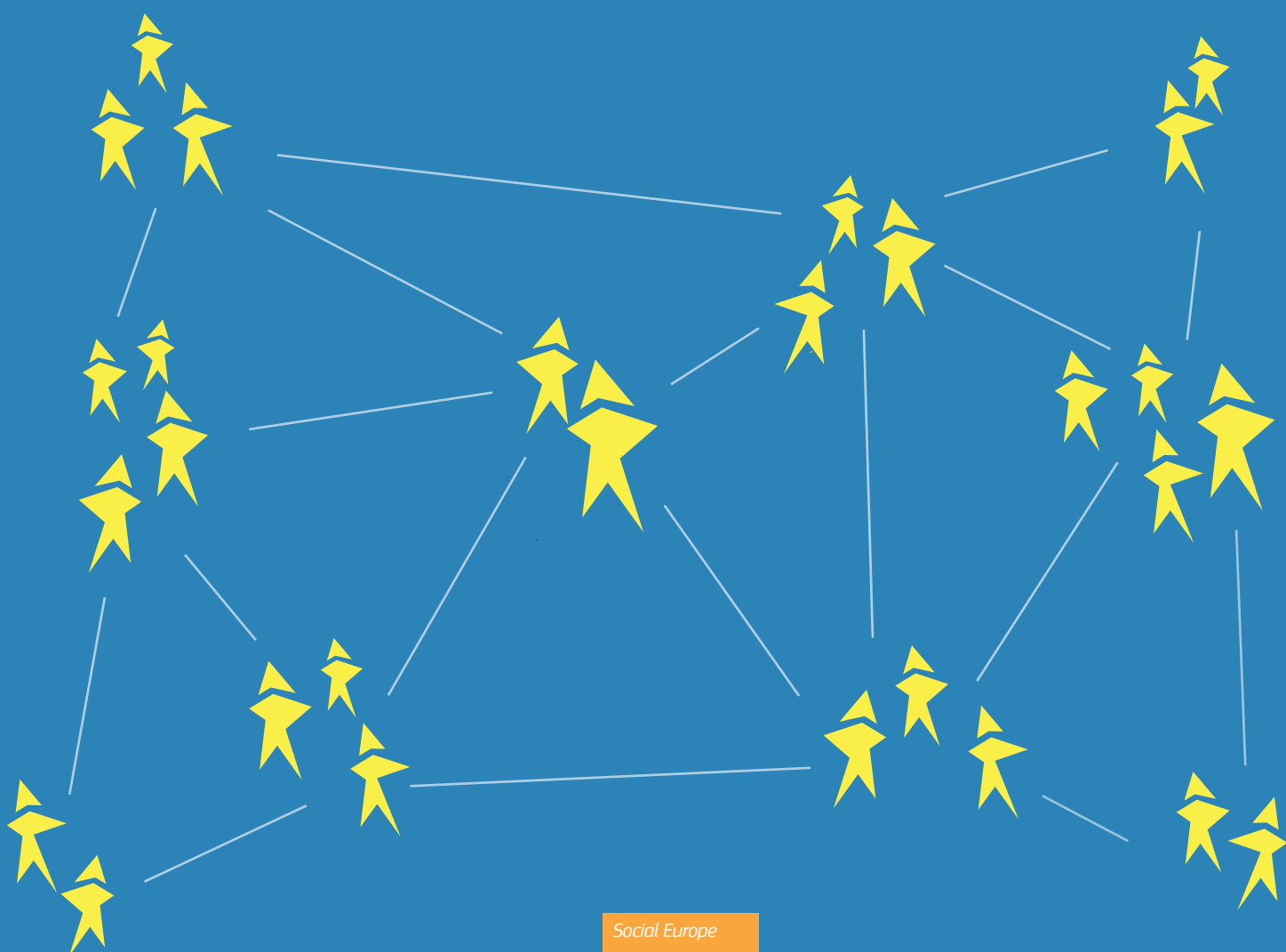




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

In-work poverty in the Czech Republic

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European Social Policy Network (ESPN)

**ESPN Thematic Report on
In-work poverty**

Czech Republic

2019

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Summary/Key findings/Suggestions

While the average in-work poverty (IWP)¹ rate for all EU countries increased by 0.7 percentage points (p.p.) between 2012 and 2017, the Czech Republic recorded a decline from 4.6% (2012) to 3.6% (2017), one of the lowest levels in the EU. The IWP rate in 2017 was similar as between men and women, different age groups, and people born either in or outside the country. Those affected to a greater extent were self-employed people and employees on part-time and temporary contracts. Big differences in IWP were also seen in relation to level of education (the IWP rate among low-skilled people increased from 9.5% in 2012 to 11.4% in 2017), work intensity, and type of household (single-parent families were at a high risk in 2017, of 17.5%).

One factor contributing to the low IWP rate was a relatively low (and decreasing) unemployment rate, which dropped from 7.0% to 2.9% between 2012 and 2017: this reduced the number of working households where a member was unemployed. Certain policy measures also influence IWP. For example, low-earners benefit from the tax reliefs for a tax payer, their spouse and children. Social transfers seem to be quite effective in alleviating the risk of poverty: in 2017 they reduced the incidence of poverty by 67.6% among the working poor (from 11.1% to 3.6%). To some extent, also, the minimum wage contributes to the low level of IWP.

On the other hand, we have identified some policy deficits such as the limited scope and inadequate targeting of life-long learning and active labour market policies (ALMPs) for low-skilled and other vulnerable groups. Similarly, measures that could improve access for the working poor to good-quality jobs are underdeveloped. The assessment of other measures that influence IWP indirectly is mixed. Healthcare is both affordable and accessible. Also childcare in public kindergartens is both affordable and accessible to children over 3. On the other hand, other forms of childcare (childminding groups and private facilities) are less affordable. There is a lack of places for children under 3. Long-term care is neither fully affordable nor easily accessible, especially for families on low incomes. The affordability of rented housing is a problem for low-income families, particularly considering rising housing costs.

The issue of IWP as such is not identified as either a challenge, a subject of policy discourse or a problem for public discussion. Rather, the related issues are addressed in policy debates concerning, for example, wage increases (for certain professions in the public sector) and minimum wage increases. In the Czech Republic, no comprehensive approach towards the issue of IWP has been adopted. Implicitly, however, policies are guided by the values and norms that respect social equality principles.

SILC data provide sufficient information on the IWP issue for the Czech Republic. A shortcoming of the IWP indicators used is that they do not take into account the amount of mandatory household expenditure and focus solely on income. People in rented housing are often beneficiaries of housing allowances that help them (often only partly) cover high housing costs. At the same time, this benefit lifts household income above the poverty line and so the household can no longer be considered poor – even though, paradoxically, their disposable income is below the poverty threshold. Similarly, indebtedness and repayment obligations are not taken into consideration.

Recommendations for the Czech Republic include: a guarantee of affordable access to childcare; 'papa months' – periods available only to fathers – in the parental leave scheme; the fostering of professional and affordable long-term care; life-long learning and vocational training for disadvantaged groups in labour market; a statutory revaluation mechanism for the minimum wage; affordable rented housing; and legislation

¹ For ease of reading, we will refer to the notion "at risk of poverty", and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

and prompt implementation of mechanisms/legislation to prevent indebtedness and enforcement proceedings.

1 Analysis of the country's population at risk of in-work poverty

Definition. In this section, as well as in the following sections, we draw on the definition of in-work poverty (IWP) used by Eurostat. It is based on the Eurostat definition of an at-risk-of-poverty (AROP) household. We look at the population aged 18-64 that meets the condition of having worked for more than half the income-reference year. The statistical background was provided by the ESPN core team (see Annex A in Peña-Casas, Ghailani, Spasova and Vanhercke 2019). Another source of statistical data on IWP is our EU-SILC microdata analysis (we follow the Eurostat definition of IWP). After taking into account the age criterion (18-64 years) and the criterion that the person is "in employment" (when they have worked for more than half the income reference year), there are 4.65 million people out of a population of 10.36 million in the Czech Republic whom we (and Eurostat) include in the analysis of IWP (hereafter referred to as 'persons examined')². For details, see the following Table 1.

