

The Socio-economic Status of Self-employed Persons in Czech Society

The results of the research in terms of the project
The Socio-economic Status
of Self-employed Persons in Society
no. 1J 047/05-DP1
from the Ministry of Labour and Social Affairs programme
Modern Society and Its Metamorphoses II no. TP5 – DP1

Ladislav Průša
Ivo Baštýř
Miloš Brachtl
Jan Vlach

Research Institute for Labour and Social Affairs, Prague
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Prof. Ing. Vojtěch Krebs, CSc. (Prague University of Economics)

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Abstract

A summary of the findings of the Social-economic Status of Self-employed Persons in Society, project no. 1J 047/05-DP1, which was executed by the Research Institute for Labour and Social Affairs in the years 2005-2008. The project was implemented under a programme called Modern Society and Its Metamorphosis, initiated by the Ministry of Labour and Social Affairs. Based on analyses of statistic data, the authors monitor the valorisation of the status of self-employed persons in the context of their economic situation, working and living conditions, their behaviour and attitudes in the Czech society after 1989. The authors refer to unresolved problems and suggest themes of further research.

Key words: self-employed, self-employment sector, micro-enterprise, taxation, false self-employed activity/work, living and working conditions

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Introduction

In the Czechoslovak centrally managed economy from the 1950s to 1989 almost all work was done as part of an employment relation. In line with the transformation of the economy during the 1990s, market institutes and mechanisms were created that enabled work to be done through self-employment as well as in a labour-law relationship.

A number of questions currently surround the performance of self-employment. There has been no comprehensive and objective analysis of the economic situation of the self-employed, their working and living conditions and their place in the social structure of society. That gives rise to subjective and conflicting opinions on their status and role on the market and in society. Assessments and interpretations of the problems are often one-sided and self-serving.

From 2005 to 2008 the Research Institute for Labour and Social Affairs (RILSA) carried out a project called The Socio-economic Status of Self-employed Persons in Society, no. 1J 047/05-DP1, which was intended to provide a comprehensive picture of the problems affecting the status of the self-employed in economic and social relationships in the Czech Republic. The project was supported by the Ministry of Labour and Social Affairs (MoLSA) under its Modern Society and Its Metamorphoses programme.

The research work's principal objectives were:

- to assess the institutional framework for self-employment, which was formed unsystematically;
- statistically and economically to assess the self-employment sector's share of the economy and to assess the standing of self-employed persons on the goods and services market and the labour market;
- to analyse the relationship between self-employment and public budgets;
- to assess the motivation to be self-employed;
- to describe the income and social situation of the self-employed;
- to describe the working and living conditions of the self-employed;
- to draw attention to the risks associated with self-employment.

The objective and comprehensive characterisation of the multifaceted issue of self-employment after its absence from the Czechoslovak economy in the second half of the 20th century is intended to serve as a foundation for decisions on suitable measures for the self-employment sector.

The research combined the analysis of statistical (hard) data on the numbers and structure of the self-employed workforce, its market standing, its incomes, the economic and legal framework for its activities, and (soft) data identifying their subjective attitudes, opinions, motivation, and working and living conditions. During the project, the research workers collaborated with experts from the Czech Chamber of Commerce, the labour offices, the Prague University of Economics, the Institute of Sociology of the Academy of Sciences of the Czech Republic, the Czech Statistical

Office, employer organisations, the Czech Social Security Administration, Všeobecná zdravotní pojišťovna (Universal Health Insurance Company), the Czech Tax Administration, the Czech Statistical Office (CzSO) and marketing agency Factum Invenio. The researchers divided the project into three phases:

1. analytical work – the development of self-employment since the beginning of the 1990s, the status of the self-employed on the labour market, and comparison with selected European countries;
2. execution and assessment of sociological research into the performance and conditions of self-employment;
3. preparation of a synthetic report.

In the first project phase the project team had to study the differences in definitions of self-employment and analyse relationships between various discrete systems (employment, enterprises, the tax system, social insurance, national accounts, income statistics etc.). The methodological incomparability of the source materials and acquired data made it necessary to work with models to formulate the key relationships. However, interpreting the identified relationships in terms of the legal framework and market relations brought a number of unresolved problems that made it difficult to explain a number of fundamental links. The unanswered questions from the "hard data" analysis formed the basis for formulating problems for the field survey in the 2nd research phase. The chosen sociological survey method paved the way for a comprehensive understanding of relationships based on a deeper and more detailed study of the personal conditions, behaviour and attitudes of the self-employed. This synthesis of the obtained findings was drawn up in the 3rd and final phase.

The outputs from the individual phases are available on the Research Institute for Labour and Social Affairs' website, www.vupsv.cz:

- Kotýnková, Magdalena - Baštýř, Ivo - Bruthansová, Daniela - Novák, Jaroslav: Socio-economic Status of Self-employed Persons in Society (interim report for 2005). Prague: Research Institute for Labour and Social Affairs, 2006. ISBN 80-87007-23-9
- Průša, Ladislav - Baštýř, Ivo - Bruthansová, Daniela - Brachtl, Miloš - Kotýnková, Magdalena - Kozelský, Tomáš - Novák, Jaroslav - Vlach, Jan: Socio-economic Status of Self-employed Persons in Society. Digest of analyses of the socio-economic status of self-employed persons in Czech society and in European Union countries. Prague: Research Institute for Labour and Social Affairs, 2006. ISBN 80-87007-33-6
- Baštýř, Ivo - Brachtl, Miloš - Vlach, Jan: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic 2006. Analysis of results. Prague: Research Institute for Labour and Social Affairs, 2007. ISBN 978-80-87007-85-3
- Průša, Ladislav - Bičáková, Olga - Boňka, Václav - Brachtl, Miloš - Bruthansová, Daniela - Kotrusová, Miriam - Křížková, Alena - Přeb, Jan - Vančurová, Alena - Vlach, Jan: Socio-economic Status of Self-employed Persons in Society II (digest of analyses of the socio-economic status of self-employed persons in society). Prague: Research Institute for Labour and Social Affairs, 2008. ISBN 978-80-7416-000-4

- Seminars for experts from universities, research organisations, ministries and business were held in 2006 and 2008 to verify the results of the first and second research phases:
- Seminar on the Results of Research into the Social and Economic Status of Self-employed Persons. Accessible in the Papers – analyses section at <http://www.vupsv.cz/>.
- Seminar on the Results of a Field Survey on the Social and Economic Status of Self-employed Persons. Accessible in the Papers – analyses section at <http://www.vupsv.cz/>.

This study represents a synthesis of the findings gained by analysing statistical data from the individual systems (Labour Force Survey, Register of Economic Entities, statistics on small and medium-sized enterprises, social insurance, national accounts, income statistics, the tax system etc.) and an interpretation of fundamental relationships with regard to the institutional framework, the behaviour and attitude of self-employed persons as identified by the field survey of the self-employed. The project team dealt with the socio-economic issues of the heterogeneous group of self-employed persons in relatively separate blocks:

- characteristics of the self-employment sector;
- motivation to be self-employed;
- the status of self-employed persons in the economy;
 - share of GDP;
 - relationship with public budgets;
 - false self-employment;
- social status of the self-employed:
 - income conditions;
 - working and living conditions.

The authors of the final report would like to thank their other colleagues who participated in the project, most notably the project head in 2005 and 2006, Doc. Ing. M. Kotýnková, CSc.

1. Research methodology and organisation

The subject of the research in the project of the Socio-economic Status of Self-employed Persons in Society, done by a research team from the Research Institute for Labour and Social Affairs ("RILSA") as part of Modern Society and Its Metamorphosis, a programme run by MoLSA, was analysis of the role the self-employed have played in the economic and social life of Czech society since 1989.

1.1 Definition of the problems

Self-employment is currently surrounded by a number of unresolved questions that concern the status of self-employed persons on the labour market and goods and services market, their income situation, social and health security and the burden placed on their incomes by social security contributions and tax, and the legal framework for their activities. No analyses of socio-economic relationships inside and outside the self-employment sector have been performed since its establishment and turbulent growth in the 1990s.

The project had the following principal objectives:

- statistically and economically to assess the self-employment sector's share of the economy and to assess the standing of self-employed persons on the goods and services market and the labour market;
- to analyse the relationship between self-employment and public budgets;
- to assess the motivation to be self-employed;
- to describe the income and social situation of the self-employed and their households;
- to draw attention to the risks associated with self-employment.

Achieving the research goals necessitated an interdisciplinary approach:

- assessing partial analyses in Czech and European conditions;
- assessing the existing Czech and European legislation (analysing EU materials on this issue);
- statistical analysis of the development and status of the self-employed;
- economic analysis of the status of the self-employed;
- sociological survey;
- opinions of selected experts on the problems affecting self-employment on the Czech labour market;
- expert partial studies by selected specialists;
- confronting the obtained findings with the opinions of representatives of entrepreneurs, the academic community and decision-makers at seminars.

Quantitative economic and statistical methods and legal analysis made it possible to analyse the data in detail and find recurring themes and correlations in them. In many cases, however, interpreting the identified relationships in terms of the legal framework was not sufficient. The field survey paved the way for a comprehensive understanding of the attitudes and behaviour of the self-employed on the market and in society. Given the size (1,137 respondents) and structure of the basic sample, the results of the sociological survey may be considered sufficiently representative to answer the questions thrown up by the economic and statistical analysis. The two approaches to the self-employment sector are complementary.

The project team staggered the research project over four calendar years (1.2.2005 – 31.10.2008) and the corresponding three phases:

- Phase 1: statistical, economic and legal analysis of the self-employment sector;
- Phase 2: field sociological survey and assessment thereof;
- Phase 3: resolving the remaining questions and drawing up the synthetic report.

When working on specific problems the project team collaborated with external experts from the Prague University of Economics, the Czech Chamber of Commerce, entrepreneur associations, the Institute of Sociology of the Academy of Sciences of the Czech Republic, marketing company Factum Invenio, the Czech Social Security Administration, Všeobecná zdravotní pojišťovna (Universal Health Insurance Company), the Czech Tax Administration, the Czech Statistical Office and the labour offices.

1.2 Analyses

In the first phase the research encountered the problem of a lack of reliable source materials and the absence of comprehensive data. There are several definitions of self-employment both in the Czech Republic and abroad. The research team had to cope with the differing needs and subsequent criteria and definitions in the systems the self-employed persons are covered by (the tax system, social security, healthcare, system of national accounts). For example, the different data on the number of self-employed persons in the Czech Republic from various databases is testimony to the complexity of the problem.

Table 1 Number of self-employed persons according to various systems

source	number of persons, 2004
Register of Economic Entities – active natural persons	1,015,324
self-employed persons obliged to pay deposits on pension insurance	758,861
Labour Force Survey	816,134
Register of Economic Entities – natural persons with tax returns	894,254
Eurostat – national accounts	747,000

Source: as per table, processed by RILSA

Analysis of developments in the self-employment sector during the transformation process from the perspective of economic policy and the creation of the

new legal framework made it possible to shed light on Czech specifics as compared to "old"¹ and "new" European Union countries. The fact that this issue was absent from the economic reality after the communist takeover of power in 1948 means that there is a shortage of objective experience and criteria. International comparison was therefore used as a guideline. The methodological incomparability of the source materials and acquired data gave rise to a need to work with models, which made it possible to formulate at least the key relationships. For example, economic analysis of the status of self-employed persons in the Czech economy was based on data for micro-enterprises with 1-10 workers. This category, 90% of which is accounted for by natural persons, constitutes 99% of all natural persons doing business in the Czech Republic.

1.3 Field survey

The second phase involved the execution and assessment of a field survey. The survey was conducted in the fourth quarter of 2006 jointly by RILSA, Factum Invenio and the Chamber of Commerce of the Czech Republic, using a combination of interviews with respondents (quota-based selection according to Czech Statistical Office ("CSO") data on the structure of self-employment) and electronic answers sent by respondents.

The research covered the attitudes, views and opinions of 1,137 respondents. That represents approx. 1.1 per mille of the total number of statistical units of "enterprise"² operated by private entrepreneurs" (self-employed persons). According to the Statistical Yearbook of the Czech Republic 2006 there were 996,900 such units (881,200 doing business under the trades act, 46,400 independent farmers and 69,300 miscellaneous). The size of the sample was sufficient to provide an acceptable accuracy of the basic characteristics, sorting and correlation comparable with other sample-based social surveys.

The respondents were asked 50 questions in total; 37 targeted their opinions and views on various aspects of the economic and social status of the self-employed and 13 concerned the demographic and social identifying features of respondents. Respondents had approximately 225 alternative answers to choose from. The number of respondents in the survey means that there are approx. 225,000 pieces of information, approx. 135,000 of which are the substantive characteristics of the attitudes of self-employed persons towards their socio-economic status and approx. 90,000 are the respondents' identifying features.

The survey's basic aim was to identify the attitudes (opinions, views) of the self-employed and typical groups of self-employed persons towards fundamental aspects of their social and economic status in the Czech Republic. Specifically, the survey and its analyses focused on aspects concerning the motives for being self-employed, the prospects of self-employment, and economic and working conditions; the size structure of business, its sectoral and territorial distribution, relationships between the self-employed and their customers and employees, the weekly and yearly workload of small businessmen etc. are analysed. In addition, the attitudes of different groups of self-employed persons towards education and important aspects of these persons' and their households' social standing and lives were assessed.

¹ EU-15

² Statistical unit of enterprise type means an economic entity which, according to information from statistical research or administrative sources, displays economic activity.

The sample survey was prepared and assessed on the basis of analyses of statistical information and legislation on entrepreneurship that led to the conclusion that the self-employed are not a homogeneous social group, but in fact their socio-economic and living conditions are considerably heterogeneous and divided into several typical sub-groups.

The first categorisation criterion for the self-employed was their degree of dependence on their business incomes. The self-employed are divided into those for whom their entrepreneurial activity is their main source of income and those for whom it is just a secondary income source.

The second stratification of the self-employed derived from the specifics of the substance of their entrepreneurial activity (focus, types), which are expressed in separate legal regulations on this activity. In this way the self-employed are divided into three basic sub-groups:

- independent, private farmers whose business is governed by Act No. 252/1997, on agriculture (shortened to "private farmers" or just "farmers");
- the self-employed carrying on a business under Act No. 455/1991, on enterprise under a trade licence, shortened to "tradesmen";
- the self-employed whose business is governed by a number of specific legal regulations in view of the variety of areas and conditions of business and whose common feature is the performance of highly qualified (expert) activities, mainly services; these self-employed persons can be grouped together under the name "freelancers".

The analysis of the survey tested both the degree of conformity of attitudes (views, opinions) of all respondents and their variety in sub-groups.

The structure of respondents as per the extent to which their business activities make up their earnings (incomes), combined with the legislation governing their business, is shown in the following table.

Table 2 Classification of the self-employed/respondents in the survey by business as the primary or secondary gainful activity and by the legislation governing their business

row	legislation governing self-employment	business as				total	
		primary		secondary			
		source of income				abs.	%
		abs.	%	abs.	%		
a	b	c	d	e	f	g	h
1	private farmers ¹	52	5.4	12	6.7	64	5.6
2	tradesmen ²	805	84.0	150	83.8	955	84.0
3	freelancers ³	101	10.6	17	9.5	118	10.4
4	respondents in total	958	100.0	179	100.0	1,137	100.0
5	% ⁴	84.3		15.7		100.0	

NB: 1) Act No. 252/1997, on agriculture; 2) Act No. 455/1991, on enterprise under a trade licence; 3) specific legislation (e.g. Act No. 85/1996, on advocacy; 4) of row 4, column g

The overall structure of respondents in the sample set by the legislation governing their business (columns g and h) was very close to the structure of

1. Research methodology and organisation

statistically scrutinised "units of type of enterprise), especially if the extent of these units is adjusted according to the number of foreigners doing business in the Czech Republic under the act on enterprise under a trade licence. Foreigners were not included in the survey in view of the need for specific methods for ascertaining their attitudes and the specific features of the goals and focus of that kind of research³; the survey therefore reflected the attitudes, opinions and views of entrepreneurs with Czech citizenship. The following table contains a comparison of the structures of the statistical research and field survey.

Table 3 Comparison of the structure of "enterprise" statistical units (as of 31.12.2005) and self-employed respondents in the sample survey (4th quarter 2006)

row	private entrepreneurs (self-employed) doing business as ¹	"enterprise" statistical units		number of self-employed respondents in the survey	structure in %		
		before adjustment	after adjustment		column c	column d	column e
a	b	c	d	e	f	g	h
	farmers	46,442	46,442	64	4.7	5.0	5.6
2	tradesmen	881,203	813,957	955	88.4	87.6	84.0
3	freelancers	69,255	69,255	118	6.9	7.4	10.4
4	total	996,900	929,654	1,137	100.0	100.0	100.0

Source: Statistical Yearbook of the Czech Republic, CzSO, Prague 2006, p. 375; Foreign Nationals in the Czech Republic, CzSO, Prague 2006, p. 139

As regards the structure of the sample survey respondents divided into main and secondary gainful activity, this cannot be directly compared to the division of independent gainful activity into main and secondary independent gainful activity according to the act on pension insurance.⁴ The question contained in the survey was formulated so that the respondents had to decide according to a categorical and relatively simple criterion – the proportion of their total income accounted for by their self-employment income.⁵

According to Czech Social Security Administration data, 259,600 self-employed persons, i.e. roughly a quarter of the total number, carried on thus defined secondary independent gainful activity as of 31.12.2005. That is almost double the proportion of survey respondents whose self-employment income is merely supplementary – that proportion was 15.7%. The differences in the structures mainly ensue from the said different definitions. It is evident that a considerable proportion of the respondents coming under secondary activity according to the act on pension insurance belonged in the group with main income from entrepreneurial activity (e.g. students, pensioners, low-paid employees) as the income from their entrepreneurial activity is their main (i.e. biggest) source of income.

³ The attitudes of foreign nationals who are entrepreneurs towards their socio-economic status in the Czech Republic should be a significant part of research into the issue of migration and the integration of foreign nationals in the Czech Republic.

⁴ Act No. 155/1995, on pension insurance, as amended; the division into primary and secondary gainful activity has applied since 1.1.1994.

⁵ The question was: "Is enterprise your primary source of income or is it just a way to earn extra money?"

It is clear from the data in the above structural tables that higher degrees of classification were not possible because of the small number of respondents in the agriculture category and in the category of secondary independent gainful activity.

The survey methodology did not identify false self-employment (also known as the "Švarc system", people working under a trade licence). An alternative solution was to interview workers and business association officials in the construction industry, where this form of work engagement is widespread, about the extent of and reasons for the phenomenon whereby people work under a trade licence when they are effectively employees. The Association of Building Entrepreneurs of the Czech Republic, which represents large and medium-sized firms, and eight professional associations of building crafts entrepreneurs, which mainly represent small firms using false self-employment, replied to questions about the advantages and disadvantages, opportunities and problems.

Members of production cooperatives⁶ were not covered by the research and the conducted survey. In view of the existing definitions, persons without taxable incomes, specifically persons with incomes from capital assets or lettings and possibly other incomes that are not covered by the act on income tax, were also not included in the independent gainful activity sector.

1.4 Synthesis

The third phase of the research was devoted to forming a synthesis of the findings gained by analysing the statistical data from the individual systems (Labour Force Survey, Register of Economic Entities, statistics on small and medium-sized enterprises, social insurance, national accounts, income statistics, the tax system etc.) and interpreting the fundamental relationships with regard to the institutional framework, the behaviour and attitude of self-employed persons as identified by the field survey. The project team studied the socio-economic issues of the heterogeneous group of self-employed persons in relatively separate blocks:

- motivation to be self-employed;
- the status of self-employed persons in the economy;
 - share of GDP;
 - relationship to employment;
 - relationship to public budgets;
 - false self-employment;
- social status of the self-employed:

⁶ The socio-economic status of members of production cooperatives is similar to that of employees. In most cases the Labour Force Survey registers them as employees. For more information see Novák, J.: Vývoj struktury výdělečné činnosti se zaměřením na postavení (roli) osob samostatně výdělečně činných v rámci ekonomicky aktivního obyvatelstva. In: Korunková, M. and collective: Sociálně ekonomické postavení osob samostatně výdělečně činných ve společnosti (průběžná zpráva za rok 2005). Prague: RILSA 2006. ISBN 80-87007-23-9, and Novák, J.: Sociálně ekonomické postavení osob samostatně výdělečně činných ve společnosti, 1. část - Rozsah samostatné výdělečné činnosti a počet jejich nositelů. CzSO. Statistika No. 5/2006. ISSN 0322-788x

- working conditions;
- income and living conditions;
- risks of self-employment in the Czech Republic.

1.5 Interim verification of findings

The interim publication of findings enabled a public discussion and confrontation with the findings and experiences of experts from the academic community, state authorities and business. Besides articles in the specialised press, in the years 2005-2008 the project team published the following:

- Kotýnková, Magdalena - Baštýř, Ivo - Bruthansová, Daniela - Novák, Jaroslav: Socio-economic Status of Self-employed Persons in Society (interim report for 2005). Prague: RILSA 2006. ISBN 80-87007-23-9
- Průša, Ladislav - Baštýř, Ivo - Bruthansová, Daniela - Brachtl, Miloš - Kotýnková, Magdalena - Kozelský, Tomáš - Novák, Jaroslav - Vlach, Jan: Socio-economic Status of Self-employed Persons in Society. Digest of analyses of the socio-economic status of self-employed persons in Czech society and in European Union countries. Prague: RILSA 2006. ISBN 80-87007-33-6
- Baštýř, Ivo - Brachtl, Miloš - Vlach, Jan: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic 2006. Analysis of results. Prague: Research Institute for Labour and Social Affairs, 2007. ISBN 978-80-87007-85-3
- Průša, Ladislav - Bičáková, Olga - Boňka, Václav - Brachtl, Miloš - Bruthansová, Daniela - Kotrusová, Miriam - Křížková, Alena - Přib, Jan - Vančurová, Alena - Vlach, Jan: Socio-economic Status of Self-employed Persons in Society II (digest of analyses of the socio-economic status of self-employed persons in society). Prague: Research Institute for Labour and Social Affairs, 2008. ISBN 978-80-87007-88-4

Final seminars for experts from universities, research organisations, ministries and business were held in 2006 and 2008 to verify the results of the first and second research phases:

- Seminar on the Results of Research into the Social and Economic Status of Self-employed Persons. Accessible in the Papers – analyses section at <http://www.vupsv.cz/>.
- Seminar on the Results of a Field Survey on the Social and Economic Status of Self-employed Persons. Accessible in the Papers – analyses section at <http://www.vupsv.cz/>.

2. Definition of self-employed persons

2.1 Characteristics of the socio-economic status and role of the self-employed in international and historical context

In every market-based national economy self-employment (persons engaged in independent gainful activity⁷) forms a substantial segment of economic activity and a major social group.

The ILO⁸ publication "The Promotion of Self-employment"⁹ mentions the following as the fundamental characteristics of the self-employed: the self-employed person carries on entrepreneurial activity personally, independently and comprehensively in an enterprise (place of business) that he owns (or co-owns or leases), and does so in his own name and at his own responsibility. Personal, independent and comprehensive performance of entrepreneurial activity means that the self-employed person carries out all ownership, management and specialist (executive, work) activities and competences; this distinguishes the enterprise of the self-employed from companies (corporations¹⁰) in which the ownership, management and executive functions are separated.¹¹

The self-employed display significantly differentiated characteristics:

- they operate in considerably different and variable social and economic conditions; that results in individuals having diametrically different economic situations, competitiveness and attained incomes, earnings and profit;
- they have a specific social status; a fundamental and stable proportion forms the basis of the middle classes;
- they significantly influence the scale of employment and the flexibility of the labour market in the national economy.

The fundamental individual requirement for the successful and long-term performance of self-employment is the full competence to actively apply one's mental and physical potential to the enterprise. Above all, that demands the ability to adapt flexibly to market conditions, to find and utilise opportunities that are formed in specific market segments of products, services, work and capital, to improve one's

⁷ The terms "self-employed" and "self-employment" are not usually used in the Czech Republic, which usually uses the terms "independent gainful activity" and "person carrying on independent gainful activity". In this subchapter these terms are used as synonyms; more detailed and different substantive, conceptual and terminological characteristics are mentioned in subchapter 2.2.

⁸ International Labour Organisation

⁹ ILO: Promotion of self-employment. ILO, Geneva, 1990

¹⁰ Companies founded on collective investment, usually characterised as "legal persons". They come in various forms – limited liability companies, joint stock companies, limited partnerships etc.

¹¹ The European System of Accounts ESA 95, section 2.75 (hereinafter "ESA 95") characterises the self-employed similarly as "entrepreneurs producing market goods" or "non-financial and financial services provided that the corresponding activities are not those of separate entities treated as quasi-corporations".

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professional and business abilities and experiences, to innovate products and services, to decide autonomously and to assume the business risks stemming from economic independence and competition.

The principal motive for being self-employed is to attain, through one's own work, business activities and invested capital, an income (revenues) that, as well as covering the cost incurred (outlays), represents the biggest possible return on the invested work and capital and brings profit, creating a financial foundation for improving and/or expanding the business and ensuring a decent standard of living. The achieved earnings are the result of the concurrent utilisation of work and capital; the part of earnings consumed on personal requirements and the part invested back into the business cannot be exactly separated and these earnings have thus come to be known as "mixed income" in economic terminology.

Besides the earnings (profit) motivation, for a substantial proportion of the self-employed, especially in countries with a higher economic and income standard, the following are significant motives for self-employment: high degree of independence and autonomy (freedom) in decision-making, in the selection of technical, organisational and business alternatives and strategies, in the choice of personal work regime and conditions, and the creative aspect of applying innovations in their business.

The analysis in the cited ILO publication emphasises that for some self-employed persons this form of economic activity is the consequence of economic necessity rather than a relatively free choice between employment and self-employment. In a situation where the employee labour market is chronically restricted or is narrowing and there is high and growing unemployment, independent gainful activity is the only way to earn money for a significant portion of the economically active population. This socio-economic position applies for a substantial number of the self-employed in less developed economies, where a considerable number work in non-capital-intensive (often primitive even) agriculture and fishing and also in crafts, business, personal and catering services and have low, often minimal earnings that are often lower than the earnings attained by employees in their bottom earnings (wage) range. Under the European System of Accounts ESA 95, entrepreneurs/natural persons who produce or provide non-financial services exclusively for their own end use (natural production and consumption) are included among the self-employed (ESA 95 2.75)¹²; this group of self-employed persons is larger in less developed economies, where there are substantial enclaves of households practising non-market production and consumption; in developed economies this type of activity is sporadic and supplemental.

A specific form of economic compulsion for self-employment exists in situations whereby the self-employed without sufficient capital and material (they tend to be former employees) are compelled by businesses (including corporations) with a stronger capital and market position to accept and perform work that is effectively employment, i.e. for long periods of time they work according to instructions of the other undertaking (its managers), on its premises and with its equipment and material. For the "employer", the economic benefit consists in a reduction of the cost of social and health insurance and other statutory labour protection associated with employees; another advantage is the flexibility with which the relationship may be terminated – it may be terminated with immediate effect, and without notice periods and the associated costs (e.g. severance pay). In legal terms these relations are

¹² ESA 95 3.20, 3.25 and 3.30 define in greater detail activities intended for own final use that justify including their products and the providers among the self-employed.

established under various civil law contracts; these forms of employment are often termed "employment of entrepreneurs" or "hidden employment".

In terms of employment status¹³ the self-employed are divided into:

- persons working in their own undertaking and employing employees¹⁴ (referred to as employers/natural persons or entrepreneurs/natural persons with employees);
- persons working in their own undertaking as individuals, i.e. without employees (referred to as persons working on their own account or as entrepreneurs/natural persons without employees).

The sum of all enterprise entities (firms) that are owned and run by employers/natural persons and persons working on their own account forms the self-employment sector (independent gainful activity sector).

From the point of view of the number of employed persons the self-employment sector consists of employers/natural persons, persons working on their own account, employees and apprentices working in the enterprises of employers/natural persons, and helping family members.

The second enterprise sector is the corporations sector. Along with enterprises (firms in the self-employment sector) they represent the total sum of enterprise entities in the national economy (its enterprise, profit-motivated sphere).

The sum of employment in the self-employment sector and companies sector forms total employment in the enterprise, profit-driven sphere¹⁵.

There are multiple links between the enterprise sectors of self-employment and corporations in respect of how the market is divided up and how the sectors compete with one another.

Given the usually limited financial possibilities of individuals, it is characteristic for the self-employment sector that the majority of enterprise in this sector focuses on fields and areas that are less capital-intensive and offer a quick return on the invested resources. In all national economies, though, the self-employment sector is formed, in varying proportions, in two major areas of gainful activity. The first area is work in agriculture, fishing, trades, road transport, repairs, small-scale construction, catering, accommodation, recreational, sporting and simple personal services. The dominant form of work in this area is manual, with the corresponding demands on qualifications and experience in the self-employed; this area of the self-employment sector is particularly large in less developed economies with lower wage levels and lower overall labour costs, enabling greater inputs of relatively simple work at lower work productivity levels. The second area of the self-employment sector comprises various specialist services performed personally and demanding high qualifications in the self-employed (medical, teaching, legal services, financial, investment and tax consulting etc.); this work is predominantly non-manual. This area of self-employment is more prevalent in developed economies.

¹³ The classification of status in employment (CZ-ICSE) was drawn up by the CzSO; for details on the classification and terminology see subchapter 1.2.

¹⁴ The cited ILO publication denotes such persons as "employer-working owner of unincorporated business".

¹⁵ Total employment in the national economy is determined by employment in the enterprise sphere and employment in the non-enterprise (non-profit) sphere, which comprises state institutions, non-profit institutions providing public services, civic associations etc.

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Business in fields that are highly intensive in terms of investment and operational capital (the extraction industry, electricity, large heavy and processing industry firms, transport, construction engineering, large-scale research, construction and planning firms, medical and educational institutions) is almost entirely the preserve of the corporations sector, with its concentration of collective sources of financing. The self-employment sector is linked to these corporate business activities (which form the basic structural profile of the majority of developed economies) by extensive commercial relationships (subcontracts, maintenance, transport and other service activities, individual completion of products, provision of legal and consulting services etc.) and is therefore significantly revenue-dependent on the large firms sector¹⁶.

There is intensive competition between the self-employment and corporate sectors on commodity and territorial markets that both sectors operate on concurrently. This includes the areas of agriculture, trade, transport and repair services. The competitive processes are multifaceted (involving shares of markets and revenues, cost levels, breadth of product range and product quality, product availability etc.). Practically all enterprise entities of the self-employed are in a weaker position than corporate enterprises: they are more often and more significantly at risk of getting into financial difficulties, bankruptcy and dissolution. That is a consequence of both economic factors (smaller scale of functioning capital and its availability, lower number of employees etc.) and socio-demographic factors related to the lives of individual self-employed persons (influences of family, private life, health, age etc.).

The following are, however, constant characteristics of self-employed enterprise:

- on the one hand, the functioning and existence of individual entities is often and significantly at risk and many of them live as outsiders on the margins of economic life (including the informal, grey or possibly illegal economy) and dissolve or suspend their activity;
- on the other hand, the self-employment sector as a whole is highly flexible, has the ability to reproduce itself and replace dissolved entities with new ones, quickly and flexibly to break into new areas of business and to expand its operations.

The development of the self-employment sector is characterised by considerable independence, a kind of ambiguous relationship with the phase of the economic cycle taking place in the national economy. The number of self-employment is highly stable, or displays growth, during any phase of the cycle. When the economy is growing, growth in the sector is stimulated by increasing demand; in phases of economic decline the number of self-employed persons stagnates or even increases – this is influenced by the number of persons unable to find work on the shrinking dependent labour market and seeking to support themselves by means of self-employment.

In the long-term historical development since the inception and the gradual development of the corporate sector there has been a gradual decline in self-employment's share of total employment.¹⁷ This decline is highly differentiated

¹⁶ Equivalent business relations exist between the self-employment sector and non-enterprise (state, public) institutions.

¹⁷ The first forms of collective investment and enterprise in Europe emerged in the 13th century (German Hansa, Dutch guilds); embryonic forms of joint stock companies emerged in the 17th century; the

between countries. The main differentiating factor is the level of the country's economic development; it generally applies that the higher real GDP, or per capita income, the stronger the tendency that the self-employment sector has a small share of total employment. In less developed economies there is usually a higher share of employment in agriculture (the primary sector), where the share of self-employment is higher.

