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***Czech Social Reform/Non-reform:  
Routes, Actors and Problems***

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# **Czech Social Reform/Non-reform: Routes, Actors and Problems**

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## **Abstract**

In this contribution, the author first considers the characteristics of the Czechoslovak communist welfare state and its theoretical alternatives. Throughout the reform process, dependency on both corporatist and socialist regimes won out, while residualist efforts were promoted in the beginning, but were later held back. The author then considers the possible actors involved in social reforms. In this respect, when proceeding from a general to a more concrete level, thought should first be devoted to the social classes and their ideologies, and second to political parties and their leaders. The author goes on to summarise the particular problems and traps in individual sections of the Czech social system. While no objection to decent standards of social protection and health care could be raised, the poor efficiency of their achievement should evoke concern. The author concludes by reflecting on the possible specificities of Czech social reform in comparison with the other countries undergoing reform and the EU. The current lethargy of the Czech welfare system corresponds to a “frozen edifice”, just as in most Western countries. However, such stagnation is apparently acceptable to both the politicians (who mask it in reformist rhetoric) and the population (which learned to master taking advantage of the generous welfare state) and thus is basically sustainable in the long run.

**Key words:** social policy, social reforms, Czech Republic

**JEL Classification:** H5, I3, P26

*Motto:*

*In a modern Czech fairy tale, the girl who wanted to marry the Prince, should arrive by driving/not driving, should be dressed/not dressed, and should bring a gift/non-gift. The winner thus came driving a scooter, dressed in a net and bringing a sparrow in a box (Jan Werich: On the Queen Scooter I).*

## **Introduction**

In the period immediately after 1989, there was no explicit idea as to the interplay between the economic and social spheres in the Czech Republic. The list of urgent questions – among them, introducing democratic legislation, launching privatisation and market liberalisation – did not include social policy. An additional reason for this was that social problems were not as acute in former Czechoslovakia as they were in other Central-East European (CEE) countries. However, no one ever questioned the importance of the social dimension of the transformation. The population ranked it second only to personal security. But the social democratic tradition of pre-war Czechoslovakia and the proximity of “Social Europe” were assumed sufficient to prevent unrestrained capitalism from surfacing.

The upcoming change of policies was not backed by any theoretical debate. This was impeded by several factors. After swimming in Marxist-Leninist clichés for years, academics lacked the appropriate conceptual frameworks. Furthermore, any thorough discussion of social policy was suspiciously socialist in its connotation.<sup>1</sup> Thus, the institutional change and “political economy” of social transformation was researched by foreign rather than local students.<sup>2</sup> Only the effects of social protection and state redistribution on social inequality and public perceptions of the reform were studied (Vecernik, 1993 and 1996). A more intensive study of social policy came much later, but remained largely descriptive (e.g. Potucek, 1999; Sirovatka, 2000).

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<sup>1</sup> As Johan De Deken (1992, 21) clearly pointed out: “The Leninist regime effectively discredited anything that makes even the most moderate allusion to socialism”. Similarly, Zsuzsa Ferge (1994) showed that, because of the past, social policy is the weakest aspect of socialist party activity in Hungary.

<sup>2</sup> Here special emphasis should be put on the pioneering historical work of Johan De Deken (1995) and Mitchell Orenstein and his colleagues (Cook, Orenstein and Rueschemeyer, 1999), and also the work of Ulrike Götting (1998) and Katharina Müller (1999), which are more focused on the post-1989 transition in the social area. A great effort in describing the systemic change was made by the editors Nelson, Tilly and Walker (1997) and Elster, Offe and Preuss (1998).

However, it is not the lack of academic debate but rather the lack of social actors that really matters. The formation of actors and their explicit agendas is a slow process. Under communism, social homogeneity and political unanimity were declared, but behind the scenes society was parochialised and peoples' interests atomised. Social policy itself was considered more a technical and financial matter rather than one of political decision-making. After 1989, previously repressed interests appeared and new ones gradually emerged. In the new circumstances, all the potential actors bore some piece of the legacy of the communist past, whether as a burden (like the trade unions, considered the direct descendents of the "red" unions that served as leverage in the Communist Party), or as a way of thinking (like "liberal" economists, embracing neoclassical economics as a cookbook, similarly to the way in which the Marxist political economy had been treated before).

Emergency measures and missing strategies at the beginning of the transformation were replaced by more systemic policies in the mid-1990s. The main action was imposed from above, by the will of individual politicians, rather than generated from below by a variety of interests. With regard to the general framework, much confusion could be observed between the drive towards a "market-without-adjectives" model, corresponding to Anglo-Saxon-type capitalism, and the European social system, which could be characterised by political consensus, economic cooperation and mediating institutions, all of them aiming to achieve social inclusion (Aust, Leitner and Lessenich, 2000).

In aiming to examine the Czech social reform "in general", we must bear in mind several limitations. The main problem is that it is difficult to perceive the driving forces behind a historical process immediately and from the inside. Such an analysis requires a time lapse in order to collect the critical mass of information and to recognize the (originally blurred) interest structure behind it. A conceptual framework of observation is also needed - so far this has been transferred from the West rather than developed in the transition countries themselves. In each step, one must be aware of the mismatch between political rhetoric and real acts.

