

ČMKOS study

When will **Czech wages be comparable** to the developed EU?

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EXECUTIVE SUMMARY

This study is a follow-up to primary CMKOS programming documents developed in recent years. In the study, The Czech-Moravian Confederation of Trade Unions expresses its negative attitude to the prevailing economic model of the Czech Republic in a comprehensive way and proposes its fundamental change.

CMKOS considers the economic model of a low-cost economy, which have been applied to the Czech Republic since the early 1990s to be a harmful, preventing real convergence of the Czech Republic to developed countries, a model of a dependent developing country.

The sacrifice that Czech employees have brought to the transformation of the Czech economy have been wasted by political elites. Economic and social reforms have made the Czech Republic a dependent developing country. Thirty years after the start of the economic transformation, the level of hourly wages reaches less than one third of the level of more developed neighbouring countries.

The current economic policy does not guarantee any economic or social convergence of the Czech Republic to the most advanced countries of the European Union within reasonable

time. Even at current rates it would take at least another 80 years to reach wage levels of the more developed neighbouring countries; such prospect is so far-off that its fulfilment is highly unlikely.

Not even the continuance of the current positive trend of wage convergence (2014-2017), supported by the appreciation of the Czech Koruna against the euro by 10-30%, does not, in fact, offer a timely perspective of reaching labour costs of our more developed neighbours within a human lifetime. Given the current trend and structure of the Czech economy, the convergence with the most developed EU countries in terms of wages (labour costs) has no solid starting point. Model calculations clearly indicate that the Czech economy finds itself in the middle income trap. The only chance for the Czech Republic as a medium developed country with a long industrial tradition is to quickly and fundamentally change its economic policy - its economic model, otherwise it will remain permanently locked in this trap.

The immediate goal of CMKOS policy is to mitigate the adverse impacts of the low-cost (cheap labour) economy model in the Czech Republic.

What does it mean?

1. Change the unfair distribution of value added

- Czech employees, due to their low wages, actually subsidize the very high profitability of companies operating in the Czech Republic; the total volume of this "subsidy" reached CZK 4.5 trillion for the period from 1991 to 2017.

- In the Czech Republic, there is relatively significant room for faster wage growth than labour productivity, currently at a level of at least 8 percentage points.

2. Prevent uncontrolled inflow of cheap labour from abroad

- If labour force import into the Czech Republic

grows at the current rate, the excess demand on the labour market will disappear in the foreseeable future and wage convergence will slow down significantly.

- With the slowdown or decline of the economy, the number of migrants on the Czech labour market does not decrease proportionally; on the contrary, they remain there and compete with domestic employees; this already showed in the 2009-2013 crisis.

- The Czech labour market is the most liberal of all CEE countries regarding foreign workers; the share of foreigners in total employment of 12.5% achieved in 2018 in the Czech Republic is unusually high. According to repeated observations from the Czech business community, there is an alleged need of another 400,000 foreign workers in the Czech Republic. If this happens, the number of foreigners on the Czech labour market will reach approximately 1.1 million persons (excluding family members) - more than 10% of the total Czech population and 21% of total employment.

- Massive import of cheap labour causes and intensifies not only security risks (significant concentration in some regions, different demographic structure, links to criminal groups, illegal migration) and health risks (introduction of diseases eradicated in the Czech Republic), but also political risks (increase of xenophobia and strengthening of radical movements).

3. Reduce extremely long and harmful working hours in the Czech Republic

- Working time is one of the basic indicators of the country's development and the performance of its economic model. The most developed EU countries with intensive character of economic growth are countries with the shortest working hours. Extensive economic growth is a characteristic of less developed, low-cost economies, which

increase their performance by increasing the employment per unit of product created and extending working time.

- On the other hand, long working hours dampen the negative social consequences of very low hourly wages, but this is a desperate solution, disrupting not only the personal and family life of employees, but also over the long term overloading their organisms, even their health or life.

- Regarding working hours, there is an approximately 50-year gap between the Czech Republic and developed EU countries. In 2017, the average number of hours worked by an employed person reached 1784 hours, which was almost a third longer than in Germany. The working time of a Czech employee, compared to a German employee during their entire working life, is 11 years longer.

4. Significantly strengthen the social partnership and collective bargaining system

- Strengthen the role of the Council of Economic and Social Agreement in preventing and resolving social conflicts.

- Increase support for the negotiation and expansion of higher level collective agreements.

- Increase support for collective bargaining over public sector wages.

- Ensure regular indexing of the minimum wage.

- Strengthen the participation of employees' representatives in the supervisory boards of public limited companies.

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The principal aim of CMKOS policy is to remove the model of cheap labour in the Czech Republic and replace it with the model of support for modern development. The key conditions for a successful change in the Czech Republic's economic model are:

- Achieving a national agreement on cooperation between major political parties, social partners and the bulk of society on major economic and social changes,
- Intensifying the fight against corruption, organized crime, tax evasion, money laundering and undeclared work, usury and usurers,
- Preparing a project for the change of Czech economic strategy.

The CMKOS idea of a change in the Czech Republic's economic strategy

I. Strengthen the role of the state, formulate and enforce key infrastructure projects

- Develop quality network of fast internet and optic fibre networks across the country as a basis for digitalisation;
- develop nuclear energy and the related energy industry;
- prepare and implement projects developing water transport in the Czech Republic on the axis Vltava - Elbe - North Sea, Danube - Oder - Baltic Sea;
- implement projects aimed at the conservation and cost-effective management of water (and combating drought) and afforestation;
- implement high-speed rail projects;

II. Support education, research, development

- Substantially increase support for technical education - from apprenticeships to secondary technical schools to universities - by introducing dual vocational training;
- substantially increase support for research and development with the aim of increasing the share of technology in Czech exports;
- establish a state export company to support the export of Czech technologies;
- coordinate the development of science and technology parks and innovation centres;
- direct a significant inflow of money into the development of science and research on condition of a change in the way it is managed and increased efficiency;

III. Support other key areas

- Completely change the existing support of Czech agriculture in order to increase the share of domestic food consumption to 80-90%;
- support small and medium-sized enterprises - and transform the existing CMZRB (Czech-Moravian Guarantee and Development Bank), or to create a new bank providing real support to start-up entrepreneurs and the SME segment;
- support the development of tourism, ensure a coordinated approach (ministries, regions, municipalities) and a significant improvement;
- support the development of rental housing - construction of at least 50 thousand rental flats with reduced rentals (similar systems with lower rentals work in Western Europe, e.g. in France);

IV. **Bring order and justice to public finances**

- In proportion to the tasks set out in the previous paragraphs, fundamentally restructure the public finances and the tax system;

- establish order in the tax system and ensure elementary tax justice;

- on the revenue side, change the structure of the tax system and strengthen direct taxes, property taxes and introduce tax progression;

- make all taxpayers equal (address the tax distortion between employees and self-employed persons);

- broaden the tax bases in all tax areas;

- address the abuse of internal transfer prices and intragroup service provisions for tax optimization purposes;

- develop and implement a comprehensive action plan to combat the informal economy, undeclared work and tax evasion;

- on the expenditure side, carry out a detailed audit of all expenditure items of all parts of public finances and, on the basis of this audit and the selected priorities, deliberately reduce the expenditure side of public budgets.

Notes: