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YOUTH UNEMPLOYMENT IN THE CZECH REPUBLIC AND TARGETS FOR 2020 IN THE LABOUR MARKET

Abstract:

Youth unemployment in the EU and in the Czech Republic has increased significantly in recent years. This is partly a consequence of the economic crisis that has hit Europe since 2008. This article also analysis other factors, which had an impact on the increase in youth unemployment in the Czech Republic. Strategic objectives of EU employment and training for the labour market were confronted with the methodology of measurement of employment and unemployment, and supplemented by information on the application of ESA 2010, Comprehensive revision in the national accounts by Czech Statistical Office since October 2014. Primary research among high school students across the Czech Republic and students of Faculty of Management and Economics, Tomas Bata University in Zlín in the years 2011-2014 found a weak focus in the choice of professions. The research used the classification system of professions according to Roe because of CZ-ISCO has proved to be unsatisfactory for this purpose. Student preferences in choosing the professions largely do not match the structure of the Czech economy. Research, on the other hand, confirmed the prevailing educational aspirations of students at the bachelor level of the tertiary education. This is important to fulfilling the target that 40% of the population aged 30-34 years successfully finish tertiary education till 2020. Lengthening the period of economic inactivity of students before entering the labour market in the borders of 26 years will bring increased demand for funding from relatives. This will deepen intergenerational problem - 50 years old parents will have to take care of their dependent offspring in studies, but they should save money for retirement. This problem can threaten funding for studies of young people. On the other hand, it could accelerate the access of young people to the labour market.

Keywords:

Labour Market, Youth Unemployment, ESA 2010, Educational Aspirations, Choice of Professions

JEL Classification: J21, J24, J23

Introduction

Youth unemployment in the EU and in the Czech Republic has increased significantly in recent years. This is partly a consequence of the economic crisis that hit Europe since 2008, but there are also non-cyclical factors influencing the growth in unemployment (Švarcová, J, Gabrhel, V. and Cícha, O., 2014, p.10). This article analyzes selected factors in the Czech Republic with an impact on the increase in youth unemployment. As the first factor we analyze the professional orientation of young people in comparison with the structure of the Czech economy. The second factor can be unsuccessful educational aspirations, and related prolongation of economic inactivity before entering the labour market. These analyses are the subject of the Chapter 2. The starting point for our analyses we used indicators of EU and its individual members in the employment until 2020, which we analyze in Chapter 1.

1 Strategic targets for the EU in 2020 and their relation to the measurement of economic activity at the macroeconomic level

EU has set measurable employment targets to be achieved in 2020. It is not the task of this chapter to argue that those indicators are the right way to achieve economic development, or in a broader sense, increased prosperity in Europe and the nation states. For the purposes of this paper these targets are appropriate as comparative basis for evaluating current developments. The EU has set the following measurable objectives in the area of employment.

The headline targets for the EU in 2020

1. Employment

- 75% of 20 to 64 year old men and women to be employed

2. R&D

- 3% of GDP to be invested in the research and development (R&D) sector

4. Education

- Reduce the rates of early school leaving to below 10%
- at least 40% of 30 to 34 year olds to have completed tertiary or equivalent education

Source:

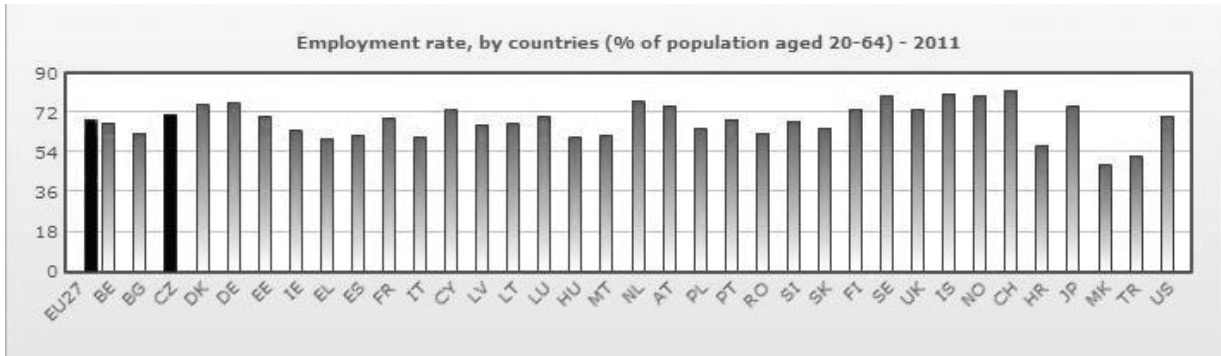
http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators/targets