Table 1: Difference in the AROP count between the total population and the population for IWP analysis (Czech Republic, persons examined)

Is the person AROP (60) after all social benefits?	Total population			Population meeting the criteria for the IWP analysis		
	Unweighted count	Count	in %	Unweighted count	Count	in %
No	17,566	9,410,790	90.9%	7,737	4,488,277	96.4%
Yes	1,639	947,810	9.1%	272	166,394	3.6%
Total	19,205	10,358,600	100.0%	8,009	4,654,671	100.0%

Note: Unweighted count of 19,205 is a Czech SILC representative population sample. Source: Authors' own calculation based on SILC (2017).

Size. The overall IWP rate was 3.6% in the Czech Republic in 2017. This figure, together with those for Finland (2.7%) and Ireland (4.8% in 2016), was among the lowest in the EU. The average for all EU countries reached 9.4%. While the average for all EU countries increased by 0.7 percentage points between 2012 and 2017, the Czech Republic recorded a decline from 4.6% (2012) to 3.6% (2017). Except for Slovakia (6.5%), all neighbouring countries of the Czech Republic have an IWP rate at the level of 9-10%. At the same time, all of them saw a growth or stagnation in the IWP rate between 2012 and 2017.

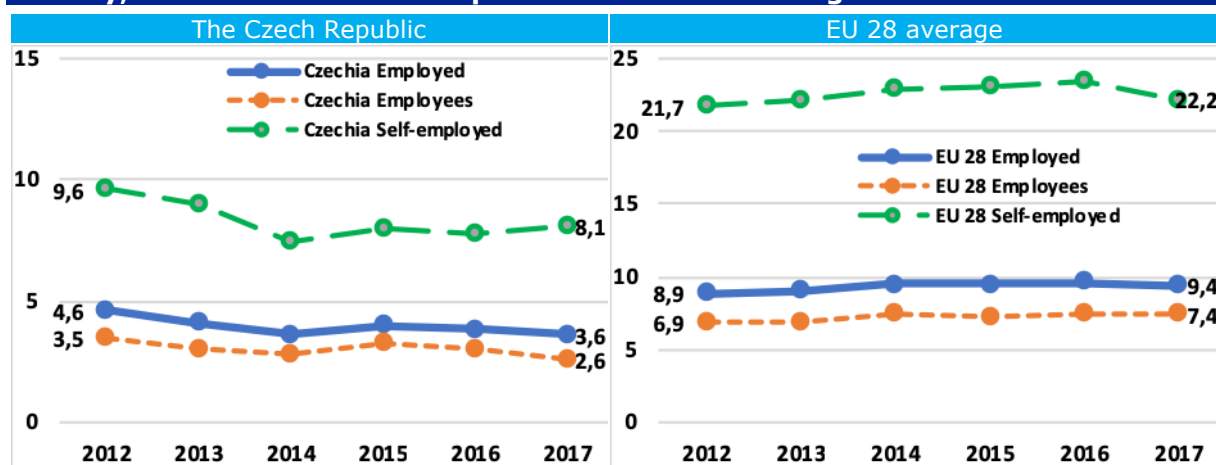
Composition. For a closer analysis of population sub-groups, it should be remembered that the IWP rate is low in the Czech Republic and that the indicator only refers to less than half the country's population (about 45%). Any targeted analysis of sub-groups is thus based on a very small group of people and its reporting ability may be limited.

Men (3.4%) and women (3.8%) were at equal risk of IWP in 2017. Also, the decline in risk between 2012 and 2017 was almost the same for both sexes (approximately 1 p.p.). Different **age groups** were affected similarly by IWP – 3.7% of individuals aged 25-64 were in IWP (the second lowest figure in the EU), 3.6% of individuals aged 55-64 (the third lowest figure in the EU) and only 1.5% of individuals aged 18-24 (the lowest value in the EU). In the monitored period, the IWP rate remained unchanged for the 55-64 age group, fell slightly (by 1 p.p.) for the 25-54 age group, and fell significantly for

² In other words, out of the Czech Republic's population of 10.36 million inhabitants, we selected 4.65 million people who satisfy the criteria for IWP analysis. Since the rest of the population (5.70 million people) do not satisfy one or both of the conditions – age within the 18-64 age range or working for more than half the income reference year – we excluded them from further analysis of IWP. When comparing with the standard AROP indicator, we involve the population of the whole Czech Republic.

the youngest (18-24) age group (a decrease of 3.7 p.p.). We can attribute the drop among the latter age group to a significant reduction in the unemployment rate of young people. Eurostat states ('une_rt_a' statistics) that the unemployment rate for persons under 25 in the Czech Republic decreased from 19.5% in 2012 to 7.9% in 2017. Together with Hungary, this was the fastest decline in the EU; and, together with Germany, it ended with the lowest unemployment rate in the EU. On the other hand, this drop is not to be overvalued, as the sample for IWP analysis in the Czech SILC survey is relatively small (in the unweighted count, 6 out of 370 people were in IWP).

Figure 1: Comparison of IWP rate (%) with respect to the nature of economic activity, between the Czech Republic and the EU average



Note: Please note that the scale on the y-axis of the two graphs is different.

Source: Eurostat database (statistics 'ilc_iw01').

Self-employed persons are more vulnerable to IWP (8.1% rate in 2017; EU average 22.2%) than **employees** (2.6%; EU average 7.4%), although the Czech Republic still has the lowest values in the EU (together with Finland and Cyprus). The relative difference between the two groups is similar to the EU (see Figure 1). In the period under review, IWP declined very slightly in both of the above-mentioned groups. A very similar ratio also applies to the **type of employment contract**. Whereas 2.1% of individuals employed on a permanent contract were in IWP, the indicator was higher for individuals with a temporary contract (6.7%; both are figures for 2017). Both categories saw a decline in IWP over the period 2012-2017, with the economic recovery having a greater impact on persons with a temporary contract (their share in the workforce for which IWP is monitored was approximately 10% in 2017). A similar conclusion can also be drawn about **full-time/part-time employment**. IWP was higher in the case of part-time employment (8.0%) than full-time employment (3.2%) in 2017), with a greater improvement seen among part-time workers (a decline from 10.0% in 2012 to 8.0% in 2017). Even in this case, the Czech Republic ranked among the four EU countries with the lowest IWP rate. We will conclude the analysis of the labour market impact on IWP with a breakdown of our sample by **work intensity**. The highest probability of IWP was found among those with low work intensity (28.9% in 2017). This group also showed the greatest improvement between 2012 and 2017 (a decline in the IWP rate of 4.8 p.p.). However, this group represented only 0.9% of the persons examined in 2017. The groups with medium and high work intensity were larger in size (8.2% and 13.7% of the sample, respectively) and their IWP rate was 9.8% and 6.3%, respectively. The lowest rate of IWP could be found among those with very high work intensity (2.3% in 2017), which, at the same time, represented the largest share of the persons examined (77.2%). We have not carried out a detailed analysis of the group proportions in previous years but, considering the overall decline in the IWP rate from 4.6% to 3.6% between 2012 and 2017, it appears that this change was due to people moving from lower to higher work intensity groups.

