Labour Market Papers

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Privatization and employment: Labour transfer policies and practices in the Czech Republic

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ISBN 92-2-109750-1
ISSN 1020-2633

First published 1995

Printed by the International Labour Office, Geneva, Switzerland

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Preface

This is the latest contribution to the new series of Labour Market Papers, based on work of the Labour Market Policies Branch of the ILO's Employment Department. The papers are intended to present the results of research on developments in member countries, and are intended to stimulate debate. As such, they do not present official views of the ILO and are intended to ensure a wide range of views and perspectives consistent with the ILO's values and objectives.

The Czech Republic was one of the "early starters" in the what is usually called the transition process taking place in central and eastern Europe since 1989. The country is often presented as a special case among those economies, in that it managed to keep unemployment at a low level and to maintain relative economic stability - with the lowest inflation rate in the region and a balanced budget - while making considerable progress in transforming the economy.

This paper provides evidence on the changes that have taken place in the economic, industrial and labour fields between 1989 and 1994, highlighting the labour market developments. It surveys the various determinants of the low unemployment level, pointing out some of the economic and social costs of the policies that has produced the "Czech unemployment miracle". In the final part, the paper describes the methods of privatization adopted in the Czech Republic and analyses their impact on labour.

The paper draws on data from surveys carried out in Czech and Slovak manufacturing establishments, using as a model the Labour Flexibility Surveys in Hungarian, Bulgarian and Russian manufacturing, in 1990-1993, which are themselves part of a growing number of enterprise surveys the Branch is implementing around the world, in collaboration with the ILO's regional "multidisciplinary teams".

Comments and constructive suggestions of readers would be highly welcomed.

Guy Standing

1. Introduction

When the reform process started in Central and Eastern Europe, it was frequently assumed that there would be three distinct stages of transformation. In the first stage, there would be a sharp fall in public sector employment, as a result of the removal of subsidies, price liberalization, and international competition, while unemployment would grow rapidly. The second stage would be characterized by the growth of private sector firms that would gradually resorb the pool of labour made redundant in the public sector and reduce the unemployment created during the first stage. In the third stage, unemployment would come to an equilibrium position and further growth of the private sector would depend, among others, on the possibility of bidding away workers from the remains of the public sector. According to these theories, unemployment would become a sort of "indicator of the extent to which the restructuring process has got under way". [1]

In the Czech Republic, the transition process has contrasted sharply with these expectations. At the same time, the country has been increasingly quoted as a success story among the transforming economies of Central and Eastern Europe. In spite of the fact that only a fraction of assets was in private hands before the reform, the Czech Republic is about to complete a privatization programme considered as the most extensive of the region. By the beginning of 1995, 80 per cent of the economy is expected to be privatized. [2] While the profound transformation of the economy was taking place, unemployment remained remarkably low. So far, the unemployment rate has not exceeded 4.4 per cent. At the same time, relative economic stability could be maintained through restrictive macroeconomic policies, while major structural and institutional changes were carried out at the micro level. In spite of the substantial decline in real wages, the willingness of the population to undergo a painful process of transition, its tacit agreement to accept income cuts in exchange for full employment, and finally the windfall gains for most citizens resulting from voucher privatization have prevented any serious show of public discontent. On the contrary, a high rate of satisfaction with the new system and a majority appreciation of government performance continued to be shown by public opinion polls, as well as by election results.

While the Czech case tends to prove that high unemployment is not a necessary condition of rapid transition nor an indicator of the advancement of restructuring, it raises the problem of the cost of maintaining full employment during the transformation process. The full employment policy, while getting the approval — and even a kind of active collaboration and complicity — of the general public, has had a cost. The cost can be evaluated in terms of the low labour productivity tied partly (but not exclusively) to the support of low-performance enterprises through interventionist methods, in contradiction with the newly professed liberalism. The cost can be evaluated in terms of the low level of real wages,

[1] R. Jackman, 1994, "Economic policy and employment in Central and Eastern Europe", in *International Labour Review*, Vol. 133, 1994, No. 3, pp. 325-345; see also O. Blanchard, S. Commander, F. Coricelli, 1993, *Unemployment and restructuring in Eastern Europe*, paper presented to the World Bank Conference on Unemployment, Restructuring and the Labour Market in East Europe and Russia, Washington, D.C., October 1993; and A. McAuley, "The economic transition in Eastern Europe: Employment, income distribution and the social safety net", in *Oxford Review of Economic Policy*, Vol. 7, No. 4, 1991, Oxford.

[2] K. Dyba, J. Svejnar, 1994, *An Overview of Recent Economic Developments in the Czech Republic*, Working Paper Series, No. 61, Centre for Economic Research and Graduate Education (CERGE) (Charles University, Prague, April 1994).

keeping down investment and helping to put in place new structures more akin to those of a cheap-labour, developing economy than to those of a country with a long industrial tradition. The cost can be evaluated also in terms of the pattern of integration in the international and interregional division of labour tied to the cheap-labour strategy, likely to create adjustment problems in future. Finally, the cost of full employment can be seen in the exclusion of older workers and of other vulnerable worker groups from the labour market at a time when the economic take-off should enable them to participate in the general rise of incomes and of the living standards.

The paper tries to illustrate, first, the wide scope of transformation and of structural change achieved in the first four years of reform. It pays particular attention to the progress of privatization and to the corresponding shifts of labour from the public to the private sector, setting them in the wider context of the general decline in employment and output. In the next section, the paper attempts to bring evidence on the level of unemployment, taking into consideration both the statistical series based on registered unemployment, available since 1989, and the new Labour Force Survey series, available since 1993, which measure unemployment according to the ILO definition. After describing the trends of unemployment and its structure, the paper tries to throw light on the dramatic fall in labour force participation. A review of the factors determining the low unemployment level in the Czech Republic concludes this section.

The last section of the paper provides a description of labour policies during the transition period. It also provides information on enterprise practices concerning lay-offs tied to the reform. It examines the influence of the different methods of privatization on employment restructuring. It also presents various scenarios of enterprise privatization, and of the way workers have been affected by them and have reacted to them.

2. Privatization and its impact on labour

2.1 Changes in the structure of ownership

Prior to 1989, there were few private enterprises in Czechoslovakia. State and cooperative property was the only ownership form recognized by the Constitution. Nationalization of the late 1940s and early 1950s had left less room for private enterprise than in Hungary, Poland or former Eastern Germany. In the period 1990-94, many small and medium-size private enterprises were successfully developed. The number of private entrepreneurs and small business owners increased from an estimated 70,000 in mid-1989 to about 600,000 in mid-1994 in the Czech Republic alone.[1,2]

[1] Czech Statistical Office, *Vyberové setreni pracovnich sil, léto (cerven az srpen) 1994*, (Labour Force Sample Survey, Summer 1994), Prague.

[2] After the start of the reform, many licences to run small businesses, to act as entrepreneurial agents, or to be otherwise self-employed in business started to be issued. At the end of 1993, 1,262,264 such licences had been registered. However, several licences could be issued for the same entrepreneur, often to act on a part-time basis, or the same business entity could have on its management or staff more than one entrepreneur. Some businesses could also become dormant. (See Vladimir Benacek, *Small business and private entrepreneurship during transition: The case of the Czech Republic*, CERGE, Charles University, April 1994, Prague). The real number of businesses actually operating, and the real number of entrepreneurs, was revealed for the first time only when Labour Force Sample Surveys started to be published, in Spring 1993.

The number of business companies, i.e. of limited liability companies, joint-stock companies, plcs, etc., went up rapidly in Czechoslovakia during 1991 and 1992. [1] In the Czech Republic the number of business companies is estimated to have doubled between January 1993 and July 1994. At the same time, the number of state enterprises kept declining. The pace of decline was relatively moderate at the beginning of the reform, but it gathered momentum as the so-called large-scale privatization started to show its effects. As already mentioned, by the beginning of 1995, most assets should be privatized. The Government has announced that the transition process would then be completed and that it did not envisage any more system changes in 1995. [2]

2.2 Restructuring of employment during the reform

Since the start of the transition process, almost one-half of male workers and over 40 per cent of female workers have changed their job at least once. [3] The final effect of this vast reshuffling was a far-reaching transformation of the structure of employment. The change in the distribution of employment by form of ownership is illustrated in table 1. The table indicates that while at the end of 1989, the state sector represented 84.3 per cent of employment, at the end of 1993 it represented only 40.2 per cent. At the same time, the private sector, which at end the of 1989 represented 1.3 per cent of employment, came to represent 53.5 per cent. The share of the cooperative sector decreased from 12.9 per cent to 5.7 per cent. However, the nature of the cooperative sector changed. While in 1989 the cooperative sector was usually assimilated with the state sector to form one large public sector, since both had a largely similar system of decision-making and management, in 1993 the new Labour Force Survey began to treat employment in producer cooperatives as self-employment. At the end of 1993, however, producer cooperatives accounted for the majority of employment in the cooperative sector. [4] On the basis of this change of methodology, it may be concluded that the share of private sector employment passed from about 1 per cent in 1989 to almost 60 per cent four years later.

The rapidity of the shift of labour from the public to the private sector is illustrated further in table 2. It follows from the data presented in the table that, between 1989 and 1993, state sector employment declined by 58.1 per cent, i.e. by an average rate of 20 per cent a year. At the same time, private (including mixed) sector employment was multiplied by 37. Over the four-year period, there was a net loss of employment in the state sector of 2,662,000 and a net gain of employment in the private sector of 2,487,000. Thus, a fairly large gap remained between the two, strengthened by the loss of employment in the cooperative sector and in public associations. Total employment decline amounted to 656,000, i.e. to 12 per cent. About one-third of the total gap was accounted for by the growth of unemployment, which at the end of 1993 represented 206,000 (ILO definition). The rest can

[1] On 1.1.1993, Czechoslovakia separated into two independent states, the Czech Republic and the Slovak Republic.

[2] "Vlada pocita s dalsim vzestupem", in *Lidové Noviny, Koruna* (economic supplement), 30.09.1994, Prague.

[3] Czech Statistical Office, *Vyberové setreni pracovnich sil* (Labour Force Sample Survey), Spring 1993-Summer 1994, Prague.

[4] Producer cooperatives represented about 57 per cent of total cooperative employment, whereas farming cooperatives represented the remaining 43 per cent. Czech Statistical Office, *Vyberové setreni pracovnich sil, zima (prosinec az unor) 1993/94*, (Labour Force Sample Survey, Winter 1993/94), Prague.

be explained, in part, by the decline in secondary occupations, as the data in table 2 include second job holders. The largest portion of the decline, however, corresponded to a fall in labour force participation, which was about twice the size of the increase in unemployment and which will be discussed at a later stage. Let it be concluded at this point that the growth rate of private sector employment, while appearing extremely high (starting from a low base) was insufficient to absorb the labour made redundant in the public sector by the privatization process.

A notable development revealed in table 2 concerns gender differences in the shifts of labour from the public to the private sector. Male labour tended to move to the private sector much more rapidly than female labour. At the end of 1993, 59 per cent of male workers were employed in the private sector, compared to only 46 per cent of female workers. Women had the tendency to stay on in the declining public sector, where they have become increasingly over-represented. To what extent this could be ascribed to a lack of initiative and drive, or to gender-biased recruitment in the private sector, or to the occupational and skill profile of the female workforce is a matter of investigation.[1]

The transition process, and particularly employment restructuring, suffered from the recessionary environment, national and international, in which it had to take place. In the Czech Republic, like in the other transition economies, a steep decline in output and in employment followed the launching of the reforms.

2.3 Overall trends of output and employment

2.3.1 Gross Domestic Product

During the first four years of transition, the total real decline in GDP represented 21.5 per cent. Table 3 shows that GDP started to decline already in 1990, although this was only a year of preparation for the reform, which was launched "in earnest" on 1 January 1991. During the first year of intensive reform, in 1991, when most of the reform measures were taken, GDP fell by 14.2 per cent. In 1992, it fell again by almost 7 per cent. In 1993, a trend reversal was expected by many commentators, but it failed to materialize. A major reason for it was the separation of Czechoslovakia into two independent States, on 1 January 1993. Domestic demand increased considerably in the Czech Republic in 1993, but exports to Slovakia declined by almost one-third. In 1994, a growth of GDP was registered for the first time since the start of the reform. In the first half of 1994, GDP increased by 2.2 per cent. Official forecasts put the growth rate for the whole year at 2.5 per cent.[2] The upturn which occurred in the first half of 1994 was due to the growth of services and construction, output in the latter sector having increased by as much as 6.7 per cent. Industrial output increased by a mere 0.8 per cent (by 2.0 per cent in January-August 1994), while agriculture more or less stagnated.[3]

[1] L. Paukert, *Women's Employment in Central and Eastern European Countries during the period of transition to a market economy system*, ILO, Geneva, forthcoming.

[2] Statement by I. Kocarnik, Minister of Finance, *Lidové Noviny*, 8.10.1994, Prague.

[3] Czech Statistical Office, *Statistické prehledy* (Monthly Statistics of Czech Republic), No. 9, 1994, Prague.

