

# THE LABOUR MARKET IN THE CZECH REPUBLIC AFTER ACCESSION TO THE EUROPEAN UNION

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## Abstract

The effective functioning of factor markets is one of the basic assumptions of economic growth of the economy. The labour market affects the economic and social situation in the country and contributes to competitiveness of it. The labour market in the Czech Republic has passed significant changes in recent years. The transformation processes in the 90s influenced the development of the market. These processes were accompanied by rising unemployment and restructuring. The development was especially influenced by entrance of the Czech Republic to the European Union. The membership has brought a number of changes that have affected the situation in the labour market. Supports of employment and single labour market are the main objectives of the European Union in the theme. The borders have been opening and people have get rights to free movement throughout the EU. It leads to increase of flexibility in the labour markets of the member states. The article aims to analyse changes in the labour market in the region of the Czech Republic in the last ten years, in the context of their economic level and degree of competitiveness. For importance of openness of the economy, the analysis will focus primarily on foreigners in the labour market in the regions of the Czech Republic. It is an indicator of inflow of new economic powers to the country.

**Key words:** competitiveness, region, labour market, labour migration, foreigners, EU

**JEL Code:** J64, J81, J82, O15

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## Introduction

On 1<sup>st</sup> May 2014, we commemorate the 10<sup>th</sup> anniversary of the entrance of the Czech Republic to the European Union (the EU). Advantages which we gained thanks to the membership in the EU are undisputable. Our country became a member of an important integration coalition and integrated so among European democratic countries struggling for meeting common goals – to support peace, democratic values and high-quality life of their inhabitants which is guaranteed by dynamic and tenderable European economy. The last ten years of the development of European economy confirms however that the union became

gradually one of the most stagnant regions of the world, mainly after the outbreak of economic and financial crisis in 2008. An example is the European labour market. Its basic pillar was (and still is) free movement of people, possibility of gaining education or work experience in other member countries, high employment of inhabitants and low unemployment. The EU has always considered the labour market and its effective functioning as one of indicators of the economy competitiveness, e.g. when the Lisbon Strategy of the EU (but also the current Strategy 2020) still emphasises that flexible labour markets are the basic condition for long-term economic growth of a country. Migration is one of the determinants, which leads to it. (Slaný, 2007) Employment is considered by the EU as one of the most important tools of economic growth and also a way of preventing poverty and social problems (Wokoun, 2011). The view of the total unemployment rate in the EU (whole union average) confirms however that the rate of unemployment has significantly increased in the region during last ten years. An alarming point is mainly the situation in countries of the European south where e.g. the total rate of unemployment in Greece is nowadays 28 % and the rate of unemployment of young people is close to 60 %. The situation in the Czech labour market isn't such dramatic (the current general rate of unemployment is 7 %) but it isn't possible to abstract from the European context when evaluating the Czech labour market. In spite of the fact that the entrance of the Czech Republic to the EU has brought many important changes in the field of the labour market, we consider the opening of the Czech labour market for foreigners, whose labour participation in our region has advised repeated revival during last years, as the key one.

In context of the above mentioned conjunctions, the goal of this article is to analyse changes in the labour market after the entrance of the Czech Republic to the EU, with focus on changes in the field of migration policy and economic contribution of foreigners' engagement in the Czech labour market. The analysis will be executed at the level of regions, which are nowadays considered as driving motors of the economic development of a state, because specialization in individual branches proceeds here. The main attention will be devoted to testing of the hypothesis that regions with a higher rate of competitiveness have also a higher potential to attract foreign employees to the labour market.

## **1 Changes in the Czech labour market before the entrance to the EU**

During the 90s, the Czech labour market wrestled with many problems caused by the transformation of Czech economy. Economic and legislative changes were made which

