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# Human Development report

## The Czech Republic 2003

Where Do WE Come From, What Are We  
And Where Are We Going?

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Charles University  
in Prague

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## TEAM OF AUTHORS

|  |  |
|--|--|
| <i>Martin Potůček</i><br>(Head of the team of authors) | Center for Social and Economic Strategies (CESES),<br>Faculty of Social Sciences, Charles University, Prague |
| <i>Jiří Buriánek</i>                                   | Philosophical faculty, Charles University, Prague  |
| <i>Martin Cejp</i>                                     | Faculty of Social Sciences, Charles University, Prague   |
| <i>Bohumila Čabanová</i>                               | Faculty of Social Sciences, Charles University, Prague   |
| <i>Pavol Frič</i>                                      | CESES  |
| <i>Petra Hejnová</i>                                   | Faculty of Social Sciences, Charles University, Prague   |
| <i>Jakub Holas</i>                                     | Institute for Criminology and Social Prevention, Prague  |
| <i>Soňa Jelínková</i>                                  | Faculty of Social Sciences, Charles University, Prague   |
| <i>Jaroslav Kalous</i>                                 | CESES  |
| <i>Pavel Kuchař</i>                                    | Faculty of Social Sciences, Charles University, Prague   |
| <i>Petra Kopecká</i>                                   | Faculty of Social Sciences, Charles University, Prague   |
| <i>Jana Marková</i>                                    | CESES  |
| <i>Miroslava Mašková</i>                               | CESES  |
| <i>Peter Mederly</i>                                   | CESES  |
| <i>Gabriela Munková</i>                                | Faculty of Social Sciences, Charles University, Prague   |
| <i>Pavel Nováček</i>                                   | CESES  |
| <i>Libor Prudký</i>                                    | Faculty of Humanities, Charles University, Prague  |
| <i>Jan Přikryl</i>                                     | CESES  |
| <i>Arnošt Veselý</i>                                   | CESES  |
| <i>Olga Šmídová</i>                                    | Faculty of Social Sciences, Charles University, Prague   |
| <i>Ján Topercer</i>                                    | Botanical Garden of Comenius University, dpt. Blatnica   |

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## INTRODUCTION

A team of experts cooperating and united at the Center for Social and Economic Strategies (Centrum pro sociální a ekonomické strategie), Faculty of Social Sciences, Charles University, Prague prepared this Human Development Report for the Czech Republic in 2002. We wish to submit it for public discussion. We shall be grateful for any criticism, either from experts or from representatives of the public and private sectors.

The present Report follows on from a number of previous reports that were presented by various Czech research communities and teams of authors in recent years. Our work has naturally drawn from these studies. In accordance with the request of the commissioning party we attempted to avoid repeating what has been said before. Besides the addition of some topics to previous studies and the updating of analyses with new findings we shall direct the entire text so as to identify the most important problems of human development in the Czech Republic and formulate priorities and possible methods for their solution by coordinated public action. However, we do not claim our selection to be exhaustive: we decided not to concentrate on such crucial areas as, for example, environmental protection.

Our selection of individual topics, like our suggestions for public policy measures, is based on three premises:

1. In the contemporary development period of Czech society human potential is the most important source of its future development; its cultivation and involvement has therefore become a key development priority.
2. To be able to create the most suitable conditions for the cultivation and involvement of Czech society's human potential, coordinated public action is necessary including the participation of a wide range of players in the public, commercial and civil sectors.
3. A significant portion of the initiating, coordination and conceptual involvement in this public action must, by its nature, be borne by the state and its institutions.

This position is based on the general assumption that the state will be ready and able to assume appropriate responsibility for the specified public issues. It does not consider a strategy on the part of the state to avoid the execution of these public agendas and their transference to market players and/or the civil sector to be a universal strategy for the solution of familiar public policy tasks. This consideration creates space for dialogue with those who hold other opinions. The aim of such dialogue should be to find the optimum solutions to these tasks for the Czech Republic and its citizens in the years and decades to come.

We wish to express our sincere gratitude to all who have contributed to the final shape of this text, above all to Dr. Jiří Pehe, who acted as opponent of its draft version.

*On behalf of the team of authors  
Prof. Martin Potůček, PhD. MSc  
Head of CESES UK FSV  
Prague, April 2003*

## ■ 1. DEVELOPMENT TENDENCIES FROM THE 1990s UP TO 2002

Along with the other countries of the former communist bloc, the Czech Republic has, since 1989, seen major structural changes that have extended into all areas of society and thus into the living conditions of its citizens. These changes may not have been considered in detail beforehand; they were brought about by the external processes of globalization and European integration, the Czech Republic's historical and cultural conditions and the specific relationship between the social and political agents who actively entered this process. The division of Czechoslovakia and the emergence of an independent Czech Republic at the end of 1992 also constituted a significant change.

As regards the overall nature of the transformation process, the Czech Republic does not differ from other transforming countries. In common with them the Czech Republic has also been developing from an authoritarian communist state with a centrally planned economy into a pluralistic democracy with a market economy. However, there are several specific features that have influenced the nature and speed of the ongoing changes in the Czech Republic. Above all, it is the fact that from the second half of the 18th century to the outbreak of the Second World War the country belonged to those parts of Central Europe where the processes of industrialization, urbanization and the emergence of a modern civil society commenced very soon after those processes began in the centers of modernization in Western Europe. Another special feature was the strength of the communist regime's rule, which – as opposed to in neighboring Poland or Hungary, for instance – kept almost total control over all the areas of the life of the society up to the regime's collapse in November 1989.

**The period from November 1989 until the end of 1992** began right after what became known as the “Velvet Revolution” with the abolition of an article of the Constitution on the Communist Party of Czechoslovakia's leading role and ended with the passing of the Constitution of the newly founded independent Czech Republic in December 1992. New political parties emerged, censorship was abolished, new contacts were established with the West and two free elections took place. Two important strategic documents were passed – an economic reform scenario and a social reform scenario. These were also reflected in the economic measures which were actually implemented (gradual liberalization of prices, the start of the process leading to convertibility of the currency, restitutions and privatization of state-owned property) and changes in social policy (the establishment of a system of labor offices, the setting and guarantee of a subsistence minimum, discussion about and the gradual introduction of compulsory social and health insurance).

**The period from the beginning of 1993 up to the end of 1997** saw the initiated reforms go on with special attention being paid to the implementation of market principles and the chosen “Czech way” of economic reform (voucher privatization in particular). Public administration remained unreformed and centralized, with clientelism tendencies growing stronger. A system of social security divided into three main areas – compulsory social insurance, state social support and social assistance – was established. A new system of state social support was launched from 1996 with a network of social authorities. Residual elements were applied more intensively in social policy.

**The period from the beginning of 1998 up to the elections in June 2002** was marked by a reaction to some shortcomings of the previous period. This was due to the fact that insufficient regulation of the privatization process and the financial market led to the collapse of over ten significant banks and other financial institutions and of some major

companies that had been newly privatized. This period also saw a decline in GDP and a devaluation of the Czech currency. The unemployment rate, which up to 1996 had oscillated around the low level of 3 to 4 %, more than doubled in less than two years. The two governments of this period began to implement a more balanced concept of social modernization comprising the reform and real decentralization of public administration and the creation of greater space for the institutions of civil society. However, an unusual agreement allowing the second (minority) government to survive the entire four-year election term with the contractual support of the biggest opposition party led to the emergence of politically non-transparent symbioses in government and to a rise in clientelism in public administration.

Far greater attention began to be paid to the preparation of the country for joining the European Union. Economic growth was resumed, unemployment remained at a level of about 9 %, a number of acts were passed which were intended to improve the legal environment and launch a reform of the public administration. On the other hand, however, this period witnessed a rapid growth of public budget deficits that was, among other things, due to the necessity to stabilize the banking sector by intensive financial support from the state budget.

The 2002 elections resulted in the creation of a coalition government that presented a policy statement comprising a fair number of priorities in the areas of human resources development, support for families with children, education, research and development, with special attention being paid to the implementation of the European model of the welfare state, market economy with the emphasis on social issues and the environment – all this within the framework of the Czech Republic's preparations for accession to and full involvement in the European Union. The indebtedness of the public budget is forecast to keep rising until 2007, when this trend is expected to come to an end and budget deficits are predicted to gradually decrease.

The Czech Republic's stable position in terms of international relations is now reflected in its membership of all major organizations, both in international and regional terms – e.g. the OECD, the International Monetary Fund, the World Bank, NATO, the European Council – as well as in its hope to become a full member of the European Union as early as in May 2004.

## 1.1. Population development, family, health care

In connection with the economic and social transformation from a centrally governed economy and society towards a market environment and the personal responsibility of the individual, very important changes in population development and its conditions, as well as in the status of the family, have taken place in the Czech Republic since 1989.

### 1.1.1. Demographic behavior and the family

The young generations in particular, free from the experiences of the previous system, have responded to the economic, political and social changes with totally new demographic behavior. On the one hand, many opportunities for individual development and involvement for young people have emerged. On the other hand, however, the



transformation has also brought about some previously unknown risks: the transfer of a greater part of the responsibility for the upbringing of children and the young generation from the state to families and individuals, the decrease in social security for families with children, the emergence of unemployment (the victims of which are to a large extent young people looking for their first job), the elevated costs of starting a family and care for children and unaffordable housing. All these consequences of transformation have made a disadvantageous population climate for entering into marriage and having children.

Prior to 1989, the Czech Republic corresponded, due to its demographic reproduction pattern, to the so-called East-European pattern with a high level of nuptiality, low average age at the first marriage and women giving birth to children at a relatively young age. Cohabitation was not a frequent phenomenon. Regarding the demographic behavior of the upcoming generation, the 1990s witnessed the emergence of the features of the so-called West-European reproduction pattern: deferring getting married and having children to an older age. These features have led to the increase of the average age at first marriage and giving birth, a decline in nuptiality and fertility levels, an increase in the rate of cohabitation of young people and the proportion of children born outside marriage. Growing individualism together with different interests and living conditions have contributed to an increased differentiation in the demographic behavior of the Czech population, especially regarding the young.

In the Czech Republic this change in reproductive behavior was very fast. It manifested itself, above all, in a rapid decline in nuptiality and fertility rates during the course of the 1990s. This is despite the fact that the number of potential marriage partners and mothers grew as a result of the numerically strong baby-boom generations from the 1970s entering the age of high nuptiality and fertility. The replacement of legitimate marriages by informal unions has not yet reached a significantly large extent and, usually, it represents just a temporary form of cohabitation. Although the proportion of illegitimate births has been rising, this extra-marital fertility has no significant influence on the overall trend in which there has been a decline in fertility.

The low nuptiality rate is contrasted by the continuing high divorce rate. In the 1998 amendment to the family act the Czech government tried to tighten conditions for divorce. However, the effect of the legislative change aimed at reinforcing the stability of marriage was only temporary: in 2001 the divorce rate returned to its former high level. The Czech Republic thus maintains a leading position in Europe in this respect. In the transformation period new factors began to take effect and they have contributed to the weakening of the status of the family and to its destabilization. In particular this relates to the conflict between higher requirements as regards the individual's involvement on the labor market and the demands of family life at a time when childcare support is being weakened.

An immediate consequence of the decline in nuptiality and the high divorce rate is a change in the composition of families and households. While the relative number of people living in marriage and widows/widowers is shrinking, that of singles, both young and people of higher age, as well as divorced is rising. Thus the number of complete families with children in Czech society is falling and incomplete families (mainly headed by a woman) and the households of singles (mainly of higher age, especially widows) are growing in number.

■ Table 1.1. Selected nuptiality, fertility and divorce indicators

| Indicator   | 1990 | 1995 | 2000 | 2001p |
|---|------|------|------|-------|
| Assumed proportion of singles at the age of 50 <sup>1)</sup> – men (in %)   | 8.9  | 26.8 | 30.4 | 34.6  |
| Assumed proportion of singles at the age of 50 <sup>1)</sup> – women (in %) | 3.8  | 20.0 | 25.5 | 27.7  |
| Average age at first marriage <sup>1)</sup> – men                           | 24.0 | 26.7 | 28.9 | 29.3  |
| Average age at first marriage <sup>1)</sup> – women                         | 21.4 | 24.6 | 26.5 | 26.9  |
| Total fertility rate per one woman  | 1.89 | 1.28 | 1.14 | 1.14  |
| Average age of mothers at birth of child                                    | 24.8 | 25.8 | 27.2 | 27.6  |
| Average age of mothers at birth of first child                              | 22.5 | 23.3 | 24.9 | 25.3  |
| Proportion of illegitimate live births (%)                                  | 8.6  | 15.6 | 21.8 | 23.5  |
| Total divorce rate per 100 marriages  | 38.0 | 38.4 | 41.2 | 45.0  |

<sup>1)</sup> Data from nuptiality tables

Sources: Kučera, M., Pavlík, Z. (eds.) 2002, p. 9; Kretschmerová, T. 2002, pp. 161 and 163.

The most important fact in terms of the Czech Republic's population development in the past 12 years has been the deep and rapid decline in the level of fertility; this decline is closely related to changes in nuptiality as well as family stability. Since the middle of the 1990s, the number of children born in the Czech Republic per year has been a third less than it was at the beginning of the transformation period. The total fertility rate is well below the replacement level and this puts the Czech Republic into one of the bottom positions in Europe. The drop in natality – together with a low net migration<sup>1)</sup> – has become the main factor in the population shrinkage reported since 1994 as well as the continuing aging coming from the bottom of the age pyramid (i.e. the decrease of the proportion of children in the population).

The recent low fertility level is doubtlessly influenced by the pragmatic behavior of young people: as a consequence of wider opportunities and the disadvantageous social and economic conditions they put off having children until the woman is older. To what extent this situation will change into a refusal to have children remains an unanswered question. The disadvantageous population and family climate that arose during the course of the 1990s is also related to the attitude of the state applied so far towards population development and the status of families with children in the society.

<sup>1)</sup> Throughout the 1990s the net migration was positive; however, it was overestimated due to a non-complete registration of emigrants. When in 2001 the statistical method of measuring migration was altered, the net migration turned to negative and thus had a negative impact on the natural decrease of population.

■ Table 1.2. Population structure according to main age groups (as of 31. 12.)

| Age group | 1991                          | 1995   | 2000   | 2001p  | 1991                                      | 1995  | 2000  | 2001p |
|-----------|-------------------------------|--------|--------|--------|---|-------|-------|-------|
|           | Number of people in thousands |        |        |        | Proportion of the total population (in %) |       |       |       |
| 0–14      | 2,121                         | 1,893  | 1,664  | 1,632  | 20.6                                      | 18.3  | 16.2  | 15.9  |
| 15–59     | 6,347                         | 6,571  | 6,707  | 6,726  | 61.5                                      | 63.7  | 65.3  | 65.5  |
| 60+       | 1,845                         | 1,857  | 1,895  | 1,912  | 17.9                                      | 18.0  | 18.5  | 18.6  |
| Total     | 10,313                        | 10,321 | 10,267 | 10,270 | 100.0                                     | 100.0 | 100.0 | 100.0 |

Sources: Kučera, M., Pavlík, Z. (eds.) 2002, p. 14; Kretschmerová, T. 2002, p. 160.

*NB: the 2001 data originated from a new demographic balance that reflects the preliminary results of the Population and Housing Census that took place on 1. 3. 2001; thus, it is not fully compatible with the data of the previous years. Another reason for the incomparability is a different range of people included in the total number of people living in the Czech Republic. In addition to the people that were included in the balance in the previous years, since 2001 foreign citizens with temporary stay visas exceeding 90 days were also included; their number was less than 70 thousand according to preliminary results of the census.*

The entire period from 1989 to the present has been characterized by a lack of interest of state institutions concerning the definition of a new population and family policy, one that would correspond to the changed conditions of the market economy and political democracy. For most of that period a liberal attitude was promoted that emphasized individual decision-making about the number of children and the time of their birth without the active involvement of the state. At the same time, the flexibility of the workforce was given much greater priority, regardless of its impact on family relationships.

### 1.1.2. Mortality and health

After almost 30 years of stagnation and sometimes even deterioration of the health condition of Czech citizens, the 1990s saw a significant improvement. It was also manifested in a significant improvement in life expectancy at birth: an increase of more than 4 years for men and 3 years plus for women. The decrease in the mortality of the aged population had the largest impact on this trend. Due to a very low proportion of infant deaths the Czech Republic ranked among countries with the highest standard of care for children in their first year of life.

■ Table 1.3. Selected mortality indicators

| Indicator                                   | 1990 | 1995 | 2000 | 2001p |
|---|------|------|------|-------|
| Life expectancy at birth – men              | 67.6 | 69.7 | 71.6 | 72.1  |
| Life expectancy at birth – women            | 75.4 | 76.6 | 78.3 | 78.5  |
| Life expectancy – men aged 65               | 11.6 | 12.7 | 13.7 | 14.0  |
| Life expectancy – women aged 65             | 15.2 | 16.0 | 17.1 | 17.1  |
| Infant mortality (per thousand live births) | 10.8 | 7.7  | 4.1  | 4.0   |

Sources: Kučera, M., Pavlík, Z. (eds.) 2002, p. 53; Kretschmerová, T. 2002, p. 165.

Besides the positive health effects for the population however, some health risks have also become stronger. The number of who are HIV positive or have AIDS illness has increased, although - to date - the development has not been alarming. The Czech Republic approved a medium-term plan to prevent this disease. An inter-ministerial national commission for dealing with HIV/AIDS cases and a network of centers for advice and taking blood samples was established. Non-governmental organizations also operate a number of help lines. The HIV infection rate among foreign citizens coming from Eastern Europe is becoming a problem, since an explosive epidemic spread of this disease is taking place there and a medical check concerning HIV infection is only possible with their consent. Despite all the preventative measures in the Czech Republic the damage caused to human health by addictive substances has continued to grow. Attempts to reduce the number of smokers have continued to fail, average alcohol consumption is growing, as is the number of drug addicts, especially among the under 20.

Although the rapid fall in the mortality level was mainly due to the introduction of state-of-the-art medical technology and the import of more effective medicines, some inherited as well as newly emerged problems in the health service remained unresolved. Despite certain indications in the first half of the 1990s, a comprehensive policy for the population's health protection and promotion has not yet been created. The decentralization, denationalization and privatization of the previous state health service created a system in which a large number of various types of health service providers were given significant autonomy in terms of their organization and managerial structures. Significant changes were also introduced in the realm of the financing and compensation of health care. The system has not become a public service area with individually targeted health care and a public health service tailored to the needs of the population. Neither the state nor the newly-founded system of public health insurance have been able to optimize the range of medical services offered and a number of regulation mechanisms usually provided for by the state have either ceased to exist or are only maintained in a formal and ineffective way. Since no concept of health care has either been passed by Parliament or implemented by the state administration in either the country's center or in its regions, no key priorities have been set. This is a nontransparent situation that can easily lead to even more serious problems due to a rapid increase of total expenditures for medical services, differences in accessibility to different groups of the public, as well as differentiation in terms of income.

■ **Table 1.4. General survey of health-service establishments in the Czech Republic (as of 31. 12.)**

| Type of establishment                       | 1998   | 1999   | 2000   | 2001   |
|---|--------|--------|--------|--------|
| Hospitals (bed and out-patient care)        | 216    | 212    | 211    | 202    |
| Specialized therapeutic institutes          | 218    | 227    | 223    | 231    |
| Independent out-patient care establishments | 21,626 | 22,103 | 22,364 | 22,665 |
| Special health-service establishments       | 531    | 518    | 509    | 495    |
| Pharmaceutical service establishments       | 1,714  | 1,810  | 1,710  | 1,974  |
| Hygienic service                            | 90     | 87     | 87     | 87     |
| Other                                       | 117    | 118    | 114    | 114    |
| Total                                       | 24,513 | 25,075 | 25,405 | 25,768 |

**Sources:** Zdravotnická zařízení České republiky v roce 1999, 2000, 2001. Recent information – ÚZIS. <http://www.uzis.cz>.

■ Table 1.5. Physicians, paramedical personnel and beds in health-service establishments (as of 31. 12.)

| Indicator  | 1998    | 1999    | 2000    | 2001    |
|--|---------|---------|---------|---------|
| Number of physicians <sup>1)</sup>                               | 36,686  | 37,989  | 38,330  | 39,127  |
| Number of paramedicals <sup>1)</sup>                             | 106,880 | 106,967 | 107,321 | 109,578 |
| Number of beds in health-service establishments                  | 114,692 | 113,605 | 112,303 | 112,504 |
| Number of people per 1 physician                                 | 265     | 262     | 249     | 238     |
| Number of beds in health-service establishments per 1,000 people | 10.8    | 10.7    | 10.6    | 11.0    |

<sup>1)</sup> Converted figure (WTE)

Sources: Zdravotnická zařízení České republiky v roce 1999, 2000, 2001. Recent information – ÚZIS. <http://www.uzis.cz>; Statistická ročenka ČR 2001.

■ Table 1.6. Structure of total expenditure on health services (in CZK millions)

| Expenditure                                 | 1998    | 1999    | 2000    | 2001p   |
|---|---------|---------|---------|---------|
| Total public expenditure <sup>1)</sup>      | 119,267 | 123,453 | 129,626 | 145,096 |
| o.w. from the state and territorial budgets | 11,769  | 13,128  | 13,708  | 13,960  |
| o.w. health insurance companies             | 107,498 | 110,325 | 115,918 | 131,136 |
| Public expenditure in % from GDP            | 6.49    | 6.54    | 6.63    | 6.76    |
| Total personal expenditure <sup>2)</sup>    | 10,604  | 11,475  | 12,245  | 13,711  |

<sup>1)</sup> Does not include expenditure from the state budget through ministries except for the Ministry of Health

<sup>2)</sup> Calculation – ÚZIS ČR based on the statistics of family accounts of Czech Statistical Office.

Sources: Celkové výdaje na zdravotnictví v roce 2001, no. 39. <http://www.uzis.cz>.

### 1.1.3. External migration and foreign citizens

After 1989 the conditions were created for the free movement of individuals across the borders of the Czech Republic. The opening of the borders made the Czech Republic more attractive as a transit country and gradually also as a destination for immigrants. This was due, among other things, to the fact that the country is situated in what is referred to as a buffer zone between Western Europe and the post-communist countries. Foreign citizens began entering the Czech Republic both for economic and political reasons as well as due to conflicts in their home countries; their numbers rose gradually. The most significant movements were reported in the area of work migration (see chap. 2.3.2). The number of asylum claims began rising, with a particular increase towards the end of the 1990s. Illegal migration also increased. One can only speculate about the total number of foreigners residing illegally; in the majority of cases they come from the former Eastern bloc countries or South and Southeast Asia. In 2001 more than 21 thousand foreigners were reported to have illegally crossed the state border, out of which almost 17 thousand attempted to migrate from the Czech Republic, heading in the majority of cases to Germany and Austria.

■ **Table 1.7. Numbers of foreigners granted residence permits in the Czech Republic (as of 31. 12.)**

| Type of residence               | 1993          | 1995           | 1998           | 1999           | 2000 <sup>2)</sup> | 2001 <sup>2)</sup> |
|---------------------------------|---------------|----------------|----------------|----------------|--------------------|--------------------|
| Visa over 90 days <sup>1)</sup> | 46 070        | 120 060        | 155 836        | 162,108        | 134 060            | 140 978            |
| Permanent residence             | 31 072        | 38 557         | 63 919         | 66 754         | 66 891             | 69 816             |
| Not specified <sup>3)</sup>     | 526           | 590            | 432            | *              | *                  | *                  |
| <b>Total</b>                    | <b>77 668</b> | <b>159 207</b> | <b>220 187</b> | <b>228 862</b> | <b>200 951</b>     | <b>210 794</b>     |

<sup>1)</sup> Up to 1999 "long-term residence".

<sup>2)</sup> The group of people granted visas for over 90 days includes also citizens of the Slovak Republic, who reside in the Czech Republic based on a temporary stay certificate (according to government decree no. 77 as of 3. 3. 2000).

<sup>3)</sup> Up to 1998 stateless people were not included in the total numbers. Since 1999 their numbers are featured in groups according to the type of residence.

**Source:** Zpráva o situaci v oblasti migrace na území České republiky za rok 2001. <http://www.mvcr.cz>.

Czech state authorities responded to the influx of both legal and illegal foreigners and asylum seekers into the Czech Republic during the course of the 1990s by changing the relevant legislation. Laws passed at the beginning of the 1990s that governed the entry and stay of foreign nationals and the granting of asylum proved both out-dated and ineffective in the regulation of legal migration and fighting illegal migration. At the same time their compatibility with EU legislation was limited. The year 2000 was an important milestone in the passing of new legislation regarding foreigners and refugees. New stricter laws came into effect (an act on the residence of foreigners in the Czech Republic and an asylum law) that are in line with the requirements of European law; the asylum law further complies with other international legal obligations of the Czech Republic. The issue of migration and granting asylum is very important in terms of the Czech Republic's preparations for accession to the European Union and it is continuously monitored and evaluated by the EU authorities.

■ **Table 1.8. Political asylum seekers in the Czech Republic**

| Indicator                 | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001   |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Number of asylum seekers  | 2 207 | 1 187 | 1 417 | 2 211 | 2 109 | 4 086 | 7 220 | 8 788 | 18 088 |
| Number of asylums granted | 250   | 116   | 59    | 162   | 96    | 78    | 80    | 133   | 83     |

**Source:** Zpráva o situaci v oblasti migrace na území České republiky za rok 2001. <http://www.mvcr.cz>.

Besides the tightening of the legislation that regulates the entry and residence of foreign nationals in the Czech Republic principles of the integration of foreigners were also approved. Furthermore, a pilot project for the acquisition and stabilization of

a qualified workforce is in progress in response to population decrease and potential future problems on the labor market.

To date the state authorities' attitude towards migration has lacked conception and systematic interest; measures taken in this sphere have not been sufficiently interrelated, given that migration policy is a political, economic as well as demographic issue. The Czech Republic is still searching for a flexible model for a migration policy that would allow a quick response to the changing migration situation, the requirements of the labor market and the anticipated speeding up of the aging of the population.

#### 1.1.4. Consequences of development tendencies in the future

Today's population development will result in significant depopulation trends. The changes in the age structure of the population will be even more profound. Due to a radical drop of natality and, at the same time, the extension of the average life span together with the shift of more numerous age groups into retirement age, the age structure will begin to age rapidly in the coming years. Even if the retirement age limit is gradually increased, relationships between age groups will deteriorate, which will have a negative effect in many areas of the development of society. That is why a pension reform should be prepared, discussed and eventually implemented (see the second suggested strategy of further development described in par. 4.2). It is not possible to stop the ageing process of the population; however it can be slowed down by a pro-natalist and pro-immigration policy. This would be one of the goals of the first suggested strategy of further development (refer to par. 4.2).

### 1.2. Social structure and cohesion – the reform of social policy

The changes in Czech society after November 1989 can also be characterized as a dynamic tension between the development of social and demographic structure, political and economic living conditions of the people on the one hand and the institution of the Welfare State on the other hand.

#### 1.2.1. The development of the social structure

The collapse of the centrally planned economy, the weakening of redistribution mechanisms and a fierce application of market principles have led to a divergence in income and property and to status differences between various social groups. As a matter of fact, this development took place only partially within the framework of performance-based principles; many differences in the property and income structure came into being in a non-legitimate and sometimes even illegal way, as a consequence of the imperfect launch and management of the privatization process and, subsequently, also due to the operation of various clientelism networks and corrupt practices. This is also the reason why the growing differences between social groups are perceived as a negative development by the majority of the Czech society.

The labor market developed in such a way that the differences between professions with high qualification requirements and high salaries on the one hand, and manual

professions and services with lower salaries on the other became ever more profound. In selected branches of the private sector, in the case of entrepreneurs as well as top management, remuneration was governed predominantly by a meritocracy principle. Salaries in the public sector lagged so far behind that the position of the large middle class was weakened significantly (this has been true in relation to public services employees in particular). An ever more serious differentiation feature is unemployment (long-term unemployment, in particular) that predetermines social and economic marginalization.

The residential structure has become another differentiation criterion with the dominant status of the wealthy capital city of Prague on the one hand and the problematic regions (North Bohemia and North Moravia above all) lagging behind with a high unemployment rate and social pathology symptoms on the other. As a result of institutional and proprietary changes (as well as price fluctuations) the status of farmers, their families and the entire agricultural regions have weakened in relative terms.

The development after November 1989 has had an especially negative influence on the living and working conditions of Romanies who are particularly hard-hit by unemployment.

It is mainly pensioners and families with dependent children who belong to social groups the income of which depends more on social transfers. The purchasing power of pensioners has not yet overcome the significant drop which occurred at the beginning of the 1990s; however, it has come closer to the 1989 level. The ratio of pensions to wages since 1989 has either been marked by stagnation or minor decrease. As a matter of fact, after thirteen years of transformation pensioners are less threatened by poverty than families with dependent children. In the period in question this group has seen a significant decline in support from public funds, be it due to a halt in subsidizing of specific goods or public services, a decrease in the purchasing power of financial benefits or their entire elimination. Families with children have become the main losers of the transformation period, a fact that has certainly been reflected by population behavior (see par. 1.1.1).

Although the Czech Republic is by no means out of step with the general trend of all post-communist countries and the differences in income and property circumstances of its citizens continue to grow, the pauperization of large groups of people has not taken place. Although the proportion of poor people is growing, it is still lower than the average for the existing member states of the European Union. This is true mainly due to a functioning Welfare State – although defined to a great extent in a residual way only.

### 1.2.2. The nature and development of social cohesion

Social cohesion is a concept that reflects the state of the society with regards to the relationships of trust between people, shared identities and symbols and expectations of cohesion in the case of need. At its core it is based on everyday interactions among people who have decided to accept their responsibility for public issues and are willing to help to do something for the improvement of the quality of not only of their own lives, but also for the life of society as a whole. The institutions that influence the rate of social cohesion in the country are the following: family, school, civil society and its institutions (including churches and political parties), geographically defined communities (neighbors, municipalities) and the Welfare State. The predominant culture and value climate in the society has also played its role.

Forty-one years of communist rule had a very disruptive effect on the fragile structure of social cohesion and on the trust between people in particular. Thirteen years of social



transformation has not been enough time to restore social empathy and the feeling of solidarity (e.g. between generations but also between social groups). The position of the family as the most important source of social cohesion weakened, as well as its caring and social functions for elderly people, protection and education of children and others. Also community and neighbor relationships were disrupted. By reducing its intervention in this area the Welfare State not only risked the further division of society but also the greater burdening of the Czech Republic's pension and health system in the future. Notwithstanding many positively perceived initial steps the civil sector has still not become its equal partner.

The overcoming of the aforementioned problems and the reinforcement of social cohesion can be generated both from "above", i.e. by the activities of the Welfare State, and from "below", by the activities of informal communities and institutions of the civil sector. Neither approach can suffice in its own right; furthermore, they may become contradictory. A key public policy task is to widen the field of their complementary synergic interaction.

### 1.2.3. The development of social policy and the Welfare State

The Welfare State in many respects insufficiently anticipated social dynamics and was not capable of responding adequately to emerging problems. The initial stages of the social policy reform were, however, conducted well: a reasonably dense social safety net was created and Labor Offices were founded to provide employment services on a local level. The social policy reform concentrated on reintroducing compulsory social insurance. However, from as early as the beginning of the 1990s the planned separation of this system from the state was halted when only half complete: the state is still its main supporting, organizing, financing and managing institution. The state social support system has seen the reinforcement of residual approaches. The least changes were seen in the area of social assistance. It is primarily concerned with social benefit payments; qualified social work is still underdeveloped and insufficient. There is a considerable need for a new act that would help to better adapt the social assistance system to new conditions, particularly in terms of granting equal chances to the civic sector in providing services or greater freedom of choice for its clients.

### 1.2.4. Future orientation of the social policy

The concept of a social market economy with an environmental bias together with the European social model became the starting points for the draft policy statement of the coalition government that arose from the 2002 parliamentary elections. The coalition agreement features a subsequent discussion on what is called *The Social Doctrine of the Czech Republic (Sociální doktrína ČR)* – a programmatic document elaborated by an expert group.<sup>2)</sup> According to this doctrine social policy is intended to guarantee the basic and inalienable human and civil rights and, at the same time, encourage citizens to acquire further education and actively participate in the labor market. Social policy is conceived as a long-term investment in human capital and thus in the social and economic development of the society.

<sup>2)</sup> For further details refer to *Sociální doktrína ČR. Sociální politika, 2002, no. 1, pp. 7–11.*

The aforementioned document opens the space for both increasing the emphasis upon the involvement of the Welfare State from “above” and for developing the social functions of the family and civic sector from “below”. The future social policy should include both approaches; the implementation of a residual and liberal viewpoint would depend on the level of support it received from voters in the coming elections.

We shall elaborate the individual topics of the forming social policy in more detail in chapter 2.4.

### 1.3. Value orientations of Czech society

Predominant accepted values in society nurture motivation, behavior, identification and social cohesion and thus influence all the areas of human development. Values change only very slowly. In a transforming society the rate of value changes is probably the most significant indicator of the transformation progress. The nature of the predominant values in society is a building block of the quality of life. Getting to know and understand value orientations is not easy. The following findings are based mainly on large-scale empirical research.<sup>3)</sup>

Czech society entered the 1990s with values that had been created mainly during the period known as "normalization" after the Soviet military invasion of Czechoslovakia in 1968. The society was not homogenous in respect of values; however, while some values gained supremacy (e.g. conformity, egalitarianism, cloisteredness, the division of private from public life, withdrawal from the chances of professional involvement to compensations and self-fulfillment e.g. at weekend houses, etc.), some actually completely lost their importance (e.g. accepting responsibility, the value of freedom, that of private ownership, free competition, effective performance orientation, respect for different standpoints and life styles, etc.). Since the outset of the 1990s Czech society has seen predominant values change, yet not in a fundamental way.

Great esteem is still attributed to the values of family, health, work (the importance of work is declining while its content is changing), friendship and leisure time (the importance of both is on the increase). Lower, yet still relatively high, is the appreciation of the values of joy of the new, activity and initiative as well as human solidarity. The importance of values such as career, wealth, gaining praise, attempting to excel and willingness to take risks is still low among the Czech population. The values of religion and politics occupy the lowest positions on the scale, although they have a major influence on differentiation. Comparisons carried out after 1990 show a decrease in the importance of all values, except for hedonistic ones.” The growth of hedonism is typical mainly for people under 30. There has been a growth in the proportion of the population (up to three-quarters towards the end of the century) that doubts the viewpoints for the assessment of what is good and what is bad.

<sup>3)</sup> *The sources used most in the present study will be the findings of large-scale empirical surveys (ESV 1991, 1999, Aufbruch 1997, the ISSP surveys, above all Religiozita 1999, Národní identita 1995, the CVVM research from 1990 to 1999. The mostly referred to publications will be: České hodnoty 1991–1999, Sociální studia 6, MU – FSS, Brno 2002; Průvodce krajinou priorit pro Českou republiku, Guttenberg, Prague 2002 and a number of research reports.*

The recent predominant value orientations in Czech society are imbalanced, unstable, immature and often contradictory. The main reason for this instability is probably the effort to incorporate new value stimuli – after 1990 a fundamentally different range of values intruded into society and for a significant part of the population this was actually not understandable – into value frameworks that had been created earlier. A grouping of value types into the well-known liberal, conservative, socialist and religious categories has not yet taken place. Consumer orientations are gaining importance. Czech society is definitely not a post-materialist one. It is worth paying attention to the linking of the values of “relying on oneself” with those rejecting foreigners. This is one of the most obvious representations of xenophobic orientations. They can clearly also be deduced from a comparison of the values of the majority population with those of the Roma minority. The significant and steady refusal of mainly ethnic and cultural differences points to a possible pending conflict that may become a serious issue for the Czech Republic in the future; a conflict between a society becoming more and more cloistered on the one hand and a range and requirements of the values of an open, multicultural Europe (together with a poor rate of assimilation of the gradually growing group of immigrants belonging to different cultures) on the other. Although the feeling of solidarity is reasonably high in the Czech Republic, it is often related to egalitarianism and nationalism, thus supporting a trend in which society is becoming ever more cloistered in respect of outer differences.

It is possible to greatly influence the development of values with the effect of socializing mediators during childhood and adolescence, the most important ones being the compact nature and orientation of families, orientation of education, models (predominantly in the media) and the prevalent climate in the society. In Czech society it is a fact that the decision-making subjects themselves (politicians, creators of media, but also teachers and parents) are not aware of the fact that by their deeds they contribute to the shaping of models of acceptable values. The situation demands a change of pace in order to achieve maximum agreement between proclaimed values and those actually lived by, in the education and control of teachers and media workers in this field and in education for parenthood. These aims must also be addressed by institutional development (a typical example is the pursuit of the maximum possible judicial enforceability in society). The main issue rests on clear support for pluralist, multi-dimensional and differentiating attitudes towards society –from education, politics and power structures all the way through to churches. In short, it is necessary to create an environment in which Czech society can continue to acquire and live by the principles of freedom. The fourth suggested strategy of future developments that is described in par. 4.2 and called reinforcement of social cohesion and national identity may be seen as the vehicle of positive changes in this respect.

## 1.4. Economic development

### 1.4.1. The forming of a market economy

Since November 1989, transformation processes in the society significantly marked the development of the Czech economy. The strategy for economic reform was based on the necessity of creating the basic elements of a market system, such as freedom of

entrepreneurship, private ownership, a liberal system of prices and making use of free financial means in a system of commercial banking.

After November 1989 new laws were passed providing for fundamental political rights and civil liberties as well as the freedom of entrepreneurship. Widespread discussions on the strategy of the transition to a market economy resulted in the passing of a scenario of economic reform by the then Federal Assembly in September 1990. The following year saw deep economic reforms that determined further developments. Subsequently, the Czechoslovak economy was struck by a recession as a result of its former distorted economy, the changes of external conditions and restrictive monetary policy. On 1. 1. 1991, the economic transformation was launched with the liberalization of prices and foreign trade. In February 1993, after the split of Czechoslovakia, a separate Czech currency came into existence. Economic recovery began in 1994 as the inflation rate was relatively low and unemployment was very low. At the same time, however, the first signals of a slow-down of the transformation were becoming evident, the implementation of a number of reforms was delayed and the first signs of a crisis in the banking sector were emerging. In 1995 the economy grew even faster, though this increase was accompanied by a growing economic instability; in the following year the monetary policy was significantly tightened for the first time<sup>4)</sup>.

1997 witnessed a number of difficulties and the government introduced two packages of measures<sup>5)</sup> that comprised the reduction of budget expenditures and systematic measures for combating institutional and legal problems. After attacks by speculators on the Czech crown and after its devaluation the Czech National Bank (ČNB) was not capable of keeping the exchange rate of the crown within the fluctuation range; it was forced to introduce a guided floating exchange rate. In the same year a second economic recession started, caused by the rigidity of the monetary policy, restrictive measures as well as insufficient microeconomic restructuring. Growing unemployment became a problem in some regions. The Czech National Bank introduced inflation targeting<sup>6)</sup>.

A 1998 interim government took a number of steps to improve the legal framework and it launched the preparation of policy documents of intermediate nature. The Social Democrat government which succeeded it concentrated on the recovery of the economy, the improvement of the legal environment and the speeding-up of the preparations for the Czech Republic's entry to the European Union. It prepared important intermediate policy documents<sup>7)</sup> and the Czech National Bank published a long-term monetary strategy. 2000 saw the economy recover. This was enabled by several instances of the lowering of interest rates, the relaxing of fiscal policy, the restructuring of companies and incentives for direct foreign investment. Although economic growth continued in 2001, this performance boost was accompanied by a significant growth in the public finance deficit. Privatization in the banking, gas and power engineering sectors continued. In its 2001 report the European Commission assumed that the economy would be able to handle competition pressures and market criteria in a short period of time provided that there was progress in intermediate fiscal consolidation and that structural reforms were completed.

