

The Czech Labour Market: From “Success Story” to Painful Reality (Guest editor’s summary)

Vladislav FLEK*

Over time, there has been a gradual shift in how Czech labour market performance is generally assessed. From heralding it as a “success story” among the transition economies,¹ commentators now tend to emphasise a more painful reality of serious institutional, structural and policy shortcomings.²

This story has both macroeconomic and microeconomic dimensions. There is, however, still a lack of studies that combine a macroeconomic view on how the Czech labour market functions with in-depth microeconomic analysis, and which cover the whole past decade in such a way.³ This issue of the *Czech Journal of Economics and Finance* represents an effort to fill that gap, at least partly, assessing at the same time the relevance of labour market research to macroeconomic problems in general. Six papers are included in this issue.

Flek and *Večerník* interpret data on (un)employment trends, wage developments, labour market policies, institutions and even workers’ opinions as expressed in various surveys. This paper argues that macroeconomic trends, government policies and human attitudes are all interlinked, thus creating a socio-economic context within which the labour market operates.

* Czech National Bank, Economic Research Department and IES, Faculty of Social Sciences, Charles University, Prague (vladislav.flek@cnb.cz)

The work on papers presented in this issue was supported by Czech National Bank Research Project No. D7/2003 - see also (Flek, 2004). Bas Bakker, Aleš Bulíř, Michaela Erbenová, Randall Filer, Jan Frait, Ketil Hviding, Nadeem Ilahi, Kornelia Krajnyak, Pavel Mertlík, Anca Pruteanu, Ondřej Schneider, Alun Thomas and Eva Zamrazilová helped the authors with valuable comments. Thanks are also due Anna Vlášková for her assistance in data collecting, and Eva Grénarová for technical support.

The papers in this issue were edited in U.K. English and the journal retained the authors’ choice.

The views expressed are those of the authors and do not necessarily reflect the official views of the Czech National Bank or of the other institutions with which the authors are affiliated. The authors alone are responsible for all remaining errors and omissions.

¹ A typical statement of this sort was made, for example, by OECD (1995, pp. 9, 11): “The Czech Republic is often heralded as a success story among the transition economies [...] All this has happened with little unemployment and no visible signs of widespread poverty or economic hardship [...] The Czech exception can be fully appreciated when reference is made to the labour market.”

² That is why, for example, Takizawa, Tzanninis and Elkan (2002, p. 3) admit that “the Czech Republic has experienced a rapid deterioration of labor market conditions since the mid 1990s”.

³ Among others, (Barr, 1994); (OECD, 1995); (Večerník, 1996); (Boeri, 1997); (Flek–Večerník, 1998); (Svejnár, 1999); (Nešporová, 1999); (Funck – Pizzati, 2002); and (Sirovátka – Mareš, 2003); also attempt to analyse the Czech labour market in a complex manner, but the time span is shorter and/or the focus relatively narrower than in the present collection of articles.

This enables the authors not only to tell the history of the Czech labour market over the past decade, but also to examine the reasons behind deteriorating labour market performance and to propose an adequate policy agenda.

Hurník and *Navrátil* deal in detail with “equilibrium unemployment” (NAIRU) in the Czech Republic and document its increase over time. There is more of interest than just a look at changing aggregate labour market performance. Current monetary policy practice of the Czech National Bank uses the deviation of actual output from its equilibrium level as the basis for decision-making processes. It should be noted that behind any equilibrium output level there is a corresponding equilibrium rate of unemployment. This can be approximated by the non-accelerating inflation rate of unemployment (NAIRU). Similarly, for fiscal policy, the notion of the NAIRU is essential in assessing the structural and cyclical component of the budget deficit. Thus the importance of identifying the time variations of the NAIRU follows from its direct impact on monetary and fiscal policies.

Gottvald presents a slightly different frequency of labour flows, as compared with recent calculations by other authors, thus altering the micro-economic view held up to now on Czech labour market dynamics. It also provides the most recent data available on declining labour mobility, a finding that supports the hypothesis of increasing equilibrium unemployment and labour market rigidity in general.