should have increased economic flexibility and approached the Czech economic environment to advanced states. The new concept of employment policy which reflected changed conditions in the labour market was presented in the form of the National Action Plan for Employment (1999) which was already elaborated in compliance with goals of “Economic strategy of the Czech Republic for the entrance to the EU”. We can state that in spite of the fact that the transformation process is generally connected to problems of unemployment, transformation of the Czech labour market had its own specifics, as compared to other states changing centrally planned economies to market economies, which were set by better starting conditions. For instance, Jírová (Žák, 2001) mentions that a favourable situation after transformation was given mainly by a qualifying structure of labour force and its sector distribution. The sector of services wasn't developed much in the Czech Republic at the beginning of the 90s. It served as a source of demand for labour force and could offer employment to people who lost their job as consequence of restructuring agriculture and industry. Also more than 50 % of people from the total number of economically active people had high or university education in the Czech Republic (as compared to Hungary or Poland where this rate was only 30 – 40 %). The reason of low unemployment was also wage moderation, low inflation and effective employment policy. A fundamental change in the development of favourable situation in the labour market came in 1997 when the set measures had already lost their positive effects. A group of long-term unemployed or repeatedly unemployed people was detached in the labour market. Those were mainly people without qualification and education and school graduates without practice. The sector of services had already enough employees in this period and couldn't take employees of the primary and secondary sector. Problems with unemployment influenced mainly regions where industry was restructured. Regions with unilaterally oriented industry had the biggest problems. Mainly the Olomoucký, Moravskoslezský, Jihomoravský and Karlovarský regions had to wrestle with high increase of unemployment. Decreasing the employment meant the slowdown of economic development in these regions and beginning of the origin of significant interregional disparities. At the same time, it is possible to monitor growing participation of foreigners in the Czech labour market already during the 90s. The Czech Republic became an immigration and transitive country very quickly (Drbohlav, 2003). The employment of foreigners<sup>1</sup> in the Czech Republic almost doubled from 1994 till 2003. The

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<sup>1</sup> Employment of foreigners includes labour activities (employment and trade enterprise) of foreigners with permission for a long-term stay in the Czech Republic. Foreigners with permission for a long-term stay aren't

number of foreigners increased from 91 thousand people at the end of 1994 to 168 thousand people at the end of 2003. Nearly 63 % (105 738 people) were in the position of employees and the remaining 37 % were foreigners with a trade licence (Fig. 2). Before the entrance of the Czech Republic to the EU, the share of foreigners' employment in labour force was altogether 3,19 %. In 2003, labour migration from the countries of EU-25 was altogether 49 % from the total number; the biggest share had labour migration of citizens from Slovakia (80 %), then Poland (10 %), Germany (3 %), the United Kingdom (2 %), France (1 %), Italy (1 %) and Austria (1 %). Only 2 % of people from the remaining 18 countries of the EU-15 created labour migration. More than half (51 %) labour migration in 2003 came from countries outside the EU. The most numerous group were citizens from Ukraine 48 % (41 241 people) and Vietnam 25 % (21 201 people). To other more important source countries of the labour migration belonged Bulgaria 3,4 %, Russia 2,9 %, the United States of America 2,4 % and Moldavia 2,2 %. From the viewpoint of a qualifying structure, altogether 44 % of foreigners in the Czech Republic were workers, 36 % general workers, 12 % employees at universities and 9 % were employees in positions requiring a leaving exam.

Before the entrance to the EU, the Czech Republic had to harmonize also its rules with relevant legislation of the EU<sup>2</sup>. In context of our interest, the most important implementations were rules of free movement of people and consequently free movement of employees (e.g. also the question of accepting professional qualifications; this caused a frame for accepting certain foreign professional qualifications). In case of employees from other countries, it was however necessary to implement certain procedures and legal provisions (e.g. "green card program"). The Czech Republic had to reinforce the check of migration to find out that immigrants will be treated according to standards and requirements of the EU. The most significant shift was in connection with law nr. 326/1999 of foreigners' stay in the Czech Republic (law on foreigners) and law nr. 325/1999 of asylum (law of asylum). Both laws were approved in 1999 and came into force in January 2000. The mentioned provisions influenced significantly the migration policy of the Czech Republic and foreigners' employment. After the entrance of the Czech Republic to the Schengen Area, the Czech labour market became a

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included in the analysis because their legal position in the labour market isn't different from the position of Czech citizens.

