

## The rise in Czech unemployment, 1998–2000

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Between 1990 and 1994, unemployment in the Czech Republic averaged only 2.8 percent, a rate less than a third of that found in other Central East European transitional economies such as Hungary, Slovakia, and Poland. As late as 1997, the unemployment rate was only 4.7 percent compared with 10.7 percent in Hungary, 11.2 percent in Poland, and 11.6 percent in the Slovak Republic. The picture has changed recently, as unemployment has risen steadily since 1996, and was 8.8 for 2000.<sup>1</sup> This report, an update to our 1998 *Monthly Labor Review* study,<sup>2</sup> examines the reasons underlying the recent increase in unemployment, and discusses why there might be a long-term upward ratcheting of the unemployment rate.

### The picture prior to 1997

Our earlier report noted six reasons for the low rate of unemployment in the Czech Republic, both in absolute terms, as well as relative to other Central and East European nations. First, the Czech government drastically devalued the Czech crown, more than the devaluation seen in neighboring countries. The result was a decrease in the price of Czech exports and an increased demand for labor. Second, the Czech workforce was perceived as possessing a relatively high level of education, on a par with that found in Germany. Third, the Czech economy also relied on a system of tripartite employer, labor, and government

wage setting. This coalition kept the level of wages relatively low and hence the level of employment high. Fourth, a very active Public Employment Service with low ratios of unemployed persons to staff members was able to place unemployed workers relatively easily. Active labor market policies such as subsidizing employers for job creation were also used.<sup>3</sup> Fifth, the policies of both a low level of minimum wages and unemployment insurance benefits kept the cost of labor low to employers and made the alternatives to working less attractive to potential workers. Sixth, the relatively small agricultural sector meant there were fewer types of these workers, who tend to have more difficulty in finding jobs after the transition from a planned to a market economy.<sup>4</sup>

Despite these factors holding down the level of official unemployment, hidden unemployment in the form of non-productive workers being retained at State-controlled and other firms was seen as a potential problem. The voucher privatization system, used to transfer the government's share of enterprises to private owners, frequently left the old pretransition managers in charge and the government in control of many of the important decisions of these firms, such as the level of employment.

### The 1997 crisis

In 1990, the Czech government devalued the Czech crown and fixed the exchange rate, which stimulated the export of Czech goods. This deep devaluation, along with the other factors listed above, resulted in low levels of unemployment through 1996. Given the strong foreign market for their goods, coupled with limited pressure from the government to restructure, firms did not take full advantage of this opportunity to layoff nonproductive workers. Thus, the favorable position of high demand due to the devaluation was eroded over time because of a domestic inflation rate of 10 percent per annum and rising real

wages. By the first quarter of 1997, the trade deficit rose to a figure equal to 11 percent of gross domestic product (GDP).<sup>5</sup>

The Czech government attempted to support the fixed exchange rate by increasing the demand for Czech currency. This was done, in part, by raising interest rates, which resulted in a negative effect on both domestic consumption and investment.<sup>6</sup> In May 1997, the efforts to support the currency were abandoned, and the crown was allowed to float. Although this brought about an end to the extremely high interest rates and reduced the cost of Czech exports, the psychological after-effects of the devaluation eroded the confidence of Czech consumers and investors and contributed to the beginning of a Czech recession.<sup>7</sup> Falling incomes due to the loss of confidence exacerbated the decline in aggregate demand. As a result, real GDP declined in 1997 and 1998, while the unemployment rate rose from 3.5 percent in 1996 to 7.5 percent in 1998, and the level of employment fell by 171,000 workers. (See table 1 for background on changes in the overall performance of the Czech economy.)