In this contribution, first the characteristics of the Czechoslovak communist welfare state and its theoretical alternatives are considered. Second, an outline is made of the phasing of social

reforms, tracing their main steps and the backgrounds to them. Third, a summary is made of the particular problems and traps of individual sections of the Czech social system. Finally, the paper concludes with reflections on the possible specificities of Czech social reform in comparison with other countries undergoing reform and the EU.

### ***1. From communist paternalism to where?***

The social policy of post-1948 Czechoslovakia had two different faces. In accordance with communist ideology, it proclaimed itself to be universal, protective and generous. When the Constitution of 1960 pronounced Czechoslovakia a “socialist” state, almost everybody had the right to free health care and universal pension benefits and family allowances. Of course, these were all related to employment status, and thus they exclusively encompassed members of the working class and the “socialist intelligentsia” and, later, also members of the class of cooperative farmers. In agreement with communist ideology, Czechoslovakia was indeed a state without real unemployment, and without any visibly wide social disparities or extreme poverty.

We should not lose sight of the road that led to such a state of affairs. A comprehensive social protection system covering the majority of the non-farming population had already been built in pre-war Czechoslovakia.<sup>3</sup> Before the communist putsch in 1948, two-thirds of the working-age population had old-age security and illness insurance. After the communists seized power, the assets of all existing insurance funds were confiscated by the state. The state also confiscated private firms, houses, savings and assets that were intended to cover old-age provisions for the self-employed, entrepreneurs and farmers. Despite the impoverishment of the people in this way, the state took little responsibility for the protection of these “bourgeois elements”, granting them pensions at levels far below any imaginable subsistence minimum.

Therefore, not only the social protection of the entire population and the income support of families with children, but also class war and communist ideology were built into the allegedly universal and generous social protection system. Not only did the state assist people, it also

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<sup>3</sup> For instance, the two pillars of pre-war Czechoslovak old-age security were the *White-Collar Employees' Pension Act*, in effect since 1906, and the *Manual Workers' Social Insurance Act*, in effect since 1924.

deprived them in advance of all their personal and family resources for surviving in their old age. However, the individual measures in the social field had more than just the explicit repressive functions against the selected social categories of “class enemy”. In particular they had implicit controlling functions affecting the entire population. The pension scheme and family benefits were not just the tools of social protection for citizens; they also served as a tool for life-long totalitarian control over them.

Totalitarian control over the populace is an important explanatory key to the social policy under the communist system and to the universality of social generosity. Work was not just a right but also primarily a duty. Though the term “insurance” was formally kept, all social provisions were derived from a person’s status as a state employee. Consequently, the administration of employment served as a tool of domination over the citizens in their work and family life. People displaying insufficient loyalty to the regime were sentenced by the Communist Party to perform the least desirable jobs and thus eventually received the lowest pension benefits.<sup>4</sup> The total opacity of social and pension benefit financing served as a manifestation of the claim that the state bestowed generous gifts upon its citizens, from the paternalistic point of view of the “beneficent ruler”.

However, the system was not necessarily interpreted as a mechanism of control. People also perceived it as a continuation of social democratic traditions, an extension of pre-war social policy and an expression of the intrinsic “classlessness” of Czech society. Not only in the broadly promulgated ideology (which advertised full coverage of the population with employment and related benefits as one of its main social advantages), but also in reality, state paternalism was beneficial to a huge part of the population. The sections that were first to gain from the new system were the original supporters of the Communist Party, primarily the lower strata of the working class. During the long period of communist rule, the other parts of the population also came to accept and learned how to ease their lives under paternalistic state care.

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<sup>4</sup> Unfortunately, no serious attempt was in fact made after 1989 to upgrade low pension benefits of the former “enemies of the regime”, despite the evident unjustness in their continuity.

Of course the paternalistic expectations the population had become accustomed to continued after 1989. Moreover, the “road back to Europe” was associated with the view of a generally higher standard of living, expected to arrive soon, and a willingness to “tighten one’s belt” was perceived rather as a declaration. The old social protection system was maintained with only slight modifications, and it was merely rephrased in the new and rather confusing “safety-net” vocabulary. Recommendations from the World Bank and other international experts were confined to the technical level of providing efficient tools for income maintenance and employment promotion services. In the comprehensive World Bank publication, all general terms such as the “welfare state” or “social regime” were avoided (Barr, 1994).

Theoretically speaking, in accordance with Gösta Esping-Andersen’s (1990) well-known typology, one of three possible variants of the welfare state could have been implemented: 1) The universalist or social-democratic type, which closely resembles the socialist type in that people are treated first and foremost as workers and the state is assigned the responsibility of ensuring full employment. Here the state comes to the fore as the “employer of the first resort”; 2) The institutional or corporatist welfare state in which social security serves the maintenance and reproduction of status and income differences. The state is not so much concerned with employment as with the family, and arrives on the scene as the “compensator of the first resort”; 3) The liberal or residual welfare regime, in which the state relies mostly upon the market and acts as the “compensator of the last resort”.

Actual national systems are, however, more complex than any generalised typology, because they usually combine elements of various regimes and differ in individual fields (pension, family support, poverty alleviation, health care). It is difficult to imagine that it would be possible to establish a welfare system by design, according to a blueprint or a theoretical concept. Even during the “revolutionary” phase of transformation, national systems were shaped by historical traditions, path dependent on established institutions, burdened by people’s expectations and constrained by financial resources. The institutional “path dependence” (Stark, 1992) is especially strong in the pension system, as the liabilities that were already established should be met.

