

3. THE LABOR MARKET IN THE CZECH REPUBLIC AND OPPORTUNITIES FOR LOW SKILLED WORKERS

The Czech labor market has been performing strongly in recent years, and strong labor demand has driven down unemployment to record low levels – below 5 percent in early 2008. Most remaining unemployment in the Czech Republic is now of a long-term nature, suggesting that remaining unemployed face binding barriers to employment possibly due to lacking skills and work habits, disincentives or lack of motivation to look for work or other reasons such as discrimination. As shown in Chapter 2, the overall positive developments conceal deeply unsatisfactory outcomes for the relatively small group of Roma in marginalized localities. While most such Roma suffer from low educational attainment and skills and would only qualify for elementary occupations, demand for labor in elementary occupations is low in most regions, and in particular in those regions with traditionally high unemployment and long-term unemployment. It is precisely in these regions where many excluded Roma localities can be found. This suggests that strong economic growth, triggering a fall in unemployment overall, alone is unlikely to improve the labor market outcomes for low skill workers, particularly the young and those in underdeveloped regions in the Czech Republic, but that proactive measures are needed to overcome barriers to employment.

RECENT LABOR MARKET TRENDS AND CHALLENGES

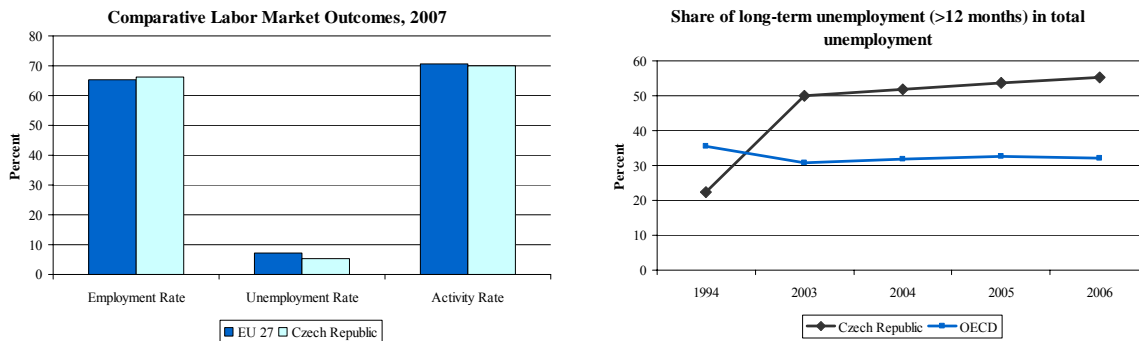
3.1 The Czech labor market has been performing strongly in recent years, with low and falling unemployment and high employment rates compared to EU 27 averages. Like in other new EU Member States, the Czech labor market has substantially tightened in recent years⁶³. As Figure 22 (left panel) reveals, the Czech Republic continues to outperform many of its EU peers. Like in previous years, the employment rate in the Czech Republic in 2007, at 66.1 percent, was higher than the EU27 average of 65.4 percent and close to the Lisbon target of 70 percent in 2010. Equally, unemployment has been lower (5.3 compared to 7.1 percent in 2007) and has continued to fall to below 5 percent in the first quarter of 2008. Labor demand is strong and there are plenty of job openings. There are only three unemployed for one job vacancy, which points to a tight labor market, and the vacancy rate is high indicating labor shortages⁶⁴. After all, many Czech employers see skills shortages as a major obstacle to the operation and growth of their firms⁶⁵.

⁶³ See World Bank (2007)

⁶⁴ Ibid.

⁶⁵ Ibid.

Figure 22: The Czech Republic faces better employment outcomes than EU27, but much of its unemployment is long-term, 2006



Sources: Eurostat (left panel), OECD (right panel)

3.2 At the same time, the Czech Republic has been unable to tackle long-term unemployment which is substantially above the OECD average and keeps rising as a share of overall unemployment. Figure 22 (right panel) shows the evolution of the share of long-term unemployment in total unemployment in recent years. More than half of the unemployed in the Czech Republic have been unemployed for more than 12 months. This relatively high share of long-term unemployment points to the problems of labor market disadvantage and social exclusion. Apparently some workers have problems with finding a job despite the overall strong demand for labor. Two external factors contribute to employment problems faced by some worker groups:

- **Regional variation in labor market conditions.** While the overall labor market conditions are good, there are some regions of the country where labor demand is much weaker and accordingly, unemployment substantially higher.
- **The changing skill profile of labor demand.** Technological progress tends to be biased towards higher skills, which implies that the demand for less skilled labor is gradually declining. This gives rise to the skills mismatch: shortage of some, usually higher skills coupled with excess supply of other, usually lower skills.

