

3.2. Labour market and wages

A significant share of long-term unemployment belongs, in spite of the decreasing of total unemployment², among the main problems of the Czech economy. Apart from the high regulation of the labour market and taxation of labour, another fact that adds to this problem is also the insufficient difference between social support from the state and average wage in low qualification employments as a weak motivation to work. Higher flexibility of the labour market, in spite of the more favourable evaluation of this indicator in the CR compared to states of the Western Europe, would increase the involvement of the typically marginated groups of the society in the labour process. The role of education of an individual is still fundamental for the risk of long-term unemployment, even though the typically strong position of university graduates in the labour market somehow weakens.

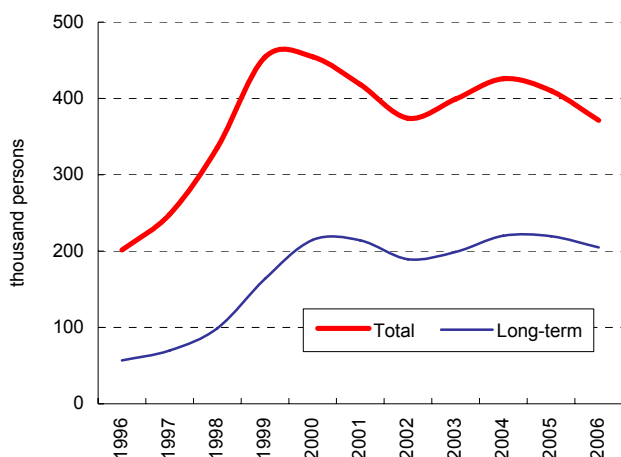
Long-term unemployment

- Year-on-year drop of long-term unemployment for the second year in a row**

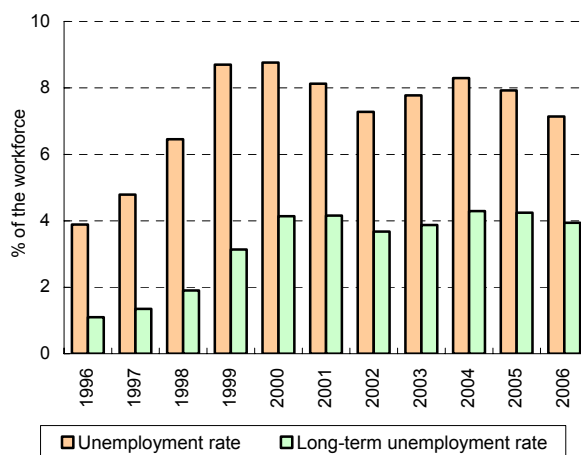
In 2006, the year-on-year drop of the total unemployed continued even faster than in 2005. With a slight drop, year-on-year by 14.7 thousand to 205.0 thousand, the number of long-term unemployed continued and their share in total unemployment increased to its long-term maximum of 55.2%. The rate of long-term unemployment dropped by 0.3 p.p to 3.9%. The average number of unemployed for more than 4 years dropped in 2006 year-on-year by 3.5 thousand to 60.0 thousand persons. This group made up almost one third of all of the long-term unemployed.

In the long-term view, absolute numbers of unemployed for more than one year increased rapidly until 2000. After 2 years of decreases this growth relapsed and the number of long-term unemployed reached its highest value of 220.3 thousand in 2004. The share of long-term unemployed in the total number of unemployed exceeded the 50% level in 2001 from 28.2% in 1996 and kept this level until 2003. Since that time it has been growing slightly, even though in 2006 with a slower rate. With the origin of long-term unemployment as a relatively new phenomenon in the CR, gradually, the rate of long-term unemployment jumped, figuratively speaking, from nothing to 4.2% in 2001, since when it slightly fluctuates around this level.