In terms of the choice of alternatives, Czech society was likely at a certain crossroads at the outset of reform. Liberal ideas and the “market-without-adjectives” concept of governmental economists, under the charismatic leadership of Vaclav Klaus, pushed the liberal welfare state forward, taking the UK as a model. In the view of the population, a social-democratic and largely redistributive, Scandinavian-type of welfare state looked to be the best option, as it maintained the “good side” of what emerged under the communist regime. Traditionally, however, Czech society belongs to the type of corporatist welfare states arising out of Bismarckian Germany. This model was developed in the pre-war Czechoslovak Republic, where the social democratic governments nurtured a relatively generous social policy. Throughout the reform process, dependency on both corporatist and socialist regimes won out, while residualist efforts were promoted in the beginning, but were later held back.

## ***2. Reforms searching for their players***

Once the economic system began to change, several emergency social measures were introduced. The first phase occurred under the rule of the socio-liberal Civic Forum (until mid-1992) and was marked by the continuity of former benefits and quite generous arrangements. M. Castle-Kanerova (1992:115) commented on this aptly: “The current situation is such that social policy remains, despite the arguments to the contrary, a system of paternalistic and patriarchal proposals”. When the mid-1992 elections shifted the political leadership to the “liberal” Civic Democratic Party (ODS) headed by Vaclav Klaus, the second phase began, in which a move away from the paternalistic state towards the responsibility of individuals was declared. Under the common umbrella of a less expensive and more efficient welfare regime, a far-reaching reform process was announced in the following directions:

1) With regard to state pensions, a weakening of the earnings-relation and the encouragement of people to join private pension schemes; 2) With regard to child and other family-related benefits, the introduction of an income test and/or the introduction of a ceiling on benefits; 3) With regard to social assistance, the introduction of better targeting through strict means-testing; 4) With regard to the health care system, a strengthening of the insurance principle and individual

responsibility; 5) And in general, deriving social security from citizenship rights alone by preventing employers and professional associations from sharing social guarantees.

The transformation of the social protection system was developed in three separate fields. Social insurance was designed to accommodate predictable situations such as unemployment, illness and old age. State social support was newly established to set various benefits aimed at addressing the situation of financial need associated with maternity, child rearing and disability. Social assistance was intended to address individual situations of material need and was to be administered by local authorities. Although much effort was invested especially in tightening pension entitlements and residualising the transfer income, path dependency and adverse political forces (even inside of the coalition) managed to dilute the process to a considerable degree.

Since the process of implementing the main steps was completed around the mid-1990s, not much has been going on in the social sphere. However, there continues to be an exchange of opinions between those who demand that a second fully-funded pillar of pension insurance be established and those who want more state redistribution within the PAYG system; between those who want to reduce and target more family allowances and those who want to restore them as a universal benefit and even increase them (arguing the decline in fertility); between those who ask to set minimum standards of health care and require patients' extra payments and those who want to keep care without limits, etc. Serving as arenas for this discussion are Parliament, the Tripartite Commission and the media, but there is also a good deal of activity going on behind the scenes in governmental and other lobbies.

In referring to a debate that actually serves to conceal the lack of action, can we really speak here about social actors steering the process at all? And if so, what might their identities and profiles be like?

There are several approaches to classifying social-policy actors in the transformation process. One can certainly distinguish between individual and collective actors, institutional and socio-structural players (like class and social groups or strata), domestic, foreign and international

interest bearers, and, as the case may be, even between manifest and hidden actors. In his systematic analysis of pension reform in Hungary, Poland and Kazakhstan, Mitchell Orenstein (2000) follows George Tsebelis (1995) in distinguishing “proposal actors” and “veto actors”, and interest groups and deliberative forums. Katharina Müller, in her remarkable study comparing the Hungarian and Polish reforms with the Czech non-reform, distinguishes “primary actors”, which are the Ministry of Welfare, the Ministry of Finance and the World Bank, and “secondary actors”, like political parties, trade unions and pensioners’ associations (Müller, 1999).

When proceeding from the general to a more concrete level, thought should first be devoted to social classes and their ideologies, and second to political parties and their leaders. After 1989, with the exception of the remaining loyal Communists, and outside of the Christian Democrats, people rejected any class or party ideology. Later on, opinions seemed to become structured again. In the late 1990s, only a quarter of respondents continued to reject any ideology, and of the remainder, 35 percent adhered to socialism and 40 percent to liberalism/conservatism. Within this latter amalgam, a declining (but still majority) share has come to opt for a traditional, family-oriented Christian doctrine, while an increasing number ascribe to the modern, market-oriented system.

Instead of occupation-based social classes a vertical hierarchy is increasingly being applied by academics and is spreading in public opinion. Following Peter L. Berger’s (1986) assumptions, the crux of the matter is the role of the middle class in advanced societies. The issue is cast in terms of middle-class hegemony or middle-class consensus (Vecernik, 1999; Easterly, 2000). In the first period of the Czech transformation, the middle-class agenda was referred to rather negatively, following the liberal interpretation of redistribution from lower to higher income groups through educational and other services (Goodin and Le Grand, 1987). Since the mid-1990s, positive attitudes have prevailed, implicitly following the argument that in social reform “the middle class matters” (Andries, 1996).

