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Unemployment, Labour Marginalisation and Deprivation

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1. Introduction

The purpose of this paper is to document in detail the impact of long-term unemployment on labour market marginalisation in the Czech Republic. We intend to do so first in terms of the scope, structure and concentration of marginalised groups, and second in terms of the impact of labour market marginalisation on financial and material deprivation, psychological well-being, health and social bonds.

While frictional unemployment can be regarded as one of the mechanisms sustaining balance on the labour market, long-term unemployment implies economic and social losses, both for individuals and for society. As regards individuals and social categories, long-term unemployment represents one of the principal and most apparent forms of their marginalisation. Persons and social categories who possess little human capital find themselves particularly marginalised, due to their low level of education and poor or non-existent qualifications, as well as inadequate working habits and an inability to meet the general flexibility requirements (this also concerns certain ethnic groups).

In terms of individual costs, Giddens (2001) shows that in the United Kingdom people without qualifications face a five times higher risk of losing a job than those with higher qualification levels. Moreover, once unemployed, they are also more prone than the rest to find themselves caught in an unemployment trap. If they do find a new job, it is usually poorly paid and rather insecure. Analogously, Esping-Andersen (1999) argues that it is not as difficult to keep one's position in the labour market as it is to enter the labour market at all.¹

In macroeconomic terms, the effects of marginalisation on labour market performance, economic growth and stability are also mostly negative: the low employability of the marginalised labour force and diminished effective labour supply push up the level of "equilibrium unemployment", adversely affecting the economy's non-inflationary growth.

Marginalisation, i.e. exclusion from labour market competition, becomes most costly if coupled with increasing labour mismatch. Such "pockets of unemployment" entrench themselves across geographical space and resist

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short-term active employment policy measures, because the increase in unemployment is rooted in deeper structural factors – whether on the demand side (unfavourable structure of the region's industries, insufficient infrastructure, etc.) or the supply side (a surplus of non-qualified or highly specialised labour) of local labour markets.

Growth in long-term unemployment, as well as prolongation of periods of unemployment and, correspondingly, of the average duration of unemployment is signalling the establishment of a marginalised labour force in the Czech Republic, too. An analysis is therefore needed to establish the extent of labour force marginalisation and deprivation, including the economic costs and consequences.

This paper is organised as follows: First, in section 2 we deal with the system of unemployment benefits in the Czech Republic to show the material impact of unemployment and also to discuss its link with the system of social benefits and the emergence of the “unemployment trap”. Then, in section 3, we look more closely at the typology of the unemployed. We go on to analyse the impact of marginalisation on the mental, social and material deprivation of unemployed individuals and families in section 4, which will also contribute to the discussion on involuntary unemployment in the Czech Republic. The final section provides a summary.

2. Unemployment Benefit Policy

Bison and Esping-Andersen (2000) consider the two factors that are most decisive with respect to the material impact of unemployment. One must first consider the position of the unemployed in the family and the family's other available resources. The material assistance that the welfare state guarantees to the unemployed is another important factor.

Originally, the Czech system of income protection for the unemployed was inspired mostly by the corporatist (continental) variant of the welfare state – see (Esping-Andersen, 1990) for more discussion. In 1990 and 1991 the re-

¹ This corresponds with data obtained from a representative sample of the economically active population in the Czech Republic: in the 18–24 age group, the proportion of persons with experience of unemployment is higher than one might expect given their short work career. The data presented in this chapter was obtained from a panel of unemployed persons interviewed during the first month after they had registered with selected labour offices in the Czech Republic (in seven districts with different levels of unemployment). In all, 1,321 questionnaires were obtained in the first panel wave (2000). Half of the respondents were men and half women; one-third of them possessed primary education, one-third lower secondary education and one-third higher secondary or university education; one-quarter of them were below 25 years of age, half between 25 and 45 and one-quarter over 45. This structure corresponded well to the overall structure of the registered unemployed. The second wave was carried out after a lapse of 6–8 months and involved 817 of the initial panellists (of which 43 % remained unemployed and 49 % were currently employed; the rest had left the labour market for various reasons), who agreed to share their experience with unemployment and their life strategies. Our sample consists to a large extent of people marginalised on the labour market: more than 60 % of the panellists have been unemployed repeatedly, one-third of them were unemployed more than one year before their current unemployment spell and half of them lost their last job within 3 months after signing the labour contract. We tried to avoid selectivity in the return of questionnaires by controlling the findings for individual educational categories (education proved to be a decisive factor in the first research wave).

placement ratio was 65 % of the net wage (and even 90 % in the case of collective dismissals) and the duration of benefit provision was 12 months.