2.3.2 Industrial production

The sizeable decline in GDP between 1989 and 1993 was to a large extent due to an abrupt fall in industrial production (table 4). The decline in industrial production during the first phase of transition was a general phenomenon in the transition countries. It was largely related to the disintegration of the CMEA and to the collapse of interregional trade. In the Czech and Slovak Republics, moreover, the fall of mutual trade after the split of Czechoslovakia in 1993 further aggravated the decrease. In the Czech Republic, mining was particularly hard hit by the transition process, although its decline started already in 1989. Manufacturing output began to fall in 1990. The decline affected all manufacturing branches without exception, but to different degrees. Basic metals and heavy engineering were particularly hard hit, whereas in some light industrial branches, such as glass and ceramics, a timid upturn started already in 1992. The differences of intensity and duration of the decline had as their final result a weakening of heavy industry and a relative strengthening of light industry. The increase of total industrial production in the first part of 1994, shown in table 4, was due entirely to the growth of some light industrial branches, whereas most heavy industries continued to decline. [1] The often spectacular rates of growth — matched by equally high rates of decline in heavy industries — illustrate the scope of industrial restructuring that has taken place.

2.3.3 Foreign trade restructuring

The change in the structure of industrial output was influenced to a considerable extent by export openings in Western countries, since after the disintegration of the CMEA it was important to find new outlets to Western markets, in spite of those markets being highly competitive and largely protected. The speed and scope of reorientation of foreign trade was impressive. In 1989, the CMEA and other planned economy countries accounted for 55 per cent of Czechoslovak foreign trade turnover, of which the USSR alone accounted for 30 per cent. Three years later, in 1992, 71 per cent of Czechoslovak foreign trade was carried out with the market economy countries, of which 63 per cent with the highly industrialized ones. The share of the ex-USSR was reduced to 18 per cent and the share of the other transition countries to 10 per cent. In the first half of 1994, the Czech Republic delivered 63 per cent of its exports to the industrialized market economies, largely to EU countries, 16 per cent to Slovakia, 13 per cent to the European transition countries, (of which 5 per cent to the former Soviet Union), and 8 per cent to developing countries. [2] The transformation of the foreign trade structure was facilitated by the growth of the foreign trade turnover, particularly by the growth of exports. [3]

[1] In June 1994, for example, a rate of growth of 17 per cent was registered in paper, printing and publishing. Output also increased in leather and footwear (+15 per cent), in rubber and plastics (+8 per cent), in electrical and optical instruments (+6 per cent) and in glass and ceramics (+5 per cent). Czech Statistical Office, *Statistické prehledy* (Monthly Statistics of Czech Republic) No. 9, 1994, Prague; data refer to industrial enterprises with 25 or more workers.

[2] Czech Statistical Office, Monthly Statistics of Czech Republic, op.cit.

[3] In 1992, Czechoslovak exports were 6.3 per cent higher than in 1989 (at constant prices), in spite of a 5 per cent decline in the peak reform year of 1991, while imports were 3 per cent lower in 1992 than in 1989. In 1993, exports of the Czech Republic increased by 10.6 per cent and imports by 9.3 per cent. In the first half of 1994, exports increased by 1.9 per cent and imports went up by 10.3 per cent (while the balance of trade still remained in equilibrium).

2.3.4 Employment trends

Between 1989 and 1993, total employment declined by 10 per cent, when annual average data on employment are used, as in table 6. (When end-year data are used, employment declined by 12 per cent.) Employment trends differed widely according to economic sectors. The vast difference in employment changes shown in table 6 for the main sectors of the economy provide additional evidence of the large amount of restructuring achieved during the four years of reform. Employment in agriculture declined by 47.4 per cent, i.e. agriculture lost almost half of its workforce. The total decline in industrial employment was 19 per cent, but owing to the large weight of the industrial sector, the number of jobs suppressed in industry was much greater than the number of jobs lost in agriculture. The average annual rate of decrease of industrial employment was 5.2 per cent. In industrial enterprises with more than 25 workers the rate of decrease was even faster, as shown in table 7. [1] The slower rate of employment decline for the total of industrial enterprises shown in table 6 than for enterprises with more than 25 workers shown in table 7 suggests a growth of employment in the newly created small industrial establishments and workshops with less than 25 workers, mostly belonging to the private sector. However, precise information on employment trends in small private industrial establishments is not available.

The overall declining trend of industrial employment covers a number of opposite tendencies. For example, many new private enterprises went through ups and downs and their relatively high rate of failure resulted in frequent employment cuts. On the other hand, some state enterprises did sufficiently well to hire extra labour, particularly those that were able to work for the export market. A survey carried out for the ILO in Czech manufacturing in April 1993 (table 9) established that 6.5 per cent of industrial establishments belonging to the state sector increased their personnel between 1990 and the first quarter of 1993. Admittedly, the overwhelming majority (86 per cent) of state enterprises made personnel cuts. In the private sector, 35.5 per cent of establishments increased their personnel, while a slightly larger proportion — 37 per cent — had to make cuts. In the heavy engineering branch, where public ownership was still predominant at the time of the survey, establishments having made employment cuts largely outnumbered enterprises with employment increases. The same was also true of large establishments with more than 500 employees, 4.8 per cent of which, however, managed to increase their personnel amidst a general wave of decrease.

Table 6 also reveals that employment in construction kept growing throughout the transition period. Construction was thus the only sector of the economy where employment did not decline under the impact of the reform. And if members of farming cooperatives were classified according to their real activities, the growth of construction employment would be even higher than indicated in table 6 (about 20 per cent over the four-year period). [2]

Employment in services had a slowly rising trend. It increased every year during the transition period with the exception of the "shock-therapy" year of 1991. [3] However, the

[1] Czech Statistical Office, *Statistické prehledy* (Monthly Statistics of Czech Republic) No. 8, 1994, Prague.

[2] Czech Statistical Office, *Statisticka Rocenka Ceské Republiky* (Statistical Yearbook of the Czech Republic) 1993, Prague, p. 45.

[3] The 1991 decline in service employment was due mainly to an significant job suppression in public administration, in government-financed service activities, such as research and development (-24 per cent), in public cultural institutions (-31 per cent), in municipal services (-35 per cent) and in the trading institutions characteristic of a planned economy system, i.e. in material-technical supplies, agricultural procurements and in state monopoly enterprises of foreign trade (-23 per cent). In health and in education, employment declined by about 4 per cent in 1991 and the trend was reversed in 1992. However, the employment growth in the newly developing service branches (wholesale and retail trade, banking, business services,

total increase over the four-year period amounted to only 4 per cent, which was too low to compensate for the dramatic decline of employment in industry and agriculture and to prevent the overall employment decline.

2.4 Labour productivity

From the beginning of the transition process until 1993, the decline in employment, although substantial, lagged behind the decline in output. The result was a fall in labour productivity. Overall labour productivity started to rise again in 1993, as GDP stagnated and total employment continued to decrease. Between 1989 and 1992, overall labour productivity declined by about 13 per cent, and over the four-year period under consideration the decline in labour productivity amounted to 12 per cent.

The decline in labour productivity points to a continued, or even an increased, labour hoarding by enterprises. However, due to the fall in real wages — both consumer and producer wages — a temporary increase of the labour intensity of production should not be interpreted necessarily as a sign of irrational behaviour of firms, simply carrying on with the bad habits of the past. After the launching of the reform, labour became cheaper in relation to capital and other inputs. Real consumer wages, i.e. nominal wages deflated by the cost of living index, declined by about 25 per cent in the "shock-therapy" year of 1991. Despite an increase in 1992 and in 1993, at the end of 1993 real wages were still about 19 per cent below their 1989 level. Producers' wages (deflated by the industrial producer price index) were about 18 per cent below the 1989 level. As a result, the often criticized labour hoarding by state enterprises — as well as the use of labour intensive technologies by the newly established private ones — may be considered as normal profit maximizing behaviour. [1]

Information available on labour productivity in industry, in different sectors of ownership (table 8) reveals that it is the private, locally owned, i.e. largely small or medium-sized firms, which have a particularly low level of labour productivity, not the enterprises of the declining state sector. [2] As mentioned earlier, employment in producer cooperatives is now treated as self-employment by the Czech Statistical Office, so that the very low relative level of labour productivity, shown for the cooperative sector in table 8, can also be taken to refer to small-scale private sector undertakings. Thus, the private sector with local ownership accounts at present for almost 60 per cent of industrial enterprises and employs more than one-third of the industrial workforce. This indicates that while the average size of

tourist services, etc.) was insufficient to offset these reductions in 1991, either because it was too slow, as in the large domestic trade sector (4 per cent increase), or because the branch had a too low weight in the total, such as business services, in spite of a 109 per cent employment increase in 1991.

[1] Dyba, Svejnar, 1994, op. cit.

[2] Table 8 refers to enterprises employing 25 or more workers. An approximate idea on labour productivity in industrial enterprises employing less than 25 workers, mostly belonging to the private sector, can be obtained from a comparison of the data in tables 4, 6 and 7. Tables 4 and 6 permit an evaluation of labour productivity in total industry, including small enterprises with less than 25 workers. This can then be compared to the labour productivity in enterprises employing more than 25 workers, shown in table 7. It appears that in total industry, both output and employment declined at a lower rate than in enterprises with more than 25 workers. However, the rates of decrease in labour productivity in total industry and in enterprises employing over 25 workers were largely similar, at least at the beginning of the reform. Only in 1993 did labour productivity in total industry decline significantly less than labour productivity in enterprises with more than 25 workers (by -0.4 per cent compared to -1.2 per cent). This difference suggests that labour productivity in the small private enterprises started to grow already in 1993, whereas labour productivity in the larger industrial enterprises started to grow only in 1994. If monthly data are considered, labour productivity in industrial enterprises with more than 25 workers started to grow in December 1993.

enterprise is relatively small, the overall weight of this sector in term of enterprise numbers is considerable. Moreover, the share of this sector in the total number of industrial enterprises has been growing, as indicated in table 8.

The low level of labour productivity in the private sector with local ownership suggests that labour intensive technologies have been mostly chosen by the small and medium-sized private firms, set up since the start of the reform. Given the shortage of capital and the high cost of credit, this represented a rational decision for the new private entrepreneurs, who indeed rarely had another option. On the other hand, private companies with foreign ownership or participation have had a level of labour productivity much above the average. This has been related to their incomparably better possibilities of investing in high-level technology. However, as shown in table 8, the foreign-owned firms represent only 8 per cent of industrial enterprises, employing 7 per cent of the industrial workforce.

In summary, the overall decline in labour productivity during the first four years of transition was the result of several different factors. It resulted from a) the reluctance of state enterprise managers to shed labour, given their continuing soft budget constraints and their various personal strategies in the privatization process, which will be discussed later; b) from the low amount of capital available to the new private enterprise and business owners, leading them to opt for labour intensive technologies; and c) from the slow rise in direct foreign investment.

The differences in labour productivity between the sectors of ownership have been reflected in the relative levels of earnings. In August 1994, for example, earnings in the private, local ownership sector of industry were 6 per cent below the overall average and earnings in the cooperative sector were 26 per cent below the average, while earnings in foreign-owned enterprises were 18 per cent above the average. State sector earnings exceeded the average by 2.8 per cent. [1] [2]

The relatively high earnings in foreign-owned enterprises represented an important "pull-factor" for the workforce to quit state sector employment on their own initiative and to try joining the foreign firms. However, the small number of these firms, combined with the persistently low geographical labour mobility, tied to the long-existing housing problem, has limited the size of such shifts. [3] But the possibility of deriving a substantial bonus from the initiative of finding a private sector job has had a psychological impact on the workforce and most likely influenced the number of voluntary worker shifts from state enterprises to the private sector, which has played an important role in the privatization process, as will be seen in section 4 below.

The conclusions that can be drawn from this section concern, first, the large amount of structural change achieved during the four years following the velvet revolution of

[1] Czech Statistical Office, *Statistické prehledy* (Monthly Statistics of Czech Republic), No. 11, 1994, Prague.

[2] Information available on the construction industry shows that labour productivity in the state sector is well below average (30 per cent difference, in June 1994), whereas labour productivity in the private, locally owned sector (now accounting for 70 per cent of the total construction output) is slightly above average. Labour productivity in foreign and mixed enterprises is again considerably (24 per cent) above the average. In the construction industry, differences in labour productivity by sector of ownership have also been reflected in the relative level of earnings, which are higher in the private, locally owned sector than in the, now much reduced, state sector.

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November 1989. Employment shifts between sectors, between industries, and between industrial branches reached impressive proportions. Their final outcome, however, was an overall employment decline of about 10-12 per cent, since the growth of demand for labour in the growing sectors, i.e. in services and in construction, was insufficient to compensate for the large-scale job cuts in industry and agriculture. Second, the progress of privatization has been extremely rapid. The share of private sector employment passed from 1 per cent in 1989 to almost 60 per cent at the end of 1993. By the first quarter of 1995, about 80 per cent of the economy should be in private hands. Third, the transition reform was accompanied by an important decline in labour productivity, associated with a 18-19 per cent fall in real wages over the four-year period. In industry, the lowest level of labour productivity was found not in the declining state sector, but in the private, locally-owned sector, accounting for about two-thirds of all industrial enterprises in mid-1994. The low wage level acted as an incentive for large enterprises to continue hoarding labour, while inducing the new industrial establishments, particularly the small and medium ones, to rely on labour intensive technologies, keeping down investment. Transition restructuring thus resulted in considerable employment shifts to labour intensive productions and services. Direct foreign investment, while being at a lower level than in Hungary, but at about the same level as in Poland, has played a leading role in the development of relatively efficient, well managed private sector firms, with above average labour productivity and high wages.

