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of Competitive Advantage**

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Human Capital as a Source of Competitive Advantage

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Summary:

This article deals with the development of the competitiveness of Human Capital in the Czech republic during the transformation process and after accession to the EU. The development of the cost-competitive advantages of Human Capital, the development of the relative cost of labour, productivity of labour and individual labour costs will be characterised and compared with the EU average. Furthermore, attention will be paid to the development and structure of employment, the employment of foreigners and, above all, the regulatory mechanisms which form the supply and demand sides of the labour market, as well as labour relations. The last part of the article will characterise the ways in which the principles social dialogue were implemented.

Keywords: competitiveness, employment, immigration, human capital, labour costs, labour market, labour productivity, social dialogue, unit labour costs

Lidský kapitál jako konkurenční výhoda

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Abstrakt:

Stat' se věnuje vývoji konkurenceschopnosti lidského kapitálu České republiky v průběhu transformačního procesu a posléze vstupu do Evropské unie. Charakterizován je vývoj cenově nákladové konkurenční výhody lidského kapitálu, vývoje relací nákladů práce, produktivity práce, jednotkových nákladů práce a jejich srovnání s průměrem Evropské unie. Dále je pozornost věnována vývoji a struktuře zaměstnanosti, zaměstnávání cizinců a především regulačním mechanismům, které formují nabídkovou a poptávkovou stranu trhu práce a zaměstnanecké vztahy. Poslední část statí charakterizuje způsob implementace principů sociálního dialogu.

Klíčová slova: konkurenceschopnost, zaměstnanost, imigrace, lidský kapitál, náklady práce, trh práce, produktivita práce, sociální dialog, jednotkové náklady práce

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Introduction

Czech economy, as well as the other new EU member states, based, to date, its competitiveness primarily on relatively cheap labour. Average wage paid early 90th in the former Czechoslovakia was only 10 % of the West European average. The level of wages has moved above in the next period, nevertheless, it remains to be a competitive advantage.

It is in this context that we speak of *the competitive advantage of the price – cost type*, which all the transition economies are attempting to change for some of the higher types:

the ability to compete by increased labour productivity: i.e. to achieve a much better ratio of input to output; the efficiency of the manufacturing process, as well as the development of the exchange rate play a significant role in this;

the ability to produce and use, commercially, new ideas – new products, technological advances, trading methods, new ways of satisfying needs and, if necessary, even creating completely new needs. The competitive advantage is, here, based on the ability; after a certain time; to generate extraordinary profits from the uniqueness of a given concept.

Economic policy attempts to *stimulate a positive ratio of the price of production factors to the economy's achieved outputs*. 'Outputs', then, are ever more understood to be *sustainable economic growth, linked to the quality of life and the cultivation of Human i.e. Social Capital*.

The expression *Human Capital* has replaced in literature the formerly used term *Human Resources*, in order to emphasise peoples' ability to increase value. The labour force, under the term *Human Resources* is researched from the point of view of the above-mentioned *price to cost* type of competitive advantage. Therefore, the areas given the most attention are: *labour costs, wage growth, labour productivity and profitability*. *Human Capital*, on the other hand, as a source of competitive advantage, emphasises the *ability to innovate, new technology, eliminate insufficiencies from new production methods and yield new quality*. Analysis concentrates on the stimulation of the innovative process, creativity, the formation of "*high knowledge*", "*think tanks*", investment in education and scientific research activities, and, above all, their effects; i.e. the capability to use, commercially, the results of research and development; not only increase the number of patents.

The term *Social Capital* is connected with the creation and functioning of the various types of *social networks*. The members of a *social network* share common values, norms, patterns of behaviour and decision making and provide mutual support. The *Social Network* is an informal arrangement which brings its members certain advantages. In the context of the researched topics, *Social*

Capital interests us in its connection with the formation of labour relations and the principles of industrial democracy in the countries of the European Community. Research carried out on the *Social Networks* in connection with the growing labour migration, aging of the European population and the level of social solidarity or the creation of elites, is also very interesting.

The following article will, first of all, briefly deal with the development of the competitiveness of *Human Capital* in the Czech republic during the transformation period from the point of view of “*factor competitiveness*“; i.e. the development of the relation of the price of labour to its productivity. Attention is further focused on the development and structure of employment and, above all, on the regulatory mechanisms which form the supply and demand sides of the labour market and labour relations.

In the Czech republic, collective bargaining respects the principles of social policy and social dialogue of the European Community; nonetheless, it is significantly formed by historical experience and the cultural development of our country.

The aim of the article is to follow current positive and negative trends in the development of the competitiveness of *Human Capital* in the Czech republic and the chances and risks for further development.