Another way to look at IWP is to divide people according to their **level of education**. Among those in the lowest education category (lower secondary education or below), the IWP rate increased from 9.5% to 11.4% between 2012 and 2017. In the same period, those in the highest education category (tertiary education) showed a growth from 1.4% to 1.8%. At a medium level of education (upper secondary and post-secondary non-tertiary education) there was a decline in the IWP rate from 5.1% to 3.7%. If we leave aside the highest education category, with very good results, it is striking that strong economic growth and a drop in unemployment did not significantly affect the category with the lowest education. However, this group represented a small share – only 3.6% of all persons examined – while the remaining two groups represented 72.8% and 23.6% in 2017. It may be that the worsening trend for the low-education group between 2012 and 2017 was simply a result of population change. An older (working) generation with slightly lower education has retired and is being replaced by a newer generation with generally higher education. Another reason may be the impact of the long-running pension reform: generally speaking, although the labour market has adapted well to the postponement of the retirement age, later retirement may have adverse effects for lower-skilled workers. They are more likely to work in low-paid manual jobs and are therefore more vulnerable to loss of work (and to IWP). Although the group with low educational attainment is relatively small, more attention should be paid to it. Their IWP rate is many times higher than the rate seen in other groups. Moreover, as has already been mentioned, this group saw an increase in the share of persons at risk of IWP in the period 2012-2017 (a period that was economically favourable).

Statistics suggest that **place of birth** does not play a role from the point of view of IWP. Persons born in the Czech Republic had a slightly lower IWP rate (3.5%) in 2017 than those born outside it (5.6%). As 95.6% of the persons surveyed were born in the Czech Republic, the group of persons from other countries represents only a small subset. There is no point in further subdividing this group, as the internal differences in the IWP rate are not statistically significant.

An interesting perspective on IWP is offered by stratification according to **household type and parenthood**. Where there were two or more adults in a household, with or without dependent children, the IWP rate was 4.0% or 1.5%, respectively, in 2017. In these households (which constituted 78% of all persons examined in the IWP analysis), the IWP rate decreased by 1.4 p.p. and 1.2 p.p., respectively, between 2012 and 2017. Conversely, we observe a deterioration in the situation from 5.9% to 7.0% in the case of single persons (without children). This group accounted for fewer than 10% of the persons examined. Single persons with dependent children experienced a significant deterioration in their IWP rate. From 14.1% in 2012 it had risen by 3.3 p.p. by 2017. However, this group represented less than 3% of the persons surveyed in 2017. Notwithstanding the need for an IWP analysis of this group, this household type only accounts for about 4% of all households in the Czech Republic. We can thus say that, when analysing IWP, some relevant study subjects are filtered out prior to IWP analysis since they do not meet some of the eligibility conditions.

2 Analysis of the policies in place

2.1 The policies directly influencing IWP

2.1.1 Tax credits

Each economically active taxpayer is eligible for a basic tax credit of CZK 24,840 (about €980) yearly (the amount has not changed since 2008). As there are more than 5 million economically active persons in the Czech Republic, the Ministry of Finance (MoF 2015: 151) estimates that the amount of this relief exceeds CZK 120 billion (€4.7 billion) yearly. Taxpayers on the national minimum wage utilised the full amount of the

credit from 2017 (for details see Table 2 and the section on the minimum wage below). Apart from the pension system, this relief is the largest redistribution programme in the Czech Republic.

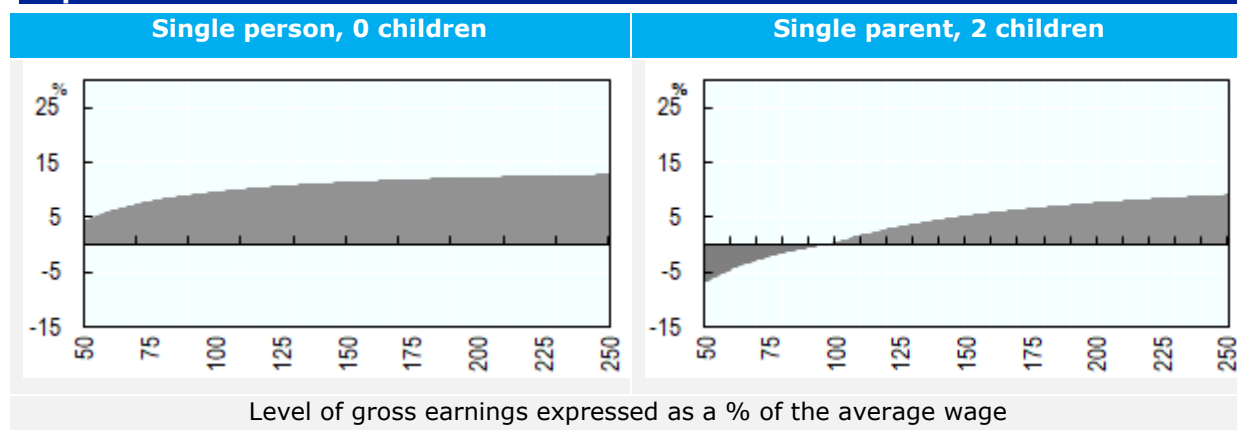
Table 2: Personal income tax for an individual without dependent persons working at minimum wage (all numbers are monthly, in CZK)

	2012-2013	2014	2015	2016	2017	2018
Minimum wage	8,000	8,500	9,200	9,900	11,000	12,200
Tax before tax credit	1,608	1,708	1,849	1,990	2,211	2,452
Basic tax credit	2,070	2,070	2,070	2,070	2,070	2,070
Tax after tax credit	0	0	0	0	141	382

Source: Own computations.

The most important component of financial support for families with children is child tax relief, which takes the form of a negative income tax. The previous government, established in 2014, decided to differentiate the amount of the relief, with a higher amount paid in the case of a second (and each additional) child in the family. The standard child tax relief is worth approximately CZK 28 billion (about €1.1 billion) to households; the differentiation then gives households with two or more children an additional CZK 5 billion (about €200 million). Since the child allowance amounted to only CZK 2.48 billion (less than €0.1 billion) in 2017, we can state that child allowance is a marginal benefit today, compared with child tax relief. **Moreover, since child tax relief is non-wastable** (even families with low incomes may utilize the full amount of the benefit), **it takes the form of child tax credit supplemented by child tax bonus** (negative income tax; for details see the following Figure 2).

Figure 2: Average personal income tax as % of total labour costs in the Czech Republic in 2017



Note: Average personal income tax is measured as % of total labour costs (y axes). Total labour costs include gross earnings and social security contribution paid by the employer. Since the child tax relief is non-wastable, the personal income tax may be negative.

Source: OECD (2018b, p. 84), authors' customisation of figures from OECD.

For taxpayers to be able to utilise the full amount of child tax relief (to be eligible for child tax bonus), their annual income from economic activity has to reach at least six times the national minimum wage. This rule creates a strong labour-participation incentive, mainly for single-parent families³.

³ The OECD (2018b, p. 35) grants effective taxation indicators an important role when assessing the labour incentives of households. At the same time, it shows (p. 61) that the difference between the income tax burden

2.1.2 In-work benefits

There are no in-work benefits in the Czech Republic (we do not consider child tax relief to be an in-work benefit). In our opinion, their introduction would not be a useful solution, for two reasons. Firstly, the current IWP rate for the Czech Republic is very low (connected with the low unemployment rate). Implementing an in-work benefit system could create negative work incentives for today's employees, which could paradoxically lead to stagnation or a moderate growth in poverty. Secondly, in recent years the government has been trying to reduce IWP by raising the value of the minimum wage and by increasing the value of child tax relief for families with more children. The latter are generally more vulnerable to poverty. Child tax relief, in the case of a single-parent family, fulfils a role that is otherwise entrusted to in-work benefits. The tools described above are closer to traditional market forces and so far seem to be working well in the Czech Republic, rendering in-work benefits unnecessary.

