

Activation Policies in the Czech Republic and Shaping Factors *

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Introduction: increasing role of activation in the enlarged Europe

The paradigmatic shift from a ‘passive’ to an ‘active’ welfare state seems to be a cornerstone of the reforms which aim to respond to the challenges of the ageing society and global economic competition. The notion of an ‘active welfare state’ has been interpreted in different ways: the post-fordist Schumpeterian workfare state represents one polar option (Jessop 1993), contrasting with the other one presented as the social investment state (Giddens 1998). Regardless of which strategy is preferred, the ultimate and consensual objective of the ‘active welfare state’ is to increase labour market participation and employment: precisely this objective has been expressed among the Lisbon and Stockholm employment targets.

Many areas of public policy may be addressed in order that these targets are achieved: the European Employment Strategy represents an attempt to co-ordinate them within the European Union countries. Among these policies, in spite of a broad variety of approaches to implementing the European Employment Strategy (compare Madsen and Munch-Madsen 2001), the policy of ‘activation’ has become the centre of attention in nearly all of the EU member countries over recent years and discussion is underway about convergence of activation policies (Serrano Pascual 2004). The reasons for the central role of activation policies are very pragmatic; increasing economic pressures on the welfare state (‘permanent austerity’) imply both the need for a more economical approach to public financial resources and the need to increase employment even in those segments of labour supply which were until recently supposed to be released from the labour market or pushed at its margins. In particular, all persons fit for work who, however, find themselves in the position of long-term benefit claimants (long-term unemployed).

We will understand here, in line with Barbier (2004: 48), activation (policy) as a specific feature (characteristic) of the policies rather than a specific policy tool: *‘an increased and explicit dynamic linkage¹ introduced into public policy between social welfare, employment and labour market programmes, which entails the critical redesigning of previous income support, assistance and social protection policies in terms of efficiency and equity, as well as the enhancing of*

* This paper was supported by the Grant Agency of the Czech Republic, grant No.: 403/03/1007 ‘Social Exclusion and Social Inclusion in Czech Society’.

¹ Underlined by the author.

the various social functions of paid work and labour-force participation.’ This dynamic linkage is mainly produced by balancing rights and duties, by harmonising the social security benefit - taxation schemes and by co-ordinating benefit schemes with labour market policies, with the link between social assistance and labour market policies being central (based on Lødemel and Trickey 2001, Saraceno et al. 2002, van Berkel and Møller 2002, Serrano Pascual 2004).

Obviously, the objective of achieving a high level of employment is of a similar relevance in post-communist countries as it is in ‘older EU member countries’, or even more important given the permanent state of austerity generated in the process of market transformation. Besides, market transformation implicitly contains requirements of individual responsibility and self-reliance which (not only by accident) represent a central principle of activation. On the other hand, several policy trends that have emerged during the transformation period are contradictory to activation policy or make its implementation difficult. Among others, economic austerity was the reason why risk-absorption efforts in the Czech Republic, like in many other post-communist countries, have so far centred primarily around redistributive and compensatory tools, **with the aim to protect vulnerable groups of population against threats of poverty and to maintain societal peace during transition to the market economy.** Social protection systems were **thus** redesigned to a large extent as extended social safety nets with less emphasis on promoting active labour market participation.

Nonetheless, after fifteen years of transformation the ‘compensatory strategies’ proved to be economically inefficient, **both in terms of the containment of expenditures and/or in terms of promoting labour market inclusion/participation.** Public expenditures are on the increase, employment has declined, unemployment has increased and remains persistently high in the Czech Republic, like in other post-communist countries in Central Europe. Such a state of affairs is in conflict with the dictate to meet the EMU criteria and forces political representations - irrespective of their political colour - to accept rather unpopular measures. These include curtailing social benefits and unemployment benefits in the first place, tightening the conditions of early retirement, and restricting human resources investments and social services: this all takes place under the umbrella of public finance reforms.

In such conditions, activation policies which formerly have not been in the centre of attention become quite promising: they are perceived as necessary to balance public budgets and they are also supported through guidelines laid down in the European Employment Strategy. This is reflected in the National Employment Action Plan and in Public Employment Services practice. However, activation strategies in post-communist countries are likely to be implemented in a specific form which largely depends on the corresponding

ideological discourse, economic and specific institutional environment, as well as on their position in the EU accession process.

This article deals with the question what is the current role and profile of activation policy in the Czech Republic and what are the crucial factors shaping the policy of activation. First, we will focus on the core elements and aspects of the existing approaches towards activation in general, and in the Czech Republic in particular, in order to position the Czech approach to activation within the framework of the already known ‘ideal types’ of activation. The factors which influence the Czech activation approach will then be analysed, including the role of European Union agendas and institutions. In concluding the paper we will discuss the prospects of activation policy in the Czech Republic.

Activation policies and labour market/welfare regimes

Since the aim of activation - to integrate people fit for work into the system of paid employment in highest possible numbers and throughout their whole life cycle² - may be achieved with help of a variety of social policy and employment policy measures, we need to situate the existing strategies of activation within a broader framework of the welfare state regime. Proceeding from Esping-Andersen’s (1990) traditional typology of the welfare state, four different ‘unemployment welfare regimes’ were distinguished (Gallie and Paugham 2000). This distinction was based on three main criteria which are also relevant from the activation policy perspective: the extent of unemployment benefits coverage, the level and duration of income compensation and the emphasis laid on the active labour market policy. *The sub-protective regime* (spread across Southern European countries) provides only a minor part of the unemployed with unemployment benefits and protects mainly those with a long-lasting and uninterrupted employment career, with the family being expected to absorb unemployment risks of the marginal labour force. State interventions into the labour market, including active labour market policy, are not much developed and rather neglected. *The liberal/minimal regime* (typical for Anglo-Saxon countries) grants more universal but rather low unemployment benefits, set at the level of social assistance and provided for a short period of time (thus putting an uncompromising pressure on the unemployed to re-enter the labour market and to adjust their wage requirements). It systematically rejects any substantive intervention in the functioning of the market, rather the unemployed should adjust their reservation wages. *The employment-centred regime* (common in continental European

² Even though other forms of activation, such as voluntary work and education, are important as well (van Berkel, Roche 2002).

countries) provides the unemployed with higher benefits than both the above-mentioned models. The coverage of the unemployed, however, is far from comprehensive and entitlement to benefits derives from the previous individual employment records and age, which puts certain individuals, such as women and young people, at a disadvantage, thus broadening the gap between the positions of ‘insiders’ and ‘outsiders’. Breadwinners are the ones expected to prevent the ‘marginal labour force’ – who are in the position of the breadwinners’ family dependants - from material deprivation. Therefore the system facilitates the breadwinners’ chances of retaining their jobs in the labour markets. Unlike the liberal model, this regime allows for intentional labour market regulations which selectively distribute active labour market policies: training for the core labour force and workfare-like measures (public works) for marginals fit for work. *The universal regime* (typical for Nordic countries) involves a full coverage of the population with unemployment benefits and simultaneously provides the highest level of compensation, though not for a very long time. It pursues an ambitious active labour market policy instead, which aims at the elimination of long-term unemployment and accentuates ‘work ethics’ (the benefits entitlement conditions therefore take into account the principle of merit as well as active job searching and/or participation in employment programmes).

From the perspective of activation, we recognise behind these models a ‘*weak activation approach*’ in the *sub-protective regime* and a ‘*selective activation approach*’ in the case of the *employment-centred regime*. A ‘*strong comprehensive activation approach*’ corresponds to both the *liberal regime* and the *universal regime* although the goals, principles and methods of activation in these two regimes are very different.

