Pre-assessment of Lisbon Reform Programmes (LRP)
Czech Republic 2005

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Introduction

We review the Czech Republic’s policies in response to the Employment Guidelines. We present the analysis at the level of three (2003) priorities of Labour supply and making work pay, Adaptability, and Investment in human capital. We then relate each part of the discussion to the (2005) objectives of Full employment, Quality of work, and Social inclusion and cohesion. For each priority we (i) assess its relevance for the Czech Republic, (ii) briefly describe the relevant labour market developments, and (iii) point to specific related employment measures. We also (iv) discuss proposed measures and ask about the policy development in the ‘pipeline’ vis-à-vis the 2003 Employment Guidelines. Throughout each part we also review relevant issues specified by the national desk-officer. Before carrying out the detailed discussion of specific objectives/priorities, however, we first offer here a brief summary view of Czech labour market’s (a) key indicators, (b) institutional and policy issues, and (c) long-term challenges:

(a) The key positive characteristic of the Czech labour market is its high employment rate (in comparison to EU15). Following the recession of 1997, unemployment rates have approximately doubled and this has been accompanied by a dramatic increase of the long-term unemployment rate, which is now above that of “southern” EU15 countries. The key micro determinant of employment and wages is educational attainment. The traditionally very low tertiary attainment rates are slowly increasing, thanks to both expanding supply and shrinking cohort sizes, but quality of education may not be increasing sufficiently fast thanks to a lack of incentives. There is apparently little life-long learning among those with low level of initial education.

(b) The main institutional employment barrier on the labour supply side is the structure of social benefits combined with ineffective control of their misuse. On the labour demand side, a key concern is the high level of payroll taxation, which is likely to affect employability of low-skilled workers. The Labour Code also unduly restricts individual layoffs, thus weakening job creation and reallocation (OECD, 2004a).

(c) The most challenging long-term issue is population aging, which will be unusually rapid even in the EU context. Other than motivating employment of older workers, the Czech labour market also needs to deal with deep social exclusion of the Roma minority and very low employment of those with less than 10 years of education.

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1 When describing labour market developments, we do not devote attention to the early 1990s, as the early post-communist transition processes is not fully relevant for current and future policy discussions.
2 The Czech economy is characterised by an unusually high share of employment in manufacturing, which could make it sensitive to external demand fluctuations (i.e. in the automotive industry) because of its low regional and skill mobility (see Section 2).
3 According to the LFS, the incidence of (ILO) unemployment among college educated is four times lower compared to those with only apprenticeship degrees (and no certified high-school exam).
1 Labour supply and making work pay
   And the related objectives of Full employment and Social inclusion and cohesion

(i) Relevance

Even though the Czech Republic boasts a relatively high employment rate level (especially in terms of full-time equivalents, COMP p.68),4 the priority of Labour supply and making work pay is very relevant for the Czech labour market, particularly so for its low-educated workers. First, the extent of poverty (welfare) traps generated by the system of social support is high in international comparison for families with children, particularly so for low-educated families (i.e. those with low wages).5 Second, the experience of the last economic recession (of 1997/98) suggests that, at least under the current institutional setting, a drop in labour demand results in a permanent increase in (long-term) unemployment and welfare dependence, particularly so for low-educated workers, and possibly also for recent school graduates. Finally, the Roma minority remains highly socially excluded and does rarely participate in official employment. Hence, both the objective of Full employment and of Social inclusion and cohesion are highly relevant here too.

(i) Developments6

There is continuing adjustment of the employment structure in the Czech Republic. According to the LFS, employment in both agriculture and mining shrank by about a third between 1996 and 2004.7 On the other hand, there has been strong employment growth in both business and personal/social/other services and in public administration.8 Yet, the most visible change on the labour market is related to the aftermath of the recession of 1997: since 1996 unemployment rates have approximately doubled and this has been accompanied by a dramatic increase of the long-term unemployment rate, which is now above that of southern EU15 countries.9

Looking at unemployment and employment patterns of specific demographic groups, we see that in the last few years, there is some growth in employment rates of those aged 55-64, which is important for a country with rapidly ageing population. However, the average exit age from the labour force remains below the EU15 level (COMP, p. 47). While the historically very popular early-retirement pensions have been

