

## 8. CHANGES IN THE SOCIAL POLICY- READING

### The objectives of Social Policy

The objectives of social institutions, as in any other area of economic policy, are efficiency, equity and administrative feasibility. It is useful to adopt a more detailed categorization.

Efficiency has at least three aspects.

1. Macro efficiency: the efficient fraction of GDP should be devoted to the totality of welfare-state institutions, e.g. policy should seek to avoid distortions which lead to cost explosions
2. Micro efficiency: policy should ensure the efficient division of total welfare-state resources between the different cash benefits, different types of medical treatment, and different kinds of education.
3. Incentives: where institutions are publicly funded, their finance and the construction of benefits should minimize adverse effects on labor supply and employment, and on saving.

Supporting living standards, the second strategic aim, has at least three components.

4. Poverty relief: no individual/ household should fall below a minimum standard of living.
5. Insurance: no one should face an unexpected and unacceptably large drop in their living standard. This is a major objective of unemployment benefits and most health-related benefits. Its success is measured by the replacement ratio, which shows a person's income when on benefit in comparison with his or her previous income
6. Income smoothing: institutions should enable individuals to reallocate consumption over their lifetime.

The reduction of inequality:

7. Vertical equity: the system should redistribute towards individuals/families with lower incomes
8. Horizontal equity: differences in benefits should take account of age, family size, etc., and differences in medical treatment should reflect only factors which are regarded as relevant (e.g. whether or not the patient has dependants), but not irrelevant factors like race.

Social integration:

9. Dignity: cash benefits and health care should be delivered so as to preserve individual dignity and without unnecessary stigma.
10. Social solidarity: cash benefits and health care should foster social solidarity, a frequently stated goal in mainland Europe. So far as possible, benefits should depend on criteria which are unrelated to socioeconomic status. Retirement pensions are an example, so is medical care in many countries.

Administrative feasibility has two aspects:

11. Intelligibility: the system should be simple, easy to understand and as cheap to administer as possible
12. Absence of abuse: benefits should be as little open to abuse as possible.

We see that some objectives are inherently in conflict and others may be. There is a trade-off between efficiency and distributional objectives, and between horizontal equity and

administrative simplicity. Other objectives conflict almost by definition. Income smoothing implies that an individual with higher earnings should receive higher benefits, which sits uneasily with the requirement that benefits should redistribute towards those with lower incomes and with the objective that benefits should contribute to social solidarity. The choice of objectives and of priorities between them is a fundamental normative issue.

## **The Development of the Social Policy in the Czech Republic**

In analyzing social policy we shall take into account the following factors:

- the political environment (type and stability of political regime, influential political ideologies) after 1989
- the economic environment (nature and impact of economic reform, including changes in ownership rights, (im)balance and structure of state budgets, fiscal policies, changing labor markets);
- the social environment (demographic changes, social structures, distribution of wealth among the population);
- cultural factors (value orientation and attitudes of the population, inherited behavioral patterns);
- diffusion of cultural and institutional patterns from abroad (from other Visegrad countries, the West, the East);
- influence of strong, politically active personalities inside and outside the system

Amongst the basic principles of the entire social and economic reconstruction at the end of 1989 was the demand of the reform of the social system. Targets were set for this system to reduce state paternalism and increase the participation of citizens in the tackling of their own social situations. The aim was set to reduce the dependence of families on social incomes and reduce the share of social expenditure in the gross domestic product. The requirement was stated that the social policy should be targeted and leave its former egalitarian blanket coverage whereby various benefits, especially for families, were distributed equally to everyone, regardless of their true needs. Social redistribution was no longer to deform the primary social layering of society which was created on the labor market, but rather to correct its socially inadequate consequences and harshness. On the other hand, it was demanded that real social protection should be assured for those who demonstrably required it.

The social policy played two basic roles in the transformation period. The first was the instrumental role. Social policy became the instrument which made it possible to compensate or the unfavorable social consequences of the individual stages of the economic reform, to protect socially threatened groups of citizens and to ensure the political passing of the economic reform. The second role was conceptual. Its task was to create such systems of social protection for citizens as would correspond to the new requirements of a democratic state with a market economy.

The development of Czech social policy after November 1989 can be divided into 3 phases. These phases always coincide with the governing periods of the different Czech post-November governments.