While the foreign trade deficit was increasing, the Czech government was also experiencing an increase in the magnitude of its budget deficit. The government budget deficit rose from an amount equal to 0.1 percent of GDP in 1996 to 1.6 percent of GDP in 1998.<sup>8</sup> This rise precluded any attempts to stimulate the economy with either increased government spending or tax cuts, which would have only worsened the government's already large and increasing budget deficit. Hence, eroding confidence due to the devaluation of the Czech crown, high interest rates, and the government's inability to employ fiscal policy resulted in the beginning of a recession. Unemployment rose to more than 8 percent in January 1999—where it has remained—resulting in the unemployment rate, which was less than 4 percent, to more than double.<sup>9</sup>

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## A long-run increase in the unemployment rate

A number of factors may contribute to the unemployment rate staying at these higher levels over the next few years and perhaps even rising. If this occurs, the Czech economy, which held the position of having the second lowest unemployment rate among the Organization of Economic Cooperation and Development (OECD) nations in the mid-1990s, will join the group of European nations with persistently high unemployment rates. Czech unemployment may become chronic as a result of 1) incomplete transformation of enterprises, 2) problems in the banking system and bankruptcy procedures, 3) lack of adequate financial regulation, 4) the level of social welfare payment, and 5) limits on worker mobility. These factors, which in some cases also helped precipitate the recent rise in unemployment, in some cases, also are interrelated.

*Incomplete transformation.* The Czech government relied heavily on a system of voucher privatization. Although this system did redistribute the ownership of firms from the state to private owners, it did not effectively transform enterprises to operate competitively under a market system.<sup>10</sup> Under the voucher privatization system, Czech citizens aged 18 and older could purchase books of voucher coupons for a nominal charge. These coupons were used in a multiround auction process in which shares of ownership were distributed for more than half of the large firms that were privatized.<sup>11</sup> Individuals could either buy the shares themselves or purchase them through one of more than 400 Investment Privatization Funds (IPF.) There were two waves of voucher privatization, in 1992 and 1994, with approximately two-thirds of the shares ultimately remaining under the control of the IPFs after both waves had

transpired.<sup>12</sup> The Czech government retained ownership in a number of utilities, steel mills, and until recently, the four major banks.

The voucher privatization system effectively transferred ownership, but did not lead to a restructuring of the firms. Some authors even referred to this as “pseudo-privatization.”<sup>13</sup> The ownership of each firm was dispersed among many individual shareholders, each of whom owned an extremely small part of the company and hence, found it difficult to gather the requisite number of votes to effect a change in enterprise. The IPFs also had a limited ability to control firms, as they were legally constrained from owning more than 20 percent of a firm. The result was that the old pretransition management team, which had no experience in operating in a competitive environment, frequently remained in place. Compounding the problem, the diverse owners found it difficult to apply cost-cutting measures to firms through such means as a reduction of redundant, nonproductive workers.

Given the nominal cost of the vouchers, the privatization also did not result in the acquisition of capital for the firm or revenue for the government. Further, voucher privatization failed to lure new owners with deep pockets and experience in operating under a market system.<sup>14</sup> IPFs, in many cases, did not apply pressure to firms to restructure themselves. The government, which owned the banks that owned the IPF management firms, faced political consequences if it allowed an increase in unemployment resulting from reductions in the level of employment.

Without pressure on management to restructure and layoff nonproductive workers, the competitive position of Czech firms eroded, resulting in the trade imbalances that precipitated the 1997 devaluation of the Czech crown.<sup>15</sup> Had major restructuring and the termination of the employment of nonpro-

ductive workers occurred during the mid-1990s when unemployment was low, it would have been easier for these individuals to find work. Additionally, the government could have offered greater training and relocation assistance, as it was not faced with the magnitude of budget deficits it faces today. Two alternatives exist. The Czech Republic could still opt for restructuring, which might lead to increased international competitiveness. This could, in turn, cause an increase in unemployment from an already high level. The other alternative is to simply further delay restructuring and layoffs. For the moment, this will not increase unemployment, but it may require government bailouts and delay the changes necessary to restore productivity growth in the Czech government.

