



# Czech society in the 2000s:

**a report on socio-economic  
policies and structures**

J I Ř Í V E Č E R N Í K

A C A D E M I A

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JIŘÍ VEČERNÍK

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*To my wife Aša*

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In the Annex, there are some comparative tables that were computed on the basis of 2005 cross-sectional data from the “EU Statistics on Income and Living Conditions” (EU-SILC), revised version 1, released by Eurostat in February 2008. The EU-SILC datasets were made available for the project on the basis of contract no. EU-SILC/2007/16 signed on 3 August 2007 between the European Commission, Eurostat, and the Institute of Sociology AS CR. As the notes to the tables in which the data were used emphasise, the author, not Eurostat, is solely responsible for the presented results.

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# Preface

This book is neither a comprehensive analysis of the state of Czech society nor a monograph on one in-depth problem. It is intended to be a report that mines datasets from various statistical and sociological surveys and important Czech sources on particular areas to address several main issues. The way the study is divided into individual parts and chapters is only a vehicle for reporting on the various developments of Czech society in the past two decades and on the current state of affairs.

The study is a continuation of my research on Czech society, and some aspects I have dealt with before. The first study was *Markets and People. The Czech Reform Experience in a Comparative Perspective* (see Večerník, 1996a in References), which was later revised and translated into Czech (Večerník, 1998). The second was prepared as part of the project *Social Trends* supported by the Grant Agency of the Czech Republic and headed by Petr Matějů and myself. The “social report” was published by Academia, first in Czech (Večerník and Matějů, 1998) and then in English (Večerník and Matějů, 1999). Most chapters in this study were originally conceived as articles, and despite revisions and synthesising efforts they still bear some traces of their original form.

The conceptual background of any comprehensive study will be immense. There is a wealth of literature by Western scholars describing developments in Czech society, often in comparison with other CEE countries. Examples from outside include work by Jan Adam (1999), Steven Saxonberg (2003), Martin Myant (2003) and Pieter Vanhuyse (2006a), all of whom have examined the Czech transformation from a socio-economic, political-scientific, or sociological perspective. Cook, Orenstein and Rueschemeyer (1999), Götting (1998), Müller (1999), Nelson, Tilly and Walker (1997), and Elster, Offe and Preuss (1998) have described the institutional change and the “political economy” of social transformation. Some others are referred to in the text.

While Western literature is more theoretical, local literature is more descriptive. Among works written in Czech about the Czech Republic, Igor Tomeš (2001) has written a historical study on social policy in the country, and Martin Potůček and Iveta Radičová (1998) are the authors of a comparative book on social policies in the Czech Republic and Slovakia. And then there is Ivo Možný’s concise book *Czech Society: The Most Important Facts about the Quality of Our Life* (Možný, 2002) and Martin Potůček’s synthesising Strategic Audit of the Czech Republic of 2005, called

“Present situation. What next?”, prepared under his heading by the team of the Center for Social and Economic Strategies of the Faculty of Social Sciences, Charles University in Prague (CESES).

A complete list of works dealing with some aspect of post-1989 development in the Czech Republic would obviously be endless, and naturally within the scope of this one book it was impossible to take into account all the studies by Czech social scientists. Nevertheless, throughout the text I refer to many of them.

This report refers only to the Czech Republic. Cross-national comparisons and references remain in the background and they are tackled directly only in some chapters. To compensate, in the Annex I have included comparative tables of basic socio-economic data from across the European Union. While most of the data in the main body of the study are based on original computations, basic comparative tables have been taken from various Eurostat and Eurobarometer publications. To round out the picture, some additional computations were made on the 2005 dataset of the EU Statistics on Income and Living Conditions (EU-SILC).

For the information provided by the EU-SILC, which is new source of broadly comparative data, I refer to the recent Eurostat publication *The Social Situation in the European Union 2007* (Eurostat, 2008a) and also to the *European Social Report* produced by the TÁRKI (Tóth, 2008a). The most recent source of comparative data on economic inequalities are the OECD study *Growing Unequal* (OECD, 2008a) and the ILO study *World of Work Report* (ILO, 2008). With the availability of the EU-SILC, there are many new opportunities for further comparative research in the field of socio-economic inequality and household economic behaviour.

Here I again stress that the aim of this study is to contribute to filling the gap between the great potential that lies in the data available from various surveys and their still limited use and presentation. Indeed, many data are collected just for one purpose and are abandoned later, despite the fact that their value increases with the opportunities for comparison over time. If the references to data and literature will motivate other people to use them more thoroughly and comprehensively, the purpose of the book will have been accomplished.

Prague, 31 December 2008

# Introduction: policies, structures, inequalities and values

After 1989, the whole economic and social landscape in the Czech Republic and other Central and East European (CEE) countries went into flux. Political reform installed democracy in place of totalitarian rule, while economic reform introduced a market mechanism in place of the command system. Social reform was directed at replacing state paternalism with a balanced mixture of solidarity and individual responsibility. All reforms were intended to create a politically open, economically efficient, and socially cohesive society. By the early 2000s, the Czech Republic was well integrated into international structures, and in 2004 it, together with the other countries of the region, became a Member State of the European Union.

All CEE countries have changed profoundly in the past two decades in terms of how they are structured, function, and are institutionally organised. Given the complexity of this transformation, no single approach is sufficient to explain the changes that have come about. Mainstream economics has come under criticism, not just from without, but also from within, from the ranks of economists themselves; note, for instance, the criticism levelled at the “Post-Washington Consensus”, challenging views that are purely macro-economic (Stiglitz, 1998). Not only does economics have an important impact on contemporary sociology (Baron and Hannan, 1994), it is also increasingly embracing the study of institutions and social structures and even the psychological factors of human behaviour. Various branches of socio-economics and economic sociology are also attempting to apply a broader approach (Smelser and Swedberg, 1994; Swedberg, 2003; Beckert and Zafirovski, 2006).

The transition from communism challenged sociology and political science. There are numerous studies devoted to the social dynamics of the late 1990s. Jon Elster, Claus Offe and Karl U. Preuss, for instance, wrote an institutionally-oriented study about “rebuilding the ship at sea” (1998), and Iván Szelényi and his colleagues wrote a socio-structural study on “making capitalism without capitalists” (Eyal, Szelényi and Townsley, 1998). Another important branch of this literature focuses on the economic and social position of the middle class (Landes, 1998; Kreml, 1997; Easterly, 2001). Political scientists have dealt with social policies and reform strategies (Offe, 1994; Müller, 1999; Orenstein, 2001; Vanhuyse, 2006a) or political parties and their relationship with state administration (Grzymała-Busse, 2007; Hanley, 2008).

There are several problems that lead to variations in how the post-communist transformation is understood and interpreted. We still tend to ignore the real structures and functioning of society under the communist regime, which, by its very nature, did not permit any critical reflection on society or inspection of its hidden structures. But post-1989 development also has its hidden sides in connection with, in particular, the privatisation of state property, and dealings between big business, political parties, and the state. While in one sense development after 1989 explicitly constituted a break with structures and institutions from the past, in another sense, implicitly there was a great deal of continuity.

The ambition of this study is to report only on the apparent changes in socio-economic life in the Czech Republic since 1989, focusing mostly on the micro level. The perspectives used here – socio-economic policies, inequalities, structures, and values – have not been selected in conformity with any particular theoretical model, but, on the whole, are instead based on the availability of surveys and other data. The division of topics thus provides a framework for organising facts rather than designing an explanatory process of events. Consequently, there is no “right” or “meaningful” rank order of individual sections that can alone be deemed substantiated or rational. In fact, during different stages of preparing this study, I tested all sorts of permutations of what should follow what. But no sequence appeared optimal, not even the one finally applied. The chapters are also not conceived in any narrow or uniform manner, so topics often recur throughout.

### **Which sequence of what?**

In the early 1990s, world economists addressing the post-communist transition debated the proper sequencing of reforms relating to macro-economic stabilisation, price reforms, and the privatisation of state enterprises, including financial, institutional and ownership restructuring (e.g. Blanchard et al., 1991; Fischer and Gelb, 1991). This debate was later summarised in work by Holger C. Wolf (1999) and Gérard Roland (2001). The conflict between the “big bang” and “gradualist” camps was not ultimately resolved until now. Karsten Staehr concluded that *ex post* results collected on the transition “provide no unequivocal support for either view. If it is any consolation to the gradualists, reform sequencing appears to be important, and reforms should preferably progress synchronously [...]. Likewise, fast reforms appear generally beneficial” (Staehr, 2005, p. 200).

Unlike the academic debates about how to correctly proceed, politics is not an abstract activity that can be expected to impose a rational order from above for the highest sake of public well-being. It is rather a product of more or less particular interests, framed – or sometimes only masked – by broad ideologies. In contrast to the “right” reform sequence and a “higher” order of things (linear or hierarchical), in reality we are faced with various circles. The circles might be self-reinforcing, self-weakening, or even vicious. While the economic debate rightfully concerned the establishment of macroeconomic conditions, property transfers, and industrial restructuring, there were other issues generally worth considering with regard to “what should precede what”. Let’s go over several examples of these questionable sequences:

*Free market forces or business ethics first?* In the early 1990s, there was a commonly voiced and firm conviction in the omnipotence of market forces and the emergence of the “right” ethics from below. Liberal economists argued, against “moralists”, that the best morality eventually arises out of the market itself. This contrasts with the belief that markets are not self-sufficient and that economic behaviour is actually based on two pillars – self-interest and morality. As Amitai Etzioni noted (1988), the base of morality should be exogenous to the market.

*The spontaneous behaviour of people or the rules of the game first?* This is exemplified in the opposition between neoclassical economics and “Ordo liberalism” (developed by the Freiburg economic school in the 1930s and applied to a large degree in post-war Germany) regarding the role of the state in setting the framework for economic activity. Against the assumption that “homo oeconomicus” spontaneously follows the rules of the game by competing fairly with others, Ordo liberalism is much more realistic in its conviction that strong actors always dominate the field by creating cartels and monopolies, and these should be kept under legal and institutional control (Peacock and Willgerodt, 1989).

*Individual effort or general climate first?* It is indeed a question where human action starts – whether from its innate nature (in its civilised forms) or from external motivation and demands. In 1990 the barriers of what was allowed or tolerated shifted overnight. Czech entrepreneurs and workers often justified their corrupt behaviour as a response to pressure from behavioural patterns acquired under the communist regime. However, it was also the “environment” that allowed and incited such (in fact, economically rational) behaviour. Therefore, while the influx of foreign companies was expected to improve the Czech business environment, some of them also took advantage of local conditions such as weak law enforcement and concessions to strong actors in their business dealings.

Such rather academic exercises as these are not very productive, since there is no real beginning or end to socio-economic processes. The transition certainly did not start from tabula rasa. On the contrary, it took place in a society permeated by established manners and firm social networks. The hasty distribution of immense state properties into private hands could have been expected to incite predatory actions from those eager to benefit from an exceptional opportunity. Moreover, the sudden opening up of a formerly closed society offered virgin ground for importing not only useful innovations and know-how but also time-tested tricks and corruptive practices.

### **Policies: the state in the forefront**

The powers of the centre were radically diminished after 1989, but the state still retained enormous powers, over and above the control it had over in the process of privatisation. There are many channels through which the state can intervene in the economy and society. Not only is government responsible for general security, justice, and public goods, but it also generates and maintains the entire institutional framework of economic, social, and cultural life. The modern state is not just a fiscal state (collecting and redistributing taxes) but also a welfare state, assisting the population through various stages of the family cycle. The state also directly engages

in the economy by awarding public contracts and providing incentives to local firms and foreign companies.

Regarding the social sphere, the role of the state in post-communist countries has some particular features that were formed during the transition. Its role differs from a continuous historical process and is exemplified in how social structures, problems and policies are sequenced. As Gøsta Esping-Andersen (1990) showed, a given social structure usually generates social problems that become the target of social policies, and these can be summed up in particular welfare regimes. This description applies best to the history of continuously developing societies, but in times of transition, the “structures – problems – policies” sequence is reversed. The formerly centralised system is dismantled by political instruments, while other policies have to react to newly created problems (Večerník, 2004a).

While social structures are in the background and act in the long term, policies are apparent and often short term. However, policies that address effects instead of causes can contribute to undesirable changes in the social structure, which can produce new problems other than those originally targeted. The shape of the new social structure, which emerges rather as a by-product of politically induced conversions and modifications, matters to a considerable degree, since it can either prevent or generate new social problems. From the perspective of social structure, what is most important is the development of a sufficiently strong middle class that can blunt the extremes of poverty and wealth and establish a decent, socially integrated society.

Whether they were exposed or induced by the transition from the communist regime to a democratic society, fundamental problems challenge the political decision-making process. In particular, the initial decisions about the modes of privatisation and the re-establishment of private ownership have a founding role and their impact resounds for generations. While such decisions are usually irreversible, there is a set of other policies always open to revision and reform, however much change is usually hard to implement. These are state policies, namely:

*Employment policy.* The main factor concerning employment is the general performance of the economy. To support employment further, state employment services assist people searching for a job, starting up a business, or pursuing self-employment. Under various terms, employers can also be provided with financial support to create new jobs and to retrain their employees. The unemployed are provided with benefits to support them as they search for a job and engage in training. The long-term unemployed, with few skills or trapped by the welfare system, are targeted through specific assistance.

*Education policy.* The state education system is the main system in this field, even though the existence of private schools is allowed. The different levels of education are in the hands of different actors (municipalities, regions, the state), but the state oversees the quality of education overall. Education policy should be able to satisfy the contrasting requirements of producing an intellectual elite and a population with general culture and solid training in practical skills. The system should therefore be sufficiently comprehensive but should also support top universities and research institutions.

*Industrial policy.* The state should ensure economic efficiency by creating an environment favourable to competition, innovation and the promotion of R&D. There are also many forms of direct support for business and even direct incentives for investors. The legislative framework for business in the Czech Republic is complicated and often confusing, and there have been recurring demands, and promises, to reduce the administrative burden. The other problem is weak law enforcement and often lacking transparency in awarding public contracts.

*Tax policy.* The collection of state revenue occurs through a system made up of many levels and channels. This system needs to be balanced between local, regional, and central shares, between employer and employee responsibility, between direct and indirect taxation, and between “genuine” taxes and insurance contributions. The overall tax burden in the Czech Republic is around the OECD average and is below the EU average. While income tax is low and constantly decreasing, there are high social and health insurance payments, which increase labour costs and hinder the creation of new jobs.

*Social policy.* The social system has specific clients, such as pensioners, the disabled, and people exposed to poverty, especially the long-term unemployed. The efficiency of the system depends not only on how well it targets vulnerable categories but also on how much it contributes to creating a motivating climate encouraging individual responsibility and efforts to remain economically active. While increasing welfare is a rewarding election topic, mandatory expenditures add to the long-term burden on the state budget.

*Family policy.* This involves family support and child support programmes and thus in wider terms it overlaps with social policy. While maternity is accompanied by social insurance benefits dependent on prior employment, support for raising children is generally provided under public, non-contributory schemes. The provisions of parental leave and services for families that enable and encourage women to return to work soon after childbirth are important parts of family policy aimed at helping couples reconcile work commitments and childcare.

*Health policy.* The state creates a framework for this area, which encompasses the particular interests of insurance companies, health care institutions, and their clients. Operating in the background are powerful pharmaceutical companies, which try to guarantee a profit for themselves. The rising illness rate and costs are a matter of concern, and there are efforts towards reducing health-care abuses while providing care on a decent level for all. Matters of concern include determining health-care standards and the ownership of health-care institutions.

*Housing policy.* Housing is a special kind of private good. The state often regulates the housing market and provides low-income families with social housing. In the Czech Republic, the state maintained rent controls in one-third of the housing stock – former state flats transferred into the hands of private owners or municipalities after 1989. This was the main reason why new buildings with rental flats were rarely built and the black market in housing flourished while migration remained limited. The costs of new housing only recently stopped rising, and social housing is in reality non-existent in the country.

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The above are several areas of state intervention that in some way relate to the topics addressed in this study. However, only a few of them will be dealt with in this book: employment, social issues, and taxation. The most important point is that it is not just employment and incomes which matter and are affected by the state. The ultimate goal of any policy should be the empowerment of the people, which derives substantially from the kind of legislation and regulations that exist and from the performance of state institutions. The economic space and motivational framework are influenced by countless steps taken by the state, and these play a significant role in channelling people's efforts. However, the state is not an abstract entity, and its policies are formed by various interests. In fact, the state is permeated by conflicting actors which are rooted in the structure of society and personal networks.

### **Structures: actors operating centre-stage**

The feasibility and efficiency of policies depends on the performance of the relevant institutions and also on various structures of actors. In this regard the patterns created during the early transition period are not always clear. Newly gained freedom was expected to proceed hand in hand with a search for the best solutions and the rule of "meritocracy", in the positive sense of the word. However, parasitic and greedy forces are usually faster and stronger than creative and productive ones. Leaving aside the aspects of continuity and discontinuity, here are some of the main structures of significance, accompanied by tentative thoughts on how they may have changed:

*Ownership structures.* Privatisation was implemented mainly in a formal, administrative way, which obscured the real processes that went on in the interest of various clans and people. Ronald Coase's theorem was applied, which suggests that, however ownership rights are distributed in the beginning, assets will eventually get into the hands of responsible owners. The ownership structure is only gradually clarified after the delayed privatisation of banks and as a result of the massive influx of foreign investors. Obscure links between big business and the state have survived as a legacy of privatisation.

*Management structures.* During "big" privatisation the accepted projects tended to be those put forth by former managers of state-owned firms. The reason for this was their ability to make effective use of inside information and established networks. The selection of managers also determined the future of these firms, which were administered in "homo se-assecurans" mode during the final era of the planned economy (Hlaváček, 1999). Alongside the clarification of property rights and the introduction of modern organisational methods, well-trained managers arrived in tandem with a generational turnover.

*Social partners.* The two traditional partners in social dialogue are not exceptionally strong in the Czech Republic. Trade unions began to be set up in late 1989 as strike committees, but union membership has been steadily waning. At the opposite end, employers' organisations were established, serving still more of an informative than a mobilising role. Nor has the government been active in promoting dialogue.

The “liberal” governments of the early 1990s were generally hostile to social partnership, while many “socialist” rulers of the late 1990s and early 2000s were linked to trade unions.

*State bureaucracy.* Czech state administration has a mixed record. Compared to other transition countries, the general view is that the early years of transformation were administered quite well. However, at the same time, the state apparatus doubled in size, which contributed to the expansion of a corrupt environment, reinforced by obscure and constantly changing legislation (Frič, 1999). Although the notion of a “small but strong” state never caught on, certain improvements can be expected in this matter in the future, given that personnel are now more qualified and state administration has more modern facilities at its disposal. However, the state bureaucracy, in the grip of patronage politics, may successfully thwart such expectations (O’Dwyer, 2006; Grzymała-Busse, 2007).

*Political parties.* Both “old-new” and “brand-new” political parties sit in the Czech Parliament, presumably representing various sections of the population and their interests, but in fact often rather selfishly lobbying for their slice of the power pie. While the “old-new” parties maintain a large membership base (the Communists in particular, despite a huge decrease in members) newly established parties can be seen as electoral and functionary bodies. There are two dominant parties: the liberal Civic Democratic Party (ODS) and the Social Democratic Party (ČSSD). These two parties are ideological opposites, but occasionally share power.

*Civil society’s networks.* Civil society was one of the battlefields between the two political wings during most of the 1990s: between advocates of the “nothing-but-parties” political concept on the one hand and proponents of “non-political politics” on the other. In fact, non-governmental organisations faced many obstacles and enjoyed little support and they have only developed thanks to the influx of a great deal of international resources. Nevertheless, their numbers to grow and there are now more than 50 000 of them, and they engage in a remarkable range of activities.

While these social institutions are quite visible and easily described, there are others that remain less obvious, such as networks based on interpersonal ties and joint rent-seeking. They often transcend the boundaries between the market and the state, ownership and management structures, different political parties, and formal and informal activities. It is indeed difficult to see clearly which actors are operating behind the scenes. Transition countries are generally more vulnerable to corruption, and the Czech Republic ranks in the last third among EU countries according to 2008 Corruption Perception Index (Transparency International). The population believes that Czech politicians are strongly involved in corrupt networks (Smith, 2008).

### **Inequalities: what form of social division?**

Views on social division within society, whether in terms of social class, stratum, or group, or simply in terms of various kinds of social inequality and poverty, vary enormously. Social inequality has many faces and looks different when viewed from different angles and measured with different indicators. No single form of social

division can thus be deemed the best or only way of categorising and describing the social structure. At best, we should observe several structural aspects in parallel but be aware that while some forms of inequality are relatively explicit others are more concealed.

There was some confusion to the way in which the communist regime envisioned and forcibly shaped the structure of society under its rule. On the one hand, the communists were the defenders of class divisions, since Marxist ideology teaches that classes should only completely disappear in the later stages of communism. According to Stalinist doctrine, the class war with the bourgeoisie was even supposed to intensify in the early stage of building socialism. On the other hand, in practice the regime enforced social homogeneity by converting all people to state's employees, narrowing wage differentials and imposing uniform low-standard consumption and housing on all.

The real educational, occupational, income, and lifestyle differences behind the ideological façade could not be surveyed and described until almost twenty years of communist rule had elapsed. It was only in 1967 that the first survey on social stratification and mobility in the country was carried out by the Czechoslovak Statistical Office in a unique sociological project led by Pavel Machonin; unfortunately this work was interrupted by the Soviet occupation of the country in 1968. The study based on that survey became the representative of the Prague Spring in the field of sociology (Machonin, 1969; Machonin, 1970; Strmiska and Vaváková, 1972).

The 1989 regime change – although conceived primarily in political and economic terms – started to alter the social composition of Czech society. Privatisation and marketisation opened the door to the re-establishment of social strata that were suppressed by the communist regime: businessmen, entrepreneurs, craftsmen, smallholders, and the self-employed in general. For many, opportunities for social promotion have emerged, but for some sections of the population so have economic difficulties. In any case, the homogeneous mass of state employees has been replaced with an increasingly diversified and partly also hierarchised population.

Understandably, there is gap between scholarly and political vocabulary used to describe the process of reshaping social stratification under transition.

In the social sciences, a Weberian approach prevails. Economic and social classes can be constructed based from characteristics such as occupation (combined with a distinction between dependent and independent status), incomes, and lifestyle. Max Weber also mentioned the middle class, but this was conceived separately from his main concepts. Another approach has been applied by Iván Szelényi and his colleagues using Pierre Bourdieu's concepts of capitals, social space, and habitus. Unlike Bourdieu, however, they only refer marginally to the middle class, basically distinguishing between the propertied class, the working class, and intellectuals. The formation of classes under post-communism is in their view a "highly contested process" (Eyal, Szelényi and Townsley, 1998, p. 15).

The downside of regime change for social inequality was for a long time expressed in the concept of the "social costs of transformation". Jan Adam (1999) explained

these costs in the Czech Republic, Hungary, and Poland and concluded that only small groups of the population have managed to achieve prosperity. Martin Myant (2003) depicted “the rise and fall of Czech capitalism” and talked about the painful road laid out by the extreme severity of some of the measures introduced as part of a policy of “shock therapy”. Conversely, Pieter Vanhuyse described the successful effort to avoid unrest among threatened workers using “divide and pacify” strategies (Vanhuyse, 2006a and 2006b).

Public opinion usually perceives the social structure in relatively simple terms, such as the social division between the rich and the poor in society. Similarly, journalists have generated a constant demand for information about the “winners” and “losers” that emerged during different stages of the transition. This was also applied as a political sound bite by the Social Democrats, who – in the pre-election period in 2002 – spoke about the “lower ten million individuals” that stand opposite the “upper tens of thousands”. The middle-class agenda has only timidly emerged on the scene, but it is occasionally cited on both sides of the political spectrum in relation to proposed policies.

Public policy draws on the concrete vocabulary of social groups. In relation to various measures, the most commonly used categories are families with children and pensioners. The very first concept to bridge the social sciences and policy-making was poverty, which was also the key concept in the first comparative study on the social costs of transition (Smeeding and Torrey, 1991). This was soon followed by the development of broader and more dynamic concepts like social integration and social cohesion. The European Commission promotes the concept of social inclusion as an umbrella for redistributive and empowerment policies applied to at-risk groups of the population.

### **Values: in the background**

History teaches us that revolutions in values do not occur frequently, and instead old values are refurbished with altered frameworks, accents, and labels. Sudden breaks in value patterns only occasionally occur and often in some kind of negative direction (such as during times of war or mass upheaval), while improvements can only result from a long civilising process. Although new values develop and spread, major value upheavals are often only retrospectively constructed by historians, and sometimes such observations are motivated by the political demands of history’s “winners”. In spite of the great expectations and initial enthusiasm, condensed into the cry, “We are not like them”, voiced at the mass demonstrations in November 1989, there has probably been little change in values since then.

One cliché to have recurred steadily since 1990 is that the values problem will simply be solved by the generational turnover. All that is needed is enough time for the generation influenced by communism to leave the scene. Like in biblical times, the people deformed by Egyptian slavery will be replaced by a new generation, properly educated in and accustomed to civic and democratic categories. The situation is somewhat similar to the aftermath of 1948, when the communists expected that young “cadres” would miraculously introduce Marxist-Leninist ideology into prac-

tice. Also after 1989, relying on supposedly untainted young people was a serious expectation and members of the new generation turned up everywhere, even as high as the position of the Prime Minister who had, however, leave his post after a financial scandal.

Another automatic expectation was attached to the market and the assumption that it is the basic tool for ensuring that everything is functional and efficient, including ethics. In contrast to Weber's explanation of the key spiritual roots of capitalism, and unlike Etzioni's notion of the two autonomous pillars of economic behaviour and the exogenous status of morality, the market was deemed the Omnicreator, which develops its own ethics spontaneously and spreads them through society, conforming to the convictions of fairness shared by the vast majority of people.

The free market is closely related to patterns of private ownership. Again, a parallel with the "communist revolution" emerges. According to Marxist theory, property relations form the very foundation of the production system, and therefore, expropriation of the means of production necessarily greatly expands the performance of the economy and facilitates complex social change. A similar miracle was expected from the re-privatisation of property. In conformity with Smith's metaphor of "the invisible hand of the market", individual private owners, behaving rationally in their own self-interest, would allegedly willy-nilly serve the common welfare.

In the first decade of transition, the assumed need to "breach the gulf in a single leap" led to weak law enforcement, owing both to the poor quality of legislation and to sometimes partial performance of public servants. Speed was declared to be the most important aspect of privatisation, presumably because it would minimise the chances of assets being misappropriated during the transfer of ownership. This approach was backed by the World Bank, the International Monetary Fund, and foreign experts (Sachs, 1991). The privatisation of companies was accompanied by the suspension of the privatisation of big banks, which distributed generous credits to big enterprises and laid the ground for wasteful management and eventually bankruptcies. All this made the bill for privatisation enormous.

But it is now apparent that neither generational change nor private ownership and an open market can bring about a true change in values. Modernity has explicitly excluded any external authorities from shaping or redirecting the march of things in moral terms. Contrasting with this nebulous reality are the somewhat visionary – but inspiring – thoughts of Mariano Grondona: "The process of economic development reaches a crisis when a nation passes from one stage to the next. It is at that moment when temptations arise [...]. When a nation is rich, something other than the pursuit of wealth must be present in its value system so that the wealth generated never suffices. This non-economic 'something' may be salvation, survival, excellence, prestige, or even empire: any value that will always be wanting" (Grondona, 2000, p. 44).

Numerous temptations arose during the Czech transition, largely owing to the immense wealth that was being transferred into private hands, and made possible in part by unclear legislation and institutional confusion. In the case of restitution and small-scale privatisation the receiving hands were many in number, but after the mass

voucher method was completed large-scale privatisation ended up in the hands of just a few. Another source of temptation emerged with the rise of the consumer society since the late 1990s which led to replacing many activities by consumption. There have been many shifts in priorities relating to work, family, community, and political life, and therefore, there are profound differences between people's lifestyles before 1989 and after 2000. The "cash nexus" has become more important than ever before.

The above-mentioned illusory expectations were accompanied by a weak "demand" for a substantial change in values after 1989 and by the absence of any explicit "supply" of new values from some other source. However, this use of market vocabulary in the area of values is not appropriate. In their selective and idealising collective memory, the Czech people cherished old-time patterns of work and life which continued in Czechoslovakia between the two world wars, when the state was a standard Western country. But it was a mistake to hope for a return to those times, as the world has changed since then, and the capitalist spirit, destroyed rapidly on the Eastern side of the Iron Curtain, had also been evaporating slowly on the Western side.

Paradoxically, while the communist regime tried to freeze and persist in the 19th-century mode of industrial capitalism, Western societies set out to introduce some of the ideas proposed in the Communist Manifesto of Marx and Engels: widespread participation of the public in political life, reduced working hours and more flexible jobs, abundant consumption, and a great variety of leisure activities. For post-communist countries, including the Czech Republic, these ideas challenged the transition "from communism to capitalism". Therefore, in a sense, the population expected the fulfilment of the unmet promises of the communist regime.

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With all the problems involved in adequately and extensively depicting real policies, inequalities, structures, and values, the ambition of this study is rather modest: to report on selected aspects of the development of these factors in Czech society. The topics addressed herein are just pieces of the large and complex fabric of social reality, and it would be futile to try to offer a single and straightforward explanation for everything. Therefore, I have chosen a number of specific topics for which there are enough available data to show post-1989 trends and formulate some kind of synthesis.

In the first part of the book, I look at policies relating to employment and social issues. The natural complement to these topics would be education and related policies. This has been tackled elsewhere, especially in the vast amount of work carried out by Petr Matějů and his colleagues on transition-era education (Matějů and Straková, 2005 and 2006). The other fields not tackled are business policies developed in the framework of competitiveness studies (Kadeřábková, 2007). Instead, I devote more attention to social issues and in particular to social inclusion. Various related policies are also addressed in other parts of the study.

In the second part of the book, I examine inequalities in the area of monetary incomes, starting with the earnings of individuals and ending with disposable family income. Special attention is devoted to taxes and transfers and their joint redistribu-

tion effect for family income. Also using large statistical surveys, I simulate the impact of past and expected personal tax reforms and link direct and indirect taxes in a representative household sample.

In the third part of the book, I look at the social structure from various perspectives of social division. First, the middle class is discussed, an approach that conforms to the optics of social stratification. Second, the situation of pensioners is tackled together with the story of pension reform, which is essentially a reference to the socio-political point of view, but which is also determined by demographic structure and has significant economic externalities. And third, the poor and the factors of poverty are described, an area that is closely linked to the socio-political divisions within the social structure.

In the fourth part I tackle (very selectively) the difficult area of socio-economic values, also observed from various angles. First I describe the development of work values and job attitudes over the past decade, and then I portray the expansion of consumer society and its deep impact on values and the behaviour of individuals and groups. Third, I discuss some of the continuities and discontinuities of economic culture. In this last section I also devote some attention to “European values” (or what can be observed of them in surveys) and their potential impact on Czech economy and society.

Part One

POLICIES



# 1 The labour market: developments and policies

Numerous changes occurred in the labour sphere in the Czech Republic after 1989. In general, employment has since become more precarious in terms of job security, remuneration, and working conditions. Many workers – especially those qualified in management, finance, and law – have experienced considerably improved job prospects. New opportunities were opened for active people to start a business, change jobs, and even to find work abroad. Modern skills, labour mobility, and flexibility have started to pay off. However, for numerous manual categories, relative earnings and work conditions have worsened significantly, and traditional industries based on skilled trades and crafts have diminished over time.

In the early transition period, the situation in the labour market was less dramatic than originally expected. The (more or less voluntary) reduction of the workforce by older workers, the high absorption of the tertiary sector, growing numbers of self-employed, and the indirect support given to large companies, all contributed to maintaining a high employment rate. However, the situation changed around 1997, when many privatised companies filed for bankruptcy, a credit crunch emerged, and work mobility was held back. The labour market did not react by increasing its flexibility and, so unemployment rose. A sharp decline of unemployment occurred in the early 2000s in connection with the economy's good performance.

This chapter attempts to observe the changes in the labour market from various perspectives. First it examines the rate of economic activity, the changing composition of the labour force, and labour mobility. Second, it presents an analysis of the flexibility of the labour market in its various – formal and informal – forms. Third, it looks at vulnerable categories of the population. Policies, especially active labour market policies, are described in the fourth section. The chapter concludes by raising several questions about the future of the Czech labour market that concern the future character of the Czech economy, labour productivity, work commitment, and recent measures aimed at enhancing work motivation.

## 1.1 The composition and mobility of the labour force

The rate of economic activity in the population has decreased slightly over time, slipping from 69% to 66% between 1993 and 2007 (OECD, 2008b). The decline is much sharper among young people owing to the longer period spent studying. At

**Table 1.1**  
**Employed persons by occupational category in 1993–2007 (%)**

Categories by ISCO-88	1993	1995	1997	1999	2001	2003	2005	2007
Legislators, senior officials and managers	4.4	6.2	6.6	6.6	6.4	6.0	6.2	6.7
Professionals	9.2	9.4	9.7	10.0	10.7	10.2	10.8	11.0
Technicians and lower professionals	17.9	17.9	18.0	18.4	19.0	20.1	21.8	22.3
Clerks	7.4	7.6	8.1	7.7	8.1	8.0	7.5	7.0
Service and sales workers	10.6	11.2	11.8	12.1	12.2	12.5	12.1	11.7
Agricultural workers	2.6	2.5	2.2	2.1	1.9	1.9	1.6	1.5
Craft and related trade workers	22.9	21.6	21.1	20.9	19.8	19.6	18.6	18.6
Plant and machine operators	13.2	12.9	12.6	12.8	13.1	13.2	13.8	13.9
Auxiliary and non-skilled workers	10.4	9.6	8.8	8.2	7.9	7.6	7.2	7.0
Armed forces	1.4	1.1	1.1	1.2	0.9	0.9	0.4	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Labour Force Surveys.

the other end of the age profile, the activity rate of both men and women close to retirement age has been increasing. The statutory retirement age has risen slightly. It is currently set at age 63, and legislation was recently introduced to raise it to age 65 by the year 2030, even though the prevailing wish among the population is to keep the current arrangements. When a generous early retirement scheme was introduced in 1997, its use became very popular and was taken up by many.<sup>1</sup>

Considerable changes were also evident in the composition of the labour force by industry and occupation. In the early 1990s, the largest employment reductions occurred in agriculture and heavy industries. The only exception was the construction industry, which maintained a strong position. After 1989, agriculture went into rapid decline and manufacturing industries were scaled down considerably, while the traditional tertiary sector (trade and private services) expanded. Despite considerable growth, the service sector in the Czech Republic is still relatively small compared to EU-15 countries, especially regarding strategic services for manufacturing and in research and development.<sup>2</sup> Banking and financial services initially ballooned, but began to decline again in the late 1990s, after privatisation of the large banks.

In conjunction with the changing composition of the economy by industry, the occupational structure has also changed. While the number of manual workers (both un-

<sup>1</sup> *The Pension Insurance Act* introduced two options: 1. permanently reduced early retirement for all workers after twenty-five years of pension insurance, but no earlier than three years before the legal retirement age; 2. temporarily reduced benefits solely for the long-term unemployed, also after twenty-five years of pension insurance, but no earlier than two years before the legal retirement age. The softer option with temporarily reduced benefits was abolished in 2004.

skilled and skilled) has declined, the number of higher-level occupations – managers, professionals, and top officials – has grown. According to the Labour Force Surveys (LFS), the number of managers and top officials increased from 214 000 to 327 000 people between 1993 and 2007, and the number of professionals (white-collar) grew from 446 000 to 544 000. The share of the two top categories in the labour force thus increased from 14% to 18%. However, the percentage of plant and machine operators has also increased recently, in connection with the arrival of machinery companies from abroad (Table 1.1).

As regards labour mobility, different kinds of information can be found in the LFS and in sociological surveys. The LFS began in 1993 when the “revolutionary” changes were already over, and it only monitors entries to and exits from the labour pool and the year-to-year shifts between industries. According to the LFS, the Czech labour market reached a turning point in 1995, when job-to-job movement involved almost half a million workers. Since 1997 increasing mobility has been fuelled by the growing number of employees who have either become unemployed or become economically inactive (usually due to early retirement). Nevertheless, in 2005 almost 40% of the respondents who had left their job in the past twelve months claimed that the reason was to switch to a better job (Living Conditions 2005).

There are two sociological surveys that provide retrospective information on individual shifts in the labour market in two periods: the ISSP modules on Work Orientations of 1997 and 2005 (Table 1.2). In terms of the total number of changes, in the second period 70% of people were still working in the same job they had held at the start of the period, compared to 58% in the first. Unemployment was experienced more frequently in the second period under observation, especially recurring unemployment. Fewer job promotions occurred in the second period, but there was no increase in demotions. While fewer women shifted from dependent to independent employment, more men did so instead.

In contrast to job and occupational mobility, relatively little territorial mobility has developed. This is at odds with the expectation that migration would increase after socialist over-employment was dismantled, new job and housing opportunities were created, and job relocations became necessary. However, the very opposite has occurred in the Czech Republic: while internal migration was never below 250 000 people annually in the 1970s and the 1980s, it decreased steadily in the 1990s and barely surpassed 200 000 migrants in the early 2000s, increasing again since 2006.

An important reason for decreasing migration is the underdeveloped rental market. While the situation has been advantageous for people who already have housing (the tenants of former state-owned apartments in particular), the situation has become critical for young people and families who are willing or have to move. Rent controls caused the black market in housing to flourish. Demographers consequently suspect that a certain amount of migration goes unrecorded, as people move into apartments

<sup>2</sup> Strategic services such as customer support, consultancy centres, software and information development, and applied research were all made part of the government’s investment incentive programmes rather late on. In 2005, the proportion of investments in production and strategic services was 36:65 in the Czech Republic compared with 56:44 in the EU as a whole.

**Table 1.2**  
**Changes in the work histories of respondents between 1990 and 2005 (%)**

Type of shift	Between 1990 and 1997			Between 1997 and 2005		
	Men	Women	Total	Men	Women	Total
Entered employment	11.2	8.9	10.0	14.6	11.3	12.9
Retired	21.1	22.2	21.7	16.0	17.2	16.6
Changed job once	23.4	23.3	23.3	26.4	18.5	22.4
Changed job more times	16.5	10.4	13.2	15.6	12.3	13.9
Changed occupation once	20.0	19.2	19.6	17.9	15.6	16.7
Changed occupation more times	9.9	4.6	7.0	10.1	8.1	9.1
Started private business	10.8	6.8	8.6	12.3	3.9	8.0
Promoted	18.9	15.0	16.8	13.0	11.1	12.0
Demoted	8.4	4.9	6.5	7.8	3.7	5.7
Lost employment once	12.8	12.8	12.8	15.3	16.7	16.0
Lost employment more times	4.2	3.5	3.8	8.8	4.9	6.8
<i>Number of shifts</i>						
0	56.5	59.1	57.7	63.3	76.9	69.6
1	32.7	32.0	32.3	30.0	18.4	24.7
2 and more	10.8	8.9	10.0	6.7	4.7	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* ISSP modules Work Orientations 1997 and 2005 (author's computation).

they have rented unofficially. The substantial deregulation of rents only began in 2007 in response to pressure from the Constitutional Court and under the threat of the state being forced to pay large penalties to residential housing owners.

### **1.2 The flexibility of workers: formal and informal**

Under communism, labour stability was required and the only option for employment was a full-time job with regular working hours. However, in people's private lives there was considerable flexibility, as they pursued various informal activities. Under the market regime, new forms of economic activity and work contracts have appeared. The emphasis is on individuals enhancing their adaptability and flexibility through broad skills, multi-task jobs, flexible contracts and working hours. To improve labour market efficiency, the "flexicurity" approach aims to increase labour in tandem with greater employment security (Cazes and Nesporova, 2007).

Labour statistics record only some types of flexible arrangement. Other data sources, particularly household surveys, can be used to supplement that information. The Living Conditions survey of 2005 provides the most complete picture possible of formal job

**Table 1.3**  
**The working population, by sex and age group in 2005 (%)**

Category	Men				Women			
	15–24	25–54	55–64	Total	15–24	25–54	55–64	Total
<i>Main job</i>								
Employer	2.4	3.4	4.5	3.5	0.0	2.6	2.7	2.4
Self-employed	9.3	17.5	16.7	16.7	6.8	8.3	10.9	8.5
Open-ended FT	62.2	69.7	63.2	68.2	71.7	70.8	53.3	69.0
Open-ended PT	0.0	0.4	1.8	0.5	0.8	4.2	1.5	3.6
Temporary FT	24.4	7.4	5.9	8.6	15.7	9.2	10.6	9.8
Temporary PT	0.2	0.2	1.0	0.3	0.8	0.9	7.3	1.6
Other forms	1.5	1.4	6.9	2.2	4.2	4.0	13.7	5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Second job</i>	0.0	3.6	3.1	3.3	1.6	2.9	3.5	2.9

Source: Living Conditions 2005 (author's computation).

Notes: FT = full-time job, PT = part-time job.

arrangements (Table 1.3). However, no source of information exists on the hidden forms of flexible labour involving various combinations of formal and informal activities. These are an extension of experiences from the communist period, when people learned to seek alternative ways of supporting themselves. The following section describes some of the flexible arrangements in use today.

*Self-employment* in the Czech Republic is above the EU-15 average: 18% compared to 14% in 2007 (Employment in Europe 2008). Data on the number of self-employed over time are not uniform. According to the LFS, the number of self-employed increased steadily until 2003, reaching 778 000 (including entrepreneurs), after which, in 2004 and 2005, the figure decreased. It increased again in 2006 (in the category of entrepreneurs) and in 2007 (in the category of self-employed). The Czech Social Security Administration reported a decrease in the total number of self-employed after 2003 but at the same time an increase in the number of people whose main employment is self-employment (the number of which peaked at 757 000 in September 2004, with a sharp decrease since then). The introduction of a minimum tax in 2005 contributed to the reduction of self-employment as a form of occasional work.

Self-employment is often a part-time activity. In the early 1990s, about one-quarter of non-pensioner households declared that at least one person in the household has a business licence. Until the late 1990s, the share of households in which there was at least one person with a business licence increased to 40%. Of these households, about 12% declared self-employment to be their only source of income, 34% declared self-employment to be their main source of income, and 42% declared that self-employment is just a complementary or occasional source of income. The remaining 12% declared no income from self-employment, despite holding a business license (EEA surveys).

*Part-time jobs* are a little-used form of employment in the Czech Republic: in 2007 only 5% of the population worked part time, compared to the EU-15 average of 21% (Employment in Europe 2008). One reason for working part time cited in one-fifth of cases, especially by women, lies on the side of the employer: the lack of work that needs to be performed. But most reasons for not working fulltime are on the side of the employee: men frequently refer to health reasons and continuing education, while women usually cite child care (LFS). Temporary part-time contracts are much more common among both older men and women compared to the prime-aged population.

*Fixed-term contracts* were used in 2007 by 9% of workers in the Czech Republic compared to the EU-15 average of 15% (Employment in Europe 2008). Unlike part-time work, fixed-term contracts are less common among older employees – particularly those in full-time jobs. Older women have temporary jobs much more often than men. The advantageous employment conditions enjoyed by older working people is the result of self-selection, as it tends to be better-educated people who continue to work in old age.

*Second jobs* seem to be under-declared in statistics. According to the LFS, 250 000 workers claimed to have a second job in 1993, but in 1999 the figure was 133 000 and in 2007 it was 81 000 only (thus declining from 5% to 2% of the labour force). However, in sociological surveys carried out in the 1990s, as much as one-third of economically active persons declare having some source of supplementary income. Of these, about 30% indicated they had a second job, 30% said they were self-employed, and the remainder supplemented their earnings in some “other” way, including untaxed activities, such as manual work, trade and consultancy (EEA surveys).

A time comparison of findings from sociological surveys suggests that the flexibility of the labour market has stagnated somewhat since the late 1990s (Table 1.4). In terms of flexibility of working hours, in 2005 the working hours were more rigid than in 1997. In terms of flexibility of workplace, more people also report that they have a fixed workplace at a site away from home. But the flexibility of work contracts has remained unchanged and indicates opposite average trends for men and women. Nevertheless, the majority of people have some say in how they organise their work: 23% of men and 13% of women can organise it entirely themselves, 44% of men and 51% of women can do so to some extent (ISSP Work Orientations 2005).

Attitudes towards flexibility requirements differ on either side of the labour contract. The position of employers is that labour and employment legislation mainly favour employees and that last legislative amendments only tended to strengthen that imbalance. In their view, the procedure for firing employees is too long and costly. Small entrepreneurs are especially reluctant to hire school-leavers, who are seen to be lacking in skills while levelling demands for earnings and other job conditions. From the employees’ perspective, the problem is poor enforcement of legislation, which allows employers to get around employment regulations and violate on employee rights. Trade unions view job flexibility as serving the interests of employers and emphasise avoiding job security risks and maintaining the dignity of employees of employees. Thus they refuse efforts to ease the firing procedure and support open-ended contracts.

**Table 1.4**  
**Working hours, workplace and work contract flexibility in 1997 and 2005 (%)**

Type of flexibility	1997			2005 (2001)*		
	Men	Women	Total	Men	Women	Total
<i>Who decides about working hours:</i>						
Employer only	50.0	61.0	55.0	53.7	64.7	58.7
The person partly	33.6	28.1	31.1	29.8	25.4	27.8
The person fully	13.1	7.4	10.5	15.7	7.1	11.8
Cannot choose	3.3	3.5	3.4	0.8	2.8	1.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
<i>Usual place of work:</i>						
One place away from home	64.2	85.7	74.1	82.3	90.3	86.0
At home	4.0	1.3	2.8	4.4	4.4	4.4
Party away	7.3	5.6	6.5	4.6	3.9	4.3
In a variety of places	21.2	3.9	13.2	8.3	0.7	4.8
Cannot choose	3.3	3.5	3.4	0.4	0.7	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
<i>Work contract (for employees only):</i>						
No written contract	2.1	1.0	1.6	1.2	1.1	1.1
Fixed-term less than twelve months	6.3	3.3	4.9	9.5	12.4	10.9
Fixed-term one year or more	7.1	7.1	7.1	.	.	.
Open-ended contract	81.6	85.7	83.5	86.0	83.7	84.9
Cannot choose	2.9	2.9	2.9	3.3	2.8	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: ISSP modules Work Orientations 1997 and 2005, HWF survey 2001.  
 Employed persons only (author's computation).

Note: \* In the ISSP 2005, the questions on a person's place of employment and work contract flexibility were not repeated. Therefore, similar questions posed in the 2001 HWF survey were used here. These data are set out in italics.

While the level of flexibility on the average is considered as high by international standards, the problem is the gap between the high protection of permanent contracts and more liberal regulation of temporary contracts (Cazes and Nesporova, 2007). Important job flexibility is also concealed in several practices that lie on the edge between the formal and informal economy. These include:

- Informal payments (particularly common in the catering sector) – only a low (minimum) wage is paid officially and the rest is given in cash and left to the discretion of the employer.
- Hiring workers who have business licences, again enabling employers to avoid paying payroll tax and respecting work contract requirements; the pos-

session of a business license is an unofficial must for obtaining employment in many firms, e.g. in catering and construction.

- Hiring foreigners (to date typically Ukrainians), especially for hard manual labour, who perform unskilled jobs in construction or textile manufacturing for very low wages and sometimes under exploitative conditions.
- Using a contracting agency to provide labour, without any obligation on the employer's part; alongside formal agencies, there is also a "client system" that is widely used, especially in construction, where foreign workers are supplied as cheap labour by their agents.<sup>3</sup>

There are also various practices in use that make it possible to receive benefits and work informally at the same time. People in less skilled jobs often prefer combining welfare status and informal earnings to seeking regular employment. There is no systematic research on the informal economy in the Czech Republic and its role in people's coping strategies. Estimates made by Jan Hanousek and Filip Palda (2006) and Ministry of Finance data compiled by Martin Fassmann, who differentiated the data by economic status, indicate that 38% of employees, 63% of the self-employed, and 56% of the unemployed had some earnings in the informal economy in 2000. While the estimated share of undeclared income to declared income is usually low, among the unemployed it is estimated to be 58% (Fassmann, 2007, p. 268).

### 1.3 The unemployed and vulnerable categories

Unemployment surfaced in the early 1990s but was mostly localised to regions hastily and uniformly industrialised by the communist regime. Conversely, some regions (Prague), sectors (construction), and educational fields (higher education, especially in economics and law) have seen a shortage of workers. Skilled and active workers profited from newly opened markets; huge mobility flows evolved between "old" and "new" sectors, testifying to the high labour commitment and capacity for mobility by those workers. The relative ease with which workers are promoted led to a lack of pressure to enhance qualitative standards in job performance.

High employment during the first years of the transition was backed by ambiguous forms of cross-ownership: the state remained an important shareholder in large banks, which in turn controlled the most important Investment Privatisation Funds (IPFs) and through them the big companies themselves.<sup>4</sup> In the late 1990s, the role of the IPFs declined and the ownership structure of the economy was gradually consolidated, although many murky areas remain. The remaining state shares in banks and mines, Czech Telecom, and other companies were privatised. Together with increasing inflows of foreign capital, this contributed to an accelerated pace of enterprise restructuring.

<sup>3</sup> The International Organisation for Migration describes the client system as "[...] the world governed by informal rules generated in the environment of black economy of former USSR with all the techniques and criminal practices" (IOM, 2005).

<sup>4</sup> In this connection, David Stark (1992) has referred to "recombined ownership" and Lubomír Mlčoch (2000) to "crossed ownership". The term "bank socialism" was also used in the same context in the Czech Republic. This term has recently appeared in connection with the support given to banks in difficulties.

**Table 1.5**  
**Unemployment by sex and age group in 1993–2007 (%)**

Age group	Men					Women				
	1993	1997	2001	2005	2007	1993	1997	2001	2005	2007
15–19	10.1	13.8	32.9	44.6	25.2	13.9	20.3	43.1	42.2	29.7
20–24	5.3	5.7	13.7	15.8	8.7	8.0	7.3	13.8	15.7	8.9
25–29	3.0	3.7	6.6	6.4	4.2	8.9	9.4	13.0	11.7	6.7
30–34	3.1	3.2	5.1	4.2	2.8	5.9	7.5	12.1	10.9	8.8
35–39	2.5	3.5	5.6	4.5	2.7	4.2	4.8	9.7	9.3	7.4
40–44	2.3	3.2	5.2	4.9	3.5	3.8	4.3	7.6	8.0	5.5
45–49	2.5	2.8	5.2	5.7	3.8	2.9	4.0	6.4	7.4	5.2
50–54	1.6	2.6	5.2	6.1	4.2	2.6	3.5	7.5	9.0	6.5
55–59	1.8	2.5	4.5	5.3	5.2	4.5	3.6	5.2	6.5	5.5
60–64	6.9	4.9	3.9	2.0	2.7	7.3	6.7	7.5	5.3	1.9
65–	5.3	3.5	3.4	1.2	2.0	5.4	3.5	6.5	3.3	-
Total	3.4	3.9	6.7	4.2	5.8	5.4	5.9	9.9	9.8	6.7

*Source:* Labour Force Surveys.

Enterprise restructuring and withdrawal of the state from the economy created economic difficulties for many firms and even led to their collapse, particularly after banks were put under hard budget constraints and radically curtailed lending in 1997. In consequence, unemployment peaked at 450 000 unemployed people in 1999–2000 (9% of the labour force). According to an OECD study, the key reasons for the sudden increase in unemployment were the economic slowdown and the more energetic steps taken towards firm-level restructuring (OECD, 2000, p. 105). The economic recovery in the early 2000s was accompanied by a fall in unemployment of up to 5% in 2007. However, the stock of long-term unemployed has grown steadily, rising from 30% to 56% of all unemployed between 1997 and 2006, decreasing only since 2007.

Women, particularly those up to the age of 34, are more at risk of unemployment than men. In terms of the age structure, the unemployment rate is lowest among people of pre-retirement age, owing to the protection of workers in this category and the frequent practice of redundant workers taking early retirement. In contrast, unemployment affects young people most. Men experience the biggest unemployment risk in the mining and catering industries and women in the agricultural, trade, and catering industries. Labour instability and unemployment have particularly affected workers in the catering industry because during the transition these jobs were usually temporary and were performed by large numbers of unskilled people pursuing new opportunities (Table 1.5).

Generally, there is an increasingly negative correlation between unemployment and education. Since the early 2000s the unemployment rate among persons with only elementary education is about ten times higher than that of persons with tertiary education. The high unemployment rate among manual workers with only elementary education is significantly influenced by the large proportion of Roma in this category.

In the early 2000s, unemployment was also on the rise among school leavers, but it has declined considerably since. The biggest decline occurred among vocational school-leavers (information of the National Institute of Vocational Education – NÚOV).

In territorial distribution, unemployment is increasingly disproportionate. Differences between regional labour markets continue to grow, both in terms of the structure of the labour force and in terms of the number and structure of available jobs. According to OECD calculations, in the Czech Republic the unemployment rate in poorly performing regions was on average 4.7 times as high as the unemployment rate in regions that performed better (among eight regions), a difference similar to that in Poland (among its sixteen regions), but higher than in Austria, Hungary, or France. Even greater differences were observed in Italy, Spain, and Germany (OECD, 2005a).

#### **1.4 Labour market policies**

Labour offices were established during the first phase of the transition process and became quite effective in mediating job opportunities. Their task was made easier by the generally low unemployment rate and the relatively high availability of jobs. The number of persons trained or subsidised in employment peaked in 1992, but it has decreased since, mainly as a result of continued low unemployment. When unemployment started to rise in 1997, employment policy costs also increased, surpassing previous highs. In 1998 the Social Democratic government began developing a more active strategy. The first Action National Plan of Employment was elaborated by the Ministry of Labour and Social Affairs (MLSA), which adopted EU directives for employment policy (NAPE, 2004). Four comprehensive pillars supporting employment were elaborated and were further developed in this and subsequent plans:

- Support for the employability of human resources (increasing skills and motivation for job searching instead of claiming welfare).
- Support for businesses and employers (improved conditions for small and medium enterprises, revitalisation of several large firms, fair competition and attracting investors).
- Flexibility of the labour market (flexible organisation of work, motivating employers to enhance the skills of employees).
- Eliminating all forms of discrimination (by age and gender, creating conditions for affirmative action supporting disadvantaged categories).

The share of expenditures on Active Labour Market Policy (ALMP) measures out the total employment policy expenditures increased from 14% in 1997 up to 38% in 2007 (0.16% of GDP). These figures include investment incentives introduced by an amendment to the Employment Act in 2000, which are intended to support job creation and to allow employers to request partial reimbursement of retraining costs for their personnel. Standard ALMPs such as subsidised employment, public works and training programmes, were accompanied by new obligatory Individual Action Plans offered to people up to the age of 25 and to university graduates during the two-year period after graduation.

According to the government “Strategy for Economic Growth” of 2005 the current ALMP system is not sufficiently motivating, and retraining has only a short-term effect. Direct financial support for job creation is considered the least effective form of support. Programmes for more complex and targeted retraining need to be supported, particularly by focusing on basic work skills and computer literacy (Strategy, 2005). While programmes are more successfully applied on less disadvantaged workers, people with a combination of various risks fail to be assisted, even by new measures (Kulhavý and Sirovátka, 2008). In fact, ALMP measures have only a moderate effect given the persistence of some basic problems:

- Jobs are still far too costly for employers (owing to the high payroll tax, equalling together with employees’ payments over 40% of labour costs).
- Despite the continuing rise of the minimum wage, the unemployment trap is too attractive for low-wage categories, as the reservation wage of the long-term unemployed is still too close to the economy’s average wage.
- The labour force is not very flexible (vocational and specialised schooling is stressed over a more general education) and workers are not very territorially mobile (owing to inflexible attitudes and the absence of a sizable rental market).
- There is little development of regional frameworks and little involvement of local authorities in the job creation and job retention processes.
- There have been few improvements to conditions for achieving a work-life balance, and women returning to work are often in a difficult situation.

The new Employment Act (in effect since October 2004) expanded access to training for anyone interested. Labour offices can also pay for courses for people other than registered job-seekers. Nevertheless, the unemployed and people with low qualifications fare the worst in terms of access to programmes to further their education. According to an April 2006 comparative survey on lifelong education, the Czech Republic scores very low among EU countries: only 7% of employed and 3% of unemployed people had participated in further education programmes, in contrast with 12% and 10% in the EU-15 (Kadeřábková, 2007).

For young people, important changes have been introduced since 2005. School-leavers can no longer register themselves as unemployed, and if they are not successful in the labour market, they are supposed to take a subsidised job. The unemployment rate of young people has decreased significantly since then: from 44% in 2005 to 27% in 2007 in the 15–19 age group and from 16% in 2005 to 9% in 2007 in the 20–24 age group (LFS).

Special focus is placed on the employment of older persons. The problem is not simply that of the unwillingness of older people to continue working. One-third of the people who had to look for a new job at some point in the decade leading up to retirement declared that they had experienced age discrimination. Older people feel much more at risk of job loss than younger cohorts. At the same time, they are also less optimistic about getting assistance from the labour office: more than half of the people over the age of 50 are sceptical about receiving any support and see retirement as the only solution (Vidovičová, 2005).

A country study produced as part of an OECD comparative project titled Ageing and Employment Policies stated that population ageing is a much more serious problem in the Czech Republic than in most other OECD countries and that Czechs are exiting the labour market earlier on average than in other countries. Experts recommended reducing the work disincentives that are built into the welfare system, strengthening the activation measures of employment programmes, and improving the skills and the employability of older workers. Perceptions and attitudes towards older workers need to change, too (OECD, 2004).

The Roma are a special issue in labour market policy. During the transition, many Roma were replaced by foreign workers in jobs that they had traditionally performed. The Roma are also often the victims of discrimination. Many Roma families are trapped by the dependency that the welfare system invites. Given that social benefits increase steeply with the number of offspring, children are sometimes regarded as the breadwinners for the whole family. There are no controls applied to how families actually spend social benefits, even those intended for children. The result is welfare dependency which is particularly widespread in regions with above-average unemployment, such as Northwest Bohemia and North Moravia.

In the meantime, measures have been enacted that favour people who are working over those who are not, for example, through advantages such as tax credits. The new benefit system introduced in January 2007 is designed to support work motivation with the inclusion of an option to reduce or even withdraw benefits in the case of the lack of activity or non-cooperative behaviour on the part of recipients. At the same time, those working for the minimum wage will be further entitled to social benefits. To calculate the benefits so that they motivate people more to return to work, only 70% of earnings instead of 100% will be counted to estimate the official threshold of material need.

In an effort to more strictly and efficiently support work motivation and discourage abuse of the welfare system, further changes to the system were proposed in early 2008 affecting the Employment Act and other labour legislation. The MLSA estimates that while there are 150 000 vacancies, about 100 000 people collect social benefits and work informally at the same time and have no intention of taking a regular job. Consequently, many vacancies are not occupied by local job-seekers and there continues to be a stock of very long-term unemployed in the population (MLSA's Press Release of 2 April 2007). Consequently, many vacancies are not occupied by local job seekers and foreign workers should be sought.

Thus the period of support in unemployment should be shortened to five instead of the current six months for people under the age of 50 (8 months for people aged 50–55 and 11 months for people over 55). Only those long-term unemployed working voluntarily at least 20 hours per month will be provided a full living-minimum income, the others will be entitled to a lower, subsistence minimum. In contrast, those who work more will be rewarded with a bonus determined from their previous earnings. Persons unemployed for more than five months will be provided for under an Individual Action Plan. If it is ignored, or if a person refuses retraining, benefits will be withdrawn.

## 1.5 Conclusion

In years of economic prosperity also the labour market performed well. Nevertheless, there were some long-term problems that gave rise to several questions and challenges, rendered more acute by gloomy economy prospects.

The first question is whether the future Czech economy will look more like an “assembly line”, a “laboratory” or a “service provider”. Growing foreign direct investment (FDI) has been predominantly directed towards manufacturing, especially automobile production, which accounts for one-quarter of manufacturing production and export. This suggests that manufacturing will remain the cornerstone of the Czech economy. The share of tertiary-educated workers is still low, despite the considerable growth in the number of students in higher education after 1989 (OECD, 2008c). Czech Republic ranks among the EU countries with the lowest public support for education (Eurostat, 2008e). The low level of public support for research also suggests that the “Czech intellect” is not keeping up with the industrious “Czech hands”. However, investments have recently been redirected. While FDI into manufacturing has dropped sharply, two-thirds of the investment attracted by the state investment agency CzechInvest, has been directed at technology centres and business support services.

The second question relates to labour productivity and work commitment. Czech labour productivity was increasing (by as much as a rate of 5% in recent years). Like other new EU Member States, this has largely been due to modern technologies and forms of organisation introduced into the country by foreign companies and overall modernisation. Central Europe continues to be attractive to Western companies given its comparative advantage of low labour costs and its proximity to both the advanced and emerging markets. In contrast to the success of large foreign companies, which were generously supported by investment incentives, many local small and medium enterprises struggle to survive and have not been able to make significant use of local human capital. Labour thus seems to be divided between the core sector of large export manufacturing and the periphery of auxiliary firms.

The third question concerns the cultivation of the economic environment, which means clear and consistent legislation accompanied by law enforcement, streamlined procedures, and efficient administration. Will the state be able to tackle corruption and excessive bureaucratic requirements, which acts as an extra “tax” on the economy? Small entrepreneurs in particular complain of the legislative jungle, the lack of transparency in market competition and state support, and their uneven treatment compared to large companies. Although in a cross-national comparison, the rigidity of the Czech labour market (regulation and the costs of hiring and firing) is considered rather moderate (Cazes and Nesporova, 2003), employers view the country’s labour legislation as not very employment-friendly and the social system as too generous, which ultimately makes low-paid jobs unattractive to unskilled local workers (Doing Business, 2006).

Thus a more general question is whether the new measures introduced since 2005 and newly since 2007 are sufficient to enhance work motivation over welfare dependency. The government has proposed tightening the conditions for receiving the un-

employment benefits and reducing the collection period, along with increasing the penalties for working illegally. Also, the welfare system was adapted for better targeting. In the last two years fewer social assistance benefits were paid, the share and even more so the number of long-term unemployed decreased, and the unemployment rate generally declined (MLSA's Press Release of 4 December 2008). However, at the end of 2008, a negative situation set in again as a repercussion of the global economic recession.

In labour market policy sphere, a general problem is that operative employment services are not separately administered on the top level, but incorporated in the Ministry of Labour and Social Affairs. On the other hand, the MLSA lacks an analytical and strategy-making institution that would shape policies in the long term. This was only attempted in the pilot project for the Labour Market Institute that was proposed by the National Training Fund (NVF). After evaluating the main ALMP instruments, a set of employment services measures was proposed that are aimed at enhancing the quality and accessibility of supportive employment services particularly for entrepreneurs and small- and medium-sized entrepreneurs.

However, regardless of what measures are devised and proposed, they might be also difficult to put into practice. Labour offices are understaffed and can only formally comply with new measures of employment activation and the option of withdrawing benefits when job-seekers refuse to cooperate. A joint approach to the provision of unemployment benefits in which they would be provided within the scheme of state social support and social assistance – which is also planned – would be a good investment for the future and for an economic slowdown situation.