The guideline characteristics of the relationship between self-employment's share of total employment and the level of a country's economic development are shown in Table 4.¹⁸

Table 4 Self-employment's share of total employment, structured according to countries with varying levels of per capita income

income level quintiles	self-employment's share of employment	self-employment's share of employment in agriculture	self-employment's share of employment outside agriculture
low-income countries	48	58	37
lower middle-income countries	29	44	25
higher middle-income countries	23	47	18
lower high-income countries	14	55	13
high-income countries	9	43	6

Source: The Promotion of Self-employment, International Labour Organisation, Geneva 1990, p. 8

The proportions expressed in the table reflect the results of older ILO analyses, as far as the links between the economic (income) level of economies and self-employment's share of total employment are concerned.

The high flexibility and endurance of individual entrepreneurs/natural persons and the entire sector of independent gainful activity means that the decline in self-employment's share of total employment is stopping or the share has been growing in a number of economies and for relatively long periods. The decline in self-employment, associated mainly with agriculture's shrinking share of employment resulting from greater use of technology and increased work productivity, is reaching its limit. At present, and probably in the longer-term outlook, a large segment of independent gainful activity is being formed in the services field (specialist services to businesses and individuals, personal services etc.); combined with the processes of cooperation between the self-employment and corporate sectors in industry and construction, this is creating new growth impulses for self-employment.

corporations sector began to develop rapidly from the mid 19th century, with gigantic transnational corporations being formed during the 20th century.

¹⁸ Taken from The Promotion of Self-employment, International Labour Office, Geneva 1990, p. 8

2.2 Substance, scale and structure of self-employment in the Czech Republic; use of information systems

The last 20-30 years have brought fundamental changes in the international systems for ascertaining the scale and structure of self-employment and assessing self-employed persons' social and economic standing. One fundamental impulse for these changes was the increased practical application of the national accounts¹⁹ systems in EU member states and the ensuing multilateral economic comparison of economies and social systems. The customary system of indirect determination of the scale of self-employment²⁰ was replaced by the direct ascertainment of the scale and structure of self-employment, which has allowed a deeper assessment of the position of the self-employed. Other contributing factors were the application of the system of classification of status in employment²¹ and the gradual expansion of support programmes for small and medium-sized enterprise at the level of the European Union and individual countries.

Several information systems were used in the Czech Republic during the 1990s to identify the scale and structure of self-employment. There are significant differences in the information provided by the various information systems. That impedes analytical work and its interpretation.

Assessment of the differences in the information on the scale and structure of self-employment reveals that the key reason for these differences lies in the differing purposes (focuses) of the information systems; the ascertainment methods used by the different systems also play a role. In addition, differences in the definition of concepts and the ambiguity of terminology in the various information systems also give rise to uncertainties and deviations²².

The information systems dealing with the scale and structure of self-employment can be divided into three sets according to their purpose:

- statistical and information systems;
- records systems for tax purposes;
- records systems for supporting small and medium-sized enterprise.

Statistical and information systems

This category consists of several information systems designed to record the number and the demographic, social and economic characteristics of the self-

¹⁹ CzSO: Evropský systém národních a regionálních účtů ESA 95. Available at <http://dw.czso.cz/pls/rocenka/rocenka.indexnu>

²⁰ The essence of indirect determination of the number of self-employed persons consists in the direct specification of the total number of persons employed in the national economy and the number of employees (e.g. by representative survey) and defining the number of self-employed persons as the difference between the two directly determined quantities. This procedure represents an approximate definition of the scale of self-employment both at the level of the national economy as a whole and divided into sectors or areas; internal divisions (e.g. by position in employment) cannot be ascertained.

²¹ International Classification of Status in Employment - ISCE 93 drawn up by the ILO (based on the recommendation of the 15th international labour statistics conference 1993).

²² This issue would require assessment by a wider circle of experts from the concerned authorities.

employed (or rather entrepreneurs/natural persons, who come closest in substance to the concept of self-employed); the individual systems can be summarised as follows:

a) Register of Economic Entities (REE)²³

This is a register of all economic entities: legal persons and natural persons (with a licence to carry on business activity) and organisational components of the state (accounting units carrying on independent economic activity); the information is drawn from the commercial registers, trades licensing offices and statistical sources. The aim of the register is identify all the entities currently operating in the national economy, their principal structures pursuant to the legislation and fluctuations over time. A significant portion of the registered entities (roughly 50%) is authorised to carry on a business in nominal terms only and is not actually active.

The number of registered private entrepreneurs (the REE category that comes closest to the characterisation of the self-employed) actively carrying on a business was 963,900²⁴ thousand at the end of 2006. The REE covers entrepreneurs whose enterprise is their principal activity and a secondary (supplementary) activity, entrepreneurs who are Czech citizens and foreign nationals, and both entrepreneurs without employees and with. The register does not cover family members who help out in the business but are not separately registered.

b) Records of the self-employed in the national accounts system

According to the definition contained in paragraph 11.75 of the European System of National and Regional Accounts ESA 95²⁵, these records include entrepreneurs/persons who are owners or co-owners of unaffiliated enterprises in which they personally work and perform the full set of all enterprise activities (ownership, management, executive). It comprises persons for whom enterprise is their main activity. It does not, therefore, cover self-employed persons who also perform dependent gainful activity as their principal activity, i.e. those self-employed persons for whom enterprise is a secondary activity.

The following are also counted as persons carrying on independent gainful activity in the national accounts: unpaid family members helping a self-employed person; workers who produce solely for their own consumption and formation of own capital²⁶ and dislocated workers (whose income depends on the value of the production they are responsible for).

These records represent the most complete overview of self-employed persons actively carrying on a business as their primary activity; they make it possible to perform a macroeconomic analysis of the main characteristics of their economic activity and employment, including international comparison and analysis of their income situation. The records provided more detailed information about the structure of self-employment by economic sectors (CZ-NACE), but the information is not sorted according to social criteria. In the terminology of the Czech Republic's national

²³ CzSO: Register of Economic Entities. Available at [http://czso.cz/csu/redakce.nsf/i/o_registru_res_\(12.8.2008\)](http://czso.cz/csu/redakce.nsf/i/o_registru_res_(12.8.2008))

²⁴ The total number of active and nominal (i.e. inactive) private entrepreneurs is 1,912,200 entities.

²⁵ CzSO: European System of Accounts ESA 95. Available at <http://dw.czso.cz/pls/rocnka/rocnka.indexnu>

²⁶ If the result is a product, e.g. a house, an agricultural product for natural consumption etc.; unpaid voluntary services, e.g. nursing, childcare, housework, and those who perform them are not included.

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accounts the terms persons carrying on independent gainful activity and self-employed have the same meaning. The national accounts records give a figure of 924,900 self-employed persons in 2006.

c) The Labour Force Survey (LFS)²⁷ is intended to ascertain the economic status of the population. The research is done using a random sample of households; it does not cover persons living long-term in mass accommodation facilities, so the information on foreign nationals in particular is limited.

As far as those employed in their own enterprise are concerned, the LFS includes entrepreneurs and assisting family members.²⁸ Depending on their employment status, entrepreneurs are divided into entrepreneurs with employees (the term "employers" can alternatively be used in the LFS) and entrepreneurs without employees (referred to in the LFS as persons working on their own account). Assisting family members are persons who are related to the entrepreneur and work in his business without a formal relationship to the business and entrepreneur²⁹. The LFS covers persons who carry on independent gainful earning as a secondary activity, i.e. whose primary gainful activity is in an employment relation.

The term "persons carrying on independent gainful activity" is not used in the LFS system. The set of persons that best represents persons carrying on independent gainful activity in the LFS is persons working in their own enterprise, i.e. the set of employers, persons working on their own account and assisting family members³⁰.

According to the LFS, the total number of persons working in their own enterprise in the Czech Republic in 2006 was 779,200.

One specific feature of the Labour Force Survey is that it identifies a number of demographic, social and economic features of the individuals; these can be used to analyse the structural make-up of individual groups of employed persons, unemployed persons and the population as a whole. The principal structures are age, territory, standard of educational attainment and gender. From the point of view of entrepreneurs/self-employed persons, this enables both analysis of the development trends of these structures and comparative analysis with employee structures.

Records system for tax purposes

Records of self-employed persons for income tax and pension and health insurance purposes give a detailed definition, according to their specific purpose, of

²⁷ The terminological and methodological basis of the Labour Force Survey is the "Classification of Status in Employment (CZ-ICSE)" Available at <http://czso.cz/csu/klasifik.nsf/i/>; accessed on 7.8.2008

²⁸ The Labour Force Survey also uses the term "self-employed" for this set of persons.

²⁹ If family members have formal, legally concluded employment relation, they are included among employees. In the Labour Force Survey system, all groups of employees (employees in an employment relation, employees working under agreements, employees in a service relation, apprentices performing paid work) and members of production cooperatives are included in the employees group.

³⁰ According to the methodological description of Labour Force Survey indicators (http://www.czso.cz/csu/redakce.nsf/i/zam_vsps; accessed on 7.8.2008), only entrepreneurs who are not registered in the Commercial Register may be regarded as persons carrying on independent gainful activity; according to the Register of Economic Entities (see previous text paragraph a) the number of entrepreneurs/natural persons entered in the Commercial Register is around 1% of their total number.

the set of persons carrying on independent gainful activity as per the act on pension insurance³¹.

Under this act, a self-employed person is anyone who has completed compulsory schooling and is at least 15 years old and carries on independent gainful activity or cooperates in the exercise of independent gainful activity, if under the act on income tax incomes gained by the performance of this activity and expenditure on attaining, securing and maintaining this activity can be separated.

The act defines the exercise of independent gainful activity as follows:

- doing business in agriculture, if the natural person is carrying on agricultural production under a special act;
- operating a trade on the basis of a licence to operate a trade under a special act;
- it is registered under a different special act;
- the activity of a member of a public commercial company or general partner in a limited partnership carried on for such company;
- the performance of artistic or other creative activity on the basis of copyright relations;
- the performance of other activity for gain not mentioned above on the basis of an authorisation pursuant to the law, and the performance of the activity of mandatory under a mandate concluded in accordance with the Commercial Code; the condition here is that these activities are not done in a relation establishing participation in sickness insurance (sickness care) and, in the case of the mandatory, that the mandate was not concluded within the framework of other independent gainful activity;
- the performance of other activities done in one's own name and at one's own responsibility in order to gain an income, if, according to the declaration of the person doing this activity, this constitutes systematic work. Letting real estate (and parts of real estate) and movable items is not regarded as such an activity.

The pension insurance act gives a detailed and exhausting list of the set of independent gainful activities that are regarded as secondary and also of the status of those carrying on such activity³². There are two purposes for this definition:

³¹ Act No. 155/1995, as amended. In addition, with regard to income tax and insurance contributions Act No. 586/1992, on income tax, as amended (in particular Section 7 Incomes from Enterprise and Other Independent Gainful Activity) and Act No. 48/1997, on public health insurance and amending certain related acts, as amended, also deal with a definition of independent gainful activity and persons carrying on such activity. All the legal regulations are consistent in their definition of the set of activities and persons carrying on independent gainful activity.

³² Independent gainful activity is regarded as secondary if, in the calendar year, the person carrying on the independent gainful activity:

- was employed and the income he gained from employment in this year was at least twelve times the minimum wage applicable as of January 1 of the calendar year for which participation in insurance is being assessed. Income means the assessment base for payment of employees' insurance contributions as attained in the calendar year for which participation in insurance is being assessed and sickness insurance benefits that were charged to this year;
- was entitled to payment of partial or full invalid's pension or was awarded old-age pension;
- was entitled to parental allowance or personally cared for a person who is dependent on the care of others in the 2nd degree (medium-severe dependency) or 3rd degree (severe dependency) or 4th degree (full dependency);

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- to motivate (based on the act's provisions on the conditions and level of insurance premiums) the widest possible range of persons in relatively difficult social and income situations to engage in independent gainful activity; the fundamental point is that the level of income and employment are not decisive for the secondary nature of the independent gainful activity for the defined set of persons;
- to ensure that persons carrying on a secondary independent gainful activity participate in pension insurance out of the incomes deriving from this activity.

The set of persons carrying on a secondary independent gainful activity thus defined is substantially larger than the extent of secondary employment as per the Labour Force Survey figures.

According to the Czech Social Security Administration, 903,600 self-employed persons participated in pension insurance in 2006, 631,600 of them under primary independent gainful activity and 272,300 under secondary activity.

Records system for the support of small and medium-sized enterprise

The third set of records is the register of enterprise entities maintained by the Ministry of Industry and Trade (MoIT) for the purposes of the act on support for small and medium-sized enterprise. This act divides businesses into micro, small and medium-sized (based on the number of employees and the magnitude of assets or net turnover)³³.

The act defines a micro-enterprise as a natural or legal person with a trade licence who employs at most 9 employees, whose assets (as per their balance sheet) do not exceed CZK 180 million or whose net turnover (in the last completed accounting period) does not exceed CZK 250 million³⁴ and who is independent³⁵.

According to more detailed CzSO statistics³⁶, in 2006 almost 99% of all small and medium-sized entrepreneurs/natural persons were micro-entrepreneurs (there were 825,900 small and medium-sized entrepreneurs, 816,100 of whom, i.e. 98.8%, had fewer than 10 employees; of that figure, 700,600 were entrepreneurs/natural persons without employees and 115,600 entrepreneurs with at most 9 employees).

-
- performed military service in the armed forces of the Czech Republic, with the exception of professional servicemen;
 - was an unprovided-for child pursuant to Section 20 (3) (a) of Act No. 155/1995, on pension insurance, as amended, (study);
 - was not in custody or in prison for longer than three consecutive calendar months.

³³ Act No. 47/2002, on support for small and medium-sized enterprise.

³⁴ If he does not use double-entry book-keeping, the given sums apply to final incomes and aggregate assets.

³⁵ No other person or persons together who are not a small or medium-sized enterprise have at least 25% of its capital or voting rights.

³⁶ Numbers of enterprise entities by number of employees and legal form; CzSO, Register of Economic Entities department, March 2006

Table 5 Assessment of the micro-enterprise group

	total enterprises	micro-enterprises - number of employees			
		none	1 - 5	6 - 9	0 - 9 ¹
a	b	c	d	e	f
total entities	958,747	714,209	171,970	25,664	911,843
of which legal persons	132,870	13,650	66,640	15,417	95,707
proportion of legal persons in the group - %	13.8	1.9	38.8	60.0	10.5 %
of which natural persons	825,877	700,559	105,330	10,247	816,136
proportion of natural persons in the group - %	86.1	98.0	61.2	40.0	89.5 %

Source: Register of Economic Entities Register, CzSO, FORMAF/KATPOF system. Number of entities by number of employees and legal form (data for March 2006)

NB: 1) sum of columns c, d and e

The overwhelming majority share of micro-entrepreneurs/natural persons led the author of this study to focus in a number of areas (economic characteristics of the self-employed sector, field survey on the attitudes of the self-employed to their social and economic status) on analysing micro-entrepreneurs and their enterprises as a suitable representative of the social group.

A summary overview of information (records) systems and terminologies defining the scale and content of the concepts of independent gainful activity and persons carrying on independent gainful activity and the characteristics applying to them is given in the following table. The brief description in the preceding paragraphs and the summary overview shows that the characteristics of the concept of "person carrying on independent gainful activity" used in the Czech Republic differ depending on the intended purpose of the various information and records systems and how the information is gathered. This fact results in differing values characterising the scale (number) of persons carrying on gainful independent activity (or the set of entrepreneurs/natural persons that is similar in substance).

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Table 6 Overview of information (records) systems and terminologies defining the scale and content of “self-employment” and “the self-employed”; number of persons in the records in 2006

Information (records) systems	number of registered persons (thousands)	General characteristics of the system	Specific features of the system	Source of information
1. Register of Economic Entities A. Total registered units of which: independent entrepreneurs of whom: doing business under the trades act independent farmers others (“freelancers”) B. Active units of “enterprise” type of which: independent entrepreneurs of whom: doing business under the trade act independent farmers others (“freelancers”)	2,430.5 1,912.2 1679.9 98.5 115.8 1,256.8 963.9 851.4 44.0 68.3	A. Records of all entities, natural and legal persons authorized to carry on enterprise and organizational units of the state (carrying on independent economic activity) B. Records of those entities from set A that are economically active in the period under scrutiny	The system is exhaustive. It comprises entities carrying on enterprise as a primary activity and as a secondary activity. It does not include family helpers. It does not enable sorting by economic field and region.	CzSO: Statistical Yearbook of the Czech Republic, 2007 section: Organizational Structure of the National Economy, Table 12.1
2. National accounts as per ESA 95 Total number of persons employed in the economy. Self-employed persons	5,072.3 924.9	The records draw on all available statistical information sources, including an estimate of the informal economy	The system comprises all entrepreneurs/natural persons (including the informal economy) who carry on independent gainful activity as their primary activity; secondary activity is not registered. Includes family helpers. “Self-employed” and “person carrying on independent gainful activity” used synonymously.	Definition of self-employment: ESA 95 paragraph 11.15; data: Table M000130 Population and Employment ¹
3. Labour Force Survey (LFS) A. Employees in a single (primary) employment of which: persons working in own	4,828.1 779.2	The survey uses a random sample of households and therefore contains imprecise data on the economic status of foreign nationals (who live mainly in hostels); the numbers of		

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Information (records) systems	number of registered persons (thousands)	General characteristics of the system	Specific features of the system	Source of information
<p>enterprise of which: entrepreneurs/natural persons family helpers of entrepreneurs/natural persons: employers: persons working on own account: B. Employees in secondary (further) occupation of which: persons working in own enterprise of which: entrepreneurs/natural persons family helpers of entrepreneurs/natural persons: employers: persons working on own account: C. (A+B) Total employees (selected items); persons working in own enterprise of whom: entrepreneurs/natural persons family helpers of entrepreneurs/natural persons: employers persons working on own account</p>	<p>746.7 32.5 195.9 550.8 103.6 62.6 62.6 0.0 3.5 59.1 841.8 809.3 32.5 199.4 609.9</p>	<p>registered persons are therefore lower than the actual state of employment in the economy. The terminology is based on the "Classification of Status in Employment": employers = entrepreneurs with employees, persons working on own account) and additional summary concepts ("persons working in their own enterprise", "entrepreneurs/natural persons").</p> <p>Employment as a secondary activity is defined for entrepreneurs/natural persons as being those whose main activity is dependent employment.</p> <p>The concept "persons carrying on independent gainful activity" is not explicitly used in LFS; for working purposes, data on persons working in their own enterprise can be used in its place.</p>	<p>LFS data generalized for the Czech Republic, 2007, selection error is a potentially problematic factor.</p> <p>The ascertained data on demographic, social and economic characteristics (gender, age, territory, field, education, professional classification) make it possible to perform a more detailed analysis of the self-employed.</p> <p>LFS data apply to the civilian sector of the national economy.</p>	<p>CzSO: Statistical Yearbook C, 2007, section: Labour Market, Tables 10-11, 10-20 Ditto: CzSO: The Labour Market in the Czech Republic, 1993-2009, 2007, code 3103-07</p>
<p>4. Act No. 155/1995, on pension insurance self-employed participants in pension insurance of whom: self-employment as primary</p>	<p>903.6 631.6</p>	<p>The system gives a detailed definition of the set of self-employed persons (in line with the definition of income from enterprise in the act on income tax).</p>	<p>Specific definition of secondary self-employment</p>	<p>Annual report and other information of the Czech</p>

2. Definition of self-employed persons

Information (records) systems	number of registered persons (thousands)	General characteristics of the system	Specific features of the system	Source of information
activity self-employment as secondary activity	272.3	It gives a broad definition of the set of persons who carry on self-employment as a secondary activity (in the interest of motivating to practise this type of self-employment and motivating these persons to participate in pension insurance.	and little information about the structure of self-employment.	Social Security Administration
5. Records concerning implementation of Act No. 47/2002; Ministry of Industry and Trade (MoIT) with CzSO small and medium-sized entrepreneurs - active natural persons small and medium-sized entrepreneurs - active natural persons of which micro-enterprises	850.5 ^x 825.9 ^{xx} 816.1	The records categorise entrepreneurs and their enterprises by size, number of employees and data on assets and capital.		^x MoIT, 2005 ^{xx} CzSO, 3/2006

Sources: see "Sources of information" column

Comments and explanations: 1) <http://dw.czso.cz/pls/rocenka/rocenka.presmsocas>

Despite the differences in the information and records systems, persons carrying on independent gainful activity may be summarily defined as persons who have an authorisation to do business and actually do so actively, i.e. persons who perform gainful activity independently, comprehensively (personally performing ownership, management and executive functions) and at their own responsibility.

Information from the aforementioned systems was used in the research project to analyse various aspects of persons carrying on independent gainful activity:

- Register of Economic Entities (REE): assessment of the relationship between the nominal scale of business authorisation and actually active private entrepreneurs in various legal spheres of enterprise; changes in the establishment and expiration of private entrepreneurs; quotas for field survey;
- national accounts records (ESA 95): international comparison of the scale and sectoral structure of self-employment as a proportion of total employment, characteristics of the overall scale and development of self-employment in the Czech economy, extent of mixed income per self-employed person in the national economy;
- Labour Force Survey (LFS): more detailed characteristics of the demographic, social and economic structure of entrepreneurs/natural persons, the structure of persons working in their own enterprise in terms of position at work (employers, persons working on their own account, assisting family members);
- records of the self-employed for pension insurance (CSSA): assessment of self-employed persons' position in the pension insurance system;
- records of small and medium-sized enterprise (MoIT): status of the small and medium-sized enterprises (SME) sector in the economy, focusing on micro-enterprises (share of GDP formation, of employment, work productivity etc.).

3. International comparison of the scale and structure of self-employment

After almost 20 years of transformation into a market economy, persons carrying on independent gainful activity account for roughly 20% of employment in the Czech Republic, with a low proportion of farmers, and although there is still a large number operating in the secondary sector of the economy the majority are now found in services. The lack of longer-term experiences and thus also criteria for assessing the current situation makes it necessary to seek analogies in traditional market economies whose evolution was uninterrupted. The following analysis compares the current state of affairs in the Czech Republic with EU countries. However, even in the EU we encounter gaps and methodological discrepancies in both national and international statistics. Consequently, when comparing EU-25 states the study must in certain cases work with estimates and not always accurate analogies. The basis for EU-wide comparison is the definition of the self-employed in ESA 95.

The core of self-employment is found in services. The consequent focus on local markets above all predetermines national specifics in the regulation of self-employed persons' activities and their protection. That makes it difficult to analyse macroeconomic data.³⁷ For the purposes of EU comparison, the study uses the national accounts data of individual countries as they are published by Eurostat at a remove of roughly one year³⁸. The analysis is based on the uniform methodological instructions for processing the data by respondent countries. However, even under these conditions interpretation of the data must take into account national interpretations and their one-off changes (e.g. Great Britain at the end of the 1990s, Hungary and Poland in 2003). As a result, international comparison can only identify basic differences in comparison with standard countries with an uninterrupted tradition.

The institutional framework of the activities of the self-employed and the legislation in different countries was not part of the analysis and comparison. The work focused on the relationship between selected labour market parameters and the scale of self-employment. The end of the chapter seeks to define general features of self-employment in the EU and to characterise Czech specifics that could be corrected in the coming years.

3.1 Scale and structure of self-employment in EU countries

Compared to other EU countries the Czech Republic has a relatively high number of self-employed people. Their share of employment is comparable with Portugal, Austria, Ireland or Slovenia. Only Mediterranean states Cyprus and Italy, Poland, and the new members Bulgaria and Romania display higher values.

³⁷ Differences in legislation and the regulation of local markets and of the protection of tradesmen and farmers make it impossible to perform an objective comparison between the Czech Republic and Austria and Germany. With the high degree of integration between the two economies it is even difficult to compare Austria and Germany

³⁸ EUROSTAT: Economy and finance - National accounts. Available at <http://epp.eurostat.ec.europa.eu/>

3. International comparison of the scale and structure of self-employment

Table 7 **Self-employment as a proportion of total employment**

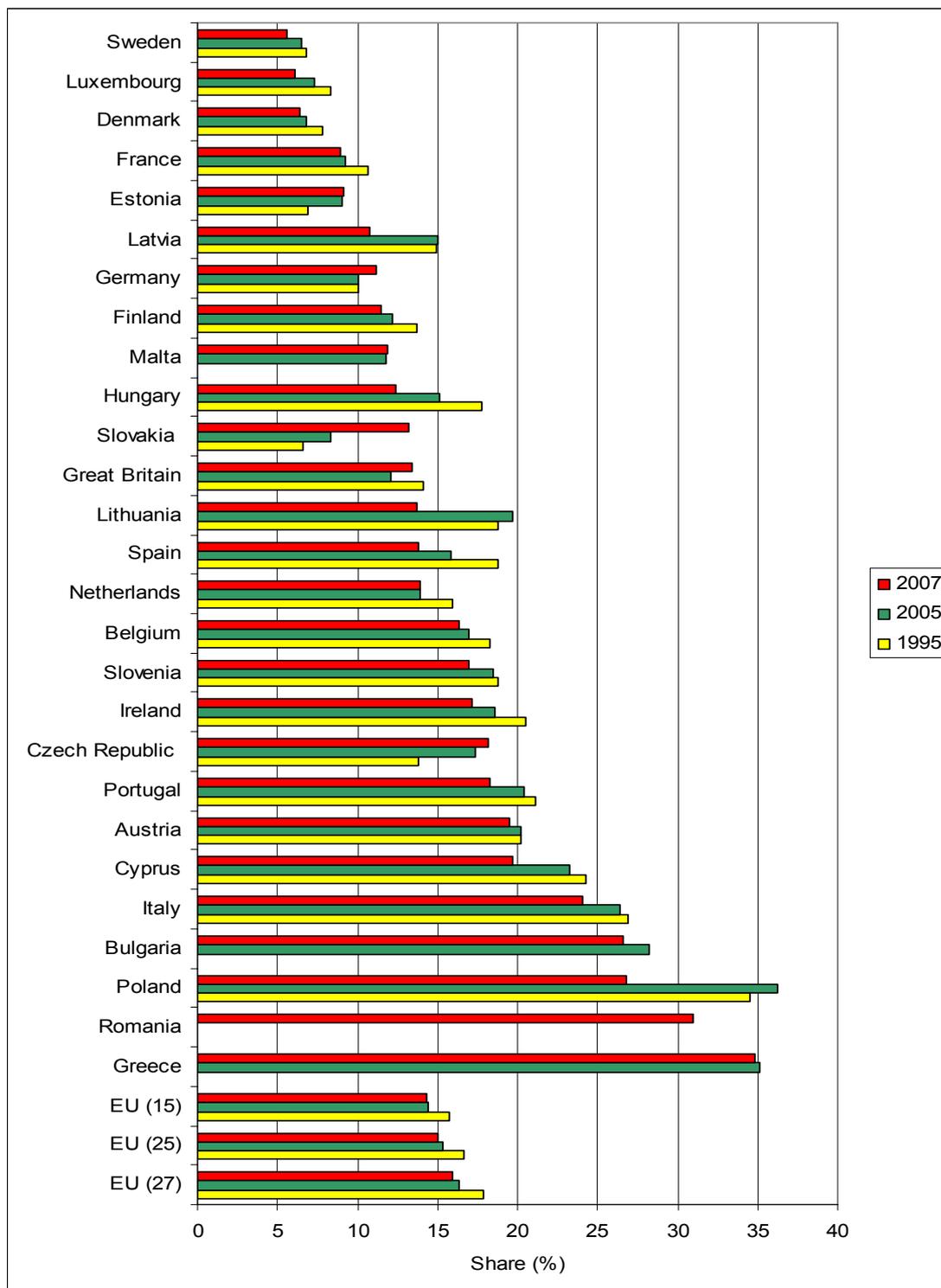
	self-employment's share of total employment in %					change in share (percentage points)				difference from EU-27 in 2007 (p.p.)
	1995	2000	2005	2006	2007	2007 - 1995	2007 - 2000	2007 - 2005	2007 - 2006	
EU-27	17.9	16.7	16.3	16.1	15.9	-2	-0.8	-0.4	-0.2	0
EU-15										
Belgium	18.3	17	16.3	16.3	16.3	-2	-0.7	0	0	0.4
Denmark	7.8	6.8	6.3	6.2	6.4	-1.4	-0.4	0.1	0.2	-9.5
Germany	10	10	11.2	11.2	11.2	1.2	1.2	0	0	-4.7
Ireland	20.5	18.6	16.9	16.4	17.2	-3.3	-1.4	0.3	0.8	1.3
Greece	-	39	35.1	34.9	34.8	-	-4.2	-0.3	-0.1	18.9
Spain	18.8	15.8	14.6	14.2	13.8	-5	-2	-0.8	-0.4	-2.1
France	10.7	9.2	8.9	8.9	8.9	-1.8	-0.3	0	0	-7
Italy	26.9	26.4	24.7	24.4	24.1	-2.8	-2.3	-0.6	-0.3	8.2
Luxembourg	8.3	7.3	6.5	6.3	6.1	-2.2	-1.2	-0.4	-0.2	-9.8
Netherlands	15.9	13.9	13.9	14.1	13.9	-2	0	0	-0.2	-2
Portugal	21.1	20.4	19.1	18.2	18.3	-2.8	-2.1	-0.8	0.1	2.4
Austria	20.2	20.5	19.8	19.4	19.5	-0.7	-1	-0.3	0.1	3.6
Finland	13.7	12.2	11.7	11.8	11.5	-2.2	-0.7	-0.2	-0.3	-4.4
Sweden	6.8	6.5	5.7	5.7	5.6	-1.2	-0.9	-0.1	-0.1	-10.3
Great Britain	14.1	12.1	12.8	13.2	13.4	-0.7	1.3	0.6	0.2	-2.5
EU-12										
Bulgaria	-	28.2	27.8	27.2	26.6	-	-1.6	-1.2	-0.6	10.7
Czech Rep.	13.8	17.4	18.2	18.2	18.2	4.4	0.8	0	0	2.3
Estonia	6.9	9	8.1	8.1	9.1	2.2	0.1	1	1	-6.8
Cyprus	24.3	23.2	22.1	20.6	19.7	-4.6	-3.5	-2.4	-0.9	3.8
Latvia	14.9	15	11.6	11.7	10.8	-4.1	-4.2	-0.8	-0.9	-5.1
Lithuania	18.8	19.7	17.1	15.8	13.7	-5.1	-6	-3.4	-2.1	-2.2
Hungary	17.8	15.1	13.8	12.7	12.4	-5.4	-2.7	-1.4	-0.3	-3.5
Malta	-	11.8	11.8	11.8	11.9	-	0.1	0.1	0.1	-4
Poland	34.5	36.2	28.3	27.9	26.8	-7.7	-9.4	-1.5	-1.1	10.9
Romania	-	-	33.5	31.7	31	-	-	-2.5	-0.7	15.1
Slovenia	18.8	18.5	17.6	17.4	17	-1.8	-1.5	-0.6	-0.4	1.1
Slovakia	6.6	8.3	13	13	13.2	6.6	4.9	0.2	0.2	-2.7

Source: Eurostat: National Accounts, available at <http://epp.eurostat.ec.europa.eu/>, August 2008, RILSA calculation

It is clear from the table that a country's economic standard is not categorically significant for the scale of self-employment. Geographical location is much more significant. Southern countries around the Mediterranean with favourable climatic conditions and extensive tourism display high proportions of self-employment. The proportion of GDP accounted for by agriculture also plays an important role: Poland, Romania and Bulgaria are classic examples of this.

3. International comparison of the scale and structure of self-employment

Chart 1 Self-employment's share of total employment in the EU-27 in 1995, 2000 and 2007



Source: Eurostat: National Accounts, available at <http://epp.eurostat.ec.europa.eu>, August 2008, RILSA calculation

3. International comparison of the scale and structure of self-employment

With its growing number of self-employed persons in the years 1995-2007 the Czech Republic differs from the "old" EU-15 countries and also from the new post-communist states, with the exception of Slovakia. Other states display a tendency for a decrease in the share of employment or a radical decline, e.g. Spain, Lithuania, Latvia, Hungary and Cyprus (countries with a high proportion of self-employment in 1995). However, in 2005 both the Czech Republic and Slovakia were among the countries with a stagnating share, along with Belgium, France, the Netherlands and Germany.