The transition recession and increasing unemployment resulted in an outlook of high budgetary expenditure on unemployment benefits. This soon led, as in other post-communist countries, to an inclination towards the Anglo-Saxon liberal model. Burda (1993) argues that, out of all the post-communist countries, this tendency was strongest in the Czech Republic. In 1992, the replacement ratio was reduced to 60 % (50 %) of the previous net wage and the duration of benefit provision was reduced to 6 months.² After 6 months of unemployment a person could only claim means-tested social benefits.

Growing external as well as internal economic disequilibrium led the government to adopt measures to further reduce budgetary expenditures. This mostly affected social spending and involved cuts in a number of social benefits. Among other measures, the unemployment benefit replacement ratio was cut in 1998 from 60 % to 50 % of the previous net wage (during the first three months of unemployment), from 50 % to 40 % (during the following three months), and from 70 % to 60 % (in the case of participation in labour market training).

The Social Democrat minority government formed after the 1998 elections proposed a number of measures to increase the level of income protection for the unemployed. In the case of unemployment benefits, it gained Parliament's support in 2000 to raise the benefit ceiling from 1.5 to 2.5 times the subsistence minimum for a single person.

At the same time, however, the entitlement criteria were tightened for those unemployed who re-entered the unemployment registers repeatedly: a minimum of 6 months of continuous employment was required between registrations. The previously set replacement ratio was, however, not subject to improvements, while the other restrictions introduced in 1997, such as cuts in child benefits and deceleration of benefit indexation, were only temporary.

Despite these efforts, the material consequences of unemployment made themselves felt within a very short period of unemployment. They strongly influence the overall subjective perception of unemployment. It is worth mentioning that it was precisely the low level of income during unemployment that led a great number of people to retire early in the second half of the 1990s when unemployment was on the increase. Between 1998 and 2000, more than 1 % of the labour force chose early retirement each year.³

Finally, some minor changes were suggested by the government in November 2003, which should come into effect in May 2004: the unemployment benefit replacement ratio in the fourth month of unemployment and afterwards will be increased from 40 % to 45 % and the unemployment

² Originally, the social benefit ceiling equalled 1.5 times the minimum wage. Between 1996 and 1999 it equalled 1.5 times the subsistence minimum level for a single person. This means, for example, that the effective replacement rate for a worker with an average salary was definitely less than half of his/her previous wage from the very beginning of his/her unemployment.

³ The government started penalising early labour market exits in 2001, mainly for budgetary reasons, and their numbers have since fallen.

benefit period will be prolonged for 9 months for people aged 50–55 and for 12 months for those aged over 55.

The Czech system of unemployment benefits can generally be considered “strict”. It approximates the Anglo-Saxon model, even though unemployment benefit is calculated from the applicant’s previous wage. The unemployed in the Czech Republic, therefore, could be assumed to be suffering from a considerable degree of material deprivation.

It must be noted, however, that the social assistance system, which the unemployed enter after 6 months of unemployment and which is grounded in the concept of the subsistence minimum guarantee, makes it possible, for example in the case of a four-member family, to accrue an income exceeding the net average wage – see also (Flek – Večerník, 2005) for discussion.

The growth in long-term unemployment can be explained by the gradual accumulation of the pool of unemployed over time. They remain unemployed partially owing to their low level of human capital and growing demand for qualified labour (structural unemployment), and partially owing to a relatively strong welfare state and the level of welfare benefits, which are competitive with the level of attainable wages (the “unemployment trap”).⁴

No wonder that the unemployed appear to find the subsistence minimum in some respects more important than unemployment benefits. In fact, not much more than one-third of the unemployed in the Czech Republic receive unemployment benefits.⁵ A number of them have never met the unemployment benefit entitlement criteria related to the applicant’s employment record. In addition, the transition from unemployment benefits to social assistance (the subsistence minimum) is quite fast, taking place within a mere 6 months.

