



A COUNTRY WITH NON-EXISTENT UNEMPLOYMENT

THE SPECIAL CHARACTERISTICS
OF THE CZECH LABOUR MARKET

Krzysztof Dębiec

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KEY THESES

1. The low unemployment rate in the Czech Republic is an effect of a number of structural and political factors which have generated a certain economic potential. This potential was achieved when external stimuli occurred in the form of economic boom, which has been visible especially since 2014. The policy adopted by each of the Czech governments during the recent recession and stagnation was of great significance, alongside the support for the economic policy through actions taken by the National Bank of the Czech Republic (above all the low interest rate policy and interventions on the currency market). One of the reasons why the unemployment rate in the Czech Republic continues to be low is the relatively low labour costs and the high level of the country's industrialisation where the automotive industry, which heavily relies on the market situation, has an essential share. So-called 'assembly plants', i.e. industrial plants generating numerous jobs with low added value, also play an important role in reducing the scale of unemployment. A great number of such plants have been created in effect of investment incentives over the past twenty years (the wave reached its peak in 1998–2007). They were often created with the intention of reducing unemployment. At the same time, the Czech Republic, a developed country heavily reliant on exports, is extremely sensitive to changes in the economic situation in Europe. The Czech economy is particularly strongly influenced by the situation in other EU member states, which are the outlet for almost 85% of the Czech exports. Germany is a major player in this context as it accounts for a third of Czech exports and a quarter of its imports, and has engaged its capital fairly intensively in the Czech Republic.
2. The low unemployment rate and the growing demand for labour, being an effect of the economic boom, have led to a great shortage of workers, which gives rise to a number of problems. In a situation where the number of vacancies has exceeded the number of the unemployed since spring 2018, companies are forced to reject some orders, and the increasing wages make it more difficult for them to remain price competitive. Furthermore, the increase in real wages in 2018 was much higher than the dynamics of the country's economic growth and workforce productivity. It will be impossible to maintain this situation in the longer run because it makes businesses unprofitable. However, this increase has been stronger in the lower part of the wage pyramid, which above all reflects demand for less qualified workers. The increase in wages also stimulates inflation, and the need to make efforts to achieve the inflation target motivates the central bank to further raise interest rates. As a result of

all of these factors, it is expected that the Czech Republic's economic growth will slow down from 4.4% in 2017 and almost 3% in 2018 to around 2.5% in the next two years. Furthermore, the administrative difficulties employers encounter during attempts to employ workers originating from outside the European Economic Area serve only to exacerbate the problem with the shortage of workers. Given the fact that employees have continued to have more say on the Czech labour market over the past few years, the difficulties employers are facing are also aggravated by the Czechs' decreasing mobility and falling willingness to compromise in the search for employment and due to the low popularity of part-time employment.

3. The political dispute which overlaps with the talks between employer associations and trade unions is not helping Czech firms solve their problems. The centre-left government led by Andrej Babiš is looking for a golden mean that will make it possible to find a balance on the labour market between the employers' needs (and to guarantee maintaining production at least on the present level) and the trade unions' appeals for increasing wages and improving the living standards. Even though Babiš's cabinet has been making efforts to facilitate the employment of immigrant workers from selected countries (in particular, Ukraine), employers view these efforts as insufficient. Babiš must also take into account the opinion of his coalition partner, the Czech Social Democratic Party (ČSSD), which co-operates with the trade unions and is appealing for caution in offering workers from outside the European Union access to the Czech labour market, since they usually have lower demands regarding wages than Czechs or workers from other EU member states. The Social Democrats also want to support local employees with significant rises in the minimum wage (the rise that was pushed through towards the end of 2018 was the second highest in history). The ČSSD is also emphasising its concern for innovativeness of the Czech economy: a dramatic influx of cheap expatriate workers would reduce the pressure on capital investments. Meanwhile, only investments of this kind can cause an increase in workforce productivity and wages (however, this would also cause the liquidation of some of the existing jobs). Given the lack of consensus, there is uncertainty over the future of the proposed amendment of one of the acts currently in parliament (it was put forward by the previous Babiš's cabinet) which envisages the possibility of issuing so-called extraordinary annual employee visas to citizens of third countries in quantities adjusted to the needs of the labour market.
4. Given the limited possibilities of recruiting employees from outside the EU, one solution for Czech production plants is to hire employees from EU

member states. At present, they account for as much as 65% of immigrant workers in the Czech Republic. After Slovaks, the second largest group are Polish workers, whose number on the Czech labour market more than doubled in 2014–2018 to reach around 45,000 at present. A new surprising phenomenon is the influx of expatriate workers from Southern Europe to the Czech Republic; unemployment rates there have been the highest in the EU over the past few years, especially among young people. The number of Spanish and Portuguese employees working for Czech firms has tripled over the past decade, and the number of Greek and Italian workers has doubled.

5. Comparisons to the German economy play an essential role in the Czech public debate on wages. The political left and the trade unions argue that local workers can have wages on a level nearer to those of their German counterparts with the help of regulation (including on the minimum wage), wage rises in the public sector and pressure on large private employers. In the opinion of employers, artificially raising wages is not the solution (as this will not work in the longer term, given the low added value of production). They claim efforts to change the existing economic model (based on ‘assembly plants’) need to be made towards a typical German model with high added value and high workforce productivity. This model in the longer term may succeed in generating wage rises that will not pose a risk to production. In other words, employees are arguing that it is necessary to put an end to the ‘cheap economy’ before it will be possible to put an end to ‘cheap labour’ (something the trade unions are insisting upon). In fact this model change is already gradually taking place. It has been forced in part due to a slower increase in workforce productivity as compared to the increase in wages seen over the past few years.
6. The need to increase the level of wages reduces the profitability of the foreign investments of the parent companies of many Czech firms (foreign entities control nearly 40% of Czech companies’ share capital). However, the parent companies already managed to capitalise on the high economic growth when wages were not rising so steeply, while in 2018 they reduced reinvestment level by a fifth to keep money flow from dividends. 2016, 2017 and 2018 were the best years for them over the last decade, and the value of dividends paid abroad reached 5.3–6.1% of GDP annually. The sectors which have been affected most of all by the capital flight are: the telecommunication sector, wholesale and retail trade, and the energy sector. The debate over the outflow of profits has been underway in the Czech Republic since it joined the EU, when taxes on the transfer of dividends to parent

companies were lifted as part of the implementation of EU laws. Since 2005, this has been one of the factors that caused the value of the dividends transferred abroad to exceed the value of foreign investments (including reinvestments) and to be higher than would have resulted from objective macroeconomic conditions. Czech politicians and economists increasingly often view the significant dependence on foreign companies and the related transfers of profits abroad as a problem which exposes the economy to the risk of shocks, and limits the possibilities of translating the results of GDP growth into an improvement of residents' living standards. One of the measures to curb this phenomenon being considered was to impose taxes on certain sectors (for example, the banking sector) – this idea was backed by the previous prime minister, Bohuslav Sobotka. However, the sitting prime minister, Andrej Babiš, has rejected it for years. During the meeting with key investors in 2018, Babiš showed that, for the time being, he intends to convince rather than force them to leave a larger section of their profits in the Czech Republic.

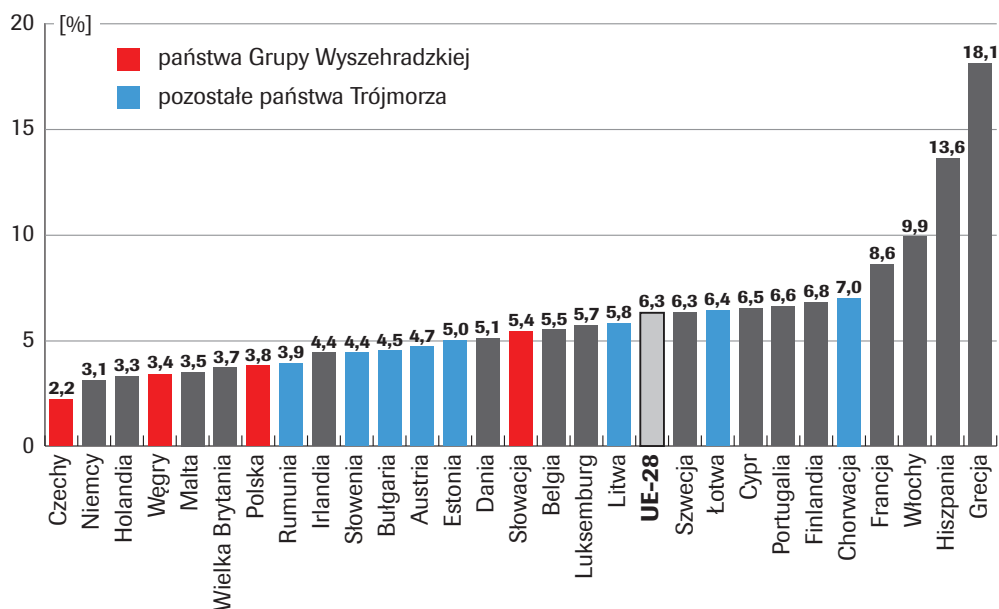
7. The economic problems and political disputes are also coupled with social issues linked to the situation on the labour market. Over 860,000 Czechs have been affected by enforcement proceedings, which makes it more difficult (and sometimes impossible) to employ them legally and ensure these individuals become part of the workforce in the grey economy. Given the desire to develop the economy with a higher added value, another problem is posed by the insufficient adjustment of the education system to challenges of the modern world and its underinvestment. In turn, the public resistance to the influx of foreigners and the related potential political costs will most likely mean that, even if the Czech government adopts regulations liberalising access to the local labour market, these will most likely be insufficient and passed too late from the viewpoint of the development of the Czech economy. The economic crisis in 2009 showed that immigrant workers may offer the Czech economy a 'safety buffer' by strengthening workforce resources at a time of increased demand for labour and by leaving the country when the demand significantly drops (only 30,000 of 70,000 Ukrainian workers remained in the Czech Republic then). Meanwhile, it is very likely that immigrant workers will still be needed in the Czech Republic, regardless of the increasing automation. As Czechs' living standards improve, they are becoming increasingly unwilling to take jobs associated with low social prestige. A greater openness to the influx of workers from other countries may also be necessary due to society ageing; the Czech Republic is one of the countries where this process is the fastest.

8. In the coming years, the Czech Republic will gradually replace the economic model based on relatively cheap jobs with more technologically advanced and automated production. This will lead to an improvement in workforce productivity, thus enabling companies to gain funds for further pay rises, while reducing employment. However, this will not always be a painless process. In those cases where profitability turns out to be insufficient and increasing the added value is impossible or too expensive, this may mean winding up production plants and dismissing employees. However, if some of the companies for which the Czech Republic is becoming less cost competitive move abroad, other employers will find this helpful because the much needed workforce will be released. These changes will put an end to the situation in which the low labour cost was one of the main competitive advantages of the Czech Republic on the international markets. However, in the shorter run, given the limitations (technological and cost-related) of automation and companies' urgent needs, the best solution may be to improve access for employees from third countries to the Czech labour market. The changes in the investment incentive system promised in the government's programme will most likely be introduced from 2019: withdrawing concessions for companies creating low-paid jobs and instead attracting companies ready to create and develop modern technologies. Only when this is implemented will it be known how successful Czechs are in this area. However, it is certain that in the present situation this country cannot afford to accept further investments based on the use of cheap labour on preferential terms.

INTRODUCTION

Since 2016, the Czech Republic has had the lowest unemployment rate among all EU member states (cf. Chart 1). In mid-2017, it overtook Japan to reach the top position in the ranking of OECD member states¹. This situation adversely affects companies which are looking for ways to cope with workforce shortages. One solution is the automation of production processes, but employers are also appealing for the country to become more open to receiving immigrant workers, above all from Ukraine. The trade unions are opposed to this, fearing that an influx of workers from other countries will slow down the rate of increase of wages. At the same time, there is a debate in the Czech Republic about the degree to which the present economic model contributes to the country catching up with the Western economies and what should be done to speed up the convergence.

Chart 1. Unemployment rate in EU member states in May 2019 (in %)



Source: Eurostat

The successes of the Czech economy seen in the past decades are to a great extent a consequence of it being strongly connected with the German economy and market, including its extensive openness to German companies. The Czech

¹ Cf. *OECD Employment database - Unemployment indicators*, www.oecd.org/employment/emp/employmentdatabase-unemployment.htm.

Republic is aware of the benefits this relation offers. It is also looking for ways to encourage foreign owners of Czech companies to transfer abroad a smaller section of their profits generated in the Czech Republic. These funds might be allocated to increase wages for Czech employees and re-investments, in particular in projects generating high added value.

The low unemployment rate in the Czech Republic is above all a consequence of the economic recovery seen over the past few years. The Czech economy was well prepared for the recovery because in the period of recession the government made the labour market more flexible, and the central bank reduced the interest rates to technical zero level². The Czech Republic reached a higher than average (as compared to the EU's mean) increase in production during the economic boom, also because its economy heavily relies on exports and is to a great extent based on the procyclical automotive sector. The low unemployment rate is also partly an effect of the economic policy adopted in 1998–2007 when the government concentrated its efforts on creating jobs through foreign investments and thus reducing the negative effects of the transformation. As a result, mainly industrial plants generating low added value and based on cost competitiveness were established.

The low unemployment rate and the ever more clearly increasing wages – alongside a fall in the unemployment rate – are also beneficial for the Czech public: living standards are improving because the rate of the wage rise is clearly higher than the inflation rate. This has helped the Czech Republic to slowly but consistently catch up with its Western neighbours over the past few years in terms of GDP *per capita* (in PPS)³. However, it is a commonly shared opinion that the pace of convergence is insufficient⁴. In the debate concerning the model of the country's economic development, some argue that the Czech Republic is one of the first economies in the Central European region to have fallen into a so-called 'middle income trap'⁵.

² According to the Czech National Bank, this is 0.05% for the main (so-called discount) interest rate. In practice, it is impossible to statutorily reduce the rate below this level (the discount rate is used as a reference for imposing, for example, interest on debts).

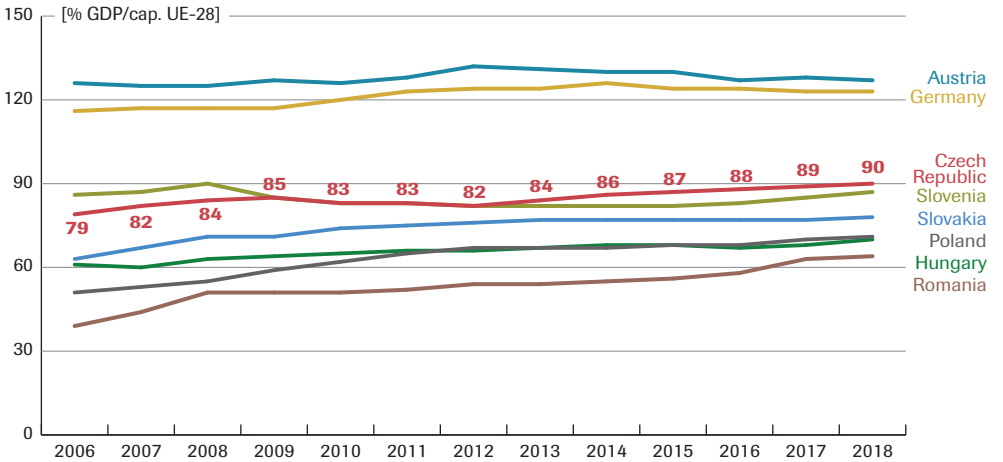
³ Cf. Charts 2 and 3.

⁴ Cf. e.g. the economic part of the joint report of the Czech departments of Aspen Institute and 'Forbes' magazine *Česko: Jak jsme na tom?* (pages 14–24), published in autumn 2015, https://s3.eu-central-1.amazonaws.com/uploads.mangoweb.org/shared-prod/aspeninstitutece.org/uploads/images_upload/files/Cesko%20Jak%20jsme%20na%20tom%3F.pdf.

⁵ D. Klimeš, *Jak probudit Česko*, Brno 2017, page 36.

The likelihood of the convergence rate slowing down will grow in the longer run, unless the economic model is changed to produce goods and services with higher added value. It could also lose momentum in the shorter run, unless Prague decides to open up its labour market to immigrant workers from outside the EU to a greater extent. At present some firms (for example, from the automotive industry) are already being forced to reject new orders because they are convinced that they will not find the employees necessary to fulfil these orders. Further difficulties result from the low mobility of Czechs and rivalry among the countries in the region for workers from third countries⁶. The gradual automation of production is a long-term solution to the situation. This is already observed in the Czech Republic. However, the budget for this purpose is paradoxically reduced by the pay rises forced by the market.

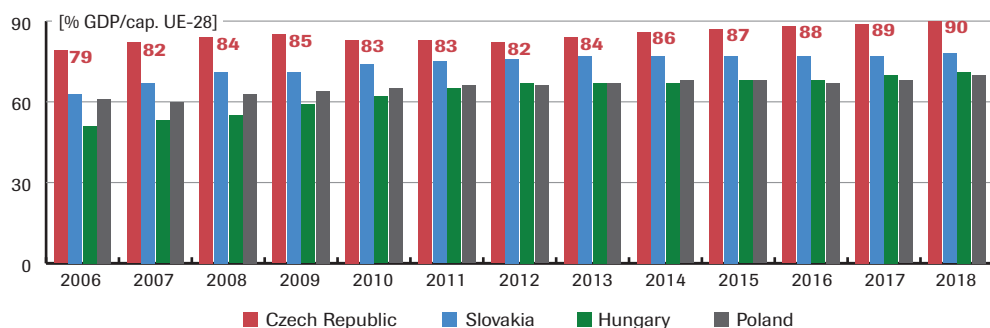
Chart 2. Changes in GDP *per capita* (in PPS) in the Czech Republic as compared to selected EU member states in 2006–2018



Source: Eurostat. EU-28 = 100

⁶ According to Eurostat data for May 2019, three out of the four member states of the Visegrad Group (Slovakia is the exception) and Germany were ranked among the seven countries with the lowest unemployment rates in the EU. In turn, among the twelve countries which form the Three Seas Initiative only two, Latvia and Croatia, had unemployment rates above the EU average.