Target Employment: 75% of 20 to 64 year old men and women to be employed

Czech Republic belongs to mainly industrialized countries. It is positively reflected in higher organization and involvement in economic activities, than in countries

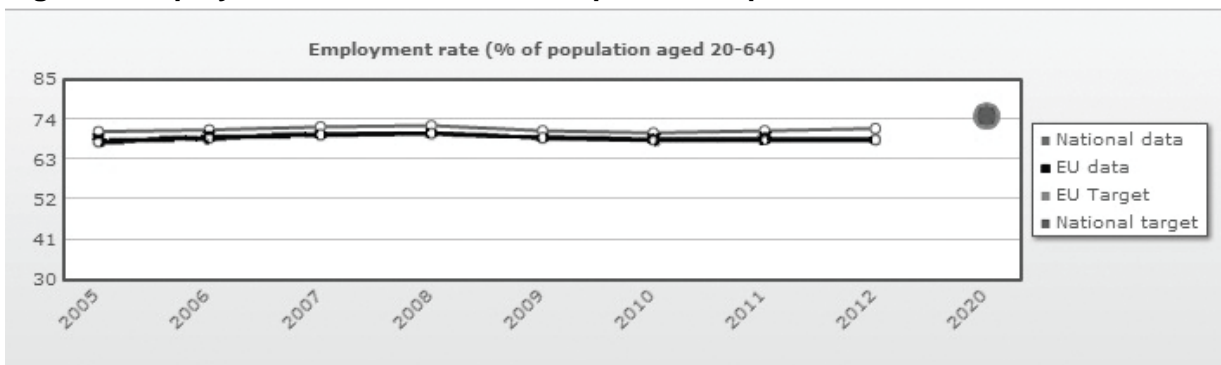
traditionally agrarian-oriented in the south wing of Europe. The average value of employment in the Czech Republic according to Eurostat methodology was at the level of 71% in 2011, compared to the EU 27 average achieves long-term lower values below 70% (see Figure 1 and Figure 2).

Figure 1 Employment rate in the Czech Republic according to Eurostat methodology in 2011 compared to the EU



Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

Figure 2 Employment rate in the Czech Republic compared to the EU in 2005-2012



Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

From Figure 1, we learn that the developed EU countries such as Germany, UK and Nordic States achieve even higher values of employment (we can compare with Norway and Switzerland, which are not EU members). In contrast, the southern EU members have a significantly lower value of the employment rate. EU target for 2020 is to achieve 75% employment rate, which appears to be realistic goal for the Czech Republic, as shown in Table 1.

Table 1 Employment rate in the Czech Republic in 2005–2013 compared to the target

http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

Czech Republic Download data for country

UNIT	REFERENCE PERIOD					TARGET	TABLE		
	2005	2009	2010	2011	2012			2013	
75% of the population aged 20-64 should be employed									
Employment rate - age group 20-64	% of population aged 20-64	70.7	70.9	70.4	70.9 (b)	71.5	72.5	75	

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

The indicator of employment at 75% of the population aged 20-64 years has its macroeconomic logic. On one side gives sufficient space for obtaining qualification before entering the labour market, on the other side it respects prevailing retirement age in the EU, and thus the end of the economic activities and the beginning of retirement, whether from public or private pension systems. Average 44 years of economic activities of individuals seems to be sufficient for the smooth functioning of redistributive processes. Recent experience from the first years of economic crisis in 2009 and 2010, however, have shown how drastic decline in the cyclical development of the economy may bring - a pension account in the Czech Republic after years in surplus immediately fell into deficit in the tens of Billions of Czech crowns and accelerated the debate on the need for reform of the pension system.

