

Thematic article: Youth Employment

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Abbreviations used (Czech version in bracket):

ALMP (APZ)	Active Labour Market Policy
CR (ČR)	Czech Republic
DLO (ÚP)	District Labour Office
ESA (SSZ)	Employment Services Administration
EU	European Union
MOL (MPSV)	Ministry of Labour and Social Affairs
MoS (MŠMT)	Ministry of Schooling, Youth and Sports
NÚOV	National Institute of Vocational Education
PIT (DPFO)	Personal Income Tax
ÚIV	Institute for information in education
VÚPSV	research Institute at the MoL

1 Trends

Czech youth employment is on a rapid decline. At the most striking, employment level of those aged 15-19 in 2004 stood at 12% of the 1994 value. The trend in youth employment is driven by two main factors: (i) the dramatic demographic changes in the size of young age cohorts during the last 15 years, and (ii) the equally dramatic improvement in access to formal education. We therefore start reviewing these two sources of declining employment.

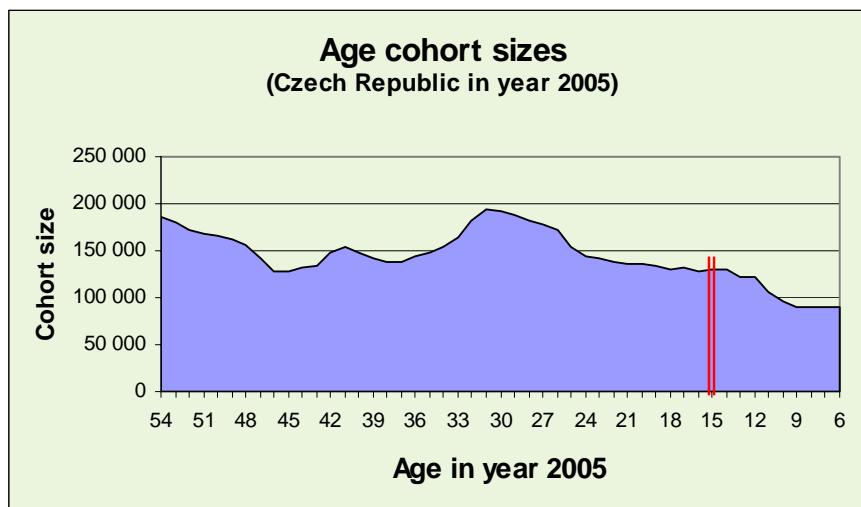


Figure 1 depicts age structure of the Czech population as of 2005. It is apparent that the most pronounced decline in the size of youth cohorts occurred in the early 1990s. It is not surprising that this decline in cohort sizes led to improvements in enrolment rates. The Czech Republic had extraordinarily high enrolment of youth in its upper-secondary schooling already in the late 1980s. Declining cohort sizes during the 1990s opened even wider access to upper-secondary education. Currently, mere 6-8 per cent of a given age cohort is entering the labour market with only lower secondary education or less. As a result, the Czech Republic boasts one of the highest upper-secondary school completion rates in the OECD. This process is not over yet. Figure 1 shows that while in 1989, the cohort size of 15-year-olds was almost 200 thousand, by 2000 it declined to 135 thousand, and this trend continues for younger groups. As a result, in the next five years, the Czech secondary education system will face further rapid declines of incoming cohort sizes.

The Level and Structure of Education

While the overall secondary enrolment rates are high in the Czech Republic, the structure of secondary education is unusual in the OECD perspective. Less than 20 per cent of pupils enters academic secondary program (“gymnasia”), compared to 47 per cent in a typical OECD country. Most of the cohort enrolls in vocational and technical programs (about 40 per cent in each type of programs). Compared to EU-15, the Czech upper-secondary system generates greater proportions of graduates in

technical, social, and economic fields. For example, while 28.5 per cent of pupils graduate in technical fields in the EU-15, the corresponding proportion is 43.7 per cent in the Czech Republic.

The general policy of the MoS has been to keep the number of pupils enrolled in gymnasia rather stable during the rapid demographic decline. It was the technical schools that gained in enrolment at the expense of the shrinking size of vocational programs. In accord with the low fraction of general-secondary education, an extraordinary small part of the Czech population attained tertiary education (about 12 per cent). There was a rapid expansion of public tertiary education in the 1990s as the number of students enrolled in public universities increased from 89 to 236 thousand between 1990 and 2003. Yet, OECD's Education at Glance (2004b) reports that in terms of the fraction of those aged 20-24 enrolled in education programs as of 2002, the Czech Republic surpasses only Turkey, Slovakia and Mexico. The enrolment picture is even bleaker in the age group 25-29.