3. Unemployment

3.1 Level of unemployment

Labour Force Sample Surveys, published on a quarterly basis since Spring 1993, estimate the unemployment rate at 3.7-3.9 per cent. Using the ILO definition and methodology, they show the unemployment rate to be higher than the rate based on registered unemployment, available since 1989. However, the difference between the two is slight, as illustrated in Table 10. It can be calculated from the data in the table that the average difference between the two series of unemployment rates represents 0.7 percentage point.

A comparison of the two sets of unemployment data by age break-down shows that some of the difference is due to the inclusion of post-retirement-age workers actively looking for employment in the LFSS unemployment data and their exclusion from the Employment Office data. (The post-retirement-age unemployed represented about 12,000 in Spring 1993 and 8,000 in Spring 1994.) However, the LFSS omits certain categories of workers registered as unemployed at Employment Offices. The LFSS counts as unemployed all citizens above 15 years of age, actively looking for work by whatever method, e.g. through advertisements, personal contacts, visits to potential employers, or through public or private employment agencies. But, the LFSS excludes workers registered at Employment Offices who, at the time of the Survey, were unable to start employment within two weeks, or who could not actively look for a job for various reasons, or who had worked in the reference period, if only for one hour a week. The categories of registered unemployed just mentioned mostly include workers taking part in, or waiting for, retraining courses, workers engaged in publicly useful work or public works organized by Employment Offices, young men about to start their military service, and young women shortly to go on maternity leave. They also include sick persons, or persons caring for sick family members on a long-term basis. In Spring 1993, the total

number of these workers amounted to 30,000. In Spring 1994, their number amounted to 24,000. (If they were included in the unemployment total, the unemployment rate would increase by another 0.6 percentage point. It would then slightly exceed 4 per cent.) In summary, whatever the methodology and coverage, the level of unemployment in the Czech Republic is low, one of the lowest in Europe.

3.2 Unemployment trends

As the unemployment data based on ILO methodology became available only recently, when LFSS began to be published, registered unemployment series have to be used for an analysis of unemployment trends since the start of the reform. Monthly rates of registered unemployment, covering the period from January 1990 to September 1994, are shown in table 11, which indicates that unemployment had a rising trend from the beginning of 1990 to December 1991/January 1992, i.e. to the end of the first year of reform, which was marked by highly restrictive macroeconomic policies. At the beginning of 1992, in view of the satisfactory results of the first reform year and of the approaching elections of June 1992, some restrictions were eased, while private service and small business development were gathering momentum. In addition, the period of entitlement to unemployment benefits was reduced from 12 to 6 months in the 1992 Budget Law. Employment Offices received instructions to cross off the unemployment registers persons not cooperating with them by actively seeking employment or by participating in active labour market policy schemes. As a result of these measures, the unemployment rate decreased from 4.4 per cent in January 1992 to 2.5 per cent in October-November of the same year. At that time a new turning point occurred, as the final preparations for the split of Czechoslovakia got under way and the economic future looked uncertain. Since the separation of the country on 1 January 1993, the unemployment rate had fluctuating tendencies, but remained at a remarkably low level in the Czech Republic. In the Slovak Republic, the rate of registered unemployment increased from 11.2 per cent in January 1993 to 14.9 per cent in January 1994. In December 1994, it amounted to 14.1 per cent (figure 1).[1]

An examination of unemployment trends since January 1990 suggests an absence of relationship between the growth of unemployment and the progress of privatization. During 1992, which was the year when the first wave of large-scale privatization was launched, unemployment had a declining trend. This was also true of 1994, when the second wave of large-scale privatization was carried out.

3.3 Structure of unemployment

Turning to the gender structure of unemployment first, available data indicate that unemployment has been considerably higher for women than for men since the start of the transition reforms. In Spring 1993, when the overall rate of unemployment was 3.9 per cent, the female unemployment rate was 4.6 per cent, while the male unemployment rate was only 3.2 per cent. In Spring 1994, when the overall unemployment rate was 3.7 per cent, the female rate was 4.3 per cent and the male rate was 3.2 per cent. Women have represented a larger

[1] Data communicated by the Ministry of Labour, Social Affairs and Family of the Slovak Republic, Bratislava.

share of unemployed workers since unemployment data started to be published in a gender break-down in early 1990. In September 1994, women accounted for about 60 per cent of the registered unemployed.

Also other vulnerable groups have been over-represented among the unemployed. In Spring 1994, handicapped workers accounted for 14.8 per cent of total unemployment, shown in the LFSS, while they represented 3.7 per cent of the workforce. Also the share of graduates and school leavers among the unemployed has been disproportionately high, particularly each Summer, although their registration at Employment Offices tended to be delayed until after the Summer vacation, due to tax exemption for parents of dependent children. However, the corollary of the high share of special worker groups in total unemployment (amounting to about 75 per cent) is that unemployment for adult healthy men has remained remarkably low. For them, full employment has been maintained, on the whole, since the start of the reform.

However, there have been areas of unemployment where unemployment rates exceeded considerably the national average. Such areas could be found particularly in the North Moravian region, which has had a generally high unemployment level since the beginning of the reform. Also in the Northern Czech region unemployment has been persistently above the national average. Curiously, interregional differences in unemployment rates appear smaller if LFSS data are used than if registered unemployment data are considered. The LFSS data show a noticeably higher unemployment for Prague, and interestingly also for the Western Czech region, which is known for its high level of undeclared migration and commuting across the border.

The impact of unemployment has been widely differentiated by industry. Male and female unemployment rates in different industries are shown in table 12. The highest unemployment rates for both men and women can be found in public catering and accommodation, which is a branch with a high share of recently created private firms, the average life-span of which is known to be short and which has had a fast labour turnover, as well as an important share of seasonal labour. Unemployment is also high in mining and quarrying, where the state sector predominates, and where large employment cuts have been made since the start of the reform. Another branch with a high rate of unemployment is construction, which has undergone a rapid process of privatization, and which is the only industry where the overall employment level did not decline since the start of the transition period. But like public catering and accommodation, it has a important share of seasonal labour. Social, personal and other services also have a high rate of unemployment, particularly for men, while it is a branch employing largely women. This heterogenous service branch has been characterized by considerable 'trial and error' in small business creation leading to high rates of labour turnover. To sum up, above-average unemployment can be found equally in the declining and the growing industries, in industries with a high share of public property and in industries which have been largely privatized. No pattern seems to emerge from the available data on the industrial unemployment structure pointing to any relationship between the level of unemployment and the amount of privatization. On the other hand, the industries with an above-average unemployment level have had a high amount of job loss, due either to large-scale reductions in output and employment (e.g. mining) or to a high labour turnover (e.g. public catering and accommodation, and social, personal and other services). Two of the industries with an above-average unemployment rate have also had an important share of seasonal labour. Only in the trading sector can it be found that a high amount of retrenchments in public sector establishments resulted in a high level of unemployment, but this applied almost exclusively to women. The domestic trade sector has been a female bastion for many

years and female employment could have been expected to grow as the sector started to expand under market conditions. However, privatization resulted in a fast increase of male employment, as the new private businesses tended to be registered largely in the name of men. In the trading sector, rapid privatization produced mass unemployment for women who had worked as employees in the publicly owned retail network, while it created a large number of new job opportunities for those ready to start their own business, who proved to be mostly men.

3.4 Factors determining unemployment in the Czech Republic

3.4.1 Low wage levels and labour-intensive methods

One of the chief reasons why unemployment could be kept so low was the sharp decline in real wages. The low wage level made labour costs a small proportion of total costs for the majority of firms. As already mentioned, at the end of 1993, real wages were about 19 per cent below the 1989 level, having declined by 5.7 per cent in 1990 and by 24.5 per cent in the "shock-therapy" year of 1991. In 1992, they were allowed to increase by 9.8 per cent, and in 1993, they increased again by 3.7 per cent.[1] In the first half of 1994, real wages increased by about 3.6 per cent. These rates refer to consumers' wages. Between 1989 and 1993, nominal wages increased by about 81 per cent, while consumer prices were multiplied by 2.23.[2]

Real producers' wages also declined, unlike in some other countries of the region. When the rise in nominal wages is deflated by the producer price index (221.2 in industry, in 1993 Q4, January 1989 = 100) real producers' wages were about 18 per cent below their 1989 level at the end of 1993. In 1991 and 1992, they declined even faster than consumers' wages. The Czech Republic was the only country of the region with a decline in real unit labour costs.

As in other countries of the region, tax-based income policies have been used to check wage increases. A rigorous system of wage controls was introduced in 1991, as part of the reform measures. The wage controls and particularly the targets of wage growth have been defined and implemented through a tripartite mechanism, namely the Council of Social and Economic Agreement. During certain periods, failing tripartite agreement, the economy operated without any wage regulation, e.g. in the first half of 1992 and in the first half of 1993. On 1 July 1993, wage regulation was re-established by a Decree of the Government, without direct approval of the unions and employer representatives. Contrary to the earlier practice, when only state enterprises were concerned by wage-control measures, in mid-1993 coverage was expanded to include all, public and private, enterprises with more than 25 workers.[3] The practical impact of the wage controls on the growth of wages remains a matter of debate. Exemptions have been granted to most of the enterprises that applied to the Ministry of Labour and Social Affairs (about 95 per cent of requests received a positive answer). Moreover, the fact that relatively few enterprises have been made to pay sanctions for granting excessive wage increases, in spite of the thorough controls by the labour market administration, raises the question to what extent the wage control legislation has been really enforced. A general wage moderation, accepted by the public, seems to have been just as

[1] Czech Statistical Office.

[2]

[3] Dyba, Svejnar, 1994, op. cit.

important for the persistently low real wage level as the wage-control system. Public acceptance of the low wages may have been related to the capital gains made by most households in the voucher privatization. But other reasons may also be speculated about. For example, the fast development of the small business sector, combined with the low profits and wages it was able to offer, particularly in the initial stage of transition, kept down the general level of earnings.

In summary, whatever the relative weight of the determining factors, real wages went down sharply and the gap to fill before they reach pre-reform levels remains substantial. [1] The low wage level has been an incentive for continued labour hoarding by large enterprises, even when output was going down. It also encouraged the newly created private firms to opt for labour intensive types of operation. Its negative impact on the growth of fixed investment has increasingly become a cause for concern.

3.4.2 High outflow from unemployment

Unemployment remained at a low level not so much because of a low rate of inflow into unemployment, although by OECD standards the rate of inflow has been relatively moderate, but because of a high rate of outflow from unemployment, situated in the upper range of OECD countries. [2] Because of the high rate of outflow, the duration of unemployment has remained relatively short. In Spring 1994, 60 per cent of the unemployed had been out of work for six months or less, of which 40 per cent for three months or less, while long-term unemployment (a year or longer) amounted to 21 per cent of the total. [3] A considerable proportion of workers who lost their job managed to find a new one through personal contacts or advertisements within a minimum of time, their unemployment being of a purely frictional character. This applied particularly to the well educated workers, with skills matching the new profile of labour demand.

3.4.3 Employment service standards and practices

The standard of employment services has improved rapidly, since they were created in mid-1990, partly in cooperation with the ILO. From the start, active labour policies received the full support of the government. They also benefited from important international funding. All this enabled them to become effective in a short period of time. The effectiveness of the employment services is proved by the following record: between January 1991 and December 1993, about 1,300,000 citizens of the Czech Republic came to register at the employment offices, which means that every fifth economically active person got in touch with the network. The employment offices were able to find a placement for 800,000 registered unemployed, while a large proportion of the rest found jobs through their own efforts. However, many people who lost their job never registered at employment offices, particularly those with a higher level of education. A certain part of the registered unemployed were regularly taken off the registers, either because they reached retirement age or became otherwise entitled to a pension, or because of 'non-cooperation', i.e. of a repeated non-acceptance of the jobs or retraining courses offered to them by the employment offices. The

[1] Total real incomes of the population declined less than real wages, as shown by available statistics. According to some authors, total incomes hardly declined at all, as remittances from abroad, undeclared migrants' and commuters' earnings, and profits in the grey economy compensated for the falling (declared) wage income.

[2] T. Boeri, 1993, "Labour Market Flows and the Persistence of Unemployment in Central and Eastern Europe", in OECD (ed.) *Unemployment in Transition Countries: Transient or Persistent?* (Paris, OECD).