Between 1995 a 2007 practically EU countries displayed negative or low increments in the number of self-employed persons at the same time as employment growth. This trend is bucked, however, by the successor states of the former Czechoslovakia, which, at the start of economic transformation, developed strong economic, institutional and social support for the establishment and expansion of the self-employment sector. The population, though lacking in experience in self-employment, responded positively to the stimuli, especially in the Czech Republic. Right from the start of the 1990s, the dynamic growth of small-scale enterprise filled the gaps on the goods and services market, despite economic recession and a palpable fall in personal consumption. The rapid growth of the self-employment sector in the 1990s absorbed a substantial proportion of the labour dismissed from restructured enterprises and mitigated unemployment problems. Favourable fiscal policy significantly aided this process and helped maintain the attained state. Self-employed persons' tax costs per unit of GDP are roughly half those of corporations (in the figure is around three-quarters in most European countries)³⁹.

³⁹ This question is analysed in the chapter entitled "Relationship between the Self-employed and Public Budgets", or Kozelský T., Vlach, J.: Self-employed Persons in the European Union. In Průša and collective: Socio-economic Status of Self-employed Persons in Society (digest of analyses of the socio-economic status of self-employed persons in Czech society and the European Union). Prague: RILSA 2006. pp. 138 - 142, 152 - 153. ISBN 80-87007-33-6.

3. International comparison of the scale and structure of self-employment

Table 8 Development of employment and the number of self-employed persons, 2007/1995 index, in %

	2007/1995 index, in %		difference in rate of growth in p.p.(self-employed – employment)
	employment	self-employed	
EU-15			
Germany	105.7	118.6	12.8
Denmark	108.8	89.2	-19.6
Sweden	109.5	89.7	-19.8
Austria	110.3	106.5	-3.8
Belgium	112.5	100.1	-12.3
Portugal	113.0	98.1	-14.9
Great Britain	113.0	85.6	-27.4
France	113.2	94.0	-19.2
Italy	115.2	103.1	-12.1
Netherlands	120.3	104.8	-15.5
Finland	121.5	103.5	-17.9
Spain	151.9	112.1	-39.8
Luxembourg	154.3	123.5	-30.8
Ireland	164.6	138.3	-26.3
EU-12			
Poland	91.2	70.2	-21.0
Czech Rep.	100.3	131.9	31.7
Estonia	101.2	134.1	32.9
Lithuania	103.3	76.3	-27.0
Slovakia	103.3	206.5	103.2
Slovenia	105.2	93.2	-12.0
Hungary	107.8	75.6	-32.2
Latvia	114.5	83.3	-31.2
Cyprus	130.0	106.9	-23.1

Source: Eurostat: National Accounts, available at <http://epp.eurostat.ec.europa.eu/>, August 2008, RILSA calculation

NB: Countries are listed in descending order in terms of development of employment and EU accession. Greece, Malta, Bulgaria and Romania are omitted for lack of data.

The development in the number of self-employed persons in EU countries reflects the fall in the primary sector, which is still important in the structure of the economic activities of the self-employed, and above all changes in the sectoral structure. The importance of the secondary and in most countries above all the tertiary sector is growing relatively fast. The exodus from the primary sector is so marked that it is reflected in the trend of a falling share of employment accounted for by self-employment.

This development does not apply to the Czech Republic and Slovakia with their low proportion of small private farms. The almost 20% fall in the number of private farmers in the Czech Republic could not stop the quantitative growth of the self-employment sector. Slovakia was the only EU country to experience a tripling of the number of its farmers from 2000 to 2007.

3. International comparison of the scale and structure of self-employment

Table 9 Development of the number of self-employed persons by sectors in selected EU countries, 2000-2006¹⁾

	change in thousands of persons				change in share in percentage points		
	sector				sector		
	primary	secondary	tertiary	total	primary	secondary	tertiary
EU-15 ⁱ⁾	-636	118	949	431			
Belgium	-14	0	7	-7	-2.0	0.1	1.9
Denmark	-10	0	0	-10	-4.2	1.5	2.7
Germany	-59	38	458	437	-2.6	-1.0	3.6
Ireland	-14	12	15	13	-5.9	5.5	0.4
Greece	-155	3	76	-76	-8.6	0.5	8.2
Spain ⁱⁱ⁾	-131	26	270	165	-6.5	-0.5	7.0
France	-69	19	45	-5	-3.4	1.4	2.1
Italy	-78	33	35	-10	-1.3	0.3	1.0
Luxembourg	0	0	0	0	-0.7	-0.5	1.2
Netherlands	-26	16	31	21	-3.0	2.1	0.9
Portugal	-32	-32	4	-60	0.7	-3.3	2.5
Finland	-18	2	13	-3	-6.9	1.1	5.8
Sweden	-30	1	-5	-34	-8.9	2.8	6.1
EU-12 ⁱ⁾	-1927	-62	47	-1942			
Czech Rep.	-8	37	20	49	-1.2	1.9	-0.6
Estonia	-5	5	-5	-5	-10.1	11.2	-1.1
Cyprus	-1	1	6	6	-1.7	0.8	1.0
Latvia	-27	2	6	-19	-13.4	4.4	9.0
Lithuania	-71	7	12	-52	-17.9	5.7	12.2
Hungary	-39	-11	5	-45	-4.8	0.2	4.6
Poland	-1762	-106	-108	-1976	-9.3	0.8	8.4
Slovenia	-14	-2	9	-7	-6.9	-0.2	7.1
Slovakia	10	28	65	103	2.5	-4.0	1.6
Bulgaria	-18	14	57	53	-6.9	1.5	5.4

Source: National Accounts, available at <http://epp.eurostat.ec.europa.eu/>, August 2008, RILSA calculation

NB: 1) A lack of data made it impossible to analyse structural development before the year 2000; i) Austria, Great Britain, Malta and Romania were omitted for lack of data; ii) the growth in the number of self-employed persons in Spain is less dynamic than the development of employment so its share has decreased.

Developments in the secondary sector of national economies vary. The majority of "old" countries with a stabilised market economy have experienced a decline in self-employment in industry and growth in construction. However, this trend is not the rule in states with a rapidly changing economic structure and new orientation towards the European market. Over the longer term of 1995-2006, increasing numbers of self-employed persons have operated in industry in Ireland, Finland, the Czech Republic, Lithuania, Latvia and Slovakia. In the 2000-2006 period this group was joined by Estonia.

3. International comparison of the scale and structure of self-employment

Table 10 Development of the number of self-employed persons in industry and construction, index in %

	industry		construction	
	2006/1995	2006/2000	2006/1995	2006/2000
EU-15				
Belgium	86.7	100.0	102.0	102.0
Denmark	69.2	90.0	129.4	110.0
Germany	94.4	102.6	129.7	109.0
Ireland	141.2	104.3	295.7	144.7
Greece	-	92.0	-	108.2
Spain	101.2	79.7	197.7	127.5
France	93.6	101.1	107.3	116.3
Italy	88.9	96.1	118.8	110.2
Cyprus	77.8	87.5	128.6	128.6
Luxembourg	100.0	100.0	100.0	100.0
Netherlands	78.3	94.0	191.7	145.6
Portugal	94.0	85.1	106.6	73.5
Finland	105.0	100.0	138.1	116.0
Sweden	94.1	100.0	107.4	111.5
Great Britain	99.8	103.6	102.9	132.8
EU-12				
Bulgaria	-	130.3	-	180.0
Czech Rep.	154.2	111.3	144.8	117.8
Estonia	100.0	125.0	450.0	225.0
Cyprus	77.8	87.5	128.6	128.6
Latvia	160.0	114.3	225.0	150.0
Lithuania	111.1	90.9	900.0	300.0
Hungary	44.0	74.3	117.5	100.0
Poland	72.6	73.0	114.7	74.0
Romania	-	92.1	-	254.2
Slovenia	85.7	85.7	133.3	109.1
Slovakia	137.0	127.6	280.0	161.5

Source: Eurostat: National Accounts and Labour Force Survey, available at <http://epp.eurostat.ec.europa.eu/>, August 2008, RILSA calculation

NB: A lack of data made it impossible to analyse Malta and, in the 1995-2006 period, Greece, Bulgaria and Romania

If the level of economic development is not a decisive factor for the number of self-employed persons, there is a close link to their structure. Countries with the lowest per capita GDP in the EU (Poland, Lithuania, Latvia, Bulgaria, Romania) have a high proportion of employment in agricultural sectors and simultaneously the greatest number self-employed persons in this sector. With increasing GDP the importance of services for self-employment also increases.

Fields in the primary sector of the economy have remained one of the most important factors in the formation of self-employment. Although its importance is gradually falling, in most countries it accounts for 10% to 30% of self-employment. Only Poland, Lithuania and Bulgaria with an almost two-thirds share and Romania with almost 90% deviate from this scale. Portugal, Latvia and Slovakia, with more than a

3. International comparison of the scale and structure of self-employment

half share, may be added to that group. The proportion in the Czech Republic and Slovakia – roughly 5% – also differs from developed EU countries. The transformation of agriculture in the Czech and Slovak republics did not result in the atomisation of large enterprises into small private farms.

As mentioned above, assessment of the proportion of self-employment in services should be approached with regard to the countries' geographical location. The high proportion in Mediterranean countries is determined by the supranational significance of tourism in their economies. In the developed countries of western, central and northern Europe, however, services play a key role in satisfying the needs of domestic enterprises and the domestic population. Export of services has not played a major role so far. The Czech Republic's tertiary sector share is seemingly consistent with the European standard. However, assessment of the data must take into account agriculture's extremely low share of self-employment.

Compared to other states, the Czech Republic data are testimony to the highest and still growing proportion of self-employment in industry and construction. The number of self-employed persons grew by 15% from 2000 to 2006, with the proportion rising by 1.6 percentage points. Along with Ireland, the Czech Republic also has the highest proportion of self-employment in construction. The number of self-employed persons in building professions was 18% higher than in 2006 than in 2000 – in industry it was only 11% higher. In Ireland the increase was roughly 44%. Attention has been drawn to the high employment in construction and low work productivity since the 1980s⁴⁰. Unresolved problems in construction merely continue to grow – it is no coincidence that sources indicate that as many as one-third of those employed in this sector work under the "Švarc system" (false self-employment)⁴¹.

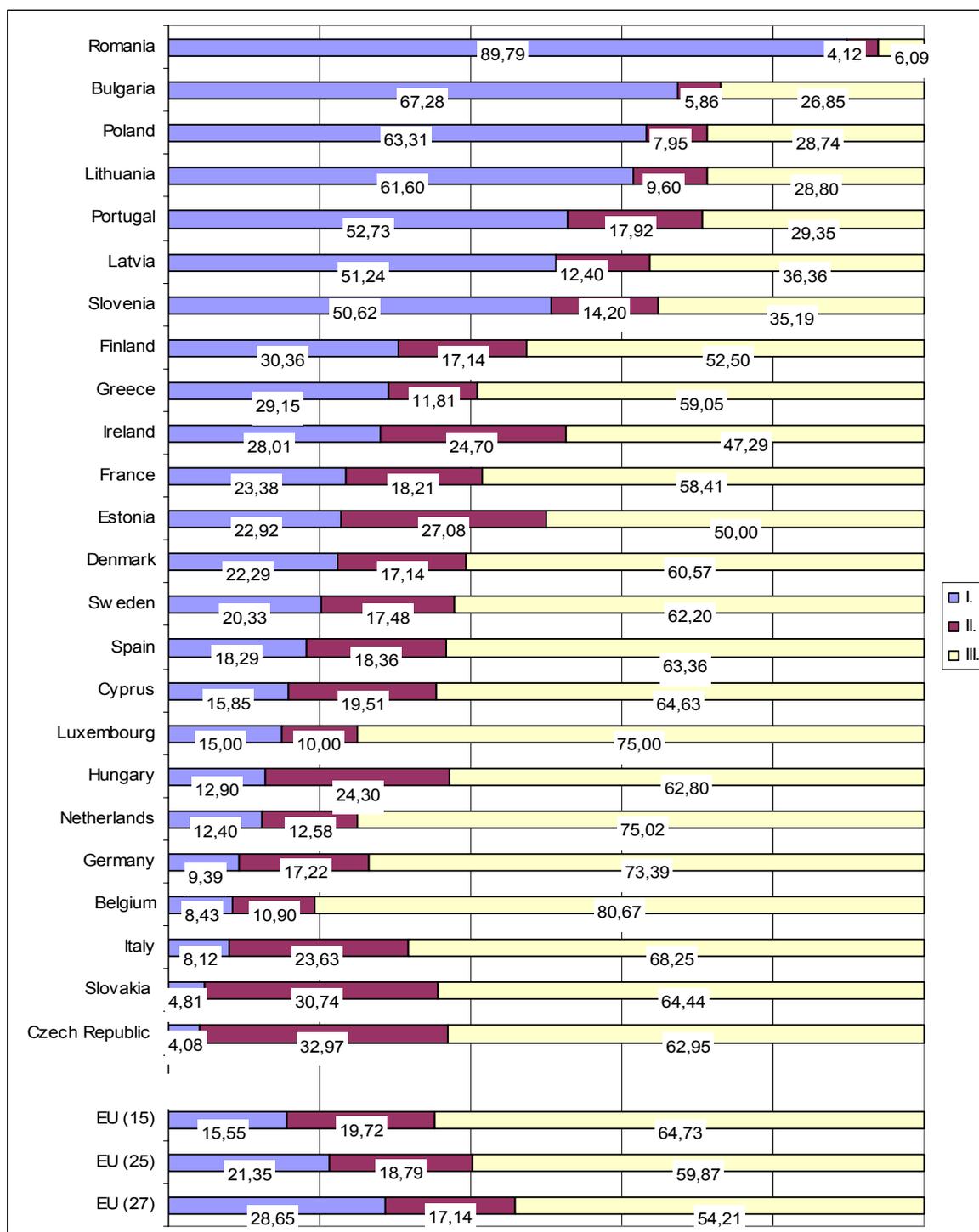
The sectoral structural of self-employment reflects the Czech Republic's unfinished structural changes and the resulting composition of employment in the Czech Republic, where the secondary sector of the economy still carries great weight.

⁴⁰ Work by the Prognostic Institute of the Czechoslovak Academy of Sciences from the end of the 1980s (e.g. Summary prognosis of the scientific and technological, economic and social development of the CR by the year 2010, Prognostic Institute of the Czechoslovak Academy of Sciences 1988) declared the need to release labour from this branch because of the expected structural changes that were meant to start here.

⁴¹ E. Jiří Němeček: Švarc system still illegal. *Hospodářské noviny*, 4 May 2005

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Chart 2 Structure of self-employment in 2005 by sectors (share %)

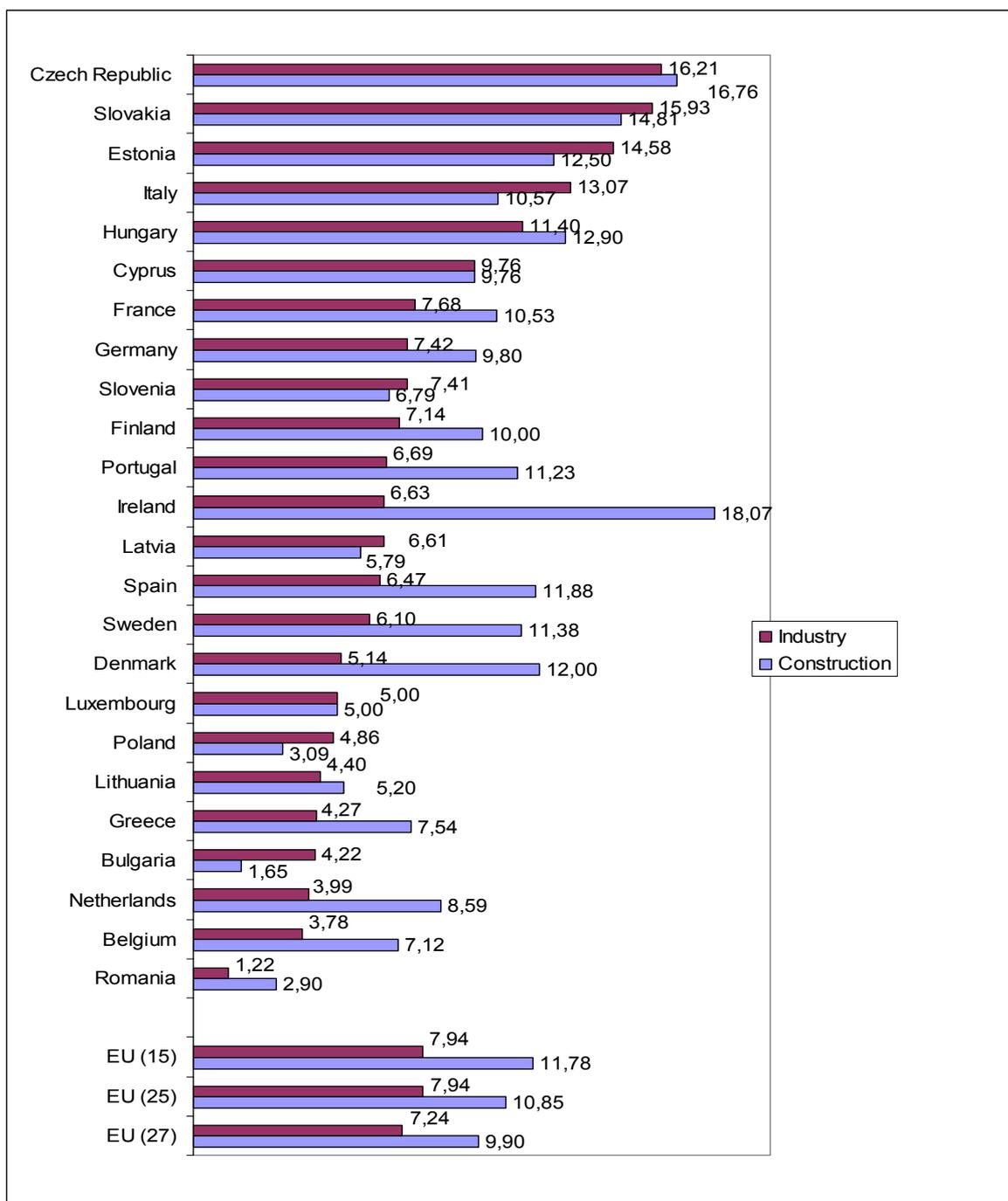


Source: Eurostat: National Accounts, available at <http://epp.eurostat.ec.europa.eu/>, August 2008, RILSA calculation

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NB: At the time when the chart was prepared, Eurostat published most structural data for 2005 for EU countries except Malta, Austria and Great Britain.

Chart 3 Structure of self-employment in the secondary sector in 2005, share of the total in %



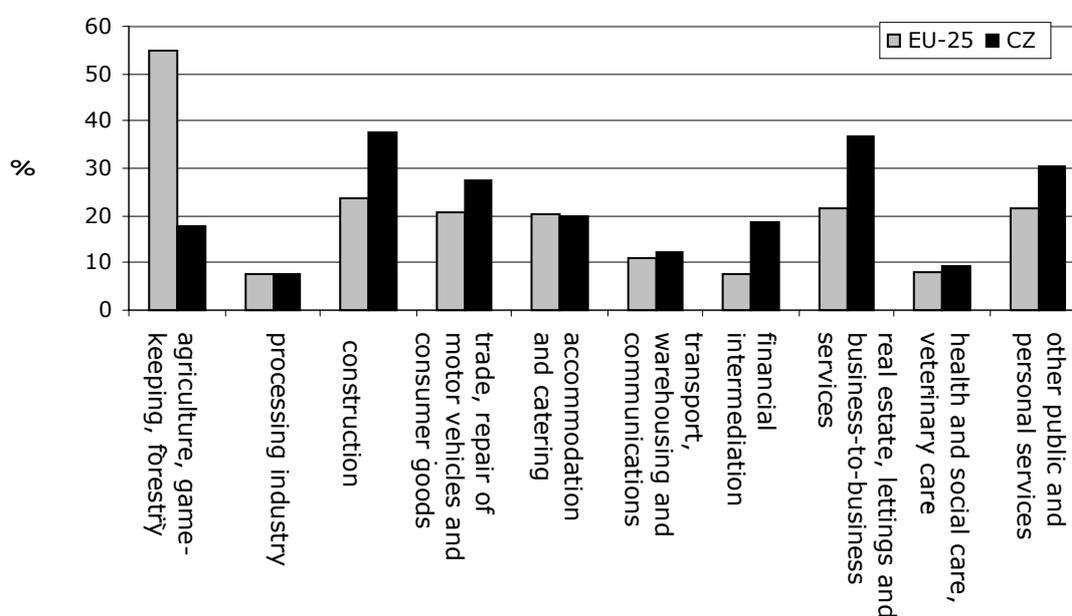
Source: Eurostat: National Accounts, available at <http://epp.eurostat.ec.europa.eu/>, August 2008, RILSA calculation

NB: At the time when the chart was prepared, Eurostat published most structural data for 2005 for EU countries except Malta, Austria and Great Britain.

3. International comparison of the scale and structure of self-employment

In its study entitled "Analysis of the Development of the Number of Self-employed Persons in 2005"⁴² the Czech Statistical Office also drew attention to a Czech deformation in the self-employment structure in the tertiary sector. The chart shown in the analysis documents the higher concentration in financial intermediation and in real estate and lettings and business services. The share of employment in these sectors accounted for by self-employment was around double the EU-25 average in 2003. In Czech terms both these sectors display higher-than-average profitability⁴³. Activities in these sectors still benefit from the unharmonised price structure and a speculative aspect can be inferred.

Chart 4 **Share of employment in various sectors accounted for by self-employment, 2nd quarter 2003**



Source: CzSO, Analysis of the Development of the Number of Self-employed Persons. CzSO, Prague, March 2005

⁴² CzSO, Analysis of the Development of the Number of Self-employed Persons, CzSO: Prague, March 2005

⁴³ In the 1995-2004 period the proportion of total costs in the financial intermediation field accounted for by net operating surplus and mixed income ranged from 7.8% in 2003 to 39.5% in 1998, and in the real estate, lettings and business-to-business services field from 22.5% in 2004 to 33.9% in 2002; the national average is around 13%; for more information see Prušvic, D., Vlach, J.: Unit Costs of Labour - analysis of developments and levels. Prague: RILSA 2005

3.2 Common features of self-employment in the EU

International comparison of the scale and importance of self-employment in national economies shows that there are a number of factors that have influenced and still influence its share of employment and its structure and status in society. The situation is different in each country, depending on its historical development and the specific local market conditions, institutional framework and legislation on micro-enterprise. Essentially, though, the following common features generally apply:

1. The economic activity of the self-employed is taxed less than corporations. There are advantages stemming from the construction of the tax base and assessment bases for social and health insurance. Moreover, in some western European countries (and Poland) the state subsidises farmers' social security. Some states do the same for craft and related trades workers (Germany, Cyprus). The tax burden on the self-employed is a quarter to a third lower than that on corporations. The only exceptions are the Czech Republic, where the ratio is closer to one half, and Denmark and Poland⁴⁴, where conversely the ratio is around 90%⁴⁵.
2. In the 1995-2007 period the share of employment accounted for by self-employment displayed a slight falling tendency in most EU countries. The greater increase in the number of persons in employment than the number in self-employment was a significant factor. In the medium-term time scale of 2000-2006 the sharp fall in the number of self-employed persons in the primary sector was not outweighed by the increasing number in services and construction. Only certain post-communist states – Czech Republic, Slovakia, Germany (influence of eastern countries) and Estonia – deviate from these developments.
3. Branches of the primary sector (agriculture, fishing, forestry) are a specific problem area for self-employment. Despite their low significance in individual economies and in total employment they display a high level of self-employment relative to total self-employment in national economies (roughly 55% in the EU-27) and total employment in the primary sector. Only the Czech Republic and Slovakia, and to some extent Belgium, display different proportions. In less developed states such as Poland, Lithuania, Latvia, Bulgaria and Romania these branches of the economy remain the core of self-employment. Supporting small farmers is a solution to social stability and employment for most EU states.
4. In the secondary sector there has been a fall in the number of self-employed persons operating in industry and pronounced growth in construction. One specific aspect in the 1995-2006 period is the economies of "new" EU countries, which responded to the restrictions and market gaps from the years of command economy in the second half of the 20th century, i.e. the Czech Republic, Slovakia, Latvia, Bulgaria and Estonia. In the process of adapting the economic structure to

⁴⁴ Estimate, OECD Revenue statistics 1965-2006; data for Poland are not sufficiently structured for a detailed calculation.

⁴⁵ This question is analysed in the chapter entitled "Relationship between the Self-employed and Public Budgets", or Kozelský T., Vlach, J.: Self-employed Persons in the European Union. In: In Průša and collective: Socio-economic Status of Self-employed Persons in Society (digest of analyses of the socio-economic status of self-employed persons in Czech society and the European Union). Prague: RILSA 2006. pp. 138 -142, 152-153. ISBN 80-87007-33-6.

3. International comparison of the scale and structure of self-employment

developed countries this group is joined by Ireland⁴⁶. Under these conditions construction, which reacts to the favourable economic growth after the year 2000 and, with the exception of Portugal and Poland, offers good conditions for self-employment, gives the secondary sector a stable structural position⁴⁷. In the "old" EU-15 countries with their established market economies, the proportion of self-employment grew by far the most rapidly in services. "New" countries, bar the Czech Republic, Estonia and Poland, displayed a similar trend.

5. The key area for the activities of the self-employed is the services sector, where more than half operate. The exceptions are Portugal, Ireland and the "new" EU states Lithuania, Latvia, Poland, Slovenia, Romania and Bulgaria. Apart from Ireland, in all these countries the primary sector accounts for more than 50%. A fundamental part of services in the EU is currently confined to local markets. The European Commission has for years sought to stimulate their free movement on the single market, but this has come up against barriers to national labour markets⁴⁸. The high demand on local markets is reflected in a high degree of self-employment in the services sector in the most developed countries such as Germany, the Netherlands, Belgium, Luxembourg and also Hungary (more than three-quarters). The sectoral structure of self-employment in the Czech Republic and Slovakia is characterised by an extremely low proportion in the primary sector (roughly 5%) which optically increases the weight of the services sector compared to their surrounding countries. The importance of the tertiary sector of national economies for the number of self-employed persons is displayed in countries where services operate across the borders of local markets due to tourism. In this context, southern countries, i.e. Spain, Italy, Greece and Cyprus, form a separate area. It is fair to assume that Portugal and Malta would also belong in this group (and possibly also Austria), but there was insufficient relevant data for this analysis.

3.3 Specifics of self-employment in the Czech Republic

The Czech Republic, where independent gainful activity was interrupted in the second half of the 20th century, started practically from scratch in 1990. Some sources mention a connection with the pre-1948 entrepreneurial tradition⁴⁹. It should be recalled in this context, however, that the three-quarters proportion of independent farmers in agriculture that had existed in the interwar First Republic still existed in 1950.

Property and enterprise restrictions were more rigorously enforced in Czechoslovakia from the 1950s to the 1980s than in other Soviet bloc states. Citizens' legally recognised property rights were confined to consumer articles. The state and its controlled cooperatives monopolised control over the means of production.

⁴⁶ Increase in the number of self-employed persons in industrial sectors in the years 1995-2006: Ireland + 41%, Czech Republic + 54%, Slovakia 37%, Latvia + 60%, Lithuania + 11%. After the year 2000, Estonia and Bulgaria (+ 21% and + 20% respectively) can be added to this group.

⁴⁷ From 2000 to 2006 the number of self-employed persons in construction in Portugal and Poland fell by a quarter.

⁴⁸ This problem is addressed by Directive of the European Parliament and of the Council 2006/123/EC of 12 December 2006, regarding services on the internal market. Bulletin of the European Union, L 376, 27/12/2006 S. 0036 - 0068

⁴⁹ Between 1991 and 1998 natural persons obtained property worth roughly CZK 70-130 billion in restitution (government report on the state of society, March 1999)

3. International comparison of the scale and structure of self-employment

As far as the self-employed are concerned, the transformation process lifted the Czech Republic above the level of the EU-15 and other acceding post-communist countries. The breakneck speed of development brought with it a number of non-standard features and proportions:

1. The stagnating high proportion of employment accounted for by the self-employed, which was more than 2 percentage points over the EU-27 average in 2007. In other countries, the data for 2007 compared to the first half of the 1990s reveal a decline. In this regard the Czech situation is only comparable to Slovakia. The two countries entered the transformation process with the same ownership structure, i.e. practically without a self-employment sector.
2. The Czech Republic's fiscal policy is intended to support self-employment. Unit tax costs are roughly half the level of corporations', i.e. it is advantaged more than in any other of the countries under scrutiny. In other countries unit tax costs of the self-employed are around two-thirds of those of legal persons. In absolute terms, self-employed persons' unit tax costs are among the lowest in the EU. In 2005 only Greece, with its focus on tourism and specific social make-up, displayed lower parameters: the proportion of employment accounted for by self-employment was two-thirds higher⁵⁰.
3. The Czech structure of self-employment differs from the EU standard by the relatively large share of the secondary sector. The Czech 34% is far above the proportion in other EU countries; the closest is Slovakia with an almost 31% share in 2005⁵¹. The crux of this anomaly lies in construction, which accounts for roughly one-fifth of the total number of self-employed persons. Ireland and Great Britain come close to the Czech level in this regard⁵². In other countries construction accounts for roughly 10% of self-employment. The structure of self-employment reflects the unfinished structural changes in the Czech economy, especially price changes. Another factor is the insufficient protection of the fair competitive environment and the labour market from the "Švarc system" (false self-employment). Similar influences are evidently also at work in activities that Czech statistics report in industrial fields.
4. The reconstruction of agriculture into a large-scale production base (completion of the process of cooperativisation in the mid 1960s) resulted in a low number of independent farmers in the 1990s during the transformation period. Farmers' worse working conditions, the high work productivity of large concerns, low purchase prices, barriers to joining the European single market (export quotas) and the dramatic fall in the standard of living of farming families⁵³ did not motivate people to farm independently. Despite the high – in Czech terms – proportion of employment accounted for by self-employment, i.e. roughly 18%, self-employment in the primary sector is low compared to European and developed

⁵⁰ This question is analysed in the chapter entitled "Relationship between the Self-employed and Public Budgets", or Kozelský T., Vlach, J.: Self-employed Persons in the European Union. In: Průša and collective: Socio-economic Status of Self-employed Persons in Society (digest of analyses of the socio-economic status of self-employed persons in Czech society and the European Union). Prague: RILSA 2006. pp. 138 - -142, 152-153. ISBN 80-87007-33-6.

⁵¹ In other countries the proportion of self-employed persons in the secondary sector reaches 20%.

⁵² Eurostat: Labour Force Survey, available at <http://epp.eurostat.ec.europa.eu/>, August 2008, RILSA calculation

⁵³ According to calculations, per capita income in farming households did not reach 1989 levels until 2005 (preliminary national accounts data, MoLSA calculations, Development of Selected Indicators of the Standard of Living in the Czech Republic in 1993-2007, Prague 2008). Relative to the same indicator for the families of employees it fell from 1.021 in 1990 to 0.879 in 2005.

3. International comparison of the scale and structure of self-employment

countries, with it making up roughly 4% of the total number of self-employed persons in 2005 and 2006. The proportion of self-employed persons working in agriculture ranges from 8% to roughly 25% in other countries. In Poland, Lithuania, Latvia and Bulgaria the proportion is two-thirds, and in Romania close to 90% even. The only country with a level comparable to the Czech Republic, i.e. just under 5%, is Slovakia, which had the same background of cooperativisation of village life.

It is a reasonable assumption that quantitative and qualitative changes will continue in the future, moving towards the proportions customary in Europe.

4. Motivation for self-employment

International analytical studies and documents (e.g. International Labour Organisation study "The Promotion of Self-employment" and the "Third European survey on working conditions 2000") highlight two major types of motivation to practise self-employment.

The first type of motivation lies in the relatively freely made decision of a significant number of economically active persons to focus on self-employment because of its creative nature, decision-making autonomy and greater work satisfaction⁵⁴. The success of this orientation depends to a great extent on favourable external conditions, such as sufficient demand for the offered goods and services, a favourable labour market situation, the availability of credit and support from the state's fiscal and institutional policy (in taxation, the clarity of legislation etc.); subjective preconditions for business success are equally important, i.e. the degree of preparedness, personality traits such as creativity, flexibility and the ability to make independent decisions and cope with the risks of business.

The second type of motivation for self-employment is the pressure of adverse social and economic conditions (economic compulsion) for some economically active persons (unemployment and/or a lack of decent work, possibly also people forced into economic activity against their will); these people see self-employment as a possible way to improve their situation. These are often people who are not subjectively prepared to be able fully and successfully to cope with the requirements of entrepreneurial activity.

Both types of motivation and the corresponding groups of self-employed persons exist in differing proportions in all the national economies.

In the Czech Republic, the motivation for self-employment has had a number of specific impulses and characteristics since 1989.