*1<sup>st</sup> Phase: December 1989- June 1992*

During this phase the conceptual foundations of pending reforms were discussed and clarified and some of the social privileges belonging to the communist establishment were taken away. The Programme Committee of the Civic Forum created a conceptual background for the newly established Czechoslovak federal and Czech national governments and of course, for the civic forum, in preparation for the first free elections of July 1990.

After the election in July 1990 a new federal and two new national governments with significantly pro-reform agendas were established, after the victories of the Civic Forum in the Czech Republic and the Public against Force in the Slovak Republic. Social policy was developed and embodied in legislation at both federal (The Federal Ministry of Labor and Social Affairs) and national levels (The Ministry of Labor and Social Affairs of the Czech Republic). The work of these ministries can be characterized as an effort to systematically replace state paternalism by establishing more resilient and decentralized mechanisms which would be compatible with nonpartisan economic reform.

The foundation of social reform was defined as:

- active politics of employment;
- liberalization and pluralization of the social welfare system;
- the development of a social safety net

### *2<sup>nd</sup> Phase: July 1992- 1997*

In the Czech Republic, the elections of June 1992 brought to power a coalition of the liberal and conservative parties. Therefore, the prevailing governmental political philosophy was a mixture of neo-liberalism and conservatism. In Slovakia, on the other hand, parties to the left of the political spectrum, as well as populist and nationalist parties, met with greater success. This contributed to the division of Czechoslovakia and the creation of two independent states at the end of 1992- the Czech Republic and the Slovak Republic.

The parliamentary elections at the end of May and beginning of June 1996 resulted in the formation of a minority right wing coalition with premier Václav Klaus comprising the Civic Democratic Party, the Civic Democratic Alliance and the Christian Democratic Union-Czech people Party. This government was dependent on the silent support of the Czech Social Democratic Party. This coalition was not stable, litigation was common and single parties had to face financial scandals. The coalition finally broke apart in the fall of 1997. Consequently a new temporary government was created.

### *3<sup>rd</sup> phase- since 1998*

In the middle of 1998 the Social democratic party won early elections. But that party was not able to create a majority government either, so they ruled with the silent support of the Civic Democratic Party. The left wing cabinet under Miloš Zeman survived till the next regular elections in 2002. The Social democratic party won elections also in 2002 and governs to these days.

## **Social Security Policy**

The social security policy is based on three-tiers:

1. compulsory social insurance, reacting to foreseeable situations in a citizen's life
2. state social support, reacting to unforeseeable social events
3. social assistance built on the principle of aid to citizens who find themselves in an emergency situation

## Social insurance

In the system of social insurance, citizens reserve part of their consumption in order to cover any future social circumstances.

The principles of the newly conceived structure of social insurance were as follows:

- social insurance was to be compulsory
- contributors to the Social Insurance Fund were to be made by employees, employers and the self-employed; the state pays the insurance contributions for children, pensioners, parents on maternity or paternity leave, the unemployed, invalids, soldiers and prisoners

Social insurance contributions cover:

- old-age pensions, invalidity pensions, widow, widower and orphan pensions,
- sickness contributions, contributions for the treatment of a family member,
- contributions to the state employment policy,
- administration costs

Table: The amount of contributions of the social insurance scheme

contributions of social insurance system	employee (% of wages)	employers (% of total wage-bill)	self-employed (% of insurance basis)
pensions scheme	6,5	21,5	28
sickness scheme	1,1	3,3	4,4
employment policy	0,4	1,2	1,6
health insurance	4,5	9	13,5
Total	12,5	35	47,5

## The pension system in the Czech Republic

The pension system was rated base on two tiers:

- the basic obligatory system of pension insurance
- voluntary additional pension insurance with a state contribution

The concept of the system of basic pension insurance is based in the Czech Republic on the following principles:

- the system is obligatory for all economically active persons;
- the system is uniform (there are no differences between branch or profession, not even for state officials or minors);
- it is based on social solidarity with a relatively high redistribution of income;
- it is based on current financing- PAY AS YOU GO;
- it is based on the principle of defined allowances replacing income in the case of old age (old-age pension), disablement (full or partial disablement pension) and death (widow's, widower's and orphan's pensions),
- the construction for the allowances is a combination of two components: the basic measure (around 25% of the pension) and the percentage measure (around 75% of the pension);
- the state guarantees the system economically and legally

