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## Accession and social policy: the case of the Czech Republic

Martin Potůček\*, *Charles University in Prague, Czech Republic*

**Summary** This paper assesses the place of EU accession among the determinants of the changes taking place in the Czech social policy after 1989. Compulsory social and health insurance were re-introduced in the early 1990s, along with a guaranteed subsistence minimum for all, and an institutionalized state employment policy. This paper argues that EU-derived policies have had only a limited impact on Czech social-policy reform, focusing mostly on institution building. This phenomenon can be attributed to the apparent discrepancy between Copenhagen criteria of accession (1993) and the Lisbon Strategy, which was accepted as a policy guideline in 2002. Thus, the main concept able to explain Czech social-policy development after 1989 is that of institutional and behavioural path dependency as the country exhibited resistance to change coupled with a strong adherence to the Bismarckian, corporatist, welfare state. This makes the Czech Republic a special case compared to the other Visegrad countries, where the pressure from neo-liberal public-policy concepts of the World Bank and the International Monetary Fund found its expression in the introduction of more residual social policies.

**Key words** Czech Republic, European Union accession, social and institutional change, social policy, transition

**Résumé** Cet article tente d'évaluer l'importance de l'adhésion à l'Union européenne parmi les déterminants des changements qui ont influencé la politique sociale tchèque après 1989. Une assurance santé et sociale obligatoire a été introduite au début des années 1990 de même qu'un minimum garanti de subsistance pour tous et une politique d'emploi public institutionnalisée. Les politiques liées à l'adhésion à l'Union européenne n'ont eu qu'un impact limité sur les réformes de la politique sociale tchèque, se centrant surtout sur la création d'institutions. Ceci peut être attribué à l'apparente différence entre les critères d'adhésion de Copenhague (1993) et la stratégie de Lisbonne qui a été acceptée qu'en 2002 comme une ligne directrice politique. Dès lors le principal concept qui peut expliquer les développements des politiques sociales tchèques après 1989 est celui de la dépendance de sentier institutionnelle et comportementale. Ce pays a montré une résistance aux changements avec un fort appui en faveur d'Etat bismarckien et corporatiste. C'est pourquoi la République tchèque constitue un cas particulier comparé aux autres pays de Visegrad où les pressions des conceptions néolibérales des politiques publiques de la Banque mondiale et du Fonds monétaire international se sont exprimés par l'introduction de politiques sociales plus résiduelles.

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## Developmental trends

Before the political breakthrough in 1989, totalitarian political systems and centrally controlled social policies were common features of all central and eastern European countries (with the exception of the former Yugoslavia). Deacon (1993) refers to such social policies as state bureaucratic collectivism (work and privilege). This could also be referred to as over-institutionalized socialist paternalism (Večerník, 1993). Employment was compulsory, there were virtually no ways of influencing political decision-making processes from below, and social policy was highly centralized and run by the Communist Party/state.

Following the collapse of communist regimes in the region, there began a combination of partly spontaneous, partly controlled processes of rapid political, economic and social change. It is difficult to identify to what extent these processes have been influenced by conscious, organized collective actions and/or deliberate decisions of the state authorities, and what were the intended and unintended consequences of actions taken. Three phases of social-policy development can be identified according to the prevailing political tasks and priorities of the given period in the Czech Republic.

### *Phase 1: designing new institutions (December 1989–June 1992)*

Since the very beginning, the conceptual foundations of pending reforms were discussed and clarified and some of the social privileges of the communist establishment were taken away. Various volunteer initiative groups intensively prepared reform plans for various spheres of social policy. Social policy was developed and embodied in legislation on both federal (Czechoslovak) level (the Federal Ministry of Labour and Social Affairs) and national level (the Ministry of Labour and Social Affairs of the Czech Republic). Although cooperation

between the two ministries was not always ideal, from a political standpoint their position and those of the respective governments were always compatible. The work of these ministries can be characterized as an effort to systematically replace state paternalism by establishing more resilient and decentralized mechanisms that would be compatible with ongoing economic reform. These mechanisms were to be beholden to the regulative and executive powers of the state only where necessary. From the standpoint of the governments' prevailing political philosophy, this approach was a combination of socio-liberal and social-democratic philosophies.

The 'Scenario of Social Reform', developed and passed at federal Czechoslovak government level, became the fundamental conceptual document for reform of the social sector. A plan to create a universal and unified system of social welfare was adopted which would offer universal compulsory health and social insurance (complemented by voluntary supplementary insurance for individuals or groups), and means-tested state social assistance on condition that all alternative possibilities of welfare and assistance had been exhausted, or in the event of a citizen's inability to provide for himself or herself.