REGIONAL VARIATIONS IN LABOR MARKET CONDITIONS

3.3 The regional variation of labor market conditions in the Czech Republic is quite substantial. The unemployment rate varies from 2.5 percent in the capital region (Prague) to over 10 percent in the Ustecky kraj (Table 18). And higher unemployment goes hand in hand with the higher share of long-term unemployment (Figure 23).⁶⁶ In the Ustecky region the incidence of long-term unemployment is twice as high as in the Prague region (52 and 25 percent, respectively). High unemployment reflects weak

⁶⁶ It should be noted that the high unemployment does not necessarily imply a high share of long-term unemployment. In fact, an increase in the share of long-term unemployment tends to be associated with a fall in the unemployment rate, as it is the short-term unemployed who are more likely to find jobs and leave the ranks of the unemployed.

labor demand. The unemployment/vacancy (U/V) ratio in the Ústecký region at over 8 is dramatically higher than in the in the Prague region (less than one). These are just two extreme examples. Differences in labor market conditions among other regions are less pronounced but still significant. Labor market slack is substantial also in Moravskoslezský and Karlovarský regions. At the same time, labor markets are tight in Jihočeský, Plzeňský and Pardubický regions.

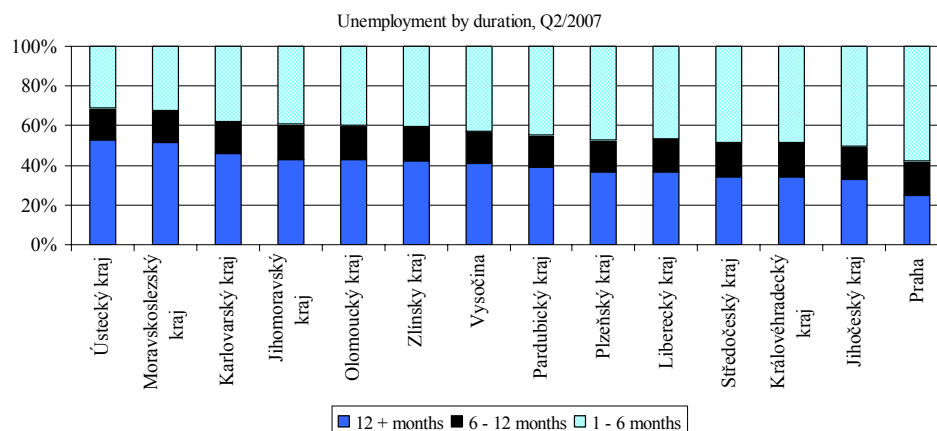
Table 18: **Main indicators of labor market conditions by region, Q2 2007**

	Unemployment rate (%)	U/V ratio	Incidence of LTU (%)
<i>Czech Republic</i>	5.3	3	43
Praha	2.5	0.9	24.9
Jihočeský kraj	2.8	2.1	32.7
Plzeňský kraj	3.4	1.4	36.8
Středočeský kraj	3.5	1.8	34.3
Královéhradecký kraj	4.2	2.6	34.1
Pardubický kraj	4.2	1.8	38.8
Vysočina	4.9	3.1	41.2
Jihomoravský kraj	5.4	3.8	43.1
Zlínský kraj	5.8	3.2	42
Liberecký kraj	6.3	3.1	36.4
Olomoucký kraj	6.4	4.4	43
<i>Karlovarský kraj</i>	8.1	4.1	46
<i>Moravskoslezský kraj</i>	8.2	7.7	51.7
<i>Ústecký kraj</i>	10.1	8.2	52.5

Source: Statistical office of the Czech Republic and Ministry of Labor and Social Affairs. Bank staff calculations.

3.4 **Regional differences in job opportunities point to a segmentation of the Czech labor market.** Regions where labor demand is strong coexist with those where it is weak, and this segmentation persists due to limited labor mobility. Accordingly, workers in the depressed labor markets face a higher risk of labor market detachment and social exclusion.

