

## Solutions to high unemployment rate – Case of Czech Republic

DRAFT ANALYSIS

Michal Hejl, CETA, Czech Republic

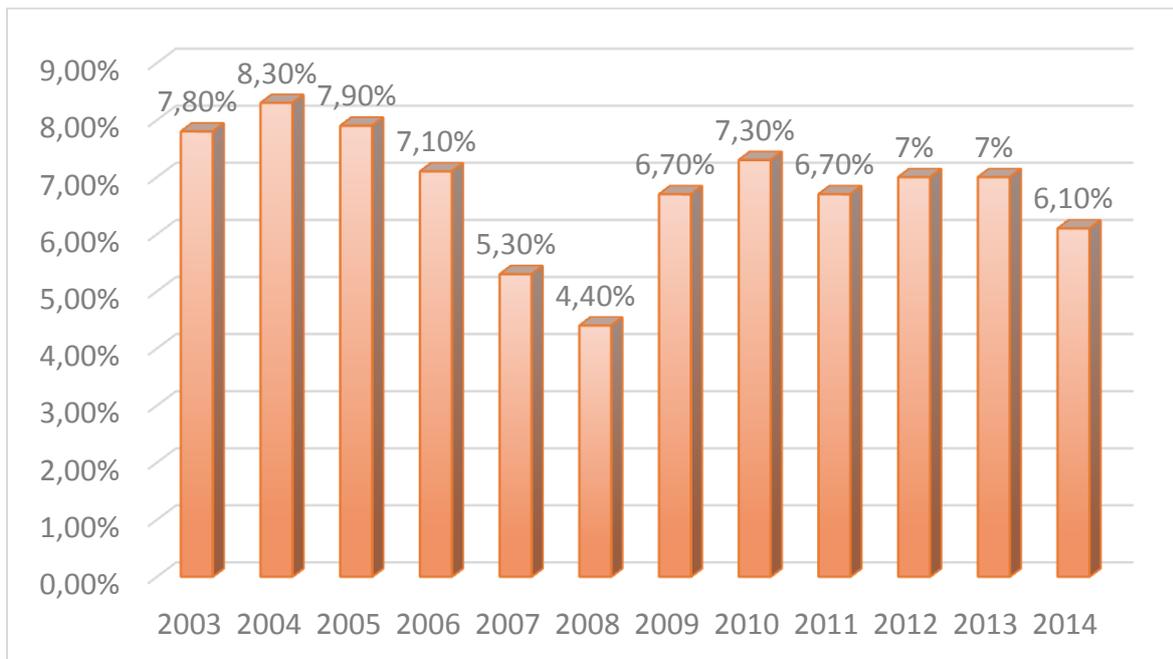
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The document offers an overview of key unemployment indicators in Czech Republic. It also includes few governmental initiatives in the past year and commentary on their success or failure.

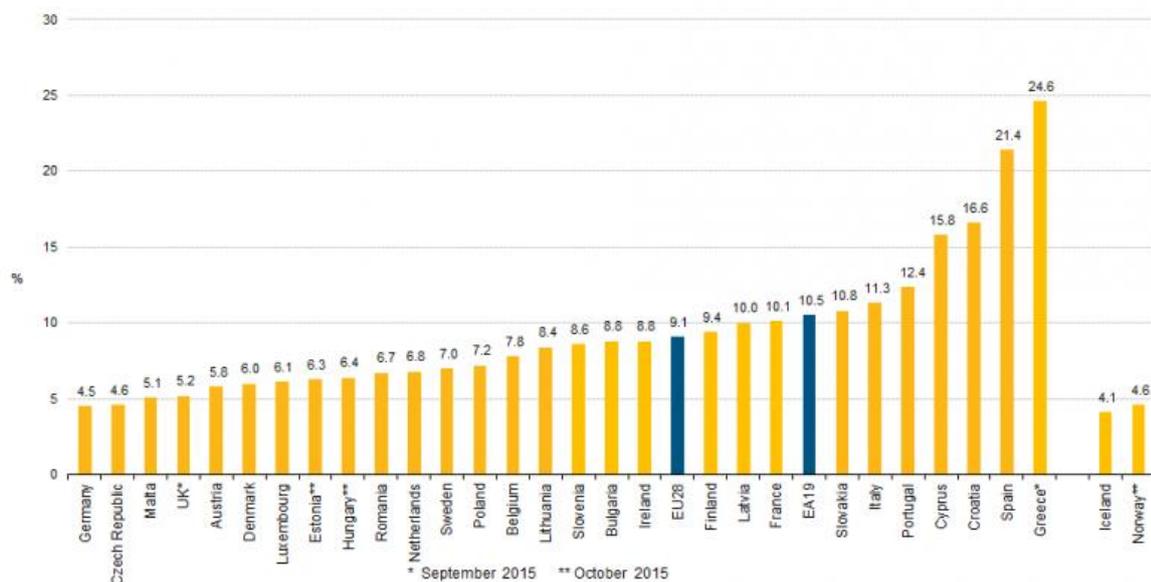
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## Introduction