[3] Czech Statistical Office, *Labour Force Sample Survey*, Spring 1994, Prague.

latter category of applicants was mostly considered by employment office staff as working in the grey economy or clandestinely commuting abroad. But many of these applicants were bound to fall into the hidden unemployment category after being crossed off the registers. The main instruments of active labour market policy, i.e. the subsidized creation of socially useful jobs and of publicly beneficial works, creation of jobs for graduates and school leavers, job support programmes for handicapped workers, and retraining schemes of many sorts, have accounted for about one-third of the job placements made by the employment offices. [1]

3.4.4 Comparative weights of the determinants of unemployment

Research carried out by Svejnar and Terrell [2] has shown that the inflow and the outflow rates were determined by different factors. The authors used separate analyses for these two processes in order to define the determinants of each of them, as well as the determinants of the final unemployment level. Svejnar and Terrell found that demand factors (namely the level of industrial production) had a significant positive effect on outflows from unemployment, but practically no effect on inflows. On the other hand, structural variables such as the distance of a district's capital to the western border, the educational profile of the population, and the weight of agriculture at the start of the reform were significant for inflows but not for outflows. The authors established that in Slovakia, where the unemployment rate was high, the inflow rates were only slightly larger than in the Czech Republic. Unemployment levels in the two republics were differentiated by the outflow rates. The authors found that decreases in industrial output brought a larger decline in the outflow rate in Slovakia than in the Czech Republic and that in the latter country the impact of a decrease in industrial output tended to diminish with time, as labour demand started to come increasingly from the service sector. The authors also established a positive impact on outflow rates of active labour market policies. They were able to demonstrate that the outflows were positively correlated with higher expenditures per capita on active labour market programmes in the different districts of the Czech Republic, while there was no correlation in Slovakia.

3.5 Hidden unemployment and labour force reduction

This section examines the extent to which the low level of unemployment has been achieved at the cost of a reduction of the labour force. In order to analyse the issue, table 13 provides a complete balance of the population, labour force, employment, and unemployment, in a break-down for working and post-working ages, at the end of 1989 and in Winter 1993-94. [3]

Table 13 shows that between the end of 1989 and Winter 1993/94 the labour force declined by 8 per cent. The decline was not related to demographic factors, because active-age population increased during the transition period. The crude activity rate decreased by four

[1] J. Crha, 1994, *Podklad pro vystoupeni k Verejne prospesnym pracim*, Stirin 4.2.1994, mimeographed.

[2] J. Svejnar and K. Terrell, in cooperation with D. Munich and M. Strapec, *Explaining Unemployment Dynamics in the Czech and Slovak Republics*, CERGE, Charles University, April 1994, Prague.

[3] Table 13 has been computed from two series of data, namely the employment data based on full enterprise reporting, routinely collected during the planned economy era and available until now, and Labour Force Sample Survey data, available since 1993. Although the differences in methodology and coverage make the comparison of the two series somewhat approximate, the margin of error is likely to be smaller than if the old series were entirely relied on. Moreover, LFSS data show unemployment corresponding to the ILO definition.

percentage points and the participation rate for active-age workers by five percentage points. Employment fell by about 12 per cent. The net employment reduction amounted to 657,000. [1] At the same time, unemployment (ILO definition) increased from practically nil to 206,000. The gap between the two, amounting to 451,000, represented a fall in the labour. Although these data may contain a fairly large margin of error, they show nevertheless that more than twice as many workers withdrew from the labour force than joined the ranks of the unemployed.

Table 13 indicates, moreover, that post-retirement-age workers suffered considerably more from employment cuts than active-age workers (men below 60 and women below 55). Between the end of 1989 and the end of 1993, employment of post-retirement-age workers declined by 54 per cent, i.e. by 282,000, whereas employment of active-age workers (including workers on maternity and child-care leave) declined by about 7 per cent or 375,000. The retrenchment of post-retirement-age workers thus represented 43 per cent of the total employment reduction. As 9,000 of the 282,000 older workers who lost their jobs declared themselves unemployed, the withdrawal from the labour force of post-retirement-age workers represented about 273,000. This implies that 178,000 workers having retired from the labour force were of active age.

What happened to the workers no longer counted as part of the official labour force, particularly to those of active age? A large proportion was likely to switch to the grey economy, while the rest most likely migrated or decided to commute for (undeclared) work in Germany and Austria. A certain proportion became discouraged, and some workers, especially older women, withdrew from the labour market altogether.

A recent estimate put the employment in the grey economy at 300,000. [2] If the majority of the 178,000 active-age workers who withdrew from the official labour force joined the grey economy, this might represent at the most half of the total number of 300,000. The other half of grey economy labour would thus consist of other categories, largely of post-retirement-age workers. In fact, employment in the grey economy is known to include an important share of old-age pensioners and of other workers, who do not need a regular job for social security coverage (such as workers on maternity and child-care leave). As the retirement age is relatively low (60 for men and 53-57 for women), as many old-age pensioners are still fit (the average life expectancy having increased since the start of transition) — and as the pension level is far from generous — participation in the grey economy seems an obvious solution for many old-age pensioners' households with difficulties to make ends meet. The contribution of the grey economy to GDP has been estimated at 8-15 per cent, which is comparable to the share found in other countries (13 per cent in Belgium and Sweden, and 20 per cent in Poland). [3]

It should be pointed out that the various activities outside the official labour market tend to be interrelated, with frequent flows from one form of grey economy employment to another. In addition, a large part of grey economy employment is of a precarious nature. Undeclared work beyond the border, for example, is largely seasonal (construction, catering, etc.) and during the low season work in the domestic grey economy, often part-time or occasional, is likely to be taken as a stop-gap. Part-time or occasional work in the grey economy is also

[1] This confirms broadly the findings derived from table 2. The minor differences between tables 2 and 13 are due to the fact that table 2 includes second job holders, whereas the employment data in table 13 exclude them.

[2] "Podil sedé ekonomiky na HDP roste", in *Koruna, Lidové Noviny*, 5.11.1994, Prague.

[3] ibid.

often performed by workers with regular employment, as a second job. Some registered unemployed try to work in the grey economy, as long as they can escape notice of the employment services. However, when an employment office acquires reasonable certainty that a person registered as unemployed does "grey work", he/she is taken off the registers and thus ceases to be part of the official labour force.

An important reason for the abrupt reduction of labour force participation of post-retirement-age workers, which started in 1991, were government measures taken at the launching stage of the reform, when mass unemployment was predicted by many experts.[1] The government decided to face this threat, among others, by inducing old-age pensioners to leave the labour force, using various means at its disposal, particularly fiscal measures. However, advice to state enterprise managers and a one-year limit put on old-age pensioners' employment contracts, combined with dissemination of information through the media also played a role.

The enactment of legislation putting a high tax on old-age pensioners' earnings, towards the end of 1991, was preceded by a public debate, during which one of the proposals was to make old-age pension and paid employment mutually incompatible. The solution finally adopted represented an uneasy — and short-lived — compromise, as the law putting a high tax on old-age pensioners' earnings was soon declared unconstitutional and was abolished. But, the debate on "pay or pension", which started at that time and which has continued until now, acted as a kind of signal. Its legislative outcome was anticipated by enterprise managers, as well as by the old-age pensioners themselves. Whatever the case, employment of post-retirement-age workers started to decline many months before the law was adopted. Yet, table 14 indicates that Czech managers did not consider age as an important criterion for lay-off selection in 1993. It may be speculated, therefore, that older workers were, in fact, chiefly affected by the high turnover and wide employment shifts caused by the reform. When old-age pensioners lost their job through enterprise closure or restructuring, they had little chance of being rehired in another place. While an older worker may be highly valued in an enterprise where he/she spent most of his/her life, the switch to a new place of work creates obvious problems of adaptation and retraining.

It deserves to be mentioned that the change in the number of post-retirement-age workers shown in table 13 conceals two opposite trends: under the influence of the measures referred to above, the number of employed old-age pensioners decreased, in the first two years of intensive reform, i.e. in 1991 and 1992, by 65 per cent, from 466,000 to 162,000. The number of non-pensioned post-retirement-age employees also decreased (from about 50,000 to 20,000). But, at the same time, the number of self-employed and small business owners of post-retirement age increased from an estimated 3,000 in 1990 to almost 100,000 at the end of 1992.[2] As a result, the share of entrepreneurs and self-employed has become much higher in the post-retirement-age category (35 per cent) than in the workforce as a whole (10 per cent, among one or main job holders in Spring 1994).

The increase in the number of pensioners represented a general trend at the beginning of the transition period. It did not concern only old-age pensioners, but also early retirees and workers entitled to invalidity pensions. Early retirement schemes started to be introduced already in 1988, but after 1989 their practical impact increased. Moreover, workers with

[1] Forecasts of more than one million unemployed were made at the start of the reform by some authors and politicians. In actual fact, unemployment has not exceeded 231,200, so far. The number just quoted refers to registered unemployment in January 1992.

[2] Data communicated by the Ministry of Labour and Social Affairs of the Czech Republic, Prague.

disabilities were encouraged to leave the labour market by a freer provision of disability pensions. In actual fact, the number of invalidity pensions increased even faster than the number of old-age pensions in 1992 and in 1993 (by 2.2 and 2.6 per cent, compared to 1.5 and 0.6 per cent, respectively). [1]

As a result of the developments just referred to, a stage was reached, however, where no room was left for further labour supply reductions, if the ratio of pensioners to active workers was not to become unacceptable from the fiscal point of view and undesirable on efficiency grounds. The 1988 regulations on early retirement were changed in 1993, making early retirement more difficult and costly. [2] Before early retirement could be granted, the worker concerned must now be registered as unemployed for at least 180 consecutive days. The "pay or pension" principle also started to be applied to early retirees. The draft Law on Pension Insurance, which has been under discussion for some time, raises the age of retirement from 60 to 62 for men and from 53-57 to 57-61 for women. A transitory period is foreseen, during which the retirement age would be raised gradually (by two months per year for men and by four months per year for women).

It should be pointed out that even after the sharp decline in the number of working old-age pensioners and other post-retirement-age workers, their participation rate, shown in table 13, has not fallen significantly below the level observed in some developed market economy countries, notably Austria. But a meaningful comparison with the developed market economies on this point would require closer analysis, because of the differences in age limits for retirement and in life expectancies, which are mostly higher in OECD countries than in the Czech Republic. Finally, it should be mentioned that the overall labour force reduction has not lowered the crude activity rate [3] below the level found in most EU countries. In fact, the reform-related decline in the labour supply has brought the activity rate from the extremely high pre-transition level down to the average level of Western countries.

The policy of pensioning off a large number of older workers has been very effective in contributing to keep unemployment at about the lowest level in Europe. But it was not without cost. The increased volume of pensions put a burden on the state budget. It also increased the danger that the real pension level would slip if pensions were not pegged to inflation in a satisfactory way. In fact, the real level of individual pensions (old-age) declined, between 1989 and 1992, by 26 per cent, of which in the "shock-therapy" year of 1991 by 21 per cent. Although real old-age pensions increased by 3.5 per cent in 1993, they were still about 23 per cent below the 1989 level. [4] Even when the gap comes to be filled eventually, pensions are likely to be perceived as insufficient, because of the general widening of income differentials caused by the reform. The subjective feeling of poverty and of exclusion through lack of income of the older generation is likely to grow, even if real pensions continue to rise. The raising of the official retirement age, referred to earlier, should improve the income situation of the 53-62 age-group. However, the measure has not been perceived as an

[1] Data communicated by the Ministry of Labour and Social Affairs of the Czech Republic, Prague.

[2] The base wage used for the calculation of an old-age pension was reduced by 11 per cent for those retiring before the official retirement limit.

[3] The crude activity rate is the ratio of total labour force to total population.

[4] Czech Statistical Office, *Statistical Yearbook of the Czech Republic, '94*, Prague.

advantage by wide sections of the general public. It has been unpopular particularly with women workers. [1]

A final point to be made in this section concerns the often found statement that the low rate of unemployment has been achieved by a massive withdrawal of women from the labour force. [2] In fact, the crude activity rate for women declined by four percentage points, i.e. not significantly more than the crude activity rate for men. Female labour force of active age decreased by only about 2 per cent. But female labour force of post-retirement-age decreased by 55 per cent. Many more post-retirement-age women withdrew from the labour force than post-retirement-age men and the withdrawal of women over 53-57 years may really be called massive. However, since the first Labour Force Sample Survey was published in Spring 1993, until now, female labour force participation has remained, on the whole, unchanged. It stayed at a very high level, particularly in the middle age groups, mostly exceeding 90 per cent. The main reason for it has been the difficult financial situation of many young and middle-aged families and their need for a double income. The high labour force participation of younger women resulted in a persistent fall of the birth rate, which has reached a historical low. [3]

4. Policies and management practices affecting labour transfers from the public to the private sector

The decision to launch the reform initiated a long and arduous process of building the legal and institutional framework for a functioning market economy. It has required the revision of a large number of existing laws, the preparation, discussion and parliamentary approval of many new laws and statutes, and the drafting of countless government decrees. All this represented a tremendous amount of work for the government, for the administration and for Parliament, while it was highly demanding on the public, which had to orient itself in the constantly changing legislation. Although public opinion polls have revealed certain signs of discontent with the work of Parliament, the capacity of which tended to become overstrained sometimes, at least the transformation policies could be implemented on the basis of a body of laws. This was a considerable advantage, since the lack of legal framework represented a serious hindrance in some other transition economies. [4]

The transformation of the institutions was equally important. In particular, a banking system corresponding to the requirements of a market economy had to be set up, replacing the previous monobank system, and the necessary institutions for privatization had to be created. The institutional changes were among the basic prerequisites without which the reform could not have been successfully implemented.