The other problem is that Czechs' standards regarding what an acceptable job is have increased considerably in the past decade, partly owing to the strong supply of foreign workers who often work illegally and in poor conditions (Decent Work, 2008). Instead of accepting a job considered unattractive, low-skilled local workers seek alternative strategies on the interface between the informal economy and the welfare system. Foreign workers thus filled the demand for routine workers even in new FDI companies. They are then the first to be fired when economic difficulties occur and far the all of them have are then able to return to their home country.

Despite the abundance of information on the labour force, and the labour market, there are also many issues that have not been analysed enough. Besides characteristics routinely examined in statistical surveys and policy analyses, important are soft skills, a person's ability to learn, and adaptability at the workplace. These are only partly surveyed in analyses on educational achievements and adult literacy surveys (IALS). Although mostly neglected, attitudes and values also matter here regarding the general and specific importance ascribed to various aspects of work and jobs (see Chapter 10).

## 2 The welfare system: past reforms and enduring problems

The adjustment of the welfare state was the third in a series of important tasks in the post-communist transition, after the introduction of democracy and the market economy. Social protection was always highly valued and never questioned in the country. The population ranked it second only to personal security in importance. A tradition of social security had been established in pre-war Czechoslovakia, and after 1948 the communist regime furthered and promoted it as part of its trophy case of advantages but at the same time as a tool to control the population. Nevertheless, the social security system had to be modified after 1989. Energetic changes were introduced up until the mid-1990s, but stagnation has reigned since. New attempts to reform the system have emerged since 2005.

It is not the purpose of this chapter to describe the history of social reform in the Czech Republic after 1989 – that has already been done elsewhere (e.g. Potůček and Radičová, 1998; Tomeš, 2001). The roots of communist social policy and its course of development in the 1950s and 1960s – characterised by class war and restrictive measures – have been described in detail by Lenka Kalinová (2007). Tomáš Sirovátka and Petr Mareš (2003) have already gone over the specific features of transition policies. Taking some of those efforts into account, the objective here is to outline more general features of development in the relationship between ideologies, actors, and social reforms.

This chapter looks at the post-1989 modifications of the social system and challenges for the future. The first part describes basic features of the Czechoslovak communist welfare state and discusses theoretical alternatives to that system. The second part describes the early reforms and the subsequent stagnation of the reform process. The third part outlines the arena of social actors relevant to social reform. The fourth part draws attention to the solid performance of the current social system, while simultaneously pointing out some long-term problems: the well-being of families, the future of the pension system, and work incentives in relation to social benefits. The chapter concludes with some thoughts on the feasibility of further reforms.

### **2.1 Moving away from authoritarian paternalism**

Social policy in Czechoslovakia after 1948 was rigorously paternalistic in character but was two-faced. In conformance with communist ideology, social policy was pro-

claimed to be universal and generous, and Czechoslovak citizens did indeed have the right to free health care, pension benefits, and family allowances. However, all social rights were tied to employment status, explicitly encompassing members of the working class, cooperative farmers, and socialist intelligentsia. Unlike them, members of the allegedly “exploitative” classes were excluded from and penalised by the system.

In reality, advanced social protection pre-dated the communist regime, as even pre-war Czechoslovakia was able to boast a comprehensive system of social protection, which covered the majority of employees (manual and non-manual separately). Before the communist takeover in 1948, two-thirds of the working-age population had old-age security and health insurance. Farmers, the self-employed, and entrepreneurs took care of these needs privately. No one expected that the “socialist state” would confiscate insurance fund assets, nationalise companies and private property, and deprive farmers and entrepreneurs of the savings and securities they had accumulated to support themselves in old age.

While social rights for all people were declared, communist ideology and class war were built into the system. The new regime identified its “class enemies” and proceeded to deprive them of all their personal and family assets. Instead, a “social pension” was paid to people who prior to 1948 had been employers or self-employed, and it was set at a level well below an imaginable minimum. By 1953, when the state introduced monetary reform, the confiscation of assets was complete and the entire population had been made dependent on a centralised system of social protection, which allowed the state easy control over the population through its entire life cycle.

Most people accepted the new system of social protection as a continuation of the tradition of social democracy, an extension of pre-war social policy, and an expression of the intrinsic “classlessness” of Czech society, the alleged roots of which lay in the 15th-century Hussite movement. The system corresponded to the state’s broadly promulgated ideology, which advertised guaranteed employment and related benefits as one of its main social advantages. A large part of the population did indeed genuinely benefit from state paternalism, though it was on the low level of social benefits and services.

The paternalistic expectations that the population had become accustomed to persisted beyond 1989. But the change of regime made room for making modifications to the system. According to Gøsta Esping-Andersen’s (1990) typology, there are three theoretical versions of the welfare state that could have evolved after 1989:

- The universalistic or *social-democratic type*, which closely resembles the socialist type in that people are treated first and foremost as workers, but the state is assigned with providing people with a decent replacement of earnings. The state moves to the fore also as an important employer.
- The institutional or *corporatist welfare state*, in which social security ensures the maintenance and reproduction of status and income differences. The state is not so much concerned with employment as with the family and appears on the scene as the “compensator of the first resort”.

- The residualist or *liberal welfare regime*, in which the state relies mainly upon the market where everyone must seek his/her own social security, and the state itself acts as the “compensator of the last resort”.

In the first phase of the reform process, Czech society found itself – purely theoretically – at a crossroads. The liberal ideas and “market-without-adjectives” concept pushed the residualist type of welfare state to the forefront, looking to the Thatcherite United Kingdom as its model. In the public’s view, the socialist Scandinavian-type of welfare state seemed the best option for maintaining the “advantages” that had emerged under the communist regime. Traditionally, however, Czech society has always been more of a corporatist type of welfare state, a type that arose in Bismarck’s Germany. It was out of this triad that the policy programmes of the main parties were constituted: the liberal Civic Democrats, the conservative Christian Democrats and the socialist Social Democrats.

## 2.2 Initial reforms and subsequent stagnation

Individual national systems of social protection are of course much more complex than anything that could fit into a generalised or stylised typology. They combine elements of various regimes and differ in individual areas. It is also nearly impossible to establish a welfare system by design, based on a blueprint or a theoretical concept worked out in advance. Even during the “revolutionary” phase of post-communist transformation in the Czech Republic, changes in the social system were shaped by historical traditions and established institutions. But more radical voices were heard from abroad.

In the early 1990s, an agitated debate arose over the fate of the welfare state in Central-East European (CEE) transition countries. The liberal rhetoric transmitted from the “Washington institutions” called for cutting back on the presumably too generous social spending. According to Jeffrey D. Sachs (1995), CEE countries had extremely high welfare budgets (15–30% of GDP) compared to East Asian countries at similar income levels (5–10%). Two Polish economists energetically rejected this argument: “The frequent elections and negative campaigns, the derailment of the economic policy, and the absence of right-wing parties from the Parliament since 1993, all have their immediate origin in the unduly cruel reforms” (Kabaj and Kowalik, 1995, p. 7).

CEE governments were certainly somewhat reluctant to pursue the kinds of radical social reforms recommended by the IMF and local liberals. In contrast, they “attached a high priority to low levels of disruption in the polity, *whatever else* they wanted otherwise” (Vanhuysse, 2006a, p. 49). Nevertheless, measures were adopted that were aimed at protecting the labour market, a move provoked by the imminent problems arising from the rise in unemployment. There was a general shift away from universal state social benefits and towards compulsory insurance complemented by private schemes. Also, the amount of a benefit payment was reduced, while targeted social assistance was expanded, fees introduced or increased, and off-budget financing of social protection was promoted (Ferge, 1994; Barr, 1994; Götting, 1998).

In former Czechoslovakia, the first phase of social reform was introduced under the socio-liberal government of *Civic Forum* (1990–1992), which followed a Scenario

of Social Reform (Tomeš, 2001). This document addressed in detail problems relating to unemployment and the establishment of the “minimum living income”. Social insurance was introduced and preparations were made to set up voluntary pension funds. The advantage at that time was the low rate of unemployment and the fact that no sudden social problems had surfaced in any specific part of society. The opinions of international institutions were not considered imperative and foreign advisors were not welcome.

In the mid-1992 elections political power shifted to the “liberal” Civic Democratic Party (ODS) headed by Václav Klaus, and the second phase of reform began. ODS put the emphasis on trying to reduce the paternalistic role of the state and increase the responsibility of individuals for themselves. Under the banner of a less expensive and more efficient welfare regime, a far-reaching reform process was announced, leading in the following directions:

- Weakening the earnings-relation in state pensions and encouraging people to join private pension schemes;
- Introducing an income test and/or income limits for entitlements in connection with child and other family-related benefits;
- Introducing better targeting of social assistance through strict means-testing;
- Strengthening the insurance principle and individual responsibility in the health-care system;
- In general, deriving social security from citizenship rights alone by preventing employers and professional associations from sharing social guarantees.

The process was gradual, however, and in pursuit of the original aims of the Scenario of Social Reform, the social system was made more targeted and better structured in three areas:

- Employment-related *social insurance* was formally introduced and designed to accommodate foreseeable situations, such as unemployment, illness, and old age.
- Social benefits under the *state social support* scheme were re-designed and simplified to address situations of financial need associated with maternity, child-rearing, and disability; benefits became income-tested.
- A targeted *social assistance* was established to address specific situations of material need, especially that of a household falling below the minimum threshold even after receiving all the state benefits it is entitled to; benefits are administered by municipalities and conditional on a means test.

In the mid-1990s the Czech Republic was considered a leader in welfare reform among the CEE countries. For instance, Mitchell Orenstein (1994, p. 193) contrasted the Czech Republic’s “strong package of social policies”, representing its strategy for a smooth transition, with Poland’s “fragmented safety net”, exhibiting a lack of policy direction and a misallocation of resources. Similarly, Miroslav Ksiezopolski (1993, pp. 192–193) also criticised the lack of any coherent vision of social policy in Poland and regarded the increasing lack of control in the social sphere to be untenable.

However, since the mid-1990s, the Czech Republic has become an island of inertia in social reform, as it slowly finds itself surrounded by newly launched social systems in other countries that have taken the reform process further. In Slovakia, tighter conditions for social entitlements were introduced in 2003–2004, together with a package of austerity measures (OECD, 2005b), and in Poland, Hungary, and Slovakia, major pension reforms were introduced in the late 1990s (ILO, 2002). In the Czech Republic, only the debates have continued:

- between those who demand that a second fully-funded pillar of pension insurance be established and those who want better state redistribution within the pay-as-you-go system;
- between those who want to reduce and target more child allowances and those who want to restore them as a universal benefit and increase them further;
- between those who consider minimum wage a non-system element and those who push for its increase beyond the level of social benefits;
- between those who want to deregulate rent and thus remove the main obstacle in the housing market and those who want to regulate further or deregulate very slowly;
- between those who want to set minimum standards of health care and require regulative payments from patients and those who want to maintain care without limits, etc.

Nevertheless, the debates have been mostly ideological and have not been formulated as concrete reform programmes backed by analyses. An explanation for this is the existence of protracted political stalemates after elections, regularly resulting in a balance between the right-centre and the leftist parties. After the elections in 1998 so-called “opposition treaty” (The Pact on the Creation of a Stable Political Environment) was concluded between the Civic Democrats (ODS) and the Social Democrats (ČSSD), wherein ODS endorsed the minority ČSSD government. After the 2002 elections, the coalition of ČSSD, Christian Democrats, and the Freedom Union held only 101 seats in the 200-member Parliament. Unlike in developed democracies, there were no other actors in the country besides political parties to push the reform forward.

### **2.3 Reforms and their actors**

Social reform in the 1990s was imposed as part of an administrative policy agenda. There were many expert opinions regarding social reform, but few actors involved in the process except the government. The absence of a variety of actors is no surprise in the aftermath of the communist period, when behind the façade of social homogeneity and political unanimity society was parochialised and people’s interests atomised. After 1989 previously repressed interests along appeared alongside new ones, but the actors behind them only slowly took shape.

The actors in the transformation process can be classified in several ways. One can distinguish between individual and collective actors, institutional players and social

groups, domestic, foreign and international interest-bearers, or between manifest actors and hidden actors. Katharina Müller (1999), in her comparison of pension reforms in CEE countries, distinguishes between the “primary actors”, which are the Ministry of Welfare, the Ministry of Finance, and the World Bank, and the “secondary actors” like political parties, trade unions, and pensioner associations.

As civil society is still just slowly awakening and remains somewhat weak, the political parties have established themselves as the main actors. Although political parties were rejected by citizens at the outset of transition (after the negative experience with an omnipotent Communist Party), and no mass parties succeeded in establishing themselves even later, there was no other actor on the scene that could compete with them in terms of their explicit and imperative nature. Our overview of actors should therefore start with them.

**Political parties.** From right to left on the political axis the main parties in the Czech Republic are:<sup>1</sup>

- *Civic Democratic Party (ODS)*, which espouses a liberal ideology and initially embraced the residual model of the welfare state (after the British model of the “New Right”);
- *Christian Democratic Party (KDU-ČSL)*, which adhered to the so-called social-market doctrine in support of combining “a market economy with social solidarity” (following Germany’s example);
- *Social Democratic Party (ČSSD)*, which seeks to maintain a universal system of social benefits and make them more generous (regarding the Scandinavian example as the best model);
- *Communist Party of Bohemia and Moravia (KSČM)*, which is intent on a return to the generous and equalised, universal state system (aiming for “true” socialism, not that of the pre-1990 regime).

The character of the individual party programmes derives not only from the nature of the party’s ideology and its electoral support but also from its historical roots. While there are no predecessors to the civic parties, the centrist and leftist parties are directly or indirectly path dependent.<sup>2</sup> KDU-ČSL (previously the Czechoslovak People’s Party) survived throughout the communist period as part of the National Front, which was established as an amalgamation of “progressive parties” in 1945 and was later transformed into the leverage of the Communist Party. ČSSD has a long history, dating back to 1878, but it was forced to merge with the Communist Party in 1948. KSČM had no trouble moving into the post-communist period, maintaining its ideology and the largest membership base, despite a large exodus of members after 1989.

After power shifted from the right to the left in 1998, the political scene found itself bogged down in trench warfare over social reform. ODS has operated at the more

<sup>1</sup> Small parties are not mentioned here. In the 2002–2006 electoral term, ČSSD formed a coalition with KDU-ČSL and US-DEU, and since January 2007 the ruling coalition has been between ODS, KDU-ČSL, and the Green Party (SZ).

<sup>2</sup> Civic parties were actually quite weak in pre-war Czechoslovakia. In comparison with the Agrarian Party, the Social Democrats, and the National Socialists, parties such as the National Democrats and the Czechoslovak Middle-Class Party attracted very few members and votes.

general level of substantive, broadly-based reforms, submitting vague proposals for pension reform and promoting the transformation of the tax system by introducing flat-rate taxation of income and consumption. By contrast, ČSSD has operated at the more specific level of parametric, small reforms, proposing various minor measures, while keeping the base of the redistribution system intact. They have been partially blocked in their efforts by ODS, who object to the measures as marginal and short-term in character, and not conducive to market competition and economic efficiency.

***Social partners.*** Labour is not generally a powerful force in post-communist societies (Crowley, 2004; Vanhuyse, 2007). During the reform process, trade unions only occasionally appeared on the scene. The biggest Czech union organisation, the Czech-Moravian Confederation of Trade Unions (ČMKOS; in 2007 it had 540 000 members), was a vocal actor when pension and social benefit reforms were being introduced in the mid-1990s, but they have hardly been heard from since. However, this was largely owing to how much they were in concord with successive exclusively or predominantly Social Democratic governments: the core part of ČSSD has its roots in the trade unions, and it is from there that the party has tended to draw many governmental officers and advisors. It was only in 2004 that ČMKOS re-surfaced to question austerity measures within the proposed public finance reform package. In late 2007, they demonstrated against the right-centrist reform package.

Employer associations and their activity are even weaker. Although high non-wage labour costs and complicated legislation are important issues among employers, the involvement of employer unions and commercial chambers has been lack-luster and incoherent, and they have proved to be a weak actor in the overall debate on the welfare state. More recently their voice could be heard again in connection with the new Labour Code, as they argued that it does nothing to make the rigid Czech labour market more flexible. However, instead of engaging in any open conflict, the biggest Union of Industry and Transport withdrew from participating in the preparation of the Labour Code under direction of the Social Democrats.

***The Ministry of Social Affairs and the Ministry of Finance.*** The tension between the “welfare” and “finance” ministries tends to be presented as an institutionalised conflict like that seen in advanced countries: while the former wants to expand the welfare state, the latter tries to block expenditures and limit them to maintain a financial balance. However, this is not exactly the case in the Czech Republic. Until 2006, the administration of both finance and social affairs has been in the hands of the one party that exclusively or predominantly formed the government at the time (first Civic Forum, then ODS, and finally ČSSD), and all finance and labour ministers to date have exhibited strict personal loyalty to their party leaders.

In fact, the customary roles of a “generous” welfare ministry and a “frugal” finance ministry have been partly confused. After 1992, ODS’s reform programme, aimed at establishing an efficient social system, was weakened under pressure from their coalition partner KDU-ČSL, without any resistance from the Finance Ministry. After 1998, when ČSSD came to power, no effort was made by the Finance Ministry to implement any economic measures in the social sphere. Reform of public finance

was drafted, but if any steps were taken towards implementing it they were certainly minor. Instead, tax reform reduced income tax for low- and middle-income taxpayers. In 2005, some activation measures were submitted by the Ministry of Labour and Social Affairs, but without any apparent pressure from the Finance Ministry.

*International organisations and the European Union.* International bodies – the OECD, the ILO, the World Bank and the IMF – relatively regularly issue recommendations for the introduction of reforms that they see as necessary modifications to the pension, tax, and benefit systems and in the area of employment protection. The European Union has obviously had the most important impact, and it was felt even before the country’s accession in May 2004. Nevertheless, it is generally regarded as a weak transnational actor in the social sphere, which is an area of sovereign national competence (Deacon, 2000; Lendvai, 2004). The so-called Open Method of Coordination (OMC) aims to reach common goals using soft methods, such as the creation of national action plans and sharing experiences. Nevertheless, the OMC does not aspire to induce system reforms in the social sphere (see Chapter 3).

The EU’s impact in the social sphere is somewhat ambivalent. While there is no questioning the “European Social Model”, and social inclusion is a vehemently imputed agenda, Maastricht convergence criteria demand macro-economic stability and financial discipline. It is through the economic agenda that the European Commission appealed to the Czech government to economise, reduce its budgetary deficit, and initiate reform of the social and pension systems. However, after the focus on growth and jobs in the renewed Lisbon process, stress has begun to be put on the social dimension. The aim is to reconcile the economic and social agendas, and the most recent programme for 2007–2013 encompasses under one umbrella the issues of employment, social inclusion, work conditions, anti-discriminatory measures, and gender equality (Progress Report, 2006).

Regarding the other potential actors, the civic sector began to emerge after 1989. This sector has focused its attention on vulnerable categories and has received motivation and support from various structures and funds of the EU. While there are many non-governmental organisations (NGOs) registered, they were not invited to help design reforms in the social sphere. Some specific actors, such as pension funds, have not made much of an effort to get into the debate about the system or to lobby for substantial changes. There are thus no actors other than the standard ones: the ministries, which execute their political agenda rooted in the programmes of political parties pushed forward by their elites. However vaguely, the constituencies of individual political parties also differ in their attitudes towards the changes.

As far as public opinion is concerned, most people agree with the need for “substantial reform” in the areas of pensions, taxes, and social benefits, health care, and housing. However, they want elements that already sufficiently exist in the Czech system to be strengthened – such as the progressiveness of taxation and the targeting of social benefits. In particular, they want higher pensions and social benefits. Only one-fifth of respondents in CVVM March 2006 survey consider the living min-

**Table 2.1**  
**Attitudes towards pensions, taxes, and social benefits by political party preference in 2006 (%)**

Attitude	ODS	KDU- ČSL	ČSSD	KSČM	Total
<i>Pension system:</i>					
Retirement age should gradually rise given the better health of older people	39.4	35.9	27.0	27.3	30.7
People themselves should participate in providing for their old age	72.7	59.4	59.3	49.6	61.6
Social insurance contributions should rise so that they are always sufficient for pensions	45.4	62.5	57.8	69.4	50.7
<i>Tax system:</i>					
1. For the family, it is better to reduce taxes	69.5	57.8	50.2	49.6	54.6
2. For the family, it is better to increase benefits	19.7	23.4	30.0	24.8	23.9
3. No opinion	10.8	18.8	19.8	25.6	21.5
Taxes should be progressive	54.6	79.7	82.8	86.8	68.1
Taxes should be flat-rate	47.8	26.6	18.1	17.4	27.1
<i>Social benefits system:</i>					
Benefits should target only the most needy	77.9	77.8	81.8	72.7	75.7
Benefits should also support the family	69.9	81.0	82.3	77.7	77.6
Benefits should be reduced or withdrawn to those who avoid working	89.9	85.7	91.1	82.4	86.8
Minimum living income is adequate	32.1	19.1	24.2	18.2	21.9

*Source:* CVVM Survey on Social Reforms, March 2006 (author's computation).

*Note:* Figures in the cells represent the percentage of respondents who answered "definitely agree" and "somewhat agree" out of all the respondents, including those who responded "no opinion". The only exception relates to the tax system, where each item is a separate response, and where "no opinion" is the remainder to 100%. The total includes all the respondents who answered the questions, including those who prefer other parties or no party.

nimum income adequate. To finance the system, most people believe that even more progressive taxation should be applied. There is only limited awareness of the feedback and trade-offs required between individual areas of redistribution (Table 2.1).

Party affiliation plays no role with regard to choosing between targeting benefits to the most needy and using them to support a family: the absolute majority of respondents want both at the same time. However, there are substantial differences in views of the pension system that can be linked to party preference. In contrast to Communist Party voters, ODS voters favour raising the statutory retirement age and increasing the responsibility of individuals, while they are less in favour of increasing social

**Table 2.2**  
**Perception of access in various areas in 1995–2007**  
**(% perceived as good)**

Area	1995	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007
Health care	58	44	51	59	58	66	63	65	65	65	64
Chance of getting a job	58	53	15	12	24	27	22	20	30	31	40
Old-age security	24	24	14	16	14	22	16	17	23	17	17
Starting conditions for a family	11	8	6	7	6	10	11	12	20	23	24
Provision of new housing	4	4	4	5	4	7	11	12	23	21	20

*Source:* CVVM surveys.

insurance contributions. The biggest differences by party affiliation relate to the preference for a flat-rate tax and opposition to making income tax even more progressive.

#### **2.4 Short-term performance and long-term problems**

Despite experiencing various problems, the Czech social system functions relatively well, particularly if we observe it in a short-term perspective. It basically manages to meet the needs of its main clients: pensioners (maintaining a decent level of pension benefits), the long-term unemployed (offering assistance in the search for a job and providing social benefits), and health-care recipients (providing quite good care, as reflected in the increase in life expectancy since 1989). The poverty rate based on the EU measure is the lowest among the EU countries, and it is rising only slowly despite considerable long-term unemployment.

Nevertheless, public opinion usually takes a critical view of the system's performance and assesses most areas negatively (Table 2.2). Health care ranks best, but its assessment varies by age – older people give it a poorer assessment. Since 2005, the evaluation of job accessibility has improved substantially. However, performance in all other areas is considered rather poor, with only about one-fifth of people satisfied. Similar findings apply to access to new housing, which was perceived very negatively until the early 2000s. While satisfaction with support for starting a family has improved, satisfaction with old-age security has decreased in recent years.

Contrary to public perceptions, income surveys report that the income position of pensioners has improved, while conversely the income position of children has considerably deteriorated (Table 2.3). In 2004 only 6% of pensioners lived in households exposed to poverty according to EU measure as opposed to 16% of children. The worsening position of families with children should be taken as the first long term problem. Regarding the high risk of poverty among children relative to the national average, the Czech Republic is an exception among EU countries. Though

**Table 2.3**  
**Distribution of children and pensioners by income quintiles and the at-risk-of-poverty rate in 1988–2004 (%)**

Income quintile	Children			Pensioners		
	1988	1996	2004	1988	1996	2004
1 (lowest)	28.3	35.9	37.2	26.1	7.7	5.8
2	26.8	22.3	25.2	23.4	28.6	20.3
3	24.0	15.9	14.5	20.0	36.7	40.2
4	16.1	14.4	13.1	18.0	19.3	25.0
5 (highest)	4.8	11.5	10.0	12.5	7.7	8.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
At-risk-of-poverty rate (EU measure)	3.4	8.6	16.1	36.6	12.4	6.1

*Source:* Microcensus surveys, Living Conditions 2005 (author's computation).

*Note:* At-risk-of-poverty rate by EU measure is computed as the percentage of persons with income below 60% of the median of adjusted household income. The value for the entire population was 7.5% in 1988, 6.4% in 1996 and 10.4% in 2004 (see Table 9.2 in Chapter 9). Income quintiles are computed by per capita income.

by no means the only reason, this situation contributes to the fact that fertility in the Czech Republic is currently the lowest among EU countries.<sup>3</sup>

The second problem is that social benefits function satisfactorily in relation to welfare recipients, but not in relation to the labour market. Between 1996 and 2004, the rate of unemployment doubled to reach 8%, and the share of long-term unemployed of all unemployed surpassed one-half in 2001 (LFS). The benefit system contributed to high unemployment, as the long-term unemployed often live in areas where there are available job vacancies, and foreigners (from Slovakia, Poland, Ukraine and other Eastern countries) take the jobs that locals are not interested in. Together with economic growth since mid of 2000s, unemployment has been on the decrease, reaching only 5% in 2007 but the share of long-term unemployed declined more substantially only in 2008 (see Chapter 1).

The third problem concerns the pension bill. Whereas the short-term outlook of the burden on the state budget derived from expenditures on pension benefits indicates no acute problems, the long-term perspective is very disturbing. A government-appointed team of experts headed by an economist at the Czech National Bank, Vladimír Bezděk, calculated the effects of implementing the various concepts of pension reform submitted by the main political parties. The results indicate that the current system will be stable for the next twenty years, but they also draw attention to its long-term unsustainability (see Chapter 8).

<sup>3</sup> The size of the Czech population was declining up to 2002, but it has grown since owing to immigration. The fertility rate was 1.23 children per woman in 2004, compared to the EU average of 1.50. A sudden increase since 2007 has been the result of strong age cohorts reaching peak reproductive age.

Reforms are still considered necessary by local experts and the international institutions. The OECD stated that containing the debt in the long run will be impossible without widespread public-spending and budgeting reform (OECD, 2006) and it recommended a more ambitious deficit targeting backed by structural reforms (OECD, 2008d). The IMF reported that “on the spending side, while steps are taken to improve targeting of benefits, the compression of public sector wages and some of the measures taken to contain social spending are likely to yield only short-term reductions in spending” (IMF, 2007). Also the European Commission was calling for putting stricter limits on government spending in mid-2007. However, the situation improved afterwards.

After a long period of stagnation, the mid-2000s saw the onset of considerable legislative activity relating to the social sphere. Under government led by Social Democracy, important changes occurred in taxation of income, to support both family and employment. A “baby bonus” was introduced in 2005, and in 2006 low-income household categories were given a reduction in taxes. Joint taxation for couples with children, which was an option applied in the 2005–2007 tax returns, was also widely used (see Chapter 6). With respect to young couples with children, other measures included the higher parental benefit and a higher childbirth benefit, which were hastily approved in the June 2006 pre-election period.

In the employment sphere, the implementation of the Act on Minimum Living and Subsistence Income and the Act on Assistance in Material Need, in effect since 2006, should help to reconcile the aims of social protection and employment in terms of the principle to “make work pay”. People who are actively seeking work and taking a job, even if for a low wage, should find themselves in a better situation as a result, while those reluctant to work may experience a decline as a result of reduced benefits. This should help reduce the wide abuse of the welfare system.

After the new right-centre government coalition led by the Civic Democratic Party was established (in January 2007), the first phase of (three planned) reforms of the social and pension system was introduced in May 2007. The changes in that legislative proposal included a flat income tax, a reduction in some social benefits, a strengthening of employment incentives, a package of pro-family measures and support for private old-age insurance. The other two phases of social reform involve a tightening of the links between employment policy and the system of social benefits, including better control over their payments, and more liberal labour legislation and a more flexible family policy.

## **2.5 Conclusion**

There were several reasons for the absence of reforms in the social sphere in the Czech Republic in the decade after the mid-1990s: the need for reform was not pressing; there was no reform majority in the main political bodies; and popular support for systemic reforms was low. Ideological declarations thus took the place of thorough reform proposals and their implementation. Naturally, pre-election reform

promises tend to flounder in the day-to-day political bargaining process. This is particularly true of strategic decisions, where the results relate to the distant future but the “political price” must be paid in the short term.

The measures introduced in 2006–2008 have weakened welfare dependency within the system. The increase in mandatory social expenditures was halted and some savings in state finance were brought about. The interim balance states that overall the social system became more efficient. While families benefitted from the changes, the abuse of social benefits was reduced, and activity in the labour market was motivated more. The new flexible arrangement of parental leave gives more freedom to young couples. The pension system was declared to have been stabilised for the next thirty years (MLSA’s Press Release of 4 December 2008). The budgetary deficit in 2008 has decreased to a minimum in the past decade, owing both to reduced expenditures and higher tax revenue given the good performance of economy.

The feasibility of the further reforms proposed by the current right-centre government coalition is uncertain given the balance of power between the right-centre and leftist forces in Parliament. Although the reforms implemented so far have been rather moderate, they have evoked a sharp reaction from the political left and trade unions. The problem is also that the implementation of accepted measures has coincided with high inflation expectations in 2008 owing to generally rising food and energy prices and higher mortgage payments. Indeed, inflation was high (6% average in 2008) and it only began to decrease in the last months of the year, when the economic recession started to hit the country.

The situation thus far has been favourable as economic growth has been high. The dependency ratio is currently low owing to the presence of strong age cohorts in the labour force. The expenditures on social protection are not huge compared to other EU countries (see Table A2 in the Annex). Though the deficit, which grew sharply between 2000 and 2002, has been decreasing since, the budget balance is still in negative figures. With the current slowdown in economic growth stemming from the global economic recession, the public finance deficit could rise again owing to the high mandatory expenditures, growing unemployment and the expected costly intervention of the government in the economy.

While the economic outlook stresses the need for reforms, the current worsening expectations are undermining the already weak support for reforms among the population. Opinions in the social sphere are somewhat inconsistent. People are quite critical of state’s expenditures in the social sphere, but nearly two-thirds of respondents also believe that the social system is being abused (CVVM November 2008 survey). Nevertheless, already in a September 2007 CVVM survey only 35% of respondents agreed that the reforms should continue. The implementation of some rationalising measures has been paralleled by a sharp decline in voter support for ODS and a corresponding rise in support for ČSSD and KSČM until late 2008.

The debate about reforms in the social sphere is often reduced to a dispute over this or that payment or the amount of this or that social benefit. However, social policies should be set in the broader framework of the social structure and its dynamics.

The right objective and the most efficient route in the long term is not artificially achieved social equality through redistribution but social cohesion reached by promoting lower categories and strengthening the middle class. The polarity between the rich and the poor is misleading: current global situation will again show that the rich will never pay for the poor, only the middle class will, paying with its own relative impoverishment.

In modern societies, redistribution is obviously a standard tool. What matters are the transfer amounts and, even more, the channels and conditions of their provision. Limits should be set to avoid the distortion of individual motivation. Not only external but also self-regulative control of the channels is needed, that is, wherever possible individual activity should be invested. Otherwise redistribution leads to the disintegration of the social structure, giving rise to tensions between pensioners and the economically active population, between the working poor and the non-working poor, and between the middle class and other groups (Večerník, 2004a). Instead of desired social cohesion, a disintegrated and unstable society might be the result.

### 3 Social inclusion: implementing EU policies

In social policy there is a constant search for a conceptual umbrella that would encompass individual measures. Concepts such as “social integration”, “social cohesion” and “social inclusion” have been coined and applied at different periods and in various programmes of the European Union. While the Council of Europe (2007, 2008) advances the concept of social cohesion, the European Union advances the concept of social inclusion and the Open Method of Coordination (see its history in Ferrera, Matsaganis and Sacchi, 2002). The Czech Republic adopted this concept already in December 2003, when it signed the Joint Inclusion Memorandum related to the Lisbon strategy. The Memorandum focuses on new competitive advantages and improving synergies between the economic, social, and environmental dimensions (JIM, 2003).

Instead of the encompassing approach envisioned in the original design of the Lisbon process, with “something for everyone” (Zeitlin, 2007), the renewed Lisbon Strategy of 2006 was designed more narrowly. However, there are two rival interpretations: one stressing the focus on competitiveness and innovation and the other highlighting a new balance and interaction between social and economic dimensions. According to the second interpretation, a framework should be designed “where economic, employment and social policy mutually reinforce each other, ensuring that parallel progress is made on employment creation, competitiveness, and social cohesion in compliance with European values” (Presidency Conclusions, 2006, p. 24).

The policy process envisaged in the Lisbon strategy proceeds by drawing on previous national efforts, but it aims to mainstream them on several core issues that require the most attention and a synergic effort. Individual components of social policy are modernised by mobilising actors, institutionalising the process, and creating a more attentive and pro-active social climate. The complexity of the social policy sphere requires that targets are set and their fulfilment monitored with indicators. Social research is also intensively used in the process in order to reflect its progress, communicate good practices, and suggest efficient policies and progress indicators (see especially Atkinson et al., 2002; Marlier et al., 2007).

In March 2008 the European Council launched a new cycle of the renewed Lisbon Strategy again targeting growth and jobs (2008–2010), while it simultaneously stressed the need to strengthen the social dimension of the Lisbon Strategy by “taking account of Europe’s new social and labour realities and also covering issues such as

youth, education, migration and demography as well as intercultural dialogue. In this context combating poverty and social exclusion, promoting active inclusion and increasing employment opportunities for those furthest from the labour market are all of major importance. To this end all the appropriate instruments and tools available at Community level should be used” (Presidency Conclusions, 2008).

This chapter looks at various aspects of social inclusion and summarises the steps taken by the Czech government and other relevant organisations in this sphere. First, the chapter describes the Open Method of Coordination in the social area, along with its challenges and problems. Second, attention is devoted to the specific target categories of social protection and policies at various levels of risk of exclusion. Third, the desired process of mutually reinforcing interaction between economic and social goals is addressed. And fourth, problems connected with indicators and monitoring the entire process are dealt with. The conclusion to the chapter highlights the importance of the framework for social inclusion – an inclusive middle-class society.

### **3.1 Steering the policy process**

The social inclusion process is one of the fields in which the Open Method of Coordination (OMC) is used. The OMC is a method that helps Member States and the EU to coordinate their policies and efforts in areas where there is little or no EU competence and where the main field of action is national. As a “third way” between strict regulation and no regulation, the OMC provides frameworks and incentives to develop and match processes in EU member countries. Action Plans on Social Inclusion are developed at the national level and reports are submitted on the implementation of these plans. At the European level, mutual learning is supported by peer reviews and the dissemination of best practices.

In the Czech Republic, as in other EU Member States, social legislation was forged by previous national programmes, but they were largely congruent with EU guidelines. The National Action Plans on Social Inclusion were prepared for the 2004–2006 period (the first one) and the 2006–2008 period (the second one) as common frameworks for individual policies (NAPSI 2004; NSR 2006). The added value of the process is particularly noticeable in the enhanced importance and strengthening of the role of non-governmental organisations (NGOs). People active in this sector note the effectiveness of pressure from the European Commission, which encourages activity and cooperation in the social sphere. The opportunity to obtain financial support from European Structural Funds (ESF) is also an important incentive for taking more energetic action.

A new NAPSI (already the third one) has been prepared for the 2008–2010 period. Introduced in September 2008, it forms part of a comprehensive National Report on Strategies of Social Protection and Social Inclusion. The relevant part was designed with three priority objectives in mind: “1. Increase the integration of socially excluded individuals and individuals at risk of social exclusion through social assistance and services, remove barriers to the entrance and retention of them in the labour

market; 2. Develop social work to support families with specific needs and to accept measures targeted at ensuring that the members of these families have an equal approach to education as well as a place in the labour market and in society; 3. Support conceptual and decision-making processes at all levels of administration, so that they are founded in objective knowledge of the problem of poverty and social exclusion; to support the communication of all participants in social inclusion policy with a focus on the comprehensive resolution of problems” (NSR 2008, pp. 21–28).

The voluntary approach that this entire process essentially involves obviously often results in a lack of commitment to the process. Against requirements, EU goals agreed on are not soundly translated into concrete national measures, and there is no well-thought-out coordination between different national levels. Despite being able to draw on the experience of other countries and the greater convergence of policy responses to social inclusion, expectations should not be exaggerated. The individual systems of social protection across Europe will always retain their specific features, and the OMC does not address systemic changes anyway. In contrast to the absence of public debate on social inclusion in general, individual issues are being tackled, such as the problems of Roma at risk of social exclusion, the lack of social housing, or problems with anti-discriminatory legislation.

It is difficult to make a comparison in this area. A team led by Kevin P. O’Kelly of the Combat Poverty advisory agency, based in Dublin, evaluated mainstreaming social inclusion in Europe. Using a questionnaire survey and in-depth interviews they asked dozens of public servants in national, regional, and local administrations and political leaders at the regional and local levels in nine countries to report on this topic. A high non-response rate and some exaggerated responses (from Bulgaria in particular) were probably why a cross-national comparison was not published in the team’s main report. According to national data (Mareš and Sirovátka, 2008), the Czech Republic is one country where the indicator values are low (Table 3.1).

As stated in the survey report, “many interviewees pointed to a lack of political consensus on long-term social policies at the central government level and claimed that social inclusion is not a topic for political or, indeed, general debate in the Czech Republic”. Regarding groups at risk of poverty, “[...] responsibility for their problems is divided among different institutions or departments without any cooperation” (O’Kelly, 2007, pp. 44 and 112). In the Czech background study to the project, Miroslava Rákoczyová and Robert Trbola (2006, p. 28) highlighted problems with the understanding of concepts of social inclusion and its mainstreaming and the little priority given to relevant related problems, especially at the regional and local levels.

The administration and communication of this process has also provoked a critical response from NGOs. NAPSI and other strategic documents are blamed for omitting concrete targets and procedures. NGOs view the OMC as just a change in coat and new terminology for otherwise standard national policies. The involvement of new actors is weak and the principle of subsidiarity is used as a pretext for inactivity.<sup>1</sup> Com-

<sup>1</sup> A speech by Milena Černá presented at a conference titled “Mainstreaming Social Inclusion”, organised by the Association of Branch Conference of Non-Governmental Organisations (SKOK) in October 2007 in Opava.

**Table 3.1**  
**Evaluation of the implementation of the social inclusion agenda in 2006**  
**(% reporting “to a great or a very great extent”)**

Country	Coordination of policies against poverty and social exclusion at these levels			Resources for government policies	Influence of excluded persons	Influence of NGOs	Impact of the NAPSI
	National	Regional	Local				
Czech Republic	12.8	11.2	15.4	18.0	10.3	21.3	22.0
France	16.9	28.6	23.5	7.4	8.8	18.8	7.8
Ireland	23.1	6.4	23.6	16.3	17.5	32.6	30.6
UK	19.0	18.4	15.6	21.4	8.8	13.3	13.6
Portugal	33.7	28.6	15.4	11.4	25.8	35.9	20.1
Average	28.8	20.1	25.8	19.8	16.0	27.6	28.3

*Source:* Survey conducted for O’Kelly, 2007, computations by Tomáš Sirovátka (Mareš and Sirovátka, 2008).

*Note:* The responses refer to the percentage of experts involved in the area of social inclusion. The average is computed for nine countries involved in the survey, along with the Netherlands, Slovakia, Bulgaria, and Norway. The total number of experts was 663 on the national level, 494 on the regional level, and 614 on the local level.

munication between public administration and NGOs suffers from the complexity of the documents and the difficult language they use. The partnership between public administration and NGOs remains purely formal, there is no feedback, and communication often proceeds in a confused manner, which results in a waste of NGO capacity.<sup>2</sup>

The OMC certainly has important added value, which lies in its support for integrative efforts in policies, the focus on neglected areas and marginal categories, and involvement of a wide range of actors. Obviously, the main policies must be rooted in country-specific designs of balance between employment, family, and social protection. The guidelines, reviews, and incentives – financial in particular – from the EU may help. “Progress” is an integrated programme for employment and social solidarity that was launched to fund studies, share knowledge of successful practices, campaign to raise awareness, and support key actors in the social sphere.<sup>3</sup> However, as an analysis of the EU budget for 2007–2013 showed, no substantial shift in resources directed at the social and cohesion policy agenda is to be expected (Kay and Ackrill, 2007).

<sup>2</sup> The opinions of NGO activists were collected in focus groups by the SC&C Agency in January 2005 for the Centre for Community Work based in Ústí nad Labem.

<sup>3</sup> The programme, with a budget of over 700 million EUR for 2007–2013, aims to streamline EU spending on social and employment policies while improving their visibility and coherence as a whole. See more at: [http://ec.europa.eu/employment\\_social/progress/index\\_en.html](http://ec.europa.eu/employment_social/progress/index_en.html).

### 3.2 Target population categories

Activities within the social inclusion agenda are centred on several basic objectives: to facilitate participation in employment, facilitate access for all to resources, rights, goods and services, prevent the risk of social exclusion, and help the most vulnerable. To achieve all these objectives, every relevant institutional body needs to be mobilised. Individual objectives, of course, do overlap, and in the end they target categories at risk of social exclusion to varying degrees. Some of the main such categories are described below.

*Roma.* According to estimates, there are between 200 000 and 300 000 Roma in the Czech Republic. Despite the various efforts and measures applied, the Roma continue to face social exclusion owing to a combination of several handicaps: often long-term or recurring unemployment, a large number of children in the family, welfare dependency, poor access to secondary and tertiary education, and high rent for low-quality housing conditions. Poor knowledge of the Czech language, weak school attendance, and little motivation to learn are the key factors that combined lead Roma pupils to be moved from basic to special-education schools. This bundle of factors shapes the life strategies of excluded Roma, which serves to exacerbate social exclusion even further. This is eventually manifested in a growing number of localities, where unemployment, benefit dependency, and usury go hand in hand.<sup>4</sup>

The Government Council for Roma Community Affairs regularly produces a Concept of Roma Integration (the most recent one in 2006 with a timeframe to 2025), which establishes its policy priorities, such as removing barriers to integration, improving the social situation of Roma communities, creating an anti-discriminatory climate and promoting the Roma language and culture. Field Social Work in Excluded Roma Communities is a government programme that has helped shift social services away from social allowances towards direct social assistance and counselling of persons living in excluded communities in the field. In November 2007, the Agency for Eliminating Social Exclusion in Roma Communities began operating. In the first step, twelve localities were chosen that require a substantial improvement in the quality of life, including better access to education, employment, and decent housing.

*Foreigners.* By the end of 2007, there were 392 000 foreigners officially registered in the Czech Republic, 31% of whom were Ukrainians, 17% Slovaks, 14% Vietnamese, 6% Russians, and 5% Polish citizens; 158 000 foreigners are permanent residents. After a period of modest growth in immigrant inflows, the rate of growth has accelerated since 2005, and the Czech Republic has changed from being a transit to a target migration country. Contributing factors include EU membership, robust GDP growth in recent years, and the increasing ratio of available jobs to the number of unemployed. While in 2005, immigrants constituted 4% of the workforce in the Czech Republic, by 2007 it was already 6% and as high as 10% in Prague, where one-third of all immigrants live. They are most exposed to economic recession.

<sup>4</sup> An “Analysis of Socially Excluded Roma Communities and the Absorption Capacity of Actors Working in this Area” which was conducted in August 2006 by Ivan Gabal Analysis & Consulting in Prague, identified some 330 Roma communities exposed to social exclusion.

The terms of labour migration are complicated and strictly regulated, but there is a considerable amount of illegal immigration, perhaps somewhere in the range of 50 000–300 000 people, the majority from Eastern Europe. Not only is illegal labour migration a major form of tax evasion, but it also prevents foreigners from enjoying the same legal protections as other workers, such as protection against job discrimination or receiving less than minimum wage. Zdeněk Čermák and Dagmar Džurová (2006) estimated that illegal immigrants work on average 11 hours a day and for the minimum hourly wage. They tend to be concentrated in the construction and service sectors. It is estimated that roughly one-half of illegal immigrants rely on mediators, the mafia, or other informal connections for job opportunities.

An integration policy for immigrants has gradually been developed. The Concept for Immigrant Integration introduced in 2006 contains a long-term integration policy framework for (non-EU) foreigners who have legally resided in the country for more than a year. The document shifted the direction of policy in a number of ways, particularly by focusing more on the social integration of immigrants and harmonising EU and Czech priorities in immigrant integration. However, the complicated procedures that third-country nationals face in applying for a work permit (and for long-term residence for the purpose of work) contribute to the restrictive nature of immigration policy. The Strategy for the Integration of Foreigners on the Territory of the Czech Republic aims to provide foreigners with better legal counsel and improve the general knowledge in the area.

*The homeless.* After 1989 there was a rise in homelessness in the cities and in Prague in particular. A special census conducted in February 2004 reported 3100 homeless people in Prague, mostly men (10 000 estimated overall). Recently the Committee for Homelessness, which is a part of Prague City Hall, released its Action Plan to Solve the Problems of Homelessness in 2008 and Beyond. The committee should regularly survey homeless people and distinguishes between those who want assistance and those who do not. The Plan envisages establishing a mobile healthcare ambulance, a cleaning team, and a social prevention team as pilot measures. The Centre for Integrated Assistance to Homeless People should assist in re-socialising the homeless. The plan also suggests developing measures to prevent people from being evicted from their apartment. The plan was criticised by NGOs active in the field as based too much on repressive measures, distributing resources according to how much an individual is willing to cooperate, and not developing streetwork as the most effective approach.<sup>5</sup>

*The disabled.* In July 2005 the National Plan for the Support and Integration of People with Disabilities for 2006–2009 was passed by the Government Board for People with Disabilities. The government approved a new Mid-Term Concept of State Policy towards People with Disabilities in June 2004 which serves as the basis for a new National Plan. According to the first ever survey among people in this category, conducted in 2007 by the CSO in cooperation with the Institute of Health Infor-

<sup>5</sup> For more on the debate on the Action Plan, see the website of the street paper *Nový Prostor*: <http://www.novyprostor.cz/casopis/akcni-plan.html>.

**Table 3.2**  
**Tolerance of various population categories in 1995–2007**  
**(% indicating they are tolerant)**

Population category	1995	1997	2000	2003	2005	2007
Youth	70	74	73	82	78	87
Old people	62	64	67	82	67	68
Poor people	62	60	58	74	64	67
Rich people	41	49	40	62	59	66
Foreigners living in the country	61	68	54	56	62	.
People of other skin colour	42	49	43	52	55	.
Gays	29	44	39	42	49	57
Roma	13	27	24	21	36	.
Drug addicts	.	.	.	23	36	39

*Source:* CVVM surveys.

mation and Statistics, there are 1.15 million disabled people in the Czech Republic, with women over the age of 75 being affected most.

*Seniors.* The National Programme of Preparation for Ageing for the 2003–2007 period and newly for the 2008–2012 period aimed at keeping the elderly in employment and overcoming the exclusion of seniors whose abilities to care for themselves are limited. In concrete terms the objectives of the programme are to eliminate age-based job discrimination, help people to remain in the living environment they are accustomed to for as long as possible, and control the quality standards in institutions providing care for the elderly. The Act on Social Services in effect since 2007 is designed to support these objectives. Old people at risk of social exclusion often do not know their rights or opportunities, and the assistance provided by social and health institutions is plagued with problems.<sup>6</sup>

The reported trend in the tolerance of Czechs towards various categories of the population suggests that the pro-inclusive climate in Czech society is growing stronger (Table 3.2). Since 2005 the CVVM have not surveyed tolerance towards Roma and foreigners together with other population categories (as it is in this Table) but rather separately. The public's assessment of the coexistence of Roma and non-Roma populations as good peaked in 2006 (22%) and has been decreased since then (15% in 2008). Regarding foreigners, the majority of the population consider them a problem for the country, but the figure was lower in 2007 (58%) than in 2003 (73%). Among the various projects focusing on improving this situation, let mention the project STOP Social Exclusion, which aims to improve public awareness of the inclusion process.<sup>7</sup>

<sup>6</sup> See MLSA's information on the fulfilment of the National Programme of Preparation for Ageing 2003–2007 from November 2007.

<sup>7</sup> Officially called National Awareness-Raising Activities for Social Inclusion, the project was implemented in 2003–2006 and was re-commenced in 2007, administered by a consortium that includes the Association of the Branch Conference of Non-Governmental Organisations (SKOK), the Foundation for the Development of Civil Society (NROS), and the Union of Towns and Municipalities (MEPCO).

### 3.3 Interaction between economic and social spheres

The renewed Lisbon Strategy of 2006 launched the mutual reinforcement of employment and social policies under the label “feeding-out and feeding-in”. While economic growth “feeds out” to advance social cohesion goals, social inclusion “feeds in” to promote growth and employment objectives. Conceptually, this strategy should be fulfilled through a reciprocal relationship between two comprehensive governmental programmes elaborated within the EU policy framework – the National Reform Programme on Growth and Jobs and the National Action Plan on Social Inclusion – at both the national and the European level.

“Feeding out” should cover any aspect of the economy that affects the fulfilment of social inclusion objectives. In relation to employment this means creating new jobs beneficial to groups at risk of social exclusion, such as jobless households, the very long-term unemployed, single parents, large families, young people, immigrants, and ethnic minorities. Another issue is the extent to which the combination of wages, tax exemptions, and at-work and family benefits ensure that people moving into employment are also moving out of poverty. In relation to economic growth this means the extent to which economic growth increases the resources of those on the lowest incomes and reduces income inequalities.

As stated in Chapter 1, the situation in the Czech labour market is somewhat ambivalent. Unemployment has been on the decline since the early 2000s, and there is increasing number of job vacancies. However, the jobs that are on offer are ones that the local populations are unwilling to perform. It has even been estimated that up to one-half of new jobs created by multinational companies – supported by governmental investment incentives – are occupied by foreigners. The source of the problem is not just that labour supply and labour demand are not in the same geographic locations, since vacant jobs and the employment of foreigners are also common in regions with high rates of general and long-term unemployment in the local labour force. The level of inclusiveness of the labour market is thus also affected by the rising standards attached to what Czechs regard as a decent job.<sup>8</sup>

It is hard to assess the extent to which economic growth adds to the resources of low-income categories and whether and how it reduces income inequalities. Economic growth is reflected in wages after a period of time. In 2005–2007, GDP growth peaked in the Czech Republic, but the parallel rise in real wages was much slower. There was a significant reduction of unemployment, but the percentage of long-term unemployed did not decrease substantially until 2007. Social expenditures rose by 9% in 2006 and 2007, while their share of GDP remained stable. Income inequality has increased very little (Table 3.3). The average pension benefit relative to the average wage has been steadily decreasing since 1998, with only a slight improvement in 2005 (see Figure 8.1 in Chapter 8).

<sup>8</sup> By the end of 2007, there were 355 000 unemployed people in the country, of which 39% had been unemployed for more than one year. On the other hand, there were 240 000 legally employed foreigners working in the Czech Republic, mostly in less-skilled manual occupations in manufacturing and construction (Czech Statistical Office).

**Table 3.3**  
**Macroeconomic indicators, wages and state social expenditures in 2000–2007**  
**(% annual increase and percentages)**

Indicator	2000	2001	2002	2003	2004	2005	2006	2007
GDP	3.6	2.5	1.9	3.6	4.5	6.3	6.4	6.0
Inflation	3.9	4.7	1.8	0.1	2.8	1.9	2.5	2.8
Unemployment rate (percentage points)	0.1	-0.7	-0.8	0.5	0.5	-0.4	-0.8	-1.8
Long-term unemployment rate (percentage points)	1.0	0.0	-0.5	0.1	0.4	0.0	-0.3	-1.1
Average wage	6.4	8.7	7.3	6.6	6.6	5.3	6.4	7.3
Average wage in real terms	2.4	3.8	5.4	6.5	3.7	3.3	3.8	4.4
Minimum wage	24.1	17.6	14.0	8.8	8.1	7.2	8.0	3.1
Expenditures on social protection*	7.6	8.3	6.6	4.1	0.9	5.8	8.9	8.8
Minimum wage as % of the average wage	31.2	33.8	35.9	36.6	37.1	37.8	38.4	36.9
Expenditures on social protection as % of GDP*	12.8	12.9	13.1	13.1	12.1	12.0	12.1	12.0
Income inequality**	.	.	0.25	.	0.26	0.25	0.25	.

Source: CSO, RILSA and Eurostat (computations by Martina Mysíková).

Note: \* Without health care.

\*\* Gini coefficient of household income per capita computed by the CSO on data from the Microcensus 2002 and Living Conditions 2005–2007.

Getting the social inclusion process to feed in to economic performance involves a number of substantial issues relating to the business environment (encouraging private initiatives, an awareness of the corporate social responsibility of business), employment policies (aimed at improving quality and productivity at work and strengthening territorial cohesion), ensuring a more inclusive labour market (with a special focus on vulnerable categories), promoting flexibility and reducing labour market segmentation (giving due regard to the role of social partners), expanding and improving investment in human capital (including lifelong education and training, facilitating and spreading information and communications technologies).

Among investment incentives, the government has given support to employers who create new jobs in districts where the registered unemployment rate has been at or below the national average in the past six months, mainly in North Bohemia and the Moravia-Silesia region. In 2006, 43 regional targeted programmes were approved that focus on categories that have difficulty finding work. Most of these programmes continued in 2007, but no new programmes have been launched. Nevertheless, several other programmes have recently been launched within the EU operational programme

Entrepreneurship and Innovation, such as “Start” (financial support for people starting a business), “Progress” (to support further investment), and “Credit” (providing micro-credit under favourable terms). They focus on supporting new entrepreneurs and running small and medium enterprises. The social economy is still just emerging in the country.<sup>9</sup>

Changes in the tax and benefit system introduced in 2007 were expected to support work motivation by increasing the income gap between collecting welfare and working. In the sphere of taxation, tax credits have already been enacted that advantage working people over those not working. In the sphere of social benefits, the new arrangements encourage employment, as they provide the authorities with the option of reducing or even withdrawing benefits if recipients make no effort to find work. At the same time, people working for minimum wage will also still be entitled to social benefits, which will be calculated on the basis of just 70% of earnings to determine the individual’s material needs. The entitlement to benefits provided to people on the margins of the labour market was extended in order to encourage them to find a job. For the self-employed, the level of lump-sum deductions from the tax base was increased.

Education is another important aspect of social inclusion, but the Czech education system is not fully inclusive. The country ranks well internationally in terms of the number of pupils who withdraw from the education system too early, but rather low in the proportion of tertiary-educated people in the population. At the elementary level, it discriminates pupils on the basis of their social background at a very early age. At the secondary level, social background was found to be the predominant factor in determining which pupils attend a gymnasium and especially a multi-year gymnasium (from the sixth year of school attendance), from where it is easiest to make the transition to tertiary education. At the tertiary level, chances are so unequal that students from high-status families constitute over 40% of all students in the lucrative fields of the natural sciences, medicine, arts, and law (Matějů and Straková, 2006).

Regarding the further education of the adult population, the Employment Act, in effect since October 2004, expanded access to training for anyone interested, but there is no particular focus on vulnerable categories. Nevertheless, it is the unemployed and people with low qualifications who actually have the least access to further education programmes. Labour Force Surveys (LFS) indicate a stable percentage of persons aged 25–64 participating in formal further education (about 6%), which is only half the figure for the EU-15 (see Chapter 1). According to a 2003 LFS module on lifelong learning conducted by Eurostat (2005a), participation in non-formal education (courses and training) is also lower in the Czech Republic compared with the EU-15 (13% as opposed to 17%) and the same is true of informal education, which means various forms of autodidactic activities (21% as opposed to 34%). Little change has occurred since then.

<sup>9</sup> The National Thematic Network C, financed by the Community Initiative Programme EQUAL, embraces several projects aimed at supporting the development of a social economy in the Czech Republic. See <http://www.socialni-ekonomika.cz/se-index.php>.

The idea of mutually reinforcing feedback running between the social and economic axes of development is indeed a challenge, but the results to date have been far from impressive. Drawing on reports from national independent experts on social inclusion, Hugh Frazer and Eric Marlier concluded that some improvements in the linkages between the two kinds of policies are evident in only a small number of EU countries, while in the majority of them there are only limited or no explicit linkages; the Czech Republic belongs to this majority. The Czech expert commented that “we do not observe any efforts concerning the objective to promote both social cohesion and economic growth as interlinked and mutually supportive objectives” (Synthesis Report, 2007, p. 16).<sup>10</sup> The question is how effective would policies to interlink these two spheres be and what concrete measures could be applied.

### 3.4 Monitoring the process

In December 2001, the European Council, which was held in Laeken, endorsed a set of 18 indicators of social exclusion and poverty, organised into a two-level structure of 10 primary indicators. In June 2006, the Social Protection Committee (SPC) adopted a new typology of indicators that consists of a portfolio of 14 overarching indicators (plus 11 context indicators), meant to reflect the newly adopted objectives of social cohesion and the interaction with the Lisbon strategy in social inclusion, pensions, and health and long-term care (for definitions of indicators see the Appendix to this chapter). The issue of monitoring is nevertheless dealt with further in the Subgroup on Indicators (ISG) of the SPC.

The overarching indicators are monitored over time and across Member States by Eurostat using the EU-SILC survey and other resources (Table 3.4). The Czech Republic apparently leads in the area of low income inequality (indicator no. 3) and the related low relative poverty rate (no. 1) and small poverty gap (no. 2) – although several other countries, the Scandinavian ones in particular, are very close. While the poverty risk of the employed in the Czech Republic (no. 11) is among the lowest in the EU, the gap between wages and pension benefits (no. 8) is at the EU average and the replacement ratio of earnings (no. 9) by benefits is low. While the activity rate of the total population (no. 12) is at the EU average, the activity of older persons (no. 10) is above average and constantly increasing.<sup>11</sup>

However, this provides only a sketchy picture of the situation. More types of indicators should be used and compared, such as input indicators (policies, resources), process indicators (institutions, channels), output indicators (risk reduction, income maintenance) and outcome indicators (empowerment, employment in good jobs, quality of life). In particular, much more attention should be given to measuring inequalities in access to various opportunities and trends in the determination of risks, instead of surveying just the current situation and paying no attention to its origins

<sup>10</sup> The quotation in the Synthesis Report is from Czech mid-2007 Report written by Tomáš Sirovátka, current Czech representative in the Network of Independent Experts on Social Inclusion.

<sup>11</sup> See the detailed description of individual indicators, some of their correlations and the comparative EU-25 data in Marlier et al., 2007.

**Table 3.4**  
**Laeken overarching indicators for the Czech Republic in 2002–2007**

Indicator	2002	2003	2004	2005	2006	2007
1. At-risk-of-poverty rate	.	.	10.0	10.0	.	.
2. Relative median poverty risk gap	.	.	18.0	17.0	.	.
3. S80/S20 ratio	.	.	3.7	3.5	.	.
4a. Healthy life expectancy at birth – males	62.8	.	.	.	.	.
4b. Healthy life expectancy at birth – females	63.3	.	.	.	.	.
5. Early school-leavers	5.5	6.0	6.1	6.4	5.5	
6. People living in jobless households (adults)	7.3	7.7	8.0	7.4	7.3	6.5
8. Median relative income of elderly people	.	.	0.83	0.82	.	.
9. Aggregate replacement ratio	.	.	0.51	0.52	.	.
10. Employment rate of older workers 55–64	40.8	42.3	42.7	44.5	45.2	46.0
11. In-work poverty risk	.	.	3.0	3.0	.	.
12. Activity rate	70.6	70.2	70.0	70.4	70.3	69.8
13. Regional disparities	.	.	5.6	5.5	5.2	.

*Source:* NSR 2008.

*Note:* Only officially presented data are involved, no additional author’s computations. For definitions of indicators see the Appendix to this chapter.

and causes, which also pre-determine individual activity to avoid them. Yet another challenge to monitoring social inclusion is not to rely so much on nominal indicators and instead try to capture the real state of things – a typical example is surveying literacy instead of formal education.

An important issue is the application of subjective indicators. Experts initially took a reserved view of them, but they later softened their opinions and began allowing the use of subjective indicators to “cross-check” income-related indicators (Marlier et al., 2007, p. 159). Experts rightly argue that subjective indicators reflect the interaction between the situation and expectations rather than an objective situation. But here we could argue that most presumably “hard” income indicators are based on self-reporting and could thus be just as biased as any other “soft” variable. In some areas (particularly the area of access to goods, services, and rights), there is essentially no substitute for them. The combination of both kinds of indicators can provide better information on persistent poverty and multidimensional social exclusion.

While it is difficult but still feasible to measure the fulfilment of targets using indicators, linking policies and indicators (policy responsiveness) is a more complicated matter. The problem is that we can never separate the net effect of a policy, since

we never have sufficiently detailed, accurate, and timely data. Any conceived policy should be checked thoroughly and in a larger context, instead of relying upon routine beliefs and a narrow comparison. There are three important vehicles for indicating the impact of policies, all of which have advantages and disadvantages: cross-national comparison, time comparison, and the construction of counterfactuals.

The static cross-national comparison is based on the hypothesis that different outputs in different nations are caused by the specific policies applied. This is only an assumption, however, since there are many factors at work, among them the performance of institutions and the adaptation of people. Michael F. Förster (2004) examined the relationships between social expenditures and the poverty rate in twenty OECD countries and showed that while static correlations of indicators were convincingly strong their dynamic correlations in individual countries were close to zero. In more concrete terms, an increase in social expenditures was not followed by a lower poverty rate.

The problem with comparisons over time is being able to identify the net effect of an individual policy. Individual policies tend to be proposed as part of a larger set of policies and are applied in not completely predictable economic and political contexts. Eric Marlier et al. (2007) summarised some problems related to panel surveys and their sensitivity to measurement error and attrition from the sample. It is also difficult to determine the adequate time lag for measuring the efficiency of this or that policy. The results can differ depending on the time span: for example, the short-term success in alleviating poverty by transfers can turn into problems in the long run, if welfare dependency is created, maintained, or strengthened by the policy. What matters in the end is real empowerment through skills and self-reliance – values that are indeed difficult to capture and measure.

The construction of counterfactuals is used to determine what would happen, for example, to inequality or poverty if different (or no) policies were tried than the policies observed. The state after intervention is compared with a purely hypothetical state in which it is assumed that no other mechanism of support was available. In this connection we should also think of the trade-off between traditional (family, charity) and state redistribution. This is the hidden side of policies, which looks at the large capacity and efficiency of the protection system, but can lead to a decrease in individual activity and moral hazard. It is nearly impossible, however, to create an exact outline of a proper counterfactual – “what else would exist”. Nevertheless, it is surely a “simple but ingenious and flexible model” (Ringen, 1998, p. 172). The original set of Laeken indicators also involved a comparison of the at-risk-of-poverty rate before and after transfers (see Table A6 in the Annex).