Available literature on activation strategies focuses mainly on these two regimes and, upon comparing them, recognises two model approaches to the goal, principle and method of activation in the case of the *strong and comprehensive activation strategy*. These have been described as *workfare approach* versus *insertion approach* (Morel 1998, in Lødemel and Trickey 2001) or *workfare approach* versus *Nordic productivism* (Esping-Andersen 1999) or *defensive* versus *offensive approach* (Torfing 1999, in Lødemel and Trickey 2001) or *labour market attachment (work-first) approach* versus *human resource development approach* (Lødemel and Trickey 2001) or *workfare model* versus *social inclusion model* (Nicaise 2002) or *paternalist optimists’ approach (‘enforced participation’)* versus an *activation optimists’ approach (‘inclusion through participation’)* (van Berkel and Møller 2002) or *liberal approach* versus *universalistic approach* (Barbier 2004) or *passive adaptation* versus *active adaptation* (Serrano Pascual 2004). We need to understand these typologies rather as

analytical tools then the existing reality, being much aware that not only differences but also signs of their convergence have been identified in Europe (Serrano Pascual 2004, Barbier 2004).

Second, we distinguish here two levels of analysis which are strongly inter-linked. The first one is concerned with goals, principles as well as with assumptions and ideologies related to activation policies, to target groups and their social status. The second one is concerned with the design of the policies, measures and their implementation through institutions concerned. When looking at activation through the perspective of goals and principles, we consider as a core distinction the choice between emphasis put on the nominal and wage flexibility of labour on the one hand, and emphasis put on functional flexibility and employability on the other. Recognition and respect for the right to occupation, understood as a citizens' right, is the focal point of this distinction (Standing 1999).

Scheme 1 : Two modes of activation (the level of goals and principles)

dimensions	workfare (liberal) approach	social inclusion (universalistic) approach
Causes of inactivity and poverty	Individual failure, poor work ethic, lack of motivation (and skills) Institutional barriers to labour flexibility	Global competition, technological development, interplay of structural and socio-cultural factors (skill shortage, labour market segmentation etc.)
Policy discourse	Dependency, incentives, welfare expenditure cuts, Individual responsibility, citizens' duties	Social exclusion, social inclusion, social cohesion Collective responsibility, citizens' rights (and duties)
Objectives of activation	Labour market attachment, nominal and wage labour force flexibility, activated people, 'reserve army of labour'	Social inclusion, functional labour flexibility, active people, human resource development, employability
Principles of activation strategies	Work-first, policy of enforcement, making work pay, punitive tools (more sticks than carrots)	Occupational competence (capabilities) Balanced measures: income, training, access to work, empowerment
Target groups	Long-term welfare state clients – social welfare recipients, young at the first place	Universal coverage (citizens) plus preferential treatment of the most disadvantaged
Role and status of clients	Subordination, have to meet conditions and duties, exposed to financial, administrative and legislative pressures	Partnership, reciprocity, clients possess rights, supposed to be responsible citizens

Based on Standing 1999, van Berkel and Møller 2002, Serrano Pascual 2004, Barbier 2004.

When focusing on the level of policies, we will use the four criteria identified by Serrano Pascual (2004) as follows: the *quality* of provision, *generosity* of employment policy expenditure, *individualisation* of programmes and, lastly, *expansion/comprehensiveness* of

activation strategy. We suggest several indicators for these criteria here and will attempt to characterise the main of them in the case of the Czech mode of activation.

Scheme 2 : Two modes of activation (the level of instruments/policies)

Criteria	Indicators suggested	workfare (liberal) approach	social inclusion (universalistic) approach
Quality of provision (benefits, jobs, programmes)	Income support (benefits)	weak: low and conditioned benefits	strong: high and unconditioned benefits
	Access to labour market and choice	limited range of choices	broad range of choices
	Quality of jobs/training opportunities	low-paid market jobs mostly	good quality training/jobs available
Employment policy expenditure - generosity	Scope of ALMP expenditure - as % of GDP (per 1 % of unemployment)	low	high
	Generosity of ALMP expenditure per one participant	low	high
Individualisation of programmes	Emphasis put on individual treatment and on discretion	medium	high
	Capacity devoted to individual treatment service	medium	high
Expansion of activation and comprehensiveness	Comprehensiveness and complexity of services	low	high
	Comprehensiveness in inclusion of various groups	low, selective	high
	Coordination of actors participating in policy making	weak coordination, dominance of governmental actors	strong coordination, various actors contribute significantly

Based on Serrano Pascual 2004, adapted

When analysing the Czech mode of activation we will deal directly with the level of implemented activation policies, assuming that they largely express the corresponding goals and principles. Before that we will enlighten the need for activation policies with respect to the current labour market developments in the Czech Republic.

Czech labour market: the need for activation policy

Until 1997, the unemployment rate in the Czech Republic remained below 5 %: however, this Czech miracle mirrored nothing more than the soft economic environment of the ‘bank socialism’ and the strategy of delayed reforms adopted by the government. Following the economic slow-down in 1997-1999, restructuring processes intensified for two reasons: first, insolvency of companies initiated new waves of bankruptcies. Second, privatisation of the financial sector, which was then initiated, enabled foreign capital groups to penetrate the bank

sector, to increase demands on competitiveness, and to standardise the financial markets. This all increased pressures on the labour market.

The registered unemployment rate nearly tripled during 1996-1999 and rose to more than 9 %. Since 1999 when the temporary economic slow-down was overcome, the Czech Republic experienced four years of economic growth between 2-3 %. As economic restructuring continued, this growth was not sufficient to create more jobs than disappeared as it was generated through labour productivity increases as jobless growth. Employment thus dropped by nearly 3 % during the period of 1999-2003. Labour productivity in industry was growing fast (cf. 6 % in 2003) due to a high labour productivity in foreign owned companies; in 2004, these covered about one third of employment and nearly a half of production. Nevertheless, such partial labour productivity increases suffice neither to bridge the 50 % productivity gap between the Czech Republic and the EU-15, nor to generate new employment (Sirovátka et al. 2003).

At the beginning of 2004, employment rates were slightly above the EU-15 and clearly above the EU-25 averages: the general employment rate in the 15-64 age group was 64.7 % in 2003 (the EU target is set at 67 % in 2005), women's employment rate was 56.3 % (the target is set at 57 % in 2005) and employment rate in the 55-64 age group was 42.3 % (the target is set at 50 % by 2010). This performance is not so bad in terms of Lisbon/Stockholm targets; however the trend is striking because employment rate is decreasing.

This negative trend of deteriorating employment rate was mainly due to an increased level of unemployment which has stabilised or even increased in recent period: it was higher by 0.5 % in 2003 compared to 2002, amounting to 7.8 % (according to the Labour force survey). Registered unemployment was above 9 % and increased to more than 10 % during 2004. However, the main problem of the labour market is the very uneven distribution of the unemployment risk and the emerging inflexibility/stickiness of the labour market. The long-term unemployment made 40 % of registered unemployment and 50 % of surveyed unemployment (LFS) which was the fourth highest share in the OECD in 2003 (after Slovakia, Italy and Greece). The risks of unemployment and LTU are much more uneven than in the EU-15, when ethnic minorities, disabled people and women with children are exposed to discrimination in the labour market and their unemployment rates are several times higher compared to the other categories of the work force. For example, the employment impact of parenthood on women in the 20-50 age group who have children aged 0-6 years compared to women without children, measured as an absolute difference in employment rates, is 39 % in the Czech Republic, which is the highest difference in Europe, with the EU-

15 average being 12.2 % (European Commission 2004). Similarly, young people and unskilled labour are disadvantaged much more than in other countries: for example, the specific unemployment rate of people between 15-24 is 17.6 % compared to 7 % for the group 25-54 years and 4.4 % for the group 55 – 64 years of age. The unemployment rate of people with lower than upper secondary education is 18.8 %, while only 5.6 % among those with upper secondary education and 1.8 % among work-force with tertiary education (OECD 2004b). While such a difference may not be found in any EU-15 country, Slovakia and Poland report similar or even higher differences, typical for transitional labour markets affected by a structural change. The unemployment rate of people with disabilities reached 30 % in mid 2004 and the specific unemployment rate of the Roma population approximates 50 % (Sirovátka et al. 2003, Sirovátka 2004).