*Problems with the Czech banking system and bankruptcy procedures.* Four large banks have dominated the Czech banking scene in the last few years; Komerční Banka (KB), Česká Spořitelna (ĚS), Investiční a Poštovní Banka (IPB), and Československá Obchodní Banka (ĚSOB).<sup>16</sup> Until recently, the Czech government substantially controlled the four, but has sold ĚS, IPB and ĚSOB and is arranging for the sale of KB.<sup>17</sup> Czech banks had made credit relatively easy to obtain in the past, and firms had relied on bank financing to a larger extent than had similar firms in Hungary and Poland.<sup>18</sup> Government control of the banks, which circumscribed their actions, coupled with a weak bankruptcy law have both slowed the pace of transformation and resulted in a shortage of capital to healthy firms seeking bank loans.

Normally, when banks extend loans to firms, debtor bankruptcy filing remains the method of last resort for the creditor or lender to obtain the repayment of funds. The bank can either demand certain actions of a debtor firm or invoke bankruptcy proceedings. Al-

**Table 1.** Overall performance measures of the Czech economy, 1993–2000

Statistic	1993	1994	1995	1996	1997	1998	1999	2000
Unemployment rate (percent) .....	3.5	3.2	2.9	3.5	5.2	7.5	9.4	8.8
People unemployed (in thousands) <sup>1</sup> .....	1,852	1,665	1,530	1,863	3,689	3,869	4,876	4,574
Real gross domestic product <sup>2</sup> :								
Level (billions of 1995 Czech crowns) .....	1,275.3	1,303.6	1,381.1	1,447.7	1,432.8	1,401.3	1,390.6	1,071.9
Growth (percent) .....	.1	2.2	5.9	4.8	-1.0	-2.2	-2	2.8
Employment (in thousands) <sup>1</sup> .....	—	4,885	4,963	4,972	4,937	4,866	4,764	<sup>3</sup> 4,742
Consumer price index:								
Percent change .....	18.2	9.7	7.9	8.6	10.0	6.8	2.5	4.0
Overall real wage:								
Percent change .....	3.7	7.7	8.7	8.8	1.9	-1.2	6.0	<sup>4</sup> 2.4
Trade (millions of Czech crowns):								
Exports <sup>5</sup> .....	414.8	458.4	569.5	588.7	722.5	805.3	908.7	808.6
Imports <sup>5</sup> .....	430.1	498.1	667.1	748.3	866.5	932.7	974.5	885.4
Balance of trade <sup>6</sup> .....	-15.3	-39.7	-97.5	-15.5	-144.0	-82.3	-65.8	-76.8
Current account balance <sup>5</sup> .....	13.2	-22.6	-36.3	-116.5	-101.8	-43.1	-35.5	-47.0
Exchange rate:								
Czech koruna / German Deutsche Mark ...	17.64	17.75	18.52	18.06	18.28	18.33	18.86	18.21
Czech koruna / U.S. dollar .....	29.16	28.78	25.55	27.14	31.71	32.27	34.60	38.59

<sup>1</sup> Number of registered job applicants.

<sup>2</sup> For the 1993–99 period, data are for all four quarters; for 2000, data are for the first quarter.

<sup>3</sup> Data for 2000 are for the third quarter.

<sup>4</sup> Data for 2000 are for the first three quarters.

<sup>5</sup> For the 1993–99 period, data are for all four quarters; for 2000, data are for the first three quarters (preliminary data).

<sup>6</sup> Data for 1993–98 are in accordance with methodology for customs statistics in force since January 1, 1996. Data for 1999 and 2000 are in accordance with revised methodology for customs statistics since July 1, 2000.

SOURCE: Czech National Bank, *Inflation Report, January 2001*. Prague, Czech Republic, available on cd. For growth of real GDP, see "European Bank for Reconstruction and Development," *Transition Report, 2000*. London, European Bank for Reconstruction and Development.

