.4  | 41.5  | 53.2  | 60.1  |
| De-registered                         |      | 23.3  | 39.6  | 31.6  | 33.8  | 30.5  | 28.6  | 34.7  | 43.4  | 51.7  |
| Of which:                             |      |       |       |       |       |       |       |       |       |       |
| Placed total                          |      | 15.4  | 27.6  | 23.4  | 25.1  | 22.0  | 21.0  | 25.4  | 30.3  | 36.2  |
| Placed by labour office               |      |       |       | 11.0  | 10.7  | 9.1   | 5.5   | 9.3   | 8.8   | 10.0  |
| Other                                 |      | 7.9   | 12.0  | 8.2   | 8.7   | 8.5   | 7.6   | 9.3   | 13.1  | 15.5  |
| De-registered for lack of cooperation |      |       |       | 3.2   | 3.1   | 3.2   | 2.4   | 2.7   | 4.3   | 5.1   |
| Receiving unemployment benefits       |      | 92.0  | 85.9  | 73.3  | 81.8  | 71.1  | 75.5  | 111.2 | 152.0 | 193.7 |
| Vacancies                             |      | 41.7  | 76.2  | 69.4  | 73.1  | 90.7  | 98.9  | 78.1  | 56.5  | 35.7  |
| <i>In %:</i>                          |      |       |       |       |       |       |       |       |       |       |
| Registered unemployment rate          |      | 2.64  | 3.05  | 2.95  | 3.29  | 2.99  | 3.08  | 4.28  | 6.04  | 8.54  |
| Receiving unemployment benefits       |      | 65.0  | 52.6  | 47.2  | 47.5  | 45.7  | 47.0  | 50.7  | 48.8  | 43.7  |
| Vacancies/jobseekers                  |      | 29.4  | 46.7  | 44.7  | 42.5  | 58.3  | 61.6  | 35.6  | 18.1  | 8.0   |

Sources: Ministry of Labour and Social Affairs.

Vertically, labour offices are coordinated and supervised by the MLSA and its autonomous section, the *Administration of Employment Services*. However, directors of district labour offices have relatively wide discretion in the management and allocation of state funds. Horizontally, most labour offices created large advisory boards in which chambers of employers, trade unions, firms, banks and schools are represented. In fact, these advisory bodies constitute the only frame of meeting of the key local economic actors. In districts with high unemployment rates, labour offices have to mediate jobs, even for employed people exposed to or endangered by coming unemployment. Labour offices face a general reluctance to employ Roma, who are perceived by employers as unreliable workers.

After 1989, registered unemployment in the Czech Republic experienced a “miracle” reduction followed by an “unexpected” rise (Table 4.2). In the first phase of transition, the success in mediating labour through labour offices was high, facilitated by generally low unemployment and the relatively high availability of jobs. Especially in the 1991-1993 period, labour policy “could serve as a good example of a properly designed employment promotion policy” (Nesporova, 1999:55). Yet in 1995, the intensity of active labour market policy was high and the share of successfully placed people was estimated at about 70 per cent. The number of persons trained or subsidized in employment peaked in 1992 (when the new policy was vigorously introduced) but has decreased since, either because of permanently low unemployment or a lack of energy on the part of labour market offices (Table 4.3).

**Table 4.3 Main indicators of active labour market policy in 1992-1999**

|                                                                 | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  |
|-----------------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <i>Socially effective jobs:<sup>a)</sup></i>                    |       |       |       |       |       |       |       |       |       |
| Number of jobs                                                  | 42006 | 67793 | 9547  | 9433  | 5963  | 3612  | 2626  | 8805  | 15445 |
| Number of persons placed                                        | 33868 | 60370 | 12250 | 9874  | 6603  | 4025  | 2931  | 8178  | 15804 |
| <i>Public works:</i>                                            |       |       |       |       |       |       |       |       |       |
| Number of jobs                                                  | 20077 | 29028 | 12095 | 13432 | 11446 | 9838  | 11760 | 11024 | 14800 |
| Number of persons placed                                        | 18414 | 25503 | 11760 | 12927 | 10821 | 10259 | 11888 | 11905 | 16064 |
| <i>Training programmes for school leavers and young people:</i> |       |       |       |       |       |       |       |       |       |
| Number of jobs                                                  | 18994 | 25996 | 8178  | 7025  | 5502  | 5094  | 3757  | 9464  | 11131 |
| Number of persons placed                                        | 14398 | 21907 | 7380  | 6853  | 5292  | 4971  | 3515  | 9232  | 10945 |
| <i>Workshops and jobs for disabled persons:</i>                 |       |       |       |       |       |       |       |       |       |
| Number of jobs                                                  | -     | 1415  | 1005  | 851   | 824   | 622   | 533   | 920   | 1059  |
| Number of persons placed                                        | -     | 1308  | 947   | 746   | 724   | 562   | 493   | 853   | 951   |
| <i>Training programmes:</i>                                     |       |       |       |       |       |       |       |       |       |
| Number of jobs                                                  | 7967  | 17590 | 12095 | 14814 | 13454 | 12107 | 11448 | 16381 | 22938 |

<sup>a)</sup> Subsidized employment

Note: Newly created jobs and participants in programmes in a given year, at end of that year.

Source: Ministry of Labour and Social Affairs.

Due to a low unemployment rate until 1997, total expenditures on labour market policy were low and even decreasing since 1992 (when they amounted to 0.37 per cent of GDP). In 1995-1996, expenditures directed to employment support were only 0.17 per cent of GDP. In parallel, the amount and share of expenditures for active labour market policies (ALMP) rapidly decreased, from 0.20 per cent of GDP in 1992 to a mere 0.03 per cent in 1997. The ratio of active to passive measures turned in the opposite direction: while in 1992 ALMP amounted 54 per cent of total employment expenditures, this percentage decreased to a mere 14 per cent in 1997. In fact, active employment measures were withdrawn following the ideology of liberal non-interventionist policy and perhaps even the concealed wish of leading economists to create a reserve labour stock that would keep wages down. While in 1992 the sole active policy “employed” 2.12 per cent of workers (over 100,000 persons), it employed only 0.45 per cent of the total labour force in 1997-1998 (Horalek, 1999; 2000).

When unemployment started to rise in 1997, the costs of employment services also increased, crossing all previous levels and reaching 0.42 per cent GDP in 1999. In parallel, ALMP were largely activated, be it by a current and expected rise of unemployment or by a new interventionist strategy of the Social Democrat government. Between 1997 and 1999, the share of ALMP in GDP almost tripled and the percentage in total LM expenditures increased from 14 to 25 per cent (Table 4.4). In addition, a large portion of unemployment support shifted from insurance to the state support scheme, following the growing long-term unemployment. Therefore, the actual spending evolved by unemployment is much higher. Unfortunately, the separate evidence of people receiving unemployment benefits within insurance schemes, or social benefits within the state social support scheme, does not allow us to calculate summary costs. Separation of social security into two parts also causes overburden, both of labour offices and the social services departments of local governments.

**Table 4.4 State expenditures on active and passive labour market policy in 1992-1999**

|                                                 | 1991   | 1992   | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999   |
|-------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <i>In million CZK:</i>                          |        |        |        |        |        |        |        |        |        |
| Subsidized employment (socially effective jobs) | 496.8  | 968.6  | 217.9  | 241.5  | 163.6  | 102.4  | 66.2   | 201.5  | 525.6  |
| Direct job creation (public works)              | 78.4   | 223.0  | 159.6  | 183.7  | 189.5  | 199.1  | 224.9  | 280.8  | 481.9  |
| Measures for unemployed and disadvantaged youth | 47.7   | 325.5  | 245.2  | 127.1  | 117.8  | 100.3  | 101.8  | 117.8  | 304.8  |
| Work for disabled persons (sheltered workshops) | 7.1    | 55.7   | 48.7   | 61.8   | 59.9   | 57.4   | 59.9   | 127.0  | 162.0  |
| Labour market training programmes               | 40.0   | 97.6   | 73.4   | 103.2  | 100.1  | 91.7   | 90.4   | 147.3  | 236.2  |
| Total active measures                           | 773.0  | 1721.7 | 749.4  | 718.3  | 634.8  | 558.1  | 551.9  | 903.0  | 1921.8 |
| Total passive (unemployment compensation)       | 1677.3 | 1423.4 | 1416.7 | 1844.3 | 1781.8 | 2106.4 | 3420.0 | 4193.7 | 5709.5 |
| Total active and passive                        | 2450.3 | 3145.0 | 2166.1 | 2562.6 | 2416.6 | 2664.5 | 3971.9 | 5096.7 | 7631.2 |
| % of active measures                            | 31.5   | 54.7   | 34.6   | 28.0   | 26.3   | 20.9   | 13.9   | 17.7   | 25.2   |
| Public employment services                      | 615.9  | 691.6  | 938.1  | 1105.0 | 1292.3 | 1382.0 | 1386.9 | 1453.4 | 1736.3 |
| <i>As a % of GDP:</i>                           |        |        |        |        |        |        |        |        |        |
| Subsidized employment (socially effective jobs) | 0.07   | 0.11   | 0.02   | 0.02   | 0.01   | 0.01   | 0.00   | 0.01   | 0.03   |
| Direct job creation (public works)              | 0.01   | 0.03   | 0.02   | 0.02   | 0.01   | 0.01   | 0.01   | 0.02   | 0.03   |
| Measures for unemployed and disadvantaged youth | 0.01   | 0.04   | 0.02   | 0.01   | 0.01   | 0.01   | 0.01   | 0.01   | 0.02   |
| Work for disabled persons (sheltered workshops) | 0.00   | 0.01   | 0.00   | 0.01   | 0.00   | 0.00   | 0.00   | 0.00   | 0.01   |
| Labour market training programmes               | 0.01   | 0.01   | 0.01   | 0.01   | 0.01   | 0.01   | 0.01   | 0.01   | 0.01   |
| Total active measures                           | 0.10   | 0.20   | 0.07   | 0.06   | 0.05   | 0.04   | 0.03   | 0.05   | 0.10   |
| Total passive (unemployment compensation)       | 0.22   | 0.17   | 0.14   | 0.16   | 0.13   | 0.13   | 0.20   | 0.23   | 0.31   |
| Total active and passive                        | 0.33   | 0.37   | 0.21   | 0.22   | 0.17   | 0.17   | 0.24   | 0.28   | 0.42   |

Source: Ministry of Labour and Social Affairs.

#### 4.4 Concrete programmes of employment policy

According to the Employment Act (9/1991), the MLSA and district labour offices provide employers (both legal and physical entities) with incentives and financial support for the creation of socially effective jobs and publicly useful works (public works). Costs of both kinds of employment measures are financed from specifically designated state funds. A *socially effective job* denotes a new workplace that is created by an employer following a written agreement with the labour office and filled by a registered jobseeker who would be otherwise unemployed. *Publicly useful works* are new job opportunities created by localities and employers following a written agreement with the labour office, a measure directed to the short-term placement of jobseekers.

Following the amendment of the Employment Act (72/2000), the MLSA supports the creation of new jobs by providing employers with investment incentives. Such support is given to employers creating new jobs in districts where the registered unemployment rate was at or below the national average during the last six months. This is concluded in a written agreement enumerating the number and kind of jobs, the time of creation and placement, the form and period of their financing, the form of control of concluded conditions and the

obligation to reimburse resources if the conditions are not fulfilled. Agreed current amounts for one job are ordered by the government. In 2000, it was CZK 200,000 in districts with an unemployment rate higher by at least 50 per cent than the average; CZK 120,000 if the rate is at least 25 per cent higher and CZK 80,000 if the rate is at the average level of unemployment.

The same amendment of the Employment Act entitles the MLSA to provide employers with special investment incentives by partial reimbursement of their retraining costs. A written agreement sets out the number of people retrained, the kind and time of their support, the form and period of their financing, the form of control performed on conditions and obligation to reimburse resources, if concluded conditions are not respected or resources not used to the full extent. In 2000, concrete amounts were: 35 per cent of summary costs in districts with an unemployment rate higher by at least 50 per cent than the average; 35 per cent of summary costs if the unemployment rate is at least 25 per cent higher, and 25 per cent of summary costs if the unemployment rate is at the average level of unemployment. If targeted categories of workers will participate in retraining, the amount granted increases by 10 per cent, taking into account the share of such persons.

In sum, the basic ALMP activities are the following:

- *Subsidized employment* (creation of socially effective jobs) which managed to place a total of 141,900 jobseekers in 1992-1999;
- *Public works* (creation of new jobs for long-term unemployed and disadvantaged people) which accounted for 111,200 workers in 1992-1998;
- *Youth training programmes* (subsidy of new jobs for school leavers) accounting for 48,100 young workers in 1992-1999;
- *Sheltered workshops* (for disabled workers) covering establishment of new workshops as well as maintenance of pre-existing workshops;
- *Training programmes* (taking into account existing disparity between skill structure and labour market needs) in which 120,900 persons were registered in 1992-1999.

A survey of ALMP efficiency sponsored by the World Bank reported very high job placement of about 90 per cent for most programmes with extremes of only 77 per cent for public works and 100 per cent for self-employed persons (quoted in Nesporova, 1999:60). This partly contrasts with a critical evaluation of ALMP, the *Impact of Active Labour Programs*, made by Abt Associates Inc. in May 1998, following the OECD *Jobs Strategy* recommendations. In a quasi-experimental design, comparison groups of activated registered unemployed with non-participants of similar main characteristics were identified for each programme (Impact of Active Labour Programs, 1998). The authors found that:

- Public sector job creation had no significant impact on employment or earnings; moreover, it increased the duration of unemployment and the amount of benefits paid.
- Training increased both the likelihood of earnings and employment gains.
- The school leaver programme increased employment chances but reduced earnings relative to the comparative group.
- Wage subsidies for jobs in the private sector also produced employment but had negative earnings impacts.
- Wage subsidies for self-employment had a positive impact on employment but none on earnings.
- ALMP measures were generally more advantageous for women than men and for workers with lower education levels than for those with higher education.