**Table 1 Economic and social opinions of economically active people by social class (%)**

Opinion	Old middle class	New middle class	Routine non-manual	Manual workers	Total
<i>Economic reform:</i>					
Satisfied with the progress of reform	51.9	40.2	37.7	25.4	73.8
State should control the economy	60.9	76.2	81.6	89.7	81.0
<i>Career perspective:</i>					
Occupation has a good outlook	92.5	74.1	77.5	65.7	73.8
Skills are more useful than before	75.5	57.8	57.2	37.4	51.3
<i>Social justice:</i>					
Everybody is responsible for his poverty	54.2	38.4	29.8	25.3	33.1
People get rich in an unfair way	56.8	73.0	83.2	89.5	80.0
<i>State paternalism:</i>					
State should provide jobs	66.2	66.3	75.9	83.4	76.0
State should provide apartments	47.3	57.3	64.4	72.4	64.0
State should control prices	38.6	49.1	55.6	71.2	58.8
<i>Preferred economic system:</i>					
Socialist, like before 1989	1.5	3.7	2.1	11.1	6.3
Social-market	37.1	62.2	68.1	68.0	62.3
Liberal market	61.4	34.1	29.8	20.9	31.4
<i>Pension benefits:</i>					
Revenue financed	24.1	30.7	33.2	47.6	37.7
Financed from pension funds	58.6	58.9	56.8	47.6	53.4
Financed from private insurance	17.3	10.4	10.0	4.9	8.9
<i>Family allowances:</i>					
Universal	37.6	47.6	56.3	58.1	52.6
Means-tested	52.6	43.9	36.3	38.3	41.1
No state benefits	9.8	8.5	7.4	7.4	6.3
<i>State health care:</i>					
Without limits	30.8	45.1	49.7	60.5	50.8
Certain limits	61.7	48.2	45.5	37.2	44.8
Only minimal care	7.5	6.7	4.7	2.3	4.4

Source: *Economic Expectations and Attitudes, 1998.*

As Table 1 shows, opinion data reveal considerable differences among the classes: whereas the inclination towards a liberal regime is overwhelming among the entrepreneurial middle classes, it is declared by only one-fifth of manual workers. The preference for “liberal” solutions in the pension system, child benefits and health care systematically declines as we proceed from the middle to the lower classes. It is not only the differentiation of attitudes but also and especially their dynamism that matters. The middle classes are following the general trend of diminishing

liberal attitudes towards individual responsibility, but are doing so more slowly than other social groups. Moreover, the “old” middle class is doing so more slowly than the “new” middle class. While the self-employed still retain a considerable part of their enthusiasm for reform, professionals and public servants are less content (Vecernik and Mateju eds., 1999).

While the arena of social classes is rather implicit and hidden (and thus can be easily challenged or even denied), political parties represent explicit collective actors. Moving along the hypothetical right-left axis, the following are the main parties in the Czech Republic: *Civic Democratic Party*, the declared conservative stream, and specifically the residual model (following the model of the New Right); *Christian Democrats*, adhering to the so-called social-market doctrine, which “combines market economy and social solidarity” (following the example of Germany and Austria); *Social Democrats*, who are seeking to maintain a universal system and make the benefits more generous, still using compulsory insurance principles and not overlooking the earnings relation (with the Scandinavian model as best); *Communists*, intent on a return to the generous and equalised, universal state system (aiming at “true” socialism, not identical to that of the pre-1990 regime).

However, it is not just current party ideologies but also historical roots that matter. While civic parties have no predecessors,<sup>5</sup> the centrist and leftist parties are directly or indirectly path dependent. However much under constraint, the *Christian Democrats* managed to survive through the communist period as a part of the National Front, which was established as a bundle of “progressive parties” in 1945. Although the *Social Democratic Party* was forcefully united with the Communists in 1948 and ceased to exist independently for 50 years, it can still refer back to its long history and strong position in pre-war Czechoslovakia. The *Communists* have not changed their social doctrine at all, and only restored their pre-war anti-capitalist vocabulary. Moreover, despite the immense decline experienced after 1989, they continue to have the largest membership base, followed by the *Christian Democrats* and the *Social Democrats*. In contrast, civic parties are rather “election” parties, with a small membership base.

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<sup>5</sup> In fact, the civic parties were quite weak in pre-war Czechoslovakia. In comparison with the *Agrarian Party*, the *Social Democrats* and the *National Socialists*, parties such as the *National Democrats* and the *Czechoslovak Middle-Class Party* managed to draw very few members and votes.

There is a certain mismatch between the levels of social reform. While on the general level of “big reform” the *Civic Democrats* act as a “proposal actor”, submitting advice throughout the process of reorganising taxes and benefits (flat tax and social benefits), and the *Social Democrats* behave as “veto actors”, on the concrete level of “small reform” the situation is reversed: the *Social Democrats* propose a variety of minor economic measures and more control over spending, while the *Civic Democrats* try to block their efforts, citing as arguments the marginal and short-term character of the measures which even further strengthen the burden of employers. While “big reform” remains unelaborated, the “small reform” package of laws was passed by Parliament in 2003.

### ***3. Actors dividing their claims***

Instead of energetic change, much of the former network and institutional structure was maintained in Czech society. Behind the facade of a liberal policy, actors strong previously were supported (like big companies and semi-state banks) to the detriment of new firms and equal chances for citizens. Paternalistic employment (“labour hoarding” in large firms), rent regulation (favouring citizens who had obtained a state apartment under communism), and generous social benefits nourished the expectations of continuing state protection. The welfare system retained a high degree of redistribution, directed both downward and upward from the middle of the social hierarchy (Vecernik, 1999). While no objection to decent standards of social protection and health care could be raised, the low efficiency of their achievement should evoke concerns.