though bankruptcy law exists in the Czech Republic, it is not often used effectively. In 1996, the total number of bankruptcies completed, that is, instances in which the bankrupt firm was either liquidated or reorganized, was 725, a figure not even a tenth of that found in neighboring Hungary. Even when bankruptcy is declared, the time required for the lender to recover its assets can be quite long. Court-appointed bankruptcy administrators are paid based on the duration of their assignment and thus have an incentive to overextend the process.<sup>19</sup> Firms that cannot repay their loans may continue to operate without laying off nonproductive workers or making other changes, as full and final bankruptcy is a distant and, possibly, unlikely outcome. Against this backdrop, the large Czech banks extended even more loans,

hoping to eventually recapture the original funds if the firm's fortunes improved. The resulting poor loan portfolios meant high losses for the banks. KB reported that in 1996, for almost one-third of its loans, neither interest nor principal had been paid within the last 30 days, and the figure was more than 20 percent for both IPB and ES.<sup>20</sup> This resulted in the Czech government continuing to spend funds to support these banks. In 1998, for example, the government spent the equivalent of \$120 million to bail out ES at a time when it was already facing a budget deficit.<sup>21</sup>

Currently, healthy firms find it difficult to borrow additional funds from banks. Banks are hesitant to lend if they cannot wield the power of bankruptcy proceedings to ensure repayment. Foreign and privatized Czech banks also are hesitant to lend for this reason, and

the nonprivatized Czech banks such as KB have limited resources given the large number of delinquent loans that are not returning the necessary capital for new loans.<sup>22</sup> Hence, the problems of the banking system, along with the relatively ineffective bankruptcy law, have slowed the pace of firm restructuring and are contributing to a current credit crunch. This lack of firm restructuring and a dearth of credit might lead to high sustained levels of unemployment until the banks are fully privatized and an effective bankruptcy system is in place.

*Lack of adequate financial regulation.* The Czech Republic unfortunately has experienced problems with financial regulation. The general director of one of the four largest banks faced charges of embezzlement in 1997, and 11 execu-

tives of the fifth largest bank faced similar charges. In addition, senior managers of Investment Privatization Funds (IPF) paid inflated prices for companies and siphoned off part of the funds for personal gain.<sup>23</sup> Tunneling, the taking of the property of an IPF or firm by a person or persons with a controlling interest is widespread. The Czech Ministry of Finance cited more than 1,400 such cases for 1996.<sup>24</sup>

A Securities and Exchange Commission (Commission) was created in 1998, but doubts exist as to its potential to adequately regulate equity markets. Although the Czech Commission was modeled after the American Securities and Exchange Commission, the government—not the Commission—sets rules and appoints the Commissioners. The ability of the Commission to carry out its tasks is dependent on the will of the government, and confidence is lacking in some quarters as to the government's commitment to effectively regulate the exchange of securities.<sup>25</sup> One additional problem in the Czech Republic is that unlike in the United States and England, where most fraudulent action is illegal, these same types of actions are legal in the Czech Republic unless specifically outlawed.<sup>26</sup> Under the category of competitiveness, Czech financial markets ranked 37th out of 46 nations, primarily due to weak controls on insider trading.<sup>27</sup>

Potential financiers must of necessity have second thoughts about investing their money in a nation if they believe that fraud might lead to the loss of these funds. In fact, American investors have complained that non-transparent or unethical practices are not uncommon at the company level in the Czech Republic. This is consistent with the fact that foreign direct investment, as a percentage of GDP, is lower in the Czech Republic than is the average for Hungary, Poland, Slovakia, and Slovenia.<sup>28</sup> Further, the government's strong emphasis on eliminating finan-

cial irregularities in both the public and private sectors has had little practical results.<sup>29</sup> To the extent that the potential for these types of irregularities serves to inhibit investment by both foreign and domestic parties, the result is a reduced level of employment. Foreign firms also bring in new management and production techniques that can aid in restructuring, as well as provide competition to domestic firms, spurring them to restructure as well. Hence, any reduction in foreign and domestic investment due to inadequate financial regulation can also retard restructuring and may create long-term chronic unemployment.