In today's Czech Republic, about 60 percent of each cohort of 19-year olds graduates from a secondary program with the school-leaving "maturita" exam (Abitur/CGSE type exam), which is an effective prerequisite for tertiary education. In both 2004 and 2005, about 55 percent of those passing the exam enrolled in any tertiary program in the same year such that only about a third (0.6×0.55) of today's cohorts of 19-year-olds may be expected to eventually achieve a tertiary degree, possibly reaching the 2002 OECD all-population average of tertiary education attainment.¹

Labour Market Outcomes

Having described the main trends in age and education structure, we turn to the labour market. Aggregate labour market participation in the country has been high already in early 1990s and, despite its steady decline during the last 15 years, it remains relatively high today, at levels comparable with average EU-15 rate. However, during 1994-2004, the labour market participation rate of youth declined tremendously. Labour market participation of the age group 15-19 (20-24) declined from 30 (72) per cent to mere 9 (61) per cent. The decline still continues but it is slowing down. (The decline in participation rates has been more pronounced for young men than for women.) As a result the labour force of 15-19 years old declined from 250 thousand to 57 thousand while the size of inactive population stagnated, on the background of decreasing cohort sizes.

The key factor behind the decline in participation has been the increasing demand for education accompanied by improving access to formal education. Youth employment rate of the age group 15-19 (20-24) declined hand in hand with the decline of the labour market participation rate from 30 (67) per cent in 1994 to 5 (50) per cent in 2004. The sizeable decline in the labour force of the age group 20-24 can be attributed

¹ It is important to note that a simple ratio of all newly enrolled students in tertiary programs to the population of 19-year-olds is much higher than one third, because of the backlog demand for tertiary degrees among the older cohorts and because 22% of the newly enrolled in 2004 came from within the tertiary education system, in large part simply switching from one tuition-free public program to another. Dropout (non-completion) rates from tertiary programs are high in international comparison. It is possible that future declines in cohort sizes will combine with a diminishing backlog of unsatisfied demand for tertiary education to support much higher enrolment rates of 19-year olds.

mainly to widening access to tertiary education. (Again, the drop has been larger in case of men.) While the current gender difference in employment rates for those of 20-24 years of age constitutes 10 percentage points, the difference was almost 30 per cent in 1994.

The long-term trend in unemployment rates has been that of a rapid increase. During the last decade, youth unemployment rate tripled while the aggregate unemployment rate only doubled. According to Festová (2005a), the unemployment rate of youth (15-24 years) in 2004 was about 2.6 times greater than the aggregate unemployment rate. This is only slightly more than the average found within the EU-15 (2.4). The unemployment rate of 15-19 (20-24) years old reached its maximum of 42 (18) per cent in 2004 and is now declining.² Here, it should be noted that the former group is a very small one, forming only about 1 per cent of the labour force. Festová (2005a) reports incidence of long-term unemployment³ among recent school graduates ranges between 38 - 61 per cent (April 2005) and the highest incidence appears among graduates from vocational schools. Overall, unemployment of youth appears not to be a major policy concern, both in terms of its total size and its trajectory.

The incidence of low educational attainment and unemployment remains extremely high among young Roma pupils, though quantitative information is not available in official statistics. According to a recent case study (Navrátil, 2002), about 70 per cent of young Roma attains only 9 years of education or less.

Little is known about the quality of jobs taken by young Czech workers. There is not even any international comparison of skills of recent school graduates available. The existing cross-country studies focus on 15-year-old pupils—at the time of entry to upper-secondary schooling (PISA, 2003, i.e. the Programme for International Student Assessment). Czech pupils performed above average in math, at average in natural sciences and problem solving, and below average in reading literacy and there seem to be large discrepancies between pupils entering three different tracks of upper-secondary education (ÚIV, 2005).