As suggested, instead of public employment programmes, effort should be directed to a careful screening of jobseekers and the re-tailoring of retraining programmes according to local labour market needs and the capacities of participants (OECD, 2000:114).

Indeed, ALMP expanded under the Social Democrat government. In comparison with 1998, financial resources were doubled in 1999 (on CZK 1.9 billion) and expected to be tripled in 2000 (up to CZK 3.3 billion). This enabled more people to be placed (43,000 of unemployed) and increased the number of persons in retraining by 45 per cent (23,000 of unemployed). Special attention is given by the government to regions with over-average unemployment such as North-West Bohemia and North Moravia. Regarding those regions, the government launched revitalization plans and programmes of regional development, aimed at supporting comprehensive restructuring activities in those regions. Training activities were also supported by increased ceilings for unemployment benefit (2.8 times the subsistence minimum) (Report on the State of Accomplishment, 2000).

Regarding basic documents that steer employment policies, in early 1998 the MLSA elaborated the *Program of Employment Policy to the Year 2000*, which included general propositions as well as concrete measures aiming to solve unemployment problems. In addition, in *Principles of the Regional Policy* of the government, special measures for economically disadvantaged regions were proposed. In 1998, several investment incentives for foreign and domestic investors were also concluded and asserted. In addition, financial subsidy for the preparation of two industrial zones (the towns of Karvina and Bystrice pod Pernštejnem, both in North Moravia) was decided.

However, the experience of 1998-1999 showed that neither already applied procedures, nor planned financial resources are sufficient for solving the rapidly mounting problem of unemployment in general and long-term unemployment in particular. The harmonization of various economic, social and educational policies of the government was necessary as well as an adjustment of labour market policies to EU standards. The three priorities of employment policy were subsidies for new business activities, the restructuring of firms in production and trade troubles, and the ALMP measures.

During 1998-1999, the *National Plan of Employment (NPE)* was elaborated by MLSA and accepted by the government in May 1999. The NPE adopted the EU directives for employment policy and thus largely paralleled annual National Action Plans for Employment of the EU member states. However, it is conceived rather as a long-term or even strategic document. It aims to reduce the unemployment rate below 8 per cent within the next 3 years, to advance active employment policy considerably and to attenuate the trapping effect of mismatch between low wages and state social support benefits. To accomplish this, 10-12 members of a top-level Employment Committee were established, involving representatives of the state, employers' unions and trade unions. Basically, the NPE raises four comprehensive pillars of supporting employment:

1. Support of employability of human resources (increasing skills and motivation for job searching instead of claiming welfare).
2. Support of business and employers (improved conditions for SMEs and revitalization of several big firms, fair competition and attraction of investors).
3. Flexibility of the labour market (flexible organization of work, motivation of employers to enhance skills of employees).
4. Removing all discrimination (by age and gender, creating conditions for affirmative action in favour of disfavoured categories).

In a public debate at the Czech Economic Society, the author of the present paper voiced some doubts on the efficiency of the document in solving the protracted problems of

the Czech labour market. The following points were raised in this debate (see Vecernik, 1999):

- Jobs are still far too costly for employers (due to high payroll tax which reaches 47.5 per cent of wages).
- Unemployment trap is too attractive for low-wage categories (due to relatively advantageous replacement by social benefits; in this sense, only a rise of minimum wage is envisaged by the NPE).
- Labour force is not very flexible (and the governmental policy stress the vocational and specialized schooling more than general education).
- Workers are not very mobile (because of the rental market predicament, a problem not mentioned by the NPE).

Reliance upon the State, as envisaged by the NPE, seems still very high, in contrast with the necessary development of conditions sufficiently motivating for individuals. In a sense, some of the intended NPE measures even contradict other governmental measures. For example, the intention to raise the payroll tax or the reluctance to expand higher education (any motion to transfer abundant monies from the ALMP to deprived higher education was accepted by Parliament).<sup>23</sup> Only a few activation measures are asserted by the NPE, meaning the obligation of benefit recipients to retrain and invest in their skills. Another missing link is the development of regional frameworks and the involvement of local bodies in the job creation and job maintenance process. Another missing link is the balance of family and working life and improving conditions for women's return to the active labour force, which are also not elaborated in the NPE.

Two other significant documents concerning employment policy are the National Development Plan, the Consultation Document of Human Resources Development and the Sectoral Operational Programme of Human Resources Development.

The *National Development Plan*, a strategic document for joining the European Union, sets priorities in several key areas, including human resources. The *Consultation Document of Human Resources Development* posits high and stable employment based upon a highly skilled and flexible labour force, including the development of lifelong learning and the strengthening of human potential in research and development. The *Sectoral Operational Programme of Human Resources Development* aims to 1. empower employers and employees with the skills and competencies necessary for coping with occupational, structural and technological changes; 2. improve reaction and flexibility of educational system for meeting economic, social and educational needs; 3. support the maintenance or creation of new jobs; and to establish closer ties between the enterprise sphere and the educational system.

Last but not least, the EU PHARE-financed programme PALMIF (*Pro-Active Labour Market Intervention Fund*) focuses on active measures on local and regional markets. Started in 1991, with already 173 projects evolving 2,440 new jobs; almost 15,000 workers improved their skills or were retrained. Projects financed through PALMIF are relatively small – regional projects up to ECU 50,000 and supra-regional projects up to ECU 150,000. The purpose of the programme is to teach firms, institutions and individuals to apply and develop an active and innovative labour market policy and decentralize the action as much as possible.

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<sup>23</sup> The parliamentary opposition party twice proposed to shift a part of the resources designated for active labour market policy (which had never been totally spent) to finance higher education (which is underdeveloped and under-financed in the Czech Republic). The rationale was that while secondary-school leavers frequently enter the unemployment stock, tertiary-education leavers are hit only rarely by unemployment. However, this motion – even when repeated with a decreasing proportion of finance requested, was never accepted by leftist and left-centre parties.

It supports individual projects, especially in their initiation period and helps to place workers endangered by job loss or already unemployed, especially in risk categories. A category of special interest is school leavers who are supported in their first jobs with the aim of gaining work experience.

PALMIF thus permits the financing of activities which cross the current possibilities of local labour offices. In its fifth round (1996-1998), 14 projects were supported, through which 336 new jobs were created and 2,197 interested people were retrained. In 1999, decentralization was a learning focus, together with adjustment of management to the functioning of the European Social Fund and its procedures. Methods of application, selection process and monitoring were developed further. A total of 31 such projects were supported in 1999, amounting to CZK 19 million. Since 2000, amounts granted to individual projects need to be increased and the activity concentrated in North-West Bohemia and North Moravia (Sondy 24.7. 2000).

#### **4.5 Vulnerable categories of unemployed persons**

According to the Employment Act, vulnerable categories of persons who require special attention are the following:

- Disabled people;
- adolescents finishing only primary school (less than 2 per cent of unemployed, their specific rate of unemployment about 25 per cent, high long-term unemployment);
- leavers of secondary schools and universities entering the first job (19 per cent of registered unemployed in late 1999, their specific rate of unemployment about 20 per cent);
- pregnant women and mothers with children under 15 years of age (76 per cent of whom are women 20-39 years of age, with a high concentration in the Cheb district,<sup>24</sup> 32 per cent unemployed more than 1 year and 12 per cent more than 2 years);
- jobseekers over 50 years of age and workers made redundant due to restructuring;
- jobseekers without qualification (46 per cent aged over 40, not motivated, 38 per cent of them long-term unemployed, rising category among unemployed, 43 per cent registered 3 or more times);
- jobseekers registered longer than 6 months;
- citizen requiring special assistance;
- unadaptable citizens.

Often, negative characteristics tend to accumulate. For instance, according to surveys made by RILSA, 44 per cent of disabled workers have only primary education, 70 per cent are aged over 40 years, 68 per cent were registered more than once by the labour office, and 30 per cent are long-term unemployed. An extreme category is the so-called risk group of unadaptable citizens (those with underdeveloped or poor work/social ethics, frequent changes of employment, criminal offences). In 1998 (the first year of the survey), their number reached 6,842 persons, while in 1999 it was 7,182 persons, of which 32 per cent were women.

A special RILSA survey collected the opinions of 270 employers on vulnerable categories. Employers declared their reluctance to employ school leavers due to their lack of experience and also their inadequate special skills. Concerning adolescents, employers say they have no interest to participate in their employment and counter-suggested that the labour offices provide and pay them for assistant-type jobs. Reasons for employers' reluctance to

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<sup>24</sup> The reason for the high concentration of unemployed mothers in the Cheb district is that there is high share of Roma population, which generally displays low employability. This is also connected with social problems here such as child prostitution, as made public by German police.

employ women caring for small children are based on their fears of work absence and aversion to shift work of this group. Regarding older people, employers are concerned by their low flexibility, unwillingness to retrain and adapt to new jobs and work conditions, but partly also their lack of foreign languages. While working pensioners are rather modest in their wage expectations and are highly motivated to perform a job, in contrast, workers in pre-retirement age are reportedly somewhat demanding as to wage and other conditions. Thus, employers strongly prefer the working pensioner group.

Employment services surveyed by RILSA (8 district labour offices together with other sections of public administration) reported they are active in regard to all vulnerable categories. According to them, the most problematic are persons with cumulative negative characteristics of vulnerability. Employment services are well provided with financial resources but employers reportedly consider the amounts assigned for the job support of problem workers rather low. Labour offices are aware of the personal approach their employees need to apply to problem jobseekers, but feel constrained by the lack of personnel and the negligible number of vacancies. They also lack a larger database covering wider regions or even the country as a whole. They suggest using more “job clubs” and educative and therapeutic methods in their assistance activities. Individual ALMP measures need to be combined but some are specifically appropriate for some categories as follows:

- Subsidized employment (creation of “socially effective jobs”) is convenient for problem jobseekers having a good work ethic but negatively characterized as a category (older persons, mothers with small children or persons with health problems);
- Public works (creation of new jobs for long-term unemployed and disadvantaged people) are opportune for people with an underdeveloped or poor work ethic, which they have a chance to improve; labour offices are concerned by the weak cooperation of local authorities and the limitation of such jobs within calendar years;
- Youth training programmes (subsidy of new jobs for school leavers) are considered efficient – employers are ready to use financial resources but feel constrained by administrative burden (obligation to prepare training plans);
- Training programmes (adjusting the disparity between skill structure and labour market needs) are considered not very efficient, especially if formal education is not paralleled by practical training; school leavers not admitted to university are interested in the programmes, unlike workers with only primary education and older persons.

Among specific groups of unemployed, two categories display an inclination to benefit dependency. The first category are adolescents, who are not continuing their education after primary school; who are often unwilling to search for a job; unmotivated because of a low-status background; and preferring social benefits to a wage. Employers are concerned by the fact that some young people cannot carry material responsibility, are not allowed to perform some activities and, in addition, young men have to perform military service. The second category are school leavers, who are often unrealistic in their job expectations and requirements; overestimate their capabilities; and are reluctant to accept a job not adequate to their education. Indeed, they are well informed about their right to benefits and often prefer welfare to a temporary job. However, in comparison with other categories of unemployed, school leavers display the shortest duration of unemployment.

In order to avoid benefit dependency among young people, it is intended to include the condition to pay social and health insurance at least 1 year into the amendment of the Employment Act currently in preparation. Young people never working represented 12 per cent of the unemployment stock in mid-2000. According to the new arrangement, young persons who do not find a job will be obliged to take a subsidized job (MFD 13.6. 2000).

Recently, school leavers can also be subsidized in public sector jobs (after intermediation through a private firm), but state institutions have only slight interest in such an arrangement.

#### **4.6 Early retirement and other exits from the labour market**

Although the use of early retirement as exit from the labour force in the Czech Republic is not as widespread as in Hungary and (especially) in Poland, it is significant and facilitated by a relatively accessible and thus frequently used scheme. It is regulated by the Pension Insurance Act No. 155, valid since 1996. As the main change introduced by this law – the gradual rise of the retirement age – evolved a hot political debate and the aversion of trade unions (a mass demonstration was organized), it was compensated by not very strict conditions of early retirement.<sup>25</sup>

Two possibilities were introduced by the law: one with permanent, the other with temporary reduction. Permanently reduced early retirement offers an alternative strategy to all workers who are allowed to leave the labour force after 25 years of pension insurance, but not earlier than 3 years before legal retirement age. The temporary reduction pension benefit scheme allows exit from the labour market solely to the long-term unemployed (at least 180 days of registered unemployment) also after 25 years of pension insurance, but not earlier than two years before the legal retirement age. Since 1998, partially disabled persons are similarly entitled to claim this type of benefit. In both cases, any economic activity of early retirees is not allowed before reaching the legal retirement age.

If the early retirement is temporarily reduced, the flat (basic) part of pension benefit is not reduced and the earnings-related part is reduced by 1 per cent of the pension base for each 90 days of the period between the legal retirement age and the time of early retirement. If early retirement is permanently reduced, the flat (basic) part of pension benefit is not reduced and the earnings-related part is reduced by 0.6 per cent of pension base for each 90 days of the period between legal retirement age and the time of early retirement. Since 1998, if a person reaches the retirement age according to the previous scheme (60 years for men, 52-55 for women) but not yet according to the new (slowly increased) scheme while asking for early retirement, the reduction is only 0.3 per cent. This arrangement is valid until 31 December 2006.<sup>26</sup>

Early retirement became very popular and its share among pensions granted in the recent past is mounting: 30 per cent of all old-age pensions were allotted as early retirement in 1997 and their share in 1998 reached 48 per cent and 52 per cent in 1999 (with only about one-fifth temporarily reduced). Early pension benefits granted in 1998 and 1999 amounted to 83 per cent of a full average pension if a person retires according to the temporary reduced scheme and 87 per cent if retiring according to the permanently reduced scheme. In any case, the rise of early retirement contributed to a deficit pension bill. This triggered government effort to change the design of early retirement by making it less attractive. As the proposed loss is only about one-tenth of the current minimum wage, the efficacy of this change is doubtful.

