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Low Pay and Income Poverty in the Czech Republic

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The Czech Republic has long been one of the countries with very low wage levels compared to its western neighbours. Among the OECD countries, it ranked sixth from the end ahead of Slovakia, Lithuania, Poland, Hungary and Mexico in 2017. Although there has been some closing of wage distribution and reduction of wage differences in recent years, in the context of low wage levels there is also an above-average share of employees who are remunerated by low wages. In the literature, the "low wage" is usually referred to as a wage not exceeding 2/3 of the country's median wage. In 2017, this share was 19.9% in the Czech Republic, while the OECD average was 15.6%.

Poverty is currently at a relatively low level in the Czech Republic - the at-risk-of-poverty rate, indicating the proportion of people in households below 60% of the median net national disposable income, was significantly lower than in majority of EU countries in 2017. Subjective poverty, indicating the proportion of people experiencing difficulty in making ends meet, was on an average value compared to the rest of the EU.

Despite the high relevancy of the issue, the phenomenon of low-wage employment and its relationship to income poverty have not been systematically analysed in the context of the Czech Republic yet. The aim of the article is therefore to fill this gap in the literature and provide a detailed and systematic view of the issue of low pay in the Czech Republic.

We firstly explore the development of wages and its main determinants in the Czech Republic on an aggregate level and compare it with the development in other countries of the Central and Eastern Europe and their Western European neighbours. Subsequently, the data from the European Union Statistics on Income and Living Conditions (EU-SILC) for period 2004-2017 provide a detailed picture of the characteristics of low-paid employees in the Czech Republic, both at the individual and household level. We examine the relation between low-pay work and non-standard forms of employment such as part-time or temporary employment. The aim is to find out to what extent low-paid employees are concentrated in the secondary sector of the segmented labour market. We also try to uncover the extent to which individual low wages and poverty at household level are interrelated. Finally, employing the similar methodological approach adopted from the existing research on Western European countries we try to identify the main determinants of low-wage employment in the Czech Republic. The specification of the empirical model builds on the research by Maitre et al. (2012), who conducted the analysis on the same data for Western European countries. Subsequently, following the previous research of

Clark and Kanellopoulos (2013), we try to find out to what extent low-wage employment is a steady state, i.e. whether there is some persistence or state dependence, or to what extent low-paid employment is the result of individual employee characteristics.