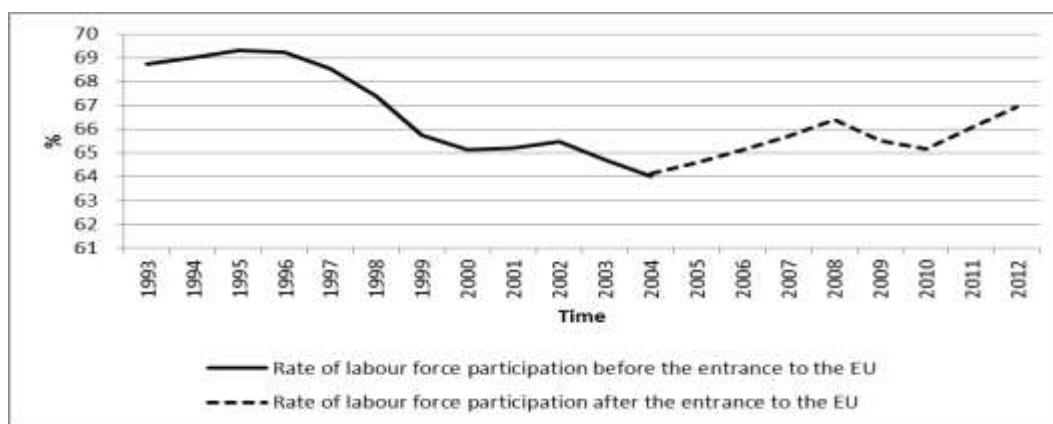
<sup>2</sup> Employment of citizens from member states of the EU follows Regulation of the Council nr. 1612/68/EEC of free movement of employees within the Union, direction nr. 90/365/ECC of the right for stay of an employee or a self-employed person after termination of his/her labour activity and Regulation of the Commission of ECC nr. 12551/70 of employees' right to stay in a member state after they were employed in this state.

part of the unified market enabling residents of the EU a free entry to the labour market of any member state and Czech citizens gained the right to enter any labour market of the EU member state (Schengen Borders Code, Regulation of the European Parliament and European Council (ES) nr. 562/2006 from 15<sup>th</sup> March 2006 which sets the Union codex of rules regulating cross-border movement of people).

## **2 Foreigners in the labour market after the entrance of the Czech Republic to the EU**

In spite of some predictions which predicted significant growth of unemployment after the entrance of the Czech Republic to the EU, this remained without significant changes. Before the entrance to the EU, the general rate of unemployment in the Czech Republic was at the average 8 %, in 2004 it increased to 8,3 % (as compared to the average of 8,5 % in EU-15) and it has gradually decreased during last years. In 2008 it decreased to only 4,4 – the lowest value since 1996. In the same year, employment in the Czech Republic reached 66,6 % and exceeded slightly the unit average of 66,3%. The level of labour participation in the Czech labour market in the period 1993 – 2012 is depicted in the following graph (Fig. 1). It is a rate of employed people on the total number of inhabitants at the age of 15-64 years. It expresses the rate of people's participation in the labour market. Decrease of this indicator is obvious till 2004. It was caused mainly by the increasing number of students at universities. In 2004, there was a severe change in development of this indicator. The main reason of its increasing tendency was opening of borders of the Czech labour market and increasing number of foreigners working in the Czech Republic. The second break came in 2008 due to the economic crisis. States had to adopt policy measures to alleviate decline in employment and a sharp drop in unemployment.(Horská, 2012)

### **Fig. 1: Rate of labour force participation**

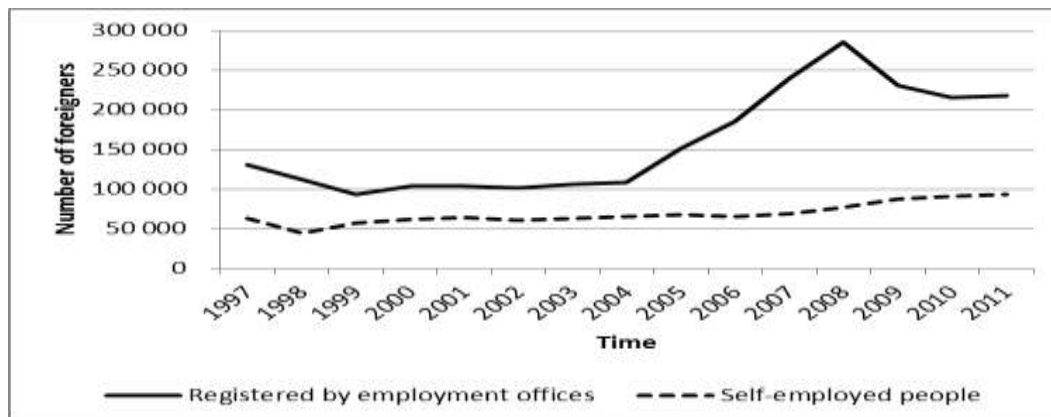


Source: own elaboration according to the Czech Statistical Office (2004-2014)