3. The Typology of the Marginalised Labour Force

Low-qualified labour is at a greater risk of marginalisation (*Table 1*). This concerns especially women, since their work career is discontinued by maternity and childcare (both can in a way be perceived as a type of hidden unemployment). Elderly people and the disabled are also among the most affected risk groups.⁶

While households with one member suffering from marginalisation (especially if he/she is a “breadwinner”) face serious problems, cases are not unknown of households with both partners being marginalised. A relatively high frequency of persons who have changed numerous jobs during the past ten years, coupled with a short duration of their last employment between the two periods of unemployment, indicate that many unemployed people

⁴ Nonetheless, in our sample, almost all the respondents were highly critical of the insufficient level of both unemployment benefits and the subsistence minimum.

⁵ According to the Ministry of Labour and Social Affairs, 45 % of the unemployed were receiving unemployment benefits in 2000. This figure dropped to 37 % in 2001 and remained the same in 2002.

⁶ In the EU countries, the magnitude of LTU amounted to 41–76 % of total unemployment after 1989, having increased from a mere 12 % in the early 1970s and about 35 % in the 1980s – see (Benoit-Guilbot, 1994) for more discussion.

TABLE 1 Long-term Unemployment (LTU) in the Czech Republic

	Total long-term unemployed (>12 months)	Incidence of LTU in the category of the unemployed (in %)	Structure of LTU (in %)
Men	82,600	50.3	43.9
Women	105,600	50.1	56.1
Primary education	60,500	66.9	32.1
Lower secondary	84,900	48.9	45.1
Higher secondary	39,100	40.9	20.8
University education	3,700	24.5	2.0
Up to 19 years	8,500	32.1	7.1
20–24 years	25,600	38.5	17.7
25–29 years	25,700	45.3	15.1
30–39 years	44,500	53.6	22.1
40–49 years	44,300	59.1	20.0
50 years and over	39,600	58.8	18.0
Disabled	26,200	72.0	13.9
Total	188,200	50.2	100.0

Source: Czech Statistical Office; Labour Force Survey for 2Q 2002; own calculations

have become well acquainted with life without paid work. Leaving aside fresh graduates and other persons without previous work experience, as many as 61 % of our respondents share at least some experience of being without paid work at some point in their work history before they enter their current unemployment status. For 32 % of them it was a repeated experience (often the third one at least).

A major determinant of the incidence of unemployment in a person's work career is human capital, indicated by completed education. In particular, unskilled manual workers with elementary education have been unemployed repeatedly.⁷ Only 25 % of them were unemployed for the first time at the time of the research. By contrast, in the category of university-educated panellists, only 13 % have faced repeated unemployment. In general, highly educated people and public sector employees are at a much lower risk of unemployment than others.⁸

Marginalisation is also associated with accumulation of unemployment in certain types of households (*Table 2*). Double unemployment experience (i.e. both partners unemployed) affected almost 30 % of our panellists' households to whom the question was applicable (i.e. the panellists had a partner). Moreover, for half of these panellists the current unemployment experience was the third one at least. Such a proportion of unemployment accumulation is high and marks a specific category of households (in most cases, both partners have completed only elementary education, and they often suffer from health problems).

⁷ Workers with elementary education (unskilled labour) face the highest average duration of unemployment. This group is also marked by the greatest variance in unemployment duration and the greatest number of persons with outlying values of aggregate unemployment duration.

⁸ Calculations based on Labour Force Survey 2002 (4Q), Czech Statistical Office.

TABLE 2 The Typology of Affected Households
(per cent of respondents with a partner)

Respondent lost a job more than once before. Partner doesn't have a steady job. 10 %	Respondent lost a job more than once before. Partner has a steady job. 32 %
Respondent lost a job at least once before. Partner doesn't have a steady job. 10 %	Respondent lost a job at least once before. Partner has a steady job. 16 %
Respondent lost a job for the first time . Partner doesn't have a steady job. 5 %	Respondent lost a job for the first time . Partner has a steady job. 27 %

Source: data on a panel of households affected by unemployment in seven districts of the Czech Republic

The increased risk does not limit itself to “nuclear” families only. A higher incidence of unemployment can be seen also within broader families of long-term unemployed (31 % of parents and 34 % of brothers and sisters of the long-term unemployed under 35 have experienced unemployment as well). This exemplifies the homogeneity of the social backgrounds of the long-term unemployed respondents in our panel.

The high concentration of unemployment within the broader family typically concerns those who are themselves exposed to the highest risk of unemployment. 20 % of respondents with merely elementary education and no further vocational training stated that their children had experienced unemployment too. In the case of their parents and brothers/sisters the proportions were 25 % and 30 % respectively.