Chart 3. Changes in GDP *per capita* (in PPS) in the Czech Republic as compared to the member states of the Visegrad Group 2006–2018



Source: Eurostat. EU-28 = 100

On the political level, the debate over the economic development model is coupled with the dispute between the groupings which form the minority government led by Andrej Babiš, who originates from business circles. Babiš established the powerful holding Agrofert, which he managed for years, while later he founded the political movement ANO 2011 and sympathises more with employers' interests. His coalition partner, the Czech Social Democratic Party (ČSSD), has for years co-operated closely with the trade unions and is trying to rebuild its political position, pushing through the agenda of the political left, above all through the Ministry of Labour.

I. THE SOURCES OF LOW UNEMPLOYMENT

The record-low level of unemployment in the Czech Republic has surprised many observers, especially in Western Europe. The former communist countries have for years been associated with high unemployment and structural problems. Meanwhile, towards the end of 2015, the unemployment rate in the Czech Republic fell below the rate in Germany, and the unemployment rate in Prague in both 2017 (1.7%) and 2018 (1.3%) was the lowest among all the EU regions⁷. This situation on the labour market is the effect of a combination of many factors, including the structure of the Czech economy that had been formed for many decades and the economic policy of recent years.

1. Preparation for an external stimulus and the central bank's support

The low unemployment rate in the Czech Republic is not a phenomenon typical of the past few years. From the beginning of the transformation, the Czech Republic stood out in this area when compared to the entire region. It also performed better than Slovakia, which was one of the sources of tension inside the common state⁸. The registered unemployment rate in the Czech Republic stabilised in a relatively short time at a level of around 3%⁹. It remained at this level until the crisis in 1997–1999. This phenomenon was accompanied by a restrictive budgetary and monetary policy, which also caused an increase in the number of unemployed people. Even then (and even more so later), the unemployment rate did not exceed 9% in the worst year (according to Eurostat). This is viewed as an effect of the relatively good structure of the Czech workforce's qualifications just before the transformation, the high level of education, its

⁷ According to Eurostat data, the unemployment rate in all eight Czech regions (according to NUTS 2) failed to reach even 5% in 2017, and 4% in 2018 (the highest rate, 4.7% in 2017 and 3.7% in 2018, was in the Moravian-Silesian Region neighbouring Poland).

⁸ After unemployment was maintained artificially at zero in the socialist period, in 1990 it rose to 0.7% in the Czech Republic and 1.5% in Slovakia. One year later, the unemployment rate was four times higher in the Czech Republic (4.1%) and eleven times higher in Slovakia (11.7%). In Slovakia, despite a decrease in the next year (to 10.4%), the unemployment rate has continuously remained above 10%. It fell below this level for a short time only in 2008 (9.6%), and for longer in 2016. Cf. L. Černožorská, 'Komparace vývoje nezaměstnanosti v České republice a na Slovensku', *Scientific Papers of the University of Pardubice, Series D, Faculty of Economics and Administration*, no. 10/2006 and 'Unemployment rate – annual data', Eurostat, https://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tip_sun20&language=en.

⁹ According to Eurostat's methodology (in the Czech Republic it is referred to as *Výběrové šetření pracovních sil – VŠPS*) around 4%.

geographical location close to Germany and Austria, the effective operation of the trilateral commission¹⁰ and the relatively low percentage of the workforce employed in the agricultural sector. The relatively poorly developed services and trade sector was able to absorb a significant section of workers who lost their jobs in other sectors¹¹. Another factor which had an impact was the reduction of the supply of labour as many elderly people retired and a higher percentage of women remained at home after giving birth to a child; the extension of maternity leave from two to three years contributed to this. Although this contrasted with the high economic activity of elderly people and women in the socialist period, the employment rate in the 1990s still remained above 65% (at present it is around 75%).

An essential role was also played by the economic and monetary policy adopted by the first right-wing governments and the central bank which supported the stability of the Czech currency, creating good conditions for economic development. In effect, the Czech Republic was one of the few countries in the region that managed to avoid hyperinflation¹².

Over the past decade or so, especially in the period of the most recent recession and stagnation, the policy adopted by subsequent governments prepared the Czech economy well for an external stimulus for revival, and this had a strong impact on reducing unemployment. In 2011, the parliament passed solutions that made the labour code more flexible, thus fulfilling the manifesto promise of the centre-right government led by Petr Nečas. Starting from 2012, the limit of hours for specific task contracts was increased, and the minimum wage was frozen between 2007 and 2012¹³, which helped slow down the general increase in wages and strengthened the price competitiveness of Czech firms. The next governments took care of the good condition of the state's finances and did not neglect the social sphere; the indicator of people at risk of poverty or social

¹⁰ The joint body of representatives of the government, organisations of employers and trade unions in the Czech Republic is formally called the Council of Economic and Social Agreement.

¹¹ Cf. L. Židek, *Transformace české ekonomiky: 1989–2004*, Prague 2006, page 124.

¹² As compared to 1989, the prices in the Czech Republic increased by 230% in 1993 and by 300% in 1996. At the same time, prices in Poland increased by 2,260% and 4,580%, respectively. Cf. *Ibid.*, page 130.

¹³ In 2007–2012 it was equivalent to around 310 euro, and in the following two years to around 330 euro, being one of the lowest in the EU. For comparison, the minimum wage in Poland in 2012 was around 350 euro and in the following two years it was 375 and nearly 400 euro, respectively.

exclusion was then (and still is) one of the lowest in the EU¹⁴. Even though most of these moves had been carried out by the Nečas government (2010–2013), in many aspects its policy was continued by the centre-left cabinets led by Jiří Rusnok (2013–2014) and Bohuslav Sobotka (2014–2017).

Actions taken by the Czech National Bank (CNB) to support the Czech government – above all the policy of low interest rates and interventions on the currency market – also contributed to the economic revival and, as a consequence, a reduction of the unemployment level. This is something that marks a clear difference between the Czech Republic and its neighbour, Slovakia (Bratislava is unable to adopt an independent monetary policy because Slovakia is a member of the eurozone). In the Czech Republic active measures in this area were taken by Miroslav Singer, an independent candidate nominated by President Václav Klaus from the right-wing party ODS, who was the governor of the CNB in 2010–2016. Given the economic crisis and the risk of the emergence of a dangerous deflationary spiral, the CNB reduced interest rates already towards the end of 2012 to the so-called ‘technical zero’ level (0.05%) and undertook to maintain them at this level as long as necessary. Since the effects of this move were limited and the prices of many products (including energy) had fallen, the CNB decided in November 2013 to launch regular interventions, promising that it will not allow the Czech koruna to euro exchange rate to rise above 27 CZK/EUR. This policy was also continued for almost a year by Singer’s successor as the governor of the central bank, Jiří Rusnok, who was nominated by President Miloš Zeman, a former Social Democrat.

Even though the main goal of the CNB is to maintain stable prices (manifested in the inflation target), its actions in this case were beneficial also from the point of view of the economic policy. They were intended above all to support exporters, and employees of these firms and individuals who found jobs owing to their growth also benefited. This move was also beneficial for companies operating on the domestic market because a relative increase in prices of imported goods revived the demand for local products, and thus helped to

¹⁴ In 2009–2018, the share of people at risk of poverty or social exclusion ranged between 12.2% and 15.4%, this was almost each time the lowest in the EU (except for 2012, when the Netherlands had a lower rate). Cf. ‘People at risk of poverty or social exclusion’, Eurostat, ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_50&language=en.

limit unemployment¹⁵. However, critics believed¹⁶ that the moves of the CNB discouraged exporters from improving productivity because they did not have to make investments and were entrenching the model of competing primarily on price. Once inflation reached the desired level towards the end of 2016 (low unemployment provoked the pressure on pay rises and thus an increase in prices), the CNB in April 2017 withdrew from the undertaking to protect the koruna/euro exchange rate and began increasing the interest rates starting from August 2017.

2. Low labour costs, automotive industry and ‘assembly plants’

One reason for the low unemployment level in the Czech Republic is the still relatively low cost of labour. Eurostat data for 2018 show that the average working hour in the Czech Republic cost 12.6 euros; this is the tenth lowest result in the EU and accounts for only 53% of the EU average¹⁷. Although it is much higher than, for example, in Bulgaria (5.4 euros) or Romania (6.7 euros), and is at a similar level as in the other V4 countries (from 9.2 euros to 11.6 euros), it is still very far behind the neighbouring economic powers: Germany (34.6 euros) and Austria (34 euros); see Chart 4. At the same time, unemployed people do not have much of an alternative, given the fact that unemployment benefits in the Czech Republic are among the lowest in the OECD (25% of wage at previous job)¹⁸.

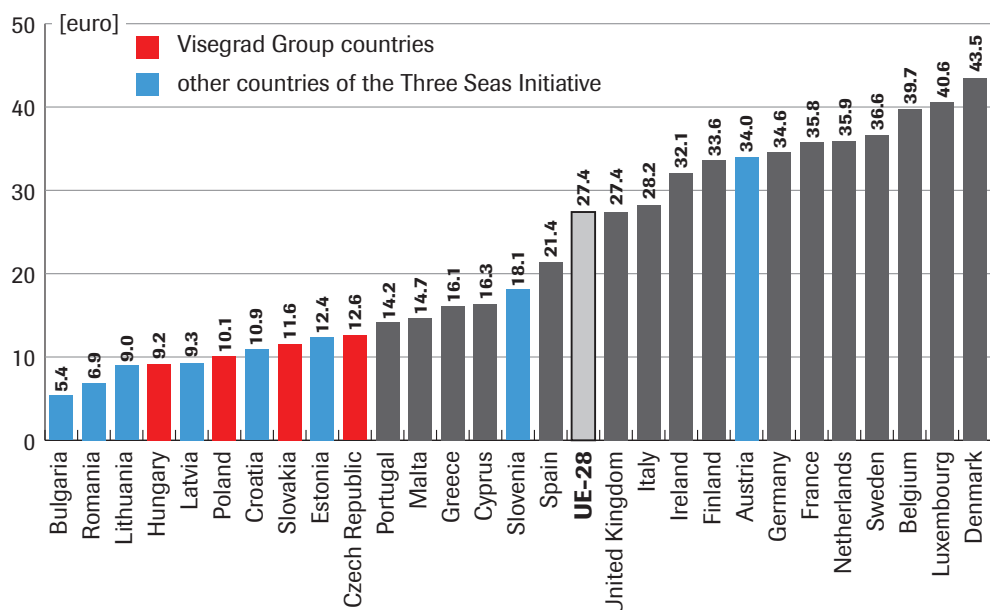
¹⁵ According to the CNB, if it had not undertaken to protect the exchange rate, the economic growth in 2014 alone would have been 1 percentage point lower. Cf. ‘Co byl kurzový závazek?’, CNB, <https://www.cnb.cz/cs/casto-kladene-dotazy/Co-by-l-kurzovy-zavazek/>.

¹⁶ Cf. H. Horská, ‘Rok od konce intervencí ČNB: Oslabení koruny pomohlo zombie firmám, které brzdí ekonomiku, říká Horská’, Reflex, 13 April 2018, <https://www.reflex.cz/clanek/komentare/86405/rok-od-konce-intervenci-cnb-oslabeni-koruny-pomohlo-zombie-firmam-ktere-brzdi-ekonomiku-rika-horska.html>.

¹⁷ The Czech Republic was rated second in the EU in 2017–2018 as regards the rate of hourly labour price growth (11.2%; after Latvia which took the first position, and level with Romania). Eurostat, ‘Hourly labour costs’, 2018, http://ec.europa.eu/eurostat/statistics-explained/index.php/Hourly_labour_costs.

¹⁸ Cf. *OECD Employment Outlook 2018*. Data for 2015. Lower values were seen only in the case of Hungary and the USA. In the case of Poland this indicator is 41%, i.e. lower than the OECD average of 53%.

Chart 4. Labour costs in EU member states in 2018



Source: Eurostat

The record-low unemployment rate is partly a consequence of the high industrialisation of the country. The automotive industry, which is heavily dependent on the market situation, plays an especially important role here. The share of industry in the added value in the Czech Republic is the highest among all European countries – In 2018 it was 32.7% of GDP¹⁹, and almost 40% of all Czech employees work in the so-called ‘secondary sector’²⁰. The automotive industry alone accounts for over 20% of industrial production and a similar share of export value²¹. It is worth noting that the Czech Republic is a power not only in terms of car manufacturing (with the second largest – after Slovakia – number of cars manufactured *per capita*²²) but also in terms of manufacturing buses (the world’s largest manufacturer *per capita*) and components for the automotive industry. This is a legacy of the industrial traditions dating back to the Austro-Hungarian times and the development of the automotive industry in inter-war Czechoslovakia. The entire school system was formatted then in order to prepare human

¹⁹ These data also include the construction sector. Slovakia is rated second in the EU (31.3%); in Poland this indicator is 29.6%. Cf. *Industry (including construction), value added (% of GDP)*, World Bank, <https://data.worldbank.org/indicator/NV.IND.TOTL.ZS>.

²⁰ I. Dušková, *Práce není všude stejné*, The Czech Statistical Office, www.statistikaamy.cz/2016/09/prace-neni-vsude-stejne/.

²¹ Cf. CzechInvest, *Automobilový průmysl*, <https://www.czechinvest.org/cz/Sluzby-pro-investory/Klicove-sektory/Automobilovy-prumysl>.

²² A new car is made in the Czech Republic every 20 seconds on average.

resources for the new branch of industry, in which Škoda was also engaged. The successful privatisation of Škoda Auto factories in the early 1990s was also important for the development of the automotive industry in the Czech Republic. Numerous subcontractor factories developed around the company (which belongs to the Volkswagen Group) and the availability of the production base (also in neighbouring countries) and human resources helped attract further global car brands. The largest ones include Toyota and PSA, which in 2005 launched production of small cars as part of a joint venture in Kolín (Central Bohemian Region), and Hyundai (which in 2008 opened a factory in Nošovice in the Moravian-Silesian Region). This reliance on a sector which is very sensitive to changes in the market situation has had negative consequences for the Czech Republic. However, at present, the local factories, especially those of Škoda Auto, have a guarantee of orders for new models even a few months before production. Therefore, when the economies of the largest EU member states (especially Germany) are developing, the development potential of the Czech automotive industry grows even faster – to the extent that the demand created cannot be satisfied by the local labour market.

So-called ‘assembly plants’ play a great role in curbing unemployment. These are industrial plants that generate numerous jobs with low added value. A great number of these have been established over the past twenty years as a consequence of investment incentives²³. The greatest number of these plants were established in 1998–2007, when the country was being governed mostly by Social Democratic cabinets. This was the period (until 2007) when a return of even 65% of the investment value could be achieved. The preceding right-wing governments led by Václav Klaus preferred Czech capital control over local companies, which was possible owing to loans granted on preferential terms by banks which were partly controlled by the state. Problems linked to these loans were among the reasons why the next governments chose development through the entry of foreign investors to the Czech economy on a massive scale.

Assembly plants are relatively easy to create but also to move to another location²⁴. They strongly engage human capital, often individuals with low educa-

²³ According to UN data, in 1990–2010 the Czech Republic attracted triple the value of investments than could have been expected, given the significance of the Czech economy. Cf. ‘Z Česka loni oteklo 280 miliard. Babiš si firmy pozval, chce je přemluvit po dobrém’, Aktuálně.cz, 13 September 2018, <https://zpravy.aktualne.cz/ekonomika/dividendy-firem-z-ceska-dosahuji-stamiliard-firmy-se-radi-s/r-17a8fa8eb73811e89271ac1f6b220ee8/>.

²⁴ One example may be two American companies moving production to Romania in order to cut wage expenses: Delphi Packard Electric ended manufacturing cables in Česká Lípa in

tion levels and this is expected to make the projects more cost competitive. However, this generates low profits for Czech entities, regardless of the value of the goods. This is illustrated, for example, by data which demonstrate that the share of the domestic added value in Czech exports is 62.3%, which is one of the lowest of the 34 OECD countries researched²⁵. Very few companies in the Czech Republic maintain a full value added chain²⁶ from the product development stage through production up to sale to the end user. These companies include Škoda Auto, Škoda Transportation (a rolling stock manufacturer), ČGS Holding (a tyre manufacturer) and Doosan Škoda Power (which manufactures e.g. steam turbines). Maintaining those sections of the chain which generate the highest added value (these include final sale and research and development, R&D) has a key impact on the size of a company's profit, while simple industrial assembly or logistics generate lower added value.

Škoda Auto is the leader of research and development in the Czech Republic. In 2017, it allocated the equivalent of almost 600 million euros (the value was 50% higher y/y) for this purpose, which is equivalent to half of the profits generated by the company and is only half as much as direct support for R&D from the Czech budget that year²⁷. The fact that firms, including foreign investors, do

2011, and TRW Volant wound up the production of car steering wheels in Horní Počernice two years later. Similar practices can be seen in other sectors: in 2015, the US company Mondelez moved part of the production of Opavia sweets to Poland. Relocations within the Czech Republic also happen: the Canadian manufacturer of plastic car components, Magna Exteriors, in 2016 transferred a part of its factory from Liberec closer to the headquarters of its main customer, Škoda Auto (Mladá Boleslav).

²⁵ Similar results (55–56%) have been achieved by the economies of Slovakia and Hungary. Poland's result is 73.1%. Cf. *Domestic value added in gross exports*, OECD, 2019, <https://data.oecd.org/trade/domestic-value-added-in-gross-exports.htm>.