Czech social policy reform was based on three basic components: first, active employment policy; second, liberalization and pluralization of social welfare based on a Bismarckian insurance system, that has been deeply rooted in the history of the country since the end of the 19th century; third, the development of a social safety net for people in need.

### *Phase 2: retrenchment (July 1992–June 1998)<sup>1</sup>*

Due to political changes in the second phase, neo-liberal policy gained favour in the Czech Republic, characterized by placing emphasis on economic reform; a declared, even legislated effort to limit the role and spending

**Table 1** Ratio of social and health system expenditures to GDP, Czech Republic (1990–2002)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Pensions-security benefits	7.3	7.4	7.6	7.3	7.2	7.7	8.0	8.6	8.8	9.1	9.2	9.0	9.2
Sickness and maternity benefits	1.4	1.2	1.2	1.2	1.4	1.3	1.3	1.2	1.0	1.0	1.4	1.4	1.4
Unemployment and employment policies expenditures	0.0	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.4	0.4
Family allowances (state social support system)	2.1	1.9	1.8	1.4	1.5	1.4	1.8	1.7	1.7	1.6	1.6	1.5	1.5
Social-care benefits and social-services system	0.9	0.6	0.8	0.8	1.0	0.8	0.8	0.8	0.9	1.1	1.2	1.2	1.3
Others	1.4	2.7	1.8	1.3	0.9	0.6	0.1	0.2	0.1	0.1	0.1	0.2	0.2
Administration expenditures	0.1	0.3	0.2	0.3	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Social-security system expenditures – total	13.1	14.5	13.7	12.6	12.6	12.4	12.4	13.1	13.1	13.7	14.1	14.0	14.2
Health-care system expenditures	4.8	5.2	5.4	7.2	7.3	7.3	7.1	7.2	7.2	7.2	7.3	7.4	7.6
Social and health-protection system – total	17.9	19.8	19.2	19.8	20.0	19.7	19.5	20.3	20.3	20.9	21.4	21.4	21.8

Source: Ministry of Labour and Social Affairs, Czech Republic (2004).

powers of the government in the sphere of social security; and mistrust of the intermediary role of civil-society institutions in forming and implementing social policy. This political agenda, embodied by the Civic Democratic Party, was somewhat modified within the coalition framework by parties that prioritized a solution which left more room for state intervention (the Christian Democratic Union–Czech People's Party [KDU–CSL]) and to the activities of civil-society institutions (the Civic Democratic Alliance [ODA]). Therefore, the prevailing governmental political philosophy was a mixture of neo-liberalism and conservatism. The government was not enthusiastic about joining the EU so that there were considerable gaps in the EU-accession effort of the country, reflected in the annual reports of the European Commission.

### *Phase 3: Social policy back on the political agenda (July 1998 onward)*

The parliamentary elections, which took place in June 1998, resulted in the formation of a minority government by the Czech Social Democratic Party (CSSD). It based its policy on a proactive programme of civic participation and education, and announced the need to create a long-term vision for the country. The core of government policy was the idea of a socially and ecologically oriented market economy. Within this framework, all citizens of the country should be offered equal access to education, work, and civil and personal determination. This was in sharp contrast to the more or less residual social policy accents implemented by previous governments. Nevertheless, the implementation of such a

government programme was seriously threatened by budgetary constraints caused by acute fiscal problems; legislative delays caused by the minority position of the government; insufficient implementation capacity of the state; and the protracted reform of public administration. The next general election in 2002 enabled the Social Democrats to remain in power. They established a coalition government along with the Christian Democrats (KDU–CSL) and a small liberal party – the Union of Freedom (US). They operated with only a marginal (one seat – 101:99) majority in Parliament. In domestic policy issues, compromises between Social Democratic, Christian Democratic and liberal concepts and approaches have had to be found. Most outcomes of such difficult negotiations resemble the centre-left recommendations well known from the contemporary British Labour Party. Both governments have developed a clear pro-European policy and speeded up the EU-accession preparatory process. The referendum on joining the EU in June 2003 revealed prevailing popular support for EU membership among the Czech population (turnout was 55 percent, and 77 percent of participating citizens supported the move).

What have been the consequences of such profound changes in political priorities, administration and delivery of social policy schemes on public expenditures?

One can identify only minor fluctuations. There is, though, a recognizable tendency of liberal and conservative governments up to 1998 to tighten total social-security system expenses, and the inclination of Social Democracy-led governments to be more generous. The overall trend has been surprisingly stable, with a slight increase through time, but still well below the EU-15 average (see Table 1).

### Procedural changes

One of the most important social policy determinants is of course the economic environment. The Czech Republic was in a position

where it had to pursue economic and social policy reforms at the same time. As a result, it faced a situation characterized by the need to approach more extensive old and also new social problems induced by the economic reform with slender resources. This limited the space and disposable resources for preventive aspects of social policy, and interfered with the ideologically induced reluctance towards the institutions and policies of the welfare state typical in the early 1990s. The Czech case is interesting in this respect as the real-world social policy differed a lot from the preferred ideal model. The original ‘Scenario of Social Reform’ was influenced by social-democratic and social-liberal ideologies. The Czech governments of 1992–98, with their mixture of neo-liberal and conservative rhetoric, reservations about EU enlargement, and centralist and etatist practical social policy, faced a problem in finding a way out of this trap.

Their solution was to fill institutional shelves created at the beginning of transformation with a rather different content, or leave them empty, as happened with the proposed corporative Social Insurance Fund. As a result, many social policy institutions were pluralistic and corporatist in theory, but in practice the state has preserved much of its previous power (e.g. the compulsory social insurance sector). Targeted, means-tested residual schemes were introduced in some instances (namely child allowance in 1995). This tendency, coupled with the drop in real incomes for the majority of the population and abolishing most price and in-kind subsidies, weakened the disposable resources and social position of the social strata especially in the middle of the socio-economic ladder.

The Social Democratic-led governments, in power since the middle of 1998, have been trying to re-constitute Czech social policy so that it can fully suit the present and prospective social needs of the population in changing domestic and global environments. The symbolic victory of the first of these over the Thatcherist political resentments of the previous Václav Klaus governments was ear-

marked by Parliament's acceptance of the European Social Charter in Spring 1999. One example of this genuine national initiative was the elaboration of the Social Doctrine of the Czech Republic. Its purpose was to build a broad national consensus concerning the future orientation, goals, priorities and corresponding instruments of Czech social policy. Five preparatory conferences, which were organized in 1998–2000, represented a 'joint venture' of the academic community as well as the non-profit association Socioklub, the Ministry of Labour and Social Affairs and the Czech Senate (the upper house of the Czech Parliament). The document, elaborated by the group of experts from various disciplines and with various political affiliations, was mentioned in the coalition-agreement statement of political parties in power in July 2002 as the starting point for further development of the government social policy, its priorities and approaches for the period up to 2006. In general, Social Democratic-led governments rehabilitated the importance of programmatic work based on basic values and principles, and re-emphasized social issues as top political priorities – very much in accordance with the corresponding European Union approaches and policies. This is the case even though, in an effort to cope with the challenges of the economic, political, administrative and social aspects of transformation, both Social Democratic-led governments had to face severe budgetary constraints as well as insufficient administrative capacities coupled with impressive implementation skills. Postponed reform of public administration is still on the way, with the establishment of regional self-governing units in 2000 and the reform of the central layer of administration envisaged for 2005–06.

The Czech Republic has still a considerable way to go in becoming a consensual democracy of the Western European kind. This would require governmental measures to encourage the results of public policy discussion to be widely published, presented, and discussed by all who would be affected by it.

As has already been indicated, the most powerful decisionmaker on social policy issues remains the government. Nonetheless, unions and associations of entrepreneurs participating in the Council of Economic and Social Agreement (created in October 1990 on the basis of a voluntary agreement) have been the most significant partners of the government. Nowadays, trade union representatives and the representatives of the business sector are respected partners of the government, and the tripartite institution has deep roots in the political fabric of the Czech state.

In addition, there are signs that the Social Democratic-led governments are more apt to initiate and/or follow public discussions in the form of civil dialogue. Pars pro toto: the Ministry of Labour and Social Affairs introduced a new form of communication, called 'Social Conferences'. Representatives of NGOs, experts and civil servants discuss important issues (such as the regulatory rules for social assistance) at these conferences before the Ministry and/or government takes the final decision.

It should be noted that the European Union has played an active role as a supporter and mediator in the modernization of accession countries' social policies, including the Czech Republic. Its positive influence can be identified in various fields. Remarkable has been the EU's assistance: in institution and capacity building (e.g. PHARE projects) in the development of the instruments of labour-market policy; in the reform of social services; in the development of policies on human rights and equal opportunities (especially of and for minorities); in collaboration in the field of education. Specifically designed projects have been launched to assist the modernization: reform of public administration; regulatory reform; training of professionals (including civil servants); implementation of new methods of public management and administration. Nevertheless, all this assistance would bear fruit mostly in the long run; its immediate positive effects in improving the life of the population were limited.

## Substantive policy changes

As analysed earlier, the overall concept of Czech social-policy reform was formulated and most new social policy institutions were established during the first years after 1989. They included compulsory health and social insurance, the tripartite Council for Economic and Social Agreement, regional Labour Offices (responsible for both passive and active employment policies) and the state guarantee of a minimum subsistence benefit for every citizen.

As in other Central and Eastern European (CEE) countries, the economic transformation of the country was characterized by a drop in Gross Domestic Product, and double-figure inflation rates, at the beginning of the 1990s. This was followed by a moderate GDP increase in the mid-1990s and inflation rates in single figures. Privatization and restructuring of the economy has continued, followed by a sharp increase in direct foreign investment since 1999. The high unemployment rate has become the persistent feature of the development after 1997.

Over this period, the most profound changes took place in social protection policy, the fight against poverty, and employment policy.

### *Social-security policy after 1989*

A universal and uniform system of social security was to become the core of the state's social policy. After the victory of neo-liberal and conservative political parties in the elections of 1992, liberal and residual tendencies began to be asserted more forcefully in social policy. The conception of social reform began to impose limitations on social-security policy, and within this framework crystallized the conception of its three tiers or 'pillars': first, compulsory public social insurance, reacting to foreseeable situations in a citizen's life, following the pay-as-you-go principle; second, state social support, reacting to unforeseeable

social events, financed from general taxation; third, social assistance built on the principle of aid to citizens who find themselves in an emergency situation, cofinanced by central and local authorities, non-profit organizations and clients themselves.

*Compulsory social insurance* Laws were passed enabling the transformation to a new structure of social insurance in 1992. Social insurance was to be compulsory, contributors to the Social Insurance Fund being employees (they pay up to 8 percent of gross income, of which 1.1 percent goes towards the sickness insurance scheme, 6.5 percent to the old-age pension scheme, and 0.4 percent to the state employment policy), employers (they pay up to 26 percent of the gross income of their employees, of which 3.3 percent accounts for the sickness insurance scheme, 21.5 percent for the pensions scheme, and 1.2 percent for the state employment policy), and the state, which pays the insurance contribution for children, pensioners, parents on maternity or paternity leave, the unemployed, invalids, soldiers and prisoners. In the case of self-employed persons it is 35 percent of an amount they fix themselves, but not less than 40 percent of the income from self-employment after the deduction of costs expended in its achievement, insurance and maintenance,<sup>2</sup> and it cannot be lower than 20 percent of the average wage.<sup>3</sup> Social-insurance contributions cover old-age pensions, invalidity pensions, widow, widower and orphan pensions, sickness contributions, contributions for the treatment of a family member, contributions to the state employment policy, and administration costs.

In 1995 there was a significant legislative change in the framework of the compulsory structure of social insurance with the passing of a new law on old-age pensions. An increase in the statutory retirement age limit was approved to be introduced incrementally up until 2007. The statutory retirement age for women, originally 53–57, was raised to 57–61 (the actual limit depends on the number of

**Table 2** The replacement rate of average old-age pension and average gross wage

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Ratio %	50.4	52.7	57.4	52.0	47.0	44.4	43.8	43.5	45.3	45.9	45.2	43.8	42.9	43.1	(41.8)

Source: Ministry of Labour and Social Affairs, Czech Republic (2004). 2003 – estimate.

children), while for men it increased from 60 to 62. The law on base pension insurance conceives the old-age pension as comprising two components, made up of a fixed amount paid to all and one that is dependent on the number of years worked and the working income received; the law is built on the principle of a substantial redistribution of accumulated finances towards persons with a lower level of earnings. Old-age pensions for persons with higher working incomes are affected by a regressive calculation formula.

Under the new law the pension as a proportion of the gross wage will drop by the year 2010 to 38 percent and in 2015 to 35 percent. Thus the government has managed to set down a very residual conception of old-age insurance that differs considerably from continental European practice and does not rule out the possibility of the pension falling below the living minimum level. Moreover, it is a system the conditions of which, as well as the management of gathered resources, are fully in the hands of the Ministry of Finance instead of an independent public corporation – Social Insurance Fund (see Table 2).

Public-sector compulsory social insurance is completely dominant in the Czech system of old-age pension insurance. Nevertheless, additional voluntary private pension insurance, based on an individual contract between the citizen and the insurance company, is attracting a rising number of clients. The state contributes a defined sum of money as well. If the conception of a drop in the ratio of the old-age pension paid within the public system to the average wage comes about, the more well-off groups of the population will be forced to make more use of the private sector in order to increase their old-age pensions.

Since 1995 there has been a public discussion about the reform of the whole concept of

the old-age pension system. It was initiated by some experts from the International Monetary Fund and the World Bank, who strongly recommended the adoption of compulsory private co-insurance. This new type of old-age insurance would complement the pay-as-you-go public scheme that would gradually lose its importance in the total amount of redistributed resources. It was argued that this change would be inevitable due to demographic trends (ageing of the population) and the demand for investment in the national economy that would be satisfied by the newly established and privately run for-profit pension funds. In contrast to Poland, Hungary, and recently Slovakia, which introduced this model, the Czech Republic resisted the pressure. There were two main factors that could explain this significant difference:

- The country was not in a deep fiscal crisis as were other CEE countries, so that it was less dependent on loans provided by these organizations.
- There were strong political opponents of this idea, namely consecutive Social Democratic-led governments and the trade unions, who stressed the risks of such a reform due to the fragility of financial markets and institutions and the huge demand for additional financial inputs during the couple of decades after such a reform is introduced.

At the beginning of the 21st century, the Czech government now adheres to the idea of introducing a Swedish-like defined contribution pay-as-you-go system. Right-wing theorists, politicians and the representatives of financial-market institutions support the idea of compulsory private co-insurance, whereas left-wing theorists, politicians and trade



**Table 3** Drop in public support for families with children (child allowances and tax credits), Czech Republic (1989–2002)

<i>Type of family</i>	<i>Drop in public support in 2002 (compared to 100% in 1989)</i>
Family with 1 or 2 dependent children	27%
Family with 3 children	35%
Single-parent family with 1 child	45%

*Source:* Hiršl (2003).

unions are in favour of voluntary non-profit co-insurance schemes (with the financial contribution of both employees and employers). There have been several (up to the beginning of 2004 unsuccessful) attempts to create a special institutional platform for the steering and moderation of the public debate about the reform that would overcome ideological, partisan and other barriers among various stakeholders.

*State social support* This system of social support was introduced in 1995. The institutions responsible for state social support are the social departments of district authorities, and benefits are paid from general taxation. Within this system, all benefits are defined as the fixed multiple of the subsistence minimum level.

Means-tested benefits subsume child allowance (paid up to the age of 26 where the child is training for a future occupation), social contribution (to low-income individuals and families), housing benefit, and transport benefit (for children training for their occupation away from their permanent residence). Categorical benefits (provided without regard to income) comprise parental allowance (paid to a parent looking after a child up to four years old), maintenance contribution (for the family of a soldier doing military service or the alternative form of civil service), benefit for foster-parent care, birth allowance, and burial benefit.

One of the most important system changes has become the method by which benefits are awarded to children. Up to 1995, child allowance was paid to all families with dependent

children without regard to their income. The State Social Support Act introduced a new means-tested method tied to the family income not exceeding three times the subsistence minimum. The Social Democratic-led governments have long wished to switch back to universal (categorical) child allowance, but have been unable to reintroduce it due to political resistance from coalition parties, the opposition and fiscal constraints. The real purchasing value of child allowances and tax credits have decreased considerably since 1989 (see Table 3).

*Social assistance* The structure of social assistance is conceived as a 'lifeline' to those who are no longer able to help themselves, have no claim to benefits in the framework of the social insurance and state social support structures, or who find these benefits are not enough to sustain them to at least the level officially set as the subsistence minimum. Social aid is provided in cash or in kind or both.

The new laws began to influence the living conditions of people in need at the beginning of the 1990s, namely the Act on the living minimum and the Act on social need (which has been amended several times). They included the obligation of the state to guarantee all citizens that their standard of living would not fall below the official subsistence minimum, and to make up the difference between the actual income of an individual or family and this limit on condition that he/she (they) cannot him/herself (themselves) increase this income by his/her (their) own endeavours because of age, health status, or other legiti-

mate reasons. The law in question has thus delineated a socially accepted poverty limit, establishing the right to aid from the state under certain circumstances. It is a scheme based on the individual assessment of total income, property and social relations of the applicant. The defined subsistence minimum differs according to age and structure of the household. The law entrusted the government with increasing the level of the living minimum in accordance with changing costs of living, and with maintaining the ratio between the level of the living minimum and the average income.

The government conception of social assistance in the Czech Republic thus issues from the principle of subsidiarity: the individual is responsible first, then the family, charities, the municipality and, at the end of the line, the state. A new Act on Social Assistance has been in preparation since 1994, but without final success.

### *Incidence of poverty*

The situation of full employment, large income levelling and relatively generous aid to families with children was reflected in the low percentage of truly poor people under socialism. Even though the transformation of the economy has changed and is still changing the economic situation of most individuals and households, the situation has been kept under control, in part by making use of the most varied socio-political measures, such as the already-mentioned introduction of the institutions of subsistence minimum, minimum wage, the adjustment of the amounts of old-age pensions with regard to inflation, and the payment of unemployment benefit.

The Ministry of Labour and Social Affairs is responsible for monitoring the occurrence and trends of poverty in the Czech Republic. It can be said that the rate of poverty in the Czech Republic has remained relatively low. In the case of the Czech Republic the following indicators can be used:

- The officially set subsistence minimum limit. For a single-person household, it represents CZK4,100 per month (\$9.7 per day by PPP). According to the results of the 'Social Situation of Households' survey of the Czech Statistical Office, implemented with the Eurostat regulation, the incomes of 3.4 percent of households and 4.3 percent of persons were below the subsistence minimum in 2001.
- The relative poverty indicator used by the European Union. Households find themselves in the poverty belt if their income per head drops below 60 percent of the income median of an equivalent adult person. Below the above-defined poverty line there were 7.6 percent of the population in 1996 and 7.92 percent of population in 2001 (Ministry of Labour and Social Affairs, 2003).

An inevitable part of the transformation is the differentiating process regarding incomes of the population. Two facts lie at the heart of problems relating to this issue. First, the differentiation of incomes does not occur in line with an increase in the living standard of the majority of the population (as is the norm in developed countries), but rather during a decrease of the average living standard and an absolute and relative shift of income to high-income groups. The share of the richest quintile of the economically active population on the total sum of incomes increased from 30.9 percent in 1988 to 37.8 percent in 1996. In the same period, the ratio between the lowest and the highest household income decile increased from 2.6 to 3.2 in the Czech Republic (Večerník, 1997). Second, the criteria used as the base for differentiation are not accepted in most cases by society as being just. The most threatened groups of the adult population are the unemployed, invalids and citizens with only elementary education. Families with dependent children in general, and children in particular, also belong to population groups which run a bigger risk of falling into poverty. Those most at risk are thus families with

**Table 4** Expenses on active employment policy as the percentage of all expenses on employment policy, Czech Republic

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
%	31	55	35	28	26	21	14	18	25	37	43	44

Source: Ministry of Labour and Social Affairs, Czech Republic (2004).

unqualified workers and with dependent children. Winners of the changes are the members of the economic and political elite, those who have profited from the privatization (either legally or by ‘channelling’ public and/or corporate funds into private hands) and employees of multinational firms whose Western-level salaries represent multiples of the average local wages.

#### *Employment policy and unemployment*

The Employment Act came into force at the beginning of 1991. The state employment policy, in accordance with this Act, is towards achieving a balance between supply and demand for labour, towards the productive utilization of the workforce resources, and towards securing the rights of citizens to employment. This is interpreted as the right of those who want and are able to work and are actually engaged in the process of applying for work. These persons have the right to the mediation of work in a suitable position, to the requalification necessary for their work, and to material security before starting employment and in the event of losing employment. The network of regional Labour Offices was created to administer state employment policy in the regions. Besides locations in individual regional capitals, there were established branch offices in the larger towns of a region. This means that their serv-

ices became relatively easily accessible to job-seekers throughout the Republic.

The attention paid to active and passive employment policy has fluctuated significantly over the years according to the political orientation of the consecutive governments, with the right-wing orientation more in favour of passive policies, and the left-wing orientation supporting active employment policies (see Table 4).

Employment policy is financed by the contributions of employers, employees and the state (on behalf of the economically inactive). The minority Social Democratic government launched (and Parliament accepted) the first National Programme of Employment at the beginning of 1999.

*The development of unemployment* The figures below (Table 5) are based on the number of unemployed people seeking work at the Labour Offices – the so-called ‘registered unemployed’. Unlike in other CEE countries, the Czech Republic was able to keep unemployment very low up to 1997, especially due to a specific ‘Czech-style’ voucher privatization that did not exert hard pressure on economic restructuring leading to higher productivity and efficiency of newly privatized enterprises. Since the economic crisis in 1997, associated with devaluation of the local currency (Czech crown) and a series of bankruptcies of big banks and enterprises, unemployment has been rising very considerably.

**Table 5** The official rate of unemployment in the Czech Republic (in %), 1990–2003 (end of the year)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
%	0.7	4.1	2.6	3.5	3.2	2.9	3.5	5.2	7.5	9.4	8.8	8.9	9.8	10.3

Source: Ministry of Labour and Social Affairs, Czech Republic (2004).

In the past few years figures have also become available gathered by the Czech Statistical Office on the basis of representative sample surveys of the population. These numbers show a systematic difference in a downward direction, indicating that the real rate of unemployment is actually about 2.5 percent lower than the official figures in 2003.

A specific problem of many countries is long-term unemployment, i.e. the proportion of those who have been in unemployment for over 12 months. Their relatively low share – not more than 20 percent of all unemployed up to 1996 – has considerably increased after that, reaching the level of nearly 40 percent in the beginning of the 21st century. With people unemployed between six and 12 months, the pool of long-term unemployed represented 56 percent of all unemployed people in 2002. The risk of the occurrence of long-term unemployment is higher for those who are more afflicted by unemployment as such: the unqualified, single mothers with children, Roma, and people with disabilities. Detailed studies indicate that the long-term unemployed in the Czech Republic do not yet show a strong tendency towards becoming an ‘underclass’, with this being particularly absent in the rural areas. There is a considerable risk, however, that in the future there will emerge an uprooted underclass among the long-term unemployed Roma, homeless, and unqualified young people who have never worked.

### **‘Factor EU’: the Czech Republic between the Copenhagen criteria and the Lisbon Strategy**

More than ten years’ history of preparation of the Czech Republic for accession started with the launching of the Copenhagen criteria of accession (1993). Like all the other candidate countries, the Czech Republic was asked to reform its national economy to be able to compete – and to become compatible – with

market economies of the existing member states. It had to build robust and reliable institutions of political democracy. It was asked to adjust its legal and administrative system to the ‘*acquis communautaire*’. These criteria have been designed more as a technical (economic and political) instrument from above than as an appropriate tool to steer people’s living conditions in the candidate countries: legal, economic and political issues prevailed (see also Ferge and Juhász, this issue). The progress in adjustment to these requirements has been fast and considerable. Nevertheless, genuine social goals were at the bottom of the list of priorities – limited to the preservation of individual human rights, and building softly defined framework for social policy making. The containment or reduction of poverty and income inequalities, labour rights, a living wage and the alleviation of the fate of marginalized groups, in other words, the fight against social exclusion, did not form an integral part of the reform agenda.

As late as 2000, the European Union passed its Declaration of Nice and launched its Lisbon Strategy. Both documents represented a new political initiative, rehabilitating the importance of human resources, quality of life, social cohesion, in short, ‘social fabric’ of contemporary societies. Only in 2002, when the preparation of the new member states – organized within the logic of the Copenhagen criteria – to enter the EU had just finished, the Lisbon Strategy was presented to them as a strategy they should also adhere to. Thus, social policy moved to the top of the EU political agenda of enlargement as late as nearly one decade after setting up the Copenhagen criteria of accession.

In the meantime, neither the governments of the new member states nor the EU institutions were able to prevent the rent-seeking institutions of the global financial market, inspired by the influential ideology of the Washington Consensus and the corresponding policies of the International Monetary Fund and the World Bank in the 1990s, to grasp the opportunity window and try to implement radical

**Table 6** Czech Republic between the Copenhagen criteria and the Lisbon Strategy

<i>Goals to fight poverty and social exclusion of EU Nice Declaration and the Lisbon Strategy, applied to the Czech Republic in 2002</i>	<i>The development of social conditions of everyday life in the Czech Republic after the launch of the Copenhagen criteria (1993)</i>	<i>Political instruments used or needed to achieve the goals of EU Nice Declaration and the Lisbon Strategy</i>
To provide more and better employment	The drop in total employment: 4,848 in 1993, 4,746 in 2002  The sharp rise of unemployment rate: 3.5% in 1993; 9.8% in 2002	Since 1999, National Employment Plans have been implemented on a yearly basis. There was signed a joint Czech–EU document evaluating priorities of employment policy in 2000
To ease access to resources, rights, goods and services for all	Some (but still mostly marginal) health and social services provided free of charge in the beginning of the 1990s were recommodified.	Policy of equal opportunities was launched by the Czech government as a priority in 2001. The method of mainstreaming has been applied
To prevent the danger of social exclusion	Increasing numbers and shares of marginalized people (e.g. homeless, unemployed)	Czech–EU Joint Inclusion Memorandum on Social Inclusion was signed in 2003  The first National Action Plan of Social Inclusion to be submitted in 2004
To help the most vulnerable	Relative economic position of women and families with dependent relatives – mostly children – has deteriorated	As above
To mobilize all responsible institutions	Political neglect of issues of social inclusion. Czech Republic's government ideology (1992–97): '... market is the best remedy to all illnesses of the communism'	A new, specific set of policies, supported by the reallocation of necessary human resources and financial means, is needed to cope with the identified systemic tension in an effective way

changes in various fields of social policy. Not the European Union, but the World Bank is identified as the most influential regional agenda-setting actor in economic and social policy making in the region (Ferge and Juhász, this issue; Orenstein and Haas, 2002).

What has been the specific impact of this interplay of influences on the social situation of the Czech Republic? Let us sum up the main discrepancies between the goals of the

Nice Declaration and the Lisbon Strategy on the one hand, and the real – in many aspects divergent – developments of the living and working conditions in the Czech Republic during the transformation period on the other hand (see Table 6).

The time gap between setting the Copenhagen criteria (with a clear priority given to economic, political and legal conditions of accession in 1993) and accepting the Nice

Declaration and launching the Lisbon Strategy (with a clear shift of priorities towards employment, education and social cohesion as the necessary preconditions of economic competitiveness) for the accession countries in 2002 implies that the new member states will enter the European Union with the persistent social deficits not enabling them to cope with the demand of the latter in a satisfactory way. The main challenge of accession will be to try to solve this discrepancy – or to expect the considerable failure of the Lisbon Strategy in the region, and further aggravation of living conditions for many members of their societies.

## Conclusions

In studying social policy transformation in CEE member states, one can identify a surprisingly broad set of different conditions and reactions to processes of globalization and Europeanization. What are the specific features of the post-totalitarian social policy development in the Czech Republic?

The concept that explains most of what has happened in the country between the fall of Communism and EU enlargement is the concept of institutional and behavioural path dependency (Korpi, 2000; Manning, this issue). Indeed, the country does exhibit typical features of strong adherence to the continental – or even more specifically, Bismarckian – corporatist, achievement-type welfare state. It stems from its modern history and has been revitalized even after more than four decades of etatist bureaucratic collectivism (Deacon, 1993). It has an ideological footing in the considerable tradition of social thinking (Tomáš Garrigue Masaryk, Karel Engliš and others), in an old tradition of social-democratic movement (the Czech Social Democratic Party was founded as early as 1878 and was able to survive in exile throughout the whole period of Communist rule) and in the prevailing egalitarian mood of the public. It has much in common with the neighbouring German and Austrian welfare states – including the institu-

tional and attitudinal resistance to change. The Czech Republic belongs to the ‘recovery group’ of post-Communist countries *sensu* Manning (this issue).

We can derive this hypothesis from studying recent developments in social-security institutions and schemes of delivery, labour-market policies, and health care. We may also underpin it by analysis of welfare expenditures, which have fluctuated only slightly up and down in accordance with the ideology of the political formation actually in power (see Table 1). It should be mentioned that due to the proportional electoral system, Czech governments are generally weak and unable to design and push through any ‘radical’ reform.

External factors shaped the nature of the Czech welfare state as well, but to a much lesser extent. The most influential has been the impact of economic globalization, associated with the formation of a market economy in the country. Requirements executed and support provided by the European Union have been important, especially in institutional capacity building: they will have a long-term positive impact on the structure and quality of social policies and services. In programmatic terms, there has been an important recent change of priorities embodied in the Lisbon Strategy.

The future development in the country may adhere to two scenarios: ‘race to the bottom’ and ‘catch up’ (Kvist, this issue). The former relies exclusively on the Open Method of Coordination. This instrument would be, nevertheless, too weak if confronted by the enormous public tasks of fighting unemployment, capacity building in health and social services, alleviation of poverty, and strengthening social cohesion in order to secure the implementation of the Lisbon Strategy in the country by 2010. The latter would presume a new large-scale political initiative, supported by the comprehensive set of specific public policies, and by the reallocation of necessary EU financial resources that could help to overcome the identified endemic and systemic tension between the requirements of the

Lisbon Strategy and the real living and working conditions in the country. In other words: a new, specific set of policies, supported by the reallocation of necessary human resources and financial means, is needed to cope with the identified systemic tension in an effective way (see Table 6, bottom right).

The future enlargement will be a unique one as it represents the attempt to merge two different cultures (Schöpflin, 1999). It is a historical chance and a necessary step from which both sides will profit in the long run, but only if implemented with care and in the light of deep analytical insight and wise policy advice, for the enlargement will bring about temporary problems and societal stresses on both sides. Future development in Central and Eastern Europe will very much depend on the solution of the internal dilemma of an enlarged European Union: should priority be given to the immediate economic profit and/or political feasibility or the long-term goal to enhance (social) quality of life for all?

#### Notes

- 1 In 1992, Czechoslovakia split into the Czech Republic and the Slovak Republic.
- 2 In 2004. For 2005 and 2006 the basis will be 45% and 50% respectively.
- 3 In 2004. For 2005 and 2006 the basis will be 22.5% and 25% respectively.

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