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<sup>25</sup> CMKOS considered the Pension Insurance Act as discriminatory and required in particular postponing the increase in retirement age by 5 years, in order to keep the 50 per cent level of pension benefits in relation to average wage; to facilitate conditions for participation of employers in pension funds and generally to remove all of the “too hard” features of the new arrangement (Sondy 27.12.1994).

<sup>26</sup> Roughly estimated, the reduction might reach about 8 per cent in the case of permanently reduced pension 1 year before the legal retirement age; 15 per cent if 2 years and 19 per cent if 3 years. The reduction is significantly higher in the case of temporary reduction due to both the higher percentage and lower average benefit (mostly persons with lower skills and earnings) reaching about 10 per cent (1 year before) and 20 per cent (2 years before).

A deeper insight into the behaviour of jobseekers in pre-retirement age is provided by a study made by STEM and RILSA (Problems of Early Retirement, 2000). A survey of 12,709 jobseekers in retirement age registered in 10 district labour offices between January 1996 and September 1999 shows that over one-quarter of individuals found a job; almost 2 per cent were de-registered due to lack of cooperation and 68 per cent left “at their own request”, i.e. including early retirement. From the sample, 66 per cent of individuals were in retirement in 1999, one-half of them in early retirement. Comparison of the sample with pension records of the *Czech Administration of Social Security* has shown that from the total number of early retirees, recipients of pensions with temporary reduction represented 17 per cent and those with permanent reduction, 83 per cent. Only about 15 per cent of early retirees were registered by labour offices, the overwhelming majority entered early retirement without passing the register.

While among the early retirees with permanent reduction there are more men than women, women prevail among pensioners with temporary reduction. Early retirement is especially used by persons with only elementary education. This can be explained by both income disadvantage and a lower estimation of work on their value scale. Workers laid-off for redundancy are usually more successful in their job search and thus absent among pensioners in the survey sample. Early retirement is used by “volunteers”, either of their own decision or following the employer’s recommendation, in some cases complemented by an additional compensation.

While no correlation was found between individual income level and the decision to retire early in general, a link was found between the income level and the type of reduction. People with lower earnings more frequently resort to the possibility of temporary reduction (they are also more frequent among long-term unemployed entitled to claim for it) while people with higher earnings more frequently resort to the possibility of permanent reduction. Survey results suggest a hidden link between early retirement (especially with only temporary reduction) and the opportunity to gain an extra income – either in kind (as a higher propensity of workers living in rural areas against those in urban areas shows) or in cash (as a higher propensity of workers living close to borders with Austria and Germany against all others suggests).

**Table 4.5a Potential interest of general population in permanently reduced early pension benefit (percentage of respondents)**

| <i>How many years before retirement age</i> | <i>Current conditions</i> | <i>Stricter conditions</i> | <i>Difference</i> |
|---------------------------------------------|---------------------------|----------------------------|-------------------|
| Only 1 year                                 | 29.9                      | 16.6                       | -13.3             |
| 1 or 2 years                                | 11.4                      | 3.4                        | - 8.0             |
| 1, 2 or 3 years                             | 5.8                       | 2.0                        | - 3.8             |
| Other combination                           | 1.6                       | 1.3                        | - 0.3             |
| Never take early retirement                 | 51.3                      | 76.7                       | +25.4             |

*Source: Survey on Early Retirement 1999, Agency STEM Ltd.*

**Table 4.5b Potential interest of unemployed persons in pre-retirement age in temporary reduced early pension benefit (percentage of respondents)**

| <i>How many years before retirement age</i> | <i>Current conditions</i> | <i>Stricter conditions</i> | <i>Difference</i> |
|---------------------------------------------|---------------------------|----------------------------|-------------------|
| Only 1 year                                 | 45                        | 36                         | - 9               |
| 1 or 2 years                                | 33                        | 13                         | - 20              |
| Only 2 years                                | 1                         | 1                          | x                 |
| Never take early retirement                 | 21                        | 50                         | + 29              |

*Source: Survey on Early Retirement 1999, Agency STEM Ltd.*

The hypothetical decision about early retirement depends on the strictness of conditions, as Table 4.5 shows. Under current conditions, some form of early retirement would be chosen by half of the population, while under stricter conditions by only one-quarter. If conditions were stricter, a retirement required only 1 year before the legal age would be acceptable to most respondents. Interestingly, the declared attraction to quit the labour force earlier is about the same in all age cohorts. Among various factors, only income and wealth status are of any significance, as wealthy people incline to the least advantageous form of early retirement (but the difference is only small). The wish to terminate economic activity as early as possible and to enjoy the remaining years before old age and sickness arrive, is apparent in Czech attitudes to early retirement. This is also related to strong public expectations of easy accessibility to early retirement.

While their number quadrupled during the 1990s, the proportion of disability pensions (both full and partial) among all pension entitlements remained at 16 per cent, the same in 1999 as it was in 1990. Among newly accorded disability pensions, partial pensions slightly prevail. In 1999, 20,000 of new full disability pensions were granted, in comparison with 26,000 partial disability pensions. The average level of full disability pension benefit granted in 1999 amounted to 103 per cent of full retirement benefit while partial disability pension benefit amounted to only 62 per cent. A reduction in the number of persons entitled to disability pensions and the amounts paid are currently under consideration, a step also recommended by international bodies.

Unlike early retirement and disability pensions, the other channel of exit from the labour market – maternity leave – is not frequently used, despite its advantageous design (standard 28 weeks, and 37 weeks if multiple births or a single mother). The general reluctance of the Czech population (not exceptional in this sense) to procreate has strengthened, especially in the recent past. This is partly explained by changing value orientations towards consumption and partly by the adjustment to the Western standard of a later start to childbearing, contrasting with early marriages and child birth under the communist regime (Mozny and Rabusic, 1999).

Since 1990, the incidence of sick leave has increased substantially. In 1990, the percentage of days on sick leave of working time was 4.8 per cent, increasing to 6.25 per cent in 1997 and decreasing again to 5.95 per cent in 1999; whereas the average sick leave in 1990 amounted to 18.4 days, increasing to 26.1 days in 1999. The number of days on sick leave increased from 96,200 in 1990 to 110,300 in 1997 but then decreased to 99,500 in 1999. A relaxed (or sometimes even cooperative) attitude on the part of treating physicians and little (if any) control by responsible bodies facilitates sick leave in lower-wage categories, to avoid work strain or – as the case may be – the danger of being fired. Recently, the low ceiling of sickness benefits was increased, which makes them more advantageous for middle-wage categories of workers. Nevertheless, less qualified and lower-paid workers still use sick leave more frequently.

#### 4.7 Minimum income standards and the unemployment trap

There are no “biographical” statistics (or household panel) available which would allow us to follow the changing status of vulnerable individuals from employment to unemployment (and from earnings to unemployment benefits), from short-term unemployment to long-term unemployment (and from unemployment benefits to social assistance), and finally back again to the active part of the labour force. Indeed, only total amounts of financial resources paid from individual funds and summary numbers of their recipients are surveyed in the MLSA statistics. Among recipients, the same person can thus appear several times and on various places even in the same year, that is, every time s/he asks for benefits of any kind. Nor is there a link between information on individuals and households. As the numbers of unemployed persons were low until recently, few observations are to be found in either of the household income surveys (Microcensus) or the Family Expenditures Survey.

**Table 4.6a Poor households and persons according to family status. Percentage of poor in individual categories, 1988, 1992 and 1996**

| Family status        | Legal poverty line |      |      | EU poverty line |      |      |
|----------------------|--------------------|------|------|-----------------|------|------|
|                      | 1988               | 1992 | 1996 | 1988            | 1992 | 1996 |
| <i>Households:</i>   |                    |      |      |                 |      |      |
| Family with children | 1.1                | 3.2  | 2.7  | 0.7             | 2.0  | 6.3  |
| Lone-parent family   | 8.1                | 10.2 | 8.3  | 5.0             | 7.5  | 16.4 |
| One-person household | 13.5               | 1.4  | 1.0  | 19.9            | 2.6  | 3.9  |
| Other                | 1.8                | 0.9  | 0.3  | 3.0             | 1.1  | 0.7  |
| Average              | 4.5                | 2.7  | 2.1  | 6.1             | 2.3  | 5.0  |
| <i>Persons:</i>      |                    |      |      |                 |      |      |
| Family with children | 1.1                | 3.6  | 3.2  | 0.7             | 2.1  | 7.0  |
| Lone-parent family   | 8.6                | 11.3 | 9.3  | 4.8             | 8.1  | 17.5 |
| One-person household | 13.5               | 1.4  | 1.0  | 19.9            | 2.6  | 3.9  |
| Other                | 1.6                | 0.9  | 0.3  | 2.6             | 1.1  | 0.7  |
| Average              | 2.7                | 3.3  | 2.7  | 3.1             | 2.4  | 5.9  |

Source: Microcensus 1989, 1992 and 1996.

**Table 4.6b Poor households and persons according to family status. Composition of poor in individual categories, 1988, 1992 and 1996**

| Family status        | Legal poverty line |       |       | EU poverty line |       |       |
|----------------------|--------------------|-------|-------|-----------------|-------|-------|
|                      | 1988               | 1992  | 1996  | 1988            | 1992  | 1996  |
| <i>Households:</i>   |                    |       |       |                 |       |       |
| Family with children | 9.2                | 44.2  | 47.0  | 4.7             | 31.9  | 45.5  |
| Lone-parent family   | 8.7                | 33.4  | 38.5  | 4.0             | 28.6  | 32.5  |
| One-person household | 68.7               | 11.3  | 10.1  | 75.2            | 23.7  | 17.2  |
| Other                | 13.5               | 11.2  | 4.3   | 16.1            | 15.8  | 4.8   |
| Average              | 100.0              | 100.0 | 100.0 | 100.0           | 100.0 | 100.0 |
| <i>Persons:</i>      |                    |       |       |                 |       |       |
| Family with children | 24.1               | 59.3  | 61.7  | 13.6            | 49.3  | 63.0  |
| Lone-parent family   | 15.8               | 29.0  | 32.3  | 7.6             | 28.7  | 28.2  |
| One-person household | 43.0               | 3.5   | 2.9   | 55.0            | 8.7   | 5.4   |
| Other                | 17.1               | 8.2   | 3.1   | 23.8            | 13.3  | 3.4   |
| Average              | 100.0              | 100.0 | 100.0 | 100.0           | 100.0 | 100.0 |

Notes: Legal poverty line = official subsistence minimum.

European poverty line = one half of average net income for equivalent adult; equivalent adult is computed so that first adult equals 1.0, each other adult equals 0.7 and each child equals 0.5.

Source: Microcensus 1989, 1992 and 1996.

Due to a low unemployment rate, the poverty count has so far been very favourable in the Czech Republic, both in comparison with the country's own past and with other transition countries. Large statistical surveys from 1988-1996 show that poverty has not increased pervasively and remains far lower than elsewhere (Table 4.6). The reason is that it has largely been a matter of so-called "old poverty" connected with the family lifecycle and capturing mainly households with a large number of children and older persons. On the other hand, so-called "new poverty", resulting from labour market failures, remained low up until 1997. Even though the status of unemployed is a very strong factor in income inadequacy in most individual cases, low unemployment has obviously manifested itself in a low level of poverty.

According to Microcensus 1996, there were only 2.8 per cent of households with an unemployed person at the end of the year (among all households with a head up to 60 years old). From them, a negligible percentage (5 per cent) were households with both the head and spouse unemployed; in most cases (57 per cent), only the spouse was unemployed, and in a minority of households, the male head (38 per cent). While the total disposable income in households with an unemployed person amounted to 77 per cent of all other households, the income *per capita* in households with an unemployed person reached only 61 per cent of households with employed members. The reason for the difference is a higher number of children in the households of unemployed (1.4 compared with an 0.9 average). The share of social transfer in household income was 30 per cent in households with an unemployed person against only 14 per cent in all other households.

However, the last available Microcensus still reflected a favourable economic situation in the Czech Republic (the next survey is planned to be collected in March 2002, surveying yearly incomes of 2001). After 1997, the situation in the national economy and employment experienced a significant reversal and the unemployment rate continuously rose until April 2000, nearing (but not reaching to date) 10 per cent; the second half of the year brought about even a slight decrease of unemployment. With the rise of long-term unemployment, the poverty rate may even double; the share of the "new poverty" is certainly sharply increasing and prevailing. It is essential to have a direct observation of this changing landscape of poverty. Greater attention also needs to be paid to institutional settings of guaranteed income minimum, especially from the point of view of creating an unemployment poverty trap and benefit dependency.

According to the RILSA survey on "socio-economic motivation of low-income persons on the labour market" — made in 1998 in 10 Czech districts, among 1,800 households with at least one person unemployed — 70 per cent of households with an unemployed head and about one-half of households with an employed head but some other household member unemployed was, according to official standards, designated as poor. Their incomes should therefore be complemented by benefits from state social support or, as the case may be, from assistance benefits. Of persons receiving benefits, only one-third was interested in return to the labour market, while the other two-thirds agreed with the benefit dependency status. In the latter status, people displayed job interest merely as a formality in filling out the requirements on benefit entitlement. Social benefits are often combined with income from the informal economy.