²⁶ The value added chain is a sequence of strategically significant activities carried out by a company to increase the value of a product or service in the eyes of its clients. The manner in which these activities are implemented determines the costs and affects the size of the profits generated. Therefore, this approach helps the company understand the sources of competitive advantage. The aim is to achieve it through quicker and/or cheaper supply of the product or service. This concept was devised by the US economist Michael Porter in the 1980s. On the other hand, firms rarely control the entire supply chain which is an element of the value chain. In the case of Škoda Auto, for example, as much as 40% of component suppliers are German companies; the Czech companies account for around a fifth of the total. Cf. R. Hogg, 'Skoda: Simply Clever logistics', *Automotive Logistics*, 6 July 2015, <https://automotivelogistics.media/intelligence/skoda-simply-clever-logistics>.

²⁷ 'Výroční zpráva za rok 2017', Škoda Auto, 2018, <https://cdn.skoda-storyboard.com/2018/03/skoda-annual-report-2017.c5a29f2a9b556d42158ef72031b710f3.pdf> and 'Stát vydal v roce 2017 na výzkum a vývoj přes 30 miliard korun', *VědaVýzkum.cz*, 10 December 2018, <https://vedavyzkum.cz/politika-vyzkumu-a-vyvoje/politika-vyzkumu-a-vyvoje/stat-vydal-v-roce-2017-na-vyzkum-a-vyvoj-pres-30-miliard-korun>.

not develop innovations on a larger scale is an effect of the system of attracting foreign investments in which the conditions of access to the Czech Republic are agreed, while the conditions of the further development of the investments are not taken into consideration. Another important factor is the relatively low value of tax incentives that might stimulate companies to develop innovation²⁸.

3. Capitalising on the economic boom and the proximity of (and dependence on) Germany

The Czech Republic as a so-called ‘small open economy’ is one of those developed countries which rely on exports to the highest degree²⁹. Its trade balance has regularly been positive (reaching over 15 billion euros in 2018); the only EU member states to have developed a positive balance in 2018 in trade relations with the Czech Republic were Poland, Ireland, and Malta. However, this makes the Czech Republic dependent on the economic situation in the countries to which its exports go. The first three are its neighbours from the EU (Germany, Slovakia and Poland), and in 2018 EU member states accounted for as much as 84.1% of its exports³⁰. The key markets outside Europe are the United States and Russia, which account for 2% of Czech exports each.

The Czech Republic capitalises on its geographic proximity and its economic bonds with Germany. In absolute values, Czech exports to this country increased by 270% in 2004–2017 and by 160% since 2010 (in the case of imports the increase was 210% and 150%, respectively). Thus Germany accounts for a third of Czech exports (almost a third of this goes to neighbouring Bavaria; one fifth concerns the automotive sector³¹) and a quarter of imports, and this

²⁸ According to the OECD’s estimates, its value is 0.05% of GDP, while this indicator is 0.17% of GDP in the case of the Netherlands, 0.15% in the case of Austria, and 0.09% in the case of Hungary. In turn, the Czech Republic has a better indicator than, for example, Poland or Slovakia. Cf. ‘Measuring Tax Support for R&D and Innovation’, OECD, March 2019, <http://www.oecd.org/sti/rd-tax-stats.htm>.

²⁹ In 2016, it was ranked sixth, with the share of exports in GDP at the level of 80% (Poland 52%, OECD average 28%), and since then this share has grown to over 83%. Cf. ‘Trade in goods and services’, OECD, 2019, data.oecd.org/trade/trade-in-goods-and-services.htm.

³⁰ Data from the Czech Statistical Office (Foreign Trade Database <http://apl.czso.cz/pll/stazo/STAZO.STAZO>). For comparison, the share of Polish exports to the EU at the same time was 80.1%.

³¹ In 2017, the Czech Republic outpaced Spain and became the main supplier of components to automotive corporations active in Germany. At the same time, Škoda has been the most frequently imported car make to Germany for a few years, and the Czech company has a 9% share in the German new car market. Cf. M. Bičík, ‘Německo je pro český export klíčovým trhem’, *Hospodářské noviny*, 28 August 2018, <https://archiv.ihned.cz/cl-66226250-nemecko-je-pro-cesky-export-klicovym-trhem>.

share has remained on a similar level for a decade³². At the same time, Germany itself is a strongly export-oriented country, and part of the goods imported from the Czech Republic are re-exported (according to estimates, Czech exports to China via Germany are higher than direct exports)³³. Transactions are often effected within one group which controls a Czech company. The value of cumulative investments towards the end of 2017 reached around 20 billion euros, which accounted for as much as 16.4% of total investments and made Germany the second largest investor in the Czech Republic (after the Netherlands) and the most important one in terms of the significance of investments for the Czech economy³⁴. German companies also dominated the ranking of investments made only in the past few years (2014–2017), with their share reaching as much as 45%. The low unemployment rate in Germany itself (3.2% in April 2019) – which translates into an increase in labour costs – contributes to German companies making more intensive use of subcontractors in such countries as the Czech Republic. The opinion can be heard in the Czech Republic that parent companies (not only German ones) may be engaged in maintaining the relatively low prices of their Czech subsidiaries on purpose in order to maintain higher profitability of projects being implemented by the central office³⁵. Due to interference with the natural market mechanism, an imbalance has occurred. One of its consequences is the low unemployment rate seen in the Czech Republic. In the standard economic scenario, an increase in demand should trigger an increase in prices. In turn, this phenomenon would have restricted sales growth, and thus the need to significantly raise employment levels would not have occurred. However, it needs to be noted that firms owned by foreign capital do in fact pay an average of double the wage that can be expected from a company controlled by Czech capital. Workforce productivity is also twice as high at these firms, which in turn is linked to the fact that foreign investors tend to choose the sectors which are characterised by higher workforce productivity in general³⁶.

³² For comparison, Germany accounts for 28.1% of Poland's exports and 22.4% of its imports.

³³ Cf. 'Studie: závislost české ekonomiky na Německu zesiluje', 24 August 2016, <https://www.euro.cz/byznys/studie-zavislost-ceske-ekonomiky-na-nemecku-zesiluje-1301802>.

³⁴ Data of the Czech National Bank, www.cnb.cz/analytics/saw.dll?Portal&PortalPath=/shared/PZI_WEB/WEB_PZI.

³⁵ This has been claimed, for example, by Dušan Tříška from the Prague University of Economics who served as a deputy minister of finance in the early 1990s.

³⁶ D. Busta, 'Zahraniční firmy vyplácí vyšší mzdy než domácí. Porovnání ukazuje, kolik platí a kolik by platit měly', *Hospodářské noviny*, 10 September 2018, <https://byznys.ihned.cz/c1-66238550-zahranicni-firmy-plati-i-nekolikanasobne-vyssi-mzdy-nez-domaci-unikatni-srovnani-porovnavu-vice-nez-stovku-odvetvi>.

II. THE OPENING UP OF THE LABOUR MARKET – THE DIFFERENT STANCES OF TRADE UNIONS AND EMPLOYERS

The centre-left government led by Andrej Babiš has been looking for a golden mean in the labour market policy that will make it possible to balance employers' needs (and guarantee maintaining production at least at the present level) and trade unions' demands to increase wages and improve living standards.

The issue of opening up the Czech labour market to immigrant workers from outside the EU is given a great deal of attention in this debate. In the opinion of trade union representatives (including the largest trade union confederation, ČMKOS) and the government coalition partner, the Czech Social Democratic Party, which co-operates with the trade unions, caution is needed in such moves³⁷. They do not want the opening up of the labour market to slow down the growth of real wages. They also raise the issue of care for the innovativeness of the Czech economy since a large influx of foreign cheap workforce would reduce the pressure on capital investment and thus an increase in workforce productivity and the level of wages.

Strong counter-arguments in this discussion are presented by the Chamber of Commerce³⁸, which draws attention to the fact that there are almost 350,000 job vacancies on the Czech labour market (cf. Chart 5). It has been impossible to find domestic employees willing to take these jobs because for many months unemployed Czechs (whose number is not big anyway) either are not interested in them or do not have adequate qualifications³⁹. The vacancies are mainly jobs for an unqualified workforce or for professionals without higher education⁴⁰. Labour shortage is the biggest problem for the key exporters: the

³⁷ The Czech-Moravian Confederation of Trade Unions (*Českomoravská konfederace odborových svazů*). It is a confederation of 29 trade unions (16 in the private sector and 13 in the public sector) which in total have around 300,000 members.

³⁸ The largest association of employers operating in the Czech Republic has 15,000 members (including over 60% of the top hundred largest Czech firms) grouped in 62 regional and 113 sectoral chambers.

³⁹ 'Kvůli rekordnímu počtu neobsazených pracovních míst dojde letos k obrovským škodám v české ekonomice', Hospodářská komora České republiky, 10 May 2018, https://www.komora.cz/tiskova_zprava/kvuli-rekordnimu-poctu-neobsazenych-pracovnich-mist-dojde-letos-k-obrovskym-skodam-v-ceske-ekonomice/.

⁴⁰ These include plumbers, carpenters, bakers, painters and machine operators. In the list of vacancies for the first quarter of 2018, 30% are jobs for 'assistant and unqualified' workers,

automotive (66%) and the machine-building (59%) industries⁴¹. In the opinion of the chamber, the high demand for labour – combined with the unwillingness to take jobs by individuals registered in the job centres – brings about the need to hire immigrant workers. With the exception of hiring employees from the European Economic Area, Czech regulations concerning employment of foreigners are very complicated, and recruitment takes a long time.

The problem of the large shortage of workers in the Czech Republic is not only about restrictions in hiring expatriate workers from outside the EU, although this issue is important in this context. The employers' problems are partly a result of Czechs' low mobility (which is decreasing, given the low unemployment level) and the low popularity of part-time employment (which could help activate elderly people or facilitate young mothers to return to the labour market). Over 860,000 Czechs have been affected by enforcement proceedings, which makes it more difficult (and sometimes impossible) to employ them legally and causes that these individuals become part of the human resources of the grey economy⁴². Given the desire to create an economy with higher added value, another problem is the insufficient adjustment of the education system to modern challenges and its underinvestment⁴³. These issues have been raised further in this report.

over 35% for machine and equipment operators and assembly workers, and less than 20% for craftsmen and mechanics.

⁴¹ K. Zábojníková, 'Nedostatek lidí dělá podnikům problémy', *Statistika&My*, no. 7–8/2018, <http://www.statistikaamy.cz/2018/07/nedostatek-lidi-dela-podnikum-problemy/>.

⁴² Cf. *Mapa exekucí, Otevřená společnost*, <http://mapaexekuci.cz/index.php/mapa-2/>.

⁴³ As regards public spending on education as a share of GDP, the Czech Republic is ranked last but one among the OECD countries (around 3.2%; in Poland this is above 4%), and elementary school teachers' wages as compared to wages of other employees with higher education are the lowest in the OECD (56%; in Poland over 80%). As a consequence, being a teacher is not an appealing profession; there are only 1.5 willing candidates per place at university pedagogical departments, and around one half of graduates from these departments choose a different profession to be able to make a living. The average age among teachers is growing fast. What makes the situation even worse is the fact that school principals are nominated by local governments, and it often happens that the main criterion for the nominations are their political or personal connections. Another characteristic of the Czech Republic is the significant regional differences (larger than on average in the EU) in the level of residents' education (individuals aged 25–64 with higher education): from less than 15% in Ústecký and Karlovy Vary Regions to over 45% in Prague; in Poland this ranges from 24% in the Lubusz Voivodeship to 41% in the Mazovian Voivodeship) and in examination results: the worst results have been seen for a long time in Ústecký and Karlovy Vary Regions, while the best ones are in Prague, the Vysočina, Brno and Zlín Regions. Furthermore, the chance of receiving higher education is strongly correlated to one's parents' education level: only 3% of children who do not have educated parents go to universities. However, exceptions to these rules need also to be noticed: the second largest Czech city, Brno, earned the status of the Czech

1. A long way to employment in the Czech Republic

To receive a job in the Czech Republic, a third country national must first be granted residence and employment permits⁴⁴. The most frequent document proving the presence of both permits is the so-called 'dual employee card' which is granted for a specific job and employer (it is possible to change the job or the employer only upon consent from the Ministry of Internal Affairs) and for the term of the employment (which may not be longer than for two years, though there is an option to renew it)⁴⁵. The employer must first report a vacancy to a regional job centre, and in case no Czech employee is found for the job in 30 days, it is recorded (upon employer's consent) in the base of jobs for foreigners. It is only then that a firm may commence recruitment among foreigners. The long period of waiting for the employee card (usually over six months, and sometimes even a year) makes three-month employee visas more popular; over 45,000 of these visas were issued in 2017 alone⁴⁶. The need to renew the visas is one of the reasons for the frequently seen queues on the Slovak-Ukrainian border, because Ukrainian citizens are usually hired on short-term visas⁴⁷.

Another alternative for employee cards is to delegate a third country national with an employment permit from another EU member states where the procedures take less time, for example, Poland, where – as representatives of the Chamber of Commerce emphasise⁴⁸ – it is possible to obtain a work permit for a foreigner in a few weeks. Cases of abusing the delegation mechanism by so-called 'fly-by-night companies', especially from Poland (and which are sometimes run by Ukrainians), have been publicised on numerous occasions in the Czech Republic. The case that received the greatest amount of publicity was the detention of 85 Ukrainians working for the online store Rohlik.cz who were delegated from a Polish company (which paid social security contributions for them) in spring 2017. The problem lay firstly in the fact that the Polish firm was not strictly speaking an employment agency. Furthermore, it entered

IT centre owing to investments, and the Czech Technical University in Prague (ČVUT) created a high-quality education programme concerning the development of smart cities.

⁴⁴ Exceptions include foreigners who are family members of EU citizens, and asylum seekers.

⁴⁵ In special cases, the so-called 'non-dual' employee card is issued, for example when a foreigner graduated from a secondary school or university in the Czech Republic.

⁴⁶ D. Klimeš, 'Česko nezvládá přijímat prácechtivé Ukrajince. Ti pendlují na krátkodobá víza nebo fingoaně pracují přes Polsko', *Ekonom*, 23 August 2018, <https://m.ihned.cz/ekonom/c1-66222860-cesko-nezvlada-prijimat-pracechtive-ukrajince>.

⁴⁷ Cf. Chart 8.

⁴⁸ D. Klimeš, 'Česko...', *op. cit.*

into a specific task contract with Rohlik.cz as part of cross-border provision of services, while in fact it did not provide any services to the Czech firm but rather offered workers to it⁴⁹. The owner of the Czech firm claimed that he had resorted to a practice that was commonly used in the Czech Republic, and representatives of Czech labour agencies estimate that ‘thousands’ of foreigners from third countries are getting access to the Czech labour market via Poland⁵⁰.

2. The government’s (overly) scant gestures towards employers

One step to meet the employers’ needs halfway is the governmental initiative ‘Režim Ukrajina’ that has been in place since August 2016. This facilitated Czech firms to employ 13,300 Ukrainian specialists in two years on the basis of employee cards received according to a simplified procedure⁵¹. However, the Chamber of Commerce which administers the programme has noticed a visible increase in interest, reaching as many as 2,000 enquiries about new

⁴⁹ Cf. R. Bohuslavová, ‘Zmatek na ministerstvech. Kauza rohlik.cz upozornila na mezeru v zákoně’, Echo24.cz, 14 March 2017, <https://echo24.cz/a/w3HKL/zmatek-na-ministerstvech-kauza-rohlikcz-upozornila-na-mezeru-v-zakone>, R. Burkovič, ‘Asociace pracovních agentur (APA) má velké výhrady k návrhu novely Zákoníku práce a Zákona o inspekci práce, zároveň v ní opět postrádá postih firem, objedávajících opakovaně nelegální práci’, APA, 13 September 2018, http://www.apa.cz/tiskove_zpravy.htm and ‘Na co se nás ptáte v případě polských víz’, Blog.Rohlik.cz, 14 March 2017, <https://blog.rohlik.cz/2017/03/14/na-co-se-nas-ptate-v-pripadu-polskych-viz/>.

⁵⁰ Cf. ‘Ukrajinci proudí z Polska. Na tamní vízum čekají týden, na české i půl roku’, Lidovky.cz, 20 March 2017, lidovky.cz/ukrajinci-proudi-z-polska-09n-/zpravy-domov.aspx?c=A170319_214708_in_domov_pev and ‘Jako Rohlik.cz fungují tisíce firem, máme teď starosti vůbec dovézt banány, naříká Čupr’, Aktuálně.cz, 13 March 2017, <https://video.aktualne.cz/dvtv/jako-rohlikcz-funguji-tisice-firem-mame-ted-starosti-vubec/r-acb40cbc080d11e7bb37002590604f2e/>.

⁵¹ When choosing this type of employment, it is necessary to comply with the following procedures: first a Czech company is registered by the Chamber of Commerce in the programme base (it must meet certain requirements, for example, at least two years of operation). Vacancies meeting certain conditions are also registered (they must first be registered in the nationwide base and no Czech citizens may be interested in these jobs). A firm has the obligation to find Ukrainians willing to take the jobs and offer a contract for at least a year (the firm must pay an equivalent of around 100 euros for registration in the programme, and the cost of reporting each employee is around 8 euros). Unlike with the standard procedure, candidates for employees do not have to individually arrange a visit at the consulate and wait for their turn. The consulate contacts the company, setting the date for filing the application for the employee card – the firm is obliged to forward this information to its prospective employee from Ukraine who has to go to the visa centre in Lviv (at present, this service is provided by an external company which forwards the applications to the consulate) and to pay a charge of 20 euros. The real period from the firm’s application acceptance by the Chamber of Commerce to setting the time as referred to above is around 87 days, according to the most recent data. The offices must consider the application within 60 days of its being submitted.

employees monthly⁵². The programme's success caused similar procedures to be extended to citizens of Mongolia and the Philippines (in April 2018), Serbia (in August 2018), and India (in September 2018). However, the annual limits as part of the simplified procedures for citizens of these countries are low (1,000 each for Mongolia and the Philippines, 2,000 for Serbia, and 500 for India), and even increasing the limit for Ukrainians at the beginning of 2018 (by 10,000 to a level of 19,600)⁵³ did not resolve the problem with the labour shortage. Therefore, the employers had strong arguments during talks with the government on raising the limits and secured the promise of a serious lifting of the limit for Ukrainians in the second half of 2019 (to 40,000) and introducing simplified procedures for workers from other countries (this time from Belarus, Montenegro and Moldova – 1,000 each)⁵⁴.