<sup>4)</sup> *The interest rates and mandatory minimum reserves grew.*

<sup>5)</sup> *These are: the Correction of economic policy and further transformation measures and Stabilization and Recovery Program.*

<sup>6)</sup> *Inflation targeting is a monetary policy regime, one of its main features being a public explicit declaration of the inflation goal of a sequence of goals. It means a direct orientation to price stability.*

<sup>7)</sup> *Including the following: National Programme of the Preparations of the Czech Republic for EU Membership, Economic Strategy of the Accession to the European Union, The Scenario of the Intermediate Development of the Economy as well as the Intermediate Fiscal Prognosis.*

The 2002 report stated that the Czech Republic is a functioning market economy and the Commission regards it as being capable of assuming the obligations that result from the EU membership in accordance with the envisaged schedule.

The following table summarizes the most important data on the development of the Czech economy.

■ Table 1.9. Macroeconomic indicators in the Czech Republic

|                                  |               | 1995    | 1996   | 1997    | 1998    | 1999    | 2000    | 2001    | 2002p   |
|----------------------------------|---------------|---------|--------|---------|---------|---------|---------|---------|---------|
| GDP (current prices)             | CZK billions  | 1,381.1 | 1,567  | 1,679.9 | 1,837.1 | 1,887.3 | 1,959.5 | 2,146.1 | 2,275.0 |
| GDP                              | %, real       | 5.9     | 4.3    | -0.8    | -1.0    | -0.5    | 3.3     | 3.3     | 2.5     |
| Government                       | %, real       | -4.3    | 3.6    | -4.4    | -2.4    | -0.1    | -1.3    | -1.0    | -0.1    |
| Investment                       | %, real       | 19.8    | 8.2    | -2.9    | 0.1     | -0.6    | 4.2     | 7.0     | 4.5     |
| Inflation                        | %, average    | 9.1     | 8.8    | 8.5     | 10.7    | 2.1     | 3.9     | 4.7     | 1.8     |
| Inflation <sup>1)</sup>          | %, y/y        | 7.9     | 8.6    | 10.0    | 6.8     | 2.5     | 4.0     | 4.1     | 1.8     |
| Nominal wages                    | %, average    | 18.5    | 18.4   | 10.5    | 9.3     | 8.2     | 6.6     | 8.5     | 7.5     |
| Unemployment <sup>1)</sup>       | %             | 2.9     | 3.5    | 5.2     | 7.5     | 9.4     | 8.8     | 8.9     | 9.8     |
| Exports                          | %, y/y        | 23.5    | 6.6    | 20.0    | 17.7    | 9.2     | 23.3    | 13.1    | -2.0    |
| Imports                          | %, y/y        | 33.7    | 13.0   | 15.3    | 7.5     | 7.5     | 28.2    | 11.7    | -5.0    |
| Trade balance                    | CZK billions  | -97.6   | -159.5 | -144.0  | -82.4   | -65.8   | -120.8  | -119.0  | -100.0  |
| Trade balance                    | % GDP         | -7.1    | -10.2  | -8.6    | -4.5    | -3.5    | -6.5    | -5.5    | -4.0    |
| Current account                  | US\$ billions | -1.4    | -4.3   | -3.2    | -1.3    | -1.6    | -2.8    | -2.7    | -3.0    |
| Financial account                | US\$ billions | 8.2     | 4.3    | 1.1     | 2.6     | 2.5     | 3.8     | 4.0     | 7.0     |
| Foreign direct investment inflow | US\$ billions | 2.6     | 1.4    | 1.3     | 2.6     | 6.2     | 5.0     | 4.9     | 6.5     |
| Foreign direct investment inflow | % GDP         | 4.9     | 2.4    | 2.5     | 4.6     | 11.4    | 9.8     | 8.7     | 8.8     |
| State budget                     | % GDP         | 0.5     | -0.1   | -1      | -1.6    | -1.6    | -2.4    | -3.2    | -3.7    |
| Gross foreign debt               | US\$ billions | 17.2    | 21.2   | 21.6    | 24.3    | 22.9    | 21.4    | 21.7    | 23.5    |
| Gross foreign debt               | % GDP         | 33.1    | 36.7   | 40.8    | 42.7    | 42.0    | 42.1    | 36.7    | 34.0    |
| Foreign exchange reserves        | US\$ billions | 14.0    | 12.4   | 9.8     | 12.6    | 12.9    | 13.1    | 14.5    | 25.0    |
| Money supply M2 <sup>1)</sup>    | %, y/y        | 19.8    | 9.2    | 10.1    | 5.2     | 8.1     | 6.5     | 12.1    | 9.0     |
| CZK/EUR                          | average       | 36.22   | 35.32  | 35.75   | 35.85   | 36.88   | 35.61   | 34.08   | 31.00   |
| CZK/USD                          | average       | 26.55   | 27.14  | 31.71   | 32.27   | 34.60   | 38.59   | 38.04   | 32.75   |

Note: <sup>1)</sup> End of the period

y/y indicates year-on-year changes.

Source: Czech Statistical Office, Czech National Bank and Ministry of Labor and Social Affairs; forecasts: NEWTON Holding, a.s.

The entry of foreign capital was one of the distinct factors in the increase in the prosperity of the Czech economy; the most effective form has been direct foreign investment. Various types of investment significantly influence the structure of the Czech economy, which follows from the relative increase of direct foreign investment, the highest values of which were reached in 1995 and 1999.<sup>8)</sup>

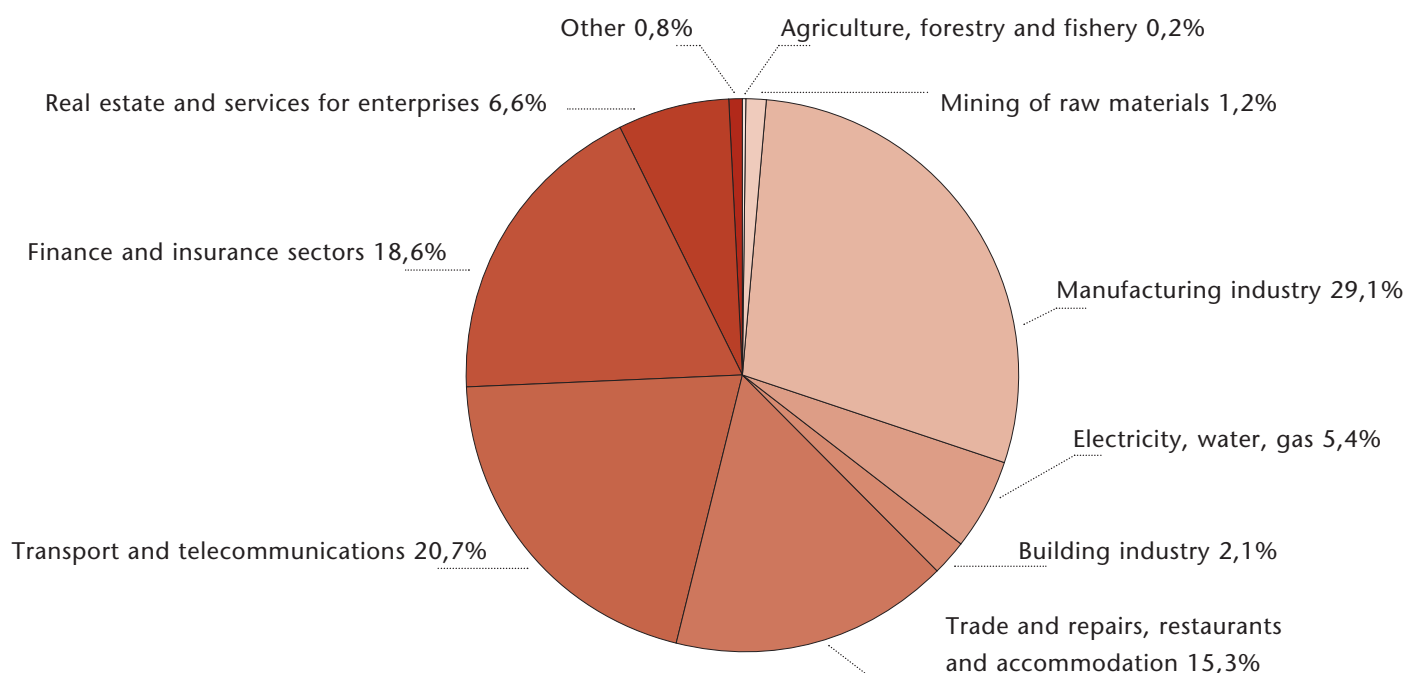
■ **Table 1.10. Influx of direct foreign investment according to branches and countries in 1995 – 2001 (in CZK millions)**

|   | 1995          | 1996          | 1997          | 1998           | 1999           | 2000           | 2001p <sup>1)</sup> |
|---|---------------|---------------|---------------|----------------|----------------|----------------|---------------------|
| Branches of industry not including manufacturing industry – total | 45,249        | 21,397        | 28,305        | 78,538         | 149,331        | 113,312        | 132,480             |
| Manufacturing industry – total                                    | 22,744        | 17,378        | 12,947        | 41,431         | 69,481         | 79,109         | 54,521              |
| <b>Total</b>  | <b>67,993</b> | <b>38,775</b> | <b>41,251</b> | <b>119,969</b> | <b>218,812</b> | <b>192,421</b> | <b>187,001</b>      |

<sup>1)</sup> Up to 1997 the data only includes the influx of foreign investment into equities; since 1998 also the reinvested profit and other capital has been included.

Source: [http://www.cnb.cz/\\_statistika](http://www.cnb.cz/_statistika)

■ **Chart 1.1. Branch structure of direct investments into the Czech Republic in 1993 – 2002 (in %):**



Source: Confederation of Industry of the Czech Republic (<http://www.spcr.cz/cz/stat/>).

#### 1.4.2. The influence of the economic transformation on the current situation and future development prospects

As has already been stated, in the course of the transformation foundations for a market economy were established; in many areas, however, transformation did not automatically follow. In particular the importance of the regulation of some decisive subjects and sectors of the economy was underestimated, such as investment funds, banking and the capital market. The necessary restructuring, including the requirement of ineffective companies to leave the market, was delayed due to weaknesses in the act on bankruptcy and settlements, mistrust of foreign capital and little support for direct foreign investment, a non-functional capital market and the poor credit policy of banks that was made possible due to the deferment of their privatization. The losses that arose in connection with the transformation thus amount to CZK billions.

The negative features of the transformation took effect particularly in the underestimation of the legal and institutional framework that increased the costs of economic transactions and reduced the effectiveness of the usage of resources. Besides the rise in economic crime this can also be attributed to low judicial enforceability and to the fact that public administration and company managements fail are not up to standard. Another weak point is low growth potential, as the economy – having undergone two recessions – is significantly lagging behind the European level.<sup>9)</sup>

A key role in the economic development of the Czech Republic was played by the chosen method of privatization. The so-called small and big privatizations took place alongside a process of restitutions in the framework of which the property that had been confiscated after February 1948 was gradually returned. By auctions the small privatization sold mainly small shops and service companies. The big privatization applied the method of voucher privatization as the main emphasis was put upon the speed and scope of changes.

There were two waves of the big privatization; in their course more than 1,700 companies were privatized and approximately 75 % of all authorized citizens actually participated. For their „vouchers“ they could get almost 50 % of all the shares of the stock companies privatized with the total value of equities amounting to CZK 679 billion. The majority of the investors decided to invest through the emerging shares funds. For the transformation processes it was significant that the Prague Stock Exchange and the so-called RM-system (that provided for individual trade in the gained stocks) started to operate in 1993.

However, the second wave of the big privatization (in 1994) saw the first symptoms of a crisis of the banking sector emerge. It was mainly due to a bad loan policy and postponed bank privatization that for the bigger part of the 1990s the situation in the banking sector was substantially non-transparent and problematic.

<sup>8)</sup> In April 1998 the government introduced a system of investment incentives to support foreign investment; these included tax relief, the creating of specific custom zones, relief when importing state-of-the-art technology equipment, grants for the creation of new hobs etc. The protection of foreign investment is provided for by bilateral agreements on the protection of investments between the Czech Republic and more than 40 countries.

<sup>9)</sup> In comparison with other Central-European transition countries the growth potential is the lowest in the Czech Republic. Between 1990 – 2000 Poland increased its economy performance as compared to the EU by 8 percentage points, Slovenia kept the relative level, Hungary and Slovakia lost 3 percentage points, whereas the Czech Republic's level as compared to the EU fell by almost 10 percentage points.

As late as towards the end of that decade the state shares both in enterprises and in large banks (Česká spořitelna, Komerční banka etc.) were privatized more or less successfully. In 2001 the privatization of strategic gas and petrochemical enterprises took place, recently, the privatization process of energetic firms and telecommunications is underway.

The chosen way of privatization didn't bring with it, however, sufficient capital resources. On the one hand, it created a significantly diffuse ownership of small shareholders and, on the other hand, it concentrated substantial property in investment funds linked with half-state banks. Effective disposal of privatized assets was prolonged due to the interrelation of companies and banks, in some instances also with political power.

### 1.4.3. The role of economy policy and further development

From a long-term perspective it is desirable to achieve sustainable economic growth without cyclical culmination of both outer and inner imbalance. To achieve such growth with export performance, structural changes and the improvement of technology predominantly in the manufacturing industry are important. A prerequisite for the growth of the standard of living is a systematic economic policy that would be based on the high quality of human capital and the involvement of the Czech economy in world markets. What is also necessary is political power with a clear vision of the development of society furnished with a strong mandate for the necessary reforms. When carrying out this policy it is necessary to harmonize the fiscal and monetary policy and, at the same time, maintain the social consensus. Here we may gain a lot from the experience and institutional framework of the enlarged EU (see par. 3.4). The transformation should be finished so as to allow for the achievement of high growth rates while maintaining external balance. Positive stimuli for both the growth of the economy and the standard of living can be brought about by making the Czech Republic attractive in terms of foreign investment and increasing both exports and the ability to make use of the opportunities presented by foreign capital. The task today is to improve the situation of public finances; this will mainly depend on government decisions on the reform of the tax and pension systems.

## 1.5. Political development – from an authoritative system towards democracy

### 1.5.1. Constitutional law system and judicial enforceability

The Constitution of the Czech Republic provides for a democratic nature of the state. The Charter of Rights and Freedoms also constitutes part of it – the basis of outlining and implementation of many public and social policies pertaining to the living conditions of the country's inhabitants.

However, the division of power – as outlined by the Constitution – between the legislation, executive and judiciary components features some disproportions. These are,



e.g., the attribution of some administrative and controlling functions to the parliament or the overlapping of executive power between the government and president.

The success of the transformation of society is conditional on the quality and judicial enforceability of legislation and the level of legal awareness. Unfortunately, there is a critical and ongoing lack of corresponding personal and expert human resources for the legislation. The quality of proposed laws thus varies to a great extent; the drafting of laws with a more general scope lacks coordination between ministries. Laws are drafted and passed in a rush, which leads to numerous errors and the need for subsequent amendments.

The independence attributed to the judiciary component of the division of power, and in particular to individual judges, went so far that it suppressed the regulation and controlling mechanisms that are indispensable even in this field. Courts work slowly and inefficiently and judicial enforceability is at a low level.

This situation does not contribute to the cultivation of legal awareness and the authority of the law. Legal literacy is insufficient among citizens, politicians and civil servants. The weakened legal awareness hinders the actual application of law.

### 1.5.2. Political system

While in the very beginning of its existence the Czech Republic succeeded in laying the foundations of democracy, introduced a multi-party system and introduced the principles of civil society, the political system was set up and settled down only very slowly and it had to face many deficiencies. The fact that political parties have gradually taken shape can be seen as a success; at present, their nucleus is formed by four relatively clear-cut and stabilized parliamentary political parties (including one coalition). To date, they have still not succeeded in making their financing transparent. The Czech political parties (except for those that have managed to persist from the communist times) have also faced the problem of a small membership base, limiting the choice of both the current and future political elites. Individuals nominated by political parties have penetrated the state apparatus not only at the top level of management of the central bodies of the state administration, but at many lower levels as well, including supervisory boards of companies with state ownership interest or regional authorities. This makes it difficult to exercise public administration in a party-neutral way and nurtures clientelism as well as corruption.

### 1.5.3. The relationship of representative, participatory and direct democracy

Although the institutions of representative democracy were only established at a slow pace, the process was successful in principle. However, the same cannot be said of the complementary institutions of both participatory and direct democracy. Their spontaneous rebirth and enforcement took place, in particular, immediately after the fall of communism. In the period that followed from the beginning of 1993 until the end of 1997 Czech political representatives presented a narrow concept of representative democracy as the only suitable form of people's government; alternative ways of public participation in the forming of policies (direct as well as expressed by non-governmental organizations or civic organizations advancing group or public interests) were dismissed as disturbing and illegitimate channels of interest mediation. Since 1998 diverse forms of citizen involvement in public life (organizing public discussions, hearings, petitions, the

passing of the referendum act) became more widespread again, although still not in a sufficient way. Characteristic in this respect is the development of the Council for Economic and Social Agreement (to be dealt with in detail in chapter 2.3.3., which is devoted to the development of employment policy).

#### 1.5.4. Public administration

The legacy of the communist state was marked with inner contradictions. The Communist Party could effectively use the state apparatus for the implementation of its policy. This served it well up to the end of its time in power. Thus immediately after the new political representation assumed power it still could use the old apparatus for the realization of new goals; however, this was true for a short period of time and to a limited extent only. Furthermore, the necessary large-scale reform of public administration was not on the agenda during the first ten years of the transformation: instead, only partial changes dictated by circumstances took place. A genuine reform was not launched until 1999. In the first place, attention was paid to the emergence of new regional authorities – regions – and after long delays a civil service law was also passed. For the future, the accent should be on a new organization of state administration at the level of competent municipalities and with the reform of the central state administration (including the establishment of an institute responsible for analytical and educational functions at this level).

#### 1.5.5. Human rights

The attention paid to the issue of human rights has also been rising and falling. President Václav Havel was always a great promoter and defender of the consistent application of this principle in public policy. Along with him there are also many civic groups focusing their attention on the specific rights of diverse social groups - in particular handicapped people, children, women and Romanies. A new space for defending the citizen's rights in relation to the public administration was created when the institute of the ombudsman was introduced; this took place, however, with a significant degree of delay – as late as in 2000.

The particularly pressing issue of the gradual, but still evident social and economic marginalization of Roma citizens, has become a serious issue both in the Czech Republic's home affairs and foreign affairs. Although there are evident changes in the attitude of responsible authorities as well as indications of new policies (the introduction of Roma assistants, various aid programs e.g. in education), they have to face many problems, including critical instances of the social and economic status of the Romanies and their coexistence with the majority population. It is apparent that we are still only at the start of a difficult journey towards equal incorporation of this ethnic group into the majority society.

The conditions of the implementation of the specific rights of the disabled, children and women are improving, most importantly due to the usage of the stimuli and commitments resulting from the Czech Republic's membership of the Council of Europe and, at the same time, due to the preparation process for the Czech Republic's accession to the European Union.

All the topics and suggestions featured above in only a general manner shall be discussed further and in detail in chapter 3. Finally, they will be restructured into the fifth strategy of future development: reform of the country's constitutional and political system (see par. 4.5).

## 1.6. The Czech Republic heading towards entry into the European Union

After November 1989, relations between the Czech Republic and the European Union (EU) were more significantly reinforced in 1993, when the European agreement was passed, presenting the framework for the gradual integration of the Czech Republic into the EU and the starting point for political dialogue. Its main aim was to create a zone of free trade between the European Union and the Czech Republic within 10 years, and the agreement was entered into for an indefinite period of time. In 1996 when it filed its application for EU membership the Czech Republic started to prepare for entry and subsequent full involvement in the Union. In the period before accession its main task has been to adapt its legislature so as to comply with other EU member states. This has included in particular the requirement to accept the common European legislation (*acquis communautaire*), respect EU rules and create institutions that would provide for the adaptation of the communitarian legislation. In a memorandum that accompanied the application of membership, the Czech party undertook to meet the requirements of the so-called Copenhagen criteria, i.e. stability of the political system, efficient market economy, including the ability to prevail in the competition, as well as the adoption of EU legislation.

By filing its application for EU membership the Czech Republic entered the pre-accession period. Since the European Commission published its reports on 10 Central and Eastern European countries regarding their applications of membership in July 1997, relations between the EU and the candidate states have entered a new phase. In March 1998 negotiations on accession to the EU were launched taking the shape of a bilateral intergovernmental conference at the level of foreign ministers. The Czech Republic responded to the report by the elaboration of the document National Programme of Preparations of the Czech Republic for EU Membership, which was created in response to the Commission's requirement as a part of the Accession Partnership concluded between the EU and the Czech Republic in 1998. As of 1998 the Foreign Ministry has annually compiled a program summing up the country's commitments in adopting the EU legislation, the present situation, short-term as well as medium-term priorities and schedule including the necessary human and financial resources.

However, the Czech Republic began to process the preparation strategies for entry relatively late. The application for membership was filed by the government in January 1996, but the first analysis of the domestic situation with respect to the preparation for entry was made by the government as late as in June 1998<sup>10)</sup>. This document was followed by another medium-term strategy drawn up by the government in May 1999<sup>11)</sup>. Since 1998 the preparations for entry have become intensive and other documents pertaining to the reform of the public administration, employment policy, preparation for the involvement in regional politics of the EU etc. have been adopted. In the pre-entry period the Czech Republic can make use of a vast number of analyses that define economic and social priorities, expenses and risks. At the same time, these analyses are but a medium-term instruction ahead of accession.

<sup>10)</sup> *The Economic Strategy of Entry into the EU: Starting points and Solution Trends.*

<sup>11)</sup> *The Economic Strategy of Entry into the EU: Competitiveness – Growth – Employment – Solidarity.*

Joining the EU will mean a fundamental change for the whole of the society. Although a large portion of the approximation processes in the economy and the related expenditures and effects pertains to the period before entry, the public should be aware that the Czech Republic will also adopt communitarian legislation after its accession to the EU. The citizens, however, are not sufficiently informed about the consequences of accession and they are not being prepared for this change in a satisfactory manner. The Foreign Ministry has launched a communication strategy that is supposed - in a popular way - to familiarize the Czech public with European integration, its development and main elements. It is, however, difficult to assess its effect since public support for entry has been steadily declining, which, in turn, is due to the representatives of public administration being unable to conduct an effective explanatory campaign. At the same time, this problem affects the public in its entirety including the political and administrative elites.

## ■ 2. PEOPLE IN SOCIETY

### 2.1. People in view of the quality and sustainability of life indicators

#### 2.1.1. Introduction – human development and its measurement by the UNO

It is possible to measure the state and development of society with the help of summary index indicators (comprising a number of partial indicators). These indicators contribute in a suitable way to the topics dealt with in the first chapter. The UNDP developed what is known as the Human Development Index (HDI), which it has been applying for twelve years now. In the following text we shall briefly summarize the HDI and the position of the Czech Republic in terms of international comparison.

Between 2001 and 2002 the Center for Social and Economic Strategies (Centrum pro sociální a ekonomické strategie FSV UK) developed what was called the Quality and Sustainability of Life Index (QSL Index) (in Czech: Index kvality a udržitelnosti života – IKUŽ), which in a more complete way covers the four main areas of the state and development of the society: the socio-political, the social, economic and environmental aspects. We shall present the calculation of the Quality and Sustainability of Life Index as an alternative indicator to the HDI.

**Human development** is a term that has become known, in particular, due to the annual publication of the Human Development Report (HDR) under the auspices of the United Nations Development Program (UNDP). The *Human Development Index* was created to measure the level of human development. The author of the idea is Professor Amartya Sen, the Nobel Prize laureate for economics. The index has been a part of the HDR since 1990 and it has become one of the UN's main political instruments.

The purpose of the HDI is to express the attained degree of human development in individual UN member states by means of a single indicator that would allow for a comparison of all countries. The index should not be complicated and, at the same time, it should take into consideration the most important areas of human development. It is obvious that to achieve this goal it was necessary to find a radical simplification – a construction of human development was adopted as a combination of *the opportunities for living a long and productive life with sufficient education and an adequate standard of living*.

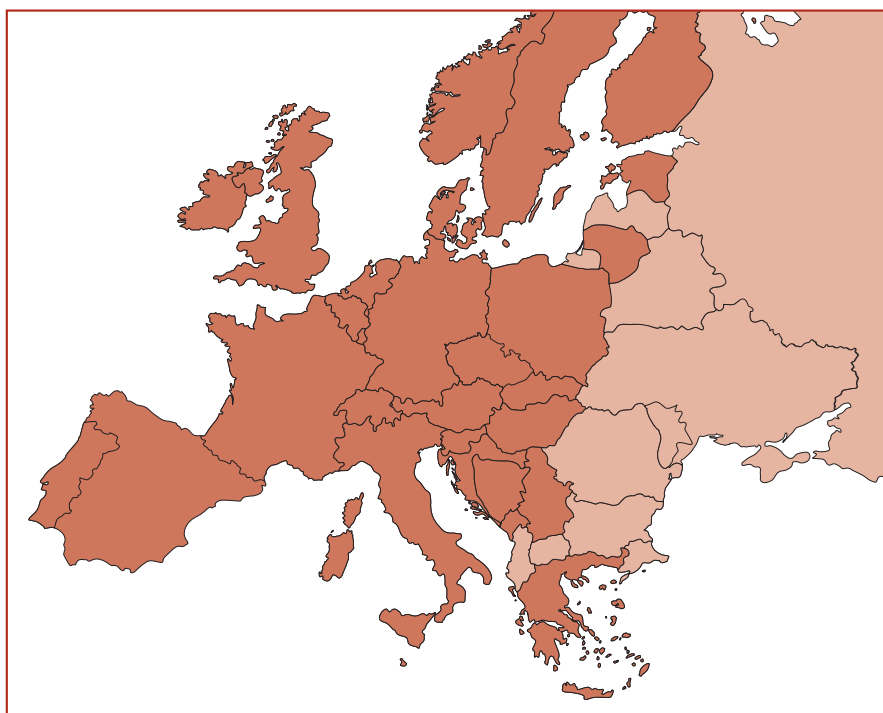
The HDI is based on three major development areas and four main principles. The area of *life span* is characterized by the indicator of *life expectancy at birth*, the area of *education achieved* is characterized by two indicators (*the literacy rate of the adult population, the combined rate of enrolment at schools of the I. – III. levels*) and the area of *the standard of living* is characterized by the indicator of *actual gross domestic product per capita according to purchasing power parity*. The resulting HDI is based on the averages of the partial indexes according to the three areas and theoretically it may reach a value between 0 and 1; the higher the index value the higher the level of human development. The *degree of human development* is usually presented in a simple scale: *low* (index value up to 0.5), *medium* (index value from 0.5 to 0.8) and *high* (index value over 0.8).

Whereas in Europe, North America and some other countries (Japan, Australia, New Zealand) HDI values exceed 0.80 (Norway, Sweden, Canada, Belgium and Australia ranking first), in developing countries, especially those of Sub-Saharan Africa, the index

value amounts to less than 0.30 (the lowest HDI is in Sierra Leone, Niger, Burundi and Mozambique). The average HDI of all countries is 0.722 (as of 2002, the index was defined based on year 2000 data). The category of countries with a high level of human development comprises 53, including, among others, all the Central European states (Austria ranking 15th with HDI 0.926, Germany ranking 17th with 0.925, Czech Republic ranking 33rd with 0.849, Hungary in 35th place with HDI 0.835, Slovakia in 36th with 0.835 and Poland with 0.833 ranking 37th).

The stated numbers prove the Earth's polarization in the area of human development, which is becoming a crucial challenge for the further functioning of key institutions (especially the UN and World Bank). Although the past 30 years saw many partial as well as overall improvements (people live longer on average, neonatal and infant mortality has decreased, the number of malnourished people has dropped, education and the economic status of people has improved and poverty has declined), these positive trends are to a great extent differentiated regionally (the lowest improvement was documented in poor regions of Sub-Saharan Africa and South Asia): mainly in developing countries the level of development of the rural population is far lower than that of the population in cities or towns and a great imbalance persists in terms of the equality of sexes.

#### ■ Picture 2.1. Human Development Index



- Medium human development (HDI 0.501 – 0.800)
- High human development (HDI 0.801 – 0.936)

Source: Human Development Report, 2001

Besides *human development* this Report also uses the term *quality and sustainability of life* (this term is currently being elaborated by the FSV UK Center for Social and Economic Strategies). These two terms are the same in their basic philosophy and tend to be equal as regards basic features. Yet the quality and sustainability of life goes into more detail. It pays attention not only to the quality, but also to the long-term sustainability of life and thus provides suitable grounds for the elaboration of an overall indicator as well as partial indicators in the key areas of human development: economic, social, political and social, and environmental. These aspects are dealt with in more detail in the corresponding chapters of the present Report.

### 2.1.2. The recent development of the Czech Republic's position according to the HDI in international comparison

The UNDP assessed the situation of the former Czechoslovakia from the beginning of the compilation of the Human Development Report and since 1993 it has done so regarding the Czech Republic. The Czech Republic has regularly ranked among countries with a high level of human development. In the latest HDR, which came out in 2002, the Czech Republic ranks second among former communist countries (following Slovenia).

■ Table 2.1. Key HDI indicators for the Czech Republic according to HDR

| Indicator  | Value       | Index |
|--|-------------|-------|
| Life expectancy at birth                                   | 74.9 years  | 0.83  |
| Adult population literacy rate                             | 99 %        | 0.89  |
| Combined rate of enrolment in schools                      | 70 %        |       |
| Actual per capita GDP according to purchasing power parity | US\$ 13,991 | 0.82  |
| HDI 2000 total   |             | 0.849 |

Until 1993 Czechoslovakia was able to maintain its stable 26th – 27th position in the world (despite a significant decline of the index value, which was mainly due to a slump in the economy). In 1993 a relatively abrupt shift took place – backwards by 10 positions – caused by a change in methodology as well as an increase in the number of states assessed in the determination of the index.

The HDI for the years 1992–1995 was marked by stagnation or by slower development in comparison with the majority of developed countries (37th – 39th position). Between 1996 and 2000, however, the index value improved in relative terms and the Czech Republic's position stabilized at the current 33rd place. The rapid decline of the index value in 1997 resulted from a change in the calculation methodology.

Table 2.2 compares the HDI in the Czech Republic with other regions and the world after the last change in methodology. The HDI improvement for the Czech Republic corresponds to the worldwide average level, although it is lagging behind the average of the “Visegrad 4” countries (Czech Republic, Hungary, Poland, and Slovakia). The stagnation or deterioration of the position of the OECD countries is noteworthy.

■ Table 2.2. Comparison of the HDI development of the Czech Republic with other regions

| Country                        | HDI 1997 | HDI 1998 | HDI 1999 | HDI 2000 |
|--------------------------------|----------|----------|----------|----------|
| Czech Republic                 | 0.833    | 0.843    | 0.844    | 0.849    |
| Visegrad 4 countries – average | 0.811    | 0.825    | 0.833    | 0.838    |
| OECD states                    | 0.919    | 0.893    | 0.900    | 0.905    |
| Worldwide average              | 0.706    | 0.712    | 0.716    | 0.722    |
| Developing countries           | 0.637    | 0.642    | 0.647    | 0.654    |

### 2.1.3. Development of the Quality and Sustainability of Life Index in the Czech Republic – evaluation of the 1990 – 2000 period

For the purpose of evaluating the quality of life in the Czech Republic in detail, we made use of the results of the research project “Guide to the Landscape of the Czech Republic’s Priorities” [Potůček ed. 2002], part of which was a calculation of the *Quality and Sustainability of Life Index* (QSL Index).

At present, the internationally shared opinion is that it is necessary to perceive the overall quality of human life as the mutual interaction of the main aspects of life that contribute to the satisfaction of the material and spiritual needs of the individual. In the course of the determination of the QSL Index **four main areas of quality of life have been defined** – *socio-political, social, economic and environmental*. These areas were broken down into further areas of concern. The **sustainability of the quality of life** is conditional on the development of the individual quality of life indicators over the course of time as well as tendencies that reflect this development. It is also important to learn the acceptable minimum and/or maximum values and the desired optimum indicator values; their comparison with the development of real values over the course of time makes it possible to actually express the “sustainability of development” (whether the direction of the development is positive or negative).

The **Quality and Sustainability of Life Index** (QSL Index) was determined as a hierarchy index comprising twelve partial indexes (sub indexes) representing selected areas of concern and four indexes representing development areas. The fields and areas covered also comprise all the aspects of human development as they are understood in the human development concept according to the UNDP (cf. Picture 2.2).

Partial indexes were calculated for individual areas of concern as well as one overall index. The indexes make a relative comparison of the quality of life (degrees of development) possible in four main development areas and twelve areas of concern for the period between 1990 and 2000 as well as the extrapolation of tendencies up to 2006. When assessing the index values it is necessary to bear in mind the risks and limitations of statistical methods and to understand the main goal of the determination of the index as being a concise description of **strong and weak points of the development of the quality of life in the Czech Republic to date and the drafting of probable trends**.



■ Picture 2.2. Basic structure of the Quality and Sustainability of Life Index in the Czech Republic

|                      |  |
|----------------------|--|
| Socio-political area | A – International status of the Czech Republic<br>B – Internal security and socio-political situation  |
| Social area          | C – Demographic development<br>D – Citizens' standard of living<br>E – Health condition of citizens and health care<br>F – Education, science and research<br>G – Accessibility of information, information technology spreading |
| Economic area        | H – Performance of the economy and economic development<br>I – Indebtedness and balance of the economy<br>J – Selected economic indicators   |
| Environmental area   | K – Natural resources consumption, environmental effectiveness<br>L – Quality of the environment   |

#### Socio-political area

This area was assessed based on two areas of concern and a total of 16 indicators. In the area of concern called *International status of the Czech Republic* indicators such as the political rights and civil liberties index were included (monitored by Freedom House); further the integration into international organizations and official development aid of the Czech Republic. In the area of concern called *Internal security and socio-political situation* the indicators of the perception of corruption index were evaluated (monitored by Transparency International), the number of criminal offences, murders and those sentenced, economic criminality, as well as the perception of corruption, criminality and crime on the part of citizens.

Based on the indicators assessed a significantly different development in the international status of the Czech Republic was documented (the status was reinforced by the Czech Republic's incorporation into leading world organizations – the index development tendency in this sub-area is positive) as in the realm of internal security and the socio-political situation (markedly fluctuating development and negative trend – the increase of criminality and corruption in society had a negative effect, as well as the rise of the importance of these problems from the point of view of public opinion). With respect to these facts the development trend of the overall index in the socio-political situation up to 2006 is stagnant, with little expectation of improvement.

#### Social area

This area was assessed based on five areas of concern and a total of 38 indicators. In the area of concern called *Demographic development* indicators such as natural population growth, overall fertility and age structure of citizens were evaluated. The area *Citizens' standard of living* includes indicators such as the unemployment rate, real wages and citizens' purchasing power, as well as private consumption. The area *Health conditions of citizens and health care* comprises the indicators average life span, infant mortality, standardized mortality, incapacity for work, the number of physicians and expenditures on the health service. The area of Education, science and research takes in indicators such as expenditures on education, research and development, the number of students, scientific staff, professors and assistant professors in universities. In the area of *Accessibility of information, information technology spreading* indicators like the

number of TV receivers, telephone stations and mobile telephones, personal computers and connection to the Internet, books, publications and magazines were assessed.

The realm of demographic development shows a significant negative trend brought about by an absolute shrinkage of the number of citizens and the aging of the population. The development of the standard of living of citizens fluctuates: the fall in the 1991 – 1992 period was followed by a gradual rise of the index value, but in 1998 it decreased significantly again. The years 1999 and 2000 saw the index value of social status grow and preconditions for a mild increase in 2001 – 2006 are developing. The development of indexes in the area of health conditions and care as well as those of education, science and research also fluctuated (relative expenditures from the national budget fell for these branches) with moderately improving indicators in trend and preconditions for further improvement. Within the area of concern *Accessibility of information, information technology spreading* the development tendency is unambiguously positive practically throughout the whole period in question with an assumption of a significant growth in the index value.

With respect to the fluctuating development of the majority of the indicators the development of the overall index in the social area has been stagnant so far, with a very moderate growth trend between 2001 and 2006. The main motor of growth should be the area of the spread of information technology through society, as well as that of education, science and research. By contrast, social development is hindered by the unfavorable demographic development of the population of the Czech Republic.

#### Economic area

This domain was assessed based on three areas of concern and a total of 18 indicators. In the area of concern called *The performance of the economy and economic development* the indicators of per capita gross domestic product, its growth year on year, the inflation rate etc. were studied. In the sphere of *Indebtedness and balance of the economy* indicators such as gross foreign indebtedness and debt services, balances of the national budget and the trade balance were assessed. The Selected economic indicators comprised the indicators of foreign investment, trade, transport performance and income from tourism.

The overall development of the indexes in the individual areas of concern is ambiguous. Up to 1996, after an initial fall in 1991, the performance of the economy grew; in 1997 – 1998, by contrast, it contracted. A positive tendency for the period until 2006 results from the improvement of the index value in 1999 – 2000. Selected economic indicators prove the recovery of the economy, despite a fluctuating tendency between 1990 and 1998. However, the area of concern of the economy's indebtedness, trade balance and national budget balances has to face a significantly unfavorable index development, since negative development prevailed in this area during the whole 1990 – 2000 period. Furthermore, the trend until 2006 is negative.

The aforementioned facts caused a stagnant development tendency of the overall economic area index – its 2000 value maintained practically the same level as in 1990. Its development tendency towards 2006 is positive in a very moderate way and is based on the assumption of a mild growth of the economy and its key indicators. A possible increase of the index value will probably be hampered by a growing value of the indebtedness of the economy, negative trade balance as well as the national budget deficit.

#### Environmental area

The assessment of this area is based on two areas of concern and a total of 29 indicators. In the area of concern *Natural resources consumption, environmental effectiveness* indicators like energy consumption, wood exploitation, energetic demands

of economic production were assessed. In the realm of *The quality of the environment* the following indicators were focused upon: air and water pollution, the quality of woods, bio-diversity and environmental protection, waste production and the financing of the environmental branch.

Based on the selected indicators it is possible to identify a positive development tendency in both the areas of concern, especially as regards the indicators of pollution and burdening of the elements of environment (primarily air and water); waste production dropped. There has been a less positive development in the field of financing environmental care, with the total volume of investment decreasing. Despite the shrinkage of the index value in 2000 the forecast for the development of the index in the present area of concern (quality of the environment) up to 2006 is positive. The index value in the area of concern of the consumption of natural resources and environmental effectiveness - after initial growth prior to 1994 (this being due to reductions in production in particular) - was stagnant up to 2000. The forecast up to 2006 is for a moderate increase of the index value.

The overall development index in the environmental realm between 1990 and 2000 is positive, despite a certain stagnation in the period 1995 - 1997 and in 2000. The expected index development tendency up to 2006 is also positive.

#### **The overall Quality and Sustainability of Life Index (QSL)**

In Table 2.3 and Chart 2.1 the index values for the four main areas of the quality of life and the overall quality of life index, calculated as the arithmetical average of the indexes of the 12 areas of concern, are shown. The theoretical index value can assume a value in the range of 0 - 1, whereby the higher the value, the better is the quality of life in the area in question.

The period between 1990 and 1992 (prior to the foundation of an independent Czech Republic) is characterized by a stagnant development of the QSL Index. The stagnation was caused mainly by unfavorable economic development and a decrease in the quality of life in the socio-political area as well as by stagnation in the social area. On the other hand, the environmental area saw a positive development.