The OMC is a “soft instrument” and social inclusion itself represents a “soft field” for coordinating policies. Even social statistics and research are treading on “soft ground” when they try to examine this process. Reality cannot be described by simple indicators alone; we also need an in-depth analysis of the inter-relationships between the various characteristics of persons and households. The use of national and cross-national data should go beyond one- or two-dimensional descriptions to show linkages between indicators (individual statuses of persons and households) and their

trends. Statistical surveys have to be put to better use, providing as rich a picture as micro-level data sets allow. For social inclusion in particular, the cumulative deficits are important.

Social research must also be critical of sources, check and combine them, and observe the situation from below, in the same way that people perceive and cope with their situation in different ways, combining both formal and informal avenues. Research thus needs to be “rounded out” with focused observation of people’s economic and social behaviour. Qualitative methods should be used for this purpose. In any case, the “big picture” of exclusion/inclusion provided by general population surveys cannot capture the most disadvantaged groups. The problem is not just the sample size, but also the sampling procedure, which makes it difficult to interview those affected – for example, people living in institutions, the very elderly, or the homeless.

### 3.5 Conclusion

Unlike economic growth, where input and output are clearly separated, and both are relatively easy to measure, social inclusion is a permanent process, where, besides individual processes measurable with statistical indicators, the creation of a positive “social environment” and “socially friendly attitudes” are also important or even of primacy. The fulfilment of objectives cannot be disconnected from the means and ways of achieving them. In other words, the process is part of the result. A substantial part of this process is maintaining the balance – always shaky – between providing social protection and adequate assistance on the one hand and not harming economic incentives and personal responsibility on the other hand.

Neither the effectiveness nor the legitimacy of social inclusion can be obviously determined. The effectiveness of social inclusion can be evaluated only in the long term and its legitimacy should be affirmed within a larger context. The stress on the basically “policy” and “targeted” character of the inclusion process leads to the neglect of its broader context. In contrast, understanding social inclusion as a reciprocal relationship means acknowledging not only the people who need to be included but also the structures in which they are to be included. Such structures should be sufficiently strong and open to interaction. This reminds us that the inclusive society is shaped by the middle class, together with an active civil society (see Chapter 7).

Social capital, its strength, and especially its character also play an important role. Social capital can either be taken as a public good, which generates trust and consequently an efficient motivational environment, or as a private good, involving mutually beneficial exchanges based on social connections and informal networks that allow individuals to achieve their own particular goals (Matějů and Vitásková, 2006; Frič, 2008). An inclusive society can hardly be one in which the second type of social capital prevails, since the covert allocation of resources favouring members of narrow networks disrupts the legitimacy of distribution and thus weakens the arms on the “reception side” of inclusion relationships.

This applies not just to direct financial transfers but also to the various approaches to enhance individual ability, as outlined in the concept of mainstreaming social inclusion: the integration of poverty and social inclusion objectives, including an equality perspective, into all areas and at all levels of policy-making, which is promoted

through the participation of public bodies, social partners, NGOs, and other relevant actors. Stein Ringen's vocabulary comes to mind here: liberty – the rights and means to partake in given options – alone is not sufficient, as also the good use of liberty is important, and that comes from “social anchorage” and *togetherness*. Liberty is a “platform from which freedom starts but nothing comes of it if you are not able to *do*” (Ringen, 2007, p. 20).

The social inclusion process needs to be open in a sense other than just the methods and ways of achieving objectives set out in the national programmes of state institutions and NGOs. A precondition of its success is its “openness” to the general public in the sense of its capacity to spread information and its ability to engage people on the whole. Currently the process is treated as a kind of special business agenda, and its objectives are somehow “lost in translation” instead of being widely communicated between the professional and general public. Frameworks and activities are addressed mainly in “EU jargon”, and therefore, they are not very digestible for the media which remain largely indifferent to these matters.

While the social dimension is generally considered very important in the country, the European Commission's terminology could be perceived as artificial. Czechs are familiar with terms such as “social justice” and “social equality”, but are not much used to such notions as “social cohesion”, or “social inclusion”. The government and NGOs have begun to use these terms, but little was done to explain them and introduce them into the already embedded frames of shared perceptions. The task thus continues to be more part of the political agenda set “from above”. The precondition for support and wider participation “from below” is creating an understanding of the issue and making people familiar with it. This is also a precondition for approximating the ambitious goal of mainstreaming social inclusion. In developing and applying the concept, social research has a very important role.<sup>12</sup>

### **Appendix: Laeken indicators on social inclusion**

The current set consists of a portfolio of 14 overarching indicators (plus 11 context indicators) meant to reflect the newly adopted overarching objectives of social cohesion, the interaction with the Lisbon strategy for growth and jobs objectives, and three portfolios for social inclusion, pensions, and health and long-term care. For further explanation and definitions, see “The Portfolio of Overarching Indicators and Streamlined Social Inclusion, Pension and Health Portfolios”. For the most recent data, see Joint Report (2007). The following are the overarching indicators:

1. *At-risk-of-poverty rate*. The share of persons with income below 60% of the national median. Equivalised disposable income is defined as the household's total disposable income divided by its “equivalent size” to take account of its size and composition (Source: EU-SILC).

<sup>12</sup> The largest project in this area, the project “Social and Cultural Cohesion in a Differentiated Society”, conducted under MLSA-administered research programme “Modern Society and its Changes”, was carried out in 2004–2008 by a consortium headed by Jiří Musil of the Center for Social and Economic Strategies (CESES). See: <http://ceses.cuni.cz>

2. *Relative median poverty-risk gap*. The percentage difference between the median equivalised disposable income of persons below the at-risk-of-poverty threshold and the threshold itself (Source: EU-SILC).
3. *S80/S20*. The ratio of total income received by the 20% of the country's population with the highest equivalised disposable income (top quintile) to that received by the 20% of those with the lowest income (lowest quintile) (Source: EU-SILC).
4. *Healthy life expectancy*. The number of years that a person at birth, at age 45, and at age 65 is expected to live in good health – also called disability-free life expectancy (Source: Eurostat).
5. *Early school-leavers*. The share of persons aged 18 to 24 who have only lower secondary education and have not received education or training in the four weeks preceding the survey (Source: LFS).
6. *People living in jobless households*. The proportion of adults (aged 18–59 and not students) and children living in jobless households, expressed as a share of all people in the same age group (Source: LFS).
7. *Projected total public social expenditures*. Age-related projections of public social expenditures (e.g. pensions, health care, long-term care, education, and unemployment transfers) as percentage of GDP and the projected change in the share of GDP (Source: EPC/AWG).
8. *Median relative income of elderly people*. The median pension income of retirees aged 65–74 in relation to median earnings of employed persons aged 50–59 excluding social benefits other than pensions (Source: EU-SILC).
9. *Aggregate replacement ratio*. Median individual pensions of 65–74 relative to median individual earnings of 50–59, excluding other social benefits (Source: EU-SILC).
10. *Employment rate of older workers*. Persons in employment in the age groups 55–59 and 60–64 as a proportion of total population in the same age group (Source: LFS).
11. *In-work poverty risk*. Individuals who are classified as employed and who are at risk of poverty. This indicator needs to be analysed according to personal, job and household characteristics (Source: EU-SILC).
12. *Activity rate*. The share of employed and unemployed people in the total working age population 15–64 (Source: LFS).
13. *Regional disparities – coefficient of variation of employment rates*. The standard deviation of regional employment rates (NUTS II) divided by the weighted national average – age group 15–64 years (Source: LFS).
14. *Access to health care* – the indicators are to be decided later by the Sub-group on Indicators.

## Part Two

# INEQUALITIES



## 4 Disparities in earnings: education to the fore

The economic reforms implemented since 1989 introduced pronounced changes in the distribution and structure of earnings. The introduction of the market economy led to a significant increase in earnings disparities and a change in their structure so that it more resembles the model typical in Western countries. While under the communist regime wages were set centrally and determined by the extent of physical exertion and the ideological importance of the given job, these criteria have largely been replaced by “capitalist” qualities, education, and skills. The favour previously enjoyed by the secondary sector is giving way to better wages in the tertiary sector, though earnings are uneven between branches in this sector. Political privileges have disappeared, whereas ownership disparities have appeared and become important.

The development in earnings has been studied largely by labour economists dealing with the Czech Republic (Chase, 1998; Filer, Jurajda and Plánovský, 1999; Flanagan, 1995; Jurajda, 2000; München, Švejnar and Terrell, 1999) and CEE countries (Rutkowski, 1996, 2001). Unlike the standard economic approach, I have tried to capture the change in the earnings distribution as a qualitative and systemic change (Večerník, 1991, 1995, 2001a). Not only earnings disparities themselves, but the whole context of how they are generated is changing. Instead of communist equalisation, where the small disparities mostly reflected the reproduction costs of workers (with the strongest emphasis on heavy manual labour), market differences are appearing that to some degree reflect individual contributions to the productivity of labour and managerial effort.

In the field of sociology, Market Transition Theory was initially developed by Victor Nee (1989) to apply to rural China. But he and many other scholars have elaborated it in reference to CEE countries. The theory states that the more the market mechanism is introduced, the less the control over resources is located in a politically-led redistributive economy. More specifically, while returns to political capital decrease during the transformation process, returns to human capital increase (the market-incentive thesis), and so do entrepreneurship and the private sector (the market-opportunity thesis). More recently, a meta-analysis performed on 64 relevant publications found some support for the theory, but also a need to refine and revise it (Verhoeven, Jansen and Dessens, 2005).

There are some similarities between the Market Transition Theory and the following attempt to raise hypotheses about qualitative changes in earnings structure. This chapter begins with presenting a broader framework of the system change. Then it looks at the changes that have occurred in the distribution and structure of earnings and how these have adapted to market conditions. Special attention is devoted to the growing effects of education, industry, and occupation. The last section examines the diminishing influence of political factors, which have partially and temporarily been replaced by the influence of the ownership sector. The chapter closes with a discussion of the substantive effect of the systemic change in earnings distribution and raises some doubts about the explanatory scope of the available data.

#### **4.1 Changes to the system after 1989**

The restructuring of ownership, the formation of a more open labour market, and the introduction of economic reforms since 1990 are factors that have generated shifts in the distribution of earnings in the Czech Republic. Newly established and foreign firms have been granted more liberty to set wages and have consistently sought to attract highly skilled people by offering higher wages. Labour mobility has increased as people have found better-paid jobs. With the removal of wage regulation, former state-owned companies have also begun to enjoy greater discretion in determining the remuneration of their employees and wage differentiation.

A number of evident changes can be adequately described in quantitative terms: an increase in earnings inequality in general, higher returns to education, changing wage differences by branches, a flatter age profile of earnings, and a decrease in the effect of gender on determining earnings. However, the changes have also been qualitative and systemic, and this raises the question of how best to approach these changes (see also Chapter 10 to this topic). The “socialist” reward system was presented in ideological rather than properly theoretical terms, while, conversely, the “capitalist” system is most often explained in solely quantitative terms according to human capital theory, which fails to cover the other dimensions of inequality.

There is a great disparity between the way the “socialist” economy presented itself and how it actually functioned. While it pretended to follow Marx’s dictum, “From each according to his abilities, to each according to his work”, in reality it applied a principle derived instead from Marx’s labour theory of value formulated for the capitalist system: the capitalist exploits the worker, receiving from him the whole product, but paying him only for the reproduction of his labour force (Marx, [1867] 1965). Reward is thus governed by the principle of meeting basic needs: workers must be nourished and their families should reproduce themselves. This implies that demographic characteristics have the most weight in determining wages.

Although excessive equalisation was verbally challenged by the communist regime as harmful to work incentives and above all as incompatible with Marxist theory, it was resistant to all efforts to “de-equalise” wages during attempted (but never really accomplished) economic reforms. Nevertheless, instead of the criterion of productivity two sorts of preferences were applied. In accordance with the “basic needs prin-

**Scheme 4.1****Distribution of earnings under the command and market economies (stylized)**

<i>Characteristic</i>	<i>Command economy</i>	<i>Market economy</i>
<i>Generator of inequality</i>	The state, only marginally also the labour market	The labour market, the state in the public sector
<i>Distribution according to</i>	Basic needs, but also loyalty to the regime	Skills and performance, but also network membership
<i>Main factors of disparities</i>	Gender, age, preferred industries	Human capital, entrepreneurship
<i>The role of education</i>	State investment generating small disparities	Individual investment generating large disparities
<i>The role of age</i>	Historical generations and loyalty (linear increase)	Career, accumulated experience (curvilinear)
<i>Best rewarded branches</i>	Mining, metal-working, heavy industry	Finance, top technologies and professional services
<i>The role of self-employment and entrepreneurships</i>	No	Important
<i>Managerial premiums given for</i>	Political position, risk aversion	Innovation, risk taking

ciple”, workers in mining, metal-working, and heavy industry were better paid, as they needed to “eat more”. Alongside the implicit basic needs principle, the explicit principle of labour’s “public utility” for the regime was applied. This endorsed higher rewards and other privileges to top party and state officials, army officers, police staff, and even top athletes and artists.

In the alternative approach, society is organised according to the “market reward principle”. As Adam Smith explained it, human behaviour is internally regulated by profit-seeking. The market differences that appear reflect individual contributions to labour productivity and production efficiency. Therefore, instead of demographic and reproductive features, market characteristics move to the fore. The administration of wages according to the reproduction of workers’ basic needs is, to a degree, replaced by distribution based on contributions to the company’s product, which are themselves products of education, job commitment, and managerial responsibility.

Scheme 4.1 presents an attempt to outline the changes in earnings distribution. All stylised facts are just an approximation of a much more complex and obscured reality. They basically conform to the “market power thesis” of Victor Nee’s (1989) theory, mentioned above. The differences between the regimes suggest that the whole macro-economic context of disparities in earnings is changing – from the general economic goal as the main generator of inequality to the role of gender, age, education, and man-

agerial position in generating disparities. Each system emphasises different occupational branches: either managers or rank-and-file workers, either the working class or the middle class, and either manual or mental work.

There are several obstacles to turning this general outline of systemic change into an analysis of real data. First, in reality no system is a fully consistent system. The allegedly egalitarian communist society maintained privileges for the ruling class, and it was “distorted” to some extent by the informal economy, which operated according to market principles. Market capitalism is far from being pure competition; it involves monopolies, hidden cartels, and state interference in the economy, not to mention – once again – the informal economy. Second, the lack of indicators means that not all distinctions can be operationalised and measured. Particularly lacking is an indicator of work performance. And third, there are substantial limits to the information sources, even for comparing basic characteristics over time. Bearing in mind these limitations, let us focus on just a few stylised facts:

1. According to the “basic needs principle”, disparities in earnings are small, as people do not differ too much with regard to their conditions of survival. According to the “market reward principle”, the differences are produced by the market and as such are – in theory – unlimited.
2. According to the “basic needs principle”, it is the family, not the individual that matters in terms of reward. Therefore, gender and age (reflecting the family situation and stage of the life cycle) are the criteria that directly determine the reward; women’s earnings are but a supplementary contribution to the family budget. Following the “market reward principle”, gender disparities are not predetermined in any way.
3. According to the “basic needs principle”, occupation and industry matter in terms of the amount of physical energy a worker must invest. According to the “market reward principle”, occupation and industry matter in terms of productivity, competitiveness, and market success.
4. According to the “basic needs principle”, the effect of education is minor or even negative (people who perform non-manual occupations, usually better educated, need to eat much less than members of the working class).<sup>1</sup> However, according to the “market reward principle”, education is the main component in human capital and directly affects labour productivity and therefore also the final product.

Even these simple hypotheses run up against serious data limitations. It must always be kept in mind that there is no way of actually describing human needs or a worker’s performance. Surveys fail to cover a large part of social reality and the available data are not entirely comparable. Nevertheless, in the aforementioned areas quantitative shifts can approximate the process under way and the qualitative differences that already exist. The exercise at hand should be viewed within these limits.

<sup>1</sup> Marx also stressed differences based on “work complexity”, which were in no way capable of counterbalancing the primary effect of the costs of reproduction of the labour force.

**Table 4.1**  
**Distribution of earnings by deciles among employees in 1989–2006**  
**(percentages and coefficients)**

Decile	Wage surveys					Household income surveys				
	1989	1993	1997	2002	2006	1988	1992	1996	2002	2005
1	4.7	4.4	4.6	4.3	4.2	5.3	5.0	3.9	4.4	4.1
2	6.5	5.6	5.9	5.6	5.4	6.6	6.1	5.5	5.6	5.4
3	7.3	6.6	6.9	6.6	6.4	7.4	6.9	6.6	6.5	6.6
4	8.2	7.4	7.7	7.4	7.3	8.3	7.7	7.5	7.3	7.5
5	9.1	8.4	8.5	8.2	8.1	9.2	8.5	8.4	8.1	8.7
6	10.1	9.4	9.3	9.0	9.0	10.0	9.4	9.4	9.1	9.1
7	11.0	10.7	10.2	10.0	10.0	10.9	10.4	10.4	10.1	10.4
8	12.2	12.2	11.0	11.4	11.3	12.0	11.7	11.8	11.5	11.7
9	13.7	14.6	13.1	13.7	13.6	13.3	13.8	14.1	14.0	13.9
10	17.2	20.7	22.8	23.8	24.7	17.0	20.5	22.4	23.4	22.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Decile ratio	2.4	2.7	2.8	3.0	3.1	2.4	3.1	3.2	3.0	3.2
Ratio 10:1	3.7	4.7	5.0	5.5	5.9	3.2	4.1	5.7	5.3	5.5
RH Index	14.1	18.2	17.1	18.9	19.6	13.2	16.4	18.7	18.8	18.5
Gini	.	.	.	.	.	0.20	0.26	0.27	0.27	0.27

*Source:* Wage surveys, Microcensus surveys, EU-SILC 2006 (author's computation).

*Note:* See the explanation of ratios and coefficients in the Appendix to this chapter.

#### 4.2 The range of disparities and demographic factors

In terms of wages, communist Czechoslovakia was one of the most equalised countries in the world. The three decades following 1959 – when regular wage surveys started – were a period of exceptional stability in the overall distribution of earnings. In other European communist countries, there was periodic pressure both to increase differentials (e.g. during the reform periods in Hungary and Poland) or to diminish the range in earnings (e.g. through periodic increases of the minimum wage in the USSR and Bulgaria). Nothing in this vein occurred in Czechoslovakia. Only the efforts of the 1968–1969 economic reform – aimed at strengthening the incentive effect of wages – succeeded in increasing earnings differentials to the benefit of about the top five percent of workers (Večerník, 1986).

Wage settings changed considerably after 1989. In the public sector, a new and simpler tariff grid was applied, but this (like the previous one) favours experience over qualifications. In most of the private sector, wages are negotiated between employers and trade unions. Since 1989 the rise in wage levels and disparities has been held back by certain measures that have had an adverse effect on differentiation. A minimum wage, previously non-existent, was introduced in 1991, but it remained frozen

until 2000. Wage growth was initially controlled until 1992, when wages were partially liberalised. After a period of no controls at the beginning of 1993, tax-based wage regulation was re-introduced, but it was eliminated in 1995 (Flek, 1996).

Regarding the increase in earnings inequality after 1989, there is some ambiguity to the relevant statistical evidence (Table 4.1). According to wage statistics, wage levels in the lowest decile decreased only slightly. The disparities widened as the share of the top ten percent of employees grew considerably.<sup>2</sup> Surveys among households report a slightly bigger decline in the lowest decile and a smaller decline in the top decile, resulting in a more significant rise in inequality. In both cases, the differences in the middle of the earnings distribution were relatively narrowed, and the bulk of the income disparities remained compressed.

Between 1989 and 2006 the decile ratio rose from 2.45 to 3.10 according to wage surveys and from 2.37 to 3.16 according to household income surveys. This indicator (the ratio of the lower bound value of the tenth decile to the upper bound value of the first decile of the wage distribution) does not take into account the earnings of the lowest and highest ten percent of recipients. When the averages of the upper and lower ten percents are added, the ratio (indicated as ratio 10:1 in Table 4.1) is even higher and the change over time looks more impressive. The two sources correspond in estimating 1:5.5–5.9 as the ratio of the high to the low average income decile in the early 2000s, which is 1.6–1.7 times higher than it was in 1989.

The application of the “basic needs principle” under the communist regime resulted in far greater weight being accorded to the demographic characteristics of workers than to economic features in determining earnings. Among communist countries, it was in the former Czechoslovakia that gender was the strongest explanatory variable in wage disparities. Age was also important because of the cumulative effect of its generational and career significance. Seniority thus increasingly served as a qualification for top management (Večerník, 1991).

The analyses that follow also draw – exceptionally only in this chapter – on the 1970 Microcensus data. The reason is that there are no relevant variables for 1989 or early 1990s. The 1988 and 1992 Microcensuses did not include any variables for occupation or employment branch. Since the system during the “normalisation period” was quite stable, the 1970 data are used as a proxy for the pre-1990 state of affairs.

Regression analyses demonstrate the extensive changes in the earnings structure (Table 4.2). While in 1988, the gender variable alone explained 31% of the variance of earnings, it accounted a mere 10% in 2002 (however, the gender wage gap decreased much less than the importance of the gender variable in the context of the overall earnings structure). Also, the weight of the age variable (5-year categories) fell to a mere half, and the weight of the two demographic characteristics together decreased from 37% to 13%. In contrast, the explanatory power of

<sup>2</sup> Here we should stress that, regarding wage statistics, the CSO provides tables of wage bounds only, so the deciles had to be computed by the author using the means of the intervals. Taking into account also the opened marginal intervals, the result is less precise than if it had been computed on individual data, as is the case with earnings in household income surveys.

**Table 4.2**  
**Regression coefficients of earnings by sex, age and education in 1970–2002**

Variable	Regression 1				Regression 2			
	1970	1988	1996	2002	1970	1988	1996	2002
Sex	-0.48	-0.38	-0.37	-0.32	-0.44	-0.36	-0.38	-0.34
Age:								
25–29	0.19	0.22	0.18	0.15	0.17	0.18	0.11	0.11
30–34	0.27	0.37	0.23	0.13	0.24	0.33	0.16	0.11
35–39	0.31	0.42	0.26	0.16	0.29	0.39	0.20	0.12
40–44	0.33	0.46	0.26	0.17	0.32	0.43	0.23	0.16
45–49	0.35	0.47	0.27	0.11	0.35	0.44	0.23	0.14
50–54	0.33	0.46	0.27	0.12	0.33	0.44	0.22	0.15
55–59	0.27	0.39	0.20	0.10	0.28	0.37	0.15	0.10
60–64	0.23	0.20	-0.15	0.06	0.24	0.19	-0.27	-0.02
Education:								
vocational	-	-	-	-	0.09	0.06	0.16	0.14
secondary	-	-	-	-	0.18	0.14	0.42	0.42
university	-	-	-	-	0.36	0.33	0.74	0.71
Intercept	7.99	8.06	9.45	9.86	7.86	7.97	9.23	9.58
Adjusted $R^2$	0.39	0.37	0.18	0.13	0.44	0.45	0.37	0.33

*Source:* Microcensus surveys (author's computation).

*Note:* Employees only. Dependent variable is  $\ln$  gross earnings.

Omitted categories: age 15–24, elementary education.

All coefficients are statistically significant at <0.01 level.

education alone (four degrees) increased from 11% in 1988 to 19% in 2002 (and, even, to 25% in 2004) which suggests that education became the most important single factor in earnings variation.<sup>3</sup>

### 4.3 The effects of education, industry and occupation

According to the theory of human capital, education and experience determine the productivity of labour and consequently also a worker's earnings (Becker, 1964). From this point of view, communist Czechoslovakia was a country where the importance of human capital was downgraded the most. This was true not only in comparison with advanced Western countries, but also compared to other CEE countries. Following a period so unfriendly to education and investment in it, a reverse effect would have been expected to ensue, along with a rapid increase in the rewards to those with higher levels of education, despite the questionable nature of some of the skills and diplomas acquired in the communist era.

<sup>3</sup> Regression analyses commented here that compare effects of the sex and education variables only are not presented in tables.

The changing returns to education and experience can be measured in a standard procedure using Mincerian equations (see the Appendix to this chapter). It must first be noted that over the real lifetimes of the individuals surveyed in the sample the education system underwent repeated restructuring. In order to homogenise the various systems of schooling for this analysis, elementary education (the reference group) was averaged as corresponding to eight years of compulsory schooling from the age of six, followed either by vocational school (three years) or secondary school (four years) and university (another four to five years). The data do not distinguish postgraduate qualifications, which are still quite rare in the country.

By the end of the communist era, each additional year of schooling increased men's earnings by 4.1% and women's earnings by 5%. Under the market regime those figures roughly doubled. The effect of experience (or more precisely, the joint effect of a person's age and generation) on earnings increased until the mid-1990s but later declined again. Whereas in 1988, the effect of experience was as strong as that of education for men, the gap between the effects of the two variables continued to widen tremendously until 2002. Between 1996 and 2002, the effect of education stagnated while the effect of experience declined, falling even to negative figures (Table 4.3). More recent data from 2004 (Living Conditions 2005) do not show any important change in this regard.

These results are basically consistent with observations made by others. According to Randall K. Filer, Štěpán Jurajda, and Jan Plánovský (1999), who drew on a database of firms, returns to education for men in the Czech Republic amounted to 8.1% in 1995 and 9.0% in 1997. However, according to Daniel Münich, Jan Švejnar, and Katherine Terrell (1999), who worked with a special survey of households conducted among 4700 individuals in the labour force, the returns to education in 1996 amounted to only 5.8% of the returns to education for one year of schooling for men and 7% for women, which is close to the Microcensus figures for 1992 (not presented here). Underestimating disparities according to education is otherwise also quite common in sociological surveys, where people tend to respond by estimating net rather than gross earnings, even if they are being asked for the latter.

According to the "basic needs principle", occupation and industry matter in terms of the physical energy a worker must invest. Workers in production branches were much better paid than those in services (the "non-productive" sector, in Marxist vocabulary). At the top of the list were mining and heavy industries, which were politically important owing to their fundamental significance for the military. Agriculture was heavily subsidised under the command economy for two reasons. First, the failures resulting from the collectivisation of private farming could never be admitted, and given that the state decidedly favoured cooperatives it had to compensate all their losses. Second, achieving self-sufficiency in the production of agricultural products was a major political objective.

According to the "market reward principle", occupation and industry matter in terms of their productivity. In this regard the situation started to change rapidly after 1989, but not consistently. As the wage statistics show, services expanded, but these were first and foremost financial services. The banking and insurance sectors advanced

**Table 4.3**  
**Returns to education by sex and experience in 1970–2002**

Category and variable	Regression 1				Regression 2			
	1970	1988	1996	2002	1970	1988	1996	2002
<i>Both sexes</i>								
Years of school	0.05	0.04	0.09	0.09	-	-	-	-
Experience	0.04	0.03	0.03	0.01	0.04	0.03	0.03	0.02
Exp <sup>2</sup> /100	-0.06	-0.06	-0.07	-0.03	-0.06	-0.06	-0.07	-0.03
Sex	-0.44	-0.35	-0.36	-0.33	-0.44	-0.36	-0.38	-0.34
Education:								
vocational	-	-	-	-	0.11	0.05	0.14	0.13
secondary	-	-	-	-	0.22	0.15	0.41	0.42
university	-	-	-	-	0.46	0.39	0.74	0.72
Intercept	7.29	7.67	8.36	8.86	7.65	8.05	9.09	9.54
Adjusted R <sup>2</sup>	0.45	0.44	0.37	0.31	0.45	0.45	0.38	0.33
<i>Men</i>								
Years of school	0.04	0.04	0.08	0.08	-	-	-	-
Experience	0.05	0.03	0.04	0.02	0.05	0.03	0.04	0.02
Exp <sup>2</sup> /100	-0.08	-0.07	-0.08	-0.04	-0.08	-0.07	-0.08	-0.04
Education:								
vocational	-	-	-	-	0.07	0.04	0.17	0.13
secondary	-	-	-	-	0.18	0.12	0.39	0.37
university	-	-	-	-	0.39	0.35	0.73	0.70
Intercept	6.80	7.33	8.02	8.53	7.13	7.69	8.66	9.18
Adjusted R <sup>2</sup>	0.24	0.26	0.28	0.22	0.25	0.26	0.28	0.22
<i>Women</i>								
Years of school	0.05	0.05	0.10	0.09	-	-	-	-
Experience	0.02	0.02	0.03	0.01	0.03	0.02	0.03	0.01
Exp <sup>2</sup> /100	-0.04	-0.03	-0.05	-0.02	-0.04	-0.04	-0.05	-0.02
Education:								
vocational	-	-	-	-	0.14	0.05	0.11	0.12
secondary	-	-	-	-	0.24	0.18	0.43	0.45
university	-	-	-	-	0.53	0.45	0.76	0.74
Intercept	6.47	6.95	7.61	8.19	6.87	7.37	8.39	8.89
Adjusted R <sup>2</sup>	0.13	0.24	0.27	0.22	0.14	0.25	0.29	0.25

*Source:* Microcensus surveys (author's computation).

*Note:* Employees only. Dependent variable is *ln* gross earnings. Omitted categories: age 15–24, elementary education. Coefficients are statistically significant at <0.01 level.

considerably by utilising all possible means to avoid wage regulation. Trade and catering also improved somewhat. In contrast, public services were left behind. Health and social services slightly improved their earnings position, but education and research

**Table 4.4**  
**Regression coefficients of earnings by industry in 1970–2002**

Industry	Regression 1			Regression 2			Regression 3		
	1970	1996	2002	1970	1996	2002	1970	1996	2002
Manufacturing	0.04	0.12	0.07	0.02*	0.07	0.01*	0.02*	0.06	0.01*
Construction	0.21	0.20	0.15	0.17	0.12	0.07	0.06	0.04	-0.01*
Transport and communications	0.18	0.17	0.19	0.17	0.13	0.14	0.10	0.08	0.10
Health and welfare	0.05*	0.11	-0.06	-0.13	-0.12	-0.30	-0.09	-0.09	-0.25
Education	-0.01*	0.07	0.07	-0.19	-0.10	-0.13	-0.02*	-0.02*	-0.02*
Administration and defence	-0.21	0.30	0.19	0.11	0.15	0.01*	0.02*	0.10	-0.03
Banking and insurance**	0.24	0.63	0.81	0.21	0.47	0.62	0.12	0.43	0.62
Intercept	7.47	8.99	9.41	7.75	9.31	9.81	7.90	9.27	9.84
Adjusted $R^2$	0.04	0.05	0.09	0.16	0.30	0.32	0.46	0.45	0.46

Source: Microcensus surveys (author's computation).

Note: Employees only. Dependent variable is *ln* gross earnings.

Regression 1: Only the variable industry is entered.

Regression 2: Controlled for occupation.

Regression 3: Controlled for occupation, sex, age, and education.

Omitted categories: trade and catering, other occupation, age 20–24, elementary education.

All coefficients except those marked by \* are statistically significant at <0.01 level.

\*\* In 1970, heavy industry is used instead of banking and insurance.

stagnated, with some fluctuations, leading to an improvement in their position in the mid-1990s, but then sliding backwards again to reach a low in 1998 (see Table 7.3 in Chapter 7).

In the larger context of determining earnings, the relative importance of two variables – occupation and industry – can be compared for 1970, 1996, and 2002. There are, however, some limitations. The classification of industries in 1970 differs with respect to one item: the banking and insurance branch was not observed separately (since it was only a small section of the state administration), so heavy industry (mining, metal-working, and heavy machinery) was used in its stead, which was similarly privileged by the regime at that time as banking is privileged now, albeit only implicitly. Managers and professionals cannot be distinguished either in this historical dataset. The coding of occupations in the 1996 and 2002 surveys differs slightly, which underestimates the importance of this variable.<sup>4</sup>

Regression analyses of wage disparities by industry – alone and controlled by other variables – are presented in Table 4.4. The industry variable alone (containing eight branches, omitting the category of trade and catering) explains about five percent of the earnings variance in 1970 and 1996, but as much as eight percent in 2002. Wage shifts according to industry resulted in a slight increase in the significance of this dimension, mostly, however, owing to the huge and steadily increasing income supremacy of the banking and insurance sector. Administration and defence are two other branches that have radically improved their earnings position.

Occupational categories – though very broadly conceived – are much more influential on earnings than branches (Table 4.5). After 1989, the occupational hierarchy became increasingly important, in particular owing to the rising value of managerial and intellectual work under the market economy. On the other hand, the political privileges of manual work were eliminated and earnings in relevant industries fell. A look at average earnings by occupational category (not presented in the Tables) shows the gap between the earnings of unskilled workers and managers, which was 1:1.8 in 1970, widened to 1:3.4 in 1996, but narrowed slightly to 1:3 in 2002. This is partly connected with the switch from industry to occupation as the key influential factor for determining earnings.

After controlling for other variables (see again Tables 4.4 and 4.5), it is possible to observe the “net” disparities. The most striking feature of the branch structure of earnings – the prominent position of banking – is only moderately attenuated when occupation and human capital variables are controlled for. On the other hand, the severe undervaluation of health services becomes even more pronounced when the high educational level of workers in this branch is taken into account. The overall variance explained by all the demographic and economic variables remains remarkably stable across time, remaining at 46% in all the years under observation. Neverthe-

<sup>4</sup> The fact that managers in 2002 have lower relative earnings than in 1996, while unskilled workers perform better, may also be owing to the much smaller sample in 2002, which failed to cover the two extreme categories to the same extent as in 1996.

**Table 4.5**  
**Regression coefficients of earnings by occupational category in 1970–2002**

Occupational category	Regression 1			Regression 2			Regression 3		
	1970	1996	2002	1970	1996	2002	1970	1996	2002
Managers	}	0.38	0.22	}	0.46	0.24	}	0.46	0.18
Professionals	0.25	0.05*	-0.05*	0.38	0.21	0.08*	0.16	0.20	0.01*
Technicians	-0.11	-0.21	-0.17	-0.11	-0.08*	-0.13	-0.02	0.05*	-0.06*
Administrative	-0.06*	-0.38	-0.27	-0.09*	-0.33	-0.33	-0.06	-0.03*	-0.10
Sale workers	-0.37	-0.61	-0.60	-0.39	-0.47	-0.56	-0.14	-0.12	-0.31
Skilled	-0.13	-0.35	-0.39	-0.20	-0.28	-0.39	-0.15	-0.06*	-0.25
Unskilled	-0.34	-0.80	-0.78	-0.40	-0.69	-0.74	-0.10	-0.31	-0.47
Intercept	7.76	9.46	9.84	7.75	9.31	9.81	7.81	9.27	9.84
Adjusted $R^2$	0.11	0.26	0.24	0.16	0.30	0.32	0.46	0.45	0.46

Source: Microcensus surveys (author's computation).

Note: Employees only. Dependent variable is *ln* gross earnings.

Regression 1: Only the variable occupation entered.

Regression 2: Controlled for industry.

Regression 3: Controlled for industry, sex, age, and education.

Omitted categories: trade and catering, other occupations, age 20–24, elementary education.

} In 1970, categories of managers and professionals are in one category.

All coefficients except those marked by \* are statistically significant at <0.01 level.

less, the structure of factors determining earnings has changed substantially: instead of dominating sex and age characteristics, the variables of education, branch, and job position move to the fore as important factors of the inequality of earnings.

#### 4.4 Political factors and the ownership sector

In the communist regime, the influence of political factors on earnings was comprehensive. First, political factors determined a person's educational level (through controlled access to secondary and, in particular, university education). Second, they influenced the process of searching for a job, allowing a person to pass through political channels into managerial positions in low-level organisations and into all important positions in a high-level organisation (the so-called *nomenklatura* system). Third, higher wage tariffs or premiums were given to party members as opposed to non-members, even if they were in the same positions. Using the 1984 survey on social stratification, Willem-Jan Verhoeven (2007, p. 75) calculated that the residual premium of party membership was 23%, against my previous estimate of 10% for simple membership and 14% for party officials (Večerník, 1996a, p. 57).

The political dimension of earnings rapidly disappeared in the early transition, but not completely – skills and contacts acquired in former politically determined positions became precious “social capital”, which was then applied in top jobs in new private business and foreign companies under market conditions. Petr Matějů and Nelson Lim (1995) found that in the Czech Republic former “*nomenklatura* cadres” were able to maintain their advantageous positions in the income hierarchy because they possessed “human capital” and in addition managed to effectively convert “social capital” accumulated during the communist regime into economic capital. Eric Hanley and Petr Matějů (Hanley et al., 1998) also referred to a “revolution of deputies” – under the communist regime deputies were true managers rather than directors, who were more political figures and thus could easily be removed.<sup>5</sup>

In the transition period, the political dimension was in a sense “replaced” by entrepreneurship, whether this originated from converted social capital to economic capital, the restitution of property, or newly established firm. However, there is not enough information about the effect of entrepreneurship in its various forms on earned income, and only fragmented information could be collected.

The only source of basic information on the self-employed and small employers is household income surveys. According to such surveys, the self-employed earned 109% of the average salary of employees in 1996 and 127% in 2004, while employers declared earnings of 214% of the average salary of employees in 1996 and 207% in 2004. In comparison with employees, the dispersion of earned income is larger among the self-employed and even larger among entrepreneurs. Declared income is probably more underestimated by the self-employed and employers given that it is sometimes difficult to distinguish between “business” and “private” money and also given

<sup>5</sup> In a comparative perspective, the survival of cadres in their positions appears to be not as strong in the Czech Republic as elsewhere. Andrew G. Walder (2003) ranks the Czech Republic (together with Hungary, Poland and the Baltics) among the type of countries where elites frequently lost their posts and a few appropriated public assets which were sold to new owners with managerial and technical skills.

the better opportunities for tax evasion and the related unwillingness of relevant respondents to say anything too precise to statisticians. The same is true of self-employment performed as a second job, which is heavily underestimated in statistical surveys.

Regarding the ownership sector, the Czech Statistical Office has published wage averages since the mid-1990s. Between 1995 and 2005, there were major shifts in the labour force but little change in wage relations. The number of employees working in public non-financial corporations declined from 739 000 to 346 000, while the number in the private domestic sector rose from 1 375 000 to 1 734 000 and the number in corporations under foreign control increased from 116 000 to 777 000. Wages are lowest in the private domestic sector (92% of the overall average), higher in public corporations (106%), and the highest in foreign corporations (121%). Taking the economy as a whole, there were about 1.5 million employees in the public and private sectors each in 1995, while the relationship shifted to 3:1 in 2005 in favour of the private sector. Average wages were about the same in 1995, but the public sector started to dominate in the 2000s, reaching a 10% surplus over the private sector (Statistical Yearbooks).

A special survey of wages was conducted in 1995–1997 in the Czech Republic and Slovakia by CERGE/EI. This survey included variables on the education and ownership sectors (Filer, Jurajda and Plánovský, 1999). The analysis found that throughout the period covered by the survey a university degree was best rewarded in the private sector. Rather unexpectedly, the least profitable workplaces for employees with a higher education diploma were foreign-owned firms. General and specialised secondary educations were better rewarded in private domestic than in foreign firms, but their position in both is improving over time. In state organisations, specialised secondary education is much better paid than general secondary education. The explanation probably lies in the contrast between professional public services (such as education and health care) and simple administrative jobs.

Using the same survey, Münich, Švejnar and Terrell (1999) found that the returns to education in individual sectors differ also by gender. Whereas for men, the most profitable jobs are in privatised firms (a 6.5% increase for each year of education) than in newly established firms (6.1%) and in state-owned enterprises (5.6%), women receive the best remuneration in newly established firms (8.1%), followed by privatised firms (7%), and – again in last place – state-owned enterprises (6.3%). It is interesting that it is in newly established firms that wages are determined most by education and experience, even though this is where we might expect to find a freer hand in wage setting and greater weight given to unmeasured skills and abilities.

Even in the post-privatisation period since the mid-1990s differences according to ownership sector remain important. However, only small sociological surveys can be used to estimate them. The 1997 and 2005 ISSP modules on Work Orientations include, besides the ownership sector, variables distinguishing between privatised companies and newly established private firms, company size, and the respondent's position in the managerial hierarchy. However, as the refusal rate on the earnings question in the 2005 ISSP survey was very high (50% compared to 15% in 1997),

the results are not very reliable. We can see that employment in newly established private firms provides better pay, and that the larger the company is, the higher earnings are. Both characteristics have strengthened over time. Nevertheless, the firm variables add very little to the variance of earnings basically explained by gender and education.

#### 4.5 Conclusion

Pre-1989 Czechoslovakia was characterised by extreme equality, and even within the earnings disparities that did exist the demographic features of individuals (gender and age) outweighed market characteristics (skills and occupation) in importance for determining earnings. In addition, some industries (mining, metal-working, heavy machinery) were favoured, and selected categories of workers (top state and party bureaucrats, army and police officers) were privileged. Behind the façade of an almost stable range of disparities since the mid-1950s that on the whole were very small, demographic factors became increasingly influential and the so-called productive industries were promoted, while the wage position of people with higher levels of education declined and the younger generations were disadvantaged in favour of older workers.

After 1989, the transformation process broke the status quo and started to change the established earnings structure. Since then, the overall range of inequality in wages has increased, as have returns to education, while the importance of gender has weakened substantially and the age profile of earnings has become almost flat. In the public sector, a new and simpler tariff grid has been applied which (like the previous one) favours experience over qualifications. In most of the private sector, wages are negotiated between employers and trade unions. Broken down by branch, finance and state administration have improved their position to the detriment of manufacturing industries. Lawyers, managers, marketing experts, and providers of other special services to foreign firms already enjoy salaries nearly comparable to their Western counterparts.

Despite all data limitations, the observed tendencies persuasively suggest that over a relatively short time span the differentiation and structure of wages in the Czech Republic have been moving energetically towards the standard Western pattern. The decreasing significance of demographic characteristics and the increasing importance of education show this most clearly. Here again, as happens in so many areas of economic and social life under transformation, important questions arise: how far are these changes not only formal but also substantive; to what degree do they guarantee a better matching of competent people to responsible jobs; what is their impact on the productivity of labour; how do they contribute to the creation of incentives to work well and manage rationally; and how do they improve the efficiency of the economy as a whole?

Such questions certainly exceed the explanatory scope of all the available data. We can only guess that, in fact, there is no guarantee that higher disparities ensure more and better work, that more years of schooling yield higher productivity of labour, and that more space left for the “market” characteristics of employees in wage determina-

tion will actually be used to improve work and management incentives. Earnings are likely to be determined more by subtle features that resist routine statistical investigation: special skills such as languages and computer skills, and personal skills such as flexibility and managerial talent. Owing to various circumstances, the adjustment to market standards has been uneven. The shift towards the “Western model” of rewarding labour seems to be more rapid in new private firms and foreign-owned companies.

But we are skating on thin ice here. If one half of the variance of earnings can be explained by statistical variables, there is another half that remains in the domain of assumptions. There is hardly any direct link between the overall reward system and the performance of the Czech economy, which was mainly driven by manufacturing industry’s export. Although the returns to education are high, there are few signals of an expansion in the innovative potential of the economy. What matters is not just variations in earnings between different categories but also the variability of earnings within categories in relation to underlying skills and the quality of work performance. In view of this, the unexplained variance may be concealing factors more important for economic performance than the variance that can be explained with common statistical indicators.

### **Appendix: Data sources and explanations**

The most obvious source of data on earnings is wage statistics, which are based on surveys conducted among firms by the Czech Statistical Office (CSO). Their coverage has changed over time. Between 1989 and 1992, only companies with 100 or more employees were included; in 1992 the survey began including firms with more than 25 employees and later with 10 employees and more. While firms with 10–249 employees are represented by sample, all firms with 250 and more employees are included. Banking, insurance, and public organisations were included without any size qualification. Since 1998, a database called the Information System on the Average Wage (ISPV), which is administered by the agency Trexima for the Ministry of Labour and Social Affairs, was adopted for use instead of wage surveys. Since 2002, the data have been weighted to make the dataset representative for the population.

Information on personal earnings is also collected in household income surveys (Microcensuses up to 2002, Living Conditions surveys since 2004). The individual surveys differ somewhat. While before 1990 information on wages in these surveys was provided by employers, since then income has been reported by respondents. However, the CSO corrects the income figures using various other sources of information. Among the statistical surveys conducted after 1989, the 1992 Microcensus should be omitted from the analyses because only the final household variables were adjusted to other sources, and that makes it difficult to match household and personal income.

The industries and occupations of economically active persons are not included in any of the surveys before Microcensus 1996, with the only exception of the 1970 Microcensus. Only this survey was a true Micro-Census, that is, a two-percent sample of the 1970 Population Census, in which basic information about people’s economic

activity was requested and was fortunately kept in the sample and the dataset. This dataset was smuggled out of the Czechoslovak Statistical Office by this author since under the communist regime there was no official way of getting the dataset released for research use. Unfortunately, however, only sub-sample (0.25% of economically active persons with personal and some household variables) has resisted the ravages of time.

Here we deal with earnings, defined as all forms of wage and salary incomes from dependent labour, the gross of employee taxes and contributions, but the net of employer taxes and contributions. This definition of earnings conforms to the Luxembourg Income Study definition used in Timothy M. Smeeding and John Coder (1993), which is then suitable for a cross-national comparison. For the sake of comparability with wage statistics and comparisons over time the analysis is limited to the earnings of full-time employees, omitting the self-employed and farmers (who are not included in the wage surveys either).

#### *An explanation of the ratios and coefficients in Table 4.1*

The percentages in the cells are shares of individual deciles in the total amount of income. The decile ratio is the ratio of the lower bound value of the tenth decile to the upper bound value of the first decile of income distribution. Ratio 10:1 is the ratio of the averages of the highest and lowest deciles. The Robin Hood (RH) Index is the “maximum equalisation percentage”, which involves taking those deciles that exceed 10% and adding the amount by which their shares exceed those levels. Algebraically, it is half the mean deviation divided by the mean. Because it basically measures the percentage that would have to be redistributed in order to obtain an equal distribution, it was called the “Robin Hood Index” by the Polish/British economist Joanna Gomulka.

#### *An explanation of the regression analysis in Table 4.3*

The returns to education and experience are measured in a standard procedure that uses Mincerian equations (Mincer, 1974) formulated as:

$$\ln(y) = b_0 + b_1s + b_2e + b_3e^2,$$

where  $\ln(y)$  = the natural logarithm of earnings,  $s$  = years of schooling and  $e$  = years of experience. As usual, the schooling variable is calculated from the years needed on average to get the degree reported in the survey, while experience is calculated as age minus schooling minus six. Another equation is used to distinguish between the returns to various education levels, formulated as:

$$\ln(y) = b_0 + b_1sv + b_2ss + b_3su + b_4e + b_5e^2,$$

where  $sv$  = the dummy for vocational training,  $ss$  = the dummy for high school, and  $su$  = the dummy for university education, with elementary education as an omitted category.

All earnings functions are estimated by ordinary least squares (OLS).

## 5 Household income: rising inequality, changing structure

While economics focuses mostly on personal earnings, in the real world, the choices, decisions, and strategies relating to income occur within the family or household. A household's living standard depends on a range of factors, from the educational paths of individuals and selective mating, to how a husband and wife shape and balance their careers, the decisions they make about the timing and number of children they have, and how they distribute the time they spend caring for those children. In monetary terms, the process starts with individual earnings and continues with the accumulation of individuals' earnings in the household. Other incomes from business and property are added. Collected "market income" is supplemented by various social benefits and reduced by income tax and social and health insurance contributions.

As demonstrated in Chapter 4, economic reforms rapidly transformed the established earnings structures. The overall range of earnings inequality has increased, as have, in particular, returns to education. On the other hand, the importance of gender has diminished and the age profile of earnings has become almost flat. In addition to education, occupation now matters much more, owing to the increase in the value of managerial and intellectual work, and so does industry. The wage structure by branch has changed considerably. The life cycle effect has almost disappeared, and wider disparities in individual earnings have allowed the contributions of additional active members to be replaced.

This chapter attempts to provide a comprehensive picture of the changes in the structure of household income and the sources of those changes after 1989. The first section describes the difficulties in indicating a family's well-being with regard to the adjustment of total income to the size and composition of households. The second section presents basic data on the development of income inequality after 1989 and suggests that a systemic change occurred. The third section presents the changes in the structure of household income and the factors underlying those changes, involving a shift from demographic (numbers of active earners and children, age) to socio-economic factors (education, branch, occupation). The fourth section focuses on the labour market participation of women and the packaging of earnings in couples. The chapter concludes with a discussion of some specific features of income distribution in the Czech Republic in a cross-national comparison.

### 5.1 The difficulties of determining well-being

While there are few – if any – major problems in defining personal earnings, it is not easy to capture all the diversity that has to be covered under the “appropriate” definition of comparative household income or, better put, a family’s well-being. Households collect income from various sources and there are also several structures that mediate between personal earnings and the resulting household income level. Is the female spouse economically active? If so, how much does she earn? Are there children in the family? If so, how many, and how old are they? How much does the state take from and give back to the family? Taken in sum, what income indicator best expresses a family’s standard of living?

Unlike earnings, family income level is a “social construct” rather than a given fact (Rainwater, 1994). The resulting income distribution depends largely on the income adjustment method, the selection of which is not entirely free from the influence of value judgements and political considerations. Basically, we can choose to observe income distribution from the perspective of income per household, income per capita, or something “in between”, which means household income calculated per equivalent unit in order to compare households of different size and composition. However, income indicators, their use and explanatory power, are not artefacts. Income indicators should correspond to the way in which household income is really collected and spent, according to the price structure and expenditure constraints.

The methodology used to present incomes changed with the political regime. In “communist” statistics, income per capita was the only indicator used.<sup>1</sup> This means that no economies of scale were assumed. This was endorsed by the structure of consumption, where the costs of individually “divisible items” such as food and clothing were high, while expenditures on housing and common financial payments were low.<sup>2</sup> By contrast, in “Western” statistics total disposable household income served as the most frequent indicator for a long time. This difference was already apparent in the first-ever East/West comparison of personal and household incomes (United Nations, 1967) and was also commented on by John Flemming and John Micklewright (2000). However, since the 1980s income surveys have been used, and authors refer to income adjusted for household size and composition by adopting various equivalence scales, calculating household income for an “equivalent adult person”.<sup>3</sup>

Indicators that correspond completely to the current and local situation would render it impossible to make comparisons over time and across countries. Therefore, a com-

<sup>1</sup> So far income per capita remains the main income indicator used by the Czech Statistical Office in the computation and presentation of data from surveys of households such as the former Microcensuses and the more recent Living Conditions surveys.

<sup>2</sup> John Flemming and John Micklewright (2000, p. 865) also consider income per capita to be “more appropriate for socialist societies on account of the lower fixed costs of a household due to subsidized prices of housing and fuel”.

<sup>3</sup> However, as the Luxembourg Income Study (LIS) documents, countries such as France, Italy, the Netherlands, and the United Kingdom still used non-adjusted household income in the 1990s (Atkinson, Rainwater and Smeeding, 1995). Historically, the LIS was the first database that enabled income adjustments to be applied in cross-national comparisons.

promise between universality and adequacy is always necessary. This also means that while disparities computed on total disposable household income overestimated the inequality of welfare in the West, disparities of income calculated per capita underestimated the inequality in the East. The reality in individual countries and in various periods was located on a large continuum of possible adjustments, according to the price and consumption structure. Nevertheless, instead of inspecting the appropriate equivalence scale, which should vary across time and countries, researchers utilise a standard calculation based on their best estimate.

Since 1990, we have seen a shift in income distribution from a situation that is better described with a “per capita” income indicator towards situation closer to the “per household” indicator: expenditure on individualised items (food and beverages, clothing and footwear) decreased from 41% to 27% between 1989 and 2006 in employee household budgets. Using 1999 comparative figures on consumption, the share of these expenditures was 28% in the EU-15 and 34% in the Czech Republic; expenditures on housing and energy were 15% in the EU-15 and 18% in the Czech Republic (see Table A9 in the Annex). While some rent regulation still applies to about one-third of the apartments, energy prices have risen, which has increased the costs of housing (though imputed rent is not considered in this comparison).

Disposable household income as observed here equals gross earnings plus social transfers, minus personal taxes and social insurance contributions paid by individuals. In addition to total disposable household income and per capita income, three indicators are used: 1. adjustment by the square root of the household size, which is frequently used in OECD analyses (Förster, 2004); 2. the EU indicator, which involves a rather flat scale – this adjustment is used in the Laeken indicators of poverty (Atkinson et al., 2002); and 3. adjustment using the scale implicit in the official subsistence minimum (Gottschalk and Danziger, 2005) – this scale is quite steep, as it has been adapted to low-income families, which have a larger share of personal items in their budget (see the Appendix to this chapter). While the first two adjustments are invariable, the third underwent minor changes towards becoming a flatter scale.<sup>4</sup>

Not only did the indicators change with the political regime, so too did the method used to collect data. Under the communist regime, the refusal rate for participation in surveys was low, because even if a survey was not expressly designated as compulsory, people were afraid to refuse to comply with any official inquiry. The most important sources of income were directly transferred by the state administration – the wages of individual workers were passed on by their employer organisations and pension benefits were reported by the post offices that delivered them. Consequently, income surveys were large and highly reliable with regard to the formal economy. The government commissioned large statistical surveys as a means of demonstrating the regime’s achievements in “increasing the standard of living of working people”.

<sup>4</sup> The reason is that the minimum living income is price indexed not as a summary indicator for a given household but by multiplying its individual components (the amounts for each person and the shared household costs) and summing them afterwards (see the Appendix to Chapter 9). Thus the relationship between the resulting sum and the number of persons in the household is not constant.

Since 1990, the share of earnings from state-dependent activities has decreased, while the share of income from self-employment and entrepreneurship has been rising. Instead of uniformity, we are now presented with a wider variety of economic statuses, as well as mixtures such as dependent full-time employment combined with part-time self-employment. The previous method of directly transferring information on income from firms and organisations had to be abolished after 1989. The coverage of surveyed income in comparison with the National Accounts calculations has decreased substantially, despite some corrections made by statisticians after the collection of data (see the Appendix to this chapter). However, such problems are quite commonly encountered in income surveys anywhere.

## 5.2 Shifts in the range and system of inequality

All East-West comparisons of incomes state that communist societies experienced extreme equalisation of income (Wiles, 1974; Atkinson and Micklewright, 1992). Such a position is certainly well founded if we use income adjusted per capita. However, once we begin to look at the indicator of income per household or any equivalent unit acknowledging larger-scale economies, the range of the inequality appears to be higher. More specifically, while the pre-1989 figures on the inequality of per capita income in the former Czechoslovakia are among the lowest in the world, the figures on the inequality of income per household are close to if not higher than the figures in Western countries. Moreover, the disparities in per capita income narrowed between 1960 and 1980, owing to relatively generous transfer income that compensated for low and equalised wages (Večerník, 1986).

There were several reasons why income distribution in former Czechoslovakia (and most probably also in other communist countries) differed so greatly from Western countries in terms of income per capita and so little in terms of income per household. In Western countries, the employment of women was lower and the disparities in the earnings of the main breadwinner larger, and these were the main sources of inequality in total disposable household incomes. In the former Czechoslovakia, wages were extremely equalised and the inequality in total household income was thus mainly determined by the number of economically active family members. Given the huge income difference between pensioner and employee households, a strong factor was also the economic status of the household head.

Scheme 5.1 provides a snapshot of the changed context and factors of family income distribution. The differences imply a diminishing effect of the life cycle and household “demography” in favour of market-dependent income disparities. Important changes also occurred in family budgets and the related “appropriate” indication of a household’s standard of living. Instead of family budgets overburdened with basic – and thus not shared – expenditures, implying a steep equivalence scale, we face family budgets with much higher relative expenditures on shared items, implying therefore a much flatter equivalence scale, like that in Western countries.

Before analysing income, information about households is to be presented. In the period 1988–2005, the average household size fell from 2.67 to 2.52 members, the num-

**Scheme 5.1**  
**Distribution of household income under the command and market economies**  
**(stylised)**

<i>Characteristic</i>	<i>Command economy</i>	<i>Market economy</i>
<i>Roots of income distribution</i>	Mandatory employment also of women, universal social benefits	No mandatory employment, more targeted social benefits
<i>Main factors of inequality in income</i>	The number of active earners and of dependent children	Disparities in earnings of individual active earners
<i>The role of age and the life cycle</i>	Age curve striking, life cycle highly predetermined	Age curve flat, life cycle only weakly predetermined
<i>The role of education</i>	Very weak for men and women	Strong for men, even stronger for women
<i>Structure of household consumer expenditures</i>	High spending on food and other personal items, low shared costs	High shared costs (housing, durable goods, financial payments)
<i>Economies of scale</i>	Rather low	Rather high
<i>Prevalingly applied income indicator</i>	Per capita income (or equivalent income based on steep scale)	Household disposable income (or equivalent income based on flat scale)
<i>Association of household income with household head's earnings</i>	Rather weak	Rather strong

ber of dependent children and economically active members in a household decreased (children from 0.76 to 0.59, economically active members from 1.35 to 1.14) and the number of non-working pensioners increased (from 0.47 to 0.56). The share of economically active household members thus decreased only slightly, but the proportion of dependent children changed considerably. By 2006, the average numbers of children and pensioners had become nearly the same: 0.58 and 0.57 (Microcensus 1988 and Living Conditions surveys).

Table 5.1 shows the distributions by two indicators at the extremes of the equivalence scale: total disposable household income and per capita income. The reason for this choice of indicators is that the interactions between the two reveal what happens inside income distribution. Under total disposable household income, income inequality increases slowly, if at all, later on; under per capital income it rises quickly. While in terms of disposable household income the relative shares of the bottom deciles have remained the same, inequality of per capita income has widened at both ends. In both income measurements, the middle section of income distribution has been squeezed to the benefit of the top income decile. The disparity between the shifts in the distribution of income per household and per capita is explained by the changing composition of households by income deciles. What we see here is a systemic, historical change.

## HOUSEHOLD INCOME

**Table 5.1**  
**Distribution of income in all households by deciles in 1988–2004 (%)**

Decile	Total disposable household income					Income per capita				
	1988	1992	1996	2002	2004	1988	1992	1996	2002	2004
1	2.5	2.9	2.8	3.1	3.0	5.3	4.9	4.4	4.2	3.6
2	4.1	4.1	3.9	4.2	4.2	6.6	6.4	5.9	5.9	5.5
3	5.9	5.8	5.6	5.7	5.6	7.4	7.3	6.8	7.0	6.6
4	7.6	6.9	6.7	6.9	6.8	8.1	7.9	7.6	7.6	7.6
5	9.3	8.1	7.9	7.8	7.8	8.8	8.6	8.3	8.2	8.5
6	10.7	9.6	9.4	9.1	9.1	9.6	9.2	9.1	8.8	9.3
7	12.0	11.1	10.9	10.7	10.7	10.6	10.1	10.1	9.7	10.2
8	13.2	12.8	12.7	12.6	12.6	11.8	11.3	11.5	11.1	11.7
9	15.1	15.2	15.4	15.3	15.4	13.6	13.2	13.7	13.7	13.9
10	19.6	23.5	24.7	24.6	24.8	18.2	21.1	22.6	23.8	23.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Decile ratio	5.1	5.0	5.2	4.6	4.9	2.4	2.5	2.9	3.1	3.3
Ratio 10:1	7.8	8.1	8.8	7.9	8.3	3.4	4.3	5.1	5.7	6.4
RH Index	20.6	22.6	23.7	23.2	23.5	14.2	15.7	17.9	18.6	18.9
Coefficient	0.29	0.32	0.33	0.33	0.33	0.20	0.23	0.26	0.26	0.26
Gini										

*Source:* Microcensus surveys, Living Conditions 2005 (author's computation).

*Note:* For an explanation of ratios and coefficients see the Appendix to Chapter 4.

In the communist period the range of inequality according to total disposable income derived from the concentration of pensioners in the bottom decile and from the presence of (mostly rural) households with three or more economically active members in the top decile. Gradually, pensioners moved up the income ladder, while families with children moved down. The effect of the number of economically active members attenuated, while differences in individual earnings became large enough to outweigh the effect of the number of active members in total disposable household income. The same rise in disparities caused the lowest income category to cease to be represented exclusively by transfer incomes and to become newly represented by low market incomes. Instead of pensioners as non-working poor, families with children having low or temporarily no earnings appear (Večerník, 1996b).

### 5.3 The changing structure of inequality

The increase in income inequality was fed by changing income sources. Taking only employee households into account (for the sake of comparability over time), we see the contribution of the household head's earnings increasing somewhat, affecting the increase in total earnings in household income by three percentage points. A more striking change was the relative reduction of family benefits by almost one-half. "Other" income sources (from business and property) remain negligible parts of employee household income. The financial burden of households has increased – instead of the previous wage tax, a new personal income tax and social and health insurance contributions are paid, the last two together being five percentage points higher. Since social transfer income has decreased by the same relative amount, the summary effect of redistribution has risen by nine percentage points to 15% of gross household income (Table 5.2, section one).<sup>5</sup>

Inequality in primary income sources rose considerably after 1989 and continued to rise slightly after 1996. The most striking increase in inequality was witnessed in the earnings of the household head and his spouse. Also, family social benefits have become more unequally distributed since the mid-1990s, as a result of reforms introduced to target benefits. There has also been a considerable increase in inequality in personal income tax. All changes combined, the resulting family income differentiation has risen by about one-third since 1988 in terms of the Gini coefficient. And while inequalities in transfer income and taxes have increased, the overall reduction of earnings disparities by the redistribution process is less in 1996 and 2002 than in 1988 (Table 5.2, section two).

Decomposition analysis is used to examine how individual income sources contribute to the resulting income inequality.<sup>6</sup> The main change is that the importance of earnings has increased considerably since 1990, although that only applies to the head

<sup>5</sup> Under the command economy, redistribution was completely opaque and only a wage tax was paid by employees, becoming almost flat during that period (Večerník, 1986). This fact allowed me to adjust the earnings variables to make them comparable using the gross wage instead of the net wage available from the Microcensus 1988 survey. The new system of taxation started to work in 1993, when personal income tax and social and health insurance contributions were introduced, the latter contribution divided between employees and employers.

**Table 5.2**  
**Income sources and their inequality in employee households in 1988–2002**  
**(% and Gini coefficient's amount and decomposition)**

Income source	1. Income source in % of gross income		2. Inequality of the income source (Gini coefficient)		3. Share of income source in total inequality	
	1988	1996	2002	1988	1996	2002
Total earned earnings head	86.2	89.2	89.4	0.26	0.30	0.31
earnings spouse	55.9	56.3	59.5	0.17	0.26	0.27
earnings others	22.7	22.7	21.6	0.48	0.58	0.64
Total social benefits	7.6	10.2	8.3	0.90	0.85	0.88
family benefits	12.0	8.3	8.7	0.47	0.61	0.64
pension benefits	9.4	5.0	4.9	0.47	0.62	0.66
Other income	2.6	3.3	3.8	0.90	0.88	0.87
Total gross income	1.8	2.5	1.9	0.88	0.93	0.91
Tax and insurance income tax	100.0	100.0	100.0	0.20	0.27	0.27
insurance	15.4	20.0	20.2	0.27	0.36	0.37
Total net income	15.4	9.2	9.4	0.27	0.44	0.46
Total transfer*	-	10.8	10.8	-	0.30	0.31
	84.6	80.0	79.8	0.19	0.25	0.26
	-6.0	-15.0	-15.3	-	-	-
	1.01	1.26	1.29	1.01	1.26	1.29
	0.37	0.50	0.56	0.37	0.50	0.56
	0.44	0.46	0.48	0.44	0.46	0.48
	0.20	0.30	0.25	0.20	0.30	0.25
	0.17	0.00	0.02	0.17	0.00	0.02
	0.13	-0.02	-0.01	0.13	-0.02	-0.01
	0.04	0.02	0.03	0.04	0.02	0.03
	0.03	0.07	0.04	0.03	0.07	0.04
	1.21	1.33	1.35	1.21	1.33	1.35
	-0.21	-0.33	-0.35	-0.21	-0.33	-0.35
	-0.21	-0.18	-0.20	-0.21	-0.18	-0.20
	-	-0.15	-0.15	-	-0.15	-0.15
	1.00	1.00	1.00	1.00	1.00	1.00
	-	-	-	-	-	-

Source: Microcensus surveys (author's and Michal Franta's computation).