1. The development of labour costs and productivity

*The average hourly labour costs*¹ in the Czech republic in 2005 represented only 31% of the average in the EU-25. The structure of labour costs², to date, varies as between the old and the new EU member states. In both groups of countries

¹ Average hourly labour costs are defined as total labour costs divided by the corresponding number of hours worked. The hourly rate for labour eliminates differences in the length of working time between the old and new member states and offer a comparable basis.

² According to Eurostat's methods, labour costs fall into three main groups:

Wages: wages for work done, substitute wages or fringe benefits (selling the company's products to employees at reduced price, meals and accommodation allowances, use of the company car for private purposes, expenditure from the social fund, etc.);

Social costs and expenses: legally required contributions on social welfare (pensions and health insurance, employment policy contributions), costs and expenses of paying for above-standard social programmes and pension funds, compensation for period of illness paid to employer, expenditure on insurance programmes in the case of work related injuries and illnesses, severance pay, etc;

Other costs and expenses: employee recruitment costs, increasing the qualifications and retraining of employees, work clothes, costs of training and schooling of apprentices, taxes and sanctions, registration of new employees with the relevant authorities, and the payment of wages and sundry other costs.

wages account for the greater part of total labour costs; in the EU-15 it is 83%, while in the EU-10 it is 75%. Social costs and expenses in the EU-15 countries make up 15%, while in the EU-10 countries it is 21% of total labour costs. In the Czech republic, this difference is even greater. Wages and wage substitution here make up around 71%, and social costs and expenses are over 26% of total labour costs.

For comparison of competitiveness, it is necessary to compare the height of labour costs with the labour productivity achieved. On the macroeconomic level we can express it as *Gross Domestic Product (GDP)* per worker or, *GDP* per hour worked. The second mentioned indicator is influenced by differences in the length of the working time, which is still higher in the new EU member states. *GDP* in these indicators is; for the purposes of better international comparison; calculated according to the *Purchasing Power Standard (PPS)*.

Labour productivity expressed as *GDP*, calculated according to *PPS*, per hour worked, in the Czech republic in 2005, made up 57% of the EU-25 average. *Labour productivity* expressed as *GDP* per worker; thanks to the longer working hours here; came to 66,7% of the EU average. Let us remind ourselves again, that the average hourly labour cost in the Czech republic in 2005, was 31,2% of the EU-25 average. From this indicator it is apparent that the *Czech republic can keep using the price-cost type of competitive advantage*.

After exhausting the “*transformation wage cushion*“, which in 1990-91 led to a significant drop in real wages, due to high inflation. Since 1996, there has been a growth in real wages in the Czech republic with the exception of 1998 and 2000 which overtook the growth in labour productivity. After 2000, this gap started to shut and in the period 2004 and 2005, the relationship between the two again grew closer.

Tab. 1: Index of the development of real wages and total labour produktivity (previous year = 100)

Indicator	1996	1997	1998	1999	2000
Index of real wages³	109,7	101,3	98,6	106,2	102,4
Total labour productivity⁴ of labour (2)	103,3	99,1	100,9	103,9	104,1

³ The share of the index of gross monthly nominal wages and the index of consumer prices (previous year =100).

⁴ The data on filled job vacancies, calculated by the full working time according to the ESA 95 method.

Indicator	2001	2002	2003	2004	2005
Index of real wages⁵	103,8	105,4	106,2	103,1	102,3
Total labour productivity⁶ of labour (2)	102,2	101,6	104,7	104,1	105,4

Source: ČSÚ.

Statistics follow the development of these relations with the aid of the indicator *unit labour costs*. This derivative indicator is the ratio between the wage per one worker and total labour productivity (*GDP per Worker*). It shows, therefore, in what relation to their productivity are workers compensated. In other words, what is the relationship between how well the workers are paid and the value that their work brings. The growth of this relationship (*Real Unit Labour Cost Growth – RULCG*) points out the dynamic linking the production factor “labour” to the creation of value of output.⁷ Negative values (reduction of unit labour costs) mean that labour costs do not grow as fast as labour productivity. This does not necessarily have to be a good sign for growth, or for maintaining the volume of jobs, because the previous growth of labour costs could lead firms to invest in more productive technology, which replaces expensive labour. At the same time, growth in real unit labour costs does not always have to lead to a reduction in employment, because the country can have such low unit labour costs, in comparison with other countries, that it can still maintain highly competitive production costs. Comparisons; in view of the effects caused by the exchange rate; have a greater indicative value within the Eurozone than in countries outside it.

Tab. 2: Real growth in unit labour costs (in current prices)

Region	1996	1997	1998	1999	2000
EU-27	-0,7	-0,9	-0,4	0,3	0,2
EU-25	-0,7	-0,9	-0,6	0,2	0,2

⁵ The share of the index of gross monthly nominal wages and the index of consumer prices (previous year =100).