The results of a questionnaire conducted among employers participating in 'Režim Ukrajina' reveal the key problems linked to such initiatives. 88% of them complain about the length of the process (it takes usually a few months to receive the employee card)⁵⁵. 39% of employers emphasise the inconvenience posed by the administrative burdens or point to problems with hired workers (73% mentioned an insufficient command of the Czech language, and 13% mentioned 'a different mentality'⁵⁶). To deal with the administrative difficulties, towards the end of 2018 the chamber opened its offices in Lviv and Belgrade to hope to cope with the bureaucracy in situ and to provide advice on

⁵² *Ibid.* and 'Ukrajinstí pracovníci jsou přínosem nejen pro zaměstnavatele, ale i společnost. Přispívají na české důchody i zdravotní péči. Hospodářská komora bude vyjednávat s vládou o zdvojnásobení ročních kvót', Hospodářská komora České republiky, 30 July 2018, https://www.komora.cz/tiskova_zprava/ukrajinsti-pracovnici-jsou-prinosem-nejen-pro-zamestnavatele-ale-i-spolecnost-prispivaji-na-ceske-duxody-i-zdravotni-peci-hospodarska-komora-bude-vyjednavat-s-vladou-o-zdvojnasozeni-rocnich-kvot/.

⁵³ Regardless of this limit, a separate 'Režim zemědělec' has applied in the Czech Republic since August 2017 as part of which an additional 1,500 Ukrainians annually can be employed, however only in the agricultural sector.

⁵⁴ 'Tuzemský trh práce se bez zahraničních pracovníků neobejde', SP ČR, 10 January 2019, www.spcr.cz/pro-media/tiskove-zpravy/12507-tuzemsky-trh-prace-se-bez-zahranicnich-pracovniku-neobejde.

⁵⁵ The Chamber of Commerce must close all the procedures within 90 days. For comparison: it takes around a week from the date of submitting the application to receive a three-month employee visa that functions in line with Schengen Area principles. Applying for both documents, sometimes also to other countries, is a frequent practice. As the Chamber of Commerce claims, some Ukrainians choose employment in Poland or Russia in the meantime due to the long period of waiting for Czech employee cards.

⁵⁶ 'Bilanční TK ke dvěma letům od spuštění vládního Režimu Ukrajina', HK ČR, 30.07.2018, https://www.komora.cz/files/uploads/2018/07/20180730_PODKLADY_Rezim-Ukrajina_GRAFY.pdf.

issues linked to employing immigrant workers from the countries where the offices are located⁵⁷.

3. Aliens are unwelcome in the Czech Republic

One of the reasons why politicians are cautious about opening up the labour market is the dislike the Czech public has for foreigners. This has been manifested in public opinion polls for many years, the migration crisis being not the only cause. According to a poll conducted in March 2019, 53% of Czechs view ‘newly arrived citizens of other national backgrounds’ as a problem. However, this is still a better result than in autumn 2015, when the migration crisis reached its peak (69%)⁵⁸. According to the same poll, most Czechs are convinced that foreigners who have lived in their country for a long time pose the risk of spreading diseases (64%) and are a reason for increasing crime rates (61%); see Chart 5. Contrary to the facts, as many as 40% of Czechs (and this share is the smallest over the decade) believe that foreigners are a reason for growing unemployment, and 32% are of the opinion that they do not contribute to economic development. As many as 41% of the respondents claimed that employing foreigners in the Czech Republic in general was not ‘proper’⁵⁹. The perception of foreigners depends on their country of origin: the nations viewed best in the Czech Republic are Slovaks (83% view them as likeable and 3% are of the opposite opinion), Poles (45% vs. 17%, respectively), Greeks (40% vs. 13%) and Hungarians (38% vs. 14%)⁶⁰. Among the numerous nations present in the Czech Republic, negative opinions prevail with regard to Russians, Ukrainians, Serbs and Romanians; and the nations who are perceived worst are Arabs and Roma people (almost three quarters of the respondents view them as unlikeable); see Chart 6.

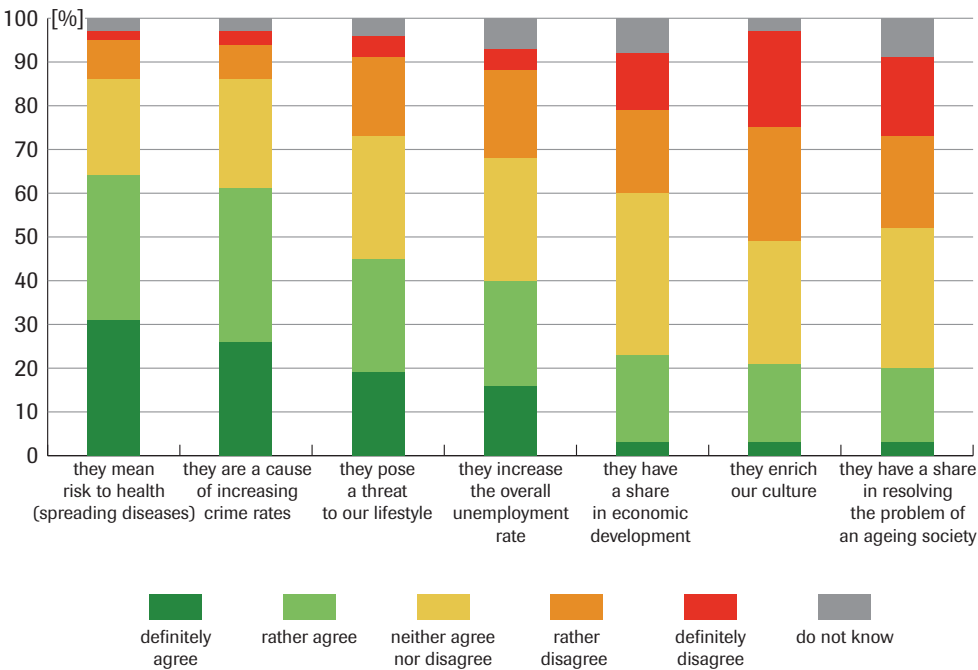
⁵⁷ M. Diro, ‘Hospodářská komora otevřela asistenční kanceláře na Ukrajině a v Srbsku. Podpoří zaměstnavatele, pomůže českým úřadům i uchazečům o práci, aby zrychlila zdlouhavé procedury vládních režimů na zaměstnávání pracovníků ze zahraničí’, HK ČR, 17 December 2018, https://www.komora.cz/files/uploads/2018/07/20180730_PODKLADY_Re%C5%BEim-Ukrajina_GRAFY.pdf.

⁵⁸ ‘Postoje české veřejnosti k cizincům – březen 2019’, CVVM, 9 April 2019, https://cvvm.soc.cas.cz/media/com_form2content/documents/c2/a4899/f9/ov190409.pdf.

⁵⁹ ‘Postoje české veřejnosti k zaměstnávání cizinců – březen 2019’, CVVM, 12 April 2019, https://cvvm.soc.cas.cz/media/com_form2content/documents/c2/a4903/f9/ov190412.pdf.

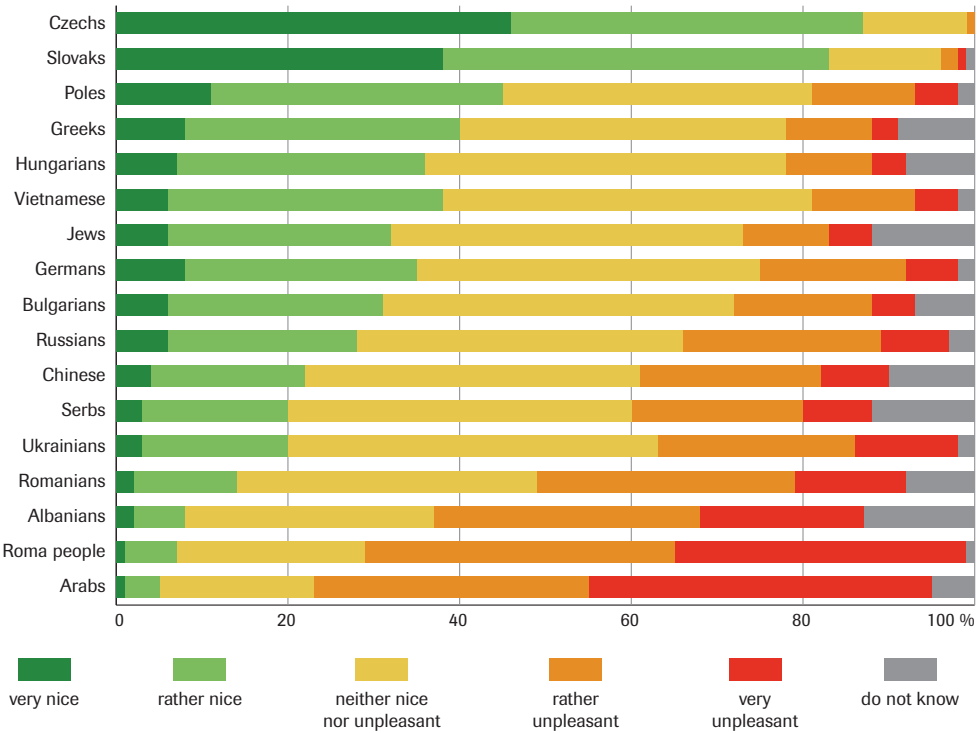
⁶⁰ ‘Vztah české veřejnosti k národnostním skupinám žijícím v ČR – březen 2019’, CVVM, 15 April 2019, https://cvvm.soc.cas.cz/media/com_form2content/documents/c2/a4905/f9/ov190415.pdf.

Chart 5. Czechs’ opinions about foreigners who have lived in the Czech Republic for a long time



Source: CVVM

Chart 6. Perception of ethnic groups living in the Czech Republic



Source: CVVM

The coalition cabinet led by Andrej Babiš which has governed the country since June 2018 has not yet managed to develop a compromise regarding the access of immigrant workers to the Czech labour market. Although a bill on the residence of foreigners in the Czech Republic (which was put forward by the preceding Babiš cabinet, 2017–2018) is being processed in parliament, it is uncertain whether this bill will be passed⁶¹. It provides for the possibility of issuing so-called ‘extraordinary employee visas’ for one year to third country citizens in a number adjusted to the needs of the labour market. A greater openness to migrants has been blocked by the Social Democrats, who co-form the government and who are demanding further support for pay rises and, in order to achieve this goal (along with the demand to increase the minimum wage), they are insisting on restricting the influx of immigrant workers from outside the EU who usually have lower wage expectations than Czechs or workers from EU member states. Furthermore, the political left has a number of tools that allow it to regulate labour migration. Its representatives not only lead the Ministry of Labour and Social Affairs – they are also in charge of visa issues (through the Ministry of Foreign Affairs) and foreigners’ residence in the Czech Republic (via the Ministry of the Interior). The Ministry of Labour is arguing that the best solution to cope with the shortage of workers is to activate selected social groups, especially elderly people⁶² and women returning from maternity leave. The ministry is preparing, for example, support for the development of a network of nurseries and facilitations to popularise the practice of job sharing. Incidentally, the OECD (amongst other institutions) has recommended this to the Czech Republic⁶³. Given the high activity rate of people aged 15–64 years (which reached 77% in mid 2018⁶⁴), the room for manoeuvre using Czech employees to cope with the labour shortage will not be large.

⁶¹ The progress of work of the Chamber of Deputies can be tracked on the website www.psp.cz/sqw/historie.sqw?o=8&t=203.

⁶² 133,000 of the over 2 million people at the age of 65 years and older living in the Czech Republic were employed towards the end of 2017, which means an increase of a third as compared to the preceding year. Cf. D. Jakešová, ‘O pracující důchodce je zájem. Příležitostí pro seniory ještě nikdy nebylo tolik’, *Lidovky.cz*, 1 April 2018, https://www.lidovky.cz/byznys/firmy-a-trhy/o-pracujici-duchodce-je-zajem-prilezitosti-pro-seniory-jeste-nikdy-nebylo-tolik.A180329_165313_firmy-trhy_pkk.

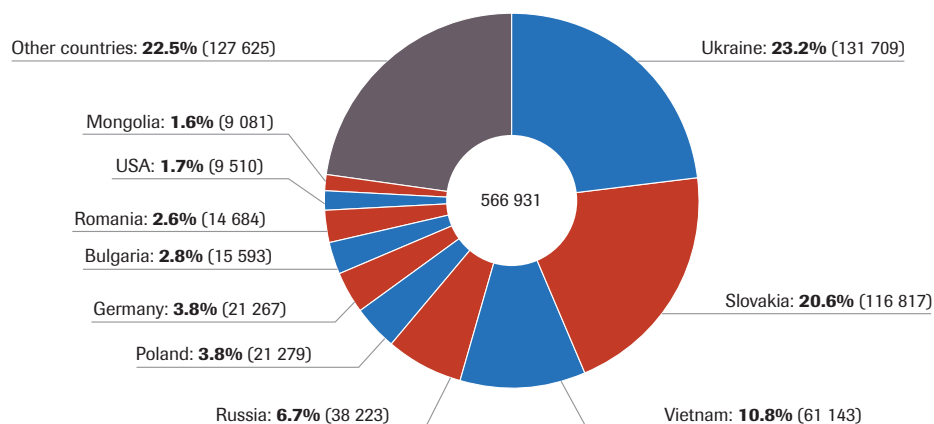
⁶³ ‘OECD Economic Surveys: Czech Republic 2018’, OECD Publishing, Paris 2018, https://doi.org/10.1787/eco_surveys-cze-2018-en.

⁶⁴ ‘Míry zaměstnanosti, nezaměstnanosti a ekonomické aktivity – červen 2018’, ČSÚ, 31 July 2018, <https://www.czso.cz/csu/czso/cr/miry-zamestnanosti-nezamestnanosti-a-ekonomicke-aktivity-cerven-2018>; for comparison, the same rate in Poland at that time was 70.2% (according to the Central Statistical Office of Poland).

4. Labour migration to the Czech Republic from EU member states – the last resort for entrepreneurs

The restrictions in access to the labour market obviously do not affect EU citizens. Slovaks, who share a similar cultural background with Czechs, account for 35% of all immigrant workers in the Czech Republic and are predominant among foreigners working there. The third most numerous group (after Ukrainians) is formed by Poles. As with Slovaks, the number of Poles working in the Czech Republic is smaller than the official number of Polish residents in this country⁶⁵. The next positions are taken by citizens of Romania and Bulgaria, the EU's poorest countries, and thus those where the economic stimulus for changing a job is the strongest. The influx of immigrant workers from Southern Europe is a new phenomenon. Unemployment rates there have been the highest in the EU (see Chart 1), especially among young people, over the past few years. The number of Spanish and Portuguese employees working for Czech firms has tripled and the number of Greek and Italian workers has doubled over the past decade. In aggregate there are 11,000 workers from this region in the Czech Republic. Almost a half of them are Italians, who also tend to start their own businesses more often than those from other Southern European nations.

Chart 7. Foreigners living in the Czech Republic (by citizenship)

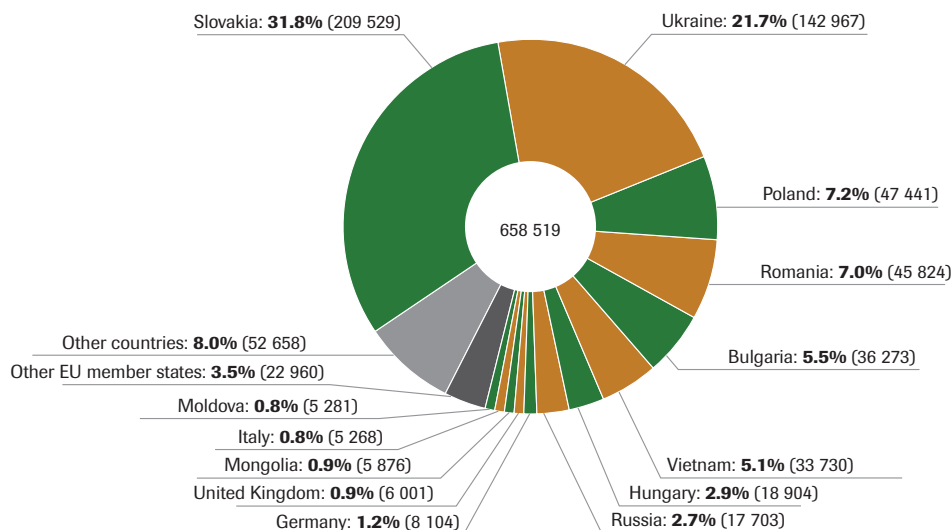


As of 31 December 2018, according to data on permanent and temporary residence. Foreigners account for 5.3% of all residents of the Czech Republic.

Source: Author's own calculations based on data from the Ministry of Internal Affairs of the Czech Republic (Čtvrtletní zpráva o migraci – IV 2018) and the Czech Statistical Office

⁶⁵ This proves that Czech firms are looking for employees in the frontier regions and is also a consequence of the more liberal regulations concerning residence registration (there is no obligation to register residence for a period not longer than three months). Cf. Charts 7 and 8.