Note: \* Transfer is computed as tax and insurance contributions minus family benefits.

**Table 5.3**  
**Correlations of individual income sources with household income in employee households in 1988 and 2002**  
**(Pearson coefficients)**

Income source	1988				2002					
	Total disposable $e = 0$	Square root $e = 0.50$	EU indicator $e = 0.59$	Minimum living income $e = 0.84$	Per capita $e = 1$	Total disposable $e = 0$	Square root $e = 0.50$	EU indicator $e = 0.59$	Minimum living income $e = 0.77$	Per capita $e = 1$
Total earned	0.92	0.84	0.72	0.48	0.37	0.81	0.68	0.60	0.53	0.42
earnings head	0.56	0.55	0.53	0.36	0.28	0.59	0.58	0.56	0.52	0.46
earnings partner	0.62	0.56	0.48	0.29	0.20	0.55	0.41	0.35	0.27	0.18
earnings others	0.53	0.47	0.34	0.26	0.21	0.43	0.29	0.21	0.18	0.12
Total soc. benefits	0.25	-0.04	-0.12	-0.27	-0.33	0.01	-0.11	-0.14	-0.16	-0.19
family benefits	0.23	-0.13	-0.20	-0.40	-0.47	-0.07	-0.21	-0.22	-0.24	-0.27
pension benefits	0.10	0.09	0.05	0.05	0.04	0.06	0.02	-0.01	-0.01	-0.02
Other income	0.14	0.12	0.12	0.08	0.06	0.53	0.62	0.65	0.63	0.58
Total gross income	0.99	0.86	0.71	0.44	0.31	0.98	0.88	0.81	0.73	0.61
Tax and insurance	0.74	0.79	0.70	0.56	0.48	0.78	0.70	0.64	0.58	0.49
Total net income	1.00	0.82	0.68	0.39	0.25	1.00	0.89	0.82	0.74	0.61
Total transfer*	-0.30	-0.58	-0.57	-0.62	-0.62	-0.69	-0.67	-0.62	-0.58	-0.51

*Source:* Microcensus surveys (author's computation).

*Note:* \* Transfer is computed as tax and insurance contributions minus family benefits. For definitions of income adjustments, see the Appendix to this chapter.

All coefficients are significant at  $<0.01$  level.

of the household. While under the communist regime a wife's earnings were the more important of the two (owing to the differences stemming from women's employment), in the market economy the male head's earnings have become more important (owing to the larger earnings disparities). Family social benefits contributed considerably to inequality under the communist regime, but they have almost no effect now. Earned income now contributes much more to income inequality than before. Also the financial burden (paid taxes minus received benefits) matters much more now than before 1990: its contribution to the resulting income inequality has increased from one-fifth to one-third (Table 5.2, section three).

In reference to the above discussion of the appropriate indicator of household income or family wellbeing, the associations between individual income sources and the various adjustments of household income are shown, as they are those most frequently used in the literature and social policies. The correlations clearly decrease from the indicator involving full economies of scale to the indicator involving zero economies of scale. The EU indicator is located somewhere in the middle, so it could be used for comparisons over time. However, we have to bear in mind that, as the patterns of expenditures have changed over time, this indicator, kept stable, underestimates the scale economies in 1988 and overestimates them in 2002 (Table 5.3).

In 2002, the association between total disposable household income (whether gross or net) and adjusted income is stronger than in 1988. This means that the adjustment within households has become less important. The same is true of the correlation between head's earnings and the adjusted indicator. Little change over time is observed either in the association between adjusted household income and family social benefits, in spite of the fact that benefits were rescheduled towards better targeting in reforms introduced in the mid-1990s. In contrast, there is a weakening of the association between family income level and financial burden, even though personal income tax had been rescheduled to make it much more progressive.

While the change in the structure of factors that determine adjusted income seems quite small when just one indicator is used, the change is much stronger when various indicators appropriate to the given period are taken into account. When comparing the adjustment by the minimum living income in 1988 (which is more appropriate to the situation at that time) and the EU adjustment in 2002 (which corresponds better to the changing expenditure patterns), the strength of the association with total disposable income appears to double and the correlation between earned income and adjusted income looks considerably stronger. Since the (negative) correlation between family social benefits and adjusted income is smaller, while the (positive) correlation between the tax burden and adjusted income is higher, the resulting correlation regarding the net redistribution effect is the same.

The regression analysis involving the basic variables gives a snapshot of the main shifts in two versions (Table 5.4). In the first, the earning of the head is omitted due to

<sup>6</sup> This method, which was introduced by Lerman and Yitzhaki (1985) and Stark et al. (1986), makes it possible to determine the impact of a particular income source on total net income inequality as represented by the Gini coefficient. The analysis was computed by Michal Franta (CERGE/EI) on Stata module *Descogini*, programmed by A. Lopez-Feldman.

**Table 5.4**  
**Factors of income in employee households with a complete couple in 1988–2002**  
**(standardised regression coefficients)**

Variable	Regression 1			Regression 2		
	1988	1996	2002	1988	1996	2002
Earnings of the head	-	-	-	0.53	0.61	0.61
Spouse is economically active	0.25	0.24	0.21	0.24	0.25	0.22
Number of other economically active persons	0.09	0.12	0.12	0.10	0.15	0.08
Age of the head	0.19	0.05*	0.02*	-	-	-
Number of children	-0.37	-0.31	-0.39	-0.49	-0.34	-0.40
Years of school – head	-0.05*	0.30	0.28	-	-	-
Years of school – spouse	0.04*	0.20	0.22	0.01*	0.17	0.17
Adjusted R <sup>2</sup>	0.34	0.41	0.43	0.58	0.68	0.71

*Source:* Microcensus surveys (author's computation).

*Note:* Dependent variable is *ln* of household equivalent income by EU indicator.

All coefficients except those marked by \* are significant at <0.01 level.

their interference with the head's age and education variables, whereas in the second the earning of the head is included while the interference with the head's age and education is excluded. In the second case, the level of determination is obviously higher. We can compare the results with the stylised facts presented in Scheme 5.1. One can state that the assumptions about the transition to the market economy were at least partly fulfilled:

- while the weight of the household head's earnings in the family's standard of living has increased, the weight of the wife's economic activity has decreased;
- the age of the household head (also as a proxy of the life cycle) has gone from being a major explanatory variable to a negligible one;
- the importance of schooling has increased, making a man's (and partly also a woman's) education among the leading factors determining the family's standard of living;
- the importance of the number of children in the family had diminished somewhat in 1996 in comparison with 1988, but increased again in 2002 (due to the weakening effect of family social benefits in comparison with rising earned income, which is not associated with family size).

All in all, there has been an increase in the amount of variance, which is explained by the basic characteristics of the household; the rising importance of education has come to outweigh the effect of the life cycle, and the importance of labour market participation and family size has diminished only a little, if at all. Regarding the other variables of labour market participation, such as occupation and industry, they were excluded from the final analysis, since their effects – after controlling for education – fell almost to zero.

**Table 5.5**  
**Economic activity and children in couples in 1988–2002 (%)**

Age of female spouse	Economic activity of female spouse			Couples with at least one dependent child			If they have dependent children, their average number		
	1988	1996	2002	1988	1996	2002	1988	1996	2002
20–24	64.3	40.0	53.8	82.3	78.9	45.5	1.47	1.31	1.21
25–29	74.7	55.7	53.2	93.1	91.2	70.2	1.80	1.66	1.55
30–34	85.0	75.8	71.1	96.4	95.9	93.1	2.07	1.94	1.85
35–39	91.2	86.6	85.5	95.5	93.6	93.5	2.00	1.95	1.95
40–44	91.8	91.0	89.3	79.4	76.6	86.5	1.59	1.63	1.74
45–49	91.2	89.7	89.0	48.7	45.3	47.0	1.33	1.38	1.35
50–59	82.2	77.9	79.2	21.6	27.8	25.8	1.24	1.21	1.27
Total	85.6	78.3	76.5	80.5	74.2	70.4	1.80	1.71	1.70

*Sources:* Microcensus surveys (author's computation).

*Note:* Households headed by a prime-age (25–54) employee. The data refer only to dependent children living in the household not the number of children ever born.

With regard to the most important correlate of family income, we refer to Peter Gottschalk and Sheldon Danziger (2005, p. 253), who found that in the United States in 1975–2002, “male wage inequality and inequality of family income closely mirror each other”. A parallel calculation for the transition period in 1988–1996 in the Czech Republic shows that while the inequality of the earnings of household heads (measured likewise with the decile ratio) increased by 40%, family earnings increased by 34%, and household income (adjusted likewise with a “minimum income” scale) by only 23%. In the period 1996–2002, all three types of income developed in the same way, with an increase in inequality of 4%–6% for all three. The rule about the parallel development – or stability – of personal and family incomes also seems to be valid for the post-transition Czech Republic.

#### 5.4 The characteristics of couples

As shown above, the packaging of family income has seen important changes with regard to women's economic participation, their earnings, and the number of children they have. All these changes are interrelated, although often only weakly and sometimes inversely. Czech women are more educated in the early 2000s than they were in the late communist period, but fewer of them are economically active in middle and later age. While they stay at home more often, fewer of them have at least one child. Not only is the percentage of childless families bigger, but also the average number of children in families with children is lower (Table 5.5).

The main source of the decrease in the employment rate among women is the longer period devoted to obtaining an education and the larger numbers doing so. The employment decrease thus particularly concerns age cohorts up to 29 years. The second reason is more frequent and longer care for children at home. And the third reason is

a more complicated job search for women, particularly after a break. In fact, however, the percentage of employed women aged 40 or over has declined very little since communist times. This is so despite the fact that having at least one dependent child at home is more frequent in those age cohorts. Of course, children in such families are older and do not require their parents' direct care.

Regarding the number of children, developments after 1989 led to a considerable decline in fertility rates. According to the Microcensus surveys, the average number of dependent children in employee families with household head in the prime age group (25–54) decreased by about one-quarter between 1988 and 2002, while the percentage of childless households increased from 14% to 24%.<sup>7</sup> Children have begun to arrive later in the life cycle; a postponement in childbearing of about five years was recorded between 1989 and 2002. And an increasing number of children live in lone-parent families: 9% in 1988, 14% in 1996 and 17% in 2004.<sup>8</sup>

During this period, the relationship between the presence of children in the family and women's participation in the labour market according to their education also changed. While in 1988 the number of children a woman had was negatively associated with her level of education, a weak correlation was found in the two following observations – 1996 and 2002. On the other hand, the economic activity of women is significantly correlated with education, even if a woman's age is controlled for. Education obviously matters in this regard as a strong factor of unequal opportunities in the labour market. This differs from the situation under the communist regime when due to mandatory full employment no such differences could occur.

When all couples are taken into consideration, there was only a negligible change in women's contribution to household earnings between 1988 and 2002 (see Table 5.2 above), but in couples where both spouses are economically active the rise is quite substantial (from 36% to 40%). The average figure regarding the female spouse's contribution to earned household income (24%) is at the level of Western countries such as Austria and Italy, but lower than in France, Germany, and the Netherlands (about 28%). A substantial change also occurred in another direction. While in 1988 a wife earned more than her husband in only 7% of couples, by 1996 the figure was 16% and by 2002 it was 18%. This is about the same percentage as found in France and Germany, and higher than in Austria and Italy (Figari et al., 2007).

In order to estimate the joint effect of a couple's human capital, the partner's education was added to a standard Mincerian equation which measures returns to education standardised as the percentage increase in the wage for one additional year of education (see the Appendix to Chapter 4). While in 1988 the effect of a partner's education on a person's earnings was insignificant, in 1996 the education of a husband seemed to “increase” his spouse's earnings by 3% and in 2002 by 2.5%. A wife's

<sup>7</sup> The figure only concerns families without dependent children at the time of survey and does not include families without children throughout their life cycle. The percentage of permanently childless families is much lower, but increases from some 5% in the birth cohorts of women in 1950, to 10% for the birth cohorts of women in 1970 and on to an estimated 20% for the 1978 birth cohort (Sobotka, 2006).

<sup>8</sup> Population Censuses report even higher percentages of children living in lone-parent families: 13% in 1991 and 21% in 2001.

**Table 5.6**  
**Returns to education in couples in 1988–2002 (regression coefficients)**

Category and variable	Earnings of male spouse			Earnings of female spouse		
	1988	1996	2002	1988	1996	2002
Years of school of male spouse	0.03	0.08	0.07	0.01	0.03	0.03
Years of school of female spouse	-0.00	0.02	0.03	0.04	0.08	0.09
Experience of male spouse	-0.02	0.00	-0.01	0.04	0.00	-0.00
Experience of female spouse	-0.00	0.00	0.01	0.06	0.01	0.01
Intercept	7.67	8.32	8.66	6.64	7.44	7.84
Adjusted $R^2$	0.10	0.23	0.22	0.22	0.23	0.21
Adjusted $R^{2a}$	0.10	0.25	0.25	0.22	0.24	0.23

*Source:* Microcensus surveys (author's computation).

*Note:* Households headed by a prime-age (25–54) employee and where both marital partners are economically active. Dependent variable is *ln* gross earnings.

All coefficients are significant at <0.01 level.

<sup>a</sup> The spouse's earnings were added to the explanatory variables.

earnings exhibited about the same effect on her husband's earnings in 2002. In addition, a person's earnings are positively affected by the amount of their partner's earnings, an effect that again increases over time (Table 5.6).

This evidence indicates that families are functioning somewhat more as a true socio-economic unit. This may be partly due to the stronger social homogeneity of employee couples under the market regime. This is not, however, substantiated by the otherwise unique data on educational homogamy in the Czech Republic. According to a study based on general population data, it did not increase but remained stable between 1988 and 2000 (Katrňák, Kreidl and Fónadová, 2004). One might object that such an indicator (distinguishing between four education levels) is too approximate to measure manifold changes in social mobility. The authors consider the result rather surprising and refer to studies on Germany and Russia, which document closing channels of social mobility.

Our evidence on the association of earnings within couples shows increasing similarity regarding the economic performance of spouses (provided both are economically active), which could be caused by various factors: a person's original choice of marital partner based on his/her social status and professional ambitions, later mutual interaction of partners' careers, or even competition between them. Higher inequality of gross household income does not derive just from the decisions couples make about the economic activity of the female spouse, which varies according to education levels and the number of children in the household is also the result of a stronger as-

sociation between partners' earnings. On the other hand, as the variance in the number of children in families has decreased, the effect of this factor on family income inequality has been declining, though it is still significant.

## 5.5 Conclusion

In communist Czechoslovakia, differences in earnings were stable over decades and the inequality of family income (if adjusted per capita) was small and even diminishing as a result of the increasingly greater homogeneity of households in terms of size and composition. After 1989, family income inequality began to emerge and rose considerably in the first half of the 1990s. The rise in the disparities has been much slower since. This sound evidence of changing income inequality based on large statistical surveys has not been reported everywhere. The widely used TransMONEE Database compiled by Unicef reports a negligible change in the early 1990s and a steady increase in inequality after 1998 (Unicef, 2007).

Although the Czech Republic still ranks as one of the more egalitarian societies in the world (Milanovic, 2005), its position is no longer exceptional but rather about the same as that of the Scandinavian countries. Since 1989, the three Central European countries – the Czech Republic, Slovakia and Slovenia – have shared the same pattern of rising income inequality (Švejnar, 2002; OECD, 2008b; see also Table A6 in the Annex). Income inequality is somewhat higher in the “welfarist” Western countries such as Belgium and France, and even greater in Southern European countries and the United Kingdom. While Hungary belongs in the second group (with the same inequality level as in France), Poland and the Baltic countries fall into a third group, that of the most unequal countries in Europe.

Regarding the factors of income inequality, the picture since the mid-1990s is quite different from what was observed before 1989. Fewer inequalities are produced by household composition and factors related to the life cycle, while more inequalities are produced by factors associated with the labour market. The correlation between per capita income and the number of dependent children, which was striking under the previous regime, has weakened substantially. Due to the reduced economic activity of women, the importance for the resulting inequality of the household head's contribution to the family's income standard has increased. The importance of schooling has increased, making the man's (and to a large extent also the woman's) education a leading factor in determining family income.

While the factors related to the life cycle have weakened, they have not lost their importance completely. The weight of the number of children in the family in the income distribution had diminished somewhat in 1996 in comparison with 1988, but increased again in 2002. This was due to the weakening effect of family social benefits in comparison with rising earned income which was not associated with the number of children. The measured effect of the number of children depends on the mode of income adjustment to the size and composition of the household – the more we acknowledge economies of scale in the adjustment of disposable income, the smaller the effect of the number and age of children as factors of income inequality.

Taken in sum, the changes that occurred after 1989 were much more than just quantitative in nature. They did not exactly constitute a revolution, turning things upside down, but they were more than just simple shifts. A systemic change occurred also in the principal axis of the entire process – the role of education. Its importance for determining family income is not as strong as it is for determining earnings, but it is becoming high, despite the fact that the number of children living in the family ceased to be dependent on education levels. Nevertheless, the role of family size and composition in income packaging remained greater than expected or than typical in advanced Western countries.

### Appendix: Data sources and definitions of income

The main source of the analyses was the household income surveys (Microcensus) conducted periodically by the Czech Statistical Office (CSO) on large population samples until 2002. Beginning in 2005, data on income are collected in the Living Conditions surveys (always for previous year). All household income surveys include variables aimed at ascertaining details about earned income, social benefits, taxes, and contributions. Questions about sources of income other than the most common income types are also included but they are rarely answered. Income data reported by respondents are corrected by the CSO using various other sources of information.

#### Characteristics of income surveys in 1988–2004

Characteristic	1988	1992	1996	2002	2004
Targeted percentage of households	2	0.5	1	0.25	no
Survey sample (final number of households)	69 912	15 677	27 314	7 678	4 351
Non-response rate in %	4.2	15.7	23.8	28.2	35.2
Disposable income per capita (thousands CZK yearly) according to:					
– income surveys <sup>a</sup>	22,3	33,7	63,5	92,9	104,0
– aggregate statistics <sup>b</sup>	25,9	42,0	83,5	122,4	137,2
Coverage of income surveys:					
% of National Accounts' figures	86.1	80.2	76.0	75.9	75.8

*Source:* Microcensus surveys, Living Conditions 2005.

*Note:* <sup>a</sup> Income per capita is weighted by persons.

<sup>b</sup> Data of the Balance of Incomes and Expenditures of the Population in 1988 and 1992, and of the National Accounts (indicator of final consumption of the population) in 1996, 2002, and 2004.

Regarding the definition of a household, Czech statistics use the term “economic household”, which refers to all persons sharing their incomes and expenditures. In one apartment (“apartment household”) there could be one or more “economic households”, while one “economic household” could comprise one or more “census

households”, which are strictly defined by parental line (couple and children). “Economic household” is the unit of observation used in the CSO source publications and in this chapter when speaking about households or families.

With respect to the adjustment of income to family size and composition, the equivalence scales in the LIS comparative analysis showed considerable diversity (Buhman et al., 1988; Atkinson, Rainwater and Smeeding, 1995). The continuum of possibilities is expressed by the elasticity coefficient in the formula  $W = D/S^e$ , where  $W$  = economic well-being,  $D$  = total disposable income,  $S$  = household size, and exponent  $e$  = elasticity coefficient. The elasticity coefficient varies between 0 (full scale economies) and 1 (no scale economies).

Besides total household income ( $e = 0$ ) and income per capita ( $e = 1$ ), three adjusted (equivalised) income indicators with elasticities located between per household income and per capita income are used here:

1.  $W = D/(\text{sqrt } S)$

The adjustment of household size by square root, where the elasticity coefficient is 0.5 (so that a two-person household equals 1.41 of the equivalent adult, a three-person household equals 1.73, etc.).

2.  $W = D/(S/\text{eq}EU)$

The EU indicator, where the equivalent unit is computed so that the first adult is counted as 1.0, each additional adult as 0.5, and each child up to 13 as 0.3; the elasticity coefficient is somewhat higher than the previous one (0.59).

3.  $W = D/(S/\text{eq}LM)$

An adjustment using the scale implicit in the Czech official minimum living income (see the Appendix to Chapter 9). This scale is quite steep and is shaped to conform to the family budget of low-income categories with a larger share of “personal” items. Here, the elasticity coefficient is the highest, but still quite far from the per capita adjustment.

## 6 Taxes and transfers: less redistribution, more progressivity

The extent of overall income redistribution has decreased substantially in connection with the market transition and economic reforms. The rate of redistribution as a percentage of GDP was estimated at 70% in former Czechoslovakia and at 50%–60% in Hungary and Poland (Newbery, 1995). Economic reforms contracted the tax quota down to or below 40% in all these countries. The data on the Czech Republic show a slow decrease in tax revenue as a percentage of GDP in 1995–2000 from 36% to 34% and then a rise of two percentage points in 2000–2006. In 2006, the figure was below that in most of EU-15 countries and below the EU-27 average which was 41%. In terms of structure, the Czech tax system is specific for its relatively low income taxes and relatively high social insurance contributions (see Table A3 in the Annex).

It is not enough, however, to speak only of averages and aggregates. The question is how taxes and social benefits interact in shaping household income, and what the net effect of the redistribution is on different levels of household income. For this, the model family or typological approach is commonly used, where the effects of taxes and family social benefits are calculated for typical household compositions and average wage levels. A better approach – one closer to reality – is based on simulation made on representative sample surveys or, even on cross-national databases, such as the Luxembourg Income Study (see LIS Working Papers Series), or the European Community Household Panel (ECHP) covering the EU-15 (see Working Papers of the Microsimulation Unit of the University Essex). More recently, EU-SILC (EU Statistics on Income and Living Conditions) data can be used to develop a model for the entire EU-25.

Keeping this micro-analytical and population-representative direction in mind, the objective of this chapter is to document the quantitative change in the redistribution of household income on the micro level. In the first part, income surveys are utilised to show the changes in the redistributive effects of taxes and family benefits since 1989. The second part focuses on personal income tax and the recent reforms thereof. The third part deals with indirect taxes in an effort to include them in the overall picture of redistribution based on a representative sample. The fourth part examines the public opinion on taxes and benefits. In conclusion, the situation in the Czech Republic is placed in a cross-national context and the limits to available data sources are noted.

## 6.1 Changes in taxes and family social benefits

On the micro-level, the information on income, taxes and benefits is much less reliable than financial macro-data on revenues and expenditures. In some countries, fiscal records are accessible after a long delay (for example in Sweden, Finland, Switzerland and France), but other problems exist, such as the variety of tax entities and incomplete coverage of the population. Consequently, in most cases survey data on household incomes are used for analysis. Tax and benefit data are often adjusted or corrected, or even imputed by statisticians according to reported incomes and other information provided by respondents. The higher the income and the less regular the benefits, the less valid the declared information is.

To adjust or impute individual data on taxes, information about the income and composition of households can be used for employees but not for entrepreneurs and the self-employed. This is because of tax-deductible costs: the Czech tax system has hundreds of such items.<sup>1</sup> In recent surveys of households, people who have some income from self-employment or entrepreneurship are consequently asked to state their gross and net profit, the form of tax return completed and the amount of tax paid, with the alternative of providing only an estimate in six bands. However, these questions remain unanswered by the majority of respondents.

The evidence relating to family social benefits is better, as the figures for most social benefits can be easily imputed according to entitlements derived from the composition and economic situation of the household. There are, however, other factors that skew information and consequently distort reality: on the one hand the fraudulent receipt of benefits, and on the other the non-take-up of benefits. In a public opinion survey conducted in 1999, close to one-third of low-income households reported that they did not know how to seek individual benefits. While the payment of child benefits exceeds 90% of entitlements, the share of the entitlement to social assistance benefits and to the housing benefit that is paid is much lower (Mareš, 2001a).

Only households of non-agricultural employees were selected for our cross-time comparison (unlike all employee households in Chapter 5). There are various reasons for this decision. The first is that before 1989 only employees paid wage tax (unlike cooperative farmers not paying any tax) and no major category of self-employed people existed. The second is that as the tax amounts are adjusted by statisticians there is no such distortion of the results as in the case of the self-employed, who largely use the option of deducting various costs from their tax base. The inclusion of the self-employed – provided we have reliable data – would certainly diminish the overall tax burden but probably not strengthen its progressivity.

The other concepts included in the calculations are shaped as follows:

- Income deciles are formed by ranking according to equivalised disposable income using the square root of the number of persons in the household weighted by household size, in line with the OECD approach (Förster, 2004).

<sup>1</sup> Czech tax system is so complicated and amended so frequently that only financial consultants can understand it. According to World Bank and PricewaterhouseCoopers' *Paying Taxes 2008*, the Czech Republic ranks 168th among 178 countries regarding the number of hours spent on tax compliance

**Table 6.1**  
**Taxes and benefits by income deciles in employee households in 1988–2002 (%)**

Decile	Personal income tax and social insurance			Family social benefits			Summary effect		
	1988	1996	2002	1988	1996	2002	1988	1996	2002
1	10.9	12.1	11.9	24.0	26.0	26.0	10.4	10.7	11.0
2	12.1	14.7	14.3	21.0	17.6	16.3	6.3	0.4	-0.2
3	13.1	15.9	15.5	17.3	13.7	13.0	1.9	-4.4	-4.5
4	13.8	17.0	16.7	14.9	10.2	9.2	-1.0	-8.6	-9.0
5	14.3	17.9	17.9	13.0	7.7	6.5	-3.1	-11.5	-12.6
6	14.9	18.8	18.4	11.2	6.3	5.7	-5.3	-13.7	-13.7
7	15.2	19.6	19.4	9.6	4.7	4.5	-7.0	-15.9	-15.8
8	15.7	20.3	20.0	8.0	3.8	4.2	-9.0	-17.3	-16.6
9	16.4	21.6	21.9	6.7	2.4	2.3	-10.8	-19.7	-20.1
10	16.9	24.5	25.2	4.9	1.4	1.3	-12.8	-23.4	-24.2
Total	14.8	19.7	19.7	11.5	7.0	6.6	-5.0	-14.1	-14.4

*Source:* Microcensus surveys (author's computation).

*Note:* For computing income deciles, household income is adjusted to an equivalent unit, which is set as the square root of the size of the household and is weighted by household size.

- Only direct payments were considered, i.e. the wage tax in 1988 and the personal income tax together with mandatory health and social insurance contributions paid by employees in 1996 and 2002. Relative tax is computed as the percentage of tax and contributions in gross household income.
- Social benefits are computed without pension benefits. Relative family benefits are computed as the percentage of social benefits in disposable (net) household income.
- The summary effect is computed as family social benefits minus taxes and contributions in percentages of gross household income.

The systems of redistribution before and after 1989 differ greatly. Average taxation in employee households rose by about five percentage points from 1988 to 1996. The reason is that, under the communist regime, social and health insurance contributions were included partly in the wage tax, but a larger portion was paid by employers in lump-sum payments (50% of the wage fund). The new system made taxation steeper. While the tax for the lowest decile changed only very little, the tax for the top decile increased by eight percentage points to one-quarter of gross income (Table 6.1). From another perspective, while in 1988 households in the top quintile paid one-third of all taxes, this figure surpassed 46% in 1996. Compared to the earlier system, which was extremely flat, taxation became more progressive. This occurred despite the fact that the majority of the population falls within the two lowest-income tax brackets. Between 1988 and 1996, the share of transfer income (not including pension benefits) in the net income of employee households decreased by about five percentage points.

**Table 6.2**  
**Correlations and regression coefficients of taxes and benefits in employee households in 1988–2002**

Factor	Tax and insurance			Family social benefits			Summary effect		
	1988	1996	2002	1988	1996	2002	1988	1996	2002
<i>Pearson correlation coefficients</i>									
Household income	0.82	0.92	0.89	0.17	-0.12	-0.11	-0.43	-0.85	-0.81
No. of active earners	0.66	0.40	0.44	0.11	-0.14	-0.08	-0.38	-0.40	-0.41
No. of children	-0.07	-0.06	-0.01	0.76	0.38	0.40	0.56	0.18	0.15
Age of the head	0.14	0.13	0.09	-0.38	-0.29	-0.17	-0.35	-0.21	-0.17
<i>Standardised regression coefficients</i>									
Household income	0.76	0.96	0.90	0.04*	-0.12	-0.13	-0.49	-0.88	-0.82
No. of active earners	0.16	-0.06	-0.01*	0.02*	-0.04	-0.01*	-0.10	-0.04	0.00*
No. of children	-0.27	-0.08	-0.08	0.72	0.54	0.40	0.67	0.25	0.21
Age of the head	-0.09	-0.03	-0.04	-0.06	-0.09	-0.05*	-0.02*	-0.04*	0.02*
R <sup>2</sup>	0.74	0.85	0.80	0.58	0.35	0.18	0.62	0.78	0.70

*Source:* Microcensus surveys (author's computation).

*Note:* All coefficients except those marked by \* significant at <0.01 level.

Owing to the multicollinearity (particularly between the number of active earners and household income) the results must be viewed with some reservations.

As a result of the targeting introduced in the reform of family social benefits in the mid-1990s, the distribution of transfer income is much more differentiated now than it was before 1990. Starting from the second income decile, households have been increasingly hit by benefit reductions. While the lowest quintile received one-quarter of all transfer income in 1988, this share had risen to more than one-third by 1996. In contrast, the top quintile in 1996 and 2002 was receiving less than one-third of its previous share. This change is also a result of the changing demographic composition of upper-income categories, in which there are fewer children.

As a result of these two opposing shifts, the summary effect of redistribution has been boosted considerably. The total net financial burden in the income of employee households in relative terms has tripled. While in 1988 the lower third of households was represented by the net recipients of income as if transferred from the upper half, in 1996 and 2002 only the bottom decile gained. At the other end of the income ladder, the total net financial burden doubled. The difference in percentage points between the bottom and top deciles increased from 23 in 1988 to 34 in 1996 and 35 in 2002. Tax progressivity and the targeting of benefits combined intensified the degree of redistribution according to relative income. The system thus has a stronger

equalising effect after 1990 than before, taking into account, of course, only the observable part of the communist distribution and redistribution system.

Not only have the disparities in taxation and benefits shifted, but the factors determining them have changed together with the whole redistribution structure. The regression analysis measures the effect of variables such as household income and the size and composition of households (Table 6.2). Regarding taxes, the new system stresses the effect of the earned household income and diminishes the effect of the number of active earners and children. Regarding the summary effect, only household income remained important after 1989. Although tax allowances for dependent children have been retained, their effect is suppressed by social insurance contributions, which are calculated as a flat rate. When income tax alone is regressed, the standardised regression coefficient for the number of children increases to -0.12 and that for the number of economically active members rises to -0.11 for 2002.

Important changes have also occurred in the case of family social benefits. While before 1989 they had no relationship to family income and were determined solely by the number of children, the effect of targeting is apparent in 1996 and even more so in 2002. While the strength of the determination of overall financial burden remained almost the same and that of the determination of transfer income decreased substantially, the regression analyses of the summary effect suggest the same degree of determination with a completely different structure: while the effect of household income almost doubled, the effect of the number of children was reduced to about one-third.

## 6.2 Reforms of personal income tax

Personal income tax is a small part of government revenue, but a big political issue. In fact, it amounted to 10% of the state budget revenue in 2007 (a little less than corporate tax), while social and health insurance contributions (of employees and employers together) totalled 36% (Statistical Yearbook, 2008). There is an imbalance for both kinds of payments between employees and the self-employed. According to the published results of the Living Conditions 2007 survey, the self-employed in 2006 paid 16% in income tax, compared to 12% paid by employees (of taxable income), but only 3% in insurance payments, compared to 12% paid by employees (of gross earned income).

While insurance contributions are arranged on a flat rate (a ceiling of four times the average wage was only introduced in 2008), personal income tax was shaped progressively from its introduction in 1993 until 2007. Since 2008, a flat-rate income tax has been applied together with large tax credits. Unlike pension insurance contributions which have changed only two times (a decrease from 27.2% to 26% in 1996 and an increase to 28% in 2004, but with only a negligible change in the part paid by employees), income tax is the subject of constant political debate and system reforms.

Taking the issue generally, tax reforms can proceed in various ways, in particular by:

- redefinition (mostly an increase) of the zero rate band;
- redefinition of the other rate bands by narrowing or expanding them;
- changing tax rates in some or all tax bands;

- introducing a flat-rate tax;
- changing the tax allowances on taxable income for family members;
- introducing or changing tax credits (instead of allowances) deductible from the resulting tax;
- introducing or changing premiums, such as the “child bonus”, as a refundable tax offset;
- introducing or changing negative income tax as a social benefit to replace or complement other transfer income among low-income households.

Except for negative income tax, all the other measures were applied in the Czech Republic.<sup>2</sup> The period of 2005–2007 saw a lively debate over new proposals from both sides of the political spectrum. All of which promise to reduce the tax burden of payers but vary by their preferential treatment of either lower-income categories (in the name of social solidarity) or higher-income categories (for the sake of work motivation). The Czech Social Democratic Party (ČSSD) has proposed reducing the tax on lower-income categories and offering motivation for those with earned income by replacing deductible allowances with direct tax credits. The Civic Democratic Party (ODS) wants to challenge progressive taxation by setting a flat-rate tax.

In the personal income tax system, the original six tax bounds established in 1993 were reduced to five in 1996 and then to four in 2000, so that the marginal tax rate decreased gradually from the original 47% to 32% (Table 6.3). In 2005, the tax allowance for children was replaced by a tax credit, and joint taxation of married couples with dependent children was introduced. In 2006, tax allowances were replaced by tax credits for adults as well, and the lowest tax rate was reduced from 15% to 12% together with a widening of the corresponding tax bracket. The current government led by the ODS established a completely new system in 2008. Instead of progressive taxation, a flat tax of 15% of “super-gross” income (gross earnings plus insurance contributions paid by employers) was introduced.

So far, it has only been possible to observe the first year of the system that was introduced in 2005 in EU-SILC survey data. A particular problem of computing the situation in subsequent years is the option of joint taxation. It can be used by couples with children, and it is advantageous when the earnings of the two spouses differ considerably and in particular if one of them has no earnings. In this case, it is not the employer but the employee who completes his/her own tax return and pays the tax. This very advantageous option was largely used. According to the Finance Ministry, 350 000 couples requested this arrangement for the 2005 tax year, 410 000 for the 2006 tax year and 460 000 for the 2007 tax year. These are huge numbers, which in 2007 amounted to roughly about 38% of all two-parent families with dependent children.

Only the model family approach has been used in the presentation of various tax reform proposals. The microsimulation method, which is commonly used in advanced countries, has not yet been applied in the Czech Republic. This contrasts with the situation in the EU-15, where, along with numerous national exercises, a common tax-bene-

<sup>2</sup> However, negative income tax was also considered in the ODS *Modrá šance* (*Blue Chance*) programme. It is also being considered in the early phase of the social reforms drafted by the ODS-led coalition government in power since 2007, who have renamed “guaranteed basic income”.

**Table 6.3**  
**Arrangements of personal income tax in 2001–2009 (CZK and %)**

Amounts and percentage Taxable income from ... to ...				Tax allowance/ credit for	CZK per year
<i>2001-2004</i>				<i>Tax allowance:</i>	
0	109 200	15%		payer	38 040
109 200	218 400	16 380 + 20%	109 200	spouse	21 720
218 400	331 200	38 220 + 25%	218 400	child	23 520-
331 200	and higher	66 420 + 32%	331 200		25 560
<i>2005</i>				<i>Tax allowance/credit:</i>	
0	109 200	15%		payer	38 040
109 200	218 400	16 380 + 20%	109 200	spouse	21 720
218 400	331 200	38 220 + 25%	218 400	<i>child</i>	6 000
331 200	and higher	66 420 + 32%	331 200	Joint taxation	
<i>2006 and 2007</i>				<i>Tax credit:</i>	
0	121 200	12%		payer	7 200
121 200	218 400	14 544 + 19%	121 200	spouse	4 200
218 400	331 200	33 012 + 25%	218 400	child	6 000
331 200	and higher	61 212 + 32%	331 200	Joint taxation	
<i>2008</i>				<i>Tax credit:</i>	
Flat tax 15%				payer	24 840
				spouse	24 840
				child	10 680
<i>2009 original proposal</i>				<i>Tax credit:</i>	
Flat tax 12.5%				payer	16 560
<i>Instead of this proposed arrangements, the 2008 rate should be maintained and topped by the reduction of contributions to health and social insurance by 1.5 percentage point</i>				spouse	16 560
				child	10 200

*Source:* Tax legislation.

*Note:* The tax credit per child is payable to parents of children younger than 18 years (26 years in case that the child receives full-time education). The tax credit for spouse can be applied if one partner earns no or little earns income below 38 040 CZK in 2006-2007 and below 68 000 in 2008.

fit microsimulation model (Euromod) has been developed using the European Community Household Panel data (ECHP). Using the new EU-SILC data, this model could be applied to all 25 Member States. In 2005, a research project on Improving the Capacity and Usability of Euromod (I-CUE) was launched with the aim of extending the scope of this microsimulation model to apply to the ten new Member States.<sup>3</sup>

<sup>3</sup> The first results of the project were presented at the conference “Tax-Benefit Microsimulation in the Enlarged Europe: Results from the I-CUE Project and Perspectives for the Future” held at the European Centre, Vienna, in April 2008. The Czech team was represented by Kamil Galuščák (CNB) and Jozef Zubrický (CERGE-EI).

**Table 6.4**  
**Observed and simulated income and personal income tax in employee households in 2002–2008 (yearly averages)**

Figures on income tax	2002	2004	2005	2006	2007	2008
<i>Observed by CSO surveys (all employee households) in thousands of CZK:</i>						
Gross household earnings	302,1	343,5	363,4	390,0	-	-
Taxable income	269,8	301,7	319,3	342,9	-	-
Personal income tax (PIT)	32,3	40,0	43,7	40,7	-	-
Percentage of taxable income	12.0	13.2	13.7	11.9	-	-
<i>Simulated (on sub-sample) in thousands of CZK:</i>						
Gross household earnings	-	325,0	340,6	386,1	414,7	439,4
Taxable income	-	284,4	298,1	337,9	362,9	384,5
Personal income tax (PIT)	-	34,4	35,0	40,0	45,9	40,6
Personal income tax – %	-	12.1	11.7	11.8	12.6	10.6
<i>Supportive data for simulated income rise in thousands of CZK:</i>						
Average wage	-	204,1	214,0	242,4	260,4	276,0
Percentage increase	-	100.0	104.8	118.8	127.6	135.2
<i>Comparative figures on PIT revenues and payments (in billions of CZK):</i>						
PIT collected from (only) employees (Ministry of Finance)	86,6	102,6	110,7	111,6	126,4	-
PIT paid by (only) employee households according to surveys (CSO)	65,2	79,1	87,8	80,9	-	-

*Source:* Microcensus 2002, Living Conditions 2005 and 2006 (EU-SILC data); Statistical Yearbooks and author's simulation. In 2002 and 2004, the "simulated figures" are only observed figures on the sub-sample.

Calculations on model families tell us little about the overall impact of the changes. Therefore, I used a provisional simulation to estimate the impact of the new arrangements on the tax and income distribution. In fact, the simulation should even be used to examine the current state of affairs, as changes to tax bands and rates precede the availability of real data. This is owing to the delay in the availability of data on the current situation, as household income is registered for the year preceding the collection of the data, and statisticians usually spend one year processing the dataset.

To estimate the distributional effect of the tax reforms introduced in 2005 and after, several selections were made. First, only those non-agricultural employee households containing at least one and at most three economically active persons, who are fully identified in the household datasets of income surveys regarding their earnings, were selected. Second, to avoid any bias in the computations, households had to have non-zero income from dependent employment and zero income from self-employment – the sub-sample is thus smaller than that used above for the cross-time com-

**Table 6.5**  
**Observed and simulated personal income tax in employee households**  
**by income deciles in 2002–2008 (% of taxable income)**

Decile	Observed			Simulated				
	2002	2004	2005	2004	2005	2006	2007	2008
1	4.2	7.0	6.9	4.5	4.5	3.0	3.6	1.6
2	6.4	8.7	9.1	7.3	7.0	5.7	6.2	4.7
3	7.4	9.7	9.6	8.8	8.6	6.9	7.6	6.6
4	8.5	10.4	10.8	9.4	9.3	8.2	9.5	7.0
5	9.5	10.9	11.3	9.2	9.2	8.1	8.9	6.4
6	10.0	11.5	11.9	9.9	10.5	9.4	10.2	8.2
7	11.1	12.3	12.4	10.6	11.0	10.4	11.3	9.3
8	11.7	13.0	13.7	12.1	12.5	12.0	12.8	11.5
9	13.3	14.0	14.9	13.8	13.7	13.8	14.6	12.9
10	17.6	18.5	19.1	18.1	17.5	18.1	18.9	15.9
Total	11.7	13.2	13.7	12.1	11.7	11.8	12.6	10.6

*Source:* Living Conditions 2005, EU-SILC 2006 (author's computation).

*Note:* For computing income deciles, total earned household income is applied.

Computations are on sub-sample of employee household as described in the text.

parison. In this simulation, joint taxation was calculated on the assumption that it was applied by all couples with children in which the female spouse had zero earning.

According to published data from statistical income surveys, personal income tax of employee households increased by one percentage point between 2002 and 2004 and by half a percentage point between 2004 and 2005 (Table 6.4). In those years, the system remained unchanged and thus the only reason for the tax increase might be the bracket creep connected with a rise in household earned income. In 2005, joint taxation was introduced and widely used, and the child tax allowance was replaced by a tax credit. Income surveys reveal an increase in the tax rate of half a percentage point, which is a rather unexpected result. My simulation on a sub-sample of employees returns a lower tax rate in 2004 with a further small decrease in 2005.

However, the result of the simulation contrasts somewhat with the fiscal data on actual income tax collected from employment. According to this source, the amount of tax collected was not stagnant between 2004 and 2005 but has increased (see the bottom section of Table 6.4). This signals that the use of joint taxation was not as widespread among employee households as expected in my simulation, and it corresponds to the CSO's observation based on people's statements. The use of joint taxation among self-employed households (not observed here) was obviously much larger, so that the tax collected from them, which had previously been continuously rising, decreased by one-third between 2005 and 2006.

The simulated data otherwise correspond well to fiscal data on the change that occurred between 2006 and 2007; the computation shows an increase of 15% compared to the 13% increase indicated in real tax collection. Nevertheless, the average tax rate

has diminished owing to the new tax credits for adults and the reduction of the lowest tax rate. According to my calculations, the introduction of a flat-rate tax in 2008 (together with high tax credits) should bring about a considerable reduction in income tax paid by two percentage points.

The distributional effect of personal income tax is displayed in deciles (Table 6.5). It is important to note that such a structure is too rough to describe the nuances of changes occurred. As regards the fact that income surveys likely do not report the very highest income category, the top decile represents the higher-middle class rather than the upper class. While the system introduced in 2005 slightly reduced the range of tax rates between the extreme deciles, the additional changes launched in 2006 brought about its considerable widening, i.e. much more progression in taxation on individual income levels. The reduction of taxation since 2006 occurs up to the eighth income decile.

The introduction of the flat-rate tax, as it was launched in the tax year of 2008, would bring about – rather paradoxically – even greater progressivity of taxation. The reason is not the flat tax itself but the tax credits introduced with it, which reduce income tax for the lower third of households to a very small if not zero amount. In our simulation, it is 16% of households, which means that also some households with taxable income above the first income decile do not pay any tax because of tax credits, conditional by family situation. Another significant reduction occurred at the top of the earnings scale, but only in terms of percentiles.

The reform is also family-oriented, since the small reduction in child benefits between 2007 and 2008 is more than offset by larger tax credits for low-income categories, provided that they are working. The situation of middle-income categories has also seen some improvement, though only small. However, many families may have been negatively affected by the scrapping of joint taxation, in particular the self-employed.

Nevertheless, none of the reforms introduced so far has a substantial effect on the distribution of household income. Otherwise the differences in the inequality of disposable household income before and after the reforms are negligible in terms of income deciles. This is because the amount of personal income tax is small relative to household income. Although some amounts may appear large in absolute and yearly terms, they are rather small in relative and monthly terms. The effect on low-income categories is negligible because they were paying very little – if anything – in taxes even before the reforms. We would need to go to a much more detailed income distribution than deciles to see any shifts, especially in the top category.

### **6.3 Indirect taxes and overall redistribution**

Since the new system of taxation was introduced, taxes levied on consumption have made up about one-third of the entire tax burden in the Czech Republic (Bronchi and Burns, 2000; Eurostat, 2008c). The main tax levied on consumption is value added tax, which is applied in two rates – a standard rate and a preferential rate. The preferential tax rate was levied on groceries, non-alcoholic beverages, books, newspapers and magazines, medical goods and medical services, water distribution, public transport, and social and sports services. Originally, the standard VAT rate was 22% and

the preferential rate 5%. In May 2004, the standard rate was lowered to 19%, but many goods and services were moved from the lower to the upper rate category. Obviously, there are also various excise taxes levied on fuel products, tobacco, and alcohol, and other taxes such as road tax, estate tax, and real estate transfer tax.

The only source of information on individual household consumption that allows us to compute indirect taxes is the regular Family Expenditure Survey (FES). The representativeness of the FES sample is limited, especially in the high-income category (see more in Data Sources). The huge difference between the FES data and the income survey data can be displayed very simply: the highest income decile identified in the income surveys is completely missing from the FES. In 2004, average per capita income was about the same in the FES and the Living Conditions survey (after deliberate CSO adjustments). However, the highest income decile in the FES reported a yearly net income of 207 000 CZK, which corresponds to the ninth decile in the Living Conditions survey. The range between the averages of per capita income in the highest and lowest deciles was 3.6 according to the FES compared to 5.5 according to the Living Conditions survey involving household income of the same year.<sup>4</sup>

The FES 1999 database was used in an analysis of the whole range of taxes and benefits by Ondřej Schneider and Tomáš Jelínek and (2001). Later on, Gabriela Hrubá (2004a and 2004b) computed redistributions in a similar way using the FES 2001. Finally, Schneider and Jelínek (2005) constructed a matched FES 1999–2002 database and observed the entire system of redistribution. The authors found that only the poorest decile gains from the combined tax and social systems, as its income is raised by almost 10%. On the other hand, the income of the five richest deciles is cut by 30%–40%. The analysis documented a high level of redistribution flows and strong disincentives for labour market participation for low-income categories.

Unlike those authors, I use information from the FES only as an entry to representative surveys datasets and I work only with value added tax (VAT). There are several limitations to this method given the incompatibility of classifications and, moreover, historical circumstances. Regarding the FES data in general, the household expenditures items do not correspond precisely to VAT lists. The application of the preferential rate is sometimes not clearly described and has additional conditions not included in the FES. Regarding VAT rates specifically in 2004, an important change occurred since May with accession of the Czech Republic to the EU. As stated above, the standard rate was lowered to 19%, but many goods and services were moved from the lower to the upper rate category. Since we have disposable data from an income survey for 2004, we can still apply this method on this year (setting VAT rates according to the later arrangement), but with the caveat that the results are just approximate.

The procedure involves two steps. First, the regression functions are derived from the FES 2004 data where the dependent variables are the shares of expenditures taxed

<sup>4</sup> In my view, this makes any attempt to adjust the FES data by re-weighting them according to the income surveys inappropriate. As income is one of the quota sampling criteria, even an analysis of the change in income inequality on FES surveys could hardly be valid, and apparently it is not, as a comparison with more reliable data shows.

**Table 6.6**  
**Taxes and social benefits by income deciles in employee households in 2004**  
**(% super-gross earned income)**

Decile	SIC employer	Gross earned income	Social benefits	Total gross income	SIC employee	PIT	Net income	VAT	Net household expenditure
1	25.9	74.1	18.8	92.9	9.3	4.8	78.8	7.7	71.1
2	25.9	74.1	16.4	90.5	9.3	5.9	75.3	7.3	68.0
3	25.9	74.1	14.9	89.0	9.3	6.4	73.3	7.1	66.2
4	25.9	74.1	14.3	88.4	9.3	6.7	72.5	6.9	65.5
5	25.9	74.1	10.2	84.3	9.3	7.3	67.7	6.4	61.3
6	25.9	74.1	9.6	83.7	9.3	7.6	66.8	6.3	60.5
7	25.9	74.1	9.0	83.1	9.3	8.0	65.9	6.2	59.6
8	25.9	74.1	6.3	80.4	9.3	8.3	62.7	5.8	57.0
9	25.9	74.1	4.4	78.4	9.3	9.3	59.9	5.4	54.5
10	25.9	74.1	2.7	76.8	9.3	12.1	55.5	4.5	50.9
Total	25.9	74.1	8.2	82.3	9.3	8.6	64.4	5.9	58.5

*Source:* Living Conditions 2005, FES 2004 (author's computation).

*Note:* For computing deciles, household income is adjusted to an equivalent unit, which is set as the square root of the size of household and weighted by household size.

Super-gross income is earnings together with payroll tax paid by employers.

SIC = Social and health insurance contributions

PIT = Personal income tax

VAT = Value added tax

at the standard and preferential VAT rates, while the independent variables are household income, size and composition, the lifecycle (approximated by the age of the head of household), size of locality and type of housing (see the Appendix to this chapter for more details). Using derived coefficients, two parallel variables are created in the Living Conditions 2005 dataset (involving income of 2004) and the total amount of VAT paid by the households is estimated.

The VAT calculation rounds out the picture of redistribution presented above to a substantial extent, but not in full (Table 6.6). Original income is taken to be the super-gross earnings together with payroll tax paid by employers. This is the concept that has been applied since 2008 to calculate personal income tax and it is the approach that was also used by Ondřej Schneider. As in the above computations, here distribution is surveyed by income adjusted to the square root of household size and weighted by household size. The picture is limited to employee households only.

While social and health insurance payments are flat, personal income tax is progressive and value added tax is regressive. The amount of VAT parallels household consumption in absolute terms, but its percentage declines in upper-income categories. On average, social transfers more or less compensate for income tax. The average over-

all tax burden calculated this way is 41.5% of the original super-gross earned income and it rises across the income deciles from 28.9% to 49.1%. The sole share of income tax and social and health insurance contributions paid by employees rises from 14.1% to 21.4% of super-gross earnings. All in all, the redistribution flows equalise the earned income substantially: the ratio of the tenth decile to the first decile is reduced from 6 for the original super-gross earnings to 4 for final household expenditures.

In 2008, the preferential rate of value added tax was increased from 5% to 9% to offset the reduced income tax. In terms of our analytical design, and if only the static effect is computed on the 2004 income data, the rise in VAT rates alone increases the average VAT payment by 8% and its relative share in super-gross income from 6% to 7%. The estimates suggest overcompensation for the additional VAT burden. However, the question is how much the flat-rate tax together with tax credits will compensate for joint taxation. The plan to reduce the income tax rate and introduce lower tax credits for 2009 was revised by the end of 2008. A new computation of the Ministry of Finance showed that some low-income categories would be worse-off, and so a reduction in social security payments will be introduced instead while maintaining the 2008 tax rate (see Table 6.3 above).

#### **6.4 Taxes and benefits in public opinion**

Income redistribution is not just a financial or economic matter; it is a highly sensitive political issue and a part of the general understanding between the public and the state. A tacit social agreement between the government and its citizens is assumed. This agreement is better perceived the clearer are its goals. On the government's side, this means prevention of waste, open information about expenditures, and effectiveness in the distribution process. Citizens, in turn, should cultivate their "tax consciousness", i.e. their understanding of how much of their income goes to the state and how much is returned to individuals and society. This issue is very difficult to grasp generally and particularly hard to understand for public goods – see the unique estimates for Austria made by Alois Guger (1996).

Awareness of how much redistribution there is, and what type, is important for the formation of a citizen's relationship to the state. In spite of the hot political debate about taxes, their psychological side is barely researched. Some studies have been conducted in Hungary, where researchers have demonstrated that if citizens are better informed about state expenditures, their expectations are less extravagant. During times of reform, expectations were lowered. Because such awareness is usually found among better-educated people with higher incomes, social hierarchy clearly plays a role in these attitudes. However, better-educated and higher-income people are generally critical of redistributive methods and wish to change them (Csontos, Kornai and Tóth, 1997; Tóth, 2008b).

Assessments of redistributive flows differ considerably according to a person's point of view. While citizens make considerable demands on the state, they want to pay out as little as possible. The best solution is for "others" – in particular the rich – to pay more to the state, but nobody considers themselves rich. Such ambivalence is reflected in a high rate of refusal to answer the question of a hypothetical choice between

**Table 6.7**  
**Opinions about tax levels for high, medium, and low incomes**  
**in 1992–2006 (%)**

Taxes are	In 1992 for incomes			In 1996 for incomes			In 2006 for incomes		
	High	Me- dium	Low	High	Me- dium	Low	High	Me- dium	Low
Much too high	5.0	6.2	30.7	3.9	5.2	27.9	9.1	10.5	28.1
High	11.6	43.3	44.4	10.5	26.6	41.2	15.6	33.3	39.7
Adequate	24.6	41.2	18.0	28.5	49.2	17.7	33.5	46.1	24.2
Low	32.3	3.4	1.8	29.1	5.2	1.4	23.3	3.5	2.0
Much too low	11.7	0.0	0.3	11.8	0.5	0.3	11.3	0.6	0.8
Does not know/ answer refused	14.8	5.9	4.8	16.2	13.3	11.5	7.2	6.0	5.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* ISSP surveys (author's computation).

higher expenditures for social programmes and correspondingly higher taxes or lower taxes with a corresponding decrease in expenditures. Nevertheless, the percentage of people refusing to answer this question in the ISSP Role of Government modules in the Czech Republic has declined over time: from 32% in 1992 to 25% in 2006.

Until the mid-1990s, calls for higher taxation for the sake of social expenditures were growing in the country, but since then we have seen a shift away from higher taxation. In 1996, 60% of respondents able to state a preference chose “higher expenditures for social programmes, even if that would mean higher taxes”. But by 2006, this share had declined to 37%. Instead, 63% of respondents chose “reduce taxes, even that would mean fewer social benefits” in 2006, compared to 40% in 1996. A substantial change in public opinion can also be detected regarding state intervention in income inequality. In 1996, 60% of respondents (of those who were able to make a clear statement) supported the opinion that the government should try to reduce income disparities between people, but by 2006 the share had declined to 32%.

A similar trend can be observed in evaluations of current taxation rates, i.e. whether respondents regard current taxes as high, reasonable, or low, among people with high, medium, or low incomes (Table 6.7). Across time, fewer people think that taxes on high incomes are low (and thus should be increased) and more people agree that taxes for the low- and middle-income categories are reasonable. On the whole, we can see an increasing tolerance of taxation rates. However, this trend seems to have reversed in connection with the tax reform introduced in 2008, after its advantages for the high-income category were emphasised. Nevertheless, there is a big difference between how this category is presented in the media and how it is in reality.<sup>5</sup>

<sup>5</sup> Since the public debate on who would gain from the tax reform was based only on model families, it was somewhat biased. While its advantages for those with a gross monthly salary of more than 80 000 CZK were cited frequently by media, nobody mentioned the negligible size of this category. According to the 2007 CSO wage survey, the category of employees with a salary 80 000 CZK or more amounted 1.5% of employees.

The CVVM survey of February 2008 signalled a return to stronger calls for higher taxation for upper categories. Progressive taxation is preferred by most respondents, although the flat tax was also accepted by quite a large proportion of respondents in the CVVM March 2006 survey (see Table 2.1 in Chapter 2). The time series of CVVM surveys shows an increasing tendency of opinions supportive of a higher percentage tax for high-income categories. However, it is never specified what “high income” means. Rather than the categories covered by the statistical surveys, the respondents may mean the real upper class, the “top ten thousand” of the population. This is barely represented in surveys and is otherwise able to take good advantage of “tax optimisation”.

How respondents evaluate the appropriateness of taxation and related opinions obviously varies according to their personal characteristics. Low-income respondents perceive their level of taxation as high and, conversely, taxes on the wealthy as low. People with higher incomes view their taxation as excessive and lower-income taxation rates as inadequate. However, what matters more than income itself is a person’s basic political attitude (where they stand in the left-right axis) and perceived social status (whether they belong to the lower, middle, or upper class). In particular, both these characteristics are the best explanatory variables for people’s opinions about the degree of state intervention in the distribution of income.

Citizens’ tolerance of taxes may indeed decline as a result of the increasing burden of financial payments on family budgets and as a consequence of the crystallisation of “tax consciousness”. We also have to take into account attitudes towards taxes that are not expressed verbally but are manifested in actual behaviour, which no survey is able to register. Citizens may protest against state levies on income either legally, by “voice”, voting for parties with programmes with less redistribution, or illegally, by “exit”, by abandoning the formal economy – to use Albert O. Hirschman’s (1970) vocabulary (see more in Chapter 12, p. 224). While the first method works in the long run and is rather uncertain (pre-election promises are often broken after the elections), the second is quick, but risky.

As for social benefits, it is necessary to consider not just the sources currently being redistributed, but also established expectations and, in particular, the institutionalisation of mandatory claims for state support, which will impact on budget expenditures in the long term. Opinions are not very consistent in this area. As shown above, people largely agree that social benefits should target only the neediest and that they should be reduced or withdrawn for those who avoid working. At the same time, they stress that social benefits should also support the family and do not consider the minimum living income adequate, generally accusing the state of having meagre social policy (see Table 2.2 in Chapter 2). This reflects the otherwise multifunctional nature of the modern welfare state which mixes social and family responsibilities.

## 6.5 Conclusion

The redistribution systems underwent system reform in the Czech Republic in the early 1990s. It is difficult, however, to measure the extent of the change. A comparison with the situation before 1989 falls short because of hidden financial flows between

the state and households under the communist regime or in other words the complete opacity of the economy. All that is certain is that there was far more redistribution – from wages to prices – between citizens and the state. In contrast, comparing just taxes and social benefits as registered in surveys on households reveals that under the democratic system the state takes more from and gives less to households than under the communist regime and, thus, intervenes more to equalise earned income.

However, this is only the apparent (i.e. statistically observable) side of the true situation. In fact, the communist state was redistributive in its very essence, and regarding household income, the main source of equality was highly equalised wages. And as wages were low, family social benefits were relatively high and thus more important for the packaging of family income. Since the bulk of social and health security was paid from general revenue, individuals' contributions could be small and almost flat. While the visible reduction in income inequality through redistribution is stronger under the new system, the invisible redistribution was reduced substantially.

The attention paid to overall income redistribution through taxes and benefits still remains low in the Czech Republic compared to Western countries. A more intensive debate started in the early 2000s in connection with various reform proposals relating to personal income tax. However, only the model family approach was applied in government and scholarly presentations, instead of a simulation analysis on survey data representing the population's structure. To assess the current system and the expected impact of the various proposed reforms of the tax and benefit system, it is necessary to interconnect the income and expenditure statistics at the macro- and micro-levels to get a reliable picture of the redistributive flows.

Here, I attempted to provide a broader picture of the changes and also tentatively simulate the two main directions of the tax reform: the introduction of a flat-rate income tax and the shift between direct and indirect taxation through a decrease in income tax and an increase in the preferential value-added tax rate. Reforms of personal income tax were found to affect the resulting income inequality to only a very limited degree, corresponding to the weight of the tax in the overall redistribution flows. The increased standard VAT rate also apparently affects the inequality of final household expenditures to only a small degree.

When comparing cross-nationally, the outcome depends on the source and the method. When Czech data are added to an OECD analysis of the late 1990s we find that the Czech state levies upper-income households substantially but not extremely, and that the targeting of benefits to low-income families is very narrow, but not the narrowest (Förster, 2000; Večerník, 2002). When the data are entered into a comparison with data from the European Community Household Panel (ECHP) 2003 (Paulus and Peichl, 2008), we find that employee social insurance payments are at a low level (between Spain and Portugal) and income tax is at a medium level (as in Austria and Germany). Benefits are also at a reasonable, medium level (like in Germany). The capacity of the system to reduce income inequality measured by Gini coefficients before and after transfers is around the average of EU countries (see Table A6 in the Annex).

The statistical picture of redistribution cannot reflect reality with full accuracy. This applies all the more to cross-national comparisons where the public goods provided differ but are impossible to measure or take precisely into account. The principles of taxation are unequivocal in theory only. In reality, this arena is dominated by special interests, both economic and political (Gehlbach, 2008). After all, greater tax transparency, despite being manifestly demanded by all, is not a unanimously shared feature, mostly because there are strong interests that stand to profit from loopholes and hidden leaks. The same also applies largely to the social system, which is not just an instrument of social protection for citizens but also a highly contentious election issue.

In 2008, reform of the redistribution system is again under consideration to make it simpler and more efficient. The government proposal is to integrate direct taxes and insurance contributions into one “super-tax” (the estimated amount is 40% of gross earnings) and consequently merge financial and social security offices. Most current tax exceptions should be removed, while support for families, old-age savings, housing, research, and charity should be maintained. In the future, pensions could also be financed from direct and indirect taxation. No other decrease in the tax burden and tax progression by the current government is envisaged until 2010. However, in relation to the economic recession, the call to tax the rich more is gaining strength.

#### Appendix: Survey samples and simulation methods

To compute cross-time comparisons of redistribution (Tables 6.1 and 6.2), the sub-sample was used, which involves all households with non-agricultural employee. The sub-sample is thus smaller than in the cross-time comparison and represents 1 877 000 Czech households, which is equal to 46% of all households and 68% of households with at least one economically active person.

**Characteristics of the samples used**  
(amounts per household in thousands of CZK yearly)

Characteristic	All households			Employee households		
	1988	1996	2002	1988	1996	2002
Thousand households*	3 805	3 822	4 054	2 514	2 117	2 009
Thousand persons*	10 155	10 182	10 117	7 569	6 518	5 665
Gross earnings	52,7	161,1	212,2	70,6	227,2	308,8
Personal income tax	8,8	17,6	23,9	12,6	23,6	32,4
Social and health insurance contributions (persons only)	-	16,5	20,6	-	26,6	36,5
Family social benefits (without pension benefits)	5,1	9,4	15,0	6,8	12,0	15,5
Pension benefits	10,5	32,6	49,4	4,9	12,0	18,1
Disposable household income	59,5	169,0	232,1	69,7	201,0	273,5

Source: Microcensus surveys.

Note: \* Figures after re-weighting for the entire Czech population. For original samples' size see the Appendix to Chapter 5.

To simulate personal income tax (Tables 6.4 and 6.5) this sub-sample was reduced to households with 1–3 active earners with non-zero income from dependent employment and zero income from self-employment. The reduction is negligible compared to the previous method of selecting employee households.

For computing income deciles in Tables 6.1 and 6.6, household income is adjusted to an equivalent unit, which is set as the square root of the size of the household and is weighted by household size. Conversely, income deciles in Table 6.5 were computed from total earned household income.

