

THE CZECH LABOUR MARKET AND FLEXICURITY

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Abstract

Flexicurity reflects the current basic trend within the EU in guaranteeing high employment levels and attainability of national fiscal systems. It was introduced in Denmark in 90ties and helped to reduce the (long-term) unemployment levels significantly. The Czech labour market, despite the transformation process, has still a space for further improvement, especially in the time of economic slow-down. The aim of the paper is to describe the flexicurity elements in the Czech Republic. First of all, we describe the general economical background and compare it with other Central European economies and with situation in Denmark where the concept comes from. In other parts of the paper we analyze the particular elements of the so called golden triangle of flexicurity – flexible labour market, generous welfare system and active labour market policies. We also focus on the components of the flexicurity, which the Czech labour market still lacks and would be useful to implement them.

Despite the fact that the previous period (years 2005-2008) was very successful, the period was not used effectively to reform the labour market deeper. The Czech labour market faces nowadays several crucial problems such as too high employment protection of the regular workers or small incentives for the long-term unemployed to re-enter the labour market. As a result of these features we can speak without doubt about dual labour market protecting part of labour force too generously and leaving too many people outside the market. Further the construction of the social system does not motivate the long-term unemployed to enter the labour market again or to get further qualification to boost their chances to get a job again. All these facts lead to the ineffective operation with the human capital in the Czech Republic and deepen the costs on social and relating policies.

Key Words

Flexicurity, labour market, Czech Republic, European Union, social systems

Introduction

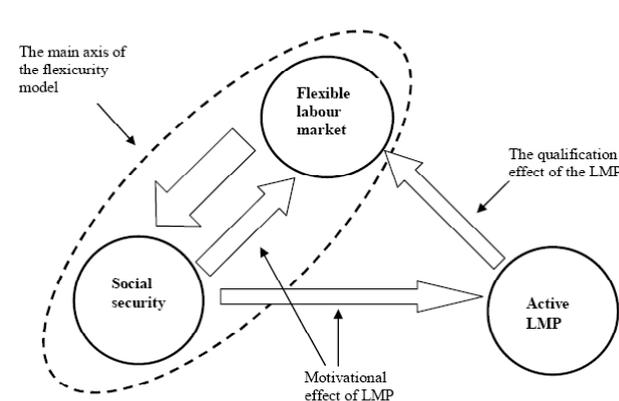
The Czech labour market was in the recent two decades deeply reformed due to the political and economical changes. Despite these reform steps there is a space for the future improvement, especially in the time of the global economic slow-down. The paper focuses on the elements of the flexicurity model (so called golden triangle) which could be implemented into the Czech labour market and improve its functioning.

In Denmark this concept was used in the broader way in 1990ties and helped to reduce the unemployment levels significantly. The basic idea of this model comes from so called Golden triangle and is focused on **combination of adaptability to a changing international environment and a solidary welfare system**. It combines a liberal and flexible labour market with low barriers to (re)enter/leave and generous welfare system. The high degree of mobility from employer to employer is linked to the very level of employment protection which is usually connected rather with Anglo-Saxon economies than for a solidary Scandinavia.

Thanks to the generous unemployment support the Danes are not afraid of changing the job. Based on this we speak about so called **high numerical flexibility** – number of people changing the job is therefore substantially higher than in the EU. Denmark has a highest figures in the percentage of employed which are each year affected by unemployment and receive unemployment benefits or social assistance (around 20 percent) within the EU. But the majority of these unemployed persons manage to find their own way back into a new job.

The third part consists of **active labour markets policy** (ALMP) which enables to prequalify those who do not enter the labour market within the short period. There are two important effects in this connection. On the one hand, as a result of the active

measures, the participants in various programmes (e.g. job training and education) are upgraded and therefore improve their chances of getting a job (qualification effect). On the other hand, the measures can have a **motivational effect** in that unemployed persons who are approaching the time when they are due for activation may intensify their search for ordinary jobs, in case they consider activation a negative prospect (Madsen 2006:7). The golden triangle is depicted below on the picture No.1.