⁶ The data on filled job vacancies, calculated by the full working time according to the ESA 95 method.

⁷ When evaluating, it is necessary to bear in mind that the highest common factor takes into account only wages and salaries of employees, whilst the lowest common denominator (*GDP per worker*) is derived from the total workforce, including business people who are self-employed.

EU-15	-0,7	-0,9	-0,4	0,2	0,3
Eurozone (13 countries)	-0,8	-1,2	-1,0	0,1	-0,3
Czech republic	2,8	1,2	-3.2	0,4	0,7
Region	2001	2002	2003	2004	2005
EU-27	0,2	-0,6	-0,3	-1,0	-0,6
EU-25	0,2	-0,4	-0,4	-1,0	-0,6
EU-15	0,2	-0,3	-0,4	-0,9	-0,3
Eurozone (13 countries)	-0,2	-0,2	-0,3	-1,0	-0,8
Czech republic	1,0	3,1	2,7	-2,9	-0,5

Source: Eurostat.

Table 2 shows the comparisons in the development of unit labour costs in the Czech republic and in the EU countries. While the EU-25, and, above all, those countries using already the Euro, for most of the monitored period have reduced their unit labour costs, in the Czech republic, with the exception of 1998, there has been a growth in these costs. The tendency has started to change just within the past two years. This means that remuneration for work has grown faster than productivity, and only recently has it been possible to slow this trend down.

2. Changes in the employment structure

The development of employment in the Czech republic since 1993 has the following characteristics:

a drop in the level of economic activity (the number of persons over 15 years old who are employed/unemployed); which decreased from 62% in 1993 to 59% in 2004;

a decline in the employment rate (the number of persons with one, or the main job in the 15 years and over bracket); which has, from 1993 to 2004, fallen from 59% to 54%;

stabilisation of the number of unemployed on the live register; which for the period of the 1997/98 recession, settled between 7% and 10% and remains, more or less, around the EU-25 average. An increase in the rate of long term unemployment⁸

⁸ Unemployment longer 12 months.

would be a negative development. When long term unemployment; as a part of the total unemployment rate; exceeds 50% in the 25-55 age group, it is even 60%; high employment among women (51% of women over 15 years); high, and growing, share of self-employed persons, as part of the total employment rate.

During the transformation process, there took place in the Czech economy, fundamental *structural changes, which influenced the demand for labour and employment.* The employment rate in the primary sector has, since 1990, decreased by a third; agriculture bore the greatest impact of this reduction; it reduced its workforce by two thirds, and so, the rate of employment in this branch is comparable with the EU-15 countries. While employment has also dropped in the secondary sector, it still remains quite high, in view of the fairly well developed processing industry. New jobs have appeared in the tertiary sector, whose share of overall employment has risen to the current 56%. In comparison with the EU-15 average, there is markedly lower employment in two branches of the tertiary sector – the buying / selling and renting of immovable property, and in the branch of health and social welfare.

The dramatic drop in fertility in the Czech republic in the 1990's, together with the coming of (productive) age of the generation born in the 1970's has caused a *marked increase in the 15-64 age group in the Czech population.*

The rapid growth of the adult population has been caused by the fact that those born in the strong years (i.e., years with very high births) in the 1970's, while those in childhood now were born in the weak years (i.e. low birth years) caused by developments in the transition economy:⁹

That leads to a percentage growth of the portion of the adult population in productive age. This development gives rise, immediately, to several positive phenomena (Slaný 2007: 97):

the demographic dependence index improves; (a higher amount of the population in their productive age eases the economic burden of providing services to the dependent sector of the population, i.e. senior citizens(pensions and health schemes); and children (education expenditure);

the number of jobs on offer increases, thanks to the smaller size of families, when women, with greater probability, enter the labour market;

the demographic transformation leads to people staying alive and healthy for longer, which facilitates a greater return from Human Capital and creates the incentive for investment in education.

In the structure of the population there has been an *increase in quality from the point of view of the highest achieved level of education*. In the period 1991-2002 the number of people with only primary education has dropped by two thirds, the number of graduates of apprentice schools has decreased by 7% and even the number of *gymnasium* (i.e. grammar secondary school) graduates has decreased by almost one third. On the other hand, *there has been an increase in the number of people who have completed secondary professional schools [***an example would be a secondary commercial academy]with a school leaving certificate; as well as the number of university graduates; in both groups that comes to 25%*. It can be discerned from this data that the education structure of the population has shifted from primary education to complete secondary professional education, and at the same time there is a growth in university graduates.