In Tables 6.1 and 6.2, relative tax is computed as the percentage of income tax and contributions to social and health insurance in gross household income. Relative social benefits are computed as the percentage of social benefits in net household income. The summary effect is computed as benefits minus taxes in gross household income and calculated from means in deciles.

The following procedure was used to impute information on family expenditures from the FES to the income survey (Table 6.6). The standard VAT and preferential VAT equations were computed on FES data:

$$\begin{aligned} VAT_i^J = & \beta_0 + \beta_1 INCOME_i + \beta_2 ADULT_i + \beta_3 CHILDREN_i + \beta_4 HOUSE_i + \\ & + \beta_5 MUN\_TYPE1_i + \beta_6 MUN\_TYPE2_i + \beta_7 MUN\_TYPE3_i + \beta_8 AGE1_i + \beta_9 AGE2_i + \\ & + \beta_{10} AGE3_i + \beta_{11} AGE4_i + \beta_{12} EDUC2_i + \beta_{13} EDUC3_i + \varepsilon_i \end{aligned}$$

[ $J$  = standard, preferential]

where  $i$  represents the individual in the sample. The explained variable is the share of consumer expenditures charged by the standard or preferential VAT rate. *INCOME* refers to the yearly net household income, *ADULT* and *CHILDREN* state the number of adults and dependent children in a household, respectively, *HOUSE* is a dummy variable for the type of housing, *MUN* are dummy variables for the size of municipality, *AGE* are dummy variables for the category of the head's age, and *EDUC* are dummy variables for the head's education.

The estimated beta coefficients  $\hat{\beta}$  from equation (1) were substituted into equation (2) applied to income survey data including the same variables. Therefore, variables  $VAT^J$  were derived applying the following equation:

$$\begin{aligned} VAT_i^J = & \hat{\beta}_0 + \hat{\beta}_1 INCOME_i + \hat{\beta}_2 ADULT_i + \hat{\beta}_3 CHILDREN_i + \hat{\beta}_4 HOUSE_i + \\ & + \hat{\beta}_5 MUN\_TYPE1_i + \hat{\beta}_6 MUN\_TYPE2_i + \hat{\beta}_7 MUN\_TYPE3_i + \hat{\beta}_8 AGE1_i + \\ & + \hat{\beta}_9 AGE2_i + \hat{\beta}_{10} AGE3_i + \hat{\beta}_{11} AGE4_i + \hat{\beta}_{12} EDUC2_i + \hat{\beta}_{13} EDUC3 \end{aligned}$$

Part Three

STRUCTURES



## 7 The middle class: less advancement than expected

Ever since Aristotle it has been assumed that the precondition for a well-administered and democratic political community is the existence of a large middle class. The issue of the future of the middle class was highly controversial in the 19th century. While Karl Marx ([1867] 1965) expected the class polarisation of the society by eliminating the categories in between the sides of labour and capital, Gustav Schmoller (1897) saw the expansion of large state and private technical and managerial bureaucracies as shaping an educated and well-off “Neu Mittelstand” to oppose the “old” middle class of farmers and traders. The debate continued with Theodor Geiger’s (1932) and C. Wright Mills’ (1951) books as milestones predicting the downfall of the middle class. The decline of the middle class has been a pervasive theme since Robert Nisbet’s (1959) influential article. Against gloomy forecasts, however, the middle class has not disappeared from social reality, the minds of people, or scholarly discourse.

The place of the middle class in sociology and political sciences is standard. In the last decade even economists have applied the perspective of social structure and the middle class. Stanley L. Engerman and Kenneth Lee Sokoloff (1997) showed that, unlike the countries in which rich natural resources create a parasitic upper class that usurps national wealth, societies with a strong middle class are better positioned to use their human capital. World Bank economist William Easterly (2001) coined the term “middle-class consensus” to describe the overall situation of social equality and ethnic homogeneity. Using data from 80 countries, he suggested that societies with a strong middle class show a bigger accumulation of human capital and better infrastructure resulting in higher incomes and growth rates, more democracy, and political stability.

During times of transition, changing social structures should accompany and support changes in the institutional and value systems. One can thus ask to what degree Czech reforms have benefited the middle class and how the middle class has been able to expand and improve its position in the post-1989 changes. The question that follows is how far can the middle class trust in the regime and, consequently, be willing to support it as citizens? No nostalgia for times of interwar middle-class Czechoslovakia or illusions about a harmonious future, presumably ushered in with the next generation (ostensibly not deformed by the communist regime) should be invoked

here. Nevertheless, we believe that it is pertinent to speak about the middle class in today's Czech Republic, even if this refers more to a state of mind than a precisely delineated rank of occupations, income and consumption.

This chapter presents some observations relative to the middle class and post-1989 developments in Czech society. First, various definitions of the middle class are presented and placed in the context of the social structure. Second, the concept of "social hegemony" is outlined and tentatively applied. Third, the effects of economic reforms on the material status and the position of the middle class are investigated, showing that the middle class has benefited less than expected from the transformation process. Fourth, we speculate that while the middle class was not explicitly supported, some middle-class mechanism went ahead nevertheless. However, identification with the middle class remained at a low level after initial enthusiasm had evaporated by the mid-1990s. The shift to a capitalist, information-oriented, service society – all three attributes supportive of middle-class status and terms – has occurred to some degree, but is still incomplete.

### **7.1 Status of and barriers to the formation of the middle class**

Problems start with the very definition of the middle class. There are a great many definitions, depending on the given perspective, objective and available data. Economists use a definition of a middle standard of living or income located somewhere in the middle of the income distribution. For example, Lester C. Thurow (1985) defined the middle class as households having an adjusted income between 75% and 125% of the median income. This mechanical definition is mostly used in empirical studies (Engerman and Sokoloff, 1997; Easterly, 2001; Pressman, 2007). Similarly, a definition of the middle class as the three middle-income quintiles is frequently applied in media discussions of the topic in the USA.

While income definitions of the middle class are common, the aspect of wealth is often disregarded.<sup>1</sup> But this aspect is very important. French sociologist Louis Chauvel speaks about the coming of the "wealth-based society". He argues that, as former elements of middle class expansion and the "wage earner society" evaporate (such as upward mobility, the welfare state, and labour protection), new challenges of the globalised world are entering the scene, including heterogeneity (rising income inequality and wealth concentration), risks of downward mobility (together with over-education), and the lack of predictability (welfare insecurity). A "Paretian society" is coming, where wealth dominates, distributed according to the Pareto principle: 20% of the population owns 80% of the wealth (Chauvel, 2007).

Nevertheless, the statistically more or less easily described socio-economic characteristics (including wealth, where there is a shortage of data) are not enough to adequately describe such a vague phenomenon as the existence of the middle class. Sociologists developed a broader understanding of the middle class, from its higher

<sup>1</sup> Here, the important initiative of the Luxembourg Income Study (LIS) should be stressed: the release for public use in December 2007 of the Luxembourg Wealth Study (LWS), a new database containing harmonised wealth microdata of ten countries (see analyses in OECD, 2008a, Chapter 10).

education level, typical occupational categories and a certain level of social prestige, and through to its particular set of values and attitudes (Coleman and Rainwater, 1978). As Ákos Róna-Tas wrote, “the middle class is a state of mind, an identity, a set of aspirations, shared by a segment of society much larger than those in the middle” (Róna-Tas, 1996, p. 31). He stressed the promise of upward mobility as the essence of the middle class.

This corresponds to the comprehensive Weberian understanding of classes which involves not only occupation, but also material conditions of life, associative links, and people’s opinions. Currently applied notions of the middle classes combine the Weberian concepts of the “earning class” (Erwerbsklasse) as a market position, the “social class” (Soziale Klasse), in Weber’s specific understanding, and the “status group” (Stand), defined by lifestyle and prestige. Specifically, Max Weber defines “social classes” by their easy intra- and inter-generational mobility and lists them as the middle classes (farmers and small entrepreneurs), the petty bourgeoisie, and the intelligentsia (Weber, 1956, pp. 223–227).

In transition countries, the social structure is in animated flux. It is moving from the hidden social differentiation of a presumably homogeneous society toward a “post-modern” society, where an endless variety of lifestyles are combined with the homogenising power of mass consumption and culture. Of course, communist Czechoslovakia was not socially homogeneous in reality, but still it was less unequal than, for example, Hungary and Poland, owing to its particular national history and more oppressive communist regime. The categories of private farmers and artisans were suppressed almost completely, unlike in neighbouring countries where small entrepreneurship was never completely eliminated and became more acceptable starting in the early 1970s. Also, unlike other countries, the advancement of tertiary-educated workers in communist Czechoslovakia remained limited.

While the communist regime deliberately repressed the middle class, it would be hard to say that the post-1989 regime was, by contrast, intentionally favourable towards it, though the doors to small entrepreneurship were opened. Even the topic itself was not discussed much in the Czech Republic. When the term reappeared in the early 1990s, the voices at either end of the political spectrum were opposed, but both misunderstood the concept and reality. The opinion from the political right was that stressing the middle class was an attempt to re-introduce erroneous Marxist class vocabulary into the scene. Before the 2002 elections, the catchword of the Social Democrats was that society is composed of a small upper class and the “lower ten million” people. Besides ideology, barriers to middle class expansion have also appeared in reality.

We can very tentatively and in a stylised manner speculate about the characteristics of various classes, processes and phenomena that have curbed and inhibited the middle class in both the communist and market regimes (Scheme 7.1).

Shifts in property ownership, basically beneficial, have allowed an unproductive upper class to re-emerge. Instead of the communist political class occupying the place of the highest social stratum, a new propertied “leisure class” has been established, quite in keeping with how Thorstein Veblen (1962) once described the formation

**Scheme 7.1**  
**Barriers to the formation of the middle class (stylised)**

<i>Characteristic</i>	<i>Communist regime</i>	<i>Capitalist regime</i>
<i>Social classes:</i>		
“Leisure” upper class	Political criteria for the selection of elites	Obscure methods of privatisation, preferential treatment of former managers
“Parasitic” lower class	Compulsory employment combined with loose work control	The unemployment trap, welfare dependency
State bureaucracy	Political and administrative control over citizens	Bureaucratic expansion, untransparent tenders, patronage politics
<i>Social processes:</i>		
Excessive redistribution of income	Equalised wages, universal social benefits	Weak targeting and control of social benefits
Stagnation of public goods	“Iron” investment strategy, low labour productivity, neglected services	Wasteful state economy, pressure of cement and other lobbies
Rent seeking	Separation of politics and economy, dominance of politics	Political capitalism, close links between the political class and business
<i>Social phenomena:</i>		
Informal economy	The lack of services necessitated alternative coping strategies	Avoiding taxes and regulations, secondary earnings
Corruption	Non-existent markets, administrative governance of the economy	Circumventing market rules and legislation
Indebting the future	Political imperatives, indifference to the future	Corruption of voters, electoral cycle

of this category, whose rise is based not on productive activities but on financial ones. Financial activities involve a higher level of respect than manufacturing and other creative activities, although they encourage greed and predatory tendencies. Czech methods of privatisation allowed such “financial activities” to spread and thus supported the establishment of the upper class.<sup>2</sup>

<sup>2</sup> The “transformation costs” of Czech privatisation are estimated to have been between 300 and 600 billion CZK. The lower number is computed as the loss recorded at the Consolidation Agency, where “bad loans” were collected and administered. The IMF estimates the costs at 400 billion CZK, but without revealing the method of calculation. The higher figure (precisely 577,5 billion CZK, which equals 20% of GDP) was estimated by the Ministry of Finance and it includes a rough estimate of “tunnelled” Investment Privatisation Funds (Ministry of Finance, 2006). Various techniques of “tunnelling” (asset stripping) were described by Tomáš Ježek (2007, pp. 187–191). Privatisation process finally led to a considerable concentration of property.

There were many poor people under the socialist regime, but their existence was mostly hidden by universally compulsory employment and basic social protection. During the early period of transition, so-called “social employment” continued through generous credit provided to shield former state companies. Nevertheless, the renewal of capitalism pre-determined that the victims of the market system – people without skills or work commitment exposed to a higher risk of unemployment – to become the lower class. A relatively generous welfare system may trap those who would otherwise work or, under different circumstances, would be forced to do so. While governments in advanced countries already use various activation policies, similar efforts were not frequently applied in the Czech Republic, with new measures implemented since 2005 (see Chapters 1 and 2).

The reproduction of both the upper and lower classes (more precisely, the segments of them that profit from unfair privatisations or undeserved income transfers) is adverse to economic competition and social justice. The former sends an appealing signal that wealth does not arise from creation and innovations (following Joseph Schumpeter) but from forceful redistribution of wealth (following Karl Marx). The latter says something about the protective welfare state, corresponding to the working class’s basic social guarantees. In the first case, creative and conquering business activity degenerates to the acquisition of properties. In the second case, the status of human capital is degraded. In both cases the key role is played by the state’s channels of distribution and control (see Chapter 12).

However, there is yet a third social category, which also seems to stand against the middle class and confounds its creative values (though they partly overlap) – the state bureaucracy. It is nevertheless next to impossible to draw a line between the state administration, as a public good and necessary service to the economy and society in its rational scope, and the expansionist, parasitic, and authoritarian bureaucracy. The size and power of this “useless part” of the bureaucracy is unknown, but it likely grows together with the increasing scale of state redistribution: the bigger and more complex the structure of institutions and the larger the resources to be distributed, the more often they form rigid networks and the worse they function.

## **7.2 A shift in hegemony: from the working class to the middle class**

Whereas the post-communist transition is well defined in political and economic terms, its delineation in terms of social structure is less clear-cut. Nevertheless, the shift in class proportions and hegemony in favour of the middle classes should likely be a part of any consideration of the social aspects of the transition. The concept of “social hegemony” defines the category most advantaged by the socio-economic system, and consequently, the social group that in turn supports the regime economically and politically, and endorses it morally.<sup>3</sup> Depending on the regime and the perspective, the social

<sup>3</sup> The concept of social hegemony used here is inspired by Antonio Gramsci, but not in its narrow political and power sense. According to Gramsci, the function of “social hegemony” in civil society comprises the “spontaneous” consent given by the great masses of the population to the general direction imposed on social life by the dominant fundamental group (Gramsci, 1971). A larger meaning is accorded this concept here, in the sense that the “hegemonic” class may also be the class whose values direct or shape society.

**Scheme 7.2**  
**Two types of class-value orientations (stylised)**

<i>Characteristic</i>	<i>Working class</i>	<i>Middle class</i>
<i>Time is oriented towards</i>	Past (accumulated labour)	Future (innovations)
<i>Valued is especially</i>	Manual, routine work	Intellectual, managerial work
<i>Economic growth is especially based on</i>	Productive capital	Human capital
<i>Economic value is produced on the side of</i>	Producers (production costs)	Consumers (trade and marketing)
<i>Consumption is oriented according to</i>	Meeting basic needs	Satisfaction of consumer preferences
<i>Social structure develops towards</i>	Homogeneity	Differentiation
<i>Social contract concerns</i>	Social guarantees	Social opportunities
<i>Entrepreneur is conceived as</i>	Attribute of capital (Marx)	Producer of innovations (Schumpeter)
<i>Preferred type of firm</i>	Large companies	Small and medium firms

hegemony of a class might be real or normative, true or fictitious, apparent or hidden. Here we apply the concept referring to the leading or reference groups in society, assuming that the shift in “social hegemony” in the post-communist period involves the middle classes supplanting the working class at the centre of society.

With respect to class hegemony, the value orientations corresponding to the working class and the middle class are outlined in Scheme 7.2. The communist regime proclaimed that its system was designed for the benefit of the working class, which in communist ideology was appointed the role of governing society. Because Marx’s prophecy about the automatic elimination of all social categories located in between the extremes of “pure” labour and “pure” capital was not fulfilled in real capitalist society, his later disciples tried to assert this division by means of the forceful homogenisation of society into an “aggregate worker” under the communist regime. Working-class hegemony was quite real considering that the living conditions of the entire population were intended to be reduced to the lowest common denominator of the industrial worker. However, such arrangements were fictitious within the realm of political rule – the concept served only to endorse the totalitarian control of society by a small ruling class.

Working-class hegemony was basically outlined in Marxist political economy, with the labour theory of value as the core. This theory asserts that the value of a good derives from the effort of production and is thus created on the supply side of the market. The fact that value is determined objectively by labour performed in the past by manual workers had far-reaching consequences in terms of historical developments and real life under socialism: it legitimised the confiscation of previously accumulated wealth, allegedly returning it to its “producers”; since value was created by previous effort, historical time could be slowed down or brought to a halt (e.g. by the attempt

to fix prices forever more); managerial or intellectual labour could be devalued, because it seemingly brings no new value; the production and supply side could be strengthened at the expense of trade and the demand side.

According to the capitalist alternative, society is organised from the inside, following the market principle. Opposition to the objective, supply, and past-related concepts of Marxism culminated in the “Marginalist revolution” in economics and engendered the subjective concept of value, which was especially emphasised by the Austrian economic school: “Market prices are entirely determined by the value judgements of men as they really act” (Mises, 1949, p. 332). This placed the focus on the demand side, namely consumers and their expectations. It is not production but the purchasing of goods that becomes a more important element in spurring people’s inventiveness. It is not meeting basic needs but satisfying preferences that becomes the criterion. It is not the past but the future that emerges as the leading principle.

Both of the above-mentioned approaches are closely class-related. While the objective concept clearly sides with producers (the proletariat in the Marxist view), the subjective concept was labelled “a bourgeois counter-attack”, and “the economic theory of the leisure class”, the latter view expressed most explicitly by Nicolai Bukharin (Shand, 1984, pp. 46–48). Although this kind of short cut between economic and class theories can be criticised, the relationship between the two still expresses in a condensed form much of the everyday reality of the two different kinds of societies. Depending on whether we are thinking about “Marxist” or “Marginalist” societies, the emphases are different: respectively, either manual or intellectual work, producers or consumers, working class or the middle classes.

For communists, the middle classes – small entrepreneurs and white-collar workers – represented, by their very existence, a challenge to the Marxist orthodoxy and were also considered to be harmful to the functioning of the communist regime. Therefore, the regime sought to squeeze them out of economic, social, and intellectual life. They were thus systematically eliminated in reality (by the confiscation of private property and forced shifts in the labour force), in statistical terms (by manipulating occupational groups and deliberately merging them into conglomerates of the “working class” and “other employees”), and in the collective memory (by designating the petty bourgeoisie as a reactionary element condemned to disappear, and by stigmatising the intelligentsia as a suspect parasitic stratum).

The fall of communism opened the door to three important changes that were to return the middle classes to the centre of socio-economic dynamics. The first was the “capitalist revolution”, which blazed the path toward a market system, with entrepreneurs as the key figures. The second was the “information revolution”, whereby the transformation was to unlock the barriers to innovations, allowing the advancement of those with high qualifications. The third was the expansion of the “service society”, through which social change eliminates the “Marxist” privileges of the production sector and adjusts the obsolete economic structure towards the tertiary and quaternary sectors. All three “revolutions” indicate a general functional and value shift that should pave the way to transferring social hegemony from the working class to the middle classes.

**Table 7.1**  
**Entrepreneurs, the self-employed and business licenses issued in 1993–2007**  
**(numbers and %)**

	1993	1996	2000	2003	2007
<i>Numbers in thousands:</i>					
Entrepreneurs	131	202	196	197	184
Self-employed	308	378	486	581	582
<i>Percentage of economically active population:</i>					
Entrepreneurs	2.7	4.1	4.1	4.2	3.7
Self-employed	6.3	7.6	10.3	12.3	11.8
<i>Number of business licenses issued in total (in thousands)</i>					
	1 264	2 294	3 002	3 517	3 961

*Source:* Labour Force Surveys, Ministry of Industry and Trade.

### 7.3 Economic reforms: profiting from and neglecting opportunities

Regarding the post-1989 development of the Czech social structure and changes in the position of middle-class categories, a distinction is made here between the “old” middle class, engaged in the production and distribution of material goods and services, and the “new” middle class, engaged in the production and distribution of symbolic knowledge. This categorisation, based mostly on occupations, has its roots in the thought of Gustav Schmoller (1897) and was developed by Peter L. Berger (1986), and it is used also by others (Vidich, 1995; Wright et al., 1998; Chauvel, 2001). Some researchers, however, reject this “chronological” categorisation as inappropriate for post-communist countries, and instead they use the distinction between the “entrepreneurial” and “service” classes (Lengyel and Róbert, 2003, p. 107). Here we stick to the traditional vocabulary.

Obviously, in the Czech context the “old” middle class was in fact a new phenomenon that emerged rapidly during the first years of transition. Entrepreneurs indeed became important figures, but it was the “grand entrepreneurs” who emerged out of property transfers or in connection with foreign capital rather than the small- and mid-level entrepreneurs (Benáček, 2006). At auctions for small firms, local residents with little credit often competed with aggressive speculators. New businessmen suffered under the multiple tax burdens and low depreciation (write-off) rates on their productive assets. Access to credit was distorted by the fact that the banking giants, mostly state-owned, made credit expensive for new entrepreneurs, in contrast to the easy credit extended to big firms.<sup>4</sup>

Nevertheless, hundreds of thousands of people started businesses and even more acquired a business license, but for most of them this activity supplement earnings made in primary employment as an employee (Table 7.1). According to EEA surveys of

<sup>4</sup> See Lubomír Mlčoch (2000) for an extensive explication of the phenomenon of the crossed ownership of businesses created by voucher privatisation in the Czech Republic, whereby banks became owners through their own investment funds and thus generously extended credit to businesses.

**Table 7.2**  
**Economically active persons by education in 1988–2005 (%)**

Education	Censuses of the population		Statistical household surveys			
	1991	2001	1988	1996	2002	2005
Elementary	19.7	8.4	21.9	11.8	6.3	6.0
Vocational	43.1	43.5	41.9	47.6	41.5	41.0
Secondary	27.8	35.4	26.6	29.7	39.8	36.3
Tertiary	9.4	12.6	9.6	10.9	12.4	16.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* Censuses of the population 1991 and 2001, Microcensus surveys, Living Conditions 2005.

the mid-1990s, among the respondents holding a business licence, private business was the only job for just 12%, primary employment for 34%, and a supplementary source of income (sometimes absent) for the remaining nearly two-thirds. Those figures have changed but even in the late 1990s only 15% were exclusively engaged in private business and the independent job was the primary employment for 37%.

Current conditions are not very favourable for small and mid-sized business. The World Bank evaluates the Czech business climate as better than in Poland and Hungary, but worse than in Slovakia and the Baltic states – not to mention how it compares with advanced Western countries (Doing Business, 2006). Czech entrepreneurs are very critical of business conditions in the country, especially the confusing (or even absent) legislation, slow performance of state administration and courts, and the weak enforcement of the law and legal entitlements. Despite some extra attention given to the topic in recent years, reforms have been limited and not relevant to the nec-essary systemic changes (Šmejkal, 2006).

The main source of the “new” middle class is higher education. The composition of the labour force by education has changed significantly, clearly evidenced by the fact that now more than half of the active population has secondary and tertiary education (Table 7.2). The percentage of persons with tertiary education in particular has increased almost twofold but remains lower in comparison with other advanced societies (OECD, 2008c). This is the category of persons who most often rank themselves among the middle class, even when they lack adequate income to qualify as middle class.

The branch and earnings structure of employees has changed considerably since 1989. The new situation has affected various categories to varying degrees. The number of public administrators and financiers expanded and their income position improved during the early transition. The financial sector especially has seen a spectacular rise since 1989. A standard part of state administration under the communist regime, this category was transformed almost overnight into an elite group in terms of remuneration and prestige. Only when privatisation was completed after 2000 did the banks reduce their staff and increase efficiency, also by considerably raising bank fees.<sup>5</sup>

**Table 7.3**  
**Earnings by branch in two historical periods**  
 (% of the average wage and change in percentage points)

Branch	Czechoslovakia		Change 1948– –1953	Czech Republic		Change 1989– –1997
	1948	1953		1989	1997	
Manufacturing	92.6	107.9	+15.3	104.4	100.3	-4.1
Construction	101.2	114.7	+13.5	111.2	104.9	-6.3
Agriculture	80.2	72.1	-8.1	108.2	79.5	-28.7
Transport	109.4	110.2	+0.8	106.4	105.8	-0.6
Trade	102.6	90.0	-12.6	83.8	98.3	+14.5
Health and welfare	120.9	92.1	-28.8	90.1	90.0	-0.1
Education	124.8	90.0	-34.8	89.8	88.1	-1.7
Banking and insurance	134.5	104.3	-30.2	98.3	174.4	+76.1

*Source:* Statistical Yearbooks.

After 1989, members of the middle class might indeed have had great expectations for a return to the previous material position of the middle class in society; these expectations were not, however, fulfilled. We can approximate the distance between expectations and reality by comparing the changes in the wage structure brought about by the communist regime and those brought about by the transition (Table 7.3). The data from 1948–1953 are telling but still limited in their informative value, because the equalisation of earnings at the expense of the middle class had already occurred before that time, and it continued further.<sup>6</sup>

In 1948, the position of employees in the health and education sectors was still quite good. Regaining this position during the transition years remained a dream. Health services workers improved their position somewhat in the early 1990s, but their income declined to 84% of the national average wage around the year 2000. In the education sector, an even smaller and more temporary improvement occurred. In 2007, both sectors reached about 95% of the average wage. Regarding financial services, they were already in an elite position before 1948. However, the spectacular rise of their staff's earnings after 1989 has no precedent or comparison. Earnings in the financial sector rose steadily so that they were double of the average wage, stabilising on 205% in 2005–2007 (Statistical Yearbooks).

There is no data to make an historical comparison for the state administration. Initially the bureaucracy was viewed with disdain by the communist regime, but later

<sup>5</sup> Banks operating in the Czech Republic are criticised for being too expensive for customers and for compensating for the absence of investment activity with high fees for banking transactions. The journalist Patrik Nacher maintains a website with a collection of criticisms of bank practices; for more see: <http://www.bankovnipoplatky.com/>.

<sup>6</sup> Under Nazi occupation, the working class – working for the war machine – was supported, and intellectuals, who were suspected of maintaining nationalistic values, were suppressed. Wage equalisation continued after 1945 owing to the need to improve the conditions of the lower strata in the post-war hardships and also under heavy pressure from the Communist Party fighting against the “bourgeoisie”.

on it was re-established and promoted. Its wage status was much better than that of health services and education and better even than that of banking (101% of the average wage in 1989). After 1990, the state bureaucracy easily transferred its loyalty to the new regime. It has continued in its typical foot-dragging mediocrity, but it still performs efficiently. This performance was considered to be one of the reasons for the smooth implementation of the Czech economic reforms (Orenstein, 1994).

Against the prevailing expectations of a smaller and more efficient state, the bureaucracy expanded both in numbers and remuneration: its workforce rose from 88 000 employees in 1989 to 175 000 employees in 1997 and peaked at 300 000 employees in 2003, with an only negligible decline since then. The rise in bureaucratic staff numbers is partly explained by the fact that the state has assumed many tasks performed previously by economic organisations. Their relative earnings rose in the early 1990s (120% of the average in 1994) and then saw some decline, but they reached a new high in the early 2000s (123% in 2005). All “anti-bureaucratic” initiatives proposed by both the political right and left have so far failed.<sup>7</sup>

The problem is not just the size but also the character of state bureaucracy, whether at the central, regional, or local level. As Conor O’Dwyer (2006) notes, while in Western democracies (typically in the United Kingdom or Germany, but not Italy), a professionalised state apparatus with bureaucratic independence emerged before the mass introduction of democracy, post-1989 CEE democracies are predisposed to patronage politics because democratisation in 1989 came before the establishment of an autonomous, politically neutral state administration. The inefficient growth of state administration, serving often as a resource for political patronage, obviously contrasts with the construction of middle-class society.<sup>8</sup>

In contrast to the neglect of the middle class in the early 1990s, explicit attention was given to the lower class and to vulnerable social groups in order to avoid mass unemployment and related social unrest. Pieter Vanhuyse wrote about the “Czech economic and labour market exceptionalism or, how to be a proactively social, apparent neoliberal” (Vanhuyse, 2006b, p. 1125). By the same token, support for big companies amounted to a kind of “social employment” that kept the unemployment rate low until the late 1990s. The relative wages of low-paid workers remained nearly stable and the replacement income based on a guaranteed living minimum income was quite generous, causing dependency trap for many long-term unemployed.

The data on income distribution show the sharp improvement in the position of the top income decile at the expense of middle income sections (see Chapter 5). This category could be identified with the upper-middle class (professionals, higher officers, medium-sized entrepreneurs) rather than with the “genuine” upper class, which is hard to capture in statistical surveys. Information about the latter is somewhat anecdotal, collected and reported largely by the media. The number of people owning property val-

<sup>7</sup> See information provided by the most active NGO in this field, “Effective State” at [www.estat.cz](http://www.estat.cz).

<sup>8</sup> Here reference is made to the Special Review Section “Advances in the Study of Post-Communist States and Public Administration” published in *Czech Sociological Review* 44 (6), and in particular to Sean Hanley’s review essay “Re-stating Party Development in Central and Eastern Europe?” (Hanley, 2008).

**Table 7.4**  
**Change in incomes by subjective social class between 1989 and 1997 (%)**

Social class	Referring to the subjective social class in 1989			Referring to the subjective social class in 1997		
	Down	Stable	Up	Down	Stable	Up
Lower	32.7	35.0	32.3	45.4	36.8	17.8
Lower middle	20.9	29.3	49.8	34.7	33.8	31.5
Middle	26.0	36.2	37.7	16.6	33.8	49.6
Upper middle and upper	39.6	28.1	32.3	9.3	23.3	67.4
Total	28.3	33.7	38.0	27.7	33.6	38.7

*Source:* IALS (author's computation).

*Note:* The wording of the question was: "Regarding your financial situation in comparison with 1989, has it improved, worsened, or remained the same?" The subjective class ranking was surveyed for the time of data collection and retrospectively for 1989. All questions were added to the IALS module in the Czech questionnaire only.

ued above 25 million CZK is estimated at 12 000, the number of billionaires at several dozen. Journalist Miroslav Motejlek of the weekly magazine *Tyden* produced a list of the top 100 Czechs, based on the market value of the shares of their companies. In 2007, he found that as many as 60 of them had also been active in the communist era, while one-quarter are part of the new generation under the age of 40.<sup>9</sup>

#### **7.4 After the reforms: middle-class mechanisms and identity**

While there is no explicit support by the current regime for the middle class as a specific social category, sections of the middle class previously absent (small entrepreneurs) have expanded and middle-class mechanisms have spread as a consequence of economic reforms and formation of a democratic regime. This primarily concerns the increasing effect of education on the distribution of earnings (see Chapter 4). The considerable occupational mobility induced by the transition also contributed to the rise in income for well-educated members of the population. Various attitudes became better structured according to class self-identification. Of course, there is an intense effort by many to achieve a middle-class lifestyle. Let us look at some of these issues in more detail.

Despite policies unfavourable to core branches of intellectuals, earnings disparities by education rose. The effect of human capital on determining personal earnings doubled between 1989 and 1996 and increased somewhat even later (see Chapter 4). Nevertheless, the rise in earnings was especially striking in managerial, financial, and technical positions, while affecting typical intellectuals to a lesser degree. While doctors (especially those working in private clinics) managed to improve their position considerably, teachers' earnings lagged, despite all the rhetoric regarding the importance of education under the new regime and the necessity of developing a knowledge economy.<sup>10</sup>

<sup>9</sup> [http://www.bbc.co.uk/czech/domesticnews/story/2005/07/050718\\_cz\\_econ\\_elites\\_pckg.shtml](http://www.bbc.co.uk/czech/domesticnews/story/2005/07/050718_cz_econ_elites_pckg.shtml).

**Table 7.5**  
**Self-identification with social class in 1991–2007 (%)**

Social class	Total population				Economically active persons			
	1991	1995	1999	2007	1991	1995	1999	2007
Lower	8.7	9.9	19.2	20.0	5.7	6.1	11.3	16.6
Lower middle	27.2	24.6	35.2	33.5	30.2	22.6	39.4	34.5
Middle	61.1	60.2	38.8	35.6	61.0	64.9	42.1	36.7
Upper middle and upper	3.0	5.3	6.8	10.9	3.1	6.4	7.2	12.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* Social Justice, ISSP surveys, Social Inequalities 2007 (author's computation).

While there was a considerable squeeze in the upper-middle half of the income ladder (see Chapter 5), a retrospective look at positional changes shows a marked income rise for the middle classes caused by occupational mobility. Unlike static comparison of income breakdowns between individual time observations, the situation looks much more striking when mobility is also taken into account (Table 7.4). Whereas differences between social classes regarding changes from past income were only minor when viewed from the perspective of the subjective ranking in 1989, when viewed from the perspective of subjective ranking in 1997 considerable differences can be seen: those who ranked themselves among the upper-middle class nearly three times more often reported an improvement in their personal financial situation.

As mentioned above, middle-class identity is above all a state of mind. This varied throughout the transformation period with a decreasing and somewhat counter-intuitive long-term trend. In the first half of the 1990s, when the material situation of most households deteriorated owing to rising prices, only less than one-tenth of the population identified themselves as lower class and the rest felt affiliated with the middle class. At the time, Czech society was an exception amongst post-communist countries in this respect.<sup>11</sup>

In the second half of the 1990s, a break came when the percentage of people declaring themselves as members of the lower class doubled. The decline in middle-class identity in the mid-1990s may represent the replacement of socio-psychological identities linked to the political enthusiasm of the early transition, with a more critical evaluation by individuals of their objective socio-economic status in the later phase. The situation regarding middle-class identity did not change much until the early 2000s, while identification with the upper-middle class expanded substantially (Table 7.5).

<sup>10</sup> Teachers only rarely and unsuccessfully tried to improve their situation by means of demonstrations. Not until early 1997 did a timid “chain” strike of teachers occur. In September 2003, the first regular one-day strike took place. Another one-day strike occurred in December 2007.

<sup>11</sup> “With the possible exception of the Czech Republic, middle class identity remains weak in East-Central Europe, and the real and perceived downward slide of the middle segment does not bode well for its development or for the future of the entire region. Without a supporting social structure the liberal ideals of the 1989 revolutions can easily collapse into the morass of ethnic politics” (Róna-Tas, 1996, p. 43).

**Table 7.6**  
**Factors of affiliation with the middle class in 1997 and 2007 (coefficients)**

Factor	Pearson correlation coefficients				Standardised regression coefficients			
	Total population		Economically active people		Total population		Economically active people	
	1997	2007	1997	2007	1997	2007	1997	2007
Occupation rank	-	-	0.24	0.44	-	-	0.10	0.09*
Education	0.46	0.50	0.40	0.56	0.33	0.46	0.22	0.43
Personal earnings	0.41	0.35	0.44	0.39	0.16	0.01*	0.28	0.01*
Family income	0.40	0.44	0.38	0.42	0.14	0.23	0.07*	0.16
Family property	0.36	0.34	0.36	0.40	0.19	0.15	0.20	0.18
$R^2$	-	-	-	-	0.34	0.41	0.33	0.41

*Source:* EEA 1997, Social Inequalities 2007 (author's computation).

*Note:* All coefficients except those marked by \* are significant at the 0.01 level.

Dependent variable: 1 = middle, upper middle and upper class, 0 = else.

Nevertheless, we must be careful with this kind of data, which can vary depending on the wording of questions, the number of offered response categories, and interview conditions. We even find that two subsequent ISSP modules with exactly the same sampling method and data collected by the same agency returned different results: the 2005 ISSP module gives much higher self-ranking in social class than the 2006 ISSP module. In the only statistical survey where such a question was included (Social Situation of Households 2001), two-thirds of adult respondents ranked themselves among the lower-middle class, which is twice as many as in sociological surveys. One reason for this result was that only four response categories were offered, instead of six, as is customary in sociological surveys.

The 2007 Social Inequalities survey (a pre-test for the ISSP 2009 module) makes it possible to bring the variable of wealth into the analysis – though as an estimate by respondents it is certainly not very reliable. In the questionnaire, there were three questions on the topic: real estate and firms, financial assets, and total wealth (in each case assets minus corresponding debts). The association between the first two specific kinds of property is quite close (Pearson correlation coefficient 0.61). The non-response rates ranged from 15% on the first question to 20% on the third question (this is about the same non-response rate as for income questions – 19% for personal income and 16% for family income). The category “only debts” ranged between 2% of respondents for total property and 5% of respondents for financial assets.

The category of “indigents”, which is made up of people having “only debts” and those declaring “zero property”, amounts to 16% of respondents. Together with them, the distribution of estimated property in 2007 is such that 85% of property belongs to the 20% at the top. If only the population with some declared property is taken into account, the share of the highest quintile is 65% of property. By applying

the questions on real estate and financial property separately and taking the “indigents” category into account too, we find that while the distribution of the former is slightly steeper, the distribution of the latter is slightly flatter, corresponding almost exactly to the Paretian rule of 80:20.

When observing the various associations of social-class self-ranking with personal and family characteristics, we find that education is the prominent factor and household income is next in importance (Table 7.6). However, occupation, personal income and family property are also associated with subjective class affiliation. In a regression analysis of the simple variable of belonging (or not) to the middle class, education dominates, while earnings, occupation, and property are sidelined. While the importance of education increased between 1997 and 2007, the importance of property slightly weakened. Instead of personal earnings, household income became important. The decline of the net effect of personal earnings is also made by its closer correlation with occupation and education. Nevertheless, some strengthening of family socio-economic status for middle-class affiliation is apparent as well.

The increasing effect of education can be illustrated also by the ranking of tertiary-educated people among the upper-middle class, which has in fact doubled between 1997 and 2007. Also, the association between class affiliation and economic status has strengthened; while the self-employed rank themselves higher in 2007 than in 1997, pensioners rank themselves lower. According to the 2007 Social Inequalities survey, 47% of employers with three or more employees and 40% of employers with one or two employees associated themselves with the upper-middle class. In contrast, pensioners affiliate themselves mostly with the lower class (34%) and the lower-middle class (37%).

The effect of family property is somewhat less for the entire population, but a bit stronger for economically active respondents. In fact, however, the variable of property does not contribute anything to the explained variance. Statistically speaking, its inclusion in the regression analysis causes only a redistribution of the structure of determination by reducing all other effects. Overall, the variance explained by all factors – most of them of an “objective” character – is surprisingly high in comparison with the otherwise low explanatory power that the common statistical characteristics of individuals and households usually display in relation to subjectively perceived social standing.

Regarding people’s opinions of their perceived class affiliation, a comparison of the 1996 and 2006 ISSP modules on the Role of Government indicates that they are crystallising further, although with less intensity than in the early 1990s, when people were learning for themselves how to formulate opinions about their status. This could be demonstrated, for example, in choices between government investment in education and assistance for the unemployed, or between the flat and progressive tax. The CVVM survey of March 2006 (see Table 2.1 in Chapter 2) confirmed the differences in opinions by socio-occupational categories over the pension system (stress on private old-age insurance among the higher strata), social transfers (less support for people avoiding work), the education system (the usefulness of tuition), health care (support for co-financing), and rent regulation (increasing regulated rents).

Important characteristics of class affiliation also include political attitudes and ideological orientation. The association between a subjective social class and the respondent's location on the left-right political axis systematically strengthens across time: the Pearson correlation coefficient was 0.22 in 1996, 0.27 in 1999 and 0.33 in 2007 (ISSP surveys). Positive inclinations towards a liberal regime are overwhelming amongst the entrepreneurial middle classes. Political party preference is only significant at the level of the lower class (for the Communist Party) and particularly at the level of the upper-middle and upper class (for the Civic Democratic Party). The other levels of class identification – lower-middle and middle-middle class – show no connection with a preferred party (Social Inequalities, 2007).

Regarding lifestyle, a move towards middle-class standards can be observed in the areas of consumption, housing, and leisure. This is apparent in changes in the structure of household expenditures: less money spent on food, and more on housing, education, and recreation. Clothing, restaurant, and travel preferences have changed tremendously since 1989 (see Chapter 11). The most visible change concerns the quality of housing, as some people have escaped the very uniform flats built in communist-era prefab “panel” buildings and moved to family homes or better-quality flats located in the expanding suburbs. Following the statistical survey Living Conditions of 2005, 39% of all Czech households moved to their current house or flat after 1990; the figure is 49% among the self-employed and 54% among higher-ranking employees.<sup>12</sup>

## 7.5 Conclusion

It is largely contended that the middle classes are not only a result of but also a critically important element in the establishment of democracy and in guaranteeing its durability. This is because they have a constitutive or integrative role in the key areas of economic and social life. Their value system corresponds well with an open and efficient society, while their central location between the rich and the poor ensures social cohesion and integration. The economic activities of key sections of the middle classes support three main vehicles of an efficient economy: buoyant markets, rich information flows, and functioning institutions.

Regarding Czech economic reforms, they have not been as beneficial to the emergent or reconstituted middle classes as expected. The government was more interested in a smooth transformation of existing large companies (paralleled by preserving social peace) than in the creation of favourable conditions for new entrepreneurs. It also supported expansion of the financial sector but was much less attentive towards the public services of health and education. The burden of paying for the advancement of the upper class while protecting the lower strata was borne by the middle class. The distribution of wealth became intensely concentrated by somewhat untransparent means.

On the other hand, several “middle-class mechanisms” successfully manifested themselves; first and foremost the increasing role of education in the determination

<sup>12</sup> Developers capitalise on this widespread and intense desire for new housing by pushing up prices and developing land around cities, encouraging urban sprawl, around Prague in particular (Lux et al., 2008).

of wages. Also occupational mobility related to changing social structure induced considerable growth in incomes. However, the formation of the middle class still faces problems owing to the limited promotion of categories indispensable to creating a knowledge economy – such as teachers and researchers. While much has been achieved with regard to the formation of a capitalist, information-oriented, and service society, the process is by no means complete.

Regarding the “capitalist society”, entrepreneurs indeed became important figures, but it was the “grand entrepreneurs” who promoted much more than the small- and mid-level new entrepreneurs. Regarding the “information-oriented society”, education indeed succeeded in the sense that it now plays a stronger role in earnings disparities and personal careers, but not in the sense of there being a substantially higher share of knowledge in economic production. Regarding the establishment of the “service society”, while important shifts occurred, the service sector is still weak in comparison with advanced countries, strategic business services in particular.

Against any idyllic picture of middle class’ role, we should be also aware of a large critique stressing the growing internal disparity in social status and interests of various sections of the middle class, its general downfall and disappearing legitimacy (the critique was summarized for Czech readers in Keller, 2000). In contemporary mass and consumer society, the arguments for a continuing productive and amalgamation role of the middle classes cannot be as strong as before. However, in the marketing age, symbols and appeals are no less important than the real situation and concrete measures. Addressing implicit desire of people for middle-class status remains powerful impetus for social change.

While during the late 1990s, middle-class vocabulary was rather suppressed, it had resurfaced by the mid-2000s in connection with the reform of taxes and benefits, the welfare system, and other policy measures. This vocabulary was also applied to explain the swing of voters to the left in the October 2008 regional elections. Although fluid and allegedly permanently disappearing, the middle class still manages to maintain an important place in the political scene. The empirical analysis for transition countries proves this clearly: there is more democracy wherever the middle class is larger (Transition Report, 2007).

## 8 Pensioners: changing socio-political status

European nations are currently faced with declining numbers of children and increasing life expectancy. Together these trends will result in the ageing of the population, which is a threat to economic performance and a burden on the social insurance system. The Czech Republic is no exception in this regard. The official forecast of the Czech Statistical Office (middle variant) predicts that nearly one-third of the population will be aged 65 or over by 2050, compared to the figure of 15% in 2007 (CSO, 2004). There are many questions on this issue that concern the sustainability of the pension system and the standard of living of current and future pensioners.

With the deterioration of the system dependency ratio, i.e. the ratio of those requiring benefits in old age to those who are in employment, the pressure on the pension system grows, regardless of whether the benefits are paid from current state revenue or separate public funds. Balancing the pension system is a twofold task: keep it sustainable and simultaneously guarantee a decent standard of living for pensioners. Since it is hard to balance between current and future consumption and between economic and social requirements, there is no single “best” pension system. The only solution is to engage a variety of resources and start to collect them with the necessary head start.

A systemic pension reform envisioning greater participation from citizens presents a sizeable challenge to politicians who are anxious about voters’ support. As the population ages the elderly make up an increasingly larger voter constituency. Its growing importance is also due to the fact that older people tend to be more reliable voters in terms of participating in elections. The short span of mandates in democratic regimes means that short-term “tactical” decisions always take priority over long-term “strategic” ones. After all, today’s pensioners are more important to politicians than tomorrow’s pensioners, in part because only the former are able to convert economic benefits into political support.

Unlike the pension system, pensioners themselves have been less the subject of research. Who are they, who will they be in the future, and what is their social status? To answer some of these questions, this chapter first looks at some of the specific features of the communist regime, which shifted pensioners to the margins of society. Second, it traces a change that occurred as part of the transition, wherein pensioners became empowered as voters. Third, the debate on pension reform is summed up along with the possible effect of system proposals on the future position of pen-

sioners. Fourth, the difficulties attached to shaping current expectations based on the challenges of the future are identified. The closing section comments on the possible social position of future pensioners.

### 8.1 The communist regime: pensioners as the poor

One of the main catchphrases of the socialist revolution in former Czechoslovakia was “He who does not work should not eat!” Immediately after 1945, this slogan was applied by the Communist Party to prominent capitalists and property owners. Work duty, established in 1945, later served the communist regime for the persecution of alleged “bourgeois parasites”. Throughout the duration of the communist regime, however, it also provided, albeit only implicitly, a justification for neglecting pensioners. The formal conditions varied, but the weight of previous earnings was always marginal, while the most important source of disparities was the system of defining pensioner categories based on previous occupation, not to mention the “personal pensions” enjoyed by members of the communist elite.<sup>1</sup>

Otherwise, not disparities but equality was the goal. In seeking to establish equality among people, the communist regime tried to reduce everyone to the common denominator of the working class. It also downgraded pensioners as a whole. In a sense, the regime even established a “social category of pensioners”. Marxist doctrine allowed only the (ruling) working class, the (socialist) intelligentsia, and (cooperative) farmers to figure as elements in the social structure, but a fourth social group, that of pensioners, emerges in statistical surveys and state policies. While the link between previous earnings and the level of pension benefits was in fact removed by the mid-1950s, considerable gaps in benefits appeared according to pensioner age, tacitly suggesting the following rule: the older the pensioner was, the less his or her “right to eat”.

Instead of regular valorisation of pension benefits, the communist state bestowed on its citizens irregular “gifts”, couched in the paternalistic rhetoric of the “benevolent ruler”.<sup>2</sup> But in fact social protection was the lowest priority in state spending, well below spending on the army and police, industry and agriculture, and the party and state bureaucracy. While social security was hailed as pre-eminent among the advantages of socialism, the provisions afforded were in fact a residual part of state expenditure. As compensation, the state generously allowed pensioners to remain in employment and earn extra income to supplement their modest benefits; manual workers could work an unlimited number of hours of supplementary work, and non-manual occupations were limited to 120 working days a year.

Formally, the system appears to have been a balanced mixture of the corporative and residual systems. In reality, though, it was a perverse revision of both. The work-

<sup>1</sup> The highest of the three standard categories comprised, for example, miners, army officers, police officers, and pilots. In addition, special “personal pensions” were granted to higher- and top-level politicians, prominent athletes and writers, and artists awarded national prizes.

<sup>2</sup> The absence of valorisation was officially endorsed by the fact that no inflation was supposed to exist in a socialist society. In reality, there was hidden, albeit slow, inflation. But innovation in consumption was even slower.

related basis and the rationale of ensuring loyalty to the state in exchange for old-age security were adopted from the Bismarckian system, which was introduced to the Czech lands in the 1880s and continued to apply in the interwar Czechoslovak Republic. At the same time, however, the minimum provisions, unrelated to previous earnings, basically resembled the residual type of welfare regime, where pensioners are treated as poor citizens and therefore entitled to state assistance. After insurance funds and private assets had been confiscated by the state, all pensioners became the hostages to the state.<sup>3</sup>

In spite of the general equalisation of incomes, the biggest difference in per capita income among various social groups is the gap between pensioners and other households. In the last two decades of communist rule, this gap diminished: when considering only pensioners' households without economically active members, their per capita income was on average 69% of that of the total population in 1970 and 80% in 1988 (CSO, 1997). Also, the ratio of pension benefits to gross wages improved, rising to 64% in 1989. Nevertheless, defined according to the minimum living income, the poverty rate among pensioners amounted to 8.5%, compared to 2.7% on average in 1988. Were we to apply the EU measure (based on a much flatter equivalence scale), poverty among pensioners would be as high as 36.6%, compared to the average of 7.5% for the total population.

When comparing pension benefits with the average wage and pensioners' household incomes with the average household income figures, it is necessary also to bear in mind the low purchasing power of any income under the communist regime. Pension benefits may appear to have been quite high, but only relatively to low wages. Consequently, the real purchasing power of pension benefits was indeed very low. Financial constraints made it difficult for pensioners even to buy themselves new clothes, update household furnishings, or use some of their budget for leisure and recreation. Despite some improvements in the last two decades of the communist regime, pensioners still spent most of their household budget on food and beverages: 57% in 1970 and 45% in 1990 (Family Expenditures Surveys).

## **8.2 Establishing democracy: pensioners as a constituency**

The new market economic regime was unlikely to receive a warm welcome from pensioners given the way it affected their standard of living. The prevailing liberal rhetoric of those years must have caused pensioners concern over their future subsistence. They had already left the labour market and so could not expect any significant increase in their standard of living. Around 1989, the people starting to retire were the generation that had been young in 1948, and at least a significant portion of them had benefited considerably from the communist regime, under the catch-

<sup>3</sup> Fortunately, many of the grand plans of the 1950s that stressed the uselessness of pensioners were not fully implemented. Such ideas included moving pensioners from cities to the countryside in order to free up their apartments for "productive workers".

phrase “youth forward”. In the early 1950s, the promotion of young “cadres”, regardless of their skills and experience, was a tool used to establish loyal communist management in all sectors of the economy.

There were, of course, also a lot of adverse situations, where people had been persecuted or were simply not allowed to study and find a decent job because they had “bad class origin” or were not deemed loyal to the regime for other reasons. People whose careers had been blocked by the communist regime hoped – in vain – that they would be compensated after 1990 by the new regime for the low pension benefits they received as a result of being forced into low occupations. Nevertheless, privileges for members of the nomenklatura (so-called “personal pensions”) were eliminated and the categorisation of pensioners into three classes according to the importance of their occupations for the previous regime was eliminated. The new valorisation scheme aimed to reduce disparities between pensions assigned at different times.

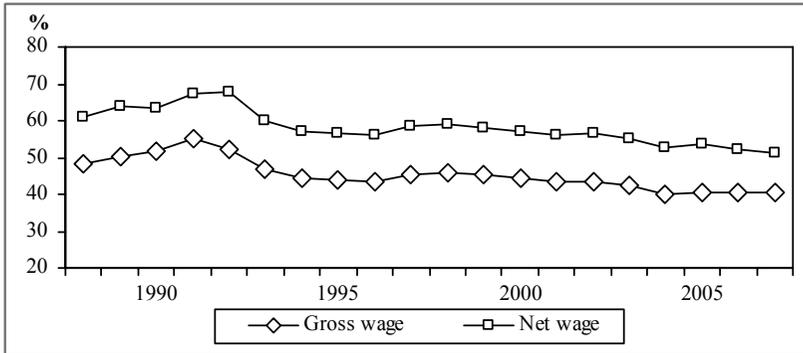
After 1990, two changes occurred that negatively affected older people and specifically working pensioners and people of retirement age. Many of them were pushed out of the labour market under pressure from employers and in response to temporary heavy taxation of earnings made on top of pension benefits. Over-employment was addressed by laying off retirement age employees and by drawing others into retirement with advantageous early retirement schemes. Nevertheless, the situation differed substantially from the way in which reform took place in other countries. The number of pensioners rose only slightly up to 1997 in the Czech Republic, unlike, for example, in Poland, where the number of pensioners increased from 5.4 to 7.2 million between 1990 and 1999 (ILO, 2002, p. 106), or Hungary, where it increased from 2.5 to 3 million between 1990 and 1996 (Müller, 1999, p. 64).

The economic reform did not explicitly tackle income inequality among households, nor was it directly able to. Nevertheless, various measures introduced after 1990 caused shifts on the income ladder to the advantage of pensioners and the disadvantage of children: valorising pension benefits while reducing family allowances. The obvious reason was to adjust pension benefits and compensate for the decline in their real purchasing power. Nonetheless, it is possible to speculate that there was also increase in the importance assigned to pensioners as voters. When the purely formal quasi-elections held under the communist regime were replaced with truly democratic elections under the new political regime, the importance of pensioners as a strong category of citizens increased dramatically.

This is not to suggest that there have been any directly “corruptive” intentions in relation to the support expected from pensioners as voters. Nevertheless, the valorisation of pension benefits began at the very outset of the transition, so that the pension/wage ratio improved substantially up to 1992 (Figure 8.1). Here it is important to note that the existence of regular statistics on average wages and average pension benefits in the Czech Republic – moreover, a closely monitored ratio – is somewhat unique and has no real comparative counterpart in other countries. In Western countries, pensioners’ incomes usually comprise from many sources and thus they can only be grasped in sum through household income surveys.

The income position of households with pensioners did not follow the pension/wage ratio closely. The main reason is that pensioners live in variously sized households,

**Figure 8.1**  
**Average old-age pension benefits in percentage of the average wage**



*Source:* Ministry of Labour and Social Affairs using CSO data.

the proportion of which has changed in the past fifteen years. Fewer pensioners live in one-person households, the category whose income situation has improved the most, while the situation of pensioners living in large families has relatively decreased. Currently, one-half of all pensioners live as couples. Their situation is not as favourable in terms of per capita income, but it is positive in terms of total disposable income and related scale economies. The proportion of shared costs – housing and related utilities – has increased considerably in the meantime, which makes income per capita less indicative of a household’s purchasing power (Table 8.1).

There is no strict parallel between political and economic developments. The character of elections has also changed. The first free elections in 1990 were in fact a plebiscite for democracy, in which the Civic Movement (OH) won two-thirds of the vote. The second elections in 1992 were a “real” democratic contest, in which twenty political parties participated. They took place in former Czechoslovakia, where the most important legislative body was the Federal Assembly. For the sake of comparison with later elections we will cite the results of the 1992 elections to the Czech National Council, which was later transformed into the Chamber of Deputies of the Parliament of the Czech Republic (Table 8.2).

In the 1992 elections, one in five voters was a pensioner. Contrary to expectations, pensioners have not overwhelmingly supported leftist parties, in spite of their weak preference for the Left Block. The Christian Democrats were the slightly more preferred and typical party for the older, rural, and Catholic-oriented population. Surprisingly, pensioners did not show strong support for what could be called “their” party, the Movement of Pensioners for Social Security: the party received a mere 4% of the total vote and 13% of all pensioners’ votes in the 1992 elections. However, the two right-wing parties, the Civic Democratic Party (ODS) and the Civic Democratic Alliance (ODA), eventually obtained roughly the same number of pensioners’ votes as the political left. The elections were won by ODS with huge support from pensioners (Table 8.2).

## PENSIONERS

**Table 8.1**  
**Pensioners (non-working only) by type of household and income in 1988–2004**  
 (%)

	1988	1992	1996	2002	2004	Increase 1988– –2004 <sup>a</sup>
Thousands of pensioners	1 788	2 263	2 179	2 270	2 247	-
<i>Of them:</i>						
Living alone	29.8	25.2	25.7	25.8	23.0	96.7
Living as a pensioner couple	41.6	50.9	49.7	47.5	51.0	153.4
Living in a family with others	28.6	23.9	24.6	26.7	26.0	114.4
All	100.0	100.0	100.0	100.0	100.0	125.7
<i>Household total disposable income:</i>						
Living alone	41.8	46.4	46.0	49.0	47.1	121.0
Living as a pensioner couple	104.2	102.4	102.1	105.3	103.4	106.7
Living in a family with others	154.8	151.2	152.1	139.8	142.0	97.4
Average	100.0	100.0	100.0	100.0	100.0	107.5
<i>Income per capita:</i>						
Living alone	87.5	97.9	98.3	101.4	100.7	121.0
Living as a pensioner couple	94.2	95.7	94.3	94.7	96.3	107.5
Living in a family with others	121.5	111.2	113.2	108.0	106.7	92.4
Average	100.0	100.0	100.0	100.0	100.0	105.2
Pensioner's per capita income as a % of all household average	86.4	88.6	86.1	88.6	87.7	-

Source: Microcensus surveys, Living Conditions 2005 (author's computation).

Note: <sup>a</sup> Increase in income is adjusted to living costs index of pensioners' households.

The political affiliation of pensioners has changed considerably since the elections in 1992. In 1996, ODS maintained its position, as did the Communists. In those elections, ČSSD received huge support from the population, and pensioners followed this trend, although with distance. This continued in the 1998 by-elections (not included in the table), which ČSSD won. The swing of pensioners to the political left is documented in the results of the 2002 elections, by which time almost 60% of pensioners' votes went to the Social Democrats and the Communists. In the 2006 elections support even

## STRUCTURES

**Table 8.2 (first part)**  
**Votes for political parties in parliamentary elections by social category (%)**

Political party or coalition	Professionals	Routine non-manual	Self-employed	Manual workers	Pensioners	Total	Ratio pensioners/total
<i>1992</i>							
Coalition ODS, KDS	31.7	33.2	42.6	22.8	27.1	29.7	91.2
Social Democracy (ČSSD)	7.2	7.3	2.4	7.1	6.2	6.5	95.4
Left Block (LB)	13.8	14.2	5.4	13.2	18.5	14.1	131.2
Christian Democracy (KDU-ČSL)	6.4	5.1	1.8	6.1	9.3	6.3	147.6
Republicans (SPR-RSČ)	1.9	5.2	6.2	9.5	1.7	6.0	28.3
Civic Democratic Alliance (ODA)	12.9	7.9	7.0	3.4	4.1	5.9	69.5
Pensioners for Security (HDŽJ)	1.1	1.2	0.2	1.9	12.9	3.8	339.5
Other parties	25.0	25.9	34.4	36.0	20.2	27.7	72.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	-
<i>1996</i>							
Civic Democratic Party (ODS)	36.3	29.8	44.8	18.9	27.5	29.6	92.9
Social Democracy (ČSSD)	22.3	29.9	17.7	35.0	21.4	26.4	81.1
Communists (KSČM)	9.4	10.2	5.5	11.7	19.5	10.3	189.3
Christian Democracy (KDU-ČSL)	9.8	6.2	4.7	8.2	10.4	8.1	128.4
Republicans (SPR-RSČ)	1.9	8.2	9.7	12.8	3.9	8.0	48.8
Civic Democratic Alliance (ODA)	11.8	7.1	8.7	3.8	3.3	6.4	51.6
Pensioners for Security (HDŽJ)	0.3	1.3	0.9	2.1	8.9	3.1	287.1
Other parties	8.2	7.3	8.0	7.5	5.1	8.1	63.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	-

slightly exceeded this level. While pensioners' support for the Social Democrats matched the average for the population as a whole in 2002, it was above average in 2006. Their support for the Communists also peaked in 2006.

**Table 8.2 (second part)**  
**Votes for political parties in parliamentary elections by social category (%)**

Political party or coalition	Professionals	Routine non-manual	Self-employed	Manual workers	Pensioners	Total	Ratio pensioners/total
<i>2002</i>							
Civic Democratic Party (ODS)	21.6	27.0	15.1	44.5	19.1	24.5	78.0
Social Democracy (ČSSD)	39.3	31.4	32.5	20.6	30.2	30.2	100.0
Coalition KDU-ČSL, US-DEU	12.6	16.5	10.4	12.6	14.4	14.3	100.7
Communists (KSČM)	14.6	12.7	27.4	10.0	28.3	18.5	153.0
Other parties	11.9	12.4	14.6	12.3	8.0	12.5	64.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	-
<i>2006</i>							
Civic Democratic Party (ODS)	29.3	40.8	64.6	19.3	23.8	35.4	67.2
Social Democracy (ČSSD)	39.2	30.6	14.5	43.1	37.3	32.3	115.5
Christian Democracy (KDU-ČSL)	7.3	7.3	5.4	6.1	8.8	7.2	122.2
Greens (SZ)	7.1	7.3	4.9	4.8	2.7	6.3	42.9
Communists (KSČM)	11.3	8.1	5.7	18.6	23.4	12.8	182.8
Other parties	5.8	5.9	4.9	8.1	4.0	6.0	65.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	-

*Source:* Exit polls carried out by INFAS and FACTUM for CZ TV in 1992, by INFAS and SC&C for Czech TV in 1996, and by SC&C for Czech TV in 2002 and 2006.

### 8.3 Reforming the system: future pensioners at stake

The main political debate is not about the situation of current pensioners, but – indirectly – about future ones. The social policy espoused by ODS since 1992 stressed increasing individual responsibility. However, while in power ODS opposed requests from ČSSD and the trade unions to set up a public pension fund that would capitalise on the surplus of contributions that existed at that time; a special account was only established within the state budget in 1996. Despite huge pressure from trade unions, no occupational pension scheme was included in this project, as ODS argued it would be an infringement on the “citizen” principle. Nevertheless, a clear intention to distribute the risk was incorporated into a two-tier project devised by ODS, which involved a PAYG (pay-as-you-go) basic pension and a state-contributory type of supplementary pension insurance.

In 1994 a supplementary pension insurance scheme was introduced that enabled citizens to purchase private retirement insurance through commercial insurance companies with the support of a state contribution. For this purpose, specially licensed and controlled pension funds were established. It was assumed that a supplementary, fully funded pension scheme would expand to compensate for the expected reduction in the basic pension, thus ensuring equivalence between payments and benefits and strengthening income disparities between pensioners. There was much wishful thinking in the expectations that people would begin privately to save more for their old age and that they would be prepared to reduce their expectations from the state. While over four million people had already joined the scheme by mid-2008, the amounts they are saving are small (The Association of Pension Funds).

With the expectation of a worsening system dependency ratio, plans emerged to gradually raise the retirement age. But left-wing opposition parties disapproved of this, arguing that the dependency ratio was actually going to worsen later than expected. The proposal provoked a 25 000-strong demonstration in March 1995. The Pension Insurance Act, one of the most controversial bills since 1990, was ultimately passed, late at night on the last day of the parliamentary session in June 1995, with the coalition Christian Democrats abstaining and replaced in the vote by the non-governing Czech-Moravian Centre Union Party (ČMUS). The Christian Democrats and the opposition Social Democrats together proposed immediately revoking the Act (Polívka, 1998).

Under the interim right-centrist government of Josef Tošovský (in 1998), the Minister of Labour and Social Affairs, Stanislav Volák, proposed introducing radical pension reform in 1998. In the opposition, the Social Democrats objected to the introduction of changes to the system and demanded a guarantee of a fifty-percent replacement rate of gross wages. After taking office in 1998, politicians in ČSSD abandoned their efforts to lower the retirement age but again rejected any systemic pension reform. Only parametric adjustments to the current PAYG system were announced. In the meantime, several important changes occurred, which considerably altered the circumstances under which previous pension reforms had been implemented:

- The expected system dependency ratio, which looked favourable at the beginning of the 1990s, worsened, and the demographic forecast had to be re-evaluated.
- The balance of pension revenue and expenditure, which was positive until 1996, became negative, and the risk arose of a rapid increase in the budget deficit.
- As a result of the relaxed and limited restrictions on early retirement, the number of retirees grew considerably and in 2002–2003 early retirees came to make up one-half of all new retirements.
- Supplementary private insurance was less popular than had been expected, particularly with regard to the level of payments, which in 1999 was below 2.5% of the average wage.
- After the last banks were privatised, the high rate of employment backed by generous crediting of large companies fell and rising unemployment reduced the sum of contributions to the social security system.