From the first years of socio-economic transformation, rapidly and comprehensively developing private enterprise to overcome its practically total suppression under the totalitarian regime was the driving socio-political concept.

In the first years after 1989 there were very favourable conditions and motivation for the development of self-employment in the form of predominantly micro-enterprise by natural persons.

The legal basis for the motivation for natural persons to develop businesses was and has for long remained the constitutional guarantee of ownership for citizens⁵⁵. The securing of property rights has engendered multifaceted economic and social activity by citizens, in which enterprise has a fundamental role. In economic terms, the principal motivation favouring the growth of self-employment was the extensive unmet demand (a consequence of the command economy's structural deformations), especially in crafts and related trades, repair services, housing and building maintenance, commerce, catering and other services; demand for both incoming and

⁵⁴ The Third European Survey on Working Conditions 2000, ILO, Geneva 2001, states that 45% of self-employed persons with employees declare job satisfaction, a third of self-employed persons without employees, and just 27% of employees.

⁵⁵ Article 11 of the Charter of Fundamental Rights and Freedoms, which is part of the Czech Republic's constitutional order, provides that: "Everyone has the right to own property. Each owner's property right shall have the same content and enjoy the same protection. Inheritance is guaranteed."

4. Motivation for self-employment

outgoing foreign tourism and in other areas experienced dynamic growth. A positive situation for micro-enterprise was also created by the labour market (lay-offs of workers during the transformation of state firms and institutions, emergence of unemployment⁵⁶) and, in the first years, by the low intensity of competition both within emerging sectors of self-employment and from state firms in their pre-privatisation period and the still embryonic sector of privatised and foreign companies.

From the beginning of transformation to the present day, state policy has created provided significant motivation for private enterprise. The free-of-charge restoration of property nationalised during the totalitarian era to natural persons meant that a number of them gained the material prerequisites for enterprise; privatisation processes also had a positive influence (especially the "small" privatisation for individuals' micro-enterprise). Fiscal and tax policy (a liberal approach to checking declared incomes and expenditure, relatively low tax rates, application of flat-rate tax discounts) has for long created an environment that encourages self-employment⁵⁷.

Favourable external conditions encouraging self-employment in the first part of the transformation period led to a sharp increase in self-employment and resulted in self-employment continuing to account for roughly one-fifth of employment in the Czech Republic up to the present day.

One aspect of the field survey⁵⁸ was to test the motives leading the respondents (self-employed, micro-entrepreneurs, natural persons) to prefer enterprise to dependent work (as the principal counter pole of income acquisition).

The survey results reflect the current⁵⁹ structure of factors that motivate people to run their own business, both for micro-entrepreneurs for whom enterprise is their main source of income and for the self-employed whose business merely provides additional earnings (their main income source is either income from dependent work or social benefits – old-age or invalid pension etc.).

Of the three groups of motivating factors for those self-employed persons for whom their enterprise is the main source of income (intellectual impulses: creative and active work, independent decision-making, and greater satisfaction than dependent work offers; economic factors: higher income, a way out of unemployment, better tax conditions; family tradition of enterprise: passing on firms to heirs, continuing a family tradition, restored property), the intellectual motives for enterprise are significantly dominant (two-thirds of respondents rank them as dominant). Less than a quarter of self-employed persons rate economic factors as key (self-employed tradesmen attribute the greatest importance to them, private farmers the least). Roughly one-tenth of respondents rated entrepreneurial tradition as a fundamental motive; more than 35% of independent farmers regard tradition as a significant motivating factor.

The fact that intellectual factors are clearly dominant in the attitudes of respondents for whom enterprise is their principal activity (representing the economically key portion of self-employment – micro-entrepreneurs) implies that external conditions for independent enterprise are currently favourable and have been

⁵⁶ The rapid development of the self-employment sector in the 1990s absorbed a substantial amount of the laid off labour and thus reduced the potential scale of unemployment.

⁵⁷ For more details see the chapter entitled "Status of the self-employment sector in the Czech Republic"

⁵⁸ Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic in 2006. Prague: RILSA, 2007. ISBN 978-80-87007-85-3

⁵⁹ The survey was conducted in the fourth quarter of 2006.

so for a long time. The low importance of unemployment as a motivation for independent enterprise (just under 8% of respondents, i.e. one in thirteen, regards this motive as significant) indicates that the impulse of economic pressure to switch to independent enterprise that was strong in the first years of social transformation has faded considerably. The low importance of motivational factors related to family business traditions shows that the formation of the social group of self-employed persons has not yet lasted a sufficiently long time to allow inter-generational ties to emerge and become firm. Family traditions of private business were lost during three generations lived under communism. This factor emerged strongly in farming families following the dissolution of the "uniform agricultural cooperatives". The effect of inter-generational changes in professional orientation and the generally rapid social and economic flux are probably even more significant factors behind this motivation's low importance.

Intellectual motives are also the strongest impulse for independent enterprise among those self-employed persons seeking to earn extra money (respondents rank them as the dominant motives in almost half of all answers), but they also appreciate economic motives (the need to earn extra money, insufficient income from dependent employment). These reasons were important for roughly two-fifths of the respondents and decisive for almost half.

The table shows detailed results regarding the field survey respondents' attitudes towards the reasons for practising independent enterprise.

Table 11 Motives for enterprise – attitudes of respondents in the field survey on the social and economic status of self-employment in the Czech Republic (2006)¹⁾

no.	motives for enterprise	% of answers	no.	motives for enterprise	% of answers
A. Respondents whose self-employment is their main source of income					
1.	decision-making autonomy	26.7	6.	hand down a prospering firm to the family	4.3
2.	more satisfying than dependent work	21.7	7.	continuing a family tradition	3.8
3.	creative activity	18.3	8.	using restored property	2.8
4.	higher personal income	12.9	9.	better tax terms than dependent work	1.9
5.	way out of unemployment	7.6			
B. Respondents whose self-employment is a source of additional income					
1.	decision-making autonomy	21.8	7.	continuing a family tradition	3.8
2.	creative activity	19.0	8.	under-employed in dependent work	3.1
3.	gaining additional income	16.1	9.	handing down a prospering firm to the family	2.6
4.	more satisfying than dependent work	12.9	10.	better tax terms than dependent work	2.2
5.	insufficient incomes from dependent work	9.5	11.	using restored property	1.8
6.	looking for a new chance in life	7.3			

Source: Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons Active in the Czech Republic in 2006. Prague. RILSA 2007. ISBN 978-80-87007-85-3, p. 17 - 20

Comments and explanations: 1) Percentage of the number of answers that respondents ranked in the first three places of importance

5. Status of the self-employment sector in the Czech Republic

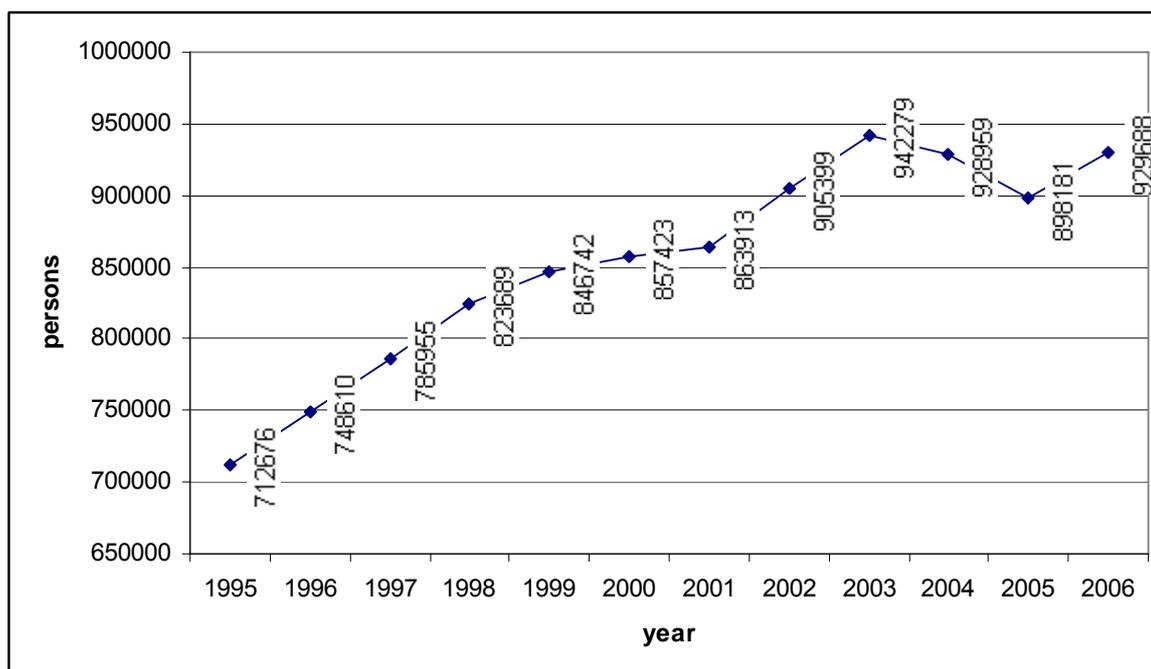
After 1990, support for self-employment from the state's economic policy allowed this sector, previously excluded from economic life, to develop very rapidly. In the brief period from 1990 to 1993 it filled existing gaps on the goods and services market and evened out labour market imbalances caused by structural changes to the economy. Today, the self-employed account for roughly one-fifth of total employment. Actual self-employment developed more rapidly than the related institutional framework. This disharmony is borne out by the absence of a uniform and categorical definition of persons carrying on independent gainful activity, which is reflected in, among other things, fragmented and incomplete information about the status, importance and risks of self-employment in the economy and Czech society.

This chapter summarises the results of analyses of Czech Statistical Office and Eurostat data and the findings gained from a field survey among 1,137 self-employed persons conducted in 2006 by RILSA in cooperation with the Factum Invenio agency and the Czech Chamber of Commerce. It focuses mainly on the status of self-employment in the national economy and its place on the market. Separate chapters are devoted to detailed analysis of the structure of self-employment and the tax conditions that form the framework for economic activities.

5.1 Basic position of the self-employment sector in the Czech economy

The self-employment sector experienced turbulent development in the first half of the 1990s. If there were around 90,000 people in the sector in 1990, by 1993 the sector had grown to 600,000 people, and in 1995 it comprised around 700,000 people. Since the year 2000 the number of self-employed people has stabilised around 900,000.

Chart 5 Development of the total number of self-employed persons



Source: CzSO: National accounts. Form M000151 GDP by the income method.
Available at http://dw.czso.cz/pls/rocenka/rocenkavyber.makroek_sektor, August 2008

In the first years of transformation after 1990, the dynamically growing sector helped cope with the consequences of the rapid structural changes taking place in the economy. It absorbed a considerable portion of the labour laid off from agriculture and industry. It thus contributed substantially to mitigating the social impacts of the emerging market economy and to the labour market's flexibility.

According to the labour offices⁶⁰, since 2000 the interest in self-employment has been waning and not even financial contributions are enough to compensate for the population's lack of the necessary capital for starting an independent enterprise. Additionally, worse working conditions compared to those in medium-sized and large firms deter people from starting their own business. Demand for the labour offices' advisory services is low. Nor is there much interest in training programmes run under active labour market policy and designed to help beginning entrepreneurs. The number of self-employed persons has stabilised and does not have a pronounced influence on the labour market situation. The subjective and objective preconditions and the financial reserves of workers potentially willing to switch to self-employment were exhausted during the 1990s.

The core of the sector is formed of individual work done by the self-employed. Firms without employees account for roughly 85% of the sector. Approximately 13% of self-employed persons employ 1-5 workers, roughly 1% has 6-9 employees and the remaining 1% more than 10 workers.

The self-employment sector (i.e. the self-employed and their employees) accounts for roughly one-third of total employment in the Czech Republic. The sector

⁶⁰ Research at the labour offices in Děčín, Most and Prague – West in 2007.

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currently employs one-tenth of all employees in the Czech economy. Their earnings are around two-thirds of the national average, however⁶¹. In conditions of high demand for skilled workers, low earnings and worse working conditions mean that the firms of self-employed entrepreneurs have difficulty recruiting new employees.

Roughly two-thirds of the self-employed in the Czech Republic operate in services, and in particular commerce. One Czech specific in the EU is the high proportion of self-employment in the secondary sector (roughly one-third), centred on construction (which accounted for roughly one-fifth of all self-employment in 2005, along with Ireland the highest proportion in the EU) and the low share in agriculture (just under one-twentieth in 2005)⁶².

The activities of non-EU foreign nationals form a specific area of self-employment. The liberal attitude to enterprise activities allows them to get around the protection of the Czech labour market (obtaining a trade licence is much easier than a work permit). At present, foreign nationals make up roughly 10% of the number of self-employed persons (66,000 in 2006). The vast majority of them are from non-EU countries the European labour market seeks to protect itself from. The vast majority of foreign nationals with a trade licence operate in commerce, motor vehicle and consumer goods repairs (45% in 2006) and in construction (20% in 2006).

⁶¹ Labour office analysts and staff assume that paying undeclared wages is particularly widespread in micro-enterprises.

⁶² For more information see Kozelský T., Vlach, J.: Self-employed Persons in the European Union. In: L. Průša and collective: Socio-economic Status of Self-employed People in Society. Prague: RILSA 2006, pp. 130-154. ISBN 80-87007-33-6

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Table 12 **Structure of foreign nationals with a valid trade licence in 2006 (%)**

Vietnam	35
Ukraine	32
Slovakia	13
Russia	2
Poland	2
other	16

Source: CzSO, Life of Foreigners in the Czech Republic, CzSO Prague 2007, code 1118-07, p. 27

The Czech Republic's self-employment sector can be regarded as extensive compared to other European Union countries. National accounts data reveal that with self-employment making up a stable, roughly one-fifth share of employment, the proportion of GDP accounted for by mixed income is around 12%, with a slight falling tendency⁶³.

Table 13 **Self-employment's share of total employment and GDP (%)**

	1999	2000	2001	2002	2003	2004	2005	2006
share of total employment in %	17.1	17.4	17.4	18.1	19.1	18.8	18.2	18.2
mixed income/GDP in %	14.2	14.1	14.8	13.2	13.6	13.2	12.3	12.1

Source: Eurostat: National Accounts, available at <http://epp.eurostat.ec.europa.eu>, August 2008

CzSO: National accounts. Form M000151 GDP by the income method.

Available at http://dw.czso.cz/pls/rocnka/rocnkavyber.makroek_sektor, August 2008

These data are also used by Eurostat under the ESA 95 methodology and can therefore serve for rough international comparison.

⁶³ This proportion was confirmed by a calculation using data for micro-enterprises with up to 9 employees. This set comprises 99% of natural persons carrying on an enterprise. According to other RILSA calculations, self-employed persons without employees make up roughly 85% of the total number of self-employed persons and account for roughly 11% of GDP.

5. Status of the self-employment sector in the Czech Republic

Table 14 Self-employment's share of total employment and GDP in selected EU countries (%)

	share of:	1999	2000	2001	2002	2003	2004	2005	2006	2006-1999 in p.p.
Czech Rep.	employment	17.1	17.4	17.4	18.1	19.1	18.8	18.2	18.2	+ 1.1
	GDP	14.2	14.1	14.8	13.2	13.6	13.2	12.3	12.1	- 2.1
Estonia	employment	8.6	9	8.2	8.1	8.9	9.6	8.1	8.1	- 0.5
	GDP	5.8	6.0	5.5	5.4	4.9	4.9	4.6	4.6	-1.2
France	employment	9.5	9.2	8.9	8.8	8.8	8.8	8.9	8.9	-0.7
	GDP	7.1	6.9	7.2	7.1	6.8	6.7	6.5	6.5	-0.6
Italy	employment	26.4	26.4	26	25.5	25.6	25.7	24.7	24.4	-2.0
	GDP	16.1	16.0	15.8	15.7	15.8	15.8	15.3	15.0	- 1.1
Latvia	employment	16.5	15	15	13.8	13	13.2	11.6	11.7	- 4.8
	GDP	8.1	1.7	11.1	11.4	10.9	12.9	11.1	9.9	+ 1.8
Hungary	employment	15.6	15.1	14.4	13.8	13.4	14.2	13.8	12.7	- 2.4 ^a
	GDP	-	12.8	12.8	11.9	11.0	10.9	10.9	10.3	-2.5 ^a
Poland	employment	35.6	36.2	36.6	37	29	28.8	28.3	27.9	- 8.3
	GDP	22.4	23.1	24.0	23.8	23.2	23.4	23.0	22.7	+ 0.3
Finland	employment	12.4	12.2	11.9	11.8	11.8	11.8	11.7	11.8	- 0.6
	GDP	3.8	4.0	4.0	4.1	4.0	3.9	3.9	3.7	- 0.1
Sweden	employment	6.7	6.5	6.1	5.9	5.5	5.7	5.7	5.7	-1.0
	GDP	6.0	6.4	6.4	6.4	6.4	6.3	6.4	6.4	+ 0.4
Switzerland	employment	14.0	13.2	13.0	12.5	12.0	11.5	11.3	11.2	-2.6 ^b
	GDP	6.2	5.9	5.6	5.2	5.0	5.1	5.0	-	-1.2 ^b

Source: Eurostat: National Accounts. Available at <http://epp.eurostat.ec.europa.eu/>, August 2008, CzSO: National accounts. Form M000151 GDP by the income method. Available at <http://dw.czso.cz/pls/rocnka/rocnkavyber.makroek.sektor>, August 2008, modified by RILSA

Comments and explanations: a) 2006 - 2000, b) 2005 - 1999

The table only includes countries for which comparable Eurostat data were available.

Besides the finding about the falling trend in self-employment's share of total employment in most European countries, the table also documents the subsequent decline in its share of GDP. The Czech Republic, with a growing share of employment and falling share of GDP, is the exception to this rule. Throughout this period, work productivity displayed by the self-employment sector was less dynamic than that of corporations, which went through a growth phase after restructuring, especially in 2002-2006.

Work productivity is around 60% of that of corporations. The main obstacles to higher work productivity are the low levels of capital and the large quantity of unskilled or low-skilled manual labour at lower price levels and focused on personal consumption, which is constrained by the low income level in the Czech Republic. Where the firms of self-employed entrepreneurs operate as subcontractors (mostly in the processing industry and construction), these involve activities that are not profitable for large firms and display lower productivity.

5.2 Conditions for independent micro-enterprise

One important characteristic of the sector's potential has been and is the liberal conditions for new entities to start their own business. In agriculture, starting a business only requires the ownership or leasing of land or ownership of livestock. Other prerequisites are merely for records purposes. In principle, anyone can start a trade, with the exception of government-concession trades: it requires satisfying general conditions (free trades) or special conditions (tied trades) where the required education and experience, or specialised exams, also have to be fulfilled. The cost of starting a business is minimal (a trade licence costs CZK 1,000). Measures designed to reduce both the bureaucracy involved in starting a business (introduction of a single registration form and all the administration "under one roof") and the cost are being prepared. The amendment of the trades act codifies one trade licence for all free trades and reduces the number of trades. Starting a business in the "free" professions differs depending on the field of business, performing artistic work requires merely a declaration, carrying on other activities is conditional on taking exams.

From this point of view self-employed entrepreneurs in the Czech Republic have specific competitive advantages over those in other countries. For example, unlike in Germany or Austria carrying on a trade is not linked to obligatory membership of professional organisations in the field of business (bar some free trades).

The sector is very sensitive to the degree of state regulation. The most sensitive is agricultural production, where small producers are directly tied to their land and have limited room to reduce costs. State regulation of the sector is indirect rather than direct. It mainly takes the form of protection of consumers' health and lives, ecology, fair treatment of customers, and taxes and contributions paid in to the state. All forms of regulation are viewed negatively by the entrepreneurial public and are usually judged from the short-term point of view (increased costs, reduced incomes). The positives, which seek to establish equal competitive conditions within the single European market, are usually overlooked.

The relative importance of the self-employment sector in the national economy is also a consequence of the space created by economic policy after 1989, and especially fiscal policy. The favourable tax environment and broad opportunities for tax optimisation are reflected in the low taxation of a unit of GDP per self-employed person⁶⁴, which is around 23%. Only Greece and Slovakia achieved lower levels in 2005 (21% and 22% respectively). In other EU countries the figure was around 30%. In the Czech Republic this level was around 55% of the comparable tax burden on corporations⁶⁵. In EU countries that are also OECD members, the ratio in 2005 ranged from 62% in Greece to 91% in Denmark⁶⁶. The price of this low tax burden is disproportions in the financing of the social and health system⁶⁷.

⁶⁴ The proportion of individual taxes and insurance contributions paid by the self-employed.

⁶⁵ Besides corporation taxes, corporations' tax burden includes taxes and insurance paid by employees out of the wages they are paid by the employer. The reason for this is the fact that the social partners take into account taxation of earnings when negotiating on wages and working conditions. For more information see Baštýř, I., Prušvic, D., Vlach, J.: Labour Costs in the Czech Republic. Prague: RILSA 2004

⁶⁶ The question of the taxation of self-employment question is covered in the chapter entitled "Relationship between the Self-employed and Public Budgets", or Kozelský T., Vlach, J.: Self-employed Persons in the European Union. In: L. Průša and collective: Socio-economic Status of Self-employed Persons in Society. Prague: RILSA 2006. pp. 130 - 154, ISBN 80-87007-33-6

⁶⁷ According to the Universal Health Insurance Company's model calculations in 2005, from the age of 45 the insurance contributions paid by a self-employed man who reported an operating surplus of CZK

5.3 Market position of enterprises of the self-employed

The development of self-employment in the Czech Republic during the 1990s was a response to the absence of the private sector in the preceding decades and the gaps on the consumer goods and services market left by the former communist organisations. This situation will not be repeated. The state's favourable tax policy created space for the rapid renaissance of self-employment. Small enterprise follows up a long tradition of crafts and free trades and a traditionally large urban population. It is complementary to other sectors of the national economy. The self-employment sector in the Czech Republic is founded on an advanced educational, financial, transport and telecommunications infrastructure.

However, the need for self-fulfilment, independence and the freedom to decide how to use one's time has proved to be the key motivator. This conclusion stemmed from the field survey of 1,137 self-employed persons in 2006⁶⁸, which was corroborated by research by the Institute of Sociology of the Czech Academy of Sciences⁶⁹. The following part of this text will draw on the outputs of this survey when characterising the behaviour and problems of the self-employed on the market.

Given the usually limited financial possibilities of individuals, it is characteristic of the self-employment sector that the majority of enterprise in this sector focuses on fields and areas that are less capital-intensive and offer a quick return on the invested resources and require a high work input.

Manual professions account for almost four-fifths of self-employment (manual jobs make up just over half of total employment in the Czech Republic⁷⁰). The predominance of manual work indicates lower skills requirements and a lower value attached to their products and services on the market. With less capital at their disposal and with their focus on local markets, the self-employed experience competitive pressure from bigger and more productive enterprises and confine themselves to filling gaps on the market. Despite the tax advantages afforded to the self-employed, it is a reasonable expectation that developments in the Czech Republic will follow the trends in developed EU countries, where the share of total employment accounted for by self-employment is generally falling⁷¹.

The relatively high proportion of self-employed persons in services, especially commerce, is reflected in the fact that three-quarters of their firms focus on final consumption of the population. The importance of the population as a customer is declining in the secondary sector of the economy. Private farmers provide just two-

35,000/month did not cover his healthcare expenditure; at an operating surplus of CZK 19,833 the Universal Health Insurance Company's costs exceeded the payments made by self-employed persons of all age categories. In women, there was a negative balance universally with the exception of the 20-25 age group at an operating surplus of CZK 35,000. Pension insurance paid by the self-employed would cover roughly 50% of future pension entitlement in the conditions of 2004; for more see MoLSA: Actuarial Report on Social Insurance 2006. Prague: MoLSA 2006. ISBN 80-86878-39-2, p. 35

⁶⁸ Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic 2006. Analysis of results. Prague: RILSA 2007. ISBN 978-80-87007-85-3

⁶⁹ A project called "Life Strategies in the Czech Enterprise Sphere in the 1990s" conducted by the Institute of Sociology in 2001-2004 reached a similar conclusion; for more information see Křížková, A.: Life Strategies of Women and Men in Management and Enterprise. Prague: Institute of Sociology of the Academy of Sciences of the Czech Republic, 2008

⁷⁰ See Employment and Unemployment According to the Results of the Labour Force Survey – annual averages for 2006, Prague: CzSO 2007, Table 207

⁷¹ For more information see the "International Comparison" chapter.

fifths of their production for direct consumption by the population. The nature of agricultural production necessitates additional processing in the food industry or retail distribution in consequence of the distance from the consumer.

Self-employment has an irreplaceable role in services to the population, especially on local markets. The high proportion of self-employment in services corresponds with the situation in developed countries, where this proportion can be even higher (in the 15 developed EU countries self-employment accounts for 60% to 75% of services⁷²; in the Czech Republic the share is at the lower limit, i.e. around 60%).

In the Czech context, however, attention should be drawn to the non-standard and uncontrollable way in which business conditions are negotiated and accounting is reported – these create room for tax evasion and the subsequent impact on public budgets. As ordinary consumers, citizens do not exert pressure for proper payment documentation. Data published annually in Actuarial Reports⁷³ draw attention to the fact that the assessment base of the self-employed is one-third that of employees. The assessment base corresponds to the level of the reported tax base. According to estimates, this phenomenon could apply to more than four-fifths of self-employed persons⁷⁴. Higher levels of taxation are found in branches of the economy where it is a reasonable assumption that the key customer is the enterprise sector or public institutions, which want their costs to be documented and thus compel suppliers to behave accordingly⁷⁵.

Self-employment's focus on providing services to the public is reflected in a greater diversification of sale measured in terms of numbers of customers. However, the spectrum of customers is significantly narrower in the group of micro-enterprises that operate as subcontractors for other firms. Roughly half of them work for fewer than five customers. Given the time-consuming nature of production processes and business customs, this problem particularly affects agriculture, construction and transport, with a narrow range of customers. Selling to a small circle of customers and stable business relationships reduce the difficulty of managing firms. On the other hand, if a buyer terminates a contract this can have negative impacts on the enterprise's finances, including closing them down. Another risk is the self-employed person's unequal position relative to larger firms⁷⁶.

The economic success of the self-employed depends on their outputs being available on the market, i.e. the available infrastructure. Roughly four-fifths of the firms of self-employed persons in the secondary and tertiary sector operate in towns and cities, especially administrative centres. The nature of agricultural production means that private farmers are found in the countryside. The lower purchasing power outside regional economic centres plays a key role. According to a census done in 2001, one-third of the Czech population lives in the countryside; according to labour

⁷² see Eurostat: National Accounts. Available at <http://epp.eurostat.ec.europa.eu/>

⁷³ e.g. MoLSA: Actuarial Report on Social Insurance 2006. Prague: MoLSA 2006. ISBN 80-86878-39-2

⁷⁴ According to the level of mixed income in self-employment (roughly CZK 43,000/month in 2006) the assessment bases of both social groups should be the same.

⁷⁵ The problem is described by A. Vančurová: Analysis of Factors in the Tax Burden of the Self-employed in the South Bohemia Region. In: Průša and collective: Socio-economic Status of Self-employed Persons in Society II (digest of analyses of the socio-economic status of self-employed people in society). Prague: RILSA 2008, ISBN 978-80-87007-89-1.

⁷⁶ The field survey showed that more than half of self-employed persons who are subcontracts regard their relationships with big customers as unequal and roughly a third are worried about the problems associated with dependency on a big firm. Approx. one-fifth of the respondents in the group under scrutiny drew attention to disadvantageous contracts. The situation in agriculture is critical.

5. Status of the self-employment sector in the Czech Republic

market statistics, just 4% of the workforce, i.e. roughly 13% of the population of the countryside, works in agriculture. The available family accounts data reveal a sharp fall in farming families' incomes since 1990. If per capita incomes in farmers' families were 2% above those of employee families in 1990, by 2001 they had dropped to 15% below, with further year-on-year fluctuations of $\pm 2\%$ ⁷⁷. The new economic conditions in the countryside (agricultural cooperative workers switching to labour-law relations in services and industry) also changed the relationship between town and country and the concentration of demand for goods and services to the place of work, i.e. towns and cities. On the other hand, the question of the transition of the social functions of the former "uniform agricultural cooperatives" (a broad range of services provided to the countryside population) to their successor organisations has remained unexplored. It is a reasonable assumption that the majority of services for the countryside population are provided by the new agricultural enterprises and local self-government (services in towns and cities operate on a commercial basis).

Essentially, the self-employment sector focuses on the execution of individual orders. There is no major risk in the short term of the sector being supplanted in its entirety by other products. However, individuals have to react to the growing availability of cheaper, technically more advanced and more consumer-friendly mass production that is linked to the reduced demand for repair and maintenance work. The continuing quantitative and qualitative structural changes in the sector should also be viewed from this point of view.

The potential for economic growth is based on innovations. It is generally said that small and medium-sized enterprise is the base for the development of innovations. It is very hard to tell to what degree this evidently justified statement applies to self-employed persons or micro-enterprises. The Czech Statistical Office does not mention businesses of this size among innovators. It is known from practical experience that micro-enterprises do innovate production, services, and sales or organisational models. This is usually the lowest-order innovation⁷⁸. We can regard the association of small firms into cooperating chains or around wholesalers that ensure them cheaper and technologically more advanced products, mediate orders and provide training as innovation conduct by micro-enterprises. Seeking out and absorbing innovations is more important for micro-enterprises than devising them.

The current market situation does not place self-employment at risk. The field survey showed that just one-twentieth of self-employed persons were planning to downscale their business. From the point of view of the economic boom⁷⁹ and market developments, roughly one-tenth of people who did not know how they would proceed in future appear to be at risk. What is alarming, though, is that two-thirds of self-employed persons were only planning to conserve their existing scale of activities, i.e. were not considering expanding. This group would appear to be at risk in the future given the improving work productivity in corporations. Just one-quarter of self-employed persons envisaged expanding their business.

These figures apply for farmers, tradesmen and freelancers regardless of the size of firm and sales focus. This gives rise to the question of the reasons why the

⁷⁷ The biggest fall in the per capita income of farming families came in 1999, when it was 82% of the total employees level; for more information see Development of Selected Indicators of Standard of Living in the Czech Republic in 1993-2006. Prague: MoLSA 2007. ISBN 978-80-86878-03-4

⁷⁸ Higher-order innovations usually require more capital or the use of external capital. For this the enterprise must have the appropriate legal form, usually limited liability company or joint stock company. The former personal firm is included among commercial companies and is omitted from micro-enterprise statistics.

⁷⁹ The survey took place in 2006, i.e. during a boom period.

self-employed have adopted this ill-considered attitude. Possible reasons may be the insufficient services for the self-employed (e.g. banking and consulting services) and, above all, individualism. Self-employed Czechs display no willingness to associate in professional, trade or cooperative organisations and institutions that would help them navigate markets and develop their activities. Just one-third of self-employed persons are members of such organisations. The situation is different for freelancers⁸⁰, who are often required to join professional chambers.

Their lack of interest in further training or taking part in the process of continual self-education represents another constraint on business expansion. The self-employed and their employees, if they have them, are gradually becoming de-qualified in respect of the market's needs. The field survey respondents stated a lack of time or high cost as the reason. On the other hand it should be mentioned that this problem applies to manual professions. White-collar self-employed persons, especially freelancers, maintain and improve their qualifications.

The lower tax and insurance burden on the self-employed, and thus the lower cost of their labour, creates room for false self-employment (the "Švarc system", "work done under a trade licence" etc.), i.e. for cases where a labour-law relationship is substituted by a business relationship. The workers lose the protection afforded by labour law, but on the other hand the softer tax conditions create room for increased incomes. "Work done under a trade licence" is viewed by the lay public as the freest form of employment. The "Švarc system" is welcomed by certain groups of businessmen and managers as it enables them to cut labour costs, cut staff costs (in their eyes to make the labour market more flexible), to transfer some of their business risk to subcontractors and simultaneously to ensure that their enterprise has the labour it needs for the given point in time. This method of "hiring" labour is particularly widespread in small and medium-sized enterprises. It leads to a disruption of the equal competitive environment on the market. These relationships function in the conditions where the "Švarc system" is subsidised by public budgets in social and health security, or insurance covered by corporations' costs⁸¹. On the other hand, employers are aware of the risks associated with this phenomenon. They have to address the danger of disloyalty among their workers. The risk grows during economic boom periods when the demand for labour is rising and workers can depart "overnight" for better-paid work.