Picture No. 1 Golden Triangle of Flexicurity

Source: Madsen (2006), p. 6

The EU implemented this concept into the Lisbon Strategy in 2006. Lisbon strategy, started in 2000 on European council in Lisbon (Council of the European Union 2000: 1), aimed on improving of the EU competitiveness within the world economy. In 2004 the Strategy was primarily focused on the economic growth. Growth could be created only in case there are enough

jobs with a high productivity. Otherwise the EU states would not be able to guarantee current welfare standards in the future. Based on these circumstances, the flexicurity concept was strongly welcomed within the EU.

In 2006, the Spring European council (Council of the European Union 2006: 2) stressed the need to develop more systematically in the National Reform Programmes comprehensive policy strategies to improve the adaptability of workers and enterprises. It noted that the Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity (European Commission 2007a: 4). As the Commission further noted, “Common principles of flexicurity will provide Member States and the European Union with a common understanding of flexicurity and the challenges it aims to address. They will strongly underline **the involvement of the EU in securing Europe’s social and economic future**” (European Commission 2007a: 4).

To illustrate the contributions of the model in the other EU Member States we can notice an example of Sweden. The so-called Career Transition Agreements were established as part of collective agreements to support workers in the case of redundancies Career Transition Agreements help workers who become redundant due to lack of work to find new jobs and can thus be seen as a complement to the public employment service (European Commission 2007c: 12). Such a measure helps to improve the worker’s position and turn him back to the labour market. Other example comes from Hungary. The new Labour Code launched in 2003 allows employees to request a modification of their working time, which allows full-time workers to ask to work part-time and vice versa (European Commission 2007c: 12). This helps to the workers to combine the family life and professional career.

The aim of the paper is therefore to test the hypothesis “**the Czech Republic has not applied the flexicurity and its elements into the labour market policies yet**”. To test the hypothesis we will use research methods such as induction, deduction and comparative analyses.

General labour market background

In the past two decades the Czech labour market, together with other Central European economies had to face deep political, social and economical changes and transform the labour markets as well. At the beginning of the 90ties the labour force was almost overnight confronted with many new requirements (e.g. language knowledge, IT skills, flexibility). According to Nesporova, Cazes (Nesporova, Cazes 2003:10) these changes had impact on:

1. Decline in employment rates.
2. Shrinking participation rates.
3. Growth of unemployment rates (long-term unemployment, unemployment of disadvantaged groups, regional unemployment).

All these changes had an impact on labour market performance which weakened significantly at the beginning of 1990ties. First after economical and labour markets reforms the Czech economy started to grow. Within the period 2000-2008 the GDP grew strongly above EU average, in 2005-2008 was the annual GDP growth more than 6%. This had a positive effect on labour market performance. The employment rates were raising and unemployment rates declining. In 2008 reached the unemployment rate according to the Czech Statistical Office the long-term minimum 4,2%. Nevertheless, within 7 months due

to the impact of the economic crisis reached the unemployment the opposite record (7,9% in 2nd quarter 2009 according to the national methodology) and is expected to grow further. In the table Nr. 1 are illustrated the latest data indicating recent labour market situation in the Czech Republic and in Central Europe. The figures are compared with Danish labour market to demonstrate shortly the differences and similarities between Denmark and Central Europe.

In case we focus on performance of the Central European region we can state that the whole region had in 2008 lower employment rates than is usual in Denmark. The difference between the employment rate in the Czech Republic and Denmark was 12%, in other CE states was the difference even wider.

	Employment rate	Unempl. rate 08/09	Long-term unemployment/total unem.	Part-time empl./total employment	Social expenditures/GDP (06)	GDP/head EU27=100
CR	66,6	6,9	50,2	3,5	18,7	80,4
Hungary	56,7	9,6	47,6	3,1	22,3	62,9
Poland	59,2	8,0	29,0	9,3	19,2	57,5
Slovakia	62,3	11,6	66,1	2,7	15,9	71,9
Denmark	78,4	5,9	16,1	18,0	29,1	118,3

Table No. 1 Labour market indicators in % – Central Europe vs. Denmark, 2008

Source: Eurostat database, OECD, *Employment Outlook 2009* – forthcoming edition

Further, very essential difference was among the long-term unemployment rate. This low figures in Denmark result from the flexicurity model as mentioned above. Danish labour

market has the lowest long-term unemployment thanks to the qualification and motivation effects. In the Czech Republic, Slovakia and Hungary is every other person unemployed longer than 12 months. That indicates that all these states still do not have effective ways how to bring the unemployed back on the labour market. One year is considered for a period, after which the return on labour market gets more complicated and the unemployed lose not only their skills and qualification but also a working habits.