*The social welfare system.* The level of benefits available under the unemployment insurance system, *per se*, is not especially high. The typical recipient finds, on average, that monthly payments are capped at approximately one-quarter of the previous monthly earnings.<sup>30</sup> When a job is lost, however, and a family's income level declines, they potentially become eligible for a number of other means-tested programs including a child allowance, a social allowance to families with low income, a housing allowance, as well as other benefits. The combination of unemployment insurance and social benefits results in the typical unemployment insurance recipient receiving combined benefits equal to 47 percent of their gross earnings, a figure that is the second highest among the Organization of Economic Cooperation and Development (OECD) nations. Households with three or more children, which are receiving the various benefits, would see almost no change in their level of income if the adults in the home accepted a job.<sup>31</sup>

As is typical, the level of unemployment is higher for Czech workers with only a primary school education. In recent years, their relative position in the labor force has declined and the number of jobs held by these workers has

fallen by 28 percent.<sup>32</sup> As these workers, especially parents who have low potential earnings, experience unemployment as a result of the recent recession, they have found that the economic rewards from the social support system can easily outpace their limited earnings capacity. Moreover, as has happened in other nations, unemployment among this group could become long term.<sup>33</sup>

Other related protections for workers include requirements for dismissal notice and severance pay. Workers who are to be laid off permanently must be given at least 2 months' notice. If a firm wishes to lay off a worker temporarily, it must pay out 100 percent of an individual worker's average earnings, although this figure may be reduced to 60 percent if both parties have agreed so in advance. Firms with at least 20 employees must fill 4.5 percent of their positions with workers who have reduced abilities and at least 0.5 percent with severe disabilities.<sup>34</sup> These policies increase the cost of hiring new workers and, therefore, could reduce new hires during a future expansion and leave many of the unemployed without jobs.

*Limits on worker mobility.* Unemployment has not been spread evenly throughout the Czech Republic. In early 1998, when the national unemployment rate was 5.6 percent, the rate was more than 10 percent in several areas in the regions of Bohemia and Moravia, while the rate around Prague was under 1.5 percent.<sup>35</sup> Migration of unemployed workers from high unemployment areas to places where jobs are more plentiful has been limited. In response to a survey, 77 percent of unemployed Czechs stated that they found it unacceptable to move somewhere else solely for work-related reasons. Only 10 percent said they would willingly make such a move.<sup>36</sup> Further, many of the areas with low unemployment, such as Prague, have a shortage of adequate housing.

Moving might entail giving up adequate government-subsidized housing for a chance at a job, but the individual might find only inadequate housing in the new location. This lack of willingness to be mobile increases the degree of structural unemployment and has the potential to result in labor markets that retain high levels of unemployment over long periods of time.

GIVEN ITS LOW UNEMPLOYMENT RATE in the mid-1990s, the Czech Republic had an opportunity to restructure enterprises with a cushion of jobs for displaced workers. Unfortunately, although privatization occurred restructuring did not, and problems still persist in the banking sector and with the bankruptcy system. In the interim, the unemployment rate has risen to approximately 9 percent in the yearly average for 2000 and is projected to rise still higher. The lack of restructuring and the problems in the banking industry, compounded by the lack of an effective bankruptcy procedure, contributed to the increase in unemployment and could exacerbate the economic stagnation. Further, the considerable lack of adequate financial regulation also limits the ability of firms to raise sorely needed capital and may reduce employment growth in the future. The high level of benefits available to the unemployed, as well as their strong desire not to relocate could also contribute to a high unemployment rate. □

## Notes

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<sup>1</sup> Rheinisch Westfälisches Institut für Wirtschaftsforschung (RWI), *Konjunkturberichte [Economic Report]*, Jg. 51, H. 2 (RWI, Essen, Germany, 2000), p. 109. An alternative source to consult in English is *Business Cycle Reports*, Vol. 51.

<sup>2</sup> Robert J. Gitter and Markus Scheuer, "Low unemployment in the Czech Republic: 'miracle' or 'mirage'?" *Monthly Labor Review*, August 1998, pp. 31–37.

<sup>3</sup> Tito Boeri and Michael J. Burda, "Active labor market policies, job matching and the Czech miracle," *European Economic Review*, April 1996, pp. 805–17.