The problem of false self-employment applies to both manual and non-manual professions. There is no precise definition of it, and so there is no quantification either. Estimates of the scale of this phenomenon run to as many as 100,000 people. It would be wrong to label this a specifically Czech problem, though. Reduced protection of workers, tax evasion and unfair competition based on false self-employment are issues dealt with by the European Commission⁸² and individual EU countries.

⁸⁰ Self-employed persons who do business under other legal regulations than the act on agriculture and the act on business under a trade licence, e.g. doctors, lawyers, architects, tax, financial and investment advisors, translators etc.

⁸¹ Insurance contributions paid by employees are part of the employer's labour costs.

⁸² Directive of the European Parliament and of the Council 2006/12/EC, regarding services on the internal market.

5.4 Qualifications and training, a precondition for the development of the self-employment sector

Education and training are fundamental for the success and enduring nature of self-employment – this is stressed by all European Union programming documents affecting enterprise (e.g. the Entrepreneurship Action Plan⁸³, the European Charter for Small Enterprise⁸⁴) and equivalent national programmes. Activities that have a positive influence (e.g. taxation of enterprises and the self-employed, access to credit, simplifying the establishment and dissolution of an enterprise, enforceability of law etc.) and focus on fostering education and training in entrepreneurial and managerial skills are highlighted as essential conditions for the expansion of entrepreneurship.

According to the Labour Force Survey, one characteristic feature of the educational structure of the self-employed (the sum of employers, persons working on their account and assisting family members) is that compared to employees (and the aggregate of employees) there is a lower proportion of people with just basic education and a higher proportion of university-educated entrepreneurs; this is shown by the following overview for 2007 (as a percentage of the total number of people).

Table 15 **Basic characteristics of the educational structure of the self-employed in 2007 according to the Labour Force Survey (%)**

educational level	self-employed ¹	employees ²	total in employment ³
basic	3.4	6.5	6.0
university	19.1	14.1	14.9

Source: CzSO: *Employment and Unemployment According to the Results of the Labour Force Survey – annual averages for 2007, Prague, 2008, code: 3115-08, adapted by RILSA*

NB: 1) employers, persons working on their own account, assisting family members (Labour Force Survey methodology; 2) including members of production cooperatives; 3) sum of entrepreneurs and employees

The proportion of entrepreneurs (in the Labour Force Survey methodology) with university education is gradually increasing (at the start of this decade the proportion was around 18%).

Answers to the questions in the field survey among self-employed persons in 2006 focusing on respondents' attitudes indicated a tendency to underestimate the importance of education and continued training for the success of self-employed persons' businesses. Almost a quarter of all respondents feel no need to undergo training and 45% of them do not actually undergo training. The predominant reason given for these kinds of attitudes is a lack of time for training activities.

A higher proportion of self-employed persons with higher educational attainment undergo training (almost 90% of university-educated self-employment but just 40% of respondents with basic education). This distribution is reflected in a difference in the training ratio between non-manual (white-collar) and simpler manual activities (training ratio 88%:44%) and also between skills-intensive fields (health and social care, financial intermediation, legal services etc.), where over 95% of

⁸³ Entrepreneurship Action Plan, European Community, Luxembourg, 2003

⁸⁴ European Charter for Small and Medium-sized Enterprises, European Community, Luxembourg, 2004

5. Status of the self-employment sector in the Czech Republic

respondents undergo training, and simpler fields (e.g. transport, accommodation and catering, where less than 30% of respondents undergo continued training).

6. Relationship between the self-employment sector and public budgets

The relative importance of the self-employment sector in the national economy is a consequence of the space created by economic policy after 1989, and especially fiscal policy. Following the 1993 tax reform, the taxation of self-employed persons is among the lowest in the EU. The 2007-2010 public finances reform does not undermine the advantageous position of the self-employed.

Lower income tax and insurance contributions paid by the self-employed compared to corporations is a matter of course in Europe. Their economic activities are subject to a special regime throughout the EU. MISSOC⁸⁵ data reveal that in Germany or Austria, for example, the self-employed can choose between various tax bases (e.g. difference between incomes and expenditure or increase in assets). In Poland smallholders are exempted from paying income tax.

Farmers are a specific area: given the fragmented nature of agricultural production (with the exception of the Czech and Slovak republics) independent farmers have continued to be significant and socially sensitive part of the population. As a rule, their standard of living is below the national average. Besides EU subsidies, states contribute to their social insurance⁸⁶. Some governments treat small tradesmen in the same way⁸⁷.

The Czech tax system affords substantial space for the self-employed persons to optimise their tax obligations. The on average low tax bases of self-employed persons are reflected in their low assessment bases for social and health insurance. The taxation of self-employed persons (income tax and contributions paid in for social and health insurance) is among the lowest in the Czech Republic.

This chapter compares the taxation imposed on the self-employed compared to corporations in the Czech Republic and selected European countries and analyses the issue of the tax and assessment bases of self-the employed, including the impacts on public budgets. The text highlights the difficulty encountered by micro-enterprises, which the majority of self-employed persons' activities come under, in obtaining support for small and medium-sized enterprise.

6.1 Taxation on corporations and the self-employed (unit tax costs)

Based on the data regularly published by the OECD in Revenue Statistics the RILSA performed a model calculation of payments of taxes and social insurance per unit of GDP by corporations and the self-employed in EU countries that were also OECD members. The model assumes the same work productivity in corporations, i.e. for employees and the self-employed. It is based on the actually paid tax quota and

⁸⁵ EC: MISSOC, Social Protection in the Member States, Annex, Social protection of the self-employed, Situation on 1 January 2005, EC 2006, http://ec.europa.eu/employment_social/missoc/missoc5_en.pdf

⁸⁶ According to MISSOC as of 1 January 2005 this group of countries includes Greece, Spain, France, Italy, Cyprus, Austria, Germany and Poland.

⁸⁷ According to MISSOC as of 1 January 2005 a system of bilateral contributions or benefits in social and health security is applied in Germany, Greece, France, Austria, Italy and Cyprus.

the proportions of GDP accounted for by individual taxes and insurance payments, structured as a whole and by taxpayers. Unstructured data (e.g. taxes on goods and services, property taxes, customs, income taxes of the households of employees and the self-employed) were broken down according to the structure of workers. The result is the tax costs of corporations and the self-employed per unit of GDP, referred to as "unit tax costs". Corporations' unit tax costs also include taxes and insurance contributions paid by employees out of their wages⁸⁸. Given the available OECD data, the model works with the years 2003 and 2005.

Description of the unit tax costs model⁸⁹;

Assumptions:

- The word "tax" means all taxes and insurance contributions
- Set of taxpayers divided into self-employed and corporations
- Composition of "corporations" subset:
 - corporations – employers;
 - employees – the employer pays employees' taxes out of their wage and are a tax expense of employers/corporations.
- Same work productivity for the self-employed and corporations, i.e. GDP per worker (employees + self-employed).

Data sources:

- GDP accounted for by tax – OECD: Revenue Statistics.
- Self-employment as a proportion of total employment – Eurostat: Economy and finance – national accounts, <http://epp.eurostat.cec.eu.int/portal/>.

Relationships – algorithm:

$$PTQ = TC + TS = (UTC \times EMP/100) + (UTS \times SEL/100), \quad (1)$$

where:

PTQ paid tax quota

TC proportion of GDP accounted for by tax paid by employees (families of employees) and corporations

TS proportion of GDP accounted for by tax paid by the self-employed (families of the self-employed)

UTC unit tax costs of corporations

UTS unit tax costs of the self-employed

⁸⁸ A comparison of labour costs in the EU revealed that the social partners take into account the taxation of earnings when negotiating on wages and working conditions; for more information see Baštýř, I., Prušvic, D., Vlach, J.: Labour Costs in the Czech Republic. Prague: RILSA 2004.

⁸⁹ For more information see Kozelský T., Vlach, J.: Self-employed Persons in the European Union. In Průša and collective: Socio-economic Status of Self-employed Persons in Society (digest of analyses of the socio-economic status of self-employed persons in Czech society and the European Union). Prague: RILSA 2006. pp. 138-142, 152-153. ISBN 80-87007-33-6

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EMP employees' share of total employment in %
SEL self-employed persons' share of total employment in %

$$100 = \text{EMP} + \text{SEL}, \quad (2)$$

where:

EMP employees' share of total employment in %
SEL self-employed persons' share of total employment in %

$$\text{UTC} = \text{TC}/(\text{EMP}/100); \quad (3)$$

where:

UTC unit tax costs of corporations
TC proportion of GDP accounted for by tax paid by employees (families of employees) and corporations
EMP employees' share of total employment in %

$$\text{UTS} = \text{TS}/(\text{SEL}/100); \quad (4)$$

where:

UTS unit tax costs of the self-employed
TS proportion of GDP accounted for by tax paid by the self-employed (families of the self-employed)
SEL self-employed persons' share of total employment in %

$$D_a = a \times \text{PE}/100, \quad (5)$$

where:

D_a GDP accounted for by tax "a" paid by corporations or the self-employed
a unstructured proportion of GDP accounted for by tax "a"⁹⁰ in %
PE proportion of total employment accounted for by employees or the self-employed in %

Given the times at which the OECD publishes the data, the model operates with a two to three-year delay. The stated calculations therefore end with current data for 2005.

⁹⁰ E.g. tax on goods and services, property tax, customs, income tax of the households of employees and self-employed persons

6. Relationship between the self-employment sector and public budgets

Table 16 Relative levels of taxation of a unit of GDP for the self-employed and for corporations in 2003

	unit tax costs		index of unit tax costs for the self-employed and for corporations
	corporations	self-employed	
Sweden	51.4	34.0	0.661
Denmark	48.5	45.2	0.932
Belgium	47.8	33.3	0.697
Finland	46.5	32.3	0.695
France	44.8	28.7	0.640
Italy	47.2	31.3	0.664
Austria	46.1	31.4	0.681
Czech Rep.	41.3	22.5	0.545
Netherlands	40.0	31.4	0.786
Luxembourg	42.2	28.3	0.670
Hungary	40.4	26.0	0.643
Portugal	40.5	26.6	0.657
Spain	36.9	23.1	0.625
Great Britain	36.5	29.1	0.796
Germany	36.5	27.1	0.743
Poland	35.0	32.2	0.920
Slovakia	32.4	19.5	0.602
Greece	42.5	26.5	0.624
Ireland	31.1	23.0	0.739

Source: OECD: Revenue Statistics 2005, Eurostat: National Accounts, available at <http://epp.eurostat.ec.europa.eu/>, August 2006, RILSA calculation

NB: Ascending order of corporations' unit tax costs in 2005. Missing EU countries are Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta; the relatively unstructured data did not allow a precise calculation for Poland, whose data is merely guideline

6. Relationship between the self-employment sector and public budgets

Table 17 Relative levels of taxation of a unit of GDP for the self-employed and for corporations in 2005

	unit tax costs		index of unit tax costs for the self-employed and for corporations
	corporations	self-employed	
Sweden	51.4	36.3	0.706
Denmark	50.6	46.3	0.916
Belgium	47.7	33.5	0.702
Finland	45.6	31.7	0.695
France	45.4	30.3	0.667
Italy	44.8	29.4	0.656
Austria	43.9	30.4	0.692
Czech Rep.	41.1	22.9	0.558
Netherlands	40.4	31.1	0.770
Luxembourg	39.3	27.9	0.709
Hungary	39.1	25.1	0.641
Portugal	38.3	24.5	0.639
Spain	37.9	23.4	0.617
Great Britain	37.5	29.3	0.780
Germany	35.9	26.4	0.736
Poland	35.1	31.9	0.908
Slovakia	33.1	21.7	0.656
Greece	32.2	20.1	0.623
Ireland	31.9	24.2	0.759

Source: OECD: Revenue Statistics 1965 - 2006, OECD PUBLICATIONS 2007, ISBN 978-92-64-03834-9; Eurostat: National Accounts, February 2008. Available at <http://epp.eurostat.ec.europa.eu/>, RILSA calculation

NB: Order of countries according to corporations' unit tax costs. Missing EU-25 countries are Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta; the relatively unstructured data did not allow a precise calculation for Poland, whose data is merely guideline

The model reveals that it is common practice for the self-employed to have advantageous tax conditions⁹¹. The extent of this advantage varies from country to country, however.

After Greece and Slovakia, the Czech Republic's level of unit tax costs for the self-employed in 2005 was the third lowest among EU countries that are also OECD members. Only Slovakia had a lower level in 2003.

The ratio between the taxation of the self-employed and corporations in the years under scrutiny ranged from 0.5 in the Czech Republic to 0.9 in Denmark. The self-employed in the Czech Republic have highest tax advantage of the self-employed compared to corporations out of all the EU countries under scrutiny. Nearby countries Slovakia and Hungary also display a favourable ratio. In the 1990s the Czech Republic and Slovakia responded to the absence of a private sector in the preceding decades and to problems on the consumer goods and services market.

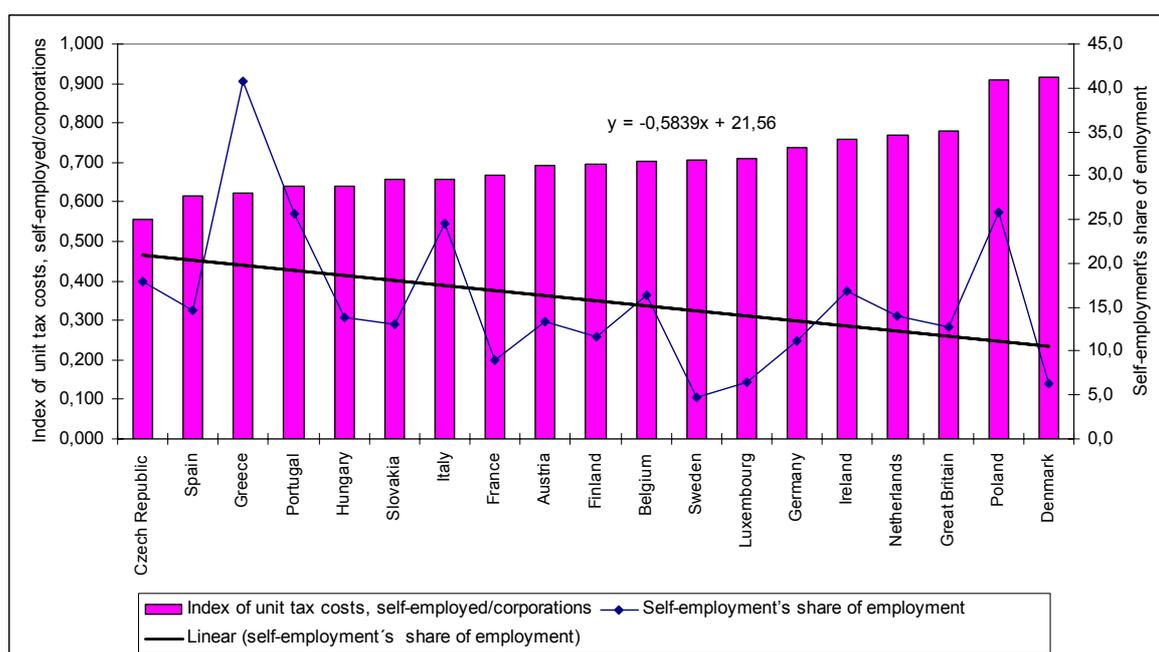
⁹¹ The model could not incorporate cases where the state contributes to the social insurance of selected groups of the self-employed, e.g. in most EU states to independent farmers or craftsmen, e.g. in Germany, Greece, France, Spain, Austria, Italy, Poland or Cyprus; for more information see EC: MISSOC, Social Protection in the Member States, Annex, Social protection of the self-employed, Situation on 1 January 2005, EC 2006. Available at http://ec.europa.eu/employment_social/missoc/missoc5_en.pdf

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Southern European countries, i.e. Spain, Portugal, Greece and Italy, which have traditionally had a high number of self-employed persons, form a specific set of countries.⁹² In these cases the tax advantages are more of a tool for achieving social stability in society.

Analysis of the data for 2003 and 2005 demonstrated a dependency between the proportion of employment accounted for by self-employment and the ratios between the unit tax costs of the self-employed and corporations.

Chart 6 Relative levels of unit tax costs between the self-employed and corporations and self-employment's share of total employment in 2005



Source: OECD: *Revenue Statistics 1965 - 2006*, OECD PUBLICATIONS 2007, ISBN 978-92-64-03834-9; Eurostat: *National Accounts, February 2008*, available at <http://epp.eurostat.ec.europa.eu/>, RILSA calculation

NB: Numerical data in the table *Relative levels of taxation of a unit of GDP for the self-employed and corporations in 2005*. Countries ordered according to the relative levels of unit tax costs of the self-employed and corporations. Missing EU countries are Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta; the relatively unstructured data did not allow a precise calculation for Poland, whose data is merely guideline.

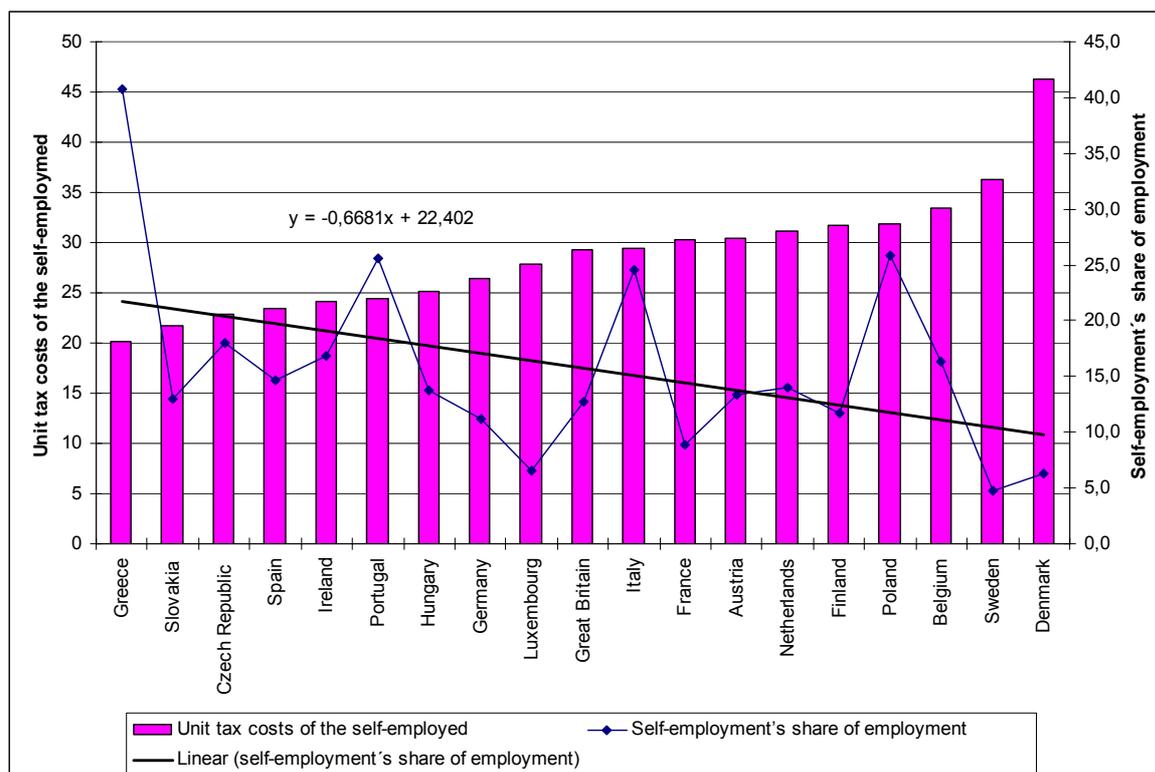
A number of other factors affect the situation in each country. Causality cannot be determined. In countries that have traditionally had a relatively large number of self-employed persons, formerly in the primary sector and today in services related to tourism (Mediterranean countries) the amenable tax environment is a response to the social structure of society that has evolved over time. In the Czech Republic and Slovakia the preferential fiscal treatment was intended to foster the renaissance and expansion of the self-employment sector. However, fiscal policy and the size of the tax

⁹² Analysis of the structure of self-employment in these countries showed that there had been a shift away from agriculture into tourism-related services; for more information see Kozelský, T., Vlach, J.: *Self-employed Persons in the European Union*. In Průša and collective: *Socio-economic Status of Self-employed Persons in Society* (digest of analyses of the socio-economic status of self-employed persons in Czech society and the European Union). Prague: RILSA 2006. pp. 131-138. ISBN 80-87007-33-6.

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burden are the key factor. The following chart documents the importance of the unit tax costs of the self-employment for the scale of the self-employment sector.

Chart 7 Unit tax costs of the self-employed and their share of employment in 2005



Source: OECD: Revenue Statistics 1965 - 2006, OECD PUBLICATIONS 2007, ISBN 978-92-64-03834-9; Eurostat: National Accounts, February 2008, available at <http://epp.eurostat.ec.europa.eu/>, RILSA calculation

NB: Numerical data in the table Relative levels of the taxation of a unit of GDP for the self-employed and corporations in 2005. Countries ordered according to the index of unit tax costs of the self-employed and corporations. Missing EU-25 countries are Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta; the relatively unstructured data did not allow a precise calculation for Poland, whose data is merely guideline.

The level of unit tax costs does not merely reflect tax and insurance rates – it also comprises a number of other factors, from the phase of the economic cycle, through the construction of the tax system, to tax discipline, the effectiveness of tax and insurance contributions collection and the room for tax evasion.

6.2 Specifics of Czech fiscal policy and self-employment

Besides the different taxation of corporations and the self-employed in the Czech Republic, the low unit tax costs reflect the low economic performance⁹³ the sector displays. The key points are the reporting of costs and abuse of the

⁹³ According to Eurostat, in 2006 the self-employment sector, while making up 18% of total employment, accounted for approx. 12% of GDP.

construction of the tax base by employers and employees in false self-employment under the "Švarc system".

One precondition of the fair taxing of incomes that has the least effect on the market environment is full declaration of incomes and the correct reporting of expenditure. The key factor in this regard is the optimisation and completeness of the tax base.

Czech tax practice has for long had a problem with insufficient possibilities for incomes records and the completeness of these records. This deficit certainly does not only apply to income taxes: it has very significant impacts on value added tax revenues as well. The recently rolled out public finances reform includes the definitive scrapping of the obligation to record takings using electronic cash tills, which complicates efforts to ensure effective control of the completeness of taxable incomes⁹⁴.

In the context of various types of incomes taxpayers have differing degrees of autonomy in how they record their revenues or, put another way, different opportunities for concealing incomes. There is generally little opportunity for subjectively influencing the tax base where an item of the tax base of one taxpayer is directly linked to an item of the tax base of another tax entity. It is thus most often the case that one taxpayer's income is simultaneously a tax-deductible expense for another taxpayer who consequently wants the business transaction to be duly reported. The 2007-2010 public finances reform declares the introduction of a flat-rate income tax. In the theoretical flat-rate tax model, the only items that can be a recognisable expense in the tax base are those that another taxpayer has taxed. Put another way, every income must be taxed, but only once. At present, however, the rigorous application of this very simple and effective rule falls foul of the insufficient possibilities of demonstrable records accessible in real time for several entities and also tax administrators.

From the theoretical point view, the same should apply for incomes from enterprise and other independent gainful activity. But cross-checking incomes against another taxpayer's recognisable tax expense comes up against a whole series of constraints. It is not true for all business sales that the recipient wants to report an expense – that may be because this involves sales to a final consumer for personal consumption but also because the purchase is not a tax-deductible expense from the recipient's point of view. The overall construction of cross-checking also fails with recipients that do not report expenditure in their business and other independent gainful activity, generally because they have opted for a flat-rate expenditure construction.

Analysis of the tax burden on the self-employed in the South Bohemia region⁹⁵ found that a low average tax burden is displayed mainly by those branches of the economy where it is reasonable to assume that most of those who buy their product are final consumers who do not exert pressure for the proper documentation of payments. Conversely, the highest average tax burden is shown by the fields of health and social care and veterinary work, in which more than four-fifths of taxpayers are involved in medical work. These subjects are characterised by something we do not

⁹⁴ This certainly does not mean that the act on cash registries optimally established obligations for taxpayers and eliminated room for tax evasion.

⁹⁵ Vančurová A. Boňka V.: Analysis of Factors in the Tax Burden of the Self-employed in the South Bohemia Region. In: Průša and collective: Socio-economic Status of Self-employed Persons in Society (digest of analyses of the socio-economic status of self-employed persons in Czech society and the European Union). Prague: RILSA 2006, pp. 135-173. ISBN 80-87007-33-6

find in any other group of activities, i.e. that the main buyers of their services are health insurance companies whose supervision guarantees that revenues are properly documented. A higher degree of taxation is also found in other areas where it can be assumed that the key buyer is the enterprise sector, which wants its costs documented and thus compels suppliers to document their incomes properly.

The analysis revealed that in most fields of economic activity self-employed persons on average declared a tax base that was lower than the gross average wage⁹⁶. Their mixed income was therefore lower than an employee's earnings⁹⁷. However, this relationship did not apply to subcontractors working for other enterprises, i.e. manufacturing of chemical, plastic, rubber and other non-metal mineral products (OKEČ 240-260), manufacture of base metals and metallurgical products (OKEČ 270), recycling of secondary raw materials (OKEČ 370), and manufacture and repair of machinery, medical instruments, precision optics and chronometers (OKEČ 290 and 330). The tax base reported by the medical and social care and veterinary work field (OKEČ 850) was more than twice as high as the average wage. This ratio contrasts with the results of the RILSA field survey⁹⁸ and with the outputs from the national module of the EU – SILC research⁹⁹, which stated that two-thirds of the households of the self-employed have no financial difficulties.

The limited scope of the analysed statistical data illustrates the relationship between the declared tax base and the institutional and legal framework for documents costs for the South Bohemia region alone. On the other hand, it is not a reasonable expectation that conditions in other regions are fundamentally different. Categorically proving that entrepreneurs do behave in this way would require analysis of the tax statistics for the Czech Republic as a whole. However, the relevant data were not scrutinised or were not available at the time of the project.

6.3 Labour costs of the self-employed

The lack of credibility of the system for documenting expenses, which creates considerable room for tax optimisation, is reflected in the high incidence of false self-employment. Employers, especially the owners of small enterprises, often force their employees to work as if self-employed. The escape from the system of labour-law relations brings savings on the full cost of labour. Those practising false self-employment have little or no need for development and minimise their personal security for changes in their life situation (illness, invalidity, old-age pension) and therefore also the security of their family, with the assumption that he will benefit from the effects of the solidarity principle in social and health security. The finances which other enterprises use for their own development¹⁰⁰ and for social security and which are reckoned with as standard in medium-sized and large enterprises are not

⁹⁶ The paper and paperboard manufacturing sector and real estate sectors reported a tax base below 25% of the average wage in these fields (approx. 2% of self-employed persons) in 2004. The tax base for roughly two-fifths of the self-employed ranged from 40-60% of earnings in these fields.

⁹⁷ The available tax statistics data did not make it possible to differentiate between self-employment as the primary income and as the secondary income.

⁹⁸ Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic 2006. Analysis of results. Prague: RILSA, 2007. ISBN 978-80-87007-85-3

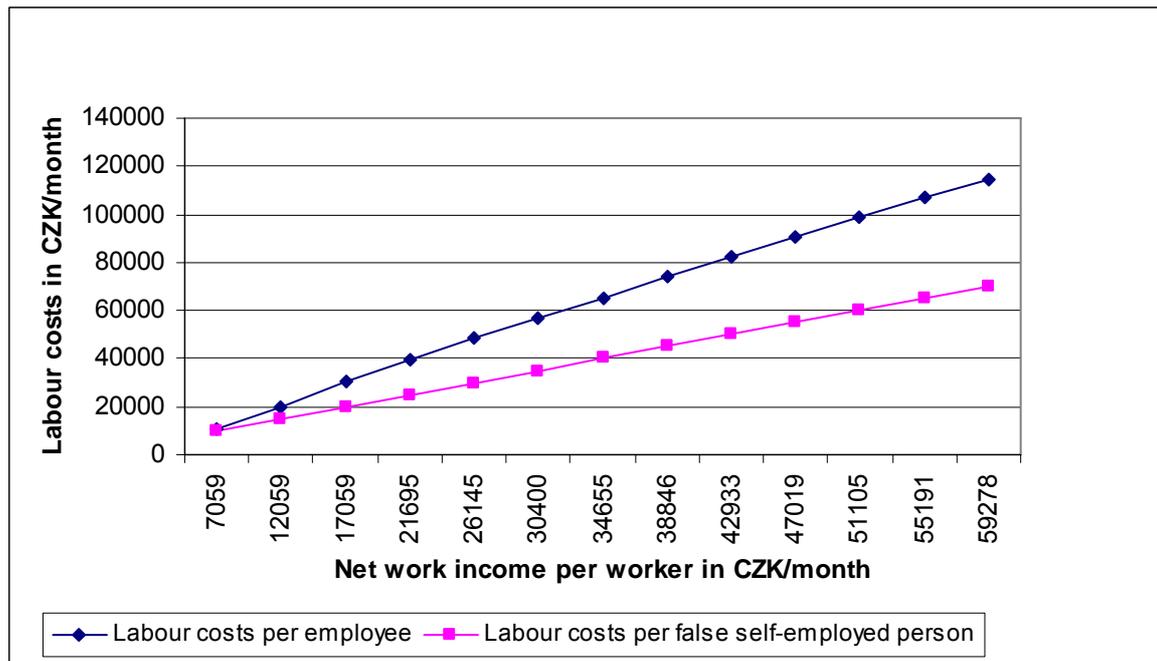
⁹⁹ CzSO: Incomes and Living Conditions of Households in the Czech Republic for 2006. Prague: CzSO 2007, Code: 30n2-06 and Incomes and Living Conditions of Households in the Czech Republic in 2005. Prague 2007, code: 3012-07

¹⁰⁰ Roughly half the difference between incomes and expenditure

6. Relationship between the self-employment sector and public budgets

paid to the false self-employed. Replacing a labour relationship with a business relationship means a loss of protection under the Labour Code and, moreover, makes it possible to transfer business risks to the pseudo-entrepreneur¹⁰¹. The following chart shows the labour cost savings.

Chart 8 Labour costs for employees and the false self-employed in 2008



Source: RILSA calculation

NB: Labour costs = net work income + contributions to social and health insurance + income tax

The labour costs for an employee are roughly the same as the labour costs for a self-employed person who uses 50% of the difference between revenues and costs to secure his further development. The labour costs of "pseudo-entrepreneurs" are at the lower limit of the interval. According to estimates, just one-fifth of self-employed persons reckon with development (based on research into the socio-economic conditions of the self-employed¹⁰²) and roughly one-eighth represent false self-employment¹⁰³. The space between the two extreme positions is filled by the two-thirds of the self-employed who to varying degrees increase their income for personal consumption to the detriment of public budgets, especially pension security.

¹⁰¹ The absence of a statutory notice period, severance pay, an obligation to ensure work safety, sickness benefits etc.