By contrast, university graduates reported zero unemployment among their children. 20 % of them reported a history of unemployment among their brothers and sisters and 10 % among their parents (all the percentages above were derived from the relevant baselines – for example from the categories of respondents with economically active children, brothers and sisters or parents respectively).

4. The Impact of Marginalisation on Labour Force Deprivation

According to Clasen et al. (1998), unemployment brings about a decline in self-respect, social isolation, loss of a person's social bonds, disintegration of the time structure of everyday life and further negative effects on one's personal and family situation.

As evidenced by Oswald (1994) or Gallie, March and Vogler (1994), a number of unemployed greatly feel the accumulation of disadvantages to which they are exposed on the labour market and which affect their lives and life prospects. The degree of social deprivation resulting from unemployment goes hand in hand with the degree of stigmatisation. The absolute level of these adverse unemployment consequences varies in different environments.

4.1 Social and Mental Deprivation: Evidence of Involuntary Unemployment

Our research findings for the Czech Republic suggest that the subjective feelings of social deprivation, stigmatisation and health deterioration are

still less marked than in most EU countries. Only a minority (about 15 %) of our respondents stated that their health and social bonds had deteriorated. At the same time, however, more than half of them reported aggravation of their mental well-being over the course of their unemployment (53 %) and, similarly, 60 % found unemployment more or less stressing.

The proportion of respondents who feel unemployment as a traumatic experience increases markedly with age (from 30 % in the 20–35 age group up to 70 % among persons over 50). University-educated persons are more resistant to unemployment-related traumas (for the most part, it is their first encounter with unemployment, they have better prospects on the labour market, their self-confidence is stronger, etc).⁹ The reported mental, health and social problems, and mainly the subjective perceptions of respondents' well-being during unemployment, strongly correlate with indicators of material deprivation (which was reported by 82 % of the respondents). Material deprivation thus appears to be the basic source of psychological trauma, as opposed to subjective social deprivation.

Considering, however, that more than half of the unemployed seem to be traumatised by their unemployment to some extent, and assuming, in line with Oswald (1994), that people prefer psychological well-being to trauma, we suggest that our results provide some evidence of involuntary unemployment (understood as those unemployed who would prefer work if available).¹⁰

Involuntary unemployment in the above definition does not necessarily imply that all those affected are actively seeking a job. As evidenced by a number of countries, many of them are discouraged or frustrated due to a lack of vacancies, the psychological costs of job search and a low level of self-efficacy due to increasing unemployment duration and unsuccessful job search. This means that the discouraged unemployed do not actively seek a job, but they would accept it if it were on offer.¹¹

One might also argue that some of the unemployed might have been psychologically deprived even before their unemployment started and, therefore, that this characteristic alone does not explain involuntary unemployment. Anyway, the most convincing argument of our study is not only that 60 % of the Czech unemployed feel stressed specifically due to their unemployment status, but the psychological well-being of about one-half of them further worsened *during* unemployment.

4.2 Material Deprivation

European countries' experience from the 1980s shows that long-term unemployment increases the risk of poverty and social exclusion (Hagenaars et al., 1994), (Atkinson, 1998). For the most part, the unemployed are in-

⁹ This somewhat contradicts Oswald's (1994) results, who for the UK evidenced the highest degree of unemployment-related mental distress among young people and also among highly educated respondents and provided well-founded arguments supporting such results (e.g. in terms of the high opportunity costs of being unemployed for university graduates).

¹⁰ Oswald (1994) bases his assumption on the empirical evidence found for the US and the UK, documenting much lower happiness of the unemployed as compared with others.

TABLE 3 Income Poverty in the EU and the Czech Republic
(in per cent of total population; index risk)

Incidence of poverty	CZ	EU 14	Belgium	Denmark	France	Ireland	Italy	Germany	Portugal	Austria	United kingdom
Population total	7 %	17 %	17 %	12 %	16 %	19 %	19 %	16 %	22 %	17 %	19 %
Index/risk:											
Employed	0.53	0.77	0.62	0.56	0.73	0.54	0.90	0.63	0.82	0.93	0.56
Unemployed	9.33	2.92	3.57	1.71	3.62	3.21	2.94	2.91	1.47	1.72	2.86
Pensioners	2.04	1.09	1.14	2.39	1.16	0.85	0.70	1.01	1.85	1.03	1.40
Other inactive	5.83	3.05	3.23	4.33	3.45	3.36	2.61	4.58	2.71	2.44	3.09