**Scheme 8.1**  
**Pension reform proposals of the main political parties in 2005**

<b>Social Democrats</b> <i>NDC system</i>	<b>Christian Democrats</b> <i>Partial opt-out</i>	<b>Communist Party</b> <i>Parametric optimisation</i>	<b>Civic Democrats</b> <i>Flat-rate pension benefit</i>
Notional individual accounts (NDC) within a PAYG system, some additional sources.	Parametric reform of the PAYG system (1st pillar).	Current PAYG system considered sustainable up to 2023–2030, large additional sources.	Reduction of the PAYG system on a flat-rate pension benefit at 20% of the average wage (= minimum guaranteed state pension, valorised by wage increase).
Guaranteed minimum benefit relative to the subsistence minimum.	Stronger equivalence of newly set pensions.	Increasing the contribution rate from 2040 by 3 percentage points.	Raising the statutory age eventually to 71, no early retirement.
Statutory retirement age raised to 65 for regular pensions but higher for minimum pensions for persons unable to save enough.	Increasing the statutory retirement age to 65.	Statutory retirement age raised to 65, but starting later.	2% of contributions may be directed to parents' pension benefits.
Expected replacement rate 60% (48% of NDC, 12% of additional resources).	3% of personal assessment base may be shifted to a funded account provided the person will contribute another 6% (2nd pillar). If so, state pension will be reduced correspondingly.		Otherwise private schemes, but not compulsory.
	Voluntary FF as 3rd pillar.		

*Source:* Final Report, 2005.

Starting in 1998 the Czech political scene stagnated for four years under the cool truce produced by the “opposition treaty” between Social Democrats and Civic Democrats. The ČSSD-led government coalition that took power in 2002 rendered it unlikely that any attempts to carry through fundamental reform of the social security system could occur. Questions about pension reform surfaced on both sides of the political spectrum, but with different views: parametric “weak” reform or systemic “radical” reform, including a second mandatory fully funded pillar. The only step taken came under pressure from the massive increase in early retirement, and as a result the option of retiring early and collecting temporarily reduced benefits was cancelled.

The actions of the political parties have not been as straightforward as the party ideologies might suggest. The animated rhetoric about the urgency of the problem has starkly contrasted with the limited activity, and alternative proposals for reform have remained vague. A great effort towards clarifying and quantifying the main parties' ideas about pension reform was made in 2005, when a “team of experts”, in which all the main parties and the government were represented, and an “executive team” of economists, led by Vladimír Bezděk, were established. The latter required par-

**Table 8.3**  
**Effects of the pension reforms proposed by the main political parties (%)**

Indicator	2010	2020	2030	2040	2050
<i>Contributions (employer and employee) as a % of gross wage:</i>					
Basic variant – no change	28.0	28.0	28.0	28.0	28.0
Social Democrats (ČSSD)	29.6	29.6	29.6	29.6	29.6
Christian Democrats (KDU-ČSL)	-	-	-	-	-
Communists (KSČM)	28.0	29.6	29.6	33.6	33.6
Civic Democrats (ODS)	20.0	20.0	20.0	20.0	20.0
<i>Ratio of pension to gross wage:</i>					
Basic variant – no change	39.7	37.4	37.0	37.9	38.2
Social Democrats (ČSSD)	40.6	39.5	39.9	40.0	36.8
Christian Democrats (KDU-ČSL)	37.7	32.0	29.8	30.4	30.5
Communists (KSČM)	39.7	37.5	37.7	38.8	40.1
Civic Democrats (ODS)	37.7	30.9	26.1	22.7	20.7
<i>Gross replacement rate in % (men/women):</i>					
Basic variant – no change	62/77	58/67	57/63	57/63	57/63
Social Democrats (ČSSD)	63/77	62/68	61/60	55/54	50/48
Christian Democrats (KDU-ČSL)	-	-	-	-	-
Communists (KSČM)	62/77	58/67	51/61	51/52	51/51
Civic Democrats (ODS)	62/77	42/49	29/30	-	-

Source: Final Report, 2005.

ties to specify their versions of reform (mandatory parts of the proposed system), and then calculated their effect in the long term (Scheme 8.1).

The calculations made by Bezděk's team used only averaged figures, such as "typical-income person" (Table 8.3). The best average benefits, in terms of the pension/wage ratio and gross replacement rate, would be provided under the current system, which is, however, financially unsustainable. A similarly "generous" system was proposed by the Communists, who also want to increase contributions substantially and draw on additional budget resources. In the combined system proposed by US-DEU, the contribution rate could be higher, provided the person decides to partially opt out of the funded pillar. The opposite version proposed by ODS left considerable discretion over decisions to the individual households, thus assuming their strong and far-sighted personal involvement. The Christian Democrats' proposal also assumed that households might decide to opt out of the state system.

Little activity on the political scene followed the completion of the work by Bezděk's team until 2007. The only consensus that was nearly achieved related to a further increase in the statutory age retirement after 2012 (when the limit of 63 should be reached) to gradually reach 65 in 2031. Nevertheless, it failed in the face of opposition from the Communists, who proposed postponing a further increase to between 2031 and 2036.

There are serious problems with the proposals put forth by both ČSSD and ODS concerning the future income position of pensioners. The Social Democratic proposal was designed to strengthen the connection between pensions and lifelong earnings by means of notional accounts. However, the effectiveness of this plan is illusory under the given circumstances, because the total volume of funds for payments is supposed to decrease continually while the minimum pension payment – guaranteed state pension – is to become more or less fixed. The more likely outcome is that state pensions would be levelled towards the minimum, and the connection with earnings would consequently be further weakened. The calculation showed that 65% of newly set pension benefits would eventually fall below the poverty line (Final Report, 2005, p. 47).

The original idea of the Civic Democrats relied on only a minimum and flat-rate state pension and otherwise emphasised “individual retirement insurance, investments and savings” (Modrá šance, 2003, p. 22). Since the ODS-led coalition took power in 2007, considerable effort has been invested in designing modest but feasible reforms, distributed over three stages. The first stage involves continuing to gradually raise the retirement age to reach 65 for men and for women who have raised no children or one child (women with two or more children can retire earlier) and gradually limiting the inclusion of non-contributory insurance periods. While working beyond retirement age will be advantageous, early retirement will be made less favourable.

Further reform steps will address private pension schemes by separating the assets of stockholders and participants, introducing a larger variety of pension plans, increasing motivation for higher contributions and employers’ participation. Less strict conditions for insurance funds should allow more profit, but at the same time, payers’ resources should be clearly distinguished from the property of funds. The option of taking a partial pension in tandem with earnings should be introduced. A partial opt-out was recently outlined, which would allow people to pay an amount equal to four percentage points of their current old-age security payment to a private pension fund.

#### **8.4 New challenges to expectations**

Old-age protection is an inherent source of a permanent conflict within the welfare state. In a static cross-section, there is a conflict between the “cost-containment interests” of contributors, taxpayers, and business investors and the “needs-satisfaction interests” of current and future pensioners. If old-age security is exclusively a matter of redistribution handled by the state, it relegates pensioners to the status of mere recipients of social benefits and pits them implicitly against the taxable active population. In the long run, pensioners and persons approaching retirement will likely support programmes of growing redistribution, with all their adverse consequences.

Throughout the life cycle, there is a conflict between current and future consumption. There are two trends that cut through Czech society, both of which reinforce the orientation towards the present time: the communist legacy and the modern mass consumption society. Beginning in 1948, the communist regime systematically eradicated peoples’ orientation towards the future. It deprived people of all their previous assets and destroyed forms of long-term planning that were previously rooted in

society, such as the promotion of private firms, close family inter-generational links, and the accumulation of assets. In addition, since the early 1990s, the onset of mass consumption further reinforced this legacy by opening up access to and fuelling the attraction of the large supply of consumer goods and services.

In a modern society, three goods are particularly worthy investments for the future of an individual or family: education, housing, and assets for old age. While people massively invest in housing and would also be willing to invest more in education, old-age savings remain at a low level. While the number of people participating in the private old-age insurance system with state contributions is rising, their savings still only account for about 2% of net earnings on average. The other problem is that the resources collected are used as a regular income source during retirement age in only less than one percent of cases, and in the other cases they have been cashed as one lump sum (72%) or as surrenders (24%) (NSRP 2005, p. 8).

Indeed, after decades of forced reliance upon the state, it is not easy to reorient people towards saving over the long term for retirement and old age, and moreover, using their savings as a supplementary pension benefit instead of withdrawing them. What is significant here is the poor level of public confidence in financial institutions, the roots of which date back to the early years of the transition, when many banks went bankrupt and it was a long time before clients received compensation for lost savings. Otherwise, limited confidence in financial products is not a feature exclusive to the Czech Republic, and it may yet be reinforced in connection with repercussions from the economic recession that started in the end of 2008.

There are wide disparities between countries in terms of the size of their pension funds as a percentage of GDP: in the Czech Republic, the pension fund equalled only 3.7% of GDP in 2006. In 2001, it was 3% in Germany, 4% in Italy, 6% in Belgium and Sweden, while it was 66% in the UK, and as much as 105% in the Netherlands and 114% in Switzerland (OECD, 2005b, p. 24). Surprisingly, even in countries where public systems dominate, the credibility of the pension system is problematic. Summarising the OECD survey, Timothy Besley and Andrea Prat (2005) pointed out that there is little confidence in public pension systems, even in countries with high fertility rates, such as France. By contrast, the readiness to opt out of the PAYG system was found to be quite high in a survey conducted in France, Germany, Italy, and Spain (Boeri, Börsch-Supan and Tabellini, 2001).

Naturally, expressed preferences regarding old-age savings only very slowly translate into practice. The twenty-year experience of Latin American reforms bears witness to how lengthy the process of becoming accustomed to a new system can be (Packard, 2001). To support private old-age investment, the World Bank recommends using both tax incentives and compulsion, provided the funds are under strict control (Vittas, 2002, pp. 36–37). Even in very diversified systems with an uninterrupted tradition of people saving for old age, scholars only very generally speculate about possible outcomes in behavioural terms: “The changes in the generosity and targeting of the state pension system, combined with the changing nature of private pension provisions, are likely to affect peoples’ saving and retirement decisions in different ways and different points of the income distribution” (Banks and Blundell, 2005, p. 52).

The other matter is bringing children back into the system. Before the welfare state developed, children were partly viewed as a guarantee of the well-being of their parents in old age, at least as a means of last resort. In the current Czech system, the number of children matters only for determining a woman's retirement age. The earnings lost owing to the years women spend raising children and other related costs are not taken into account. While children matter for current tax and family benefits, their long-term value for the pension system is zero. If the welfare state largely stresses inter-generational solidarity, it neglects inter-generational reproduction. This contributes to the current state of affairs in which the values people declare about raising children sharply contrast with the real reproductive behaviour of the populace.<sup>4</sup>

James Hyzl, Jiří Rusnok, Tomáš Řezníček, and Martin Kulhavý proposed that the pension system recognise the "production of future contributors". They argue that "well-educated children, not money, contribute to the PAYG system. Therefore, the solution for PAYG system is to not pay out to those who did not contribute to the system [...] Persons who do not invest in the PAYG system via their children have to save in the second, fully-funded pillar. The both pillars, and thus models, of financing old-age security are set on the same level" (Hyzl et al., 2004, pp. 3–4). Another way of taking children into account within the pension system was proposed in ODS's pension reform, though it is by no means one of its core ideas. As a supplementary scheme, they suggested that pensioners could receive a certain percentage of the gross wages of their children (Final Report, 2005, p. 104).

Also, longer employment beyond retirement age, which in the past several years the OECD and the EU have regarded as crucial, should be supported. Czech data on the employment of older people show an increase in employment in recent years, now reaching the EU average, but this is owing to the high employment of "younger older people" (women up to the age of 55, men up to the age of 60), while by contrast the employment of "older older people" is still low. Nevertheless, the employment/population ratio for the entire 55–64 age cohort in 2007 was 46% in the Czech Republic (the same as in EU-15) compared to 33% in Hungary and 30% in Poland (OECD, 2008b).

The changes deemed necessary in the pension system and employment are a challenge to the prevailing preferences of the population and the public desire not to change the statutory retirement age or continue working after reaching it. There is currently little motivation to continue to work beyond statutory retirement age or to work after becoming a pensioner, because the increase to pension benefits entailed by doing so is too small to make the effort worthwhile. The pension benefits of working pensioners are not adequately tied to additional years spent working (NSR 2008). This state of affairs is to be changed since 2010, as it is planned that people's pension benefits will continue to increase even after they retire and the current discriminatory condition that pensioners can only be employed on one-year, fixed-term work contracts will be eliminated. Taking partial retirement pension will be also possible.

<sup>4</sup> The European Values Survey of 1999 indicates that respondents generally assign the family the highest value among the main areas of life. The Czech Republic is one of the nations that rank highest in this regard, along with traditionally Catholic countries such as Poland and Italy. However, the fertility figures do not match these opinions.

## 8.5 Conclusion

It is almost impossible to draw a detailed picture of the likely living standard and its differentiation among pensioners under the various pension regimes that have already been adopted or are in the minds of policy-makers. Policies in the pension area are a varied mixture of guarantees for some basic (minimum or decent) pension benefits and making room (through incentives or coercion) for individual activity. While individual political parties put forth their particular visions regarding the pension system as a whole, they do not directly estimate the position of pensioners under changing conditions in this area. The question is what we can expect in this regard as a result of reform (or non-reform) and its possible future impact. In fact, only some circumstances can be reliably foreseen.

A growing number of decisions will be in the hands of the people: first and foremost, the duration of their economic activity and (if self-employed) the adequacy of their contributions; second, their decision to partly opt out of the state system. Regarding the mandatory fully funded pillar of the pension system, even around the elections in 2002 it was still being advocated by the Freedom Union, but the idea has been abandoned. Regarding private old-age insurance schemes, it is difficult to predict the participation of people. The only sure thing is that reality has thwarted the initial “liberal project”, in which the public pension is only a basic source of income and supplementary private schemes are envisioned as eventually being the main source of differentiation in the standard of living of pensioners.

The question is to what extent the status of pensioners will be defined by their current position – their age and economic inactivity – and to what extent by their “emeritus status” – their education, former occupation, and related earnings. The kind of emeritus status that existed in pre-war Czechoslovakia, at least for professionals and state employees, will apparently not be established for most pensioners. Instead they will retain the characteristics of their particular social group, though that will become increasingly differentiated. Growing disparities can be expected, but not much can yet be said about them, since they will derive from the interaction of several circumstances: the discretion allowed by the system (the possibility to opt out) and the change in the attitudes of the current economically active population towards old-age security.

Observations regarding the income and the social position of current pensioners provide somewhat ambiguous results. On the one hand, income statistics indicate that there has been some improvement regarding the situation of pensioners, partly due to the fact that more of them are living in couples. On the other hand, survey data on the self-ranking of pensioners reveal a somewhat gloomy trend. Fewer pensioners identified themselves as members of the middle or upper-middle class in 2007 than in 1999 (29% as opposed to 38%) and more as members of the lower class (34% as opposed to 23%). A pensioner’s standard of living also depends on the intergenerational cooperation. Here, we can only speculate that the amount of the reverse transfer from the “less needy” old to the “more needy” offspring is less than under the communist regime. In contrast, the possibility of directing small part of the old-age insurance contributions to retired parents is also being considered.

As yet there is no trend of increasing income inequality among households where pensioners live – which means including households where other, economically active people also live. Income variation was slightly on the increase in the first half of the 1990s, but then it returned to its original level. Evidence from the 2000s documents only a very slow rise in disparities in old-age pension benefits (Actuarial Report, 2008). As for income sources in pensioners' households with no economically active members, the share of pension benefits remained stable at 94% from 1988 to 2004, decreasing only negligibly since 2005 (Microcensus 1988, Living Conditions 2005–2007). The long-term observations do not show any increase in income disparities by education, which is the main stratification axis of Czech society (the gap in the per capita income of pensioner households headed by persons with elementary and tertiary education is currently 40 percentage points).

The further differentiation of pension benefits is a somewhat contentious issue. Putting more equivalence between previous earnings and newly afforded pension benefits would limit the solidarity of the system. It is questionable whether there is enough room between the minimum pension level and the average pension for applying such a measure. Another step would be to introduce a ceiling on old-age insurance contributions and thus incite higher income categories to save more privately. This is the only one of the measures considered for reforming the pension system that found broader support among the population, unlike the proposed raising of the statutory retirement age. Nevertheless, people see this ceiling more as a way of reducing their current social contributions than as an instrument that would allow them to save for old age, and thus increase the equivalence between their previous earnings and pension benefits. However, this is the main route of escaping (however partially so far) the entrapment of pensioners as a distinct social category specific for its low standard of living.

## 9 The poor: non-working and working

Under the communist regime there was considerable poverty but it was largely concealed. First of all, the living standard of most of the population was very low and owing to the general equalisation of living conditions income disparities were small. The general impoverishment of the population as a whole hid the deeper poverty of individual groups in the population. Second, owing to compulsory employment, there was no poverty that could have specifically resulted from labour market failures. And third, by impoverishing and subordinating the entire population, the regime managed to conceal the existence of extremely poor people. The ideology rendered it taboo, so the very word “poverty” could only be applied to capitalist societies. In the modest amount of research on this area allowed in the 1970s the term was replaced with the expression “limited possibilities of consumption” to refer to what would otherwise be deemed poverty.

In 1990 the problems connected with defining poverty and the field of poverty research already familiar in Western countries began to emerge in the country. Poverty issues have thus become a standard part of the agenda of state social policy and social research, which has largely been based on statistical surveys. Nevertheless, it is necessary to distinguish between the socio-political and statistical criteria of poverty (set from above) on the one hand and the experience of poverty itself (perceived and studied from below) on the other hand. From above, whatever poverty indicator is selected, the choice is never without a bias: “a ‘scientific’ definition of poverty is a mirage; all definitions of poverty, ultimately, are political” (Barr, 1994, p. 193). However, the political status of the definition of poverty is rarely made explicit or debated as such.

It is not the objective of this chapter to discuss the political status of the issue, but rather to present basic statistical data on the amount, structure and factors of poverty and identify the populations affected. First, the new nature and new sources of poverty that emerged after 1989 are described along with the new policy measures introduced to prevent or combat it. Second, various monetary and subjective indicators are compared across time. Third, a specific deprivation index is constructed and differences in the consumption patterns of poor and non-poor families are compared. Fourth, attention is devoted to the shift from “old poverty” to “new poverty”, which has arisen out of labour market failures. The chapter concludes by reviewing the particular features of the poor in the Czech Republic and outlining the directions for further research on the topic.

## 9.1 New situation, new policies

It is essentially impossible ever to unambiguously determine the amount of poverty that exists in any society or the size and characteristics of the poor. This is because need is not a given state but mostly a relation within various contexts, and thus it has varying degrees and faces. It can be defined relative to a “basic package” of goods and services, to the average living standard in society, or to various reference groups. Once the benchmark is defined, we can proceed from the inner circle of a neighbourhood or a professional community to the outer circle of the basic standards maintained in the most advanced countries. Depending on the definition, the sources of poverty may also differ, especially if it is described as an objective position in income terms or a perceived status in deprivation terms.

Before 1989, state paternalism was accompanied by compulsory work. Relative poverty was thus linked to specific stages in the life cycle, in particular to the situation of young couples and the elderly. After 1989, the labour market became a new source of poverty in former Czechoslovakia. Unlike the mandatory employment and often lifelong loyalty to one firm under the previous regime, in the new economic conditions many people began to be laid off, became long-term unemployed, or were shifted into lower-paid jobs. Since 1990, job security has been unevenly distributed among the population and it is linked to people’s skills and to regional and local opportunities. The loss of job security produced new and eventually overriding sources of poverty.

A likely source of persistent poverty is long-term unemployment. While the unemployment rate has been decreasing in the Czech Republic since the early 2000s, the number of long-term unemployed rose until 2005 (133 000 people were recorded as having been unemployed for two years or more) and started to decrease in 2007, reaching 65 000 people before the end of 2008. Nevertheless, this category may even be less exposed to poverty than the short-term unemployed, owing to the design of welfare benefits. The new measures are intended to reduce the unemployment trap by introducing lower subsistence benefits and more obligations for people on welfare. From the outset of the transition, the government responded to poverty by introducing new measures or by reshaping or applying old ones. Several measures were implemented, which were designed to guarantee income or compensate for a loss of earnings and offset the risk of poverty by several measures (Table 9.1).

*The minimum wage* was first established in the Czech Republic in 1991 and was set at 2000 CZK a month (53% of the average wage). Soon after it was raised to 2200 CZK, and then it froze at that level until 1996. In 1999 the government began to make an effort to resolve this inconsistency by raising the minimum wage which finally surpassed the minimum living income for a single person in 2001. It rose further and reached 152% of the living minimum income for a single person in 2006 (as the computation of the living minimum income has changed since 2007, further change cannot be calculated consistently).

*Unemployment benefits* (officially called “material support for a jobseeker”) were first established in 1990. At that time unemployment benefits were offered for a twelve-

**Table 9.1**  
**Minimum wage and minimum living income levels in 1991–2007**  
 (% average wage)<sup>a</sup>

Indicator	1991	1992	1994	1996	1998	2000	2002	2004	2005	2006	2007
Minimum wage	52.7	47.4	31.4	25.4	22.5	31.2	35.9	37.1	37.8	38.4	36.9
Unemployment benefit	50.6	29.1	32.9	28.6	25.2	26.1	25.4	25.4	29.3	28.7	28.2
Minimum living income for a single adult	55.1	45.8	39.1	35.5	36.2	34.6	33.0	29.2	29.9	28.3	<sup>c</sup>
Minimum living income for a family of four <sup>b</sup>	181.4	150.7	127.7	112.7	111.2	103.1	96.3	85.4	86.3	81.1	<sup>c</sup>
Net minimum wage as a % of the living minimum income for a single adult		106.0	87.6	80.5	69.6	97.2	114.9	123.9	133.1	152.0	<sup>c</sup>

*Source:* Ministry of Labour and Social Affairs.

*Note:* <sup>a</sup> Only the minimum wage is related to the gross average wage, all other items are related to the net wage, estimated from FES data by the Ministry of Labour and Social Affairs.

<sup>b</sup> Two adults and two children 10–15 years old.

<sup>c</sup> The calculation of the minimum living income has been changed since 2007, so that only the benefit amounts of individual persons are taken into account and housing costs are separately covered by the income-tested housing benefit. This makes continuation of the time series impossible (see the Appendix to this chapter).

month entitlement period and set at a level of 60% of the recipient's previous net wage (90% if job loss was due to the restructuring of the firm). These favourable provisions were withdrawn in 1991, and unemployment benefits were then set at a level of 65% for the first six months and 60% for the rest (70% during retraining). In 1992, the entitlement period was shortened to just six months, and unemployment benefits were set at a level of 60% for the first three months and 50% for the rest of the period. Since October 1999 job seekers could receive 50% of previous earnings during the first three months and 40% for the second three months (60% during retraining).

The new Employment Act (in effect since October 2004) sets a longer period of unemployment benefits for persons aged 50–55 (9 months), and even longer for persons over the age of 55 (12 months). For the second three-month period the benefit increases from 40% to 45% (50% for the first period). Following the most recent amendment to the Employment Act, beginning in 2008 the period will be shortened by one month and benefits decreasing from 65% for the first two months to 45% after four months. The replacement rate of the unemployment benefit has been decreasing since it was introduced, and it now represents one-quarter of the average wage.

*The minimum living income* was established anew in 1991, but its principles have remained almost intact from the previous regime, which means that it took little account of the shared needs of households and economies of scale. The calculation of the threshold favoured large households and disadvantaged small families and single persons. It was only in 2007 that the method of calculating the threshold was reconstructed so that only personal costs are considered and shared household costs are treated separately in a new housing benefit. A bonus for activity and a penalty for inactivity were also introduced in the Act on the Minimum Living and Subsistence Income.

A new threshold referred to in this Act as the subsistence (“existential”) income is fixed at a fraction of the minimum living income and is aimed at the uncooperative unemployed. In extreme cases of an unemployed person being unwilling to seek work, even this benefit can be withdrawn. Social benefits continue to be stricter for the long-term unemployed in particular, except those over the age of 55, those who are partially disabled, or parents with children aged 12 and under.<sup>1</sup> The various assistance benefits that previously existed were reduced to three: the contribution to well-being, an emergency benefit and housing support. Local governments can exercise some discretion over setting the exact amount of the benefit (reflecting regional differences), and public works are compulsory for the long-term unemployed.

If even after receiving all the benefits of the state support scheme a household's income is still below the level of the minimum living income (serving as the legal poverty line), it can apply for social assistance benefits from the local authorities. After twelve months of unemployment the system allows for a slight increase in benefits. Social assistance is the last resort for households without means. Never-

<sup>1</sup> The period of unemployment is calculated in this case from January 2008, so the actual reduction in benefits will only be evident from January 2009. The unemployment period is always calculated from January.

theless, it is frequently abused: in mid-2007, the Ministry of Labour and Social Affairs estimated the number of families abusing benefits at around eighty to ninety thousand. There are no exact statistics on the population receiving social assistance benefits over time, as the same family can appear in the register several times.

A guaranteed minimum wage, unemployment benefits, state social support, and supplementary social assistance benefits, provided up to the indexed threshold of the minimum living income, together form a solid social safety net, with the Czech system ranking among the most generous in Europe. Consequently, despite the fact that the level of social spending, as a percentage of GDP, is not as high as in some Western European countries, the relative poverty rate – measured with the EU’s basic and widely used indicator – is the lowest in the EU-25 (see Table A6 in the Annex).

The other side of the system’s protective umbrella is how welcoming it is to anyone who decides to give up trying to find work – whether at the very outset, or in time, after having unsuccessfully gone through the long, gloomy experience of looking for a job. Welfare dependency is an inviting exit for a small but nonetheless significant category of the population. In a certain sense, this is a legacy of the communist welfare state, which promulgated social security for all, although on very low level. But it is also rooted in the existence of mandatory employment under the previous regime, when being employed often meant just *going* to work rather than actually *doing* much work, thus taking wage as social benefit. It was during that period, too, that the shame that was once attached to being unemployed – a view originally rooted in Czech middle-class society – somewhat weakened.

## 9.2 Income-related and subjective poverty

Research on measuring poverty has existed for over a century and it has been developing continuously. Since 1992 the Comparative Research Programme on Poverty (CROP), run under the umbrella of the International Social Sciences Council, has been assembling hundreds of researchers around the world and providing information on related projects, events, and publications. Many organisations focus on designing measures to fight poverty, whether on the national level (such as the Irish state advisory agency Combat Poverty), the European level (The European Anti-Poverty Network) or the global level (United Nations Development Programme).

Poverty has many faces, measured by various indicators.<sup>2</sup> Statistical income surveys enable the measurement of monetary poverty, which is indicated by relating household income to a given or constructed threshold. Smaller sociological surveys (e.g. the EEA or ISSP) are for the most part less reliable on income data, but they include various questions pertaining to subjective poverty. Several questions on subjective comfort and deprivation were included already in the statistical survey Social Situation of Households in 2001. The EU-SILC series, starting in the Czech Republic with the Living Conditions 2005 survey, includes a question on minimum income and also questions on family possessions and problems in finance and housing.

<sup>2</sup> The debate over measuring poverty has largely been summarised by Markus Jäntti and Sheldon Danziger (Atkinson and Bourguignon, 2000, Chapter 6).

Here are some of the indicators for which there are available data.

*Minimum living income* (called further legal poverty line). The minimum living income serves as the legal poverty line, which establishes the entitlement to request benefits up to a certain level, and the benefit is set according to the size and composition of the given household. The implicit equivalence scale of the calculation was already very steep under the previous schemes, and it should become even steeper under the new arrangement.<sup>3</sup> The new scheme that was introduced in 2007 is stricter and thus could bring about a decrease in the number of households located below the legal threshold. As the component reflecting shared household costs was shifted to fall below the level of the new housing benefit, the equivalence scale was made even steeper (see Appendix to this chapter).

*EU at-risk-of-poverty rate* (hereafter the EU poverty line). In the Laeken indicators, the various approaches previously used by the European Commission and the OECD were “consensually” adapted (Atkinson et al., 2002). The threshold of the risk of poverty was set at 60% of median equivalised income in a country, where the first adult is calculated as 1.0, each additional adult as 0.5, and each child up to 13 as 0.3. The weight of both children and adults is thus lower than in the implicit equivalence scale used to calculate the minimum living income, while the burden of shared household costs is higher. The implicit equivalence scale is thus quite flat.

Data across time can only be collected for these two “objective” indicators. The EU poverty line shows a poverty rate twice as high as the legal poverty line, in particular owing to the much higher share of pensioner households (Table 9.2).<sup>4</sup> Unlike the percentage of the legally poor, the percentage of poor according to the EU indicator increases slightly, and the composition of vulnerable categories changes substantially to include more pensioners and fewer children. Both indicators demonstrate an important shift away from “old poverty”, which was produced by specific stages in the life cycle (that of the elderly in particular), towards “new poverty”, resulting from economic non-participation or working in low-paid jobs.

*Financial difficulties*. A common indicator of perceived financial problems is the response to the question: “How does your household get by on the finance you have?” Respondents are usually offered six options, starting from “with great difficulty” and ending with “very easily”. These questions were posed in all EEA surveys between 1991 and 1998. According to their results, financial difficulties peaked in Czech society in 1991 and have decreased slowly ever since. The question was also posed in 2001 Social Situation of Households survey and since 2005 in Living Conditions surveys. The category that declared it was getting by with great difficulty accounted for 15.5% of respondents in 2001 and 7.5% in 2007 (see Table 11.1 in Chapter 11).

*Subjective poverty*. Econometric methods have been applied by the Dutch and Flemish economists who constructed a threshold of subjective poverty. The most frequent

<sup>3</sup> Whereas for calculating the official Czech poverty line, household size elasticity was 0.8, it is about 0.4 in Belgium, the Netherlands, and Luxembourg, and about 0.5 in France and Spain (Večerník, 1996a).

<sup>4</sup> Based on the official poverty line, no pensioner household should be among the poor, because the minimum pension benefits are slightly above the minimum income derived from the living minimum.

**Table 9.2**  
**Households and persons by family status and two indicators of poverty**  
**in 1988–2004 (%)**

Family status	Legal poverty line				EU poverty line			
	1988	1996	2002	2004	1988	1996	2002	2004
<i>Households:</i>								
Couple with children	1.1	2.7	4.4	3.7	1.1	5.8	7.3	9.0
Lone parent with children	9.7	16.8	16.4	18.6	11.0	26.4	27.4	31.6
One person household	13.5	1.0	2.5	2.7	45.5	5.3	9.9	10.9
Other	1.8	0.6	1.3	1.5	6.9	1.7	2.6	3.8
Total	4.5	2.1	3.3	3.1	13.7	5.0	7.2	7.9
<i>Persons:</i>								
Couple with children	1.1	3.2	4.8	4.1	1.4	7.5	8.9	11.9
Lone parent with children	10.7	18.6	16.8	19.2	12.0	29.8	31.5	41.0
One person household	13.5	1.0	2.5	2.7	48.5	6.3	13.0	16.4
Other	1.7	0.7	1.4	1.8	7.0	2.1	3.1	5.6
Total	2.7	2.7	3.9	3.5	7.5	6.4	8.3	10.4

*Source:* Microcensus surveys, Living Conditions 2005 (author's computation).

method is to construct a Subjective Poverty Line (SPL), which is derived from answers to the following question: "What is the minimum amount of income that your family, in your circumstances, needs to make ends meet?" We can simply calculate the percentage of households or persons that declare their actual income as lower than the minimum income required, or (following Flik and van Praag, 1991) we can apply a log-linear relationship calculated as:

$$\ln Y_{min} = \beta_0 + \beta_1 \ln fs + \beta_2 \ln Y,$$

where  $Y_{min}$  is income estimated by the Minimum Income Question,  $Y$  is the current income of the household and  $fs$  the number of household members.

The poverty thresholds for each household size are calculated as

$$Y_{min} = \exp [(\beta_0 + \beta_1 \ln fs)/(1 - \beta_2)].$$

In the mid-1990s we compared Czech data with various poverty rates in seven EU countries and regions (Večerník, 1996a). Whereas in socially generous countries, such as Belgium or the Netherlands, objective poverty amounted to 7% of households, and subjective poverty equalled between 10% and 20%, in southern countries, without a developed social system, objective poverty amounted to between 15% and 20% and

subjective poverty was as much as between 30% and 40%. In the Czech Republic, objective poverty was the lowest, while subjective poverty was on a level higher than that of Belgium. Since then, subjective poverty, according to this measurement has increased steadily, and in 2004 it reached the level of 40% of the population.

There are several possible reasons why these percentages are high. First, the amount of basic needs is exaggerated, as the subjective “minimum package” has come to include more and more goods and services. Second, the declared actual income is underestimated. Third, the method considers the minimum income too generously. An interesting finding of the method is that in contrast with the very steep equivalence scale implicit in social legislation, the equivalence scale in people’s minds is quite flat. This means that households see themselves much more as budgetary units, stressing their shared costs, and thus proceed differently from the approach to calculating the minimum living income, which sees them more as a sum of individual members.

*Feeling poor.* Unlike the concept of poverty as a shortage in income, perceived poverty is always a relational characteristic, dependent on the social environment, the uneven pace of real change, and subjective expectations, etc. Low incomes can be purely transitional, without necessarily reflecting financial problems as a poverty status. In the Economic Expectations and Attitudes (EEA) surveys of 1990–1998, respondents were asked “Do you feel your household is poor?” which returned the answer “definitely yes” (out of four variants) in about 8% of cases.

A similar question was posed in the statistical survey on the Social Situation of Households 2001, with only three variants (poor, not poor–not rich, rich). The resulting poverty headcount is twice as high (16%), whether as a result of the fewer available response variants or an actual worsening of the situation in the view of households over time. In the same survey, respondents were also asked whether they consider the other people around them as belonging to the same or to a higher or lower social class. Among the respondents, 9% considered others as better-off, and the indicator was strongly correlated only with perceived poverty status.

Using the 2005 data, we can see how much various indicators overlap (Table 9.3). In fact the incidence of people below the legal poverty line, people at risk of poverty according to the EU indicator, and those identified as poor by the SPL are quite close, albeit at different levels. The reason is that all of these indicators are based on declared income. Indeed, the highest correlation between household income and poverty incidence is in the case of the SPL indicator and the lowest is in the case of measure perceived financial difficulties. The choice of income indicator – whether based on total disposable income, income per capita, per EU equivalent unit, or adjusted to the square root of household size – is of little relevance here.

In contrast, perceived financial difficulties produce a picture that is quite different from the preceding indicators. Only 58% of the legally poor and 42% of people at risk of poverty according to the EU indicator claim to have experienced severe financial difficulties. On the other hand, only 19% of the people who claim financial difficulties are entitled to social benefits based on the minimum living income, and only 38% of them are located below the EU poverty line. The explanatory power of income (ac-

**Table 9.3**  
**Simultaneous incidence of poverty by various indicators in 2004/2005 (%)**

Persons living in poor households according to indicator	Percentage		Overlaps of persons in various indicators			
	Persons	Children	Legal poverty line	EU poverty line	Financial difficulties	Subjective poverty line
Legal poverty line	3.5	6.1	-	100.0	58.4	100.0
EU poverty line	10.4	16.1	33.5	-	40.4	99.3
Financial difficulties	10.6	14.0	19.1	39.3	-	68.9
Subjective poverty line	33.8	40.0	10.3	27.9	21.7	-

*Source:* Living Conditions 2005 (author's computation).

*Note on data:* The survey Living Conditions 2005 was conducted in April–May 2005, collecting information on yearly income in 2004. Thus, while the year 2004 applies for the information on monetary income poverty, the year 2005 applies with regard to financial difficulties.

ording to any measurement) combined with family status for perceived financial difficulties is only small, at about 5%. Many other factors matter here, be them short-term, such as regular housing costs, or long-term, such as housing or other investments.

### 9.3 Deprivation in consumption and living conditions

Besides income-based measures of poverty, there are various deprivation indexes that are based on information about housing and the possession of durable goods and indicators of the affordability of various services. One of the most recent such attempts, also applied to CEE data, identified four indicators of deprivation (deprived in basic needs, in secondary needs, in accommodation standards, and in subjective income satisfaction). The authors also combined deprivation indices with income insufficiency to construct an index of “consistent poverty” and proposed to combine the EU minimum set of non-income items with the national relative income standard (Förster, Fuchs, Immervoll and Tarcali, 2003; Förster, Tarcali and Till, 2004).

Another attempt was made by the Eurostat using the national data of the new EU Member States and (at the time) candidate countries. For the sake of a comprehensive exploratory analysis, several durable goods were chosen, with special attention given to the “enforced lack” of durable goods (i.e. when the person wishes to acquire a given item but cannot afford it). This was conceived as a preparatory step to establishing a standard set of deprivation items involving the lack of some durable items, housing deterioration, the capacity to afford holidays or decent food, the capacity to face unexpected financial expenses, arrears on some payments, the ability to keep the home adequately warm, and other indicators (Guio, 2004).

Using the Living Conditions 2005 survey, I constructed a deprivation index composed of four sets of items:

**Table 9.4**  
**Correlations of poverty indicators with items of deprivation in 2004/2005**  
**(Pearson coefficients)**

Sets and items of deprivation	<i>Percent persons</i>	Legal poverty line	EU poverty line	Financial difficulties	Subjective poverty line
<i>Could not afford (if wanted to):</i>					
To keep home adequately warm	9.3	0.08	0.11	0.23	0.14
A meal with meat every second day	17.8	0.12	0.23	0.32	0.29
New clothing instead of second-hand	30.7	0.12	0.19	0.28	0.28
One week annual holiday away from home	40.6	0.15	0.27	0.36	0.38
<i>Involuntary lack of:</i>					
Washing machine	0.5	0.06	0.11	0.14	0.09
Colour TV	0.6	0.11	0.13	0.14	0.08
Personal computer	14.9	0.19	0.27	0.32	0.27
Telephone	1.8	0.17	0.20	0.20	0.17
Personal car	15.5	0.19	0.26	0.27	0.27
<i>Arrears during the past 12 months:</i>					
Rent	5.6	0.21	0.22	0.34	0.19
Utilities	7.2	0.23	0.21	0.33	0.16
Mortgage	0.9	0.02	0.03	0.06	0.01
Other instalments of loans and credits	3.4	0.11	0.09	0.20	0.07
<i>Bad housing:</i>					
Wet	20.5	0.06	0.11	0.14	0.13
Dark	6.2	0.05	0.10	0.11	0.11
Small	14.3	0.11	0.14	0.13	0.10
Noisy	21.3	0.02	0.05	0.04	0.05
Dirty	19.8	0.01	0.01	0.05	0.02

Source: Living Conditions 2005 (author's computation).

- Could not afford (if wanted to): to keep the home sufficiently warm; have a meal with meat, chicken or fish every second day; buy new instead of second-hand clothing; have a one-week annual holiday away from home.
- Involuntary lack of: colour TV set, personal computer, telephone, car.
- Arrears during the past twelve months in: rent, energy, mortgage, other payments of loans and credit instalments.
- Bad housing: wet, small, noisy, and dirty.

**Table 9.5**  
**Expenditures in employee households and low-income households with children**  
**in 1991 and 2006 (%)**

The category of expenditure	Employee households with children		Low-income households with children		Difference in percentage points/ %	
	1991	2006	1991	2006	1991	2006
Food and non-alcoholic beverages	26.1	19.3	30.9	26.1	4.8	6.8
Alcoholic beverages and tobacco	4.4	2.4	4.8	2.4	0.4	0.0
Clothing and footwear	10.8	6.3	10.1	5.4	-0.7	-0.9
Housing	10.9	17.8	12.4	27.0	1.5	9.2
Household equipment and maintenance	8.5	6.6	7.5	4.1	-1.0	-2.5
Personal needs, health	0.4	1.6	0.3	1.4	-0.1	-0.2
Transport	10.3	11.8	8.2	6.4	-2.1	-5.4
Communication	1.5	5.0	1.6	5.2	0.1	0.2
Culture and leisure	11.6	11.3	9.7	7.5	-1.9	-3.8
Education	0.7	1.0	0.6	0.9	-0.1	-0.1
Catering and accommodation services	5.6	6.2	5.7	5.0	0.1	-1.2
Other	9.2	10.7	8.2	8.6	-1.0	-2.1
Total expenditures in CZK per capita monthly (= 100%)	2 052	7 635	1 421	4 068	69.2	53.2

*Source:* FES 1991 and 2006.

Individual scales were summarised, and on the resulting scale people living in households scoring more than five points were considered to be deprived. The Pearson correlation coefficients of individual sets to the composite index are 0.81, 0.66, 0.52, and 0.60. Correlations between the deprivation items and previously used poverty indicators differ (Table 9.4). As regards the first set of items pertaining to what a household cannot afford, financial difficulties and SPL score quite highly. As regards the second set, the involuntary lack of items, poor households suffer especially by the lack of personal computer and car. The third set of items primarily correlates with the perception of financial difficulties. Finally, with regard to the perceived quality of housing, assessed in the fourth set, none of the applied indicators of poverty is important. This testifies to the continued autonomy of housing vis-à-vis the financial situation of the family.

The Family Expenditures Surveys (FES) have been observing a supplementary sample of families with low income since 1991. The criterion for selection is a level of household income of a maximum of 1.3 (until 1996) or 1.4 (since 1996) of the minimum living income. The reason is to provide more reliable data on the low-income

category which is quite small in the total FES sample. Differences between average and poor families are downscaled by the representation bias in the FES (see Chapter 6).

Low-income households have to spend relatively more on food and housing while economising on clothing, transport and leisure (Table 9.5). The differences have considerably increased over time, following the overall gap between standard and low-income family budgets. While in 1991 only the difference in the share of money spent on food was striking, the difference in expenditures on housing become even more pronounced until 2006. According to this source of data the poor became poorer between 1991 and 2006 in terms of total household budget structure. Spending on basic needs – food and housing – increased from 43% to 53% of total expenditures.

#### **9.4 Preventing poverty by redistribution or by employment**

As noted above, what occurred after 1989 was an important shift away from “old poverty”, which was connected with specific stages in the life cycle (particularly the period when people start a family and then old age) towards “new poverty”, which stems from labour market failures. While “old poverty” resulted from insufficient transfer income, “new poverty” is tied to a lack of or low earnings. The two types of poverty also correspond to two strategies of alleviation: the “benefits strategy” (increasing the adequacy of pension benefits and social benefits for families with children) and the “work strategy” (promoting policies to increase employment and ensure decent wages).

To consider the impact of various factors, the individual indicators of poverty are regressed to several individual characteristics (Table 9.6). The explanatory power of household characteristics is rather weak, except for the number of active earners and the incidence of unemployed members. The latter appears to be the dominant factor behind poverty in all its forms. In contrast, the number of children, taken as a net effect, has only a minor impact. The number of pensioners is also a weak factor, but unlike children it is a poverty-reducing factor. The effect of household head’s age was also examined, but it was excluded from the final analysis as being of only negligible relevance. With the exception of subjective poverty, the additional effect of income is negligible (see the last column of the Table 9.6).

While the net effect of the number of children is weak, the incidence of poverty among families with children is high. Relative to the national average poverty rate, which is comparatively very low, exposure to poverty among children up to the age of 17 is high in the Czech Republic. According to the legal poverty measure, child poverty was twice as high as the national average in 2004 (6%), and according to the EU indicator, the level of child poverty in the Czech Republic was 16%, compared with 10% in the average. Recent developments have signalled even a slight increase of this indicator for families with children. The reason is that factors such as lower economic activity and lone parenthood are combined with the net effect of children on adjusted household income – especially a larger number of children – to result in high figures.

**Table 9.6**  
**Factors of poverty by various indicators in 2004/2005**  
**(standardised regression coefficients)**

Persons living in poor households according to indicator	Lone parent	Number of active earners	Number of children	Number of unemployed	Number of pensioners	$R^2$	$R^{2a}$
<i>All households:</i>							
Legal poverty line	0.13	-0.13	0.07	0.41	-0.07	0.25	0.25
EU poverty line	0.12	-0.25	0.09	0.40	-0.13	0.32	0.33
Financial difficulties	0.08	-0.11	0.05	0.29	-0.06	0.13	0.13
Subjective poverty line	0.06	-0.52	0.11	0.15	-0.12	0.31	0.38
<i>Households with head aged 25–54:</i>							
Legal poverty line	0.13	-0.12	0.04	0.42	-0.06	0.26	0.27
EU poverty line	0.12	-0.26	0.07	0.40	-0.01	0.35	0.37
Financial difficulties	0.08	-0.14	0.01	0.29	0.00	0.15	0.16
Subjective poverty line	0.10	-0.38	0.13	0.20	-0.02	0.31	0.39

*Source:* Living Conditions 2005 (author's computation).

*Note:* All coefficients are significant at <0.01 level.

<sup>a</sup> Household income was included among explanatory variables.

More detailed insight into the exposure of households to poverty is provided in a cross-tabulation of the numbers of economically active members, children, and unemployed (Table 9.7). Two-thirds of persons below the legal poverty line and one-half of those at risk of poverty according to the EU indicator live in households without any active earner. The rest live in households with only one earner. Contrary to these two "objective" indicators, the categories of people declaring insufficient income for family needs are much more varied and include even households with two or more active earners. This would be understandable if the – much more encompassing – SPL indicator were being applied, but it is also evident when poverty is measured on the basis of declarations about experiencing serious financial difficulties, which represents one-tenth of the population.

In the end there are not many objectively measured working poor in the country, and the risk of poverty is much higher among unemployed persons than among low-wage recipients. The gap between the relative exposure to poverty of people who work and people who do not is much larger compared to other EU countries (see Table A5 in the Annex). There are at least two reasons for this: while wage disparities increased considerably after 1989, the relative position of the lowest categories remained steady at an almost unchanging level, and although social provisions for the long-term unemployed are still quite decent (and even have a trapping effect), their level fell considerably behind the average wage (see Table 9.1 above).

**Table 9.7**  
**Poverty by the number of active earners, children, and unemployed persons**  
**in 2004/2005 (%)**

Persons living in poor households according to indicator	No active earner	One active earner				Two or more active earners				Total
		No or one child		Two or more children		No or one child		Two or more children		
		No UN	UN	No UN	UN	No UN	UN	No UN	UN	
Legal poverty line	65	4	3	7	15	0	0	0	6	100
EU poverty line	49	6	8	14	14	1	0	4	4	100
Financial difficulties	29	11	9	12	10	15	1	8	5	100
Subjective poverty line	23	14	7	20	10	7	1	16	2	100

*Source:* Living Conditions 2005 (author's computation).

*Note:* Households headed by a person aged 25–54. UN = unemployed person(s) in the household. While monetary measures refer to yearly income of 2004, subjective measures refer to the perception of the situation in early 2005.

Nevertheless, the capacity of the Czech transfer system to reduce poverty is quite large. The first EU-SILC survey (with the income reference year 2004) shows that 26% of the EU-25 population would, hypothetically, live in poverty if there were no redistribution. Transfers (not including pension benefits) reduce this figure to 16%, i.e. by 38%. This capacity of reduction is 52% in the Czech Republic, which is even slightly stronger than in countries such as Belgium, Austria, or France, though less than in the Scandinavian countries, where the reduction capacity of the redistribution system reaches a record high in Sweden (69%). Among transition countries, it is somewhat higher in Hungary (55%) but lower in Poland (30%) (see Table A6 in the Annex).

The opposite approach to redistributive policy intervention in wages and household incomes is to make it more difficult to exit employment and remain unemployed, and strengthen the incentives for people to remain in their jobs as long as possible, or facilitate their return to employment. At the outset of the transition, the state proceeded inconsistently, keeping the newly introduced minimum wage and unemployment benefits low, while providing a higher level of social benefits to long-term unemployed, depending on the family situation. Since 2000 the minimum wage started to dominate over the minimum living income, in part because low inflation between 2001 and 2004 meant that the legal conditions for raising the minimum living income were not met and it remained stable during that period.

There is no study on the impact of the minimum wage in the Czech Republic. The fact that an increase in the minimum wage can have an adverse effect on employ-

ment was demonstrated in a study on Hungary, which concluded that the decision to increase the minimum wage by 57% in 2001 represented a loss of employment opportunities, especially in small firms and in depressed regions (Kertesi and Köllö, 2004). Also Dóra Benedek et al. (2006) found that after the increases to the minimum wage were introduced in Hungary in 2001 and 2002, employment did not decline across the national economy as a whole, but it did in smaller enterprises, among unskilled and older employees, and in regions with high rates of unemployment.

A company-based wage survey conducted in 2006 reported only 0.8% of employees with wages below the minimum wage, while estimates from the Ministry of Labour and Social Affairs indicate that about 2% of employees receive a minimum wage. The actual figure may be even lower: for example, in some branches (typically catering) a minimum wage is declared for payroll tax reasons, but employees receive extra remuneration in cash. As there are no reliable statistics on minimum wage recipients (wage surveys do not cover firms with fewer than 20 employees), there is room enough to speculate about its real impact.

Questions could be raised about the motivational function of a higher minimum wage on both the supply and demand sides of labour. On the supply side, taking into account the circumstances of the formal economy alone, the difference between low wages and welfare payments are still not a sufficient stimulus when all the costs related to work, including personal energy investment, are taken into account. On the demand side, it raises the costs of unskilled work above the market price. As a result, employers are reluctant to hire less-skilled workers, and they try to replace them with technology or, more often, undemanding illegal workers (usually Ukrainians).

Voices calling for a restructuring of the system to make it more efficient have been getting stronger and some important changes have already begun (see Chapters 1 and 2). In addition to reforming the benefit system, the period of entitlement to collect unemployment benefits should be shortened, the benefits of people reluctant to take a job should be reduced, and bonuses should be introduced for people who take voluntary work. For those who repeatedly leave jobs they are assigned by the labour office, binding individual action plans and sanctions for their infringement should be introduced. Systemic and organisational changes regarding the division of responsibilities between the state and the localities are also necessary. Under the current system local authorities are obliged to pay out social assistance, but the local budgets are refunded by the state for all such payments made, and thus they have no interest in efficiency measures.

## 9.5 Conclusion

The evidence of the development of poverty indicators in the Czech Republic shows that more change occurred in the structure than in the overall amount of relative poverty. While need in absolute and relative terms was not insignificant in communist society, it was mainly caused by demographic factors and primarily affected the elderly and households with a large number of children. In the market economy, unemployment became another strong factor of income insufficiency. This largely

manifested itself after 1997, when there was a rapid increase in unemployment and the numbers of long-term unemployed grew even faster. The problem of the “working poor” arose at the same time. However, the incidence of poverty among working people largely depends on their family situation.

In a cross-national comparison, particularly according to the EU indicator, the situation of poverty in the Czech Republic is very good, as the poverty rate in 2004 (10%) is close to the rate in countries with generous social systems, such as Germany, the Netherlands, or the Scandinavian countries. In comparison with the other new EU Member States the situation looks also very favourable: the comparative 2004 figure for Hungary and Slovakia is 13%, for Poland 21%, and for the Baltic countries between 13% and 21% (see Table A6 in the Annex). According to more recent statistical surveys, the number of persons at risk of poverty according to the EU indicator has even been slightly decreasing in the Czech Republic, and the same is true of the number of people below the legal poverty line (Living Conditions 2006 and 2007).

Generally, poverty in the Czech Republic is usually more of a temporary situational characteristic than a social stratification category. This is obviously true of the “old poverty” related to the life cycle. The longest single period in the life cycle is old age. Poverty among pensioners, measured using standard monetary indicators (unlike subjective poverty), was largely eradicated. With regard to the “new poverty” related to the labour market, it may only be constant among just a small fraction of the population of long-term unemployed.

Although in a narrow sense there is a low poverty rate in the Czech Republic, the risk of poverty is not negligible, and people are sometimes forced to mobilise various means in order to avoid serious financial problems. In such circumstances, some households do not pay their housing bills, and many families do not modernise their apartments or they even severely cut back on basic consumption. The informal and self-help activities that originated during the communist period also surfaced during the transition. A new phenomenon is household debt resulting from marketing pressure, easy access to credit, and poor financial planning among low-income families (see Chapter 11).

It is somewhat hard to reconcile the statistical criteria of poverty (imposed from above) and the experience of poverty (gathered from below). The context – economic, social, or cultural – is significant, but it is often neglected in comparisons across time and nations. There is no single “best” indicator of poverty for such a simple comparison. Even with the simplest monetary indicator there is space enough to choose the equivalence scale and the location of the threshold. So it is necessary to combine several indicators and attune them to the specific task at hand. Research on poverty is important here. In spite of its recent development, it still suffers from several problems in the Czech Republic.

First, it is not easy to obtain current representative data on poverty owing to the rapid changes in income composition and distribution. Only the Family Expenditures Surveys regularly monitor household incomes and consumption, but these surveys are not representative enough (see Chapter 6). Nevertheless, the EU-SILC

programme, which started in 2005, provides yearly data on monetary poverty and the financial problems of families. Moreover, as parts of these samples serve as panel data, it is also possible to trace the changes in individual households over time.<sup>5</sup>

Second, persistent poverty concerns specific types of persons and families. Large-scale surveys are not very good at uncovering the nuances of poverty because the sample size limits the possibility of analysing lowest-status and minority groups; the population living in institutions is entirely omitted. Although every step beyond elementary statistics produces problems of data availability and cross-national comparability, bringing more sociology into poverty research makes the picture more realistic – in contrast to the rather unrealistic econometrical procedures, exemplified here by the Subjective Poverty Line.

Third, in the end, poverty is always relative and subjective and also politically shaped. This means that not just the various degrees of need but also the context in which need is evaluated and addressed are important. Political consciousness matters here, as so does the general social climate, where views can range between the extremes of blaming the poor for their situation and blaming the state for its weak intervention. Again it must be stressed that more information “from below” is needed about how policy measures interact with the formal and informal activities of individuals and households. Ultimately participatory observation may be the right tool for identifying the poor and various types of poverty and designing coping strategies for vulnerable population categories.

### **Appendix: The minimum living income**

The official minimum living income, established by law in 1991, was until 2006 calculated as sum of benefit amounts for individual persons and the benefit amount for common costs of the household according to its size. The benefit amounts were regularly increased by a government decree whenever price index of basic consumer goods rises by more than 5%, usually by January 1st. While frequent valorisations occurred until 2000, the benefit amounts remained stable in 2001–2004 owing to low inflation and were valorised again in 2005 and 2006.

Since 2007 the calculation has been changed so that only benefit amounts of persons are taken into account and housing costs are covered by the housing benefit which is set as income-tested and relative to local costs of housing. Unlike the previous terms, wherein shared household costs took into account the number of persons in the household, the new terms distinguish between single-adult households and families with more adults. The minimum living income for a single-adult household is set at 3 126 CZK, while in larger families it is 2 880 CZK for the first person and 2 600 CZK for the second and each additional person. The subsistence (“existential”) income is currently 2 020 CZK for a single person.

The changes in the benefit amounts are shown in the Table on the next page.

<sup>5</sup> The first comparison of panel data from the EU-SILC programme on the incidence of poverty indicates that only a minority (about 40%) of households with income below the legal poverty line in 2005 were located there in 2006 but a majority (58%) were still below the EU risk-of-poverty line.

THE POOR

**Benefit amounts of the minimum living income (CZK monthly)**

Component	Before 1990	Novem- ber 1991	January 1996	October 2001	January 2005	January 2007
<i>Costs of individual persons:</i>						
Child under 6 years	600	900	1 320	1 690	1 720	1 600
Child 6–10 years	700	1 000	1 460	1 890	1 920	1 600
Child 10–15 years	800	1 200	1 730	2 230	2 270	1 960
Child 15–25 years	800	1 300	1 900	2 450	2 490	2 250
Adult	800	1 200	1 800	2 320	2 360	See the text above
<i>Common costs of households:</i>						
1 person	300	500	860	1 780	1 940	0
2 persons	300	650	1 130	2 320	2 530	0
3–4 persons	500	800	1 400	2 880	3 140	0
More persons	500	950	1 580	3 230	3 520	0

Source: Ministry of Labour and Social Affairs.



Part Four

VALUES



# 10 Work values and job attitudes

In recent decades, the developed world has seen important changes in the area of human labour. Economic activity, originally a matter of terrestrial pain and strain, became for many a creative and enriching activity. However, work that involves intrinsic values of human development is far from a mass phenomenon, and the number of jobs is continually decreasing overall. In the globalisation process, much routine work moves out of developed countries into poorer countries, where wage costs are low. As a result, work has become scarcer in developed countries, and unemployment has left many people worse off: “In fact, from being a burden, work has become a privilege” (Dahrendorf, 1990, p. 144).

Both the positive and negative features of recent developments relating to work are present in contemporary societies, including the CEE transition countries. The transformation of the economy and the society inherited from the communist system generated new problems. There is a deep legacy of relaxed attitudes toward employment, which under the previous system was not simply easy to find but in fact mandatory. Little pressure was put on the quality of work performance, and so there was also job flexibility. While the transformation of the formal framework of the labour market is now complete, the transformation of intrinsic job characteristics and attitudes to work is still in progress.

There is a considerable difference in the amount of attention paid to such intrinsic dimensions of work and jobs in the “West” and in the “East”. In the West, scholars are trying to determine the current qualitative changes in this particular area in relation to a general value change, and whether this involves a change from materialism to post-materialism, from national economies to globalisation, or from social networks to an atomised social web. Important branches of economic sociology and socio-economics focus on studying the social setting of human work (Kallerberg, 1977; Yankelevich et al., 1985; Tilly and Tilly, 1994; Smelser and Swedberg, 1994; Sennett, 1998; Swedberg, 2003; Beckert and Zafirovski, 2006). There is little in the way of similar research in Eastern Europe.

This chapter attempts to partly fill in the existing knowledge gap by contributing to a critical reading of opinion data on work and jobs and presenting the ISSP modules on Work Orientations from 1997 and 2005 for the Czech Republic. In the first part, methodological problems regarding the inspection of work and job values are introduced using examples drawn from previous research. In the second part, some hy-

potheses are presented regarding work attitudes from the perspective of gender, age, and education. In the third part, a comparison is made of people's job and work expectations with their perceived fulfilment. In the fourth part, workers' perceptions of where they stand between the remote worlds of family and firm are considered and some factors of work and job satisfaction are examined. In the conclusion, the role of subjective perceptions in the economy is discussed.

### 10.1 Methodological difficulties and previous research

Any analysis of work values exposes the numerous methodological problems that arise in this area. The key problem is that values cannot be indicated directly. "True" human values, as such, can be identified by means of a complex comparative socio-historical analysis (such as Alexis de Tocqueville's *Democracy in America*). Opinion surveys are also helpful, although never sufficient alone. There are various concepts that can be used to describe human perceptions, and we can therefore at least distinguish between preferences and attitudes on the one hand and values and norms on the other.

Generally, the latter are considered more general and durable than the former. For instance, Michael Hechter sees values as relatively general and durable criteria of evaluation: "As such, they differ from other concepts like preferences (and attitudes) and norms. Like values, preferences (and attitudes) are internal, but unlike values, preferences are liable rather than durable and particular rather than general. Whereas norms are also evaluative, general and durable, they are external to actors and – in contrast to values – require sanctions for their efficacy" (Hechter, 1994, p. 321).

Whatever general framework and definitions of individual categories are set, difficulties surface in the process of collecting evidence. The traditions and socio-economic climate of a country may seriously constrain the calibration of a given value scale. As is often demonstrated on a general level, "subjective" human happiness does not depend very much on "objective" well-being (Diener et al., 1993). The given general framework of values and the standard of value judgments in a country are probably more important for forging people's opinions than are the indicators of economic performance. National mentalities and the specifics of a regime matter, as do changing reference contexts – this is the case of the transition.

How experienced or "trained" the population is at answering surveys largely determines the consistency of answers, too. After 1989, people had to re-learn how to formulate their opinions freely, after deliberation, and in consistent frameworks. In the beginning, they were often asked about issues they had never reflected on before. The former routine was one of mechanically accepting everything issued into the public sphere "from above" combined with excessive criticism if not outright rejection in the private sphere. Firm opinions survived in areas where people were indoctrinated by an ideology, without any deeper understanding of the problems. The differences between the East and the West are particularly salient in those areas.

With regard to inequality, in a study based on the 1999 ISSP survey, Marc Suhrcke concluded, "results do confirm the hypothesis of significant differences in attitudes. People living in transition countries tolerate existing income differences significantly

less than people in the West, even after we control for the usual determinants of attitudes to inequality and for the actual level of income inequality” (Suhrcke, 2001, p. 25). As the issue of inequality was the main issue that the communist regime purported to tackle, systemic differences are quite understandable. However, the results of a comparison of countries’ views on this issue are not straightforward, as attitudes in the Czech Republic appear to be as egalitarian as those in France.

If we look at other, similarly complex issues, such as the welfare state, it is even harder to find connections between the “objective state” of affairs in a country and people’s attitudes – or, from a different perspective, consistent and clear country or regional patterns. This was shown in an analysis of the public’s support for different welfare regimes among five Western countries, based on data from the 1996 ISSP The Role of Government module. Giuliano Bonoli (2000, p. 449) found “the way surveys questions are answered can be best understood with reference to norms and values that have traditionally dominated national practices and discourses”. It is possible to assume that the same would be found when comparing countries within the boundaries of the CEE region, but the picture would probably be more blurred.

Unlike such “ideological” issues, the area of work and job values is plagued by greater ambiguity. Under the communist regime, work itself was endowed with the dichotomous status of being simultaneously a right and an obligation. The communist ideology declared work as the “most important need of people” and promoted the value of work aggressively. However, in real life it was devalued. People learned to prefer components of work other than prestige and their own achievements. More often, importance was given to such features as the absence of any supervisory control or less strict working conditions, which permitted less of a work burden and more hours of leisure, allowing time to perform informal jobs or engage in bricolage at home.

Analyses of work values are somewhat rare, even within the same “family of nations”. Wolfgang Teckenberg and Michael Bayer (1999) compared the work values of (West) Germans and Italians (distinguishing between the central-northern and the southern regions in the latter) using the European Values Study from 1980 and 1990. They found that while for Italians work mainly represented a channel of social integration, it possessed much more intrinsic value in the former West Germany, where work was and is regarded more in terms of rational criteria, such as a means of income. In the former West Germany, the economic sphere of life is more clearly distinguished from family life and leisure. In Italy, work and social life are more mixed, which, as the 1990 data showed, is somewhat similar to the case in the *Neue Länder*.

Stephen D. Harding and Frans J. Hiksloops (1995, pp. 445–448) also used the European Values Study to compare thirteen Western countries. Based on earlier analytical findings, they were able to distinguish the factors of “personal development” and “comfort and material conditions”, noting the increasing importance of the former. While Northern European countries “form the most fertile ground for empowered employees”, Southern Europeans ascribe more importance to the “value of comfort”.

