

FLEXIBILITY OF THE CZECH LABOUR MARKET FROM A PERSPECTIVE OF THE EMPLOYMENT PROTECTION INDEX

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Abstract

The flexibility of the labour market can be considered from different perspectives. In this paper, labour market flexibility is associated with the Employment Protection Index, which is regularly published by the Organization for Economic Cooperation and Development. High protection of employment may result in a reluctance of employers to increase the number of their employees. After a brief explanation of the composition of the summary Employment Protection Index and a short description current situation of employment protection in Member states of the European Union, the article devotes its attention to the more detailed assessments of employment protection in the Czech Republic and its neighbours in the last few years. For this purpose sub-indexes of the Employment Protection Index are used. It is believed that the flexibility of the labour market is connected with the level of unemployment and its duration. The last part of the article tries to find possible relationships between strictness of labour market protection (measured by the Employment Protection Index), the unemployment rate and the incidence of the long-term unemployment in the European Union.

Key words: Employment Protection Index, labour market flexibility, unemployment rate, long-term unemployment

JEL Code: J41, J58, J60

Introduction

There is considerable attention devoted to the labour market flexibility in world professional literature. This interest was further deepened following the recent economic recession and the rise of unemployment. The liberal oriented economists see in the greater flexibility of the labour market, a means to reduce the unemployment rate. According to them, low flexibility of the market can be a cause of high and persistent long-term unemployment. The problem of long-term unemployment is discussed in articles by Blanchard and Summers (1986) or specifically for the situation in the Czech Republic, in articles by Löster, Langhamrová (2011), Frýdmanová, Zamrazilová (1999) or in the book of Pavelka, Löster, Makovský,

Langhamrová (2011). The high unemployment and its long duration are connected to high costs for society (see Čadil, Pavelka, Kaňková, Vorlíček, 2011). Contrary to liberal economists' views, trade unions often see greater flexibility of the labour market as a threat to employee's security.

Labour market flexibility can be evaluated from different perspectives. In this article, attention is paid to the Employment Protection Index, published by the Organization for Economic Cooperation and Development (OECD, 2013a, 2013b).

Tab. 1: Employment protection summary index

EMPLOYMENT PROTECTION SUMMARY INDEX					
Regular contracts			Temporary contracts		Collective dismissals
Procedural inconveniences	Notice and severance pay for no-fault individual dismissals	Difficulty of dismissal	Fixed term contracts	Temporary work agency employment	
1. Notification procedures 2. Delay involved before notice can start	3. Length of the notice period 4. Severance pay after	5. Definition of justified or unfair dismissals 6. Length of trail period 7. Compensation following unfair dismissals 8. Possibilities of reinstatement following unfair dismissals 9. Maximum time to make a claim of unfair dismissals	10. Valid causes for use of FTC 11. Maximum number of successive contracts FTC 12. Maximum cumulated duration of successive FTC	13. Types of work for which TWA employment is legal 14. Restriction on number of renewals 15. Maximum cumulated duration of TWA contracts 16. Does the set-up of a TWA require authorisation or reporting obligations 17. Do regulations ensure equal treatment of regular and agency workers at the user firms?	18. Definition of collective dismissals 19. Additional notification requirements 20. Additional delays involved before notice can start 21. Other special costs to employers

Source: Venn (2009), own adjustment

1 Employment Protection Index

The Employment Protection Index assesses the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts (OECD, 2013b). The composition of the overall index is shown in Table 1.

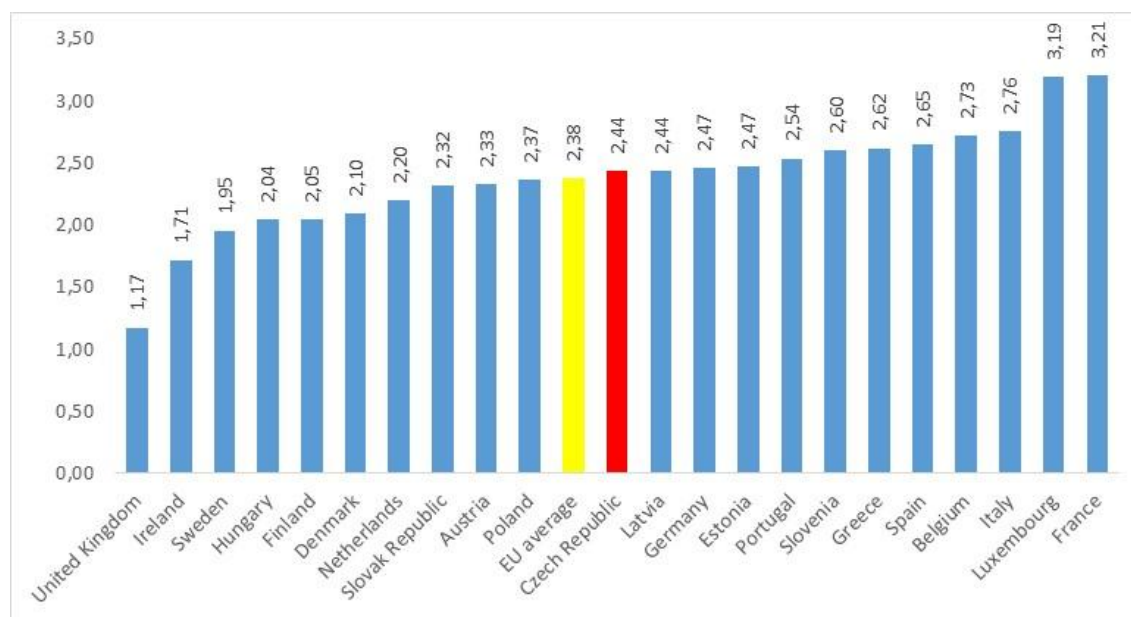
There are 21 indicators in this index which are divided into three sub-groups. Each sub-group assesses different aspects of employment protection (Venn, 2009):