Foreign workers make up around 4% of the total workforce in the national economy. This is not a very significant presence. Foreigners *work primarily in the labouring professions*. They were most numerous in the group “*tradesmen and qualified production workers,processors and repairers*“; as well as in the group: “*helpers and unqualified workers*.” In time foreigners’ employment shifted more towards the second group, i.e. the *unqualified workers*. From looking at the unfilled job vacancies it is apparent that foreigners on the Czech labour market mostly reduce the level of wages and take jobs which the native work force has no interest in. It also cannot be said that the immigrants raise the unemployment level. Quite the contrary, in certain activities the labour market is unsatisfied and there is a lack of workers.

Tab. 3: Employment of foreigners and job vacancies according to KZAM¹⁰

Foreigners allowed to work (registration), job vacancies according to Kzam’s classification to 31st 12th of the given year	Number of foreigners allowed to work (registration) according to U.P. data (in %)	
	1999	2005
1 Legislators, directors and management workers.	3,3	3,1
2 Scientists and professional intellectual workers.	6,7	7,0
3 Technicians, health and pedagogical workers.	5,6	7,5

¹⁰ KZAM is the classification of employment used by the CSO on the basis of UN classification.

4 Lower administrative workers	0,3	2,7
5 Operational staff in the services and trade.	1,1	4,8
6 Qualified workers in agriculture and forestry.	5,9	1,9
7 Tradesmen and qualified production workers, processors and repairers.	52,4	31,7
8 Plant and machinery operators	12,1	16,1
9 Helpers and unqualified workers.	12,6	25,3
0 Members of the armed forces	0,0	0,0
Foreigners allowed to work (registration), job vacancies according to Kzam's classification to 31st 12th of the given year	Number of Job vacancies (in %)	
	1999	2005
1 Legislators, directors and management workers.	1,2	1,7
2 Scientists and professional intellectual workers.	6,1	6,2
3 Technicians, health and pedagogical workers.	10,5	11,5
4 Lower administrative workers	1,9	4,1
5 Operational staff in the services and trade.	11,3	8,7
6 Qualified workers in agriculture and forestry.	2,3	1,8
7 Tradesmen and qualified production workers, processors and repairers.	41,1	31,9
8 Plant and machinery operators	17,5	15,5
9 Helpers and unqualified workers.	8,0	18,3
0 Members of the armed forces	0,0	0,4

Source: Horáková (2000).

3. Regulatory mechanism

3.1 Social policy and social dialogue in the European Community – harmonisation of Czech labour legislation

The association and subsequent accession of the Czech republic to the EU evoked the necessity of harmonising labour law and implementation of EC directives to Czech legislation. The European Community's common social policy is founded on the vision of the ,common social area whose characteristic purpose is to maintain a *system of minimum social standards* valid in all member states. The idea is to create a basic system of social protection and ensure equal conditions of competition between economic subjects operating in the individual states (the prevention of social dumping). It respects the *Principle of Subsidiarity*, i.e. preserving diversity in the EC as well as the system of dividing competences and powers between the EU and its member states. The Principle of Subsidiarity arises from the principle that concrete steps should be taken at the level that is most advantageous for citizens. In the social sphere it exists because only a small amount of the binding legislative norms of Community Law (Regulations and Directives of the Council), which have a bearing, mostly, on the areas of equal opportunities, safety and health protection at work and labour law and working conditions.

In the area of *social protection*, the regulations and directives of the Council (both components of EC Law), are in harmony with the free movement of workers, as far as granting rights in the area of social welfare to migrating workers within the Community is concerned. They support free movement of workers without, at the same time, demanding complete harmonisation of the national social welfare systems.

In the area of wages, EU integration policy arises from the implementation of agreed principles governing wages:

the principle of protection for the weaker bargaining party – in certain labour disputes, by means of legal limitations on the requirements in labour inspectors, labour courts and so on;

the principle of equal pay for men and women – in ensuring this principle it is necessary to use objective evaluation methods which consider the level of difficulty and complexity of the given task, and which allow the comparison of the various types of jobs and the level of remuneration for each;

the principle of social dialogue with partners – which takes place at: company, branch, national and supranational levels, and this at inter-union and sectoral level. The main result achieved is the conclusion of a collective agreement. In the EU member states the wages for, approximately 70-90% of employees are negotiated in collective agreements;

the principle of guaranteeing a minimum wage – is an obligation arising from the Charter of basic workers rights in the Community. This Charter codifies the right to such remuneration for work that ensures the worker and his family a satisfactory standard of living.

The adoption of the Maastricht *Agreement on Social Policy* as an appendix to the *Treaty on European Union* was a significant turning point for the mechanisms realising social dialogue at European level. It concerned, namely, the following two aspects:

article 3 conferred social partners with the right to be consulted on the direction taken by the Union's social policy (two tier consultative mechanism);

article 4 recognised the right of social partners and their collective to negotiate legislative initiatives at European level. This means that social partners can request the European Commission to submit joint agreements for approval by the Council. The Council cannot interfere with the agreements text, it can only approve it, or reject it. In the case of it being approved, the social partners' agreement becomes an EC directive and is legally binding on all member states.