Another difference we can see in part-time employment. This is one of the ways how to boost the employment rates and is favoured mainly by women to combine the professional and private life. Nevertheless, this type of employment is preferred only rarely in the Central Europe. Due to the lower economic level, tabulated in the last column, the second full-income in the family is very often a necessity to guarantee a certain living standard. Anyway, this type of employment can be used by particular groups on the labour market (e.g. mothers on maternity leave, students, and retired people); in case the part-time employment would be more beneficial for companies and employers.

For quite surprising we can regard the fact that the harmonized data for Danish and Czech unemployment indicate only relatively small gap (5,9% respectively 6,9%). Other Central European states achieved in 2nd quarter 2009 higher levels of the unemployment rate.

Period 2005-08 is in general considered for a very successful and until autumn 2008 strongly prevailed the demand on labour force. First the impact of economic crisis and the slow-down of the economy reflected the real labour market situation with all its weaknesses. In the next part of the paper we will focus on the flexicurity elements which already exist in the Czech Republic

and aim on the measures which could further improve the labour market situation.

Flexible labour market

Flexibility and low barriers between outsiders and insiders are considered for crucial for proper functioning of the labour market and effective operation of the human capital. In this aspect the Czech labour market faces one the most essential problems. There is a huge difference in employment protection among various groups of workers. This strictness, measured by **Employment Protection Legislation (EPL) index**, was constructed by OECD. EPL indicates how easy or complicated is hiring and firing the workers in particular economy. The figure can oscillate from 0 (no protection) to 6 (maximum protection). In other words, the higher is the figure, the higher is the employment protection. Table No. 2 records the EPL index for the selected EU Member States who are OECD members as well. As we can see the Danish economy has lower employment protection according to the European standards (overall strictness in Denmark is 1,8). Furthermore, the barriers are low for all the employers groups **with small differences in employment protection** regime. In the EU only UK and Ireland had the lower value of the EPL. On the contrary, the highest protection of employers was in the Southern Europe (Portugal, Spain, and Greece).

In case the states implement the flexicurity model into their economies they would have to reform the labour codes, reduce the employment protection and especially the differences between various groups of workers on the labour market. The problem is rather a realization and reform of national labour codes, although the Danish case clearly shows that the lower employment protection does not harm the employees. Despite a high fraction of workers affected in Denmark by unemployment

each year (around 20 percent), the majority of these unemployed persons manage to find their own way back into a new job. As an indication, the long-term unemployment as a percentage of total unemployment (6+ months, 12+ months) was in 2004 respectively 45 percent and 22.6 percent in Denmark, compared to 60.4 percent and 42.4 percent in EU-15 (Madsen 2007:15).

Type of contract	Regular	Temporary	Overall EPL strictness	
State/ Year	2008	2008	1998	2008
Czech Republic	3,0	0,9	1,9	2,0
Denmark	1,6	1,4	1,9	1,8
Finland	2,2	1,8	2,2	2,0
France	2,5	3,6	2,8	2,9
Germany	3,0	1,2	2,6	2,4
Greece	2,3	3,1	3,5	2,8
Hungary	1,9	1,4	1,5	1,7
Ireland	1,6	0,6	1,2	1,3
Italy	1,8	2,0	3,1	2,4
Netherlands	2,7	1,2	2,8	2,1
Poland	2,1	1,8	1,9	2,2
Portugal	4,2	2,1	3,5	2,9
Slovak Republic	2,5	0,4	2,2	1,8
Spain	2,5	3,5	3,0	3,9
Sweden	2,9	0,9	2,5	2,2
United Kingdom	1,1	0,4	1,0	1,1
OECD average	2,1	1,8	2,2	2,1
OECD median	2,4	1,4	2,4	2,2
OECD mode	2,5	1,4	1,9	2,0

Table No. 1. EPL in 2008 in selected OECD states

Source: OECD, http://www.oecd.org/document/22/0,3343,en_2649_39023495_43221014_1_1_1_1,00.html#epl

In the Czech Republic the overall strictness reached 2,0 in 2008. In other words such an overall employment protection is very common within in the OECD (OECD average is 2,1, median 2,2 and mode 2,0). The problem is a significant difference between protection of regular and temporary workers. Only in Portugal and in the Slovak Republic is the gap between protection between regular and temporary workers wider. The EPL index for regular workers is 3,0 and is above the OECD average and median value. On the contrary, the temporary protection is only 0,9 which is below the values typical for OECD. Furthermore, about only 9% of regular workers has a contract for a fixed period (Nekolová 2008: 27). As a result, on the Czech labour market do exist two groups of workers and in the final effect two different labour markets. First group is generously protected with quite complicated rules for firing the workers, in the other group the employment protection is very weak compared to the international standards.