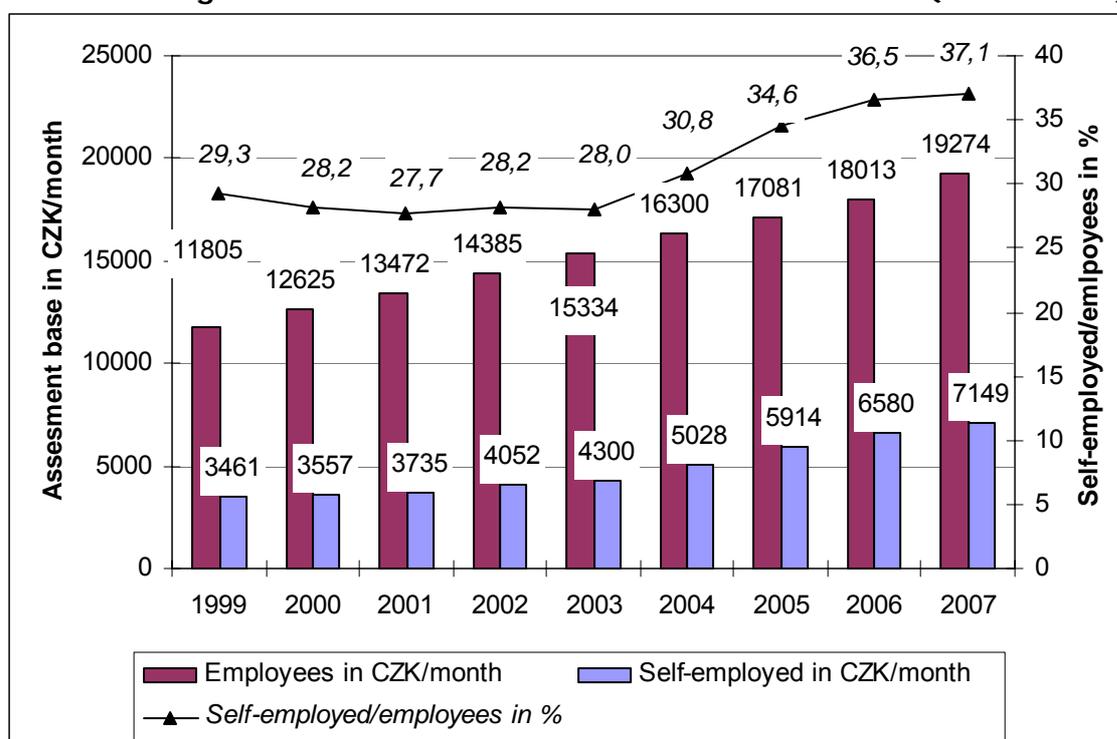
¹⁰² Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic 2006. Analysis of results. Prague: RILSA, 2007. ISBN 978-80-87007-85-3

¹⁰³ Brachtl, M., Vlach, J: The Švarc System (case study in the conditions of the construction industry). In: In Průša and collective: Socio-economic Status of Self-employed Persons in Society II (digest of analyses of the socio-economic status of self-employed people in society). Prague: RILSA 2007. ISBN 978-80-87007-88-4

6.4 Social and health insurance

These tax-related conclusions are linked to the development of the average assessment base of the self-employed for social and health insurance, which has been one-third that of employees in recent years. This movement reflects the normative adjustments to the assessment base of the self-employed, which was 35% of the incomes from enterprise and other independent gainful activity as recently as in 2003 and subsequently rose gradually to 50% in 2006¹⁰⁴. From 1999 to 2007 the assessment base of the self-employed therefore rose by 106.6% while employees' assessment base rose by 67%.

Chart 9 Average assessment base for insurance contributions (CZK/month)



Source: MoLSA: Actuarial Report on Social Insurance 2004, Prague 2004, p. 33, ISBN 80-86878-05-8, Actuarial Report on Social Insurance 2004, Prague 2004, p. 33, ISBN 80-86878-39-2, Samek V.: Myths and Real Problems of Czech Pension Reform. In: Continuing Czech Reforms and the Emerging World Economic Crisis Prague: Czech-Moravian Confederation of Trade Unions 2008. ISBN 978-80-86846-25-5, modified by RILSA

In the conditions of 2003 "...the volume of future pension claims for a self-employed person who paid insurance contributions from the minimum assessment base 2.5 times higher than that person paid in contributions"¹⁰⁵. Adjustments after 2004 mitigate this disproportion, and the future claims of a self-employed person are roughly only 50% higher than the pension contributions paid in. In this case it should

¹⁰⁴ Act No. 589/1992, on insurance payments for social security and contributions to state employment policy, and Act No. 592/1992, on insurance payments for universal health insurance, as amended.

¹⁰⁵ MoLSA: Actuarial Report on Social Insurance 2006. Prague: MoLSA 2006. ISBN 80-86878-39-2, p. 35

be realised that self-employed persons contributed to pension insurance as employees at least before 1989. In the two-income family model in the Czech Republic another safety net is the usual combination of incomes from self-employment and employment.

The exemption of the self-employed from obligatory sickness insurance (4.4% of the assessment base, i.e. roughly CZK 3,800 per person for 2007) is another significant pillar of support for self-employment. According to Czech Social Security Administration data, this advantage was used by 72% of self-employed persons as of 30.6.2008¹⁰⁶.

When the same algorithm is used to calculate the assessment base, equivalent disproportions are also found in medical insurance¹⁰⁷. According to model calculations by the Universal Health Insurance Company, whose core of insurees includes a significant portion of self-employed persons, in 2005 a self-employed man who declared an operating surplus of CZK 35,000/month did not cover his healthcare expenditure through insurance from the age of 45; at an operating surplus of CZK 19,833 the Universal Health Insurance Company's costs exceeded the contributions paid by the self-employed in all age categories. In women, there was a negative balance universally, with the exception of the 20-25 age group, at an operating surplus of CZK 35,000¹⁰⁸.

6.5 Support for small and medium-sized enterprise (self-employment)

The EU has strict and unequivocal rules governing the provision of state aid, i.e. including public support for enterprises, based on clearly defined exemptions from the universal ban on state aid that underpins the free market or fair competition principle. Some of the exemptions have key significance for shaping the policy of support for small and medium-sized enterprises and for preparing the corresponding support programmes.

The rules for the provision of state aid, i.e. including support for small and medium-sized enterprises, also specifically define the admissible area and specific measures, recognisable costs and maximum intensity. Operational programmes fully respect the Community rules.

The priority focus of Czech operational programmes, which derive from the National Strategic Reference Framework, is to promote economic development, with the emphasis on building effective infrastructure. Some of the programmes provide direct support for small and medium-sized enterprises, or indirect support with a firsthand impact on their development. This type of realisation programme is mainly part of the Enterprise and Innovation 2007-2013 operational programme and also part of certain priority lines of regional operational programmes.

¹⁰⁶ Czech Social Security Administration: Overview of Insurance Payers as of 30.6.2008. Available at <http://www.cssz.cz/cz/informace/statistiky/prehled-poplatniku-pojistneho-cssz.htm>, August 2008.

¹⁰⁷ Act No. 589/1992, on insurance payments for social security and contributions to state employment policy, and Act No. 592/1992, on insurance payments for universal health insurance, as amended.

¹⁰⁸ Kozelský T., Vlach, J.: Self-employed Persons in the European Union. In Průša and collective: Socio-economic Status of Self-employed Persons in Society (digest of analyses of the socio-economic status of self-employed persons in Czech society and the European Union). Prague: RILSA 2006. ISBN 80-87007-33-6, p. 148

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In a number of cases the forms and intensity of public support differ depending on the enterprise size category. Programmes whose aim is to promote the establishment of firms and their stabilisation during the initial phases of their life give preferential treatment to micro-enterprises. The calls to take part in individual implementation programmes specify the terms for drawing the appropriations or the conditions for access to loans.

It is hard for the self-employed (85% of whom have no employees and a further 13% at most 5 employees¹⁰⁹) to understand the support system. The only option is to make use of advisory institutions that deal with this field professionally and for a fee. From this point of view small enterprises, i.e. 98% of the self-employed, are practically excluded from the operational programmes system. They are hindered by the institutional and economic atomisation of the self-employment sector in the Czech Republic and the absence of effectively functioning structures that safeguard their interests and provide services on the basis of pooled finances.

¹⁰⁹ Register of Economic Entities Department, CzSO, FORMAF/KATPOF records. Number of entities by number of employees and legal form (data for March 2006)

7. False self-employment ("Švarc system")

The "Švarc system" got its name from a businessman called Mr Švarc, who at the start of the 1990s organised the work process in his enterprise so that employees in standard employment were replaced by tradesmen who did the same work as employees. He thus saved on labour costs. He did not have to pay health and social insurance for his "employees" and could offer them a higher income in consequence of more advantageous algorithms for specifying the tax base and assessment bases for social and health insurance.

The lay public views the Švarc system as the freest form of employment relation. The most sober estimates put the number of people performing false self-employment in the Czech Republic at around 100,000 (the Czech Chamber of Commerce's estimate is around 200,000 people). The spectrum ranges from clear violation of the law (e.g. a cash teller in a supermarket working under a trade licence), through an extensive grey area of disputable cases and ending with "regular entrepreneurs" without employees (e.g. consultants, design engineers or architects).

This chapter is intended to be a brief exploration of the issue of false self-employment, specifically in the construction industry, which is a branch of the economy where employers substitute labour-law relations with commercial relations, whether the work is dependent or not, in order to cut costs and transfer their business risks. The basic problems in the construction industry are generally applicable.

The first part of the chapter tries to define the "Švarc system", the conditions under which it spreads and the possible risks. The second part maps the attitude of the public (especially employers) to this phenomenon.

7.1 Definition of false self-employment

On principle, every entrepreneur (natural person) must perform three important functions:

1. ownership – (allocation of capital, strategic decisions on joining alliances etc.);
2. managerial – running the enterprise;
3. expert – exercising his own expertise.

To all intents and purposes, an entrepreneur using the "Švarc system" only performs the expert function, carrying out his own expert work. He does not deal with management because he has no employees to manage. And he does not perform the ownership function (e.g. allocation of capital), because his revenues are *de facto* his pay.

Under this broader definition (which is hard to express or sanction in legal terms), every entrepreneur who only applies his own expertise operates in a veiled work relation, even if he has succeeded in getting round the relevant laws.

Legal framework of false self-employment

In European legislation, Section 87 of Directive 2006/123/EC, on services in the internal market, calls this form of work organisation "false self-employment".¹¹⁰ A widespread expression in the Czech Republic is "working under a trade licence".

Engaging entrepreneurs in false labour-law relations was first regulated in Act No. 1/1991, on employment. Section 1 stated that: "Legal or natural persons are obliged to secure the performance of ordinary tasks stemming from their activity through the employees whom they employ in labour-law relations under the Labour Code for this purpose..."

Most recently, this issue was dealt with in detail by Section 13 (3) (c) of Act No. 435/2004, on employment, which regulated the assignment of business activity to another legal or natural person.

Section 13 stated that legal or natural persons are obliged to secure the performance of ordinary tasks through the employees whom they employ in labour-law relations under the Labour Code for this purpose. Entrepreneurs do not have to comply with this obligation if they carry out the work:

- themselves or with the help of the family (or with the help of associates or members in the case of a legal person);
- through temporarily allocated agency employees;
- through another legal or natural person, which will perform it through its employees or as part of the business of a natural person. The performance of the entrusted work must possess the requisite features of enterprise according to the Commercial Code, meaning that the work must be done:
 - on one's own account;
 - in one's own name.
 - in order to make a profit.

¹¹⁰ Article 87 of Directive 2006/123/EC: "Neither should this Directive affect terms and conditions of employment in cases where the worker employed for the provision of a cross-border service is recruited in the Member State where the service is provided. Furthermore, this Directive should not affect the right for the Member State where the service is provided to determine the existence of an employment relationship and the distinction between self-employed persons and employed persons, including "false self-employed persons". In that respect the essential characteristic of an employment relationship within the meaning of Article 39 of the Treaty should be the fact that for a certain period of time a person provides services for and under the direction of another person in return for which he receives remuneration. Any activity which a person performs outside a relationship of subordination must be classified as an activity pursued in a self-employed capacity for the purposes of Articles 43 and 49 of the Treaty.

The term "disguised labour-law relation" is specified in Section 2 (7) of Act No. 337/1992, on the administration of taxes and fees, which reads: "When applying the tax laws in tax proceedings, if the actual substance of an act in law or other circumstance decisive for specifying or collecting tax is disguised by a formally legal state and differs from such state, the actual substance shall always be taken into account."

The Ministry of Finance issued Instruction D – 285 regarding the application of Section 6 (1) and (2) of Act No. 586/1992, on income tax, as amended, to define "dependent activity".

All this legislation was based on the premise that the law determines how an enterprise may carry out ordinary work tasks.

There has been a shift in this area in connection with the adoption of the amended Labour Code as of 1.1.2007. Section 13 of the employment act was repealed. The issue is regulated by Section 3 of Act No. 262/2006, the Labour Code, based on the concept of dependent work. Section 3 states: "Dependent work may be performed solely in a labour-law relation pursuant to this act, unless it is regulated by special legal regulations."

Section 4 (2) of the amended Labour Code (Act No. 262/2006) defines dependent work as work that is done in a relationship of superiority and subordination between an employer and employee. Solely the personal performance of work by an employee for an employer, according to the employer's instructions, in his name, for a wage, pay or remuneration for the work, during working hours or an otherwise specified or agreed time at the employer's workplace, or possibly at another agreed place, at the employer's cost and responsibility, is regarded as dependent work.

At the same time, Section 3 of the Labour Code provides that dependent work may be performed solely in a labour-law relation pursuant to this act, unless it is regulated by special legal regulations (e.g. Act No. 218/2002, on the service of state employees in administrative offices and the remuneration of such employees and other employees in administrative offices, as amended, and Act No. 361/2003, on the service of members of the security corps, as amended).

Under this act, the fundamental labour-law relations are the employment relation and legal relations established by agreements on work done outside employment, i.e. an agreement on work activity and agreement on the performance of work.

Because the Labour Code now provides that dependent work can only be performed in a labour-law relation, the ban on the "Švarc system" in Section 13 of Act No. 435/2004, on employment, as amended, was repealed by Act No. 264/2006, amending certain acts in connection with the adoption of the Labour Code with effect from 1 January 2007. Further to this there were changes in the wording of the act on employment related to this section. Most notably, the area of administrative offences was modified in the employment act: the factual basis of an administrative offence that a legal person commits by not securing the performance of ordinary tasks stemming from its field of business through the employees whom it employs in labour-law relations pursuant to the Labour Code, with the exception of the case mentioned in Section 13 (3), was dropped from the legislation.

The fact that the Labour Code expressly defines dependent work and relations in the performance of dependent work, denoting them as labour-law relations and characterising the individual features of dependent work, gives a clear guide to

7. False self-employment ("Švarc system")

determining what should be regarded as a labour-law relation and what constitutes obviation of the law. For that reason Section 13 of the act on employment was repealed as of the day on which the Labour Code took effect, i.e. 1 January 2007. The repealing of Section 13 of the act on employment is significant because it annulled the exemptions that this provision contained.

Now that dependent work and the obligation to perform dependent work solely in labour-law relations have been defined, the ban on the "Švarc system" will follow directly from the Labour Code. Any commercial-law or civil-law relation between a natural person and an entrepreneur will be judged to be a labour-law relation under the terms of Section 41a of Act No. 40/1964, Civil Code, with the consequences ensuing there from, if it possesses the requisite features of dependent work. Section 41a (1) of the Civil Code provides that if an invalid act in law has the requisite features of another act in law which is valid, it can be invoked if it is clear from the circumstances that it expresses the will of the acting party. Section 41a (2) provides that if an act in law is intended to disguise another act in law, this other act in law shall apply if this corresponds to the will of the participants and all its requisite features are satisfied.

Combined with the repealing of the exemptions specified in the act on employment, the explicit definition of dependent work directly in the Labour Code effectively represents a further strengthening of the ban on false self-employment.

The performance of dependent work will be covered by the new Labour Code, which will have impacts on the areas of employers' obligations to pay contributions and corresponding tax consequences and consequences for the obligation to pay social and health insurance.

Since 1 January 2007, when performing their work tasks and acts that stem from their field of business employers will proceed according to Section 2 (4) and (3) of the Labour Code. These provisions do not rule out the possibility of employers concluding "commercial-law contracts" with a citizen, or with their employees. This will be permitted in cases where the citizen carries out a certain activity for the employer on the basis of a trade licence or will perform it without this authorisation but with features of enterprise (see below).

If a citizen performs work activity for an employer (firm) with features of dependent work, this must take place under a work contract, agreement on work activity or agreement on the performance of work. If the citizen performs the work activity under a trade licence but works at the employer's workplace and his work displays features of dependent work, this would be a disguised labour-law relation. Income from this activity could be additionally taxed if detected by a tax inspection. Whether the citizen performs tasks that stem from the employer's field of business or other tasks that are not directly related to the substance of this business is not decisive.

It might seem at first sight that work done under a trade licence is regulated in inordinate detail. The published data point to the seriousness of the problem, however. In an article entitled "Socio-economic Status of Self-employed Persons in Society", Part 2 – Structural Views of the Set of Self-employed Persons¹¹¹, Vladimír Novák states that the number of self-employed persons without employees rose from 381,000 to 561,000 from 1996 to 2005. The share of total employment falling to self-employment grew from 14.3% to 17.8%. The highest levels were attained in real

¹¹¹ V. Novák: Socio-economic Status of Self-employed Persons in Society, part 2 – Structural Perspectives of the Set of Self-employed Persons. Statistika no. 4/2007, p. 306

estate and construction. He simultaneously states that the increase in the number of people with a trade licence takes place mainly in positions that would otherwise be employees' jobs.

Essence of false self-employment

There are a number of factors which have – if not enabled – at least supported the spread of work under a trades; licence. Let us name the most important ones:

- the favourable tax regime for the self-employed that was meant to stimulate the development of self-employment in the 1990s;
- downscaling, transfer of in-house activities to subcontractors (optically raising work productivity and the return on capital);
- the transfer of business risks to subcontractors;
- business concepts based on the low cost of labour.

Small businessmen themselves have also influenced the spread of false self-employment. Besides the lower tax burden, a feeling of independence and greater self-fulfilment are motives leading workers to prefer work under a trade licence. On page 207 of his book "The Shadow Economy and Illegal Work" Martin Fassman states that "in self-employed persons the sense of absolute independence and of being able to support themselves on their own is reflected in an undermining of collective feeling and consequently also the legitimacy of tax payments"¹¹². This feeling is so deeply ingrained in some self-employed persons that they are not aware of their future social problems when they will be on a small pension and are not at risk of illness or injury. According to the Czech Social Security Administration's work report for 2006, just 20% of all self-employed persons have sickness insurance.

The controversy surrounding false self-employment is derived from the fact that it blurs the differences between the roles and purposes of employee and entrepreneur.

It is expected that employees will perform work according to their employer's instructions and using his facilities, with the employer providing the appropriate material, energy and information inputs. Business profits or losses will be borne fully by the employer. The employee's reward for his work is his wage, which will be used primarily for his personal consumption or savings. Employees are not responsible for business risks.

It is expected that entrepreneurs will do their work in their own name and at their own risk, using their own facilities or facilities hired for a fee. Entrepreneurs will fulfil orders using inputs they secure for a fee, at a time and using procedures they themselves have chosen or agreed with the buyer. The reward for the work is "mixed income", i.e. his own remuneration for the work and business profits. As a rule, entrepreneurs are liable for risk with their entire assets.

From the economic point of view, the essence of the problem with false self-employment lies in the fact that the financial parameters for calculating income tax

¹¹² See Fassmann, M.: The Shadow Economy and Illegal Work. Prague: Briggs & Co., s.r.o., 2007, EAN 978-80-86846-21-7

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and contributions to health and social insurance are defined in a way that anticipates the entrepreneurial nature of the self-employed person's work.

The base for the calculation of self-employed persons' income tax is the difference between incomes and expenditure (and, in rare cases, revenues and costs). The expenditure of self-employed persons is often specified as a flat-rate percentage. The assessment base for calculating contributions to social and health insurance is a proportionate part (recently 50%) of profit. It is expected that entrepreneurs will invest part of their mixed income to maintain or develop their personal enterprise.

The classic false self-employed person (bricklayer, cash teller, lathe operator etc.) has practically no material costs or overheads. He does not build and develop his enterprise. He merely sells his labour. He therefore does not fulfil his role as an entrepreneur, even though the financial parameters for calculating taxes and insurance contributions are set up in a way ensuring that he has the resources to do so.

From the economic point of view, we can define a false self-employed person as being an entrepreneur/natural person who *de facto* does not have his own enterprise as a set of assets, rights and liabilities. He merely sells his labour. He uses his "enterprise" income for his own personal consumption, not for maintaining and developing his enterprise. Of the three fields of activity performed by a genuine entrepreneur (administration of capital, managerial work and the application of his own expertise), he only exercises his own expertise.

The main specific auxiliary identifying features of such activity are usually:

- minimal material costs and overheads;
- no business establishment;
- no employees;
- does not pay VAT;
- low or zero value of tangible and intangible assets;
- use of the flat-rate to determine costs.

The controversial nature of the status of this kind of entrepreneur in the economic system requires regulatory interventions, because society surrenders part of its tax incomes and contributions to social funds (which it would have acquired from employees doing this work) in the expectation that these finances will be invested in enterprise. If the self-employed person does not do so, it is reasonable and possible¹¹³ to subsequently collect these finances. In "The Shadow Economy and Illegal Work"¹¹⁴ M. Fassman gives the example of Belgian practice, where if a tax authority identifies "false entrepreneurs" who have more than 50% of their income from one source it may impose tax on them as if the workers were employees.

¹¹³ E.g. Jouza, L.: Question marks around the Švarc system. *Práce a mzda* no. 2/2005. RILSA 2005. ISSN 032-6208, p. 10 - 18

¹¹⁴ Fassmann, M.: *The Shadow Economy and Illegal Work*. Briggs & Co., s.r.o. 2007. EAN 978-80-86846-21-7, p. 300

Attempt to reduce labour costs

False self-employment abuses the tax advantages for self-employed persons:

- the possibility of applying a flat-rate to costs (which are fictitious in the case of false self-employment);
- allowance made for investments in enterprise in the assessment bases for insurance (in the case of false self-employment a fictitious 50% of the difference between incomes and costs).

Columns 2 and 3 of Table 18 compare an employer's model costs for an employee and for a worker under a trade licence who invoices the same amount as the total labour costs for the employee in the tax conditions applying in 2006. Columns 2 and 4 compare the employer's costs for a properly employed worker and a false self-employed worker who invoices a substantially lower amount (220,000) at a net income corresponding to the employee's. As a false self-employed person has practically no expenses (he does not buy material and raw materials, he uses the buyer's premises and facilities), we may reckon that the costs specified as a flat-rate or by "tax optimisation", where non-existent costs are declared, are more-or-less zero. A 50% rate for expenditure to attain, maintain and secure entrepreneurial incomes was chosen in the calculation¹¹⁵. These differences increase in the case of craft-related trades.

We can see from the comparison (columns 2 and 4) that the buyer's (employer's) costs fell by a third when taking on workers working under a trade licence. At the same costs, however, the hired tradesman has attained (or had the room to attain) an income more than two-fifths higher than the employee has, naturally to the detriment of taxes and social and health insurance contributions.

Tax reform creates an even more favourable environment for the false self-employed person, as shown in Table 19. The model shows that if his possible net income in 2006 was 45% higher than the employee's net wage at the same costs for the employer, or "customer", in 2008 the difference is 52%.

Even in the new tax conditions, corporations and employees pay higher insurance contributions, supporting the activities of the false self-employed as part of the solidarity principle.

Table 18 Comparison of the cost of a proper employee with a gross monthly wage of CZK 20,000 (net wage CZK 15,483/month) and an employed "entrepreneur" in the conditions of 2006

1	2	3	4
	employee CZK thousands/year	self-employed person CZK thousands/year (self-employed person's revenue = cost of employee)	self-employed person CZK thousands/year (self-employed person's net income ≈ employee's net wage)
gross income from employment	240.0		
income from enterprise before tax and contributions (revenues)		324.0	220.0

¹¹⁵ Section 7 Incomes from Enterprise and Other Independent Gainful Activity of Act No. 586/1992, on income tax, as amended.

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employer's costs	324.0	324.0	220.0
contributions	paid by employee and employer	paid by self-employed person	paid by self-employed person
social insurance	81.6	23.9	16.7
health insurance	32.4	15.1 ^x	15.1 ^x
income tax			
tax base	210.0	162.0	110.0
income tax	24.2	15.1	6.0
net incomes after contributions and tax	185.8	107.9	72.2
costs specified using 50% flat-rate		162.0	110.0
possible net income at zero value of actual costs		269.9	182.2

Source: RILSA calculation

NB: The employee, or self-employed person, has no children; the self-employed person's enterprise is his primary activity, does not pay sickness insurance, applies flat tax rate of 50%; ^x insurance from the minimum assessment base.

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Table 19 Comparison of the cost of a proper employee with a gross monthly wage of CZK 20,000 (net wage CZK 15,483/month) and an employed "entrepreneur" in the conditions of 2008

1	2	3	4
	employee CZK thousands/year	self-employed person CZK thousands/year (self-employed person's revenue = cost of employee)	self-employed person CZK thousands/year (self-employed person's net income ≈ employee's net wage)
gross income from employment	240.0		
income from enterprise before tax and contributions (revenues)		324.0	220.0
employer's costs	324.0 super-gross wage	324.0	220.0
contributions	paid by employee and employer	paid by self-employed person	paid by self-employed person
social insurance	81.6	23.9	19.1*
health insurance	32.4	17.4*	17.4*
income tax			
tax base	324.0	162.0	110.0
income tax after application of discount	23.8	0.0	0.0
net incomes after contributions and tax	186.2	120.7	73.5
costs specified using 50% flat-rate		162.0	110.0
possible net income at zero value of actual costs		282.7	183.5

Source: RILSA calculation

NB: * The employee, or self-employed person, has no children; the self-employed person's enterprise is his primary activity, does not pay sickness insurance, applies flat tax rate of 50%. The minimum assessment base for calculating health insurance for 2008 is derived from the average wage level (12 times 50% of average wage). The average wage is fixed at CZK 21,560 for 2008. The minimum assessment base is CZK 129,360.

For 2008 the minimum monthly advance payment on pension insurance is CZK 1,596, i.e. CZK 19,152/year. This applies for primary activity.

** For 2008 the tax discount for one person is fixed at CZK 24,840 (unused discounts are returned solely as a bonus for children).

Labour market analysts wonder at the low incidence of part-time work in the Czech Republic; the cause has traditionally been thought to lie in the low earnings level. The lower taxation of the incomes of self-employed persons, however, pushes part-time work into the "Švarc system": employers and employees agree to the financially advantageous step of swapping a labour-law relation for a commercial relation, even at the cost of forfeiting protection of their interests.

Attempt to cut staff costs and transfer of business risks

During the transformation process large concerns slimmed down, getting rid of a number of activities that were inefficient for them (low profitability, management

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problems). Work that had previously be done in-house, or by concerns' specialised plants, is subcontracted out to specialist entities (legal and natural persons).

The critical place is the end of subcontractor chains, which is where small firms are concentrated. One would expect that these small firms would perform the work through their own employees. To a greater or lesser extent, however, they use the work of self-employed persons, often in a disguised labour-law relationship. Labour-law relations are changed into simpler commercial relations; tax optimisation cuts the cost of labour and the cooperation can be terminated practically at once. The firm gets rid of the costs of business risks, transferring them to the false self-employed person.

The situation has gone so far that work under a trade licence is *de facto* viewed as the freest form of employment. That is why small firms urge the government to legalise the "Švarc system". Among other things, that would transfer the financial pressure from buyers without problems to the self-employed and would make the labour market considerably more flexible. Employment would practically disappear from "replaceable professions" in the construction industry. Employment would only continue to exist in professions where high standards of non-transferable expertise and loyalty to the company are required.

The transfer of risks and costs to workers working under a trade licence may increase their social problems in the event of unfavourable situations (e.g. illness, injury) and in old age.

The false self-employed are hit hardest by economic recession.

The existing situation may change unexpectedly:

- shortage of expert manual workers (craftsmen);
- gradual reduction of expertise (as a whole) among the self-employed.

This scenario is distinctly emerging in construction. Construction jobs, however, large, are in the nature of projects. They are done at differing times, in various places, and have a defined beginning and end and financial framework. It is customary in a standard construction job that there are 5-7 subcontractors between the firm that won the order and the firm doing the final work. Ordinarily the building firm that won the basic contract is outsourcing the entire or the majority of the job to subcontractors. It itself more-or-less focuses on engineering and coordinating work. For this it usually takes 5-10% of the price of the job. At the end of the subcontractor chain there are small firms who use false self-employment to ensure they are flexible and have sufficient capital. This system of organising work has a number of undisputable advantages for building firms: it is flexible, and there are no idle human or material capacities to deal with when there is a scarcity of orders.

7.2 Public perception of "work under a trade licence"

The attitude of employers and workers¹¹⁶ towards false self-employment is documented by surveys on specialised internet surveys and informal interviews with workers and representatives of business associations in the construction industry.

¹¹⁶ According to partial information from employers, the workers themselves ask to work under a trade licence.

Survey of offers of work on specialised internet servers

In October 2007 we monitored four servers offering jobs:

www.prace.cz

Section: Contractual orders (work under an organisation identification number)

www.jobs.cz

Section: Work relation – contractual orders (work under an organisation identification number)

www.sprace.cz

Section: Vacancies full-time and part-time – work under a trade licence

<http://prace-profit-inzerce.cz>

Section: Work under a trade licence

The research revealed the following.

It is obvious from the section names that the performance of contractual orders and work under a trade licence or under an organisation identification number is treated as a kind of employment relation.

One and the same offer of work (usually in non-manual professions) under a trade licence was often combined with an offer of full-time work. A random selection of approximately ten employers was verified to have filled in two possible alternatives offered in the classified ad form. The reason given for the combined offer was the same in all cases. They so urgently need a worker in the profession in question that they give him the choice as to what form his work will take. Approx. two-thirds of the offers were like this. Around one-third of the offers only wanted work under a trade licence.

The vacancies in the "work under a trade licence" section were intended mainly for non-manual professions or professions that could be classified as freelancing. For example: real estate brokers, financial advisors, insurance advisors, translators, language teachers, engineers, design engineers, project designers etc.

Table 20 Offers on individual servers

	total number of job offers	number of job offers for full employment or work under a trade licence	number of job offers for work under a trade licence	Proportion of total job offers accounted for by work under a trade licence %
www.prace.cz	81,354	1,895	813	3.3
www.jobs.cz	18,191	996	664	9.1
www.sprace.cz	47,435	not stated	46	0.1
http://prace-profit-inzerce.cz	276 * (work for an employer)	not stated	6	approx. 2.0

Source: RILSA calculation

Attitudes to false self-employment among entrepreneurs in the construction industry

Interviews were held with representatives of business associations in the construction industry, where false self-employment is widespread, in order to get an idea of entrepreneurs' ideas about the "Švarc system". In the first quarter of 2007 predefined questions were answered by representatives of the Association of Building Entrepreneurs of the Czech Republic, which is an organisation of mainly large and medium-sized building firms, building material makers and design and engineering firms, and by representatives of eight professional associations of building crafts, which represent small firms, mainly natural persons.

The issue of false self-employment is not particularly relevant for large and medium-sized building firms and manufacturers. These firms have a stable workforce. As far as subcontracts are concerned, these are farmed out to smaller building firms and specialised firms.

In qualitative interviews the representatives of special-interest associations of subcontractor firms stated that the existing system (extensive subcontractor relationships down to the self-employed person level) has three times as many advantages for them than disadvantages when compared to employing workers. Labour market flexibility and the price of labour were by far the most common reasons given in their answers. When identifying possible problems employing people under a trade licence the representatives of employers concentrated on resolving current operational problems. The only identified a minimum of possible dangers in the long-term or medium-term outlook.

The following table shows the opinions registered in the discussion.

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Table 21 Employing people under a trade licence

advantages	number of opinions	opportunity for	number of opinions	disadvantages	number of opinions	threats – problems	number of opinions
they are quicker and more productive than employees	5	winning bigger orders	3	low loyalty to the firm	1	it could turn out there are not enough of them	0
they are cheaper than employees, the price of jobs can be reduced	4	quick winning of orders	2	need to coordinate lots of subcontractors	4	low skills	0
their work is better than that of employees	3			problematic guarantees for the work; problem of penalisation for failure to fulfil a contract	4	they are unwilling to undergo training	1
they are specialised	4			they have no capital to invest in their own development	2	outdated techniques and technologies	1
the labour market is flexible, they are available when needed	4						
they have little legal awareness; contracts can be advantageous	2						
cooperation terminated quickly when job is completed	3						
no severance pay has to be paid when the job is completed	3						
they are not united, they have little bargaining power	2						
simple "labour-law relations"	1						
they work harder (i.e. high-quality work)	1						
they stick to oral agreements	1						
total	33		5		11		2

Source: RILSA calculation

The participants in the discussion rigorously differentiated between using false self-employed workers on jobs to deadlines (construction) and in ordinary operations (cash teller in a supermarket, labourer in a factory). They identified using false self-employment in ordinary operations as the "Švarc system". They regarded using it in jobs to deadlines more as the freest and most flexible form of employment or as a form of standard subcontracting.

The use of individuals' services will become noticeably more widespread in future, taking in qualified professions (university-educated professionals). The reason will be the need for highly qualified services and the impossibility of employing the

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professionals in question, either because of the high cost or because of the need for a limited extent of their services (proportionate to the size of the firm).

7.3 Risks of false self-employment and solutions to these risks

The phenomenon of false self-employment is not easy to specify. It can be described and specified differently from every different point of view. That also applies to assessing its social and economic impacts on Czech society.