Chart 8. Foreigners working in the Czech Republic (by country of origin)



As of 31 December 2018. These data include also self-employed people. Towards the end of 2018, foreigners accounted for 12.5% of all employed people in the Czech Republic.

Source: Author's own calculations based on data from the Czech Statistical Office

Since the procedure of employing citizens of EU member states is not complicated, they form the largest group of workers hired by the only two non-state companies among the top ten Czech employers (cf. Table 1, page 42): Škoda Auto (controlled by Volkswagen) and Agrofert (which operates in the food and agricultural sector and has been part of Andrej Babiš's business empire⁶⁶). In the case of Škoda Auto, which manufactures cars in Mladá Boleslav and Kvasiny, the issue of employing foreigners is often discussed in the media. In autumn 2018 it became a topic of the campaign preceding local elections. The mayor of Mladá Boleslav (in office for 12 years), Raduan Nwelati (whose father is Syrian and mother Czech), launched a campaign under the slogan 'Boleslav je Boleslaváků'⁶⁷ and announced 'zero tolerance for foreigners' who do not respect Czech law.

⁶⁶ Technically, since 2017 Agrofert has formally been owned by two trust funds, one beneficiary of which is Prime Minister Andrej Babiš.

⁶⁷ Roughly translated as 'Boleslav belongs to Boleslavians'.

This was partly a reaction to the real increase in crime rates among foreigners⁶⁸ working above all for Škoda Auto and its subcontractors. Even though they account for around a quarter of the 45,000-strong population, Nwelati claimed that they had committed almost all of the serious crimes, particularly emphasising the bad behaviour of Poles⁶⁹. Police officers from Poland and Slovakia took part in patrols as part of a monthly pilot programme in autumn 2018. Similar problems at the plant in Kvasiny located close to the Polish border (where 3,000 out of the 11,000 workers are foreigners, mainly Poles, Romanians and Bulgarians) have been successfully curbed due to an intensified police presence. A significant section of Agrofert's employees are Romanians and Bulgarians, but also Ukrainians and Vietnamese. However, the firm has avoided giving precise answers to questions regarding this issue, while the problem of the conditions in which they live and their low wages has been raised by the media, including outlets linked to the Social Democrats who co-form the coalition government⁷⁰.

⁶⁸ L. Nováková, 'Podíl cizinců na kriminalitě v Mladé Boleslavi řešíme novým způsobem', *Policie ČR*, 5 September 2018, <http://www.policie.cz/clanek/podil-cizincu-na-kriminalite-v-mlade-boleslavi-resime-novym-zpusobem.aspx> and 'Unikátní projekt přivádí do Boleslavi slovenské a polské policisty', *Boleslavský deník*, 4 September 2018, https://boleslavsky.denik.cz/zpravy_region/unikatni-projekt-privadi-do-boleslavi-slovenske-a-polske-policisty-20180904.html.

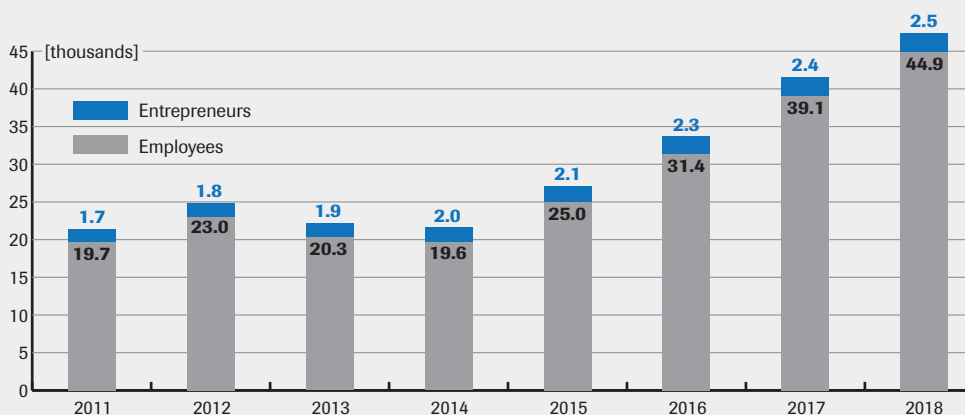
⁶⁹ J. Kolina, 'Škoda ghetto', *Týden*, no. 37/2018.

⁷⁰ Cf. Z. Vlasatá, 'Jak Andrej Babiš dává práci: ukrajinské agenturní mafii', *Deník Referendum*, 28 June 2017, <http://denikreferendum.cz/clanek/25552-jak-andrej-babis-dava-praci-ukrajinske-agenturni-mafii> and M. Cápová, 'Firma z koncernu Agrofert před volbami nadělovala. Dělníkům dala 10 tisíc', *Echo24.cz*, 19 October 2017, <https://echo24.cz/a/pv6BA/firma-z-koncernu-agrofert-pred-volbami-nadelovala-delnikum-dala-10-tisic>.

Poles on the Czech labour market

Since 2014, i.e. since the beginning of the economic revival, the number of Polish citizens working in the Czech Republic (both those employed by Czech companies and self-employed) has grown incessantly. In the case of self-employed people, a constant increase has been seen already since 2006, which is linked to the rapid development of Polish-Czech trade after both countries joined the EU. Furthermore, their EU membership means that the administrative restrictions in access to the Czech labour market do not affect Poles. Other arguments for taking jobs in the Czech Republic include: the geographic proximity, the relatively small language barrier and the large demand for labour in the Czech Republic, including at production plants and mines located close to the Polish border. The high demand for labour in many cases also means higher wages than in Poland.

Chart 9. Number of Poles on the Czech labour market 2011–2018

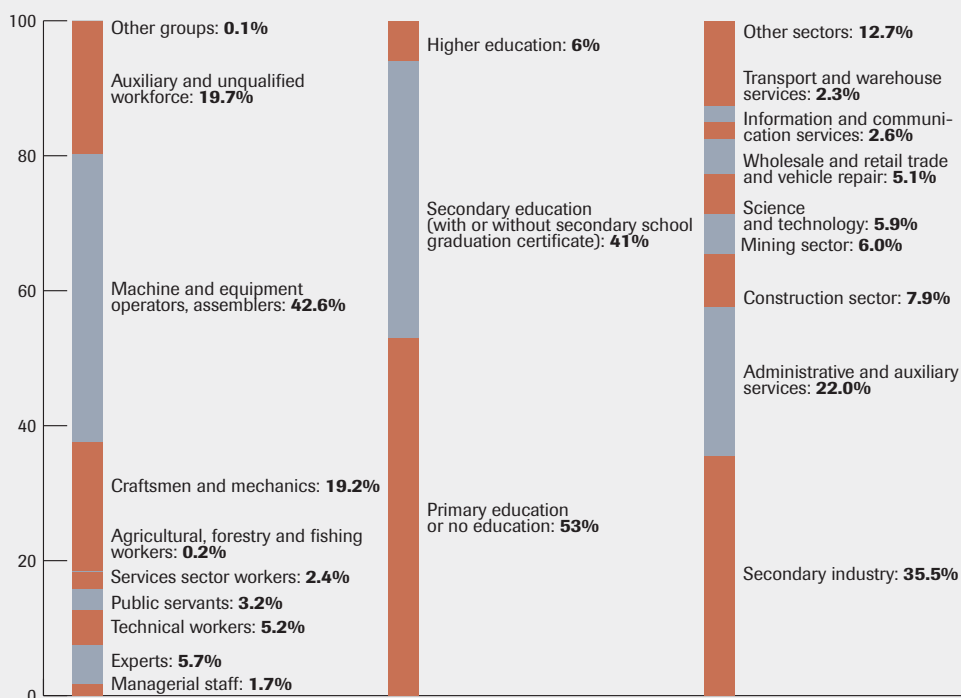


Data in thousands at year end

Source: On the basis of data from the Czech Ministry of Industry and Trade, Czech Ministry of Labour and Social Affairs and the Czech Statistical Office

Over the past few years, Poles have accounted for around 8% of immigrant workers employed in the Czech Republic by local companies, and their share in the group of immigrant workers – citizens of EU and EFTA member states – in 2018 rose to over 12%. Only Slovaks (33.7%) and Ukrainians (21.3%) make up a larger share of immigrant workers employed in the Czech Republic.

Chart 10. Poles working in the Czech Republic by education, positions and industries

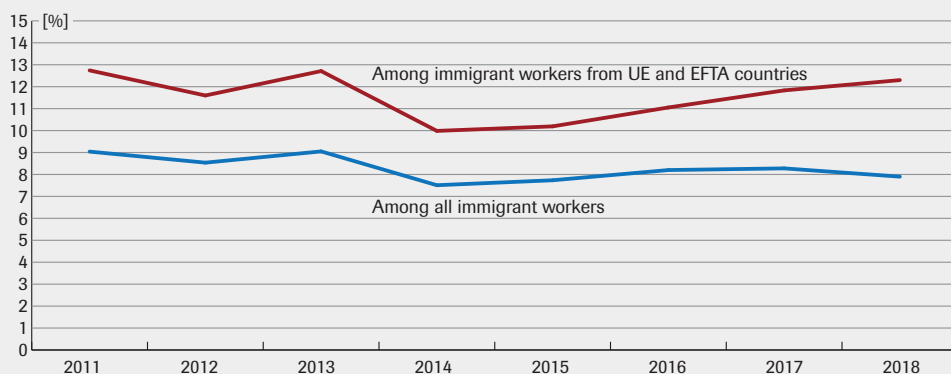


Source: Trade and Investment Promotion Section of the Polish Embassy in Prague on the basis of data from the Czech Ministry of Industry and Trade and Czech Ministry of Labour and Social Affairs

Polish workers in the Czech Republic are predominantly male (68% of employees and 67% of entrepreneurs as of end of 2018). At the end of 2016, only 1.7% of Polish workers held managerial positions, while the professions that predominated among Polish citizens employed in the Czech Republic included: machine and equipment operators (43%), auxiliary and unqualified workforce (20%) and craftsmen and mechanics (19%). The predominant sectors were the food processing sector (35%) and office administration activities (22%); the construction (8%) and mining (6%) industries also had a significant share. Thus it can be seen that Poles are hired predominantly in those segments of the Czech labour market where higher education is not required. However, this does not mean that certain skills are not needed there – qualified and experienced workers are needed, for example, at hard coal mines (the closures of these have been recently postponed by the Czech government, for the time being from 2023 to 2030). Workers in this sector are often provided from Poland by specialised labour agencies, for example, Polcarbo or Alpex (the latter employed the twelve Polish miners who died in the catastrophe caused by a methane explosion at the Czech mine OKD in Stonava in December 2018). Such agencies employ the workers

who were made redundant in the process of restructuring Polish mines but they are also eager to hire retired miners⁷¹. The largest employer in this sector is the OKD company which in 2017 employed around 1,800 Poles; the firm is still short of around 350 employees.

Chart 11. The share of Poles among immigrant workers employed in the Czech Republic



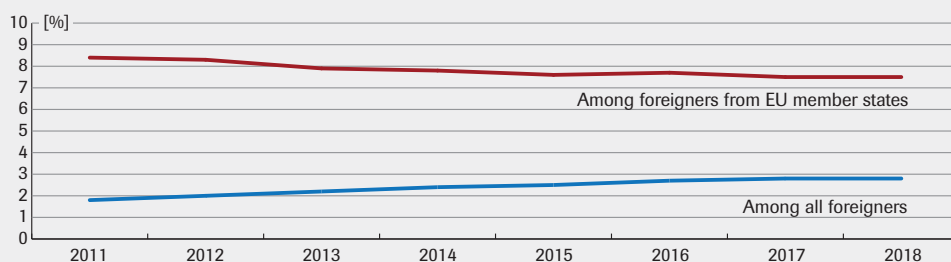
Data in % as of year end

Source: On the basis of data from the Czech Ministry of Industry and Trade, the Czech Ministry of Labour and Social Affairs and the Czech Statistical Office

Regardless of the long-lasting gradual increase in absolute numbers, the share of Polish entrepreneurs in the total number of foreigners authorised to operate on the Czech market is relatively low – less than 3%. This is much less than the percentage of Poles employed in the Czech Republic (7.9%). In the former case, Poles have been outpaced by the Vietnamese, Ukrainians (both 24%), Slovaks (20%), Germans and Russians (both 3.5%). While citizens of EU member states clearly predominate (64.4%) in the group of immigrant workers employed in the Czech Republic, in the group of entrepreneurs, the proportions are almost exactly the inverse (38.1% from the EU).

⁷¹ In Poland, miners may retire after they have worked for 25 years full-time and constantly in underground conditions (so they in many cases retire at the age of 45–50). In the Czech Republic, after the retirement age for miners was reduced by seven years in 2016, they can retire on general terms (under certain conditions linked to the number of shifts they have worked) at the earliest at the age of a little less than 56 and they may choose early retirement at the age of 53.

Chart 12. The share of Poles among foreign entrepreneurs in the Czech Republic

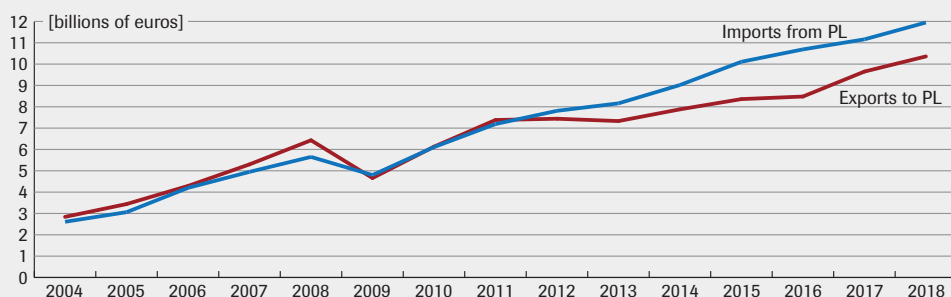


Data in % as of year end

Source: On the basis of data from the Czech Statistical Office

The increase in the number of Poles working in the Czech Republic is correlated not only to the falling unemployment rate but also to the rapid development of bilateral trade following EU accession. In 2004–2018, Polish exports to the Czech Republic grew by 460%, and Czech exports to Poland by 370%. In the same timeframe, the number of Polish entrepreneurs in the Czech Republic doubled, and the number of Poles employed in the Czech Republic grew by 500%.

Chart 13. Czech-Polish trade in 2004–2018



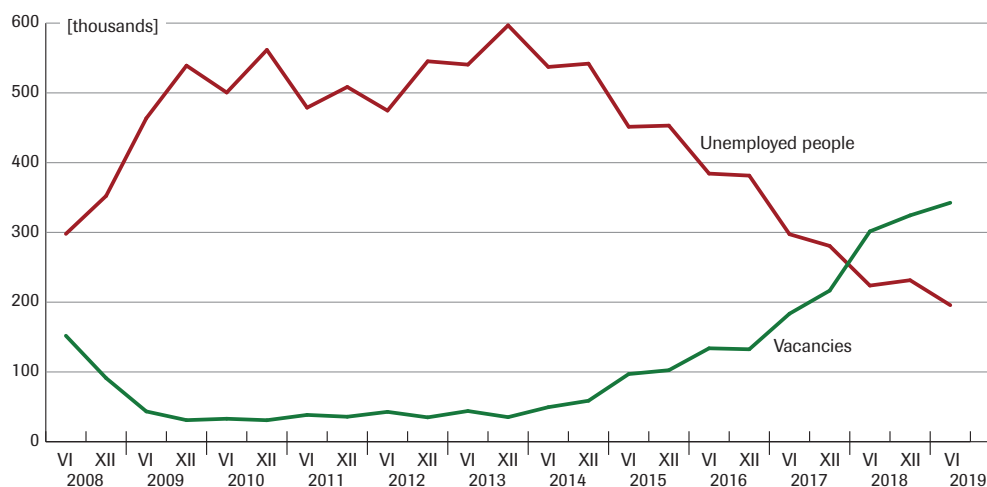
In billions of euros

Source: On the basis of data from the Czech Statistical Office

III. THE INFLATION OF WAGES AND THE INFLATION OF DEMANDS – THE LABOUR MARKET IN THE HANDS OF EMPLOYEES

Over the past few years employees have had increasingly more say on the Czech labour market. Since the beginning of 2014, the number of the unemployed has fallen visibly, while the number of vacancies has been growing (see Charts 14 and 15). Since spring 2017, when the number of vacancies reached around 160,000, these record-high statistics have been growing further⁷². Since April 2018, an unprecedented situation has been seen where the number of jobs available each month exceeds the number of unemployed people (in mid-2019 it was almost 150,000 higher).

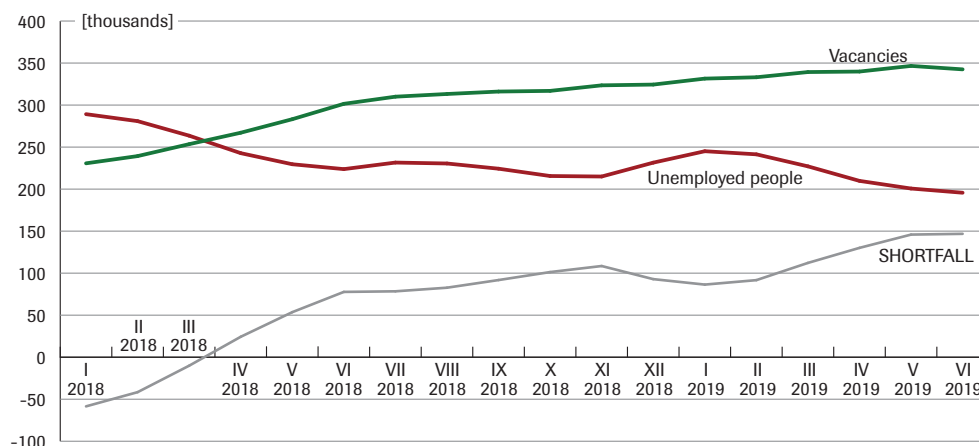
Chart 14. The number of unemployed people and job vacancies in the Czech Republic in 2008–2019 (in thousands)



Source: Author's own compilation based on data from the Ministry of Labour and Social Affairs and Kurzy.cz

⁷² Cf. *Statistiky nezaměstnanosti*, Ministry of Labour and Social Affairs of the Czech Republic, portal.mpsv.cz/sz/stat/nz.