Here, an attempt will be made to create a basic picture of the three individual fields – the pension system, social protection and health care – by sketching them in their rough contours.

The transformation of the *pension system* was not induced primarily by the change in regime, which was the case with health care and the social protection system. Indeed, no explicit requirements were formulated with regard to the fundamental change that occurred in the status formation of retired people, i.e. from a dependent and socially needy category (as it was formed and fixed under the communist regime) to the “emeritus” status of former insurance payers,

investors and savers (corresponding to the situation in advanced Western countries). Quite the opposite was true, as the pressure on redistribution that is already built into the PAYG system is further reinforced by the two trends that Czech society shares with the advanced world: a decreasing fertility rate and increasing life expectancy.

In spite of the gloomy demographic outlook there has been little movement on the pension scene. The Social Democrats (CSSD) has proposed the introduction of notional pension accounts and establishing occupational pensions. ODS maintains their strong demands for radical pension reform, which would combine a solidary-type basic pension with an individual insurance scheme. At the same time, it seems that financial groups have toned down the lobbying activity they once pursued in favour of mandatory private insurance and are now relying on an increase in voluntary savings. All that is certain today is that the retirement age will increase to 63 for both men and women (and later maybe even to 65) and that the state will continue the effort to reduce pension entitlements and bring some more resources into the PAYG system (Reform of Public Finance, 2003).

Parametrical changes in the pension system, which are the only changes under serious preparation, will do little to contribute to the socio-economic emancipation of pensioners. What remains is the exclusive dependence of pensioners on the current contributions and on their submission to the discretion of the state in setting the ratio of average wage and pension benefits. A large number of people save privately for retirement, but due to the low level of average contributions these savings represent no substantial increase to the financial resources of old-age security. Active earners and pensioners thus remain connected vessels, and a latent social conflict between the two could develop and gain strength. This situation could worsen even further if the relationship were to be simplified in the public opinion into an imaginary trade-off between the situation of pensioners and children.

A systemic change in *social benefits* was quite well prepared under the explicit principle of targeting, but the results can be considered barely satisfactory. On the one hand, the system often fails to target, and there is a significant degree of non-take-up of benefits. On the other hand, income and means-testing are insufficient measures, and the misuse of benefits is commonplace.

Many recipients of benefits have developed manipulative behaviour for exploiting the system. The main problem is that various kinds of benefits are paralleled and the system has several and not well coordinated accesses: labour offices for unemployment benefits, district state administration for benefits from the state support scheme, and local social care divisions for social assistance benefits. Thus a shift of the social benefits agenda to the labour offices has been envisaged.

In fact, the new social benefit scheme was applied from above as an “expert” system. It was therefore overburdened with assumptions, most of which were copied out of textbooks on mainstream economics. For instance, it was assumed that there is no such thing as a trade-off between the compulsion toward labour market participation and benefit dependence; no market failures leading to mass redundancies of workers in micro-regions offering little other choice of jobs; no state administration failures to provide and withdraw benefits, which would eventually lead to the unwarranted granting of benefits and the acquisition of tactics for their systematic misuse; no clever individuals fostering their “second best” coping strategies, which combine the tax-free informal economy with use of the full-range of state benefits.

Inconsistency in the level of various benefits makes the system inefficient. While unemployment benefits are strict, welfare benefits in the Czech Republic compensate as much as in the most generous European countries. The distance between the low and stagnating wages for lower categories of workers on the one hand and the relatively generous (especially for large families) and regularly valorised subsistence minimum on the other hand creates a relatively inviting poverty trap. Such a state of affairs is mainly advantageous to the Roma families, where there is usually a large number of children. Furthermore, the trap is similarly attractive to rural households, where living costs are low due to considerable income in kind, while expenditures connected with employment are high due to high transportation costs.

Though inefficiently, the system basically manages to alleviate poverty. This task has been alleviated by the fact that the Czech labour market did not leave too many people in the welfare system. Until the mid-1990s, poverty was connected with the life cycle of the family and affected households with a large number of children and elderly living alone. Since 1997,

unemployment has risen significantly and produced a “new poverty” connected with labour market failures.<sup>6</sup> However, the percentage of families living below the official subsistence minimum is still only 3.5 percent on average, but it is 25 percent among the unemployed (statistical survey *Social Situation of Households, 2001*). As Table 2 shows, if measured by the EU poverty line (60 percent of the median income per equivalent unit), the percentage of poor in the Czech Republic is 8 percent, as opposed to 15 percent in the EU15.

**Table 2 Poverty risk in the Czech Republic and the European Union in 2000 (%)**

	Czech Republic			EU-15		
	Men	Women	Total	Men	Women	Total
Total			8			15
<i>By age cohort:</i>						
0-15			12			19
16-24	19	21	20	10	10	10
25-49	7	8	7	12	14	13
50-64	4	5	4	12	13	12
65-	3	8	6	15	19	17
<i>By employment status:</i>						
Employees	3	3	3	8	6	7
Self-employed	6	2	5	16	14	15
Unemployed	30	31	31	44	33	39
Pensioners	3	7	5	15	16	15
Other inactive	11	12	11	24	24	24

*Source: Joint Memorandum on Social Inclusion, 2003.*

Percentage of persons with net income below 60% median income per equivalent unit.