2.1.3 Minimum wage

Between 2013 and 2018 the minimum wage was increased several times, by a total of 52.5%, rising to CZK 12,200 (€476) from January 2018. The aim is that the minimum wage should equal 40.5% of the average wage, coming close to the level of 40% promised in a government declaration of 2014 (MLSA 2017a)⁴. In August 2018, the Ministry of Labour and Social Affairs (MLSA) submitted a proposal to the government to increase the minimum wage to CZK 13,700 (€534), that is by 12.3%, as from January 2019. The employers declared that they could only accept an increase of CZK 800 (€34.3). Finally, in November 2018, the government increased the minimum wage to CZK 13,150 (€512), that is by 9.6% (MPSV/MLSA 2018a). Cumulatively, these increases represent a substantial policy change that has contributed to keeping IWP at a low level. It is not only the 4% of the labour force on the minimum wage that benefit from these changes; the wage structure is also affected, as earnings that are close to the minimum wage are also pushed up. In an amendment to the labour code that is under preparation, the MLSA suggests that the minimum wage should be regularly reviewed each January and set at the level of 50% of the average wage in the preceding year (ČTK 2018).

2.1.4 Contributory and non-contributory benefits to working population

Generally speaking, social protection benefits provide much better replacement rates for low earnings than for middle and high earnings. Most family-related benefits are income-tested. The redistributive effect is considerable, helping to alleviate IWP. In recent years, the government has implemented some new benefits and increased the level of other ones.

In 2018, the amount of sickness benefit was increased from 60% to 66% of the daily assessment base (DAB)⁵ in the case of illness lasting for more than 30 days, and from 60% to 72% of the DAB in the case of illness lasting for more than 60 days. In November

faced by a single individual and by a single parent with two children (in both cases with a wage at 67% of the national average wage) is the largest in the Czech Republic among all OECD countries.

⁴ In 2007, the centre-right government then in power froze the minimum wage at the level of CZK 8,000 (€312) until 2013 when it resigned. The succeeding caretaker government increased it to CZK 8,500 (€331.5) in 2013. The centre-left government elected in 2014 has increased the minimum wage regularly in recent years: from CZK 8,500 to CZK 9,200 (€359) from January 2015, from CZK 9,200 to CZK 9,700 (€378) from January 2016, to CZK 11,000 (€429) from January 2017, and to CZK 12,200 (€476) from January 2018.

⁵ In the case of illness, the DAB is the base from which sickness benefit is calculated. The DAB for 2018 was calculated using an individual's average daily gross earnings, which were regressively taken into account as follows: up to CZK 1,000 (€39) – 90% of average daily gross earnings; from CZK 1,000 (€39) to CZK 1,499 (€59) – 60% of average daily gross earnings; from CZK 1,499 (€59) to CZK 2,988 (€118) – 30% of average daily gross earnings; earnings over CZK 2,988 (€118) are not taken into account. The above-mentioned coefficients are indexed on a yearly basis with respect to the growth of the national average wage (automatic indexation).

2018, it was decided that from July 2019 compensation for earnings lost in the first three days of illness was to be restored (60% of the DAB).

From 2018 onwards, fathers of newborn children have been entitled to paternity leave, which is accompanied by a benefit similar in amount to maternity leave benefit, at 70% of the DAB (the father is entitled to seven days off).

In 2017, the government increased child allowance, making it at the same time accessible to a broader group of lower-income families than before. From October that year, households were entitled to the child allowance if they fell below the reference income of up to 2.7 times (originally 2.4 times) the household living minimum level⁶. At around the same time, from January 2018, the benefit was increased by CZK 300 (€12) per month in the case of households that were not solely dependent on social assistance benefits.

Next, the government increased in November 2018 the parental benefit from the current total of CZK 220,000 (€8,630) to CZK 260,000 (€10,200) for parents with one child. Families with twins and multiples will be entitled to CZK 390,000 (€15,300), instead of today's CZK 330,000 (€12,940), from July 2019⁷.

2.1.5 Social assistance

There are some arrangements within the social assistance scheme that prevent IWP, while also providing work incentives, by granting higher benefits to those who work. Living allowance is set as the difference between the amount required for a person or family to live on (the living minimum) and the income of that person or family after deduction of reasonable housing costs. Only 70% of income from gainful activity (and 80% of unemployment benefits) is taken into consideration within the reference income.

Nevertheless, thanks to considerable tax credits, only a small fraction of people living on social assistance are working poor. For example, an analysis by Sirovátka et al. (2015) shows that in only 13.5% of the households of social assistance recipients was there somebody working in both 2008 and 2011 (55,000 and 98,000, respectively). In more than 90% of these households where somebody was working only one household member was working. This means that this measure covers about 1% of the labour force in normal times and 2% in times of economic recession.

In contrast to the other social protection benefits, the minimum income scheme⁸ is subject to restrictions. There is no guarantee of indexation/uprating of social assistance benefits in legislation. In consequence, the living and subsistence minimum levels were uprated only once between 2007 and 2018: by 9.1% in 2012, when the value-added tax/VAT on most consumer goods was increased. This means that their real value/purchasing power decreased by an estimated 15% over the whole period due to inflation. It was not until recently that the MLSA suggested an increase in the living minimum, from January 2019. The government refused the proposal in January 2019, arguing that first it would be necessary to revise the consumer basket prices (ČTK 2019). From December 2017, beneficiaries in receipt of social assistance benefits for longer than six months have been provided with, instead of cash, vouchers for the purchase of food, hygienic goods, medicaments, shoes and clothes. The actual ratio of vouchers to cash benefits ranges between 35% and 65% of the total amount of the benefit, depending on a discretionary decision made by the front-line staff of the Employment Office.

⁶ In the Czech Republic, child allowance is income-tested. The living minimum of a family serves as a benchmark for setting the entitlement. The higher the reference income of the family compared with the living minimum, the greater their entitlement to the allowance.

⁷ Parents can use the total benefit amount available during the period of four years, deciding the monthly amount of the benefit, while respecting the ceiling and the maximum duration of benefit receipt.

⁸ It includes the living allowance, the supplement to housing costs and extraordinary assistance.

2.1.6 Active labour market policies

During 2016-2017, with economic expansion, the number of participants in labour market measures dropped when compared with 2015, both in absolute and relative terms. In relative terms (measured in relation to the unemployment stock), it returned to the level of 2014 or 2010 – because the level of unemployment decreased considerably, this corresponded to 22-24% of the unemployment stock. Similarly, the number of participants in labour market training also dropped when compared with 2015.

During January-October 2018, there were 38,005 participants in ALMP measures, compared with 215,622 unemployed persons (October)⁹. The estimate for 2018 is about 45,000 participants, which was 21% of the unemployment stock. The number of labour market training participants dropped to 11,418. This was lower than the number of participants in public works (13,242). In times of high labour demand, however, we may expect that vocational training should be the key strategy to improve the employability of the unemployed. At the same time, access to good-quality jobs and remuneration might be better facilitated and hence IWP alleviated.

The targeting of the measures towards vulnerable groups appears sufficient in the case of those unemployed for more than five months and young people (under 30). On the other hand, older unemployed people seem to be underrepresented in the measures that have most potential to support their participation in the open labour market: see Table 3. Similarly, disabled people seem to be underrepresented in the measures, although we need to take into account other measures specifically addressed at them (see above).

Table 3: Targeting ALMP measures in the Czech Republic on specific groups of the unemployed

	Share in unemployment stock in %	Job subsidies in private sector (as % of all participants)	Targeting index	Retraining (as % of all participants)	Retraining by choice (as % of all participants)	Targeting index train./train. by choice
Disabled people	16.4	10.4	0.63	12.1	6.2	0.74/0.38
Over 50 years	36.5	23.8	0.65	27.8	14.4	0.76/0.39
Under 30 years	20.7	39.3	1.90	22.2	29.9	1.07/1.44
Registered for longer than 5 months	52.4	73.1	1.40	60.1	38.9	1.15/0.74

Note: Retraining by choice means that the unemployed are allowed to choose a retraining programme that is not offered by Employment Office.

Source: MPSV/MLSA (2018b), own computations.