However, at the same time, “employees are becoming more demanding of their employers”, not only in terms of their actual wages, but also in terms of the relationship between individual work performance and reward.

As the comparison between East and West Germany suggests, the value of work in the countries of real socialism was higher, but only because of the stronger importance of the workplace’s socialisation function (Meulemann, 1996). In this sense, communist countries were similar to the Southern European, less developed nations, where work also has more of a social than an economic function. This aspect in particular was raised by women in opinion surveys in communist Czechoslovakia, where the labour-force participation of women was very high and the weight of the gender dimension in earning disparities was much more important than elsewhere (see Chapter 4).

Márton Medgyesi and Péter Róbert (2003) used the 1997 ISSP data to compare work satisfaction in five groups of European countries, ordered according to descending levels of satisfaction: Scandinavian countries, Western Europe, the EU periphery (Portugal and Spain), less developed transition countries (Bulgaria, Russia), and more developed transition countries (Czech Republic, Hungary, Poland, Slovenia). Subjective variables (the discrepancy between expectations and their fulfillment in individual work characteristics) appeared to be much better predictors than objective characteristics, among which personal income, self-employment, and a supervisory position scored highest.

While Western European populations score higher in asking for an independent and interesting job, Eastern European countries prefer work rewards and job promotions. Western populations stick more to the intrinsic values of work (initiative, responsibility, interest, promotion) and Eastern European populations prefer the external conditions of the job (pay, hours, vacations, not too much pressure). What people demand from employment is currently better met by jobs in the West rather than in the East. Consequently, CEE people appear to be less satisfied with their jobs than EU people, first and foremost owing to unsatisfactory salaries (Večerník, 2004b).

The most interesting case is the two parts of Germany, which – given that the two regions of what was formerly one country (albeit culturally diversified) were separated for decades by a political and economic regime – serves as a kind of live experiment. It is therefore surprising that there was no real difference in the respondents’ perceptions of work in the two parts of unified Germany in 1998, and their perceptions have not changed at all since 1993. While the objective situation certainly did change, in the sense that there was greater similarity of work-styles and job insecurities, its subjective perception did not change at all (Habich, Noll and Zapf, 1999). Job satisfaction was also constant during the decade between 1990 and 2000, remaining very similar in both “Germanies” (Christoph, 2002).

The experience of the Czech Republic was different – it was not a matter of stability in this case, but rather of a return to previously shared opinions. In the early 1990s the “capitalist virtues” of self-reliance and the need for personal adaptation did spread somewhat, but they were mainly compensated for by the people’s exaggerated sense of confidence in their own skills and their reliance on the state; simply

put, the declared liberal attitudes of the early period were clearly only verbal. The strengthening self-assessment and somewhat relaxed attitudes of the Czech population are evident in the widening gap between these attitudes and experts' evaluations of various aspects of the Czech labour force, in other words, between the view of the same situation from the inside and from the outside (Večerník, 2003).

Nevertheless, the history documented in this contribution only covers less than half of the period of post-1989 development. The first ISSP module on Work Orientations was collected in the Czech Republic in 1997, i.e. when the principal part of privatisation was nearing a close and the labour market had been established. It can be assumed that, the "learning period", in the sphere of public opinion as well as generally, would have been over by that time. Therefore, the data can be regarded as consistent and comparable over time. Nevertheless, regardless of the time span covered by the data, the shorter story must be situated within the context of the longer history of transition and create a picture of this change.

## 10.2 The explanatory framework

During the period of economic reform in the CEE countries, labour market problems were described with the vocabulary and methodology of mainstream economics. There was little place for examining the human values related to economic behaviour and work. In addition to the primary focus being on the economy, there were several other reasons for this neglect: First, measuring human values is complicated because we can only rely on opinion data. Second, there are no time series on this subject, which would enable comparisons with the communist past and the period of initial enthusiasm for reforms. Third, there is no research tradition of economic sociology or social anthropology in the CEE countries that would facilitate this type of inquiry.

In the transition it was assumed that "tough" labour market conditions would lead to more demanding criteria and a stronger work performance, and consequently would also help counter the previously social character of work. However, the combination of the kind of experience people were accustomed to from the past and the "velvet conditions" of the early transition led many people to re-assume a high subjective assessment of their abilities and to leave the responsibility for job security to the state. A comparison of the 1991 and the 1999 World/European Values Surveys showed a considerable decrease in the importance ascribed to both social and self-fulfillment aspects of work in the Czech Republic (Mareš, 2001b, p. 77).

Instead of the purely administrative arrangements of labour, transition brings about much freer labour relations within a different context. It was a complex process, but when both simplified and put into a more general framework it can be conceived as a transition from the "basic needs principle" asserted by the communist regime to the "market principle" implied by the capitalist regime. This is assumed to be a major qualitative and systemic change, which occurs behind the scenes and is revealed in quantitative shifts described by statistics. The relevance of this explanatory tool, formulated to examine distributions of personal earnings and household incomes (see Chapters 4 and 5), could also be applied in the area of work and job related values.

**Scheme 10.1**  
**The role of various characteristics affecting work and earnings**  
**under two principles (stylised)**

<i>Characteristic</i>	<i>Needs principle</i>	<i>Market principle</i>
<i>The role of gender</i>	The position of women derives from the family, women's earnings are supplementary.	The position of women is independent, their earnings are derived from the labour market.
<i>The role of age/experience</i>	The life cycle is crucial, the wage curve by age is curved, seniority is valued more than education.	The life cycle is not important, the wage curve by age is flat, seniority is valued less than education.
<i>The role of education</i>	Education is a public good, there is no reason to reward it to the person, priority is given to manual, productive labour.	Education is a private good, it brings considerable returns, priority is given to managerial and creative labour.
<i>The role of occupation and industry</i>	Physical energy and time spent working matter; production branches have priority; stress on vocational education personal services reduced.	Managerial skills and innovation matter; stress on general education; strategic services and applied research have priority.
<i>Dependent vs. independent work</i>	No independent work, only in the informal economy.	Independent work expands and provides chances for promotion and better earnings; often second jobs.

The “basic needs principle” means that the main focus is on what is necessary for the reproduction of the labour force. This principle was explicitly formulated by Marx as the primary mechanism for rewarding (and exploiting) hired labour by capitalists: presumably, they do not pay for the labour itself but only ensure the reproduction of the labour force. Wrongly interpreted by Marx as capitalism's base for the production of surplus value (appropriated by the capitalist class), this principle was in reality applied by the communist ruling class. Conversely, the “market principle” is understood to be the forging of closer links between human capital and labour performance on the one hand and incomes on the other. The various characteristics of workers can be contrasted in a very stylised set of counterparts (Scheme 10.1).

In terms of *gender*, adherence to the “basic needs principle” under the communist regime resulted in women's earnings being conceived as necessary but supplementary to family income. It was not individual performance but the demographic

(family) reproduction of the labour force that was important. Therefore, women's work could easily be downgraded; and even entire branches of light manufacturing and administration could be downgraded when the male labour force was transferred to "more productive" branches. This generated a vicious circle: women received low wages because they worked in "female" branches and occupations. This did not prevent women from being installed as "soldiers of labour" alongside men under false declarations of equal rights and emancipation.

It cannot be said that in the market system the work that men and women perform always has the same status and is treated equally. The "needs principle" is also applied under market conditions and there are also other sources of discrimination. According to wage surveys, the gender gap decreased somewhat in the Czech Republic after 1989: In 1988, the average wage of full-time female workers was 71% of that of their male counterparts, and by 1996 it had risen to 77%. But in the 2000s it rose only slightly and fell to 75% by 2007 (CSO, 2008).<sup>1</sup> Nevertheless, this is only a comparison of averages, and in reality women's earnings are much more dispersed. The effect of gender on earnings disparities in fact fell quite dramatically: while in 1988, gender alone explained 31% of the variance of earnings, by 2002 it accounted for a mere 10% of the variance (see Chapter 4). This attests to the accuracy of our assumption regarding the different role gender plays under the market regime.

With regard to *age*, the "basic needs principle" mimics the pattern of family costs over the individual stages of the life cycle. Under the communist regime, only families with children had a chance of getting a flat of their own. Therefore, the start of a person's economic life and their family life occurred within a very short period of the life cycle (Večerník, 1977). At the same time, seniority was valued more than education. Once the revolutionary stage – with its catchphrase "youth forward" – was over, being older was considered a precondition for occupying higher positions. However, all preferences tied to age were overturned in the transition: seniority became rather a burden, while a lack of experience could be made up for and accumulated in the market regime. Also, a gap emerged between the start of economic life and family life.

In terms of *education*, there has indeed been a striking and apparent change. Under Marxist doctrine, intellectual and managerial work was not considered "directly productive" and was regarded more as just sharing in the yields of manual labour. Under communist doctrine, education was allegedly provided free of charge "by the working class to the intelligentsia", and, therefore, all its returns belonged to everyone. Although some differences in earnings between education levels were maintained, they were small indeed, particularly in pre-1989 Czechoslovakia and even compared to other socialist countries (Večerník, 1991). Be it because it is a measure of human capital and the productivity of labour (as assumed in labour economics), or because it is an indicator of other characteristics that cannot be measured (e.g. work commitment and performance), education is becoming the primary axis in the market regime.

<sup>1</sup> In 2005, the gap between men's and women's hourly wages as a percentage of men's wages was 15% in EU-25 but reached or surpassed 20% in Germany, the United Kingdom and Finland, and several New Member countries. The Czech figure is slightly lower but still above the EU-25 average (Eurostat, 2008f).

*Occupation and industry*, according to the “needs principle”, matter in terms of the physical energy and time workers are required to invest. Production branches were much better rewarded in the communist regime (being “directly productive” in Marxist vocabulary) than services were (considered as non-productive). According to the “market principle”, they matter in terms of their productivity, efficiency, and innovation. In this regard the situation changed rapidly after 1989, although not consistently. In terms of industries, services expanded, but particularly financial services, while public services were left behind. Health and social services improved slightly, but education and research stagnated for a long time. In terms of occupations, the main change concerned management, which became much more important and valued, and the higher up the more so.

There is yet another dimension that characterises the transformation and is of crucial significance for the change in system – *dependent vs. independent work*. Former Czechoslovakia was more consistent than other CEE communist countries in banning all traces of the “bourgeois regime”. In order to impose complete control over the economy and society, personal creativity and initiative were suppressed. After 1989 the entrepreneurship that was revived was able to draw on various sources – capitalist roots, the informal economy developed under communism, and the new process of privatisation – in many cases linked to networks and political capital developed under the previous regime. Despite all the barriers to enterprise in the form of bureaucracy, the doors to private initiatives were flung open.<sup>2</sup>

However, reality has differed from the stylised image of a “market regime”. In fact, change has been complicated, and not streamlined. Markets are always only partial and imperfect, and their impact is always limited. There are still many deep-rooted patterns, both legitimate ones (the needs of family reproduction) and ones that are not (so-called female occupations being taken as inferior). In any case, the effects of assigned characteristics have been weakening, while the effects of achievement characteristics have been strengthening during the transition. This is the story originally told in the case of earnings and income distribution (see Chapters 4 and 5), which is now exemplified in the area of work values.

### 10.3 Work expectations and conditions

The analysis below is based on sub-samples of economically active respondents from the ISSP Work Orientations modules of 1997 and 2005. The interview situations in 1997 and 2005 were certainly not identical. We can only assume that since the early 1990s the learning process connected with the practice in communicating various opinions has sufficiently progressed and that in both years people knew how to answer survey questions consistently.

By coincidence, the first year of data collection was also a year when an economic recession occurred. In spite of the economic recovery and rising wages, work had increasingly come to be seen only as a burden: in 1997, 41% of respondents in

<sup>2</sup> Comparative evidence based on the number of days needed to establish a new firm indicates how difficult the conditions are that Czech entrepreneurs are faced with (Doing Business).

the labour force reported that they only work to earn money, while in 2005 the figure was 56%. In spite of changing employment structure, only a minor change in the character of work is reported during the eight years under observation – one-fifth of respondents in both surveys declared that they engage in hard physical work and the same percentage declared their work to be stressful. In 2005, 39% of respondents reported that they arrive home exhausted compared to 34% in 1997.

The data provide some insight into the multi-faceted character of work. There are two separate sets of questions for comparison (Table 10.1). The first set of characteristics concerns the expected quality of work and job, while the second describes the respondent's current job in the same terms. We can see that no tremendous changes occurred between 1997 and 2005 with regard to the desired characteristics of work, especially among men, while women more often expected an independent, well-paid, and career-oriented job. In terms of the characteristics of the respondents' actual jobs, only male respondents more frequently reported having well-paid and career-oriented jobs. Women experience a sense of stagnation in connection with those characteristics and are less likely to consider their work interesting and independent relative to their expectations.

If we compare both views (e.g. hypothetically how well the respondent's job corresponds with their expected values), the biggest dissatisfaction relates to rewards, followed by dissatisfaction with job security, and dissatisfaction with opportunities for promotion. *Gender* appears here as a variable of utmost importance. While the levels of fulfilment of expectations were about the same among men and women in 1997, by 2005 they had become quite different. The gap between expected characteristics and their actual fulfilment remains about the same for men in both years, but there is a considerable increase in dissatisfaction among women. This increase relates to the possibilities for promotion in particular, while the increase in dissatisfaction with rewards, securities, and job interest is also important but smaller.

Although the period of time under observation was short, the change is striking and informative. Public awareness of equal rights and opportunities is evidently increasing, and the topic is frequently addressed by the media and politicians and backed by EU policy.<sup>3</sup> Therefore, it is natural that women increasingly have similar expectations about promotion at work as men. Exploratory factor analysis (not presented here) reveals that, unlike 1997, the structure of the qualities women expect from work resembled that of men much more in 2005, with interesting and independent work as the core variables. While, for example, expectations concerning rewards are better matched among men in 2005 than in 1997, the opposite is true for women. This fits well with the hypothesis that the expectations and requirements regarding the position of women in the labour market are changing and becoming less connected with traditional gender attributes. However, the labour market is responding unevenly, so there are fewer women in standard (full-time and open-ended) and higher positions (Jurajda and Paligorova, 2006).

<sup>3</sup> Here this refers mainly to EU initiatives and recommendations in the area of the equal rights of men and women, gender mainstreaming, etc. (Report on Equality, 2008).

**Table 10.1**  
**Expected and fulfilled work and job characteristics (index 0–100)**

Work and job characteristics	Total		Men		Women	
	1997	2005	1997	2005	1997	2005
<i>Expected:</i>						
Security	84.1	83.3	82.0	80.8	86.5	86.4
Reward	69.0	71.8	69.1	70.6	68.9	73.2
Promotion	43.5	51.6	45.0	52.8	42.0	50.3
Interesting work	76.0	72.0	75.5	70.7	76.4	73.6
Independence	54.0	58.2	54.9	58.5	53.0	57.8
Useful job	55.2	57.2	52.6	53.2	58.2	62.1
Average	63.6	65.7	63.2	64.4	64.2	67.2
<i>Fulfilled:</i>						
Security	50.7	46.1	49.3	46.1	52.3	46.1
Reward	19.6	24.3	20.9	29.3	18.2	18.3
Promotion	16.3	18.3	16.6	20.7	16.0	15.5
Interesting work	57.0	52.2	55.7	54.0	58.4	50.1
Independence	60.0	58.0	61.1	60.0	59.0	55.7
Useful job	63.6	65.7	63.2	64.4	64.2	67.2
Average	44.5	44.1	44.5	45.8	44.7	42.2
<i>Difference between expected and fulfilled characteristics:</i>						
Security	-33.4	-37.2	-32.7	-34.7	-34.2	-40.3
Reward	-49.3	-47.4	-48.1	-41.3	-50.7	-54.9
Promotion	-27.3	-33.3	-28.4	-32.1	-26.0	-34.8
Interesting work	-19.0	-19.8	-19.9	-16.7	-18.0	-23.5
Independence	6.0	-0.2	6.2	1.5	6.0	-2.2
Useful job	8.4	8.5	10.6	11.2	6.0	5.1
Sum of differences	-114.6	-129.5	-112.3	-112.1	-116.9	-150.5

*Source:* ISSP 1997 and 2005, economically active respondents (author's computation).

*Note:* The index was computed from the answers the following way:

very important = 100, important = 75, neither important nor not important = 50,  
 not important = 25, not important at all = 0.

As women's perceptions shift in the direction of higher expectations, which are less often met, the importance of the gender gap increases. While in 1997 the gender gap was relatively negligible in this regard, by 2005 it had become a substantial factor, most strikingly so in the area of rewards, where shifts in satisfaction levels occurred, with men increasingly satisfied and women increasingly dissatisfied. This supports the hypothesis about the increasing homogeneity of labour values in terms of gender. However, much this is still more an idea than a reality. With similar expectations but a lower status, women are increasingly critical of their actual positions (Table 10.2).

**Table 10.2**  
**The degree of fulfilment of work and job characteristics correlated**  
**with workers' characteristics (correlation coefficients)**

Work and job characteristics	Gender	Age	Educa- tion	Occu- pation	Earnings	Self-em- ployed
<i>1997</i>						
Security	-0.02*	0.00*	0.17	-0.20	0.16	0.04*
Reward	-0.03*	0.05*	0.25	-0.25	0.23	0.16
Promotion	0.04*	0.03*	-0.01*	-0.02*	0.03*	0.08*
Interesting work	0.04*	0.08*	0.10	-0.18	0.17	0.06*
Independence	-0.02*	0.01*	-0.12	0.03*	0.02*	0.10
Useful job	-0.01*	0.05*	0.00*	-0.02*	0.02*	0.01*
<i>2005</i>						
Security	-0.10	-0.04*	0.06*	-0.06*	0.10	0.12
Reward	-0.18	0.06*	0.19	-0.14	0.36	0.12
Promotion	-0.03*	0.06*	-0.04*	0.04*	0.12	0.06*
Interesting work	-0.12	0.04*	0.05*	-0.08*	0.25	0.08
Independence	-0.11	0.00*	0.11	-0.11	0.18	0.12
Useful job	-0.11	-0.03*	0.01*	-0.02*	0.15	0.05*

*Source:* ISSP 1997 and 2005, economically active respondents (author's computation).

*Note:* All coefficients except those marked by \* are significant at the 0.01 level.

Spearman's rank correlation coefficients are used when it is not convenient to assign actual values to variables, and instead only a rank is assigned to the instances of each variable. It is also a better indicator when the relationship between two variables is non-linear. The same conclusions can be reached using Kendall's Tau coefficient.

In contrast, *age differences* remained insignificant. This corresponds with the point made above about the decline in the importance of the lifecycle and age-related preferences in the "market regime" compared to the "basic needs regime" and the decline in the importance of the seniority applied under the communist system. We have only to bear in mind that in this case correlation coefficients have less explanatory power (underestimating the actual effect of the variable) owing to the curvilinear character of careers and their various associations in objective and subjective status. The comparison of 1997 and 2005 reveals a moderate shift from greater satisfaction among older workers to greater satisfaction among younger workers.

Important differences emerge when the data are broken down by *education*, which is particularly significant for attained earnings and independence at work. While these two characteristics maintained their importance in both years, there was a marked decline in the effect of education on obtaining a secure and interesting job. The rise in educational qualifications combined with a not very dynamic economic and occupational structure necessarily produces such an effect.<sup>4</sup> Roughly the same process occurred in

the correlations with broad *occupational categories*, although the association between the two variables is rather weak. Earnings rose distinctly in importance and became the most substantial correlate of the fulfilment of work and job expectations.

A separate dimension is the difference between *dependent and independent work*. On the one hand, self-employment or entrepreneurship allows more freedom and incentives for personal fulfilment, but on the other hand, it also entails more problems and stress. Satisfaction with rewards, promotion opportunities, and the interest and independence of the work is certainly higher among the self-employed. The main change between 1997 and 2005 concerns, somewhat paradoxically, job security. The reason is that the sense of job security has decreased generally, but among the self-employed less so than among employees. The result is a growing difference between both groups.

As the explanatory power of such key labour market variables as education and occupation is generally decreasing, questions can be raised about the increasing subtleness of the differences in the labour market. Instead of the obvious dimensions easily examined in statistics and surveys, the finer characteristics of workers are moving to the fore. “Soft skills”, such as adaptability and cooperativeness, and even a capacity for personal development, also matter. Gradually the type and quality of school will matter more than the level of education. In all other respects, standard variables are experiencing the same process of decreasing explanatory power as they are in earnings disparities (see Chapter 4).

#### **10.4 Work commitment and job satisfaction**

When the market regime was re-established it also produced two sorts of people at the extremes of work commitment – the workaholic at one end and welfare-dependent persons at the other. However, the majority of people are located somewhere in between, usually inclined towards taking on less of a work burden and having more time for family and leisure. In both ISSP surveys, most respondents declared they already spend enough time on work and do not have enough time for their family, friends, and leisure. This perceived imbalance between work and leisure time somewhat grew in strength between 1997 and 2005. Provided the use of time was left to the discretion of respondents, in 1997, 11% of economically active respondents would have devoted more time to work, but just 8% in 2005, while 68% would have spent more time on hobbies and leisure in 1997, and 70% in 2005.

The decline in work commitment is quite striking. Between 1997 and 2005, the percentage of people reporting that they “work only as hard as one has to” almost doubled (from 13% to 23%) while the percentage of those declaring that they “make a point of doing the best work even if it sometimes interferes with one’s private life” decreased considerably (from 53% to 37%). Another change occurred in the degree and structure of what determines the willingness to give work priority over personal

<sup>4</sup> This is what occurs in Western societies. As the share of persons with higher education rises, they increasingly spread over a larger area of the occupational hierarchy towards filling in the lower ladders. This also affects the returns on education, which start to stagnate or decrease.

life. This general attitude among people towards work is in 2005 determined less by workers' characteristics than in 1997, while the previously dominant distinction between employees and the self-employed became almost negligible.

Since the traditional division of tasks between spouses (the man as breadwinner and the woman as housewife) has become blurred, work and family roles come into conflict, and people have to work hard to reconcile them. Work and family – which interferes with the other more? According to 2005 data (in 1997 no such mirror questions were posed), the interference does not seem to be that great. Among all employed respondents, 12% reported that job requirements regularly or often hurt family life, while for 5% family commitments hurt their work. If only respondents with dependent children (up to 18 years of age) are taken into account, the imbalance between family and work is only slightly higher – in 13% of cases work negatively affects a person's family, and in 8% negatively affects a person's work.

Women report a conflict between work and family less often than men. They are more ready to cope with both roles than men are, and they do not consider the two to be in conflict. As reported in one survey, in the absolute majority of families it is women who look after the family most: in 40% of families women always perform the household chores and in 47% usually; 38% of female respondents declare that they prioritise their family “absolutely” and another 48% “somewhat more”, while among male respondents (when the “absolutely” and “somewhat” options are summed up) 39% prefer the family, 33% prefer a balance between work and family, and 22% declare a preference for work (Kuchařová et al., 2006).

The explanation for women's attitudes must be sought in the continuing acceptance of the traditional division of labour in the family, with the main burden on the side of women. Of course, the degree to which a person assumes their family role depends on their current and their desired employment status. It also depends on the real and the potential gender wage gap. In couples where both partners are employees, the gap between the contributions made by the husband and the wife to the joint family budget decreased by 15 percentage points between 1988 and 2002 (measured as the percentage of the wife's wage to her husband's wage; in 2002 it was almost 80%). Indeed, the correlation between spouses' earnings became stronger after 1989: the Pearson coefficient (0.17 in 1988) increased from 0.29 in 1996 to 0.37 in 2002. Conversely, the share of employed married mothers decreased (see Chapter 5).

Regarding the relationships of employees to their employer, it could be expected – given that Czechs prefer to be employees and to work in big companies or state organisations – that loyalty to an employer would be quite strong. However, this is only somewhat true: strong agreement (among employees only) with the statement “I am proud to be working for my firm or organisation” was expressed by 6–7% and moderate agreement by 33–34% of respondents in both years. In contrast to the stability of this opinion, strong agreement with the statement “I am willing to work harder in order to help the firm or organisation to succeed” decreased from 12% to 7% and moderate agreement from 46% to 42% between 1997 and 2005. As a cross-national comparison of 1997 data showed, the level of loyalty to the employer is (like in other CEE countries) much lower than in Western countries (Večerník, 2004b).

**Table 10.3**  
**Job satisfaction by gender and education (index 0-100)**

Education	Total		Men		Women	
	1997	2005	1997	2005	1997	2005
Elementary	68.0	67.2	66.4	74.8	68.6	65.1
Lower secondary	66.0	63.5	66.7	63.1	64.7	64.0
Secondary	71.2	71.8	69.4	71.3	72.7	72.2
Tertiary	74.9	69.8	74.7	71.4	75.4	66.5
Total	69.5	67.3	68.9	67.2	70.1	67.5

*Source:* ISSP 1997 and 2005, economically active respondents (author's computation).

*Note:* The index was computed on a seven-point verbal scale the following way:  
 completely satisfied = 100 and completely dissatisfied = 0.

The declining sense of loyalty towards employers could theoretically be a manifestation of and coincide with the increasing work flexibility of Czech workers, but again, in reality, this is evidently not the case. The information reported in statistics and sociological surveys reveals that the labour market is not very flexible and in recent years has stagnated. On the other hand, various tricks are practised, such as paying people informally in cash to supplement the official payment of minimum wage, using self-employed persons to perform work instead of hiring people, hiring foreigners, and using contracting agencies to provide labour without any obligation on the employer's part. So, rather than being indicators of work flexibility in the formal economy, entrepreneurs tend also to operate on the edge of the informal economy, which is where they occasionally seek additional earnings. This corresponds well with the limited loyalty expressed towards employers.

Various features and dimensions of work and jobs contribute to overall *job satisfaction* (Table 10.3). The majority of employed Czechs are satisfied in their jobs, and this indicator has only decreased very slightly even despite growing anxiety about jobs and allegedly increasing job requirements. Nevertheless, work and job satisfaction is a complex indicator, as it can reflect the quality of the job (demands for skills, the amount of personal autonomy involved, the interest and usefulness of the work performed) or the ease of working conditions (work that is not demanding, within fixed hours, without negatively affecting or hurting a person's family or personal life). However, it is to be expected that the "true" quality of a job will nonetheless for the most part prevail in the perception of job satisfaction.

A person's perception of how well their work satisfies their expectations of having an interesting job allowing them personal autonomy is what was most closely associated with overall job satisfaction in 1997, followed by job security. In 2005, satisfaction with job security became more important and other factors somewhat less (Table 10.4). Yet another change has occurred over time, in connection with the above-mentioned characteristic of the "easiness" of work. In 1997, the connection between satisfaction and the general attitude towards work was quite high and significantly higher among those who see intrinsic values in their job and lower among those who

**Table 10.4**  
**Fulfilled work and job characteristics correlated with job satisfaction**  
**(correlation coefficients)**

Work and job characteristics	Total		Men		Women	
	1997	2005	1997	2005	1997	2005
<i>Fulfilled characteristics:</i>						
Security	0.30	0.33	0.35	0.37	0.24	0.29
Reward	0.19	0.23	0.22	0.24	0.16	0.24
Promotion	0.14	0.14	0.18	0.16	0.08*	0.12*
Interesting	0.46	0.44	0.45	0.50	0.48	0.37
Independence	0.32	0.25	0.39	0.28	0.25	0.21
Useful job	0.27	0.26	0.17	0.25	0.39	0.26
<i>Difference between expected and fulfilled characteristics:</i>						
Security	0.20	0.21	0.21	0.22	0.19	0.19
Reward	0.19	0.16	0.20	0.14	0.19	0.18
Promotion	0.06*	0.09*	0.07*	0.11	0.05*	0.07*
Interesting	0.28	0.22	0.24	0.27	0.32	0.16
Independence	0.10	0.09	0.12	0.08*	0.08	0.10
Useful job	0.07*	0.03*	0.02*	0.02*	0.14	0.05*

*Source:* ISSP 1997 and 2005, economically active respondents (author's computation).

*Note:* All coefficients except those marked by \* are significant at the 0.01 level.

For explanation of correlation coefficients see the note in Table 10.2.

see their job only as a source of income. In 2005, this association fell to one-half of its previous value among men, but increased among women. More men than women are satisfied in their jobs, but seeing a job as nothing more than a source of income has become by far the most important reason for this view.

This shift in attitudes towards work helps explain the fact that the degree to which perceived satisfaction is determined by work and job characteristics fell between 1997 and 2005. While in 1997 the variance in satisfaction explained by characteristics of workers in regression analysis (not displayed here) reached 7.5%, the percentage in 2005 fell below 3%. While education still matters (although less), gender and age do not. Even earnings and self-employment have lost most of their explanatory power. While work satisfaction has remained at almost the same level, its variance in the population can no longer be explained using common statistical variables. It is likely to have shifted to an area of more subtle dimensions, which we are unable to measure.

## 10.5 Conclusion

There are only vague tendencies rather than any clear conclusions to report about work and job values in the Czech Republic during transition. According to ISSP surveys, work satisfaction is high but decreased between 1997 and 2005. This also corresponds to the Fourth European Working Conditions Survey conducted by Euro-

found in 2005 (Eurofound, 2007). This survey found that the Czech labour market has more similarities with the markets in the former EU-15 states in terms of characteristics, opportunities, and workers' perceptions than it does with the labour markets in the ten new EU Member States. The level of job satisfaction remains high in the Czech Republic, but people are concerned about work intensity, which has been on the increase since the last Eurofound survey in 2001.

According to this survey, most Czech workers (71%) report having to work to meet tight deadlines or at very high speed at least one-quarter of their working time, a figure that is the third highest in Europe and just behind Finland (74%) and Sweden (72%). Only one-third consider themselves well paid, in contrast to one-half in the EU-15. One-third of Czech workers even fear losing their job in the next six months, in contrast to a mere one-tenth in the EU-15 countries. Such a worried viewpoint, formulated moreover in a rather prosperous year, was most likely determined by rising expectations rather than by worsening work and job conditions. The different method of collecting data is also relevant here, since the attitudes were much more critical than in ISSP surveys.

The comparison over time of the structure of attitudes based on 1997 and 2005 ISSP surveys found that gender has become a prominent dimension of work perception and has become at least as important as education. People prefer to work as employees, but loyalty to the employer is on the decrease. While job satisfaction remains high, it is increasingly derived from job security and earnings. Overall, the common socio-economic characteristics of workers are losing their power to explain work attitudes. However, this does not mean that the world of attitudes has become detached from objective conditions of life. Instead, it testifies to the inadequacy of available explanatory variables, which fail to indicate more subtle levels and dimensions of people's reasoning and their relationship to economic life.

Job and work satisfaction is a topic of study not only in sociological but also in economic literature (Freeman, 1978; Clark, 2001; Kristensen and Johansson, 2008), occasionally even comparing post-communist countries (Blanchflower and Freeman, 2004). There are many reasons for this interest: workers who are more satisfied are supposed to perform better in their jobs, while less satisfied workers are more likely to perform poorly and to abuse any opportunity to reduce their work load, take sick leave, and eventually leave the job. Work satisfaction is considered the best indicator of job quality. Positive associations between job satisfaction and work performance, and loyalty to the employer are easy to find. There is also a positive correlation between job satisfaction and labour productivity. Production sectors with higher levels of job satisfaction also display higher productivity, as the study based on the European Community Household Panel proves (Employment in Europe 2002).

The importance of various personal and occupational characteristics for explaining job satisfaction was found to be statistically significant but weak, just like in other countries. A regression analysis of a joint German 1992–1996 household panel cites workers' characteristics as accounting for 2% of the explained variance in the former West Germany and 4% in the former East Germany. An analysis of a British household panel attributes 4% of the explained variance to these characteristics (Van Praag

and Ferrer-I-Carbonell, 2004, pp. 56–58). However, as a comparison of example of foreign-owned and domestically owned companies suggests, the relationships between work satisfaction and labour productivity in the Czech Republic is not straightforward. While labour productivity is higher in foreign-owned companies, the level of satisfaction is lower. It could be that satisfaction is lower in firms where work organisation and control are tighter, which results in higher productivity but makes work conditions less easy for workers.<sup>5</sup>

Despite the continuing differences in labour productivity and work performance between the “East” and the “West”, there is apparently no great barrier between the two regions with regard to what work values are expected and perceived. Intrinsic work values are on average also weakening in the West. Czech workers are adaptable and versatile, characteristics rooted in their traditionally high skills and originally fostered by the shortage economy under the communist regime. The question is how much this feature is based on ingenuity and how much it is a matter of improvisation. Instead of broad and often self-taught skills and somewhat relaxed attitudes towards work, what is needed are focused, problem-solving skills and a sense of responsibility, and some of the support for these characteristics must come from the general value framework.

<sup>5</sup> The OECD comparison of multinational companies in several countries (not including any EU new Member States) has shown that they generally provide higher wages but without necessarily improving non-wage working conditions (OECD, 2008b, Chapter 5).

# 11 The pervasive consumer society

In retrospect, it is still an open question whether the “return to Europe” heralded in November 1989 mainly meant the re-establishment of democracy and human rights and the freedom to travel and work abroad or mainly access to Western material goods and the creation of a consumer society. Most likely the real meaning can be found in a mixture of all these aspects, with different blends of components for different categories of people. Gradually, the material side of the story has come to the fore. Civic freedoms and open borders are now taken for granted. After their initial enthusiasm, people moved increasingly away from politics, which came to be seen as a dirty game played by a few people at the top. By contrast, consumption has become the sphere of activity and personal satisfaction on a mass scale.

In surveys conducted on attitudes, affluence and wealth were not described as the highest values the Czech population should strive for in the early 1990s. Instead, political freedom, interesting work and better education were considered more important. However, material factors (income, wealth and an affluent lifestyle) were the most significant source of differences in people’s attitudes (Opinions on social changes, 1993). Later on, in addition to such consistently dominant values as family, environment, and health, the values of lucrative job activities and a comfortable lifestyle grew in importance and clearly came to take priority over interesting work, general education, participation in community life, and supporting democracy (CVVM surveys 1994–2007).

While much attention is paid to the financial difficulties of Czech households, the conditions of people in low-income categories, and the issue of supportive tax and benefit policies, the developing – if not currently flourishing – mass consumerism is debated much less by social scientists. Official statistics on real household income contrast sharply with the boom observed in the retail market, the dozens of newly constructed supermarkets and hypermarkets, the widespread marketing campaigns, and the intensive individual buying activity that reaches record levels in every summer holiday period and every Christmas shopping season – almost until the end of 2008. The factors which George Katona, the founder of American economic psychology, used to define the mass consumption society are gradually being met in the Czech Republic:

- “*Affluence*. Not a few individuals, not a thin upper class, but the majority of families now have discretionary purchasing power and constantly replace and enlarge their stock of consumer goods.

- *Consumer power.* Cyclical fluctuations, inflation or deflation, and the rate of growth of the economy – all now depend to a large extent on the consumer.
- *Importance of consumer psychology.* In our economy, consumer demand is no longer a function of money alone [...] The willingness to buy is a reflection of consumer motives, attitudes and expectations” (Katona, 1964, p. 3).

In contrast to Katona’s optimistic picture of consumer society, criticism of the consumer society has always existed, and its roots are indeed deep. Plato, in *The Republic*, distinguished between the true, “healthy” city and the “sick” one that tries to quench its feverish desire for luxuries. And just before Katona first published his thesis about the “powerful consumer” (Katona, 1960), Vance Packard noted that the consumer is not free but is instead exposed to the tricky manipulation of “hidden persuaders” (Packard, 1957). The necessity of manipulation derives from the fact that never before in the history of mankind have the problems of sales dominated over the problems of production. The result is that advanced world consumption is fed by aggressive market promotion and supported by the extension of consumer credit.

In the 1950s, while scholars in the West were debating about whether in the modern era consumers are powerful for their purchasing capacity or powerless for being manipulated by the sated market, the citizens of communist countries were being starved by shortages. While lined up in queues outside shops they could only dream about the abundance of goods available in the countries to the west of the Iron Curtain, which local propaganda advertised as places of unemployment, strikes, and poverty. Although socialist-era consumers saw some improvement later, it was only after 1990 that the region found itself turning into a consumer society. New economic developments led to a society “in which choice and credit are readily available, in which social value is defined in terms of purchasing power and material possessions, and in which there is a desire, above all, for that which is new, modern, exciting and fashionable” (Benson, 1994, p. 14).

A variety of evidence demonstrating the rapid development of household consumption in the Czech Republic during the post-1989 period is gathered in this chapter. In the first part, the basic features of household consumption under the communist regime are described. In the second part, the transition to a market economy and its impact on the economic well-being and behaviour of households is discussed. In the third part, changes in patterns of family expenditures are documented. In the fourth part, a critical assessment of the development of Czech consumer culture with its agencies and clients is placed in the context of broader debates about the meaning of mass consumerism. Both the positive and negative features of booming consumption are summarised in the conclusion.

### **11.1 The communist regime: meeting basic needs**

The communist regime was very restrictive about the level and variety of personal consumption. The regime’s early ideological outlook prioritised the long-term goal of building a communist society, in which everyone would be provided for “according to

their needs”, over affluence for the current population. The workers’ paradise was to be achieved through zealous “socialist work”, which was idolised as the main instrument of self-fulfilment and self-accomplishment in a collectivist and homogeneous society led by the working-class. Starting in 1948, most songs, literature, plays, movies and news praised the “heroes of work”, such as women taking male jobs, “superfluous” white-collars becoming “productive” blue-collars, and the successes in labour output, manifested when production quantities surpassed planned targets.

In relation to consumption, communist ideology referred exclusively to satisfying human needs without considering consumer preferences. Such an ideological orientation had far-reaching consequences: the main goal was to design, standardise, and satisfy “rational” needs, conforming to a particular view of human and social development. Whereas in the first phase of building communism (the “socialist period”), consumption was intended to cover mainly the basic needs of reproduction (food, clothing, shelter), in the second phase (“genuine communism”), consumption was expected to fulfil the higher needs of human development, such as education, culture, and recreation. This referred directly to the visions of Marx and Engels described in the Communist Manifesto.

Not only limited supply but also a controlled price policy was supposed to support “rational” consumption. The turnover tax was established as the difference between gross-trade and retail-trade prices, ranging from a very negative to a very positive amount (even as much as one hundred percent of the gross-trade price). Through price subsidies consumer preferences for food were strengthened. Through artificially high prices consumer preferences for “luxury” durable goods and household equipment were reined in and almost eliminated. The more similar the commodity was to items that traditionally figured in the consumption patterns of the 19th-century working class, the higher the state subsidy for it. History was thus to be frozen by means of a command planning policy, and the differences in consumption patterns between social categories corresponding to earnings disparities (which were minor anyway) were even suppressed.

Despite the low level of indirect tax on food and children’s goods, the share of household expenditures on these items remained high. The main reason was the generally low purchasing power of family income. And the main reason for that again was the low labour productivity in the command economy and the national economy’s primary orientation towards heavy industry to prop up the military might of the Soviet empire. Consumer goods, highly standardised, were fabricated more as an afterthought, secondary to the focus of production of key goods such as coal, steel, machinery, and arms. The real scarcity was camouflaged by tricky rhetoric arguing “we cannot consume more than we produce”.

Nevertheless, under pressure from rising consumption in the West, the standard of living of the population improved slowly and the burden of household expenditures on items of primary necessity decreased somewhat. Throughout the period described in the Family Expenditures Surveys (FES), which has been carried out by the Czechoslovak Statistical Office since 1958, the share of food and beverages as a proportion

of spending decreased from one-half to one-third by 1989 in employee households. Despite some improvement, the consumer quasi-market suffered perpetually from shortages and shopping queues remained frequent. Special stores were established that were only open to a select group of the population. Some of the stores were accessible only for party leaders and top state bureaucrats, others were intended for people who had hard currency or its equivalent to spend.<sup>1</sup> Money changers, tolerated by the police, established themselves around these stores, and based on their experience many of them became successfully involved in privatisation after 1989.

However, the world of Marxist ideology and the command economy was not the only economic scene that people lived in under the communist regime. People tried to escape the fixed paths they were forced to follow under the regime and modified them with a secondary income or even by illegal means. These efforts involved resorting to bricolage and a “do-it-yourself” approach to the provision of services, practices employed especially by families working on their homes, flats, and recreational residences. For many of the people living out their “rational” lives in pre-fabricated housing, that home was just a weekday dormitory, and on weekends they pursued a parallel life at their second home in the countryside. Rural rustic homes offered a traditional environment and allowed people to cultivate their private life, thus helping them to escape from lives of forced standardisation.<sup>2</sup>

Husák’s hard-line regime, established after 1968, made a tacit contract with the population, in which they were offered a better standard of living and less intrusion into private life in exchange for manifestations of loyalty to the regime. The 1970s and 1980s thus saw an expansion of alternative channels of consumption and a return to a focus on the family. The new public sphere was pervaded by double-speak and pretences of morality, and the altered pattern of everyday life involved a bifurcation of individual economic activity: one arena where earning and spending income was official and widely standardised, and another arena, hidden and differentiated, supported by a secondary economy. Weekends and leisure time became the domain of private economic activities, but so did working hours, which began to be spent for hunting goods and arranging personal affairs, or even profiting from one’s position by using it to get extra income.

Despite the regime’s effort to buy off the population by increasing “communist affluence”, the general level of satisfaction actually decreased during the 1980s. According to confidential polls conducted for party officials by the former Institute for Public Opinion, 49% of respondents in 1970 felt that their standard of living had improved over the previous five years. The number declined to 44% in 1985 and 38% in 1989. These figures refer to the entire Czechoslovak population, and both the retrospective and prospective conditions in the Czech-Moravian part of the country were

<sup>1</sup> The Soviet ruble also enjoyed the status of a “hard currency” in an effort to attract people to work in the USSR on “common socialist projects” like building major gas lines. Those few allowed to earn in the West were subject to a prohibitive tax.

<sup>2</sup> This post-1968 trend is most apparent in the boom in the reconstruction of rural houses into second residences. According to the 1988 Microcensus, 12.5% of Czech households and 29% of Prague-resident households own a recreational home.

perceived to be much worse than in Slovakia (Názory občanů, 1989). The obvious reason for dissatisfaction was that people's expectations, inspired by the Western model, developed faster than the slow pace of improvements.

The implicit wish to improve material conditions and catch up with Western consumption standards was a very strong motivation behind the demonstrations in November 1989 and subsequent events. The biggest display of confidence in the widely acclaimed Prime Minister at that time was the rallying cry, "Za Komárka, koruna jako marka" ("With Komárek, the Czech crown will be as strong as the German mark").<sup>3</sup> This proposition may have seemed impossible at the time of the revolution, but the consumption boom did indeed start and the purchasing power of the Czech crown (CZK) against Western currencies strengthened continuously thereafter. In fact, the strength of the CZK grew by about 40% between the beginning of 1991 (ECU) and the end of 2008 (EUR).

## 11.2 Emerging capitalism: how much the better?

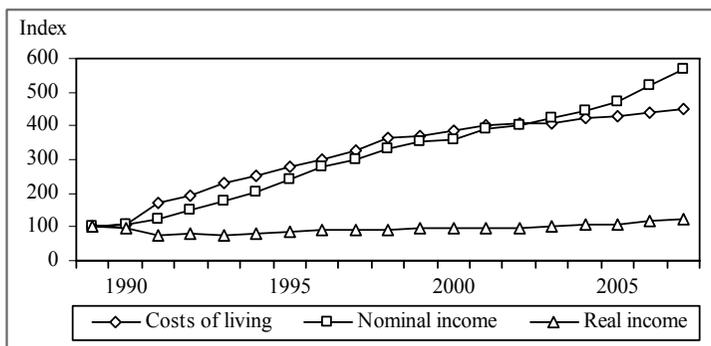
In early 1990, even before the official programme of economic reform commenced, open-air markets were already flourishing and began to compete with state commercial enterprises. After its somewhat ridiculous, bazaar-like beginnings, the private retail trade expanded and profoundly and extensively changed the character of the consumer market. Actual consumer markets began to emerge with the liberalisation of the prices of most goods. Price liberalisation had two outcomes. On the one hand, it placed a sudden burden on households, which virtually overnight faced higher prices. On the other hand, the former gulf between the price of food and the price of other goods disappeared, and a variety of goods at various prices made much wider consumer choices possible.

Although the "supply shock" was broadly welcomed, it was countered by rising prices. Data on real income differ according to the source. According to the index produced by the Czech Statistical Office (CSO), real consumer expenditures dropped sharply in 1991, and began rising again, so that the level of real purchasing power that existed in 1989 was only reached again in 2003 (Figure 11.1). Microcensus surveys reveal only slightly better results and indicate that the level of purchasing power in 1989 was regained in 2002. However, the National Accounts statistics show that purchasing power 1989 was surpassed in the mid-1990s and by 2005 was 25% higher than in 1989. This finding corresponds with Eurostat figures, though they only go back to 1995 (Eurostat, 2008d, Table 4.3).

The information from the self-reported financial well-being of Czech households can also be somewhat confusing. A standard question about personal financial welfare was posed in the Economic Expectations and Attitudes (EEA) surveys conducted between 1991 and 1998, and one was also included in surveys conducted in 2001 and

<sup>3</sup> The economist Valtr Komárek, Director of the Forecasting Institute of the Czechoslovak Academy of Sciences (established in the late 1980s as a hidden base for preparing a Czech "perestrojka"), was popularly encouraged to take the position of Prime Minister in November 1989. Later, he became Deputy Prime Minister responsible for economic reform. His abstruse concepts were replaced with what Václav Klaus referred to as the "market without adjectives".

**Figure 11.1**  
**Nominal and real income 1989–2007 in employee households**  
**(index, 1989 = 100)**



Source: Ministry of Labour and Social Affairs using CSO data.

**Table 11.1**  
**Making ends meet between 1991 and 2007 (%)**

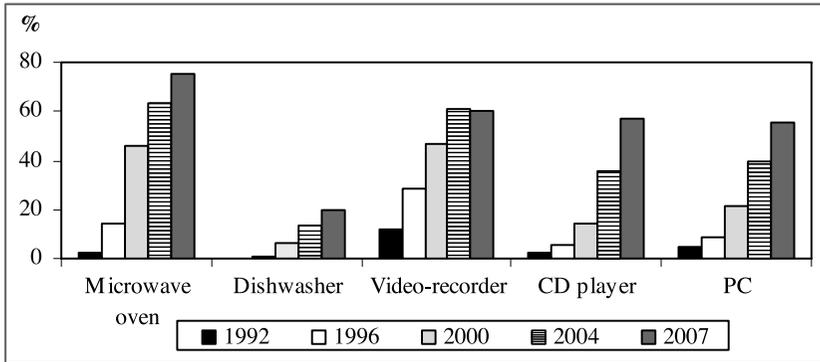
Household can make ends meet	1991	1994	1996	1998	2001	2005	2007
With great difficulty	10.8	9.5	8.5	7.5	15.5	10.1	7.5
With difficulty	20.6	19.9	17.1	18.1	25.6	19.4	19.3
With some difficulty	39.6	38.9	37.6	36.8	37.4	37.7	36.5
Rather easily	21.8	22.1	25.5	27.3	16.0	22.2	25.5
Easily	5.7	8.2	8.7	7.7	4.5	9.2	9.8
Very easily	1.5	1.4	2.6	2.6	1.0	1.4	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: EEA, Social Situation of Households 2001, Living Conditions 2005 and 2007. (author’s computations in the first section, CSO data in the second section).

since 2005 by the CSO. EEA surveys report that there was a sharp increase in financial difficulties until mid-1991, but afterward a systematic decrease in financial problems during the 1990s. Statistical surveys provide a less optimistic picture. In 2001, 41% of households declared financial difficulties. However, this percentage had fallen to 29% by 2005 and to 27% by 2007 (Table 11.1). Unlike 2001 figure, recent figures are more realistic and the continuing drop in difficulties can easily be attributed to rising real income and decreasing unemployment in the early 2000s. Obviously, the methods applied in the sociological and statistical surveys were different.<sup>4</sup>

<sup>4</sup> There are important differences between the EEA and statistical surveys, which relate to the size of the sample and observation units. While in the former the observation unit was an adult person (samples about 1000 persons), in the latter it was the household (samples in thousands of households).

**Figure 11.2**  
**Equipment of households with consumer durables 1992–2007 (%)**



Source: Statistical Yearbooks.

These conclusions based on the “objective” statistical data and the reported “subjective” evaluations of 2001 and 2005 are both challenged by the index of consumer confidence (as surveyed by the CSO since 1998), which has been increasing steadily in the long term: from 68 points in January 1998 to a high of 107 points in March 2007, followed by a drop to 87 points in November 2008 (in comparison with the 2005 average). Another indicator, albeit not one that can be as precisely measured, is the booming retail market and the explosion in the number of supermarkets, hypermarkets, and discount stores, of which the Czech Republic has proportionally more than any other post-communist country.

The rise in the possession of durable goods should also be reported here (Figure 11.2). Ever since the influx of “dream goods” in the early 1990s, the market in modern durable goods such as freezers, microwave ovens and video recorders has been booming. Information on household electronics purchases suggests that appliances are frequently upgraded. Personal car ownership has also risen rapidly. While FES data point to a stable percentage of car ownership in the population, statistical data on purchases tell the opposite story. The explanation for this discrepancy is that for tax purposes many people with their own businesses transfer car ownership to their company. In fact, the number of personal cars increased from 230 per 1000 inhabitants in 1990 to 440 in 2008 (Statistical Yearbooks).

There may be two reasons for the discrepancies between observations of this consumption boom and the statistics on real income: household income is underestimated and inflation is overestimated. Self-reported household income data, as documented in statistical surveys since 1990, may be considerably underestimated, and there is little “fully objective” data to correct the self-reported data. One source is National Accounts, which refer to the total expenditures of the population. Although large-scale statistical surveys on household income are roughly adjusted to other data sources, there is a steady decrease in their coverage against National Accounts figures: from 86% in 1988 to 76% since 1996 (see the Appendix to Chapter 5).

Another possible source of correction is retail trade statistics: for instance, while retail trade takings between mid-2001 and mid-2006 (net of inflation) rose by 20 percentage points, the change in real income according to the FES was negligible during this period. However, such statistics are not available for the entire period since 1990.

Statistics on inflation are not fully reliable either, as they tend to overestimate the actual rise in prices. Jan Hanousek and Randall Filer (2000, 2001) collected information on various sources of bias in measuring inflation in transition economies, which they found to include: 1. consumer substitution, 2. outlet substitution, 3. quality improvement, 4. new goods. They then used an empirical survey to examine the overstatement of inflation resulting from the fact that the improvements to quality are not taken into consideration. Focus groups of customers were required to estimate the inflation of various goods. A comparison with the Consumer Price Index (CPI) shows inflation to be overstated by more than four percentage points a year during the 1990s. The authors conclude that the real growth in transition economies has been in fact higher than suggested and the increase in living standards has manifested itself through better quality rather than greater quantities of goods consumed.<sup>5</sup>

The shopping basket of the real consumer has changed fast, but the official CPI has been slow to follow these changes; for instance, the last change in the structure of the CPI in January 2007 only occurred after the index had been stable for six years. Moreover, the inclusion of more expensive items – such as student scholarships, medications, and foreign cars – is expected to increase inflation by up to one percentage point compared to former calculations. Higher taxes on fuels and higher excise taxes on cigarettes and tobacco will produce the same effect. Inflation is expected to rise despite the fact that, due to the strengthening exchange rate of the Czech crown against the euro and the US dollar, relative prices of imported goods are lower and competition between various retail chains has been pushing prices down, so much as to negatively affect the quality of food in particular.

The propensity to consume is documented by decreases in savings rates and growing indebtedness. While in the mid-1990s Czechs were among the thriftiest nations (with a 14% gross household saving rate in 1995), the inclination to save has steadily declined since then and is currently below the EU-15 average (the savings rate in the Czech Republic was 8% in 2004, and 5% in 2007). At the same time, household debt rose from 3% of GDP in 1997 to 19% in 2007. Three-quarters of bank loans are for housing. However, the official figure on household debt does not include loans provided by non-financial institutions, which are estimated at about the same level as bank loans for consumer items. In fact, households are subjected to marketing pressure from banks and other institutions, which compete with each other to give consumers easier access to various forms of credit (Report on Financial Stability, 2006). “Quick and easy loans” in particular often end with the seizure of property: there were 270 000 in 2005, 309 000 in 2006, and 428 000 in 2007.<sup>6</sup>

<sup>5</sup> On the other hand, the CPI does not include the costs of purchasing and reconstructing flats and houses, which are considered as investment and not consumption. As economist Pavel Kohout warns, such a permanent underestimation of inflation endorses free monetary policy which eventually inflates housing prices to a prohibitive level. This again puts an extreme burden on young couples starting out, and has a negative effect on fertility (“Inflation, Flats and Fertility”, *Lidové noviny*, 3 November 2007).

**Table 11.2**  
**Arrears in payments and the financial burden of households in 2005 (%)**

Social category	Arrears in payment					Financial burden		
	Rent	Energy	Mort- gage	Loans	<i>Any of them</i>	Hous- ing	Loans	<i>Any of them</i>
Lower-ranking employee	5.2	7.0	1.2	4.0	11.2	26.2	11.7	31.7
Self-employed	5.6	5.4	0.2	3.4	10.0	16.6	9.8	22.4
Higher-ranking employee	3.2	4.9	1.3	2.7	7.4	16.3	6.9	20.3
Pensioners with EA persons	3.0	6.3	1.4	1.3	9.0	19.0	7.5	21.9
Pensioners without EA persons	2.0	3.3	0.0	0.5	4.1	26.2	1.9	26.6
Unemployed	23.3	23.4	0.8	6.0	34.6	53.7	11.5	55.9
Total	4.9	6.2	0.8	2.6	9.5	23.8	7.3	27.2

*Source:* Living Conditions 2005 (author's computation).

*Note:* The first section shows the percentage of households declaring that they had not been able to make some payments in the past 12 months. The second section shows the percentage of households declaring that the payment represents a heavy burden for them.

Economists console the public by comparing Czech figures to the much higher rates of household debt in the West (54% of GDP in the Eurozone in 2006). In the Living Conditions 2005 survey, 23% of households reported having a consumer debt, and of them, 27% felt it was a heavy burden and 61% only a "burden". As much as 11% of households with loans reported being in arrears in paying credit instalments during the past 12 months. In reality, however, loans are not the main component of household debt. Much more significant are the number of people in arrears in the payment of rent and especially in the payment of utility bills. In total, nearly one-tenth of households declare being arrears in at least one area, and 27% say that financial payments represent a considerable financial burden (Table 11.2).

From the evidence at hand we cannot precisely say how the first nearly two decades of re-established capitalism affected the standard of living of Czechs. Despite some negative figures mentioned above, the new regime apparently brought about an improvement for the majority of the population. The Czech Republic and Slovenia are the only countries among the new EU Member States in Central and Eastern Europe (the EU-8) where respondents declared a positive shift in life satisfaction between the early and late 1990s. These two countries also have the largest share of the population who are satisfied with their lives. Nevertheless, there is still a substantial gap be-

<sup>6</sup> The total yearly interest rate offered by some agencies reaches a percentage in the dozens and is topped by penalties for delayed payments. The problem is that Czech legislation regulates usury only between physical (not legal) persons. No interest rate ceilings are set; instead, loans should be limited only by the general concept of behaviour, which is "at odds with good manners".

**Table 11.3**  
**Household expenditures between 1990 and 2005 (%)**

Expenditure	All households				Pensioner households			
	1990	1995	2000	2005	1990	1995	2000	2005
Food and beverages	25.7	25.4	21.4	20.6	39.7	35.8	28.2	26.9
Alcohol, tobacco	4.5	3.8	3.4	2.9	4.3	3.6	3.3	2.9
Clothing, footwear	11.4	8.7	6.2	5.6	7.5	5.2	3.8	3.5
Housing	9.7	13.7	19.8	20.1	12.8	19.4	24.8	27.7
Household	9.3	8.5	7.7	6.7	7.4	6.5	6.8	6.3
Health services	0.4	1.4	1.5	2.0	0.8	2.0	2.5	3.2
Transport, communication	12.6	11.9	13.2	15.7	7.8	8.1	9.8	11.8
Leisure, education	11.9	11.4	10.4	10.6	9.0	7.5	6.9	8.0
Catering and hotel	4.5	4.5	4.4	5.1	2.1	2.2	1.9	2.5
Other	10.0	10.7	12.0	10.7	8.6	9.7	12.0	7.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* Family Expenditures Surveys (CSO tables).

tween the old and the new EU Member States: 60% of people are satisfied in the EU-8 and 67% in the Czech Republic, compared to 80% in the EU-15.<sup>7</sup>

### 11.3 Family budgets: less spending on food and more on housing

In line with the changes in relative prices, market supply, and household income levels, the profile of family consumer expenditures has also changed. The main differences are decreasing expenditures on food and clothing, following the relative fall in prices, and rising expenditures on housing. The increase in housing costs significantly reflects the rise in energy prices, which has been substantial, unlike rent, which for at least one-third of households has been regulated. In concrete terms, the share of the household budget spent on food and beverages declined on average by five percentage points between 1990 and 2005, and the same occurred for clothing. In contrast, the share spent on housing rose by ten percentage points (Table 11.3).

Pensioners' households saw more striking changes than what occurred on average. The biggest change was again the rising cost of housing, which doubled. There is a trade-off between expenditures on food and spending on housing; taken together, they

<sup>7</sup> Here comparative data presented by János Kornai (2006) are used. The original sources are World and European Values Surveys and Eurobarometer surveys. The EU-8 includes the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

account for more than one-half of a pensioner's budget. Another necessary cost is health care, in particular the cost of medicine, which has grown from being a minor personal budget item into a substantial financial burden for this particular household category. The rapid increase in the price of services and restaurant fare has put such items largely beyond the reach of pensioners. In contrast, the price of clothing and footwear has been kept low owing to the existence of cheap bazaars and open-air markets which are now rapidly disappearing.

As the prices of many goods have changed the distribution of expenditures on different food items has consequently altered. In comparison with the pre-1989 period, Czechs today consume less meat, fat, milk, and sugar, and more vegetables, fruit, potatoes, and cereals. This change in diet contrasts with the planned priorities of the communist regime revealed in the price subsidies that were applied until 1989. Whereas meat and fat were negatively taxed and thus supported, almost no subsidies were provided for fruits and vegetables. Such "dietary norms" reflected the high value the working class placed upon a traditionally heavy diet. Simultaneously, the consumption of all stimulants (e.g., coffee and tea) and alcoholic beverages has increased while expenditures on cigarettes have decreased.<sup>8</sup>

Given the relative nature of consumer habits, it is not easy to situate the consumer spending of Czechs in a comparative context. Various price structures and various types of consumption in kind also limit the comparability of data on monetary expenditures. The most recent – if not the only sufficiently harmonised – comparison of national FES data across the entire EU, provided by Eurostat, refers to 1999 (see Table A9 in the Annex). Considering the changes over time, "East" and "West" have certainly become more alike. Budgetary structures were evidently less dissimilar between countries in the late 1990s than around 1990 and the core adjustment occurred in the higher costs of housing in the transitional Eastern countries.<sup>9</sup>

Nevertheless, it is difficult if not impossible to refer to Czech family expenditures as already shaped by some imaginary "Western pattern". While in the southern EU-15, expenditures on food account for more than 20% of the household budget, in the most advanced Western European countries (e.g., the Netherlands, Denmark, and Luxembourg) the figure is only 15%. Similar divergences can be observed in housing costs: while in the less developed EU-15 costs are relatively low, in Germany and Denmark housing expenses account for more than one-fifth of the household budget. However, housing costs are also high in new EU Member States: in Poland and Hungary, they amount nearly or equal to one-fifth of the household budget. "Necessary spending" on food and housing thus represents one-half of all expenditures in Hungary and up to 55% in Poland.

<sup>8</sup> This change in diet, caused by price liberalisation, the better supply of foodstuff, and much wider information about a healthy lifestyle, has evidently contributed to a significant increase in Czech life expectancy. Between 1989 and 2007, life expectancy for men at birth rose from 68.1 to 73.7 years and for women from 75.4 to 79.9 years (Statistical Yearbooks).

<sup>9</sup> This refers to the previous study which included a comparison of household expenditures in the East and the West based on Czech FES and Eurostat comparative tables from the early 1990s (Večerník, 1996a, p. 133).

The share of the household budget that goes to food expenses in the average Czech family budget is about equal to that in Spain (and similar also to Italy, Portugal, Greece, and Ireland), and it is significantly larger than the share observed in Western European countries and the UK. At the same time, housing expenses are very high in the Czech Republic. While in countries such as Germany, Austria, and France, the large budget share devoted to housing reflects the high quality of housing, the main reason for high housing costs in the Czech Republic is energy prices, which have been increasing at a sharp and steady rate. Expenditures on housing for Czech families surpass those in Spain and other less developed European countries.<sup>10</sup>

In the other two CEE countries for which comparative data is available, family budgets are more heavily burdened by food expenditures than in the Czech Republic: in Hungary by 3.5 percentage points and in Poland by 9 percentage points. The pattern of expenditures in the average Hungarian household is close to that of pensioners in the Czech Republic. The relative expenditures on food in the Czech Republic are like that in southern European countries, corresponding to their lower overall purchasing power. However, the Czech experience is different with regard to housing costs, which are much lower in southern Europe given that home ownership is more common and spending on energy is lower. If imputed rent is also taken into account, housing costs are much higher everywhere, reaching 25–30% of family monetary expenditures (Czech data on family budgets including imputed rent are not available, however).

The structure of the average family budget is not sufficient in order to be able to assess how much Czech households have moved in the direction of Western expenditure patterns. Given that there are various levels of real overall spending, real amounts of consumption also differ substantially and the distance between CEE countries and the EU-15 may be considerable in some regards, though probably not as great as some simple calculations suggest.<sup>11</sup> There is also inequality between CEE countries in consumption as measured by income disparities – which are the lowest in the Czech Republic and the highest in Poland (see Table A6 in the Annex). Although Czech income inequality figures are among the lowest in Europe (together with Sweden), they have increased substantially since 1989 (see Chapter 5).

CEE countries are nonetheless very dynamic societies. Between 1995 and 2005, real consumer spending increased by 55% in the Czech Republic and by 90% in Hungary and Poland (Eurostat, 2008d, Table 4.3). Household budgets are transforming towards less immediate and more long-term consumption. This does not necessarily mean more consumer discretion. In all these countries, increasing rents combined with steadily and

<sup>10</sup> Owing to rent regulation and other specific conditions, the cost of housing varies widely among Czech households. However, families living in new apartments are less likely to be part of the survey sample, while families subletting apartments and paying much higher rents are not at all represented in the FES sample.

<sup>11</sup> The hypothetical timeline for when CEE countries would draw even with Western Europe in terms of GDP was estimated in the early 1990s as 38 years for the Czech Republic, 46 years for Hungary and 72 years for Poland (Wagner and Hlouskova, 2005, p. 367). The authors rightfully called the estimates as “necessarily uncertain”.

rapidly rising energy prices are pushing up the costs of housing. On the other hand, greater competition in the food, clothing, furniture, and electronics retail trades is keeping price levels down. All this affects differences between countries regarding the ability to make ends meet which are considerable (see Table A7 in the Annex).