Source: (Zelený, 2001), adapted

Notes: "Index of the risk of poverty" – the ratio of the poor in a given category to the poor in the population as a whole; "Employed" – individuals who live in a household in which at least one member is employed; "Unemployed" – individuals who live in a household in which at least one member is unemployed and none of the members is employed. The poverty line was set at 60 % of median-equivalent income. This income was computed using a modified OECD scale (the head of the household was assigned a weight of 1.0, other adults 0.5 and children below the age of 14 years 0.3).

deed destined to cope with the material deprivation associated with unemployment. Gallie (1999) suggests that while the correlation between unemployment and social exclusion of the unemployed has not been demonstrated clearly enough, the effect on their economic deprivation is not negligible and deserves greater attention than it has received so far. The situation in the Czech Republic deserves even more attention, since households of the unemployed are affected more severely by poverty than in other EU countries (*Table 3*).

Income poverty in the general population and among the unemployed can be compared internationally using data from the European Household Panel (third wave, from 1996) and the Czech "Mikrocensus" (1996).

To measure income poverty among households of the employed and unemployed, we use the index of poverty risk. The value of the index in *Table 3* generally tells us how much higher the incidence is of poor people in a particular category of the population as compared with the average in the population as a whole. Thus the figure 9.33 in the Czech case means that there are nine times more poor people among those living in households where the head of the household is unemployed compared to the total population. For households consisting of employed people, the corresponding figure is just 0.53.

While the risk of income poverty in households of the employed is fairly close to the EU level, the risk of income poverty in households consisting of the unemployed seems to be much higher in the Czech Republic. Actually, about two-thirds of unemployed households in the Czech Republic are poor,¹² which is the highest figure by comparison with other EU countries (only

¹² According to Červenka (2003), about 80 % of respondents considered a lack of jobs as the prevailing reason for unemployment during 2000–2002. By contrast, only around 20 % reported a lack of willingness of the unemployed to work.

Belgium, France, Ireland and the UK recorded rates between 50 % and 60 %). By contrast, the general poverty rate is the lowest in the Czech Republic.

The vast majority of the unemployed in our panel spoke about aggravation of their financial situation during the period of unemployment (82 %). Indeed, as *Table 4* documents, there is a strong association between indicators of material deprivation during unemployment and the respondents' overall evaluation of life.¹³

Actually, the unemployed state that their households' incomes declined on average by 25 % as compared with the period when they had been employed. In order to assess the impact of this decline in income, we must realise that 25 % of lost income represents, in a sample of low-income households with children (i.e. with income lower than 1.3 times the subsistence minimum), almost all of their rent and energy budget or about 80 % of their food expenses – cf. (CZSO, 2001).

The average income reported by unemployed households was approximately 1.3 times the subsistence minimum level. Over 40 % of the unemployed declare that they live on an income below the subsistence minimum. In relation to the average income of households with employed members this represents slightly less than 60 %. In cases where unemployment takes away the main source of the household's previous income, however, the proportion drops to as little as 47 % of the average income of employed households.¹⁴

The income impact of unemployment varies in line with the role of the unemployed person in the family and the material assistance provided by the state. In addition, it depends on the quality of human and social capital. This factor influences long-term accumulation of resources, including income generated in periods of both employment and unemployment, as well as individual prospects of finding a new stable job.

During periods of unemployment in those households in which the previous salary of the currently unemployed member used to be the household's main income source, total family income declines sharply and is low in general. This applies above all to households with children, both two-parent and single-parent ones.¹⁵ On average, these households' incomes drop to a level which only exceeds the household subsistence minimum by about 10 %. In single-parent households it drops below the subsistence minimum level.

By contrast, a relatively higher income level during unemployment (com-

¹² The share of the poor in a category of the unemployed in a country equals the incidence of poverty in total population multiplied by the risk index of poverty for the unemployed (in the Czech case it is $7\% \cdot 9.33 = 65.5\%$).

¹³ To be more precise, Spearman's correlation coefficient between overall evaluation of life in unemployment and the question "How do you make ends meet?" is 0.470 (sign = .000). In the case of the correlation between assessment of one's purchasing power and evaluation of the overall situation during unemployment it is 0.409 (sign = .000).