Graph 70 Total and long-term unemployment



Graph 71 Total and long-term unemployment rate



- Structure of long-term unemployment**

Long-term unemployment is quite evenly distributed among age groups from 20-59 years. The rate of long-term unemployment has always been higher for females. In 2006 there were 13.3% of university graduates among the long-term unemployed. Among all of the unemployed in 2006 the share of university graduates increased from 0.7 p.p to 4.8%.

- Consequences of long-term unemployment**

From the economic point of view, the biggest danger is the formation of dependence on state institutions and insufficient living standard, but the consequences of long-term unemployment over fell from the economic to other spheres of life of an individual and the society. These include the (generally known) loss of motivation,

² Source of data on employment and unemployment is the Labour Force Sample Survey CZSO.

loss of working habits, restriction of social contacts and even passivity towards own situation, possibly categorization to “grey economics” with loss of legal protection and possibility of professional and personal growth. Working situation of parents as an example plays an important part for the adolescent long-term unemployed, as proved by the results of surveys³, according to which the group of adolescents, kept in labour offices for more than 6 months after finishing basic education, had a markedly higher number of parents unemployed (22%) or in disabled or proper pension than is usual for the rest of the population. More than three quarters (78%) from these unemployed parents were unemployed more than one year. In the group of unemployed adolescents for a long time, in 22% of their families both parents were employed and in 42% of the families only father was employed. Long-term unemployment in the beginning of the professional carrier is another new phenomenon compared to long-term unemployment formed by the termination of branches connected with the restructuring of the economy related to the previous generations.

- **Above the average share of the long-term unemployed within the international comparison**

When comparing the average of EU25 with the more favourable situation of EU15, e.g. Ireland, Austria, Sweden and Great Britain manage to keep this level very low. In the Czech Republic the rate of long-term unemployment is above-the average. More serious is the situation particularly in Poland and Slovakia. Another indicator, harmonized long-term unemployment, expressed as the share of total unemployment, does not differ very much on the level of EU25 and EU15. Slightly better is the situation in EU15, but both levels are below 50%. The Czech Republic recorded in the share of the long-term unemployed in total unemployment a rapid increase, which markedly slowed down after 2001 but in spite of this it belongs to the highest among the compared states.

Table 4 Rate of long-term unemployment – international comparison for selected countries

Rate of long-term unemployment in %											
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU25			4,4	4,1	3,9	3,8	3,9	4,0	4,1	3,9	3,6p
EU15	4,9	4,8	4,4	3,9	3,4	3,1	3,1	3,3	3,4	3,3	3,1p
Czech Republic			2,0	3,2	4,2	4,2	3,7	3,8	4,2	4,2	3,9
Finland		4,9	4,1	3,0	2,8	2,5	2,3	2,3	2,1	2,1	1,9
Ireland	7,0	5,6	3,9	2,4	1,6	1,3	1,3	1,5	1,6	1,5	1,4
Poland		5,0	4,7	5,8	7,4	9,2	10,9	11,0	10,3	10,2	7,8
Austria	1,2	1,3	1,3	1,2	1,0	0,9	1,1	1,1	1,3	1,3	1,3
Slovakia			6,5	7,8	10,3	11,3	12,2	11,4	11,8	11,1	10,2
Slovenia	3,4	3,4	3,3	3,3	4,1	3,7	3,5	3,5	3,2	3,1	2,9
Sweden	2,7	3,1	2,6	1,9	1,4	1,0	1,0	1,0	1,2	1,2	1,1
Great Britain	3,1	2,5	1,9	1,7	1,4	1,3	1,1	1,1	1,0	1,0	1,2