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4 Throughout this report, we refer to the 2005 Compendium (Indicators for monitoring the 2004 Employment Guidelines, European Commission) as COMP.
5 See COMP, p.67, which quotes the OECD’s Marginal Effective Tax Rates of 100% for a Czech low-wage one-earner couple with two children – a complete poverty trap.
6 We frame most of the development comparisons by using 1996, 2000 and 2004. While comparing 1996 and 2000 speaks about the reaction to the 1997/8 recession, the comparison of 2000 and 2004 is relevant for the effects of the EU accession and the current ongoing economic expansion.
7 Employment (reported by the LFS) decreased even in the booming sector of construction, but this may be linked to the rising low-wage employment of foreign workers (especially Ukrainians).
8 This growth in public administration employment may in part reflect the recent reform of regional governments and is surely related to the massive level of Czech fiscal deficits.
9 The 1997/8 recession has been harsh on the less skilled. The unemployment rate for those with only elementary education (below 10 years of schooling) increased from 11% to 26% between 1996 and 2004; yet, during this period the corresponding employment rate dropped only by 6 percentage points from its 1996 level of 28%.
somewhat restricted, since 2001 there is a substantial growth of disabled pensioners. The majority of these newly-disabled are over 50 and the number of as well as the rise in the disability cases is largest in high-unemployment regions.

On the other “end” of the labour force, youth unemployment rate (for ages 15-19) increased dramatically between 1996 and 2004 (from 13 to 42%) and the number of employed youth of this age dropped precipitously as well. However, the number of young unemployed actually declined during this period; the increase in the unemployment rate is thus simply the result of lower labour-force participation rates in this age category. Similarly, the unemployment rate of those aged 20-24 increased from 14% in 2000 to almost 18% in 2004, but this increase corresponds to a 10% decline in the number of unemployed of this age.\(^\text{10}\) Overall, the current employment rate of those aged 15-24, at 28% in 2004, is much below the EU15 average of 40% (COMP, p. 65). (We discuss unemployment rates of recent graduates in Section 3.)

The most disturbing overall feature of the recent Czech labour market evolution is that four years of continued economic growth of about 3% per year (including an annual growth of 20 per cent in the number of job vacancies) has so far had only a negligible positive impact on unemployment and the activity rate. This suggests that labour-market institutions may be at fault: not providing sufficient incentives to work.

(iii) Measures

The key policy related to the lack of declining unemployment in face of vigorous growth, in our view, is the structure of social benefits combined with poor control of their misuse and ineffective activation measures. Unemployment benefits are received by less than a third of all registered unemployed; this is so because unemployment benefits expire after six months but registered unemployed are typically eligible for various types of social (welfare) benefits which are conditional on being registered as unemployed. The generosity of welfare benefits is generally perceived as an important factor weakening labour supply, particularly for low-skill larger families (OECD, 2004a). Net replacement rates of 100% (i.e. full replacement of labour-market earnings by social benefits when inactive) are not unusual for larger families.\(^\text{11}\) Czech labour-market institutions not only discourage labour supply of less-educated, they also negatively affect labour demand for low-skilled as the Czech Republic’s level of taxation on low-wage earners is among the highest in the EU (COMP, p.59).

The effectiveness of policy measures supporting the employment of handicapped is not clear (and there are no credible evaluations available). Other than the provision of

\(^{10}\) To what extent this drop in labour-force participation of the young is the consequence of improved education opportunities (see Section 3) and to what extent it represents a reaction to worsened labour demand, is an interesting and important open question. We guess that the education expansion is the key culprit. If this means that the more able are now more likely to study compared to the 1990s, this would make the labour quality of today’s young Czech unemployed lower and perhaps more comparable to that present in the EU countries with higher tertiary enrolment rates; thus the standard measures of youth unemployment may now be more comparable vis-à-vis the EU15.