The pattern of ‘exclusive unemployment’ emerged in the Czech Republic: while the general unemployment rate is at about the EU average, the differences in unemployment risks are profound. This is to a large extent due to several structural imbalances in the labour market: deficient skills, discrimination and dependency traps being the main ones. Labour market policies have not so far been able to sufficiently respond to such urgent imbalances in the labour market when expenditure on ALMP has been mere 0.17 - 0.21 % of GDP in recent 5 years, which is approximately three to ten times less compared to the EU-15 (OECD 2003). The scope of ALPM and capacities of Public Employment Offices are not sufficient to respond to the existing weaknesses of the labour market. Since the beginning of the nineties, activation policies have largely been beyond the interest of the policy makers in the Czech Republic; instead, such policies have been preferred that aimed to release the labour market supply by providing opportunities for early exit and prolonging paid parental leave periods. On the other hand, the core of the labour force has been subjected to flexibilisation and pressures to accept any kind of market jobs, which was in line with the transformation strategy.

Considering the structural mismatch on the labour market (i.e. the existing over-employment, mismatch of labour demand and labour supply, shortages in skills, regional disparities) which determines the highly unevenly distributed unemployment risks, we must assume that both active labour market policies as well as activation policies may play an important role in the improvement of the labour market performance. Because of insufficient development of the active labour market policies, the role of activation policies may be expected to be on the increase and – as we will show - this is quite rightly reflected by policy makers.

Activation strategies in the Czech Republic

As mentioned above, activation is approached here as a dynamic linkage between labour market participation and social protection. This linkage is shaped by both social protection schemes (unemployment and social assistance benefits, early retirement schemes, or related tax policies) and active labour market policies/measures. When using the European Employment Strategy guidelines' terminology, benefit-tax schemes are closely associated with Guideline 8 (Making Work Pay) while active labour market measures are linked rather to Guideline 1 (Prevention and Activation). Hence we may distinguish activation as activation through a benefit-tax package (activation stream 1) and activation through active employment policy measures (activation stream 2), being aware that the dynamic linkage between these two streams is the focal point of our analysis. We will discuss activation stream 1 first, focusing on quality and conditionality of benefit provisions as well as on choice/access to jobs and labour market exit. Second, we will discuss activation stream 2 focusing on the choice and access to labour market active measures, generosity of employment policy expenditure and scope of policies as well as on their individualisation, comprehensiveness and complexity.

Activation stream 1: benefit-tax package

Quality (level and duration) of unemployment and social assistance benefits

Since the early nineties, the generosity of unemployment benefits (replacement rate and duration of benefits provision) was considered to be the crucial quality which influences both the system costs and work incentives for the unemployed. This is why the benefits were designed in the Czech Republic as a 'residual'-like scheme with respect to the objectives of cost containment and providing incentives. Social effectiveness in terms of poverty alleviation has been associated rather with social assistance benefits.

Originally, the Czech system of income protection for the unemployed was inspired mostly by the continental variant – in 1990 and 1991 the replacement ratio was set at 65 per cent of the net wage (and even 90 per cent in the case of collective dismissals) and the duration of benefits provision was 12 months. Economic decline and the outlook of high state expenditures soon resulted, as in other post-communist countries, in inclination towards the Anglo-Saxon liberal/residual model. Some analyses show that out of all the post-communist countries this tendency was strongest in the Czech Republic (Burda 1993). In 1992, the replacement ratio was reduced to 60 or 50 per cent of previous net wage and the duration of benefits provision was reduced to 6 months. After 6 months of unemployment a person could only claim means-tested social assistance benefits.

A negative international trade balance led the government to adopting measures to reduce state expenditures ('austerity packages') in 1997. The 'packages' affected mostly the budgetary social spending and involved cuts in a number of social benefits. Apart from other measures, the unemployment benefits replacement ratio was cut in 1998 from 60 down to 50 per cent of previous net wage (during the first three months of unemployment), from 50 to 40 per cent (during the following three months), and from 70 to 60 per cent (in the case of participation in a labour market training). Until 1999, unemployment benefits level was limited by a relatively low ceiling equalling 1.5 times the subsistence minimum for a single person. This means, for example, that an effective replacement rate for a worker with an average salary was definitely less than half of his/her previous wage from the very beginning of his/her unemployment.

The minority social democratic government formed after the 1998 elections proposed a number of measures to increase social benefits. In the case of unemployment benefit, it gained the Parliament's support to raise the benefit ceiling from 1.5 to 2.5 times the subsistence minimum for a single person in 2000. At the same time, however, entitlement criteria were tightened for those unemployed individuals who re-enter registers repeatedly: a minimum of 6 months of continuous employment was required between registrations. The reduced replacement ratio was not subject to further improvements, while the other restrictions introduced in 1997, such as cuts in child benefits and deceleration of benefits indexation, were only temporary (only in effect in 1998).

Even after minor improvements introduced by the new Employment Act in October 2004 in response to the minimum standards set by the ILO in the Convention 102 from 1952 and later adopted by the EU (a 45 % replacement rate), the replacement rate of unemployment benefits in the Czech Republic still remains relatively low: 50 % for the first three months and

45 % for the second three months of unemployment, the ceiling is 2.5 times the minimum subsistence level and benefits are provided for not longer than a period of 6 months. In October 2004, it was increased to 9 months only for the unemployed over 50 years of age and 12 months for those over 55 years of age (Zákon 435, 2004).

Such a low level and short duration of unemployment benefits may represent a strong incentive for acceptance of low-paid jobs, especially when a strict definition of suitable job is applied which does not recognise the level of qualification or level of pay as fundamental criterions. But we must note that the coverage of the unemployed by unemployment benefits entitlement is relatively low, due to a high share of long-term unemployment and a short duration of benefit provision (only about 35 % of the unemployed were taking unemployment benefits in 2003).

On the other hand, about one third of the unemployed are entitled to social assistance and thus the unemployed represent nearly 75 % of social assistance claimants. Social assistance in the Czech Republic guarantees a minimum subsistence amount for an unlimited period of time. In spite of the fact that its level was frozen (in fact, it has not increased since 2001), the replacement rate is still quite acceptable for low-wage earners. This is not only due to the low level of wages but also due to a relatively high ratio of a minimum subsistence amount set in legislation when compared to the relative poverty line. In the case of working age households, this ratio is higher in the Czech Republic than in any of the older EU countries except Sweden (see table 1).

Table 1 about here

Activation through making-work-pay

The problem of incentives has been in the focus of policy makers' attention in the Czech Republic since the early nineties. While the right-wing government froze the level of minimum wage in the first half of the nineties, it was politically unacceptable for the government of the Social Democrats which came to power in 1998 to decrease replacement rates of social assistance benefits too much. It rather preferred to increase minimum wages in order to improve work incentives for low-wage earners. Between January 1998 and January 2003 the level of minimum wage to average wage increased from 23 % to 37 % through several regularly accepted minimum wage adjustments. On the other hand, the level of minimum subsistence has not been increased since 2001 and has lagged behind both the average and minimum wage increases. Since the level of wages in the secondary sector is still low because of low labour productivity, the level of social benefit entitlements of low-wage

earners seems to be relatively high when compared to the other European countries, mainly in the case of complete families with children (see table 2).

Table 2 about here

The relatively high level of social assistance (although far from being considered generous under the conditions of increasing housing costs and given its declining proportion to wages) may be surprising given the poor unemployment insurance benefits which were re-designed in a manner resembling the liberal regime scheme. This is due to a strong emphasis of the Czech policy makers, who were well aware of the history of extreme egalitarianism and extremely narrow income distribution in Czech society, on alleviation of potential threats of poverty in the name of 'social acceptability' of economic reforms.

The problem of incentives has been addressed in the new Employment Act from October 2004 which enables to work part-time if earnings do not reach more than half of the minimum wage, without a loss of unemployment benefit entitlements. Unfortunately, this positive incentive does not affect long-term unemployed persons who live on social assistance and are entitled to earnings up to the subsistence minimum level anyway. This is why the proposal of the new Social Assistance Act which is to be negotiated soon in the Parliament includes another positive incentive for the long-term unemployed (social assistance claimants), that is disregards on low earnings should be introduced (only 70 % of earnings that do not reach the subsistence minimum level would be considered as countable income when deciding about social assistance benefits entitlements).