p = temporary value

Source: Eurostat

Employment intensity

- **Following a long-term drop employment increased**

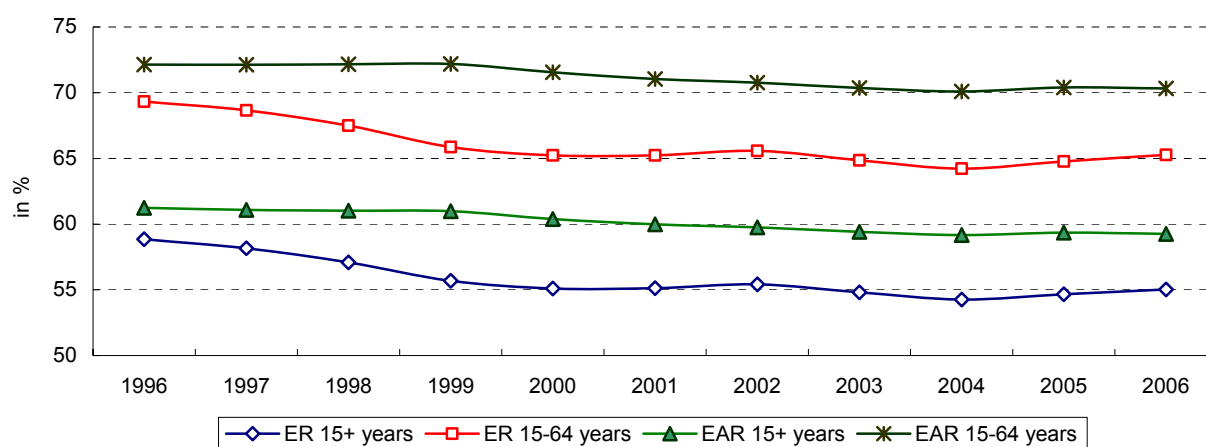
Activity on the labour market measured by the employment rate of persons aged 15-64 in the last ten years recorded a gradually decreasing trend until 2004, which showed a change towards growth. From the original 69.3% in 1996, over the lowest point 64.2% in 2004 to 65.3% at present. The employment rate for labour force aged 15+ developed in a similar way, these rates very slightly approached each other, which signalises higher employment of persons aged 64+ (if we compare the average difference for the period 1996-2000 and 2001-2006, it is by 0.2 p.p.). Similarly, the rate of economic activity for the observed period dropped, for the 15-64 group by 1.8 p.p. to 70.3% in 2006, for the population aged 15+ by 1.9 p.p. to 59.3%; however this drop was approximately a half compared to the employment rate.

All of these rates recorded a slow turn towards the growth in 2004. In the actual

³ Survey realized within the project of the Ministry of labour and social affairs: Trhlíková, J., Úlovcová, H. a Vojtěch, J.: Social aspects of the long-term unemployment of young people with a low education level, National Institute of Vocational Training.

development, employment rate in 2006 had been growing significantly for the second year, the year-on-year growth of the economic activity rate from the previous year changed into a slight decrease, which did not confirm the sign of a turn in 2004.

Graph 72 Employment rate and economic activity rate in the CR



- **Unusual drop of the number of employed in the youngest age groups**

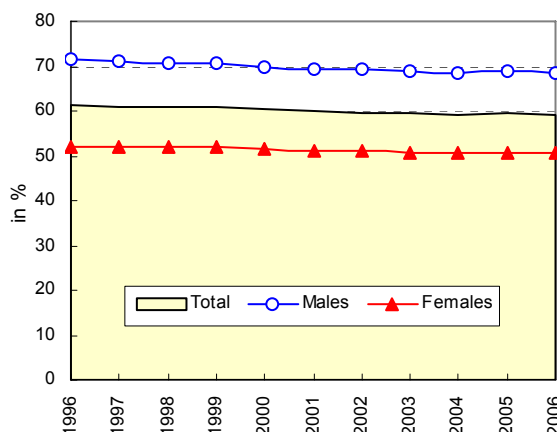
Economic activity rates for males and females⁴ are relatively stable in time. For males, it dropped for the observed decade from 71.4% to 68.5% in 2006. In the second half of the period the decrease slowed down and 2005 even recorded a slight increase. The economic activity of females had a slightly different development. Following a slight increase until 1999 to 52.1% it started to drop and since 2004 it has been rather stagnating around 50.6%.