*Unemployment benefit* (officially titled "material support of a jobseeker") was first set down in 1990. A jobseeker for whom a suitable employment is not found within 7 days of registration by the Labour Office, or for whom retraining for suitable new employment is not arranged within the same period, is entitled to unemployment benefit. The information necessary for eligibility for unemployment benefit must be documented by jobseekers at the Labour Office with the details confirming their employment record. Jobseekers who meet the conditions of eligibility are entitled to financial support from the day they register as a jobseeker.

Financial support shall be provided to a jobseeker who has been employed for at least 12 months in the 3 years immediately preceding their application for assistance in finding a job. The following is included in the period of employment: education (preparation for a job); job training undertaken by a disabled citizen; compulsory military service; time spent in childcare of infants up to 3 years old, or up to 18 years of age, if seriously disabled and requiring special care; time spent in the care of a close relative who is totally or largely disabled and over the age of 80; or any period during which a jobseeker received a full disability benefit. This period shall not count if the individual was employed concurrently; if any such period ran concurrently, it shall be counted only once.

In 1990, unemployment benefit was set for 12 months at 60 per cent of previous net wage (90 per cent if the job loss was due to restructuring). In 1991, this benefit was removed and reset at 65 per cent for the first 6 months and 60 per cent for the remaining 6 months (70 per cent during retraining). Since 1992, the entitlement period has been shortened to only 6 months and the unemployment benefit set at 60 per cent in the first 3 months and 50 per cent for the remaining 3 months. Since October 1999, the jobseeker will receive only 50 per cent of previous earnings during the first 3 months and 40 per cent for the second 3 months (60 per cent during retraining). However, since 1999 the ceiling of financial support is 2.5 times higher than the corresponding subsistence minimum in general (1.5 previously) and 2.8 times for jobseekers in retraining (1.8 previously).<sup>27</sup>

The *subsistence minimum* was established by law in the Czech Republic in 1991 and serves as the official poverty line. Its legislation allows entitlement to social benefits to households with very low incomes after a (not very rigorous) testing of their income situation and property holdings. The subsistence minimum is indexed to CPI according to precise rules. The principles of its construction (which is composed from amounts for individual persons and the lump-sum amount for the household as a whole) continue almost intact from the previous regime, i.e. stressing basic needs of individuals with only minor regard for the common needs of households. Benefits are thus advantageous for large households and disadvantageous for small families. With changes in the structure of household expenditures (when the share of expenditures on foodstuffs is declining and the share on housing rising), this imbalance is increasing.

While the subsistence minimum in whatever form existed even before 1989, a *minimum wage* was first set in the Czech Republic only in 1991 – at a level of CZK 2000 (53 per cent of the average wage). It was soon increased to CZK 2,200, later to CZK 2,500 and in 1998 was increased to CZK 2,650. Its long-term nominal stagnation was an escape from the dilemma between the reigning “liberal thinking” (in which the minimum wage was an instrument inappropriate to a free market economy) and the respect of previously ratified international agreements guaranteeing its existence.

With the Social Democrat party in power, the minimum wage started to rise again. It was increased to CZK 3,250 in January 1999, to CZK 4,000 in January 2000 (about 32 per cent of the average yearly wage in 1999) and, finally, to CZK 4,500 in July 2000 (about 36 per cent of the current average gross wage, about two-thirds of the 1991 amount in real terms) and to CZK 5,000 since January 2001. In this last increase, the minimum wage – for the first time – crosses the subsistence minimum for a single adult (by CZK 414). Since 2000, workers aged between 18-21 years are entitled to only 90 per cent of a full minimum wage.

According to the 1998 wage survey, approximately 4 per cent of employees were paid close to the minimum wage. In 1999, the lowest surveyed category up to CZK 4,000

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<sup>27</sup> Since 1 April 2000, when the subsistence minimum was last valorized, the corresponding amounts were CZK 9,425 and CZK 10,556. The next valorization takes place in the second half of 2001, due to inflation crossing the 5 per cent legal threshold.

amounted to 10 per cent of workers.<sup>28</sup> Most probably, there are only few true wages in this category. Many small employers pay their employees officially close to the minimum wage to avoid the payroll tax and reward them by an extra payment in cash.<sup>29</sup> This is also the case for self-employed and small employers engaging family members, who declare their income just above the minimum wage to reduce their payroll payments. A typical branch of such practices is catering, where it is easy to avoid accounting. In any case, the minimum wage directly affects state expenditures, as it serves to set hypothetical earnings for categories for which contributions of social and health insurance are paid by the State – i.e. men in compulsory military service, unemployed, women on maternal leave and pensioners.

A serious problem is evolved by the “two-track system” of protection of unemployed people. Whereas unemployment benefits (paid from insurance) are strict and tested against (at least formal) job-search activity, subsistence benefits of state social support used to be higher (according to family circumstances) and without the condition of job-search activity. Even though these people remain registered by the Labour Office, their activity is in fact only loosely controlled by the Labour Office. In consequence, the system leads to complications for both state institutions and jobseekers. A household of long-term unemployed, as the time runs, is registered and compensated by three state institutions: first by the Labour Office (for unemployment benefit), then the social department of the district administration (for state social support) but frequently also the local administration (for social assistance). Labour offices are overburdened by endlessly releasing receipts for other institutions.<sup>30</sup>

**Table 4.7 Average wage and subsistence levels (in CZK monthly and as a percentage of gross wage)**

| Indicator                              | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997  | 1998  | 1999  |
|----------------------------------------|------|------|------|------|------|------|------|-------|-------|-------|
| <i>In CZK monthly:</i>                 |      |      |      |      |      |      |      |       |       |       |
| Average wage                           | 3286 | 3792 | 4644 | 5817 | 6894 | 8172 | 9676 | 10696 | 11688 | 12658 |
| Minimum wage                           |      | 2000 | 2200 | 2200 | 2200 | 2200 | 2500 | 2500  | 2650  | 3250  |
| Average unemployment benefit           |      |      | 1404 | 1654 | 1839 | 2056 | 2306 | 2567  | 2335  | 2529  |
| Living Minimum of single adult         |      | 1700 | 1700 | 1960 | 2160 | 2440 | 2890 | 3040  | 3430  | 3430  |
| of couple with two children aged 10-15 |      | 5600 | 5600 | 6400 | 7060 | 7840 | 9110 | 9570  | 10470 | 10470 |
| <i>% of gross wage:</i>                |      |      |      |      |      |      |      |       |       |       |
| Minimum wage                           | 52   | 52   | 47   | 38   | 32   | 27   | 26   | 23    | 23    | 26    |
| Average unemployment benefit           |      |      | 30   | 28   | 27   | 25   | 24   | 24    | 20    | 20    |
| Living Minimum                         |      |      |      |      |      |      |      |       |       |       |
| Of single adult                        |      | 45   | 37   | 34   | 31   | 30   | 30   | 28    | 29    | 27    |
| Of couple with two children aged 10-15 |      | 148  | 121  | 110  | 102  | 96   | 94   | 89    | 90    | 83    |

*Sources: Statistical Yearbooks of the Czech Republic; Ministry of Labour and Social Affairs*

<sup>28</sup> In both cases, percentages are calculated from all workers, thus including also part-time jobs and employees not working the whole year. If counting only employees working 1,700 hours and more, almost no employees in categories close to the minimum wage were encountered. The actual number of employees paid by the minimum wage is thus hard to estimate.

<sup>29</sup> Trade unions in the catering sector distributed an information leaflet warning about such illegal practices and stating its disadvantage for employees. They also established a special info-line, with the catchword “not to fear and not to steal”.

<sup>30</sup> According to experts, increasing the unemployment benefit amounts might - paradoxically - economize overall social expenditures, as all compensation payments for all unemployed persons would be administered from one location.

**Table 4.8 Net replacement rates for average production worker (APW) in the Czech Republic**

|                                              | Single | Married couple | Couple, 2 children | Lone parent, 2 children |
|----------------------------------------------|--------|----------------|--------------------|-------------------------|
| <i>In the first month of benefit receipt</i> |        |                |                    |                         |
| APW- level                                   | 54     | 76             | 77                 | 78                      |
| 66.7 per cent of APW- level                  | 60     | 74             | 76                 | 77                      |
| <i>In the 60th month of benefit receipt</i>  |        |                |                    |                         |
| APW- level                                   | 36     | 63             | 98                 | 80                      |
| 66.7 per cent of APW- level                  | 53     | 91             | 100                | 100                     |

Source: OECD Survey, 2000.

The lack of individual effort is nourished by better conditions offered by the state social support benefits in comparison with insurance-related benefits. The distance between the relatively generous and continuously indexed subsistence minimum and low and stagnating wages for lower categories of workers creates a relatively inviting unemployment trap, as Table 4.7 shows. Because the subsistence minimum is not well balanced with the structure of household costs, its trapping effect is augmented for larger families. Table 4.8 shows net replacement rates for the average production worker in the Czech Republic. From this point of view of net replacement rate, the Czech system contrasts with other OECD post-communist countries in that the previous earned income of low-income workers is fully compensated in the Czech Republic and the social system functions as in the most generous European countries – Belgium, the Netherlands and, particularly, Sweden.

This state of affairs is especially advantageous for the Roma population. On one hand, they have low incentives to search for, or take, a job. A lack of skills and low reliability, as perceived by some potential employers, implies that jobs for Roma workers are of low quality. This population is also often discriminated against. On the other hand, Roma families have a large number of children. As social benefits increase steeply with the number of offspring, children are sometimes considered as breadwinners for the whole family. No control is applied to how families actually spend social benefits, even those directed to children. Furthermore, the unemployment trap is similarly attractive for rural households where the costs of living are lower than elsewhere due to considerable income in kind and to lower prices, while expenditures connected with employment are high due to high transportation costs.

An issue of increasing concern is the trapping effect of unemployment benefits for school leavers not placed on the labour market. As there is currently no obligation to have worked before being entitled to unemployment benefits, many young people are reluctant to search intensively for a job. They accept temporary jobs not corresponding to their qualifications or make use of the offer of a non-paid job for their own training purposes. In mid-2000, a total of 54,000 young people, or 12 per cent of the unemployed, had never worked in the Czech labour force. The Government intends to assert the obligation of 1 year in work as compulsory for unemployment benefit entitlement (LN 13.6. 2000).

## 5. Conclusions

Since 1989, markets have opened up, but many communist legacies remain, particularly in regard to the labour market and flexibility. The previous command economy, centralized and largely static, required only a single lifelong skill or qualification and prevailing job and housing stability.<sup>31</sup> Work performance was unconnected to the worker's standard of living. State paternalism dominated social security and is still firmly embedded in public expectations. Because the communist "premature welfare state" (Kornai, 1995:131) was combined with compulsory work, exits from the labour force into welfare status were hindered by law and no particular work incentives were thus needed. Huge redistribution in favour of less productive workers meant that average expectations regarding the consumption level and social security were eventually set higher than productivity of labour and performance of the economy actually allowed.

First, an encapsulation of the current situation in the Czech Republic, briefly profiling the present direction of its citizenry, government, employers, and workers.

### **The human element**

Under a market economy, the public expectation was that the Czech Republic would soon reach the consumption level of developed market economies such as Austria. Fanned by populist rhetoric that the Czech Republic would achieve Western standards of living (and consumerism) more quickly and more easily than other former command economies, people declared themselves ready (and most of them actually were) to tighten their belts and change their work and life habits in order to generate more efficiency. Unfortunately, the momentum and political capital of the initial reform years were not used to advantage. Workers were given the sugar-coated promise of a fast, easy transition, ensured by the "invisible hand of the market", instead of a more bitter pill of increasing their work commitment, skills development and labour flexibility.

In consequence, work habits have changed slowly, unevenly and uncritically. For example, in the early years of transition, only one-fifth of the population considered their qualifications suitable under the new market economy conditions. Recent Economic Expectations and Attitudes surveys show that this proportion has rapidly risen to 40 per cent. However, respondents' receptiveness to further training (hypothetically offered at double their present wage) has decreased or stagnated, with currently 45 per cent of the main active age group disinterested in further training, as Table 5.1 shows. These data testify to the relaxed attitude towards jobs, in a general climate of "the easy Czech way" to a new economic order, which also influenced other attitudes prevalent at that time.

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<sup>31</sup> The communist regime viewed job and housing stability as facilitating the control of citizenry.

**Table 5.1 Willingness to work hard and invest in personal human capital (percentage)**

|                                 | December<br>1991 | January<br>1993 | November<br>1993 | November<br>1994 | January<br>1996 |
|---------------------------------|------------------|-----------------|------------------|------------------|-----------------|
| <i>Answers "Certainly Yes":</i> |                  |                 |                  |                  |                 |
| Manager                         | 18.2             | 26.7            | 25.1             | 27.5             | 28.2            |
| Work more                       | 45.3             | 47.2            | 45.8             | 49.9             | 45.4            |
| Self-training                   | 38.1             | 38.8            | 39.1             | 35.3             | 35.8            |
| Learn language                  | 24.3             | 28.8            | 24.1             | 24.1             | 24.0            |
| <i>Count of activities:</i>     |                  |                 |                  |                  |                 |
| None                            | 42.0             | 40.0            | 37.8             | 45.4             | 41.0            |
| One                             | 20.6             | 20.8            | 24.2             | 20.0             | 20.8            |
| Two or four                     | 37.5             | 39.2            | 38.0             | 34.6             | 38.2            |
| Total                           | 100.0            | 100.0           | 100.0            | 100.0            | 100.0           |

Source: *Economic Expectations and Attitudes* surveys.