Chart 15. The number of unemployed people and job vacancies in the Czech Republic in 2018 and 2019 (in thousands)



Source: Author's own calculations based on data from the Ministry of Labour and Social Affairs and Kurzy.cz

The strengthening position of employees on the labour market is well illustrated by the results of public opinion polls showing a decreasing willingness to compromise in search for a job and a decreasing mobility of Czechs⁷³. Only 14% see problems with finding a job; this being the lowest percentage since the survey was introduced in 2004 and almost four times less than in 2013⁷⁴.

⁷³ According to a public opinion poll conducted in June 2018 by the Public Opinion Research Centre (CVVM) only 16% of Czechs would be ready to take a job that would require moving to a different place (20% in 2015), and 17% one that would require 'longer, e.g. two-hour' commuting during the day (27% in 2015). One of the reasons for low mobility is that the model of owning a house or a flat prevails over renting, which poses greater barriers when a job offer from a different location arises. Less than a quarter of Czechs live in rented flats, and this rate is lower than the EU average of 30%. Cf. E. Sovová, 'Analýza: Bydlení je v Česku drahé. Proč tomu tak je, glosují experti', iDnes.cz, 19 June 2018, finance.idnes.cz/analiza-bydleni-hypoteky-ceny-zdrazovani-fic-/sporeni.aspx?c=A180618_111709_sporeni_sov.

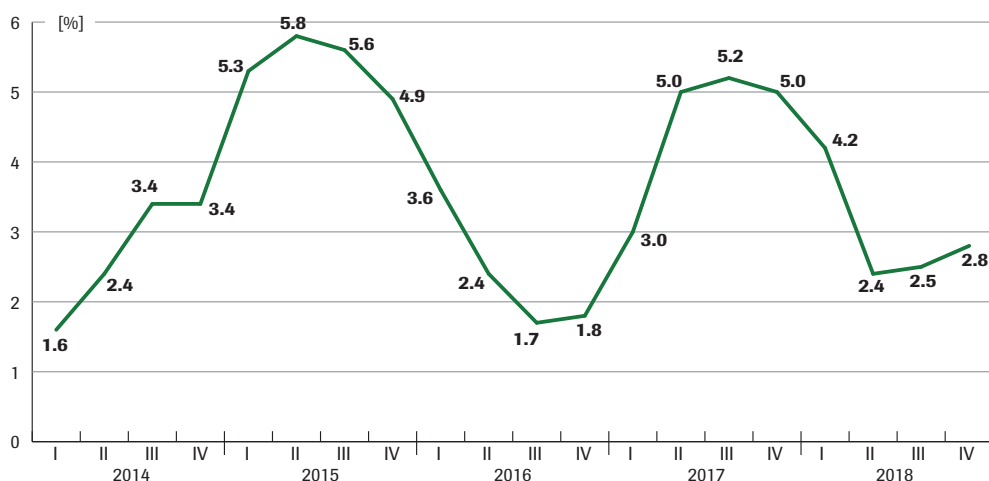
The general increase in the unwillingness to accept inconvenience linked to employment is also manifested in a lower readiness to accept a job that would require working overtime (12 percentage points than in 2015, to 64%), on weekends (10 percentage points lower, to 50%) or one characterised by a 'higher tempo of work than the previous place of employment' (15 percentage points lower, to 56%). Furthermore, the share of individuals who in case of being unemployed would look for a specific job and not just for any job has clearly grown (by 10 percentage points to the level of 72%).

⁷⁴ At the same time, a record-high percentage of Czechs (24%) are convinced that finding a proper job is not a problem, while a further 56% believe that finding any job, though not necessarily the desired one, is not a problem. Cf. 'Česká veřejnost o nezaměstnanosti – červen 2018', Centrum pro výzkum veřejného mínění, 30 July 2018, https://cvvm.soc.cas.cz/media/com_form2content/documents/c2/a4677/f9/eu180727.pdf.

1. The galloping wages: can the economy take this?

The good economic results achieved in 2014 and 2015 did not bring about an immediate increase in wages (see Charts 16 and 17). A significant section of employers were cautious after years of crisis. A clear and constant acceleration in increase in wages, including in real terms, has only been seen since mid-2017. Data for the first three quarters of 2018 showed that the increase in real wages (6.2–6.6% y/y) was clearly faster than economic growth (2.4–4.4%) and the increase in workforce productivity (0.2–2.5% calculated as GDP/h and 0.7–1.5% y/y calculated as GDP/employee)⁷⁵. The increase in wages was thus mostly an effect of the shortage on the labour market and was stronger outside the capital city (although the average wage in Prague is still clearly the highest as compared to other regions) and in the lower section of the wage pyramid; this reflects above all the demand for less qualified workers. Wages have grown most noticeably in the automotive industry (among other industries).

Chart 16. GDP growth in the Czech Republic in 2014–2018 (quarterly, y/y)

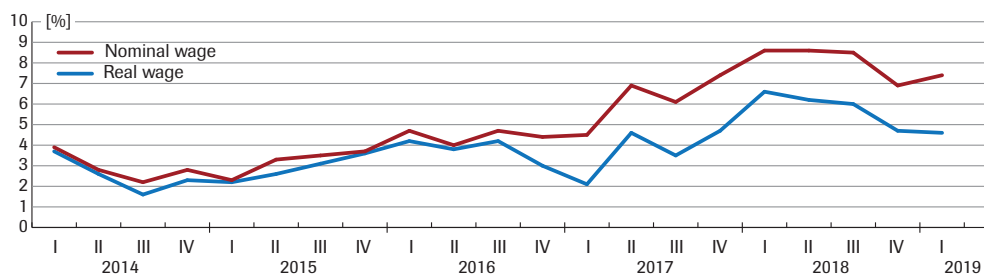


The data refer to real changes, cleared of seasonal fluctuations

Source: Author's own compilation on the basis of data from the Czech Statistical Office

⁷⁵ Cf. 'Mzdy předhánějí produktivitu a napravují minulost. Jen to nesmí trvat příliš dlouho', ČT24, 28 January 2019, <https://ct24.ceskatelevize.cz/ekonomika/2712458-mzdy-predhaneji-produktivitu-a-napravuji-minulost-jen-nesmi-trvat-prilis-dlouho>.

Chart 17. Wage growth dynamics in the Czech Republic in 2014–2019
(quarterly, y/y)



The data refers to average gross wages. The changes are benchmarked against the same quarter in the preceding year (=100).

Source: Author's own compilation on the basis of data from the Czech Statistical Office

One good example of how the wage inflation is gaining momentum within sector is provided by the retail trade sector employing around 180,000 people and having five representatives on the list of top 25 employers (cf. Table 1). This trend could be noticed already in spring 2018, when the Lidl chain increased its starting (gross) wage for cashiers by a quarter to the equivalent of around 1,100 euros. In the first month the firm saw an increase in the number of individuals willing to take the job by 50%, thus sending a signal to the market that could not be ignored by the competition⁷⁶. The challenge was accepted amongst others by another German chain, Penny Market, whose managers in the Czech Republic (where it employs 7,000 people) have been making efforts to reduce staff turnover (which is 35% annually) by introducing a wide range of employee benefits⁷⁷. It is becoming more popular to offer free of charge commuting to work (for example Tesco offers this). In quarters II and III of 2018, the entire sector saw an increase in expenses on wages by 10.8% y/y, while the level of employment grew by 2.1–2.2% and revenue by 6.9–7.2%⁷⁸.

⁷⁶ M. Šenk, 'Nejlepší čas říct si o přidání: Firmy zatím tlačí k ochotě zvyšovat mzdy nedostatek lidí, ale boom ekonomiky pomalu končí', *Hospodářské noviny*, 19 April 2018.

⁷⁷ Cf. M. Patočková, 'Šéf Penny Marketu: Neřídíme se jen Lidlem, na vyšší mzdy dáme sto milionů', *iDnes.cz*, 16 July 2018, https://ekonomika.idnes.cz/penny-market-vyssi-mzdy-rozhovor-martin-peffek-lidl-pcd/ekoakcie.aspx?c=A180715_214752_ekoakcie_zaz.

⁷⁸ Cf. 'Obchod, pohostinství, ubytování – časové řady – Základní finanční ukazatele – čtvrtletní – Klasifikace NACE Rev. 2 (CZ-NACE)', ČSÚ, 14 June 2018, https://www.czso.cz/csu/czso/1-malzf_u_b. The data are even more telling if one considers only the retail traders employing a minimum of 250 people – in quarters II and III of 2018 their expenses on wages grew by 10–10.2% y/y, while the level of employment grew by only 2.2% and the level of revenues by 3.9–4.3% y/y. This means that they increased expenses on wages slightly more than medium-sized retailers, while the increase in the employment level was similar and the increase in revenues was lower.

Table 1. Top 25 employers in the Czech Republic in 2019

	Name	Number of employees in the Czech Republic	Industry (in the case of companies)	Owner (in the case of companies)
1.	Ministry of the Interior (including the police and fire service)	66,500 (including 49,000 for the police and 11,000 for the fire service)	-	-
2.	Škoda Auto	35,500 (including 2,800 temporary workers)	Car manufacturer	Volkswagen Group (Germany)
3.	Česká pošta	30,800	Postal services	The Treasury
4.	Ministry of Defence (including the army)	29,500 (including 22,000 the army)	-	-
5.	Ministry of Justice (including courts and the prison service)	26,500	-	-
6.	Agrofert	25,200	Food and agriculture, chemical, media	Andrej Babiš (currently via two trust funds)
7.	Grupa České dráhy	23,500	Passenger and commodity transport	The Treasury
8.	Ministry of Finance (including the fiscal and customs administration)	23,000 (including 16,000 fiscal administration and 5,500 customs administration)	-	-
9.	ČEZ	22,300	Energy sector	The Treasury (69.78%)
10.	Ministry of Labour and Social Affairs (including job centres)	21,000 (including 11,500 in job centres)	-	-
11.	Kaufland Czech Republic	18,000	Retail trade	Schwarz Gruppe (Germany)
12.	Railway Infrastructure Administration	17,500	Railway network management	The Treasury

	Name	Number of employees in the Czech Republic	Industry (in the case of companies)	Owner (in the case of companies)
13.	Ahold Czech Republic	17,000	Retail trade	Ahold Delhaize (Holland)
14.	Continental (Automotive and Barum)	16,500 (11,500 Automotive and 5,000 Barum)	Tyres (Barum) and vehicle components (Automotive)	Continental AG (Germany)
15.	COOP Group	13,500	Retail trade	47 Czech co-operatives with a total of 130,000 members
16.	Siemens Czech Republic	13,000	Production of electric equipment and related services	Siemens Group (Germany)
17.	Charles University in Prague	11,500	-	-
18.	Tesco Stores ČR	11,200	Retail trade	Tesco Group (United Kingdom)
19.	Prague Public Transport Company (DPP)	11,000	Local public transport	Prague city
20.	Česká spořitelna	10,300	Financial services	Erste Bank (Austria)
21.	OKD	9,500	Hard coal mining	The Treasury (via the state-owned company Prisko)
22.	Lidl	9,000	Retail trade	Schwarz Gruppe (Germany)
23.	PPF Group	8,800	Financial services	Petr Kellner (98.92%)
24.	Czech Academy of Sciences	8,000.	-	-
25.	Komerční banka	7,500	Financial services	Société Générale (60.4%; France)

Source: Author's own compilations

Sometimes the pay rises and benefits offered by the companies turn out to be insufficient, and their trade unions threaten to go on strike. This is the case especially with larger companies; the main example is the company which is the largest private employer in the Czech Republic – Škoda Auto. Already in 2017, the average (gross) wage of blue-collar workers was the equivalent of over 1,600 euros. This is more than other large automotive corporations operating in the Czech Republic offer⁷⁹, but also clearly less than can be expected from the German factories of Volkswagen Group, which Czech employees treat as a point of reference. During months of negotiations the management of the corporation threatened that production of some models (especially Superb) could be moved to Germany⁸⁰. This led to a new wage compromise being reached, and the basic wages have risen by 12% since April 2018, and the average wage, including benefits (for example, for overtime work), has grown by more than 20% (and even by over 30% at the Kvasiny plant)⁸¹. The trade union organisation (being one of the most numerous in the country) managed to maintain Saturdays as days off (however, with a 15-shift working week) at the largest factory (Mladá Boleslav) and to guarantee that the 18-shift working week at the Kvasiny factory would apply only until the end of 2018.

During an economic boom, many firms reach out for employees from labour agencies who will be easier to dismiss when the demand for the manufactured goods or provided services falls back. Within the timeframe of five years, until 2017, the number of employees of this kind in the Czech Republic increased by two thirds – to around 280,000 (agencies themselves estimate that agencies

⁷⁹ The monthly wage at Hyundai and TPCA at similar positions is around 1,350 euros. However, their numbers of employees are much lower: 3,400 and 2,700, respectively. Cf. P. Slezák, 'Dělníci ve Škodě Auto jsou placeni nejlépe v Česku, i tak požadují dvouciferné navýšení mezd. Díky zisku na to máme nárok, říkají', *Hospodářské noviny*, 19 March 2018, byznys.ihned.cz/c1-66078670-delnici-ve-skode-auto-jsou-placeni-nejlepe-v-cesku-i-tak-pozaduji-navyseni-mezd-o-18-procent-diky-zisku-na-to-mame-narok-rikaji.

⁸⁰ This issue was resumed already after the wage compromise was reached. The company's Czech trade unions confirmed in September 2018 that the management had raised the issue of moving part of the production of the Superb model to Emden (north-western Germany), to which they were opposed. According to official communications, VW for the time being intends to expand the production of the Karoq model in Osnabrück (Lower Saxony). Cf. R. Müller, 'VW's Skoda unions object to renewed talks on production moves', *Reuters.com*, 13 September 2018, www.reuters.com/article/us-volkswagen-skoda/vws-skoda-unions-object-to-renewed-talks-on-production-moves-idUSKCN1LT2X3.

⁸¹ 'Historická výplata: zaměstnanci Škody Auto brali až 100 tisíc', *Echo24.cz*, 12 May 2018, echo24.cz/a/SPGnu/historicka-vyplata-zamestnanci-skody-auto-brali-az-100-tisic and P. Svačina, 'Kasy cinkají, zaměstnanci Škody Auto utrácejí rekordních sto tisíc hrubého', *iDnes.cz*, 14 May 2018, praha.idnes.cz/skoda-auto-rekordni-vyplata-mzda-pres-sto-tisic-korun-trzby-obchody-bonusy-mlada-boleslav-g81-/praha-zpravy.aspx?c=A180512_400894_praha-zpravy_klu.

operating in the grey economy account for the same number of workers)⁸². This would mean that over 6% of legally employed staff are agency workers. Their position at the largest firms is increasingly stronger partly owing to the activity of the trade unions. At Škoda Auto, 90% of agency workers belong to the trade unions, and the firm is so certain about its good performance in the future (or behaves so in order to attract employees without the need to re-train them), that it is increasingly prepared to offer them regular employment contracts⁸³.

2. The German labour market – an ideal for the trade unions

Referring to the situation on the German market is an essential part of the Czech public debate on wages. The political left and the trade unions are arguing that private employers should be forced to bring the wages closer to the German level through a combination of various measures of influence: new regulations (including those on the minimum wage), wage rises in the public sector and direct pressure on large employers⁸⁴. The average wage in the Czech Republic (which grew nominally by 19% in 2010–2017) in the same period fell from 37.1% to 36.8% measured as a percentage of the average wage in Germany's eastern federal states and grew very slightly as compared to the western federal states (from 28.3% to 28.9%)⁸⁵. At the same time, Czech workforce productivity (calculated as GDP per employee) is 77% of the German figure⁸⁶, so it is much better than the wage ra-

⁸² J. Richter, 'Pracovní trh se mění a zahraničních agenturních zaměstnanců v Česku přibývá. I odbory mezi nimi hledají nové členy', *Ekonom*, 29 June 2017, <https://ekonom.ihned.cz/c1-65783500-agenturnich-zamestnancu-pribyva-odbory-mezi-nimi-hledaji-nove-cleny>.

⁸³ Although the total number of the company's regular employees increased by almost 12% in 2016–2017, the number of agency workers dropped there by over 19%, to a level of 2,800. However, this is still more than 8% of the total number of the company's employees. Cf. 'Výroční zpráva za rok 2017', Škoda Auto, op. cit.

⁸⁴ These are not the only demands of the trade unions. They also want, for example, to extend the basic period of paid holiday leave in the private sector from four to five weeks and to reduce the weekly working time from 40 to 37.5 hours within five years. One demand that has been accepted by the ČSSD, included in the government's agenda, and adopted in the parliament is the liquidation of the so-called 'suspension period' that was introduced a decade ago, which means that starting from 1 July 2019 employees receive 60% of the standard remuneration during the first three days of sick leave (they have not previously been paid for this period).

⁸⁵ These differences would be slightly smaller for net wages, given higher taxation of labour in Germany (49.7% in 2017) than in the Czech Republic (43.4%). Cf. V. Lavička, D. Chripák, 'Německé a české mzdy. Příkré rozdíly se za poslední léta nezmírnily', *Hospodářské noviny*, 29 May 2018, <https://infografiky.ihned.cz/nemecke-mzdy/r-bcc161bc633411e89b0fac1f6b220ee8/> and 'Tax Wedge', OECD, 2019, <https://data.oecd.org/tax/tax-wedge.htm>.