¹⁴ The monthly average net financial income in employed households in 2000 was CZK 20,254 (CZSO, 2001).

¹⁵ Considering the role of the breadwinner, this typically applies to middle-aged unemployed people (26–45).

TABLE 4 Financial Situation and Material Deprivation of the Unemployed
(in per cent of total respondents/unemployed)

	Income below the minimum level of subsistence	Household income decline by more than 25 %	Makes ends meet with great difficulties	Financial situation worsened a great deal	Income suffices only for the cheapest things, or not even for the cheapest food
TOTAL	42.5	52.1	26.8	41.7	42.5
SEX					
Men	42.7	58.8	26.8	40.9	44.7
Women	42.4	47.0	26.9	42.3	40.7
AGE					
Under 25 years	23.6	29.0	17.2	24.4	30.8
26 to 45	50.2	54.0	27.7	41.9	43.3
Over 45 years	44.0	66.8	33.6	56.4	51.1
EDUCATION					
Elementary	50.3	42.5	31.2	44.8	54.9
Lower secondary	50.0	61.3	27.2	41.0	45.1
Upper secondary	33.0	53.6	26.4	45.2	33.2
University	11.0	40.5	11.3	18.0	22.6
BREADWINNERS' ROLE					
Main income	54.7	65.6	32.3	50.0	47.5
Same incomes	38.5	60.4	25.0	47.2	37.4
Supplementary income	36.7	40.2	24.9	40.3	39.2
No partner, family	31.0	40.0	24.5	30.4	45.6
LIVING WITH PARENTS					
Lives with parents	29.0	35.8	20.2	26.7	34.3
Does not live with parents	47.3	58.1	29.6	47.5	45.8
TYPE OF HOUSEHOLD (EXCLUDING RESPONDENTS WHO LIVE WITH PARENTS)					
Individual	46.3	67.4	32.7	54.5	34.5
Childless couple	34.7	67.5	28.3	51.7	42.0
Two-parent family	48.7	48.6	29.6	47.4	46.0
Single-parent family	69.0	56.9	40.6	53.1	56.3
DURATION OF UNEMPLOYMENT					
Less than 1 month	37.5	41.7	19.5	37.0	37.8
1 to 3 months	38.6	45.7	22.4	39.7	38.7
3 to 6 months	39.9	52.6	28.8	39.5	40.0
More than 6 months	46.9	56.3	30.6	46.2	47.5
PARTNER'S UNEMPLOYMENT					
Partner unemployed	60.9	65.2	30.4	53.6	53.6
Partner employed	41.2	51.4	24.6	40.5	41.7

Notes: The figures in bold are cases where the specific variables (percentages) displayed in the columns correlate significantly with the qualitative variables in the first row (Spearman's correlation, SL .05 or less).

Source: The data were obtained from 816 unemployed respondents. The relationship between income and the subsistence minimum, as well as the figures on income decline, are based on the stated incomes of 660 unemployed respondents.

pared to the subsistence minimum) was found for the unemployed living with parents (young people under 25), as well as those respondents whose income served as a supplement to the income of the household's breadwinner (typically women living in complete families). When the subsistence minimum is applied as a benchmark, this finding also applies to highly educated respondents, although their income in absolute terms declines sharply during unemployment.

Our findings show that 75 % of the unemployed under 25 years of age live with their parents.¹⁶ Parental support considerably relieves the material consequences of unemployment, in terms of both additional income and accumulating financial savings. Considering that the young unemployed living with parents benefit from shared board and accommodation, it is not surprising that they find themselves much less financially deprived than other groups.

In addition to the position of the unemployed in their households, their human and social capital, as well as their ability to economise, proves to be of key importance. While the sharpest absolute decline in income during unemployment was found among the unemployed with higher educational qualifications, it is the group of elementary-educated, followed by those who have completed lower secondary education (vocational training), that have the lowest absolute income during unemployment. The feeling of material deprivation is also strongest among those unemployed individuals with elementary education.

While this can be a demonstration of secondary poverty resulting from low social competence, equally important is the fact that non-qualified workers have the poorest entitlements in the system of income protection during unemployment due to their precarious position in the labour market. Moreover, they are also likely to have the most limited financial resources, such as savings, etc.