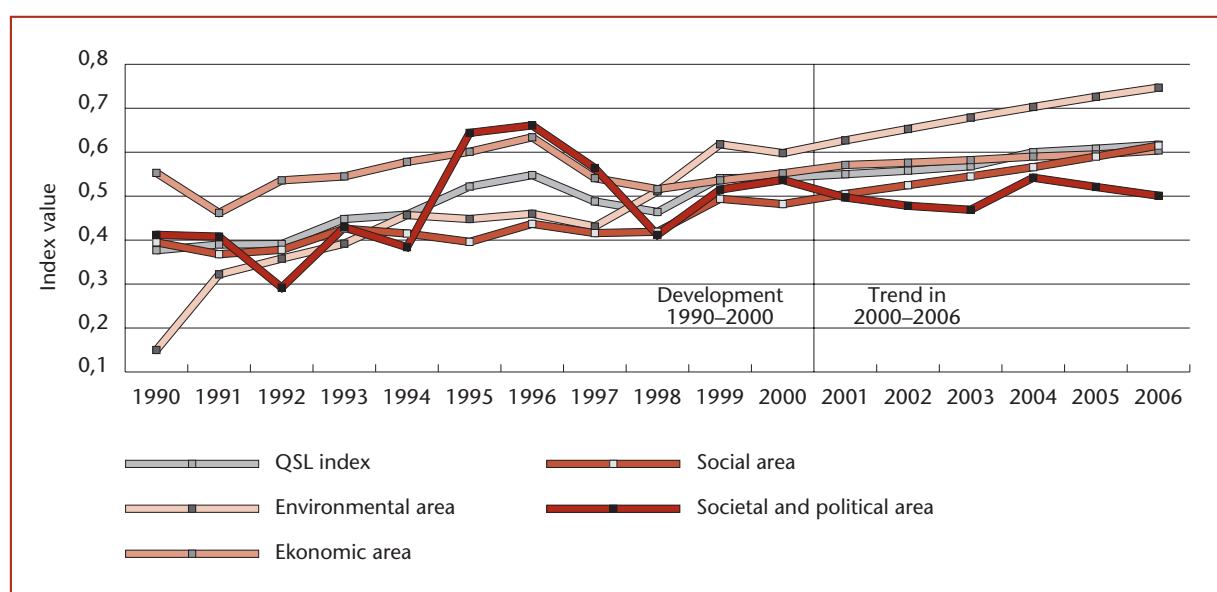
The value of the QSL Index grew in the first four years of the independent Czech Republic (1993 - 1996). This was mainly due to the positive development in the economic and socio-political area. On the other hand, the environmental area experienced stagnation after the initial growth and development in the social area remained stagnated.

Between 1997 and 1998 the QSL Index fell quite significantly. It was caused by a negative development of these indexes in almost all the major areas, except for the environmental area. 1999 seems to have been a decisive year as it saw the beginning of positive trends in the QSL Index values - in fact increasing index values marked all the areas of societal development. In 2000 the index value increased only slightly, though the most important thing is that the negative trend has ceased.

The prognosis for the further development of the QSL Index for the period up to 2006 is positive: the index should continue to improve slightly. The main factor in this improvement should be the environmental area and also, after a longer period of time, the social one. By contrast, a stagnating and fluctuating development can be expected in the socio-political area, mainly due to negative trends in internal security as well as the political and societal area.

■ Table 2.3. and Chart 2.1. QSL Index in the Czech Republic – recent development and probable trend

|                               | 1990  | 1992  | 1994  | 1996  | 1998  | 1999  | 2000  | 2006  |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Index in socio-political area | 0.412 | 0.292 | 0.384 | 0.661 | 0.412 | 0.515 | 0.537 | 0.501 |
| Index in social area          | 0.395 | 0.378 | 0.415 | 0.437 | 0.419 | 0.494 | 0.482 | 0.615 |
| Index in economic area        | 0.553 | 0.536 | 0.578 | 0.634 | 0.516 | 0.536 | 0.552 | 0.604 |
| Index in environmental area   | 0.150 | 0.358 | 0.457 | 0.460 | 0.511 | 0.618 | 0.598 | 0.747 |
| Total QSL Index               | 0.377 | 0.391 | 0.458 | 0.548 | 0.464 | 0.541 | 0.542 | 0.617 |



Source: Individual calculation

■ Box 2.1. How the Quality and Sustainability of Life Index was created

The evaluation of the QSL Index comprises roughly 100 indicators from various areas of human development. The data was entered in a database and divided into twelve basic areas of concern, constituting four main areas of the quality of life.

The statistical data processing was carried out with the help of the statistical package *NCSS and PASS*. All data was screened in terms of relevance for the sake of a statistical analysis – e.g. from the point of view of the volume of the samples and normality of the differentiation of the data. The trends of the recent development and the envisaged trends were evaluated with the help of the *Time Series Analyses and Forecasting module*. The data was tested in terms of the suitability of usage of the individual methods. The most suitable have proven the methods of exponential smoothing, especially due to the short time line of the data and the absence of the seasonal and cyclical features of the data. The specific method was then chosen empirically based on the preliminary testing of individual indicators. For each of the

indicators the trend up to 2006 was determined based on the development from 1990 to 2000. Data that was missing in the period between 1990 and 2000 was supplemented by a linear extrapolation.

The method of setting up the index and partial indexes constitutes a profound methodological challenge. With respect to the large number of indicators applied and due to the complexity of the issue the method of equal weights was used – individual indexes were calculated on all the levels as the arithmetical mean of the transformed indicators entering the calculation, separately for each year. The transformation of the indicators was based on the rendering to a common <0,1> scale according to the following formula:

$I_{xi} = (X_i - X_{min} / X_{max} - X_{min})$ , with a growing value of the  $X_i$  indicator the quality of life increases;

$I_{xi} = (X_{max} - X_i / X_{max} - X_{min})$ , with a growing value of  $X_i$  the quality of life decreases; 0 = the least favorable indicator value in the period assessed and 1 = the most favorable value of  $I_{xi}$  with respect to the quality and sustainability of life.

The highest possible theoretical value of individual indexes as well as the overall index amounts to 1.0, whereas, in the opposite case, the lowest possible value is 0.0. A higher index value means a better quality of life, a lower value points to the deterioration of the quality of life in the area assessed.

The indexes make it possible to relatively compare the quality of life (degrees of development) in individual areas, its development between 1990 and 2000 as well as evaluate the trends up to 2006.

### Summary

To assess the development of the quality of life, 1990 – 2000 data was analyzed. The values of the relevant indicators were adopted predominantly from Czech Statistical Office materials; the probable development trend for 2001 – 2006 was established based on mathematical-statistical methods. Partial indexes were calculated for individual areas of concern as well as one overall index. The indexes make a relative comparison of the quality of life (degrees of development) possible in four main development areas and twelve areas of concern for the period between 1990 and 2000 as well as the extrapolation of tendencies up to 2006.

These development trends constitute suitable grounds for the formulation of the individual policies dealt with in the following chapters of this Report.

## 2.2. Educational system and skills

The Czechs and Moravians – descendants of the great Baroque philosopher and pedagogue of international renown, J. A. Comenius – were and still are proud of their educational system. 70 % of the inhabitants of the Czech Republic are consistently satisfied with the state of education. The Czech education system can indeed boast several strengths: it engages in the upbringing of a high proportion of children of preschool age, the network of basic and secondary schools is extraordinarily dense, schools have broad authority and the pupils usually perform well in international comparisons.

Although the education system, in contrast with the health service and several sectors of industry, has not seen a vast internal transformation crisis, over a longer period of time we have witnessed some very disturbing trends. The Czech education system as such has not deteriorated, however, the environment in which it exists has changed – and is still changing – and the system is no longer able to keep pace with it. We are standing on the threshold of the “knowledge society”, while the Czech education system still bears the signs of the industrial era – the mass and short-term preparation of a cheap labor force.

### 2.2.1. Participation in education

The knowledge society requires continuous learning – the education of all age groups “from the cradle to the grave”. The Czech educational system, however, has the shape of a pyramid: a broad base, but a narrow top. This is reflected in the structure of educational attainment of the Czech population.

■ Table 2.4. Population over 15 years of age by highest educational attainment, as of 1. 3. 2001 (in %)

|  |      |
|--|------|
| No education                                   | 0.4  |
| Basic, including not completed                 | 23.0 |
| Vocational                                     | 20.5 |
| Secondary technical                            | 17.4 |
| Secondary vocational with school-leaving exams | 1.5  |
| Upper secondary including extension study      | 25.6 |
| Higher technical                               | 1.3  |
| University                                     | 8.9  |
| Not identified                                 | 1.3  |

Source: The Czech Statistical Office. Population and Housing Census, 2001.

Almost every child in the Czech Republic is exposed to pre-school education: more than 85 % of children of a given age group attend *kindergartens*. Attendance is voluntary and supplied on a fee-paying basis. Compulsory school attendance starts at six years of age, lasts nine years and is equal to the length of *basic schools* (corresponds to primary and lower secondary education in ISCED). Just under 2 % of children fail to complete their basic school education. On the whole, the Czech Republic has *one of the highest proportions of people who attained secondary education* among OECD countries. If achieving at least

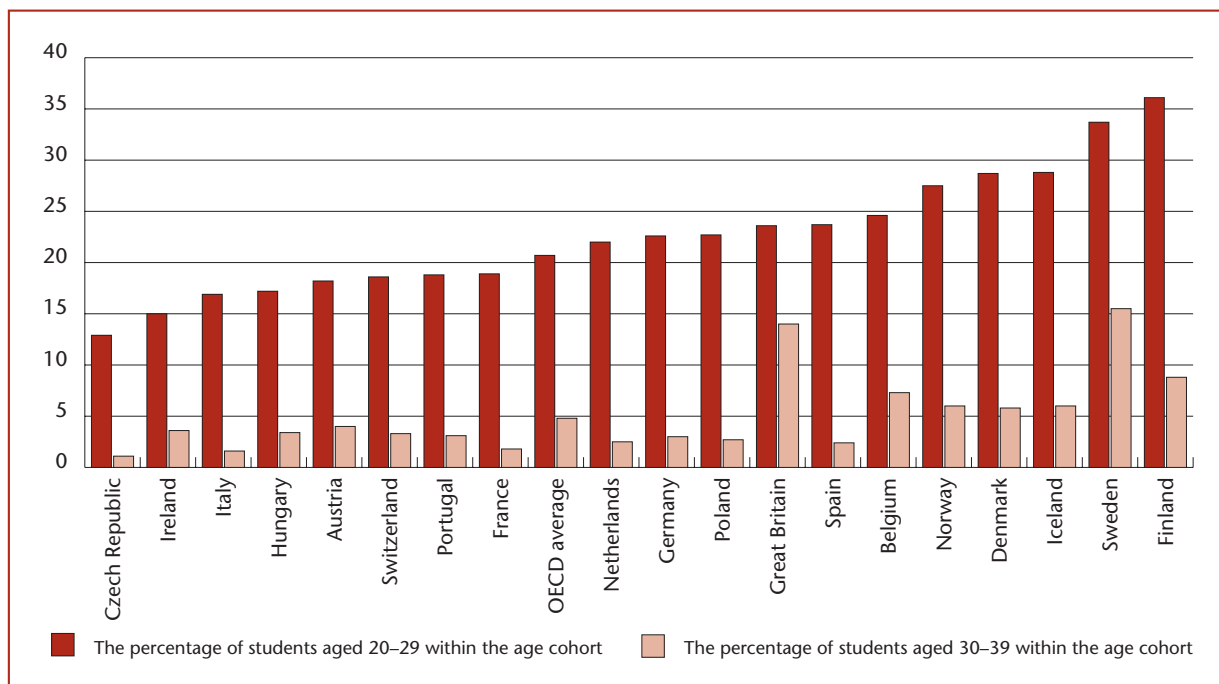
a higher secondary education (ISCED 3) was the criterion used to determine the level of education, the Czech Republic would continuously occupy second position in the OECD.

However, for the knowledge society people educated beyond secondary level are required and this is an area in which the Czech Republic has a large deficit. Despite the tendency of the Ministry of Education to trivialize this problem, *the tertiary education on offer is quite insufficient*. Many of those who aspire to study at this level are not accepted due to reasons of capacity. Although the absolute number of students at the tertiary level has doubled over the past decade, with respect to baby-boom age groups and postponed demand (of those who were not accepted in recent years), the demand for university enrolment significantly exceeds supply every year. Even if we consider the option of studying at the recently established two- and three-year colleges, the desire for further study is still much higher than the actual capacity.

The preconception that education is not for the whole of the population, but only for selected individuals, is deeply rooted in the Czech Republic. One cannot agree with the opinion – as spread even by official representatives from time to time – that the Czech Republic has enough people educated at tertiary level. If in the EU 22 % of the economically active population has higher than secondary education (Czech Republic: 11 %) and we would like to keep pace with the EU in terms of education, there would have to be an extra 500,000 adult Czech citizens with tertiary education!

On the whole, the Czech Republic's citizens spend over a year and a half less in education as compared to the OECD average (15.1 in comparison with 16.7 years) and their participation in education declines rapidly with age. The Czech Republic is at the bottom of the table of European countries as far as participation in education for twenty and thirty-year-olds is concerned.

■ Chart 2.2. Participation in education in European OECD countries



The average stands for all OECD countries, including the non-European.

Source: Education at a Glance 2001.

While in developed countries the numbers of adults educated outside the school system have surpassed the numbers of young people educated within the school system, *further education* in the Czech Republic still occupies only a very small proportion. For example, the expenditures of Czech enterprises on education roughly amount to a half of the average of the EU countries.

### 2.2.2. Educational opportunities

Another requirement of the knowledge society is the provision of the widest possible general education to serve as the basis for possible further life-long education. This requires a high rate of general types of secondary schools at the expense of vocational or technical schools, while at the same time offering also individual options depending on the interests of the student.

Since 1989 major changes in the number of schools as well as pupils have taken place within the framework of the secondary school system. The number of pupils enrolled in secondary technical educational establishments fell rapidly, whereas the secondary technical schools and their pupils rapidly grew in number. At the same time, the number of secondary general education schools (gymnasiums) stagnated. Less than a fifth of recent basic school graduates proceed to gymnasiums, less than two fifths to secondary technical schools and over two fifths to secondary vocational schools.

Compared to secondary schools in Western countries, secondary technical schools (completed by a school-leaving examination) in the Czech Republic are traditionally very popular, mainly due to the fact that their successful completion enables the student both to enter university as well as employment. Their subject structure however *features too high a degree of closely specialized fields of study*, which weakens the desirable flexibility of technical education when it is to respond to changes in employment structure and helps account for the fact that only about half of graduates work in the field in which they were educated. The imbalance between the subject structure of technical school graduates and the requirements of the labor market is of a permanent nature and it negatively influences the unemployment rate of technical school graduates, which has reached roughly 15 - 20 % (depending on the type of the technical school attended) and is continuing to increase.

Largely due to the fact that pupils enroll in secondary technical educational establishments and secondary technical schools directly after the completion of basic schools *the proportion of pupils in secondary general education schools is very low*. The general education stream (gymnasiums) is represented by as little as 17 % of young people, a number that - in comparison with OECD countries - does not even reach their bottom values (the OECD average is about 50 %).

The structure of tertiary education is also old-fashioned. In the Czech Republic, *the majority of students enroll in longer (mostly five-year) study programs*, while the proportion of students in shorter (bachelor) study programs remains relatively low. Although the Czech Republic has subscribed to the Bologna Declaration, which requires the segmentation of university studies into the bachelor's, master's and doctoral levels, many universities are very reluctant to alter their education programs. While in 1995 the foundation of two- and three-years colleges was legalized, they were not furnished with the ability to grant the bachelor's degree and to date both the general public and employers are largely unaware of their existence.



Students are most interested in the humanities and social sciences (especially law, economy and psychology), medicine and to a considerable extent also in science. *The structure of the education on offer at the university-level school system does not, however, meet the interest of the students.* For example, there are more than twice as many agricultural schools and the percentage of technical schools is also higher than in OECD countries. On the other hand the Czech Republic has a lower proportion of students studying science, mathematics and social sciences. However, social sciences are only gradually escaping the deep decline they were exposed to during the communist era. A specific problem is also the low capacity to combine various fields of study as well as in the permeability both of individual schools and in their actual framework. Attempts to create an interdisciplinary approach face many hurdles in the Czech Republic, especially of an administrative nature.

### 2.2.3. Educational inequalities

One of the key aims of education is to enable upward social mobility for individuals so that success in life would mainly be determined by their abilities and achievements and not by inherited privileges (e.g. the family's financial situation or its high "cultural capital"). Surveys have shown that *inequalities in the inter-generation education reproduction are far higher in the Czech Republic than in the EU countries.* In the Czech Republic a child from a family with elementary education is almost nine times less likely to go to university than one coming from a university-educated family (in EU countries the probability is about 3.7 times lower).

The educational system arrives at this result in two ways. The first relates to six- and eight-year *gymnasiums* that were re-introduced after 1989. These lead to the division of children into successful and unsuccessful as early as the age of eleven. This is very early since at this age the success of the children depends more on their social and cultural background than on their inborn abilities. The selection of children thus widens the differences between various types of schools already at the lower level of secondary education. On the one hand there are elite eight- and six-year *gymnasiums* for the socially privileged; on the other hand there is the second stage of basic schools for the "rest". The second cause is limited access to tertiary education – children from less well educated strata lack the chance to study and thus compensate for their social handicap.

The Czech Republic's education system is not very accommodating to students with other types of handicap either, although the Czech Republic has recently introduced many measures for the integration of the handicapped into the main stream of basic education. Compared to other countries the Czech Republic still suffers the problem of a *relatively high proportion of pupils being sent to special schools* (3.8 % – i.e. three times more than is usual in developed countries). This is in part due to the particular reasons for pupils being sent to these schools. Often it is not an intellectual, but a social handicap, particularly in the case of Romany children.

### 2.2.4. Further challenges facing the education system

The education system in the Czech Republic also has to face other complex challenges. The first is the demographic aging of the population and the steadily decreasing number of pupils. In the next five years the number of children entering

elementary schools will fall by roughly 15 % and although it will then moderately increase in the subsequent five years (up to 2010), it will not reach the year 2000 level. In five years the age group of 15-year-olds will be 4 % smaller than this year; in 10 years it will, however, be as much as 28 % smaller. The recent excessive capacity of basic and secondary schools will thus become even more marked. The Czech school system faces a very unpopular and painful step, albeit one which is necessary for it to function effectively: the dissolution and unification of schools. At the same time, the number of educational opportunities for adults has to be multiplied many times and adults have to be offered “a second chance” to study at university.

The second challenge is *the state of the teaching staff*. Although in international comparison Czech pedagogical staff rank among the best educated, they are also among the oldest (in the next ten years 40 % of all teachers will retire). Furthermore, the percentage of teachers who are women is relatively high. An alarming issue is the low attractiveness of the teaching profession, which is related to wage conditions in other professions: Czech teachers are the worst paid among all OECD countries.

### 2.2.5. Skills – actual capacities of the Czech Republic’s citizens

Up to the first half of the 1990s the quality of the Czech Republic’s school system could only be assessed by indirect indicators. Since then, however, several large-scale international comparative surveys have been conducted that have put an end to speculation about the extraordinary nature of our education system and debunked the conception of our educational system as a traditional national asset. The surveys found that *the pupils of Czech elementary schools* show above-average results in science, average results in mathematics and below-average in reading and handling information. The results have had a decreasing tendency.

The results of the first ever large-scale survey on education to have been carried out in the country (TIMSS, 1995) were welcomed enthusiastically in the Czech Republic: the pupils of Czech elementary schools were exceptionally successful in it. The best scores were achieved by 8th year pupils who were ranked 6th in mathematics among pupils from 42 participating countries and even 2nd in science. In 1999, an identical survey was again conducted (TIMSS-R), this time only among 8th year pupils; its results were not so remarkable. As regards mathematics, the Czech Republic ranked 13th among the 38 participating countries (still ahead of countries such as Finland, the United States and Great Britain however). In science (physics, chemistry, biology and partially geography) the Czech Republic occupied the 8th position in the international comparison; in Europe however only 8th year pupils from Hungary and the Netherlands achieved better results. However while our pupils ranked in above-average positions as compared to 1995, the Czech Republic saw the worst deterioration of all the countries surveyed. The “fall” can, among other things, be attributed to an overall decrease in the quality of the second level of basic schools that occurred as a consequence of the best pupils leaving for six- and eight-year gymnasiums as well as the weakened position of mathematics and science in the basic schools curriculum.

In a PISA survey (2000) assessing the ability of 15-year-olds to apply reading, mathematical and scientific literacy in real-life situations Czech pupils only occupied average positions in mathematics and moderately above-average in science. The survey also bore out the fact that the Czech Republic *ranks among countries with the highest differences between performance in practical and “academic” tasks*. The more practical

the skills that are surveyed, the worse the results achieved by our pupils. Therefore, it is not surprising that in the third domain surveyed – understanding, using, and reflecting on written texts – the Czech Republic’s students fell into below-average positions in the PISA survey. They achieved their best results in the area of text interpretation and the worst in looking up information. Yet it is this “reading literacy” that is considered one of the key skills for life in the knowledge society.

As far as the *knowledge of the Czech Republic’s upper secondary school students* is concerned, only TIMSS data is available to form the basis for international comparison. The results of Czech secondary school students in their last year of study were very weak: in science they occupied 14th position, in mathematics they only ranked 18th out of the 21 countries surveyed. One of the possible causes was that there was a much greater proportion of real-life tasks in comparison to TIMSS. The mathematics and physics test “for the advanced” showed that even our gymnasium students lag behind other countries’ average (except for the group of graduates in these subjects that, compared to other countries, is very narrow) thus debunking the myth of the excellent level of Czech gymnasiums.

Since the Czech Republic participated in the *Second International Adult Literacy Survey (SIALS)*, data is available to us on what skills the Czech adult population has or doesn’t have. Among all the countries surveyed the Czech Republic showed the greatest differences between the levels of the three components of adult literacy: Czech adults are very good (4th out of 25 countries) in quantitative literacy (the knowledge and skills required to apply arithmetic operations), average (10th out of 25 countries) in the area of document literacy (the knowledge and skills required to locate and use information contained in various formats) and below-average (17th out of 25 countries) in prose literacy (the knowledge and skills needed to understand and use information from texts including editorials, news stories, brochures and instruction manuals). The SIALS survey – with regard to the Czech adult population – and the PISA survey – with regard to the 15-year age group – showed clearly that our biggest *problem is working with longer texts, responding to questions that cannot be answered in a routine way as well as the solution of practical problems*. These findings thus strongly contradict the traditional Czech claim that a “unique ability to improvise” is part of the national character.

The communication barrier is yet more strengthened by the insufficient *language skills* of the Czech Republic’s citizens. As with other post-communist countries the vast majority of adults first encountered a foreign language other than Russian only after 1989. However, five other languages play a decisive role in the European Union: English in particular, which is already spoken by as many as 49 % of the EU adult population (22 % in the Czech Republic), German (34 % EU, 33 % the Czech Republic), French (31 % EU, 2 % the Czech Republic), Italian (18 % EU) and Spanish (14 %). The proportion of the knowledge of the latter two languages is almost negligible in the Czech Republic. The second most wide-spread foreign language in the Czech Republic – following German – is still Russian (24 %). We will however only be able to use it in communication with 1 % of the inhabitants of Western Europe.

Whereas an average EU citizen has the command of 1.5 of these six languages, its adult Czech counterpart can only communicate in 0.8 of the six of the most wide-spread languages (including Russian). To date the basic communication competence of the average Czech is roughly half that of the average Western European. If they persist, deficiencies in language education may lead to disappointment in the course of the gradual opening of European labor markets to the countries of Central and Eastern Europe.

### 2.2.6. Competence as the result of the educational system

Considered from a general point of view one can say that although the education of the Czech population is above average, it does not, however, meet current requirements. The *Czech education system is designed "for the short run"*. Compared to other countries basic school pupils excel in science (and partially also in mathematics), while at the secondary level their achievements only reach slightly below average. It can be assumed that in tertiary education the Czech Republic will see itself rated below the average due to still the insufficient access to tertiary education and, in comparison with developed countries and its worsening quality. At initial educational levels, pupils gain a considerable amount of information, without however absorbing it in a sufficient way and without acquiring the necessary skills for further learning. Thus the added value of education at schools is gradually decreasing. The TIMSS 1995 results even found that as regards the group of mathematical tasks that were identical for pupils of the 8th year and graduating secondary school students the latter achieved worse results! Our system has not changed since it was created for the industrial age when it was necessary to train a large number of young people over a short period of time, the rest left for labor market forces. However, the education system for the knowledge society is completely different. It is a system "for the long run": education should be less "inflated", yet more thorough and it has to last virtually all life long. In the knowledge society haste in the passing on of knowledge is harmful. Our pupils dispose of many parallel pieces of information. It is however desirable that, while they could be less in number, these pieces should be structured to become knowledge.

The above mentioned discriminatory structure of the educational system that fails to offer equal opportunities to everybody can also be clearly seen when looking at "soft data", i.e. educational results. The TIMSS discovered strong inequalities in the Czech educational system. Compared to 21 countries *the Czech Republic presented the highest differences between the results of gymnasium students and secondary vocational schools*.

*Motivation and learning attitude* are factors that determine a person's life often more significantly than natural talent. Even with a certain handicap (social, health, intellectual...), an active and motivated student is in the end often more successful than one that is privileged in all respects, but passive. Active and motivated citizens are society's hidden treasure. All post-communist countries have to fight the noxious inheritance of the passive attitudes of citizens to both public issues and their own lives. Sociological surveys have suggested that when asked to define ideal working conditions the majority of Czechs give priority to good salary, friendly colleagues and low performance requirements. 34 percent of Czechs consider work a necessary evil and another 27 percent are also not far from sharing this attitude. In comparison with 1991 the number of people who only go to work as a matter of obligation has actually increased by almost ten percent. Can Czech schools offer hope for a change in these attitudes? Will they be able to promote interest in learning and positively form the pupil's personality?

The TIMSS has already proved – despite the excellent knowledge of the then eight year pupils – the least liking for mathematics from all the participating countries. Physics and chemistry did not come off much better. Similarly, the Civic Education Study showed a disproportion between above-average knowledge of the Czech pupils and their passive attitudes to learning. Only in one of the eleven scales that measured the attitudes (positive esteem of the native country) did they reach an above-average score. Compared to all the countries surveyed the Czech pupils are among other things the least willing to

enter a political party in the future, write to newspapers or run for a place on the local council. They also attributed less importance to civic activities and involvement in political life.

To a considerable extent the passive attitude of pupils is determined by the model of education. Czech basic school pupils consider the atmosphere in the class to be much less open than their counterparts abroad. More than two thirds of pupils describe the subject civics as the lecturing of facts and consider learning by heart as the best strategy for obtaining good grades. However, where else if not in civics class should the pupils learn to engage in discussion and be tolerant? Despite all declarations and strategic documents, it appears that the time for the teaching and development of critical and independent thinking at schools has not yet arrived. The 1995 survey on reading literacy already found that Czech teachers consider it very important to teach children to read aloud well in contrast to their colleagues from other countries who concentrate on the pupils' correct reading comprehension. The passive way of life that is deeply ingrained in the majority of Czech citizens is only carried on by the schools. However, the conclusions on the passive nature of the Czech education system cannot be generalized. It is fair to say that in the Czech Republic the two attitudes – old and new – coexist evenly. Many examples of “positive deviations”, schools with bold innovations, can be found as well as school-fortresses where the same teaching techniques are applied as twenty or more years ago.

## Recommendations

First it is necessary to convince the general public and politicians that the present-day educational system does not meet the requirements of our time and is in many respects old-fashioned, rigid and, by international comparisons, obsolete. As long as we are going to be content with the current state, the willingness for change will be difficult to find. Hand in hand with *making it clear that the present state is untenable* it is necessary to present positive reform suggestions. The key aim of such reform is to implement the concept of lifelong learning – a society, in which people have the chance to learn, are motivated to learn and know how to learn. To achieve this it is necessary to:

- *Increase the number of high-school students in general education programs* that will enhance their broader skills to be applicable in real-life situations and will motivate them for further studies. This requires a more differentiated attitude to pupils, the broadening of their chances to choose, devoting far greater attention to reading longer texts, looking for important information in these texts, defending their own opinion and group work.
- *Offer more post-secondary educational opportunities and in a more differentiated manner than to date.* This cannot be achieved without a thorough structuring of university education programs into three cycles (bachelor's, master's and doctoral) and partial modules. These make it possible to complete just a certain part of the curriculum (e.g. for those who are unable to study over the whole length of the curriculum at the given time, e.g. women on maternity leave) and enable mobility between various types of tertiary institutions.
- *Increase public expenditure on education* to the level of developed countries hand in hand with a total *increase in the proportions of non-public finances* (including the involvement of employers and students). Although the introduction of tuition fees in public universities is an unpopular step, it is however indispensable.

- Substantially *increase the effectiveness of the operation of the educational system*. A system that employs many people whose working potential is not fully utilized and who are badly paid has to be transformed into one where the number of employees is lower, though they are better qualified and better remunerated.
- *Systematically evaluate results* both on the national and regional levels. It is necessary that the final examinations are comparable and that the school leaving examination regains the informative value that it has lost.
- *Support for schools should be differentiated and related to quality*. Every high added value institution should be granted support, while the support for low-class schools should cease, regardless of their type or tradition.
- *Restructure the training of pedagogical staff* before as well as during their career so as to provide for sufficiently qualified and motivated school personnel.
- Devote far greater attention to *the provision of equal education opportunities for all children and students* and prevent further deepening of differences between the six- and eight-year gymnasiums and the second level of basic schools. Besides the limitation of enrollment in six- and eight-year gymnasiums, (their total and abrupt elimination would most likely do more harm than good) it is necessary to consider other measures: increase the quality of education at the second stage of basic schools, facilitate general education at secondary technical and vocational schools, create special programs for the handicapped, talented etc.

Despite all the official reassurances and declarations the Czech school system is being paid very little attention. A large number of measures have been proposed, yet they have been implemented only exceptionally. If it is not possible to convince those involved that what was applicable twenty years ago is outdated today, the Czech Republic will not be heading towards a knowledge society, but to an ignorance society.

## 2.3. Economy, labor and employment policy

### 2.3.1. The development of the labor market

There is no doubt that over the past ten years the nature of work and employment of a large proportion of the population has changed significantly. The branch and professional structure began to change quickly due to the influence of the liberalization of the economy and the radical changes that were connected with it, especially in the ownership structure. On the one hand, principles of free competition started to apply that almost spelt the end of some branches on the home market within a very short period of time (2 to 3 years) (e.g. electronics, partially textile production); on the other hand, other branches of industry, heavily subsidized by the state (metallurgy, mining), continued without major changes for many years. A similar development also took place in the professional structure, where new professions emerged that required different methods of training, behavioral patterns or understanding of personal career prospects (managerial professions, professions in the IT sector, finance etc.). Alongside this, professions continued to exist (and still do), the basic profile of which developed many decades ago – professions that have experienced almost no change over that period of time. In this respect the basic characteristic of the 1990s was the mingling of both these tendencies. Although it was often somewhat chaotic and superficial, it nevertheless had the capacity to change deep-rooted customs.

When analyzing the processes referred to it is worth distinguishing the movements between branches and fields from those that show movement in terms of the stratification (i.e. vertical) scales of social structure. Whereas the former follow the horizontal level and primarily document macroeconomic development, the latter result above all in changes to the social structure.

#### Changes in the horizontal dimension

The process of structural change in the economy of the Czech Republic in the 1990s can be divided into two periods according to their dynamics and depth. The first represents the period from the upheaval of 1989 until roughly 1992 – 1993. At that time the economy underwent very dramatic changes that, naturally, were reflected in the employment structure. In what was a relatively very short time period there was a rapid decrease in the total number of people employed in agriculture (of roughly 300 thousand) and, at the same time, a significant increase in the proportion of the work force in the tertiary sector (of almost 200 thousand). A certain degree of change, although much less significant, was also apparent in the secondary sector. In short it can be stated that the said shifts in the work force during that period created the basic preconditions for future changes on the labor market in the period to follow, which – however – in many respects had quite a different shape.

Such tremendous changes did not continue over the following years. The basic trends, i.e. the decrease of the proportion of employment in the primary sectors and its increase in the tertiary sector remained unchanged; however the dynamics were perceivably weaker. The changes had their most significant impact in the shifts within individual sectors, in the lines of business as well as in the profession levels.

A common feature of the previous decade as a whole was a steady decrease in the total level of employment. The decrease between 1990 and 2001 amounts to 11 %, which actually magnifies the depth of changes that our economy had passed through in this

time. The reasons for this can be seen in demographic processes (a decrease in the economically active and an increase in the non-active, especially pensioners) on the one hand, and in social-economic processes (especially in the prolongation of school attendance and the composition of the group of long-term unemployed) on the other. The total changes can be seen in Table 2.5.

■ **Table 2.5. Employment structure according to sectors of the national economy and its changes during the period 1990 – 2000 (%)**

|           | 1990  | 1995  | 2001  | Indexes <sup>1)</sup> |           |           |
|-----------|-------|-------|-------|-----------------------|-----------|-----------|
|           |       |       |       | 1995/1990             | 2001/1995 | 2001/1990 |
| Primary   | 15.3  | 8.1   | 5.4   | 49.5                  | 63.6      | 31.5      |
| Secondary | 41.9  | 39.6  | 38.5  | 88.7                  | 92.4      | 81.9      |
| Tertiary  | 42.8  | 52.3  | 56.1  | 114.4                 | 102.1     | 116.7     |
| T o t a l | 100.0 | 100.0 | 100.0 | 93.7                  | 95.1      | 89.1      |

<sup>1)</sup> The proportion of people employed for specific years.

Source: 2001, 2002 Statistical Yearbook

All branches of the economy saw greater or lesser movements in terms of employment (cf. Table 2.6.). In order to give the complete picture in respect to the above data it is appropriate to state some other facts. First, the decrease in the proportion of employees in the primary sector was also significantly influenced (along with agricultural workers) by the decrease in employees in mining and similar professions (mining and quarrying). Further it has to be pointed out that although employment in manufacturing as a whole declined by a fifth by 2001, this decrease was already accounted for during the first half of the 1990s. This industry as a whole has been back in growth since 1995, which in some branches is relatively significant. E.g. the employment changes index in 2001/1995 amounted to 158.4 in the electrotechnical industry, 119.0 in the clothing industry, 131.8 in the timber industry, 140.9 in the printing industry, 176.2 in the rubber industry, etc. Up to the mid-1990s, a slight increase could be observed in construction but it declined again over the second half. Thus it illustrated the common truth that the dynamics of the construction industry is one of the main indicators of economic growth.

In the given period the structure of the tertiary sector also witnessed different employment dynamics in specific branches. In the case of new jobs the fastest growth was recorded in financial intermediation. However, it must be pointed out that the number of employees in these branches (83 thousand in 2001) – and thus its importance within the total employment structure – was relatively minor. The increase in employment in the trade and services spheres, which had been undersized before, was more important with regard to the total employment balance. Significant changes also occurred in the public administration, defense and compulsory social security spheres. Although employment in the army decreased, new central offices were established (especially social security offices and employment bureaus), new services were introduced (e.g. the emergence of security agencies) and some already existing institutions broadened in scale (e.g. courts) leading to an almost two-fold increase of the number of employees in this branch.



■ Table 2.6. Employment structure according to branches (%)

|   | 1990  | 1995  | 2001  | Index <sup>1)</sup><br>2001/1990 |
|---|-------|-------|-------|----------------------------------|
| Agriculture, forestry, fishing  | 11.8  | 6.3   | 4.2   | 31.7                             |
| Industry  | 37.9  | 32.5  | 31.9  | 75.1                             |
| of that: mining and quarrying   | 3.5   | 1.8   | 1.2   | 30.7                             |
| manufacturing   | 32.9  | 28.8  | 29.2  | 79.2                             |
| electricity, water and gas supply   | 1.5   | 1.8   | 1.5   | 89.2                             |
| Construction  | 7.6   | 9.0   | 7.8   | 92.1                             |
| Wholesale and retail trade; repair of motor vehicles and personal and household goods | 9.9   | 14.9  | 15.2  | 138.6                            |
| Hotels and restaurants  | 1.6   | 2.8   | 3.7   | 195.8                            |
| Transport, storage and communications   | 6.9   | 7.1   | 7.3   | 93.8                             |
| Financial intermediation  | 0.5   | 1.7   | 1.8   | 300.0                            |
| Real estate, renting and business activities  | 7.1   | 7.8   | 9.1   | 113.6                            |
| Public administration, defense, compulsory social security                            | 1.8   | 3.2   | 4.0   | 197.6                            |
| Education   | 5.9   | 6.4   | 6.2   | 93.5                             |
| Health and social work  | 5.2   | 5.2   | 5.6   | 96.0                             |
| Other community, social and personal service activities                               | 3.8   | 3.1   | 3.2   | 74.8                             |
| T o t a l   | 100.0 | 100.0 | 100.0 | 89.1                             |

<sup>1)</sup> The share of the number of the employed in 2001 as compared to 1990

Source: 2002 Statistical Yearbook

An analysis of mobility processes found that a third of the economically active population changed their profession. This is especially due to the fact that the past decade saw a significant fall in employment in the mechanical engineering, metalworking and electro-technical professions. By contrast, employment in trade professions went up.

#### Changes in the vertical dimension

Modernization processes carry with them an increase in the complexity of work, demanding a higher level of education and qualification. Those who acquire a profession with these features usually (though not in all cases!) gain a higher social status, expressed among other things by higher salaries. On other side of the coin, there are still people who work in professions with lower requirements, usually also with a lower level of education and qualification. It is characteristic of a modern society that the variability of the complexity of work is increasing, especially in the medium part of the scale.

In our country a certain tradition of the categorization of the complexity of work is used to determine this dimension. It was first used for the research of social structure in 1967 and later reshaped for research in the 1990s. It is based on an expertise evaluation of all professions according to the degree of creativity, qualification, independence and responsibility of the work and its mental or physical demands. For common analysis it is commonly used as a six-degree scale and is applied in the following text (1 = the easiest work, 6 = the most complex work).

Table 2.7. gives the values of the complexity of work in those years, in which social structure research was carried out, without which the construction of this indicator would not be possible. This review reflects a period of more than 30 years, which is certainly a period long enough for the formulation of basic trends.

■ Table 2.7. Complexity of work in the years 1967, 1984, 1993 and 1999 as a % of employed people<sup>1)</sup>

|                    |   | 1967 <sup>2)</sup> | 1984 | 1993 | 1999 |
|--------------------|---|--------------------|------|------|------|
| Highest complexity | 6 | 0.3                | 6.1  | 9.0  | 10.4 |
|                    | 5 | 3.3                | 16.5 | 18.0 | 21.0 |
|                    | 4 | 16.0               | 24.7 | 16.1 | 16.8 |
|                    | 3 | 25.9               | 16.0 | 25.7 | 29.7 |
|                    | 2 | 35.3               | 16.5 | 21.6 | 18.6 |
| Lowest complexity  | 1 | 19.2               | 20.2 | 9.6  | 3.4  |

<sup>1)</sup> A certain problem arises due to the fact that although in the given years the complexity of work was constructed with the use of basically the same methodology, different lists of professions were used (in 1967 based on a list created for the purpose of this research, in 1984 based on a former Unified Employment Classification and in 1993 and 1999 on an ISCO 1988 classification). Although these classifications are not fully compatible, they are sufficient for the comparison of basic trends.

<sup>2)</sup> For the year 1967 data reflecting not only the group under consideration (men – heads of households) is used, but also reflecting other groups covered by the research, i.e. fathers of respondents, their sons, wives and daughters. The scale was designed with six grades.

The main trend is obvious – a continuous increase in the proportion represented by the two highest complexity categories and, on the contrary, a similarly significant decrease in the representation of work at the two lowest levels. There is quite a clear development also in the middle levels of the scale. On the fourth level, stability can be observed; the third one shows a slight increase of representation in recent years. Without stretching the point, one can thus state that the modernization trends in question (based on the input of new technologies) have had an impact on the structure of our economy over the long-term and, in effect, also on quality changes in the profession structure of society.

The intensity of these changes can be mapped using the example of people, who, during the 1990s, newly entered the labor market as well as those who left it during that time. The labor market is entered by more educated groups of school leavers who, naturally, attempt to engage in more complex labor areas and therefore choose higher degrees of work complexity. At the same time, older and less educated groups leave the labor market gradually; with them, to a certain extent, the less complex labor types are also fading.

The development analysis suggests that after the fundamental changes in the structure of working positions at the beginning of the 1990s a significant opening-up also took place in the years that followed, i.e. increased opportunities for movement between individual categories. In other words, the situation on the labor market provides more opportunities for advancement to higher positions. At the same time however, it bears more risk, i.e. there is more chance of degradation to lower positions.