A more detailed analysis, focused on the targeting of the measures at the low-skilled, was conducted on 2014 and 2015 data (Horáková and Sirovátka 2018). It shows that the indices of targeting at the low-skilled were 0.6 and 0.6 (retraining) in the two respective years. Weak targeting also concerns various at-risk sub-groups of low-skilled workers. In 2015, the targeting index of retraining was 0.4 for low-skilled workers aged under 20, 0.7 for workers over 50, 0.8 for the sub-group of disabled people, 0.3 for the sub-group of pregnant women and women up to nine months after the birth of their child, and 0.7 for the sub-group in need of special assistance.

⁹ Data by MLSA web portal.

2.1.7 Addressing labour market segmentation and non-standard employment

According to the latest available data on employment protection legislation, which map the situation in 2013 (OECD 2018a), the Czech Republic provided a considerably higher level of protection than was the average for OECD countries with regards to individual dismissals for regular contracts (the employment protection legislation/EPL index was 2.88, against the OECD average of 2.04) but a lower level of protection for temporary workers (the EPL index was 2.13, though still higher than the OECD average of 2.08). This means that, in general, the Czech Republic's employment legislation does not significantly alleviate labour market segmentation. The EPL index against collective dismissals is slightly below the OECD average (2.13 against 2.29, respectively) and, in the case of collective dismissals, regular contracts do not have so much protection.¹⁰

During the crisis (2008-2013), the difference in the EPL index as between regular and temporary contracts decreased: it was 3.00 against 1.88 in 2008, and 2.88 against 2.13 in 2013. The factors at play include, in particular, that the government amended the Employment Act in January 2011, obliging work agencies to insure against bankruptcy¹¹. Second, since 2012, work agencies have been banned from employing foreigners – foreign nationals have to be hired by companies directly. More security has been provided to occasional workers, such as written contracts (since 2011) and a maximum of two consecutive temporary contracts (since 2012). On the other hand, certain measures increasing flexibility have also been adopted, such as prolongation of the maximum duration of temporary contracts to nine years, and an increased ceiling on hours worked within a specific type of contract for work (from 150 to 300 hours a year) in 2012. Since then there have been no substantial changes in the area of EPL.

Since 2017 (Act No. 206/2017 Coll.), employment agencies have been obliged to lodge a deposit of CZK 500,000 (€19,500) when applying for permission to conduct business. The aim underlying this measure was to exclude untrustworthy agencies that seek ways of avoiding the duty to pay social security and similar contributions. On the other hand, temporary work agencies can still string together temporary contracts.

As regards labour market segmentation, the accent has long been on eliminating illegal work, which still seems to be widespread. This task is a long-term priority of the state labour inspectorate. It was recently decided to implement additional unplanned inspections of illegal work during September to December 2018, because there was evidence of increasing numbers of illegal workers, particularly those from third countries (MPSV/MLSA 2018c). However, all efforts seem to be ineffective, due to weak sanctions against employers: according to MLSA data, 2,445 persons performing illegal work were detected and penalties amounting to CZK 76,625,500 (€2,988,000) were imposed on employers during 2018, which was slightly more than CZK 31,000 per employee (approx. €1,209).

Apart from ALMPs and life-long learning (Section 2.2), there are no measures to support upward transitions to decent jobs or policies aimed at increasing work intensity at the individual and household levels.

¹⁰ As an illustration, the length of the notice period is two months for all types of contracts; severance pay is one to three times average earnings, depending on the duration of the employment relationship; trade unions and the PES office must be notified 30 days before implementation in the case of collective dismissals; temporary work agencies must not allocate the same employee to the same employer for a period longer than 12 consecutive calendar months.

¹¹ In 2009, the government was pushed to launch a new programme of support for immigrants in order to enable them to return home (providing them an airline ticket plus a lump sum of €500, later €300), although returning to their home country was often not possible because of debts they still hoped to somehow repay.

2.1.8 Effectiveness of the policies, their strengths and gaps

Policies to combat IWP seem to be effective, although an important reason for the low level of IWP in the Czech Republic is the low level of pre-transfer IWP.

The following section goes beyond the data commonly presented by Eurostat. For its preparation we used SILC survey microdata for the Czech Republic. The limitations described above were taken into account when calculating IWP. The following Table 4 shows what proportion of the working population would be affected by IWP if we were to exclude, and then include again, particular social benefits.

The individuals under study are generally not beneficiaries of retirement benefits. On the other hand, there may be such beneficiaries in their household. For example, a working man aged 62 may live with a partner aged 61 who is already retired. Her pension is then taken into account when deciding whether the household is at risk of income poverty (AROP). The amount of old-age and survivor benefits is many times larger than the other social transfers that Czech households receive. For all households, the provision of old-age and survivor benefits would reduce the AROP rate from 35.2% to 15.8%, but only from 11.1% to 7.4% for those we examine for IWP. On the other hand, we have identified sickness and disability benefits as having a major influence on the IWP rate, resulting in a further decrease from 7.4% to 4.9% (see Table 4).

Table 4: The impact of social benefits on IWP and AROP in the Czech Republic in 2017

Social benefits included (cumulative)	Share of IWP within persons examined	Share of AROP within all persons in Czech Republic
IWP before social transfers (ilc_li09)	11.1%	35.2%
Old-age and survivor benefits included (ilc_li10)	7.4%	15.8%
Sickness and disability benefits included	4.9%	12.4%
Unemployment benefits included	4.8%	12.1%
Family benefits and housing benefits included	3.8%	10.2%
Social assistance benefits included (care allowance benefits excluded)	3.7%	9.9%
IWP after all social transfers (ilc_li02)	3.6%	9.1%

Source: Authors' own microsimulation based on CZ-SILC data (2017).

Family benefits and housing benefits also have some impact on reducing the risk of IWP (by 1 p.p.). Unemployment benefits and social assistance benefits have only a negligible impact (by 0.1 p.p.), probably because they are prominently targeted at the non-working population.

All in all, social transfers seem to be quite effective in alleviating the risk of poverty: in 2017 they reduced the incidence of poverty by 74.1% for the entire population and by 67.6% for the working poor (from 11.1% to 3.6%).

The following Table 5 illustrates several aspects connected to tax reliefs and IWP. Firstly, since IWP relates to the working population, almost 100% of those examined were basic tax relief recipients and therefore the IWP rate among them (3.5%) was the same as the national average for 2017 (3.6%). If we were to exclude basic tax credit, the IWP rate would double to 7.3%. Approximately 48% of families received child tax relief in 2016. Since families with children are more endangered by monetary poverty, their IWP rate was 4.4%, and without the child tax relief it would have increased to 5.1%. As IWP focuses on the working population within the 18-64 age group, a theoretical withdrawal

of the above-described tax reliefs would hit the total population (AROP) more (see Table 5).

Table 5: AROP and IWP among recipients in the Czech Republic of selected tax reliefs (TR) in SILC 2017 (calculated for the total of the population and the IWP sample examined) and the effect of TR withdrawal

	Basic tax credit		Child tax relief	
	AROP	IWP	AROP	IWP
AROP/IWP among tax relief recipients	5.8%	3.5%	6.5%	4.4%
Share of tax relief recipients*	80.4%	99.9%	48.2%	48.2%
AROP/IWP without the given tax relief	12.5%	7.3%	11.2%	5.1%

Note: (*) measured as the share of the persons examined (IWP) or the share of all persons (AROP) who lived in a household with the given particular TR.

Source: Authors' own microsimulation based on CZ-SILC data (2017).

The following Table 6 shows the rate of IWP among the persons examined in households that are recipients of selected social benefits. At the same time, it shows how many persons lived in households receiving these benefits in 2016 (the income reference period for SILC 2017 is the year 2016).

Table 6: IWP among recipients in the Czech Republic of selected social benefits in SILC 2017 (calculated for the IWP sample examined) and the effect of benefits withdrawal

	Child tax bonus	Sickness benefit	Child allowance	Housing allowance	Social assistance
IWP among benefit recipients	14.3%	2.6%	16.8%	25.6%	38.1%
Share of benefit recipients	9.9%	19.4%	5.0%	1.3%	0.5%
IWP without the given benefit	3.9%	4.3%	3.6%	3.7%	3.7%

Source: Authors' own microsimulation based on CZ-SILC data (2017).