Nowadays social dialogue is considered a component of the *legal order* of the European Community. Social partners¹¹ have become the main guarantors of the application of the principles of the European Community, concerning workers, safety and health protection at work, equal opportunities, right to be consulted and the right to access to employment and the right to information.

In principle, social dialogue at EU level exists in two forms:

in the form of negotiation – the results can be agreement and a common stand by the social partners. Agreements are submitted by

¹¹ Social partners are the workers and the steering organisations at European level which are considered to be representative, whether from the inter-branch view or the sectoral one; with whom the European Commission holds consultations according to Article 138 of the Treaty Establishing the European Community. Currently, within this framework, there are consultations in progress with 58 such organisations. The inter-branch social partner which represents employees' interests is the European Trade Union Federation; the ETUC; which joins together national and branch federations. The inter-branch social partners representing employers' interests are the Union of Industrial and Employers' Federations in Europe – UNICE, European Centre for Public Sector Firms – CEEP, the European Confederation of Managers and Directors – CEC, or, its liaison committee: EUROCADERS, the European Association of Trades, Small and Medium Companies – UEAPME. Social dialogue is also carried on at sectoral level between employers' representatives and union federations, which unite the workers within concrete branches.

For instance, the stand taken by social partners to the European Commission's legislative initiative concerning the battle with racism and xenophobia, which led to the creation of the EU's anti-discrimination legislation – the Regulation 2000/78/EC, in relation to employment. It prohibits discrimination on grounds of religion, handicap, age and sex. Regulation 2000/43/EC prohibits discrimination on grounds of race, ethnic origin, and so on.

At national level, these Regulations were implemented in the form of the new antidiscrimination law.

the European Commission to the Council for approval. Upon approval by the Council the component of the “acquis communautaire”.¹² The common stand defines certain principles or goals shared by both parties, and recommendations which are afterwards applied at national level.¹³ Specific conditions may be imposed on certain member states, but in practice, however, the Principle of Subsidiarity is used;

in the form of consultation – which the European Commission is obliged to hold with representatives of the social partners, with the goal of checking the suitability and orientation of its focus in the area of social policy. The Council again takes the decision on the basis of the European Commission’s initiative.

From the point of view of the level of flexibility of the Czech labour market, the most significant results of harmonisation are the following:

employment contracts concluded for an indefinite period are preferred and the Labour Code limits the amount of fixed term employment contracts;

the employer cannot terminate contracts of employment without giving some of the reasons taxatively stated in the Labour Code, and he is must fulfil all the relevant conditions contained therein (e.g. granting severance pay);

the law guarantees the existence of a minimum wage;

employees have the right to information, and they must be consulted on the situation of the organisation. If the organisations are not unionised, there can be established, with the employers’ support, employees’ committees.

Tab. 4: The development of the minimum wage in the CR (in CZ Crowns)

1991	1995	1998	2000	2002	2005	2007
2 000	2 200	2 650	4 500	5 700	7 185	8 000

Source: VÚPSV (2006).

¹² An example could be the joint agreement between social partners on the basic rights and principles of employment (1999), or the agreement on tele-working, i.e. distance working; “Tele-Working Agreement”(2001).

¹³ For instance, the stand taken by social partners to the European Commission’s legislative initiative concerning the battle with racism and xenophobia, which led to the creation of the EU’s anti-discrimination legislation – the Regulation 2000/78/EC, in relation to employment. It prohibits discrimination on grounds of religion, handicap, age and sex. Regulation 2000/43/EC prohibits discrimination on grounds of race, ethnic origin, and so on. At national level, these Regulations were implemented in the form of the new antidiscrimination law.

From the overview given above of the development of the minimum wage in the Czech republic, its sharp rise during the period of government of the Social Democrats can be discerned. Its existence has at least two effects. A minimum wage which is not very far above the social minimum does not stimulate unsuccessful job seekers to accept jobs which only pay such a low wage and leads to a preference for drawing the dole. From this point of view, then, a higher minimum wage is a positive phenomenon. On the other hand, a high minimum wage forces employers to make correspondingly high health and social welfare deductions, which increases their labour costs. The consequences can be a decrease in jobs available, and also the growth of the shadow economy, where officially unemployed people work 'off the books', and/or, those in employment do unofficial 'overtime', or have second jobs, in both cases receiving; at least in part; 'cash in hand' wages, naturally, untaxed.