[1] It may be noted that real old-age pensions declined more than real wages, during the first four years of transition (by 23 and 19 per cent, respectively). The gap between the change in earned income and pensions was apparently much larger, however, real wages, profits, etc. having declined much less than indicated in official statistics. The reason is that official income statistics exclude earnings from undeclared employment abroad and earnings in the grey economy. Moreover, earnings from regular activity tend to be understated due to tax-evasion, which is reportedly quite widespread in small private establishments. It has been suggested that real income from work hardly declined at all, since the start of transition. The decline in real pensions, on the other hand, is necessarily much closer to reality.

[2] See, for example, "The Czech Republic, The new Bohemians", in *The Economist*, 22-28 October 1994, London.

[3] L. Paukert, 1995, *Women's Employment in East-Central European Countries during the Period of Transition to a Market Economy System*, Labour Market Policy Paper (Geneva, ILO, forthcoming).

[4] Dyba, Svejnar, 1994, op.cit.

4.1 Methods of privatization and their impact on labour

One of the guiding principles of privatization in the Czech Republic was to privatize enterprises as quickly as possible and leave it to the new owners — and not the Government — to take on the task of restructuring. [1] As a result, most enterprises changed ownership first, while employment restructuring, involving more or less important employment cuts, followed. In this way, large-scale retrenchments by state enterprises before privatization were relatively rare.

4.1.1 Restitution and small-scale privatization

Privatization took on a number of forms. Chronologically the first was the restitution of property to previous owners or their heirs. It was followed shortly by the so-called "small-scale" privatization in which smaller units were sold by public auction to prospective entrepreneurs. The impact of these two privatization methods, in terms of the value of property changing hands, was relatively limited. However, from the point of view of structural change, it was very important. The restitutions and the "small-scale" privatization laid the ground for the development of the small enterprise/small business sector, for which it provided the necessary premises. In the small enterprises and small businesses about 600,000 entrepreneurial jobs have been created so far (table 15) and about half a million employee jobs. Together these represent about one-fifth to one-quarter of total employment.

The overall employment-creating effect of small business development in the wake of the restitutions and small-scale privatization was all the more important that small business could take off at the very beginning of transition, providing job opportunities for those whose employment became threatened in the public sector. The basic legislative framework for small business development was created in Spring 1990. Although many amendments were brought to it since that date, small business started to develop just a few months after the velvet revolution of November 1989.

However, restitutions could also lead to employment cuts in some cases. Typical examples were service establishments (e.g. hairdressers, cleaners, etc.), formerly part of public sector service networks, which had to be closed down after the premises they occupied had been restituted to their original owners. The new owners usually decided to put the restituted property to a different personal or business use, and/or started to charge market-determined rents. As a result, the service establishments had to look for a new location, which mostly they were unable to find and in the end they had to close down. The workers became redundant and were left to their own devices to find a new job or to launch their own business.

4.1.2 Large-scale privatization

The bulk of state enterprises was privatized in the so-called "large-scale" privatization. This form used a range of different methods, such as auctions, tenders, direct sales to domestic and foreign buyers, and above all the much publicized "voucher privatization method".

The basic principle of the voucher method has been the following: state enterprises were to be transferred into the ownership of private citizens not for money but in exchange for investment vouchers. Every citizen over the age of 18 could buy investment vouchers, in the

[1] R. Lastovicka, A. Marcincin, M. Mejstrik, 1994, *Privatization and Opening the Capital Markets in the Czech and Slovak Republics*, CERGE, Charles University, Prague, April 1994.

form of a voucher booklet, containing 1000 investment points, a form of "investment money", for a registration fee of Kc 1,000 (US$35, originally one-quarter of the average monthly wage). These vouchers entitled every citizen to bid for ownership of shares of any company included in the voucher privatization scheme, or to entrust their investment points to an investment fund, making investment decisions centrally and holding a diversified portfolio. [1] The voucher privatization had two waves. The first wave took place in 1992-93. It concerned 1,500 enterprises and 8.5 million citizens participated in it. The second wave started in Autumn 1993 and is expected to be completed at the beginning of 1995. The voucher method tried to solve the problem of the insufficient level of resources of the population which could not have bought up the state enterprises with their savings, certainly not in a short period of time. However, speed was considered important for the success of the operation — and of the reform in general. The voucher method was considered fair to all participating individuals, while each individual was able to take decisions about capital investment according to his/her own preferences. Moreover, the privatization funds have been able to behave like private investment funds, not as state administered institutions. Finally, the high number of new investors, both individual and institutional, has created new constituencies in favour of a market economy. The psychological and political impact of this last factor has been considerable. [2]

4.1.3 Effect of large-scale privatization on employment: Main scenarios

In the large-scale privatization process, whole enterprises and institutions often passed from the public to the private sector by an administrative and legal decision, while the workers remained in their jobs and made no immediate changes to their daily routine. However, this was not always the case and many different scenarios of employment reorganization resulting from privatization — or preceding it — were possible.

When a state enterprise was transferred to the private sector as a whole by a straight procedure of ownership change (sale, auction or voucher privatization), which happened in about half of the cases, [3] employment restructuring most often followed the privatization decision and was carried out by the new management. After taking over the newly privatized company, the management had to decide which plants or units to keep/develop, which parts to sell and which parts to close down as irretrievable "junk". Its decisions would result in more or less important lay-offs, internal labour transfers and sometimes even in recruitments.

About one-half of state enterprises was not privatized as a single unit. The enterprises were split up and reorganized before the process of privatization started. In these cases, lay-offs could be made by state enterprise managements. Such lay-offs were often motivated by the wish to make the enterprise more attractive for potential private buyers. The lay-offs could again be selective or on a mass scale. If they were selective, they were likely to focus on the categories of personnel considered as easy to re-hire, i.e. on administrative and clerical workers or on unskilled operatives. The best qualified technicians and skilled operatives would then be mostly kept on the payroll, even if the enterprise was in financial difficulty. The reason for this was that managers were reluctant to break up well operating teams and that many of them continued to fear the shortage of qualified technicians (see case study

[1] Lastovicka, Marcincin, Mejstrik, 1994, op. cit.

[2] Lastovicka, Marcincin, Mejstrik, 1994, op. cit.

[3] J. Kotrba, 1994, *Czech Privatization: Players and Winners*, CERGE, Charles University, Prague, April 1994.

information, Annex 1). Many managers intended to get a stake in the company and/or to keep their post after privatization. Therefore, their personnel decisions tended to be taken in such a way as to strengthen their own position in the company, to get rid of "dead wood", while keeping on the highly qualified workers and technicians able to make a positive contribution to the future development of the firm. This they could do easily since before privatization they operated under very soft budget constraints.

The just described scenario goes some way in explaining the substantially higher rate of job loss and of unemployment for women than for men in the Czech Republic. The ILO survey of Czech manufacturing establishments carried out in 1993 revealed that, contrary to other countries of the region, a significant proportion of establishment managers admitted using gender criteria for lay-offs (table 14).

In other scenarios, whole plants of state enterprises could be closed down before privatization because they were considered as unattractive or "irretrievable" for various technical or economic reasons, and that the managers wanted to keep the best and get rid of junk. This might lead to the retrenchment of all the workers of the units concerned.

The strategies of managers in state enterprises put up for privatization had an important effect on the privatization process. Most managers were highly concerned by their own prospects and possibilities of acquiring property in the company and/or of keeping their managerial post. Their freedom of action was considerable. It was their role to prepare and submit the basic privatization project. In the enterprises not involved in the voucher scheme, they were free to suggest any eligible method of privatization (direct sale, division of the enterprise into two or more privatization units each to be privatized separately, etc.). Even in the firms included in voucher privatization, the management could suggest the division of the firm into several units and privatize some parts by other methods. The managers could try to acquire the new company, or a part of its stock. They could, on occasions, privatize the most interesting parts of the enterprise on own account and leave the rest. They could also submit the privatization project in such a way as to maximize their chances of keeping their managerial position, without getting a share of the property. The latter solution was apparently used quite often. Finally, some managements tried to make privatization as lengthy as possible, with the aim of using lack of ownership control to support their private activities. The privatization process in these firms could exceed three years. Generally speaking, managers both at the top and at the middle levels, were the group which profited most from the privatization process. However, it would be wrong to conclude that they were the only ones. The rules of large-scale privatization took special care to enable entry also for other agents (foreign and domestic investors) and to keep the game open. [1]

The various forms of managerial behaviour during privatization had very different impacts on the workforce, sometimes positive and sometimes negative. One of the basic guiding principles, however, was to avoid mass lay-offs as much as possible. When they became unavoidable, the firm would frequently assist the workers in finding alternative solutions.

[1] Kotrba, 1994, op.cit.

4.2 Worker initiative during the privatization process

Workers did not remain passive during the privatization process. As soon as privatization started, many workers began to consider the possibility of leaving their public sector enterprise voluntarily. They gauged their chances of being kept on, as well as their pay prospects, and many of them, particularly the most dynamic ones, began to look for private sector employment. Many took the step of leaving on their own initiative, taking advantage of the new functioning of the labour market and of its services (government-run or private). It was often the workers who quit the enterprises put up for privatization, long before lay-offs started and the privatization process was completed. A relatively important part of the workers were even prepared to change their occupation and to pay for retraining courses, which started to be run on a commercial basis throughout the country (including evening and weekend courses). Thus, when the time came for the privatized establishments to make the final employment cuts, a relatively limited amount of clear retrenchments was usually made. The option of early retirement for the older workers came in handy, of course. But it was only one possible solution, the importance of which should not be exaggerated. (The pattern of employment reduction in a declining public enterprise is illustrated in the case study material included in Annex 1.)

The workers who decided to quit a public enterprise in advance of privatization had to weigh the advantages against the disadvantages. Among the chief advantages was the possibility of choosing a new job according to their personal preferences and of joining an expanding branch at an early stage when many openings were available (e.g. banking, business services, tourist services or building construction). But the workers who quit voluntarily were not entitled to severance pay, which in the case of establishments closed as a result of the reform, amounted to full five months' salary at the height of the transition process. (For information on the main legislation governing lay-offs during the reform, see Annex 2.) Experience has shown that some of the workers who decided to wait for the severance pay became losers in the end: for the five months when they were receiving severance pay, they were not allowed to have another job. During this time they were likely to "lose their place in the queue for the best new jobs", as well as the opportunity of earning a higher income. This was true particularly of the better qualified, dynamic workers. The less qualified or more passive workers, on the other hand, had an advantage to stay on in the public sector establishments about to be closed down and to collect the severance pay.[1] The second option was taken by women more than by men.

Many workers left their public sector job in order to launch a small business. A frequent practice was to launch the business before leaving public sector employment and to run the business as a secondary occupation for some time, to make sure that the business had a chance to survive. Surveys carried out for the ILO in the Czech Republic have revealed that it was much more frequent for prospective business owners to leave a state sector job voluntarily because they had a business idea and a business plan, than for unemployed workers to choose small private business as a way out of unemployment.

[1] Information derived from case study material collected for the ILO in the Czech Republic.

4.3 The speed of privatization and its impact on employment

While the methods adopted for large-scale privatization and particularly the voucher scheme were intended by their authors to privatize a maximum of property in a minimum of time, the results did not fully meet their intentions, especially with respect to the speed factor. When complications started to appear in individual privatization projects, speed and simplicity of the process tended to be sacrificed in favour of such criteria as flexibility and space for competition. The latter, in particular, was considered more important than the rapidity of property transfer. This led to the wide variety of privatization outcomes referred to earlier, and resulted in large delays.

However, the cloud was not without a silver lining. The slow progress of privatization prevented mass retrenchments in the initial phase of the reform and their destabilizing effects. Moreover, the long laps of time that usually passed between the decision to privatize an enterprise (the basic lists were made quite early in the reform period) and the actual restructuring measures gave both the managers and the workers ample time to look for solutions. As already mentioned, a large part of workers did not wait to be laid off and tried to find jobs in the private sector or to launch a business as soon as the new economic legislation allowed them to do so. The important time-lags involved in the privatization process softened its impact on labour. Combined with the unexpected amount of initiative, imagination and entrepreneurial spirit shown by the workers, they represented yet another factor contributing to keep down the unemployment level.