Almost half the persons examined came from households with dependent children; and nearly 80% came from households with two or more adults. These characteristics determined the social benefits which the household obtained in 2016 (SILC 2017). Approximately 5% of the persons examined lived in a household which received child allowance, and 9.9% lived in a household which received child tax bonus (negative income tax). As lower-income households were more likely to be entitled to these benefits, the IWP rate was also higher among them. The risk of IWP was even greater in the case of those receiving social assistance. Persons who work for at least half the year are usually not recipients of social assistance benefits (0.5% of the persons examined). On the other hand, in their case, the IWP rate reached 38%. If social benefits had not been given it would, in most cases, have led to a negligible increase in the number of persons at risk of IWP: this is partly because of the small number of people whose family was receiving the benefit, but also because these persons were already (for the most part) in IWP.

Rather the opposite is the case when it comes to sickness benefits recipients. Nearly 20% of the persons under study were from households that received this benefit, but only 2.6% of them were affected by IWP. On the contrary, among the households that did not receive sickness benefits, 3.8% were affected by IWP. This somewhat paradoxical situation highlights two facts. Firstly, people who are sick and receive sickness benefits do not experience a drop in income pushing them into poverty (the benefit is provided for a rather short time and its replacement ratio is sufficient). Secondly, persons with entitlements to sickness benefits are typically employed (the self-employed mostly opt

out of sickness insurance) and have a permanent contract. Such persons are, naturally, at a lower risk of IWP. In 2017 removal of sickness benefit would have led to an increase in the share of persons affected by IWP from 3.6% to 4.3%.

To sum up, those measures found to be most effective are tax bonuses for low-earners, which improve the latter's net earnings considerably when compared with other income brackets. Second, social transfers are also effective (mainly pension, sick pay, family and housing benefits). To some extent, also, the minimum wage contributes to the low level of IWP¹².

On the other hand, we have identified some weaknesses of the policies, such as the limited scope and inadequate targeting of life-long learning and ALMPs at the low-skilled and other vulnerable groups. Further, labour market segmentation policies are not strong. This means that measures that could improve access for the working poor to good-quality jobs are underdeveloped.

2.2 The policies (more) indirectly influencing IWP

2.2.1 Childcare

The IWP rate is relatively high in the case of families where only one parent works (on a low wage), particularly in single-parent families who find it difficult to re-enter the labour market after parental leave and often get precarious jobs. The huge child employment penalty, which exceeds 40% (for details see Sirovátka, Jahoda, Malý 2018b), is due to a lack of childcare facilities for children (particularly those aged under 3).

A key step in enhancing the supply of childcare was the 2016 Education Act that gave the right to a place in kindergarten to children aged 4 from the school year 2017/2018, to those aged 3 from school year 2018/2019 and to those aged 2 from school year 2020/2021. However, the capacity of kindergartens has grown slowly, especially for children under 3. Instead, support has been given to alternatives to kindergarten, that is to childminding groups. In October 2018, there were 830 childminding groups with a capacity of 11,000 children. Due to the fact that these places can be shared between children, 14,000 children were enrolled (data on the age of the children is not available), and 500 children were in micro-nurseries (Mladá fronta dnes 2018, MLSA 2018d). In April 2018, Civic Democratic deputies proposed cancelling the guarantee of a place in kindergarten for children at age 2. The proposal was passed by parliament and approved by the senate in July that year, within the framework of the Education Act Amendment¹³. This development represented a setback.

The financial affordability of childcare represents an obstacle for low-earners: whereas the fee in kindergarten is about CZK 500 (€19.50) monthly, the average fee in alternative childcare/childminding groups is CZK 2,500 (€97.50) (five times as high) and private kindergartens cost about CZK 10,000 (€390) monthly (Mladá fronta dnes 2018). To compare, the median monthly wage of women with only basic education/lower secondary education was CZK 18,092 /CZK 18,922 (€706/€738) in 2017¹⁴.

For this reason, the MLSA plans to provide support to childminding groups after European Social Fund (ESF) support expires in 2020, and to cap the maximum fees in childminding groups at CZK 4,000 (€156) monthly with a recommended fee of CZK 1,000 (€39). If the latter fee were charged, tax relief on childcare in the amount of 1/12 of the minimum wage would completely cover the fee (MPSV/MLSA 2018d).

¹² As mentioned above, the 4% of the labour force on the minimum wage directly benefits from increases in it; but the wage structure is also affected, as earnings that are close to the minimum wage are pushed up.

¹³ See <http://www.msmt.cz/reforma-financovani-bude-spustena-od-r-2020-schvalil-senat?source=rss>

¹⁴ Data from the Czech Statistical Office: <https://www.czso.cz/csu/czso/struktura-mezd-zamestnancu-2017>

2.2.2 Healthcare and long-term care

There is a comprehensive health insurance scheme based on permanent residence that includes also those who work for employers based in the Czech Republic and persons seeking international protection. It may be regarded as providing a high level of financial protection and enhancing affordability. Out-of-pocket payments are among the lowest in OECD countries. They concern over-the-counter pharmaceuticals, certain dental procedures, emergency care charges, and co-payments on medical supplies and prescription pharmaceuticals whose price exceeds the reference price in a particular pharmaceutical group. The caps on drug co-payments per year have been significantly reduced as from 2018: to CZK 1,000 (€39) for elderly people and CZK 500 (€19) for children. Eurostat data show that only 0.2% of the population over 16 self-reported unmet need for medical treatment on the grounds that it was 'too expensive'. Elderly people were more vulnerable than the working-age population (for details see Malý 2018a).

The long-term care system increasingly relies on informal care provided by family members and faces serious challenges since it is not able to cover the increasing demand for care. At the same time, clients' fees represent the main funding resource for eldercare and long-term care. This means that the burden of care for family members and associated fees can lead to financial deprivation and poverty among low-earning families.

Since 1 June 2018, the position of family members providing long-term care for their relatives has partly improved as a new sickness insurance allowance was introduced: 'long-term caregiver's allowance' (*dlouhodobé ošetřovné*). The carer, whether employed or self-employed, will be compensated for the loss of earned income from work that had to be interrupted, at the same rate as in the case of short-term care, i.e. 60% of the DAB, during the period when they provide care for a family member (maximum 90 days). The employee cannot be dismissed and, after the care responsibilities end, is guaranteed to return to the same job under a new regulation in the Labour Code. Nonetheless, this measure only covers a short period and may be regarded as only an emergency measure before long-term care is ensured (for details see Malý 2018b).

2.2.3 Inclusive workplaces for disabled people

In 2017, the Employment Office provided support to 8,552 (19%) out of the total of 46,009 disabled unemployed (MPSV/MLSA 2018e) in the form of various ALMP measures, such as job creation and job maintenance, occupational rehabilitation and tax subsidies¹⁵. The cost of the measures was CZK 5.72 billion (€230 million), compared with CZK 5 billion (€195 million) in 2016. A major part of this sum was directed towards supporting workers' wages, paid to their employers. This is a considerable amount of support, as the costs of ALMP measures were CZK 4.7 billion (€183 million) in 2017, and CZK 6.9 billion (€269 million) in 2016 for comparison (MPSV/MLSA 2018b).

The most important item of expenditure was support to employers where more than half the workforce had a disability. These employers are entitled to a contribution towards wage costs in the amount of 75% of the wage costs, capped at the level of CZK 12,000 (€468) a month, which is less than the minimum wage. The level of support on any measure does not appear sufficient or capable of guaranteeing the necessary quantity and quality of jobs for disabled people. Their employment rate remains very low (for details see the Employment Act and assessment in Sirovátka, Jahoda, Malý 2018).