The existence of the minimum wage, apparently, influences even the form of wage distribution. Wage distribution is influenced by a firm lower limit, which is the minimum wage, and it can rise without limit (there is no 'maximum wage'). The curve divides from the beginning, towers upwards and upon achieving the maximum point, it very slowly descends again. In view of this fact, the average wage does not move near the most numerous wages, but moves in the direction of the highest value to the right of the most numerous wages. In the Czech republic, because of this effect, about 65% of employees are paid below average wages, and only 35% receive wages above the arithmetical average.

3.2 Social dialogue in the Czech republic

Regulation of the Czech labour market is carried out primarily by legislative amendments. That means that the *main rules for social dialogue are set by law, not by agreements concluded between social partners.*

Collective agreements are concluded at company and sector level (i.e. agreements of higher degree).¹⁴ Company collective agreements cannot amend employees' demands to a lesser extent than is set in the agreement of higher degree. They can only unite them above the standard of the amendments

¹⁴ Collective bargaining is amended by law No.2/91 Coll. on collective bargaining. The Constitutional Court of the CR repealed paragraph 7 of this law; in June 2003; which enabled the Ministry of Labour and Social Affairs to make the rule that the collective agreement of the Higher Level is binding even on employers who are not members of the employers' organisation which signed up to this agreement. According to the Constitutional Court, the collective agreement and private law agreements have the form which the parties to them have agreed, to set their mutual relations; based on the free expression of the relevant parties' wills. Therefore, it is not possible to extend the agreements' scope to parties who have not concluded them.

contained in the regulations.¹⁵ Minimum standards are set for all employees, across the board, which ensures equal conditions of competition in certain branches.

If there arises a dispute between management and the unions, both sides, upon agreement, can choose a mediator, who will help during negotiations.¹⁶ If the negotiations are unsuccessful, the parties may apply to send their case to arbitration; i.e., a referee decides the case on its merits.¹⁷ The referee's decision may be overruled only by a court, and then, only in the case that his decision goes against the law or the valid collective agreement. Fulfilment of the collective agreement or the referee's decision is enforceable by law in the Czech republic.

In the case that there is no agreement reached on the conclusion of the collective agreement, then the extreme measures of 'strike' or 'lock-out' may be used. Whilst a strike is called by the union organisation, a lock-out; i.e. a partial or complete cessation of work; is declared by the employer. Strikes or lock-outs, called during the interval when there has been concluded a valid collective agreement, are unlawful.

Within the individual business branches in the Czech republic, there exist confederations and other similar organisations which have the possibility to represent the interests of employers and employees. The level of organisation, especially on the employers' side, is under the EU average, and on both sides it has decreased in the past ten years. Available information tells of the decrease in the number of employees in whose firms trade unions operate, and also, *of the drop in the number of concluded collective agreements, which, according to estimates in the wage area, protect only about 30-35% of employees*, which is around half to one third, in comparison with the EU countries. The centre of gravity of social dialogue is mostly in the old branches, while in many newly established businesses there is no formal procedure for leading social dialogue. A lot of Czech and foreign employers do not want to join a formal process for social dialogue. A large part of the public perceive social dialogue as a thing of the past, and it is not taken for granted as an integral part of employer/employee relations.

The same as in the EU member states, there exists in the Czech republic the structure for social dialogue at national, sectoral, company and regional level. The centre of gravity of the whole system is; unlike in the EU member states;

¹⁵ If the collective agreement of the Higher Level sets the an upper limit on wages, a company agreement, then, cannot guarantee employees wages which are higher. The collective agreement in this part would be invalid.

¹⁶ The Ministry of Labour and Social Affairs may appoint a mediator, at the suggestion of one of the parties. The Ministry maintains a list of registered mediators.

¹⁷ Referees are appointed by the Ministry of Labour and Social Affairs; just like with mediators, it maintains a list of registered referees.

the national and company level, whilst the sectoral and regional structures are of lesser significance. Social dialogue in the Czech republic is, to a large extent, dependent on the will of the government, and this at national tri-partite level, especially. The Czech situation, then, differs from that of the EU member states, the USA and Japan, where tri-partite dialogue is less dependent on the political interests of the government. Great effort has been, hitherto, put into the drafting of legislation whilst less attention has been paid to the setting of frameworks for the overall macroeconomic and social development in the country.

Tri-partite social dialogue at national level in the Czech republic is secured mainly by the Council for Economic and Social Agreement (Czech abbr.: RHSD),¹⁸ where the state is represented by the government, the trade unions (the Czech-Moravian Confederation of Trade Unions and the Association of Independent Trade Unions) and employers' organisations (the Association of Industry and Transport of the CR and the Confederation of Entrepreneurs' and Employers' Associations). Membership of the Council currently serves as the gateway to other commissions and councils by virtue of the fact that organisations outside the Council have little room for gaining influence.