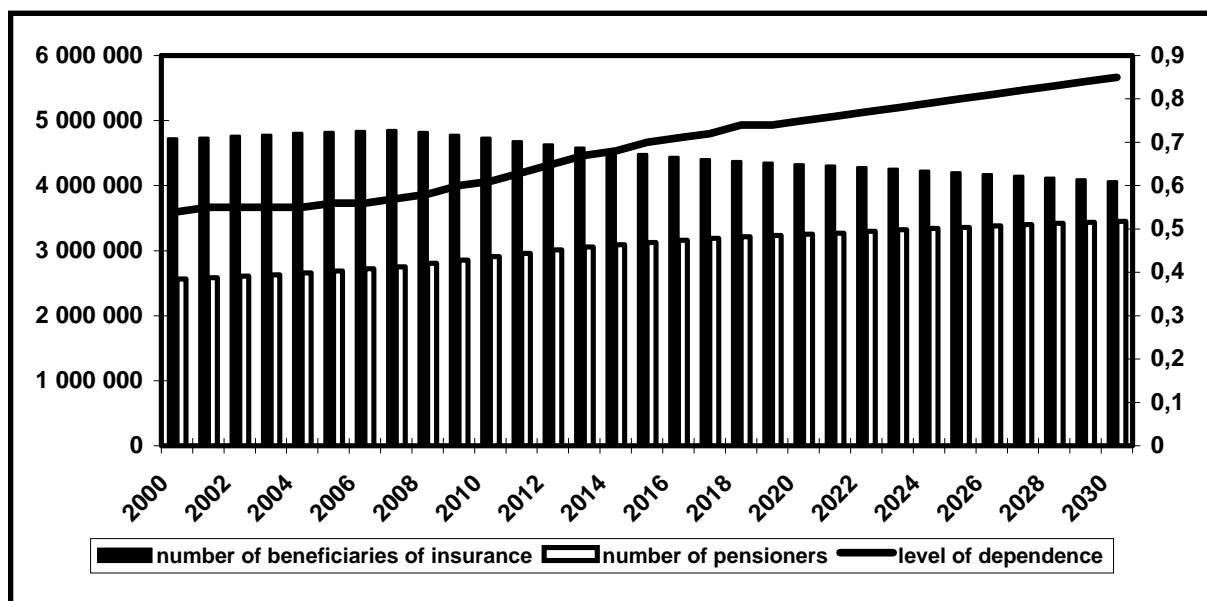
In 1995 there was a significant legislative change in the framework of the compulsory structure of social insurance with the passing of a new law on old-age pensions. An increase in the statutory retirement age limit was approved to be introduced incrementally until 2007. The statutory retirement age for women, originally 53-57 was raised to 58-61 (the actual limit depends on the number of children), while for men it increased from 60 to 62. The law on base pension insurance conceives the old-age pension as having two components, made up of a fixed amount paid to all and one which is dependent on the number of years worked and the working income received; the law is built on the principle of a substantial redistribution of accumulated finances for those with a lower level of earnings. Old-age pensions for persons with higher working incomes are affected by a regressive calculation formula.

The statutory retirement age limit was approved second time, so after 31.12.2012 the retirement age is 63 years for men and 59-63 for women depending on the number of children (59 years if she raised at least 5 children, 60 years if she raised 3 or 4 children, 61 years if she raised 2 children, 62 years if she raised 1 child, 63 years).

The period of insurance required for an old-age pension entitlement is at least 25 years. When the insured person reaches 65 years of age, the required period of insurance is 15 years.

The major factor impacting in the long-term the financial balance of the pay-as-you-go (continuously) financed pension system is the dependence rate indicator defined as the ratio of pensioners to payers of contributions. The forecast for the first decades of the next century points to a significant increase in this indicator due to longer life expectancy and lower birth rates (Diagram 1). The question is, however, what would be the impact of significant changes in the expected migration.

Diagram 1: Number of pensioners, number of insured persons and rate of dependence



Old-age pensions are valorized as a routine by the law either by percentage rent of by a flat-rate lump sum of the basis of the development of economic indices, such as price and wages development, inflation rate, etc. By the new act (1995) valorization of pension should take place if the consumer prices rise by 5%, the evolution of real wages should be taken into consideration.

### *Widow's and Widower's Pension*

In case of death, the group of survivor's benefits includes:

- widow's pension
- widower's pension
- orphan's pension

These pensions are paid from the pension's insurance scheme.