2 Measures taken to promote youth employment

a) Education and training policies

Inadequate Education Structure and High Unemployment

Unemployment rates and incidence of long-term unemployment of recent school graduates have been far higher for apprenticeship programs than for general secondary programs during the last decade, reflecting the changing structure of labour demand after the breakdown of communism. Yet, the departure from apprenticeship

² Most statistics for the last year indicate a decline in registered unemployment in age groups below 30, an evidence on changing trends. The absolute size of this decline actually resembles the overall decline in unemployment (26 thousand individuals) experienced during the period of October 2004 to October 2005. A recent study, Festová (2005b), uses fall-specific statistics instead of annual averages and reports that unemployment of recent school graduates has declined swiftly for two years in a row.

³ Recent school graduate is considered as long-term unemployed after six month of unemployment.

and vocational schools to general curriculum programs has been slow and proceeded mainly thanks to shrinking incoming cohorts.⁴ Hence, we believe that the high unemployment rates of *recent* graduates with apprenticeship degrees⁵ are to a large extent the outcome of the policy of the MoS, which has unduly restricted the structure of the state-controlled part of secondary education.

The highest number and the highest growth in vacancies posted at the DLOs appear for workers with vocational education. Since vacancies requiring higher education are rarely posted through DLOs (although employers are legally obliged to do so), this phenomena contributes to the widespread biased belief that vocational education is the most demanded. This wisdom is shaping schooling policies at both the national and regional level, generating a high share of vocational-school graduates who face the highest school-type-specific unemployment rates.⁶

The educational and labour-market outcomes of specific vocational (apprenticeship) programs are not systematically evaluated and do not sufficiently affect their funding. This is a large problem since vocational programs graduates constitute almost 40% of all graduates at the secondary level. It is also notable that boys are more likely to enrol in vocational programs than girls. A recent study (Matějů and Straková, 2006) based on the OECD PISA 2003 survey of 15-year-old pupils finds that a disproportional number of boys ends up in vocational programs, although their study aptitude is comparable with that of similarly aged girls who end up getting enrolled in superior types of upper-secondary schools, which do allow for further tertiary education, unlike many of the vocational programs.

Further, according to Trhlíková et al. (2004), less than 50 per cent of employed youth with upper-secondary education are working in an occupation reflecting their field of study. Almost a third of them are employed in occupations totally different from the subject they studied. This is likely to be the outcome of the highly stratified system of vocational education that is not effectively managed to reflect the structure of labour demand. Given the low Czech residential mobility, mismatch at regional level can be staggering.

Shifting attention to higher education levels, there is little of an employment problem for the college educated. Given the limited supply of college education, this is not surprising, and it says little about the quality of tertiary education. The vast majority of college degrees is still produced by the over-subscribed tuition-free public university system, which faces little quality control from either the MoS or the students.

⁴ A non-negligible adjustment in the upper-secondary sector came from private (tuition-charging) secondary schools, which emerged in part thanks to funding policies introduced in the early 1990s, and now cover about one fifth of all secondary education production.

⁵ In 2003, unemployment incidence (as a share on graduates from last two years) for apprenticeship program graduates reached 23 %, it was 14,9 % for technical schools with final comprehensive exam, 6,3 % for general programs ("gymnasia"), 10,6 % for higher professional schools, and 6,7 % for college graduates. The corresponding incidence of unemployment duration exceeding 6 months was 60,3 %, 56,4 %, 45,5 %, 51,9 % and 49,5 %, respectively.

⁶ A similar mistake sometimes occurs with regard to unemployment measures of graduates divided by field of study: unemployment counts by field are sometimes taken as relevant measures of labour market success as opposed to unemployment rates.

Inadequate Policies for the Knowledge Economy

How do Czech average education outcomes compare internationally in some of the most important dimensions tied to knowledge economy? According to Sirovátká et al. (2003), almost a third of the Czech young population is unable to communicate in a foreign language and more than 2 fifths communicate in one foreign language only. The proportion 15-year-olds who use PC at least a couple of times every week is, at 20 per cent, notably below the OECD average of 35 per cent. The proportion of pupils who do not use PC at all, at 37 per cent, is the highest among all covered countries.

Systematic programs introducing IT equipment to secondary and primary schools have been implemented only recently; the implementation has been characterized by extremely contractor-friendly and school-unfriendly contract conditions, interpreted by many as clear signs of corruption at the MoS. Meanwhile the government continues to pay only lip service to enhancing foreign-language proficiency of the Czech population. The most recent plan suggests that English be introduced as mandatory from the primary schooling level and adults get training vouchers redeemable at licensed language schools. However, both the source of finance and the time frame of this plan are not clear yet. A markedly differentiated teacher pay that would reflect the higher demand for English-language and IT-oriented teachers is likely to be a necessary condition for the successful implementation of any such plans, but it does not seem to be high policy priority yet.