In reaction to the over-centralisation and over-planning of *health care* under the communist regime, a far-reaching process of separation and marketisation was initiated at the very beginning of the transformation. A kind of a chaotic transformation ensued, illustrated by the rapid alternation of ministers of health. Strong actors appeared on the scene – medical associations, health insurance funds, and manufacturers of medical technology and pharmaceutical products. Policy devices, especially privatisation, substituted policy aims. After establishing the general principles early in 1990, hardly any of the conceptual documents introduced by any of the health ministers managed to attain government approval. The entire process of acquiring health legislation in the Czech Republic has been turbulent and ineffective.

<sup>6</sup> At the end of 2002, one-half of the unemployed were already long-term unemployed (i.e. had been seeking a job for more than 12 months) as opposed to less than one-third in 1995 (Labor Force Surveys).

Much unbalance remains within the health sector. While many private clinics prosper well and the majority of private physicians can more or less easily survive, most hospitals have a deficit. Two different worlds interface here: on the one hand, there are the private suppliers of pharmaceutical technology and products, who have a good deal of control over price setting and possess strong lobbying and corruptive power; on the other hand, there are the private physicians and hospitals, constrained by fee-for-service tariffs and other strict rules set by health insurance companies and the state. There is no clear boundary between the two, owing to the numerous personal links and the common interests in strengthening the flow of cash into the health sector. In spite of all the rhetoric about the need to economise, there is no real interest in changing this deficient and not transparent system.

Evidently, there has been very little coordination between the three sectors overviewed here – the pension system, social benefits and health care. Nothing like a Social Committee – a parallel to the governmental Economic Council, which functioned in the first years of transition – was established in the Czech Republic, despite a 1990 proposal to create this kind of coordination centre for social reform. Besides the declaration of general principles (whether derived from “socialist” continental Europe or the “liberal” UK and USA) there was almost no common structure implemented across sectors. Also, in the timing of the individual reform steps it is possible to find just one turning point in the mid-1990s, when the main action in the pension and benefit system of the Klaus’ government peaked.

The obvious rationale behind such development is the lack and/or the diversity of actors. While the health care sector had an abundance of “small” actors, coming mostly from below, the other two sectors (pension and social benefits) were rather left to the discretion of the state and were eventually frozen by the compromises made between the “big” political parties. As it turned out, while liberals have not accomplished their residualist vision and have maintained a quite generous welfare regime, the growing deficit pushed the Social Democrats to introduce some cost-reducing measures. There is a paradox in the fiscal reform proposal of 2003 in that it is the left-centre government that is launching the measures that may cut back the living standard of the lower classes. The rationale behind this is that the economic problems that could appear if the

deficit budgeting were to continue would afflict the lower classes much more seriously (Concept of the Reform, 2003).<sup>7</sup>

On the one hand, the long-term stagnation of the social reform process has resulted from the long-term political stalemate and from the fear of paying for the reform through a loss of support from the electorate if the reforms are pushed too vehemently.<sup>8</sup> On the other hand, the reason could be that there is a tacit agreement with the system, which works despite its problems and gives a moderate level of satisfaction to vulnerable groups like pensioners (keeping their benefits on still a decent level), long-term unemployed (providing them with welfare benefits or advantageous early retirement) and patients (including the possibility of misusing sick-leave status to avoid work and job troubles).

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<sup>7</sup> However, recent events in early 2004 reveal great dissatisfaction with the reforms within CSSD. The proponents of reform are blamed for decreasing voter preferences and they are required to reduce especially price effect of changing VAT for food and children goods.

<sup>8</sup> The “opposition treaty” (*Pact on the Creation of a Stable Political Environment*) was concluded between the Civic Democratic Party (ODS) and the Social Democrats (CSSD) after the 1998 elections. In it, ODS endorsed the minority CSSD government and promised not to revoke it. Since 2002, the coalition of CSSD, Christian Democrats and Freedom Union has possessed only 101 seats in the 200-member Parliament.

**Table 3 Indicators of the objective and subjective well-being of households by economic status (%)**

	Fully active	Fully inactive	Partially active	Fully pensioner	Total
<i>Percent households</i>	50.2	15.1	16.0	18.6	100.0
Relative equivalent income	120.5	74.9	86.6	76.5	100.0
Variation coefficient of income	0.64	0.54	0.53	0.29	0.64
Entitled to social assistance	1.5	15.7	7.3	0.1	4.3
Poverty risk by EU criteria	4.1	25.3	15.2	1.8	8.7
Having serious financial troubles	12.1	28.6	20.5	9.8	15.5
Housing costs are a serious burden	32.6	51.0	45.8	29.4	36.9
Cannot afford holidays away	37.1	72.2	55.0	73.3	52.2

*Source: Social Situation of Households, 2001.*

***Classification of households by type introduced by the OECD:***

Fully active – two or more active adults

Partially inactive – only one of two or two of three adults up to 65 years of age is/are active

Fully inactive – no adult up to 65 years of age is active

Fully pensioner – only persons 65 years and over are included

***Indicators:***

Relative equivalent income: income per equivalent unit which is computed so that the first adult=1.0, children up to 13 years of age = 0.5 and other children and adults=0.7.

Entitled to social assistance: percentage of persons living in households whose income is lower than the legal living minimum.

Poverty risk by EU criteria: percentage of persons with net income below 60% median income per equivalent unit (as in Table 2).

Having serious financial troubles: first category of six on reported financial troubles.

Housing costs are a serious burden: first category of four on reported burden with housing costs.