After changes in the administrative organisation, and after the creation of 14 regions, the opportunities for leading tri-partite dialogue at regional level have further increased. Social dialogue at this level has been given new impetus by the possibility of joining the issues of regional development with plans for employment to education and training. In recent years in the Czech republic, the regional level has grown mainly in areas where there are big industrial companies in the energy, mining, foundry and steelworks branches.

3.3 Immigration policy

In the Czech republic, to 31st December, 2005, there were 278.312 foreigners resident, of which number, 110,598 had permanent residence status, while 167.714 of them had some type of long-term residence visa (granted for stays of over 90 days); e.g., transitional residence for EU citizens and their family members; others were citizens of non-EU states who were granted visas for over 90 days, as well as long-term residence permits. The main influx of foreigners ran until 1996, from that time their numbers have stabilised. In 2000 new migration laws were passed and the government is trying to implement an active immigration policy.

¹⁸ The Council created a well functioning organisational structure comprising the assembly, chairman, working groups and the secretariat.

The target group; towards which the Conception of integration of foreigners in the territory of the CR since 2005¹⁹, is aimed; are the long-term, legally resident foreigners who have been living here for a period of at least one year. Measures have been adopted which should eliminate the disadvantages arising from the fact that the foreigner, as a rule, does not know the language of the country, has difficulty orienting himself in the host society and on the labour market, and has not built up connections with members of the dominant society. The concept emphasises the importance of communities and regions, because the integration process takes place at local level. Communities and regions play an important role by providing the authorities with feed back on the functioning of the integration policy and the foreigners' situation in given territories, as well as information on any problems faced by the foreigners during the integration process. Towns and villages are the places where the actual social interaction and integrational (or segregational) activities take place. It is about creating a local strategy of employment or social integration, the creation of specific programmes and measures (e.g. language and civics courses for adults, pre-school language preparation for immigrant's children, strategies for the prevention of territorial segregation and support for non-profit organisations which are aimed at helping immigrants).

Nonetheless, it must be admitted that *immigration for the Czech republic is a relatively young trend and the number of foreigners here is low, in comparison with the EU-15.* According to market research ²⁰ agencies, Czechs have the warmest regard for Slovaks, an absolute majority of people (94%) have a problem free relationship with them. They also like Poles, Germans, English, French and Americans. However, the Czechs greatly distrust the Eastern nations; i.e. the inhabitants of the former Yugoslavia, Russians, Ukrainians, Vietnamese, Chinese, Arabs, Chechens and Afghans. Czechs have the least sympathy for Roma. According to the market research agency STEM, two thirds of Czechs have negative feelings towards the Roma ethnic group. The people unanimously presume that the minority should adjust itself to the norms observed by the majority. Two thirds of Czechs believe that there are too many foreigners in this country and their presence is linked to the negative consequences and phenomena (criminality, economic inferiority to foreign states, drop in moral standards, and so on). People over 60 and those with a lower standard of living are convinced of the necessity for maximum assimilation of foreigners to Czech society. It was mainly university educated people and those with a higher standard of living as well as religious people who had a positive attitude to citizens of other nations. The respondents' age did not influence their evaluation of foreigners.

¹⁹ viz. www.czso.cz/ciz/cizinci.nsf/i/koncepce_integrace_cizincu-18k.

²⁰ It concerns mainly the market research agencies STEM and Centra which measure public opinion and are available on:
http://www.cvvm.cas.cz/upl/zpravy/100637s_ov70108.pdf.

The main source for the regions are foreigners with long-term residence permits from Ukraine, Slovakia, Vietnam, Poland and Russia. Slovaks, without question, dominate the foreign born work force (40% of employed foreigners in 2005 were citizens of the SR) and, also, they make up the largest share of foreign students at Czech universities (almost 70% of foreigners studying at Czech universities are citizens of the SR). They work, mostly, as employees in more qualified trades, including those which require a secondary school education. Ukrainians occupy second place in the work force (28% in 2005). Up to 1995 they were mostly employees, with a very low number of them being entrepreneurs (3%). In the second half of the 1990's, the number of Ukrainians doing business on the basis of a trading licence showed a marked increase (57% in 2000), which could be a reaction to the limits placed on the granting of work permits; but, it could also be evidence of the development of the shadow economy. In 2005, Ukrainians accounted for 3% of the foreign student body at Czech universities.

The third most numerous group – the Vietnamese – represent around 10% of employed foreigners. They are mostly, over the long term, entrepreneurs in trade and services and very few of them are employees.

The Poles, who make up almost 8% of the foreign work force, are, on the other hand, mostly employees.

Tab. 5: Most frequent nationalities of foreigners holding permanent and long-term (over 90 days) residence permits in the CR.