Employment rate of the age group 20-64 represents employed persons aged 20-64 as a percentage of the population of the same age group. The indicator is based on the EU Labour Force Survey. The survey covers the entire population living in private households and excludes those in collective households such as boarding houses, halls of residence and hospitals. The employed persons are those aged 20-64, who during the reference week did any work for pay, profit or family gain for at least one hour, or were not at work but had a job or business from which they were temporarily absent (definition at eurostat.ec.europa.eu/). The figures are estimations from Labour Force Survey. LFS concentrates on all persons usually living in private households. The survey does not cover persons living in collective accommodation establishments for a long time, which is why data on certain population group (foreign nationals living and working in the Czech Republic in particular) are rather scarce (http://www.czso.cz/eng/redakce.nsf/i/employment_unemployment_ekon).

Indicator definition has its limitations - one of the constraints is very easy spillover between economically active and economically inactive population, especially among young people. A young person can be student (economically inactive), in another reference week he is employed (economically active) and in another week the same person is looking for work and is unemployed (economically active).

Economic activity and employment are usually given in relation to the GDP. Latest revision of national accounts according to European standards ESA 2010 (results were published in the Czech Republic in October 2014), involves certain additional question. In the national accounts there are getting estimated variables such as self-supply households and GDP is already produced by economically inactive people (work of person in the household or assistance between neighbors, but also illegal prostitution, production of drugs for personal use etc.).

Indicator of the rate of economic activity will increasingly diverge from quantification of the GDP - GDP is not generated by unemployed people, even if they are part of the

economically active population, but instead most economically inactive people will contribute to GDP.

Table 2 Tertiary educational attainment

http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

Czech Republic Download data for country

	UNIT	REFERENCE PERIOD						TARGET	TABLE
		2005	2009	2010	2011	2012	2013		
The share of early school leavers should be under 10% and at least 40% of 30-34 years old should have completed a tertiary or equivalent education									
Early leavers from education and training	% of population aged 18-24	6.2	5.4	4.9	4.9	5.5	5.4	5.5	
Additional data (Show)									
Tertiary educational attainment	% of population aged 30-34	13.0	17.5	20.4	23.7	25.6	26.7	32	
Additional data (Show)									

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

2 Non-cyclical factors influencing the growth in youth unemployment in the Czech Republic

The former successful strategy in the labour market was "I am going to do what my parents do". Every day a young man can see what such work entails and, moreover, may partly rely on relational capital that parents can use to help young person to initial employment. We asked in repeated surveys among undergraduate students, how many of them want to do what their parents do, but the proportion of young people who responded positively was surprisingly low.

The survey involved 387 students of the first year of bachelor study (full-time) FAME Tomas Bata University in Zlín. The age of respondents was 19 to 20 years. Average educational attainment of father and mother of respondents was at the level of maturity (average father's education 3,054 and mother's 3,036, at the scale where the value 3 is equivalent to high school graduation, the value 2 - apprenticeship, the value 4 - higher vocational school, the value 5 - bachelor's degree, the value 6 - master's degree). The level of educational aspiration of respondents was higher than the actual average educational attainment of their parents.

The results of surveys conducted among students

Table 3 "I want to do similar work, as my parents".

YES	79	20%
NO	271	70%
I do not know	37	10%
Number of respondents	387	100%

Source: Own elaboration

Students usually do not want to do the same job as their parents (and reproduce the current structure of the Czech economy). On the other hand students do not realize that in principle many students are economically dependent on their parents (and their jobs), as shown in the following Table 4.

Table 4 “During my studies, my parents pay some of the costs”.