Figure 23: **Long-term unemployment looms large in high unemployment regions (Q2, 2007)**

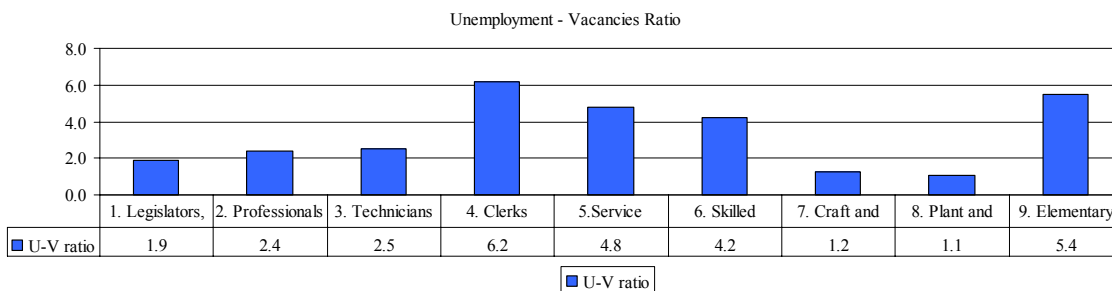


Source: Ministry of Labor and Social Affairs. Bank staff calculations

DEMAND FOR LOW SKILLED WORKERS

3.5 The Czech Republic has seen a strong variation in the demand for skills. In general, there is a strong demand for high and specialized – both white collar and blue collar – skills, coupled with a relatively weak demand for lower and more generic skills (Figure 24). For illustration, the unemployment/vacancy ratio is low – indicating a strong demand – for professionals as well as for skilled manual workers (craftsmen, machine operators and assemblers). It is much higher for clerks and service workers as well as for elementary occupations. Thus, job opportunities for less skilled workers are markedly worse than those for more skilled workers. And labor demand is particularly weak for the unskilled manual workers (laborers).

Figure 24: Demand for less skilled and elementary occupations is weak (Q2 2007)



Source: Ministry of Labor and Social Affairs. Bank staff calculations

3.6 There is little regional variation in the skill profile of labor demand. The general pattern of the excess supply of administrative and service workers and the shortage of skilled manual workers prevails in virtually all regions. However, there are some exceptions, and in some regions the skill shortage/surplus is more pronounced than in others. The capital region stands out as the only region where there is a strong and unmet demand for elementary occupations, i.e. unskilled manual workers (Table 19). The U/V ratio for elementary occupations in the Prague regions is as low as 0.3 and is lower than for any other category of labor. Such a low U/V ratio unambiguously points to a marked shortage of simple manual labor. So apparently there is a large market for low skilled workers in the capital region.

3.7 The regional differences in demand for low-skilled labor imply that labor mobility could alleviate the imbalances between the supply and demand. Low-skilled workers could improve their employment chances by moving from regions where demand for low-skilled manual labor is low to regions where the demand is higher, in particular to the Prague region. However, mobility is costly and low-paid workers often cannot afford to move to the booming regions, where housing costs tend to be particularly high. In addition, demand for low-skilled labor is highly concentrated in just one – the capital – region, which has a limited absorption capacity. These two factors imply that the problem of the excess supply of low-skilled labor can hardly be addressed

by regional mobility alone. Indeed, as presented in Chapter 2, few Roma report commuting for work.

Table 19: Index of labor shortages/surplus by occupation and region, 2007

Region/Occupation	1	2	3	4	5	6	7	8	9
Praha	-50	-25	-30	-64	-40	-67	86	23	155
Středočeský kraj	11	-11	-15	-64	-50	3	209	206	-36
Jihočeský kraj	22	-31	-12	-43	-32	-41	114	139	-60
Plzeňský kraj	19	-24	-16	-63	-41	-44	235	222	-43
Karlovarský kraj	200	202	155	1	24	-38	325	295	-77
Ústecký kraj	138	114	102	-47	-49	-40	162	212	-81
Liberecký kraj	68	-20	35	-40	-26	-30	114	94	-78
Královéhradecký kraj	8	29	30	-62	-8	-10	211	124	-62
Pardubický kraj	34	-4	8	-56	-32	-61	90	257	-71
Vysočina	5	-9	-4	-73	-49	-40	138	102	-43
Jihomoravský kraj	48	28	10	-55	-40	80	134	214	-33
Olomoucký kraj	148	20	39	-45	-20	-64	312	196	-53
Zlínský kraj	116	25	11	-66	-40	1	274	247	-68
Moravskoslezský kraj	265	53	38	-55	-45	-46	167	217	-81

Occupational codes are as follows:

1 = Managers; 2 = Professionals; 3 = Technicians and associate professionals; 4 = Clerks; 5 = Service workers and sales workers; 6 = Skilled agricultural workers; 7 = Craftsmen; 8 = Plant and machine operators and assemblers; 9 = Elementary occupations.