Questions to respondents: If you were offered a job at double your current earnings, would be you willing to:

A. take a managerial position?

B. work 10 hours per day?

C. train for more than 6 months?

D. try to learn a foreign language within one year?

Categories of answers: 1. "Certainly Yes", 2. "Rather Yes", 3. "Rather No", 4. "Certainly No".

In the second half of the table, declared intentions (only "Certainly Yes" answers) are tallied. For instance, in 1996, 41 per cent of persons declared no willingness in any field and 38 per cent were "certainly willing" to be active in three or even all four areas.

In the first half of the 1990s, disillusioned by unfulfilled expectations of a rapid rise in living standards, the general public returned to its former expectations of a wide social protection net. Unfortunately, the State proceeded inconsistently in setting the institutional balance between market and security, keeping the newly settled minimum wage down and launching a two-track system of benefit provisions during unemployment. The inconsistency between the limited and restrictive unemployment benefits on the one hand, and the long-term, very easily accessible and much higher (especially for large families) social subsistence provisions had a pronounced demotivating and trapping effect.

From the labour market perspective, it also creates a dangerous unemployment trap, facilitating exit from the active labour force. It weakens wage restraint, fed by an excess of labour supply over demand. Ultimately, it might lead to benefit-dependency by a share of the population. To date, welfare dependency is only visible among the unadaptable share of the Roma population. The huge gap between the minimum wage for individuals and the subsistence minimum for large families implies that the socio-cultural level of society is higher than the actual effectiveness of the economy. In other words, the "standard family budget" (OECD, 1998) is far from the market price of low-skilled labour. The basis of this mismatch originates in the former regime and was strengthened by the political protection of labour in the first "Czech easy way" transition years, through so-called "bank socialism".

### Government

In January 2001, the Social Democratic government resolved the inconsistency with a policy intervention of setting the minimum wage higher, ultimately in a continuously valorized relation to the average wage, achieving a dominant minimum wage over the subsistence minimum for single-person households (while the relation between the minimum wage and subsistence minimum for families, especially larger ones, changes only slightly).

This intervention might have several adverse effects. On the one hand, it increases the costs of unskilled labour and pushes it outside the formal economy; as higher wages for lower categories of workers result in relatively lower wages for higher categories, the wage hierarchy reacts to the levelling by a tendency to shift upwards and thus puts pressure on

wages.<sup>32</sup> On the other hand, investment flows have strengthened since 1999; in this situation a higher minimum wage contributes to the replacement of labour by technology and to an increasing use of technological and organizational know-how to increase labour productivity. If a more substantial gap is created between the minimum wage and the subsistence minimum, it could lead to a higher motivation in lower skill categories of unemployed to find a job.

Aware of inconsistencies between employment and social policies, the Ministry of Labour and Social Affairs is taking measures, based on the principle of “not sanctions, but incentives”. The MLSA considers that the existing system is already stricter than in other OECD countries and that more strictness may lead either to no effect or to a negative one. Thus, not more workfare, but more motivation is to be introduced, bearing in mind the following: 1. Czechs are highly skilled and valued workers, 2. Older workers especially cannot accept whatever job is offered, since their possibilities of adaptation are limited and they are rooted in firm social ties, and 3. Fraudulent claims and abuse of benefits does exist but is a marginal problem. 4. Retraining is supported by higher benefits and applied only if it strengthens or upgrades the occupational position of the worker. 5. Some earned activity in addition to unemployment benefits will also be permitted.<sup>33</sup>

The opposite of policy interventions on the labour market is an emphasis on the enhancement of flexibility through broad skills, multi-task occupations, flexible contracts and hours, and adaptability, as related to going where work is, by commuting or migration. However, unlike developed countries, which intensively seek a way out of labour market rigidities and excessive social dependency, there is not much debate in the Czech Republic about flexibility. In this sense, there is little difference between the “liberal” and “socialist” periods.

When the issue does arise, the argument is for either an ideological economic liberalism or a rigid, socially protective stance, but few voices are heard for a realistic approach – grounded in accepting both the necessity of change and its real limitations.

One recent example is the exchange of verbal fire triggered by the ‘Drevic Proclamation’, conceived and released in March 1999 by a group of economists and other public personalities (some of them leaders of the Czech National Bank) and convened by the former Chancellor of the President, Karl von Schwarzenberg. Among other issues, more flexible contracts and hours, and a territorially mobile labour force, were cited as necessary:

**Flexibility of human resources requires their geographical mobility, adequate to transfer costs and the needs of the labour market ... Regarding the solution of the housing problem, the task is also to support transport facilities in outlying regions. The aim is to ensure labour force availability in time, place, structure and quality ... Occupational mobility has to be supported by a lifelong education and permeability of individual forms of training.**

**– Economic Strategy for Admission to the European Union, 1999**

### **Trade unions**

Such liberal requirements were rebutted by trade unions as a “death-cocktail” for workers. Regarding geographical mobility, KOVO (metal) trade unions leaders stated that the situation in the Czech Republic cannot be compared with developed Western countries, where a worker can easily buy a car (or be provided with one by the employer) to commute distances

<sup>32</sup> According to a study based on individual data in France, increasing the minimum wage has a definite negative effect on the employment of low-paid workers. A 10 per cent rise increases the probability of job loss by 13 per cent for male employees and by 10 per cent for female employees. While the effect is zero for young workers (up to 25 years), it increases significantly for older workers (Kramarz and Margolis, 1999).

<sup>33</sup> Interview with the Vice-Prime Minister and Minister of Labour and Social Affairs, Vladimír Špidla, entitled “Sugar without a whip”, published in the magazine *EURO* No. 30, July 2000.

(Sondy 19.4.1999). A similar stance was taken against flexible work contracts, which are increasingly misused by employers, as labour moves from highly unionized large firms to small firms in services with atomized labour. In reaction to these complaints, representatives of the Economic Chamber accused trade unions of being destroyers not builders of social peace. The trade union portrayal of small-firm employers as modern slave traders was perceived by the Chamber as an unwillingness to understand the problems smaller firms face, when confronted with economic recession and the reluctance of the State to enforce the law (Sondy 14.6.1999).

The trade union stance on work flexibility is not negative but conditioned.<sup>34</sup> Flexibility is viewed as serving only the employers' interests. The trade unions emphasize four main principles: 1. maintaining the dignity of employees, 2. respecting the legal framework, 3. balancing the advantages between both contracting partners and 4. avoiding job security risks. Their solution for the future is a universal and lifelong education as it is framed by human resource development departments in firms – unfortunately scarce at the present time. Scheduling work hours (uneven distribution within 12 months) and 8 hours of overtime work weekly creates a sufficient space for manoeuvring. Workers are advised to avert any misuse of short-term contracts by employers and to reduce the time-span only for seasonal work. Citing the ingrained habits of workers, commuting long distances to work is viewed with considerable reserve by the unions, but as a preferable alternative to migration.

According to the trade union perspective, the freedom to contract labour is adequate in the Czech Republic – a view also held by foreign investors. However, laws and rules are often not respected by employers; trade unions register substantial misconduct and are preparing a White Book of unfair employers. As employees may be reluctant to testify about unfair behaviour for fear of dismissal, the trade unions – together with the MLSA – require assertion of an integrated system of work control, which would involve employment security, conditions of work and labour legislation. They also suggest the establishment of an autonomous *Employment Fund* and public *National Labour Office*, which would administer the entire agenda on a tripartite basis.

### **Employers**

Employers cite employees' bad working habits from the communist past, their lack of skills, lack of work commitment and unreliability. In particular, they cite the low level of employee loyalty, which is corroborated by an International Social Service Program (ISSP) comparative survey (see Annex 2) finding that Czechs display the weakest loyalty to their firms. Surprisingly, owners of new small firms do not perceive young people as either very flexible or reliable workers and prefer middle-aged employees. They are especially reluctant to hire school-leavers, perceived as combining lack of skills with arrogance and high demands in terms of earnings and other conditions. In manual occupations, rural workers are preferred for being more hard-working and less demanding.

Overall, the employers' stance is that labour and employment legislation is fully on the side of employees and that the last Labour Code amendment only strengthened such imbalance. Small entrepreneurs object to the high mobility of their employees and the concomitant risk of employee misuse of know-how (acquired in one firm and transferred to competing firms). In the employers' view, the firing procedure is long, difficult and costly. Various legal tricks are used. One method is to push an employee to leave by mutual agreement (instead of being fired because of serious breaks in work discipline, which would be noted in the registration list). A second method is fixed or short-term contracts (often only

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<sup>34</sup> This section reports the expressed opinions of Milan Stech, Member of Senate and the CMKOS Vice-President, in a conversation with the author, held in Senate on 22 June 2000.

for half a year), including a three-month probationary period. A tool frequently used in small firms is the “directives of work” to employees on how work is to be performed. Dismissal is facilitated by means of an employer assertion that the employee broke one of these directives.

### **Lacks: Transparency and law enforcement**

The real-life situation of legal restrictions and difficult economic conditions for firms, worsened further by lack of transparency and law enforcement, does not respect current norms and legislation. A recent newspaper headline (exaggeratedly) claimed that 50 per cent of firms in the Czech Republic do not respect the Labour Code (LN 2.3.2000). For example, employees are sometimes required to work in exceedingly poor working conditions, or to accept more overtime than the law allows; similarly, hires and fires do not always respect, in practice, their legal (written) formulations.

In this context, the existence and efforts of enterprise-level trade union organization serve as a watchdog on working conditions for employees in large firms and also for foreign-owned firms (which show much more respect for the law). In contrast, in small and volatile firms, several non-standard forms of work have developed since 1990. Despite their prohibition by law and the efforts (not very energetic) of the State and trade union institutions, these practices continue. They include:

- **informal payment** (frequent especially in catering), when only a low wage (close to the minimum wage) is paid officially and the rest is given in cash, at discretion of the employer (thus avoiding payroll tax);
- **hiring own-account workers**, when employers engage workers having a “business licence” (again avoiding payroll tax and work contract requirements);
- **hiring foreigners**, especially for hard manual work (particularly Ukrainians); firms are reluctant to hire Czech workers, arguing that they are less hard-working, not willing to work overtime and on weekends, over-use their sickness leave, etc. (Sondy 7.8.2000);
- **using a contracting agency** to provide labour, without any obligation on the employer’s part; a practice widely used, especially in the construction industry, where foreign (again, mostly Ukrainian) workers are supplied as cheap labour by their agents. The latter are operating on the brink of legality.

### **Past, present and future**

In sum, a purely objective and neutral stance is difficult to take. By their very nature, labour relations are a conflicting issue.<sup>35</sup> In transition countries, the conflict is intensified by the legacies of their communist past.

In the Czech Republic, the labour market and labour relations developed considerably after 1989. In the initial years of economic reform, redundant labour reduced itself easily as many older workers entered retirement, many women returned to household work and most other employees were attracted by the services sector and self-employment. Wage costs were reduced by a temporary fall in real wages, the outsourcing of services and the introduction of several non-standard practices as described above.

Indeed, many workers became flexible: active people used new opportunities, changed jobs, started a business, left for abroad, or complemented their regular job by informal economic activities. All of those shifts were voluntary, induced by an open market and political space. In parallel, most workers in former state enterprises were covered by a hidden agreement concluded between the “liberal” government and post-communist management

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<sup>35</sup> This section incorporates the suggestions of Alena Nesporova, Senior Labour Economist, Employment Strategy Department, Employment Sector, ILO, Geneva.

involving a large labour hoarding financed by generous credits to firms by semi-state banks. In addition, labour market policy, particularly active in the early 1990s, contributed to a smooth adaptation of vulnerable workers to new conditions. In general, the situation was more relaxed than was generally expected and the labour market largely stabilized, exhibiting the lowest unemployment rate among transition countries.

However, behind the seemingly stable scene of the “Czech miracle”, problems of non-transparent corporate governance and frozen restructuring eventually navigated the national economy to the open recession of 1997 and the ensuing political crisis. A second phase of transformation has begun: large firms have finally decided to operate under “hard” budgetary constraints and are forced to economize. Redundancies and lay-offs are mounting, labour costs are significantly reduced (sometimes even by non-payment of employees’ social and health insurance contributions) and all legal possibilities are used to avoid employers’ obligations to employees. Firms tend to resort first to illegal practices to reduce labour costs.

In theory, legal norms do not pose any serious barriers for labour to adjust smoothly to market conditions – they only make the procedure more difficult for both parties. In practice, because of limited law enforcement and the largely insecure future of most firms, employers can go beyond the legal boundaries with their employees. At the same time, employers’ arguments about low skills, unreliability and lack of employee flexibility are partly grounded in fact. For trade unions, the economic recession means that their real manoeuvring space is more confined. At the same time, trade union awareness of the serious problems employers are now facing tends to make them react more conservatively. The Czech labour market should be seen as more of a workshop than a battlefield.

What are the issues in regard to flexibility in the Czech workforce? Under communism, stability was not only required but rewarded. High expectations of state-guaranteed jobs and incomes, which originated in Social Democratic social policy, are embedded attitudes. Workers long accustomed to stability are often abruptly exposed to new employers who treat them in a “wild capitalism” way. In this context, it must be remembered that a general non-respect of rules is also rife, because state control over norms and procedures was relaxed after 1989 and law enforcement is consequently weak.

In addition, the command economy, with all its shortcomings and supply deficiencies, unintentionally trained its citizens in adaptation, multiple qualifications and the art of acquiring new skills rapidly in order to survive. The skills that individuals acquired were mainly used to repair, improve or modernize their homes, which became what Czechs call “a matter of the heart” – and hence the disinclination to move to other regions.