As the period of unemployment grows longer, the material deprivation of the unemployed deepens. The replacement ratio is reduced after 3 months of unemployment, and after another 3 months the entitlement to unemployment benefits expires altogether. Moreover, temporary resources such as savings are usually expended very quickly. It is worth mentioning, however, that, given the low replacement ratio, the material deprivation of the unemployed is relatively high from the very initial stages of unemployment and we therefore do not find a substantial influence of unemployment duration.

It is also symptomatic that the income situation of those who eventually found a new job has not much improved. In most cases, their income remains below the level that prevailed prior to the unemployment. Leaving other factors aside, this can be ascribed to the frequently occurring necessity to incur debts during unemployment. However, decisive in this respect is the fact that, as in the EU countries, the long-term unemployed often find new employment in companies that offer lower wages, non-standard job contracts (temporary or part-time jobs) and low job security.

¹⁶ The unemployed under 25 years of age represent about 25 % of all unemployed individuals in the Czech Republic (MLSA 2002).

5. Conclusion

Labour market marginalisation due to long-term or frequently repeated unemployment is strongly associated with both material and mental deprivation among the major part of the unemployed. This supports the hypothesis that involuntary unemployment is not negligible in the Czech Republic.

Welfare benefits are sometimes “voluntarily” accepted as an alternative to low and insecure earnings. This happens not only because of their relatively favourable level (this concerns just certain types of households and low-wage workers), but also because of the seeming security that they imply as compared with the risks brought about by temporary employment, mainly *via* the secondary labour market.¹⁷ Indeed, passive strategies tend to prevail, especially in the case of workers with low qualification levels, despite the state of permanent deprivation to which they are exposed. This is, however, more a consequence of the unemployment trap and welfare dependency than a finding contrary to the involuntary unemployment hypothesis.

Thus the adverse impacts of marginalisation need more policy attention. First, labour force reproduction in terms of human capital and employability is adversely affected. As a result, the efficiency of job search worsens even in cases where the material deprivation of the (involuntarily) unemployed increases.

Second, due to a high and still growing share of long-term unemployment, the effective labour supply diminishes and “equilibrium unemployment” increases.¹⁸ Wage pressures and inflation risks could therefore emerge and threaten macroeconomic stability in spite of relatively high aggregate unemployment. Restrictive economic policies are only partly sufficient to prevent such pressures, since these would in turn hamper the economic growth necessary to eliminate high aggregate unemployment. In line with the argumentation of Flek and Večerník (2005) or Hurník and Navrátil (2005), we therefore conclude that structural and institutional changes affecting labour market performance are urgently needed.

Labour taxation should be lowered, especially with regard to low-earnings categories. The benefit system should in turn create more incentives to re-enter employment (i.e. to make benefits more conditional on job-search activity, diminish the universal generosity of the welfare system and create some back-to-work financial incentives).

In addition, the scope of active labour market policies needs to be extended to the most marginalised groups. Policy targeting, content and measures have to be improved by adopting a more “activating” approach.

Finally, income support schemes (unemployment benefits and social assistance benefits) should be better harmonised. Unemployment benefits might perhaps be more earnings-related and the replacement ratio possib-

¹⁷ Some of the unemployed clearly tend to supplement their social incomes by engaging in the shadow economy.

¹⁸ These effects have been emphasised by, for example, Layard, Nickell and Jackman (1994) and are in line with the argumentation of Hurník and Navrátil (2005).

ly higher, especially in the case of accepting longer labour market training. By contrast, social benefits should be more strictly conditional on search or training activities and reward activity.

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SUMMARY

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Unemployment, Labour Marginalization, and Deprivation

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The increase in long-term unemployment and the prolongation of periods of unemployment signals the establishment of a marginalized labour force in the Czech Republic. This paper considers the emerging marginalized groups in the Czech labour market, and their social, mental, and material deprivation. A major determinant of the incidence of unemployment in a person's work career is human capital, indicated by completed education. Material deprivation is most severe in unemployed-affected households with dependents in which the breadwinner's income has been lost. It is also severe in single-parent households. Overall, it is particularly those in the non-qualified labour force who find themselves in a state of permanent material deprivation with respect to a high risk of unemployment. The effects of labour market marginalization on labour market performance are mostly negative due to a diminished employability, and, as a result, declining effective labour supply. A policy response should involve employment tax and benefit reform and the extension of activating measures, mainly of those supporting employability and human capital.