Significant increase of the number of foreigners after 2004 is obvious from the following graph (Fig. 2) which depicts development of the number of foreigners registered at employment offices and working thanks to trade permission since 1997. It is obvious from the graph that while the number of foreigners registered by employment offices of the Czech Republic has increased since 2008 when their status reached its maximum of 78,7 % (it was a record number of 284 551 people), the number of foreigners working thanks to trade permission has slightly increased. This increase was caused mainly by the fact that many foreigners who lost their job started to enterprise in the Czech Republic. According to actual data (2011), the number of foreigners registered by employment offices is 217 862 people, the number of self-employed people increased to 93 059. After the entrance of the Czech Republic to the EU, the rate of foreigners from countries of EU-27 increased to 56,1 %. Mainly citizens of Slovakia (54 %), Poland (9,8 %), Bulgaria (3,7 %) and Germany (2,2 %) partake significantly in the total number of employed foreigners. After the entrance of the Czech Republic to the EU, decrease of employed foreigners from the third countries is obvious (altogether 43,9 %) but the dominance of citizens from Ukraine (31,7 %) and Vietnam (14,8 %) continues. It is possible to notice quite different development of self-employed foreigners where citizens from the third countries dominate (altogether 73 107 people in 2011). From the viewpoint of citizenship, citizens from Ukraine (36 %) and Vietnam (31 %) dominate. Slovaks (12 %) dominate among the self-employed foreigners from the EU countries. From the viewpoint of employment classification (KZAM/CZ-ISCO), the highest number of foreigners is employed in the category “General and non-qualified workers” (over 55 % come from the third countries), then in the category “Operators of machines and appliances, assemblers” and “Craftsmen and servicemen” (citizens of the EU dominate however in this category, nearly 76 %). It is worth noting that also numbers of

employed foreigners in the category “Specialists – scientific and head workers” increase continually (citizens of the EU represent 75,3 %).

**Fig. 2: Development of foreigners in the labour market of the Czech Republic**



Source: own elaboration according to the Czech statistical office (2004-2014)

### 3 Entrance of foreigners into the Czech labour market

Entrance of foreigners into the labour market is determined mainly by economic indicators and work opportunities of regions. Foreigners in the labour market of the Czech Republic represent an important part of labour force. However, their geographic distribution isn't equal. The most foreigners aim to the capital city Praha where more than 110 000 foreigners work, then to the Středočeský region (42 543 foreigners) and the Moravskoslezský region (19 428 foreigners). The capital city Praha, the Středočeský region and the Jihomoravský region belong among regions with a high level of development and they dispose of potential for further economic growth. A high percentage of working Slovaks is typical for the Moravskoslezský region. On the other hand, the least sought-after regions of foreigners are Vysočina (5 809 foreigners) and the Olomoucký region (6 043 foreigners).

The analysis of ability of an economically advanced region to allure employees from abroad will be made using a correlation analysis thanks to which the influence of region's competitiveness on its potential to allure foreigners to the given labour market will be tested and quantified. In a broader sense, competitiveness can be characterized as a set of conditions for reaching a maintainable growth of economic efficiency. It represents the ability to produce products and services and keep or increase GDP of a region (Nečadová, 2011). In the following analysis, competitiveness of a region will be expressed by an efficiency indicator of GDP per 1 employee. This indicator is considered as the main indicator of competitiveness (e.g. Turok, 2003). For a more detailed investigation of the relation between the number of

foreigners in the labour market of a region and region's competitiveness, working foreigners will be divided into two groups – foreigners registered at employment offices and foreigners working with a trade licence. The correlation analysis will be elaborated in the statistic software Statistika 12. Data from 2004 till 2011 will be analysed.

The correlation analysis enables generally to define a mutual relation of two quantities and describe the closeness rate of their relation. On the basis of executed tests with a standard data distribution, Spearman's correlation coefficient defined according to (Hindls 2006) was used for the correlation analysis. It is defined by the relation (1):

$$r_{i_x i_y} = 1 - \frac{6 \sum (i_x - i_y)^2}{n(n^2 - 1)} \quad (1)$$

where  $i$  expresses a sequence number of variable quantity in a ordered raw and  $n$  is the number of cases. Results of the correlation coefficient have values from -1 to 1 whereas it is possible to suppose that there will be a strong direct dependence between the quantities if the correlation coefficient is close to +1 and a strong indirect dependence if the coefficient is close to -1. In case the coefficient is 0, there isn't any dependence between the quantities. Results of the correlation analysis are stated in chart nr. 1. Statistically important relations are marked bold.