Cannot afford holidays outside: percent households reporting they cannot afford one-week holidays away from home.

Table 3 provides some evidence of such an agreement. While “objective” indicators measuring income level and the poverty rate or risk among various household types return substantial differences, “subjective” indicators of the perception of financial troubles show lesser differences, particularly between the fully non-active and partially active households. Statistical indicators do not cover the informal economy and other alternative strategies, including misuse of the system, which help households to cope with problems. What acts as a welfare trap from the institutional point of view, serves as a welcome strategy from the family point of view. With regard to the health system, satisfaction is quite high, as Table 5 (further below) demonstrates.

Of significance for the peace that currently reigns over the social landscape is that even the trade unions, which were so active and vocal during the first pension and benefit reforms, are hardly to be heard. Only lastly, CMKOS questioned measures aimed at reducing the frequent abuse of sickness benefits and at lowering taxes within the reform package of public finance. According to a study by the World Economic Forum and Harvard University (quoted in the daily press), the Czech trade unions rank tenth in the world with regard to their welcoming attitude towards employers.<sup>9</sup> It seems as though the social field has already been divided up among invisible claimants and nobody wants to risk taking a step into the unknown.

#### ***4. Czech social system – advancing or stagnating?***

In the early 1990s, the liberal rhetoric transferred from “Washington institutions” required a reduction of the presumably too generous social spending. According to Jeffrey Sachs (1991), the post-communist countries in Eastern Europe had the highest welfare budgets in the world (between 15 and 30 percent of GDP), especially in comparison with East Asian countries at similar income levels (which spent between 5 and 10 percent of GDP on social protection). Instead of cutting the burden, CEE countries turned back to the left-wing parties as instruments for undoing the new market economy and maintaining their usual living standard: “Left-wing parties are winning the elections ... because they are seen by the organized recipients of state largesse as the parties most likely to maintain or increase the entitlements of the social welfare state” (Sachs, 1995:1-2).

In their polemical assessment of past left-turns, two Polish economists state that “the frequent elections and negative campaigns, the derailment of the economic policy, and the absence of right-wing parties from the Parliament since 1993, all have their immediate origin in the unduly cruel reforms. It was not careless social policy that led to the expenditures explosion. Instead, it was the unforeseen consequences of the overall economic policy and, in particular, of the

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<sup>9</sup> One of the reasons reported is the fact that trade union bosses are often members of supervisory boards as representatives of employees. Unlike the practice in Western Europe, they have full discretion regarding the disposition of their huge rewards, mostly keeping them for themselves (Daily MF DNES 9th December, 2003).

stabilization program sponsored by the IMF and vigorously recommended by Professor Sachs” (Kabaj and Kowalik, 1995:7). Similarly, Zsuzsa Ferge blamed a “combined, liberal and conservative attack against universal benefits ... based not only on budgetary constraints but also on false historical parallels, and political demagoguery” (Ferge, 1994:19).

Indeed, CEE governments were rather reluctant to pursue the kinds of radical social reforms recommended by Washington liberals at the time. In spite of this, important changes have occurred in these countries. Special measures were energetically taken for the protection of the labour market, these having been provoked by imminent problems of huge unemployment, rising unemployment and especially the long-term unemployment pool. In the welfare system, a shift occurred from state universal benefits to compulsory insurance, complementing mandatory social insurance with private schemes, lowering the standards of entitled public provisions, expanding targeted social assistance, introducing or increasing fees and advancing the off-budget financing of social protection (Ferge, 1994; Götting, 1995).

In the Czech Republic, the original liberal design of social reform was also considerably reduced, but still it appeared as the leading country in welfare reforms in the mid-1990s. Mitchell Orenstein (1994:193) contrasts the “strong package of social policies”, expressing a strategy for smooth transition in the Czech Republic, with Poland’s “fragmented safety net”, exhibiting a lack of policy direction, premature decentralisation and the misallocation of resources. Miroslav Ksiezopolski (1993:192-193) also criticised the lack of any coherent vision of social policy in Poland and considered a growing loss of control in the social sphere as untenable. Similarly, Vladimir Rys (1995:207) was highly sceptical of the social reform in Hungary and Poland “due to economic and political imperatives”. Simultaneously, he has also drawn attention to a “disparity of elements” in the Czech system, which will hinder the scheme to function coherently.

The Central-East European scene looks different in the early 2000s, especially in the area of pension reform. While in Poland, Hungary and Slovakia, systemic reforms have been introduced, the governmental proposal in the Czech Republic has limited itself to parametric adjustments only (OECD, 2003). The country is lagging behind in other fields also, trailing, for example,

Slovakia, where radical reforms have been started in the tax system, employment incentives and social benefits. Instead, some minor changes have been proposed in the Czech Republic – retirement age shall be further increased (to 65 years), the conditions for early retirement made stricter, social benefits made more rigorously means-tested, sickness benefits reduced, etc. Simultaneously, the minimum wage is regularly raised to broaden the gap between low wages and welfare benefits.

Nevertheless, even sectors abundant with problems can return good results - as the general health status of the Czech population shows: the life expectancy considerably increased (by 3 years for males and 2.6 years for females) during the 1990s; infant mortality fell by 50 percent since 1990, reaching the level of the most developed EU countries (Czech Republic, 2000). In fact, it was not only the better accessibility of the advanced technologies and pharma-products in health care, but also the general improvement of the environment and lifestyle, especially nutrition (far more fruit and vegetables are being consumed after 1989, instead of the meat and cereals with which the communists fed the nation).