The most significant change of the economic activity rate in the last ten years, in this case a decrease, took place in the young age group of 15-19, which was partly caused by a change to a nine-years school attendance and partly by an increase of higher education. According to OECD, the expected number of years in education in 1995-2004 increased by 2.7 years; basic and secondary education contributed by 1.6 years and higher education by 1.1 year. It also decreased for the age group 20-24. In age groups 50+, the economic activity rate to a smaller or greater extent increased until the age of 64, above this level it slightly decreases. The growth was most significant for the age group 55-59. Other age groups with the traditionally highest economic activity rate remained approximately on the same level.

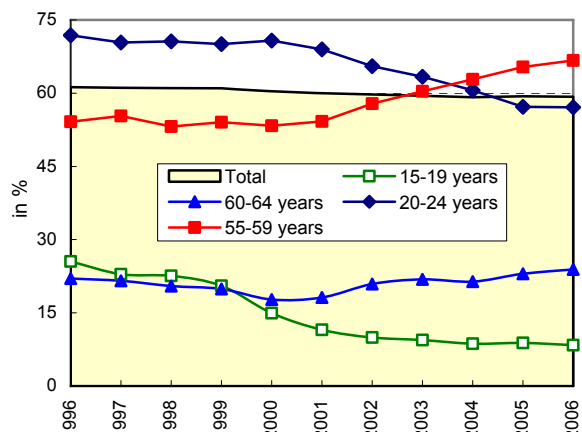
The strongest factors, which affected the employment intensity in the CR, were a longer time spent in education for the youngest age groups, ageing of the population and an increasing retirement age. However, in spite of a higher engagement of older persons in labour force and the shift of retirement age, the decrease of young people (15-24) and ageing of the population led to a total decrease of economic activity in the whole period point of view. Employment of females did not have a fundamental effect on the change of total employment intensity. Since in the CR it has been high in the long term of which mostly full work load, it does not explain the still low fertility rate, which is probably more of a reflection of changes in the attitude in the society in the sense of a higher orientation of females on education and career and a postponement of family.

⁴Economic activity rate differed by age and sex are for population aged 15+.

Graph 73 Economic activity rate by gender



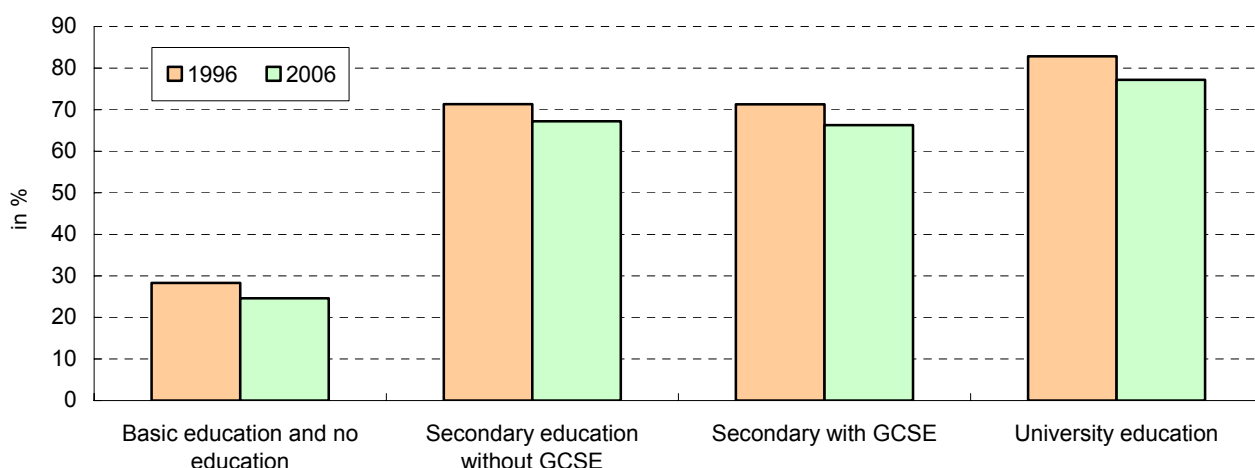
Graph 74 Economic activity rate by age



• **Economic activity rate by education**

In 2006 compared to 1996 (Graph 75) the economic activity rate decreased for persons with all education levels, the most marked decrease was for the group with basic or without education which had already before the lowest rate. Economic activity rate for persons with university degree dropped by 5.6 p.p., which weakens the traditionally strongest position of these persons on the labour market due to a fast growth of the population's education.