Finally, despite various small programs aimed to support the education of the Roma minority,⁷ there is little improvement in outcomes. A recent policy introduced in several districts has been to allow the formation of the so-called community elementary schools where Roma students concentrate and receive a more friendly treatment by the school, but where they also likely face dramatically lower education standards compared to the integrated public elementary education. Near-complete segregation therefore continues to result in unacceptable educational outcomes and extremely low level of (official) employment. There is little willingness to invest in the future of the under-privileged minority youth, despite the possible high returns from future income taxes and saved welfare benefits.

Overall, there is little government policy effectively improving education outcomes in the country and there are no serious plans for real (i.e. micro-data-based external) evaluations of either the existing or the newly considered policies.

b) Labour market and employment-related policies

In Section 1 we noted that Czech youth unemployment is comparable to the EU-15 level, given the overall unemployment situation. Further, we noted the recent evidence suggestive of a decline in unemployment of recent schools graduates. One of the possible causes of this development are the stringent eligibility criteria for the collection of unemployment benefits introduced in late 2004.⁸ In part, this drop in

⁷ Primarily, this includes the preparatory classes for primary-school entrants and the program of Roma student assistants.

⁸ However, this policy may have resulted only in the shift of these graduates from the unemployment registry to the equally generous welfare system.

unemployment is also likely due to a change in the administrative definition of recent school graduates.

Opinion surveys imply that the most common reasons for being unemployment stated by young workers are low wage offers and territorial mismatch of labour supply and demand. The prevalence of low wage offers would seem to be contradicted by the large number of blue collar vacancies posted at DLOs; this may suggest important employment disincentives provided by the social support system. Territorial mismatch is in part supported by the government's policy of extending the extreme Czech version of rent control that limits territorial mobility.

ALMP

How important are active labour market policies (ALMPs) in promoting youth employment? In international comparison, the scale of the ALMPs in the Czech Republic, measured by the share of expenditures on GDP or total employment-policy budget, remains rather limited. There are no effective evaluations available, but we find it unlikely that ALMP programs described below have much of an effect on youth unemployment.

There are two traditional major ALMP programs involving youth labour force: retraining programs (consuming 16 per cent of the total ALMP budget) and jobs subsidies for recent school graduates (14 per cent). Recently, in line with EU employment guidelines, individual activation plans are being offered by DLOs to all youth below 25 years of age before these complete the 6th month of unemployment.

Most of retraining consists of short-term coursework and it appears that most of those participating in the retraining courses are the most-employable short-term unemployed. It also appears that a great deal of retraining is provided to unemployed with average levels of education, not those with very low skill level. Subsidised jobs, aimed at providing work experience to recent school leavers, cover a small part of the unemployed (7,170 in 2004). In any case, the program is being phased out during 2005 and young unemployed should be treated by other ALMP programs.

Since January 2004, DLOs should target young unemployed below 26 years of age with less than 6 months of registered unemployment and *offer* each one such unemployed individual assistance—an Individual Action Plan. This intention is supported, since October 2004, by the new Employment Code. Earlier this year, the plan of the MoL was to cover 22 thousand unemployed with this policy tool during 2005. (There are about 100 thousand unemployed below 24 years of age.) Given the short history of these programs, there is no detailed quantitative experience from the field.

The MoL is currently in the process of implementing a system providing vocational training and retraining courses leading up to vocational certificates. The program, based on a partnership with regional social partners, should be available to young unemployed with low formal education; training should be provided on both a part-time and a full-time basis.

Labour-Market Legislation

As described in our pre-Lisbon Reform Program evaluation, marginal effective tax rates on labour income as well as the total tax wedge are very high in the Czech Republic for low-wage workers. To the extent that youth workers are low-wage, this is a key issue for their employability.

It is good news here that the Parliament is about to approve modifications of the personal income tax (PIT), which should have positive impact on youth employment. The key changes are (i) the lower tax rate in the two bottom tax brackets (from 15 to 12 percent and from 20 to 19 percent, respectively), (ii) the introduction of inflation adjustment of tax brackets, and (iii) the replacement of tax base deductions by tax bonuses. This will effectively decrease average income tax for all income groups, but relatively more for the below-average-wage workers, including the young workforce. These changes should be put into effect in 2006 and are likely to support youth employment because they make work more attractive for low-wage workers compared to welfare benefits collection and they reduce the cost of low-educated workers. Nevertheless, the changes are small as it is the payroll contributions that constitute the most important part of the total tax wedge, not the PIT.