Inadequate structure of taxation which is not favourable for job creation remains to be a serious problem: while the income tax is below the EU average in the Czech Republic, social and health insurance contributions in the Czech Republic are among the highest in Europe: in total they represent 47.5 % of the salary, with a major part (35 %) being paid by employers (!) Hence the total tax on labour cost in the case of low-wage earners is 43 % which is the third highest rate in the EU after Belgium and Sweden (European Commission 2004). The high labour tax burden, for low-paid workers in particular, has been criticised by the European Commission but until now no proposal has been submitted to decrease it.

Access to benefits and jobs: conditionality and choice

Access to unemployment benefits as well as to social assistance benefits has been conditioned since 1991 by the claimants' willingness to accept a 'suitable job'; a strict

definition of a suitable job was applied that disregards the level of qualification as a fundamental criterion. Another precondition of the claimants' entitlement is their proper cooperation with the Employment Office: this condition is defined in a rather general manner and is understood as an obligation to keep the agreed schedule of meetings at the Employment Office, to meet and negotiate with employers according to recommendations by the Employment Office and not to reject 'suitable' job offers. On the other hand, the obligation to participate in programmes has not been clearly defined in legislation, and Public Employment Service officials have not been consistent in applying the above-mentioned conditions – in spite of a high degree of discretion which was formally granted to them. Inadequate personal capacities of Employment Offices as well as organisational division between Employment Offices (which are subordinated to the Ministry of Labour and Social Affairs) and Social Assistance Offices (which are subordinated to local authorities) make individual case management difficult. In a situation when labour market training opportunities or subsidised jobs are scarce and only low-paid jobs at a level close to the minimum wage are available for the most disadvantaged unemployed, about ten per cent of the unemployment registers outflows were due to sanctioning the unemployed: in such a case the unemployed lose their benefit entitlements and cannot renew them sooner than after a period of three months.

The new Employment Act which is valid since October 2004 (Zákon 435, 2004) includes several new activation elements: mainly, it emphasises duties and obligations of the unemployed. First, access to unemployment benefits has been restricted for young people: while studies at secondary schools were formerly recognised as substitutive for the employment record for the purpose of unemployment benefits entitlement, this is no longer possible. Thus secondary and higher schools graduates are no longer entitled to unemployment benefits. Second, the strictness of the requirement of job search and programme participation has increased remarkably: the concept of a 'suitable job' is now stricter than before, neglecting not only the level of qualification but to some degree also the situation of the family; thirdly, temporary jobs lasting for more than 3 months are considered to be a suitable job (including public works), similarly as all jobs lasting for more than 80 % of the standard working time. Lastly, refusal to participate in labour market training programmes or refusal to undergo medical examination may lead to a person's exclusion from labour office registers and a loss of benefit entitlements, similarly as failure to comply with duties outlined in the Individual action plan. We need to note that the Individual action plan has for the first time become an expression of the balance between rights and duties. However, it is only provided for a selected group of the unemployed (young people under 25

years): they are given the right to contract individual services – but also subjected to the obligation to follow the activities contracted. There are two reasons why the IAP offer is only guaranteed for this group: first, it is in line with the long prevailing trend of preferential treatment and overrepresentation of young people in active employment policies which is stimulated by the fear that lasting inactivity might spoil a person's motivation to work and work habits, and lead to social pathology, especially in the group of young people. Second, considering the insufficient personnel capacity of Employment Offices that bars a more extensive application of a more individualized approach, young people seem to be better adaptable and results they achieve more promising than is the case with the long-term unemployed in the higher age groups and vulnerable groups like unskilled, elderly or disabled people, ethnic minorities, alcoholics etc.

Choice of early exit

Since the beginning of the nineties early exit has been easily available: it has been possible to retire 2 years before reaching the retirement age in the case of unemployment lasting for more than 6 months, with only a temporary pension reduction until the time when regular retirement age would be achieved (the penalty of 1 % of pension for each 3 months of earlier exit). Another option was to retire 3 years before the retirement age when the reduction of pension was 0.6 % for each 3 months of earlier exit.

Besides, strong nivelising tendencies in favour of low-income households are apparent in the pension benefit system, too. First, the Pension Act of 1995 introduced a new pension formula: the pension is composed of a basic flat component, which is about 20 % of the average pension, plus earnings-related component, amounting to 1.5 % of the calculation base for each working year. Importantly, the calculation base only equals full earnings up to the level of half the average wage, between half the average wage and the average wage only 30 % of earnings are considered to form the calculation base, and, in the case of higher income only 10 % are taken into consideration. Rabušić (2004) shows that the replacement rate of net pension to gross wage was 47 % for average net earnings in 2002, but 77 % for earnings at half the average wage and only 27 % for earnings amounting to two average wages (the ratio to net wage is by about 7-10 % higher, pension is not subject to taxation). Therefore low-wage earners preferred early exit to unemployment benefits or to low-paid employment and that is why between 1996 and 2002 the numbers of early pensioners increased dramatically - from nearly a zero level to about 15 % of the total number of pensioners.

In mid 2001 the penalty for early exit was increased by the government from 0.6 % to 0.9 % for each three months of earlier exit, and from 1 % to 1.3 % in the case of a temporary reduction of pension (early exit for unemployment reasons). In 2004, the option of early exit for unemployment reasons with only a temporary pension reduction was cancelled. The stricter sanctions on early exit implemented in 2001 did influence early exit rates: between 1996 and 2001 when unemployment was on the increase the total number of early pensioners rose from 7 to 200 thousands (i.e. about 4 % of the labour force). Over 2002 the increase of the number of early pensioners was only by 10 thousand while over the previous year it was by 33 thousand (MLSA 2003). But still, because unemployment benefits are so low, early exit remains to be a preferred strategy for redundant elderly low-skilled workers whose choice in the open labour market is limited only to the choice between low-paid secondary jobs or social assistance (minimum subsistence amount). Thus the general trend of increasing numbers of early pensioners has not been reversed.

To sum up, the activation strategies introduced in the benefits package in the Czech Republic represent a continuation of the strategy of weak and selective work-first activation approach: weak unemployment benefit entitlements are combined with a rather acceptable social assistance. Compulsion to take low-paid jobs is theoretically strong but its application on the street-level bureaucracy is not very systematic.

Activation elements have recently been implemented into the benefit schemes which consist in penalising early exit, increasing the minimum wage and some minor earnings disregards for unemployed people who accept temporary low-paid jobs. But, most importantly, the conditionality of benefits has increased, given that temporary jobs and labour market training should be required for entitlements to benefits. Selectively the right to activation in the form of individual treatment has been granted.

Activation stream 2: labour market policy measures

Facing an unemployment shock at the beginning of the nineties, the government, instead of boosting labour supply, fought the growing unemployment by pursuing the strategy of exclusion from the labour market (Offe 1985): by encouraging early retirement and by prolonging the parental leave. On the contrary, ‘active’ welfare state measures – particularly active labour market policies – were lagging far behind the EU countries (cf. Cazes, Nešporová 2003), owing to insufficient resources and staff capacity available for their

implementation. These circumstances also make implementation of strategies which aim to co-ordinate activation measures in several fields of public policy quite complicated.

The policy of delayed restructuring and tolerance for over-employment in the first half of the nineties has been associated with a low emphasis put on active labour market policy measures. During 1996- 2000 when unemployment was on the increase, the scope of ALMPs increased as well – but still remained quite limited and even decreased in 2002 and 2003 although unemployment was growing (see table 3).

Table 3 about here

Generosity of ALMP expenditure

As we can see in table 4, active labour market expenditure is much higher in the EU countries with a similar level of unemployment compared to the Czech Republic. The same applies to the number of participants in these measures. Still, inadequate expenditure is the main problem because it determines not only the low numbers of labour market policy measures' participants but also their inadequate quality as well as insufficient personal capacity of Public Employment Services. Then only low-cost activation strategy are available. For example, with increasing emphasis on activation, short-term motivation programmes have been implemented and enlarged during 2003-2004. Rarely these are followed by a job offer or skill-related training/job experience improving employability. This problem also impedes the strategy of employment offices and makes them focus their effort just on this part of the unemployed who might be efficiently activated without enormous effort and costs.