Risks of false self-employment

The "Švarc system" has substantial negative consequences, but these are often not directly perceived. The principal negative consequences are:

- some firms may gradually become uncompetitive because they prefer low labour costs instead of innovation;
- it establishes simple and menial production jobs with low labour costs that is enabled by the financial advantage of false self-employment for employers and the possible advantage of higher income for the self-employed person;
- some firms may gradually become uncompetitive, as they suffer losses resulting from their "employees'" insufficient loyalty (someone working under a trade licence must give precedence to his own interests as an entrepreneur, and the interests of the firm that is his customer are secondary for him);
- both entrepreneurs and employees have the same rates for income tax and contributions for health and social purposes, but these are calculated from different bases; real taxes and contributions are substantially lower for entrepreneurs than employees; the excessive spread of false self-employment thus causes tax and health and social insurance revenue shortfalls that must be made up by employees and corporations under the solidarity principle;
- disruption of the competitive environment, perhaps even unfair competition, when firms using false self-employment to cut costs gain an unjustified competitive advantage over those who respect the law; the market thus gives unfair information about costs;
- loss of labour and social protection of the false self-employed, with the subsequent impacts on their social situation and social security.

It is reasonable to expect that the spread of false self-employment will reach its natural boundaries in the enterprise sphere. A dynamic equilibrium will be created, where on the one hand there will be the endeavour to cut costs, make the labour market more flexible and transfer business risks, and on the other hand the threat of low expertise, a lack of loyalty and the threat of falling behind in technical and technological terms.

Solutions to the problems of false self-employment

The preceding chapters set out the positives and negatives of false self-employment. On the one hand it simplifies the situation for small firms and the workers themselves; on the other hand it leads to the ossification of the existing technological and economic level of the Czech economy, strengthens the unequal position of entities on the market and increases the risk of public budgets deficits. The period when self-employment needed stimulation has ended. The Czech Republic today ranks as a country with an extensive self-employment sector. The extent of false self-employment¹¹⁷ is a product of the stimulation of micro-enterprise in the 1990s. The tax advantage afforded to of the self-employed, from which false self-employment benefits, is greater than in any other EU country¹¹⁸.

The need to address public budgets deficits, however, makes it necessary to scrutinise this segment of employment, which is a source of expenditure not covered by incomes. Czech firms could be criticised for social dumping by participants in the single European market.

As the behaviour of business entities responds to market signals and the instruments of the state's long-term economic policy, above all fiscal instruments, a solution should be sought in the economic area. Control work by labour market institutions (formerly the labour offices, today work inspectorates) has proven ineffective. That is because high employment in the region is in these authorities' interests. Moreover, where attempts to obviate the act on employment have been detected, administrative proceedings have often fallen foul of the absence of a uniform interpretation of the legal regulations in question.

The disproportions in the status of employees and false self-employed persons, small firms using work done under a trade licence and other enterprises can be tackled by fiscal policy instruments that will close the tax gap between corporations, the self-employed and employees:

- selective instruments – adjustment and more precise specification of the algorithm for calculating the tax base and assessment bases for social and health insurance, enhancing the control function of tax and insurance administrators;
- systemic measures – unifying assessment bases with tax bases, unifying the collection of taxes and insurance contributions, reducing the burden of direct taxes and raising indirect taxes.

These tools can only work together, not in isolation. The possible social impacts make it necessary to implement them gradually and over the long term. On the other hand, continuing with the existing state of affairs will lead to financial deficits in the pension and healthcare system.

¹¹⁷ Self-employment accounts for one-fifth of total employment, which is incomparably more than in the countries of neighbouring countries; for more information see Vlach, J.: *Self-employed Persons in the European Union*. In: In Průša and collective: *Status of Self-employed People in Society*. Prague: RILSA 2006

¹¹⁸ Tax costs (including insurance) per unit of value added in the self-employment sector was roughly 56% of the level of corporations in 2005. In other EU countries they were not lower than 63% (bar Greece: 62.3%).

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The analysis in this chapter has to contend with the partial and often contradictory information about the social and income conditions of the self-employment sector in foreign and Czech sources. Assessing various aspects of self-employed persons' economic and social position in society therefore required a comprehensively mapped social group of employees in the Czech Republic. The basic source of information was a field survey on the socio-economic status of the self-employed in 2006 (hereinafter "2006 field survey") in the Czech Republic, conducted in 2006 by the Research Institute for Labour and Social Affairs ("RILSA") in cooperation with the Factum Invenio agency and the Czech Chamber of Commerce. Some information is also provided by surveys of households by the Czech Statistical Office "CzSO") and reports by the International Labour Organisation ("ILO").

8.1 Incomes of the self-employed

As a source of satisfying essential needs, incomes are the fundamental motive for the social and economic activity of individuals, households and social groups. Income positions, i.e. the level of incomes, and their dynamics and relations to the incomes of other people and social groups are a substantial factor of their social status.

Statistical sources¹¹⁹ show that the overall incomes of the self-employed (individuals, households, social group as a whole) are heterogeneous in nature, as is the case with other groups. The overall incomes of self-employed persons comprise, to differing degrees, the following basic components: incomes from enterprise and other independent gainful activity (hereinafter "incomes from enterprise"), incomes from an employment or equivalent relation (known in the terminology of the act on income tax as incomes from dependent work and job perquisites), social incomes, i.e. all types of social benefits from state (or other non-state) systems, and other incomes (e.g. incomes deriving from ownership of property, gambling wins etc.).

In the Czech Republic, incomes from enterprise currently account for more than two-thirds of the total incomes of the households of self-employed persons. For individual entrepreneurs the proportion ranges from 75% to 90%, depending on whether incomes from enterprise are the only source of income or are complemented by other sources.

¹¹⁹ a) CzSO: Social Situations of Households in 2001 (data for households managing their own finances in 2001). Prague 2003. Code: 3006-03; b) CzSO: Microcensus 2002 (Incomes of households managing their own finances). Prague, 2004. Code: 3009-04; c) CzSO: Incomes and Living Conditions of Households in the Czech Republic for 2006. Prague 2007. Code: 3012-07.

By income the definitions in these sources mean incomes in money and in kind. Incomes are reported as gross incomes (i.e. before deduction of the total tax burden, which is the sum of natural persons' income tax and contributions to social and health insurance paid for oneself) and/or as net incomes (i.e. after deducting the said tax burden); net incomes are that part of incomes that the beneficiary has exclusive discretion over (disposable incomes).

Attained revenues form the basis for determining incomes from enterprise. After total costs (expenditure¹²⁰) expended on generating revenues are deducted, the remainder is what is known as mixed income.

The mixed income of a self-employed person is defined (see ESA 95) as the sum of entrepreneurial income and income from the self-employed person's labour for his own enterprise. Entrepreneurial income means the profit deriving from the productive use of capital (own capital or capital available from external sources). The labour income of a self-employed person for his own consumption can be characterised as the "entrepreneurial wage" resulting from the entrepreneur's input of his own labour. National accounts do not separate these two income components.

The sources of mixed income – labour and capital – reflect the ambiguity of the economic and social status of the self-employed:

- labour input as a source of income links them to the social group of employees;
- income deriving from the use of capital brings them closer to capital owners whose predominant source of income is revenues generated by the possession of capital (investors, annuitants)¹²¹.

The numerical characteristics of the level and dynamics of mixed income and its relations to other income characteristics in 1995, 2006 and 2007 (see the table below) reveal the following:

- a) According to the national accounts methodology, the absolute values of mixed income shown in row 1 represent the aggregate of these self-employment incomes deriving both from the official (i.e. properly reported) part of the national economy and from part of the informal economy (hidden, undeclared, grey or black); in the same way they reflect the aggregate of economic processes and data on wages and pay, the numbers of self-employed persons and employees;
- b) The volume of the gross nominal mixed income of the self-employed currently (2007) represents just less than one-fifth (18.3%) of the sum of current nominal incomes in the households sector and roughly 30% of their incomes from employment (work incomes)¹²². In the longer-term view (1995-2007) the growth of gross mixed income from the main income aggregates of households was lower (year-on-year increment of 4.9%, whilst the volume of wages and pay grew annually by 7.0% and the volume of social incomes by 9.4%; the proportion of households' total incomes accounted for by mixed income fell from approx. 23% to 18%). The main factor in the slower growth of mixed income is the increasing intensity of competition on the goods and services market, both within the self-employment sector (caused mainly by the gradual filling of the gaps in satisfying effective demand that were created before 1990) and between this sector and the sector of large companies (corporations).
- c) The average monthly level of gross mixed income per self-employed person reached CZK 43,000 in 2007, with a pronounced differentiation in incomes between entrepreneurs.

¹²⁰ In national accounts (viz. ESA 95) the following are included in costs (expenditure) incurred in generating revenues: the value of goods and services consumed when producing own goods and services, payments to employees and indirect taxes paid out revenues.

¹²¹ ESA 95 characterises this sub-sector of households as "recipients of property incomes"; (2.81, symbol S.1441).

¹²² Aggregate of mixed income and wages and pay.

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The division of mixed income (after deducting the tax burden) into entrepreneurial and consumption components is different for each entrepreneur, based on their subjective decision-making, which takes into account his firm's position on the market, the strength of competition and other external factors. A low proportion of entrepreneurial usage could jeopardise entities' competitiveness; a low proportion of consumption usage (resulting from low revenues, high costs, the need for major inputs to rationalise the firm's finances etc.) could lead to "entrepreneurial pauperism", i.e. the reduction of the personal consumption of self-employed persons and their households to a basic subsistence minimum. The actual borders between the entrepreneurial and consumption usage of mixed income are highly indefinite. There are areas where both aspects of the use of incomes merge and take place concurrently (e.g. use of real estate, transport etc. concurrently and indivisibly for both productive and consumption purposes¹²³).

- d) The average level (proportion) of gross mixed income falling to one self-employed person currently (2007) is roughly double the average level of gross wages and pay per employee. Gross mixed income per self-employed person is CZK 43,378 per month; the average wage and pay per employee is CZK 21,692 per month.

¹²³ Simultaneous productive and consumption use of mixed income is found mainly among micro-enterprises operated in relatively simple conditions (with little capital, making simple products or providing simple services).

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Table 22 Level and rate of growth of mixed income relative to other income characteristics and employment data in selected years from 1995 to 2007 ^{1,2}

row	indicators			absolute						
				1995	2000	2007				
01	02	03	04	05	06	07	08	09	10	11
1	mixed income	a	CZK billions	281.4	374.0	487.9	b	132.9	130.5	173.4
2							c	5.9	3.9	4.7
3	wages and pay	a	CZK billions	486.0	688.0	1,097.9	b	141.6	159.6	225.9
4							c	7.2	6.9	7.0
5	social benefits	a	CZK billions	159.4	276.8	466.3	b	173.7	168.5	292.5
6							c	11.7	7.7	9.4
7	total current incomes of households ³	a	CZK billions	1,204.3	1,748.5	2,661.8	b	145.2	152.2	221.0
8							c	7.7	6.2	6.8
9	self-employed ²	a	1000s of persons	712.6	857.3	937.3	b	120.3	109.3	131.5
10							c	3.8	1.3	2.3
11	employees	a	1000s of persons	4435.6	4083.0	4224.4	b	92.1	103.5	95.2
12							c	-1.6	0.5	-0.4
13	total in employment	a	1000s of persons	5148.2	4940.3	5,161.7	b	96.0	104.5	100.3
14							c	-0.8	0.6	0.0
15	mixed income per self- employed person	a	CZK/month	32,908	36,354	43,378	b	110.5	119.3	131.8
16							c	2.0	2.6	2.3
17	employees' wages and pay	a	CZK/month	9,131	14,042	21,658	b	153.8	154.2	237.2
18							c	9.0	6.4	7.5

Source: A) MoLSA: Development of Selected Indicators of Living Standard in the Czech Republic in 1993-2007; B) CzSO: GDP and National Accounts, <http://dw.czso.cz/pls/rocnka/rocnka.presmsocas>

Comments and explanations: 1) Data in rows 1, 3, 5 and 7 and columns 05 and 07 taken from source A; data in rows 9, 11 and 13 from source B; 2) Content of row a) absolute data on financial incomes and number of persons in thousands, b) percentage change in the periods; c) increase of decrease (-) in percent; 3) Other incomes of households are non-wage payments to employees, incomes from property and expenditure

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At the same time, the average share of gross mixed income per self-employed person developed more slowly than the average value of wages and pay per employee. The average values of gross mixed income were 3.6 times higher than average wages and pay in 1995; in the year 2000 the difference was a multiple of 2.6, but even so the income advantage of self-employment remains pronounced. The level and dynamics of the quantities are affected by a number of factors, e.g. increasing competition slows down the rate of growth of mixed income, faster growth of wages and pay are caused by stronger growth in the large corporations sector, and the growing number of self-employed persons and the fall in employment in the period up to 2006 also had an influence.

The CzSO survey of the incomes of the households of various social groups of the population¹²⁴ also contains data on households' entrepreneurial incomes. This survey data can be used to deduce the entrepreneurial income falling to one self-employed person¹²⁵. The methodological explanations accompanying the individual CzSO surveys give rise to some confusion about the substance of the incomes mentioned in them. The "Social Situation of Households in 2001" characterises them as "sums from the outcomes of enterprise that were earmarked for satisfying the needs of the household and its members"; the "Microcensus 2002" survey ascertained the gross economic outcome, i.e. the difference between total incomes (revenues) the incurred costs minus social and health insurance contributions; and the methodology of the survey entitled "Incomes and Living Conditions of Households in the Czech Republic for 2006" specified that "Persons carrying on an enterprise had several options for expressing the outcome of their business. They could state the level of gross profit/loss as per their tax return, the annual assessment base for health and social insurance, the economic result as per their financial statements or their own estimate based on gross or net profit or loss."

The difference in methodological approaches reveals that the more recent surveys (2002, 2006) work on the basis that in social surveys entrepreneurial incomes are similar to mixed income, whereas the older methodology treats these incomes as the consumption component set aside from total entrepreneurial incomes, i.e. they are similar to the "entrepreneurial wage".

The following table shows the data on mixed income and entrepreneurial income per self-employed person for 2002 and 2006.

¹²⁴ CzSO survey Social Situations of Households in 2001 (data for households managing their own finances in 2001). Prague 2003. Code: 3006-03: Microcensus 2002 (Incomes of families managing their own finances). Prague, 2004. Code: 3009-04: Incomes and Living Conditions of Households in the Czech Republic for 2006. Prague 2006. Code: 3012-07. Information about the incomes of social groups of the population also comes from a survey on households' incomes and expenditure based on national accounts research; the small size and lack of stability of the basic sample of respondents (economise their expenditure on the basis of their records they keep) means that this survey's data are not suitable for analysing incomes by social groups, according to analysts.

¹²⁵ For more information about the method for converting the survey data into data on the level of enterprise income per self-employed person see Baštýř, I.: Incomes of Self-employed Persons in Society. In: Průša, L., Baštýř, I., Bruthansová, D., Brachtl, M., Kotýnková, M., Kozelský, T., Novák, J., Vlach, J.: Socio-economic Status of Self-employed Persons in Society. Digest of analyses of the socio-economic status of self-employed persons in Czech society and European Union countries. Prague: RILSA 2006. ISBN 80-87007-33-6, pp. 100 - 129I.

Table 23 Mixed income and entrepreneurial incomes per self-employed person for 2002 and 2006

	2002	2006
A) national accounts data		
mixed income (CZK billions)	390.6	470.6
self-employed (thousands of persons)	905.4	924.9
mixed income per self-employed person (CZK/month)	35,951	42,401
B) data from surveys on the social situation of households		
entrepreneurial income (CZK billions)	139.3	171.9
self-employed (thousands of persons)	612.4	611.8
entrepreneurial incomes per self-employed person	18,949	23,415

Source: A) MoLSA: Development of Selected Indicators of Standard of Living in the Czech Republic from 1993 to 2007, Table 6; on the number of self-employed persons: CzSO: GDP and National Accounts, Table M000130 Population and Employment, <http://dw.czso.cz/rocenka/rocenka.presmsocas>; accessed on 15.7.2008; B) CzSO: Microcensus (incomes of households) 2002; for 2006: CzSO: Incomes and Living Conditions of Households in the Czech Republic for 2006

When the nature of incomes uses the more recent methodologies shown in part B of the table, there is seen to be a considerable difference in incomes per self-employed person between the macroeconomic characteristics of mixed income and the values of entrepreneurial incomes stated by the respondents in social surveys. There are fundamental reasons for the difference (besides the technical differences between the two sources of information):

- extent of included incomes;
- number of persons (national accounts: persons and incomes including the informal, hidden economy; social statistics: entrepreneurial incomes stated in households headed by a self-employed person).

The authors of this study tend to interpret the entrepreneurial incomes stated in the older methodologies of social statistics as the amounts that were set aside for consumption out of the results of enterprise. The principal reason for this view is a comparison of the incomes of self-employed persons' incomes and the incomes of the households of employees and other social groups, where the ascertained incomes (wages, pay, social incomes) are indisputably resources used to cover personal needs¹²⁶.

¹²⁶ Viewed in this way, "entrepreneurial income per self-employed person" can be roughly interpreted as being similar to the extent of "entrepreneurial wage" in the above overview. Very roughly, entrepreneurial wage is around half of mixed income per self-employed person (in 2002: 35,951/18,949; in 2006: 42,401/23,415).

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Table 24 Characteristics of the diversification of persons and gross incomes in households of basic social groups (self-employed, employees, others) and their aggregate in the years 2002 and 2006

row	characteristics	social groups of households ¹								
		self-employed		employees		other ⁷		aggregate		
		2002	2006	2002	2006	2002	2006	2002	2006	2006/02
a	b	c	d	e	f	g	h	i	j	k
	A. persons (thousands)									
1	self-employed, absolute	612.4	611.8	80.8	80.3	35.2	33.3	728.4	725.4	0.996
2	%	38.1	38.5	1.4	1.4	1.2	1.2	7.2	7.1	.
3	employees, absolute	279.7	285.8	3,269.5	3,310.5	214.2	234.1	3,763.4	3,830.4	1,018
4	%	17.4	18.0	57.5	58.1	7.6	8.1	37.2	37.7	.
5	others, absolute ²	715.3	692.0	2,337.8	2,307.4	2,571.8	2,605.3	5,624.9	5,604.7	0.996
6	%	44.5	43.5	41.1	40.5	91.2	90.7	55.6	55.2	.
7	total, absolute ³	1,607.4	1,589.6	5,688.1	5,698.1	2,821.2	2,872.7	10,116.7	10,160.5	1.004
8	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	.
	B. gross incomes (CZK billions)									
9	from enterprise	139.3	171.9	18.9	21.7	4.4	3.7	162.6	197.3	1.313
10	from dependent work	44.4	51.6	590.5	708.5	36.0	42.8	670.9	802.9	1.197
11	social ⁴	17.2	18.9	68.1	77.2	175.5	209.5	260.8	305.6	1.172
12	other	4.6	5.0	12.9	13.3	9.2	15.2	26.7	33.5	1.255
13	total	205.5	247.4	690.4	820.7	225.1	271.2	1,121.0	1,339.3	1,195
	share of incomes (%)									
14	from enterprise	67.8	69.5	2.7	2.6	2.0	1.6	14.5	14.7	.
15	from dependent work	21.6	20.9	85.5	86.3	16.0	15.8	59.8	59.9	.
16	social and other	10.6	9.6	11.8	11.1	82.0	82.6	25.7	25.4	.
	C. per capita incomes (CZK/month)									
17	self-employed from enterprise ⁵	18,949	23,415	19,501	22,520	10,417	9,259	18,606	22,654	1.218
18	employees from dependent work ⁶	13,218	15,045	15,050	17,835	14,006	15,236	14,855	17,468	1.176

Source: **A:** CzSO: Microcensus (Incomes of households managing their own finances) 2002; **B:** CzSO: Incomes and Living Conditions of Households in the Czech Republic for 2006; RILSA calculations

Comments and explanations: 1) The social group of households is specified according to the person at the head of the household; 2) Unprovided-for children, pensioners, the unemployed and other persons not classified as the self-employed and employees; 3) The total number persons living in the households of individual social groups; 4) Social incomes, capital revenues, lottery winnings etc.; 5) row 9:12: row 1 ??; 6) row 10:12 row 3 ??; 7) Households of pensioners, the unemployed and other persons not classified as self-employed and employees.

In households headed by a self-employed person incomes from dependent gainful activity make up roughly 20% of their total incomes (see rows 10 and 15, columns c and d of the table). This relatively high proportion is mainly the result of the considerable number of employees living in the households of self-employed persons; their proportion of the total number of persons living in these households is around 17% or 18% (see rows 3 and 4, columns c and d of the table).

Part of the incomes from dependent work can be ascribed to those self-employed persons who carry on dependent employment as a secondary source of income to complement their entrepreneurial activity. It is possible to make a very guideline deduction from the source used in the CzSO publication "Incomes and Living Conditions of Households in the Czech Republic for 2006"¹²⁷ that these incomes may account for roughly 4% to 5% of entrepreneurial incomes¹²⁸; they account for a larger proportion in the case of self-employed persons living in households headed by an employee or other non-self-employed person.

Overall, the situation of the households of the self-employed and how they compare with employees' household and the aggregate of other social groups – as far as consumption incomes are concerned – can be summarised as follows:

- a) The social composition of persons and incomes in the households of self-employed persons is significantly more heterogeneous than is the case in the households of employees and the aggregate of other social groups. The proportion of self-employed persons in the households of the self-employed is just less than 40% and the proportion of employees living in these households is almost one-fifth; by contrast, employees account for almost 60% of the households of employees and self-employed persons just a little over 1%.

In income structure, the main source of income is as follows:

- in the households of self-employed persons roughly 70% is entrepreneurial incomes;
- in the households of employees over 85% is incomes from dependent work;
- in the aggregate set of other social groups approx. 83% of incomes is social incomes.

The differences in the structure of persons and income sources between the households of the self-employed, employees and other social groups derive from a set of factors. The key factors are:

- Developmental contexts – the interruption of self-employment during the second world war and communist rule means that the process of constituting the households of self-employed persons as a separate social structure (shaping their specific internal links and way of life) has been taking place for less than an entire generation; it evidently takes longer to achieve a more homogeneous households structure.
- Socio-economic contexts – the risks of self-employment (responsibility, competitive market relations etc.) can generate interest within the households of self-employed persons in combining entrepreneurial incomes with employee and social (i.e. more stable) sources of income of some of the economically active

¹²⁷ CzSO: Incomes and Living Conditions of Households in the Czech Republic for 2006. Prague: 2007. Code: 3012-07

¹²⁸ The volume of incomes from dependent work derived from the extent of incomes from secondary dependent activity; according to the said source, in 2007 incomes ranged from CZK 8 to 9 billion.

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persons living in the households. Part of the incomes from employment is evidently the result of activities by persons with self-employed status who combine independent activity with an employment relation; this is probably a matter of second self-employed persons in households (information is not available for a more detailed analysis).

- b) In 2002 and 2006, the level of the gross monthly "entrepreneurial wage", i.e. the share of entrepreneurial income per self-employed person, is higher than the "employee wage" (income from dependent activity per employee) both in households headed by a self-employed person and in the aggregate of all households.

Table 25 "Entrepreneurial wage" and employee earnings

	homogeneous households ¹		aggregate of households	
	2002	2006	2002	2006
a) "entrepreneurial wage" ²	18,949	23,415	18,606	22,654
b) employee wage ³	15,050	17,835	14,855	17,648
ratio a : b	1.259	1.313	1.253	1.297

Source: CzSO: *Microcensus (Incomes of Households) 2002*; CzSO: *Incomes and Living Conditions of Households in the Czech Republic for 2006*; RILSA calculation – table entitled *Characteristics of the Diversification of Persons and Incomes in the Households of Basic Social Groups (self-employed, employees, other) and their aggregate in 2002 and 2006*

NB: 1) Households headed by a self-employed person or employee

Distribution by net financial incomes clearly shows a greater spread of incomes per person in households of self-employed persons than is the case in the households of employees. This is a reflection of fundamental differences in the mechanisms shaping incomes between self-employed persons and employees.

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Table 26 Characteristics of the distribution and differentiation of net financial incomes¹ per person in the households of self-employed persons and employees in 2002 and 2006

A. 2002²

row	net monthly income per person in CZK	% of households	
		self-employed persons	Employees
a	b	c	D
1	up to 3,000	3.8	0.8
2	3,001 - 4,000	5.9	4.8
3	4,001 - 5,000	9.1	10.5
4	5,001 - 6,000	10.2	11.5
5	6,001 - 7,000	13.0	11.7
6	7,001 - 8,000	10.1	11.4
7	8,001 - 9,000	5.0	10.3
8	9,001 - 10,000	9.0	8.2
9	10,001 - 12,000	9.5	11.9
10	12,001 - 14,000	6.4	7.7
11	14,001 - 16,000	3.0	4.3
12	16,001 and over	15.1	6.9
13	total number of households (thousands)	519.1	2,017.3
14	first decile (d_1)	4,053	4,396
15	median (m_e)	7,707	7,928
16	ninth decile (d_9)	17,889	14,385
17	d_9/d_1	4.41	3.27

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B. 2006³

row	net monthly income per person in CZK	% of households	
		self-employed persons	Employees
a	b	c	d
18	up to 4,000	4.3	3.5
19	4,001 – 6,000	12.0	14.2
20	6,001 – 8,000	20.0	19.8
21	8,001 – 10,000	19.5	18.4
22	10,001 – 15,000	26.5	28.2
23	15,001 – 20,000	7.6	10.1
24	20,001 and over	10.2	5.8
25	total number of households (thousands)	502.1	2,006.9
26	first decile (d ₁)	4,951	4,915
27	median (me)	8,596	8,641
28	ninth decile (d ₉)	20,099	17,080
29	d ₉ / d ₁	4.05	3.48

Sources: **A:** CzSO: *Microcensus 2002*; **B:** CzSO: *Incomes and Living Conditions of Households in the Czech Republic for 2006*

Comments and explanations: 1) Aggregate of all incomes (work, social, other); 2) Source A; 3) Source B.

Despite the fact that almost one-third of total incomes in the households of self-employed persons are created from other sources and other mechanisms than entrepreneurial incomes, there are pronounced differences in total income per capita owing to the position of individual self-employed persons on the market (scale of entrepreneurial activity, capital, prosperity etc.). The subjective dispositions and abilities of individual self-employed persons also play a role. These factors result in a relatively substantial differential of incomes in the households of the self-employed (the ratio between the ninth and first decile exceeds 4) and also in a polarisation of incomes, reflected in a high incidence of them in the highest income bands). The staggering of incomes in employees' households is fundamentally different from that of the households of self-employed persons: it is narrower (the decile ratio is below 4). Wages and pay are only indirectly dependent on the current economic prosperity of a specific employer and are subject to a number of forms of regulation (work and pay legislation); the lower limit is regulated by the minimum wage, and collective agreements and, particularly in the non-enterprise sphere, legislation also play a regulatory role.

The authors tested the link between the per capita income level in the households of self-employed persons and their basic socio-economic characteristics, including comparison with employees' households, using the outputs of *Microcensus 2002*. There is good reason to assume that the basic nature of the correlations between per capita incomes and socio-economic features is more-or-less constant.

The following must be mentioned with regard to the methodology and content of the information in the following table:

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- a) in each social group households were divided into ten bands according to ascending order of net income per person;
- b) in each decile band the average value of gross and net income and the average values of socio-economic characteristics were calculated.

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Table 27 Distribution of the households of the self-employed and employees according to annual gross and net financial income per person into decile incomes bands and basic socio-economic characteristics of households and the persons at their head in income bands; Microcensus 2002 data

income decile band	income level							socio-economic characteristics of households													
	gross financial incomes per person			net financial incomes per person				self-employed	average number of persons			person at head			municipality		self-employed				
	self-employed	employees	c/d	self-employed	employees	f/g	total		active	unprovided-for children	basic	univ.	ISCO 1-3	ISCO 7-9	up to 34	55 and over	up to 999	over 100,000	no employees	with employees	
a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u	v
1	first	39,043	51,588	75.7	37,534	45,400	82.7	self-employed	3.88	1.34	1.88	63.6	2.4	16.3	58.0	34.0	4.3	21.3	9.1	92.1	7.9
2								employee	3.93	1.29	1.96	73.6	2.9	12.0	67.2	40.4	1.8	21.6	11.8		
3	second	60,144	69,812	86.2	55,172	58,671	94.0	self-employed	3.63	1.49	1.47	54.9	6.5	25.0	58.7	38.9	2.1	14.2	22.2	85.6	14.4
4								employee	3.63	1.56	1.60	62.3	6.9	24.0	58.8	34.6	2.9	16.0	11.9		
5	third	73,680	83,484	88.3	66,858	69,350	96.4	self-employed	3.50	1.62	1.39	44.8	6.3	25.6	54.4	21.9	2.0	11.6	16.6	84.0	16.0
6								employee	3.37	1.70	1.25	56.7	6.3	25.7	56.5	30.7	7.8	17.1	13.6		
7	fourth	86,782	97,110	89.4	76,313	79,760	95.7	self-employed	3.65	1.77	1.49	59.5	6.8	27.1	50.6	28.6	4.3	24.0	12.9	76.9	23.1
8								employee	3.17	1.71	0.98	55.7	10.5	32.2	49.2	25.4	11.1	14.2	14.1		
9	fifth	100,359	11,054	90.8	87,295	89,648	97.4	self-employed	3.36	1.86	1.22	62.0	13.1	18.5	60.9	24.3	5.7	14.2	29.6	76.9	23.1
10								employee	2.81	1.78	0.68	60.0	10.0	28.7	51.8	20.0	14.9	18.8	18.9		
11	sixth	117,988	12,495	94.4	102,717	100,907	101.8	self-employed	3.01	1.80	0.83	47.7	16.4	34.1	43.1	21.3	24.0	15.8	26.8	78.8	21.2
12								employee	2.60	1.72	0.49	55.5	11.4	28.1	55.9	20.4	21.2	13.5	17.5		
13	seventh	139,711	142,209	98.2	119,806	113,756	105.3	self-employed	2.80	1.87	0.53	46.1	25.2	43.2	38.8	22.1	30.1	15.8	26.2	75.5	24.5
14								employee	2.44	1.77	0.37	46.8	15.6	39.4	42.4	21.6	23.7	11.3	25.3		
15	eighth	173,707	165,282	105.1	143,953	130,175	110.6	self-employed	2.72	2.03	0.46	48.3	23.0	47.2	44.8	20.9	21.2	6.9	35.3	65.6	34.4
16								employee	2.28	1.72	0.27	45.7	19.0	41.9	43.0	23.4	25.6	9.4	24.0		
17	ninth	227,661	201,590	113.0	186,468	155,257	120.1	self-employed	2.35	1.78	0.42	35.5	22.2	40.0	36.4	19.9	17.3	4.9	36.8	76.5	23.5
18								employee	2.09	1.74	0.20	35.1	22.1	50.6	30.0	23.6	26.0	7.3	30.8		
19	tenth	448,877	320,018	140.3	344,113	237,699	144.8	self-employed	2.06	1.61	0.29	20.9	27.2	59.5	22.7	23.8	20.4	6.8	51.1	72.6	27.4
20								employee	1.86	1.62	0.15	18.2	35.1	64.9	19.0	33.4	23.7	4.8	43.1		
21	average	127,776	121,364	105.3	107,623	96,961	111.0	self-employed	3.10	1.72	1.00	47.4	14.9	33.6	46.8	25.5	13.0	13.6	26.6	79.2	20.8
22								employee	2.82	1.66	0.80	50.9	14.0	34.8	47.9	27.4	15.8	13.4	21.1		

Source: CzSO: Microcensus 2002, RILSA calculations

Comments and explanations: 1) ISCO category: 1) legislators and managers; 2) professionals; 3) technicians, medical teaching workers; 7) craft and related workers; 8) plant and machine operators; 9) elementary occupations

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The data lead to the following conclusions:

- a) The differences between the values of per capita income in the first and tenth decile band of households are in the order of multiples:

decile band of households	households					
	self-employed persons			employees		
	G	N	N/G	G	N	N/G
first	39,043	37,534	0.96	51,588	45,400	0.88
tenth	448,877	344,113	0.77	320,018	237,699	0.74
10/1	11.5	9.2		6.2	5.2	

G: gross financial incomes; N: net incomes per person in the household

It is confirmed that the incomes of the households of self-employed persons are fundamentally and directly dependent on market position and are not subject to any protective mechanisms; their income bracket is much wider and the lower income branch is lower than in the case of the incomes of employees' households, but in the upper bands incomes are substantially higher. The lower aggregate tax burden is also evident.