Note: The index of relative skill shortage/surplus is defined as $[(v_i / u_i - 1) * 100]$ where for each region v_i is the share of vacancies in occupational group i in the total number of vacancies in the region, and u_i is the share of unemployed in occupational group i in the total number of unemployed in the region. A positive value of the index indicates a shortage of workers in the given occupation, and a negative value indicates a surplus.

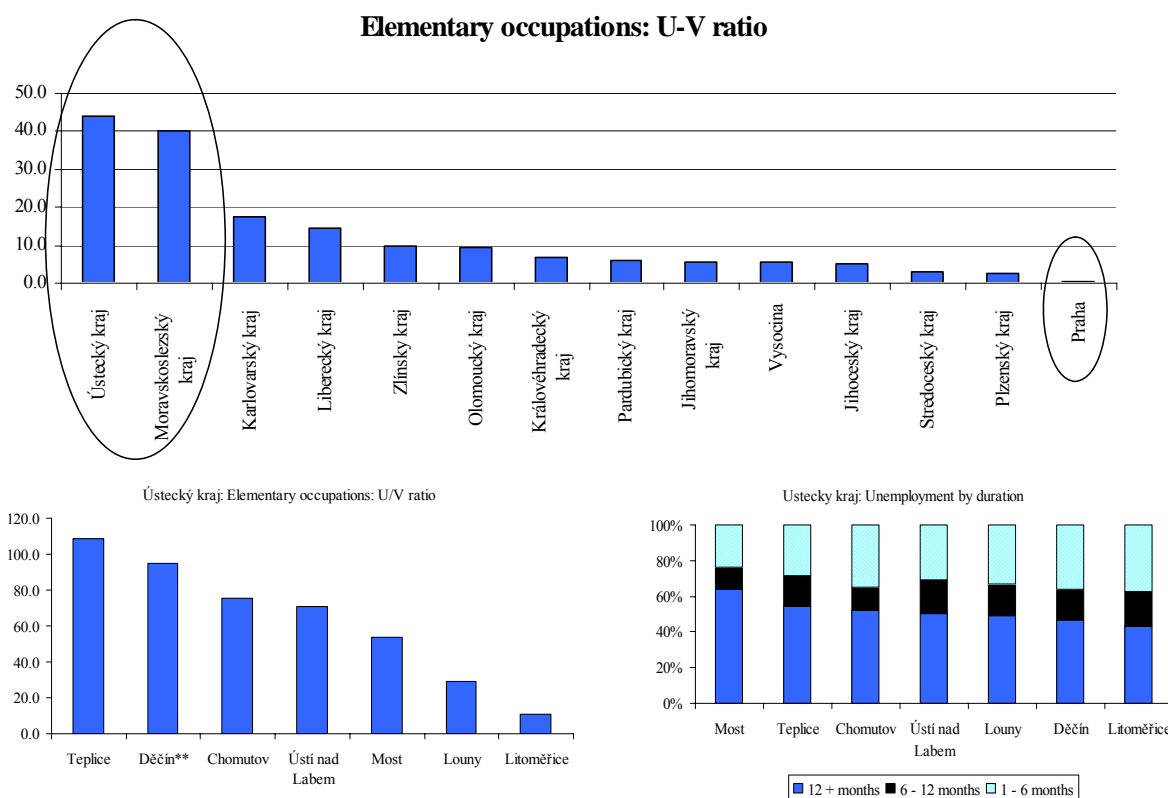
Source: Ministry of Labor and Social Affairs; Bank staff calculations.

3.8 Job opportunities for low skilled are particularly bad in traditional high unemployment regions, although there is some variation at the sub-regional level.

Figure 25 (upper panel) shows that the ratio of unemployed to vacancies (“U/V ratio”) for elementary occupations is dramatically high in those regions which traditionally have had high unemployment. This is notable given the fact that the tightening labor market in the Czech Republic has also triggered a reduction in unemployment in those high unemployment regions. However, the large U/V ratios in high unemployment regions also hide substantial variation at the sub-regional level. The lower panel of Figure 25 presents a breakdown of U/V ratios for different counties in Ústecký kraj, and a similar picture can be found across other high unemployment regions⁶⁷. Identified Roma localities can be found both in counties with high and low demand for low-skilled workers, suggesting that the local employment conditions vary for Roma workers across the Czech Republic, but also across the high unemployment regions where many Roma reside. Lastly, Prague stands out in terms of substantial excess demand for elementary education workers.