**Table 4 Level of confidence in various public systems and bodies (scale 0-100)**

Level of confidence in	Czech Republic	Slovakia	Poland	Austria	Germany	Sweden
Education system	55	62	71	71	59	58
Social security system	43	41	43	59	46	49
Health care system	48	49	55	70	53	62
Parliament	28	42	40	45	41	50
Public services	37	42	40	47	42	48
Justice system	36	39	46	59	52	54
Trade unions	32	43	40	38	42	45

*Source: European Values Study, 1999.*

The scale is constructed in such a way that the answer “very high”=100, “considerable”=66, “not very high”=33 and “not at all”=0.

Owing to the absence of qualitative criteria for social systems (unlike the quantitative measurements of financial costs), there is little possibility of evaluating national systems as more or less progressive or – even – efficient in the long term. However, we can quite easily observe the level of people’s satisfaction with individual components of the welfare regime (Table 4). A

comparison of the confidence in social security and health care shows that both evoke more confidence in Austria, Germany and Sweden than in the CEE countries. In the Czech Republic, one-third of people are confident in the social system and over 40 percent in health care – this is more than in the Balkan countries but less than in Poland and the Baltic countries.

**Table 5 Evaluation of performance efficiency of various public areas (%)**

Area	Very good	Quite good	Rather bad	Very bad	Does not know	Total
Access to housing	0.8	5.6	38.6	52.2	2.8	100.0
Family support	0.5	9.2	47.9	38.1	4.4	100.0
Old-age security	0.8	16.4	43.7	30.5	8.6	100.0
Access to employment	0.6	22.0	47.3	26.8	3.3	100.0
Access to education	15.3	63.7	11.5	2.5	6.5	100.0
Health care	7.3	61.1	23.2	6.0	2.4	100.0

*Source: CVVM Survey, May 2003.*

Items are ranked from the worst to the best evaluation.

In a comparison of various areas of “public care”, the area considered worst is that of access to housing, with a minimum dispersion among the population (Table 5). Also, family support is considered very negatively, for young couples in particular. Indeed, the fertility rate in the Czech Republic ranks among the lowest in Europe. Currently, universal child allowances (provided to about 85 percent families since the mid-1990s reform) and the possibility of earning extra income alongside the parental benefits have been proposed – both making only a minimum contribution. While health care is evaluated as the best, the evaluation is the most dispersed among the population, particularly by age.

With reference to adjustment, there is a level of concrete tasks which were most recently formulated in the Joint Memorandum on Social Inclusion (JIM) of the Czech Republic (Joint, 2003).<sup>10</sup> The Czech government and the European Commission agreed that it is necessary:

- to create a new system for providing financial assistance in situations of material need with a view to eliminating long-term dependence on social allowances and linking the receipt of benefits more closely to activation measures to assist people in obtaining employment;

- to further expand preventive and support measures so as to enhance employability as a means of preventing long-term unemployment and to expand and enlarge social and training programmes for those from especially disadvantaged social and cultural environments;
- to modernise the contents of education with respect to the needs of general personal development (with special emphasis on functional literacy) and to the needs of the labour market and to put in place a comprehensive system of lifelong learning;
- to interconnect health and social care mainly at community level by creating so-called integrated community care and to complete and introduce standards which will ensure guaranteed minimum care from a qualitative and quantitative point of view;
- to enhance a properly functioning housing market and to introduce a specialised sector of social housing;
- to improve transport accessibility especially in disadvantaged regions.

Apparently, there are a lot of additional policies which must be asserted to strengthen individual responsibility, create more incentives for people to remain in the active labour force and adjust to new requirements of mobility and flexibility. One has to admit most of these tasks are difficult to fulfil – problems of housing market, re-orientation of education, inclusion of disadvantaged groups, as well as public/private mix in pension system and social care are on the governmental table since 1990, but little progress was made. In fact, any effort of a thorough reform evaporates soon in everyday political life.

However, the “European Social Model” means much more than individual policies related to labour market and social protection. As Aust, Leitner and Lessenich (2000:6) demonstrate, it “can be defined as a complex configuration of a specific institutional order of the polity, the economy, and the society, which is mainly characterized by the central role of politics and public interventionism”. The establishment of such a model (moreover fed by economic growth)

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<sup>10</sup> The tasks identified in the Joint Memorandum on Social Inclusion constitute a framework for the drafting of the Czech Republic’s first National Action Plan on Social Inclusion. It thus follows National Action Plans of the EU member states, set at Nice in December 2000 (Joint, 2002).

represents a historical process. We must recall that the retrenchment of the welfare state in Western countries was also only minor, despite the huge effort invested.<sup>11</sup>

Although the post-communist welfare state cannot be fairly titled a “frozen edifice”, like in the Western countries (Esping-Andersen, 1996:2), social reform is certainly a protracted process with a “remarkable degree of durability” (Götting, 1995:22). The current lethargy of the Czech welfare system in particular corresponds to this picture. However, such stagnation is apparently acceptable to both the politicians (who mask it in reformist rhetoric) and the population (which learned to master taking advantage of the generous welfare state) and is thus sustainable in the long run.

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<sup>11</sup> Paul Pierson (1995) has shown the strength of political forces, rooted in democratic institutions, which hamper any radical reduction in expenditures, and the high level of electorate costs associated with retrenchment activities.

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