The Czech Employment Act establishes the right for disabled people to be offered 'work rehabilitation', including an individual rehabilitation plan. The plan consists of a broad

¹⁵ The share of disabled people in the unemployment stock was 16.4 % in 2017, which means that they get a slightly stronger support (measured in terms of quantity) when compared with the other groups of the unemployed.

range of measures starting with individual counselling and diagnostics: such an approach could potentially yield good-quality jobs for disabled people. However, it is not a widely used measure: in 2017, only 195 people were supported under the rehabilitation programme and 420 individual rehabilitation plans were delivered (MPSV/MLSA 2018b). This covered a negligible proportion of the total number of disabled unemployed people (less than 1% of 46,000).

2.2.4 Life-long learning

Overall, the participation rate of adults (aged 25-64) in any life-long learning (within the last four weeks) is rather low in the Czech Republic, and is further declining. It dropped from 11.1% in 2012 to 9.8% in 2017 (whereas in the EU-28 it increased from 8.5% to 11.3% in the same period)¹⁶. Participation in life-long learning is particularly low for the disadvantaged categories of labour force: in 2017 it was only 3.1% for the low-skilled (ISCED 0-2) whereas in the EU-28 it was 4.3%; in the case of those aged 55-64 it was 4.7%, which was less than in 2012 (in the EU-28 it was 6.3% in 2017); in the case of the unemployed it was 5.3%, again less than in 2012 (in the EU-28 it was 10.1% in 2017). Evidently, life-long learning does not contribute very much to improving the chances of disadvantaged groups improving their position in the labour market.

It is indeed a long-standing policy shortcoming that there is a lack of certificated vocational training/life-long learning programmes with the potential to sufficiently increase qualification levels. One such example is modular vocational training programmes. These may provide a range of skills demanded by employers if delivered with appropriate content and quality. Unfortunately, this problem has not been effectively addressed. Currently there is some progress taking place. The MLSA recognised the problem in the Government Resolution No. 1127 of 14 December 2016. The resolution suggested a range of measures to balance labour market supply and demand including new measures. A current project supported from the ESF ('Kvasar') has conducted an analysis of vocational training programmes suitable for modularisation. It will also continue (until September 2021) development of an innovative system of vocational training – modularised retraining designed in cooperation with employers (MPSV/MLSA 2018e).

2.2.5 Support for housing

The Czech Republic is characterised by a strong owner-occupied housing sector; the tenanted sector is rather stagnant. Clients of the latter tend to be citizens who, for various reasons, are unable to acquire, keep and maintain their housing. The AROP rate for home-owners and rent-free persons compared with tenants was 6.7% and 20.9%, respectively, in 2017. In rented housing, a small proportion of households are fully dependent on social benefits, and these households do not enter the IWP analysis. Therefore, looking only at the group selected for the IWP analysis, we can say that the IWP rate was 3.0% among owners and rent-free persons compared with 6.4% among tenants in 2017. Individuals in rented housing (16.4% of the analysed group) were thus exposed to a double burden. Firstly, their incomes were lower than those of owners (83.6% of the analysed group). Secondly, they are also exposed to higher housing costs, whose impact on the IWP calculation is not taken into account (more on this issue in Section 4).

The situation is not made any easier by the absence of social housing. The law on social housing was a pivotal social measure for the previous government (2014-2017), but it failed to gain support in parliament. There has been a shift in the perceived need for the law under the current government (see Šimánek 2018), which prioritises support for the private housing sector (whether rented or owner-occupied), whereas the issue of social

¹⁶ Data by Eurostat.

housing for pre-defined social groups has been sidelined. Lack of financially affordable rented housing will have a negative impact on the labour market when unemployment rebounds from its current low level and starts to grow again. Obstacles to work mobility in this part of society will lead to IWP growth.

2.2.6 Affordability and accessibility

Affordability and accessibility is satisfactory in some policy areas but less so in others. Generally, healthcare is both affordable and accessible. Also childcare in public kindergartens is both affordable and accessible to children over 3. Families with low incomes, typically single-parent families, can claim reduced kindergarten fees. On the other hand, other forms of childcare are less affordable (childminding groups and private facilities). There is a lack of places for children under 3.

Long-term care is neither fully affordable nor sufficiently accessible, especially for families on low incomes, when considering the extent of care needed, as user fees represent a major source of financing. However, no data are available on the targeting of childcare and eldercare. These services are probably underused by low-income families.

Measures of life-long learning and ALMPs are less well developed; their targeting at the low-skilled, for example, is rather weak.

The affordability of rented housing is a problem for low-income families, particularly considering rising housing costs. Housing benefits are capped and often do not appropriately cover housing costs.

3 Policy debates, proposals and reforms on in-work poverty and recommendations

Basically, the issue of IWP as such is not identified as either a challenge, a subject of policy discourse or a problem for public discussion. Rather, the related issues are addressed in policy debates concerning, for example, wage increases (for certain professions in the public sector) and increases in the minimum wage.

During the crisis years, the issue of IWP/wage increases was not, for a long time, the subject of public and policy discourse in the Czech Republic. There were probably two reasons behind this neglect. First, the centre-right governments established in 2007 and 2010 prioritised cutting the yearly public deficit to zero, based on a strategy of cutting social expenditure. This objective was repeatedly echoed in political campaigns run by right-wing parties. Regarding the incomes (either earnings or social benefits) of low-income brackets, the policy discourse focused on "halting misuse of benefits" and activating welfare recipients (see Government Declaration, 2007; 2010). Welfare dependency also became a key argument used by the right-wing governments when advocating welfare state reforms aimed at cutting public spending (Government Declaration/Programové 2007, Programové 2010). Second, in the context of the crisis and rising unemployment, the labour force and trade unions moderated their wage demands. The government took advantage of this development and froze the minimum wage.

The situation changed from 2015 onwards. First, in 2014, a new centre-left government was established led by Social Democrats. The new government abandoned the discourse of welfare dependency and misuse of social benefits. Instead, it declared (Government Declaration 2014) that it would increase the minimum wage to a level allowing a decent standard of living for employees, independently of social benefits.

The new government coalition of the Movement ANO and Social Democrats, established in June 2018, declared that it would not allow dependence on state assistance to become a lifestyle choice for people who were capable of working. At the same time, it declared

that it would set binding rules for a predictable rise in minimum wages (Government 2018).

The national reform programmes of 2017 and 2018 did not address the issue of IWP at all: it was not considered an important problem related to the alleviation of poverty. The social inclusion strategy 2014-2020 (of 2013) did not pay attention to IWP either. The only related concern is that the interlink between social benefits and incomes from employment does not provide sufficient economic incentives for job search. This has resulted in a situation where family income does not cover employment-related costs such as childcare and travel. Actually, the common public and policy discourse widespread in various policy institutions such as the Employment Office (a personal experience of the authors based on a series of interviews), and also shared by the media, highlights the issue that social benefits are often more advantageous than low-paid work. As a matter of fact, this is a less explicit version of the welfare dependency problem, one that emphasises a lack of economic incentives rather than a moral failure of welfare recipients (the 'making work pay' discourse).

During 2015-2018, the policy discourse was to some extent affected by the trade unions' campaign for 'An End to Cheap Labour': during the campaign, four public meetings were organised and numerous media releases were issued. The campaign was launched in September 2015 as a reaction to rapid economic growth (of 5.3% in 2015). The trade unions pointed out the widening gap between economic growth and wage growth and the low level of wages in the Czech Republic when compared with the EU average. The trade unions recommended their members to help negotiate a 3-5% wage growth in 2016; a wage growth target of 8-10% was recommended for 2018 (in 2017, GDP grew by 4.3% and real wages grew by 3.6%); unemployment is extremely low and the demand for labour is growing. This campaign also influenced the 2017 parliamentary elections campaign: the Social Democratic party, in particular, adopted the arguments and the general objective of promoting stronger wage growth¹⁷.