Such a high employment protection of most of the workers has a negative effect on employment; the companies are afraid of hiring the workers on regular contracts and prefer other forms of employment e.g. temporary employment or short-term agreements etc. These forms of employment face mainly young workers who entered the labour market recently and the workers with low achieved education. This group of workers are threat by unemployment as well. According to the Czech Statistical Office the unemployment rate of the workers with primary education was about 24% in 2009. In case the employment protection is too high, the effect on this group is negative. The companies rather do not hire these workers and they aim often into grey economy or work semi-legally. Here we can see also the link with construction of social benefit system.

For a positive step to create more flexible labour market we can consider the proposals of **Pro-family package** introduced by the Czech government in 2008. Its goal was reconciliation of work and family life by proposals such as: institute of mutual parental aid, services of the institute of a mini-nursery, tax allowances for employers providing or subcontracting care for children of their employees or strengthening the motivation of employers to employ parents caring for children on the basis of a part time job (National Reform Programme 2008: 68). Due to the political changes in 2009 the package has not been launched yet. The measures included in the package in general would boost especially female employment. Although the package would have a positive effect on labour market flexibility, we should realize that it aims at a group which is planning to return on the labour market in the future. Definitely, the proposals would make the return on the labour market easier but they do not solve the problem of dual labour market at all.

Generous welfare system

Before focusing on the topic of welfare system we should mention the structure of unemployment. According to the Czech Statistical Office the unemployment rate of primary educated reached almost 24% in 2nd quarter of 2009. In the group of workers with secondary education it was 7% and for people with tertiary education only 2%. About 33% of the long-term unemployed are again people with primary education; another 42% achieved only secondary education without graduation. Into the group of long-term unemployed belonged in this 2nd quarter 2009 almost 95 thousand people, more than 31 thousand of them do not work longer than 8 years. Because the wages tend to rise with the achieved education, it is obvious that the group most threat by long-term unemployment are the

workers with primary education having predominantly the low-income as well. It is crucial therefore make the work pay and deepens further **the gap between unemployment benefits and minimum wage**.

Positive fact is that the Czech Republic in 2007 reformed its social benefit system with a view to increase the motivation of inactive low-income groups to enter the labour market. The new legal adjustment is giving financial advantage to those welfare recipients, who are actively solving their situation (e.g. by looking for a job). In case a person asking for welfare benefit does not actively cooperate in looking for a job, rejects a job or does not show own effort to raise his/her income, the amount of the social allowance will be lowered, possible down to a new category of survival minimum. At the same time, the welfare system has been simplified. A number of previous social allowances have been replaced by three new allowances: living allowance, exceptional immediate allowance and supplementary allowance (National Reform Programme 2008:70). As a result, according to the Eurostat database, the long-term unemployment rate dropped from 3,9% to 2,2%.since 2006 to 2008.

Despite the reform there is still a problem with low motivation of the long-term unemployed to enter the labour market. Thanks to the construction of the social system receives the family with 2 children, one adult long-term unemployed and other economically inactive about 80% of the average income of the low-income group (Nekolová 2008:51). To summarize, the combination of the relative generous social system and high employment protection does not motivate the low-income and low-educated group of unemployed to re-enter the labour market. As the result it is for this group more beneficial to stay purposely unemployed.

Active LMP

Active labour market policy is one part of public employment policy. It is executed on the central (Social Security Administration) and on the local level (Labour Offices). The Labour Offices can within their financial budget decide what type of ALPM they will apply according to the need of the local labour market. As mentioned above, this type of labour market policy is relative new and the amount of means is though continuous growth quite low. Within the 90ties this type of policy was used very rarely. First since the EU accession was the position of this policy improved and the financial amounts grew. Nevertheless, in 2007 only 0,2% of GDP aimed at ALMP which means it is still undersized.