As other former COMECON countries, Czech Republic was forced to radically change its economy following the end of the communist dictatorship. This caused many problems, since much of the industry was obsolete and far too reliant on manual labor. This was mostly achieved in the last decade of the 20<sup>th</sup> century. While some significant companies did not make it, often due to mismanagement or due to corruption, the overall economy managed. More troubling was the lack of political consensus how to manage the economy on the elementary level. This disagreement still continues.



By the 21<sup>st</sup> century, the economy was in relatively good shape, the GDP was growing by a few percentage points every year. The unemployment was also relatively low and slowly decreasing. All of this of course changed due to the worldwide recession, but even then, the growth of unemployment rate was not all that great. In 2014 the unemployment rate started to dip again and at the end of 2015, Czech Republic recorded the second lowest unemployment in the EU (behind Germany).



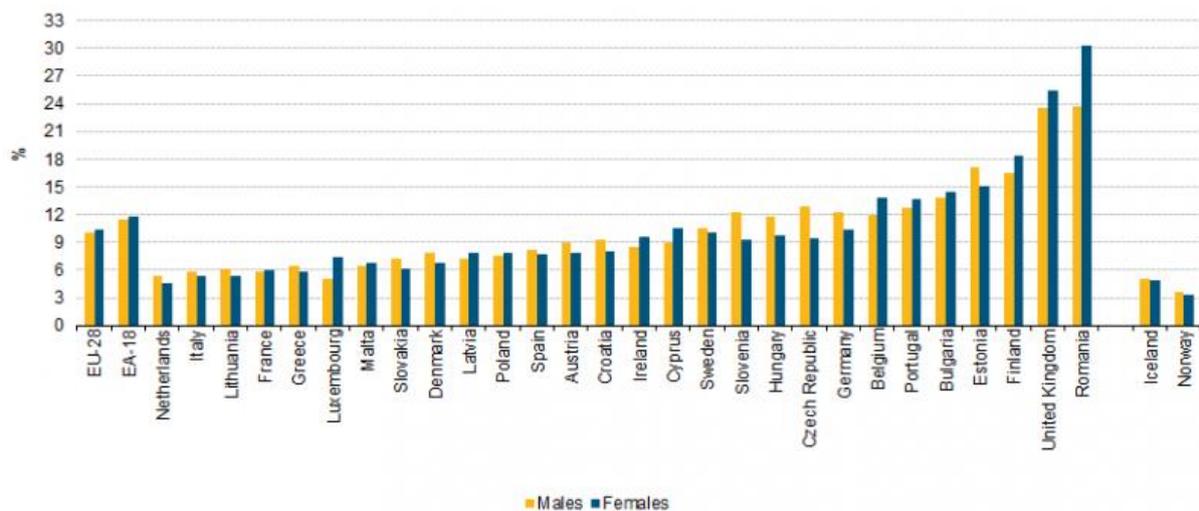
## Key unemployment indicators

### Age

As in other countries, the two age groups most endangered by unemployment are the young immediately after leaving school and the older workers over 55 years. The young are handicapped by their lack of experience and work habits. Generally speaking, the lower the educational attainment is, the higher the unemployment rate after leaving school. The old on the other hand are victims of the “cult of youth” that is present in the mind of many managers. They are commonly thought to be slow workers, that are set in their ways and unable to adapt to the changing world. Many of the old choose to resolve their unemployment by taking preliminary or disability leave, this however means that they will receive lowered income for the end of their lives and also means that instead of contributing to the social security system, they instead become its beneficiaries.

### Sex

In Czech Republic, there are considerably more men unemployed than women as shown in the graph below. This statistic is quite misleading though, since payed maternal leave can be up to 4 years long. Women are still expected to be the primary caregivers for young children which sometimes results in sex based discrimination. Czech government has identified the poor position of women in the jobs market as one of the key challenges to solve.