The causes of this movement can be found mainly in the influence of two factors: class-professional position and actual profession. In the former case, the most stable

group is (as usual) that of qualified workers and middle professionals (especially officials), the least stable is entrepreneurs (with or without employees). With regard to the latter factor (profession) the most stable were those that have a strict technical profile, especially the health care professions. Stability was also seen in the case of the building profession and to a certain degree also in industry and agriculture. By contrast, the least stable from the point of view of work complexity proved to be the economic and finance as well as the trade professions: in the period surveyed, people in these professions moved up and down on the scale of work complexity more often than others. This may be due to the fact that although these professions could offer a relatively fast growth of income, they were (and still are) the most vulnerable in terms of the impacts of market conditions, most importantly the pressure of competition and profit-making that directly influence the increase or decrease of the number of employees (cf. e.g. the fast growth of employment in the banking and insurance sectors in the first half of the 1990s and the subsequent fast pace of dismissals after the restructuring of the majority of banks and insurance companies a few years later).

### 2.3.2. The development of employment

On the one hand, the process of the recreation of a market environment effected the need for the fundamental shift of both the key players' (work force and employers) positions and, on the other hand also the establishment of corresponding institutions. The aim was to transform them from being just passive figures in the state planning mechanism of steering the economy to active entities in the labor market. This meant returning to them the freedom of decision-making along with the awareness of responsibility.

This requirement presupposed a strong increase in the dynamics of the position of the work force even in the area of employers. As ownership relations gradually changed, the up- to-then rigid positions on the enterprise level started to thaw. As a consequence the same thing happened in the area of employment. The first new social economic group to emerge was that of entrepreneurs who, at the beginning of the 1990s, almost entirely gained power over the fields of trade and services that had been very underdeveloped and undersized in terms of work force.

As the obligation to work was lifted (which, although never explicitly declared, was all the more severely applied) and later due to the first restructuring measures another new group emerged – the unemployed. The first to become unemployed were those who conceived the obligation to work more as a matter of outer necessity and who only made use of their natural right not to work. However – and increasingly this was to become a rule – this group also began to feature those who had not responded to the ongoing changes in time and, for various reasons, were not able or willing to adapt to them.

It is natural that the shifts between economically active groups (i.e. the employed and unemployed) and non-active depend on the development of basic structural characteristics that have an effect on the status of the individual as well as whole groups on the labor market. In the first place, these include demographic factors (age, in particular). While these are directly interrelated with long-term development tendencies (the aging of the population or, on the contrary, it getting younger), they also reflect the recent social changes in a more or less clear way (the speeding up or deferment of the entry into economic activity). A similar development can be seen in the case of the branch structure (the decline of some branches and the strengthening of the importance of others), the educational structure (the prolongation of school attendance and the growth of the level of education) or the professional structure (the decrease of the

proportion of low complexity of work and on the contrary the growth of the proportion of higher complexity of work).

The intensity of the shifts between the groups in question (the employed, unemployed and non-active) indicates the openness of the labor market and indirectly also represents the dynamics of the whole economy: a weaker intensity suggests that, on the one hand, the economy is stabilized and the social structure settled, while on the other hand it can indicate the cloistered nature of the labor market and inflexibility of the social system. Too frequent shifts suggest that restructuring processes are taking place within the economy, the labor market is dynamic and the social system open. At the same time, it is obvious that too frequent changes can destabilize both the economy and the whole society; eventually they may lead to negative social, economic and political consequences.

The grouping of the population into the three groups depends on two basic factors. The first is demographic development, especially the numbers of children born and pensioners, which increases or decreases the number of people outside the work force. The second factor is the unemployment rate representing the number of the unemployed. In the course of the 1990s these groups saw the following development (cf. Table 2.8.).

■ **Table 2.8. The economic status of the population of the Czech Republic in the 1990s (absolute numbers in thousands of people)**

|   | 1990     |        | 1995     |        | 2001     |        |
|---|----------|--------|----------|--------|----------|--------|
|   | abs.     | %      | abs.     | %      | abs.     | %      |
| Total                                   | 10,304.6 | 100.00 | 10,321.3 | 100.00 | 10,260.4 | 100.00 |
| Employed people                         | 5,176.5  | 50.24  | 4,870.9  | 47.19  | 4,750.2  | 46.30  |
| Unemployed people                       | 39.3     | 0.38   | 153.1    | 1.48   | 421.0    | 4.10   |
| People outside work force <sup>1)</sup> | 5,088.8  | 49.38  | 5,297.3  | 51.33  | 5,089.2  | 49.60  |

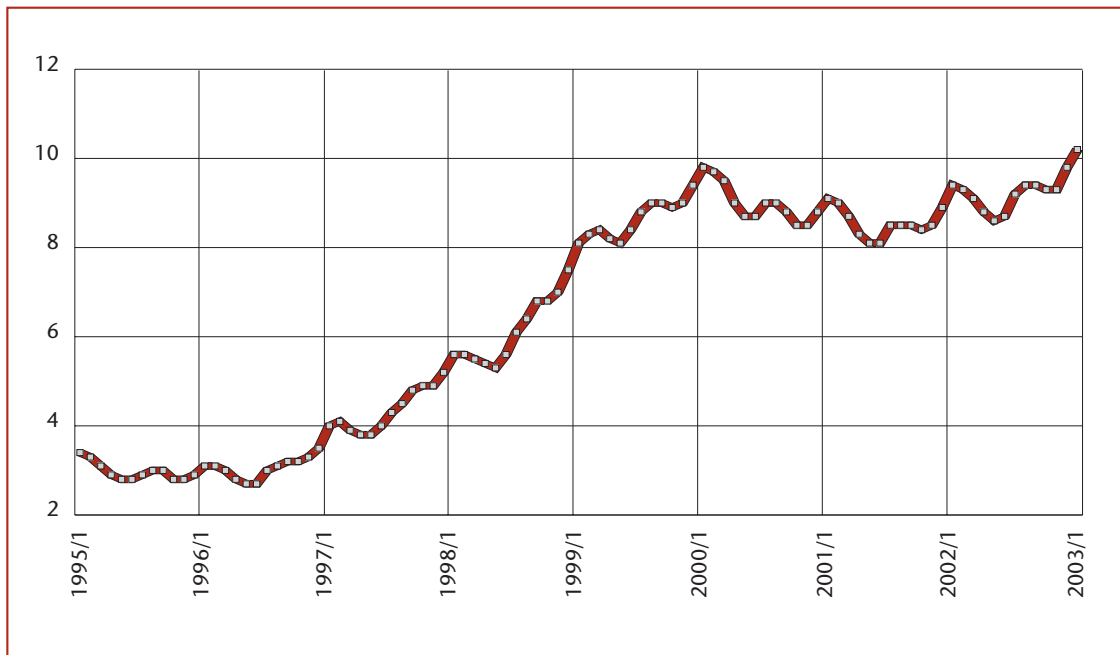
<sup>1)</sup> including people on subsequent maternity (parental) leave

**Source:** 1990, 1995 (Labor Statistics ..., 2000, the data represents registered information) 2001 (2002 Statistical Yearbook, data from LFS)

As the data shows, in the course of the 1990s the percentage of the employed shrank steadily, which was due above all to the gradual growth of unemployment. The proportion of people outside the work force in 2001 – after a rise in the half of this period (when the total number of inhabitants rose moderately, however) – was roughly the same as in 1990. This is especially due to the fact that although the proportion of people of retirement age – and also to a certain degree that of apprentices and students – is increasing, the percentage of children under 15 is shrinking at the same time, thus keeping the final proportion of this group of the total number of the population roughly the same.

The greatest attention is devoted to the shifts between the employed and the unemployed, i.e. shifts caused by the loss of employment and work being found again. One of the specific features of the first stage of the transformation process in the Czech Republic was the very low unemployment rate that up to 1996 amounted to around 3 % (Chart 2.3.). Disregarding some special regional deviations it can be stated that for the whole of the first half of the 1990s there were no actual deep-rooted unemployment threats in the Czech Republic.

■ Chart 2.3. Development of the monthly unemployment rate between 1995 and 2002



Source: [www.mpsv.cz](http://www.mpsv.cz) (registered unemployment)

The causes of this situation – which significantly differed from that in other post-communist countries – can be found mainly in two circumstances: firstly, fundamental structural changes in production were postponed to take place after the ownership relations (that were related to the privatization process) were clarified – i.e. roughly until the second half of the 1990s. Secondly, the economy and especially the gradually establishing private sector in the area of services were able to absorb a considerable part of the released work force.

A radical change occurred in 1998 as the unemployment rate increased from 5 % in January to almost 8 % in December. It reached the highest values at the beginning of 2003 showing more than 10 %. Besides the launch of the mentioned restructuring processes this growth was linked to some other trends that can be summarized in two basic groups: the first comprises macroeconomic circumstances such as the economic recession that plagued the economies of the Czech Republic's closest partner countries, i.e. Germany and eventually the EU, or the significant strengthening of the Czech crown. A number of Czech enterprises that concentrate mainly on exports have thus had to face severe economic problems.

The second group of causes of unemployment growth is linked to the relatively generous social policy. Some parts of certain social groups have clearly chosen unemployment to add welcome variety to their way of life. This holds especially true for the group where the unemployment rate is the highest: school leavers. Their proportion of the total number of the unemployed gradually ballooned in the course of the 1990s to reach almost a fifth in 1998. Then, however, a considerable decrease took place, which was undoubtedly the result of an active employment policy aimed predominantly at this group (by the end of 2001 their percentage amounted to some 12 – 13 %). It is certainly no coincidence that unemployment among them reaches the highest values in the summer months (when, on the contrary, the whole population reports a decrease in unemployment due to seasonal work), since it rapidly falls at the end of the summer as

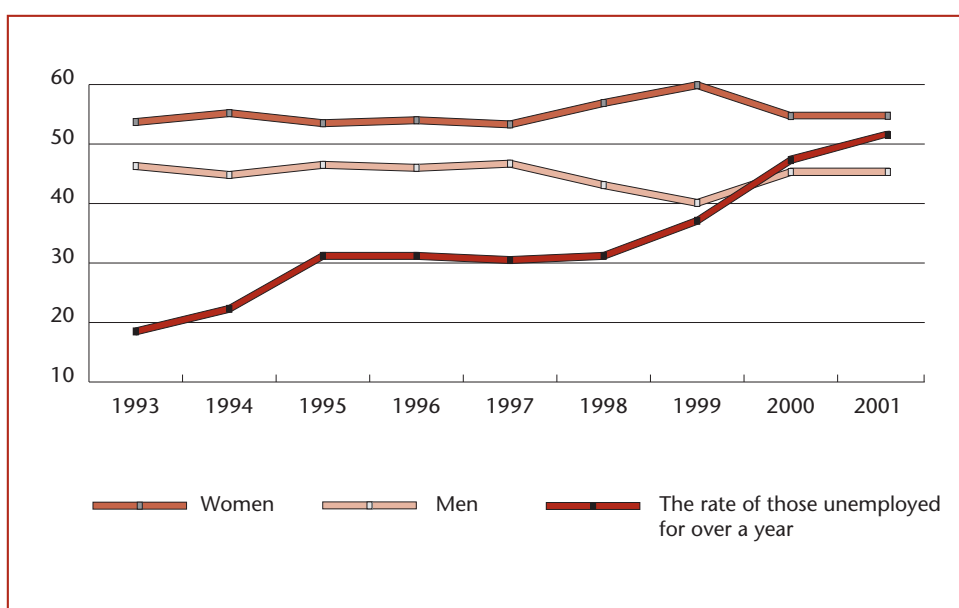
a number of school leavers that were “unemployed”, finally decide to put an end to their last holidays and engage in employment.

The results of the survey of the social structure and mobility from the end of 1999 showed that 15 % of all the economically active experienced unemployment, representing only a slight increase as compared to 1993 data (then 13 % had this experience). This is to say that a considerable segment of the unemployed has to face this situation (or had to in the period surveyed) repeatedly, while for the majority it still is a rather unfamiliar experience. The structure of the cumulated duration of unemployment (i.e. the addition of months for all the periods, over which the individual was unemployed) bears out this hypothesis. Less than half of those who had this experience up to 1999 spent less than six months unemployed; however a third were out of work for a period exceeding one year.

A specific problem is *long-term unemployment*. The proportion of those who have been unemployed for over 1 year has been rising since 1998 and recently it has reached 50 % of all unemployed (cf. Chart 2.4.). Women account for a somewhat greater share of the total (roughly 55 %). There is no doubt that the main cause of the growth in long-term unemployment is the fading of job opportunities for people with a poor education profile. This is however a general and long-term trend. The risk groups thus have to adapt to this tendency.

However, surveys have suggested that it is this group in particular that shows a relatively low willingness to solve unemployment by their own efforts. These people are most inclined to re-training courses or gaining at least a basic qualification (58 %). Less often they would be willing to accept a job that would require daily commuting (36 %), working on Saturdays and/or Sundays (34 %), night shifts (32 %), seasonal work (32 %), work that would pay less (18 %) or that would involve worse working conditions (15 %). The absolutely lowest willingness is shown regarding the requirement to move house in order to find work (12 %). In 2001 only half of the long-term unemployed (over 1 year) looked for a job by their own efforts [Kuchař, 2002]. Thus it becomes evident that a part of those who are long-term unemployed voluntarily chose what has now become a certain lifestyle.

■ Chart 2.4. Development of long-term unemployment between 1993 and 2001

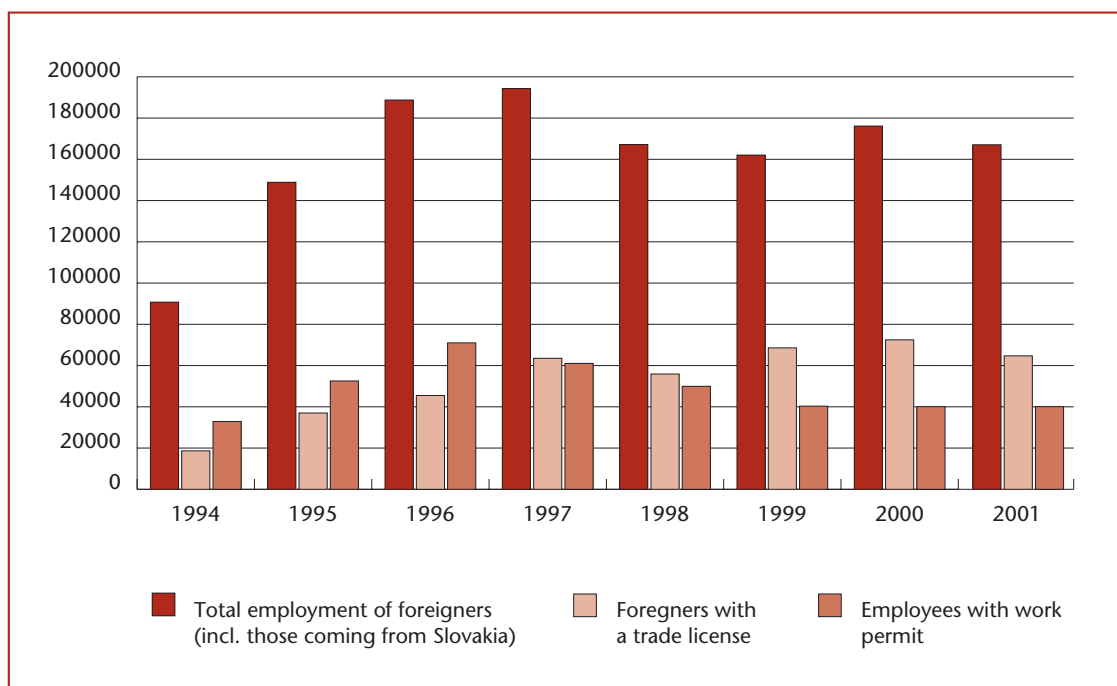


Source: 1994 – 2002 Statistical Yearbooks

In connection with the analysis of employment shifts it is necessary to present one more direction – *immigration from abroad*. The development of the Czech labor market in the 1990s was characterized by the gradual growth of interest in foreign workers; this was true across the entire qualification spectrum, starting with highly qualified experts filling managerial posts down to unqualified manual workers doing building work.

The overall number of foreigners in the Czech Republic is still relatively low in comparison with EU countries (it represents roughly 2 % of the Czech population in comparison with the average of over 5 % in the EU). However, the proportion of those who enter the home labor market shows a clearly upward trend (cf. Chart 2.5.). Over the long-term the rate of foreigners who acquire a trade license has been growing markedly at the expense of those who work on a work permit, suggesting, among other things, their interest in a longer stay in the Czech Republic.

■ Chart 2.5. The numbers of individual types of foreign employees in the Czech Republic



Source: [www.mvcr.cz](http://www.mvcr.cz), [www.mpsv.cz](http://www.mpsv.cz)

The structure of foreign workers according to their nationality has remained relatively stable since the mid-1990s. The position of Slovak citizens is naturally specific, since their records are kept separately from those of other foreign nationals. Out of these, the major proportion is accounted for by the citizens of the Ukraine, with roughly 40 % of all the foreigners (excluding Slovaks) employed in the Czech Republic. Much further behind follow the citizens of Poland (18 %) and other countries (Bulgaria, the USA, Moldavia, Germany, Great Britain etc.), the percentages of which are lower (3 – 4 %). Entrepreneurs of foreign nationality are also mostly Ukrainian (35 %), followed by Vietnamese nationals (31 %).

The nationality of foreign employees in the Czech Republic is related to the nature of the work performed, measured by its qualification requirements. The vast majority of citizens from the Ukraine, Moldavia, Poland, Byelorussia and Bulgaria do blue-collar work; with the exception of the citizens of Poland they are mostly engaged in this kind of work in the building industry (where they have almost already edged out the Czech work force, predominantly Romanians). The Poles work in particular in light industry enterprises (textile, tanning). By contrast, people from western countries mainly come to the Czech Republic to enter management positions, thus performing jobs with higher and high level of qualification requirements. The status of the citizens of the Russian Federation is specific, since they engage both in work of a low and high qualification level almost at an equal rate.

The need of the Czech labor market for foreign workers will grow in the coming years. As is the case with other developed countries, the Czech Republic will have (and indeed already has) a deficit in some groups of work activities and immigration is the only way of filling these shortfalls.

### 2.3.3. Employment policy

The institutional background of the state employment policy of the Czech Republic was created at the beginning of the 1990s. Employment strategy principles were adopted and the concept of the active role of the state in the creation of employment was embodied in the employment act. The main goal of the employment policy was set out as achieving full, productive and freely chosen employment. A network of regional Labor Offices was established to provide employment services. Their local branches look after the actual administration and payment of unemployment benefits, professional training programs, the provision of services related to the placement of the unemployed and consulting, as well as programs aimed at job creation and the adherence to the Labor Code. The Employment Services Administration (Správa služeb zaměstnanosti) was founded as a part of the Ministry of Labor and Social Affairs; its responsibility is to coordinate and methodically steer this network.

Gradually, both the components of the employment policy took shape: the active and the passive. The active employment policy delivered by the Labor Offices comprises six basic instruments including the creation of jobs purposeful for society, publicly beneficial works, re-training, jobs for graduates and trainees, shelter workshops and work stations for people with reduced working ability and finally subsidies for part-time jobs. Along with consultancy for the unemployed, investment incentives and other measures, these six basic tools have been applied when creating jobs and placing job seekers.

Whereas the conceptual issues were dealt with relatively well, there is still debate over the application of these tools and the effectiveness of the funds spent. In practice, the methodology which should help to evaluate the effectiveness of how individual active employment policy tools are actually applied has still not been implemented, for instance. As has already been mentioned only roughly half of the long-term unemployed would agree to acquiring some qualification or re-training for a new profession. The core of the problem does not lie so much in the structure of the offered active employment policy programs, but rather in the willingness on the part of those who they are intended for.

In 1999, the prospective National Plan of Employment (initiated by the EU) was approved by the government. Consequently, the National Plan of Employment set up specific goals and measures for all consecutive years. Since 2001 these plans have been



structured according to the four priority targets of the European Employment Strategy: employment facilitation, support for entrepreneurship, support for the abilities of businesses and employees to adapt to changes and the promotion of equal opportunities to all individuals on the labor market.

In the Czech Republic both the relative proportion of the funds spent on employment policy as a part of GDP as well as their total sum are much lower than the average of the EU countries. Also important is the proportion of the costs of the active and the passive employment policies in the total of all expenses. It is also certain that the active employment policy is more advantageous than the passive employment policy, the goal of which is the payment of unemployment benefits for a limited period of time. Generally we can say that expenses spent effectively on active employment policy are of a preventive nature, since they aim at the lowering of the unemployment rate in the periods to follow. Thus they protect the other parts of the social security system against excessive load. This load has furthermore a multiplication effect, because it makes other benefits and contributions necessary. The omission of this preventive effect of the active employment policy when creating employment opportunities especially in the endangered regions in mid-1990s (e.g. the proportion of expenses for the active employment policy to total employment policy costs amounted to as little as 14 % in 1997) became – besides certainly much more essential factors such as the economic restructuring – one of the circumstances that brought about the significant increase of unemployment between 1997 and 1999.

Practice has shown that tools for exercising pressure upon those who are the intended beneficiaries of the active employment policy – the unemployed suffer from low efficiency. The current social benefit policy has rather a de-motivation effect, since it does not force the unemployed to assume personal responsibility for their employment even if jobs were otherwise available (this is very clearly documented by the findings of the surveys on the factors that the unemployed would be willing to sacrifice to acquire a new job: they are ridiculously low in number). An unresolved problem remains the determination of the minimum wage on the one hand and the State Social Support to guarantee the subsistence minimum on the other hand. The minimum wage was significantly lower for a long time and although it finally exceeded this assistance after several adjustments between 1999 and 2003, the difference still does not represent a significant motivation incentive to search more intensively for a job. In many cases it thus lacks the capacity to deal with the above mentioned indifference of a part of the unemployed to assume genuine personal responsibility for their employment.

The following measure could become one of the first steps to addressing this problem: to relate the amount of benefits paid for unemployed graduates to their making use of the existing offers to enter the labor market (e.g. the involvement in some of active employment policy programs).

However, an inseparable part of these measures also has to be the gradual solution of the tax burden of individuals and employers that recently amounts to roughly 43 % of the wages of the inhabitants on average.

The Czech Republic is a country with a relatively developed system of social dialogue between the key partners acting on the labor market: the government, the employers and the employees. First and foremost, this dialogue takes place within the framework of the Council for Economic and Social Agreement (Rada pro hospodářskou a sociální dohodu). Three trade union central committees (the biggest being the Czech-Moravian Confederation of Trade Unions – Českomoravská konfederace odborových svazů) represent the employees. Employers are represented by several employers' unions. The

power and impact of social dialogue is, however, determined by the political orientation of the government. In the period of liberal governments ruling between 1992 and 1997 the tripartite institution was weakened and in contrast to the first period of the very beginnings of the transformation social dialogue had to give way to other issues. Gradually with the pressure of structural changes in the economy and the change of government the conviction has spread that it is necessary to promote the equal partnership of all the three parties represented and facilitate trust between them. Since 1997 governments have considered both the trade unions and employers to be their partners and are definitely listening to them more. This cooperation strategy is one of the factors that help preserve the social consensus in the country.

With the emergence of new 14 self-governing regions in 2000 tripartite bodies have also gradually been set up on this level. It is believed that familiarity with specific regional conditions, as well as the possibility to directly cooperate on the regional level, will make the regional tripartite an effective element of the development of the labor market in the Czech Republic, particularly in those regions that are stricken with structural unemployment and that need it the most (the Most, Ostrava and Ústí nad Labem regions). Cooperation between the Council for Economic and Social Agreement and the regional tripartite bodies is still in its early days and, to a great extent, it will depend on the methodological assistance offered to regions by the central Council for Economic and Social Agreement used to conduct it.

Despite an economic recovery and all the measures of the labor market policy to date unemployment in the Czech Republic has remained high and at the beginning of 2003 it crossed the 10 % threshold. This makes it one of the most severe future problems of the Czech Republic. It is obvious that the recent measures aimed at solving it do not suffice and it will be necessary to look for and find new approaches. One step that will be difficult, yet indispensable from a long-term perspective, will be to lower the tax burden of labor (including the obligatory contributions of employees and employers to health and social insurance).

## Recommendations

- Create an effective inter-branch coordination system of the labor market policy and related policies, above all the economic, education and social policies.
- Facilitate analytic and conceptual capacities of the design and implementation of the employment policy both on the branch and regional levels.
- Lower the tax burden of labor (including the contributions to health and social insurance) to support the demand for work force.
- Establish a system of evaluating the effectiveness of the diverse tools of the active employment policy and turn it into an instrument for its continuing improvement.
- Implement the already defined conditions for attracting qualified workers from abroad and use the qualification potential of those immigrants who live in the Czech Republic already.
- Relate substantially the provision of unemployment benefits with involvement in active employment policy programs, especially in the case of the long-term unemployed.
- Make the payment of unemployment benefits to graduates of all education levels conditional on their readiness to make use of the existing offers to enter the labor market.
- Broaden the sphere of activity of the employment services system (the development of this services segment in Slovakia could serve as an example.).

## 2.4. Social policy and vulnerable groups

The goal of social policy is to help fulfill the basic human rights of all citizens and particularly social rights. In the Czech Republic these are provided for by the Constitution and the Charter of Rights and Freedoms. An important step towards fulfilling these rights is the ratification by the Czech Republic of the European Social Charter of the Council of Europe.

In the first place, social policy measures are targeted at individuals and groups who are marginalized for diverse reasons and are unable to succeed, either temporarily or permanently, in the competitive environment created by the “main stream” of the society. A general goal is to prevent social exclusion and reinforce social cohesion.

A common feature of marginalized groups is unequal opportunities for employment as the basic source of a means of providing for a life of human dignity. The following chapter will deal with the causes of this situation, its consequences and possible solutions.

### 2.4.1. Poverty and social exclusion

One of the typical features of the social structure after 1989, which was inherited from the period of what was called “real socialism”, was its leveling in terms of both income and status. In their study Mareš and Možný [Mareš, Možný 1995] define this state as the disappearance of the stratum of the poor together with that of the stratum of the rich. Since the poor had lost their status, the state did not have to address their problems in a conceptual way.

The task of transformation in the social sphere after 1989 was therefore, among other things, to attribute social status both to the rich and to the poor. The institutionalization of poverty and its anticipation as a social problem is a precondition for the creation and implementation of measures that were and still are aimed at the minimization of poverty and social exclusion in society.

Poverty, the analysis of its causes and the elimination or at least the minimization of its consequences are undoubtedly key problems of social policy. It is evident that poverty and social exclusion prevent the affected individuals from asserting their basic social and human rights.

*The problem of social exclusion* is currently becoming the focus of great attention in the majority of developed countries. If poverty is understood as the lack of material possessions, then social exclusion also comprises the impossibility of participation in the basic civil and social rights. It is not always the absence of guarantees for these rights and their functioning that is concerned, but the equality of opportunities to participate in these rights. Social exclusion thus combines with the (im)possibility and (in)ability to provide for the accessibility of sources and opportunities in society. The majority of experts share the opinion that *in today's society the main cause of exclusion is long-term unemployment* which, for its part, is related to difficulties in the involvement of some groups of citizens on the labor market. In a society that is oriented towards income from work this situation is then also the condition for long-term poverty. For example, according to a survey of 1,113 needy households, carried out by VÚPSV (Research Institute for Labor and Social Affairs) in 1998, the vast majority (80 %) of all applicants for social assistance benefits was formed by the unemployed. Moreover, the long-term unemployed

account for a half of unemployed benefit seekers; the proportion of those unemployed for over two years is 40 %.

Social exclusion is often based on factors such as membership of a national minority, insufficient housing without basic equipment, insufficient education, bad health condition and the loss of social contacts. However, the effort to seek suitable a solution in combating social exclusion faces a number of problems, especially how to determine the target group and how to quantify some of the decisive factors.

As opposed to the kind of poverty that, for a section of the society, is a by-product of the life cycle and thus limited in time (families with small children with one parent working and the other caring or a lone parent with a child/children, lone pensioners), another type has recently begun to emerge, “inherited” poverty: children born to a poor family are more likely to also spend their life in poverty in the next generation. This phenomenon is undesirable in societal terms and it opposes the principle of equal opportunities.

Besides an effective economy able to create new jobs and sufficient resources for redistribution on a mass-scale, the occurrence of poverty can also be prevented by a system of social protection as was established in the Czech Republic in the first half of the 1990s and as has been implemented to the present time.

*The social security system* is founded on three pillars. The first one stands for prevention: it compensates the citizen’s income in situations that are predictable and thus provided for by the postponement of consumption in the future – by insurance. It is principally made up of the pension system (old-age pension, widow’s and widower’s pension and disability pension), health insurance and allowance for the state’s employment policy. The second pillar, called the state social support system, accounts for situations related to a certain phase of the life cycle by state subsidies that are particularly designed for families with dependent children. The third pillar of social assistance includes measures for unpredictable situations. As regards poverty, the entire system plays an important preventive role (the first two pillars in particular).

For the sake of determining the boundaries of poverty in the Czech Republic a subsistence minimum guaranteed by the State was stipulated (act no. 463/1991 Coll. as amended). The subsistence minimum is index-linked so as to maintain its capacity to provide a socially acceptable minimum consumption even if the cost of living increases.

The relationship between the subsistence minimum level and the minimum wage is of key importance. If the minimum wage is to act as an incentive for attaining a job, it has to surpass the subsistence minimum to such an extent that for the majority of society it is no longer profitable to stay away from work. However, it is necessary to proceed very sensitively when considering the development of these indicators and their proportion. A sharp increase in the minimum wage can lead to unemployment growth, since the labor force becomes too expensive for some employers. In the majority of European countries the level of the minimum wage is set at 50 % – 60 % of the average gross wages. In the Czech Republic it currently amounts to about 40 %.

#### 2.4.2. Families; families with children

As early as before 1989 experts exchanged ideas on the coming form of family policy in the Czech Republic. They believed in particular that the reduction of family policy to its reproduction and quantitative compound should have been avoided. Sovereignty in decisions about the choice of life strategies should have been returned to the family and

thus revitalize all the functions that could not be fulfilled under the communist regime. Family policy should have responded flexibly to changes in society. The existing overall attitude in the area of benefits and services should have been replaced by a clearly defined and direct system founded on the principles of individualized social work, the necessity of which was often discussed. Experts at that time thought family policy ought to have enabled the diversity of families' ways of life as well as their structure, reflecting the growing diversity of modern societies in a natural process.

However, since November 1989 family policy has never been explicitly defined as an independent area. It has been understood that it would be governed by the same principles on the basis of which social policy as a whole started to be transformed.

On the most general level state paternalism was eliminated and room for other entities in the realm of social policy was opened. The role of the state was defined as that of the ultimate guarantor in the effort to reinforce the social sovereignty of citizens. Economic transformation was given political priority. In the social policy area the following key steps, in particular, were taken: legislation defining the subsistence minimum and social need (creating a social safety net) and the creation of the legislative and institutional conditions for the regulation of a new phenomenon – unemployment.

The economic transformation brought about the elimination of subsidies for goods and services intended for children and the young, the negative effects of which were outweighed by the granting of a state compensatory allowance. The accessibility of day nurseries, kindergartens and out-of-school facilities was, and still is, complicated by the tendency to eliminate subsidies from public funds. Despite their criticism, the population essentially accepted all these and many other steps in the social policy area as legitimate.

Complicated changes within Czech society as a whole have a direct impact on the lives of families. They affect both life strategies and demographic behavior. Sociologists tend to interpret these changes as the results of a rapidly launched modernization (individualization) process that leads to a crisis of the family or a long-term change of family structures. However, with regards to attitudes the Czech family seems to be quite conservative both in respect of the roles of men and women in the family, and also of the stated willingness to live in a traditional family and raise children [Sirovátka, 1999, Kuchařová, Tuček, 1999]. Taking this as a point of departure, it can be asserted that demographic behavior is more likely to be an immediate response to political changes accompanying the transformation in general and economic changes in particular.

In 1995 the state financial support for families with children (which was based on the principle of universal benefits) was transformed into a system of “state subsidies for families with children”, which is primarily based on means-tested benefits. While prior to this change more than 70 % of benefits were paid on the universality principle, since this change more than 70 % of benefits are now paid on the basis of a means test.

This transformation was accompanied by considerable criticism from both sides of the political spectrum. A proposal by the Ministry of Labor and Social Affairs was based on an analysis of the situations in which the state considers it purposeful and necessary to participate in their solution through the granting of social benefits. This attitude found its expression particularly in the reinforcement of the principle of targeting.

State subsidies for families with children proceeded on the assumption of the following principles: the standard of living should be derived mainly from work income, the growth of which should be the main motivation stimulus. Social redistribution should only purposefully correct and not form (compensate for) social differentiation. In particular, it ought to accentuate its vertical dimension (from the rich to the poor) and further also the horizontal one (from the childless to families with children). The

system's new concept should also have had a practical purpose: it was designed to unify benefits that up to then had been parts of several different systems, link them all with the concept of a subsistence minimum and administer them jointly.

The change of benefits from universal to means-tested was a hotly debated topic both in parliamentary debates and in the press. Two ideological and political standpoints were formed, especially as regards child benefit. According to the liberal point of view the decision to have and raise children is merely an individual one. Therefore, it is only the parents who have the sole responsibility for this decision. The payment of child benefits is thus linked to the testing of the parents' income, it is part of the category of benefits for the poor and it is an expression of solidarity of the rich with the poor. According to a social-democratic standpoint, the state also has an involvement in child care along with individuals. Child care is a mixed good, in which it is not possible to absolutely separate the effects of its "consumption" for the individual, family and society. In contrast to childless families those with children raise future creators of social product, tax payers, health and social insurance contributors, thus creating funds that the claims of today's economically active people will be settled from in the coming decades. In view of this attitude child benefits are granted to all families with children regardless of their income. It is an expression of solidarity of childless families with those with children.

In this respect it is necessary to bear in mind that since 1947 child benefits have formed a part of family income and despite the changes in their actual set-up (according to the number of children, according to the age of the children) they were understood as a symbol of the fact that having and raising children is a value acknowledged by the state. Moreover, in almost all Western European countries this benefit is still of a universal nature and is even increasing (Great Britain, Germany).

Finally, the concept of child benefits as a direct type of benefit was adopted, whereby it will only be withheld from those whose income exceeds three times the subsistence minimum. Thus a means-tested benefit was introduced and is being granted to the majority of the population. In 1999, for instance, it was 82 % of families. However, it is very low; it amounts to 2 – 3 % of families' net income [Kotýnková, 2002].

The final version broadened the scope of universal benefits (parental allowance, provision allowance, foster care benefits, maternity grant and funeral benefit). The system was implemented as of 1. 10. 1995. Means-tested benefits (child benefits, social allowance, housing allowance and transport allowance) were introduced in the second phase starting from 1. 1. 1996. Entitlement to these benefits, as well as their amount, is conditional on the level of the subsistence minimum and the conditions of its indexing. A precondition for entitlement to these benefits is the applicant's permanent residence in the Czech Republic; in the case of means-tested benefits this condition has to be met also by the jointly assessed individuals. A further important fact is that in terms of entitlement to benefits only the family's income is tested, not its possessions. Child benefits account for the largest amount of these benefits (more than 90 %), followed by social allowance and parental allowance [Kotýnková, 2002].

The system of state subsidies for families with children is roughly in line with the attitude in other European countries regarding the spectrum of benefits granted [Průša, 1995, Kuchařová, Tuček, 1999]. Nevertheless the system by which benefits are allocated has been criticized [Rabušic, van Oorschot, Sirovátka 1998, Kuchařová, Tuček, 1999], because it gives advantage to families with more children, since these are also low-income families and the system only prevents these families from falling through the social security net. It can thus cause a loss of motivation both in respect of the economic activity of some types of low-income families and, at the same time, for the middle

classes, since it is of low gain to them [Dlouhý, 1997]. The system thus works as a social assistance area, yet is lacking its most important component – social work – which studies and eliminates the causes of low income [Kotýnková, 2002].

In contrast to other European countries (Denmark, Germany, France, Greece, Great Britain) the Czech Republic has not implemented direct benefits for incomplete families. In the Czech Republic their entitlements are accounted for by the system of allocation of state subsidies for families with children, in the framework of the health insurance system and the system of social assistance in the case that the father does not pay alimony to the child. Also disabled children in the Czech Republic (unlike in some European countries) are not entitled to individual benefits, but they are provided for in the framework of the system of state subsidies for families with children; the benefits and services of social assistance are conditional on the health of the child.

Another standard family policy area is the institute of paid maternity leave, derived from health insurance, followed by another maternity leave with parental allowance. In the year 2000, in accordance with European trends, this consequent maternity leave was transformed into parental leave, by an amendment to the Labor Code, making it one of the longest in the world.

At the end of the 1990s it was possible to identify an increased interest in the family and family policy. The Senate of the Czech Republic for example has held regular international conferences on the family since 1999 under the auspices of the Committee on Health and Social Policy. This committee also established a Republic Committee for the issues of children, youth and family that began operating from January 2000. However, it ceased to operate during the course of 2001. The Ministry of Labor and Social Affairs' medium-term concept up to 2007, which was approved by the government in 2001, also supported the interest in family policy. Here, the development and implementation of population and family policy is identified as one of the priorities of the whole ministry. All this shows the ever more pressing need to create at least a medium-term concept of family policy that should become a part of the Czech Republic's social doctrine. Individual measures would thus be less a matter of political decisions and more one of the gradual implementation of straight-to-the-point priorities.

The family policy area depends very much on the development of society as a whole. Its concept has to run through the entire society (it is necessary to consider every individual political measure from the viewpoint of its pro-familial effects). In this area it is possible to point out the necessity of improvement in a number of directions (many stimuli were adopted from family policy trends in other European countries).

### 2.4.3. Women and men

Although equal opportunities as one of the basic rights and freedoms are formally stipulated by the Constitution of the Czech Republic (act no. 1/1993 Coll.), as well as by the Charter of Rights and Freedoms (act no. 2/1993 Coll.), inequalities between men and women still persist in a number of areas of the life of Czech society. These inequalities can be especially clearly seen in the involvement of women on the labor market, in decision-making processes and when it comes to combining family life with a career.

During the course of the 20th century the status of Czech women was strongly influenced by communist ideology, when the equality of women and men, similarly to full employment, became a significant component of the socialist state's official policy. However, the state-supported emancipation of women only affected the involvement of women on the labor market (like their formal involvement in political life controlled by the communist party) and not other areas of family and social life that had functioned more or less in a traditional way.

Fundamental changes in the view of women's and men's position in all areas of social life were brought about mainly by the negotiations on the Czech Republic's entry into the European Union. Officially, this issue was granted respect in 1998 when government decree no. 236 *Priority a postupy vlády při prosazování rovnosti mužů a žen* was approved.

Despite a number of persisting inequalities, the Czech Republic witnessed a significant improvement particularly in the area of legal measures regarding employment relationships when an amendment to the Labor Code became effective on 1. 1. 2001. The amended provisions stipulate the employer's obligation to provide for the equal treatment of all employees. This refers to both working conditions and remuneration. At the same time, this provision stipulates a ban on both direct and indirect discrimination.

While significant improvement was achieved as regards the legal framework of the equal opportunities policy (except for domestic violence against women), insufficient stress is laid on its actual implementation. The application of gender mainstreaming (equal opportunities issues penetrating all the areas of the life of the society) - introduced in the Czech Republic thanks to the stimulus of the European Union - is still in its early stages.

### Women and the labor market

In the Czech Republic a high level of economic activity among women (52 % in 2000)<sup>1)</sup> continues to be apparent. On the labor market, however, features of inequality still persist, including professional segregation, differences in remuneration between women and men, inequalities in professional advancement, a different degree of threat of unemployment and inequalities in attaining work.