An important part of labour market legislation that affects youth employment is the level of the statutory minimum wage. For several years now, the government has been increasing the statutory minimum wage, from a very low mid-1990 level, at rates surpassing the growth of nominal wages. Further increases are planned for 2006.⁹ The MOL expects that minimum wage increases will be binding for a mere 2-3 per cent of all employed and argues that higher minimum wages do not have adverse consequences for job creation, but make employment more attractive for workers. There are no estimates of the proportion of youth workers to be affected, despite the likely low first wages of the many graduates from the vocational programs. There is no analysis available providing credible evidence on the actual impact of the statutory minimum wage. There is anecdotal evidence, however, that shadow-economy employment is widespread among young workers.

The current Labour Code severely limits individual layoffs, even in comparison with typical EU-15 legislation. The key problem is that the level of layoff costs is independent of worker's firm-specific tenure. This barrier to labour market flexibility likely limits hiring of young workers. The new version of the Labour Code, currently being considered by the Parliament, does little to remove this barrier.

Territorial mobility of the Czech population, including young people is low. The bulk of the observed residential mobility seems to be driven by marriages and suburbanization flows. However, anecdotal evidence and the observed district-level divergence of the endowment of college educated population suggest that moving to a college city is also important. College graduates may be more likely to stay in the region/city where their college is located, because major universities are located in booming urban areas. There is no quantitative information on out migration of Czech youth. There is only anecdotal evidence suggesting that an increasing number of young people goes abroad for their education and early labour market experience.

⁹ The minimum wage for individuals 18-21 years of age are 80 per cent of the minimum wage base rate.

Very recently, the Czech government expressed an intention to simplify the burdensome and complicated administrative procedures for obtaining long-term residence status by foreigners graduating from Czech schools. No further details are available yet. This is an important issue because the proportion of foreign students at Czech colleges, currently at 3-5 per cent, is growing steadily as studies are provided free of charge to foreigners. However, no change is envisaged in the extremely problematic administrative arrangement of working permits.

c) Problematic features of youth employment

As we discussed above, there is little hard evidence on the extent of undeclared work. However, anecdotal evidence has prompted a recent policy action in this area. Until recently, fixed-term contracts and employment through temporary work agencies were subject to lower payroll contribution rates compared to those imposed on salaries of full-time regular employees. These reductions of labour costs are no longer available, the policy change being motivated by the desire to eliminate tax evasion. As a result, the cost of student temporary labour increased by almost 50 per cent. Similarly for the recently introduced regulation imposing a 2-year maximum duration on (the sequencing of) fixed-term contracts as well as substantial limitations on employment through temporary work agencies.

d) Roles of the labour market actors

There appears to be a lack of strategic and project coordination between the MoL and the MoS. The involvement of social partners at the regional level is in the early stage of development since the policy setting agenda in schooling has been transferred to regional governments only recently. The framework of collaboration and coordination is being developed within the framework of human resource strategy development—and remains under construction.

There are EU-funded projects, which should help develop a system of certification in continuous training with the hope that such a systemised framework will enhance the involvement of employers in life-long learning, which is currently quite low, mainly targeting highly skilled labour already. A large number of EU-funded projects is being implemented to provide further training and enhance human capital of the labour force. At this moment, it is too early to evaluate these efforts; there is no publicly available evidence on the actual impact of these projects.

3. Conclusions

A booming economy, shrinking cohort sizes, and a rapid expansion of enrolment have so far largely kept the Czech youth unemployment problem below the policy radar. However, a prolonged lack of adjustment of the secondary education structure and the lack of school competition at the tertiary level, may lead to rapid increases in unemployment once overall economic conditions become less favourable. So far, the policy response to the existing problems has been minimal at best. The school system continues to churn out non-employable apprentices and secondary-school graduates with little English or IT knowledge. Once the recent apprenticeship-degree holders arrive at the DLOs, they get rather limited help in finding jobs due to lack of counselling time available. However, the perhaps most pressing long-term problem of

youth Czech unemployment, which so-far escapes measurement in micro data, and which also escapes public attention, is the extremely low level of education and employment among the large group of Roma youth.

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