⁶⁷ See Annex for more information of U-V rates across different regions.

Figure 25: Job prospects for low education workers are particularly bad in high unemployment regions, although there is variation at the sub-regional level



Source: Staff calculations based on MoLSA data for Q2, 2007. Note: A starred county indicates that less than 50 vacancies were registered there, and therefore a cautious interpretation of the results is needed

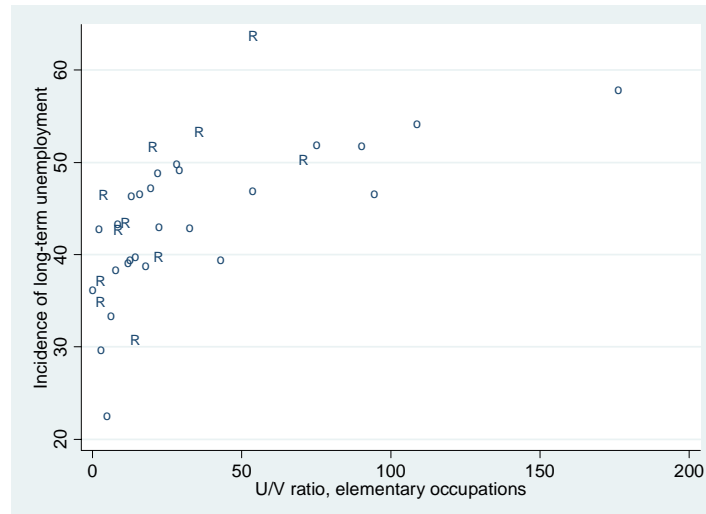
3.9 The problem of long-term unemployment is more pronounced in counties where the demand for low-skilled labor is weak. However, there is also some tentative evidence that the incidence of long-term unemployment is higher in those counties where many Roma reside. Figure 5 illustrates this pattern.⁶⁸ The incidence of long-term unemployment increases with the increase in the U/V ratio for elementary occupations, that is with the fall in demand for low-skilled labor. Interestingly, the U/V ratio for elementary occupations is a much better predictor of long-term unemployment than the overall U/V ratio (correlation coefficients of 0.63 and 0.41, respectively).⁶⁹ This means that it is the demand for low-skilled labor rather than the overall labor demand that is the main determinant of long-term unemployment. This is consistent with the earlier observation that long-term unemployment persists in the Czech Republic despite the tight

⁶⁸ Regression analysis indicates that the “Roma” dummy variable is not statistically significant at 10% percent level (the p-value is 0.16 in a linear specification). This result may be due to the small sample size, however.

⁶⁹ The U/V ratio for elementary occupations is also a significantly better predictor of the incidence of long-term unemployment than the U/V ratio for jobs requiring only primary occupation.

overall labor market. Put differently, the low-skilled workers such as Roma do not necessarily benefit from the overall increase in labor demand⁷⁰.

Figure 26: The stronger the demand for low-skilled labor the lower the incidence of long-term unemployment



Note: Counties with marginalized Roma localities are indicated by “R”.
Source: Ministry of Labor and Social Affairs. Bank staff calculations.

Box 6: Hiring Roma – what do employers think?

Analyzing barriers to Roma employment in the Czech Republic requires understanding the views of employers with respect to hiring Roma. To shed light on the employer’s perspectives, the research for this study involved structured qualitative interviews with 20 employers across the Moravia and Bohemia regions, small and big companies and foreign and Czech-majority owned – all of which had experience with hiring Roma workers⁷¹.

In the interviews, employers reported a number of barriers to employing more Roma, involving the interplay of low educational attainment and missing skills among Roma, lacking work motivation, strong competition from foreign workers and a higher perceived risk and costliness of hiring Roma. The expressed views can be summarized as follows:

Skills: The primary barrier to hiring more Roma cited by the interviewed employers is lacking skills among many Roma workers. Employers reported that there are fewer and fewer manual non-qualified jobs available and that most jobs required more skills and qualifications than most

⁷⁰ Obviously, the positive correlation between the unemployment/vacancy ratio and the share of long-term unemployment is only a statistical regularity and there are deviations from this pattern. For example, Most is a county where the incidence of long-term unemployment at over 60 percent is the highest, while the U/V ratio is relatively low. This example shows that the incidence of long-term (registered) unemployment is also affected by factors other than labor demand (incentives and propensity to register with employment offices, demographic factors, industry mix, etc.). Still, it is quite clear that job opportunities for the low-skills are the decisive influence.