Table 4 about here

Access to the labour market, choice and quality of job/ training offers

Not only that the scope of labour market policies in the Czech Republic is limited, but they are also insufficient to support activation goals due to their failure to respond to the needs of vulnerable groups (Sirovátka et al. 2003, Sirovátka, Horáková, Kulhavý, Rákoczyová 2004).

Considering the high proportion of long-term unemployed affected by various disadvantages, also the targeting of the measures to groups marginalised in the labour market seems to be poor. The least represented category of the unemployed in the labour market

training programmes are the unskilled (targeting index³ equals 0.42) although their labour market marginalisation is obvious. The position of disabled persons is nearly the same (targeting index of 0.44) and similarly also elderly workers are underrepresented. This means, in other words, that while about 7 % of the unemployment stock participate annually in labour market training programmes, among disadvantaged groups – such as unskilled labour, persons with disabilities, the elderly and very long-term unemployed (for over 24 months) – it is only about 3 %.

Good-quality labour market training programs for the unskilled or for people with obsolete skills which would enable their successful integration in the labour market are lacking. Typically, labour market training programmes aim at people who already have some skills and need just supplementary training: people with at least upper secondary education participate three times more often in labour market training than those less educated. The low level of unemployment benefits during training (60 % of previous wage) blocks the willingness of long-term unemployed persons to participate in more demanding and long-lasting programmes of training, similarly as do poor prospects of gaining a job after the programme's completion.

On the other hand, it is particularly young people, mainly school graduates who represent the focal point of active labour market policy measures. With about 8 400 young people participating in vocational training programmes and with about 8 000 work-experience jobs created for this category of the unemployed, activation rate of over 30 % was reached in 2003 in their case which is twice as high compared to the average. As mentioned, activation measures implemented in the form of individual counselling aim mainly at this group, including Individual action plans which cannot be implemented for the group of the long-term unemployed owing to the limited personnel capacity of employment offices.

Summed up, activation strategies are only insufficiently backed by active labour market policy measures. This means that a simple job-search support in the form of mediation and counselling prevails. Such approach may be effective in the case of those who possess a sufficient human and social capital. In contrast, in the case of the large group of the long-term unemployed, low-cost measures, insufficiently tailored to their needs, limited in scope and poorly targeted do not enable their effective integration into the labour market.

³ Defined as a ratio of the share of programme participants from a specific category of the unemployed to the share of the same category in the total number of the unemployed (with the average being 1.00).

Emphasis on individualisation, complexity and comprehensiveness of services

In 2003, in line with Guideline 1 of the European Employment Strategy, Employment Offices started to experiment with Individual Employment Plans. The New Employment Act (in effect since October 2004) established a duty for Employment Offices to offer an Individual Action Plan to unemployed persons below 25 years of age. Job mediation capacities of Employment Offices have thus concentrated explicitly on the group of young people. The reason for limiting the programme to this group was very pragmatic: the workload of Employment Offices' counsellors/mediators is between 250-500 persons which does not enable them to provide high numbers of the unemployed with individualised services. Most experts from Employment Offices estimate that the workload has to be reduced to 150-200 clients per one mediator/counsellor in order that an acceptable standard of service is achieved. Such a workload would allow for at least two 20-30minute appointments a month with each applicant. However, Employment Offices do not function under such conditions.

Owing to the limited staff capacity, IAPs' implementation is based on the principle of voluntary participation, and the programme – owing to a self-selection of clients – targets applicants with a sufficient degree of motivation to secure an effective co-operation with PES. The number of IAP contractors who receive 'individualised services' is not very high (about 10-15 % of the relevant cohort of the young unemployed). Besides, the individualised approach often seems to resemble the 'formal' one as the activities contracted in the Individual action plans do not diverge from standard job-mediation practices. Such a formalised practice is mostly necessitated by the limited personal and professional capacities of Employment Offices. Similarly, experimenting with IAPs in 2003 showed that the number of unemployed who participate in active labour market policy measures did not increase due to IAPs, given the limited capacity of ALMP.

Czech activation policies may be considered selective and not very complex in service provision. Economic and legislative incentives are of course aimed at the unemployed in general, and at social assistance claimants in particular. In recent period, the effort to enhance incentives targeted at social assistance claimants is evidently increasing. On the other hand, the range and complexity of services delivered to groups most marginalised in the labour market remains quite limited: the capacity of individual counselling for vulnerable groups is insufficient and the provided labour market measures are mostly low-cost, simple and not effectively responding to the complex character of their disadvantages. These measures are selective, with preference being given to younger and skilled people in offering training. The

same is true about the capacity of mediation and counselling services delivered through Individual action plans.

Institutional setting and coordination of activation policies

The institutional framework of labour market and activation policies in the Czech Republic is characterised by a strong dominance of state administration (governmental) bodies (the Ministry of Labour and Social Affairs, Public Employment Services, Employment Offices), while the role of other collective actors, including social partners, regional and local authorities, NGOs and private agencies is minor. Coordination of the initiatives taken by both the "primary actors" (the state administration bodies) and "secondary actors" is weak; action taken by public administration bodies at different levels is not coordinated consistently either (Sirovátka et al. 2003).

At the central - national level, the Ministry of Labour and Social Affairs (MLSA) and Public Employment Services (PES) are fully responsible for the designing and implementation of the National Action Employment Plan (NAEP), labour market policy measures and the unemployment compensation scheme. Only recently (in 2003) has an inter-ministerial body (Council for the NAEP) been established in order to improve the coordination of the preparation of this core programme document and to ensure participation of different ministries and non-governmental bodies in the process. At the central level, all crucial legislation and programme documents are discussed by the tripartite "Council of Economic and Social Agreement" which is, however, only a consultative board whose recommendations are often ignored by the government. Nonetheless, this tripartite board provides a channel for the trade unions to comment on the NAEP, the Employment Act, and the Labour Code. They emphasise particularly the inadequate level of unemployment benefits, the limited scope of active labour market policy and, besides trying to improve these core conditions of the employment policy, they recommend to encourage the measures contributing to job creation as investment stimuli. In summary, they tend to advocate the interests of 'insiders', which are associated with economic development, job creation and short term unemployment spells.

At the regional level, regional public authorities were established (14 boards) in line with the public administration reform implemented since 2000. Among other things, they are entrusted with the elaboration of the "Concept of regional development". Nevertheless, this programme document is not effectively coordinated with employment policies outlined in the

NAEP because their respective preparation is in the hands of different ministries. Since 2003, selected local Employment Offices in the new "regions" have been appointed as coordinators within the PES structure. They do not have any special budget at their disposal, neither are their decisions binding on local Employment Offices; nevertheless, they are responsible for coordination and for assistance to local Employment Offices in methodological issues, as well as in the management of EURES activities and ESF projects. The coordination of action taken by regional public authorities, regional PES and other actors such as regional trade unions and employers is facilitated by newly established consultative "Boards of Human Resources Development". Given unclear competencies of regional bodies and their lack of experience in policy coordination, their influence on activation policies seems to be negligible at the moment.

At the local level, local Employment Offices (77) play the very central role in policy making, being entrusted with a high level of policy-making authority (on the other hand, their activities are dependent on finance and personnel, which are determined by the ministry). Since early 1990s, advisory boards (which consist of representatives of local PES, local authorities, social partners' organisations, key employers, NGOs, universities etc.) operate as consultative bodies but their factual role is negligible. The role of local authorities in designing the employment policy has traditionally been weak - they engage mainly in the implementation of public works, typically in the countryside. Their local social assistance departments function to a large extent independently of local Employment Offices (they are in no way interested in implementing activation measures as the government guarantees a full re-payment of local social assistance budgets). The activation approach is thus difficult to apply consistently.

The new activation measures mentioned in previous chapters were implemented in recent years solely on the initiative of the Ministry of Labour and Social Affairs, in particular the Public Employment Service, who were to a large extent inspired by the European Employment Strategy guidelines. The trade unions at local/company level neither undertook any direct action, nor suggested explicitly any activation initiative in recent years. However, during the transformation process, social partners (employers and trade unions) at the company level were in some cases engaged - especially in regions undergoing the most intensive restructuring - in preparing outplacement programmes for redundant employees (based on counselling and re-training).⁴

⁴ Such initiatives were supported by the Phare-Palmiff scheme.