⁸⁶ Workforce productivity calculated as GDP per hour worked (which, for example, the OECD views as a better measurement) allows, for example, to better compare individuals employed on a full-time and part-time basis. It is, however, lower – 59% of the German level.

tio. Furthermore, the trade unions emphasise that the average Czech employee spends 31% more time at work annually than his/her German equivalent⁸⁷. All these data are provided as proof of exploitation of Czech workers by companies which are often controlled by foreign corporations. The person who voices these demands on behalf of the workers is the head of the largest trade union confederation, Josef Středula, who since mid-2015 has been conducting an extensive campaign under the slogan ‘No more cheap labour’. Although he still closely cooperates with the ČSSD, since he was elected head of the trade union confederation (around 300,000 members) in 2014, he discontinued the tradition of blindly supporting this party’s ideas (trade union leaders have often been nominated to prominent positions backed by the ČSSD). Středula has been successfully pressing on the government though, not through demonstrations but rather through negotiations as part of the trilateral commission and professional communication in the media⁸⁸. In effect, it is the Social Democrats, plunged in internal conflicts, that hopes that the trade union will offer it a chance for a new impulse that will revive public support for the political left.

3. The German labour market – a nightmare for employers

The Chamber of Commerce is the opponent of the trade unions. This chamber represents the employers whose head, Vladimír Dlouhý, used to be a right-wing politician and served as the Minister of Industry and Trade. Employers and some economists point to a number of inconsistencies in the trade unions’ argumentation – in the first place the fact that when comparing wages, one should consider the purchasing power value they represent: the nominal price level in Germany is two thirds higher⁸⁹. Representatives of the Chamber of Commerce also emphasise that Czech workers are employed on a full-time basis much more frequently than German ones (mothers as a rule return to the labour market faster after

Cf. Chart 18 and J. Svoboda, ‘V práci jsme víc než Němci, ale jen za třetinovou mzdu’, *Novinky.cz*, 29 March 2018, novinky.cz/ekonomika/467664-v-praci-jsme-vic-nez-nemci-ale-jen-za-tretinovou-mzdu.html.

⁸⁷ 1,356 hours in 2017 (the shortest time in the OECD) in the case of Germany and 1,776 in the case of the Czech Republic. For comparison, Poland’s result is 1,895 hours, Slovakia’s 1,714 hours, and the OECD average is 1,759 hours. Cf. data.oecd.org/emp/hours-worked.htm.

⁸⁸ D. Klimeš, ‘Odborový předák Josef Středula šéfuje Česku. Po Bohuslavu Sobotkovi mu nadbílhá i Andrej Babiš’, *Ekonom*, 2 May 2018, <https://ekonom.ihned.cz/c1-66126610-jak-odbory-ovladly-cesko>.

⁸⁹ D. Marek, ‘Mzdový dumping je mýtus’, *e15.cz*, 25 August 2017, <https://www.e15.cz/nazory/komentar-davida-marka-mzdovy-dumping-je-mytus-1336602>.

giving birth in Germany but they usually take part-time jobs)⁹⁰. This skews the data concerning the number of hours worked by an average employee⁹¹.

Employers also claim that if the argument concerning ‘exploitation’ of workers by Western corporations active in the Czech Republic had been true, the corporations should have generated a higher operational profit in the Czech Republic, which usually is not the case. Possible differences in profitability, for example, between the Czech Republic and Germany are relatively small, which is linked to investment activity: when the expected profitability falls, firms often decide to move part of their production estimating the related costs, and in the case of investments in the Czech Republic one of the major advantages has been the relatively low labour costs. However, this means that the share of the added value of the production in the Czech Republic as compared to the value of the final product is relatively low at 39%, while that in Germany is 51%⁹².

In the opinion of employers, the solution is not to artificially raise wages (which will not work in the longer term, given the low added value of production) but rather to make efforts to change the existing economic model. They believe that the model based on ‘assembly plants’ should evolve into a model typical, for example, of Germany, with high added value and high workforce productivity, which – as a consequence – will generate a rise in wages that will not pose a threat to production. In other words, employees are arguing that before it is possible to put an end to ‘cheap labour’ (something the trade unions are instating upon), it is necessary to put an end to the ‘cheap economy’⁹³.

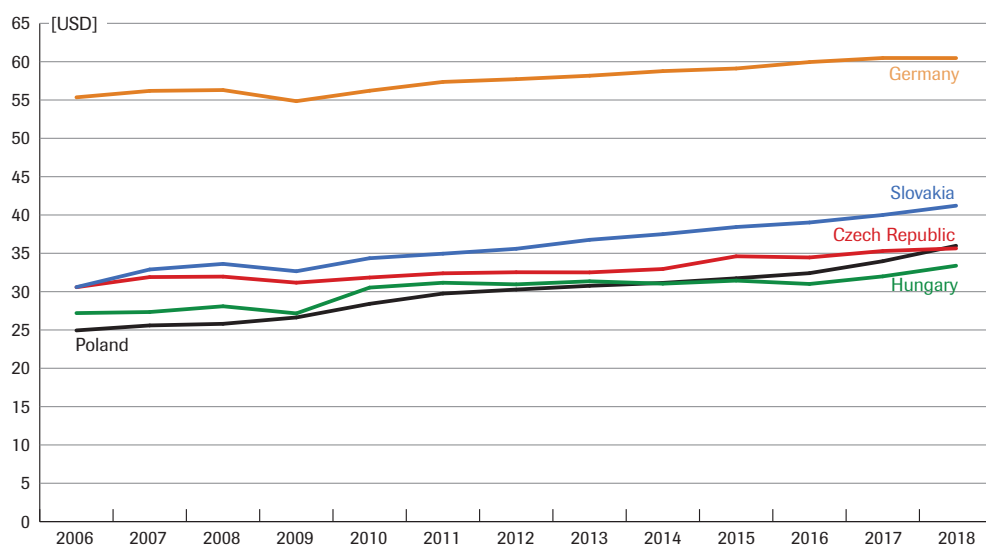
⁹⁰ The share of individuals employed part-time in 2018 was 6.2%, while in Germany it is 26.8%. The EU average is 18.5%. In the case of Poland, the value is the same as in the Czech Republic, and in the case of Slovakia it is 4.8%. The low popularity of part-time employment is partly a result of unfavourable regulations concerning insurance contributions deducted from wages. This issue was discussed in more detail in: D. Klimeš, *Jak probudit...*, *op.cit.*, page 71.

⁹¹ If one compares the average number of hours worked weekly by full-time workers, it turns out that Germans (40.9) work even longer than Czechs (40.3), and the Czech result is close to the EU average. Cf. ‘Zkrácení pracovní doby či pětítýdenní zákonná dovolená? Průmyslníci jsou ostře proti’, ČT24, 16 September 2018, ct24.ceskatelevize.cz/ekonomika/2595950-zkraceni-pracovni-doby-ci-petitydeni-zakonna-dovolena-prumyslnci-jsou-ostre-proti.

⁹² *Ibid.*

⁹³ Cf. D. Klimeš, ‘Konec levné práce se nedá přikázat. Nejprve musí skončit levná ekonomika’, Český rozhlas Plus, 13 September 2018, plus.rozhlas.cz/david-klimes-konec-levne-prace-se-neda-prikazat-nejprve-musi-skoncit-levna-7610936.

Chart 18. Changes in workforce productivity in the Czech Republic as compared to Germany and the Visegrad Group countries in 2006–2018



GDP (in US\$) per hour worked.

Source: OECD

4. The creeping change of the economic model – a challenge to investors

This change of the work model is gradually taking place anyway, and one of the factors that have made it necessary is the fact that workforce productivity has been increasing at a slower rate than wage growth over the past few years⁹⁴. In the short run, wages are not immediately adjusted to the change of the market situation (which in the economy is defined by the telling term ‘sticky wage model’). In the Czech Republic, this economic rule was visible in particular in 2014 and 2015, when wages were growing at a slower rate than GDP and workforce productivity (see Charts 16 and 17). However, in the longer run, a company where wages are growing faster than productivity in the first place will be forced to cut production and employment and, over time, to improve productivity (for example, through capital investment but this will further reduce employment levels), wind up the business or move production

⁹⁴ Workforce productivity (in this case GDP per unit of time worked) in 2014–2018 annually grew on average by 2.1%, which was clearly below the average annual increase in real wages in this timeframe, i.e. 4.2%. Cf. ‘GDP per hour worked’, OECD, 2019, <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>, ‘OECD Productivity Statistics’, OECD, www.oecd-ilibrary.org/employment/data/oecd-productivity-statistics/gdp-per-capita-and-productivity-growth_data-00685-en and ‘Mzdy, náklady práce – časové řady’, ČSÚ, https://www.czso.cz/csu/czso/pmz_cr.

to a place where the expected profitability will be higher. Like in many other countries, workforce productivity is significantly lower elsewhere across the country than in the capital city⁹⁵.

The need to increase wages is a factor that reduces the profitability of investments of the foreign parent companies of many Czech firms. At the beginning of 2018 over 38% of Czech companies' share capital was owned by foreign entities⁹⁶. According to the latest available data that enable the situation to be compared in various countries, in 2015, companies controlled by foreign entities in the Czech Republic accounted for 42% of added value generated (35% in the case of Poland and 20% in the case of Germany)⁹⁷.

However, the parent companies have already managed to capitalise on the high economic growth when the wages did not go up so much, while in 2018 they reduced reinvestment level by a fifth to keep money flow from dividends. 2016, 2017 and 2018 were the best years for them in the last decade, and the value of dividends paid abroad reached 6.1% of GDP (11.3 billion euros) in 2016, 5.3% of GDP (10.5 billion euros) one year later, and 5.5% of GDP (11.5 billion euros) in 2018⁹⁸. Over 11% of the dividends transferred abroad were paid by the six largest banks operating in the Czech Republic which thus transferred a definite majority of the generated profits⁹⁹.

However, in the longer timeframe, the reinvestment rate in the financial sector is around 50%, while the sectors most affected by the outflow of capital include: telecommunication (16% reinvestment), wholesale and retail trade

⁹⁵ Over the past few years productivity in Prague was even two thirds higher than in the rest of the country. Cf. 'Productivity and Jobs in a Globalised World', OECD, 2018, oecd-ilibrary.org/sites/9789264293137-4-en/index.html?itemId=/content/component/9789264293137-4-en.

⁹⁶ This includes 13% of capital owned by entities from so-called 'tax havens.' Domestic entities control 54% of total share capital, while the remainder of over 7% belongs to unidentified owners. Data from Bisnode; cf. 'Zahraniční kapitál v české ekonomice posiluje', *Stavební fórum*, 10 May 2018, <http://www.stavebni-forum.cz/cs/newsroom/zahranicni-kapital-v-ceske-ekonomice-posiluje/>.

⁹⁷ 'Value Added in Foreign Controlled Enterprises', *Eurostat*, 25 March 2019, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=egi_val&lang=en.

⁹⁸ J. Bukovský, 'Z Česka odtekly dividendy za více než čtvrt bilionu', *e15.cz*, 15 March 2018, <https://www.e15.cz/domaci/z-ceska-odtekly-dividendy-za-vice-nez-ctvrt-bilionu-1344194>, 'Čtvrtletní sektorové účty - 4. čtvrtletí 2017', ČSÚ, 3 April 2018, www.czso.cz/csu/czso/crtvrtletni-sektorove-ucty-4-ctvrtleti-2017 and HDP 2019, *vývoj hdp v ČR - 5 let*, *Kurzy.cz*, kurzy.cz/makroekonomika/hdp/.

⁹⁹ *Ibid.*

(27%), and the energy sector (32%)¹⁰⁰. The debate over the outflow of profits has been ongoing in the Czech Republic since it joined the EU. This is when taxes on the transfer of dividends to parent companies were lifted as part of the implementation of EU laws. Furthermore, partly in an attempt to attract foreign investment, the CIT rate was gradually reduced from 45% in 1993 to the present level of 19% (this rate has applied since 2010). Unlike with, for example, Estonia, lawmakers did not offer a preferential rate for reinvested profits. Czech politicians and economists are increasingly noticing the high degree of dependence on foreign groups¹⁰¹. In turn, the resulting transfers of profits abroad expose the economy to the risk of shocks, and restrict the possibilities of translating the achieved GDP growth into improving residents' living standards¹⁰². The dividends, for example, could have been allocated for reinvestments that would lead to improving workforce productivity and ultimately also increasing employees' real wages¹⁰³.

The issue of the outflow of profits abroad was also highlighted by the Social Democrats in their election campaign in 2017. One year earlier, it also became a topic of the report published by the office of the Czech prime minister when

¹⁰⁰ Calculations for the period 2000–2014. Cf. 'Analýza odlivu zisků: Důsledky pro českou ekonomiku a návrhy opatření', ÚV ČR, 2016, <https://www.vlada.cz/assets/evropske-zalezitosti/analyzy-EU/Analiza-odlivu-zisku.pdf>.

¹⁰¹ The 'foreign groups' category also includes Czech entrepreneurs who have chosen a different country as their principal place of business for tax reasons – for example, the financial company Home Credit controlled by the richest Czech, Petr Kellner, is based in Amsterdam.

¹⁰² According to a former member of the Bank Board of the Czech National Bank, one of the reasons behind the deterioration of the economic situation in 2008–2013 was the sudden drop in the rate of profit reinvestment from around 50% to 25–30% most likely caused by the need to recapitalise the foreign central offices of the companies. Cf. T. Pergler, 'Zahraniční investoři odsávají z Česka stovky miliard korun', Echo24.cz, 2 March 2016, <https://echo24.cz/a/wGiv9/zahranicni-investori-odsavaji-z-ceska-stovky-miliard-korun>.

¹⁰³ Reinvestments of profits of companies controlled by foreign entities in 2017 reached the level of 36% of the profits (i.e. 3.0% of GDP), whereas reinvestments in 2016 reached the level of 28% of the profits (2.3% of GDP). The ratio of the gross national income (GNI, i.e. the money remaining in Czech hands) to GDP (the value of goods and services produced in a given territory regardless of the country of the owner's headquarters) is also improving. In 2017, it was 94.4, the highest value since 2005. This is still one of the worst results in Europe (in Poland, according to data from the Central Statistical Office, this ratio in 2017 was 96.1). Another factor which played an important role in the Czech case was the appreciation of the koruna as a consequence of ending regular currency interventions, which, for example, made foreign investments more appealing to Czech entrepreneurs. Cf. L. Rousek, L. Vainert, 'Český kapitál nabírá na síle. V kapsách tuzemských podnikatelů zůstalo za loňský rok více peněz než dříve', *Hospodářské noviny*, 24 April 2018, <https://archiv.ihned.cz/c1-66119710-cesky-kapital-nabira-na-sile-penize-do-zeme-rychleji-pritekaji-nez-odtekaji-ukazuji-nejnovejsi-statisticka-data>.

this position was held by the then leader of the ČSSD, Bohuslav Sobotka¹⁰⁴. It was pointed out in the report that since 2005 the value of the dividends transferred abroad exceeded the value of foreign investments (including re-investments) and was higher than it would have resulted from objective macroeconomic conditions (among the EU member states, the imbalance in this area is greater only in the case of countries which are reputed to be tax havens: Luxembourg, Cyprus and Ireland). One of the measures to curb this phenomenon which was considered at that time was the imposition of taxes on certain sectors (for example, the banking sector) – this idea has been rejected for years by the current prime minister, Andrej Babiš. During the meeting with the key investors in 2018, Babiš showed that, for the time being, he intends to convince rather than force them to leave a larger section of their profits in the Czech Republic¹⁰⁵. The ideas proposed by Babiš include, for example, publishing a list of investors who implement large public utility projects.

5. The minimum wage – the seed of discontent inside the government coalition

ANO and the Social Democrats also have different views on pay rises. After long debates, the coalition partners have agreed that wages in the public sector will be increased on average by around 8%, starting from 2019¹⁰⁶. At the same time, over 1,300 jobs in the state administration, most of which are vacancies anyway due to the shortage of workers, will be liquidated.

However, the more difficult task for the Social Democrats will be to push through the ambitious mechanism of increasing the minimum wage that would make its value dependent on the level of wages¹⁰⁷. This idea is also backed by employers,

¹⁰⁴ 'Analýza odlivu zisků...', *op. cit.*

¹⁰⁵ Cf. K. Surmanová, 'Nechte zisky v Česku, žádá Babiš investory', *Lidovky.cz*, 13 September 2018, https://www.lidovky.cz/nechte-zisky-v-cesku-zada-babis-investory-fg2-/noviny.aspx?c=A180912_212243_ln_noviny_ele&.

¹⁰⁶ The group whose wages will grow most of all will be employees of the prosecution authorities (15.9%), while those whose wages will grow to the least extent will include, for example, military personnel (7.4%).

¹⁰⁷ The minimum wage was increased at the beginning of 2018 anyway, from 11,000 to 12,200 korunas (476 euros), and then to 13,350 korunas (521 euros) in 2019. It is earned by around 135,000 people (around 3% of workers). For comparison, the minimum wage in Poland in 2018 was 2,100 zlotys (493 euros) and in Slovakia 480 euros. At the same time, the average wage in quarter I in 2019 in the Czech Republic was 32,466 korunas (1,267 euros), i.e. clearly more than in Poland (1,162 euros) or Slovakia (1,023 euros). It also should be taken into account that these are gross amounts, and labour taxation in Poland (35.6%) is clear-

who view it as a stabilising instrument. However, the parameters of the mechanism are a problem. The ČSSD's goal is to gradually increase the minimum wage to 50% of what the average wage was two years ago (beginning from 44% in January 2020 benchmarked against 2018). ANO and employers reject this idea fearing that in the case of an economic slump they will have to pay minimum wages on a level seen during the economic boom. Therefore, they want it to be benchmarked against the forecast of the Ministry of Finance for a given year.