- Individual dismissals of workers with regular contracts,
- Regulation of temporary contracts,
- Additional costs for collective dismissals.

2 Employment Protection Index and the Czech Republic

The summary Employment Protection Index 2013 for Member States of the European Union is shown in Figure 1.

Fig. 1: Strictness of employment protection – summary index 2013



Source: own calculation form OECD Employment Protection Database, 2013 (27.7.2013)

In 2013 the Czech Republic has a slightly higher value in this index than the average for the European Union. This year the United Kingdom has the least and France the highest strictness of employment protection. From Figure 1 no general statement about which group

protects employment more or less can be derived. Some old and also new countries of the European Union are below the EU average. Below the European Union average we can see states of Central, Western and Northern Europe. The same is also true for countries above the European average, but it is worth to noting that countries of Southern Europe – Portugal, Spain and Italy, have stricter protection of employment than the European Union average. The next analysis is devoted only to the Czech Republic and its neighbours. Table 2 contains data about the development of the Summary Employment Protection Index for the Czech Republic and its neighbours during 2008 – 2013. Since 2010 the protection of the Czech labour market has increased slightly. During the last six years the Summary Employment Protection Index has been stable in Austria and Poland and has changed only slightly, up or down, in the other countries.

From Table 2 it is also apparent that neighbour countries of the Czech Republic have had lower protection of employment than the Czech Republic during last two years. Only Germany has a stricter protective system in 2013. The protection of employment in Hungary is the lowest of all other monitored countries. From the view of the entire European Union, it is obvious that the strictness of employment protection has relaxed slightly in recent years.

Tab. 2: Strictness of employment protection – summary index

	2008	2009	2010	2011	2012	2013
Czech Republic	2,39	2,39	2,44	2,44	2,44	2,44
Austria	2,33	2,33	2,33	2,33	2,33	2,33
Germany	2,38	2,38	2,38	2,38	2,38	2,47
Hungary	2,12	2,12	2,12	2,12	2,15	2,04
Poland	2,37	2,37	2,37	2,37	2,37	2,37
Slovak Republic	2,44	2,44	2,44	2,54	2,22	2,32
EU average	2,42	2,41	2,41	2,40	2,38	2,38

Source: own calculation form OECD Employment Protection Database, 2013 (27.7.2013)

As mentioned above, the Summary Employment Protection Index can be divided into three sub-indexes. One of them deals with protection of regular contracts, the next with protection of temporary contracts and the last sub-index is devoted to protection in the cases of collective dismissals.

From Table 3 it is apparent that the Czech Republic has the highest strictness of protection level out of all monitored countries in the case of individual dismissals of persons with regular contracts. Also the average value of this sub-index for the entire European Union is lower than for the Czech Republic. Hungary has the weakest level of protection of regular

contracts in this year if we consider only individuals dismissals. From 2011 the Czech Republic has changed the conditions of severance pay. Now the amount of severance pay depends on the length of time the employee has been working for a given company.

Tab. 3: Strictness of employment protection – individual dismissals – regular contracts

	2008	2009	2010	2011	2012	2013
Czech Republic	3,00	3,00	3,00	3,00	2,87	2,87
Austria	2,12	2,12	2,12	2,12	2,12	2,12
Germany	2,72	2,72	2,72	2,72	2,72	2,72
Hungary	1,82	1,82	1,82	1,82	1,82	1,45
Poland	2,20	2,20	2,20	2,20	2,20	2,20
Slovak Republic	2,19	2,19	2,19	2,19	1,68	1,81
EU average	2,39	2,38	2,34	2,31	2,26	2,21

Source: OECD Employment Protection Database, 2013 (27.7.2013), own calculation

In Table 4 a sub-index describes strictness of protection in the case of individual dismissals of persons who are employed on temporary contracts. In 2013 only Germany and Hungary have a weaker protection of employment than the Czech Republic in this respect. But as can be seen from the table, the Czech Republic has gradually tightened the protection of persons working on temporary contracts. Since 2011 the maximum length of fixed term contract is three years and this contract with the same employer can be repeated only two times, so the maximum number of successive contracts is three.