<sup>4</sup> Gitter and Scheuer, "Low unemployment in the Czech Republic," pp. 31–37.

<sup>5</sup> Organization of Economic Cooperation and Development (OECD), *Economic Survey of the Czech Republic: 1997–1998* (Paris, OECD, 1998).

<sup>6</sup> The Lombard Rate (the interest rate charged by the central bank for bank borrowings that are covered by securities) rose as high as 50 percent. For more information, see "The 1997 guide to emerging currencies," *Euromoney*, July 1997, pp. 28–29.

<sup>7</sup> OECD, *Economic Survey of the Czech Republic: 1997–1998*.

<sup>8</sup> Petr Chvojka and Petr Dufek, "Economic Outlook for the Czech Republic," *Ěskoslovenská Obchodní Banka, A.S.*, May 24, 1999.

<sup>9</sup> OECD, *Main Economic Indicators*, issued monthly, 2001.

<sup>10</sup> Roman Frydman, Cheryl Gray, Marek Hessel, and Andrzej Rapaczynski, "Private ownership and corporate performance: evidence from transition economies," *European Bank for Reconstruction and Development Working Paper, No. 26* (London, October 1997).

<sup>11</sup> See David Stark, and László Bruszt, *Postsocialist Pathways* (Cambridge, Cambridge University Press, 1998), parts II and III, pp. 51–201, for a comparison of privatization strategies in Central European countries.

<sup>12</sup> OECD, *Economic Survey of the Czech Republic: 1997–1998*, p. 50.

<sup>13</sup> Alice Amsden, Jacek Kochanowicz, and Lance Taylor, *The Market Meets Its Match: Restructuring the Economies of Eastern Europe* (Cambridge, MA, Harvard University Press, 1994).

<sup>14</sup> One prominent exception was the acquisition of Škoda by Volkswagen. See Gerlinde Dörr and Tanja Kessel, "Das Restrukturierungsmodell Škoda-Volkswagen—Ergebnis aus Transfer und Transformation" ["Škoda-Volkswagen as a restructurization model—outcome of the transfer and transformation"], (Wissenschaftszentrum Berlin [Social Science Research Center Berlin] (WZB)-papers, FS II 97–603, March 1997); and, also, Gerlinde Dörr and Tanja Kessel, "Restructuring via internationalization—the auto industry's direct investment projects in Eastern Central Europe," (WZB-papers, FS

II 99–201, 1999). A study cited in the OECD, *Economic Survey of the Czech Republic: 1999–2000* noted that firms privatized to foreign interests had twice the productivity levels of domestic firms. For a study about the problems of one of the former leading big Czech manufacturing firms that tried to privatize without foreign help or money, see Dirk Tänzler and Ivana Mazálková, "Dezentralisierung und Rezentralisierung—Restrukturierung eines tschechischen Maschinenbaukonzerns" ["Decentralization and recentralization—restructurization of a Czech mechanical engineering company"], (WZB-papers, FS II 96–601, August 1996).

<sup>15</sup> The growth of labor productivity clearly lagged in the 1994–1997 period. The average annual growth rate was only 2.7 percent in the Czech Republic compared to 3.5 percent in Hungary and 5.8 percent in Poland. The result was an 8.6-percent annual increase in real unit labor costs compared with virtually no change in Poland and a 6.2-percent annual decrease in Hungary. (OECD, *Economic Survey of the Czech Republic: 1997–1998*, p. 55.)

<sup>16</sup> Assets are for December 1996, and are taken from Anthony Robinson, "Czech Republic," *The Banker*, February 1998, pp. 48–49. These four were dominant as the assets of the fourth largest, ěSOB at that time, were approximately 7 times that of the fifth largest bank.