The labour market is diversified on both demand and supply sides. There is a variety of types of firms on the demand side, from the (not very motivating) economic environment of former state enterprises or public administration institutions to an attractive financial sector and new, mainly trade and service sector enterprises, offering high earnings and good prospects to workers in exchange for hard work. On the supply side, the range is from traditional workers with poor (general education) background, simple skills and rigid attitudes to dynamic individuals ever ready to improve their competencies and actively responding to new exigencies.

And the average Czech worker? It is probably safe to say that two-thirds of the working population would prefer to remain in a long-term job (and location); would prefer the alternative of commuting to migration; and that of early retirement or welfare dependency in preference to retraining and acquisition of a new job. The remaining one-third of workers display an opposite profile.

Changing human economic behaviour depends on changing the economic environment at the macro- and micro-level. In the Czech Republic, labour market and employment relations are only now crystallizing. The link between skills, competencies and

performance on the one hand and earnings, working conditions and fringe benefits on the other hand is still far from strong and cannot be compared with advanced Western countries enjoying uninterrupted traditions of market economy.

Although some disparities among firms and labour seem to bear a segmented character in the academic sense (regarding advantageous conditions of large companies, especially foreign capital), there are others that digress from labour market segmentation theory – new, smaller firms offering vertical job promotion, increasing earnings and, often, also job stability. In contrast, most of the large firms (mainly former state enterprises) still offer low wages combined with insecurity for the future.

### **Accession to the European Union**

Any substantial change for the future relates not only to the labour market but to the cultivation of the economic environment, legislation, law enforcement and a wide understanding of the social dimension of the world of labour. All of this is part of the overall “Europe-ization” of Czech society, linked to the European Union accession process. Or, more concretely, the Czech acceptance of “Rhenish capitalism”, characterized by cooperative relations between capital and labour, a high degree of coordination on both sides and multiple forms of state intervention to compensate for material imbalances and to bridge functional discrepancies between both parties (Albert, 1991).

The first step in this process is the revitalization of core industries, with the considerable assistance of foreign capital and thus within a transparent corporate governance based on a long-term strategy. This can provide large sections of the workforce with stability of job and pay, especially in those regions where mining and heavy manufacturing have downgraded. The important external aspect of this process is to inculcate a much higher respect for rules and laws, paralleled by a more intensive use of the labour force and higher requirements on skill adjustments.

The second step is the expansion of small and medium enterprises (SMEs) which still lag considerably behind the European Union in their labour market share and export capacity. SMEs can stimulate a constant flux of skills and know-how as well as some job stability and decent working conditions. But support for SMEs is still restrained in the Czech Republic. Small entrepreneurs complain of the legal jungle, lack of information, lack of coordinated support, the inaccessibility of credit and uneven treatment in comparison with large companies (Ekonom 50/2000).

The third step is further strengthening the service sector, especially the rise of strategic services like customer support, consultancy centres, software and information development, applied research, etc. Such services were only recently involved in the Government’s investment incentive programmes. To date, the proportion of investment going into production and strategic services is 65:35 in the Czech Republic compared with 44:56 in the European Union. There is plenty of room for job and wage promotion in this context, and the demand for experienced experts always crosses supply.

“The best social policy is the right economic policy”, as Ludwig Erhard said. Under dynamic economic growth, most social problems can be solved. But the right economic policy involves the labour force – a market good that, unlike others, is not endlessly divisible and adaptable, because it is linked to the integrity, dignity and feelings of human beings. In the transition situation of a weak State, where strong actors are unconstrained, it is tempting to misuse labour contracts and job dependency. Employees, employers and the State need to adjust, adopt and cultivate gradually the following obligations: on the part of employees, to develop their skills and flexibility; on the part of employers, to create decent working conditions and fairness to employees; and the part of the State is to enforce law and to control required standards. These obligations have now been put in motion in the Czech Republic.

## Annex 1

### Comparative tables on labour market institutional arrangements in the Czech Republic (See Labour legislation, Sections 2.2, 2.3, 2.4 and 2.5 of this report)

**Table A1.1 Dismissals (individual and collective)**  
**Individual dismissals**

| Source of legal regulation                                                                                                                                                                                                                               | Grounds for individual dismissals                                                                                                                                                                                                                                                                                                                                                                                                                             | Notice period                                                                                                                                                                                                                                                                                                              | Severance pay                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Procedural obligations                                                                                                                                                                                                                                                                                                                                                                                            | Sanctions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Exemptions                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Labour Code 65/1965 with amendments 88/1968, 153/1969, 100/1970, 20/1975, 72/1982, 111/1984, 22/1985, 52/1987, 188/1988, 3/1991, 297/1991, 231/1992, 264/1992, 590/1992, 37/1993, 74/1994, 118/1995, 287/1995, 138/1996, 167/199, 225/1999 and 155/2000. | Only for the reasons explicitly stated: the employer, or his/her organizational section closes or relocates; the employee becomes redundant as a result of employer's decision to make organizational changes; s/he suffers a long-term inability to perform the work; s/he does not meet requirements for performance of the agreed job, etc. serious breaks of working discipline which may result in immediate termination of the employment relationship. | Two months for the employer and employee, unless agreed otherwise. If employee is dismissed for organizational reasons, the notice period is three months. The notice period begins on the first day of the calendar month following delivery of the notice and ends on expiry of the last day of the corresponding month. | An employee is entitled to severance pay provided the employment relationship is severed by notice, for reasons enumerated in the law or by agreement due to the same reasons. The proportionate amount of severance pay is determined according to the number of calendar days from re-entry into employment until expiry of the period. Originally, the severance pay amounted to twice the employee's average wage at termination of the employment relationship; a higher pay up to five times average wage could be agreed in collective agreement. In 1994, severance pay was unified to twice the average wage. Since 2000, twice times the average pay is a guarantee but it can be agreed otherwise in collective agreement, or by internal firm decree. | Dismissal is to be communicated in writing and the other party shall receive it, unless it is invalid. The notice of termination or immediate termination is to be discussed with the competent trade union organization. If the employee is a trade union functionary (in the office or one year after terminating it), the notice of termination should be approved by the trade union organization in advance. | If an employee is dismissed for reasons on the employer's side, the employer is obliged to actively assist the employee in finding other suitable work. If a single mother or father with a child under 15 in her/his care, or is a disabled employee, or if the employee is no longer able to continue his/her current job as a result of potential occupational illness, the employer is bound to ensure that the employee secures other suitable work. In such cases the notice period does not terminate until the employer accomplishes this duty, unless the employer agrees otherwise with the employee. | Employees are not entitled to severance pay if their legal rights and duties are transferred to another employer in the course of organizational changes or if the employee performs work for the employer in an auxiliary employment relationship. The entitlement does not concern fixed-term contracts. |

If the employer serves an invalid notice to his/her employee or does not validly terminate his/her employment relationship immediately or during the probationary period, and the employee announces to the employer his/her insistence to continue the employment, the employment relationship continues and the employer is required to reimburse the employee's earnings. If the employer does not validly sever the employment relationship, but the employee does not insist on continuation of the employment relationship, (s)he shall apply that, unless the employee otherwise agrees with the employer in writing, the employment relationship is regarded as having been terminated by agreement.

If the employee serves an invalid notice, or does not validly terminate the employment relationship immediately or during the probationary period, and the employer makes an announcement of insistence that the employee continue to perform work, the employment relationship shall continue. If the employee does not comply with the employer's announcement, the employer may ask the employee for compensation for losses caused to the employer. If an employee does not validly sever the employment relationship and the employer does not insist on the continuation of the job, and if the employer otherwise agrees with such an arrangement, the employment relationship can be terminated by mutual agreement.

## Collective dismissals

| Source of legal regulation                                                 | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Exemptions | Procedural obligations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Sanctions     | Notice period                                                                                                                                                                          | Severance pay           |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Labour Code, amendment 155/2000.<br><br>Employment Act, amendment 118/2000 | Collective dismissals are terminations of employment relationships in the period of 30 calendar days given because the employer, or his/her organizational section closes or relocates, or because the employer decides to change the firm's orientation or its technical equipment, to at least a) ten employees by employers employing 20-100 employees; b) 10 per cent of employees by employers employing 101-300 employees; c) 30 employees by employers employing more than 300 employees. |            | The employer is obliged to notify the local trade union organization at least 30 days before and dispute with it measures aiming to prevent or reduce collective dismissals and attenuate their consequences for employees, especially their placement in other suitable jobs of the employer. Employers shall inform the local labour office of the proposed measures, their reasons, the number and categories of workers affected by redundancies and time of dismissals; about proposed criteria for selection of laid-off employees, about bargaining with the trade union organization. Employers are bound to deliver to the local labour office the report about the final decision concerning the number and categories of workers affected and the results of bargaining with the trade union organization. | No sanctions. | No earlier than 30 days after delivery the information in writing to the labour office, unless the employee announces s/he does not insist on continuation of the employment contract. | No special arrangement. |

*Collective dismissals were firstly explicitly included in the 2000 Labour Code amendment. Previously, the obligation to inform trade union organization and labour office about redundancies i restructuring measures was coded in Employment Act 1/1991. The information should contain measures attenuating consequences for redundant employees.*

**Table A1.2 Non-standard forms of employment**

| <b>The form</b>              | <b>Restrictions or not on firms</b>                                                                                                                                                                                                                                                                                                                        | <b>Restrictions or not on workers</b>                                                                    | <b>Maximum number of successive contracts</b> | <b>Maximum duration</b> | <b>Sanctions</b>                                                                                                                                    | <b>Restrictions on agencies</b> |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| <i>Fixed-term employment</i> | May not be concluded with graduates of secondary and university-level schools or apprentice schools, who enter into an employment relationship for work that corresponds to their qualifications. The restriction does not apply in cases where an individual makes a written request for a fixed-term employment relationship with the employer.          | Up to Amendment 167/1999, fixed-term employment not allowed for disabled workers. Later no restrictions. | No restrictions.                              | No restrictions.        | If the employee continues to work with the consent of employer, the fixed-term contract turns into an open-ended contract, if not otherwise agreed. |                                 |
| <i>Part-time work</i>        | Employer can set a shorter working time given operational reasons on his/her side or health or other serious reasons on the employee's side, if it is not prevented by operational reasons. Employer is obliged to create conditions to comply with such requests of employees. Working time can be concluded accordingly. Wage is reduced proportionally. | No restrictions.                                                                                         | No restrictions.                              | No restrictions.        |                                                                                                                                                     |                                 |

The term “graduates” is defined as graduates of secondary and university-level schools, specialist apprentice schools or apprentice schools, who enter into an employment relationship for work that corresponds to their qualifications. They are all employees who have been in employment or analogous relationship (but not in military service or maternal leave) for less than two years since the successful completion of their studies.

| The form                                                                        | Restrictions or not on firms                                                                                                                                                                                                                                                                                                                                             | Restrictions or not on workers | Maximum number of successive contracts       | Maximum duration                                                   | Sanctions | Restrictions on agencies |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------------------------------|--------------------------------------------------------------------|-----------|--------------------------|
| <b>Temporary employment</b><br><u>Agreement on the performance of work task</u> | <p>May be concluded if the expected duration of the working activity will not exceed 100 hours. The period of work performed by the employee for the same employer in the same calendar year within different agreements on the performance of work has to be calculated as a part of the total time.</p>                                                                |                                | <p>Only the number of hours are limited.</p> | <p>100 hours</p>                                                   |           |                          |
| <u>Agreement on working activity</u>                                            | <p>Can be concluded either for a fixed-term or an indefinite period. If the method of termination is not stated in the agreement, it may be terminated by agreement of the parties. Unilaterally, only by notice served of any reasons (or unstated reasons), with a 15-day notice period beginning by the day on which the written notice of termination is issued.</p> |                                |                                              | <p>Should not exceed one-half of regular weekly working hours.</p> |           |                          |

**Table A1.3 Regulation of working time**

| Code/Year                                         | <i>Normal annual weeks</i>                             |                                                  | <i>Normal weekly hours</i>                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                            |
|---------------------------------------------------|--------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                   | According to legislation                               | According to provisions in collective bargaining | According to legislation                                                                                                                                                                                                                                                                                                                                                | According provisions in collective bargaining                                                                                                                              |
| Up to 2000                                        | Not settled in legislation, usually five working days. |                                                  | 43 hours; for employees under 16 years of age, 33 hours                                                                                                                                                                                                                                                                                                                 | 41.03 in 1995; 41 in 1996; 40.8 in 1997; 41.1 in 1998, 41.9 in 1999 in one-shift jobs; in 1999 40.6 in two-shift jobs, 40.1 in three-shift jobs and 39.6 in continual jobs |
| Labour Code 155/2000, valid since 1 January, 2001 | Not settled in legislation, usually five working days. |                                                  | 40 hours; for employees under 16 years of age, 30 hours. The weekly working hours of employees in mining and related activities, in operational units with three-shifts and non-stop operation are 37.5 hours, in operational units with two-shifts operation 38.75 hours, and for workers under 16 years of age only 30 hours. 40/46 hours for a six-day working week. |                                                                                                                                                                            |

**Holidays**

State holidays: 1990-1994: 8 May, 5 July, 28 October, since 1995 also 6 July, since 2000 also 28 September and 17 November.

Other holidays: 1990-1994: 1 January, Easter Monday, 1 May, 24-26 December.

Total: 1990-1994, 9 days; 1995-1999, 10 days; since 2000, 11 days.

**Annual leave**

Up to 2000: Basic leave period is three weeks; for employees employed 15 and more years since reaching 18 years of age, four weeks. Employers in business activities may conclude additional weeks in a collective agreement. Employers in non-business activities are entitled to one extra week of leave. Annual leave for teachers is eight weeks.