Several NGOs offer activation measures for the most disadvantaged groups (disabled people, ethnic minorities, young people) in the form of counselling, guidance, assisted job mediation, job experience programmes, vocational training, job creation in the private and public sector, and self-employment, with a substantial contribution from the Phare - Palmiff scheme (or ESF programmes since 2004). However, we need to note that such initiatives are increasingly dependent on non-governmental funding and thus the scope of implemented measures is rather modest considering the scope of needs of the disadvantaged groups.

Since early 1990s, private agencies are allowed to provide job mediation (they traditionally concentrate on the hiring of candidates for managerial and professional positions or on temporary jobs) and they also often provide labour market training financed from Employment Offices' budgets (outsourcing). In recent years these agencies have been greatly involved in providing motivation programmes and individual diagnostics for the unemployed. According to the new Employment Act, they are now allowed to provide agency (temporary) work.

In summary, the coordination of the actors and activities in the field of activation is not as yet satisfactory and the role of non-governmental bodies is minor. Nevertheless, both the role of the non-governmental actors in activation, and attempts to coordinate initiatives at the national, regional and local levels are on the increase. In the coming years, these trends might improve the conditions favourable for a significant expansion of activation measures.

Czech mode of activation summarised

To sum up, the Czech Republic has adopted a *weak activation approach* which bears several traits of the *liberal/work-first model*: the scope and generosity of active employment measures is exceptionally low and their quality, complexity and comprehensiveness extremely poor. On top, we can identify a certain conservative tendency in their application consisting in a high degree of selectivity of active labour market policies and strong segmentation of measures provided. At the level of implementation, various forms of rationing described by Lipsky (1980) have been identified which affect both the quantity and quality of service. Thus the divisive impact of the processes of labour market segmentation is being reinforced.

However, the Czech activation approach is inconsistent in the application of the weak and selective variant of the liberal work-first approach in the three following respects: first, the quality of income compensation – the replacement rate of social assistance, mainly for low-income earners, is much better than in many other countries in Western Europe. Second, the conditionality of benefit provision is not adequately emphasised. Legislative requirements

are feeble and, at the level of implementation, the individual approach is not applied systematically due to insufficient personnel and professional capacity of Public Employment Services. Regardless that in the new Employment Act stricter conditions guiding access to benefits as well as sanctions have been defined, several months after its implementation statistics of the MLSA show no evidence of any increase in the numbers of unemployed persons sanctioned.

The above-mentioned combination of highly inconsistent strategies (the liberal work-first approach contrasting with ‘acceptable’ replacement rates of social assistance benefits, selective activation measures failing to target the most disadvantaged groups and deficiencies at the implementation level) is probably the least effective variant of the activation approach. Under such circumstances, it is a logical option for the groups most disadvantaged in the labour market to claim benefits, given that their employment prospects are mostly associated with low-paid jobs.

The factors shaping the Czech mode of activation

How did it happen that a weak and selective variant of activation policies based predominantly but inconsistently on the liberal/work-first mode has been applied in the Czech Republic? We can identify three groups of factors that have influenced the shaping of the Czech mode of activation. Among internal factors, the cultural and ideological framing combined with the economic and institutional context, including other social policies, was important. External factors also play a role: an influence of the EU agenda on some aspects of policy formation has been obvious in recent period.

Cultural and ideological framing of activation

In general, the post-communist countries have seen a paradigmatic shift of the welfare state since the beginning of the nineties, labelled by Ferge (1997) as the ‘individualisation of the social’. The profile of social policy has been re-formulated from a ‘pre-mature welfare state’ towards a ‘smaller welfare state’: the goal has gained supremacy to redesign the social policy system as a social safety net protecting population against risks of poverty and unemployment, while aiming ‘at the truly needy’ and at ‘educating the citizens to self-responsibility’ and containing costs of the welfare state at the same time (compare Barr 1994, Standing 1996 etc.). Regardless whether actual social policy was really so residual or rather opportunistic as in the Czech case, the (neo)liberal rhetoric strongly predominated the policy discourse and was adopted by the mass media, influencing to a great deal not only the

legislative process but also the approach of public administration staff to the claimants of unemployment and social assistance benefits. 'Deeply-rooted habits inherited from the communist past' adopted by people who claim unemployment benefits and social assistance, as well as their reliance on the state, were declared to be a decisive cause of unemployment and poverty. These circumstances are probably the main reason why the Czech public, politicians and public administration were, especially at the beginning of the nineties, so strongly inclined to supporting the liberal/work-first approach to activation.

In 1991, 54 % of Czechs believed that people themselves were to be blamed for their individual poverty; their condition was caused by laziness and a lack of a strong will. Only 17 % believed injustice in Czech society was to be blamed. These figures changed during the nineties but the principle remained the same until 1999 (see Table 5).

Table 5 about here

When van Oorschot and Halman (2000:13) compared the distribution of answers to this question in various European countries, as well as countries overseas (data by European Values Study from 1990), they were surprised to find that Czechs were the most likely to blame the poor themselves for their dire straits. By the same token, the share of respondents attributing the existence of poverty to social injustice was several times lower in comparison with other countries in Europe. This pattern has been confirmed also on data from 1999 (see Figure 1).

Figure 1 about here

In the second half of the nineties, the growth in unemployment, particularly long-term unemployment, along with the booming grey economy, did not considerably change the pattern of opinion, as we can see from table 5, but rather led to the formulation of an assumption commonly shared in the professional discourse of public services personnel about a relatively significant proportion of 'artificial unemployment': estimates by employment offices' personnel speak about a third of the unemployed.

This hypothesis continues to be echoed in the mass media and shared by the public. Even in mid-1999 when unemployment amounted to 8-9 %, 54 % of respondents in the Czech Republic agreed that unemployed people often or very often misused unemployment benefits. Also, 54 % stated that unemployed people often or very often had illegal jobs; 49 % said that unemployed people were often or very often passive in searching for a job (Sirovátka 2002: 338).

Given such a public conviction, it is no surprise that no strong political consensus to develop active labour market policies in line with European standards has ever been achieved in the Czech Republic, regardless of the political profile of the government. Policy makers do not consider expenditure on active labour market policies as necessary and/or legitimate. Instead, they find negative sanctions a more adequate response to the unemployed of whom large numbers are suspected of working illegally and/or misusing social benefits. Therefore the scope, quality, targeting and professional standards of active labour market policy measures are lagging far behind the EU countries in consequence of insufficient funding and staff shortages. The ‘human resource development’ strategy was not adopted as a key element of activation either. Preference was given rather to policies based on economic pressures on the unemployed and social assistance claimants to make them search for and accept any job offer (a nominal flexibilisation or the ‘work-first’ approach).

Economic and institutional context

At least three contextual circumstances supported the prevalence of the ‘work-first’ strategy in the Czech Republic: the first one was a low level of unemployment which lasted until the second half of the nineties, another one is a continuous importance of the shadow economy (and its overlap with registered unemployment) and the last one is a lack of resources provided for activation policies.