Widow's pension is granted in the case of a husband's death. Widower's pension is granted in the case of a wife's death.

A widow (widower) is entitled to a widow's (widower's) pension if her husband (his wife) received a pension or fulfilled the insurance period condition required for an entitlement to a full disability or old-age pension on the date of his (her) death. A widow's (widower's) pension is provided for the period of 1 year after husband's (wife's) death. After this period it is provided only if the survivor (bereaved):

- Takes care of a dependent child;
- Takes care of a minor child with a long-lasting serious disability requiring special care or of a major child who is largely or totally incapacitated;
- Takes care of his/her own largely or totally incapacitated parent or a parent of the deceased spouse with the same level of incapacity living with him/her or a parent who is partially incapacitated and is over 80 years of age;
- Is fully disabled;
- Has reached 55 years of age for women or 58 years for men.

### *Orphan's Pension*

Orphan's pension is granted only to a dependent child in the case of death of his/her parent (event. adoptive parent) or to a person who substitutes parental care and supported a child at the time of the parent's death because of impossibility of performance for substantial reasons. For the purposes of entitlement to an orphan's pension, "a dependent child" is a child before completion of his/her compulsory school attendance or after the completion up to the age of 26 if the child

- Prepares systematically for his/her future careers;
- Is unable to prepare systematically for his/her future careers or to carry out a gainful activity due to an illness or injury; or
- Is unable to carry out a permanent gainful activity due to his/her long-lasting unfavorable health condition.

Under the law, the pension as a proportion of the gross wage will decrease by the year 2005 to less than 42%, in 2010 to 38% and in 2015 to 35%.

In 1994, a special law made it possible to take out additional pension insurance with a state contribution, but only on the basis of a contract between the individual and the insurance institution.

*A supplementary pension insurance scheme* is introducing an element of personal responsibility and private initiative with regard to pensions. There are about 44 private pension funds and those who decide to be insured in sum of them, have a right to the state contribution calculated according to a formula which is progressive in absolute terms and regressive in relative terms. Employers are allowed, if they wish, to contribute as well, but their payments are not tax deductible (as well as the contributions of the insured persons).

Additional pension insurance with a state contribution can supplement the basic system basically in three ways:

1. it raises the level of pensions from the basic system of pension insurance
2. it is possible to receive old-age pension in additional pension insurance from the age of 50 years. The additional insurance therefore also enables early retirement
3. within the framework of additional pension insurance, it is also possible to introduce allowances in the case of vocational disablement, the settlement of which was excluded from the new basic system

Additional pension insurance is based on the following principles:

- participation in the system is voluntary
- additional pension insurance relies consistently on the relationship between the pension fund and the citizen and not on the relationship of pension fund- employer-employee
- pension funds and their financial management is based on the principle of long-term saving
- the level of pensions is determined basically according to contribution-defined pension plans on the principle of equivalence
- the method of financing is exclusively capital financing

The public sector of compulsory social insurance is completely dominant in the Czech system of old-age pension insurance. Additional private pension insurance with a state contribution is, despite the rising number of clients, still in its infancy and enterprises cannot take part directly.

#### Incapacity for work- the sickness scheme of social insurance in the Czech Republic

In the short-term incapacity benefits are paid from the complex of the sickness insurance scheme, in the permanent incapacity the benefits are invalidity pensions paid from the complex of the pension's insurance scheme.

The right to the benefit originates from the incapacity for work accredited by the doctor by virtue of sickness of maternity.

1) During the time of the duration of the incapacity for work, for the time of one year at the most, the sick person is on sickness benefit amounting to 25% for the first 3 calendar days of his incapacity for work, there after to 69% form the daily basis of assessment (calculated from average gross wages as a rule for the last 12 months), the highest basis of assessment is the maximum limit set down by the law.

2) Another sickness insurance benefit is the family member care benefit during the attendance on a family member for the time of 9 calendar days (in the case of single persons attending on a child till the termination of compulsory education of the attended person 16 calendar days), belonging to the employee (man or woman) who cannot work for reasons of providing the necessary care to a sick family member.

The benefit amounts to 69% of the basis of assessment that is the same as in the case of sickness benefits.

In the case of work injury or of occupational disease employers are obliged to be insured at some commercial insurance company. From this insurance the difference between the assessed sickness benefit and average wages is then paid.

3) Another benefit is the pregnancy and maternity compensation benefit for the time for which the pregnant woman had to be transferred for reasons of her pregnancy to another work till the starting of her maternity leave, after the maternity leave till 9 months after confinement for calendar days. This benefit amounts to the difference between the basis of assessment before the transfer, the highest basic of assessment is the maximum limit set down by the law.

4) In the case of the incapacity for work for reasons of pregnancy and maternity the woman gets the cash maternity benefit, payable for the time of the maternity leave of 28 weeks (6 weeks before the date of confinement). The benefit amount to 69% of the daily basis of assessment (the maximum basis of assessment is set down by the law).

Benefits in the case of the permanent incapacity for work are invalidity pensions. The citizen is invalid, when he is due to his health status unable to work or the working could have bad influence to his health statute or he is able to work only in case of special conditions (blind people). About invalidity of persons decide commission of doctors from Czech Social Security Administration.

Full invalidity means that citizen has lost 66% of his ability to work at least, partial invalidity means that citizens has lost 34% of his ability to work at least.

Invalidity pension is calculated with the same formula as the old age pension.

## **State social support**

In the system of state social support, the state strengthens in particular, incomes of families with children with the aim of preventing the decline of large groups of families to poverty level and enabling the settlement of agreed social situations at a socially acceptable level.

State social support is covered from the funds of the state budget and the institutions responsible for this are the social departments of district authorities. The main element is benefit for parents with children. In 1995 a new law was passed on state social support, No. 117/995 Col, which regulates the payment of the following benefits:

a) income-tested benefits:

- child allowance (paid up to the age of 26 if the child is training for a future occupation)
- social contribution
- housing benefit
- transport benefit (for children training for their occupation away from their permanent residence)

b) benefits provided without regard to income (universally):

- parental allowance (paid to a parent looking after a child up to four years old)
- maintenance contribution (for the family of a soldier doing military service or the alternative form of civil services)
- benefits for foster-parent care
- birth allowance
- burial benefits

One of the most important system changes has become the method by which benefits are awarded to children. Up to 1995 child allowance was paid to all families with minors no matter what their income. The State Social Benefit Act introduced a new means-tested method linked to the family income but not exceeding three times' the living minimum.



The right to parental allowance belongs to the parent if he (she) personally, all-day and properly cares at least for one child at the age of up to four years or up to seven years if the child is long- time heavily handicapped and requires extraordinary care. The benefit is provided as a lump sum monthly.

Birth grant belongs to citizen for each born child. This benefit is provided as a uniform lump sum in connection with increased costs connected with the confinement.

The right to income tested allowances belongs to the families whose income will not exceed certain limit. The subsistence minimum serves as a testing basis and key amount for calculating level of benefits as well. It is playing the role of an income threshold (by multiples) where the benefit will be either reduced or totally withdrawn. The best description for child allowance could give us following table:

Table: Child allowance in accordance with the household income

Age of children	Child allowance since 2001 (monthly in Kč) in accordance of household income		
	up 1,1 SML	1,1 - 1,8 SML	1,8 - 3,0 SML
up to 6 years old	541	474	237
6-10 years old	605	530	265
10-15 years old	714	625	313
15-26 years old	784	686	343
	0,32% of SML	0,28% of SML	0,14% of SML

SML- subsistence minimum level of household

## Social assistance

The structure of social assistance is conceived as a ‘lifeline’ to those who are no longer able to help themselves, have no claim to benefits in the framework of the social insurance and state social support structures, or where these benefits are not sufficient to sustain them at least at the level officially set as the living minimum. Social aid is provided in the form of monetary benefits and/or social services.

The new social measures have begun to influence the living conditions of people in need. Czechoslovak Federal Act No. 463/1991 CoL, on the living minimum and the Czech Republic’s act No. 482/1991 CoL on social need included the obligation of the state to guarantee to all citizens that their standard of living would not fall below the official living minimum level. The law in question has thus delineated a socially accepted poverty limit, establishing the right to aid from the state under certain circumstances. It is a scheme based on the individual assessment of total income, property and social relations of the applicant. The defined living minimum differs according to age and structure of the household.

### The Minimum Living Level

The law entrusted the government to increase the set level of the living minimum in accordance with changes in the cost of living and to maintain the ratio between the level of the living minimum and the average income.

The government conception of social assistance in the Czech Republic emanates from the principle that the individual is firstly responsible, followed by the family, charities, the municipality and, finally, the state.

Two types of difficult social situation are defined, i.e. material need and social need. Citizens find themselves:

- in material need if their income does not reach the living minimum set down by the law and they cannot increase this income because of age, state of health, or other legitimate reasons, by their own endeavor, especially by work, and thus their basic living needs are seriously threatened;
- in social need if because of being underage, or losing their autonomy because of sickness, handicap, family dysfunction, threat to rights and interests through the conduct of another party or for any other legitimate reasons they are in fact unable to secure their basic living needs and where these conditions and needs are not provided by other means.

Table: The development of the minimum subsistence level in the CZ (paid monthly in Kč)

<b>Person, household</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>2000</b>	<b>2001</b>
<i>sum of money needed for subsistence and other basic needs</i>							
Children up to 6 years old	1120	1230	1320	1480	1560	1600	1690
6-10 years old	1240	1360	1460	1640	1730	1780	1890
10-15 years old	1500	1620	1730	1940	2050	2110	2230
15-26 years old	1620	1780	1900	2130	2250	2310	2450
other people	1500	1680	1800	2020	2130	2190	2320
<i>sum of money needed for paying costs of household</i>							
Household with 1 person	660	760	860	1020	1300	1580	1780
with 2 persons	860	1000	1130	1330	1700	2060	2320
with 3 or 4 persons	1060	1240	1400	1650	2110	2560	2880
with 5 or more persons	1260	1400	1580	1860	2370	2870	3230

### Incidence of Poverty

Under socialism, full employment, high income leveling and relatively generous aid to families with children were reflected in the low percentage of the truly poor. The poverty rate in the Czech Republic remains low. As we know, measuring the scope of poverty in society is complicated. The following indicators can be used:

1. the official living minimum limit
2. the rate of poverty used by bodies of the European Union; households find themselves in the poverty belt where income per head drops below 50% of the income median of an equivalent adult person, whereby the first adult is counted with a coefficient of 1, other adults with a coefficient of 0.7 and children with a coefficient of 0.5 (adjusted household income)
3. the subjective rate of poverty, ascertained using specific methods
4. the feeling of poverty, ascertained as the percentage of those answering 'definitely' to the question "Do you think your household is poor?"

Property does not relate equally to all groups of the population equally. Households with more members, especially those with children, find themselves in the poverty belt more frequently.

The individual systems are of different importance. The citizens' share in them also differs. Almost all citizens are socially insured and expenditure on benefits of social insurance represents 10% of GDP. In the system of state social support, approximately 60% of inhabitants of the state participate as recipients who are either parents or children of dependent children. Expenditure on this system represents approximately 2,2% of GDP. The least expensive but socially important system of social assistance concerns around 4% of population and expenditure amounts to approximately 0.5% GDP.

## **Employment Policy and Employment**

In 1990 a new problem of unemployment emerged. Till that time unemployment was officially an unknown phenomenon. In centrally planned economies everybody had to work. What more, to be unemployed was a criminal offence. How did the "labor market" before 1990 function? When somebody finished one's studies, he or she usually obtained a "location voucher". If someone was lucky or politically desirable, he/she obtained more "location vouchers". "Location vouchers" limited the liberty of choice.

The principles of the socialist labor market were as follows:

- the rate of unemployment was officially 0%
- wage substituted unemployment benefits
- the wage motivation was limited to exceeding the plan
- quantity instead of quality
- the system of "location vouchers"
- to be unemployed was a criminal offence of "parasitism"

The low unemployment in the 1990s was seen as an economic miracle resulting from the labor force adaptability and absorption possibility of the economy. Critics were talking about an inadequate restructuring on the national economy.

In the first years after the start of transformation process, the rate of unemployment was very low till 1996. The main factors which played the main roles in low unemployment are:

- establishing of a net of labour offices
- adaptability of the labour force and flexible labour market
- economic recovery since 1993
- mass and premature retirement, transfer of women to the households
- possibility of working abroad

Since 1997 we can observe constantly increasing unemployment rate. The main causes are probably following:

- economic recession between 1997- 1999
- inflexible labour market (due to constant minimum wage increasing, regulation about working hours and overtimes, subsidies for working places of graduates, investment incentives etc.
- increasing costs of the labour force
- powerful labour unions
- other factors

The state employment policy's goal is to achieve a balance between supply and demand for labor, towards the productive utilization of workforce resources, and towards securing the right of citizens to employment. This is interpreted as the right of those who want and are able to work and are actually engaged in the process of applying for work.

The employment policy is composed of two kinds:

- passive- which tries to eliminate the consequences of unemployment by financial benefits
- active- which tries to support the employment and prevent unemployment

The body responsible for the state employment policy is the Ministry of Labor and Social Affairs of the Czech Republic, within the framework of which operates the Administration of Employment Services. An important partner for the government and employers in forming this policy is the trade unions. In 1990, a network of 77 regional Labor Offices was created to administrate the state employment policy within the regions.

The work of these offices consists of:

- paying unemployment benefits
- supplying information on job vacancies
- consulting services
- creating jobs beneficial to the general public
- supporting small-scale business, including encouraging job-seekers to set up their own businesses
- organizing professional training and requalification programmes
- creating programmes for work opportunities
- evaluating the labor market
- conducting checks on the labor market actors
- cooperating in the creation and realization of regional programmes dealing with employment issues
- management of finances designated for employment policy

Private recruitment agencies are also allowed to operate on the labor market. Because of the vast network of state Labor Offices spread throughout the country, the space for their operations is de facto restricted to providing requalification and mediating employment for highly-skilled workers of large companies, particularly international companies.

A major instrument of what is termed the passive employment policy is the assessment and payment of unemployment benefit (from social insurance system). Unemployment benefit is paid for 6 months at a rate of 50% of earnings for first 3 months and 40% of earnings for the following 3 months. The sum must not exceed a defined ceiling. This is currently set at a multiple of 2,5 of the official living minimum.

After six months the claim to unemployment benefit ceases and if the job-seeker is still not able to find work, he or she is referred to social assistance, paid at the rate of the minimum subsistence level.

Unemployment benefit can be claimed by citizens who have been working for at least 12 months in the course of the past three years.

The finances allocated to the active employment policy have been directed towards setting up new jobs, towards supporting community work, specialist practical experience for school-leavers, requalification, and towards establishing protected workshops for the handicapped. In May 1999 the government introduced a programme for the lower unemployment. It is called the National Plan of Employment". It was based on the EU model, which puts a higher accent on the active employment policy.

The employment policy is only one of the factors influencing the labor market and the rate of unemployment. It is necessary to take into account other factors, particularly those connected with economic development, government policy concerning the labor market, and the reaction of the labor force to these circumstances:

- a) The efficiency of the economy and the absorption capability of the labor market
- b) Structural changes in the national economy- structural changes connected with restitution (the return of property to original owners), privatization (the transfer of property from state and communal ownership to the private sector) and the introduction of other market economy institutions.
- c) Wages development- the institution of a minimum wage was introduced (Act. No. 1/1992 CoL).
- d) The flexibility of the domestic labor force in reacting to changes in the labor market- the transformation of the economy causes increased labor force mobility. The element which was to restrict the mobility of the labor force was the undeveloped housing market.
- e) Fluctuation on the international labor market- the “export” of manpower to other countries increased, especially to neighboring Germany and Austria. On the other hand, the illegal employment of national from other states remains a problem, particularly with regard to citizens from the Ukraine and the former Yugoslavia.

Table: Employment policy expenditures, number of unemployed people and unemployment rate in CZ in 1993-2001

	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>State employment policy (mil.Kč)</b>	2 166	2 562	2 416	2 664	3 972	5 069	7 631	9 086	9 419
<b>Passive employment policy (mil.Kč)</b>	1 416	1 844	1 781	2 106	3 420	4 193	5709	5 680	5 228
<b>Active employment policy (mil.Kč)</b>	749	718	634	558	551	903	1921	3406	3960
<b>average number of unemployed people (in thousands)</b>	155,2	172,1	155,6	160,66	219,5	311,7	443,2	469,9	443,8
<b>unemployment rate in %</b>	2,95	3,29	2,99	3,08	4,28	6,04	8,54	9,02	8,54

Since the beginning of the 1990s a minimum wage has been in force in the Czech Republic, at present this is CZK 6700.

**Table: the development of the minimum wage in CZ**

<b>Minimum wage</b>	<b>1992</b>	<b>1996</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Kč per hour	12,00	13,60	14,80	20,00	22,30	30,00	33,90	36,90	39,60
Kč per month	2 200	2 500	2 650	3 600	4 000	5 000	5 700	6 200	6 700

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