\(^{11}\) In response to this long-standing problem, the government recently introduced (so far only minor) remedies: To counter labour supply disincentives, an earned income tax bonus (based on the number of children) has been introduced in 2005. Another tax-code change has been the introduction of joint filing for married couples, which may, however, negatively affect re-entry of women into labour force.
‘sheltered’ workshops, the most important programs subsidize “handicapped-specialized” firms where at least 50% of workforce is handicapped and punish firms with less than 4% of handicapped, but there is no benefit to a firm with between 4 and 50% of handicapped that hires another handicapped worker. There is only fractured employability support offered to socially excluded, the Roma, and low-educated.

(iv) Proposed Measures and ‘Pipeline’ vis-à-vis the 2003 Employment Guidelines

The currently ruling coalition headed by Social Democrats recently proposed an overhaul of the Czech social support and taxation system that just entered the legislative process and could become effective in 2006.\(^{12}\) The changes are supposed to correct some of the labour-supply disincentives faced by larger families and to shift some of the budgetary and ‘activation’ responsibility from the central administration to municipalities.\(^{13}\) The proposed income taxation reform (correctly) aims at reducing the taxation of low-wage earners.\(^{14}\) Our own preliminary comparison of the current and the proposed system of social support and income taxation suggest\(^{15}\) that the proposed system is likely to increase pro-work incentives for low-wage larger families and effectively “punish” long-term unemployment (inactivity). On the other hand, the new system may generate higher disincentive to increasing one’s labour earnings for those currently employed at wage levels in the neighbourhood of the median wage.\(^{16}\) A key remaining problem is that the system of social support is very complicated and hard to grasp for the unemployed, which is likely to lower pro-work effects of proposed changes, especially for low-educated.

A closely related policy affecting the level of labour-supply is the nature of sickness insurance. Employers in the Czech Republic face notoriously high sickness-driven

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\(^{12}\) There is relatively little policy discussion of these issues from other stakeholders. In particular, there are no strong proposals of the implementation of benefits sanctions (something we may prefer). The new Employment Act effective since October 2004 did introduce the possibility of stricter screening of unemployed by Labour Office counsellors, which may lower unemployment but not necessarily overall welfare dependence.

\(^{13}\) While the general aim of shifting ‘activation’ to municipality level and supporting it with budgetary incentives may be advisable, the proposed implementation of the new laws does not include the necessary increase in the staffing by social workers responsible for dealing with low-income families. It is sometimes estimated that currently each applicant for Social Assistance can get on average only little over an hour of attention a year from the administrator in question. This likely future failure to staff (finance) reforms (new policies) is reminiscent of the introduction of Individual Action Plans to the agenda of Labour Offices and of the way the Publicly-Purposeful-Jobs ALMP program (short-term public employment) is implemented -- to a large degree relying on municipalities to provide the staff and finance to execute this program. More on ALMP in Section 2.

\(^{14}\) This shall be achieved by reducing the tax rates for the two lowest taxation brackets from 15% to 12% and from 20% to 19%, respectively. The government also proposed to increase the lowest taxation bracket and plans significant changes in the system of tax-base deductions and tax allowances. We note that there continues to be little policy effort to simplify the extremely complicated Czech tax code.

\(^{15}\) We insert this ex-ante evaluation in response to a question raised by the national desk-officer.

\(^{16}\) Specifically, consider the key monetary disincentive parameters, the Net Replacement Rate and the Marginal Effective Tax Rate (see OECD’s Benefits and Wages for definitions), for a family of two adults and 3 children with very low potential wage of the main breadwinner (a wage between 40 and 60% of the Average Production Wage). According to our preliminary estimates, such family is likely to face a drop in its NRR and METR of about 15-25 percentage points from current levels of close to 100%. On the other hand, the METR of families with potential earnings above 60% of APW is likely to increase substantially.
absenteeism. A 2004 cut in the generosity of sickness benefits during the first 3 days of illness was followed by a drop in the number of shorter sickness cases. Starting next year, the monitoring and incentive-setting agenda for short-term illnesses will likely be shifted from the state to employers.\textsuperscript{17} However, it is difficult to predict if the proposed changes will deal effectively with the high incidence of long-term sickness (possibly representing hidden welfare dependence).