ANO and employers would also readily support the introduction of a mechanism that would ensure predictability of the minimum wage calculation. In their opinion, the optimal value is 40%, ideally indexed to the median wage. However, a minimum wage equivalent to 40% of the average wage (which was already an objective for the preceding government led by Sobotka) is no longer enough for the trade unions – this goal has already been achieved in 2019 (41.1% in quarter I), and the situation on the labour market offers them a strong negotiating position¹⁰⁸. The political left is also using the argument that a person who currently receives a minimum wage will not even reach the poverty threshold (calculated for a single person's household) – the net wage will fall of the equivalent of almost 30 euros short of the threshold¹⁰⁹.

According to recommendations from the World Bank and the International Labour Organization (among other institutions) the optimal minimum wage level is 30–40% of the median wage, and the upper limit of this range has already been exceeded (44% in quarter III of 2018 and over 48% in quarter I of 2019)¹¹⁰.

ly lower than in the Czech Republic (43.4%) and Slovakia (41.6%). However, it also should be taken into account that these data (cf. data.oecd.org/tax/tax-wedge.htm) concern an average childless worker; in the case of a worker with two children, the taxation is reduced to a level of around 27%, and such a big difference as compared to the childless worker's labour taxation is unseen elsewhere in the OECD (cf. David Klimeš, *Jak probudit...*, *op.cit.*, page 41). At the same time, significant differences in the level of contributions paid in the case of employment contracts and by self-employed people means that the percentage of entrepreneurs in the total number of professionally active people is one of the highest in the EU (17.5%, according to the World Bank; but lower than in Greece, Romania, Italy, Poland and Portugal). Cf. 'Self-employed, total (% of total employment) (modelled ILO estimate)', World Bank, April 2019, https://data.worldbank.org/indicator/SL.EMP.SELF.ZS?year_high_desc=true.

¹⁰⁸ For comparison, the minimum wage in Poland in quarter I of 2019 was equivalent to 45.4% of the average wage, and in Slovakia this ratio was 50.8%.

¹⁰⁹ 'Příjmová chudoba ohrožuje 9,1 % Čechů', ČSÚ, 10 April 2018, <https://www.czso.cz/csu/czso/prijmova-chudoba-ohrozuje-91-cechu>.

¹¹⁰ Cf. T. Mynářová, 'Očima ekonomů: Hranice pro minimální mzdu? Neexistuje', *Penize.cz*, 3 January 2017, <https://www.penize.cz/mzda-a-plat/319207-ocima-ekonomu-hranice-pro-minimalni-mzdu-neexistuje>.

It can be expected that it will take a long time to discuss this issue during the meetings of the trilateral commission. At the beginning of 2019, the minimum wage was increased by the equivalent of around 45 euros (the second largest increase in history), which was viewed as a defeat by employers and as a success by the trade unions and the ČSSD¹¹¹. However, it is unlikely that there will be a compromise regarding a constant mechanism for determining the minimum wage.

¹¹¹ For a long time the employers would not accept an increase higher than around 35 euros, and the prime minister assured them that the minimum wage rise will not be higher than around 40 euros. For comparison, the minimum wage in Poland in 2019 was increased by 35 euros and in Slovakia by 40 euros. For more on the employers' stance see: M. Diro, 'Dalším zvýšením minimální mzdy jste opět vyhověli odborářům, napsal dnes prezident Hospodářské komory předsedovi vlády. Žádá o vstřícný krok i vůči podnikatelům', HK ČR, 19 November 2018, https://www.komora.cz/tiskova_zprava/dalsim-zvysenim-minimalni-mzdy-jste-opet-vyhoveli-odborarum-napsal-dnes-prezident-hospodarske-komory-predsedovi-vlady-zada-o-vstricny-krok-i-vuci-podnikatelum/.

IV. POSSIBLE DEVELOPMENTS

In the coming years, the Czech Republic will gradually replace its economic model based on relatively cheap jobs to one with more technologically advanced and automated production. This will lead to workforce productivity improving, thus enabling companies to gain funds for further pay rises, while reducing employment. However, this will not always be a painless process. In those cases where profitability turns out to be insufficient and increasing added value is impossible or too expensive, this may mean winding up production plants and firing employees. However, if some companies move abroad because the Czech Republic becomes increasingly less cost competitive for them, other employers will find this helpful because much needed workforce will be released.

The automation of production, which is already underway, will doubtlessly pose a challenge to the labour market. Capital investment is natural in a situation where labour costs are growing¹¹² compared to capital value. Furthermore, investing in processes that are less dependent on labour is often the only solution in the case of an insufficient supply of new workers – both immigrant workers and local school graduates¹¹³. Automation will in the first place liquidate jobs which require the lowest levels of creativity. According to the OECD's report, every tenth job in the Czech Republic is at 'high risk' of being automated within 10–20 years, and a further 36% will most likely be significantly transformed. However, these figures are higher in the case of the lowest-paid occupations¹¹⁴.

¹¹² According to the results of surveys conducted by the Chamber of Commerce which were published in autumn 2018, the increasing labour cost outpaced the workforce shortage in the ranking of employers' greatest problems (this issue fell to a lower place on the list after three years). Cf. 'Odbory žádají růst mezd ve firmách okolo osmi procent. Chtějí i pětítýdenní dovolenou v zákoně', ČT24, 11 September 2018, <https://ct24.ceskatelevize.cz/ekonomika/2591140-odbory-budou-tlacit-aby-bylo-pet-tydnu-dovolene-dano-zakonem> and 'Firmy dusí nedostatek lidí, příští rok jich bude chybět půl milionu. Ekonomika kvůli tomu výrazně zpomalí, varuje Hospodářská komora', *Hospodářské noviny*, 15 October 2018, <https://byznys.ihned.cz/c1-66290980-v-cesku-chybi-440-tisic-zamestnancu-podniky-to-uz-ani-nehlasiradu-prace-podle-hospodarske-komory-lidi-odcerpava-stat-a-nemecko>.

¹¹³ When the Czech economy was rapidly developing in 2005–2008, around 130,000 new workers were supplied to the labour market annually. At present, this number is around 90,000. Cf. J. Macháček, 'Lék na nedostatek pracovní síly? Migrace', *Česká pozice*, 6 September 2018, http://ceskapozice.lidovky.cz/debata-jana-machacka-lek-na-nedostatek-pracovni-sily-migrace-pq1-/debata-jana-machacka.aspx?c=A180906_101742_machackova-debata_houd#utm_source=email&utm_medium=text&utm_campaign=lidovky.directmail.

¹¹⁴ In the case of Poland, 7% of jobs are at 'high automation risk'. The largest percentage of jobs at risk of automation among the EU member states has been identified in Germany, Austria and Spain – 12% each. Cf. also M. Arntz, T. Gregory and U. Zierahn (2016), 'The Risk of Automation

One example of the scale of automation is provided by the number of multi-function industrial robots per 10,000 employees. In these terms, the Czech Republic (119 robots per 10,000 employees) is more advanced than, for example, Poland (36), but in 2017 it was still far behind the global leaders (South Korea 710, Singapore 658, and Germany 322). Furthermore, it was ranked lower than the region's leader, Slovakia (151)¹¹⁵. Therefore, it is not surprising that Czech firms' investments linked to automation and digitalisation in 2017 increased by 5% y/y, which translated into the largest number of robots sold in the region (2,900 items)¹¹⁶. The Chamber of Commerce expected a further acceleration of such investments in 2018 as well – to 6%¹¹⁷. Paradoxically, this process has been slowed down by the workforce shortage in both the Czech Republic and the region as a whole, since this causes delays in the supplies of new machines and the introduction of new technologies. In turn, the rapid increase in wages has reduced funds for investment. This should be somewhat alleviated by the higher demand for labour among larger firms whose investment budget is as a rule higher, and thus enable investments in substituting labour with robots¹¹⁸. Regardless, this signifies that the Czech Republic will soon stop competing on the cost of labour, which has been one of its key competitive advantages for a long time.

Given the limitations (technological and cost-related) of automation and companies' urgent needs, the best solution may be to improve access for employees from third countries to the Czech labour market. However, there is public resistance to the influx of foreigners, so the related potential political costs will most likely mean that – even if the Czech government adopts regulations

for Jobs in OECD Countries: A Comparative Analysis', *OECD Social, Employment and Migration Working Papers*, no. 189, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jlz9h56dvq7-en>.

¹¹⁵ Data from the International Federation of Robotics (IFR) for 2017, ifr.org/downloads/press2018/Executive_Summary_WR_2018_Industrial_Robots.pdf and rp.pl/CYFROWA-Technologie/312139875-Marsz-robotow-przyspieszyl-ale-i-tak-tracimy-dystans-do-Europy.html.

¹¹⁶ *Ibid.*

¹¹⁷ 'Kvůli rekordnímu...', *op. cit.*

¹¹⁸ The employment outlook survey, i.e. net employment forecast (i.e. the difference expressed in percentage between the number of employers declaring an increase and those predicting a decrease in employment in the coming quarter), for quarter II of 2019 for companies employing over 250 people in the Czech Republic is 27%. In the case of small and medium-sized companies (10–249 employees) it is 9%. In the case of micro firms (up to 9 employees) it is 2%. The general net employment rate for the Czech Republic is, however, smaller than in Poland for example (9%). Cf. 'Manpower index trhu práce Q2 2019', ManpowerGroup Česká republika, 12 March 2019, <https://www.manpowergroup.cz/pruzkumy/manpower-index-trhu-prace-q2-2019/>.

liberalising access to the local labour market – these will most likely be insufficient and passed too late from the viewpoint of the development of the Czech economy. The economic crisis in 2009 showed that immigrant workers may offer the Czech economy a ‘safety valve’ by strengthening workforce resources at a time of increased demand for labour and leaving the country when the demand significantly drops off (only 30,000 of 70,000 Ukrainian immigrant workers remained in the Czech Republic through the next years of crisis)¹¹⁹. Meanwhile, it is very likely that immigrant workers will still be needed in the Czech Republic, regardless of the increasing automation. As Czechs’ living standards improve, they are becoming increasingly unwilling to take jobs associated with low social prestige.

A greater openness to an influx of labour from other countries may also be necessary due to the process of an ageing society; the Czech Republic is one of the countries where this process is the fastest in Europe. The demographic burden rate (the ratio of pensioners to individuals of working age) is expected to grow there within 40 years from the present level of 28% to 56%¹²⁰. Unless there is a rapid increase in workforce productivity, this poses a great challenge to the Czech labour market. Even though the Czech Republic has continuously had a migration surplus since 2014, it is not large (16,000–28,000 individuals annually)¹²¹, and the demographic structure means that each year the number of individuals retiring is 30,000–40,000 higher than the number of people entering the labour market¹²².

The changes in the investment incentive system announced in the governmental agenda will most likely already come into force in 2019¹²³: It will deprioritise benefits for firms creating low-paid jobs and replace this with attracting firms ready to create and develop modern technologies. Time will tell whether Czechs succeed at this. However, it is certain that in the present situation the Czech Republic really cannot afford to accept further investments based on the use of cheap labour on preferential terms. The next step, after investment ben-

¹¹⁹ Cf. M. Petříček, ‘Pokud chceme vyšší mzdy, musíme být produktivnější, říká průmyslník’, iDnes.cz, 7 January 2018, https://ekonomika.idnes.cz/montovna-mzdy-rozhovor-prumysl-jan-rafaj-fgw-/ekonomika.aspx?c=A180105_374185_ekonomika_rts.

¹²⁰ ‘OECD Economic Surveys: Czech...’, *op. cit.*

¹²¹ Cf. ‘Obyvatelstvo’, ČSÚ, 26 April 2019, https://www.czso.cz/csu/czso/obyvatelstvo_lide.

¹²² J. Pravec, ‘Euro pro nás teď není užitečné. Mít jednotnou měnu kvůli turistům je nesmysl, říká Babišův poradce’, *Ekonom*, no. 22/2018, page 24.

¹²³ Cf. K. Osinová, ‘Investiční pobídky čekají změny’, KPMG Česká republika, 18 April 2018, <https://danovky.cz/cs/investicni-pobidky-cekaji-zmeny>.

efits, will most likely be investing more money in the Czech education system (the government's agenda envisages increasing teachers' wages in 2017–2021 by 50%) and adjusting the education model to the challenges posed by the so-called 'fourth industrial revolution'¹²⁴ (also known as Industry 4.0, covering automation, digitalisation and fast data exchange, etc.).

The purchase of new technologies does not automatically mean an increase in workforce productivity – this will happen when employees are able to use them effectively, and this requires adequate skills and employer support. Škoda Auto is one of the companies which has run a machine-building secondary technical school next to the Czech headquarters of the company since 1927 and is engaged in so-called 'dual education systems'. Rapid technological changes bring about the need for lifelong education to become more widespread. Another challenge linked to Industry 4.0 is the increasing popularity of remote communication and virtual reality technologies that reduce the significance of the geographic situation. In effect, the advantages of the Czech Republic resulting from its geographic proximity to Germany may gradually diminish.

The labour shortage has for a long time caused the Czech Republic's economic growth to slow. This can be seen very clearly in the case of the automotive industry: the inter-annual increase in the production of motor vehicles (which in 2014–2017 ranged between 10.1% and 14.3%) fell to 1.8% in 2018 and 0.6% in the first months of 2019¹²⁵. In turn, the value of new orders in the Czech automotive industry, which grew in 2014–2016 from 13.9% to 21.4% y/y, already slowed down to 2.9% in 2017, and even fell by 2.9% in the first months of 2018¹²⁶.

The observed increase in real wages is especially dangerous for Czech export firms, in particular, when combined with the growing value of the Czech koruna against the euro, since these two factors adversely affect their price competitiveness. Since the exchange rate was liberalised by the Czech National Bank in April 2017, the Czech currency grew by 7% at its peak (January 2018) as compared to the previously protected exchange rate and was the strongest against the euro since the end of 2012. On the other hand, a possible economic

¹²⁴ Cf. the material 'Iniciativa Průmysl 4.0', developed by the Czech Ministry of Industry and trade which on 24 August 2016 was adopted by the country's government, <https://www.mpo.cz/assets/dokumenty/53723/64358/658713/priloha001.pdf>.

¹²⁵ D. Klimeš, 'Český autoland po letech růstu dojel na svůj vrchol. Teď zpomaluje, obává se protekcionismu a vyhlíží elektrobudoucnost', *Ekonom*, 12 July 2018.

¹²⁶ *Ibid.*

slowdown worldwide and, in particular, the trade war between the USA and the EU, poses a great risk to the economy (and thus also the labour market) of the Czech Republic which is strongly reliant on exports¹²⁷. The tensions between the EU and US affect the Czech Republic mostly indirectly, as it supplies many components to vehicle factories in Western Europe which are then exported across the Atlantic. The terms of Brexit will be even more important for the Czech Republic because the United Kingdom is among the key recipients of Czech exports (almost 8 billion euros in 2017 and 2018 each; the fifth largest recipient of exports from the Czech Republic)¹²⁸, in particular cars (in 2017, it was the second largest recipient of Czech exports, behind Germany, falling to 4th place the following year)¹²⁹.

All these factors mean that economic growth is expected to slow down: from 4.4% in 2017 and less than 3% in 2018 to around 2.5% in the next two years¹³⁰. Nevertheless, in addition to the traditionally strong exports, increasing domestic demand will increasingly stimulate the Czech economy over the next years. The economic growth will also be supported by investment in reorganising production processes to increase workforce productivity. Therefore, it is expected that the Czech Republic's GDP growth (which in 2015–2017 was over 12% in aggregate), will also be significant (around 10%) during the next three years, although not so strong as previously.

The need to curb the accelerating inflation is another reason for the expected slowdown. Inflation has been stable at a level of 0.5% for three years, and then increased to 2.5% in 2017 and 2.2% in 2018, to a great extent as a consequence of the increasing wages. It is not expected to change any time soon; in 2018 nominal wages grew by 8.1% y/y (5.9% in real terms), and according to the economic

¹²⁷ When President Donald Trump was receiving representatives of car companies in the White House on 11 May 2018, he said that he was preparing the imposition of 25% import duties on some vehicles. According to the European Commission's analysis, this would cut imports of vehicles from the EU to the USA by a half. The meeting of the President of the European Commission, Jean-Claude Juncker, and President Trump calmed down the situation to a certain extent, but even then Trump clearly excluded cars from the agreement and did not rule out imposing a higher customs duty rate on them in the future, emphasising the imbalance of existing rates (US imports from the EU at 2.5% and imports from the USA to the EU at 10%).

¹²⁸ The United Kingdom further loses in relative importance as a Czech export destination in 2019. The data for the first four months show the Czech export increase of 2.4% y/y to be the lowest among top ten Czech export destinations.

¹²⁹ Data from the Czech Statistical Office.

¹³⁰ 'Makroekonomická predikce', Ministry of Finance of the Czech Republic, <https://www.mfcr.cz/cs/verejny-sektor/makroekonomika/makroekonomicka-predikce>.

model of the Chamber of Commerce, in 2019 the wages will grow at a similar rate¹³¹. Therefore, it should be expected that the central bank, wanting to protect the inflation target, will continue the policy of gradually raising interest rates, especially given the fact that the government's agenda includes numerous promises of social transfers and pay rises. One side effect of this will be rising inflation.

KRZYSZTOF DĘBIEC

¹³¹ Cf. 'Komorová národohospodářská prognóza', HK ČR, 10 June 2018, https://www.komora.cz/files/uploads/2018/06/20180610_Komorov%C3%A1-n%C3%A1rodohospod%C3%A1%C5%99sk%C3%A1-progn%C3%B3za-tabulka.pdf.



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