<sup>17</sup> IPB was sold to Nomura Securities but the bank collapsed and was put under the administrative control of the government before being merged with ěSOB. See *The Economist*, June 24, 2000. At the beginning of the year 2000, the Czech cabinet agreed to sell 52 percent of ěská Spooitelna to Erste Bank from Austria, which left leading Czech bank, Komerční Banka (KB), as the last major Czech bank to be privatized; for more information, see Jana Ruckerova, "Czech Republic: ěská Spooitelna sold, last major bank," Tradeport Trade Directory. Source: U.S. Department of Commerce, National Trade Data Bank, June 21, 2000, on the Internet at <http://tradeport.org/ts/countries/czechrep/mrr/mark0035.html> (visited September 20, 2000).

<sup>18</sup> Bank credit was used to finance 36 percent of investment in the Czech Republic in the 1990–94 period, a figure approximately twice that found in Hungary and Poland. (OECD, *Economic Survey of the Czech Republic: 1999*, p. 81.)

<sup>19</sup> OECD, *Economic Survey of the Czech Republic: 2000*, p. 88.

<sup>20</sup> Anthony Robinson, "Czech Republic," *The Banker*, February 1998, pp. 48–49.

<sup>21</sup> Massimo Calabresi and Jan Stojaspal, "Nothing to toast about: Czechs struggle to mend the tattered remnants of their velvet revolution," *Time International*, March 15,

1999, p. 18.

<sup>22</sup> KB had 80 billion Czech crowns of bad debt (more than 2 billion U.S. dollars) in 1999, which limited the Czech government's ability to sell a bank with such an unattractive loan portfolio. *Business Week*, March 3, 2000, p. 15.

<sup>23</sup> Jeremy Adams, "Hope and Opportunity Spring from Prague Reforms," *Corporate Finance*, September 1997, pp. 41–43.

<sup>24</sup> Martin Myant, "The Transformation of Czech Enterprises," in Martin Myant, ed., *Industrial Competitiveness in East-Central Europe* (Cheltenham, Edward Elgar, 1999).

<sup>25</sup> OECD, *Economic Survey of the Czech Republic: 1997–1998*, p. 64.

<sup>26</sup> Leah Bower, "Collaring financial criminals," *The Prague Post*, August 30, 2000.

<sup>27</sup> *The World Competitiveness Yearbook 1996*, (Lausanne), as discussed in Karel Zeman, *Competitiveness in Central and Eastern Europe*, Research Center of Integration

of the Czech Republic into the European Economy: Monitoring the Preparation of Transition Countries of EU-Accession, (International Institute for Management Development (IMD), 2000), pp.103–33.

<sup>28</sup> For an extensive survey of the problem of inadequate financial regulation in transitional economies see Joel S. Hellman, Geraint Jones; Daniel Kaufmann, and Mark Schankerman, "Measuring governance and state capture: the role of bureaucrats and firms in shaping the business environment: Results of a firm-level study across 20 transition economies," European Bank for Reconstruction and Development Working Paper, No. 51 (London, June 2000).

<sup>29</sup> Tradeport Trade Directory, Czech Republic 1999, "Investment Climate Statement," on the Internet at <http://tradeport.org/ts/countries/czechrep/mrr/mark0076.html> (visited September 10, 2000).

<sup>30</sup> OECD, *Economic Survey of the Czech Republic: 1997–1998*, p. 98.

<sup>31</sup> *Ibid.*, p. 100.

<sup>32</sup> *Ibid.*, p. 80.

<sup>33</sup> Local Public Employment Service and social assistance workers estimated that in 1997, about two-thirds of benefit recipients looked for work for the sole purpose of meeting the requirement necessary to receive benefits. (OECD, *Economic Survey of the Czech Republic: 1997–1998*, p. 103.)

<sup>34</sup> OECD, *Economic Survey of the Czech Republic: 1997–1998*, p. 92–93.

<sup>35</sup> Ladka Bauerova, "New joblessness comes in patches," *The Prague Post*, April 29, 1998. For calculations on an earlier period, see Michael J. Burda and Stefan Profit, "Matching across space: Evidence on mobility in the Czech Republic," *Labour Economics* (October 1996), pp. 255–78.

<sup>36</sup> Ross Larsen, "Who wants a job if it means moving?" *The Prague Post*, April 29, 1998.