Most of the enacted policy changes are too recent (2004 or 2005) to allow for empirical evaluation. Judging the set of recent policy changes and proposals against the 2003 Employment Guidelines, there is a clear effort to make work pay, but it is not clear whether its implementation will be effective. There is apparently little organized effort to support disadvantaged and socially excluded. Most importantly, there is so far no policy proposal to reform the unsustainable Czech PAYG public pension system; this lack of reform is ever more striking given the strong economic growth, the recently available privatization proceedings, and the piling future costs of delayed reform.

2 Adaptability

And the related objectives of Full employment and Quality in work

(i) Relevance\textsuperscript{18}

The priority of \textit{Adaptability} is crucial for the future success of the Czech economy, which relies to a large extent on employing labour force with inflexible blue-collar skills in industries that are prone to be sensitive to business cycles. Furthermore, future labour demand shocks may have dire adverse consequences on regional economies because territorial mobility of labour force remains limited.

Even the recent economic expansion has led to little convergence of unemployment rates across Czech district (NUTS4).\textsuperscript{19} Districts mere 80 kilometres away feature unemployment rates as different as 3% and 20%. This is likely driven by the weakness of two key equilibration mechanisms: flexibility of wage setting and territorial mobility of labour force - a key threat to the objective of \textit{Full employment}. While evidence on wage adjustment is mixed, residential mobility across districts in the Czech Republic is low\textsuperscript{20} and studies suggest that the observed population flows across district borders are not driven labour-market factors (unemployment). Among the key culprits for this low territorial adaptability are rent regulations (including severe restrictions on landlord’s ownership rights) affecting over a quarter of households (OECD, 2004a).\textsuperscript{21}

\textsuperscript{17} In particular, the obligation to pay sick-leave benefits for the first 14 calendar days of illness is to be transferred from the state to employers, who in return will see their health-insurance payroll contribution rate decreased from 3.3\% to 1.4\%, i.e. by almost 2 percentage points.

\textsuperscript{18} We view the adaptability of the Czech schooling system as the most important adaptability-related objective and discuss it in Section 3. Here we review other labour-market adaptability issues.

\textsuperscript{19} While standard EU measures of regional disparities are based on NUTS2, the low Czech territorial mobility may make the NUTS4 more appropriate for considering spatial properties of unemployment.

\textsuperscript{20} However, a recent study of Fidrmuc (2005) suggests that taking into account the level of urbanisation, Czech residential mobility may actually be relatively similar to that in other EU countries.

\textsuperscript{21} Construction of apartment buildings for rent is low possibly because the existing legal regulations do not allow for an effective eviction of non-paying tenants.
The role of Trade Unions has been increasing under the last two Social-Democratic governments\(^\text{22}\) and the Czech Labour Code is often judged as rather restrictive. In particular, the Code severely limits individual layoffs (OECD, 2004a). According to the OECD, Czech protection from layoffs is substantially stricter than in, e.g., Germany, France or Spain.\(^\text{23}\)

(ii) Developments

There are few important developments with regard to adaptability on the Czech labour market, other than the already discussed sustained increase in long-term unemployment. Another potential measure of labour market flexibility is the presence of part-time and fixed-term contracts, the share of which remains low in the Czech Republic.

(iii) Measures

The structure of Active Labour Market Policies (ALMP) is likely to blame for underpinning the lack of developments with respect to activating unemployed and improving their skill composition.\(^\text{24}\) The scale of ALMP expenditure has been rather low at below 0.2% of GDP; more troubling is that there are no credible evaluations of the net effect of ALMP. Our best guess is that the net causal impact is very small.\(^\text{25}\)

About a third of ALMP expenditures is targeted at job subsidies, which is unlikely to be an efficient tool given international econometric evidence. A large fraction of retraining takes the form of only short programs. It is not clear enough how well ALMP is targeting most disadvantaged groups. The effectiveness of short-term public-works programs (Publicly Purposeful Jobs) is limited because the responsibility of generating and co-financing these programs is with municipalities, but the benefits are largely with the state.\(^\text{26}\) In general, an important obstacle to ALMP seems to be insufficient staffing at local Labour Offices (OECD, 2004a).