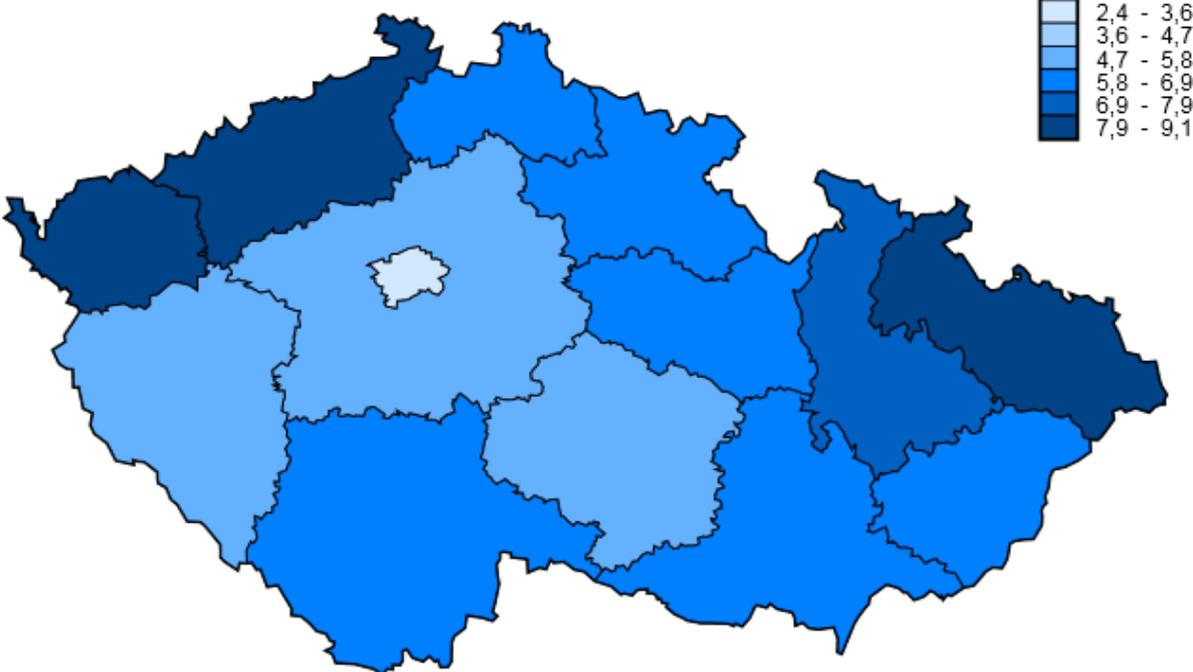
### Education

As noted above, the higher education one achieves, the lower the chance of unemployment. While situation is very different between different field of study, university graduates usually find and keep work quickly. The situation is much worse for vocational secondary schools, graduates of some have more than 50 % unemployment rate. This is in direct contrast with the demands of employers who continue to press for more vocation training. For more detail, please refer to the analysis for the previous webinar on education on October 2<sup>nd</sup> 2015.

### Regional

There are significant regional differences in the unemployment rate. The situation is best in Prague and central Bohemia and is worst in the old mining regions in north Bohemia and Silesia. Those regions suffer from serious problems, for example the devastation of environment caused by surface strip mining. Also many miners are unwilling to accept another job and often also have their health damaged by working in the mines make the unemployment situation hard to solve. The environmental damage is also a serious block to attracting investment into those regions.

Generally speaking, the farther away from big cities, the worse the unemployment is. While this tends to be the case all over the world, it is made worse by the fact that Czechs are very reluctant to accept work which would require them to move or to commute for more than an hour each way.



## Overview of social security system in Czech Republic

When a person loses employment they are directed to their local labor office (úřad práce). This institution is theoretically supposed to attempt to find work for them, but in practice, people who want to find work do so on various private jobs websites. Nonetheless, since registering at the labor office is a prerequisite to receiving social security, most people do, which means that the unemployment statistics are quite accurate. Labor offices also offer various requalification courses, these are usually designed to allow their graduates to perform qualified manual labor.

Aside of normal social security, assistance in unemployment is available to those who have worked for at least 1 year in the last 2. Depending on age, the payout is limited at 5-11 months (the older the unemployed person is, the longer he gets paid). The payout is a % of person's income in the last year with an upper cap of 60 % the average wage. This assistance is considered by most in Czech Republic to be a sort of insurance (in fact, part of what really is the income tax is called social insurance in Czech republic) and as such, efforts to reduce the payout, or put more conditions on it are very unpopular.