**Chart 1 – Results of the correlation analysis**

	GDP per 1 employee							
	2004	2005	2006	2007	2008	2009	2010	2011
Foreigners in the labour market	<b>0,670</b>	<b>0,666</b>	<b>0,758</b>	<b>0,771</b>	<b>0,714</b>	<b>0,749</b>	<b>0,613</b>	<b>0,552</b>
Foreigners registered at employment offices	<b>0,771</b>	<b>0,705</b>	<b>0,719</b>	<b>0,754</b>	<b>0,692</b>	<b>0,697</b>	0,521	<b>0,613</b>
Foreigners working with a trade licence	0,525	<b>0,552</b>	<b>0,600</b>	<b>0,666</b>	0,530	0,525	0,473	0,393

Source: own elaboration

It arises from results of the executed analysis that there is a statistically important relation between the number of foreigners in the labour market and region's productivity. But if we divide foreigners in those who work with a trade licence and those who are registered at employment offices, it is obvious that a higher rate of the influence of competitiveness of the given region is at foreigners registered at employment offices. These people are more motivated by salary which is higher in an economically prosperous region and because these are usually people working as non-qualified general workers, there is also a bigger chance to find an employment.

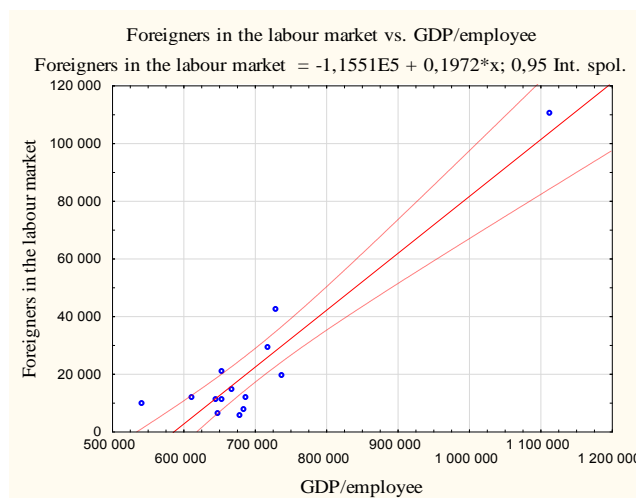
For foreigners working with a trade licence, the correlation coefficient is by more than 10 % lower as compared to the number of foreigners from the 1<sup>st</sup> group. Foreigners who come



to the Czech Republic to work with a trade licence prefer other factors when choosing a region than productivity of the given region (e.g. gap in the market, target group of clients, services availability). The correlation coefficient decreases year by year. Whereas productivity of a region seemed to be a significant factor for foreigner's decision to enterprise in the given region, a change came with the economic crisis in 2008 when many foreigners were fired in consequence of the crisis and started to enterprise in the Czech Republic.

The relation between region's competitiveness and the number of foreigners in the labour market in the given region is depicted in the following graph (Fig. 3). The mentioned graph implies that one-percent increase of GDP per employee in a region will lead to 0,197 % increase of the number of foreigners in the labour market in this region.

**Fig. 3: The dependence of foreigners in the labour market on region's productivity**



Source: own elaboration

## Conclusion

The entrance to the EU brought the Czech Republic many changes which influenced also the labour market and employment in the Czech Republic. The most important changes were in the field of migration and migration policy of the country related to involvement of the Czech market in the unified market of the EU with free movement of labour, people, goods and capital. In spite of the increasing number of immigrants after the entrance to the EU, the Czech society doesn't consider immigration as a problem. Initial concerns about significant

growth of unemployment weren't confirmed. In spite of the fact that the level of unemployment increased slightly after the entrance to the EU, its level kept on below the average value of the EU and even decreased in the following years. Foreigners in the Czech Republic represent an important part of labour force. In 2011, over 300 thousand foreigners worked here, whereof 2/3 worked in salaried employment and 1/3 with a trade licence. Foreigners work as general workers most often. However, the increase of foreigners working as specialized scientific and head workers has come out during last years. The distribution of foreigners isn't equal in the Czech Republic. The most foreigners are employed in the capital city Praha, the Středočeský region and the Jihomoravský region. Economic maturity of a region and its ability to allure foreigners to the labour market is evident for foreigners registered by employment offices more than for foreigners working with a trade licence. This group of foreigners prefer other factors for selection of a region.

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