Graph 75 Economic activity rate by education in 2006 compared to 1996⁵



• **Other factors**

An unfavourable situation for employment was a relatively low employment in the services sector. Apart from that, higher employment is slowed down by few part-time jobs and hence within the EU above the average number of persons working full-time. The growth of total labour productivity has been increasing since 2004 faster than real wages, which is a positive phenomenon for the balance on the labour market, however it represents a weaker motivation by wages from the potential employees point of view. On the employer's side, obstacles are particularly made by high non-wage labour costs set by the law.

The labour market in the CR was in 2006, according to the Index of employment rigidity⁶, with the value 28 more flexible than the average of OECD countries (33.3). The CR took the 59th place in the whole world out of 175 evaluated countries, which is not a bad result. Above the average were also the already mentioned non-wage costs of admitted employees.

⁵ Selected international codes of education ISCED 97.

⁶ World Bank, 2006 – index combined by three sub indexes, index of difficulty of admitting new employees, index of inelasticity of working time and index of difficulty of discharging. Values range from 0-100 (the highest is rigidity).

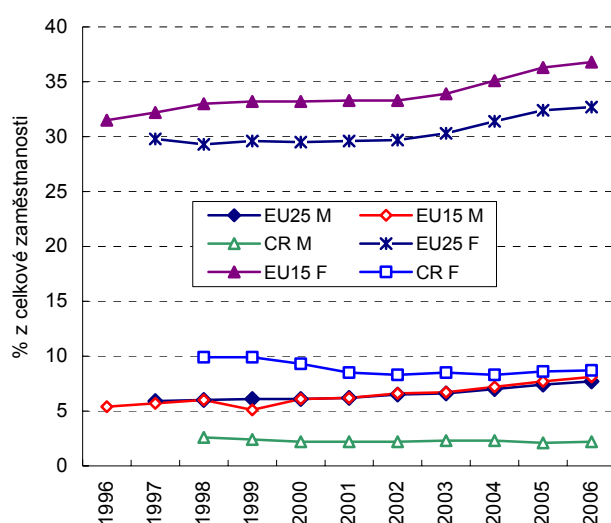
- **Employment rate according to the European average**

Employment rate for the average of EU15 and EU25 gradually increased in the last ten years. Employment rate in the CR, for a long time above the average of EU15 and EU25 states, gradually decreased below the average value of EU15 in 2004. It remained on this level until 2006 and since then followed a common, hence increasing trend with values for both union units.

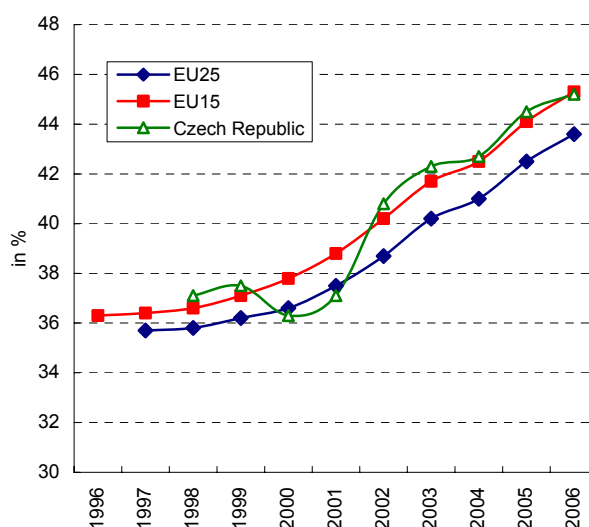
High share of females working part time in Western Europe and also in EU25 is clear from Graph 76. The same share is in the CR far behind the European and it rather approaches the European share of males working part-time. In contrast the difference between part-time jobs of males and females in the CR is significantly smaller than the European average.