Tab. 4: Strictness of employment protection – individual dismissals –temporary contracts

	2008	2009	2010	2011	2012	2013
Czech Republic	1,88	1,88	2,00	2,00	2,13	2,13
Austria	2,17	2,17	2,17	2,17	2,17	2,17
Germany	1,54	1,54	1,54	1,54	1,54	1,75
Hungary	1,92	1,92	1,92	1,92	2,00	2,00
Poland	2,33	2,33	2,33	2,33	2,33	2,33
Slovak Republic	2,17	2,17	2,17	2,42	2,29	2,42
EU average	2,15	2,15	2,17	2,17	2,17	2,23

Source: OECD Employment Protection Database, 2013 (27.7.2013), own calculation

The last table, Table 5, contains values of sub-index which assesses the strictness of protection in the case of collective dismissals. As can be seen from the table, the Czech Republic has the weakest protection of employment with regard to collective dismissals. The strictest protection is in Germany and Hungary. In the Czech Republic employers must

inform, in advance, the trade unions (or other employee representatives) and the district labour office when they are carrying out collective dismissals.

Tab. 5: Strictness of employment protection – collective dismissals

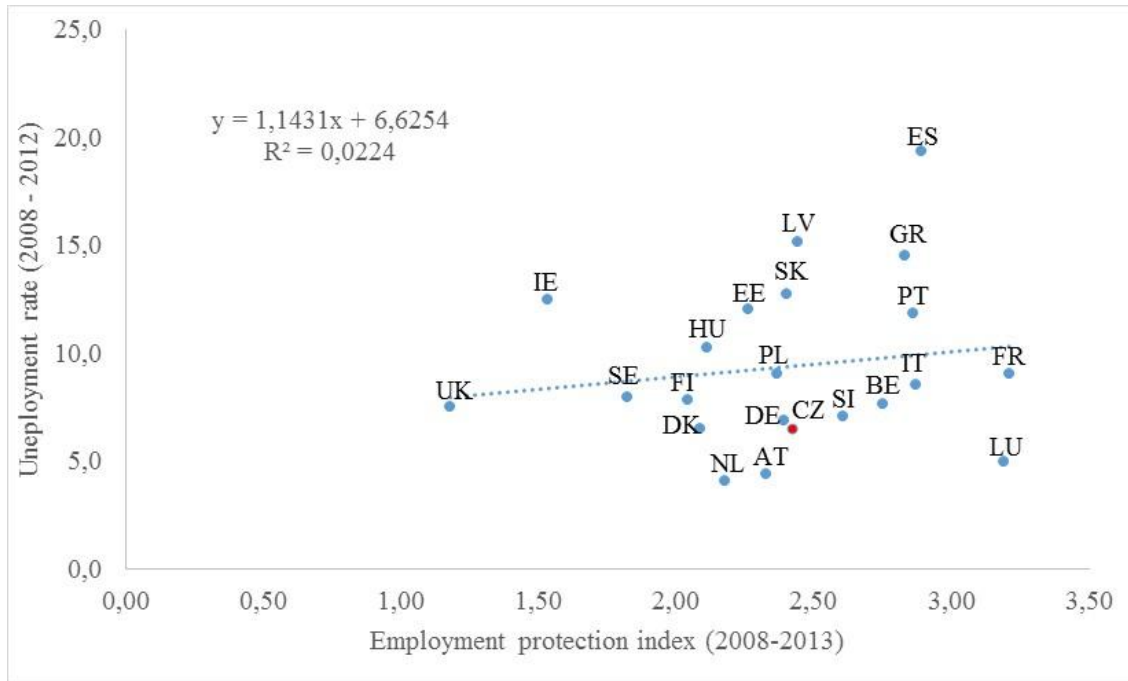
	2008	2009	2010	2011	2012	2013
Czech Republic	2,13	2,13	2,13	2,13	2,13	2,13
Austria	3,25	3,25	3,25	3,25	3,25	3,25
Germany	3,63	3,63	3,63	3,63	3,63	3,63
Hungary	3,38	3,38	3,38	3,38	3,38	3,63
Poland	2,88	2,88	2,88	2,88	2,88	2,88
Slovak Republic	3,75	3,75	3,75	3,75	3,38	3,38
EU average	3,14	3,14	3,19	3,19	3,20	3,17

Source: OECD Employment Protection Database, 2013 (27.7.2013), own calculation

3 Impact of strictness of employment protection on unemployment and long-term unemployment

As mentioned in the introduction to this article, it is generally believed that low labour market flexibility is one of the main causes of the high rate of unemployment. Unemployed people have often had problems finding jobs due to the high rigidity of the labour market. This is a possible reason for the increase of long-term unemployment. Labour market flexibility can be simply assessed by the Employment Protection Index, which was explained in the first section. The lower the index value is, the more flexible the labour market is in the country.