Nationality	Number of foreigners to 31.12.2005
Ukraine	87 789
Slovakia	49 446
Vietnam	36 833
Poland	17 810
Russia	16 273
Germany	8 187
Moldavia	4 674
Bulgaria	4 551
USA	3 962
China	3 580
Others	46 219

Source: ČSÚ.

An active immigration policy is a necessity for the Czech republic. The Ministry of Industry and Trade has, in cooperation with other departments, come up with the project 'Green Card', whose aim is to entice more workers

from abroad. The holder of such a card would be guaranteed the minimum wage, which would increase the types of work which he could do. Another advantage should be the uniting of the work permit with the residence permit. Representatives of the state authorities should help in the search for workers abroad. If the worker proves suitable, then, after a certain time period, his family members may come to live with him. The whole project, subject to its being approved, should start to function in 2008.

Conclusion

The Czech republic still uses; and for a certain time period, will surely continue to use; the *price-cost* type of competitive advantage. The average hourly labour cost reached in 2005 31,2% of the EU-25 average; productivity of labour expressed as GDP per worker was 66,7% of the EU-25 average. Remuneration for work, however, grew during the transformation process, with a few small exceptions, faster than productivity and it has been possible to apply the brakes to this trend only recently.

In the employment structure, there is still, in comparison with the EU average, lower employment in the tertiary sector; (the greatest differences can be seen in the buying, selling and renting of immoveable property, and health and social welfare activities). On the other hand, thanks to the growth in the basic processing industry there is relatively higher employment in the secondary sector. The employment structure reflects the state of the economy, industrial traditions; but also, insufficiencies of financial resources in the areas of health and social welfare. Optimism, together with the decreasing unemployment rate recorded on the live register, has slowed down the growing number of long term unemployed, and estimates of the extent of the abuse of benefits and working ,on the black' (i.e.off the books).

The quality of Human Capital is gradually improving, even from the point of view of the level of education achieved, however, we are still below the EU average as regards the numbers of university graduates. Problems are gradually appearing in the matter of qualified tradesmen; where, in some regions the apprentice schools for such trades as electrician, plasterer, plumber, technician, pedagogical, and especially health, workers, have practically disappeared. Even unqualified jobs remain unfilled.

The Czech republic is becoming more and more dependent on an active immigration policy and on foreign workers. There is no need to fear that those workers will take jobs from the Czech. The main sources for the regions are the foreigners with permanent or long-term residence permits; from Ukraine, Slovakia, Vietnam, Poland and Russia. Foreigners on the Czech labour market, above all, reduce the level of wages and occupy unqualified jobs which the

natives have no interest in. This trend deepens and aids the utilisation of the comparative advantage of low labour costs.

The process of harmonisation of labour laws, and the implementation of EC directives to Czech national legislation has slightly increased workers' protection from dismissal and has created greater space for social dialogue and collective bargaining. Nonetheless, the collective agreements cover, in the area of wages, around 30-35% of employees, which is only a half to a third in comparison with EU countries. A very large part of the public perceive social dialogue as a thing of the past and do not consider it as an integral part of employee-employer relations. Tri-partite dialogue in the Czech republic is, to a large extent, dependent on the political interests of the government of the day. In that regard the Czech situation differs from that of most of the EU-15 member states.

The increasing volume of job offers may be considered a challenge thanks to the fact that those born in the 1970's (i.e. the "strong years") have now come of productive age. The drop in the birth rate has, at the same time, eased the burden on institutions of education and could help increase the quality of this system. The Czech republic can draw on this advantage, certainly for the next 10 and more years. The greatest risk for future development is, obviously, the danger of long term exclusion of certain groups of the population; who are in their productive years; from the labour market; thanks to the opportunities for abusing the social welfare system, as well as the shortage of qualified workers in the trades and the sectors of health and social welfare. Increasing the portion of the population with third level education, expenditure on institutions of education, science and research, cannot be realised without a much greater input from private sources, which will supplement expenditures from the public purse.

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http://epp.eurostat.cec.eu.int/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=EU_yearlies_s&root=EU_yearlies/yearlies/I/I1/ir021.

EUROSTAT: *Hours worked per week of full-time employment.*

http://epp.eurostat.cec.eu.int/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&product=_YEARLIES&root=theme0/yearlies/c/cc/ccb/ccb22288&zzone=detail.

EUROSTAT: *Labour costs structure.*

http://epp.eurostat.cec.eu.int/extraction/retrieve/en/theme3/lacosts/y2000/nat00/n00struc?OutputDir=EJOutputDir_2358&clientsessionid=D063291A8CBA2D3E4BF8ACB3E873F954.extraction-worker-1&OutputFile=n00struc.htm&OutputMode=U&NumberOfCells=24&Language=en&OutputMime=text%2Fhtml&.

EUROSTAT: *Life-long learning – total.*

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