Compared to women, men are significantly more represented in leading and managerial positions as well as in the realm of private businesses<sup>2)</sup>. Although women on an individual basis do penetrate traditionally male professions, the primarily female areas of the labor market remain the health service, social services and education. Men, however, still prevail in the senior positions in these sectors of the labor market.

Gender differences in terms of the level of remuneration deepened significantly in the first half of the 1990s though since 1998 they have tended to stagnate. In 2000 the average pay of women was 73 % of that of men in the Czech Republic. Greater salary inequalities are evident primarily in the category of citizens with university education, where the average salary of women is as little as 63 % of that of men<sup>3)</sup>. Although detailed analyses of this situation are not available, experts share the opinion that a significant part of the demonstrated inequalities can be attributed to the existence of direct and indirect discrimination of women on the labor market [Čermáková, 2000].

The tendency of discrimination against women finds expression in the Czech Republic mainly in attaining work. Women between 20 and 35 years of age and women close to retirement age are especially affected. Unemployment is more of a threat to women in general and to women of fertile age in particular<sup>4)</sup>.

<sup>1)</sup> According to the information of Czech Statistical Office the average economic activity of women amounts to 51.6 %; that of men reaches 69.2 %.

<sup>2)</sup> According to the information of Czech Statistical Office women in 2000 accounted for 24.9 % of all legislators, leading and managerial staff. From the same source it follows that women account for 28 % of all self-employed people.

<sup>3)</sup> Source: Czech Statistical Office 2001.

<sup>4)</sup> As a proportion of all unemployed women 65.1 % belong to the age group of 15 to 29 years of age. 51.2 % of all unemployed men occupy the same age group.



■ Table 2.9. Unemployment rate (ILO) according to sexes (in %)

|       | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-------|------|------|------|------|------|------|
| Total | 4.0  | 3.9  | 4.8  | 6.5  | 8.7  | 8.8  |
| Women | 4.8  | 4.7  | 5.9  | 8.2  | 10.5 | 10.6 |
| Men   | 3.4  | 3.3  | 3.9  | 5.0  | 7.3  | 7.3  |

Source: Zaostřeno na ženy. Czech Statistical Office, 2000.

#### Reconciliation of work and family

In the Czech Republic the traditionally patriarchal division of work within the family remains a predominant pattern of the family structure. The issue of the reconciliation of work and family is in the majority of cases understood to be solely the matter of women and not the common problem of both women and men.

Although the amended Labor Code provides for equal conditions in terms of making use of the right of parental leave, in the Czech Republic it is still almost exclusively women who make use of this option. This situation is caused by inequalities in external conditions and persisting pressures from society in terms of the division of gender roles. Furthermore, the parental allowance system discriminates against various social groups, significantly limiting the number of days that parents are allowed to devote to their studies, gainful activities and re-training courses.

#### Women in decision-making processes

Although women in the Czech Republic account for over half of the total population, the proportion of men in decision-making bodies is significantly higher. A very low representation of women persists in politics on the nation-wide level, though the situation is somewhat more balanced in regional politics. In Parliament's Chamber of Deputies 17 % of members are women, while only 12 % of representatives in the Senate of the Czech Republic are women.

■ Table 2.10. 2002 elections to the Chamber of Deputies – candidates and those elected

|                     | Candidates |                |      | Elected |                |      |
|---------------------|------------|----------------|------|---------|----------------|------|
|                     | Total      | Of which women | In % | Total   | Of which women | In % |
| Chamber of Deputies | 6,068      | 1,596          | 26   | 200     | 34             | 17   |
| Senate              | 172        | 26             | 15   | 27      | 4              | 15   |

Source: [www.senat.cz](http://www.senat.cz), [www.volby.cz](http://www.volby.cz), Czech Statistical Office

The low representation of women in Czech politics has a significant effect on the attitude of public representatives towards the elimination of existing inequalities; at the same time and for the same reason, young women lack female models that they could follow.

#### 2.4.4. Seniors

The status of elderly people in society and the addressing of issues related to the consequences of their increasing age are an inseparable part of the natural life cycle. However, while the public sector is developing, they are increasingly part of individual national, regional as well as municipal policies. As in EU countries, according to demographic prognoses, the Czech Republic is expected to see both the relative and the absolute representation of elderly people in the population grow increasingly. From the viewpoint of the sustainability of societal development, it will be important to focus on the increase of the senior population's quality of life more than has been the case so far.

##### Target population for the design of senior policy

Narrowly defined, the creation of a senior policy is aimed at the over 65 population who are dependent to such a degree that they are unable to live a self-sufficient and independent life without the assistance of another person. In a broader sense, it is concerned with creating conditions for successful aging: besides providing for a net of public services and other – e.g. financial – measures it is also concerned with preventive health programs for younger age categories aimed at maintaining the best possible functional state, i.e. physical, social, economic and psychological potential of the population (e.g. by means of reducing hazardous behavior that causes harm to one's health etc.).

##### The framework of the quality of life of elderly people

Besides elderly people's material welfare the framework of their quality of life comprises health condition, the accessibility of health and social as well as other public and private services, further family status and situation (e.g. the presence of a partner, the willingness of children and grandchildren to care etc.), the quality of housing, the option of further education and the broadening of social contacts etc. The demographic development and the changes in the size and structure of families and households tend, to a certain extent, to suggest the danger of a loss of informal support from the immediate family. A society based on individual interests and on the achievement of success, the loss of a sense of family solidarity, the weakening of social familial contacts, the enforcement of the cult of beauty etc. are all example features of the present development tendencies that generally rule out the old age phase of the life cycle from the main stream of the life style of modern society. The society as a whole does not sufficiently respect elderly people. Although at the level of individual family cycles this need not always be the case, at the level of society as a whole an emerging negative picture of the old age phenomenon prevails; in an extreme form we may come across what is known as ageism (hatred towards old age, in actual cases even mistreatment of elderly people, withdrawal of care etc.).

It is possible to face this relatively dangerous trend by the advancing of the idea of active aging, looking for a purposeful and satisfactory style of life for elderly people. Roughly 70 % of people living in Western European countries can nowadays expect to live longer than 65 years and 30 – 40 % to live to over 80 [Stuart-Hamilton, 1999]. For the sake of curiosity we shall present data on the development of the demographic indicator "life expectancy at birth", which has gradually increased on the whole of the Czech Republic's territory since 1989. Life expectancy at birth for men grew between 1990 and 2000 from 67.6 to 71.6, for women from 75.4 to 78.3 years. It thus increased by 4 years in the case of men and by 2.9 years in the case of women. In the Czech Republic the senior

age category – i.e. 65+ years of age – accounted for 12.6 % of the total population in 1991 while in 2000 it had increased to 13.8 % of the total population [Kučera, Pavlík, 2001].

General problems include insufficient structuring and range of health and social care for dependent seniors, an unclear determination of types of services in relation to the needs of dependent seniors, the absence of nation-wide acknowledged and controllable standards of care, particularly in the social area, a lack of clearly defined methods of financing and payments for care for certain groups of service users, unclearly defined competencies of individual levels of the state administration and self-government in the area of the provision of services, particularly in consequence of the incomplete reform of public administration and self-government.

Partial problems can be defined as a lack of nursing institutions and specialized health care institutions specializing in geriatric clients, permanent lack of rehabilitation beds and lack of beds for those suffering from a chronic disease, inadequate structure of hospital beds, seniors being left on inadequate beds with effects on the quality of healthcare, the prevalence of hospital beds for short acute stays, the blocking of hospital beds by patients categorised as being in need of long-term institutional treatment, similar composition of senior tenants in old people's homes and sanatoriums for long-term patients from the viewpoint of their requirements and health condition, unresolved payment of expenditures on health care on nursing beds in old people's homes, the drawing of financial funds from the health service to so-called "hotel services" in medical facilities, the issue of financing social services so that they can become entities providing interrogated medical and social services, the fact that the field of social services is not ready for the introduction of the institute of subsidies for care (standards, control), the need to adopt the current method of reporting statistical data needed in the transforming health care and social care system, the non-accessibility of some services, particularly in small remote municipalities. Besides a general lack of financial means for the provision of care the most pressing problem of the current system of care for dependent seniors seems to be a need to provide for high-quality after-treatment and rehabilitation care that is still not being met.

### Pension reform

After 1989 the transformation of the social system naturally also affected seniors. In relation to this part of the population, reform took place both in the area of the provision of economic means for a dignified old age – i.e. the pension system – and in the area of social care and improvement of further aspects of the quality of life of elderly people. The necessity of reform in this area resulted not only from the effort to create conditions in which the final stage of life could be spent in a dignified way, but also from the changes in the age structure of the population. The demographic development dealt with in the first chapter of the present Report was one of the reasons why the first governments that ruled after November 1989 set about subjecting the pension system to change.

Firstly, the reform abolished the preferences of some labor categories. In 1995, the insurance principle was introduced to form a part of the pension system and three pillars of the pension insurance system were defined.

The fundamental characteristics of the first pillar of the pension system are the following:

- Obligatory participation for the economically active population and voluntary participation for others.
- "Pay as you go" financing of the system so far as a part of the national budget.
- State administration of the system.

- The provision of old-age pensions, widow's and widower's pensions as well as disability pensions.
- Contributions payable both by the employer and the employee (19.5 % by the employer, 6.5 % by the employee).

In 1994, the second pillar was defined – an optional supplementary pension scheme with state contribution. The supplementary pension scheme is administered by private pension funds – joint-stock companies. The supplementary insurance is based on fund financing with defined contribution. The participant's contribution amounts to roughly 2.5 % of the average gross income. The state provides every participant with a contribution, the amount of which is conditional on the amount of the insurance fee, a maximum of CZK 150 per month, i.e. 1 % of the average gross income. The employer can also contribute to an employee's supplementary pension scheme. According to an amendment to the 2002 act the employer is entitled to include funds thus spent into expenses up to the amount of 3 % of total expenses.

A fundamental problem of the supplementary pension scheme is the relatively low participation among the population as well as the unfavorable age structure of the participants (mostly older age groups). The supplementary pension scheme as a profitable form of saving with the option of the total withdrawal of contributions is preferred to a genuine supplement to monthly pension payments. This fact also affects the possible capitalization of the means withdrawn.

Another legal regulation from 1996 was in line with the principles of the European Union. It stipulated the gradual extension of the retirement age of both men and women by the end of 2006 to 62 years for men and 58 – 61 years for women depending on the number of children raised. In 1999 tax relief for supplementary pension scheme participants was stipulated by law.

Currently 2,548,000 Czech citizens draw some kind of pension, including 1,880,000 old-age pensions. The average monthly old-age pension amounts to CZK 6,300 (in 2002). The expenditure on pensions amounts annually to CZK 172 billion, i.e. more than 9 % of gross domestic product.

Despite the aforementioned changes Czech society is still awaiting a fundamental reform of the pension system [Fultz ed., 2002] This will have to not only consider economic aspects, but also find consensus throughout society in terms of the measures to be introduced and which will affect future generations.

#### 2.4.5. Romanies

It is not by chance that we included the only ethnic group –Romanies – among the poor and socially excluded groups of people. This is exactly the way Romanies – as opposed to other ethnic and national minorities in the Czech Republic – are actually defined by public opinion, the media as well as in official practice: i.e. not in terms of culture or nationality. This population group is a typical example of the effect of the “ethnisation of poverty”.

To precisely define the size of this population in any way is difficult: the best that can be done is to arrive at an informed guess on the basis of the extrapolation of time lines from the past regime (200 to 300 thousand). To define who is a Romany in a situation in which the policy of Czech Romanies is to formally repudiate Romany “nationality” is problematic and, in a way, also politically incorrect. We can only speak of a group of people who consider themselves Romanies and who are considered as such by other

people (both Romanies and non-Romanies). Romany is no longer the “mother tongue” of the majority of Czech Romanies; ethnic identification is weakened in other aspects as well.

In the 1990s, due to rapid structural changes, this group of people found themselves shifting into an unfavorable position. From the period of socialist central paternalism Romanies, unlike the adaptable majority of the population, did not have sufficient social and cultural capital to allow them to succeed in a rapidly changing performance-based environment. Czech Romanies have minimum education and have not participated – with a few exceptions – in professional training. Furthermore, the Romany population is largely concentrated in the regions worst affected by the negative impact of restructuring (unemployment, social and environment problems): West Bohemia, North Bohemia and North Moravia. For a significant proportion of Romanies the change probably brought a relative socio-economic decline and a new disintegration. The labor market is already very strongly segmented in terms of nationality. Ethnic economic segregation thus points to a total (long-term to fatal) exclusion of the vast majority of Romanies from any kind of employment, which contributes to their exclusion from other areas of social life (social contacts, leisure time, consumption...). Long-term unemployment is significantly more prevalent among the Romany population, as is the loss of working habits, skills, and even interest in paid labor that is relatively poorly remunerated these days. The non-interest in work is also nurtured by the non-motivating nature of a social security benefit system that especially favors families with more dependent children, something which is typical of Romanies. The majority of Roma families are in the social safety net, they live “off benefits”.

Ethnic-based segregation is, paradoxically, also supported by the unintended consequences of equalizing and affirmative actions that create low-demand and unstable jobs exclusively for Romanies in the public sector.

The Romany middle and upper class is not numerous and often even socially invisible, since it is strongly assimilated and shares the life style of the majority. Thus a vicious circle enforcing a negative picture of Romanies in the eyes of the majority is strengthened.

The Romany social structure, however, obviously follows different principles, or influences, than those reflected by official statistics. The official labor market (employment) and capital do not play the main role here. Whole families and extended family groups participate in many informal methods of making a living: occasional illegal jobs such as dealership, minor theft, prostitution, procurement, money lending at exorbitant interest rates (up to 100 %) and others. For social policy and for other institutions, Romanies are difficult to grasp, the controlling of actual entitlements and targeted social work is difficult, particularly in the environment of concentrated Roma communities.

Migration constitutes a certain attempt to solve one’s own economic situation as well as to flee expressions of animosity. The emigration of Romanies to culturally more open countries with a more favorable social system (and their return if this attempt fails to succeed) goes on. Illegal (as well as legal) immigration of relatives from Slovakia (where the majority of Czech Romanies come from) is declining, although it still continues. Waves of migration of Slovak Romanies, who are less adapted to life in town/city agglomerations, increase the problems of Roma communities and, at the same time, those of municipalities which oppose such influxes.

In its 2002 report the Helsinki Committee estimated that there are some 100,000 Czech Romanies living abroad, which is obviously an overestimate. By contrast, the official data of the Foreign ministry seems to underestimate this figure, featuring only “asylum seekers” (3,000 in 2001, thus totaling roughly 15,000).

Romanies living in the Czech Republic are probably the most literate Romanies in Europe. Despite this, their educational deficit is immense, both compared to the Czech society as a whole, and to particular ethnic groups and nationalities. The majority of the Romany population has only primary education, this very often either not completed or undertaken at special schools which, from the institutional point of view, are a “dead end”. Since the 1990s integration policy has attempted to combat this institutional segregation trend both by the large-scale introduction of preparatory grades, and by training Roma pedagogical assistants.

The idea that Romanies have a totally different language potential is a myth. Czech Romanies – with the exception of a few – already speak Czech at home, but they do so – from the viewpoint of school requirements – in a less developed language code (or ethnolect). A hotly debated topic in terms of cultural distortion concerned universal IQ tests that are a key institutional tool of transferring (de facto segregation) children into special schools. The absence of an overall policy of protection and support of health after 1990 has brought about greater problems in the Roma population. In contrast to the former regime, obligatory prevention is not systematically claimed. The Romany population suffers from worse health than the population as a whole: its fully disabled members (both physically and mentally) are more numerous. Field research has suggested that this population’s life style – from the majority point of view – is predominantly harmful. Illegal drugs are relatively widespread among Roma youth and children in larger towns. This population group lacks a responsible attitude to their own health and trust in health-care institutions.

In contrast to the situation among the majority population, which is aging and the reproduction of which is stagnating (declining birth-rate), expert estimates by demographers suggest a more than two-fold higher birth-rate in the case of the Romany population. The ideology of living off social security benefits and the culture of poverty are, in the environment of Romany ghettos, also linked with what is called a survival strategy.

Social exclusion is related to the numerous social handicaps of Romanies and also manifests itself in the area of housing. Romanies live more often in local council flats, in flats of lower quality and with poor equipment. The flats are often overcrowded; it is often difficult to determine who the actual tenants are. A growing large-scale problem is the non-payment of rent, immense debts in rent and charges. This also worsens the hygiene standard especially in Romany districts and ghettos (e.g. due to the cutting off of hot water). What is considered to be a solution – eviction to low-category flats for rent-dodgers – is another form of institutional, social and spatial segregation of the most excluded, most of whom are Romanies.

In consequence of the effect of ethnisation of poverty (and skin color that one cannot but notice) Romanies in the Czech Republic are the most frequent target of abuse and racially motivated attacks, particularly by other socially marginalized groups (they become “scapegoats”). Despite a number of measures (amendment to the Penal Law in 1995) the tension between Romanies and the majority of the population persists. Although surveys indicate that, at a slow pace, the attitudes of other citizens towards Romanies are improving, they are still the worst accepted and perceived to be the least well integrated minority. The conviction of the majority that Romanies do not stick to basic societal consensus, that Romanies constitute a “burden” on society, is on the increase.

It is very problematic to discuss the Romany community as a whole. It is very structured and the differences, even internal conflicts, are often more serious than between Romanies and the majority. The absence of a genuine Romany representation that would emerge based on consensus is a hurdle to political integration through such solutions as the minority self-government in Hungary.

#### 2.4.6. The disabled

Disabled people<sup>5)</sup> can live, work and participate equally in the life of the society provided that society is willing and able to help overcome barriers that prevent disabled fellow citizens living such a life. Bearing in mind that in Czech society there are 1,200,000 disabled people (i.e. more than 10 % of the total population), and the fact that their number is on the increase due to growing civilization hazards, interest in the solution of this problem is understandable.

As in other spheres of the life of Czech society after 1989, the change of the social climate also brought about a change in the attitude towards disabled people. This gradual change in attitude was facilitated by the implementation of equal opportunities and non-discrimination principles based on the Charter of Rights and Freedoms, the European Social Charter and other documents. It naturally follows that these changes have to take place not only in the legislative and organizational spheres, but also in the social climate and the attitude of individuals.

Fundamental transformation steps in the area of social protection (naturally including protection of the disabled) were taken in the first half of the 1990s. Besides general documents, mention of which was made in the introduction to this study, further key documents include the International Labor Organization's treaties, above all the 1967 Treaty no. 128 on benefits during disablement, in old age and on widow's and widower's benefits. Czech law in this area is based on these documents.

##### Involvement in employment

The area of employment has also seen significant changes which have certainly affected the status of the disabled on the labor market. These issues are primarily governed by Act no. 1/1991 Coll. on employment. The conditions of working rehabilitation of people with reduced working ability and those of support for their employers are governed by the decrees of the Ministry of Labor and Social Affairs of the Czech Republic. However, to provide for the participation of the disabled on the labor market it is necessary, first and foremost, to support employers who create jobs for the disabled in the form of both investment and non-investment grants for the benefit of business entities that employ more than 55 % of people with reduced working ability.

Employers are obliged to employ a certain percentage of people with reduced working ability (Act no. 167/1999 Coll.). If their business activity does not make it possible, they have the option of alternative fulfillment, primarily by the purchase of products from employers whose share of people with reduced working ability exceeds 55 %, by giving orders to these employers or by contributions to the national budget for every position that should be but is not occupied by a person with reduced working ability. These measures demonstrate the effort to involve the disabled into the working process, i.e. not only with respect to the improvement of their financial situation, but, above all, to their overall rehabilitation.

<sup>5)</sup> For the sake of pension insurance, in the case of full disablement, a disabled person is defined by the decline of his/her working ability by 66 % or more, in the case of partial disablement by at least 33 %. The legislature regulating labor matters differentiates people with reduced working ability, disabled people and gravely disabled people.

### Material welfare of the disabled

Material welfare of the disabled is provided for in the first place by a full or partial disability pension according to the degree of disablement. However, pension system reform will probably have to redefine the disability pension and separate it from pension insurance.

In most cases the disabled are also entitled to social protection as well as social assistance, which are determined by the amount of the present-day disability pensions. Another area worth mentioning is the payment for compensation aids. A part of the social protection system also includes measures regarding the payment of taxes or discounts and special benefits.

The latter form of social protection is inherited from the past and it will be necessary to replace it with a systemic solution – e.g. reinforcement of measures regarding taxation or in the area of social benefits. The current system of social assistance benefits for the disabled is complicated. As a result, on the one hand, people who are the recipients of these benefits do not make use of them, on the other, sometimes they are also misused. The actual attitudes of the members of staff of individual regional components of the social assistance system towards the disabled also differ to a great extent. Based on a large-scale analysis of the social and economic situation of disabled people a reduction in the number of benefits is proposed, as well as their more precise definition in relation to the nature of the disablement.

### Asserting the interests of the disabled

With regards to the importance of the issue of the status of disabled people in society a Government Committee for the Disabled has been set up at the highest administration level. This committee elaborated, fulfills and controls the national plan of measures for the reduction of negative consequences of disablement (Národní plán opatření pro snížení negativních důsledků zdravotního postižení, NPO). Another institution with nation-wide impact is the board of representatives of organizations of the disabled (Sbor zástupců organizací zdravotně postižených). In both the chambers of the Parliament of the Czech Republic there are committees for social policy and the health service with subcommittees for the disabled. These issues are also addressed by a number of non-governmental, non-profit organizations.

Within the framework of the national plan for equal opportunities for disabled people the Ministry of Health established a subsidy program that distributed CZK 51,004,500 in 1999, including over CZK 6 million for the support of rehabilitation centers: 99 non-profit organizations received donations, including 43 unincorporated associations, 9 church organizations and 1 benevolent corporation.

The Helsinki Committee's annual reports are critical as regards the enforcing of the rights of the disabled. The 2001 report points in particular to the persisting problem of employing disabled people.

### Recommendations – 2.4.1. Poverty and social exclusion

- Prevent the social benefit system from being misused by citizens who report lower incomes than they actually achieve.
- Loosen the system's administrative requirements (reporting incomes sometimes several times a year, filling in applications) so that it does not discourage some citizens from asserting their due entitlement to benefits.



- Fine tune the relationship between the minimum wage and the subsistence minimum so as to make even the worst paid work a stimulus for leaving the social benefit system as the only income.
- Draft a modern and comprehensive law for the area of social assistance that would also govern the activities of non-governmental non-profit organizations in the realm of social care with the aim of providing for unhampered accessibility of social assistance for the needy.
- Solve the effects of the reform of public administration in the area of care for the socially needy.
- Carry out a thorough analysis of social needs in the regions.
- Keep the staff in the social area up-to-date and trained.

#### **Recommendations – 2.4.2. Families; families with children**

- Reinforce the diversification of subjects taking care of the family (first and foremost the strengthening of the role of municipalities).
- Provide for better usage of tax instruments (joint taxation of families, introduction of non-taxable minimum, tax write-offs instead of means-tested benefits).
- Provide for social appreciation of the families' care of its economically dependent members and appraise it by economic means.
- Create a family policy with a bearing on the whole life cycle.
- Improve the system of individual benefits aimed at the family.
- Implement European priorities (reconciliation between work and family, support of the plurality of family structures, paying attention to children and their legal protection, as well as care for seniors).

#### **Recommendations – 2.4.3. Women and men**

- Raise public awareness concerning the problem of the unequal position of women and men in different areas of social life with the help of the media.
- Eliminate the stereotypes persisting in the society in connection with female and male roles with the help of the media and education institutions at all levels.
- In relation to the creation of conditions for minimizing the conflict between employment and family life it is necessary to launch a public debate on the possible increase of alternative jobs (flexible working hours, job-sharing, work via the Internet, work at home etc.).
- Enable parents caring for young children to participate in re-training courses and other education programs before they return to the labor market.
- Re-assess the option of gainful activity together with full-day care for children of up to four years of age.
- Continuously monitor the implementation of government decree no. 236 on principles and attitudes of the government in enforcing equality between men and women and subsequent policies.

#### **Recommendations – 2.4.4. Seniors**

- Respond to the changing structure of the needs of seniors, the growing level of education, this particularly in the case of women, and needs of an intellectual nature.

- In consequence of the increasing standard of living of the present-day population in productive age expect future seniors' requirements in terms of the standard of living to increase.
- Expand the seniors' possibilities to live in their own household with the use of professional social assistance and health care.
- Emphasize the equipment of flats with compensation aids, that the reinforcing the integration of seniors into the local community is interconnected, as well as the operation of multifunctional facilities for the case of increasing dependency.
- The pension system reform must not only consider economic aspects, but also seek consensus throughout the society in terms of the measures being introduced that will affect future generations.

#### Recommendations – 2.4.5. Romanies

- Define an overall and comprehensive political concept of integration.
- Investigate the attitude and functioning of institutions – both state and non-state – that deal with the situation of Romanies, improve the keeping of records of integration effects and pro-Romany activities.
- Address the problem of the civil registration of Romanies for social-political purposes.
- In this respect it is necessary to reconsider whether the law on the protection of personal data is a sufficient guarantee against their misuse.
- Address the problem of low empathy of the benefit system and other tools to the nature of social exclusion (and social structure) of a large part of the Romany population.
- Strengthen both executive and judiciary components of state power with the aim of standing up to clans that keep their Romany fellow citizens in a vicious circle of poverty and client dependence.
- Give the message to the Romany public too that the state is strong and that it is also “theirs”.
- Open up the whole Romany agenda as a subject for public discussion.
- Motivate Romany authorities with the aim of reinforcing the emergence of a legitimate Romany representation.

#### Recommendations – 2.4.6. The disabled

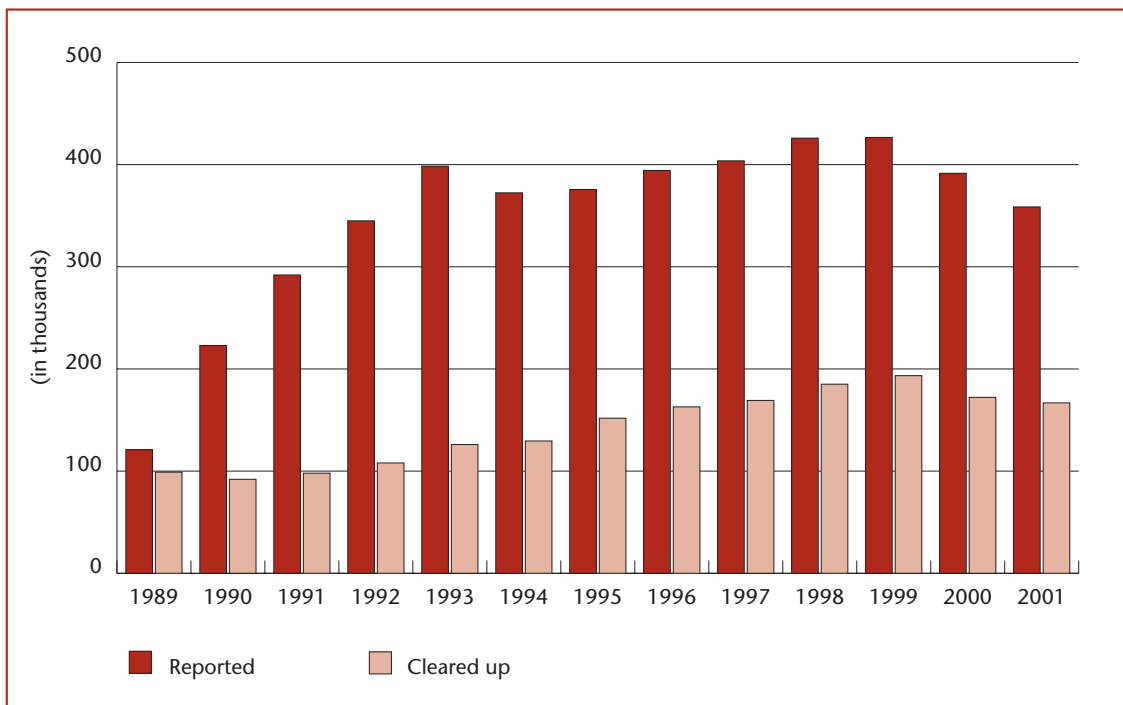
- Bring the social system reform in districts and municipalities in line with the state administration reform.
- Harmonize the definitions of the term “disabled person” in individual fields (labor market, social security) and thus make the decision-making process on the payment of social benefits easier.
- Improve the quality of record-keeping of disabled citizens, thus providing for better analyses of their needs.
- Modify the economic motivation for employment of people with reduced working ability and improve it in terms of effectiveness.
- Redefine the disability pension (not within the framework of old-age pensions, but e.g. as a part of health insurance or as a new special scheme).

## 2.5. Security of the country and its citizens

### 2.5.1. The development of criminality

After 1989 the Czech Republic saw criminality (criminal offences according to police records) grow significantly (more than three-fold) and we quickly adapted to Western European standards in terms of the level of affected citizens. After a temporary period of stabilization, development of criminality in the Czech Republic now shows a *decreasing tendency* (Chart 2.6).

■ Chart 2.6. The crime rates in the Czech Republic between 1989 and 2001

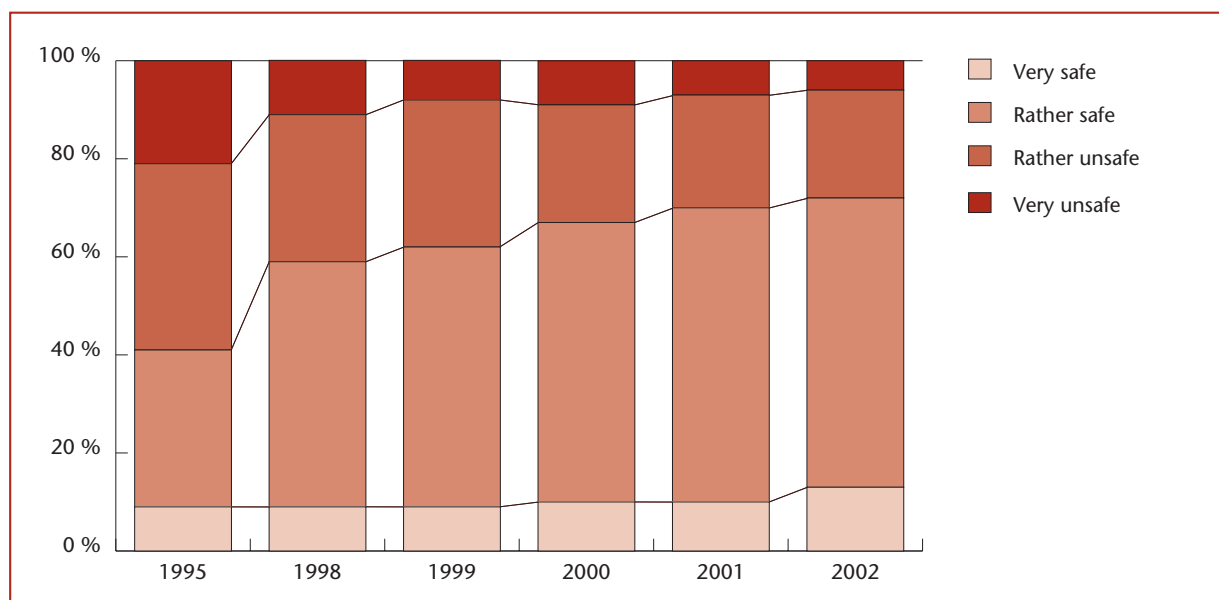


Source: Police statistics, criminal offences in thousands, <http://www.mvcr.cz>

The structure of recorded crime has relatively stabilized. One of its particularly dynamic features is the growing *child and youth criminality* (youth crime recently accounted for 6 % of recorded criminal offences); its nature is increasingly worsening in terms of seriousness. From the international point of view an important indicator (and target of criticism in connection with the emigration of Romanians from the Czech Republic) became the rate of racially motivated criminal offences; however, the rate of such crimes also depends on the attention that these kinds of problems receive from the state authorities. These offences show a high clear-up percentage (over 90 %) and their number is only increasing in some categories (e.g. “the supporting and promoting of a movement aimed at the suppression of human rights”).

From the long-term perspective the Czech public has perceived crime as *the main social problem*. After taking a back seat during the economic recession, it has now returned to occupy first place, although in reality it has decreased. Besides general criminality, organized crime and corruption are, in particular, seen as the major threat. At the same time, however, *worries of being affected by crime are shrinking*, both as regards general indicators of feeling safe (Chart 2.7.), and the actual perception and individual risk judgments. Well-known fear paradoxes emerge, as elderly people show higher levels, even though the probability of their being affected is lower. Another paradox is that a lower level of fear is recorded in the Czech Republic's capital city, Prague. This seems to point to an effect of normalization of risks, as the public is gradually getting used to similar instances of threat. People are adapting by their active behavior. The security of flats, cars etc. improved significantly after 1990.

■ Chart 2.7. Feeling safe in the evenings when moving about in the vicinity of the place of residence



**Source:** Continuous survey of victimization and safety feelings of citizens, Universitas, grant of the Ministry of the Interior of the Czech Republic.

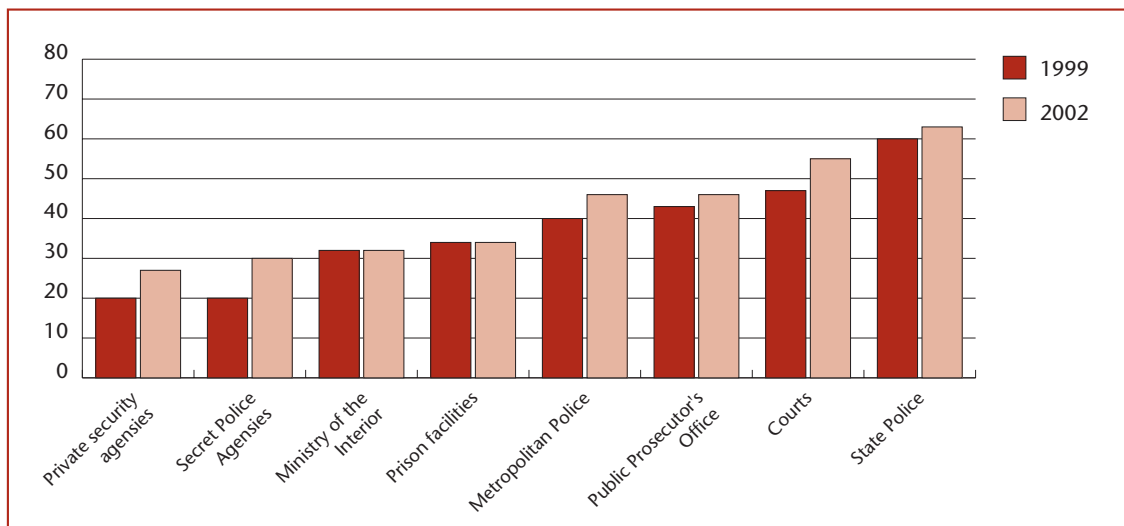
*Satisfaction with the police is moderately on the increase, as is trust in the force* (Chart 2.8, Table 2.11). The actions of the police have been positively perceived, e.g. during the International Monetary Fund meeting in Prague. On the other hand, however, Czech society tends to support diverse mechanisms of social control and a toughening of sentences including the attitude towards the reintroduction of the death penalty (which has the support of more than half of the population). The experience of the terrorist attacks against the USA played a significant role, developing from initial support for strong measures to a gradual differentiation of standpoints.

■ Table 2.11. Satisfaction with the work of the police (%)

| How satisfied are you with the work of the police? | 1999 | 2000 | 2001 | 2002 |
|--|------|------|------|------|
| Very satisfied                                     | 1    | 1    | 2    | 1    |
| Rather satisfied                                   | 24   | 22   | 23   | 27   |
| So, so, it depends                                 | 53   | 51   | 54   | 51   |
| Rather dissatisfied                                | 19   | 22   | 18   | 18   |
| Very dissatisfied                                  | 3    | 5    | 4    | 3    |

Source: Continuous survey of victimization and safety feelings of citizens, Universitas, grant of the Ministry of the Interior of the Czech Republic.

■ Chart 2.8. Proportion of citizens' trust in institutions (%)



Source: Continuous survey of victimization and safety feelings of citizens, Universitas, grant of the Ministry of the Interior of the Czech Republic.

Czech society does not appear to be significantly xenophobic. The main problem in this area is the relationship to Romanians, who are perceived as a not very likeable group. However, in international comparison the population of the Czech Republic does not stand out as one of a significantly problematic nature; various data sources have confirmed that the attitude of the population towards Romanians has gradually improved over the years [Burjanek, 2001].

### 2.5.2. Policies to combat crime

From the point of view of society as a whole crime is prevented by *humanizing and raising the quality of life*. Prevention is supplemented by criminal sanctions. Their key goal lies not only in punishment, but also in providing for the enforcement of citizens' rights, providing them with safety and feelings of justice. The objective of *the criminal policy* was to get closer to modern democratic systems in this field and transform the

Czech Republic into a state in which the rule of law is respected. Since 1994 a number of amendments to the Criminal Code and Criminal Procedure Code have been introduced, but overall re-codification remains a necessary step. This is progressing at a slow pace and the original completion deadline – the year 2003 – will probably not be met. The required changes, such as the institute of settlement, alternative penalties, the use of monetary punishment and the definition of the term criminal conspiracy were introduced in the mid nineties; however, their application lacked a systemic approach. This was caused by lack of experience on the one hand and poorly thought out organizational measures on the other. Furthermore, it has not been possible to achieve the speeding up of criminal proceedings. The amended Criminal Procedure Code effective as of 1.1.2002 should hopefully mark some improvement. One of the consequences is that prisons are still overcrowded. Although the proportion of those held on remand during the criminal prosecution process is decreasing (from a half to one third), the total number of people imprisoned remains the same (roughly 20,000 people).

In connection with crime the most important feature of the humanization of life is *support for the victims of criminal offences*. Victims who have been frequently brutally harmed or have lost lawfully acquired possessions lack information, adequate help and, in the majority of cases, sufficient compensation. Moral support in the Czech Republic is provided by the organization “Bílý kruh bezpečí” (White Circle of Safety), which was founded in November 1991, as well as by some other foundations, advice bureaus and crisis centers. Volunteers provide support for the victims of crime including legal, social, medical aid and psychological guidance. Since such associations are few in number, only a very small portion of the victims can be thus helped. Although financial compensation from the state is possible after some delays some limitations have been set due to the lack of funds.

*Organized crime* spread in what was then Czechoslovakia from the beginning of the 1990s. Although there is no doubt that it came from abroad, it was not only the domain of foreigners. Czechs made up almost a half of the members of criminal gangs. Among foreign nationals participating in organized crime are, in particular, Ukrainians and Russians, followed by the Chinese and Vietnamese. The Kosovo Albanians also form a numerically significant group. In the second half of the 1990s the proportion of Bulgarians and Poles decreased and with the break-up of the former Yugoslavia the proportion of Yugoslavs is also falling. The policy of combating organized crime is based on the assumption that the gangs are multi-national. Both world and European organizations (UNO, Council of Europe, EU, UNICRI, INTERPOL, and EUROPOL) have launched a number of initiatives in this respect. Since 1990 the Czech Republic has also engaged in this co-operation. The fact is, however, that not enough attention was paid to this by interior policy in the first half of the 1990s. Furthermore, the state administration had undergone radical changes and was weak. The legal system was slow in responding. Specific legal norms began to be adopted as late as from 1995. Though EU requirements were met, in practice the problems were only addressed at a slow pace. Nobody was either charged or sentenced for, for instance, involvement in a criminal conspiracy prior to 1998. After 1998 the situation improved significantly, though there has still been little progress in capturing the leaders of gangs (that said, a fair number of successes were reported in the first half of 2002). Contact forms of combating organized crime by special police squads can be seen as a positive development. Their well-designed goal is the uncovering of organizational structures of criminal gangs and the elimination of the gains they have made from their criminal activity.

The transition to elaborate methods of committing crimes has also lead to a growth in financial criminality. It was not only that criminal offences rose in number in this area; the considerable volume of damage caused was a greater threat for society. Similarly

dangerous is the fact that this crime is committed in a way that it is very difficult to detect and prove. Furthermore, illegal practices threaten and question the economic system as a whole. Possible links between the offenders and politicians, top managers, the media etc. – as in the case of organized crime – damages trust in these institutions and in democratic principles. As was the case regarding organized crime, the response of the political elite to issues of financial criminality was slow, in spite of the fact that the public considered this problem to be pressing. As early as 1993 efforts were evident at the Ministry of the Interior of the Czech Republic to address this problem at a conceptual and institutional level. Since 1996 straightforward measures have been taken. Certain successes have been reported, particularly by the police squad for the detection of corruption and serious crime and the Financial Analytical Department of the Ministry of Finance.

### 2.5.3. Corruption

Both international comparisons and public opinion signal the gravity of the problem of corruption. However, the comparison of data gained by surveys before 1989 with that of GfK Prague<sup>1)</sup> leads to an interesting conclusion: the instances of corrupt behavior seem to have dropped in number. Ordinary people personally come across corruption less frequently than they did during the communist regime. Corruption in the Czech Republic after 1989 thus cannot be characterized only as “a one-way process of large-scale spreading”; it was more likely a mixture of several trends that can be defined as follows:

- A rapid decline in petty, everyday corruption caused by the elimination of opportunities for corruption in the area of retail and services – as a consequence of the free market there are no longer any scarce goods.
- The boost in large-scale political and economic corruption was enabled, in the first place, by the creation of new corruption opportunities in the privatization process and in the area of public procurements.
- The concentration of corruption in a state administration that had acquired the power to decide on large-scale property transfers and public investment and could extort its partners from the commercial sector or enter into profitable corrupt transactions with them.
- An increase in the degree of the indispensability of corruption, or rather the emergence of groups of citizens who are practically dependent on corruption.

The shift of corruption from services and trade to administration - together with the social conditioning of bribery - signals changes in the societal functions of corruption. In the past corrupt behavior presented its subject primarily with certain above-standard services and scarce goods. Today, categories of people are emerging who use corruption as a working method indispensable for the successful execution of their profession. These people suddenly find themselves in a paradoxical situation: if they want to help to combat the corruption of others and secure equal conditions for themselves - e.g. in tenders for public procurements - they cannot but give bribes, i.e. combat corruption with corruption. They are caught in a corruption trap. They give bribes, although corruption does not provide them with benefits; on the contrary, it only helps to eliminate disadvantages, thereby they cannot stop it.

<sup>1)</sup> GfK Praha gained this data in April 1998 from a representative survey of 967 respondents. For the sake of enabling adequate comparison the citizens of the Czech Republic were put identical questions in the recent survey as featured the 1988 - 1989 survey of the Trade Research Institute (Výzkumný ústav obchodu, VÚO). [P. Frič, T. Holeček, J. Šafr, 1998]

Corrupt public administration institutions are one of the most fundamental hurdles on the post-communist countries' journey towards effective democracy and a market economy. Both EU bodies and the Czech Republic's citizens are aware of this truth. Acquired data shows that the citizens of the Czech Republic are actually very critical when it comes to the issue of corruption in the state administration. The majority of the population blames sections of the political elite for the spread of corruption. In the respondents' view, it is not so much the former communist government representatives who are responsible for the spread of corruption in the Czech Republic, but rather the democratic governments since November 1989.

One could assume from the above statements that as the moral dissatisfaction of the population with the persisting corruption issue must be profound, their readiness to engage in its resolution should be strong. Further findings, however, do not verify this assumption. The majority of the population do not consider themselves to be part of a "public control" as to what extent officials observe the rules of their professions. As regards the possible corrupt behavior of officials, they rather tend to approach it as passive observers than active initiators of its sanctioning. The readiness of individual citizens to stand up to the spreading of corruption is actually decreasing with time. *Two out of five respondents – Czech citizens – are reported to have given up hope of the problem of corruption as such being solved. They deem former governments' empty promises and unsuccessful attempts to root out corruption as having been a waste of time and they have arrived at the conviction that corruption has always been present and will continue to be so. Furthermore, the proportion of those who share such fatalist views has been growing dangerously: from 1998 until 2001 it rose from 24 to 41 %. Fortunately for the moment the major part (48 %) of citizens are not affected by this fatalist syndrome and they do not agree with the idea of abandoning the fight against corruption.*

The majority of citizens think that by their own acts they are not able to influence the solution of the problem of corruption in the Czech Republic in any way. The Czech public relies on the state when it comes to solving the corruption issue. People are willing to put immense power into the hands of state bodies so as to enable the state to eliminate corruption. The proportion of citizens, however, who do not deem bribery to be "as immoral as it is sometimes considered to be", has significantly increased in the past two years (from 19 to 26 %). Thus it is questionable whether it will be possible to break this vicious circle in the near future.

■ Table 2.12. Corruption Perception Index in the Visegrád countries<sup>1)</sup>

|                | 1996     | 1997     | 1998     | 1999     | 2000     | 2001     | 2002     |
|----------------|----------|----------|----------|----------|----------|----------|----------|
| Czech Republic | 5.4 / 25 | 5.2 / 27 | 4.8 / 37 | 4.6 / 39 | 4.3 / 42 | 3.9 / 47 | 3.7 / 52 |
| Hungary        | 4.9 / 31 | 5.2 / 28 | 5.0 / 33 | 5.2 / 31 | 5.2 / 32 | 5.3 / 31 | 4.9 / 33 |
| Poland         | 5.6 / 24 | 5.1 / 29 | 4.6 / 39 | 4.2 / 44 | 4.1 / 43 | 4.1 / 44 | 4.0 / 45 |
| Slovakia       | -        | -        | 3.9 / 47 | 3.7 / 53 | 3.5 / 52 | 3.7 / 51 | 3.7 / 52 |

<sup>1)</sup> Visegrád countries are the Czech Republic, Hungary, Poland and Slovakia.

The first number shows the value of the index and the second the country position in the whole scale of countries involved in the Transparency International research. The Index values range from 0 to 10. Value 10 shows the lowest scale of corruption perception. The higher the number of the country position, the worse is its corruption situation.

Source: Transparency International ([www.transparency.org/cpi](http://www.transparency.org/cpi)).



#### 2.5.4. Crime prevention

Though the necessity of applying preventive measures in combating crime discussed in the Czech Republic at the beginning of the 1990s, practical experience with the creation of a state-guaranteed system of prevention work was missing. This purpose was pursued at the beginning of 1994 when the inter-departmental body The Republic Committee for Crime Prevention was set up. The committee's administrator is the Ministry of the Interior. The main goal of the inter-departmental collaboration was the creation of a crime prevention system in the Czech Republic that would be based on departmental prevention programs, crime prevention programs at the local level, on the activities of the Czech police, non-governmental non-profit organizations and business entities. It soon became obvious that the main focus of planning the prevention work must be directly on towns, which have to deal with crime and other anti social patterns. Thus the main objective was to support the creation of high-quality prevention programs carried out at the local level.

The point of departure for the design of a prevention program for every town or city is the analysis of the security situation in the town/city in question. The final version of the program has to be approved by the municipal authorities; thus the program becomes politically binding and it can be financed from the municipal funds and it can be evaluated and controlled. To maintain this program the municipalities created the position of prevention action manager, whose main task is to coordinate the activity of individual subjects engaged in prevention work in the town/city.

In 1996 a state funding system was introduced for the support of municipalities suffering from a high crime rate and other risk phenomena. Administered by the Republic Committee for Crime Prevention the system is maintained by the Ministry of the Interior's Crime prevention department. At the same time, the department is also responsible for the design and methodology of a comprehensive program. A precondition for the granting of funds is the creation of a high-quality prevention program, its approval by the municipality authorities, providing for managerial structures of the program and financial participation of the municipalities in the implementation of the program.

In 1996 the program, supported by a state selective grant, was aimed at towns with over 30 thousand inhabitants and nine towns were included in it; that number was increased towards the end of the year to a total of 18 towns. In 1998 the system was extended to also include towns with over 10 thousand inhabitants and their number increased to 43. In 2000 the program was in force in 66 towns and in 2001 as many as 84. From 1996 to 2001 more than 2000 subprojects were supported by funds amounting to roughly CZK 472 million.

In the area of social prevention the priority was the prevention of crime involving children and the young, crime prevention related to drugs and the prevention of reoccurrence. Support was most often granted to facilities catering for the leisure time of children and the young (the building of sports areas, youth clubs, special interest organizations etc.). Special attention was given to crisis intervention and help for the victims of crime. In the area of situation prevention the main emphasis was placed on preventing offences against property. The situation prevention projects thus concentrated on camera monitoring systems, whereby the municipality representatives expected the installation of the systems in high crime risk areas to have a rapid preventative effect.

The establishment of a crime prevention system in the Czech Republic, however, has also been accompanied by some problems. In spite of the fact that the state selective grant

was defined from the outset as a vehicle for getting the programs started - and was not intended for their further regular maintenance - municipalities have not to date been able to raise the necessary financial means on their own. With regards to municipality budgets, funds for crime prevention are still understood (in competition with other expenses) as relatively high. A related problem is also the diffuse state funding resources and insufficient awareness of them.

Another complicated issue is the generally low readiness of the people in charge to create prevention programs based on analytical material and sociological surveys. The prevention agenda managers are often people who, besides this activity, are also responsible for another position in the municipal administration and cannot devote themselves purely to crime prevention issues. To name an example, this agenda is often entrusted to metropolitan police directors despite the possible complications of uniting both prevention and repressive activities in one person. A further problem is a slow transformation of the understanding of police work among the police themselves. The police are primarily occupied with detecting reported crime. Any other activities complicate and hinder police work; this also concerns communication with citizens and prevention activities among children and the young.

Considering the results of establishing the prevention system on the local level from an overall point of view it becomes apparent that in towns/cities the anticipated state has still not been achieved, i.e. the establishment of a genuine comprehensive system of prevention work that would respond to recent problems of the town/city and include the cooperation of the state, municipalities, businesses and civil entities.

## Recommendations

- A comprehensive system for the safety and defense of the country should be established as a fundamental innovation.
- Consequential and straightforward activity of the corresponding institutions will most likely constitute a successful method to combat organized crime and economic criminality, which will probably also be joined by computer criminality in the years to come. Further activities leading to success will have to approach the solution of partial goals gradually, accompanied by analysis and feedback. On the other hand, such campaigns and one-off events prove ineffective when proclaimed in a bombastic way and when their goals are defined abruptly and without respect to practice, so that they cannot actually be met.
- The security policy has to avoid the trap of populism, the temptation of increasing the amount of social control and repressive measures.
- A tabloid-like media picture of security risks has to be prevented by a sophisticated and open information policy and objective comparison with the situation abroad.
- Encourage municipalities to carry out prevention work (nationwide promotion and information campaign stressing the importance of prevention activities at the local level). Guarantee the state's readiness - if clearly defined conditions are met - to participate financially in the prevention activities of the municipalities.
- Get the Czech police involved to a broader extent; they should e.g. follow the example of Western countries and systematically engage in lecturing primarily at schools. Insurance companies should take more consideration of higher levels of building security when setting their insurance fees.

## 2.6. Regional disparities

### 2.6.1. Regional quality of life index

Chapter 2.1 has dealt with the issue of measuring human development using the comprehensive *Human Development Index* (HDI). The index was designed by the UNDP and its goal is to compare all countries, using life expectancy, achieved education and standard of living as the main indicators of human development.

From the comparison of the status of the Czech Republic with other countries and the evaluation of the recent trends and assumptions regarding future development it follows that the Czech Republic regularly ranks among *developed countries with a high level of human development* (cf. Chapter 2.1). We are however aware that it would not be right to remain satisfied with this statement. Human development is a broad and differentiated category, changing with space and time. One comprehensive indicator as evaluated on the national level cannot sufficiently express the differences either in individual areas of development (particularly in the social and economic areas) or in individual regions.

The average inhabitant of the capital city of Prague is likely to define the social and economic levels of his/her life as being high. However, how would the majority of inhabitants respond e.g. in the Ústí nad Labem, Ostrava or Vysočina regions? And, on the other hand, does the definition of a high quality environment pertain more to Prague, or e.g. the Vysočina region? In this national report we thus face the difficult task of expressing the level of human development and quality of life for the regions of the Czech Republic. It stands to reason that the indicators as they are used worldwide to compare individual countries will not be totally applicable; we have to create a new construction of an index that would better reflect the situation of the Czech Republic over the past decade.

*Regional units* derive from the administrative set-up of the Czech Republic: regions are the basis for statistical data surveys. The district level (76 districts and the capital city of Prague with 15 municipal areas) presents, from the point of view of data evaluation, too detailed a level (and, furthermore, some important indicators are not surveyed at this level). Therefore, we chose *the regions of Czech Republic with their valid definition as of 1.1.2000* (14 regions corresponding to the 3rd level of the EU Nomenclature of territorial units for statistics – NUTS 3).

With regard to *the choice of indicators* we will certainly share the view of the compilers of the annual Human Development Reports that human development is a combination of *the opportunities for living a long and productive life with sufficient education and an adequate standard of living*.

We will, however, adapt the individual indicators to statistical surveys in the Czech Republic (the main criterion is that the selected indicators have been the subject of research at least at the level of the regions of the Czech Republic) as well as to the individual areas of the quality of life and the level of human development as they are dealt with in the preceding chapters of this publication. As a compromise between the concept of human development according to the UNDP and the understanding of quality and sustainability of life developed at the Center for Social and Economic Strategies (CESES FSV UK) we chose the structure of the regional index. Although it consists of three key areas of human development according to the UNDP, it analyzes these areas in more detail based on statistical data concerning the regions of the Czech Republic. The structure of the regional HDI for the Czech Republic is shown in Box 2.2.

## ■ Box 2.2. Regional human development index for the regions of the Czech Republic

The regional human development index of the regions of the Czech Republic was established for the three main areas of human development (according to the UNDP), which were further evaluated by the means of interpretation of statistical data for individual areas of concern (defined by the authors of this report). Every area of concern was evaluated based on several indicators. The index structure is as follows:

*A. Preconditions for a long and healthy life* – the main areas of concern are demographic preconditions, health and safety of the population and the quality of the environment. The following indicators were evaluated:

*Demographic preconditions* – population growth per 1,000 inhabitants, rise in population due to moving house per 1,000 inhabitants, life expectancy at birth.

*Health and safety of the population* – total death rate per 1,000 inhabitants, infant mortality per 1,000 children, the average percentage of incapacity for work, the number of inhabitants per one physician, the number of beds in hospitals and specialized health care institutions per 1,000 inhabitants, the number of crimes reported per 1,000 inhabitants, the clear-up rate.

*Quality of the environment* – population density per 1 km<sup>2</sup>, the percentage of the population classed as urban, the proportion of the land that is forested, the percentage of low-area reservations from the total area, specific emission of solid substances, SO<sub>2</sub>, NO<sub>x</sub>, CO and C<sub>x</sub>H<sub>y</sub> total per km<sup>2</sup>.

*B. The preconditions for a productive life with sufficient education* – the main areas of concern are the standard of the educational system and the level of education of the inhabitants, family and social cohesion, labor and the chances of social involvement. The following indicators were evaluated:

*The standard of the educational system and the level of education of the inhabitants* – the proportion of secondary-school students from the total number of inhabitants of productive age, the proportion of secondary general education school students from the total of secondary-school students, the proportion of the university educated population from the adult population, the proportion of the secondary-school educated population from the adult population, the proportion of employees of the tertiary sector from the total number of employees.

*Family and social cohesion* – the number of marriages per 1,000 inhabitants, the number of divorces per 100 marriages, the number of abortions per 1,000 children born, the proportion of university educated women.

*Labor and the opportunities for social involvement* – the registered unemployment rate in %, the number of job seekers per one vacancy, the percentage of graduates and young people of those out of work, the percentage of the population that is economically active.

*C. The preconditions for an adequate standard of living* – the main areas of concern are the economic performance of the region and the social status of its inhabitants. The following indicators were evaluated:

*Economic performance of the region* – gross domestic product per capita, the number of private entrepreneurs per 1,000 inhabitants, acquired tangible and intangible assets per inhabitant, the length of the railway and road network in km per km<sup>2</sup>.

*The social status of inhabitants* – the average gross monthly pay in CZK, the average value of old-age pensions in CZK, the number of building permits issued per 1,000 inhabitants, the number of individuals registered as socially needy per 1,000 inhabitants.

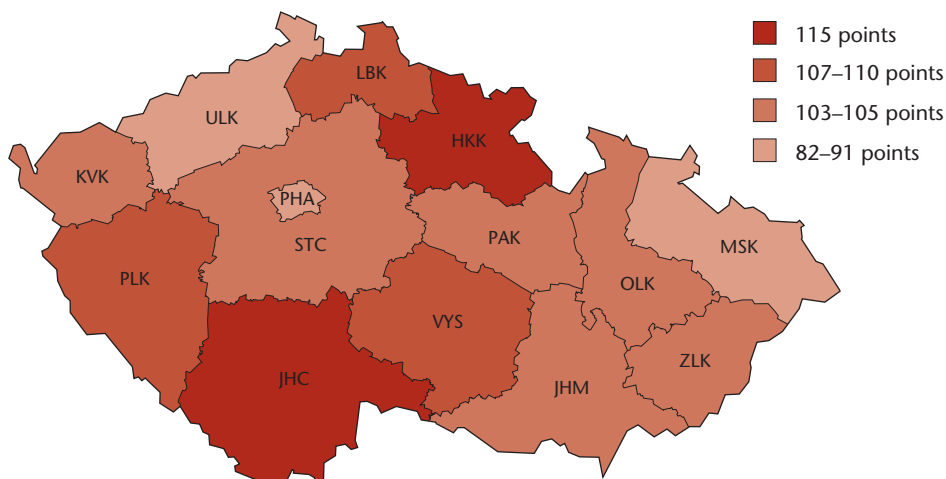
The human development index was evaluated for the 14 regions of the Czech Republic based on available statistical data – its source data came from the annual statistical reports of all the regions of the Czech Republic. The comparative level for all the regions was the average value of the given indicator for the whole of the Czech Republic, which represented 100 %. The individual regions exceeded the 100 % level if the value of the given human development and quality of life indicator was more favorable than the national average, and the value was below 100 % in the opposite case. For every region three partial indexes for areas A, B and C (as the arithmetic mean of the partial indicator indexes) were evaluated as was the overall human development index (as the arithmetic mean of the A, B and C indexes).

The comparison of the recent data (year 2000 statistic data) with older values (similarly calculated indexes for 1990, 1994, 1996, 1998 and 1999) made it possible to establish a time line of indexes for the individual regions of the Czech Republic as well as a variation range of individual variables that documents regional disparities and their changes over the past decade.

## Regional human development index for the Czech Republic – results and evaluation

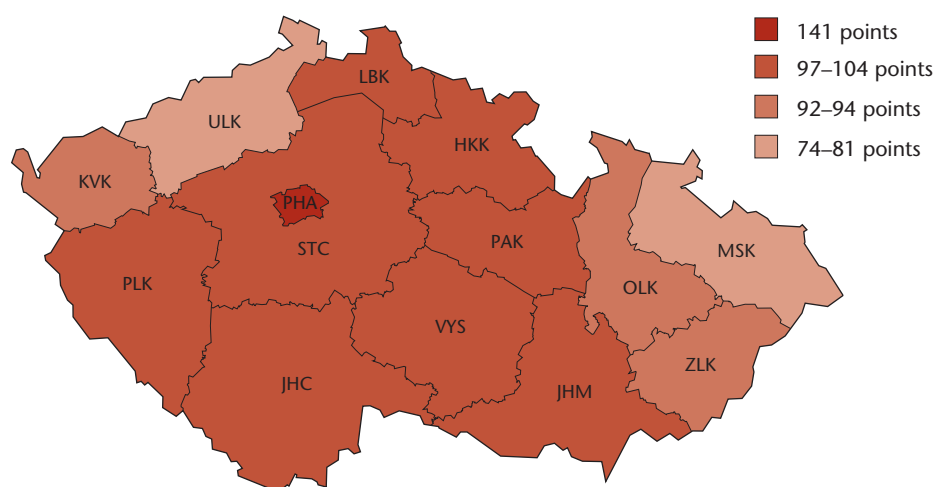
The evaluation of partial A index (*Preconditions for a long and healthy life*) has shown two regions with a significantly favorable situation – South Bohemia and the Hradec Králové region (index value 115; 100 is the average value for the whole of the Czech Republic). The situation was favorable in the Vysočina (109), Plzeň and Liberec (both 107) regions while a moderately above-average situation is to be found in the Pardubice region (105), Central Bohemia and Olomouc region (104) as well as in South Moravia, the Zlín and Karlovy Vary (103) regions. A below-average situation has been found in the Ústí nad Labem region (91) and the situation in Moravia-Silesia (84) and in the capital city of Prague (82) can be described as significantly dissatisfying.

### ■ Chart 2.9. Preconditions for a long and healthy life



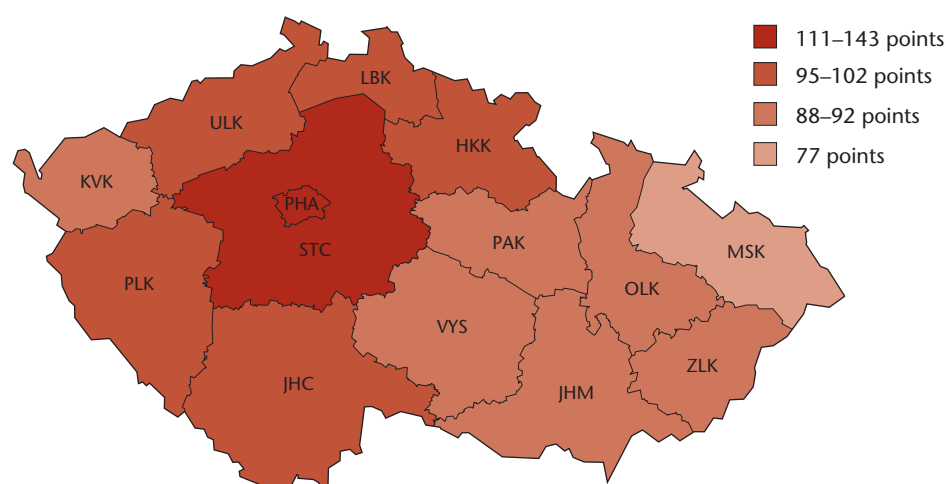
The **partial B index** (*The preconditions for a productive life with sufficient education*) has revealed another picture. The most favorable values are clearly presented by the capital city of Prague (index value 141). Moderately above-average values are found in the Hradec Králové (104) and Pardubice (103) regions as well as South Bohemia (103) and the Plzeň (102) region. Average to moderately below-average values have been calculated for South Moravia (100), Central Bohemia as well as the Liberec (99) and Vysočina (97) regions. An unfavorable situation has been determined in the Zlín (94), Karlovy Vary and Olomouc (92) regions. A very unfavorable situation exists in Moravia-Silesia (81) and particularly in the Ústí nad Labem region (74).

■ Chart 2.10. Preconditions for a productive life with sufficient education



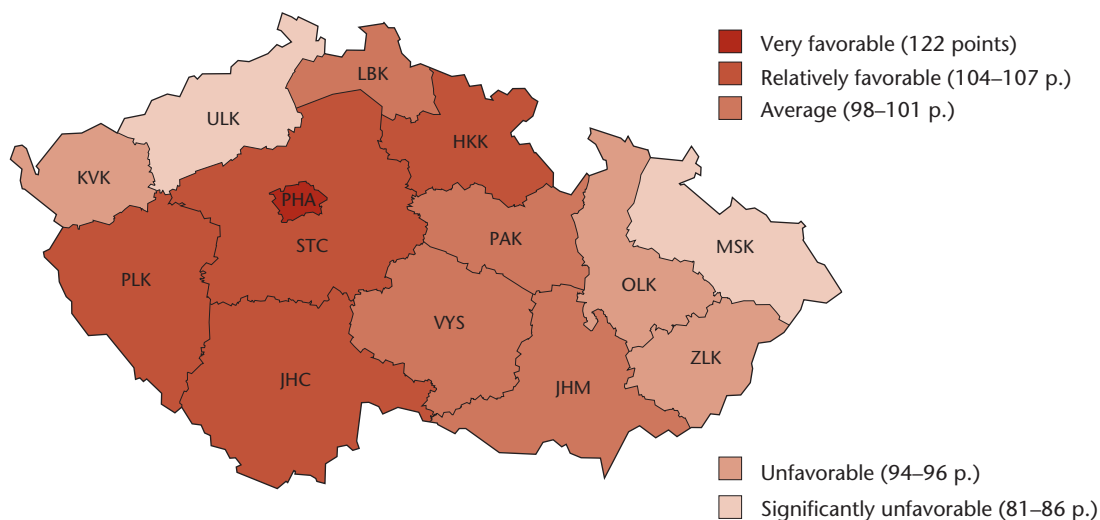
The **partial C index** (*The preconditions for an adequate standard of living*) reflecting particularly the economic as well as the social situation of the inhabitants, again reached a peak value in the capital city of Prague (index value 143). Favorable values have also been achieved in Central Bohemia (111). The Plzeň region (102) and South Bohemia (101) have moderately above-average values. Mildly below-average values have been reported in the Liberec (98), Hradec Králové (96) and Ústí nad Labem (95) regions. An unfavorable situation is evident in the Olomouc, Pardubice and Vysočina regions (92), South Moravia and the Zlín region (both 90) together with the Karlovy Vary (88) region. The worst situation by a significant degree is in the Moravia-Silesia region (77).

■ Chart 2.11. Preconditions for an adequate standard of living



Combining the above three partial indexes we arrived to the value of the **overall human development index** for the regions of the Czech Republic. The best in the overall evaluation is the capital city of Prague (index value 122). Relatively favorable is the situation in South Bohemia (107), the Hradec Králové region, Central Bohemia (105) and the Plzeň region (104). Average values were found in the Liberec (101), Pardubice (100), and Vysočina (99) regions as well as in South Moravia (98). A less favorable situation exists in the Olomouc, Zlín (both 96) and Karlovy Vary (94) regions. According to the calculated human development index, a significantly unfavorable situation is apparent in the Ústí nad Labem (86) region and particularly in Moravia-Silesia (81).

■ Chart 2.12. The total human development index



## 2.6.2. Socio-economic differentiation of the Czech Republic

Despite the above stated relative disparities between the individual regions, the Czech Republic, from the perspective of regional differentiation of social and economic development, is still one of the most homogenous territories in Europe. This is certainly linked to the relatively small land area of the country and relatively high population density; however, the decisive factor was the targeted leveling policy of the former regime. Considerable local equality of social and economic development resulted from the planned locating of both production capacities and facilities of the social and technical infrastructure. This happened according to “social” criteria, i.e. to a considerable extent in line with egalitarianist principles and, in every respect, regardless of any market requirements. Although the thus defined localization policy resulted in the nominal equality of the local and regional communities, it was equality in “poverty and lost opportunities”. Therefore, it is logical that the regional and local development after 1989 reflected the substantial political, economic, social and environmental shifts that Czech society was going through. This was also why the development in the past decade was significantly structured even in its regional and local dimension. Three tendencies dominated in this process:

*Firstly*, selective tendencies in regional development strengthened, bringing about *the deepening of regional disparities on the socio-economic level* and having a significant effect on the *structure of relationships in the system of settlement*. The effect was two-fold:

- On the one hand, the attractiveness of individual population centers has ceased to be based on their size, but increasingly on the *quality of the activities* offered there. This shift towards the growing importance of quality aspects was due to the “technological” rather than the generally social transformation, i.e. to the transition of Czech society from an industrial society to a post-industrial one.
- On the other hand, the strengthening of *links within the settlement system leading to the fact that regional polarization is now affecting larger regional entities*. This is a natural response to the former cloistered nature of small administration units (districts) when it was a totalitarian society. The networking took place *despite* the fact that the migration of the population was fairly limited. The shift of the regional polarities was thus mainly governed by the mobility of other factors: investment in productive capital and information flow.

*Secondly*, throughout the past decade there has been a general trend of the *exchange of positions from successful to unsuccessful regions and locations and vice versa*. The formerly favored regions of heavy industry, which had been proclaimed essential to the prosperity of the entire country, became the main regions of concern. They particularly included the *coal basin regions* (the Ostrava, Ústí nad Labem and to some extent also the Karlovy Vary-Sokolov regions). The necessary restructuring in these regions was hindered by the lower level of qualification and flexibility of the labor force, as well as by weaker social stability. The restructuring of the coal basin regions required substantial support from the state and the European Union. However, it arrived to a very limited extent and did not take a very effective form.

By contrast, the *dominant position of the Prague metropolitan agglomeration* grew. Its “natural” development dynamics (which were artificially suppressed before) far surpassed all the regional centers in the Czech Republic and nowadays Prague’s economic performance is roughly double the value of the other regions. Prague has seen several factors combine:



- Clearly the dominant metropolitan agglomeration in terms of size
- Favorable location
- The development of non-productive and especially quaternary transaction activities as well as the required quality of labor force.

However, the 1990s also witnessed the selection of other relatively strong regions and places as the driving force for the entire national economy (especially cities in Bohemia, less so in Moravia or Silesia).

*Thirdly*, over the course of the past decade the *technical infrastructure* has proven to be of key importance in the context of Czech society and the economy. The inherited technical infrastructure was certainly bound to its location to a major extent and changes to it were expensive. Nevertheless, they had and still have large-scale effects upon the spatial structure of society and economy. The modernization of technical infrastructure (which consumed a considerable proportion of fixed investment in the recent period, this even at the expense of productive investment) enabled the gradual establishment of essential contacts between entities in the economic system and in the societal function of individuals and households. In this area, however, a growing disproportion between the western and eastern half of the state has also emerged. A modern technical infrastructure enabled the establishment of electronic contacts or allowed for the delegation of the transport of information (by post), goods and materials (shipping companies). The investment in electronic infrastructure was relatively cost-effective and the results did not take long to become visible. However, neither the large-scale innovations and investment in electronic infrastructure, nor the subsequent changes in functioning (telework, teleconferences, teleshopping, remote diagnoses etc.) could fundamentally weaken the strong need for direct personal contact in business and social activities. Therefore even today the *opportunities open to individual regions and locations in terms of social and economic development still depend on a good technical infrastructure that will provide for the easy geographic mobility of people, goods, materials etc.*

Although in line with these factors the inter-regional disparities (NUTS 3) measured by per capita GDP grew in their nominal values (in 1993 the weakest region accounted for 48 % of the performance of the strongest region, in 2000 it was only 36 %), it was mainly due to the growing performance of one region – Prague, which accounts for about 1/10 of the population of the Czech Republic. Eliminating Prague from the assessment of the inter-regional socio-economic differentiation, the disparities on the NUTS 3 level remain practically marginal (the performance of the bottom region equivalent to roughly 80 % of the performance of the top region).

Similarly, no dramatic disparities come to light when comparing the regions in terms of the average gross wages of employees – provided that Prague is again excluded of course. The only phenomenon where the consequences of the market transformation of regional economies are fully manifested is in the rate of unemployment.

Far greater differences in economic performance – and thus in the distribution of the social opportunities of the population – still persist at the district level (NUTS 4) and, particularly, at the level of smaller micro regions. The determination of these differences can be based only on the indicator of the unemployment rate: the difference between the most successful (Prague and some districts of Central Bohemia) and the parts of the country worst hit by unemployment (Most, Chomutov, rural micro regions near the border) can be as much as twelve-fold.

The broad belt of the Krušné hory foothills (from the Chomutov region to the Děčín region) in particular is seeing an evident accumulation of the processes of economic deprivation and environmental devastation as well as the growth of socially pathological phenomena. This area also represents the most severe “crisis belt” in the Czech Republic.

### 2.6.3. Public policy of equal opportunities

Despite the aforementioned facts, the growing regional differentiation of development has not yet caused any deep social or political conflicts within Czech society. This is primarily due to the fact that it started to develop from a very level base. This contributed to regional policy being sidelined during the course of the 1990s: although state authorities announced programs of support for the underdeveloped regions, the low amount of public funds used and the excessive discontinuity of programs together with the complicated distribution of aid to recipients (enterprises, municipalities) resulted in these measures having a low impact. The content of regional policy as a *policy of equal opportunities* is nevertheless generally – at least on the theoretical level – accepted and is most likely not going to be changed.

Many believe the recently established regions could play a significant role in the leveling of socio-economic regional development. They have the chance to become entities of a sensitive and comprehensive leadership of regional development, as well as an effective counterbalance to the sector-based central government and administration. Hand in hand with the growth of the importance of regional government for the support of regional development, the importance of strategic decision-making also increases. All the regions in the Czech Republic have their own documents of strategic development and action programs. However, their implementation faces two basic problems:

- The lack of a linkage between socio-economic programming and regional planning.
- The low budgetary autonomy of the regions.

The experiences of EU countries show the importance of regional and local conditions for the creation of innovations and mechanisms of dynamic competitive advantages based on *the ability of regional and local entities to learn*. Learning and the creation of innovations are not limited to private businesses but, on the contrary, are becoming a matter for the entire hierarchy of public administration institutions. The regional and local governments play a key role in this: the establishment and sustainability of the local innovation milieu depends on them. In this respect, the key opportunity as well as risk for the individual regions of the Czech Republic is becoming the quality of the “human capital” that they have at their disposal. This is true not only in terms of professional and educational qualification, but also in terms of ability and readiness to cooperate (“social capital”). In this area the distinct disparities between the Czech interior and the former Sudeten regions become a risk factor.

Based on the experiences of the countries of the European Union, regional politics (borne by the political legitimacy of regional government) is becoming a matter of *dialogue* between several levels of local administration and the entities of the private (commercial and civil) sector. This partnership between the government, state administration and private sector entities is the pillar on which a consensus on a socially acceptable relationship (at a given time and place) between the pressure for performance and solidarity aspects in the regional politics can be built.

## ■ 3. A BIG TASK: GOOD GOVERNANCE

### 3.1. Public administration and its reform

#### 3.1.1. The organization of public administration in the Czech Republic

The system of public administration in the Czech Republic includes state administration authorities, local administration bodies, professional self-governance bodies and other institutions under public law. The former two organization types represent public administration in a relatively narrow sense of the word. In the past decade, public administration included both ministries and other authorities of central state administration (the authority of which is generally defined in what is called the Competence Act) and district authorities (76) as regional state administration authorities with general impact, as well as a system of regional state administration bodies with special authority (e.g. revenue offices, military boards etc.). Besides these state administration bodies rooted in legislation there were also what are known as decentralized offices of central state administration bodies (their authority either covering the areas of the former regions, or areas that were specifically set). They came into being as a direct consequence of the absence of a regional administration element; since this has now been established, they no longer have any purpose. The same holds true for district authorities, the activities of which ceased on 31. 12. 2002. Their powers, to a larger extent, have been delegated to municipalities and to a lesser extent to the regions.

Throughout the whole of the 1990s the system of local administration bodies was only represented by municipal bodies, which number over 6,200 in the Czech Republic (roughly 50 % more than in 1990). The considerably diffuse nature of the municipal system, along with the fact that almost 80 % of municipalities have less than 1,000 inhabitants, represent one of the characteristic features of the Czech Republic's administrative structure. The scope of the executive authority of the municipalities is governed by the Municipalities Act. Furthermore, in certain instances stipulated by law, municipalities exercise the authority of state administration which has also been transferred, although they do so only in a much differentiated scope. A special position in this respect is granted to what are called commissioned municipal authorities; they were established in 383 municipalities and also exercise state administration for other municipalities in the stipulated regional area. In 2002 commissioned authorities of the second rank (194) came into being. These, to a significant extent, have been given the responsibilities of the dissolved district offices.

In 2001, following the first regional elections in autumn 2000, the long debated and deferred regional self-government came into being, thus creating 14 regions. The introduction of regional self-government, however, has still not become a sufficient stimulus for the overcoming of the "traditional" centralistic model of state administration. The regional administration component does not yet have the sufficient capacity to actively define and defend legitimate regional interests. This in turn threatens the trust of the population in the regions as regards the justification for this form of government.

### 3.1.2. The outline of public administration reform in the Czech Republic

The above described state of the organization of public administration in the Czech Republic presents a temporary development phase that reflects the implementation of only some of the first steps of the public administration reform. This is due to the fact that the reform is not only an urgent process, but also a complicated and time-consuming one.

The political background specifying the goals of the public administration reform emerged over a long period of time (up to 1997), at a slow pace and inconclusively. That resulted in the fact that the implemented changes in the system of public administration lacked a definite setting of goals and were dictated more by recent political requirements than by a well thought out and consensus-based strategy.

A breakthrough in this respect was the passing of the above mentioned constitutional law (that fulfilled the diction of the 1992 Constitution) on higher regional self-governing entities in 1997. Another positive signal was a government decree (203/1998) from March 1998 regarding further steps of the government towards the public administration reform; it was brought about, among other things, by massive criticism from the EU. The actual public administration reform, however, was launched as late as in 1999. Its goal is *the restructuring of public administration, including the reform of municipal and regional self-government, central and regional state administration reform, regulatory reform, the legal regulation of the public service, the public service education system and the final creation of administrative judiciary*. In the same year a key decision was made that the *model of a united public administration* will be rigorously applied in the Czech Republic, i.e. one of organizational fusion of state administration with self-government on all levels.

The outline of public administration reform is based on the following principles:

- a) *Decentralized government*; its goal is to transfer the responsibility for societal regulation to those who are directly affected by it (professional self-governance and local self-government).
- b) *Focusing government on regional issues*; enforcing the responsibility of regional and local communities as a result of the reduction of the national state's duties.
- c) *An increase of the proportion of service function of public administration at the expense of its authoritarian function*.
- d) *Shifting the public administration's focus from the direct provision of services to a conceptual, coordination, methodology and regulation activity*.

At the same time, the goal of the reform is to bring the *contents and organizational structure of the Czech public administration into line with generally respected requirements for the functioning of a public administration in the EU countries*. These include, among other things, the requirement to *serve the public and accountability*, as well as the focus on *effectiveness for the society and internal economical efficiency of the public administration*. In this respect the emphasis is placed on overcoming the present imperfect situation in *judicial enforceability*. In the past decade EU criticism frequently concerned not only the law-making process but primarily its practical implementation.

### 3.1.3. The implementation of the public administration reform and its present goals

The majority of processes by which the public administration carries out its functions are of a cross-sector nature. The efficiency of the public administration reform is in this respect *hampered by the existing and prevailing effect of partial (departmental) views as regards the tasks of the administration, as well as by the underrating of coordination above*

*the departmental level.* This is also the reason why the above mentioned reform goals are not always thoroughly and promptly implemented. Nevertheless the reform has brought about a number of positive results and it still remains a process managed with a clear view of the objectives. A part of this management is the division of the reform into stages, although it is evident that they overlap both in terms of their function and implementation time.

The reform's first stage featured the introduction of regions. To date, not even this first stage has been completed. The regions have been gradually assuming the assets and institutions necessary for fulfilling their legal competencies: in 2001, roads of regional and local importance were the main concern, in 2002 secondary schools and regional culture was focused upon, and in 2003 the transfer of regional health-care and social facilities will follow suit. In connection with these changes the issue of financing the regional administration (which to a large extent has been funded by the state to date) is becoming increasingly pressing. The last major task of the first stage is the amendment of the law on the budgetary allocation of taxes that would strengthen the position of the regions in the state's budgetary structure.

The second stage of the process of institutional transformation of the public administration in the Czech Republic (between 2002 and 2003) is focusing on the gradual dissolution of the district authorities by the transfer of their powers both upwards to the regional level and downwards to selected commissioned municipalities.

The third stage will result in the reform of the central state administration. Here, the law which has been passed on the civil service will play a key role; the law intends to depoliticize the administration and increase its professional standards. To achieve this goal, the social certainties of civil servants (security of employment) will be raised on the one hand, together with pressure for their professional growth (regular testing) on the other hand. The law will come into effect in 2004; by that time suitable systemic grounds have to be created for its application. First and foremost, the following tasks have to be completed: the establishment of a general directorate of the central state administration to implement a uniform personnel policy for all the individual ministries, the introduction of the institute of secretaries of state as apolitical managers of the functioning of central state administration bodies, the drafting of what is called the career order for employees, the creation of a system of career education etc. As far as the content of the work of central state administration bodies is concerned, the assumption is that its focus will shift from operational matters towards conceptual and methodological management as well as coordination.

Finally the fourth step - which will most likely become the most demanding of all - will be the transformation of the municipal structure (roughly by 2010). Its main vehicle should be the economic motivation of municipalities to merge their administration, without completely losing their legal independence. However, it has to be admitted that with regards to the goals and implementation steps of this stage of the public administration reform only very vague opinions prevail.

The basic practical challenge of the public administration reform is the tendency to narrow it to the mere reform of institutions, although the reform of tasks and processes is much more important. The following features will form an integral part of the public administration reform:

- a) The training of public administration staff (the introduction of a system of continual education of civil servants at a central level).
- b) Support for a national economy by macro regulation, the establishment of an attractive environment for the foundation and running of businesses, the administration and financing of the public services sector and the enhancement of a partnership between the private (commercial and civil) and public sectors.

- c) Regulatory reform to influence the activities of the public administration, increase the purposefulness of the regulation of both the civic and business life through laws and other norms, control mechanisms, audits etc.
- d) Reform of the administrative rules.

Unfortunately, the changes carried out in these areas to date have been less noticeable than those in the transformation of the institutions of the public administration.

## 3.2. The development of the civic sector

### 3.2.1. The consolidation of the non-profit sector

Considering the recent history of the Czech non-profit sector we can see that the majority of its current problems have already existed for quite a few years, some practically since its revival after 1989. In the Czech Republic the overall typical trend in the non-profit sector is that solutions to problems are adopted very slowly or there is a lack of them; this is caused by the lack of political will to address them. A dynamic growth in the number of non-governmental organizations (NGOs) – cf. table below – was not accompanied by adequate and rapid changes in the system of state support, nor in the system of norms to regulate these organizations’ activities (e.g. the system of financing NGOs from public funds is too centralized and non-transparent; it preserves the old-fashioned structure of the sector and provides the financial means for a short period of time only).

Since the German occupation in 1938 the non-profit sector in the Czech Republic has not seen an organic evolution based on a long sequence of consensuses that would have been hard to negotiate; on the contrary, it developed in a discontinuous way. Furthermore, its elites have recently assumed leadership, although they cannot base their authority on a common opinion of a “critical mass” of NGOs; thus this sector is fragmented and this fact impedes its ability to act for the benefit of the whole.

For thirteen years now the society has been transforming in a process that, among other things, includes the recovery or consolidation of conditions in the non-profit sector. However, this sector needs to consolidate not only in its individual parts (branches and regions), but also has to consolidate as a whole, i.e. it is striving to eliminate its deformations and create internal links and structures that give it the shape of an independent whole.

■ Table 3.1. The growth dynamics of the number of non-profit organizations over the last thirteen years

|                                  | 1989 | 1993   | 1996   | 1999   | 2002   |
|----------------------------------|------|--------|--------|--------|--------|
| Civic associations               | 537  | 21,694 | 27,807 | 38,072 | 49,108 |
| Publicly beneficial corporations | –    | –      | –      | 272    | 762    |
| Foundations                      | –    | 2,768  | 4,392  | 272    | 300    |
| Endowment funds                  | –    | –      | –      | 695    | 825    |
| Total                            | 537  | 24,462 | 32,199 | 39,311 | 51,025 |

Source: The Czech Statistical Office, <http://www.czso.cz>

■ Table 3.2. The proportion of the three basic sources in financing individual areas of the non-profit sector in the Czech Republic

| (N=1,052, data as of 1995, in %)                          | Receipts from donations | Receipts from the state | Receipts from activities |
|---|-------------------------|-------------------------|--------------------------|
| <b>Prevalent earnings from activities</b>                 |                         |                         |                          |
| Trade unions, professional unions and syndicates          | 2,9                     | 2,3                     | 94,8                     |
| Community development and housing economy                 | 9,3                     | 33,9                    | 56,8                     |
| Culture and arts, leisure, sports and physical education  | 13,1                    | 41,6                    | 45,3                     |
| Education and research                                    | 12,6                    | 43,4                    | 44,1                     |
| Environmental issues                                      | 19,0                    | 50,5                    | 30,6                     |
| <b>Prevalent receipts from the state</b>                  |                         |                         |                          |
| Social services   | 19,0                    | 50,5                    | 30,6                     |
| Civil law education and consultancy, protection of rights | 24,4                    | 50,8                    | 24,9                     |
| Health  | 14,5                    | 56,6                    | 29,0                     |
| <b>Prevalent income from donations</b>                    |                         |                         |                          |
| International activities                                  | 52,2                    | 36,9                    | 10,9                     |
| Charity   | 47,6                    | 30,0                    | 22,4                     |
| <b>Total</b>  | <b>14,0</b>             | <b>39,4</b>             | <b>46,6</b>              |

Source: Global Civil Society, 1999.

### 3.2.3. Influencing public policy

The opinions of NGO representatives and politicians or officials also diverge as regards the assessment of the opportunities open to NGOs for influencing public policy. While officials claim the opportunities to be sufficient in number and available, NGO representatives say that the officials manipulate the opportunities, hide them from NGOs and prevent their inclusion in the rules of mutual cooperation. Politicians and officials, on the other hand, point out that NGOs e.g. have direct access to the prime minister and ministers (via their participation in the government's advisory boards), which gives them undue influence. NGO representatives have a greater appreciation of their legally based opportunities for involvement in administrative procedures and they express their concern at the possibility of being stripped off this opportunity by politicians and officials. Furthermore, they complain that their existing opportunities to influence decision-making processes are limited by their insufficient capacities and financial means. This is also one of the reasons why they have to face criticism from the other side that they are not capable of handling their situation. Although politicians and officials do not oppose pressure upon public administration institutions coming from below, they do claim however that it cannot grow into political activity. They consider the application of somewhat more radical forms of influencing, such as various ways of mobilizing the public etc. to also fall into the category of this kind of activity. However, NGOs tend to avoid these forms of influencing public policy; they prefer to limit their requirements beforehand, so that conflict with the public administration is avoided. Of the regular forms of influencing they prefer lobbying, which they attempt to carry out on a professional level.

Despite their special liking for lobbying it is, however, not possible to say that NGOs would agree on the pressure group model as the basic strategy for influencing public policy. Although in the non-profit sector the need for uniting forces is generally

acknowledged, it has still not resulted in a consensus on a certain organization model. Besides the worries of NGO representatives of “Prague-o-centrism” there is also a harmful rivalry between the new and the old NGOs. The older ones obviously prefer a corporate model of influencing public policy, something which negatively affects the unification process in the non-profit sector. The non-profit sector seriously needs to deal with two unification extremes: (1) the “National Front” syndrome and (2) the imperative of representativeness. On the one hand, there are the worries that the jointly built organization forms could assume the form of a certain authoritative formal structure burdened with cronyism (similar to the National Front that operated in the Czech Republic in the communist era). On the other hand, when establishing less formal structures it is necessary to make certain that they are representative, i.e. legitimate in the view of all NGOs. The solution seems to be to omit the imperative of representativeness for the non-profit sector and to legitimize spontaneous unification initiatives from below.

### 3.2.4. Perspectives

Although the NGOs are not very excited about the current situation as regards the influencing of public policy, they – due to the above mentioned moderate improvement – seem to be reasonably satisfied to the extent that they are not inclined to risk conflicting relationships with institutions of the public administration. They are content *that matters are at least moving forward, even if at a slow pace*; this is why there is no reason for hopelessness. Non-profit organizations in the Czech Republic live by the conviction that the results of their work will, slowly but surely, convince the public, officials and politicians of the importance of their role in the society. A fundamental improvement of the situation of the NGOs is a matter of hard work and time; the results will arrive. Nobody knows yet how long it will take for matters to settle themselves by this gradual development process. The non-profit sector in the Czech Republic does not see any pending and general need to mobilize its forces in order to improve its position towards the state. The only initiative of some significance that attempts to strengthen the influence of NGOs is the regional integration activity OKAMRK. From a prospective point of view, however, not even this activity has been able to address for instance the problem of the burned-out effect of volunteers, who attempt with their own means to use the opportunity to influence the decision-making processes.

The above characteristics of mutual relationships between the state and non-profit organizations in the Czech Republic suggests that they are not of a partnership nature, but asymmetrical, whereby the weaker pole is, of course, that of the non-profit organizations. We can justifiably forward the hypothesis that the non-profit sector in relationship to the state is forced to assume a role of a servicing appendix that, in a “suitable” way - as officials or politicians would see it - supplements the range of services of state organizations. Non-profit organizations, in their opinion, should operate in areas where the state organizations do not operate or do not want to. These assumptions reduce the role of non-profit organizations to that of merely supporting the state organizations, making their operating easier and standing in for them wherever it is necessary and most pressing. However, the role of the non-profit sector should not be conceived as a mere suitable form of lightening the burden of the state’s expenditures for the provision of services that the population expects. This servicing image of the non-profit sector needs to be enhanced by that of a social player who is able to represent the authentic interests of citizens and, by its activities, provide a guarantee of the



country's democratic development and stability. It is a vision of an organizational network that stabilizes civil relationships, absorbs and stimulates informal civil initiatives and provides the population with space for participation in public matters regardless of political or governmental crises. It is also a vision of the non-profit sector as a player taking part in decision-making processes, involved in international structures, capable of mobilizing the public, thus creating pressure on other players as well as creating partnerships both with the public and commercial sectors.

### 3.2.5. The completion of the inner infrastructure of the non-profit sector

To be able to fulfill these visions, the non-profit sector has to exert more effort on itself, i.e. on the consolidation of its inner infrastructure. This relates to an improvement and broadening of the network of service organizations, activities, mechanisms and platforms, which represent a tool the non-profit sector can use for its transformation into a respected partner and social player. In practice it is possible to differentiate nine of these inner networks, which make up the infrastructure of the non-profit sector.

#### 1. Concept

A complex conceptual service requires a functioning network of NGOs that have conceptual ambitions, individual NGO members who are able to contribute to the discussion on "conceptual matters", temporary ad hoc work groups, think tanks, academic institutions that analyze and produce theoretical findings on the non-profit sector and individual professionals from all social levels.

#### 2. Coordination

A strategic solution is to challenge all the integration tendencies that have already contributed to the non-profit sector's greater level of coordination and its striving for a partnership position in relation to the central bodies of the public administration.

#### 3. Facilitation

The establishment of relationships and trust among NGOs – networking in short – requires special care and qualification that, again, requires institutional support and/or a network of facilitation centers. By sending out trained and experienced facilitators these provide help e.g. when forming community NGO coalitions based on "imposing trust from within".

#### 4. Advocacy

Another solution is the foundation of professional advocacy service centers, the mission of which would be the provision of service to NGOs and their advocacy groups in the form of monitoring legislative processes, establishing appropriate contacts, drafting of materials, maintaining communication channels, the provision of information (training) on the techniques of lobbying and legal counseling in the given area.

#### 5. Evaluation

Enhancing the evaluation capacity presupposes the establishment of a network of organizations and workplaces qualified to assess the NGOs' abilities as regards the provision of services. This would be carried out by means of evaluating the quality of projects and their implementation.

#### 6. Information

The enhancement of information capacity presupposes the establishment and broadening of the network of regional information centers and the broadening of the range of centrally provided information services.

### 7. Education

It is necessary to spread education training centers out into the regions, supplement the training system by a business consulting and education agency and establish an institute of philanthropy.

### 8. Education of the public

A fundamental contribution to enhancing the capacity of the education of the public is the establishment of a network of servicing NGOs, that, on a professional level, will carry out PR activities targeted at non-profit organizations, i.e. they will act as their PR agencies.

### 9. Self-regulation

The strengthening of the self-regulating capacity refers to support for the introduction of desirable informal norms, their spreading and the supervising of their fulfillment. One of the key roles in this process is played by NGO member associations and umbrella organizations, as well as informal associations that create a suitable platform for debating issues of ethics, defining ethic codes of their members' behavior, spreading the awareness of the necessity of presenting annual reports, defining and implementing the role of management boards.

## 3.3. The forming of public policy

The way mankind has been governing itself makes us agitated. The reasons are clear: the damage caused by bad public policy and administration is often much graver than that caused by natural disasters. It is due not only to the imperfections of historically created ways of addressing public matters, but also to the lack of readiness of humankind to handle the absolutely new challenges of globalization. "The ongoing globalization poses a pressing question, do we have the capacity to govern ourselves so as to be able to restrain evil and promote good. If governments do not face up to this task, it will signify not only an abdication of democratic responsibility, but also a failure that would very probably result in highly undesirable and, possibly, even catastrophic future consequences." [Dror 2001, p. 10]

Besides completing the reform of the public administration, the development of the public sector and providing the preconditions for the Czech Republic's accession to the European Union we will not achieve the desired new quality in Czech public policy unless we are able to cope with the creation of sufficient capacities in several key development programs. These include:

- The strategic dimension of management.
- The prevention of economic power overlapping with political power.
- The reinforcement of crisis management.
- The Czech Republic's assumption of co-responsibility for a globally governed world.

### 3.3.1. Strategic dimension of management

Throughout the 1990s the need for a common search and definition of priorities for the Czech state and society increased; an effort continually renewed in a permanent dialogue. This should be based on the accumulation of information on the state, development threats and opportunities of the Czech Republic in all the important outer

as well as inner contexts. Countries such as Finland, Ireland and Taiwan have progressed in recent decades to find themselves among the forefront of prospering and dynamically developing countries and, at the same time, they have successfully dealt with significant internal problems. These countries have always relied on exactly this set of priorities designed in a responsible way. By contrast, countries that have given up searching for new opportunities and have left things to develop on their own have been slowing down and witnessing failure in the competition for resources, survival and development opportunities that, though hidden behind diplomatic smiles, is merciless.

The capacity to think ahead is one of the important features of intelligence. The Czech government realized that the Czech Republic was lacking this capacity and began to create the preconditions for the reinforcement of the strategic method of thinking and government. In 1999 it founded the Council for Social and Economic Strategy, entrusting it with coordinating the production of medium-term concepts of sectors as well as a number of studies on the future of the Czech Republic. The actual implementation of these strategic considerations in the actions of the state apparatus also presupposes the strengthening of strategic thinking and decision-making in the actions of the government itself. It will be necessary to give them a solid and expert analytical and prognostic foundation.

### 3.3.2. The prevention of economic power overlapping with political power

The whole of the 1990s in the Czech Republic was characterized by the personal connections between a section of the economic and political elite. It was due to the privatization process in particular that the Czech Republic suffered economic losses as well as losses in terms of trust. Unless fast and controllable measures are introduced to prevent this overlap, sooner or later the entire economy and society find themselves in an atmosphere of cronyism and corrupt practices. The pressing tasks of public policy thus include a regulatory reform resulting in a better determination of the authority and responsibility of the authorities, effective regulation of the financing of political parties and election campaigns, the provision of equal access of different political entities to the media in the course of election campaigns, the reinforcement of transparency in awarding public contracts and consequent criminal punishment of those who have broken the law.

### 3.3.3. The reinforcement of crisis management

The large-scale floods of 1997 showed vast imperfections in the crisis management of the Czech Republic. This made the public administration act and its individual bodies begin to cooperate on the introduction of a comprehensive rescue system that would be able to effectively engage in the elimination of large-scale breakdowns, military conflicts or natural and humanitarian disasters. The system underwent a tough test in the course of the destructive flooding that hit the Czech Republic in August 2002. Without it, the casualties as well as material damage would have been significantly higher. The floods nevertheless highlighted weaknesses in the crisis management e.g. the flooding of the Prague underground and the failure to prevent the leakage of harmful chemicals from the facilities of chemical plants. After September 11, 2001, the threat of unpredictable terrorist attacks has also been pushed to the fore.

### 3.3.4. The Czech Republic's assumption of joint-responsibility for a globally governed world

Although individual governments are responsible for national public policies, the methods of production, possession and flows of capital reach out over the whole globe via the market. Thus an imbalance is created that cannot be dealt with by individual national governments on their own – above all minor ones, the gross domestic product of which is often far below the turnover of major supranational corporations. The Czech Republic naturally belongs to this category. As a natural response it seeks support in supranational groupings, as do the majority of other countries. By that we mean groupings that possess greater maneuverability and the capacity to defend themselves wherever it is necessary, e.g. against the pressure of the global market. With regard to its cultural and geographic settings it is a great historical opportunity and an issue of top priority to join the European Union. Yet the European Union itself is still trying to find its optimum shape and structure.

A consequence of all these circumstances is that wherever there could have been a concise and trustworthy national state with defined powers and responsibilities fifty years ago, this state is losing its cohesion today, leaving parts of its traditional competencies to e.g. the market, supranational institutions, and its own regions or non-governmental organizations. Thus the Czech Republic, besides making an adequate inner response to the changing times, has to actively participate in the forming of institutions of global government. Predominantly as a future member of the European Union, but also as the member of the Council of Europe, the United Nations Organization, the OECD and other international organizations. This engagement also has to go hand in hand with a significant increase of funds for foreign development aid, its orientation towards humanitarian issues and provisions aimed at making it highly efficient in target countries.

## 3.4. The integration process into the European Union

The Czech Republic's route to the European Union has had several stages. The initial one was the passing of the European Agreement at the beginning of the 1990s, when the so-called pre-accession strategy was defined. Negotiations on entry were subsequently launched in 1998, whereby the extent to which the Czech Republic has been successful in the adaptation of the EU legislation has been determined. In 2003 the Czech Republic is in the final stage of its entry preparation.

### 3.4.1. Limiting social and economic earthquakes and using opportunities

The accession of the Czech Republic to the EU should be prepared for in such a way as to avoid fundamental social and economic collapses. Sufficient care for the high level of competitiveness of the economy should help to limit these fluctuations. The government has to create favorable conditions for the adaptation of the business sector. However, the initiative of all the entities is also necessary, as is an innovative approach on their part. A great deal of experience in this matter is provided by the existing EU members, especially by smaller countries that also entered the EU with the disadvantage of economic underdevelopment and managed to overcome it by individual innovative policies. Those countries were able to make use of the opportunities of the home market

and financial support from the EU budget and used it with foresight: to improve transport infrastructure and deal with a lack of capacity in education.

The reinforcement of competitiveness has to go hand in hand with a policy that will maintain social cohesion and social consensus, which is one of the long-term goals for all Czech governments that will rule after entry into the EU. The upcoming changes in both the economic and social spheres (fierce competition - Czech businesses, especially small and middle-sized ones, will have problems surviving the effects on employment; new and steadily changing requirements for improving and adopting qualification, etc.) require cooperation between the individual agents of these changes. The development of social dialogue which is among the principles recently signed up to in the Amsterdam Treaty should be a guideline both for economic and social policy of Czech governments. The social consensus presupposes the preservation of fundamental conditions of the life of inhabitants, equal opportunities for individuals regardless of sex, age and descent, free access to education, accessibility of employment, accessible housing for inhabitants of all income categories, the protection of the health of citizens, families, children etc. The most suitable tool for the overcoming of social tensions seems to be the completion of a treaty on social stability – some kind of social contract linking the interests of groups that work towards the improvement of the Czech economy and society, the improvement of its performance and competitiveness as well as the improvement of the conditions for the entry to the EU.

For the position of the Czech Republic within the EU it is important to make use of the options that the Czech Republic has and those that it will be able to use as an EU member. These matters will mainly be conditional on the perfect awareness and readiness of all entities, particularly the government, businesses, organizations, government bodies, education institutions and, certainly, on the awareness of the entities of civil society, on how important bodies and the whole of the European Union work. This will be especially true in the case of regional government. If the regions show enough initiative, they can use the offers of support from the EU budget<sup>1)</sup>. Good cooperation is connected with the abilities of business entities to enter into contacts across borders, adhere to EU practices, and not violate mutual business by unreliable actions that are a hurdle on the journey towards future cooperation. This is also true for education institutions that can use the EU's study opportunities as well as gaining language knowledge and "European" skills.

For future cooperation it will be very important to get rid of the frequent idea of the EU as a wealthy institution that is, without limitations, willing to donate to any Czech project whatsoever. Likewise, there must be an end to the attitude that after the rejection of a Czech project skeptical expectations regarding EU help for Czech entities are legitimate.

It follows that it is important to fully utilize the advantages that the Czech Republic has at its disposal. The main comparative advantages of the Czech Republic include above all a well educated labor force, attractiveness for foreign investors and trustworthiness. The Czech Republic's *labor force is relatively well educated* and can draw on the traditions of former industrial development. Further, the cost of this labor force still amounts to a small percentage of that in neighboring EU countries. Although this difference cannot be made use of for an unlimited period of time, it will be preserved for a reasonable period, as the experiences of other underdeveloped countries that entered the EU has shown. The Czech Republic is *attractive for foreign investors* for the mentioned wage reasons, but also due to its geographic position within Europe and good transport connections.

<sup>1)</sup> *The regions play an individual and active role in the process of preparation for the entry to the EU, especially the border regions that have actually initiated the integration recently – through European regions and by collaboration with neighbor regions in Germany and Austria.*

The small home market is not an insurmountable hurdle for foreign companies which focus on exporting to the EU and the promising markets of Eastern Europe. The *trustworthiness* of the country is important, too, with regard to its favorable fulfillment of the entry conditions and to the fact that foreign investors regard the Czech political and economic situation as quite stable. The increasing influx of investment can be linked both to its preference, and the expectations of the foreign firms that the Czech Republic can become an EU member in the near future.

### 3.4.2. Human development and the social dimension of integration

Various factors have an impact on human development. They include education, social policy, working conditions, remuneration for work etc. *Education* has begun to be largely considered as a tool for gaining economic prosperity as well as social justice. This move was given greater impetus by approving the EU Lisbon Strategy for 2010. This document has been taken as a stimulating inspiration by many Czech authorities. Education policy is increasingly becoming a common interest of the EU countries (although it is not directly a part of the *acquis*); it is being pursued both by EU bodies and institutions as well as further collaboration of diverse organizations. EU countries are preparing ever more elaborate joint programs and projects in the area of education and the education policies of the member states are thus increasingly uniting. The Czech Republic can participate in these activities through its broader incorporation into the EU framework as well as its membership of the OECD.

The *social dimension* of the preparations for entry and the subsequent accession to the EU will significantly influence the life and working conditions of the population in various fields: the regulation of the labor market, employment policy, equal opportunities, human rights, social support etc. The passing of the *Lisbon Strategy* in March 2000 was essential for the further development of the social and employment policies in the EU. Its aim is to set new strategies in the EU with the purpose of facilitating employment, economic reforms and social cohesion as parts of a knowledge-based economy. The purpose has been to make the EU the most competitive and most dynamic knowledge-based economy in the world, capable of steady growth with more and better jobs and greater social cohesion<sup>2)</sup>.

The coordination of joint steps of the EU in the economic and social policies as well as in the *employment policy* has resulted in the application of a number of principles that are also essential when it comes to the creation of wages in the member states. Of particular importance is the principle of the protection of the weaker contracting party, that of equal remuneration of men and women, the dialogue between social partners and the guarantee of a minimum wage for work. The EU employment strategy is now established on the following four pillars: the policy of increasing employment, the development of business, the development of the adaptability of businesses and facilitating equal opportunities for women and men. From the point of view of the Czech Republic's readiness for adopting the legislation framework of the employment policy it is generally possible to state that despite a number of variations the system conditions in this area are practically compatible with that of the EU.

<sup>2)</sup> According to the *Lisbon Strategy in social policy* the EU introduced a European social agenda that is a program for the years 2001-05. It addresses the quality of employment, the fight against exclusion and discrimination, the modernization of social security, the upholding of equality and the social dimension of EU enlargement.

With respect to the institutional structure of the Czech Republic the common coordination of the employment policy is lacking (at the regional, economic and political levels). This results in difficulties when employment policy funds are to be spent, both regarding the provision of these funds to employers and their purposeful allocation.

The Amsterdam Treaty<sup>3)</sup> and the Lisbon Strategy are important for the Czech Republic as it prepares for accession due to the overall aims of their social and employment policies. The new *direction of EU social policy* significantly reinforces the issue of the compatibility of social systems and the social policy of candidate countries with EU member states. Of course, compatibility includes the matter of a country's ability to meet minimum social standards that prevent the application of low social norms as a means of unfair competition as well as the reduction of norms with the purpose of facilitating competitiveness. A significant issue is also the *equal treatment* of men and women. The EU's legislation stipulates the principles of equal salaries, accessibility of employment, training and advancement as well as treatment with respect to social security and pension insurance.

The preparation of the Czech Republic for accession to the EU in the area of social policy includes the joining of a common trend of the European social policy that is based on reinforcing the basic social rights of employees, a closer coordination of social systems, the passing of common policy documents, the adopting of the treaties of the International Labor Organization and the basic articles of the European social charter. The Czech Republic will also have to pay greater attention to the cultivation of the system of social partnership and all the forms of social dialogue as a condition for the development of active social and employment policies that surpass the national level.

### 3.4.3. The Czech Republic as a member of the European Union

We can assume that when the Czech Republic joins the EU the main problem will be handling the acute upheavals of this change in a flexible way. As early as in the medium-term (and in the long-term) perspective the opportunities will definitely surpass the risks, both in the international and domestic contexts. Member status will require the introduction of a new strategy that should include among other things the involvement of the Czech Republic in the EU's effort for the coordination of economic policies of its member states, in the preparation for participation in the monetary union and for the period after 2006, when the new European budget will be introduced. In the policy of facilitating competitiveness it will be necessary to consider the developments of globalization processes and of the "new economy". It will be necessary to adapt to the Lisbon strategy, which covers the first decade up to 2010<sup>4)</sup>. Also the policy to strengthen social consensus will remain a current topic, as it will respond to unexpected shifts in the world economy and the outer environment as a whole. Also important will be the approach to the development of the information society that is becoming a vehicle for sustaining prosperity as well as a tool for enhancing the quality of the operation of public administration, for modernizing education and promoting learning. Further steps should include e.g. making the state administration more professional, since the agenda of the public administration will broaden and change after the Czech Republic's accession to the EU.

<sup>3)</sup> A section on employment for the sake of introducing the European Employment Strategy and the support of qualified and flexible labor force was incorporated into the treaty.

<sup>4)</sup> The Czech party will also have to prepare for a number of new measures that the EU has introduced since 1999 within the framework of further unification of the home market. The EU measures will be a suitable inspiration model for the Czech Republic.

## Recommendations

- Provide for perfect awareness on the issue and options of integration as well as readiness for it, on the part of all the entities: government, businesses, self-government, civil society entities etc.
- Provide for the maximum usage of the Czech Republic's comparative advantages, particularly the relatively well educated labor force, the attractiveness for foreign investment and trustworthiness. Steadily increase the attractiveness of the Czech economy for direct foreign investment, use the preparation for EU membership as an opportunity for a more profound orientation towards the growth of competitiveness; use existing EU financial funds to achieve this goal.
- Promote human development in the context of the European integration, particularly in the fields of education, social policy, employment policy, equal opportunities, the prevention of social exclusion etc.
- Create a high-quality strategy for the Czech Republic as a member of the European Union to include involvement in the EU effort to coordinate the economic policies of its member states, the preparation for the involvement in the EMU and the new budget.



## ■ 4. SELECTED STRATEGIES OF FUTURE DEVELOPMENT

The previous chapters focused on individual areas and aspects of the life of Czech society. In this final chapter we shall attempt to project these collected findings into a strategic reflection on selected key goals, the solution of which is, in our opinion, a prerequisite to the successful incorporation of the Czech Republic into the main stream of European civilization in the coming decades. We do not claim the selection of these goals to be exhaustive, or their content to be unquestionable; indeed the final statements were often preceded by very lively and heated discussions within the team of authors itself.

The last decade of the 20th century saw fundamental changes in the life of the Czech Republic and its citizens. An époque ended that, when looking back, almost nobody wanted. At the same time, almost everybody had got used to the former system. While there is no doubt that for the majority of citizens the fall of the communist regime meant liberation from a detested ideology and the chance to make decisions about their own lives for the first time, for certain social groups it brought to an end existing advantages and benefits.

According to public opinion polls the satisfaction of citizens with the situation in society has been slowly increasing since the end of the 1990s. The country is attractive for investors. There is no danger of a currency collapse. People earn more than they have before. Unlike in some neighboring countries the structure of Czech political parties is relatively clear and stable. Several years ago the crime rate stopped growing and the number of crimes began to decline. Possibly the most positive shift has been visible in the rapid growth of average life expectancy, one of the best indicators of the quality of life. The position of the country in terms of foreign affairs is stable. Preparations for its admission into the European Union are culminating and the probable date of accession is getting closer.

However, self-satisfaction is inadequate. Gross domestic product is not growing as fast as it could at the moment. Public budget indebtedness has grown significantly and continues to rise. Unemployment has reached a level of about 10 %. The country is still not adequately using its development potentials. However, the majority of the population seems not to care about it: the country's debts are invisible (although they will have to be paid in the future) and unemployment does not affect them personally.

The basic issue for the successful development of every society is, of course, changes in the way people think and in their understanding of their place in it. The communist regime was based upon the total control of the individual by the state and it is not surprising that in the first period after the 1989 revolution the most frequently heard word was freedom. However, freedom means responsibility and responsibility has to be learned. It is the willingness to accept responsibility for one's decisions that can be regarded as a stumbling block both of the recent past, the present and the future.

There is of course the state with its institutions, and how well it fulfils its roles is the second basic condition for success. Nobody would question the fact that a well functioning state is as indispensable for the development of society as a competent and responsible individual. Many people still think that it is the state alone that is best able to solve all the major problems that are brought about by the development of society. In a nutshell: the more responsibility there is on the part of the state, the less is left for the individual. And since the individual cannot possess all the necessary knowledge, opportunities and instruments for solving his/her problems, it is better to let the state

deal with them. The more responsibility the state has, the more authority, officials and financial means are needed for the fulfillment of all these aims.

There is, however, a second model of the functioning of the state: a state which is based on a conviction that it should not intervene until the individual proves unable to handle his/her problems for whatever reasons; a state which creates optimum conditions for the development and involvement of people's abilities; a state which minimizes in a natural way the tensions and difficulties in the harmonization of various social and economic interests that are advanced more than others; a state which prepares the country for the solution of problems that are yet to come and spends public finances wisely. It may seem a paradox, but this kind of state should function far better than the former model. Leading not by orders and limitations, but above all by guidance and the creation of proper conditions is more difficult. A key point here is the need to increase proficiency in decision-making and involvement in a dialogue of partners with civil society. Transition from the first to the second state model is complicated by the fact that institutional frameworks, social relationships and the attitudes of the persons involved in other areas of the life of a society are changing at the same time. The route from the first to the second model is long and neither the Czech state nor its citizens have traveled very far along it.

What then should be the desirable criteria of future development from which we could responsibly deduce the strategic tasks for securing a good future for the country? A possible answer may be: let us take into consideration the quality of life. There are many attempts to characterize this category, which includes objective aspects of life such as availability of food, clothing, housing and the period of healthy life. It also includes the level of subjective satisfaction with one's way of life. However, there may also be a situation when the quality of life of contemporaries will be high, but at the cost of spending resources and threatening the conditions of inhabitants of other countries or continents or for the life of future generations. A truly responsible attitude to life should therefore include an effort to reach its permanent sustainability. Linking the aspect of quality of life of contemporaries with a view of the quality of life of future generations we arrive at a definition of a summary criterion of the quality and sustainability of life [Potůček et al. 2002].

It follows that the productive power of the market cannot be the aim itself: it is necessary to seek a way to best use it for the humanization of the human lot, the living conditions of people sharing a common destiny, but also of the living conditions of future generations. In other words, it is reasonable to view economic development as one of the necessary conditions for raising the quality of life and increasing its sustainability. However, the opposite relationship is also true: the quality and sustainability of life is one of the important factors of economic development. We are still unable to give an answer to the question what should be the ideal proportion between the stress that is put on the economic development on the one hand and the quality and sustainability of life on the other hand. There are too many factors involved that continue to be effective in the long term and sometimes they are even contradictory. Yet the task is obvious: to find and be able to express mutual relations between the social, political and ecological areas that represent the quality and sustainability of life, and economic development.

Nowadays, after the experiences of the first years of transition, we are much more aware of the fact that the output of the economy depends in many respects on the conditions for entrepreneurship. Logically, the legal framework and judicial enforceability are among the most important. However, it is becoming increasingly obvious how important is what people know, what motivates them to work –human

potential. When entering into a contract, can a party rely on a word given by the other party without having to worry? The actual functioning of the economic mechanism is also influenced by social cohesion – mainly the influence of the question of to what extent the distribution of resources and labor in society is considered by the people to be just. It also depends on how intensively the state apparatus is marked by corruption. A factor of no less importance is the rate of burdening the environment with the products of economic activities.

An important part of successful development is maintaining macroeconomic stability that promotes savings, investments and the creation of new working opportunities. Healthy monetary and fiscal policies are indispensable for keeping inflation low, reducing external imbalances and reducing the risk of economic crises. This, of course, also requires making the public administration more transparent and accountable.

The transformation process has still not been completed and due to the application of a neo-liberal transformation strategy with Czech innovations (voucher privatization) it has had to face many serious problems regarding both the institutional framework for the functioning of the market relationship and in the area of the restructuring of the economy and its competitiveness. Furthermore, we have discovered that even today property rights are not guaranteed sufficiently in the Czech Republic. However, institutional changes are the foundation for the transformation and the quality of the newly established institutions determines to a great extent economic performance.

It is important to provide for property rights and judicial enforceability in general; however, in this respect the Czech Republic lags significantly behind developed countries. The current insufficient guarantees of private property (inadequate legislation, judiciary, corruption) and ineffective state administration may hinder the inflow of foreign funds and - if they exceed certain limits - may cause it to flow out from the Czech economy; they may also support a tendency for more speculative capital to flow in and stop the influx of direct investments that carries with it new technologies. Negative effects might also arise in the development of mainly Czech-owned small and medium enterprises.

The situation in the Czech Republic at present may generally be characterized thus: if, for emergency reasons, Czechs applied “manual steering” in the first years of the transformation, now they face a challenge that is many times more demanding: to govern the country so that it is well prepared for tasks that will have to be addressed in their full complexity in ten, twenty or thirty years. An urgent need to solve strategic tasks has begun to arise.

A desirable economic and political strategy should significantly strengthen the quality of the institutions and the institutional aspects of the implemented reforms, as opposed to mainly placing stress on their intensity and speed, as was the case in the early 1990s. In connection with the transformation from a planned to a market economy, the need for a transition from system changes to sustainable growth is often mentioned. The extent of the achieved liberalization is usually considered to be a necessary, albeit insufficient, condition for the increase and long-term sustainability of growing economic performance.

It is thus important to create an active pro-market economic policy that would cultivate the factors of long-term growth and contribute to restructuring.

It seems that the conclusions of many significant international meetings that deal with the global problems of the contemporary world aim at the definition of a common denominator as to the content and form of future public policies.<sup>1)</sup>

<sup>1)</sup> e.g. the document *Comprehensive Development Framework* published in September 2001 by the World Bank or the conclusions of the *International forum for national visions and strategies* as of May 2002.

Stress is laid in particular on the creation of as favorable conditions as possible for the forming of a knowledge society (as well as one with equal opportunities) in which the fruits of work are distributed in a just manner between all its members. The national vision and strategy, the axes of forming public policies, should be formulated and implemented on the basis of a nation-wide dialogue and the social consensus built thereupon. The visions defined in this way may give the right signals to both the commercial and the civic sector.

Although attitudes towards solving similar problems in other countries are an important source of inspiration for us, we draw mainly from familiarity with the actual conditions and situation in the Czech Republic. Our theoretical basis consists of the development model of the Czech Republic and its modernization in a global context, especially of various modernization concepts (cf. Potůček et al., chapter 2). This basis, as well as the conclusions of the above mentioned discussions of the authors on the working versions of the previous chapters, have finally resulted in the identification of selected key strategic tasks, the solution of which (or non-solution) could significantly influence the development perspectives of the Czech Republic in the decades to come. The following tasks must be addressed:

- Development of population and family policy
- Pension reform
- Support for the knowledge society
- Reinforcement of social cohesion and national identity
- Reform of the country's constitutional and political system.

#### 4.1. Task one: development of population and family policy

The biggest error the Czech Republic's governments have made so far has been the failure to create favorable conditions for the reproduction of the population. If reproduction were to continue at its current low rate, population decrease and faster aging of the age structure of the population would occur. With regard to the impact of these tendencies on society as a whole *the state must actively deal with the issue of long-term population development* and thus expresses its interest in how large the population of the Czech Republic will be and how it will be structured in the coming decades.

To achieve a more favorable trend in the reproduction tendency the Czech Republic *needs a well thought-out pro-natal and family policy to be passed and implemented in good time*; a policy that would improve living conditions of families with children, increase the social prestige of the family, parenthood and care for children and thus, at least partially, compensate for the costs of lost opportunities resulting from parenthood. The responsibility for bringing children into the world and caring for them cannot be left to parents alone.

*A newly designed family policy* would become a tool for strengthening the support for families. Its aim would be to overcome the signs of weakening of the family, which is often not able to resist pressures connected with members' economic activities or caused by other pressures generated by contemporary civilization. Another aim of the new policy should be to provide for as broad a protection and assistance for the family as possible and special protection for mothers during an adequate term before and after the birth of the child, as well as for the protection and assistance for all children and youth against exploitation, premature employment and threats to their morals and health. It is also

necessary to facilitate the linking of the labor market and child care, to support the equal engagement of men and women in the family and to ensure that family policy is also reflected in the accessibility of education, sports and cultural activities. It would further include protection against social pathologies as well as assistance in crisis situations. It would resist the social exclusion of families with children, above all caused by poverty, but also in actual exclusion from participation in public affairs. The protection and support of dependent children should become the priority in the newly defined family policy. It should include housing policies: the present-day ongoing lack of financially affordable housing for young people makes the “life starts” of numerous age groups difficult in a time when they would be able to start a family. When considering the financing of the cost of such a family policy a solidarity principle of childless families with those that care for dependent children should be applied.

With respect to the low level of natural reproduction and the long-term character of its changes, it is also necessary to formulate an effective migration policy. Immigrants and their offspring would strengthen the active component of the population and thus soften the expected negative consequences of population decline. A migration policy is a political, economic and demographic issue. It will be desirable to promote in it a conceptual attitude of the state, which will consider the aspects of age (preference for young people and their families), qualification (preference for educated and professionally qualified people), cultural (a similar lifestyle) etc., one that will also include the support of the integration of foreigners, especially the creation of adequate living conditions (housing, education, employment, social assistance) and define its quantitative scope. Simultaneously, it is also necessary to consider measures against the brain drain, the undesirable tendency of some young experts who are especially welcome abroad leaving, which will become possible with the free movement of labor; measures that would make it attractive for them to stay in the Czech Republic. *The migration policy will be strongly conditioned by the entry into the EU, anyway. The creation and implementation of a migration policy should also include the creation of conditions for the integration of foreigners into Czech society.* This is a long-term task, but it is not possible to postpone it forever.

One objective of the population, family and migration policies is to achieve an increase of the total fertility to an average of 1.6 – 1.7 children born to a mother. If this is not the case in the coming years, then as early as in the period around 2030 such an unfavorable age population structure would develop in the Czech Republic that it would not be able to regenerate any more. (Intermediate conception of the Czech Ministry of Labor and Social Affairs, 2001)

## 4.2. Task two: pension reform

As has been made clear above, Czech society faces a decrease in total fertility and has also seen a growth in life expectancy. These two tendencies combine to result in quite a rapid demographic aging of the Czech population. The state-run pension system based on a pay-as-you-go model (the economically active part of the population contributes to the benefit of retired people) will thus find itself under the growing pressure of this unfavorable demographic development, because the share of the economically active population is declining and the share of retired people is growing.

With respect to the fact that the basic system of pensions faces severe problems that threaten its future, it is necessary to make the performance of regulatory and

controlling bodies more effective without delay. This means that the system should be run by an independent public body (social insurance fund) and regulated and controlled by state bodies.