What misses further is a general consensus about the role of the ALMP. Today, there are two types of ALPM provided by Labour offices – financial incentives to the companies and nonfinancial incentives such as qualification courses for unemployed, consulting etc. The ALMP is financed from the state budget, European Social Fund and Operation Programme (OP) Human Resources Development. According to the Czech National Reform Programme in 2007-13 the OP Human Resources Development allocates 1,84 billion EUR (National Reform Programme Czech Republic 2008: 81).

The aim of the ALPM in the Czech Republic is to bring the unemployed back to the labour market – we speak about so called enforced participation which is typical for Anglo-Saxon states. The problem lies, according to Nekolová (Nekolová 2008:51), in fact that the groups most threat by unemployment are not interested into the ALMP measures. According to her interviews with the Labour Offices workers there is a pressure from the central level to fulfil formally the Individual Action Planes with long-term unemployed. The unemployed can

receive further higher social benefits. The effect of the ALPM is negative and the people remain therefore unemployed.

Another problem is lack of the tradition of further education after completing the formal education. The intensity of further education and qualification is recorded by the Eurostat using the Life-long learning index. The results of the Czech Republic are impressive. In the Czech Republic only 8% of the workforce received education or training in the four weeks preceding the survey in 2008 (compared with almost 30% in Denmark or 32% in Sweden). In the Czech Republic is still prevailing the feeling that in case the person gets skills and knowledge during education period it can apply them during the whole professional career.

For interesting we can consider the reasons why the further (pre)qualification after completing formal education remains on such a low levels. From the questionnaire of the National Training Fund in 2003 results that in case the person is once formally educated, the businesses do not invest into the further education due to the high costs (25%). About 9% of businesses think that only the state is responsible for the education and about 14% of the workers are not interested.

As we can see, the position of the ALPM is still quite weak caused by the low amount of money invested into this policy and general attitude to the need of investing into the human resources. The group of the long-term unemployed, at which should be the ALMP aimed the most, is not interested.

Conclusion

Flexicurity concept is in general considered for a very successfully thanks to its balance between low employment protection and generous welfare system which stimulates the workers mobility among the jobs. This system is especially beneficiary in case of frictional unemployment when the people are actively job seeking. The workers unemployed for a longer period are according to this the concept prequalified to facilitate the return on the labour market.

In case we test the hypothesis stated in the introduction we can say that **most of the flexicurity elements have not been applied into the Czech labour market policies yet**. Following elements lack on the labour market and should be implemented.

First of all, the employment protection of the regular workers is (measured by employment protection legislation index) too high what causes the rigidities on the labour market. There is also a substantial difference in protection of regular and temporary workers, one of the widest within the OECD. That dissuades the companies from hiring the workers for shorter period because they would stay in the company also after the time they were needed.

The problem lies also in the construction of the welfare system. According to the researches the group most threat of being unemployment and long-term unemployment are the workers with low education achieved belonging into the low-income group. In 2009 about 33% of the long-term unemployed were the people with primary education; another 42% of them achieved only secondary education without graduation. This group suffers from high employment protection because the companies are afraid to hire them as regular workers for shorter periods.

The same group is further not interested in qualification within the ALMP and the system does not really force them to join such prequalification. Compulsory participation in the prequalification courses should be one of the necessary conditions for the long-term unemployed to receive the social benefits. In Denmark, the welfare system is very generous in case of unemployment allowing receiving up to 90% of the previous income, but the conditions to receive the unemployment benefits are much stricter.

Finally we can say that in case the people are very often not interested in receiving the job. The current system has actually no financial or non-financial means how to bring them back on labour market. The solution in this case could be to combine lower employment protection with positive taxes for the low-income group to make the jobs more financially attractive.

Further, the Czech Republic has quite a short tradition of prequalification or further education of human resources during their career. This fact again reduces employability. It corresponds with the value of the Life-long learning index which is below the EU average. Only 8% of workforce received education or training in the four weeks preceding the survey in the Czech Republic what is and significantly below the level of the Scandinavian countries (e.g. 30% in Denmark).

To summarize, the Czech Republic has still space to improve dealing with the human resources. For the biggest problem we can consider group of long-term unemployed belonging to the low-educated and low-income group. Despite the reforms of the social system the current form of flexicurity in the Czech Republic does not effectively aim at this particular group leaving it outside the labour market.

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