Outside of the ALMP area, there is substantial recent policy activity related to adaptability: The new Employment Act of 2004 lifted some of the existing employment constraints for those collecting various types of social welfare support and introduced the possibility of stricter control of the use of unemployment benefits.\(^\text{27}\) On the other hand, it also imposed new regulation limiting the use of

\(^{22}\) There is little knowledge about the impact of the Czech tripartite wage negotiations (an economy-wide centralized wage growth mechanism) on employment and its regional disparities.

\(^{23}\) It is important to note that thanks to the recent economic expansion, the restrictive nature of the Labour Code and the increasing role of Trade Unions have not become visibly “binding,” but the limits on flexible labour flows can become a key obstacle to efficient future reallocation (job creation).

\(^ {24}\) COMP, p.18, suggests a “New Start” is being offered to few Czech unemployed in EU comparison.

\(^ {25}\) Although programs for recent schools graduates providing initial work experience seem effective.

\(^ {26}\) A wide-spread use of these programs could be used as an effective prevention of benefits misuse.

\(^ {27}\) It is not yet clear how effective this measure is, although initial experience appears positive. However, the recent introduction of stricter conditions on unemployment-benefits collection for school graduates apparently resulted in many graduates shifting from collecting unemployment benefits to drawing social benefits.
flexible fixed-term contracts. In 2004, a new form of investment incentive (job-creation stimulation) was put in place; it is targeted at districts with a high incidence of unemployment (above 14 per cent) and, unlike existing investment schemes, also offers government support for smaller investment projects. Finally, in 2005, the discretionary practice of MOL of extending the coverage of industry-level collective agreements to those firms where no firm-level collective agreement is present, has been codified into a law and made “automatic” under general conditions. It is too early to evaluate these recent policy changes.

(iv) Proposed Measures and ‘Pipeline’ vis-à-vis the 2003 Employment Guidelines

A substantially overhauled Labour Code is now entering the legislative process. It appears to be further strengthening the role of trade unions and it does not allow for more flexible individual layoffs but instead further increases severance pay. The nature of this new legislation may turn to be a turning point of the Czech economy’s adaptability; unfortunately, it appears that the new Code is not the result of broad policy discussion and largely reflects trade unions’ views. While the new Code now faces severe opposition by several political parties and by the employer associations, there is in general a lack of analysis-based discourse by stakeholders on ALMP as well as other adaptability related issues.

The government also recently proposed corporate-tax-base deductions for firms co-financing the costs of commuting of their employees to work and for firms providing temporary accommodation for their workers. There is hope that this may alleviate regional difference in unemployment as the recent experience with some of the large foreign direct investments suggests that few workers move to take up a job vacancy outside of their hometown or district, in part thanks to the government’s own rent-control policy supporting housing-market rigidities.

Judging the set of recent policy changes and proposals against the 2003 Employment Guidelines, there has been little recent progress in increasing the adaptability. In particular, it appears that activation measures and benefit management continue to be under-staffed and inefficient and there is still little improvement in ensuring regular evaluation (of activation measures). There are a few improvements in the newly proposed Labour Code, which will likely present a missed opportunity to reform overly restrictive employment legislation affecting labour market dynamics. On the other hand, there is some visible effort to promote favourable conditions for private sector activity in regions lagging behind.

28 Further, the existing legal “loopholes” allowing for flexible employment contracts with low tax wedge have been largely eliminated in 2005. However, there has been some progress in the area of promoting (part-time) work of parents on leave and pensioners.

29 There is little evidence about the extent to which such coverage extensions have been binding for employers not involved in collective bargaining. This policy issue affects mainly smaller firms as the coverage of firms with over 250 employees by firm-level collective agreements is almost complete.