The aging of the population threatens not only society as a whole, but also the majority of its professional sub-groups. The current set-up, which excludes army members from the basic system, as well as the government proposal of a social insurance fund bill, which not only upholds this principle but even broadens the scope of thus excluded people, potentially creates pension systems that will face the aging of the basic structure of the insured; this aging may even be faster than in the case of the rest of society. A safer way in the current situation is to transform the system into a universal one that would cover all working people. A specific group of the insured, whose position in the framework of the universal system it is necessary to consider, is self-employed persons and persons that take part in facultative pension insurance.

To equalize the proportion of the economically active population and retired people it is also necessary to change some basic parameters of the present-day pension system, the most important being the pension age. The minimum retirement age is still lower than in many EU countries. It should therefore be increased; at the same time the options of premature or later retirement, depending on the wishes and health conditions of the people and employment opportunities on offer, should be made more flexible.

An indispensable prerequisite for the broadening of complementary systems is the elimination of an information asymmetry in the basic system: the insured has only an unclear idea of his/her future entitlements. An important step in pension reform will be the improvement of individual data processing, so that the insured is informed at least once a year about his/her paid contributions for his/her benefit and about future entitlements depending on retirement age. The accessibility of this information would substantially influence the behavior of the insured in connection with the complementary systems.

When it comes to complementary systems that function on the principle of full equivalence it is necessary to support further diversification of this system so that complementary systems for various specific groups of employees or citizens can be created. The system should be as diversified as society, so that truly everyone has the possibility to provide for his/her elderly years. However, when creating such a system it is necessary to make use of the existing infrastructure of commercial insurance companies and pension funds to the fullest and to supplement it by newly designed employees' pension funds.

Pension reform that would be acceptable to various social groups and main political forces will have to be discussed, approved and implemented in the course of the current government's term of office (2002 – 2006), in spite of the fact that difficulties that would result from the current situation would not be fully felt until after this term of office.

### 4.3. Task three: support for the knowledge society

There is no human development without the development of knowledge in all its facets. It is very often said in both developed and developing countries that we are entering a knowledge society, where the public support for education, but also its functional interconnection with research, development and innovations, has been given number one priority. However, many people have failed to realize that *the new era also needs a new method of support*. In spite of the direct support and control a new and much

more complex task is emerging: the creation of milieu in which learning, investing in one's abilities, being creative and striving to use accessible knowledge for generating wealth both for oneself and for society is the most rational individual choice.

It is the *overall social climate and milieu* in the first place *that virtually drags citizens of all ages, professions and qualifications into education again and again*. It creates a sufficient number of relevant and varied educational opportunities and motivates citizens to use them. There are many direct and indirect tools for catalyzing the interest in education both on the part of the addressees and providers: awakening the interest in education from a very young age, adjusting wages according to qualifications gained, tax benefits for companies that invest in the further education of their employees, grading education institutions according to their actually achieved results (e.g. the number of successful graduates) etc.

Secondly, it is necessary to achieve a manifold increase in the financial means that society spends on continuing education, the making of new discoveries and their application. It has now become clear that the public budgets of even the wealthiest countries are not able to cope with such a change. The only effective *milieu* is one *where everyone who takes part in it also participates in its financing*. Discussions in our country about the multi-source financing of education (i.e. even by the private sector, students etc.) still continue to evolve around the question of whether it should be introduced or not. Similarly many scientists are still convinced that science has to be funded entirely by the state (otherwise it would – of course – become uncontrollable). It is necessary to introduce, in a serious manner, the question of *how it would be possible* to gain further financial means from other parties involved.

Thirdly, it is a milieu that relies more upon narrowly interconnected and cooperating networks than on “top-down” control – *a milieu that appreciates initiative*. Public support has traditionally been understood to work according to the following pattern: he who presents the financial means will also have to control them directly. In spite of all attempts to prevent it, centralism still flourishes in Czech Republic. In this system it is more profitable to follow the centralized curriculum as prepared by the ministry than to come up with one's own ideas and implement them. There is no doubt that this approach is faster, more convenient and the appraisal is (in the worst case!) similar to that in the case of “alternative” education attitudes. To tell the truth, one can go one's own way, but his/her support is not intense enough as to balance the disadvantages of doing so.

Finally, it is a *milieu where cooperation between different parties is appreciated*. Everybody in the Czech Republic who has tried to introduce a multidisciplinary attitude is aware of the fact that support for non-traditional partnerships is negligible. It is necessary to design the support so that cooperation in larger projects would pay, there would be the potential for manifold gain and the preconditions would be created for the further task: trust and social cohesion.

#### 4.4. Task four: reinforcement of social cohesion and national identity

Social cohesion backed by identification with the communities where people live (family, municipality, associations, region, nation, state etc.) is a precondition for the possibility of development of society in all directions. Every change, every guiding concept, every effort to make certain long-term headway, all this can be successful only when the support of a significant part of society has been gained, when it is supported by an overwhelming “collective consensus”. Every involvement of individuals, groups and

institutions, as well as the whole community takes place in a social context. Support for the feeling of association with a certain community is clearly linked to support for solidarity and cooperation – this being the basis for the growth of social cohesion.

The problem of social cohesion is the more significant in the Czech society due to its long-term division into numerous enclaves that do not communicate a lot together and that do not cooperate sufficiently. The importance of social cohesion and the need for its support has only been acknowledged by a small section of society and a small section of managing centers. In the past development of the society and political representations of our state the social cohesion issue was regarded as unimportant or even was not considered at all. The social cohesion was deeply disturbed by the communist regime. That said, even the development after 1990 was not unambiguous in terms of support for social cohesion. Development tendencies suggest that as regards social cohesion in Czech society there are some specific values that do not lead to greater openness of the society in accepting new stimuli; these values tend rather to make the society more closed – especially towards new impulses that come from other cultures and environments. Inexperience with the opening of the social structure, with the deepening of differences and distances in society, with social exclusion, together with largely understandable mistrust regarding the legality of sources and causes of new wealth – all these are not good foundations for the further favorable development of social cohesion in our country. These tendencies are clearly followed by others that make the chances of growth in social cohesion in our society even more complicated. These include, in particular, a direct conflict with a different experience and range of values for social cohesion that is and will be caused by the accession of the Czech Republic into the EU; they further include the unavoidable consequences of modernization and globalization tendencies: Czech society has also arrived at a crossroads in the sense that it is coming across challenges and even imperatives of values and standards of behavior that are in most cases actually antagonistic to those it has mostly lived by and that have represented the basis for its social cohesion to date.

These circumstances show the need for a new understanding of the role of national and civic identity in the development of social cohesion. This requires a change of attitude towards influencing social development at all levels where it actually takes place: in politics, in public administration, in the social services, in the media, in culture and art, in education, in the activities of churches, interest and profession groups and associations as well as of civic groups. A basic principle of such a change is the necessity to respect cultural, value and social aspects in the decision-making process in all the areas of the life of society.

Such a change, however, can be neither quick nor simple. It requires a concentrated effort that would principally be based on a thorough understanding of development tendencies of social cohesion in our country on the one hand, and a search for tools to promote the gradual changes of conditions of this development on the other hand.

In the search for these tools it is possible to draw from existing sources, e.g. the Social Doctrine of the Czech Republic (2002) as well as from analytical and theoretical studies that are constantly being released and stimuli, such as the creation of a vision and strategy for the development of the Czech Republic. Of course, there is the basic importance of building social safety nets, social assistance for the unemployed, as well as for all those who would be endangered by a fall into living conditions not matching human dignity and into social exclusion. At the same time, however, there has to be an explicit protection of private property and equal opportunities for individual development; assistance has to be offered for improving family life. Great emphasis has



to be put on as wide a support for civic participation as possible by the maximum support for the involvement of people in the country's administration as well as on the support of the civil sector, on the application of subsidiary principles and decentralization in decision-making as the most suitable area for the opening of society, politics and participation in power.

The principles of the Welfare State must be developed in accordance with the stated changes and enhanced by these changes as they gain new shape. The Welfare State is moving away from the ideas of narrowly understood social assistance towards the full promotion of the creative potential in society based, in particular, on creating the conditions for free – and thus responsible – behavior of individuals, groups and the entire community. The Welfare State is thus increasingly acting as an investor, mediating long-term investments in the country's human potential as one of the decisive sources of its future prosperity.

#### 4.5. Task five: reform of the country's constitutional and political system

The Czech state, many people say, is actually an unwanted child. Whereas a section of the Slovak political elite prepared for the independence of Slovakia at the beginning of the 1990s, both Czech politicians and citizens still expected to maintain a common state. Following the 1992 spring elections there was little time left when it became obvious that the new political representations of both parts of the Czechoslovak federation rapidly decided to create two independent states of succession. Although the split of Czechoslovakia at the end of 1992 finally took place in a peaceful manner and without substantial economic and political turbulence, the truth is that the Czech state was created on the wing; it was not able to resist different improvisations and has always been looking for a new identity. After ten years of the state's independent existence many experiences with the existing constitutional order and the functioning of the constitutional and political system have been collected; this makes it possible to reflect upon its weaknesses and begin to thoroughly consider necessary changes. With respect to the imperfections that have manifested themselves up to now, there is considerable room for functional changes and improvements to the current system.

The first scope for innovations includes the harmonization of relations and the division of labor between the legislative, executive and judicial constituents of public authority. Reflections can be made e.g. on making the president's powers more precise, on the way the president is elected, on the status of the Senate of the Parliament of the Czech Republic, which could be redefined in closer relationship to the newly constituted regions etc. The need to strengthen the state's controlling functions has become urgent. However, it will be necessary to launch a well-organized public discussion on these fundamental questions.

The second range of innovations should be focused on the strengthening of a relevant, factual orientation of the public discourse as well as decision-making in politics. To date greater emphasis has been put on the technical point of view of delegation and the exercising of political power. Some negative tendencies have persisted including the lack of thorough discussion, preparation and effective implementation of various public policies that would promote acknowledged public interests and meet the differentiated needs of people.

The third – and probably the most complex – future task is to search for ways of effective co-existence and complementary functioning of the institutions of

representative, participatory and direct democracy. Today, social interests are so structured and the changes in conditions of the life of people so fast that every partial system of the representation of interests cannot keep up with the needs of the times. In order to increase the effectiveness of governance there is consequently a huge development challenge of implementing all the functional channels that make it possible to evaluate present-day policies and design new ones. It will be desirable to supplement the current predominant focus on representative democracy (the institutions of which are still finding their feet and are certain to see further changes) by the features of participatory democracy (linked with strengthening the political involvement of the civil sector as the institutional carrier of the civil society) and direct democracy (plebiscite, using electronic forms of articulation of interest etc.). Also the legal adaptation of lobbying is a related question.

The fourth carriers of innovations should be political parties themselves. Their role in a country's political system is important, sometimes fundamental. Developments to date suggest that they have not been able to convince the majority of citizens of their readiness to responsibly fulfill their task. We see great weaknesses in the lack of political education of both members and non-members, in the creation of policy programs, in regimes of internal steering of parties (including quality human resources work) as well as in internal-party democracy.

A complex task that all contemporary democracies are facing with partial successes is the prevention of the overlap of the worlds of politics, economics and the media. The social transformation of the 1990s has left many institutional deficiencies or even uncovered issues in this area, as well as too many temptations to gain easy profit by non-transparent lobbying for political decisions. It is thus a permanent imperative both today and for the future to improve the quality of regulations for privatization, financial markets, 'public-service' and commercial media, as well as of the financing of political parties.

A common feature of all the suggested functional changes and improvements of the present-day constitutional and political system is good governance without which the envisaged changes in all the remaining areas of the society's life and functioning of the economy will wither on the vine or will break down to partial improvements that will not be able to bring about the necessary change to the quality and sustainability of life in the Czech Republic.

## ■ Appendix of Tables

Source: 2002 Statistical Yearbook

## POPULATION

| Indicator                             | Unit             | 1990  | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001     |
|---------------------------------------|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------|
| Population                            |                  |       |       |       |       |       |       |       |       |       |       |       |          |
| Mid-year population                   | thousand persons | 10363 | 10309 | 10318 | 10331 | 10336 | 10331 | 10315 | 10304 | 10295 | 10283 | 10273 | 1) 10224 |
| Females                               | thousand persons | 5326  | 5305  | 5309  | 5314  | 5315  | 5311  | 5301  | 5293  | 5287  | 5280  | 5273  | 1) 5245  |
| Aged: 0-14                            | thousand persons | 2223  | 2148  | 2092  | 2037  | 1979  | 1921  | 1867  | 1818  | 1773  | 1729  | 1685  | 2) 1653  |
| 15-64                                 | thousand persons | 6844  | 6851  | 6903  | 6957  | 7006  | 7044  | 7066  | 7089  | 7114  | 7138  | 7165  | 2) 7215  |
| 65+                                   | thousand persons | 1296  | 1310  | 1323  | 1337  | 1351  | 1366  | 1382  | 1397  | 1408  | 1416  | 1422  | 2) 1419  |
| Expectation of life                   |                  |       |       |       |       |       |       |       |       |       |       |       |          |
| Males                                 | years            | 67,6  | 68,2  | 68,4  | 69,2  | 69,5  | 70,0  | 70,4  | 70,5  | 71,1  | 71,4  | 71,7  | 2) 72,1  |
| Females                               | years            | 75,4  | 75,7  | 76,1  | 76,4  | 76,6  | 76,9  | 77,3  | 77,5  | 78,1  | 78,1  | 78,4  | 2) 78,5  |
| Live births per 1 000 population      | -                | 12,6  | 12,5  | 11,8  | 11,7  | 10,3  | 9,3   | 8,8   | 8,8   | 8,8   | 8,7   | 8,8   | 8,9      |
| Deaths per 1 000 population           | -                | 12,5  | 12,1  | 11,7  | 11,4  | 11,4  | 11,4  | 10,9  | 10,9  | 10,6  | 10,7  | 10,6  | 10,5     |
| Natural increase per 1 000 population | -                | 0,1   | 0,5   | 0,1   | 0,3   | -1,0  | -2,1  | -2,2  | -2,1  | -1,8  | -2,0  | -1,8  | -1,7     |
| Marriages per 1 000 population        | -                | 8,8   | 7,0   | 7,2   | 6,4   | 5,7   | 5,3   | 5,2   | 5,6   | 5,3   | 5,2   | 5,4   | 5,1      |
| Divorces per 100 marriages            | %                | 35,2  | 40,8  | 38,6  | 45,8  | 52,9  | 56,7  | 61,4  | 56,2  | 58,8  | 44,2  | 53,7  | 60,3     |

<sup>1)</sup> Based on final results of Population and Housing Census 2001

<sup>2)</sup> The calculation used an estimate of age structure

## NATIONAL ACCOUNTS<sup>1)</sup>

| Indicator                                  | 1990                       | 1991    | 1992    | 1993    | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    |
|--|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Output                                     | 1 741,4                    | 2 241,3 | 2 299,1 | 2 641,6 | 2 953,5 | 3 529,0 | 3 828,2 | 4 255,9 | 4 589,8 | 4 633,4 | 5 128,3 | 5 589,0 |
| previous year = 100                        | .                          | 86,8    | 91,8    | 98,0    | 102,3   | 109,0   | 102,1   | 103,8   | 102,0   | 99,4    | 106,8   | 107,8   |
| Gross domestic product                     | 626,2                      | 753,8   | 842,6   | 1 020,3 | 1 182,8 | 1 381,0 | 1 567,0 | 1 679,9 | 1 839,1 | 1 902,3 | 1 984,8 | 2 157,8 |
| previous year = 100                        | .                          | 88,4    | 99,5    | 100,1   | 102,2   | 105,9   | 104,3   | 99,2    | 98,8    | 100,5   | 103,3   | 103,3   |
| Gross domestic product per capita (in PPP) | USD 11 261                 | 10 370  | 10 875  | 10 806  | 11 269  | 12 205  | 12 995  | 13 162  | 13 196  | 13 557  | 14 332  | 15 099  |
| Final consumption expenditure              | 308,6                      | 357,1   | 432,4   | 509,5   | 599,5   | 692,1   | 807,3   | 888,0   | 952,0   | 1 006,6 | 1 059,6 | 1 141,1 |
| previous year = 100                        | .                          | 78,5    | 108,9   | 101,3   | 105,5   | 105,8   | 107,9   | 102,4   | 98,2    | 101,9   | 102,3   | 103,9   |
| Gross national saving                      | CSK/CZK bn, current prices | .       | .       | .       | .       | 412,4   | 429,5   | 438,6   | 512,1   | 483,5   | 483,8   | 546,0   |
| Gross national saving rate <sup>3)</sup>   | %                          | .       | .       | .       | .       | 29,7    | 27,5    | 26,2    | 28,1    | 25,8    | 24,9    | 25,8    |
| Investments rate <sup>4)</sup>             | %                          | 25,3    | 24,1    | 27,9    | 28,4    | 28,7    | 31,9    | 30,6    | 29,1    | 27,8    | 28,3    | 28,3    |
| Gross fixed capital formation              | CSK/CZK bn, current prices | 158,4   | 181,6   | 235,2   | 289,6   | 339,8   | 500,6   | 514,5   | 535,5   | 528,3   | 561,5   | 610,9   |
| previous year = 100                        | %, constant prices         | .       | 72,7    | 116,6   | 100,3   | 108,9   | 108,2   | 97,1    | 100,1   | 99,0    | 105,3   | 107,2   |
| Total labour productivity:                 | %, 1995                    | .       | .       | .       | 101,0   | 104,3   | 103,1   | 100,0   | 100,8   | 103,3   | 104,0   | 102,7   |
| previous year = 100 <sup>5)</sup>          | constant prices            | .       | .       | .       | 101,0   | 104,3   | 103,1   | 100,0   | 100,8   | 103,3   | 104,0   | 102,7   |

<sup>1)</sup> Since 1998, the indicators fully comparable year-on-year

<sup>2)</sup> 1990 and 1991 figures are derived retrospectively from MPS data, 1992 - 2000 figures are obtained from annual national accounts, and 2001 figures are the sum of GDP quarterly estimates for the years

<sup>3)</sup> Gross national saving to gross disposable income

<sup>4)</sup> Gross fixed capital formation to GDP

<sup>5)</sup> Adjusted figures on employment provided by the LFSS were used. The adjustments primarily consist in taking account of second jobs, of foreign nationals (both employees and employers) identified from administrative sources and of categories of women on maternity leave, of apprentices and of persons working abroad, who do not participate directly in gross domestic product formation.

## FINANCE<sup>1)</sup>

| Indicator                           | Unit   | 1990 | 1991 | 1992 | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  |
|-------------------------------------|--------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue of consolidated             |        |      |      |      |       |       |       |       |       |       |       |       |       |
| general government                  | CZK bn | .    | .    | .    | 446,7 | 504,3 | 578,4 | 634,4 | 665,3 | 709,4 | 744,0 | 781,0 | 852,9 |
| State budget <sup>2)</sup>          | CZK bn | .    | .    | .    | 348,9 | 389,1 | 428,4 | 461,4 | 486,0 | 521,2 | 545,8 | 575,1 | 604,5 |
| Local government <sup>2)</sup>      | CZK bn | .    | .    | .    | 91,9  | 112,2 | 130,0 | 163,8 | 145,3 | 157,2 | 165,6 | 181,8 | 192,4 |
| Expenditure of consolidated general |        |      |      |      |       |       |       |       |       |       |       |       |       |
| government incl. net lendings       | CZK bn | .    | .    | .    | 420,1 | 495,0 | 573,6 | 638,7 | 685,2 | 737,5 | 755,0 | 843,0 | 905,0 |
| State budget <sup>2)</sup>          | CZK bn | .    | .    | .    | 344,2 | 374,4 | 431,8 | 466,8 | 503,5 | 546,8 | 580,6 | 626,9 | 671,2 |
| Local government <sup>2)</sup>      | CZK bn | .    | .    | .    | 89,6  | 112,1 | 132,3 | 171,1 | 150,1 | 155,7 | 147,1 | 184,3 | 203,6 |

## CURRENCY AND BALANCE OF PAYMENTS<sup>3)</sup>

|   |        |   |   |   |       |       |        |        |        |        |        |        |        |
|---|--------|---|---|---|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Current account of balance of payments                    | CZK bn | . | . | . | 13,3  | -22,6 | -36,3  | -111,9 | -113,0 | -40,5  | -50,6  | -104,9 | -99,8  |
| Current account balance of the balance of payments to GDP | %      | . | . | . | .     | -1,9  | -2,6   | -7,1   | -6,7   | -2,2   | -2,7   | -5,2   | -4,6   |
| Financial account of balance of payments                  | CZK bn | . | . | . | 88,2  | 97,0  | 218,3  | 113,6  | 34,3   | 94,3   | 106,6  | 148,0  | 153,3  |
| Change in reserves (- increase)                           | CZK bn | . | . | . | -88,3 | -68,3 | -197,9 | 22,5   | 56,0   | -62,6  | -57,1  | -31,6  | -67,2  |
| Net international investment position                     | CZK bn | . | . | . | 114,5 | 66,8  | 58,9   | -68,9  | -106,8 | -117,5 | -110,9 | -191,9 | -247,8 |
| External debt   | CZK bn | . | . | . | 287,7 | 342,5 | 457,3  | 578,9  | 748,7  | 726,9  | 822,5  | 817,1  | 786,7  |
| Total reserves of the Czech National Bank                 | CZK bn | . | . | . | 116,0 | 175,1 | 373,0  | 339,9  | 338,5  | 376,7  | 461,4  | 496,8  | 524,5  |
| Annual average of foreign exchange <sup>4)</sup>          |        | . | . | . | 34,1  | 34,1  | 34,3   | 34,0   | 35,8   | 36,2   | 36,9   | 35,6   | 34,1   |

## PRICES

|  |             |       |       |       |       |       |       |       |       |       |       |       |       |
|--|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Inflation rate <sup>5)</sup>           | increase, % | 9,7   | 56,6  | 11,1  | 20,8  | 10,0  | 9,1   | 8,8   | 8,5   | 10,7  | 2,1   | 3,9   | 4,7   |
| Consumer price index, total            | %           | 100,0 | 156,6 | 174,1 | 210,3 | 231,3 | 252,5 | 274,7 | 297,9 | 329,7 | 336,7 | 349,9 | 366,3 |
| Cost-of-living index for households of |             |       |       |       |       |       |       |       |       |       |       |       |       |
| Employees                              | %           | 100,0 | 152,9 | 170,3 | 205,7 | 227,1 | 247,5 | 269,0 | 291,3 | 321,3 | 328,0 | 340,1 | 355,1 |
| Pensioners                             | %           | 100,0 | 151,6 | 171,8 | 205,3 | 227,9 | 251,6 | 275,3 | 302,6 | 343,5 | 351,7 | 368,2 | 390,7 |

<sup>1)</sup> Source: Ministry of Finance of the Czech Republic

<sup>2)</sup> Unconsolidated figures

<sup>3)</sup> Source: Czech National Bank

<sup>4)</sup> ECU (European Currency Unit) was replaced with EUR as at 1 January 1999

<sup>5)</sup> Increases in average annual index of consumer prices (previous year = 100)

## EXPENDITURE OF THE POPULATION

| Indicator   | Unit | 1990  | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|------|-------|------|------|------|------|------|------|------|------|------|------|------|
| Index of expenditure per household member in real terms <sup>1)</sup> |      |       |      |      |      |      |      |      |      |      |      |      |      |
| Total   | %    | 100,0 | 73,1 | 81,0 | 76,2 | 78,3 | 84,3 | 90,0 | 93,3 | 90,9 | 94,7 | 92,8 | 93,8 |
| Employees   | %    | 100,0 | 74,1 | 83,0 | 79,3 | 81,3 | 88,1 | 92,9 | 95,5 | 94,4 | 99,7 | 96,6 | 97,2 |
| Pensioners  | %    | 100,0 | 85,7 | 86,6 | 82,0 | 82,6 | 87,2 | 95,3 | 99,1 | 96,7 | 98,3 | 97,0 | 97,0 |

## LABOUR

|   |                  |        |         |         |         |         |         |         |         |         |         |         |         |
|---|------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Average number of workers in the civil sector of the national economy <sup>2)</sup>                       |                  |        |         |         |         |         |         |         |         |         |         |         |         |
| thousand persons  |                  | 5 351  | 5 059   | 4 927   | 4 848   | 4 885   | 5 012   | 5 044   | 4 947   | 4 883   | 4 760   | 4 751   | 4 766   |
| Agriculture and hunting, forestry   |                  |        |         |         |         |         |         |         |         |         |         |         |         |
| thousand persons  |                  | 631    | 508     | 425     | 331     | 338     | 312     | 301     | 280     | 249     | 232     | 211     | 199     |
| Industry, total   | thousand persons | 2 025  | 1 948   | 1 798   | 1 710   | 1 619   | 1 628   | 1 615   | 1 609   | 1 583   | 1 533   | 1 510   | 1 521   |
| Construction  | thousand persons | 403    | 404     | 408     | 453     | 444     | 450     | 452     | 435     | 432     | 402     | 392     | 371     |
| Unemployment rate (31 December) <sup>3)</sup>   | %                | 0,73   | 4,13    | 2,57    | 3,52    | 3,19    | 2,93    | 3,52    | 5,23    | 7,48    | 9,37    | 8,78    | 8,90    |
| Registered job applicants (31 December) <sup>4)</sup>   |                  |        |         |         |         |         |         |         |         |         |         |         |         |
| persons   |                  | 39 379 | 221 749 | 134 788 | 185 216 | 166 480 | 153 041 | 186 339 | 268 902 | 386 918 | 487 623 | 457 369 | 461 923 |
| vacancies   |                  | 57 616 | 48 402  | 79 422  | 53 938  | 76 581  | 88 047  | 83 976  | 62 284  | 37 641  | 35 117  | 52 060  | 52 084  |
| Average monthly gross nominal wage per employee in the civil sector of the national economy <sup>5)</sup> |                  |        |         |         |         |         |         |         |         |         |         |         |         |
| CSK/CZK   |                  | 3 286  | 3 792   | 4 644   | 5 817   | 6 894   | 8 172   | 9 676   | 10 691  | 11 693  | 12 666  | 13 499  | 14 640  |
| Real wages and salaries index <sup>6)</sup>   | %                | 94,5   | 73,7    | 110,3   | 103,7   | 107,7   | 108,6   | 108,8   | 101,8   | 98,8    | 106,1   | 102,6   | 103,6   |

1) Data from the reporting sample of household budgets statistics

2) Preliminary data for 2000, estimate for 2001

3) Of the total labour force available; Source: Ministry of Labour and Social Affairs of the Czech Republic

4) Source: Ministry of Labour and Social Affairs of the Czech Republic

5) Preliminary data for 2000 and 2001

6) Ratio of the index of average monthly gross nominal wages and the price index referring to the consumer sphere in total (previous year = 100)

## EDUCATION<sup>1)</sup>

| Indicator                          | Unit             | 1990    | 1991    | 1992    | 1993    | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    |
|------------------------------------|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Pupils and students at schools     |                  |         |         |         |         |         |         |         |         |         |         |         |         |
| Nursery                            | persons          | 352 139 | 323 682 | 325 735 | 331 509 | 338 722 | 333 433 | 317 153 | 307 508 | 302 856 | 290 192 | 279 838 | 276 438 |
| Basic                              | thousand persons | 1 195   | 1 166   | 1 115   | 1 061   | 1 028   | 1 005   | 1 100   | 1 092   | 1 082   | 1 071   | 1 057   | 1 028   |
| Grammar                            | persons          | 111 006 | 113 450 | 117 765 | 122 171 | 127 828 | 133 093 | 126 424 | 126 575 | 126 137 | 127 500 | 137 777 | 137 477 |
| Secondary technical <sup>2)</sup>  | persons          | 190 569 | 191 298 | 201 209 | 219 249 | 247 083 | 259 419 | 205 028 | 200 367 | 191 512 | 180 114 | 211 399 | 210 387 |
| Secondary vocational <sup>3)</sup> | persons          | 328 637 | 296 984 | 285 348 | 287 012 | 283 255 | 212 164 | 166 005 | 148 972 | 171 575 | 186 327 | 190 186 | 197 229 |
| Higher professional                | persons          | -       | -       | -       | -       | -       | -       | 14 931  | 23 526  | 29 566  | 31 073  | 26 605  | 26 670  |
| Universities, total                | persons          | 118 194 | 111 990 | 114 185 | 127 137 | 129 453 | 139 774 | 155 868 | 165 754 | 174 229 | 183 954 | 207 260 | 200 450 |
| Initial study                      | persons          | 99 501  | 97 494  | 103 018 | 113 085 | 118 759 | 126 345 | 139 909 | 148 478 | 155 318 | 159 661 | 173 104 | 173 321 |
| CS/CZ citizens                     | persons          | 96 379  | 94 723  | 100 513 | 109 471 | 115 888 | 123 460 | 136 763 | 145 097 | 151 719 | 159 661 | 166 439 | 165 687 |
| Females                            | persons          | 42 850  | 42 458  | 44 266  | 48 137  | 50 840  | 54 670  | 60 555  | 64 794  | 69 200  | 74 006  | 77 768  | 79 860  |
| Other citizens                     | persons          | 3 122   | 2 771   | 2 505   | 3 614   | 2 871   | 2 885   | 3 146   | 3 381   | 3 693   | 4 489   | 7 420   | 7 939   |
| Others form of study <sup>4)</sup> | persons          | 18 693  | 14 496  | 11 167  | 14 052  | 10 694  | 13 429  | 15 959  | 17 276  | 18 817  | 19 804  | 33 401  | 26 824  |
| Teachers at schools                |                  |         |         |         |         |         |         |         |         |         |         |         |         |
| Nursery                            | persons          | 32 112  | 29 927  | 29 942  | 27 394  | 27 695  | 28 080  | 27 635  | 25 897  | 25 296  | 24 484  | 23 800  | 23 345  |
| Basic                              | persons          | 63 110  | 64 072  | 65 186  | 63 767  | 63 531  | 63 019  | 69 578  | 65 259  | 65 370  | 67 678  | 68 155  | 67 594  |
| Grammar                            | persons          | 7 135   | 7 050   | 8 402   | 8 965   | 10 057  | 10 903  | 10 987  | 10 419  | 10 284  | 10 749  | 11 502  | 11 665  |
| Secondary technical <sup>2)</sup>  | persons          | 12 889  | 12 798  | 14 537  | 16 854  | 17 310  | 18 458  | 16 563  | 14 989  | 17 584  | 17 296  | 19 414  | 19 581  |
| Secondary vocational <sup>3)</sup> | persons          | 10 502  | 10 149  | 10 573  | 11 243  | 11 585  | 8 344   | 7 661   | 6 634   | 9 220   | 9 751   | 10 042  | 10 669  |
| Higher professional                | persons          | -       | -       | -       | -       | -       | -       | 1 966   | 2 241   | 2 764   | 2 917   | 2 679   | 2 738   |
| Universities                       |                  |         |         |         |         |         |         |         |         |         |         |         |         |
| Professors and readers             | persons          | 4 026   | 4 219   | 4 307   | 4 437   | 4 169   | 4 177   | 4 220   | 4 290   | 4 346   | 4 550   | 4 203   | 4 537   |
| Other teachers                     | persons          | 7 506   | 8 543   | 8 600   | 9 026   | 8 458   | 8 715   | 8 749   | 8 926   | 8 946   | 8 710   | 8 588   | 8 785   |
| Expenditures on education          |                  |         |         |         |         |         |         |         |         |         |         |         |         |
| State budget <sup>5)</sup>         | CZK mil.         | .       | .       | .       | .       | .       | .       | .       | 66 113  | 64 704  | 69 966  | 70 632  | 45 374  |
| Local budgets <sup>6)</sup>        | CZK mil.         | .       | .       | .       | .       | .       | .       | .       | 13 727  | 13 940  | 14 483  | 14 268  | 49 523  |

<sup>1)</sup> Incl. private and church schools in 1992 - 2001

<sup>2)</sup> Since 1994, the number of students also includes students of the secondary school part of integrated secondary schools

<sup>3)</sup> Since school-year 1995/96, incl. the secondary vocational part of integrated secondary schools

<sup>4)</sup> 'Other forms of study' includes distance study and combined study

<sup>5)</sup> Excl. budget chapter General Treasury Management; since 2001: excl. chapters State Debt, State Financial Assets Transactions, General Treasury Management and incl. chapter District Offices; consolidated between budgets

<sup>6)</sup> Consolidated; since 2001: excl. district offices and organizations founded by district offices



## KULTURA

| Indicator  | Unit     | 1990   | 1991   | 1992   | 1993   | 1994   | 1995   | 1996   | 1997   | 1998   | 1999   | 2000   | 2001   |
|--|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Press  |          |        |        |        |        |        |        |        |        |        |        |        |        |
| Published books <sup>1)</sup>  | titles   | 4 136  | 6 057  | 6 743  | 8 203  | 9 309  | 8 994  | 10 244 | 11 519 | 11 738 | 12 551 | 11 965 | 14 321 |
| Published magazines and journals <sup>2)</sup>                             | titles   | 1 870  | 1 553  | 2 983  | 1 367  | 1 977  | 4 380  | 5 028  | 5 263  | 5 440  | 3 894  | 3 295  | 3 469  |
| Public libraries   |          |        |        |        |        |        |        |        |        |        |        |        |        |
| Libraries  |          | 5 828  | 6 213  | 6 261  | 6 227  | 6 238  | 6 169  | 6 123  | 6 235  | 6 131  | 6 067  | 6 101  | 6 081  |
| Branches   |          | 2 380  | 1 934  | 1 725  | 1 621  | 1 566  | 1 560  | 1 449  | 1 151  | 1 141  | 1 090  | 1 095  | 1 062  |
| Volumes  | thousand | 38 535 | 37 713 | 37 570 | 37 749 | 37 950 | 39 890 | 40 108 | 39 923 | 40 363 | 40 307 | 40 561 | 40 286 |
| Readers  | thousand | 1 561  | 1 312  | 1 182  | 1 142  | 1 131  | 1 277  | 1 287  | 1 284  | 1 331  | 1 347  | 1 358  | 1 341  |
| Loans <sup>3)</sup>  | thousand | 54 397 | 45 693 | 45 112 | 45 857 | 46 846 | 51 503 | 52 799 | 53 437 | 55 286 | 62 339 | 62 503 | 62 285 |
| State budget grants to civic associations of physical education and sports |          |        |        |        |        |        |        |        |        |        |        |        |        |
| Construction and technical renewal of sports facilities CZK mil.           |          |        |        |        |        |        |        |        |        |        |        |        |        |
|  |          | .      | .      | .      | .      | 242    | 187    | 180    | 119    | 151    | 156    | 637    |        |
| Public schemes   | CZK mil. | .      | .      | .      | 308    | 498    | 489    | 476    | 396    | 282    | 349    | 341    | 362    |
| Public schemes   |          |        |        |        |        |        |        |        |        |        |        |        |        |
| State budget <sup>4)</sup>   | CZK mil. | .      | .      | .      | .      | .      | .      | .      | 5 918  | 6 428  | 7 573  | 7 965  | 9 004  |
| Local budgets <sup>5)</sup>  | CZK mil. | .      | .      | .      | .      | .      | .      | .      | 10 091 | 10 765 | 11 618 | 13 445 | 14 351 |

1) Incl. sheet-music, lecture notes, folding picture books, maps and atlases since 1970

2) In 1993, forty-five dailies ceased to exist (a drop of 59 %) and the circulation of the remaining ones decreased; in 1999: obligatory titles of periodicals received by libraries

3) Loans of books for use in and outside libraries

4) Excl. budget chapter General Treasury Management; since 2001: excl. chapters State Debt, State Financial Assets Transactions, General Treasury Management and incl. chapter District Offices; consolidated between budgets

5) Consolidated; since 2001: excl. district offices and organizations founded by district offices

## HEALTH<sup>1)</sup>

| Indicator   | Unit             | 1990   | 1991   | 1992   | 1993   | 1994   | 1995   | 1996   | 1997   | 1998    | 1999    | 2000    | 2001    |
|---|------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|
| Inhabitants per physician                           | persons          | 286    | 291    | 293    | 279    | 273    | 269    | 269    | 259    | 265     | 262     | 249     | 238     |
| Beds in health establishments per 1000 population   |                  | 13,1   | 12,9   | 12,6   | 12,3   | 12,1   | 11,4   | 11,1   | 10,9   | 10,8    | 10,7    | 10,6    | 11,0    |
| In hospitals  |                  | 8,1    | 8,1    | 8,2    | 8,0    | 7,8    | 7,2    | 6,9    | 6,8    | 6,7     | 6,6     | 6,6     | 6,5     |
| Hospitalized patients, total                        | thousand persons | 1 863  | 1 865  | 1 906  | 1 934  | 1 997  | 2 028  | 2 048  | 2 053  | 1 991   | 1 958   | 2 017   | 2 032   |
| Days of stay in hospitals, total                    | thousand days    | 22 410 | 22 272 | 22 125 | 21 640 | 21 534 | 20 580 | 19 621 | 18 698 | 17 421  | 16 783  | 17 488  | 17 225  |
| Average time of treatment in hospitals              | days             | 12,0   | 11,9   | 11,6   | 11,2   | 10,8   | 10,2   | 9,6    | 9,1    | 8,8     | 8,6     | 8,6     | 8,5     |
| Average duration of one case of incapacity for work |                  |        |        |        |        |        |        |        |        |         |         |         |         |
|   | calendar days    | 18,4   | 19,9   | 20,7   | 23,2   | 24,8   | 24,4   | 25,8   | 26,3   | 26,8    | 26,1    | 28,0    | 28,6    |
| Average percentage of incapacity for work           | %                | 4,8    | 5,0    | 5,2    | 5,3    | 5,8    | 6,2    | 6,1    | 6,3    | 5,8     | 6,0     | 6,5     | 6,7     |
| Expenditures on health service                      |                  |        |        |        |        |        |        |        |        |         |         |         |         |
| State budget <sup>2)</sup>                          | CZK mil.         | .      | .      | .      | .      | .      | .      | .      | 6 632  | 7 477   | 7 275   | 6 923   | 12 793  |
| Local budgets <sup>3)</sup>                         | CZK mil.         | .      | .      | .      | .      | .      | .      | .      | 5 894  | 5 817   | 7 192   | 8 117   | 2 252   |
| Health insurance companies                          | CZK mil.         | .      | .      | .      | .      | 63 580 | 73 414 | 84 615 | 92 154 | 100 284 | 107 466 | 110 903 | 121 544 |

## SOCIAL SECURITY

|   |              |        |        |        |        |        |         |         |         |         |         |         |         |
|---|--------------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|
| Sickness insurance benefits paid              | CSK/CZK mil. | 21 193 | 23 435 | 24 910 | 26 543 | 34 246 | 35 661  | 21 483  | 19 797  | 18 533  | 19 287  | 27 205  | 29 585  |
| Sickness insurance benefit                    | CSK/CZK mil. | 6 899  | 7 246  | 8 145  | 9 665  | 13 589 | 15 416  | 17 663  | 16 959  | 15 733  | 16 434  | 23 653  | 25 574  |
| Child benefits                                | CSK/CZK mil. | 10 191 | 9 808  | 9 502  | 9 615  | 12 324 | 12 200  | 1 070   | 2       | -       | -       | -       | -       |
| State social care support benefits paid       | CZK mil.     | -      | -      | -      | -      | -      | -       | 26 692  | 29 237  | 29 637  | 31 328  | 31 855  | 31 942  |
| Child benefits                                | CZK mil.     | -      | -      | -      | -      | -      | -       | 11 124  | 12 495  | 11 493  | 12 474  | 12 748  | 12 799  |
| Pension insurance benefits paid <sup>4)</sup> | CSK/CZK mil. | 45 527 | 56 048 | 63 696 | 73 635 | 84 232 | 105 788 | 125 561 | 145 109 | 161 805 | 173 014 | 181 921 | 195 814 |
| Number of pensions paid                       | thousand     | 2 952  | 2 997  | 3 033  | 3 052  | 3 051  | 3 057   | 3 052   | 3 088   | 3 147   | 3 184   | 3 210   | 3 230   |

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