The employment rate of older employees (aged 55-64) in the EU15 and in a tow the EU25 has been steeply increasing in the last ten years. In the CR this rate is close to the EU15 average since 2002. In 2006 it made up 45.3% and increased in the last ten years by one quarter.

Graph 76 Persons working part time by gender, annual average



Graph 77 Employment rate of employees aged 55-64



Source: Eurostat

Productivity and wages

- **Productivity in 2006 faster than wages...**

In 2006, the total labour productivity in the CR increased faster than real wages, already for the third year in a row. This very positive phenomenon proves an intensive character of growth of the Czech economy in the given period. A faster growth of total labour productivity partly reduces the gap in productivity between the CR and developed countries, partly also the imbalance which was formed by a faster growth of real wages compared to the productivity.

- **... however, compared to 2000, the wage growth is still higher**

Beginning with 2004, the growth rate of the total labour productivity overtakes the dynamics of real wages. This happened only in 2000 and also in 1998 when the growth of productivity was relatively low but the real wage dropped. However, in spite of this favourable development of the last three years, base indices show (base being 2000) that in the last six years real wages increased more than productivity (Graph 78). Favourable fact is that in the last three years the effect of "closing scissors" occurs.

- **Average wage higher than CZK 20 thousand for the first time**

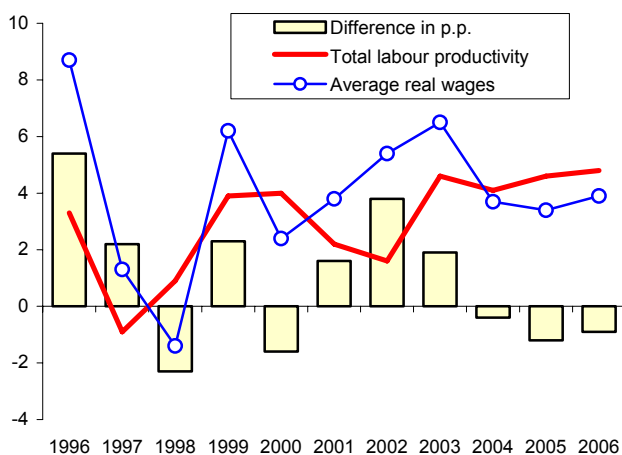
In 2006 the average gross monthly nominal wage in the CR exceeded CZK 20 thousand⁷ - compared to 2005, it increased by CZK 1 226 to CZK 20 211, which represents a growth by 6.5%. After inflation adjustments, the average wage increased by 3.9% at constant prices. Wage growth in the business sector was

⁷ The survey includes entrepreneurial subjects with 20+ employees.

higher than in the non-business sector – wage increased by 6.8% to CZK 20 333, in the non- business sphere by 5.4% to CZK 19 784. Wages increased in the business sector by 4.2% and in the non-business sector by 2.8% at constant prices.

In the long term, the best wages are obtained by employees in banks, insurance companies and pension funds. The average wage in 2006 was in banks two times higher than the national average, in insurance companies and pension funds approximately by 1.7 times higher. On the other hand, wages in the household sector i.e. physical persons not registered in the companies register reach approximately three fifths of the average wage in the CR. In the sector of non-profit institutions serving households, wages reached approximately 70% of the average wage. The level of average wage is however influenced almost exclusively by the sector of non-finance and government sector.

Graph 78 Productivity and real wage development (year-on-year %, difference in rates in p.p.)



Graph 79 Productivity and wages (real increment %, year 2000=100)