4.4 Bankruptcies

One scenario which has played a less important role than hoped for by some commentators is that of enterprise bankruptcy. The bankruptcy law was enacted in October 1991 and amended in Spring 1993 (Law No. 122/93 Sb., amending Law No. 328/91 Sb.). Bankruptcies, however, seem to have concerned the new private firms more than the large state enterprises. Data available for the period 8.10.1992-30.11.1994 show that during those 25 months 3051 new proposals for starting a bankruptcy procedure were made, of which only 319 led to bankruptcy being declared. In 32 cases the six-months "protection delay" foreseen by the law was ordered. The large majority of cases, namely 1760 were awaiting decision at the end of 1994, and 940 cases had been settled by other means. The 319 bankruptcies that have been pronounced concerned mostly new private enterprises. [1]

Many enterprises, state-owned or privatized, have had problems of insolvency and have been trapped in the chain reaction of the non-payment of bills. At the time of writing, inter-company indebtedness is variously estimated at Kc 150-400 billion (US$5-15 billion). [2] In addition, many firms owe considerable sums in social security contributions to the Social Security administration. [3] A number of firms are also in arrears of tax payments.

[1] Only 37 state enterprises (so-called rest or hard-core state enterprises) have been declared bankrupt. The remainder were limited liability companies (148), individual entrepreneurs (82), public limited companies (27), cooperatives (22) and three public trading companies. ("I statni podniky bankrotuji", in *Lidové Noviny, Koruna* (economic supplement) 7 January 1995, Prague.

[2] With government approval, the banks have been allowed to organize rounds of – computer assisted – debt compensation and cancellation. Enterprise participation in the debt compensation rounds has been voluntary.

[3] "Pad velkych podniku je risk", in *Lidové Noviny*, 5.10.1994, Prague.

In some cases, companies have been bailed out by the Government, particularly large companies of national or regional importance. They received emergency bridging credits guaranteed by the government or their debts were just written off by government decision. There have been three main reasons why the government has adopted this surprisingly anti-liberal attitude. First, the cost of lost output, added to the cost of lost tax revenue, and the cost of unemployment benefits (and of the other social payments resulting from the closure of large enterprises) seemed to offset the cost of enterprise support. Second, mass retrenchments might have a negative impact on social stability. Third, the government would risk losing political credit for keeping unemployment at a low level.

But there have been also other reasons why the number of bankruptcies has remained limited: (i) bankruptcy has to be decided by a Court of Law. The Czech judicial system has been so overburdened since 1989, that it may take many months, even years, for a case to be heard and settled. The number of pending bankruptcy cases has been high. Therefore, starting a bankruptcy procedure is not likely to have an effect in the short-run and creditors may prefer other, e.g. directly negotiated, solutions; (ii) the banks, which are usually the main creditors, and which often initiate bankruptcy procedures and subsequently play an important role in enterprise liquidation and re-sale or restructuring, have felt ill-equipped and ill-at-ease for dealing with these cases. In the end, however, if the market economy system is to start working normally, firms unable to pay their debts will have to be declared bankrupt.[1] The present practice not only perpetuates some of the past distortions, but it also lacks fairness towards the small and medium enterprises, which do not benefit from similar protection. Organizations of small and medium employers have started to raise protests against such governmental practices which they consider as discriminatory.[2] Continued government intervention in saving large firms from bankruptcy suggests that the transition process is far from completed and that a lot remains to be accomplished before the enterprise sector can be considered as operating in a normal market economy way.

5. Summary and conclusions

5.1 Taking the Czech Republic as an example, the paper has attempted to demonstrate that high unemployment is not a necessary condition for rapid transition, nor an indicator of the extent of restructuring. The paper has illustrated the scope and depth of structural change achieved during the four years since the velvet revolution. It provided evidence that employment shifts between sectors, industries, and industrial branches have reached impressive proportions. The final outcome, however, was an overall employment decline of 10-12 per cent, as the growth of demand for labour in services (amounting to 4 per cent) and in construction (+16 per cent) was insufficient to compensate for large-scale job suppressions in industry and agriculture (amounting to one-fifth and one-half, respectively, over the four-year period). While industrial output declined even faster than industrial employment, the structure of production adjusted rapidly to the demand on Western markets, so that exports kept growing and the industrialized market economies of the West became their main destination. Second, the progress of privatization was extremely fast. The share of private sector

[1] The Czech Republic, "The new Bohemians", in *The Economist*, 22-28 October 1994, London.

[2] *Lidové Noviny*, 15.10.1994, Prague.

employment passed from 1 per cent in 1989 to 60 per cent at the end of 1993. By the beginning of 1995, about 80 per cent of the economy should be in private hands. About one million jobs were created in the small private enterprise/business sector, almost non-existent four years earlier.

5.2. The transition process was accompanied by a significant decline in labour productivity (of about 12 per cent), and by a 18-19 per cent fall in real wages over the four-year period. In industry, the lowest level of labour productivity was found not in the declining state sector, but in the private, locally-owned sector, accounting for about two-thirds of enterprises in mid-1994. The low wage level acted as an incentive for large (state or private) enterprises to continue hoarding labour, while inducing the new industrial enterprises, particularly the small and medium ones, to rely on labour-intensive technologies, keeping down investment. Restructuring in the transition thus resulted in considerable shifts in employment to labour-intensive productions and to labour-intensive services, relying on low wages to survive. The decline in net fixed investment has gradually become a cause for concern, although the ratio of fixed investment to GDP has remained higher than in most countries of the region. Direct foreign investment, while being at a lower level than in Hungary, but at about the same level as in Poland, has played a leading role in the development of relatively efficient, well-managed private sector firms, with above average labour productivity and wages.

5.3 Unemployment has remained at a very low level, whatever definition is used. It rarely exceeded four per cent and has been one of the lowest in Europe. While almost one half of the workforce has changed jobs at least once since the reform started, a relatively large share of the workforce experienced some of unemployment. This was, in most cases, of a relatively short duration or of a purely frictional character. About one-fifth of the workforce registered at some point in time at the employment offices, which managed to place about two-thirds of the applicants, in most cases relatively rapidly. The high rate of outflow from unemployment has been a major factor keeping down the unemployment rate.

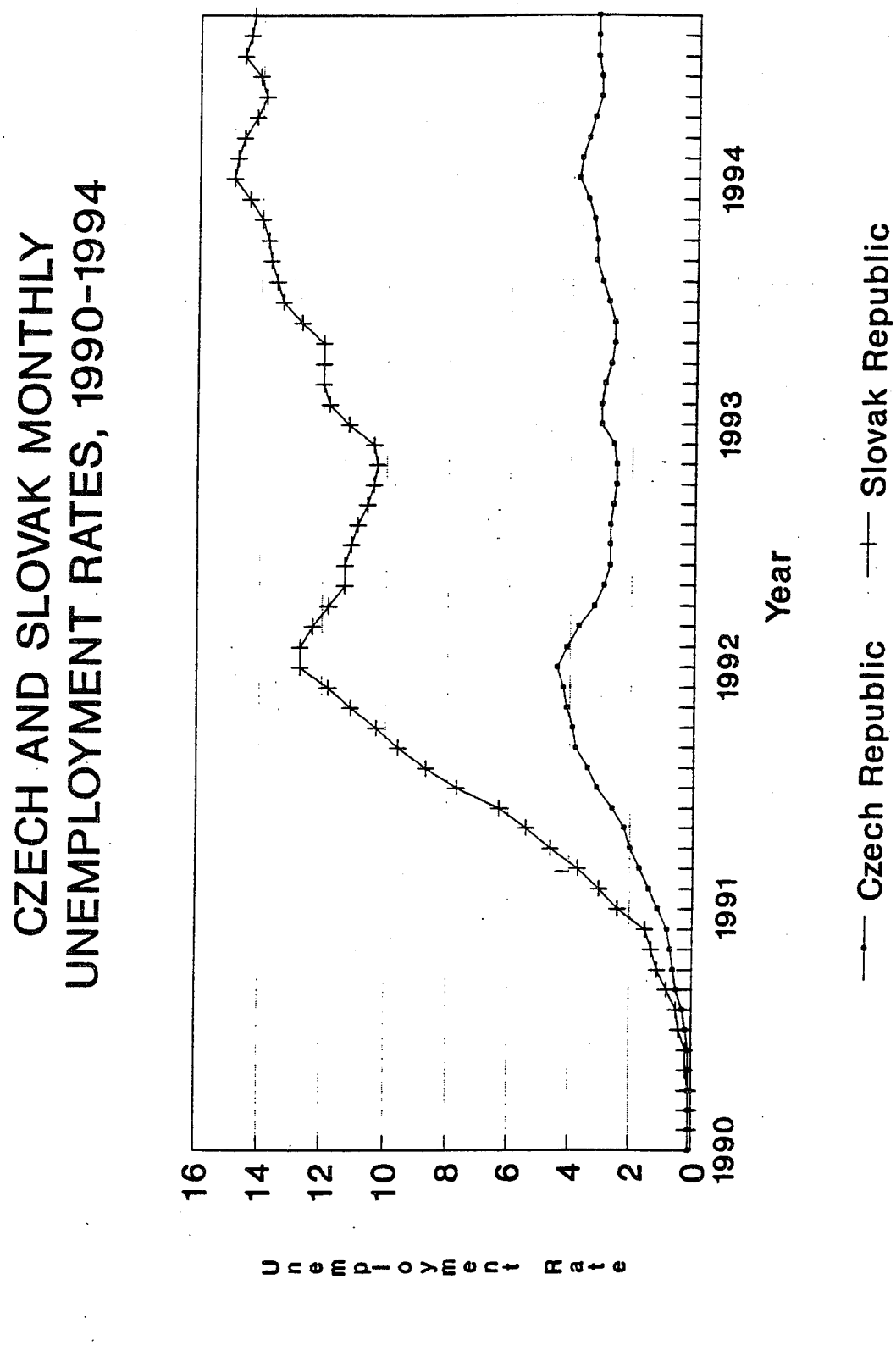
5.4. Another important reason why unemployment remained low was that workers past retirement age were strongly encouraged to withdraw from the labour force, at least in the first two years of reform, which a large part of them did, particularly the majority of older women. During the first four years of transition, the labour force was reduced by 8 per cent, of which about 5 per cent corresponded to the departure of post-retirement-age workers and 3 per cent to the departure of active-age workers. Many of the latter — and also many old-age-pensioners — became engaged in the grey economy. Some workers decided to migrate or to start commuting across the border, often on their own initiative and without waiting to lose their job. The proximity of the Western border facilitated migration movements, both registered and unregistered.

5.5 However, the main reasons for the low unemployment rate were: a) the gradual pick-up of demand, especially for services and for construction; and b) the decline in real wages and in unit labour costs enabling firms to keep labour even when output was falling, and inducing newly-created establishments to use labour-intensive methods. The low level of unemployment has been a trade-off for the low level of real wages accepted by the workforce, so far.

5.6. The last part of the paper has examined the policies and practices affecting labour transfers from the public to the private sector. It surveyed briefly the methods of privatization and their impact on employment. It showed that the "small-scale" privatization and the restitutions, involving a relatively limited transfer of property, laid the ground for the

development of the small business (enterprise) sector, where over one million jobs have been created "from scratch". On the other hand, large-scale privatization could result in vast transfers of property and of labour from the public to the private sector "by the stroke of a pen", while the workers concerned changed nothing in their daily routine, at least in the short-run. This has happened in about half of the cases of voucher privatization. Where regroupings, split-ups, closures and similar forms of enterprise reorganization took place, the long delays usually involved gave workers time to look for other employment. Workers showed a surprising amount of initiative and resourcefulness in finding jobs during the transition process, both as self-employed and as employees. As a result, the number of clear retrenchments directly associated with transition reforms has been lower than expected. This was also related to the low number of bankruptcies, compared to the high number of firms in serious financial difficulties. However, the government preferred to give support to certain firms of national importance rather than take the risk of their closure, which would have widespread economic and social consequences.

Figure 1



Source: Czech Statistical Office, Slovak Ministry of Labour, Social Affairs and Family

Tables

Table 1. Structure of employment by sector of ownership, 1989-93
(End-year data. Percentages)

Sector	1989	1990	1991	1992	1993
State	84.3	79.6	70.5	60.2	40.2
Cooperative	12.9	12.3	9.6	7.5	5.7
Private[1]	1.3	7.0	19.1	31.4	53.5
Ownership of public associations	1.5	1.1	0.8	0.9	0.6
Total	100.0	100.0	100.0	100.0	100.0

[1] Incl. the mixed sector with joint public and private ownership.

Source: Czech Statistical Office. Data communicated to the ILO.

Table 2. Employment level by sector of ownership, 1989-93
(End-year data, incl. second job holders)

Sector	1989 ('000s)			1990 ('000s)			1991 ('000s)			1992 ('000s)			1993 ('000s)		
	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female
State sector[1]	4 581	2 470	2 111	4 289	2 301	1 988	3 499	1 845	1 604	2 870	1 483	1 387	1 919	932	987
Cooperative sector	703	375	328	662	357	305	470	254	216	357	184	173	273	138	135
Private sector	69	56	13	376	314	62	917	594	323	1 483	951	532	2 250	1 392	858
Mixed sector[2]	–	–	–	–	–	–	17	12	5	15	9	6	306	181	125
Ownership of public associations & organizations	80	42	38	60	31	29	36	18	18	41	18	23	29	15	14
Total	5 433	2 943	2 490	5 387	3 003	2 384	4 889	2 723	2 166	4 766	2 650	2 116	4 777	2 658	2 119

[1] Incl. local government ownership.
[2] Joint public and private ownership.