Since 2000: Basic leave period is four weeks. Employers in business activities may conclude additional weeks in a collective agreement. Employers in non-business activities are entitled to one extra week of leave. Annual leave for teachers is eight weeks.

| Limits on annual overtime and overtime pay premiums                                           |                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                               | Minimum weekly rest and restrictions on Saturday and night work                                                                                                                                               |                                  |                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Code/Year                                                                                     | Maximum hours                                                                                                                                                                                         | Other limiting factors                                                                                                                                                                                                                                                                                                                                        | Minimum pay premium for overtime hours                                                                                                                                                                        | Saturday work allowed in general | Minimum weekly rest period                                                             | Restrictions on night work                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Up to 2000:</b><br>Labour Code, Employment Act, <i>Act on wage, reward for standby and</i> | 8 hours in individual weeks, 150 in a year. For serious reasons and after consultation with trade unions, labour office can allow selected activities and, temporarily, overtime exceeding the limit. | May be ordered by employer only in exceptional cases for serious operational reasons. Otherwise only with consent of the employee. Not allowed for employees under 18 years of age. The total amount of overtime work for individual sections and workplaces within firms shall be settled by the employer after consultations with trade union organization. | For overtime hours, extra payment of 25 per cent of average wage, unless a time compensation is concluded. For work performed on holidays, wage plus time compensation, or payment equal to the average wage. | Yes.                             | At least 32 hours during each seven-day period.                                        | Not more than eight hours within a 24-hour period. Employees should be examined by a physician before being assigned to night work and thereafter on a regular basis, but at least once each year; and at any time if health problems evolve through night work. Night work is not permitted for employees under 18 years of age. If a pregnant woman asks for transfer from night to day shifts, the employer must comply. |
| <b>Since 2001:</b><br>Labour Code 155/2000, valid since 1 January, 2001                       | 8 hours in individual weeks, 150 in a year without the consent of the employee, over 150 hours only with the consent of the employee, but up to 416 hours as the maximum limit.                       | The same.                                                                                                                                                                                                                                                                                                                                                     | The same.                                                                                                                                                                                                     | Yes                              | At least 35 hours during each seven-day period, 48 hours for employees under 18 years. | The same.                                                                                                                                                                                                                                                                                                                                                                                                                   |

**Table A1.4 Short-term work**

|                                                                                                                                                                                           | <b>Definition and restrictions</b>                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>State transfers</b>                                                                                                                                                                                                                                                                                                                       | <b>Duration of benefits</b>                                                                                                                                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Labour Code 155/2000<br>Employment Act 118/2000<br>Decree 399/1992 on agreements between employers and labour offices, if a firm has reduced its operational activities by restructuring. | The employer is obliged to provide the employee with work according to contracted weekly hours. If unable to do so, the employer normally should compensate the employee by the full amount of average earnings. Only if any serious impediments to firm activity occurs, as explicitly enumerated in the agreement of the employer with trade union organization, the employer is allowed to reimburse the employee only 60 per cent of average earnings. | State contribution is provided by the local labour office. The aim of this support is to maintain existing work teams and avoid useless payment of unemployment benefits, provided that the firm has a good future prospect. All circumstances and conditions have to be clearly agreed in writing with the firm's trade union organization. | The reduction of working hours should be at least ten per cent, and the period of reduced payment cannot exceed six months. The state contribution can reach a maximum 75 per cent of the total amount if the wage is reimbursed in full, or 40 per cent of the total amount paid, if wage replacement reaches only the 60 per cent level. |

## Annex 2

### Workers' opinions on flexibility and job preferences in a cross-national perspective

In the Czech Republic, the long-term experience of “soft” conditions under the former socialist regime, produced by the state administration of labour, often resulted in an exaggerated assessment of the individual's ability and a tendency to blame the State for labour-related insecurities and inadequacies. The experience of “hard” labour market conditions will probably lead to more demanding criterion of individual skills and work performance and less pre-established reliance upon the State.

The 1997 module of the *International Social Survey Programme (ISSP) on Work Orientation* provides unique comparative data on opinions and job preferences, on working conditions and job stability – as perceived and evaluated by workers themselves, including workers' loyalty vis-à-vis employers as well as their willingness to stay in their present job or their intention to seek another job. Data concerning utilization of formal education and prior experience are located somewhere between the objective situation and its subjective perception.

To ensure an adequate evaluation of the job situation, we have selected only a sub-sample of respondents currently in the labour force, be they employed (full or part time) or unemployed. We have restricted our selection of surveyed countries to the Czech Republic, Hungary, Slovenia and East Germany for CEE countries, West Germany and France for Western Europe, Sweden for the Northern Europe, Spain for Southern Europe and, finally, Japan for a specific mixture of tradition and modernity. While CEE countries are over-represented (here we use all countries currently available), the developed industrial countries are represented by either important or typical countries.

**Criteria for choosing a job** (Table A2.1). Respondents were given three kinds of choice: employee vs. self-employed, small vs. big firm, and private vs. public organization. There is only one axis concerning all three questions in the international sample as a whole: private and small firm as opposed to State and large firm. Again, there is no specific East/West distinction. Czechs (similarly to French, Swedes and Spaniards) tend to the status of employee, while Hungarians and Slovenians prefer self-employment. The choice of a small firm is especially striking among Czechs, Slovenians and Swedes, while large firms are preferred by the Japanese, East Germans and French. The preference of a private firm over a public organization distinguishes Hungarians and Swedes as opposed to Slovenian and Spanish respondents. On the supply side, 30 per cent of the workforce of both sexes and more than 40 per cent of women would prefer a part-time job (39 per cent between 10 and 30 hours per week, 3 per cent less than 10 hours). There is no significant difference according to education and age (ISSP-1996).

**Work longer and earn more or work less and earn less?** (Table A2.2). In relation to fewer working hours, in the most developed Western countries with higher standards of living, about 15 per cent of workers (and about 5 per cent of workers in Eastern countries) prefer to work less and earn less. The cleavage here between the “old” and “new” capitalism seems to be quite striking. “Eastern” preferences among the “Western” nations are found only among Spaniards, while East Germans are in between. Conformity to performance of the national economy (here indicated by GPD per employed person adjusted for purchasing parity power) fails in many cases (Germany and France in comparison with Sweden, Spain in comparison with Sweden or Japan, etc.), although not that considerably. Surprisingly, the southern mentality of *dolce far niente* appears neither in the case of France nor Spain.

**Working hours. Usual location of work. Work contracts** (Tables A2.3-5). Any systemic differences between East and West can be found either in the percentage of people entirely free in their decision when to start and finish their work, or in the possibility of deciding about working hours within certain limits. Both extremes are located in the West, between the apparently unrestricted Swedes and the highly regulated Spaniards (not to mention the strict conditions in Japan). Among Eastern countries, the Czech Republic appears the most liberal in terms of working hours. Usual location of labour is still traditional for about 75-80 per cent of both Eastern and Western Europeans, except for East Germany (with apparently not very reliable figures).

Figures concerning work contracts indicate a somewhat higher degree of flexibility in the Western countries, especially Spain, Sweden and Japan. However, the share of unlimited work contracts prevails everywhere, but is lowest in Japan and Spain. Spain, Sweden, Japan (and Hungary) have the highest proportions of jobs without a written contract, while Spain and Japan have the highest proportion of short-term contracts.

**Concern about losing one's job. Probability of finding another job** (Tables A2.6-7). There is no clear cleavage between the East and West regarding concern about losing one's job. Eastern countries mostly measure on this variable along with West Germany and Sweden. In contrast, East Germany and Slovenia display a higher level of job disquiet seen in France or Spain. Probability that the respondent will be seeking another job in the next 12 months is related to concern about losing one's job at about the same correlation coefficient (0.25) in most countries, with the exception of Slovenia.

**Satisfaction on the job** (Table A2.8). Apparently, satisfaction on the job may be influenced by various factors such as high security and wage levels, as in West Germany and Sweden, but also by a traditional lifestyle as in Spain (Japan, where traditional habits are used for hard management of work, is at the opposite end of this spectrum). Thus, the same level of job satisfaction is reached in various countries by different means. Again, there is no systemic difference between Western and Eastern countries. The most satisfied among the Eastern countries appears to be the Czech Republic, with almost 80 per cent of workers either very or fairly satisfied, which sharply contrasts with Hungary, where only slightly over 60 per cent of people are satisfied.

This analysis of the ISSP survey leads us to two contradictory conclusions. At first glance, it seems that there is no “value barrier” which would hinder EU accession and labour mobility between core EU countries and new candidates. However, the same results also show that national value systems are rather close. Looking at the weak association between objective job situation and its subjective perception, we can speculate on the input of naivety and/or exaggerated expectations which may characterize respondents’ opinions, particularly in transition countries. If this is so (and it must be at least partly true), then the higher the Czech workforce rates its self-esteem, the bitterer may its disillusion be with an open European labour market. Expectations of high earnings and job security are probably the worst possible combination.

As the ISSP survey is somewhat unique, we have few opportunities to verify our conclusions. However, in this context it is worth mentioning the German welfare survey, which compared the feelings of people in the Western and Eastern part of the country and their changes over time. Here it is interesting to note that the perception of a respondent’s job does not differ in both parts of unified Germany in 1998 and has not changed at all since 1993. While the objective situation certainly changed in the sense of greater similarity of work-style and job insecurities, its subjective perception did not change *at all*. Even appraisal of household income has changed only slightly in the East and is now very close to the Western level (Habich, Noll and Zapf, 1999). It seems, therefore, that our results are not fortuitous.

**Table A2.1 Criteria for choosing a job (percentage)**

|                                              | Czech<br>Republic | Hungary | Slovenia | East<br>Germany | West<br>Germany | France | Sweden | Spain | Japan |
|----------------------------------------------|-------------------|---------|----------|-----------------|-----------------|--------|--------|-------|-------|
| <i>Being an employee/self-employed:</i>      |                   |         |          |                 |                 |        |        |       |       |
| employee                                     | 52.6              | 40.4    | 33.7     | 34.8            | 32.2            | 54.1   | 56.3   | 55.3  | 50.3  |
| Self-employed                                | 39.5              | 57.1    | 51.3     | 45.5            | 51.8            | 38.0   | 34.1   | 41.3  | 39.4  |
| Can’t decide                                 | 7.9               | 2.6     | 15.0     | 19.8            | 16.0            | 7.9    | 9.6    | 3.4   | 10.2  |
| Total                                        | 100.0             | 100.0   | 100.0    | 100.0           | 100.0           | 100.0  | 100.0  | 100.0 | 100.0 |
| <i>Working in a small firm/large firm:</i>   |                   |         |          |                 |                 |        |        |       |       |
| small firm                                   | 68.9              | 58.9    | 63.2     | 48.2            | 48.0            | 48.9   | 64.7   | 41.1  | 33.1  |
| large firm                                   | 19.6              | 36.2    | 21.6     | 39.5            | 32.9            | 39.3   | 23.4   | 51.7  | 48.1  |
| Can’t decide                                 | 11.5              | 4.8     | 15.2     | 12.3            | 19.0            | 11.9   | 11.9   | 7.2   | 18.8  |
| Total                                        | 100.0             | 100.0   | 100.0    | 100.0           | 100.0           | 100.0  | 100.0  | 100.0 | 100.0 |
| <i>Working in a private firm/state firm:</i> |                   |         |          |                 |                 |        |        |       |       |
| private                                      | 42.7              | 56.8    | 27.6     | 39.5            | 51.3            | 41.4   | 66.6   | 39.3  | 48.7  |
| state                                        | 41.2              | 38.0    | 62.6     | 49.5            | 33.9            | 43.7   | 16.5   | 54.8  | 38.7  |
| Can’t decide                                 | 16.0              | 5.1     | 9.8      | 10.9            | 14.9            | 14.8   | 17.0   | 5.9   | 12.6  |
| Total                                        | 100.0             | 100.0   | 100.0    | 100.0           | 100.0           | 100.0  | 100.0  | 100.0 | 100.0 |
| <i>Working full time/part time:</i>          |                   |         |          |                 |                 |        |        |       |       |
| Full time                                    | 66.4              | 74.5    | 75.8     | 78.8            | 67.1            | 44.6   | 53.7   | 82.9  | 75.8  |
| part time                                    | 27.2              | 24.1    | 22.1     | 20.8            | 29.6            | 51.8   | 44.1   | 14.7  | 13.8  |
| 10-30 hours                                  |                   |         |          |                 |                 |        |        |       |       |
| less than 10 hours                           | 2.4               | 1.1     | 0.8      | 0.4             | 0.9             | 2.9    | 0.9    | 1.6   | 8.3   |

|             |       |       |       |       |       |       |       |       |       |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| no paid job | 3.9   | 0.3   | 1.3   | 0.0   | 2.5   | 0.7   | 1.4   | 0.8   | 2.0   |
| Total       | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

**Table A2.2 Work longer and earn more or work less and earn less? (percentage)**

|              | Czech<br>Republic | Hungary | Slovenia | East<br>Germany | West<br>Germany | France | Sweden | Spain | Japan |
|--------------|-------------------|---------|----------|-----------------|-----------------|--------|--------|-------|-------|
| Longer       | 36.3              | 36.8    | 34.4     | 20.5            | 18.2            | 17.9   | 15.4   | 28.3  | 22.3  |
| Same         | 51.9              | 54.9    | 57.7     | 66.7            | 64.6            | 59.7   | 63.4   | 63.4  | 57.6  |
| Fewer        | 4.6               | 5.0     | 2.7      | 5.0             | 10.0            | 13.7   | 16.1   | 6.8   | 15.4  |
| Can't choose | 7.2               | 3.3     | 5.2      | 7.8             | 7.2             | 8.9    | 5.1    | 1.5   | 4.7   |
| Total        | 100.0             | 100.0   | 100.0    | 100.0           | 100.0           | 100.0  | 100.0  | 100.0 | 100.0 |
| GDP/ EMPL    | 41.1              | 34.6    | .        | 59.6            | 108.0           | 112.7  | 85.7   | 94.4  | 86.4  |

GDP/ EMPL: GDP per employed person in thousand DM, adjusted to PPP in 1995.