Until 1997, the soft economic conditions of the ‘bank socialism’ were responsible for the persisting over-employment and for the fact that unemployment did not exceed 5 %. Neither the structural changes in the labour market nor the objective disadvantages of the labour force were considered to be a serious problem by politicians or the mass media. On the other hand, from the very outset of the transformation attention was paid to the issue of work incentives in the formal labour market for several reasons: incentives were not strong, given the low level of wages, especially in the secondary labour market. On the other hand, opportunities in the informal economy were well-accessible (also owing to failures of the public administration to effectively eliminate them): if we take into consideration all possible methods to estimate the scope of the shadow economy, we may assume that it fluctuated between 10 and 15 % in recent years, which is less than in other post-communist countries but still more than in the older EU countries.⁵

⁵ The estimate by the Czech Statistical Office of undeclared work based on a composed method was 9.7 % of GDP in 1993, 10.1 % in 1997 and 8.1 % in 2000 (Ondruš in Fassmann 2003: 50). Gutman’s monetary method was used by Fassmann (2003: 70) who arrived at the estimate of 6.1 % in 1992, 11.7 % in 1996, 18.1 % in 1998, 19.7 % in 2000 and 15.9 % in 2002. Strecková et al. (1999) presented an estimate of 123 officials from labour

The overall social policy development has in some sense been contradicting the liberal rhetoric and to the proclamation to improve incentives since the first half of the nineties. The opportunistic aim of the governments has been to provide low-income groups with a sufficient level of compensation in order to protect them against poverty. While the social insurance system, universal benefits and most social services have been reduced, the level of social assistance benefits was set at a relatively high replacement-rate level and a range of other income-tested benefits for low-income households has been implemented (child benefits and supplementary social benefits were effectively targeted just on low-income households). The system thus set unemployment traps for low-income households (see table 2 above). These changes were perceived as inappropriate by the middle classes (Sirovátka 2002) and, together with the public assumption of unemployed persons' frequent participation in the shadow economy, legitimated preference for the 'work-first' model of activation.

Also, the reluctance of the government to provide the Public Employment Service with appropriate capacities hindered their professional ability to make a proper use of their high discretion power at the street-level bureaucracy when dealing with the unemployed, in terms of applying a greater degree of conditionality and pressure on the unemployed in order to incite their activity. The Social Democratic government came to power in 1998 for two terms of office, which, however, had little impact on the approach to activation policies, as the public discourse of activation did not change at all. The only deviation from the formerly established policy path was a modified approach to minimum wage increases: the government adopted a policy of making work pay rather than the policy of cutting social assistance benefits because cuts in benefits did not correspond well with the Social Democrats' election programme.

Another crucial contextual factor influencing the approach to activation are the increasing constraints on the governmental budget. In 1997-1999, the slow-down of the economy affected strongly the governmental budget and led to the adoption of 'austerity packages', similarly as did the floods in 2002. Since 2003, a Public finance reform is being implemented, aiming mainly at expenditure cuts and a reduction of the public debt from 6 % of GDP to about a half within three or four years. It is symptomatic that whenever it faced economic constraints, the government sought savings in active labour market policy expenditure: finally, a decision was made in 2003 to stabilise public finances by cutting social

offices, tax offices and municipalities' small business licensing offices. While 29 % of the respondents estimated the share of undeclared work below 15 % of GDP, 55 % of them estimated it above 15 % of GDP and 20 % of the respondents estimated it above 20 % of GDP.

insurance contributions to the employment fund from 3.6 % of the salary to 1.6 % and transferring the money thus saved to the deficient pension bill.

Owing to these cuts, the development of active labour market policies is still lagging behind the EU standards in spite of the implementation of National Action Employment Plans since 1998: although ALMP expenditure increased due to increasing unemployment, it remains relatively low in international comparison, with a growing emphasis being laid on low-cost measures when for example, motivation courses for long-term unemployed people were implemented.

The inadequate personnel and professional capacity of Employment Offices and Social Assistance Offices, as well as the poorly developed co-ordination and partnerships with other bodies and institutions, not only make the human resources development strategy based on individual approach difficult but also represent a barrier to efficient application of the work-first strategy.

The Role of the European Union

The ambiguous and contradictory consequences of the EU accession process for social policy in post-communist countries has been discussed elsewhere (e.g. Guillén and Palier 2004), having been expressed as a tension between the Copenhagen criteria and the Lisbon strategy (Potůček 2004). In the case of the Czech Republic, the contradiction can be seen between directives of programme policy documents that promote European employment strategy targets (i.e. full employment, labour productivity and social inclusion) and are based in principle on the human development approach supplemented with other policies on the one hand, and the Copenhagen monetary criteria imposed on public expenditure which are to be fulfilled by the new member states in order for them to be allowed to join the European monetary union.

With regard to programme documents, the Czech Republic resolved this contradiction by finding a way how to cope effectively with the **EC recommendations in the form of the Open method of co-ordination (specifically with the objectives and guidelines of the European Employment Strategy)**, that is by presenting to the European Commission nice rhetoric exercises. This does not seem very difficult because the programme documents in the field of social and employment policy are not very demanding; goals may be defined at a relatively general level and the already existing policies may be re-organised according to the obligatory structure of NAP guidelines. No sanctions are linked to the failure to adequately fulfil the vaguely specified targets.

Thus while in the programme documents a policy is declared which corresponds to some degree with the human resources development approach, the actual policy steps seem to be guided by slightly different priorities that are more in line with the already existing policy path preferring a weak and selective activation and dominated by elements of the work-first approach.

The attempts to re-balance public finances in a low-productivity economy bring, among other things, restrictions in human resources investments because cuts in expenditure on mandatory transfers are politically unfeasible. On top, while the external EMU criteria are to be met, compensation policies targeted at ‘the deserving’ and at larger groups of population (like pensioners and working families with children) are still given political priority.

In the Czech Republic, not only that the possibilities to improve human development policies were undermined in 2003 when the active labour market budget was affected by cuts in contributions allocated to the employment fund, but, similarly, personnel capacities of public employment services were frozen in December 2003 when the government rejected a proposal by the Ministry of Labour and Social Affairs to increase the staff of PES by about 450 employees (nearly 10 %) in order to meet the requirement of an increased emphasis on activation.

Nevertheless, in addition to the impacts of the pragmatic approach towards reconciling the tension between the social/employment policy programme documents and the Copenhagen EMU criteria we may identify other influential mechanisms that emerge from the new methods of the EU governance. These mechanisms are related to the ‘policy-goals transparency’, ‘actors’ mobilisation’, ‘know-how transfer’ and ‘institutional learning’ and initiate the process of a silent evolution towards EU targets and policies. In this way, EU forms of governance contributed substantially to cultivating and professionalising policy-making in the Czech Republic, even in the field of activation policies. At least, the issues of activation have entered the discussion between the Ministry of Labour and Social Affairs and other ministerial bodies through the National Action Plan, and the understanding of the need to adopt a broad and co-ordinated approach has improved. The problems of the labour market have been identified and formulated better, and the corresponding goals have been set at least at the general level. This transparency and problem awareness, as well as the mobilisation of the actors concerned, do contribute to a more comprehensive approach. The changing approach has manifested itself in the adoption of a new institutional measure, which is the establishment of an inter-ministerial commission for the preparation of the NAP 2004 -2006.

In the near future, the possibility to apply for and gain support from the ESF may play a very crucial role, too. It might help to substantially expand the scope of activation measures, especially in the area of human resources development: it is estimated that resources available for active labour market policy measures might possibly grow by 50 % during 2004-2006 owing to the ESF. At the same time, it facilitates mobilisation of local partners, owing to the influence of the EU methods of governance. Not only were new Regional Offices established under the framework of the Public Administration Reform initiated in 2001, but also Regional Employment Offices were founded in 2003 (although as yet endowed with only limited competencies). Also other non-governmental actors should be given many more opportunities to participate in policies. The establishment of new implementation structures, participation of new actors, as well as access to new resources and application of new governance and management methods associated with administration of ESF projects may substantially improve public administration's capacities.

Lastly, institutional activation and learning also belongs among crucial aspects of the EU impact. The adoption of the specific implementation methods contributes indirectly to the process of institutional learning. For example, in the Czech Republic, the implementation of IAPs, although it has not been adequately backed by personnel and financial capacities, contributed to identification and elaboration of new methods how to approach the unemployed (i.e. individual diagnostics and profiling, assisted mediation, motivation programmes, agency work, NGOs' involvement in job mediation and other forms of intervention). We witness rapidly improving professional capacities as young people, university graduates in social sciences, enter public employment services and other bodies participating in activation, such as NGOs and private agencies.