30 Including the introduction of flexible working-time accounts.
3 Investment in HC (Life-Long Learning)

And the related objectives of Full employment and Quality in work and Social inclusion and cohesion

(i) Relevance

This is perhaps the most important priority for the Czech Republic’s future success. While upper secondary attainment rates have traditionally been very high (thanks in large part to extensive apprenticeship programs), much of this education occurred in narrow specific training as the size of general-curriculum programs has been limited. The country also features a very low tertiary attainment rate of the adult population (at 12% in 2002, OECD, 2004b). Yet, available statistics suggest only little life-long learning takes place, despite the apparent need to improve the quality and flexibility of skill endowment of the labour force. Czech participation in education and training is at (or below) 60% of the EU15 level among both young (25-34) and older (45-54) population (COMP, pp. 34, 36). Low educational attainment and skill inadequacy is behind much of the high long-term unemployment (affecting the Full employment objective), inadequate support of schooling for disadvantaged is at the root of continuing social exclusion (affecting Social inclusion and cohesion) and the structure and quality of skills acquired by recent graduates (including foreign language proficiency) may not be up to the requirements of the knowledge economy (affecting the Quality in work objective).

(ii) Developments

Recently, there has been some improvement in unemployment rates of recent school graduates. Yet, these remain precipitously high for graduates from secondary schools without the so-called maturita school-leaving exam, i.e. mainly those with apprenticeship diplomas. This is one of the most alarming current problems since these graduates still constitute almost 40% of all graduates and because they face low chances of continuing on with their education at higher levels; this is a potentially important problem in terms of the Social inclusion and cohesion objective.

What education “production” supports these notorious labour-market outcomes? The number of students entering upper secondary education has been rather stable in recent years, while the share of this education “inflow” that enters programs with maturita has been increasing slowly but steadily. Unfortunately, the total number of

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31 The low Czech country rate of education participation is primary due to the lack of training among those with primary or secondary initial-education attainment.
32 According to the government’s Strategy for Economic Development, almost a third of young Czechs aged 20-30 has no command of any foreign language. Similarly, a recent survey by a local polling agency (Median) suggests that almost a third of those aged 12-19 have no command of English, while among those aged 50-59, this fraction reaches 77 percent.
33 This exam is similar to the German Abitur exam or the British General Certificate of Education.
34 Almost a quarter of apprentices who graduated in 2003 remained unemployed one year later; in contrast, only 6 percent of recent gymnasia graduates (from academic general secondary programs) are unemployed (NUOV, 2004). We note that some of the discussion of graduates’ unemployment has been wrongly cast in terms of the number of unemployed by field of study rather than in terms of unemployment chances faced by graduates from specific fields of study. For example, economics and business oriented programs generate relatively low unemployment rates.
students in the general secondary programs (called gymnasium) has been kept fixed. During the next five years, however, the secondary education system will have to face rapidly shrinking cohort sizes (from about 140 to below 100 thousand a year), allowing for much needed adjustment in education structure.

There has been a rapid expansion of public tertiary education: 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, 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 maturita exam. 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.35

(iii) Measures

Our view is that the high unemployment rates of recent graduates with apprenticeship degrees are to a large extent the outcome of the policy of the Ministry of Education, which has unduly restricted the structure of the state-controlled part of secondary education. The departure from apprenticeship and vocational schools to general curriculum programs has been slow and proceeded mainly thanks to shrinking incoming cohorts. Much of the adjustment of this 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.36

Private tertiary education is still miniscule in the Czech Republic37 and the production of university diplomas therefore continues to be dominated by tuition-free over-subscribed public colleges, which are under little effective pressure to improve the quality of their services. The Ministry simply provides (the so-called normative) financing per student enrolled, up to given limits on total enrolment, and students who are “protected” from paying tuition by government policy, can hardly exert pressure on over-subscribed schools to change the structure of offered programs, improve the quality of teaching, or produce world-class research.

35 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.
36 There are two recent potentially important but relatively small changes in the schooling system: First, the new Schooling Act of 2004 increased room for more curriculum formation at individual school level for both primary and secondary schools. Second, new unnecessary secondary-school admission regulations were introduced in 2005, which likely lower the match quality between students and schools. The Ministry continues to fully back these changes.
37 Possibly because there is no government-backed stipend/loan system available for private-college students.
Given the low tertiary attainment rates of the Czech population, it is important to let the labour market adapt to skill-biased changes by allowing for substantial skill-biased immigration flows. However, foreigners hoping to enter the Czech Republic with a work permit face an extraordinarily complicated and hostile administrative environment and this is true even for highly educated professionals and academics as well as for foreigners graduating from Czech public universities. The MOL is running a pilot version of a selective immigration program, which is supposed to speed up the process of obtaining permanent residency for those with a working permit.