The government pays attention to salary increases in the public sector, with an emphasis on specific professions. The government increased the salaries of social workers and workers in social services by 23% from July 2017 and, in September 2017 it decided to increase the wage rates of employees in the public sector by 10% and the salaries of teachers by 15% from November 2017. In recent years, in reaction to the shortage of nurses and midwives, the government approved annual pay raises of 10% for these healthcare professionals. Lastly, teachers' salaries should increase by another 15%, and salaries of non-teaching staff by 10%, as from 2019 (for details see Sirovátka, Jahoda and Malý 2018a, 2018b).

The Czech section of the European Anti-Poverty Network that represents Czech NGOs concerned with the issue of poverty and social exclusion recently published a report on IWP (EAPN 2018). The report has identified the following key challenges related to IWP: the problem of over-indebtedness and enforcement proceedings; increasing housing costs and a lack of a system of affordable housing; the difficulties women face when re-entering the labour market after parental leave, including a lack of childcare options; and the persistently low level of the minimum wage. The report recommends action to tackle over-indebtedness; develop a system of social and affordable housing; and guarantee every child older than 2 a place in kindergarten, childminding group or nursery.

In the Czech Republic, no comprehensive approach towards the issue of IWP has been adopted. Implicitly, however, policies are traditionally guided by the values and norms that respect social equality principles. This is mirrored in the tax system, and the social benefit system is also highly redistributive towards low-earners. The tax system

¹⁷ See: https://www.denik.cz/z_domova/cssd-vyhlasuje-vaiku-v-kampani-chce-konec-levne-prace-20170810.html

combined with wage policies by employers result in a low pre-transfer poverty rate and the effectiveness of social benefits in alleviating poverty seems to be relatively good.

What seems to be a problem are: ineffective social services, such as lack of affordable childcare and affordable housing; a poorly functional system of enforcement and debt relief procedures; a lack of effective support in accessing good-quality work such as vocational training and life-long learning; and the lack of a reliable and predictable minimum wage revaluation mechanism.

EU funds are being used to address some of these gaps. In particular, the majority of ALMP measures are financed from the employment operational programme, as is the development of childcare facilities. To illustrate, in 2017 the contribution from the ESF towards ALMPs represented CZK 2.9 billion (€115 million) out of the total of CZK 4.8 billion (€185.5 million). In the first half of 2018, the ESF contribution represented CZK 1.5 billion (€57.8 million) out of the total of CZK 2.3 billion (€88.7 million) (MLSA/MPSV 2018b, 2018f). Regarding childminding groups, two calls on the fund in autumn 2017 equalled CZK 1.5 billion (€58.5 million), with the total planned budget until 2020 amounting to CZK 4.5 billion (€167 million) (MLSA/MPSV 2017b). Another problem is that these resources largely substitute for national resources, rather than adding to them.

3.1.1 Recommendations

As regards access to affordable childcare, a guarantee of places for children under the age of three is needed. Second, the principle of financial affordability needs to be accommodated in such a way that zero costs are incurred by low-earners.

Gender equality in households in terms of sharing childcare should be supported. To this end, parental leave needs to be redesigned (in the sense of linking it to earnings and including some periods available only to fathers).

The development of professional, accessible and affordable long-term care remains a challenge.

Effective support facilitating access to good-quality work, such as vocational training and life-long learning measures, is needed. To this end, it is necessary to significantly broaden the range of modular vocational training programmes that can increase the employability of disadvantaged groups.

A reliable and predictable revaluation mechanism for the minimum wage and subsistence minimum level should be put into legislation.

Affordable housing for low-income brackets needs a legislative measure, such as a social housing act, and stronger financial support to develop the sector of affordable rented housing.

A consumer protection system preventing indebtedness needs to be implemented, and the system of enforcement proceedings and debt relief needs to be streamlined in order that enforcement and debts do not lead to IWP and harm work incentives.

4 Assessing data and indicators

SILC data provide sufficient information on the IWP issue for the Czech Republic. The IWP indicators supplied by the ESPN core team based on Eurostat statistics offer adequate insight into the scale and structure of IWP in society. We were sometimes missing information on the weight of a specific social sub-group, but using the SILC 2017 microdata we were able to add this information. We lacked more details on the impact of individual social benefits on IWP, too. Obtaining this information required using the basic techniques of microsimulation modelling and formulating basic assumptions about the impact of the analysed tax and benefit instruments on the analysed households.

A shortcoming of the IWP indicators used is that they do not take into account the amount of mandatory household expenditure and focus solely on income. Part of this deficiency has already been dealt with by the income equalisation process based on the existence of economies of scale. Income equalisation works well with average consumer expenditures where prices across a particular market do not differ fundamentally (bread, gas, television, etc.) and where expenditures are made by the whole of society. The economies of scale take into account the non-linear effect of these expenditures on different household sizes. It is, however, problematic that there is a lack of consideration given to housing expenditure, and to the problem of over-indebtedness and the related debt relief process, particularly in the Czech Republic.

As we showed in the latest Country Profile (June 2018), the economic recovery since 2015 has been reflected in a rapid increase in house prices and rents. Households in rented housing face high housing prices and their disposable income is generally lower than that of households in owner-occupied housing. The IWP rate is 3.0% and 6.4% for persons in ownership and rented housing respectively. As shown in the following Table 7, if we include imputed rent and consider it as owners' income (for methodology see Balcázar et al. 2017), the IWP rate for people in rented housing increased to 10.2% in 2017. People in rented housing are often beneficiaries of the housing allowance, which helps them cover high housing costs. At the same time, this benefit lifts the household income above the poverty line and so the household can no longer be considered poor. The second alternative scenario, therefore, shows the potential impact of the cancellation of housing allowance on IWP (see Table 7). In the case of persons in rented housing, the IWP rate would be higher. A similar problem of high costs of living is faced by the group of households with a mortgage (25% of home-owners). Although the average mortgage rate between 2012 and 2016 fell from 3.59% to 1.88% (the rate was 2.66% in October 2018) and the average wage increased by 18% between 2012 and 2017, the average mortgage instalment as a share of the average wage did not change significantly over the period.

Table 7: In-work poverty for owners compared with tenants and for two alternative scenarios of income calculation for the Czech Republic in 2017

In-work poverty in SILC 2017			IWP if owners' imputed rent is considered as income			IWP without housing allowance		
owners	rented	total	owners	rented	total	owners	rented	total
3.0%	6.4%	3.6%	2.7%	10.2%	3.9%	3.0%	7.2%	3.7%

Source: Authors' own microsimulation based on CZ-SILC data (2017).

The SILC survey does not reach the groups of households that have the highest risk of getting into debt (see Biben 2018). These are groups that live in non-standard types of accommodation and in socially excluded localities that are difficult to reach out to. Biben (2018) also points out the methodological problem of measuring poverty among over-indebted people. In their case, statisticians take into account the income before debt deductions, which is higher than actual take-home pay. Biben (2018) cites Radek Hábl (author of the Map of Enforcement Proceedings¹⁸) who has made the following observation: "If we take into account enforcement proceedings and insolvencies, some 300,000 people may be affected by poverty. The proportion of poor people in the Czech Republic, calculated using adult population data, would increase by about four percentage points." Critics of the current debt-relief regulation point out that the requirement to pay off at least 30% of one's debt pushes some debtors into the shadow economy since there is no advantage in getting an income from legal employment (Lederer 2018).

¹⁸ The interactive Map of Enforcement Proceedings shows in which parts of the Czech Republic this problem is most pressing. The map is only in Czech.

Due to low IWP rates, this issue is not systematically monitored in the Czech Republic. One partial exception was the report by Sirovátka et al. (2012), which followed the impact of the economic crisis (the monitored period was 2008-2011) on middle-income population groups. However, the analysis was not primarily focused on the working population, but more generally on the Czech middle-income population.

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