Mareš and *Sirovátka* show that without controlling for a degree of labour marginalisation and deprivation, the assumptions about the aggregate labour market’s supply-side behaviour could be biased. Namely, an increasing number of Czech workers are in fact being excluded from labour market competition due to increasing long-term unemployment, with a measurable degree of social and material deprivation. At the same time, this is the first paper providing some evidence on involuntary unemployment in the Czech Republic. Both these findings lead to analogous conclusions regarding the deterioration in labour market performance as in the previous papers.

Galušćák and *Münich* analyse in detail the regional unemployment elasticity of wages. This approach, called the wage curve, is widely used as an indicator of (regional) wage flexibility. The authors argue that the previous studies on this topic might be biased due to methodological shortcomings or inappropriate data structure. Some indication of a weakening of this elasticity since the end of the 1990s appears to be associated with a sharp rise in long-term unemployment. As this trend is expected to continue, it could further attenuate the unemployment elasticity of wages and complicate labour market adjustment processes, especially if adverse shocks appear in the future.

Jurajda estimates wage returns to various education levels and the resulting impact on the wage structure. Contrary to the existing studies, most recent data reflecting the late-transition period are also included. The results indicate relatively high returns to education in international comparison. However, skill obsolescence (and skill mismatch in general) may simultaneously be occurring for the highly skilled, as returns to university education appear to be higher for the younger cohorts. In addition, it is the short supply of university education (and not necessarily high produc-

tivity gains associated with high-skilled labour) that appears to be pushing the level of education-based wage differentials up. Finally, the returns to education started stagnating most recently, a finding consistent with the overall picture indicating insufficient wage flexibility.

We have collected the most recent and original research outcomes regarding the impact of labour market functioning on the overall performance and stability of the Czech economy. Both the macroeconomic aspects of labour market behaviour and its microeconomic foundations are characterised and comparisons made whether different levels of analysis deliver mutually compatible messages.

The conclusions regarding diminishing labour market efficiency/flexibility are of direct use for both macroeconomic and labour market policies. We indicate, among other messages, the limitations on potential output growth stemming from the deteriorated labour market performance and the need to adopt structural and institutional changes rather than counter-cyclical economic policies to deal with the relatively high unemployment in the Czech Republic.

REFERENCES

- BARR, N. (ed.) (1994): *Labor Markets and Social Policy in Central and Eastern Europe. The Transition and Beyond*. Oxford, Oxford University Press, 1994.
- BOERI, T. (1997): Assessing Labor Market Policies across Central and Eastern Europe. *Journal of Comparative Economics*, vol. 25, 1997, pp. 366–384.
- FLEK, V. (ed.) (2004): Anatomy of the Czech Labour Market: From Over-Employment to Under-Employment in Ten Years? Prague, *Czech National Bank, Working Paper*, no. 7/2004.
- FLEK, V. – VEČERNÍK, J. (1998): Employment and Wage Structures in the Czech Republic. Prague, *Czech National Bank, Working Paper*, no. 3/1998.
- FUNCK, B. – PIZZATI, L. (2002): *Labor, Employment, and Social Policies in the EU Enlargement Process*. Washington, The World Bank, 2002.
- NEŠPOROVÁ, A. (1999): *Employment and Labour Market Policies in Transition Economies*. Geneva, ILO, 1999.
- OECD (1995): *Review of the Labour Market in the Czech Republic*. Paris, OECD, 1995.
- SIROVÁTKA, T. – MAREŠ, P. (eds.) (2003): *Trh práce, nezaměstnanost, sociální politika (Labour Market, Unemployment, Social Policy – in Czech)*. Brno, Masaryk University, 2003.
- SVEJNAR, J. (1999): Labor Markets in the Transitional Central and East European Economies. In: Ashenfelter, O. – Card, D. (eds.): *Handbook of Labor Economics*. North Holland, 1999, pp. 2810–2857.
- TAKIZAWA, H. – TZANNINIS, D. – ELKAN, R. van (2002): Czech Republic: Selected Issues and Statistical Appendix. *IMF Country Report*, no. 02/168.
- VEČERNÍK, J. (1996): *Markets and People. Czech Reforms in a Comparative Perspective*. Aldershot, Avebury, 1996.