25 % of the costs	29	8%
50 of the costs	62	16%
75 % of the costs	161	42%
100 % of the costs	130	34%
Number of respondents	382	100%

Source: Own elaboration

Only 8% of students declared that from their parents receive a contribution of only 25% reimbursement of their costs. Other students are on their parents significantly economically dependent.

Table 5 “My bachelor's degree followed directly to the study of high school”.

YES	329	87%
NO	49	13%
Number of respondents	378	100%

Source: Own elaboration

The predominant proportion of respondents followed bachelor's degree directly to the study of high school (see Table 5). Only 13% of respondents have already been in practice before joining the university, some of them engaged in top sport, or were on the non-profit work abroad.

Students are not interested in work of their parents, but they are economically dependent on their parents' money. The work of parents may to some extent represent the current structure of the national economy of the Czech Republic. In principle, there is the thesis that students are not interested in their future professions to copy the current structure of the economy.

What profession young people choose for their future career - it was the fundamental question of our primary research in the segment of high school students in the Czech Republic. The first findings were published in 2011 by Švarcová Chochořáková, Dobeš and they examined primarily structural discrepancy in the labour market in the Czech Republic between the structure of the economy and the occupational choices of high school students. Electronic questionnaire was completed by 854 students of high schools from across the country. Two dimensional classification model of professions according to Roe (Roe, A. & Klos, D. 1972; Roe, A. & Lunneborg, P., 1990; Vendel, Š., 2008, pp. 32-37) was used instead of the CZ-ISCO, because CZ-ISCO proved to be unclear for students. The first investigation showed that the greatest disparities arise in the occupational group oriented towards techniques and technologies that are currently leaders of the Czech economy and the labour market shows overhang of demand of companies, however, students of high schools have little interest in these professions. Even some students of technical high schools in their electronic questionnaires reported that after graduating from high school they are certainly

unwilling to continue to work with technical focus (in our research, it was 23 % of respondents, but the research sample was not large, therefore this number cannot be taken as representative). The very fact that such students in the survey discovered, is the signal that the segment of technical disciplines needs deeper analysis and finding the causes of disproportion of demand and supply in the labour market in the Czech Republic.

The second finding of this first study was that students tend strongly on the contrary to choose professions creative and media interesting (actor, artist and top professional athlete, etc.). The labour market in the Czech Republic, however, shows a drastic oversupply of these graduates over demand of Czech companies. Both of the above trends are not affected by stage of economic cycle. Students do not respond on the market laws (technical professions are due to surplus of demand of companies fairly good pay of that students have seen wages in the questionnaires for each profession, but this information did not stimulate students to change their career decision).

Discussion and conclusion

EU target for 2020 shows that young people should be more educated (achieve higher average education in comparison with their parents). This goal is achievable, according to our research. The question is what can be the impact of this strategy. Recent developments in the Czech Republic shows that the young generation will study longer and they will enter the labour market later. However, the educational aspirations of many students of the first year of bachelor study will not be finally met because many students do not succeed in graduating the university study. Some students do not complete this study and money spent (partly money of parents and partly state money) will be wasted investment.

Problem 1: if a large part of the population (target 2020 says 40%) achieved tertiary education, the labour market will enter very many graduates without demand from companies that require such qualifications. This can lead to a widening of the structural gap between demand of companies and supply of graduates. If the high supply of university graduates reduces the wages of such work in the labour market, the interest of the households for university studies may fall in the future. This direction is supported by the higher risk of failed investments mentioned above. Conclusion 1: demand from companies for graduates is equally important as interest of households in difficult university studies and related investments.

Problem 2: research shows that many students choose a profession without taking into account the structure of the labour market in the Czech Republic (relatively low interest in technical fields). The branch structure of the students' interest should match the structure of the economy. The invisible hand of the labour market does not ensure it yet.

Size of graduate unemployment is the result of cyclical fluctuations in the economy and non-cyclical causes as well. The pressure to increase the level of education regardless of the Czech economy structural layout can then be reflected in the final impact of even higher youth unemployment.

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