**Table A2.3 Working hours (percentage)**

|                                                                        | Czech<br>Republic | Hungary      | Slovenia     | East<br>Germany | West<br>Germany | France       | Sweden       | Spain        | Japan        |
|------------------------------------------------------------------------|-------------------|--------------|--------------|-----------------|-----------------|--------------|--------------|--------------|--------------|
| <i>Starting and finishing times are decided by employee:</i>           | 57.2              | 62.7         | 62.1         | 56.2            | 46.9            | 48.6         | 32.2         | 62.6         | 64.6         |
| <i>Person can decide the time within certain limits</i>                | 31.8              | 24.5         | 29.5         | 34.9            | 43.2            | 39.9         | 56.0         | 25.5         | 20.0         |
| <i>Person is entirely free to decide when to start and finish work</i> | 11.0              | 12.8         | 8.4          | 8.9             | 10.0            | 11.5         | 11.8         | 11.9         | 15.4         |
| <b>Total</b>                                                           | <b>100.0</b>      | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>    | <b>100.0</b>    | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

**Table A2.4 Usual location of work (percentage)**

|                                                                      | Czech<br>Republic | Hungary      | Slovenia     | East<br>Germany | West<br>Germany | France       | Sweden       | Spain        | Japan        |
|----------------------------------------------------------------------|-------------------|--------------|--------------|-----------------|-----------------|--------------|--------------|--------------|--------------|
| <i>In one place away from work</i>                                   | 76.8              | 76.0         | 80.5         | 67.5            | 72.5            | 74.1         | 77.9         | 80.8         | 78.3         |
| <i>At home</i>                                                       | 2.9               | 3.4          | 3.3          | 1.6             | 2.3             | 2.6          | 2.0          | 3.6          | 7.1          |
| <i>Part of the week at home and part at one place away from home</i> | 6.4               | 4.2          | 2.7          | 4.3             | 8.6             | 7.0          | 2.3          | 3.1          | 1.9          |
| <i>In a variety of places</i>                                        | 13.9              | 16.5         | 13.5         | 26.7            | 16.6            | 16.3         | 17.8         | 12.5         | 12.7         |
| <b>Total</b>                                                         | <b>100.0</b>      | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>    | <b>100.0</b>    | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

**Table A2.5 Work contract (percentage)**

|                                                     | Czech<br>Republic | Hungary      | Slovenia     | East<br>Germany | West<br>Germany | France       | Sweden       | Spain        | Japan        |
|-----------------------------------------------------|-------------------|--------------|--------------|-----------------|-----------------|--------------|--------------|--------------|--------------|
| <i>No written contract</i>                          | 4.7               | 13.1         | 3.9          | 6.3             | 8.5             | 7.4          | 14.5         | 16.1         | 11.4         |
| <i>A fixed-term job lasting less than 12 months</i> | 5.1               | 5.0          | 8.2          | 2.0             | 2.0             | 5.2          | 5.1          | 13.2         | 3.9          |
| <i>Fixed-term job lasting for one year or more</i>  | 6.8               | 6.9          | 9.4          | 8.6             | 6.5             | 6.2          | 3.5          | 11.9         | 23.0         |
| <i>A job with no set limit</i>                      | 79.9              | 74.2         | 77.7         | 79.7            | 78.7            | 77.5         | 72.0         | 52.2         | 39.8         |
| <b>Total</b>                                        | <b>100.0</b>      | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>    | <b>100.0</b>    | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

**Table A2.6 Concern about losing one's job (percentage)**

|                              | Czech<br>Republic | Hungary | Slovenia | East<br>Germany | West<br>Germany | France | Sweden | Spain | Japan |
|------------------------------|-------------------|---------|----------|-----------------|-----------------|--------|--------|-------|-------|
| Worry a lot                  | 8.2               | 8.2     | 16.8     | 20.8            | 9.5             | 14.9   | 8.1    | 28.2  | 3.1   |
| Worry some                   | 25.0              | 9.0     | 33.7     | 39.8            | 21.2            | 13.0   | 13.2   | 26.9  | 11.9  |
| Worry a little               | 45.8              | 47.4    | 24.2     | 30.5            | 31.1            | 29.9   | 30.2   | 20.5  | 30.9  |
| Don't worry                  | 21.0              | 35.4    | 25.3     | 8.9             | 38.2            | 42.2   | 48.5   | 24.5  | 54.1  |
| Total                        | 100.0             | 100.0   | 100.0    | 100.0           | 100.0           | 100.0  | 100.0  | 100.1 | 100.0 |
| Mean*                        | 2.2               | 1.9     | 2.4      | 2.7             | 2.0             | 2.0    | 1.8    | 2.6   | 1.6   |
| Unemployment<br>rate in 1996 | 3.5               | 10.5    | 13.9     |                 | 8.9**           | 12.4   | 10.0   | 22.1  | 3.4   |

\* Mean computed from a four-point scale: "Worry a lot" = 4 and "Don't worry" = 1.

\*\* In Germany overall.

**Table A2.7 Probability of the decision to find another job (percentage)**

|               | Czech<br>Republic | Hungary | Slovenia | East<br>Germany | West<br>Germany | France | Sweden | Spain | Japan |
|---------------|-------------------|---------|----------|-----------------|-----------------|--------|--------|-------|-------|
| Very likely   | 6.3               | 3.2     | 4.4      | 8.2             | 6.6             | 14.6   | 7.2    | 2.9   | 1.8   |
| Likely        | 13.6              | 9.0     | 7.3      | 8.6             | 9.1             | 30.0   | 8.4    | 15.5  | 8.6   |
| Unlikely      | 33.0              | 33.7    | 18.2     | 22.6            | 20.1            | 25.6   | 26.2   | 23.9  | 11.2  |
| Very unlikely | 47.1              | 54.1    | 70.1     | 60.6            | 64.2            | 29.8   | 58.2   | 57.7  | 78.4  |
| Total         | 100.0             | 100.0   | 100.0    | 100.0           | 100.0           | 100.0  | 100.0  | 100.0 | 100.0 |
| Mean*         | 3.9               | 3.9     | 3.9      | 3.9             | 3.9             | 3.7    | 3.9    | 3.8   | 3.9   |

\* Mean computed from a four-point scale "Very likely" = 1 and "Very unlikely" = 4.

**Table A2.8 Satisfaction on the job (percentage)**

|                     | Czech<br>Republic | Hungary | Slovenia | East<br>Germany | West<br>Germany | France | Sweden | Spain | Japan |
|---------------------|-------------------|---------|----------|-----------------|-----------------|--------|--------|-------|-------|
| Very satisfied      | 28.1              | 23.3    | 27.4     | 31.5            | 39.0            | 33.2   | 40.4   | 50.9  | 29.2  |
| Fairly satisfied    | 50.6              | 39.2    | 39.5     | 45.9            | 42.5            | 42.4   | 42.5   | 32.9  | 43.1  |
| Neither nor         | 14.3              | 29.4    | 26.2     | 15.2            | 12.9            | 14.2   | 11.5   | 11.5  | 12.9  |
| Fairly dissatisfied | 5.0               | 5.0     | 5.3      | 5.1             | 4.2             | 7.7    | 4.2    | 3.4   | 9.8   |
| Very dissatisfied   | 1.9               | 3.2     | 1.6      | 2.3             | 1.4             | 2.4    | 1.4    | 1.3   | 5.0   |
| Total               | 99.9              | 100.1   | 100.0    | 100.0           | 100.0           |        | 100.0  | 100.0 | 100.0 |
| Mean*               | 5.1               | 4.8     | 5.0      | 5.0             | 5.2             | 5.1    | 5.3    | 5.4   | 4.8   |

\*Mean computed from a five-point scale: "Very satisfied" = 5 and "Very dissatisfied" = 1.

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## Surveys used

### *Sociological surveys*

#### *Social Stratification in Eastern Europe after 1989 (SSEE)*

The survey was conducted in 1993 in Bulgaria (N=4,919), Czech Republic (4,737 + 884 over-sampling in Prague), Hungary (4,977), Russia (5,002) and Slovakia (4,920), and later in 1994 in Poland (3,520). Donald J. Treiman and Ivan Szeleny conducted the international comparative research project from the University of California in Los Angeles. The questionnaires used in individual countries included fully comparative questions, from which the international file was created. The Institute of Sociology of the Academy of Sciences prepared the survey in the Czech Republic. Data collection occurred in March and April of 1993 and was carried out by the Czech Statistical Office, using a sub-sample of the Microcensus 1992. One-third of households surveyed by Microcensus 1992 was addressed by the SSEE questionnaire. Within households, individuals over 18 years of age were randomly selected. The sample was intentionally increased in Prague for the purpose of urban geography.

#### *Economic Expectations and Attitudes (EEA)*

The surveys of the Czechoslovak and later only Czech population started in May 1990 and were conducted biannually in 1990–1992 and later annually (1993–1998). Surveys were organized by the team of socio-economists of the Institute of Sociology of the Academy of Sciences headed by Jiri Vecernik. The samples include adults selected by a two-step quota sampling procedure, whereby the region and size of the locality were defined in the first step and gender, age and education in the second. The data was collected by the Center for Empirical Research, STEM.

Time and samples of EEA surveys:

| Rank  | Collection     | Czech | Slovak |
|-------|----------------|-------|--------|
| I.    | May, 1990      | 1107  | 544    |
| II.   | December, 1990 | 1160  | 584    |
| III.  | June, 1991     | 1092  | 597    |
| IV.   | December, 1991 | 1126  | 583    |
| V.    | July, 1992     | 1104  | 980    |
| VI.   | January, 1993  | 1142  | 829    |
| VII.  | November, 1993 | 1113  | 853    |
| VIII. | November, 1994 | 1307  | 816    |
| IX.   | January, 1996  | 1459  | -      |
| X.    | January, 1997  | 1421  | -      |
| XI.   | April, 1998    | 1380  | -      |

#### *International Social Survey Program (ISSP)*

A long-term international research project, which originated in 1983 and is based on international and inter-project cooperation in the areas of the social sciences. Since 1983, the number of participants has grown continually, reaching 29 in 1998. Each year, research on one topic is conducted in all participating countries. These topics are then prepared by all

participants over several years, and are then processed at team meetings. All questionnaires are designed and prepared in British English and their final versions are then translated into the other national languages of participating countries. The institutes of the participating countries are responsible for the collection, initial preparation, and documentation of data for their country. Since 1991, The Institute of Sociology of the Academy of Sciences of the Czech Republic has been the Czech member of ISSP.

Time and samples of Czech ISSP surveys:

| Year | Topic              | Fieldwork agency | Month of data Collection | Sample size |
|------|--------------------|------------------|--------------------------|-------------|
| 1992 | Social Inequality  | STEM             | October                  | 1101        |
| 1993 | Environment        | STEM             | November                 | 1005        |
| 1994 | Family and Gender  | Universitas      | September                | 1024        |
| 1995 | National Identity  | Amasia           | November                 | 1111        |
| 1996 | Role of Government | STEM             | October-December         | 1100        |
| 1997 | Work Orientations  | STEM             | September-November       | 1014        |

#### *(Second) International Adult Literacy Survey (SIALS)*

A long-term international research project, which originated in 1995 and is backed by Statistics Canada and ETS at University Princeton. This survey is focused on detailed surveying of the functional literacy of adult persons, based on testing their abilities to understand printed information and use it in everyday life. Czech data were collected by agency SC&C in December 1997 – April 1998 on 3,132 respondents (from 5,000 targeted).

#### *Ten Years of Social Transformation Survey*

Survey on social structure and mobility was carried on in the fourth quarter of 1999 on 4,744 adult persons 18-60 years of age. Fieldworks were conducted by the Institute of Sociology, Academy of Sciences of the Czech Republic under the leadership of Milan Tucek. Sampling was based on stratified random sample of 8,000 addresses selected by the Czech Statistical Office. Completion of sample was made by random walk.

#### **Statistical surveys**

##### *Microcensus*

Large income surveys started in 1958 as regular statistical surveys conducted every 3–5 years on 1–2 per cent samples of households. Data on wages were notified by employers and pension benefits by post-offices. Here, we used the 1989 Microcensus conducted by the CSO on a 2 per cent random sample (N=69,912) in March 1989 including yearly incomes in 1988, the 1992 Microcensus, conducted by the CSO on a 0.5 per cent random sample (N=16,234) in March 1993 and including yearly incomes in 1992, and the 1996 Microcensus, conducted by the CSO on a 1 per cent random sample (N=28,148) in March 1997 and including yearly incomes in 1996. In the two later surveys, incomes were not confirmed but data corrections were made by the CSO.

*Labour Force Surveys (LFS)*

LFS started in late 1992 as regular quarterly surveys among households. Sampling and collecting method follows recommendations of the ILO and EUROSTAT. The sample rotates so that each quarter a total of one-fifth of households is exchanged. In the first three years of the survey, sample size was about 23,000 apartments and later reached 26,500 apartments or about 0.8 per cent of apartments. In the survey, about 70,000 of all respondents are surveyed; 59,000 of them over 15 years of age. Up to 1997, quarters did not correspond to calendar quarters but were located one month earlier (with the aim of providing decision makers with data sooner). In time series, this and other inconsistencies were adjusted and data reweighted according to final demography by the CSO.