Fig. 2: Relationship between employment protection index and unemployment rate

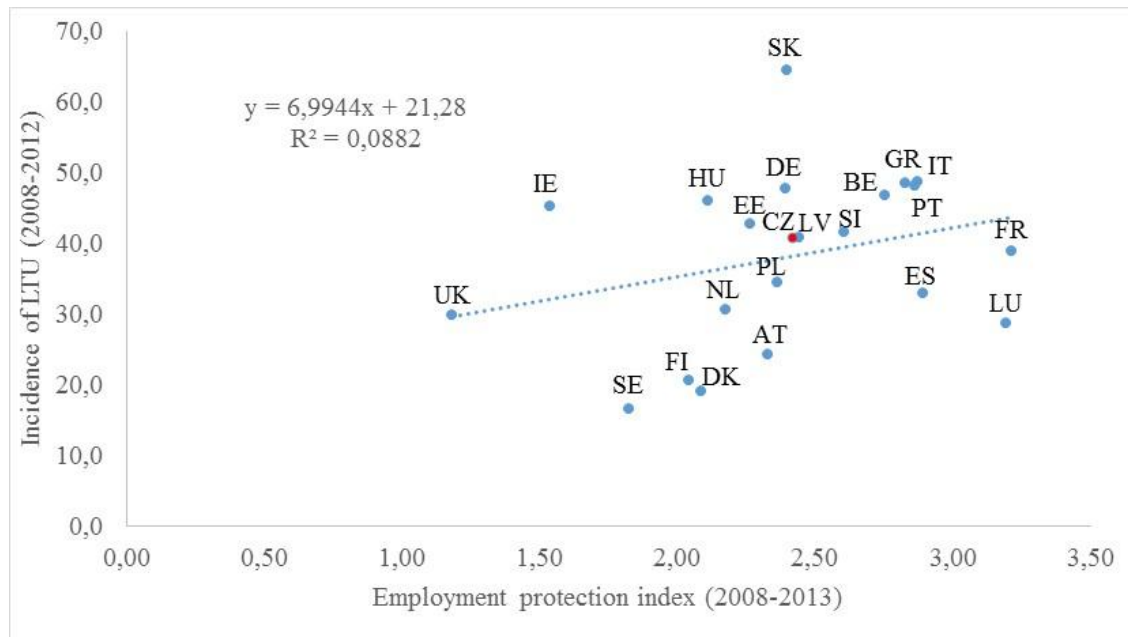


Source: own calculation

Figure 2 shows the relationship between the Employment Protection Index and the unemployment rate. Figure 3 then shows the relationship between the Employment Protection Index and the rate of incidence of long-term unemployment. The incidence of long-term unemployment indicates what percentage of the total unemployed are unemployed for over one year. The Employment Protection Index values in both figures are average values for the period 2008 - 2013. The unemployment rates and long-term unemployment incidence rates are the average of the two variables for 2008 - 2012. In this analysis data for the Member States of the European Union for which the OECD publishes the values of the Employment Protection Index is used.

There is a relatively weak relationship between the Employment Protection Index and the unemployment rate. The linear model explains only 2.2% of the variability in the unemployment rate. From the P values statistics we can conclude that there is no statistically significant relationship between the Employment Protection Index and the unemployment rate at the 95.0% or higher confidence level.

Fig. 3: Relationship between employment protection index and incidence of long-term unemployment



Source: own calculation

Also if we consider the link between the Employment Protection Index and the incidence of long-term unemployment there is no statically significant relationship at the 95.0% or higher confidence level. The model in Figure 3 explains only 8.8 % of variability in the incidence of long-term unemployment. Also according to the correlation coefficient there is a relatively weak relationship.

Conclusion

The flexibility of the labour market is assessed by the Employment Protection Index which is published by the Organization for Economic Cooperation and Development. It is apparent that the Czech Republic has a marginally stricter employment protection level than is the average for the European Union. In comparison with its neighbours the Czech Republic has the second highest total employment protection after Germany. The Czech Republic has stricter protection in the case of individual dismissals of persons with regular or temporary contracts than its neighbours. With regard to collective dismissals the Czech Republic is among countries with a lower degree of protection strictness.

From graphical and statistical analysis it is apparent that there are no statistically significant relationships between strictness of employment protection (measured by the Employment Protection Index), the unemployment rate and the incidence of long-term unemployment in the European Union.

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