⁷¹ This box summarizes a qualitative background report on employers’ views on Roma employment conducted by the institute for Research on Social Reproduction and Integration of the Faculty of Social Sciences at Masaryk University Brno for the purposes of this study.

Roma applicants are able to provide. This applies in particular to limited knowledge of Czech language and functional literacy – for example the ability to adjust to new production methods and read manuals of new machines – confirming the findings of Chapter 2 of this study. Meanwhile, employers reported a lack of skilled workers on the one hand and their lacking readiness to hire and invest in training of not sufficiently skilled, yet available workers. The reasons employers give are lacking resources due to the competitive market environment and their worry to lose trained workers to competitors – two barriers to training found in many countries in Central and Eastern Europe.

Work motivation: Employers reported experiences with lacking work motivation and motivation to train and seek more education among Roma. As primary reasons they identified the level of social benefits, but many also cited less well understood, cultural barriers to work motivation.

Competition from foreign workers: Czech companies have benefited for several years from an inflow of often seasonal foreign workers, mostly from Ukraine but also from Poland, Slovakia and other places. Employers interviewed for this study report that foreign workers have been strong competition for Roma, and indeed ethnic Czechs, in the labor market. According to employers, foreign workers have not only often been more qualified than Czech workers, but also typically more motivated and reliable and, crucially, ready to work for a lower salary than Czech workers.

Risk and costliness of hiring Roma: Interaction with Roma in the hiring process and in work was seen as more costly by most interviewed employers. This is due to perceived and actual communication barriers with Roma and often apparent mutual mistrust and suspicion. Employers also cited the risk of “substandard” behavior of Roma once employed, for example irregular job attendance and high fluctuation. Some employers also made reference to the fact that integration of Roma in the work place is often not straightforward and requires extra efforts on the side of the management. For example, one employer reported the need to ensure that Roma workers were not grouped together in the operation (suggesting this was lowering work morale), but integrated in predominantly non-Roma teams. Taking such precautions is associated with Roma workers, but not with non-Roma workers.

Youth: Employers noted a “generational divide” among Roma, with older workers being more skilled and motivated than younger Roma. Such “older workers” are defined as those that received the bulk of their education and training before 1989, and have been with their firm for some time. As a result, older Roma workers are more integrated, and more attractive workers than the young.

Looking ahead, employers’ expectation vis-à-vis Roma workers can be summarized as “integrate, educate, work” – with the primary responsibility for change resting with the Roma rather than with the majority population. Some, however, highlighted the responsibility of the State to make the first step in providing incentives for behavioral change, rather than just relying on keeping people passive in a social welfare trap. Only a minority accepted a responsibility among the employers for promoting change. There was consensus among interviewed employers that eventually greater chances in the labor market require better skills which require full integration, pointing strongly towards educating the next generation to ensure young Roma leave school with better qualifications than current and recent graduates and more ready for integration.

CONCLUSIONS

3.10 Overall, there is low demand for elementary occupation workers in the Czech Republic – which amounts to a major barrier for employment of marginalized Roma. The demand for low-skilled labor – which is a key factor determining Roma employment prospects – is limited, and in virtually all regions (except Prague) there is excess supply of low-skilled workers. Even when actively looking for employment, their skill level often will not permit them to readily find employment. This is also a finding confirmed by employers. In addition, they face strong competition for such positions from foreign workers who are often more qualified than Roma.

3.11 However, the demand for low-skilled labor varies within regions, and some Roma workers live in counties where the demand for low-skilled labor is less depressed, while others live in counties where it is extremely limited. Thus, different Roma communities face different labor market prospects; there is no uniform pattern of Roma settlements. In those counties where the demand for low-skilled labor is relatively high the incidence of long-term unemployment is significantly lower. Given that the incidence of long-term unemployment is particularly high among Roma workers, this suggests that Roma employment outcomes are closely linked to local labor market conditions.

3.12 Migration and commuting is one way to overcome local low demand for low-skilled workers, but it is costly. Some Roma workers can improve their employment chances by moving (either through commuting or through migration) to regions where the demand for low-skilled labor is higher. However, for many poor workers both migration and commuting are costly options. More importantly, migration only is a short-term coping strategy. The demand for low-skilled labor is low relative to the supply, and declining due technological progress, which is biased towards higher skills. Consequently, the only sustainable long-term way to improve Roma employment prospects is investment in human capital. To succeed, the next generation of Roma workers needs to possess skills and competences that enable them to successfully compete for skilled jobs.