Source: Federal/Czech Statistical Office, Prague. Published statistical series and direct communications to the ILO.

Table 3. Gross Domestic Product, 1990-94 (Annual percentage change in real terms)

1990	-1.2
1991	-14.2
1992	-6.6
1993	-0.3
1994 (1st half)	2.2

Sources: Czech Statistical Office, *Statistical Yearbook of the Czech Republic*,'94; *Monthly Statistics of Czech Republic*, various issues, Prague.

Table 4. Industrial output, 1990-94 (Annual percentage change in real terms)

Year	All enterprises	Enterprises with 25 or more workers
1990	-3.4	-3.4
1991	-16.6E	-22.3
1992	-10.6	-13.7
1993	-5.3	-7.4
1994 (1st half)	0.8	-1.4
1994 (Jan-Aug)	2.0p	–

Sources: Czech Statistical Office, *Statistické prehledy* (Monthly Statistics of Czech Republic), Prague; *Lidové Noviny*, 30.09.94, Prague.

Table 5. Employment and labour productivity, 1990-94 (Annual percentage rates of change)

Year	Total employment	Overall labour productivity
1990	-1.0	-0.2
1991	-5.4	-9.3
1992	-2.6	-4.1
1993	-1.5	1.2
1994 (Q1-2)	-0.4E	2.6E

Source: As table 3; Czech Statistical Office, Labour Force Sample Surveys, 1994.

Table 6. Annual percentage change in employment by economic sector, 1990-93[1]

Sector	1990	1991	1992	1993	1993/89
Agriculture[2]	0.3	-19.6	-16.2	-22.1	-47.4
Industry[3]	-4.2	-3.8	-7.7	-4.9	-19.1
Construction	2.8	0.4	1.0	11.0	15.6
Services	1.0	-4.1	4.4	2.7	4.0
Total	0.9	-5.5	-2.6	-1.5	-10.2

[1] Based on annual average data, including second job holders and excluding workers on maternity and child-care leave.
[2] Agriculture, forestry, hunting and fishing.
[3] Mining and quarrying, manufacturing and public utilities. All enterprises.

Source: Czech Statistical Office, *Statisticka Rocenka Ceské Republiky* (Czech Statistical Yearbook) 1993. Data communicated by the CSO.

Table 6A. Percentage change in employment, Winter 1993/94-Spring 1994

Sector	One or main job holders	Incl. second job holders
Agriculture	-1.2	-1.1
Industry	-2.7	-2.8
Construction	2.6	2.4
Services	0.8	0.1
Total	-0.4	-0.5

Source: Czech Statistical Office, Labour Force Sample Surveys, Winter 1993/94 and Spring 1994.

Table 7. Employment and labour productivity in industry, 1991-94
(Enterprises with 25 or more workers. Annual percentage rates of change)

Year	Employment	Labour productivity
1991[1]	-11.6	-14.4
1992	-11.8	-2.3
1993	-6.3	-1.2
1994 (1st half)	-5.5	4.4

[1] Enterprises employing 101 workers or more.

Source: Czech Statistical Office, *Statistické prehledy* (Monthly Statistics of Czech Republic), Nos. 8 and 9, 1994, Prague.

Table 8. Distribution of enterprises, output and employment in industry[1] by sector of ownership February 1993-June 1994 (percentages)

Date	Sector	No. of enterprises	Production of goods	Employment	Index of Labour Productivity
Feb. 1993	Total	100.0	100.0	100.0	1.00
	1. Private[2]	30.8	8.2	9.3	0.88
	2. Cooperative	9.2	1.5	3.4	0.44
	3. State[3]	54.4	84.5	84.0	1.01
	4. Property of public associations	0.4	0.1	0.2	0.50
	5. Foreign ownership or participation	4.4	5.5	2.8	1.96
	6. Mixed (1-4)	0.8	0.2	0.3	0.67
Nov. 1993	Total	100.0	100.0	100.0	1.00
	1. Private[2]	49.8	22.2	27.3	0.81
	2. Cooperative	8.1	1.5	3.4	0.44
	3. State[3]	28.7	45.3	49.5	0.92
	4. Property of public associations	0.1	0.0	0.0	–
	5. Foreign ownership or participation	6.6	9.8	5.5	1.78
	6. Mixed (1-4)	6.6	21.2	14.3	1.48
June 1994	Total	100.0	100.0	100.0	1.00
	1. Private[2]	57.0	27.2	34.4	0.79
	2. Cooperative	6.7	1.3	3.2	0.41
	3. State[3]	22.2	41.5	42.4	0.98
	4. Property of public associations	0.1	0.0	0.0	–
	5. Foreign ownership or participation	8.2	12.0	6.7	1.79
	6. Mixed (1-4)	5.8	18.0	13.3	1.35

[1] Mining, manufacturing and public utilities; enterprises with 25 or more workers.
[2] Private domestic sector, mainly small and medium-sized enterprises.
[3] Incl. local government ownership.

Source: CSO, *Statistické prehledy* (Monthly Statistics of Czech Republic), various issues, Prague.

Table 9. Distribution of industrial establishments by change in the workforce between 1990-93 (percentages)

	Increase	Decrease	No change	Other answers*	Total
Total	23.8	56.7	17.7	1.7	100.0
Of which:					
Heavy engineering	2.2	95.6	2.2	0.0	100.0
Light industries	30.8	54.9	11.0	3.3	100.0
Food industries	28.3	38.0	32.6	1.1	100.0
Ownership					
Public	6.5	86.0	7.5	0.0	100.0
Private	35.5	37.0	24.6	2.9	100.0
Size of establishment					
up to 25 employees	44.6	18.5	33.8	3.1	100.0
26-500 employees	22.3	61.2	15.5	1.0	100.0
501+ employees	4.8	88.9	4.7	1.6	100.0

* Mostly referring to establishments created after 1990.

Source: ILO Survey Data, 1993. See L. Paukert, 1994, *Women's Employment in East-Central European Countries during the Transition to a Market Economy System*, ILO, Geneva, mimeographed.

Table 10. Unemployment rates based on Labour Force Sample Surveys and on registered unemployment

	LFSS, ILO definition	Registered unemployment[1]
Spring 1993	3.9	2.8
Summer 1993	3.8	2.7
Autumn 1993	3.7	3.2
Winter 1993/94	3.9	3.6
Spring, 1994	3.7	3.4
Summer, 1994	3.9	3.2

[1] Moving averages corresponding to the respective LFSS periods.

Source: Czech statistical office, Labour Force Sample Surveys, Prague.

Table 11. Monthly rates of registered unemployment, 1990-94

Month	1990	1991	1992	1993	1994
January	0.1	1.1	4.4	3.0	3.8
February	0.1	1.4	4.1	3.0	3.7
March	0.1	1.7	3.7	2.9	3.5
April	0.1	2.0	3.2	2.7	3.3
May	0.1	2.2	2.9	2.6	3.1
June	0.1	2.6	2.7	2.6	3.1
July	0.2	3.1	2.7	2.8	3.2
August	0.3	3.4	2.7	3.0	3.2
September	0.5	3.8	2.6	3.2	3.2
October	0.6	3.9	2.5	3.2	3.1
November	0.7	4.1	2.5	3.3	3.1
December	0.8	4.2	2.6	3.5	3.3

Sources: Federal/Czech Statistical Office, *Statistické Prehledy* (Monthly Statistics of Czech Republic), Prague.

Table 12. Male and female unemployment rates by industry, 1993-94[1]

	1993 March-May		1994 March-May	
Industry	Men	Women	Men	Women
Total	3.2	4.6	3.2	4.3
of which workers with previous job experience[2]				
Total	2.8	4.0	2.7	3.6
Agriculture, forestry, hunting and fishing	3.0	4.6	2.0	4.9
Mining and quarrying	4.7	4.0	4.1	3.8
Manufacturing	2.4	4.1	2.4	4.2
Electricity, gas and water	1.5	1.7	0.3	3.0
Construction	4.2	6.9	4.3	4.1
Trade[3]	2.8	5.4	2.1	4.6
Public catering and accommodation	9.4	10.5	6.4	7.2
Transport, storage and communications	1.7	2.4	1.5	1.9
Banking and insurance	0.5	0.2	0.4	0.5
Real estate, business services, research & development	1.5	3.8	1.7	2.4
Public administration	1.6	2.2	2.7	1.5
Education	1.3	2.0	1.0	2.0
Health, veterinary and social services	0.5	2.1	1.2	2.2
Other public, social and personal services	3.6	5.5	6.3	5.6

[1] Data refer to unemployment based on ILO definition. Unemployment rate: unemployment % (employment +unemployment).
[2] Excluding workers not employed for over 5 years.
[3] Including repairs of motor vehicles and consumer durables.

Source: CSO, *Zamestnanost a nezamestnanost v Ceské republice podle vysledku vyberového setreni pracovnich sil* (Labour Force Sample Surveys), March-May 1993 and 1994, Prague.

Table 13. Population, labour force, employment and unemployment, 1989-94
(thousands and percentages)

	1989 End-year	1993/94 Winter	1994 Spring
1. Total population	10 362	10 326	10 326
2. Population of active age[1]	5 996	6 151	6 150
3. Population of post-working age	2 114	2 112	2 112
4. Labour force	5 702	5 251	5 218
5. Employment[2]	5 702	5 045	5 025
6. — Active age	5 184	4 809	4 787
7. — Post-working age	518	236	238
8. Maternity/child-care leave	250	251	241
9. Unemployment[3]	0	206	193
10. Crude activity rate[4]	55.0	50.9	50.5
11. Participation rate, active age[5]	86.5	81.4	80.8
12. Participation rate, post-working age[6]	24.5	11.6	11.6
13. Unemployment rate[3]	0	3.9	3.7

[1] Men aged 15-59, women aged 15-54.
[2] One or main job holders, including workers on maternity/child-care leave.
[3] ILO definition of unemployment.
[4] Labour force % total population.
[5] (Employment at active age + unemployment at active age) % of population of active age.
[6] (Employment at post-working age + Unemployment at post-working age) % of population of post-working age.

Sources: Czech Statistical Office, *Statistical Yearbook of the Czech Republic, 1993*; Labour Force Sample Surveys, 1994.

Table 14. Manager's attitudes to retrenchment of different worker categories

(Questions: When your establishment retrenched workers in the past, what selection criteria were applied? If your establishment will retrench workers in the future, what selection criteria would be most likely to be applied?)

		Past		Future	
		%	Rank	%	Rank
New workers	Yes	24.2	3	20.3	3
	No	75.8		79.7	
Least productive workers	Yes	76.1	1	97.0	1
	No	23.9		3.0	
Older workers	Yes	21.1	4	19.0	4
	No	78.9		81.0	
Men	Yes	19.6	5	13.4	6
	No	80.4		86.6	
Women	Yes	24.3	2	20.5	2
	No	75.7		79.5	
Other groups[1]	Yes	19.3	6	16.1	5
	No	80.7		83.9	

[1] Chiefly working pensioners, occasional workers and part-timers. Ethnic minority workers were not mentioned in this open-ended reply.

Source: As table 9.

Table 15. Entrepreneurs, business owners and other self-employed active in the production/business sector (Summer 1994, '000s)

Category	Total	Main or only occupation	Secondary occupation
Entrepreneurs/business owners, of which	597.4	490.3	107.1
Without employees	437.0	338.5	98.5
With employees	160.4	151.8	8.6
Family helpers	23.4	20.0	3.4
Members of producer cooperatives	138.6	137.2	1.4
Total	759.4	647.5	111.9

Source: Czech Statistical Office, Labour Force Sample Survey, Summer 1994. Prague.

Annex 1

Included in this Annex are three examples of the impact of reform on employment changes at enterprise or organization level.

Case A. Industrial Automation Works, Cakovice

The Industrial Automation Works in Cakovice is an enterprise belonging to the electrical engineering branch. Before 1989 it produced control and regulation instruments, large computers to CMEA specifications, control and safety equipment for oil pipelines, gas pipelines, power stations, underground transport, urban transport, etc., as well as small electrical measuring instruments, such as potentiometers.

These instruments were supplied to domestic enterprises, and also to CMEA countries as well as to a certain number of developing ones. The enterprise had no sales problems, because: a) the CMEA deliveries were planned and guaranteed. In addition, they corresponded to the mutually agreed technical standards and specifications, compulsory throughout the Eastern bloc; b) domestic enterprises were supported by the state and purchased this equipment as part of the Plan. After 1989, the Cakovice enterprise started to have major sales problems. Former clients at home no longer had the financial means to buy the equipment, nor did they wish to do so. The computers and other equipment were bulky, obsolete and expensive. The CMEA has broken down and former clients abroad started to purchase more sophisticated and cheaper equipment on the world market.

In the face of these developments, the enterprise management changed the production programmes. It decided to continue producing some control systems, namely control-point equipment, but to offer to its clients not only the hardware, but also the corresponding software. It also decided to supply package computerized control systems. In addition, the enterprise tried to produce gambling machines. At first, this production was considered as transitional, a stop-gap after the production of computers was terminated. Gradually, however, a market for the gambling machines developed abroad, in spite of considerable competition. The enterprise also tried to diversify into medical instruments, especially instruments for cardiology. It also attempted to manufacture equipment for the mechanical destruction of used injection needles. Finally, the enterprise tried to continue the production of some (improved) small measuring instruments.