Conclusions

The need for strong activation policies and their systematic implementation is obvious in the Czech Republic. This is indicated by a high share of long-term unemployment and extremely unevenly distributed unemployment risks – which are associated with a lack of human capital and with a lack of work incentives. Since the beginning of nineties until today, the Czech Republic has unfortunately followed the path of weak activation with several traits of the liberal/work-first model. The scope of active employment measures is exceptionally narrow and the measures are poorly targeted and are lacking in quality, complexity and comprehensiveness. A simple job-search support in the form of mediation and counselling, supplemented with sanctioning, represents a prevailing measure. Unemployment benefit

entitlements are poor and the definition of a suitable job is strict. At the same time, certain conservative features can be identified in this approach which consist in a high degree of selectivity of active labour market policies and a strong segmentation of available measures, with measures concerning human resources development being targeted at the better-equipped labour force.

On the other hand, the Czech activation approach is in several respects inconsistent even with the weak and selective variant of the liberal work-first approach: the replacement rate for social assistance claimants is more generous than in many other countries in Western Europe. The conditionality of benefit provision is not systematically applied in practice due to insufficient personnel and professional capacities of Public Employment Services. The above-described combination of inconsistent strategies is not effective with regard to activation and meets neither the need for human resources development, nor the need for improving administrative pressures on the unemployed and work incentives.

We have identified three mutually linked groups of factors which influence the shaping of the Czech mode of activation: the cultural and ideological framing, economic and institutional context of social policies and, lastly, an influence of the EU policy agendas.

In the Czech Republic, both the policy discourse and public opinion showed an extreme inclination towards (neo)liberal policies, including the work-first activation approach, in comparison with other European countries. Also several contextual circumstances were favourable for this approach: unemployment remained low until the second half of the nineties, while the scope of the shadow economy overlapping with registered unemployment has for a long time been above the EU average. On top, the resources allocated to activation policies were scarce due to a lack of political consensus and the government's preference for covering mandatory transfer payments.

The EU accession process has generated a tension between the European Employment Strategy targets and the guidelines of the Lisbon strategy that promote rather the human development approach on the one hand, and the Copenhagen monetary criteria requirements imposed on public expenditure which are to be met by the new member states on the other hand. At the moment, much more preference is given to the EMU, as is manifested by the Public finance reform and the emerging cuts in the public budget. These cuts affect labour market policies in the first place and block further advancement of the human development approach.

On the other hand, we have identified other influential mechanisms that emerge from the EU methods of governance in relation to goals transparency, actors' mobilisation and

institutional learning and, at the same time, new opportunities how to develop the policies with the support of the ESF. These conditions initiate a process of continuous evolution towards a more comprehensive strategy which may change the weak liberal (but inconsistent) activation approach that has prevailed so far. The process of continuous change incited by the EU methods of governance is further reinforced through a generational personal exchange and increasing professionalism of the public administration and other subjects participating in activation policies.

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Table 1: Net disposable income of households on social assistance benefits as a proportion of 60% poverty line, 2001

	Working age		Elderly	
	couple	lone parent	couple	single
Czech Republic	86	93	86	76
Germany	58	77	58	71
Netherlands	96	85	117	109
Portugal	58	58	58	44
Sweden	88	95	116	108
United Kingdom	76	84	108	115

Source: Cantillon, Van Mechelen, Marx, Van den Bosch (2004: 25), own calculations for the Czech Republic

Table 2: Net replacement rates for four types of households and average for two income levels (average wage and two thirds of average wage), long-term benefit recipients after 5 years of unemployment, 2002

	Single person	Couple, no children	Couple, 2 children	Single, 2 children	Overall average
Czech rep.	39	62	81	68	63
Germany	72	75	77	85	77
Hungary	32	32	40	39	36
Netherlands	45	66	75	69	77
Portugal	56	63	66	66	63
Spain	46	48	57	54	51
Sweden	67	83	89	67	77
U. Kingdom	54	67	75	65	65

Source: OECD 2004a

Table 3: Unemployment, vacancies and active labour market policies

	1995	1996	1997	1998	1999	2000	2001	2002	2003
registered unemployment rate (end of year)	2.9	3.5	5.2	7.5	9.4	8.8	8.9	9.8	10.3
number of unemployed per one vacancy	1.7	2.2	4.3	10.3	13.9	8.8	8.9	12.8	13.5
ratio of active labour market policy measures participants to the total number of the unemployed (%)	36.0	17.1	11.3	12.0	13.7	20.3	19.0	14.5	15.8
ratio of labour market training participants to the total number of the unemployed (%)	8.8	6.5	4.3	4.2	4.7	7.3	7.6	7.0	8.0

Data: MSLA, own calculations

Table 4: Expenditure and participants of labour market policy measures in 2002 (Czech Republic compared with selected countries)

country (LFS stand. unempl. rate)	CZ (7.3)		HUN (5.6)		SPAIN (11.4)		SWE (4.9)		UK (5.1)	
	E	P	E	P	E	P	E	P	E	P
Expenditure + Participants										
Administration	0.07		0.12		0.09		0.37		0.16	
Vocational training	0.02	0.70	0.06	1.17	0.22	15.27	0.29	2.50	0.03	0.31
Youth measures	0.02	0.15	-	-	0.05		0.02	0.61	0.13	0.94
Subsidized jobs	0.02	0.20	0.08	0.66	0.26	4.47	0.17	1.70	0.02	
Self-employment	0.01	0.06	0.01	0.22	0.05	0.12	0.04	0.25		
Public works	0.03	0.32	0.25	5.82	0.08	1.10	-	-	0.01	
Sheltered workshops	0.01		-	-	0.03	0.25	0.27	0.99	0.02	0.17
ALMP total	0.17	1.43	0.51	7.88	0.85	21.21	1.40	6.05	0.38	n.d.

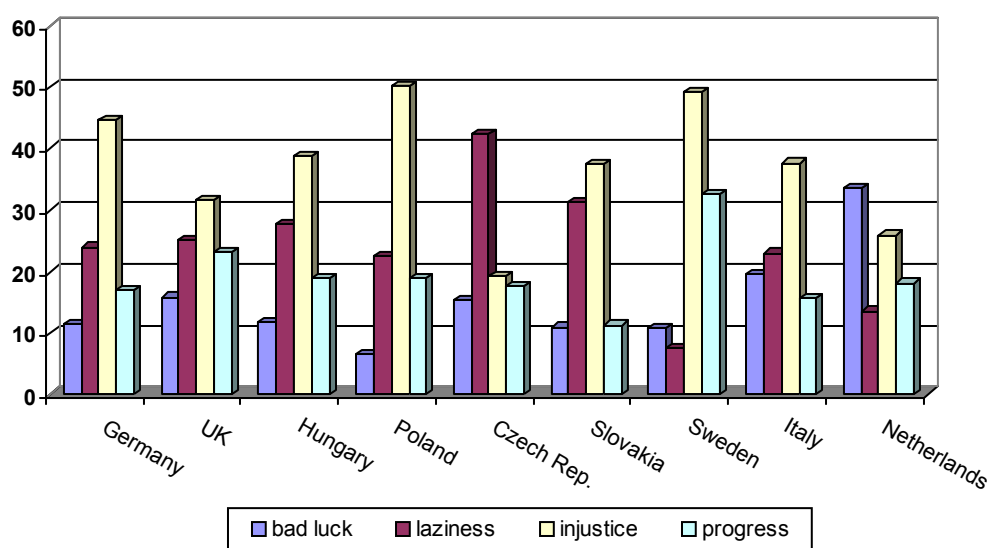
Note: E = expenditure as % of GDP, P = participants of ALMP measures as % of labour force.
Source: OECD 2003

Table 5: Potential Causes of Poverty in Czech Society. CR 1991 and 1999

	1991	1999
Why are there people living in poverty in Czech society?	% of respondents	% of respondents
There are four possible causes: Which of them do you find most important?		
They have bad luck.	12 %	15 %
They are lazy and lack of a strong will.	54 %	42 %
There is injustice in our society.	17 %	19 %
Poverty is an unavoidable part of progress.	22 %	18 %

Sources: Data set European Values Study, CR 1991, 1999

Figure 1: Why are there people living in poverty in Czech society? There are four possible causes: Which of them do you find most important? (EVS 1999)



Sources: Data set European Values Study, CR 1999