- b) This is further confirmation of the tendency whereby the lower the total number of persons in the household and the greater the proportion of gainfully active persons in the total number, the higher the income level.

decile band of households	self-employed persons			employees		
	T	E	T/E	T	E	T/E
first	3.88	1.34	0.35	3.93	1.29	0.33
tenth	2.06	1.61	0.78	1.86	1.62	0.87
average	3.10	1.72	0.55	2.82	1.66	0.59

T: total average number of persons living in households in the particular decile band; E: number of employees (gainfully active persons) in households

These interactions between income level and demographic factors are a significant impulse behind the adverse population development found at the root of further structured socio-economic contexts (strains in the financing of family policy, the pension system etc.).

- c) The size of per capita incomes in a household is highly dependent:

- on the size of municipality: the bigger the population of the municipality the self-employed person (at the head of the household) operates in, the higher the income standard of the self-employed person's household;
- on the self-employed person's education: university-educated self-employed persons attain higher household incomes; it is much more probable that lower incomes are attained by self-employed persons with basic education or vocational training; there is a close correlation between the nature of the employment and the standard of education; self-employed persons carrying on professions in the top three ISCO classes attain high earnings.

A lower intensity of the per capita income level in the household of a self-employed person is found to correlate to age and also to whether the self-employed persons work on their own or with employees. With the increasing age of the self-employed person at the head of a household income grows slightly; but even younger self-employed persons often achieve a high per capita income level in the household. Having employees enables the self-employed to avoid low incomes, but need not categorically result in high per capita incomes in a household.

Regarding the incomes of self-employed persons, the field survey concerning the social and economic status of the self-employed, conducted by RILSA in 2006, provides findings related to the attitudes to the material situation of self-employed persons and their households. Concisely, these findings about respondents' attitudes to the income position of the self-employed can be summarised as follows:

- a) The respondents' statements above all confirm the considerable variety of sources of incomes in the households of the self-employed found by analysis of CzSO information. Less than half the self-employed respondents (46%) only state entrepreneurial incomes; 35% mention a combination with incomes from dependent work (freelancers stated a substantial proportion of this combination); and 19% mention a combination with social or capital incomes (significant among older independent farmers).
- b) The vast majority of respondents rate their household's income/financial situation (in 2006) as very good to excellent; they are not in need. Almost a fifth of households (of both self-employed persons whose entrepreneurial income is their primary income and those for whom it is a secondary income) do not need to limit their consumption expenditure in any way, and for a further approximately 60% of households their income, when managed prudently, covers everything they need. No self-employed person stated that his household had found itself in an income situation where occasional loans or systematic external help from acquaintances or public funds are required to cover ordinary consumption expenditure.

A positive assessment of the conditions for covering households' consumption expenditure out of disposable incomes is the norm in all groups of micro-entrepreneurs, and differences only exist in the proportions between problem-free positions (the sum of answers "not limited in any way" and "income covers everything but we have to manage our finances") and problem positions (the sum of all other answers; "occasional loans" and "external help" were not declared by a single respondent):

Table 28 Coverage of consumption expenditure by disposable incomes (%)

	without difficulty	with difficulty
self-employed with primary income	80	20
with secondary income	77	23
independent farmers	65	35
tradesmen	80	20
freelancers	90	10

Source: Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic in 2006. Prague: RILSA 2007. ISBN 978-80-87007-85-3, p. 66-71, RILSA calculation

Despite the methodological differences, the ascertained proportions essentially tally with the outputs of the CzSO survey in 2006¹²⁹, which confirm the findings of the high incidence of self-employed persons whose households have no difficulty satisfying their needs, including non-essential needs.

8.2 Working and living conditions of the self-employed – basic contexts

Among the self-employed, working conditions (working time and relaxation time, work on holidays etc.) and to a considerable extent overall living conditions – which are fundamentally linked to working conditions – are formed on the basis of the personal decision-making of the individual entrepreneurs. The fundamental motivation for having one's own business – decision-making autonomy, creativity, high degree of satisfaction – have a strong influence here. The self-employed have no sense of work alienation – common among employees – and business activities merge with personal life. This is indicated by the fact, for example, that the majority of the 2006 self-employment field survey respondents expressed the opinion that they make use of their personal resources and property in their business¹³⁰.

In a subjective assessment¹³¹ of the overall living and working conditions of the self-employed compared to employees, the influences of the time-consuming workload of entrepreneurial activity and also the negative impacts on personal and family life were strongly accentuated. This led a considerable proportion of respondents to rate the overall conditions of employees higher than those of entrepreneurs; just 35% of them thought the entrepreneur's position was better and roughly 40% regarded the employee's position as better¹³².

Independent farmers were particularly negative in their assessment of their position (just less than one-fifth rates entrepreneurs' position as better and almost half prefer the position of employees); by contrast, freelancers and the similar group of white-collar entrepreneurs rated the overall conditions of the work and life of entrepreneurs positively (ratios of 46:20 and 53:22 respectively).¹³³

To sum up, it is fair to say that the considerably negative assessment of the overall working and living conditions of entrepreneurs compared with those of employees is a significant departure from the categorically positive intellectual motivations for pursuing independent gainful activity. This contradiction merits systematic analysis.

¹²⁹ CzSO: Incomes and Living Conditions of Households in the Czech Republic in 2006, Prague: CzSO 2007. Code: 30n2-06

¹³⁰ This is a fundamental difference from the way working conditions are shaped in employees' labour-law relations. These are determined by the labour legislation, by agreement between the employer and employees (trade unions), or are stipulated unilaterally by the employer (and his decision is accepted by the employee).

¹³¹ Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic 2006. Analysis of results. Prague: RILSA, 2007. ISBN 978-80-87007-85-3

¹³² Roughly half of the remaining 25% of respondents regard the working and living conditions of both groups as approximately the same and the remainder did not have a clear-cut opinion.

¹³³ These assessments are based on the attitudes of self-employed persons whose enterprise income is their primary income. The attitudes of those for whom enterprise is a secondary gainful activity are not significantly different, however.

Working time of the self-employed

Working time, and its total duration and distribution during the day, week and year, is a fundamental aspect of the working conditions of the employed and self-employed alike; it combines the productive use of time (both extensive and intensive) with living conditions (extent of free time, uninterrupted time-off/leave etc.).

Older sources¹³⁴ state that it is very difficult to determine the extent of working time of self-employed persons and the large differentiation and mutability over time make the ascertained values no more than a guideline.

All the available sources of information characterising the situation in the Czech Republic have registered that the amount of time spent on entrepreneurial activity by the self-employed is on average greater than the number of hours worked by employees.

The national averages for the number of hours worked per self-employed person and per employee in selected years between 1995 and 2006 can be deduced from the national accounts data on the workforce (employment)¹³⁵. Throughout the entire period, the number of hours worked by the self-employed was roughly 20% to 30% more (i.e. approx. 30 to 50 hours more a month) than the number of hours worked by employees. During that period, the number of hours worked by the self-employed fell slightly (211 hours a month in 1995, 193 hours a month in 2006).

Table 29 Numbers of persons and hours worked by self-employed persons and employees in 1995, 2000 and 2006

indicator	self-employed			employee		
	1995	2000	2003	1995	2000	2003
number of persons (thousands)	712.7	857.4	924.9	4,435.5	4,083.0	4 147.3
hours worked (million)	1,803.9	2,062.6	2,138.2	8,581.5	8,094.8	7,817.2
hours worked/person						
per year	2,531	2,406	2,312	1,926	2,008	1,885
měsíčně ¹	211	200	193	161	167	157
ratio of self-employed : employee	1.31	1.20	1.23	-	-	-

Source: CzSO: GDP and National Accounts, available at (<http://dw.dzso.cz/pls/rocenka/rocenka.presmsocas>), tables: M000132a Employees (persons), M00132c Employees (hours worked), M000133a Self-employed (persons), M00133c Self-employed (hours worked); accessed on 15.7.2008; RILSA calculations

Comments and explanations: 1) rounded up to whole hours

The Czech Statistical Office provides similar information in its representative labour force surveys According to the surveys^{136,137}, the average number of hours

¹³⁴ ILO: The Promotion of Self-employment, ILO, Geneva 1990

¹³⁵ CzSO: GDP and National Accounts, available at <http://dw.dzso.cz/pls/rocenka/rocenka.presmsocas>, Table M000130 Population and Employment (Total Employment, Domestic Concept).

¹³⁶ CzSO: Employment and Unemployment According to the Results of the Labour Force Survey – annual averages for 2006. Prague 2007. Code: 3115-07

¹³⁷ CzSO: Employment and Unemployment According to the Results of the Labour Force Survey – annual averages for 2007. Prague 2008. Code: 3115-08

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worked per week by entrepreneurs was 50.4 in 2006 and 50.2 in 2007; that was approx. 18% more than employees (42.7 in both years¹³⁸).

A 2003 analysis by the National Training Fund¹³⁹ states: "People who carry on a business spend substantially more time at work than employees. That is mainly linked to the fact that work is to a far greater extent a form of self-fulfilment for entrepreneurs and their work gives them greater satisfaction; but it is also because there is a much closer link between how hard they work and their earnings for entrepreneurs than employees.

The statements of respondents in the 2006 self-employment field survey also indicate that self-employed persons work more hours than employees. Almost 85% of entrepreneurs whose enterprise is their primary income source state that they work over 40 hours a week and a third more than 60 hours; roughly three-fifths of self-employed persons devote most or all their days off to their business. Independent farmers report the highest number of hours worked: over 60% declare a working week of over 60 hours and 75% of them work on days off. Freelance entrepreneurs work shorter hours: approx. 85% state that they work up to 60 hours a week and just 40% work on days off.

Table 30 Extent of the working week and work on days off; proportions of answers (%)

question	enterprise is					secondary income	aggregate of respondents' answers
	primary income				total		
	independent farmers	tradesmen	freelancers				
A. working week							
up to 10 hours	-	2	1	2	29	6	
10 to 40 hours	12	14	22	14	46	20	
40 to 60 hours	27	50	61	50	15	44	
more than 60 hours	61	34	16	34	10	30	
B. work on days off							
necessity	35	22	12	22	35	24	
yes, usually	23	33	20	31	15	29	
enjoy it	19	6	8	7	6	6	
don't work	23	39	60	40	44	41	

Source: Baštýř I., Brachtl M. Vlach J.: *Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic in 2006*. Prague: RILSA 2007. ISBN 978-80-87007-85-3, p. 45, RILSA calculation

NB: number of respondents' relevant answers: A: 1,122, B: 124 (out of 1,137)

¹³⁸ Table no. 7 of CzSO sources: Employment and Unemployment According to the Results of the Labour Force Survey – annual averages for 2006. Prague 2007. Code: 3115-07 and CzSO: Employment and Unemployment According to the Results of the Labour Force Survey – annual averages for 2007. Prague 2008. Code: 3115-08

¹³⁹ National Observatory of Employment and Training: Human Resources in the Czech Republic, part III.2, Enterprise, pp. 134 to 147. Prague 2003.

In the journal *Statistika* in 2006 J. Novák brought a different approach to define the workload of self-employed persons.¹⁴⁰ The author states: "...if we work on the basis of the certain surveys' findings regarding the number of hours worked, possibly combined with our own estimates, i.e. roughly 11 hours a day on average in the case of employers/natural persons, 10 hours a day in the case of self-employed persons working on their own account, 1 hour a day in the case of self-employed persons whose enterprise is a secondary activity, 12 hours in the case of foreign nationals with a trade licence and, lastly, 11 hours in the case of the executive directors (or responsible managers) of production cooperatives, we can calculate the "converted" number of self-employed persons per statutory eight-hour working day. Thus converted, the physical number of active self-employed persons in 2004, i.e. 910,700, would represent roughly 1,099,000 persons, which is almost 21% more. Converted to an eight-hour working day, self-employed persons would thus account for roughly 22% of total gainful activity. This figure evidently is a more authentic expression of the level of economic engagement and the weight of the status of self-employment – especially compared to employees – than the simple physical number."

All the above information leads to the finding that the extent of working time, both during the working week and on Saturdays and Sundays, is high among the self-employed; it exceeds the limits laid down by labour legislation for employees and also the actual number of hours worked by employees. The fact that working time and personal (non-working) time often overlap for the self-employed must be taken into account. This combined information simultaneously delimits the subjective statements increasing the extent of the workload; there is good reason to expect that the self-employed currently spend approx. 20% more time on work than employees.

Working time is strongly linked to commuting time.

The field survey shows that the self-employed prefer their place of business to be as quickly accessible as possible in order to limit the time and money costs of enterprise.

A quarter of self-employed persons whose business is their primary source of income work from home; two-thirds reach their place of business (on foot or by vehicle) within 30 minutes, with the most common journey time being up to 15 minutes. More than a third of those whose enterprise is a source of additional earnings work from home; the place of business is over 30 minutes away for just 8% of them. The conditions of workplace accessibility (firm, establishment) are better for the self-employed than for employees (whose average commuting time in the Czech Republic is 33 minutes⁸).

Extent and structure of use of free time

Fairly detailed information about "entrepreneurial leave", i.e. the continuous suspension of the performance of entrepreneurial activity for personal leave (rest, regeneration) is available from the results of the 2006 self-employment field survey. An older Ministry of Industry and Transport study⁹ does not touch on leave for the

¹⁴⁰ Novák, J.: Socio-economic Status of Self-employed Persons in Society, part 1 – Extent of Self-employment and Number of Practitioners. CzSO. Statistika No. 5/2006. ISSN 0322-788x, pp. 386 - 397

⁸ CzSO: Census of Persons, Houses and Flats in 2001; CzSO, Prague, 2005, available at <http://www.czso.cz/sldb/sldb2001.nsf/index>

⁹ ILO: The Promotion of Self-employment, ILO, Geneva 1990

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self-employed and the Czech Statistical Office's research has not focused on this area yet.

The extent (time, frequency, distribution during the year) of "entrepreneurial leave" is entirely dependent on the personal decision of the self-employed individuals; unlike employee leave, it is not regulated legally or institutionally.¹⁰ The self-employed person's decision on leave is an optimal balance struck between their loss of competitive position on the market, revenues (incomes) and the need for rest and regeneration.¹¹

The aggregate answers of the field survey respondents regarding the extent of their leave are shown in the following table. The data reveals that roughly two-fifths of all respondents had (in 2006) leave that came close to employees' minimum entitlement (4 weeks a year); for a further two-fifths it was 1 to 2 weeks a year; roughly a tenth took leave once every two or more years; and the remaining tenth could not afford to take continuous leave at all.

Table 31 Extent of continuous rest time ("entrepreneurial leave") of the self-employed (%)

extent of entrepreneurial leave	enterprise is							self-employed total ¹
	primary income						secondary income	
	independent farmers	tradesmen	freelancers	manual self-employed	non-manual self-employed	primary		
3-4 weeks a year	10	35	57	29	63	36	52	39
1-2 weeks a year	31	43	27	44	30	41	32	40
once every 2 and more years	25	11	6	12	4	11	7	10
no leave	34	11	10	14	3	12	9	11

Source: Baštýř I., Brachtl M. Vlach J.: Field Survey on the Social and Economic Status of Self-employed Persons in the Czech Republic in 2006. Prague: RILSA 2007. ISBN 978-80-87007-85-3, p. 44, RILSA calculation

NB: 1) number of answers: 1,109 (out of 1,137)

There are big differences in the extent of "entrepreneurial leave" between the tested groups of self-employed persons. Just one-fifth of independent farmers had a 3-4 week holiday and a third of them cannot take continuous leave at all. Over half the group take 3-4 weeks leave in the case of freelancers (57%), the overall set of non-manual self-employed persons (63%) and self-employed persons for whom their business is a secondary source of income (52% - for this group, though, this is partly a factor of the employment of most of these persons).

The finding regarding the relatively small extent of continuous leave for a considerable proportion of self-employed persons is linked to the finding regarding their considerable workload; it is part of the unfavourable overall assessment of their

¹⁰ Employees' leave is regulated in detail by Sections 211-223 of Act No. 262/2006, Labour Code. Employees' leave allowance is at least 4 weeks per calendar year.

¹¹ Worries about losing customers (clientele) are often a reason for limiting the extent of continuous non-working leave (holiday), especially among micro-entrepreneurs operating on local markets (finding from interviews conducted by the study authors).

working and living conditions (see the subchapter on the Working and Living Conditions of the Self-employed – Basic Contexts).

The extent of self-employed persons' working time and "entrepreneurial leave" is also linked to the extent and structure of use of free time – these are "reciprocal values".

The summary data of the 2006 self-employment field survey indicate that **almost a third** of respondents (whose business is their primary source of income) expressed the view that they have no time for anything than work activities (the proportion was roughly a quarter for self-employed persons whose business is a secondary source of income). Non-manual self-employed workers and female entrepreneurs state a lower proportion of "fully employed" persons; male and manual self-employed persons state a higher proportion.

All the respondents prefer to spend their free time on family and friends (manual work: 67%, men: 68%, women: 73%; non-manual work: 82%). Culture and recreation are less popular ways to spend free time (the highest incidence comes among non-manual self-employed persons: 60%; the lowest among manual self-employed persons: 39%); another use of free time is to care for one's health, which is preferred by women (53%, men 41%).

8.3 Self-employed persons' and their households' provision for the consequences of adverse events in life

The 2006 field survey also explored the extent to which and how the self-employed are secured against the influences of adverse events in life. This is a serious aspect of the social status of the self-employed, which is linked both to possible business risks and to the fact that the degree of security for the self-employed from public obligatory (statutory) insurance is low (in relative terms compared to employees and in absolute terms of the level of expectable social incomes/benefits). That follows from the low level of insurance contributions paid by the self-employed, which is close to the minimum insurance contribution limits defined by law.

Systems offered commercially by financial institutions and possibly other forms of security should therefore play a substantial role in how the self-employed are secured against risks in life.

The statements made by the field survey respondents show that just less than 60% of self-employed persons feel that they are secured against life risks. The extent of insurance does not correspond to the favourable assessment of the income/expenditure position of the households of the self-employed; that is indicated by the low degree of focus on the longer-term perspective of security. It is a reasonable inference that a significant portion of the self-employed and their households continue to rely on state security ("state paternalism"); this probably also reflects experiences with unreliable commercial systems as far as long-term and life-long guarantees are concerned; the respondents' statements show that roughly just two-fifths have capital life assurance. Supplemental pension insurance, which is a good way to increase the value of savings over the medium term (in view of the

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provided state support) but is not enough to provide long-term security, is used by roughly three-fifths of respondents.¹²

It is reasonable to infer a need for more detailed analyses of all forms of security for the self-employed and their households against risks in life, such as savings, investments in real estate, in capital market products, in items of lasting value (works of art, precious metals etc.), the sale of the firm or part of it (business contacts, clientele), and handing down the firm to younger family members.¹³ A combination of incomes from self-employment and employment may work as a safety net in the households of the self-employed.

¹² However, these findings do not tally with the outputs of the research into public opinion on the Czech pension system conducted by Factum Invenio agency in March 2006 for MoLSA (Factum Invenio, Launch of Regular Research into Public Opinion on the Czech Pension System, Final Report for the Ministry of Labour and Social Affairs of the Czech Republic – project HR140/05, June 2006, available at http://www.mpsv.cz/files/clanky/3065/verejne_mineni.pdf/). The answers of approx. 1,060 respondents, 498 of them self-employed, indicated a high level awareness about security for old age among the self-employed. Roughly three-quarters of self-employed persons declared tax write-offs on the grounds of higher supplemental pension insurance and four-fifths on the grounds of capital life assurance. In view of the more extensive and stratified basic sample of the self-employment field survey (1,137 respondents), the authors are inclined to accept its outputs. The conclusions of both surveys and their interpretation should be verified in the coming years.

¹³ The aforementioned weakened ties to the tradition of family business and freedom of choice of professional career mean that it would be wrong to assume any significant financial gain or social security to be derived from handing down a firm within the family. The growing competition on the market also reduces the potential revenue from selling the firm.

9. Summary, conclusions

The study summarizes the outputs gained from the project entitled Socio-economic Status of Self-employed Persons in Society, no. 1J 047/05-DPI, which was conducted in the years 2005-2008 by the Research Institute for Labour and Social Affairs under the Modern Society and Its Metamorphoses programme organised by the Ministry of Labour and Social Affairs. The outputs dealt with the developmental contexts and systemic assessment of the economic situation of self-the employed, their status on the market in the goods, services and labour segments, their working and living conditions and their place in the social structure of society since 1989. The basis for this was analyses of statistical data and sociological surveys.

After the communist takeover in 1948 Czechoslovakia began to obliterate the private sector. There was no relaxation, even a partial relaxation of the kind that existed in other eastern bloc states, after the death of Stalin in 1953, and the state maintained practically total control over the means of production up till 1990. The response of the population in the new conditions of the transformation process elevated the Czech Republic to the forefront of EU countries in terms of the scale of self-employment. This development was supported by the state's economic policy, which promoted forms of micro-enterprise (through restitution of property, small privatisation, benevolent taxation, credit policy), and by the demand on the market. The products and services of small tradesmen and entrepreneurs filled gaps in the market that had come to the surface after the abolition of the command economy.

In every market-based national economy self-employment (persons engaged in independent gainful activity) forms a substantial segment of economic activity and a major social group.

A characteristic economic and labour feature of the self-employed is the personal, independent and comprehensive performance of business activity in their own enterprise, in their own name and at their own responsibility. Given the limited nature of the capital resources of the vast majority of individuals, the self-employment sector (hereinafter the "sector") focuses on fields that are less investment-intensive and offer a quick return. The sector's fundamental features are, on the one hand, its usually weaker competitive position compared to large corporations and, on the other hand, its high flexibility, where dissolved entities are replaced by new ones and the sector penetrates other areas of economic life. The principal market segment of self-employment in developed economies is services, which have replaced the traditional key position of the primary sector of the economy.

According to various calculations, there are roughly 800,000 to 900,000 economically active entrepreneurs in the Czech Republic, approx. 700,000 to 800,000 of whom work under a trade licence, approx. 40,000 in agriculture and approx. 60,000 to 70,000 as freelancers. Roughly 85% have no employees. The remaining 15% employ roughly a tenth of all employees in the Czech economy, usually in micro-enterprises (however, their earnings level is around two-thirds of the national average – labour market analysts assume that some wages are undeclared). If actual self-employed persons account for roughly one-fifth of total employment in the Czech Republic, the sector including its employees represents roughly a quarter.

Although the sector's productivity is roughly half the national average, it provides goods and services that are not particularly lucrative or are uneconomical for

larger concerns and significantly complements and individualises the satisfaction of effective demand. The sector accounts for around 12% of GDP.

In the 1995-2007 period the share of total employment accounted for by self-employment displayed a slight downward tendency in EU countries. Besides the Czech Republic and Slovakia, the "new" EU countries also fell in with this trend. The tax advantages provided to the self-employed in the Czech Republic reduce the price of their work and protect them from competitive pressures on the market. In the 1990s they stimulated the growth in private enterprise. These advantages take the form of a large difference between the tax burden on corporations and the self-employed, based on the low taxation of the labour of the self-employed. With Slovakia and Greece, the Czech Republic has the lowest unit tax costs of self-employed persons in the EU and the lowest ratio to corporations' tax costs (almost 50%; in other countries it ranges from 62% in Spain to 92% in Denmark).

The Czech Republic differs from the standard structure in EU-15 countries in the very low level of self-employment in agriculture and the high level in industry and construction. Self-employment's large share proportion of total employment in the Czech Republic (roughly one-fifth in 2005-2007) and the disproportion in their structure compared to other member countries are signs that the restructuring of the Czech economy and employment has not finished yet). The stagnation in the number of self-employed persons in recent years will in the future evidently make the Czech Republic join the ranks of countries where the structural changes taking place in the self-employment sector will lead to a fall in self-employment's share of total employment.

In the first years of transformation after 1990, the dynamically growing self-employment sector helped cope with the consequences of the rapid structural changes taking place in the economy. It absorbed a considerable portion of the labour laid off from agriculture and industry. It thus contributed substantially to mitigating the social impacts of the emerging market economy and to the labour market's flexibility. Economic reasons for the switch to self-employment were not decisive. Besides the favourable economic conditions, the sector's rapid development was motivated by intellectual factors such as self-fulfilment, decision-making autonomy and the creative nature of enterprise.

The quantitative development of self-employment slowed down after the year 2000. Even financial assistance out of public budgets is insufficient to improve the low capital resources of the population enough to enable them to start an independent business. Additionally, worse working conditions compared to those in medium-sized and large firms deter people from starting their own business. The number of self-employed persons has stabilised and does not have a pronounced influence on the labour market situation. The subjective and objective preconditions and the financial reserves of workers potentially willing to switch to self-employment were exhausted during the 1990s. If the sector did much to eliminate the social impacts of transformation in the 1990s, after 2000 it became a factor in the labour market's rigidity in view of the need for technical professions (manual and non-manual) in corporations with higher work productivity.

In all EU countries the self-employed operate under a special regime relative to public budgets. This ranges from fiscal policy and blanket appropriations to the social security of individual economic sectors (generally the primary sector) to targeted support for small and medium-sized enterprise. EU fiscal policy releases the self-employed from corporation tax. The Czech tax system offers broad room for tax optimisation and for the self-employed to declare low incomes and high costs.

The activity of the self-employed is two-sided in the vast majority of cases (entrepreneur/labour) Their behaviour in these two planes is not balanced. In many cases there is a strong tendency towards labour disguised as enterprise, to false self-employment (also known as work under a trade licence and work under the "Svarc system"). This phenomenon is not typically Czech. The problem applies to both manual and non-manual professions. This phenomenon is most widespread in construction and in services. Estimates put the number of these "pseudo-entrepreneurs" in the Czech Republic at as many as 100,000.

The analysis of the social situation of the self-employed is based on the mixed income described in national accounts as the statistically indivisible aggregate of enterprise income (profit) and the "entrepreneurial wage" (i.e. labour income intended for the personal consumption of the self-employed person and his family). In the period from 1995 to 2007, the rate of growth of mixed income per self-employed person in the Czech Republic was much lower than the rate of growth of average earnings. However, its average level remains more than double the average earnings of employees.

The division of mixed income into the entrepreneurial and consumption components is done by each entrepreneur individually based on his subjective choice. The actual borders between the entrepreneurial and consumption usage of mixed income are considerably indistinct. There are areas in which both forms of use of incomes overlap (e.g. use of real estate, modes of transport etc.). According to CzSo data (Microcensus 2002, Incomes and Living Conditions of Households in the Czech Republic, Family Accounts), the level of gross "entrepreneurial wages" exceeds average employee earnings by roughly a quarter.

A substantial proportion of the households of self-employed persons – and of self-employed persons themselves – have incomes from employment (i.e. combine enterprise and dependent work to varying degrees). The characteristics of the households of the self-employed display greater income differentiation than employees' households. According to CzSO outputs (EU-SILC module – Incomes and Living Conditions of Households in the Czech Republic) and a field survey conducted in 2006 by RILSA, Factum Invenio and the Chamber of Commerce of the Czech Republic (hereinafter "2006 field survey"), the households of self-employed persons have no difficulty covering their expenditure. The income level of the vast majority of self-employed persons also allows them to satisfy non-essential needs without difficulty.

Compared with employees, the self-employed attain good incomes at the cost of worse conditions. Their working week is roughly 25% longer than employees'. Work on Saturdays, Sundays and state holidays is not unusual. The problem of longer hours is concentrated in manual activities, which make up approx. four-fifths of the professional structure. Non-manual self-employed persons incline towards a standard working week. Similar proportions can be found in the taking of leave. However, the overlapping of working and personal (family) life makes it difficult to know exactly how much time is spent on work.

The statements of the 2006 field survey respondents reveal that just less than two-thirds of self-employed persons feel themselves to be secured against life risks. This proportion does not correspond to the subjectively positive income/expenditure position of their households (as in the 2006 field survey and the module of Incomes and Expenditure of Households in the Czech Republic, which do not signal any problems with financing non-essential needs). A significant number of self-employed persons and their households continue to rely on state security ("state paternalism").

The bottleneck pace of development experienced by the self-employment sector in the past 20 years, when the proportion of total employment accounted for by the self-employed increased from zero to one-fifth, has brought a number of disproportions and problem areas and unresolved problems.

The broad room for tax optimisation stemming from the considerable leeway in documenting and declaring incomes and costs is a significant help for the self-employment sector. Self-employed persons' lower tax bases and assessment bases for social and health insurance contrast with the national accounts data on mixed income and with income statistics. According to these sources, the average tax and assessment base should be around the same level as for employees. However, the payment of income tax and insurance contributions is tens of billions of koruna less than those of employees – in 2007 the difference was estimated at CZK 70 billion, for example. Under the solidarity principle in social and health insurance employees and medium-sized and large corporations thus contribute to the self-employed. Attempts to rapidly even out this disproportion have foundered on the relatively stabilised social structure of society that has existed since the mid 1990s. A one-off increase in the low tax burden of the vast majority of self-employment persons carries the risk that many of their firms would close, leading to an increase in expenditure on social security.

A benevolent tax environment does not jeopardise self-employment (the broad room provided for tax optimisation for the enterprises of the self-employed help counter the the adverse impact of competition). The 2006 field survey showed that just one-twentieth of self-employed persons were planning to downscale their business. From the point of view of the economic boom and market developments, the roughly one-tenth proportion of self-employed persons who did not know how they would proceed in future would appear to be at risk. What is alarming, though, is that two-thirds of self-employed persons were only planning to conserve their existing scale of activities, i.e. were not considering expanding. This group would appear to be at risk in the future given the improving work productivity in corporations. Just one-quarter of the self-employed envisaged expanding their business.

These figures apply for farmers, tradesmen and freelancers regardless of the size of firm and market focus. This gives rise to the question of the reasons why the self-employed have adopted this ill-considered attitude. Possible reasons may be the insufficient services for the self-employed (e.g. banking and consulting services) and individualism. Self-employed Czechs display no willingness to associate in professional, trade or cooperative organisations and institutions that would help them navigate markets and develop their activities. Just one-third of self-employed persons are members of such organisations. The situation is different for freelancers, who are often required to join professional chambers. Under these circumstances the sector lacks a uniform representative structure that would represent both its interests, structured at least according to fields of business, and the state's interests. The atomisation of the sector prevents the state from effectively influencing and supporting the effective development of self-employment (e.g. the Bismarck model applied in Germany, in the Austro-Hungarian Empire and in the First Republic of interwar Czechoslovakia).

Their lack of interest in further training or taking part in the process of continual self-education represents another constraint on business expansion. The self-employed and their employees, if they have them, are gradually becoming de-qualified in respect of the market's needs. The problem affects manual professions, which account for roughly four-fifths of the sector's structure. White-collar self-employed persons, especially freelancers, maintain and improve their qualifications.

The lack of focus on business expansion, individualism (unwillingness to pool capital), underestimating the importance of training and an underdeveloped (ineffective) network of services for micro-enterprises result in a low degree of use of innovations (in the case of this particular sector small-scale innovations of the lowest order). This would appear to be a risk factor in view of the high proportion of self-employment found in industry and construction.

These critical features are found in concentrated form in false self-employment. High rates of false self-employment can be observed in the segment of small and medium-sized enterprises, especially in project activities to deadlines (e.g. the construction industry).

As a whole, the self-employment sector could be economically more effective. It has a number of deal with a number of obstacles, however:

- individualism, which hinders cooperation between the self-employed (expanding economic alliances, e.g. clusters, networks, buying and selling organisations etc.);
- low use of innovations;
- focus on cheap labour;
- the gradual de-qualification of micro-entrepreneurs and their employees in view of the small scale of systematic lifelong professional training; however, this problem does not apply to white-collar professions, which do have lifelong education systems, in most cases required by the law.

Despite the wide range of research in the economic and social area, a number of problems remain unresolved. The principal point is the shift in the focus of state support for the sector from development to stabilisation. While respecting self-employed persons' motive of self-fulfilment, the key focuses of support in this process include:

- objective taxation of self-employed persons in the Czech Republic (income tax, social and health insurance), which would fulfil the motivation, allocation and social function, without the need for corporations and employees to provide public budgets with additional financing, or possibly considering separating social and health insurance for the self-employed from the existing security systems;
- a network of services for the self-employment sector (micro-enterprises) to address their low level of capital resources;
- a system of lifelong learning for the self-employed and their employees;
- effective support for self-regulatory functions in the self-employment sector;
- measures to eliminate false self-employment.

The ongoing technical and technological changes leading to increasing work productivity and falling prices will have an effect on the self-employment sector. Opened questions are Lifestyle changes. It is hard to foresee what impact these anticipated changes will have. We estimate that the number of farmers will continue to fall (the group of farmers displays a higher age, and there is little replacement in the group). Craft-related professions will evidently continue to consolidate, with a slight downward tendency. Further expansion can be expected in services. Further growth is also likely among freelance occupations.

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