## Notable governmental initiatives to reduce unemployment, the problems with them and lessons that can be learned from them

### Obligation to do community service while on social security

This was undoubtedly the most controversial attempt to reduce unemployment. It was introduced by the previous center-right government. The key portion of the law allowed municipalities to order those unemployed for more than three months to perform up to 20 hours of community service per week. There were several problems that made the law very unpopular. Firstly, the law employed only negative enforcement – the work was unpaid and refusing to perform it meant losing all benefits. Secondly, it was arbitrary, the municipalities could order all/some/none of the eligible unemployed to do the work. Thirdly, it was immediately decried by the opposition as forced labor and the name stuck which of course did much to damage the public perception of the law. Fourthly, in some cases unemployed found themselves working next to convicts sentenced to community service which generated immense displeasure. Lastly, as I already noted, Czechs generally consider assistance in unemployment as something they earned, in other words an entitlement, not a benefit and as such, the fact that the law could be used to compel people still drawing it to work was very poorly received. The law was eventually declared unconstitutional by the Constitutional court.

This is one of the cases where other states thinking about implement a measure like this might learn a lesson or two even if it does not mean transferring best practices, but avoiding worst practices. In my opinion, any law mandating the unemployed must apply to all of them after some cutoff, the workers must not work alongside convicts and most importantly, there must be some monetary reward for the work done.

### Increasing the minimal wage

This is an initiative dear to the social democratic party (now the biggest governmental party), the current government is committed to incremental increases of the minimal wage over years 2014-2017. The argument for it is that it increases the motivation to work instead of remaining dependent on social security. While this incentive can probably create some jobs, it can also destroy some, as

employing some workers may become unprofitable. Since the first increase was done in 2014 it is too early to evaluate the impact (if there was any) on the jobs market.

### Tax breaks for foreign investment

This was a very popular tool in the first decade of the 21<sup>st</sup> century. In return for building a factory in Czech Republic, companies would be exempted from paying corporate tax for some years (usually 10-15). This tool has not been used so much lately for several reasons. Firstly, EU rules greatly restrict its use. Secondly subsidizing the biggest companies is considered unfair by many. Thirdly the jobs this brings are most often poorly paid. Lastly, companies seeking just cheap labor have moved on to poorer countries.

This tool has had mixed results, on one hand it brought quite a lot of jobs, but those are most often menial jobs, where the pay is poor. Also some companies relocated when their tax exemptions were about to run out. But poorly paying jobs are better than no jobs.

### Wage subsidies

This is a tool most often used in regions with high unemployment, the government simply agrees to pay a portion of new worker for some time. This reduces unemployment in the short term, but many of the workers are fired when the subsidy runs out. There is also a risk of running afoul of the EU rules on public assistance to private companies. But properly used, this tool can be useful, especially if used in conjunction with requalification courses.

### Free preschool care for children

This tool is meant to accelerate the return of mothers from parental leave, since the longer a person is not working, the lower their employability. The primary mean of achieving this is building more crèches and maternal schools, but also reducing the bureaucratic obstacles for private child minding.

### Duty to employ the disabled

In order to increase the employment of the disabled, the government has decreed that all companies that have 50 or more workers must employ a set percentage of workers or buy products from specially designated companies that employ mostly the disabled or pay a fine.

This policy has been a failure since most companies just choose to pay the fine. This is primarily because once hired, it is almost impossible to fire a disabled worker. Also the expense required to allow the disabled to move around the workplace can be considerable, especially in older buildings. The obvious way to at least partially remedy the situation would be to remove the extra anti-firing protections from the disabled. Also grants to make a "barrier-less" workplace might make companies more amenable to hiring the disabled.

### Best practices

This is a section I write with some reluctance. I remain deeply skeptical about the ability of a medium sized EU state to positively impact the unemployment rate. Especially if the state is an export based economy with one dominant trading partner. To demonstrate my point: Czech Republic spends only half (percentage wise) the EU27 average on active employment policies, yet its unemployment rate is now the second lowest in the EU.

Nonetheless I will make a few generalized suggestions: Cut the red tape, make it easier and faster to create new enterprises make it easier to hire and fire workers.

## Data sources:

Czech statistical bureau: [www.czso.cz](http://www.czso.cz)

Eurostat: <http://ec.europa.eu/eurostat/>