As a result of these decisions, the enterprise was saved, but employment declined sharply. The main problems mentioned by the management were: (i) the disintegration of the CMEA and the loss of Eastern markets; (ii) late payments and insolvency of its (home) customers; and (iii) an insufficient knowledge of market economy conditions and management methods.

Concerning the size and the changes of employment in the enterprise, the management provided the following data:

Size of employment in the Industrial Automation Works, Cakovice

	Total	Men	Women
1989	2 138	1 151	907
1990	2 059	1 153	906
1991	1 743	988	755
1992	1 660	925	735
1993 (Jan.)	1 466	813	603

Thus, total employment was cut, during the approximately three-year period considered, by 31.4 per cent, of which male employment by 29.4 per cent and female employment by 33.5 per cent. The employment share of women was reduced from 42.4 per cent to 41.1 per cent. The largest number of retrenchments concerned workers with a secondary education, technical and commercial, i.e. administrative and clerical personnel, followed by those with a vocational education (semi-skilled and skilled operatives) and by university graduates (managers and leading technicians). But the retrenchments of university graduates were on the increase at the time of the interview (Spring 1993). The age structure of the personnel did not change significantly over the period considered (the majority of employees being aged between 35-38), although the average age of the employees decreased somewhat in 1992-93. This tends to indicate that the retrenchments concerned older workers more than the prime-age or the younger workers.

Reasons for departures and methods of staff reduction

The management declared that its basic line of conduct was to avoid lay-offs and to hold on to its workforce as much as possible ("to maintain full employment"). The 672 employees whose employment was terminated in the period considered mostly gave notice themselves or left by mutual agreement. Some quit to start their own business and others were attracted by the prospect of higher wages in private companies. Women employed in the accountancy and pay services tended to leave for banks and insurance companies. About 30 employees took their retirement.

Retrenchment due to restructuring and to the suppression of production and production units, where compensation was due under Law No. 195/91 Sb., was kept to a minimum. It concerned 15 employees, following the reduction of output in the plant of Karlovy Vary (Western Czech Region) and the reduction of the team of programmers in Brno (capital of Moravia). However, in these locations, known to have particularly low unemployment rates, the retrenched employees had no problems finding new jobs in their profession or occupation, owing to their professional qualifications.

After the change in production programmes, the enterprise had to solve some problems of transfer of employees to different work. However, these transfers have remained fairly limited, touching only a small (unspecified) proportion of the workforce. Of greater concern to the enterprise was that, during certain time periods, it had to pay for work stoppages (non-worked time) caused by delays in suppliers' deliveries and by its own late payments and its secondary insolvency.

The new production programme, particularly the manufacturing of gambling machines, was carried out by putting to use the existing occupational qualifications possessed by the staff, without the need for retraining. The new production was relatively similar to the old one; in some respects it was even less demanding. However, according to the managers, the enterprise would need to recruit qualified designers, construction engineers, programmers and business economists with a knowledge of market economy conditions and Western languages. It may be of a certain interest that the switch to the production of gambling machines created some psychological problems, especially for the highly qualified technicians and R&D workers, who resented being asked to develop the output of "fair junk" and felt degraded by it. (N.B. This is a well-known phenomenon, often encountered during the conversion from military to civilian production.) Assistance of specialized psychologists had to be requested and with their help the problem was finally solved. The technicians had to be persuaded in personal interview sessions and through a promotion drive to become interested and personally involved in the new production programme. (Whether a salary increase also intervened was not stated.)

Cooperation with the employment office was described as "one-sided" by the managers. By this employment office to find new employment. As mentioned above, the majority left more or less voluntarily, often with an alternative in mind (including that of starting a business). The 15 or so employees who were dismissed for reasons of reorganization "did not need to go to the employment office", since "our employees are sufficiently qualified to find employment by themselves". On the other hand, the managers declared that the employment office often sent them jobseekers who, in their view, were almost unemployable and who, in any case, just wanted a certificate stating that the enterprise cannot take them on in order to justify further payments of unemployment benefits. The managers expressed the opinion that, in general, people sent by the employment office tended to be unsuitable from the working and disciplinary point of view, and had a tendency to quit soon again.

Case B. The Prague School of Economics

The teaching of economic and business subjects at university level started in Prague when the (University) Business School was founded, in 1919. In 1949, the School of Political and Economic Science was created, which in 1953 was renamed the Prague School of Economics. The School offers undergraduate, graduate and doctoral courses, and carries out research activities. It also organizes training courses and seminars on topics of interest for people having to deal with economic issues in their professional life.

After 1989, the Prague School of Economics underwent a radical transformation, both with respect to the change in academic curricula and to the change in the teaching staff. Very soon after the events of November 1989, on 1 January 1990 all existing chairs and departments were abolished, and a new course and organization structure was put in place. Since that date, the School has five faculties:

(i) Faculty of Finance and Banking, with chairs of public finance, monetary theory and policy, economics of banking and insurance, and accounting.

(ii) Faculty of International Economic Relations, with chairs of international trade, world economy, history of economic thought, international business operations, economics of tourism, foreign languages, and the Jan Masaryk international study centre.

(iii) Faculty of Business Administration, with chairs of microeconomics, enterprise economics, production management, marketing, personnel management, small business development, psychology and sociology.

(iv) Faculty of Statistics and Computer Science, with chairs of mathematics, mathematical statistics, applied statistics, actuarial mathematics and insurance techniques, econometrics, demography, computer science and computer technology.

(v) Faculty of Economics, with chairs of macroeconomics, economic theory, economic policy, social regional policy and administration, and the inter-disciplinary centre for forecasting.

Between 1990 and 1993, the number of students had the following trend:

	1990/91	1991/92	1992/93
1. Faculty of Finance	1 787	1 314	1 615
2. Faculty of International Economic Relations	2 425	2 398	2 093
3. Faculty of Business Administration	2 562	1 959	1 687
4. Faculty of Statistics and Computer Science	1 249	883	768
5. Faculty of Economics	–	805	768
Total	8 123	7 359	7 062

The staff of the School changed, between 1989 and 1992, as follows:

	Total staff	of which, women	Total teaching staff	of which, women
1989	1 480	754	704	280
1990	1 289	699	609	254
1992	1 260	712	567	239

In the process of reorganization, all members of the faculty (all teaching staff) were required to pass an examination in their field of specialization. In case of failure, their employment contract was terminated. As a result of this, and of the redundancies of the non-teaching staff decided in 1990, 54 staff members of active age were laid off, while 55 staff members retired. (Information is lacking on how many took early retirement.) Between 1989 and 1992, the total staff of the school declined by 15 per cent, of which the male staff by 24.5 per cent and the female staff by 5.6 per cent. The employment share of women increased from 50.9 per cent to 56.5 per cent. The teaching staff declined by 19.5 per cent, of which the male staff by 22.6 per cent and the female staff by 14.6 per cent. The share of women among the faculty increased from 39.8 per cent to 42.2 per cent. The decline in the teaching staff was higher than the decline in the number of students, which amounted to 13 per cent.

The 11 per cent decline in the non-teaching staff (largely administrative personnel) was largely due to voluntary departures to banking and insurance companies and to other institutions paying higher salaries. The personnel department of the School cooperates with

the employment offices to fill the general service and other non-academic vacancies with, however, mediocre results. The candidates sent by the employment offices are usually quite unsuitable for the vacant posts. Often they only require the certificate stating that the vacancy has been filled or giving another reasons why they have not been accepted, in order to continue receiving unemployment benefits.

Filling the vacant academic posts is a much more complicated matter and much more of a problem for the School directorate. Academic posts can be filled only on the basis of a competition and it seems that the rate of success has been disappointing. In conclusion, the Prague School of Economics is the second case of an enterprise/institution with unfilled vacancies for highly qualified personnel, for which it has been unable to find suitable candidates. A likely reason is the low level of pay in the educational sector and the possibility for people with training in economics to find employment in the fast expanding banking sector and in business services, both known to pay high salaries.

Case C. The Institute of Theory and History of Science of the Czechoslovak Academy of Science, closed down in 1992.

Before being closed down, the Institute was part of the Czechoslovak Academy of Sciences. Until February 1990, it was a section of the Institute of Philosophy and Sociology. On 1 February 1990 it became independent. It had 53 employees, of which 21 were research workers, 20 were employees in a computer unit and 12 were managerial, administrative and general service employees. Gradually, the number of employees was reduced and at the end of 1992, the Institute was abolished. When the decision to close the institute was taken, it employed 40 people.

By a decision on the reorganization of research and development activities in the Czech Republic starting on 1 January 1993, the work agenda of the Institute was transferred back to the Institute of Philosophy, more precisely to its research group on the relationship between science, technology and philosophy. The fate of the 40 employees was the following:

(i) The (already reduced) computer unit was separated and transferred to another section of the Academy.

(ii) Eight research workers, selected for the good results of their work, were transferred to the research group of the Institute of Philosophy taking over the agenda.

(iii) Three research workers were transferred to other institutes of the Academy and five found posts at the University. Administrative and financial conditions for the transfer of Academy of Science researchers to the University were specially defined for this purpose. The salaries of the transferred researchers were to be covered by the Ministry of Education. Thus, 16 of the original 21 research workers could continue in academic work.

(iv) Four research workers and two administrative workers took regular or early retirement.

(v) The remainder — consisting of administrative workers — got notices for 1 May 1993. They mostly decided to seek employment in the private sector. Four of them intended to launch a private business in the publishing and in the consultancy fields.

In conclusion, a research institute was closed down and yet only few retrenchments were operated. Almost all research workers were transferred to suitable academic and

research jobs. The other personnel was partly laid off, but had a good chance of finding employment in the private sector.

Annex 2
Main legislation governing lay-offs during the transition process

The retrenchment of workers in cases of enterprise closure, restructuring, or transfer of a part to another enterprise or organization is referred to in the Labour Code, section 46, para. 1, listing the legitimate reasons for giving notice (letters a) and b)). Also listed is the case of redundancy for reasons of change in enterprise programme, technical process and equipment, and the need to increase effectiveness and operate structural changes (letter c)).

The Decree of the Federal Ministry of Labour and Social Affairs No.312/1990 Sb., of 26 June 1990, amending Decree No. 195/1989 Sb., stipulated that a worker who, in case of organizational changes, leaves the organization by mutual agreement with the employer, is entitled to compensation (severance pay). A redundant worker, whose employment contract was ended by mutual agreement within one month after he/she had been notified of the lay-off decision and of its reasons, was entitled to compensation amounting to five average monthly gross salaries (paragraph 17(a)). If the employment contract was not terminated by mutual agreement within one month after notification, for every additional month started, compensation pay was to be lowered by one-fifth. Compensation was payable from the wage fund of the organization making the retrenchments. Decree No. 312/1990 Sb. was abolished when Law No. 195/1991 Sb. came into force on 31 May 1991. This law is still valid. According to it, compensation upon termination of employment is due to the workers covered by section 46, para 1, letters (a)-(c) of the Labour Code, whether employment is terminated by mutual agreement or not. The amount of compensation has been fixed at twice the average monthly salary. This amount can be increased to three times the average monthly salary in collective agreements (Law no.195/1991 Sb., para. 3, points (1) and (2)). Law No. 195/1991 Sb. was amended by Law No. 37/1993 Sb. The general amount of compensation on termination of employment, however, has remained unchanged.

Whatever the length of the severance pay, during the months for the length of which it has been granted, the worker concerned is not entitled to unemployment benefits. (Owing to the fact that most retrenched workers do not register at the employment office before being entitled to the benefit, the months covered by severance pay correspond largely to concealed unemployment.)

Legal provisions concerning the period of notice of employment contract termination have been the following: in the past and until 1991, the period of notice amounted to two months for both workers and employers. A worker could give notice without quoting any particular reason, while an employer had to quote a reason foreseen by the Labour Code. On 1 January 1990, a Decree was issued stipulating that in case of lay-offs covered by section 46, para. 1 of the Labour Code, the employer had to give at least three months' notice. In 1991, the provision of a three months' notice in the case of retrenchments due to transition-related restructuring (section 46, para. 1 of the Labour Code), and of a two-months' notice in all other cases has been incorporated in the Labour Code.

Law No. 578/1991 Sb. on the State Budget of the Federation and on the Amendment of some Tax Laws included provisions for a substantial increase in the taxation of earnings of old-age-pensioners. The article defining special tax rates for old-age pensioners' earnings

was declared unconstitutional by the Federal Constitutional Court in the second half of 1992, as discriminatory. The new fiscal legislation of the Czech Republic, which came into force on 1 January 1993, did not include such a provision. However, old-age pensioners' earnings are still penalized to a certain extent, namely because of the rule concerning the basic amount of earnings allowed for tax exemption, which is less favourable to old-age pensioners than to active-age workers. Moreover, the rule limiting to one year old-age pensioners' employment contracts is a form of pressure on employers, dissuading them from hiring older workers.