Finally, the majority of the Roma youth continues to achieve only compulsory education at best. Actually, there is very little evidence available on the situation of the Roma population in the country.

(iv) Proposed Measures and ‘Pipeline’ vis-à-vis the 2003 Employment Guidelines

The Ministry of Education has recently pioneered tertiary-education-and-research finance allocation mechanisms based on quality comparisons. However, the practice of these first attempts to compare quality of institutional research plans has been poor at best. There are some plans to start “managing” the tertiary sector from the centre, but we view these efforts as futile. The introduction of market-driven allocation mechanisms such as tuition faces continuous opposition by the Ministry as well as by most of the public (effectively labour-managed) universities.

The Ministry of Education has also recently announced its wish to expand secondary schools with general curriculum, an unexpected but most welcome policy reversal; yet, it is not clear how this wish will be implemented in cooperation with the regional governments that have recently been transferred certain control rights over secondary school. The Human Resource Development Strategy of 2003 also announced the intention of the government to establish links between the amount of state education financing of a particular school and the labour-market success of its graduates. At the same time, there are plans to introduce nationwide testing of schools allowing for more school accountability.

On the immigrant labour force front, there are welcome proposals to shorten the period required for permanent residency, but there continues to be little effort spent on improving the entry conditions (obtaining working permit); instead, more attention

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38 Recent overt cases of large-scale corruption among Czech Foreign Police only illustrate the lack of attention this issue continues to receive from the government.
39 The share of foreign workers on labour force was about 3% in 2003 and continues to grow. Foreign workers come mainly from Slovakia, Poland and the Ukraine. Foreign employment is predominantly concentrated in large urban areas and is negatively correlated with local unemployment rates. It is generally agreed that Ukrainian workers do not represent major direct competition for domestic labour as they typically work in physically strenuous low-wage jobs that are not acceptable to Czech workers given the level of available social support.
40 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 also likely lower education standards compared to the integrated public elementary education.
will apparently be paid to eradicating illegal foreign employment – effectively increasing incentives for corruption in non-transparent entry procedures.

Judging the set of recent policy changes and proposals against the 2003 Employment Guidelines, there has been little effort directed at increasing participation in life-long learning, little active effort to integrate the disadvantaged into the mainstream education system, and most importantly little improvement of the quality and efficiency of education (finance allocation).

4 National Implementation Framework and the 2003 Guidelines

Czech trade unions play an important role in the implementation of the Employment guidelines. To this effect, social dialogue has been extended and institutionalized beyond the tripartite meetings under the coalition governments headed by Social Democrats. On the other hand, the involvement of employer associations has been limited and there is only little link between independent expert analysis and policy action. An exception to this rule is the Strategy of Economic Development, prepared this year in the office of the vice-prime minister for the economy. The strategy closely reflects the Guidelines for growth and jobs. The final version of the strategy will be considered by the government this Fall. It is difficult to predict whether and in what altered version the strategy will be approved. However, implementation of the strategy has not yet started and will likely face opposition from the relevant ministries, which are pursuing their own less explicit goals. In this regard, the strategy will probably follow the example set by the 2003 Human Resource Development Strategy, the implementation of which continues to happen more by chance than by will. Reform policies pursued during the last years, and mentioned in this review, are more or less an outcome of weakly coordinated efforts of individual ministries.

Throughout this report, we have answered many of the questions posed by the national desk-officer. However, a large part of these questions about the impact of specific programs/measures remains unanswered, which we blame on (a) the lack of time perspective on relatively recent policy changes, and (b) the lack of rigorous assessment of causal effects. For example, most of the existing ALMP evaluations stop at describing the extent and targeting of active measures (or simply control accounting standards), but do not ask about the counterfactual situation that would prevail in absence of the measure. Not only is there a dearth of evidence which could be used in the Czech policy formation process, there are even no viable plans for regular independent micro-data-based evaluations, let alone those based on econometric program evaluation methodology and estimating program net effects. Even the introduction of new policies and government programs in the Czech Republic is not accompanied by deliberate evaluation efforts. Hence, it is hard to answer questions about policy impacts.
References