#### **11.4 Consumer society: clients and agencies**

Findings about the dynamics of consumer purchasing power in the Czech Republic are confused when different sources of data are taken into account. In contrast to the somewhat pessimistic statistics on household income, in last decade family expenditures appear to be expanding and consumer confidence seems steady growing until late 2008. In contrast to the gloomy subjective assessment of household conditions, the statistics on retail spending point to new highs in levels of consumer spending. Economic journalists speak of a “consumer revolution” in the country. And a category of “nouveaux riches” has emerged and drives luxury consumption.

Whatever the case, there are enough clients of the consumer society in the Czech Republic and plenty of energetic agencies behind it. Here we can remind ourselves the question about who is more powerful – the clients-consumers (in George Katona’s original interpretation) or the agencies-suppliers (in Vance Packard’s presentation). The latter opinion also reminds Jean Baudrillard’s (1970) statement that consumer society is driven not by the needs and demands of consumers but by excessive productive capacity. We could say that there are forces inherent in globalisation that shape consumers in a way similar to that in which major religions influenced their believers in ancient times (Dechant, 2008; Sheffield, 2006; Nešpor and Václavík, 2008).

The client who feeds on and advances the mass consumption society is the customer who spends beyond necessity, one who possesses a “discretionary income”, which means household resources that are relatively freely disposable once basic needs have been met. In terms of social stratification, such behaviour corresponds with the expansion of the middle class. On a mass scale, the powerful consumer first appeared in the USA in the 1950s. George Katona argued that, as early as 1961, “two out of every five American family units belonged to the ‘discretionary-income group’, and they controlled more than one half of all personal income”. He defined this group somewhat loosely as earning between (at that time) 6 000 and 15 000 USD before taxes (Katona, 1964, p. 9).

To avoid making such a rule-of-thumb estimate for current Czech conditions, useful reference can be made again to the subjective question about household financial difficulties or well-being. Table 11.1 above shows that nearly 40% of households report a sense of more or less positive well-being with regard to their family budgets. Nevertheless, this percentage may even be higher. Table 11.4 shows that the satisfaction of basic needs is achieved even in households that report that they have “some difficulty” making ends meet. Buying food and paying heating expenses are not too difficult for these households, but they face some limitations regarding clothing and holidays. Arrears in rent and other housing related payments are reported by only one-tenth of households, mainly those with the biggest financial difficulties.

**Table 11.4**  
**Affordability of commodities and services and household debt in 2005 (%)**

Household can make ends meet	Household can afford				Arrears in	
	Meat	Clothing	Heating	Holidays	Rent	Energies
With great difficulty	45.4	28.5	68.4	7.9	25.4	27.5
With difficulty	66.8	42.8	83.8	29.3	6.8	7.9
With some difficulty	84.1	68.9	91.4	60.8	1.9	3.8
Somewhat easily	95.9	89.1	97.7	85.0	1.4	1.9
Easily	98.3	92.3	97.8	90.3	0.3	0.9
Very easily	100.0	98.5	100.0	100.0	0.0	1.9
Total	81.0	66.8	89.2	58.0	4.9	6.2

*Source:* Living Conditions 2005 (author's computation).

*Note:* The first section shows the percentage of households declaring that they cannot afford

- a meal with meat, chicken, or fish every second day (if they so wished)
- to purchase new clothing rather than second hand
- to keep the home adequately warm
- a one-week annual holiday away from home

The second section shows the percentage of households declaring that they could not pay some of the payments in the past 12 months.

The distribution of the population by declared financial difficulty in 2005 can be found in the last column of Table 11.1.

It is important to keep in mind that people often consider their current situation to be worse than it objectively is and worse than how they will eventually see it retrospectively. In this respect, a surprising result was found in the Living Conditions 2005 survey in the responses to a question on the perceived financial conditions of the respondent's family of origin when the respondent was 12–16 years old. The financial situation of the respondent's background family was commonly perceived in retrospect as having been better than current conditions. No significant differences between age cohorts or generations were found that would reflect a slow but steady improvement in the standard of living since the gloomy 1950s, when the standard of living was extremely low. This signals that there is a negative bias to the perception people have of their current situation.

The expanding and intensively fuelled consumer society has thoroughly and, in some ways paradoxically transformed the lives of individuals and societies. Despite affluence and the variety of goods and services, lifestyles are becoming more uniform, at least by specific groups of the population. The steady increase in the personal use of powerful means of electronic communication has made individuals more

isolated. Despite having sufficient time, space, and means to pursue various leisure activities, most people remain passive. And despite rising education levels and the multiple sources of knowledge available to encourage critical thinking about social forces, people are increasingly manipulated by external machineries, by marketing in particular. The powerful consumer is thus becoming rather powerless.

Once it had conquered the patterns of material consumption in advanced societies, consumerism also went on to permeate the fields of culture and even religion. There is a reciprocal relationship between consumption and religion. On one side, spiritual goods are explicitly advertised as consumer goods, easily available, and ready-to-use. On the other side, and implicitly, through the supply of large varieties of goods and services, producers and suppliers are encroaching on more and more areas of human life, including the assumed “spiritual” ones. In the 20th century, print advertising has abandoned the word for the visual image, playing more to emotions than to common sense (Miller, 2003).

There is little explicit sociological critique of consumerism in the Czech Republic. The sociologist Jan Keller (1993 and 1998) has masterfully compiled and communicated arguments and facts published by Western authors on the topic, but without adding much local evidence. With a focus on local Czech experiences, the most important published work is that of the “environmental humanist” Hana Librová (1994 and 2003), who studies examples of “green” lifestyles, which she sees as ranging from the orthodox to the moderate and compromising. She has discovered that in the sea of conventional mass culture there are numerous islands of alternative lifestyles, which have specific motivations and manifestations.

Consumer advocacy has emerged and strengthened over time. The main Czech organisation is the Association of Consumer Protection (Sdružení ochrany spotřebitelů – SOS), which was established in 1993 and publishes the bi-monthly Consumer’s Shield (Štít spotřebitele). The number of consumer complaints grew in 2006 to 34 000 (doubling from 2005). An SOS-related news called Testoviny, is broadcast three times a week on Czech public TV. In the political arena, the Act on Consumer Protection is to be amended by a European directive that precisely defines unfair trade practices. The Czech environmental movement also encompasses numerous organisations. At the political level, the Green Party, which has been represented in the national government since January 2007, supports various activities to protect the environment.

At the opposite end of these civil society and political movements to protect consumers and the environment, there are agencies promoting consumer society that are already as strong in the Czech Republic as elsewhere. Let us list several examples:

- *Auto manufacturers and distributors.* With Škoda-Volkswagen, TPCA, and the new Hyundai plant, the Czech Republic has become a powerhouse in this industry, and vulnerable to its volatility. Regarding car ownership, 200 000 new personal cars were registered in 2007 alone.
- *Multinational food chains.* The first two supermarkets opened in 1991 and the number of them quickly mushroomed. In 2006, there were 1126 shop-

ping malls, which is the highest figure in Central Europe relative to the population.

- *Mobile network operators.* Three are well established operators (Telefónica O2, T-Mobile, and Vodafone) and a fourth (U:fon) has seen steep growth rates since starting up in May 2007. Sales of mobile phones peaked in 2004 and in the years since sales rates have been only slightly lower (three million phones used by ten million Czechs).
- *TV Nova.* This private television station was established in 1993 by a circle of intellectuals who promised to offer TV with strong cultural, educational, and European components and a large proportion of original Czech programme content. Once the broadcasting license was issued, the owners, CET 21 (Central European Television for the 21st Century), transferred broadcasting to the “service company”, CNTS (Czech Independent Television Company), which offered a lot of trashy productions instead and taking 70% of all money spent on television advertisements in 2006.
- *Banks and financial institutions.* While in the early 1990s, banks were interested only in big clients, they recently turned to small clients and increasingly pander to them with offers of credit. In addition to banks, there are many other credit providers, who use various tricks to attract customers.

The list of pro-consumption agencies is very long if not endless. However, the consumer society not only creates agents of influence of its own, it also shapes the agencies held over from traditional society, such as churches and voluntary associations. The agents of consumerism use their unequalled comparative advantage: the spontaneous, mass cooperation of customers, who voluntarily delegate a great deal of their assumed sovereignty to their assumed servants, the providers. The question of who is more powerful, clients or agencies, would thus seem easy to answer. Promoting ever-increasing customer satisfaction is a magic formula that obscures the fact that agencies cut off ever-larger slices of the market “pie” and thus amass more power with which to shape society on a global level.

## 11.5 Conclusion

Consumption is a vast world of immense variety. Consequently, perspectives on consumerism differ by discipline and viewpoint. The conventional economic paradigm presents consumption as a straightforward rational process of satisfying pre-defined and exogenous needs, ordered by a hierarchy of preferences. “The economic approach [...] assumes that individuals maximise their utility from basic preferences that do not change rapidly over time, and that the behaviour of different individuals is coordinated by explicit and implicit markets” (Becker, 1981, p. ix).

In contrast, the sociological view emphasises the status-building and social-symbolic meanings of consumption, driven by the double engine of belonging and distinction. Commodities are not merely characterised by use-value and exchange value, but also by sign-value – the expression and mark of style, prestige, luxury, and power

(Baudrillard, 1970). The anthropological view sees material goods as an information system (Douglas and Isherwood, 1979). Yet the environmentalist view emphasises the material implications of consumption, in terms of the burden on nature and consequences for sustainability (HDR, 1998). Moreover, the contrast between public and private life should be stressed, since consumer society “consumes the polis” (Arendt, 1958).

A basic conflict exists between libertarian support for the consumer society, with its view of the “natural status” of things, and consumerism’s critics. Libertarians consider consumer desires quite a natural manifestation of freedom and the sovereignty of choice, while critics consider such desires to be an artificial creation. This criticism was the original argument of Theodor W. Adorno and Max Horkheimer of 1944 on the “culture industry” (2002), which was made widespread by John K. Galbraith (1958), who spoke about the stimulation of artificial needs to boost sales. Since Vance Packard’s time, criticism of consumer society has developed substantially and the literature on the topic is immense (see, for instance, Goodwin, 1997; Schor and Holt, 2000).

Notwithstanding such criticism, the attraction of consumerism has proven to be pervasive worldwide and has particularly taken hold in societies that experienced communist “planned scarcity”. After decades of shortage, Czechs now express great satisfaction with this strongly alluring aspect of the post-1989 transformation. Economic growth in the Czech Republic and the other CEE countries was increasingly being driven by household consumption (Transition Report, 2006). On the ladder of CEE countries, Czech households are well situated in terms of their relative discretionary spending ability. They are also in the lead among countries with regard to perceived improvement in household wealth since 1989 (Transition Report, 2007).

It is also important to consider the powerful “backing agency” of the mass consumption society – the state. Spending beyond individual financial means and disregarding possible future problems are behaviours often enabled by the fact that people expect the state to provide security in times of financial troubles, just as they feel confident about old-age security. Together the welfare state and consumerist attitudes contribute considerably to a shortening of time perspectives in the sense that faith in government assistance attenuates – if not eliminates – the need to think ahead to old age and future generations. People fundamentally rely on the state, which is expected to intervene when necessary, including compensating for their irrational behaviour.<sup>12</sup>

In the past decade, the consumer market transformed itself profoundly in the Czech Republic and other CEE countries, and in turn it profoundly transformed the appearance and functioning of national economies, societies and individual lifestyles. In some areas, apparent niches were filled. For instance, hobby markets in a way support activities of the kind of “do-it-yourself” that the citizens in communist countries were

<sup>12</sup> This was the case of financial cooperatives that attracted clients with interest rates of up to an unbelievable 20%. Although they did not have the status of banks and they were poorly regulated, in 2000 the government decided to compensate cheated clients in the same way they had in the case of regular banks, the number of which has been otherwise multiplying without adequate control since 1990.

already accustomed to do, in particular home repair and improvement. Shops oriented towards youth or particular sub-cultures, or with ethnic specialties or luxury goods, feed the search for status distinction. However, much more than just niches were filled.

Consumer society has changed the whole physical and social landscape of post-communist countries. Shopping malls are springing up across the Czech Republic, most recently starting to invade cities with as few as 50 000 inhabitants. In everyday life, consumer society has become simply “the air we breathe”, as George Orwell once said. The consumer society conquers new fields, areas, and groups. As Benjamin Barber (2007) noted, in order to turn reluctant consumers with few unsatisfied core needs into permanent shoppers, producers must dumb them down, shape their wants, take over their life worlds, encourage impulse buying, and invent new needs.

The population in the Czech Republic and neighbouring countries entered the paradise of the consumer society with great enthusiasm. Czechs are often even forced to pay more for consumer goods with a lower level of quality than in Western countries, typically food. Czech customers thus often try to avoid local markets by shopping for textiles, toys and electronics in neighbouring countries or on the internet. The level of cross-border shopping in the Czech Republic is higher than the average for the EU-27, but the total amounts spent are still rather low according to the Eurobarometer survey (Eurobarometer, 2008c). Local news reports have noted that Czechs are more and more buying food in Germany.

The evidence also shows that people already feel fed up with the supply and marketing: four-fifths of respondents of a 2007 survey of the agency Respond & Co were opposed to the construction of new shopping malls. Customers seem to be increasingly disgusted by the profusion of advertising: TV ad viewership has decreased on average from 600 000 adults in 2003 to 370 000 in 2007. And traditional culture has not disappeared in the consumer paradise: the number of books published in the country continuously increases (a record 18 520 titles were published in 2008, the highest share of which was fiction, and children’s literature). As for “consuming the polis”, Czechs do not think to have a say at the top political level, but they are increasingly confident of their influence within their communities (CVVM surveys).

All in all, the resistance to manipulation may become stronger after some saturation and in particular with the hindsight of lessons learned from experience with the temptations of excess consumption. However, the requirements of economic growth inhibit both sustainable economic development and the long-term priorities of fostering society’s human and cultural potential. Since the economizing response to negative expectations can exacerbate an economic recession, leading world economists recommend fixing problems by increasing state expenditures and motivating people to continue spending. The economic growth and consumer society are apparently connected vessels.

## 12 Economic culture in transition

The communist regime dealt with the economy and society as though they formed one big and strictly hierarchically controlled factory. Although the regime was unable to assert all its goals in reality, the mere effort had a disastrous effect on the shape and functioning of society. Instead of asserting the virtues of personal responsibility and good work, people were drawn to the opposite extreme, that is, to the routine performance of tasks, and the enforced ceding of responsibility to “those at the top”. Ideology and politics dominated over economic and social life, which were supposed to be subordinate to higher state (or so-called international, but de facto Soviet) interests. In contrast, the higher needs of individuals could be met – if at all – with difficulty, with a waste of energy, and sometimes even risk taking.

In contrast to the collectivistic and statist thinking that prevailed under communism, the main driving idea behind the transition process was the liberal concept that it is the individual who, in the pursuit of personal benefit, makes the greatest contribution to the overall well-being of society. Wide acceptance of this type of reasoning can be seen as a reaction to the decades of existence of a command economy and Marxist collectivist doctrine. Neoclassical economics (the antithesis of the Marxist political economy) was declared the only right stream of economics, and gained considerable legitimacy when it became the explicit economic doctrine of the ruling elite that established itself in 1992. In conformity with the pendulum principle, the relentless intrusion of the previous regime into people’s private lives was replaced by a concern – sometimes exaggerated – about interference in individual discretion.

It is hard to describe the change that really occurred. One reason is that “communist” society was never analysed in its depth. Little is known about its impact particularly on the everyday life of people and the functioning of institutions, both formal and informal. The regime’s legacy and the survival of rooted habits is therefore unpredictable. The other reason is that there is almost no reliable means of measuring changes in the subtle area of values. The distinction between communist and post-communist society was drafted only in terms of assumptions, declarations and expectations. Consequently, in some respects there may have been less of an actual change than we assumed (owing to a hidden path dependency), while in others a more thorough change may have occurred than we expected (as a result of limited knowledge of the past and thus little possibility of comparison).

In this chapter, we will begin by talking about the simplistic assumptions of the early phase of transition and some possible ways to reach a more realistic reflection of so-

cietal change. Second, we will describe the patterns of economic behaviour during the transition and some of the ways in which the behaviour asserted by the communist regime resembles the assumptions of mainstream economics and “neoclassical virtues”. Third we will outline several key concepts of economic thinking and their ambiguity across regimes. Fourth, we will examine the impact of EU accession on economic values in the Czech Republic and CEE countries. In conclusion, the question of a true change in values during the transition will be tackled.

### 12.1 Beyond economic assumptions

Neoclassical economics became the predominant theory of the early economic transition. But like any simplistic approach, it stands on too many assumptions and thus returns an insufficiently realistic picture of reality. Amitai Etzioni forged the concept “neoclassical behaviour” as a synthesis of materialist, rational, and individualist behaviour that is not embedded in social structures. The market order is regarded as the natural state of society and market behaviour is considered universal. In transition, it would seem then that one need only remove the barriers that communism erected against free market behaviour and a quality deeply rooted in the nature of the humankind would re-emerge and spread to everyone’s advantage.

Mainstream economic theories deal with model behaviour and formal dependencies, not with real human characteristics, interests, and networks. There are various alternative socio-economic theories, which offer a more realistic picture of human behaviour determined not just internally, by rigid hierarchical preferences and rational choice, but also externally, by the socially shaped patterns and values of the narrow (local, professional, age- or ethnic-specific) communities and the wider society. Three of the many such theoretical perspectives we can present are the ever inspiring socio-anthropologic approach of Karl Polanyi, the compliant complementarist approach of Amitai Etzioni, and the radical holistic approach of Pierre Bourdieu.

Karl Polanyi identified two different dimensions of economic life: 1. the substantive aspect, which includes the institutionalised relationships between individuals and their social and natural environment, and 2. the formal aspect, which traces the choice between alternatives in conditions of the scarcity of resources, thus aiming to determine the logical relationship between means and ends. Neoclassical economics substitutes the formal aspect for the whole of economic life – Polanyi calls it the “economistic fallacy” (Polanyi and Arensberg, 1957). In contrast with the neoclassical concept of the free market as the natural state of the economy, Polanyi argued that “there was nothing natural about *laissez-faire*” and that the *laissez-faire* economy was the product of “deliberate state action” (Polanyi, 1944, pp. 139 and 141).

For Amitai Etzioni, the neoclassical approach is right, but one-sided, and so it needs to be complemented by another perspective. His socio-economic paradigm states that: 1. people pursue not one but at least two irreducible directions of utility and have two sources of evaluating them: pleasure and morality; 2. along with rational deliberations, people often make non- or sub-rational choices, primarily because they build on their normative-affective foundations and only secondarily because they have weak or

limited intellectual capabilities; 3. not individuals, but social collectives are the prime decision-making units. “The more people accept the neoclassical paradigm as a guide for the behavior, the more their ability to sustain a market economy is undermined”, concludes Etzioni (1988, pp. 4 and 257).

The holistic approach of Pierre Bourdieu is rooted in Max Weber’s view, where the economy is closely interwoven with culture and the social structure. Bourdieu is uncompromising about neoclassical economics, as he considers “*homo oeconomicus*” a completely scholastic fallacy. Instead, he introduced the concept of *habitus*. “*Habitus* is a socialized subjectivity [...] Rationality is bounded [...] because it is socially structured and determined” (Bourdieu, 2000, pp. 258–259). Another of his concepts is the “field”, which includes various networks and capitals, the instruments and ends of human action governed mostly by power relations. Against interactionism, which stresses networks (Granovetter, 1985), Bourdieu advances structural analysis, which is richer and sophisticated, but simultaneously less easy to operationalise.

This approach is not completely new. Before neoclassical economics became widely accepted by the main decision-making bodies (but more in the form of a general theory than as a cookbook for use in practice), the embedded structures and behaviours were a standard component of economic analyses, whether by applying it as a historical dimension (in the German historical school of economics) or as a legal approach (in the *Ordo Liberalism*). After “*homo oeconomicus*” – a fully rational being with a given hierarchy of preferences – was forged and ushered in, the social structure could be pushed out; and with it also the historical, social and psychological factors (even irrational) disappeared from the stage, while only one, summary, utility function remained, mostly identified with material gain.

To simplify things, we can compare Karl Marx’s and Joseph Schumpeter’s concept of capitalism and the capitalist. Marx believed that the capitalist is just an attribute of capital, a sort of “*apprenti sorcier*” serving its insatiable profit-seeking, with no regard for ethics or community. For Schumpeter, the capitalist was an active player and a moral personality. The key category is not profit (re-invested to seek more profit) but innovation (for broadly conceived economic development): “First of all, there is the dream and the will to found a private kingdom [...] Then there is the will to conquer, the impulse to fight, to prove one self superior to others, to succeed for the sake, not for the fruits of success, but of the success itself [...] Finally, there is the joy of creating (Schumpeter, 1912, cited in Burt, 1993, p. 91).

Unlike Karl Marx’s iron dialectics of production forces and production relations, Joseph Schumpeter – like Max Weber before him – saw the birth of capitalism as lying in values.<sup>1</sup> Regardless of whether this theory is true or false, some value aspect is rooted in the market system as a product of human civilisation. However, in formal economics this is suppressed. It is as if the history of humankind were just a pre-history to the ultimate and perfect emergence of the market economy, the only form

<sup>1</sup> In Max Weber’s (1930) view, it was mainly Calvinism, since it set earthly success as the only remedy to the anxiety over salvation that arises from the unknown destiny of each human being. No miracles or sacraments, but progress in the material field, through hard work and accumulation without consumption, was to be offered as proof of God’s presence in the earthly world.

that corresponds to human nature. This was also the underlying thesis of the transition: all that is needed is to allow people to return to a state of normality which would benefit all of society.

However, there is nothing natural, universal or constant in human society. Not only the rules of formal economics matter, so does economic culture. As Paul DiMaggio notes, “economic processes have an irreducible ‘cultural’ component and this should be narrowly defined, in contrast to the generalized ‘culturalist’ approaches” (DiMaggio, 1994, p. 27), which may even lead to subsuming of all transformation processes to a comprehensive cultural concept.<sup>2</sup> I too prefer a more narrow definition of economic culture as involving shared cognitions, values, and norms that relate to the economic behaviour of individuals, firms and institutions. Their legal and ethical framework can be included in the middle range.

## 12.2 Legacies of the past

Czech society had two important resources to draw on in the re-introduction of capitalism. The first was the long history of capitalism in Bohemia and Moravia, which from the 19th century had been one of the most highly industrialized European countries. The second potential resource were the habits that developed under the communist regime, either intentionally (demanded by the command economy) or unintentionally (alternative survival strategies under specific constraints). Mainly the first of these legacies was assumed to become an important source of the recovery of Czech capitalism. However, it seems that in reality the second legacy prevailed. The framework has changed – first and foremost ownership relations – but more habits from the past have survived than expected.

Fortunately, the legacy of the communist regime is not completely disastrous. On the one hand it was not successful in implementing its main principles as deeply in society as it wanted to, and it did not fully manage to eliminate the “bourgeois hangovers” regarding education, culture, family and community life. Family ties remained strong despite the doubled burden of women. Most teachers still maintained the ethos of the previous era and tacitly passed it on to their pupils. On the other hand, the unintended result of the economy of scarcity was that it fostered an adaptable, ingenious behaviour in individuals and families, which enabled their survival in modest material and cultural conditions. A rather low level of specialisation and expertise was compensated for by universality and adaptability, albeit somewhat autodidactic in nature.

Despite its great effort, the totalitarian system did not succeed in creating a “new man” in either the positively idealistic sense or a negatively demoniacal form. No “Homo Sovieticus” entered the scene as the antidote to normal humanity. What did happen was the concentration and nourishment of the common human defects found

<sup>2</sup> Katherine Verdery sees the economic transition and its components as part of a large cultural project or a “[...] project of cultural engineering in which fundamental social ideas are resignified – including not only democracy, markets and private property, but also ideas about entitlement, accountability, and responsibility [...]” (Verdery, 1997, p. 103).

anywhere in the world where the civilisation process failed or just slowed down: selfishness, envy, ruthlessness, and pragmatic clan behaviour. However, not everything can be blamed on situational factors – as, for example, Robert J. Shiller, Maxim Boycko and Vladimir Korobov (1992) believe – whose eventual removal would bring people’s attitudes and behaviour automatically back to “normality”.

If “communist man” never did take shape, this does not necessarily mean there are no traces of him whatsoever to be found. The fact that for decades vice was rewarded and virtues punished naturally left deep scars in the mentality of the people and in the patterns of behaviour transferred within the family and society. Surprisingly, when the system and its related behaviour is observed “from within” instead of “from without”, there is no strict opposition between “neoclassic behaviour”, as constructed by mainstream economics and described by Amitai Etzioni, and the real economic behaviour under communism. Some elements of economic behaviour inherited from the communist regime (emerging partly in opposition to communist ideology itself) may, paradoxically, be seen as parallels of neoclassical assumptions.

Let’s look at several stylised examples of how inherited habits could appear appropriate for the new conditions.

### *Individualisation*

The communist system uprooted or at least significantly weakened inter-personal relations and destroyed the rooted meaning of concepts such as nation, community, or professional community, replacing them with the mechanical and administrative relations of the individual citizen to the state. Family ties were reduced to the nuclear family and inter-generational assistance. By repressing former social structures and destroying the networks of civil society, individuals became at once isolated and “liberated” from social relations. This is in accordance with the assumptions of the classical-economic perspective.<sup>3</sup> However, individualisation also means the dissolution of individuality and the subordination of a person to higher order, be it political or economic.

### *De-moralisation*

In their effort to remove the attributes of “bourgeois society”, which were seen as a threat to the new regime, the communists destroyed the moral foundation of human behaviour. Not only the functioning of churches but also all other associations concerned with moral behaviour were oppressed in favour of a state monopoly on education through an aggressive atheist indoctrination and the prattling teachings of so-called socialist patriotism. In ideological terms, the task was to harmonise the “superstructure” of values and institutions with the “material base” of production forces and relations. Also this is in accordance with the concept of neoclassical behaviour, where morals are essentially endogenous to the market, not exogenous.

<sup>3</sup> The founder of classical economics, Adam Smith, was an advocate of the atomisation of social life, going so far as to accuse merchants of associating only in order to conspire against their customers (Granovetter, 1985, p. 484).

*Materialisation*

According to Marxist doctrine, the primary motivation behind human behaviour and the development of society is the satisfaction of material needs. The economic structure (the relations of production) represents the basis of all social life, while both legal and moral norms are seen as only produced or derived from this basis. They form a secondary “superstructure” which has but little autonomous life and no real capacity to bring about fundamental changes. The primary role of the economy and material needs is common to both neoclassical and Marxist thinking, although they differ in their assumptions. While for the first everything is “objectively” given and anchored in the laws of history, in the second people are free and make decisions, ruled only by their own preferences, displayed in the market.<sup>4</sup>

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Nevertheless, social reality was largely a contradiction of communist doctrine. At odds with the rhetoric of collectivism and social justice, public resources were driven by predatory behaviour. Clans were formed and networks developed on different levels and in various areas of state power and in the distribution of scarce goods and services. The most important social capital was to be involved in those clans and have good acquaintances in shops, administration, and schools. Concealed behind the overt, extensive equalisation, the ruling class and its servants enjoyed privileges in cash and kind. Among the ostensibly homogeneous masses, a world of nuanced social differences evolved. While theft of state “socialist” property was legally regarded as the highest crime, in their everyday behaviour people followed rather the principle “he who does not steal from the state, robs his family”.

In the 1960s the regime began to shift from its – apparently hopeless – offensive strategy to a defensive one, for the sake of its very survival. It relaxed its pressure and allowed a private variation of lifestyles, conditional upon public loyalty to the regime. This was a furthering of what János Matyás Kovács and Violetta Zentai described the “Janus-faced cultural stereotype” of the communist regime, which involved “state paternalism and informal markets, public ownership and private redistribution, central commands and decentralised bargaining, overregulation and free-riding, collectivist economic institutions and individual (or family-based) coping strategies, apparatchik and technocratic mentality, learned helplessness and forced creativity” (Kovács and Zentai, 2007, p. 9).

The CEE countries differed substantially in this regard. The post-1968 Czechoslovak “normalisation” regime was harsher than the others, and thus the informal economy developed less in the country. Compared to Hungarians and Poles at the time, Czechoslovakians were also much more isolated from the West. With the Soviet occupation, any remaining spontaneous enthusiasm for communism evaporated, and

<sup>4</sup> Of course, we cannot ignore the fact that economics is increasingly defined as the science of scarce resources, regardless of their nature. The best example is the writings of Gary S. Becker, who pushed neo-classical precepts to transcend the economic sphere (Becker, 1976 and 1981). However, the materialism of “mainstream economics” prevails and is explicitly stressed in the textbook of Paul A. Samuelson and William D. Nordhaus (1989, p. 4): “Economics is the science of acts which have to do with the production and exchange of material goods”.

private life became dominated by a pragmatic outlook and hypocritical behaviour. This was accompanied by greater flexibility of skills and a readiness to profit from a given situation and by more calculating behaviour on the edge between the formal and informal sectors. Dissatisfaction with the regime was attended by the widespread adoption of its worst behaviours.

The early transition, starting in 1990, took a somewhat ambiguous course. On the one hand, the sudden appearance of freedom enabled and inspired a free exchange of opinions and ideas. Formerly suppressed structures and organisations emerged and developed their activities. Education, skills, and personal responsibilities became much more important than before and were rewarded in earnings and prestige. On the other hand, instead of new entrepreneurship, the transfer of property – with its huge corruption potential – established itself as the main creator of wealth. Clientelism thus became very important for promotion and enrichment. With the institutional and legal framework somewhat weak, strong actors whose roots were grounded in the past were advantaged to the detriment of new small actors.

The processes of individualisation, de-moralisation, and materialisation were able to continue and develop during transition. For instance, an explicit manifestation of individualisation was that young people began to postpone marriage and having a family. De-moralisation had a very negative effect on the privatisation process, which was to a large extent controlled by cunning insiders and ruthless speculators. Materialisation was hugely supported by the entry of mass consumption and all the machinery of marketing manipulation. In the entrepreneurial arena, Marx's "apprenti sorcier", and even more so Veblen's "pecuniary man", interested only in the acquisition of wealth, could easily triumph over the Schumpeterian "innovative entrepreneur", interested in creative production.

### 12.3 Key concepts and their varieties

No society has a beginning or an end. None can be constituted from scratch on the basis of a limited set of principles or guidelines. It is always a living and thus continuing organism led by various values and interests, all of them in flux. Behavioural culture develops in vertically ordered circles, ranging from everyday conduct to the highest moral values, with frequent interaction between individual levels. So it is too with the various concepts that guide the perception of reality and human behaviour, whether explicit or implicit. As in the economy, so, too, in society there are not just formal but also substantive processes, which involve not the very tangible aspects of behaviour and values. They relate to the perception of such key concepts as time, wealth, work, and the state.

#### *The concept of time*

With its ideological roots in Marx's political economy and the labour theory of value, the communist regime was basically past-oriented, from the way in which it stuck to every word of the classics written a century earlier, to the planning of production around coal and iron as the main resources of alleged progress. As noted above (see

Chapter 7), the adoption of the Marxist concept of the value of a good – as something objectively determined by manual labour performed in the past – had far-reaching consequences in terms of historical developments and real life under socialism. It legitimated all expropriations and thus broke the continuity in building productive and financial capital of families. Also, the system of a command and planned economy did not consider any innovation, only quantitative increases in the same production.

The concept of capitalism – if there is any general – is not clear in this sense. We have to distinguish between “original” (production-driven, accumulative) and “modern” (consumption-driven, overdrawn) capitalism. Instead of the early focus on deferred gratifications, the temporal horizon was considerably shortened by the expansion of consumer society. The proper mass consumer is like the “homo oeconomicus” of neoclassical economics: he has no past and no future. Instead of saving and building firms, immediate spending is preferred. Therefore, innovation in production, distribution, and services became the main source of profit. However, since human capital is becoming more important than physical capital, the related investments are particularly valuable for the future, specifically for education and for the assets accumulated for old age.

### *The concept of wealth*

Under communism, people were deprived of most wealth (as opposed to the original plans to be deprived of all wealth at all).<sup>5</sup> The renewal of Czech market economy has emerged not out of continuous accumulation but out of rapid privatisation. This is a historically new situation. In contrast to the Schumpeterian capitalist, those who became owners were mostly people without close personal ties to their property and assets. This even applied to the many heirs to restituted family property, and especially to most privatisers, including members of former networks who managed to maintain contacts with administrators or became insiders in the privatisation process. The dispersion of ownership through the distribution of vouchers to all citizens was quickly succeeded by the huge concentration of property.

The ease with which property was acquired often determined how it was then used. A considerable amount of privatised property was used for asset stripping instead of production. This helped give the new wealth a partly bad image in public opinion as something undeserved and abused, and quite in compliance with how it is portrayed in communist ideology. “Controversial entrepreneur” emerged as a new term and established itself in the Czech media. This vague concept implied that dubious means involving secret contacts and networks were used to acquire extensive personal wealth. Although this way was not overwhelming procedure, it took the shine out of privatisation. The liberals were blamed for turning a blind eye to law-breaking during the process, while rejecting the assumed “criminalisation of entrepreneurs”.

<sup>5</sup> In post-1948 Czechoslovak legislation, the distinction between “personal” and “private” ownership was introduced. For instance, only family houses up to a given size could be tolerated as “personal” property, while for larger houses (those few not expropriated) property rights were extremely limited and all gains were burdened with a heavy tax.

*The concept of work*

In the communist shortage economy, people had to combine various coping strategies. Usually, they took on the double burden of a “first shift”, meaning their regular jobs starting early in the morning, and a “second shift” performed in afternoons and evenings. For men, this meant housing construction and repairs, moonlighting, or gardening work. For women, the second shift usually involved household chores, which were quite strenuous in times of tight family budgets, queues to buy goods from shops, and the absence of any available domestic services. For the most part each of the two shifts was performed at a separate time and place. Whenever possible, workers tried to minimise their efforts during the first shift to save strength for work to be done in the second. If any break in the first shift was possible, it was most often used to seek goods and services.

During the transition, an increasing number of jobs did not allow such distractions (but did provide better remuneration instead). However, it is still quite common for people to have a second job or some source of additional income: while labour statistics do not confirm this, it is confirmed by the numbers of business licenses and in sociological surveys. Most business licenses are used for secondary employment, and even people in top professions, like university professors, tend to combine several part-time jobs. The amount of bricolage has decreased, but it is still more common in the transition countries than in the West. Unlike in communist times, primary and secondary activities more often overlap, especially if the positional capital of the main job can be put to use for some additional profit.

*The concept of the state*

Although the communist regime was able to find enough loyal and even zealous collaborators, for the absolute majority of citizens the state was the enemy, and their preferred – or for many the only acceptable – response was to “exit” in the sense put forth by Albert O. Hirschman.<sup>6</sup> Nevertheless, this only occurred within the confines of what was possible, and was more discreet than open in nature, given the relentless oppression and the ubiquitous loyalty-enforcing apparatus. In any case, for most of the population the biggest larcener was seen to be the state, which implicitly granted legitimacy to fraudulent behaviour and small cheating on the part of individual citizens. How much “private small expropriation” of the “main large expropriator” actually went on depended on how much control existed over working hours and materials.

Although the return to democracy was expected to bring a resurrection of the “voice” (in Albert O. Hirschman’s understanding), this was not necessarily the case. Exaggerated hopes about new justice and morality necessarily had to fail. The conviction among citizens that they have a “voice”, which was quite strongly felt in the early years of transition, has gradually since decreased. People feel they have some voice

<sup>6</sup> This is a reference to Albert O. Hirschman’s (1970) concept, which can be applied to any organisation or form of human groupings, such as a nation. People have two essential options – exit or a voice. Employees can quit their unpleasant job or express their concerns. Citizens of a country may respond to political repression in two ways: emigrate or protest. In fact, people were only rarely able to emigrate from communist countries, and so the applied form of exit was “internal emigration” within the limits of the possible.

on the local level, but not on the national political level (CVVM surveys). Notwithstanding this, the range of expectations from the state is large in the aftermath of the paternalism of the communist state, which guaranteed jobs and social security. In view of this, people are very critical of the state, considering it stingy in social areas but wasteful in others, and thus again they employ the option of “exit” by avoiding taxation and ignoring rules.

The change in regime does not appear to have brought about a complete turnaround in any of these outlooks. The two regimes have contrasting features, but also overlapping areas. Above we mentioned the “Janus face” of the communist regime, which in reality was very far from its earnest ideology, if not often its exact opposite. On the other hand, despite the fact that contemporary capitalism has retained some of the qualities of its origins, it is by no means an embodiment of its Weberian (or any other) ideal type. Instead of entrepreneurship, the consumer orientation dominates; instead of accumulation, credit is heavily used for investment; and instead of professions that fulfil some important mission, there are types of jobs that just serve the individuals to secure their well-being.

In this sense, the convergence of the two industrial systems – the capitalist and the so-called socialist societies – which was one of the leading theories in the 1960s (started by W.W. Rostow, 1960) was not a myth, even before the collapse of European communist regimes. In both, whether by push or pull, people abandoned the long-term perspective (immediate consumption increasingly dominated over savings and investment), property rights removed in the East became more and more blurred also in the West (the rights of the anonymous shareholder replacing those of the responsible owner), work was performed increasingly just for money, and the welfare state was expected and required on both sides of the Iron Curtain, removed in 1989. Obviously, the processes differed regarding their roots, speed and purpose.

#### **12.4 The EU dimension**

The accession of the Czech Republic to the European Union in May 2004 was the biggest event in the state’s short history. If it was not exactly about joining “Europe” (which the country never left), it was about gaining inclusion in the political and economic family of Western Europe. The connections and repercussions of this should be treated in the broad perspective of time and areas. The specificity of “Europe” with regard to its social generosity and cultural diversity is noted in contrast to the United States (Rifkin, 2004). Nevertheless, Europe is culturally very heterogeneous and also the EU has become even more heterogeneous with the last two enlargements. As Ralf Dahrendorf noted (2005, p. 420), “first and foremost, Europe is a variety”.

The issue of the superiority of Europe or the US is a matter of dispute. Against Jeremy Rifkin’s and similar arguments, Olaf Gersemann (2004) argues that the greater market freedoms in the US create a more flexible, adaptable, and prosperous system than the declining welfare states of Europe. However, the eruption of the financial crisis from the US shed new light on the difference between presumably

“sclerotic” Europe and “flexible” America. Richard Sennett has otherwise noted the unwillingness of Americans to act on what tends to be seen as a US advantage: “A stereotype holds that Americans are aggressive competitors in business. Beneath this stereotype lies a different, more passive mentality. Americans of the middling sort [...] have tended to accept structural change with resignation, as though the loss of security at work and in schools run like businesses are inevitable” (Sennett, 2006, pp. 9–10). In “varieties of capitalism” approach (Hall and Soskice, 2001), the distinction is made between the “coordinated market economies” of continental Europe and the “liberal market economies” of the US and UK. Other authors point out that nothing like a European/American opposition actually exists (Ash, 2004).

If we accept rooted patterns, the influence of both America and Europe were of importance during transition. János Matyás Kovács called the post-communist region “Little America”, referring to “[a] low share of public ownership in industry, banking, and housing, emerging forms of ‘managerial capitalism’, privatized pension schemes, non-progressive tax systems and decreasing tax burdens, a low rate of unionisation, permissive hire and fire regulations, a high degree of social polarization, lax rules of environmental protection [...]” and further “the style of entrepreneurship (reckless rivalry, informal business-making, under-regulation), propensity for self-exploitation, individualism and self-reliance, suspicion toward the state” (Kovács and Zentai, 2007, pp. 10–11).<sup>7</sup>

In the Czech Republic there was certainly lot of “Americanism” in the approach of the leading right-wing party, ODS: the stress on self-reliance and personal success and unregulated private property. Rapacious businessmen found the door open, state control over the transfer and concentration of property ownership was only nominal. The Commission for Securities to oversee the financial market was not established until 1998, at the end of the ODS’s rule. On the other hand, in contrast to original intentions of establishing a residual “social safety net”, ODS maintained a generous social policy and rent regulation. Also, the delayed privatization of the biggest banks, benevolently financing former state enterprises, served to nourish employment and consequently also social peace.

The attempt to identify the shared European values was made by the Reflection Group on the Spiritual and Cultural Dimension of Europe convoked by former European Commission President Romano Prodi. A group of experts headed by Krzysztof Michalski worked in 2004–2006 and concluded that there is no fixed list of European values, since new enlargements have added more Member States that have significant economic and social differences. Nevertheless, a common “European cultural space” does undoubtedly exist, but as a process rather than a deal. While the old sources that drove European unification are no longer sufficient, new sources of energy must be looked for and found in Europe’s common culture. European unity must rest on a European civil society (Reflection group, 2006).

In what are referred to as European values in political documents, the accent is on the social dimension. The “official definition” states that “[n]ational economic and so-

<sup>7</sup> For more on the concept of “Little America” that developed in post-communist countries in the early transition, see Kovács, 2002 and 2007.

**Table 12.1**  
**The impact of the EU on employment and social policies (% positive answers)**

Policies	Czech Rep.	Hungary	Poland	Slovakia	Austria	EU-25
Minimum standards	71	68	78	69	69	70
Job opportunities	74	74	80	87	65	72
Reducing disparities	61	70	75	80	60	64
Best practices	73	73	80	75	68	68
Access to education	86	81	84	85	76	79
Promoting dialogue	58	68	67	66	57	64
Fighting exclusion	69	75	71	74	66	71
Promoting equality	75	74	79	79	70	76
Combating discrimination	75	73	76	78	69	75
Coordinating reforms	59	69	67	71	59	64
Average	70	72	76	77	66	70

*Source:* Eurobarometer, 2006a (European employment and social policy, May-June 2006).

*Question:* “Please tell me to what extent you think the European Union has a positive or negative impact on each of the following employment and social policies:

- Setting minimum standards for working conditions throughout the EU.
- Creating new job opportunities and fighting unemployment.
- Reducing regional disparities in unemployment.
- Exchanging best practices in employment policies among the Member States of the EU.
- Improving access to education and training.
- Promoting dialogue between employers and trade unions.
- Fighting against social exclusion and poverty.
- Promoting equality between women and men.
- Combating other forms of discrimination.
- Coordinating the reform of national systems of social protection (pensions, healthcare, etc.)”.

cial policies are built on shared values such as solidarity and cohesion, equal opportunities and the fight against all forms of discrimination, adequate health and safety in the workplace, universal access to education and healthcare, quality of life and quality in work, sustainable development and the involvement of civil society [...] European citizens have greater expectations of the state than their equivalents in the Asia or America. The public sector tends to play a big role, either through regulation or government spending [...] There is a strong tradition of social dialogue and partnership between governments, industry and trade unions” (European values, 2005, p. 4).

In marked contrast with this definition of European values set out mostly in social terms, the *Acquis communautaire*, and most of what followed during the EU accession process, was articulated in the more economic and very tangible terms of price

**Table 12.2**  
**Key values are best embodied by Europe or other countries or both (%)**

Question	Czech Republic	Hungary	Poland	Slovakia	Austria	EU-27
<i>Social equality and solidarity are best embodied by:</i>						
Europe	51	44	47	46	62	53
Other countries	6	10	9	13	6	7
Both	33	32	33	32	26	29
<i>Entrepreneurship is best embodied by:</i>						
Europe	26	21	31	19	27	28
Other countries	15	15	22	21	14	18
Both	55	55	38	54	52	44
<i>Progress and innovation are best embodied by:</i>						
Europe	27	26	27	23	33	30
Other countries	14	12	25	16	10	17
Both	56	58	39	55	51	45

Source: Eurobarometer, 2007 (European cultural values, February–March 2007).

Question: “For each of these values, please tell me if they are best embodied by Europe, by other countries (or groups of countries) in the world, or by both?”

and tax levels, comparative wages, job opportunities, competitiveness, legislation and business regulations, labour markets, and social and environmental protection. Shop-floor vocabulary also dominated before the Czech referendum on accession held in June 2003, and value-based rhetoric was rare. This is quite understandable since most of the population obviously does not care about the general socio-cultural frameworks of work and life but cares instead about jobs, income, and consumption. In this sense Czechs seem more pragmatic than other CEE nations.

Some of the important aspects that define European values are the subject of the opinion surveys conducted by the Eurobarometer.<sup>8</sup> In the spring survey of 2006, questions were posed about the European Union’s impact on employment and social policies (Table 12.1). About 70% of all respondents assessed this impact as positive: in the first round this assessment pertained to access to education and also to the promotion of the equality of women and men, combating discrimination, the creation of job opportunities, the improvement of working conditions, and so on. In fact, the differences between countries are greater with respect to how people assess the negative impact of the EU rather than the positive. Overall, citizens of the new Member States are more confident in the EU than comparatively citizens of Austria are. Czechs are somewhat more critical, in contrast to Poles in particular.

<sup>8</sup> Eurobarometer is the Public Opinion Analysis sector of the European Commission, established in 1973 to monitor public opinion in the Member States on major topics concerning European citizenship. See [http://ec.europa.eu/public\\_opinion/index\\_en.htm](http://ec.europa.eu/public_opinion/index_en.htm).

In early 2007, the Eurobarometer asked Europeans about the values that they believe ought to be preserved and reinforced in society. Emphasis on such core values as peace and respect for nature were followed by strong appreciation for social equality, freedom of opinion, and tolerance. In contrast, entrepreneurship and innovation scored much lower (Table 12.2). The question that followed was whether these values are best embodied by Europe or other countries (but without specifically highlighting the Europe/US contrast). Expectedly, social values are seen to be more European, but surprisingly, more citizens in the old Member States felt this than in the new Member States. Only a minority of respondents felt entrepreneurship and innovation are better embodied by Europe.

Regarding opinions on culture in general, Czechs – and Slovaks – appear to occupy a unique position within the European Union. First, they out of the EU-25 populations believe most that “Europe is clearly the continent of culture” (Eurobarometer, 2007a). Second, they believe most that common European values do exist, not just global Western values. They are the most strongly convinced that “in terms of shared values [...] EU Member States [are] close to each other”. Consistent with the conviction that European values are specific, they less than others view globalisation processes as an opportunity for intercultural exchange (Eurobarometer, 2008a).

A local comparison over time of the opinions of Czechs on the usefulness of European integration and the population’s support for European values reveals some diminishing confidence in the values of solidarity, tolerance, justice, and equality that were highlighted during European integration, as opposed to the enduring values of cooperation and democracy (Table 12.3, sections one and two). In spite of the majority’s continued appreciation of the usefulness of the EU in all main areas, attitudes towards EU membership are somewhat ambivalent. Although satisfaction with it prevails over dissatisfaction, 45% of the people is unable to express a clear attitude on this (CVVM, April 2008).

In the long run, however, the percentage of people with a positive attitude towards European integration has been increasing (from 30% in 2005 to 40% in 2008). The generally positive attitude contrasts with the weak belief that EU decisions are in the interest of people like the respondents: two-thirds of people are sceptical or unsure about this (Table 12.3, section three). In some aspects, Czechs are “only” just as critical of the rules applied in the EU as their Western counterparts, so in other words they do not share the enthusiasm of other newcomer countries. One recent survey (Eurobarometer, 2008a) recorded that the views of Czechs on the transparency of EU institutions match the EU average (26% of positive answers), which is in contrast to the stronger positive perception in other new Member States.

Opinion polls are certainly useful, but are somewhat superficial. They suffer from the hastiness of the collection process and the simplicity of data processing, which produces only frequencies, without looking more deeply into the consistency of opinions and how they are determined by the socio-economic, political, and other characteristics of respondents. An important attempt at in-depth analysis was pursued in the project “Dioscuri” headed by János Matyás Kovács and Violetta Zentai. It focused on the economic culture in transition countries and examined cultural encounters be-

**Table 12.3**  
**The application of values in the EU and the usefulness of European integration (%)**

Question	October 2002	April 2005	April 2006	April 2007	April 2008
<i>1. The application of selected values:</i>					
Cooperation	72	.	68	60	72
Democracy	73	.	75	70	72
Solidarity	63	.	56	48	55
Tolerance	51	.	49	44	47
Justice	45	.	37	33	38
Equality	41	.	32	27	36
<i>2. The usefulness of European integration in the field of:</i>					
Ecology	78	.	70	70	76
Culture	70	.	68	69	74
Defence	71	.	74	68	71
Politics	59	.	55	53	60
Economy	60	.	63	47	57
<i>3. The belief that EU decisions are in interest of people like the respondent:</i>					
Certainly believes	.	5	3	2	3
Somewhat believes	.	32	29	25	31
Does not believe too much	.	39	45	49	41
Does not believe at all	.	16	15	20	17
Does not know	.	8	8	4	8
Total		100	100	100	100

Source: CVVM surveys.

- Questions* 1. “Do you think that the following values are currently applied in the EU?”  
 2. “In your view, is European integration beneficial or harmful?”  
 3. “How much do you believe that EU decisions are in the interest of people like you?”

tween the “East” and the “West” in three fields – entrepreneurship, state governance, economic knowledge – studied using a combination mainly of qualitative methods.<sup>9</sup>

The project correctly notes that the West and the East are “discursive constructions rather than sociological realms”, and that economic cultures do not constitute “simple externalities to wise policy making”. The research found that, in areas of entrepreneurship and the generation of economic knowledge, the reaction to cultural challenges was faster than in the field of governance and public administration. In

<sup>9</sup> The project “Eastern Enlargement – Western Enlargement, Cultural Encounters in the European Economy and Society after the Accession” (under the acronym Dioscuri) was carried out in 2004–2007 as part of the Specific Targeted Research Projects of the European Commission’s 6th Framework Programme. It involved a qualitative observation of economic culture in four Central-East European countries (Czech Republic, Hungary, Poland and Slovenia), four countries of South-Eastern Europe (Bulgaria, Croatia, Romania and Serbia/Montenegro) and two “test” Western countries (Austria and Germany).

the latter, more resilience and explicit resistance, and even barriers to spillover effects were found. The results of the project are not presented by countries (only large regions were compared), and thus the authors refrained from identifying individual countries in the Central and South Eastern Europe as pioneers or laggards.

The research also uncovered a complex within-country differentiation. Besides “Westerners”, two groups of local actors were found – “Westernised Easterners”, and the remaining “Easterners” – a tripartite cultural space was thus identified. The flow of values applied is not just one-way (transferring the Western norms and ethos to the East), since the third group, the “Easternised Westerners”, have learnt to take advantage of clientelism, corruption, and undue privileges in business. This runs counter to the expectations that a higher entrepreneurial culture could easily be imported. In some cases the parallel dynamics of two cultural encounters were identified: “On the surface there is convergence, whereas at the bottom there is growing differentiation in terms of modelling actions according to Western or some transnational or global sets of values” (Kovács and Zentai, 2007, pp. 68–73).

Unlike the seemingly simple but in fact ambiguous results of opinion surveys, in-depth observation provides a complex picture. Living cultures are not clearly distinguished by country and area. Changes “for the better” are as possible as changes “for the worse”, and, moreover, cultures vaguely defined before are in flux as a result of their endogenous development and especially owing to the growing extent of mutual interaction. It is not just regime-specific, nation-specific or region-specific economic cultures that disappear; in the era of globalisation large regions of the world are losing their specific character. Since economic cultures are no longer mutually exclusive in space, there can be no leap or barrier in values between the communist and capitalist regimes in time.

Obviously, the EU value added, in terms of applied values and economic culture, is the most difficult area to evaluate and measure, unlike, for example, concrete programmes of cohesion policy or social inclusion, even though these are difficult to monitor, too (see Chapter 3). The drive for quality education, lifelong learning, research, development, and innovation is certainly important. The same is true of improving conditions for small and mid-sized entrepreneurs. All these things are primarily a matter of national legislation and institutions, but they are also supported by general value climate which is influenced by “Europe” in a great deal.

## 12.5 Conclusion

Economic culture is an issue that raises more questions than it generates answers. It refers to the less tangible aspects of economic behaviour, and values which affect the performance of companies and the overall functioning of the state administration, but also the daily behaviour of people as workers and consumers. The EU adjustment process widely coincided with the general process of transition from a communist regime. While formal rules can be transformed rapidly, their enforcement can still be weak. Similarly, institutions can be easily renamed and reorganised but the main aspect of their commitment – which is closely value-related – may suc-

cessfully resist change. There is in fact no way of measuring how much of this process has been accomplished given that the distinctions between regimes and time periods are blurred. Such distinction are further evaporated when the institutional environment becomes more harmonised, different cultures influence each other, and there is an growing influx of immigrant workers and citizens.

On the surface, the Czech Republic is increasingly coming to resemble the West. It possesses all the necessary institutions and regulations (however late some of them may have arrive), the markets are buoyant, and the schools are producing more people with higher education, and so on. Multinational companies have substantially shaped the country's cities and urban landscapes. But transforming job-holding (the hours spent at the workplace) into an efficient work performance is a more complicated process. The same is true of the quality of education, the effort to transform academic credentials into a self-strengthening pursuit of knowledge, and the conversion of public institutions into efficiently functioning bodies. Both the push (the enforcement of rules) and pull (the adoption of values) forces should work in tandem here.

When asking whether the change in regime brought about a true value change, we must avoid gravitating towards extremes, either by completely overlooking the change that has occurred or by viewing the situations before and after the transition as entirely different. Without underestimating the changes that occurred, it must be acknowledged that it is difficult for values to truly change. An observation of Pierre Bourdieu is inspiring here: "Basic economic dispositions like needs, preferences and propensities – towards work, savings, investment, etc. – are not exogenous, i.e. dependent on universal human nature, but endogenous, i.e. dependent on history, which also represents the economic cosmos in which they are required and re-compensated" (Bourdieu, 1997, p. 51, *author's translation*).

However, this concerns basic socio-economic values rather than current economic preferences and propensities. Indeed, it is very difficult to change values just from without. First of all, it is necessary to mobilise internal forces, which should nonetheless also draw their strength also from external sources. There is the question, however, of how much Western capitalism can still serve as a model now that, as the 2008 financial crisis showed, Veblen's predatory "pecuniary man" has won such a resounding and ruthless victory over Schumpeter's industrious "conquering entrepreneur". Instead of Schumpeterian "creative destruction" generated by entrepreneurs, "destructive creations" fabricated by financiers are what drive the current economic events.

# Conclusion:

## The challenges of the future

As noted in the Introduction, the topics dealt with were to a large extent determined by the availability of survey data. The selected themes are, therefore, more taken to exemplify several areas than they are pieces inserted into a predesigned systemic and comprehensive picture of society. Such a picture might otherwise vary endlessly. The Czech sociologist Miloslav Petrušek (2006) inventively compiled a dictionary of more than one hundred labelling frameworks used to describe “later-age societies”, beginning with “the active society” and ending with “the wasting society”. All of them are, of course, qualitatively defined.

However, social reporting is primarily quantitative in nature. Indicators matter here and therefore the absence of relevant data creates a problem. However, though it is possible to define a fixed set of indicators that can be used to provide information in the fields of political science, economics or the environment, it is nearly impossible to determine which of them are of key relevance in socio-structural and socio-cultural terms. For some important phenomena (values at large) there are no reliable indicators at all. Therefore, there is no way to describe society in all its breadth and depth and multi-level long-term dynamics in quantitative terms.

The obverse question is whether those areas that realistic indicators cover well are indeed the very areas most crucial to the shape and development of society. In other words, are we truly pursuing in statistics, surveys and the social sciences in general what really lies at the core of a given state of affairs in society and its sources of change? A problem in social statistics is the lack of multidimensionality and requisite descriptive detail. Sociological surveys face the problem of sample limitations. A problem in the social sciences in general is that the theoretical frameworks are not comprehensive enough to correspond to the complexity of social reality. One could even say that the more straightforward the hypotheses and thus the more easily they can be verified, the less revealing they may be about the variety of the sources and levels of social change.

Unlike the economy, where performance can be relatively accurately expressed in terms of material product or financial yield, and unlike politics, where there exist basic criteria of efficient governance, society is a somewhat intangible entity. Its fluid character means that some people believe it consists only of individuals and their mechanical or interest groups. But it is also apparent that individuals share a certain

ethos in common, follow external behavioural impulses, and respect certain limits, all of them of a broader, societal nature. And despite the increasingly mass and atomised character of society, there is something more to it that remains and persists: society as a social and cultural community that shares common interests and also as a structured framework of social groups that share a particular lifestyle.

Similarly, the development of society is not marked by the kind of fundamental milestones or dividing lines that can be found in political history, which proceeds from one big event to another, or economics, which views things in cyclical optics and from the perspective of economic growth. Although society naturally responds to both politics and the economy, it evolves relatively independently of both. It contains richer sources of change, which affect it concurrently, usually progresses at a slower pace, and functions with greater variety on its different levels. Periods of change in society are longer, sometimes historical or generational. Change can also be understood as the act of selecting particular behavioural patterns from a reservoir of possibilities and advancing those behaviours that best support and correspond to the opportunities that arise from the given circumstances.

This also applies to the changes set in motion in 1990 that were supposed to reintroduce the market, democracy, and civil society, the implementation and cultivation of which would benefit the well-being and culture of the population. But there is no preordained harmony between these two components of the modern advanced society. As I wrote ten years ago (Večerník and Matějů, 1999, pp. 295ff), it is not clear to what extent the market and democracy – as expressions of human freedoms in the economic and political spheres – were perceived as real challenges, that is to say as objectives that are difficult to achieve and maintain. Instead it was presumed that democratic habits and fair market behaviour are innate to every human being, particularly to people in a country with deep democratic and capitalist roots. However, both the market and democracy are fragile human creations that cannot function smoothly without additional investment from the value sphere, too.

In the rare moments of national unity shown in 1989–1990, it may have seemed as though the Czech people were ready to forget their self-seeking habits. But that was only an illusion, and the egoistic elements in society quickly resurfaced. Whether it is democracy or the market, none lie outside the influence of the surrounding society, which fills them with its own content. Institutions, whether old and refurbished or newly established, are occupied by the people at hand in society. Which people are selected to take up one new role or another is often less determined by the special skills and personal characteristics required for the position than by the degree of their personal engagement and the networks they belong to. The ensuing behaviour of individual rent-seeking in an institutionally weak and morally corrupt environment thus puts both democracy and the open and competitive market at risk or, at least, substantially limits their benefits.

Membership in the European Union and participation in European integration is also a long-term challenge, not an accomplished fact or simple one-off gift. While the accession of the Czech Republic to the EU in 2004 was certainly a milestone

in political and economic terms, it could not have any substantial or immediate effect on Czech society. New challenges must yet be addressed, responsibilities shared, and opportunities acquired and taken up. This requires time, effort and commitment. Across society not just the level of individual engagement varies but even the degree of acceptance and the nature of the assessment of the integration process do. In public opinion, the link between knowledge levels and attitudes matters. Typically, those people who declare they ignore the process or are not interested in it are more ready to adopt a negative view of it.

In the June 2003 referendum on accession, the voice in favour was loud in the Czech Republic. Altogether, 55% of the electorate participated and 77% of them said “yes” to accession. However, shortly before the official accession, the prevailing tone was one of scepticism: 44% of respondents expected their standard of living to go down as a result of EU accession, while only 9% expected an improvement (CVVM, February 2004). The source of this decline was an assumed rise in the price of food, energy and land. Another gloomy prediction was that the situation of the manufacturing industry and the position of small entrepreneurs and farmers might worsen. And there were also strong fears of a rise in unemployment and taxes. The only area of mainly positive expectations was the supply of consumer goods.

There is certainly something of a gulf between the positive vote in the referendum and the sceptical attitudes expressed in this survey. One reason could be that many of the Euro-sceptic voters did not participate in the referendum as they were certain of its outcome in favour of accession. Another reason could be even that some citizens who voted for accession may have realised that the mostly positive good long-term benefits to the country, its strategic position and its greater involvement in Western civilisation outweighed the less favourable short-term effects on jobs and prices that were expected. Nevertheless, before the referendum, politicians and the media stressed the short-term accounting, and since then one of the most talked-about issues has been the flow of European funds. These funds also play a substantial role in the political contest.

After accession, people largely revised their gloomy expectations. Instead of the 44% of respondents who in February 2004 were expecting a deterioration in their standard of living in February 2004, in April 2008 only 22% claimed a real deterioration had occurred (CVVM). Similarly, people corrected their pessimistic views on the position of the manufacturing industry and small entrepreneurs and began to see things more positively. Against dark predictions, improvements were also observed in other fields. An important exception is Czech farmers, who continue to be viewed as being in a bad and disadvantaged position compared to farmers in the EU-15 countries. But people are the most critical of social security and health services, which they erroneously believe to be influenced by the EU.

Eurobarometer surveys (conducted in the Czech Republic by the TNS AISA) present quite a positive perception of the EU in the Czech Republic. Compared to other EU nations, Czechs seem to be more optimistic about the importance of European integration. In autumn 2008, almost two-thirds of Czechs saw EU membership

as generally beneficial to the country, which is above the EU-27 average (Eurobarometer, 2008b). Also, the level of trust in the European Commission and the European Parliament is well above the EU average and continues to rise. We should note that although just over one-half of Eurobarometer respondents from the Czech Republic declare trust in European institutions, their confidence in the Czech government and the two chambers of Parliament is even lower, at around one-quarter of respondents (CVVM, December 2008).

In some respects, Czechs' attitudes towards the EU are somewhat inconsistent with their behaviour and other facts. For example, Czech citizens appreciate their EU membership, especially owing to the job opportunities it offers them abroad, even though Czech workers take little advantage of these opportunities compared to citizens of other new Member States. Although the Czech social system is quite efficient and the country's poverty rate is the lowest among EU countries, 38% of Czechs stress welfare issues as among the most important issues for European institutions to focus on in the future, compared to the EU average of 24%. However, they are not aware of the fact that the EU has little or no impact on social system. Conversely, Czechs put less emphasis on immigration issues, which are important for every third European but only for every fifth Czech.

According to the Eurobarometer surveys, Czechs are in general neither among the most enthusiastic EU nations (such as Benelux countries, Poles and Rumanians), nor among the most pessimistic ones (such as Britons, Austrians and Hungarians). Between 2007 and 2008 there was an increase in the number of people in the Czech Republic with the opinion that EU membership is a good thing, an increase also recorded in just Cyprus and Malta, while conversely the number of people with that view in most other EU countries went down. As a result, the position of the Czech Republic in this regard has moved closer to the EU average, and the level of optimism among Czechs about the future of the European Union is actually above the EU average.

Five years after it joined the EU, the Czech Republic took up the EU Presidency in January 2009. Simultaneously, among the population, the level of satisfaction with the EU and the public's sense of belonging in Europe have grown stronger (STEM surveys). The motto of the Czech EU Presidency is "Europe without barriers", which articulates the aim of eliminating the barriers to competition – implementing the flexicurity approach, removing the remaining obstacles in the internal EU market, reforming the common EU budget, allowing legal immigration to the EU, liberalising global trade policies, completing the European transport networks. The programme also refers to other tasks in the areas of energy and climate change, and the need to build an open and secure Europe.

While most Czechs claim they know about the EU Presidency, at the end of 2008 only 31% of respondents declared an interest in its agenda (compared to 22% mid year). Most people do not feel very well informed about the tasks and responsibilities of the Presidency, and they tend to be sceptical of the idea that the country can have any important influence on EU politics while holding the Presidency – less than one-

third believe this. About one-quarter of respondents refused to answer more detailed questions regarding the readiness of the country for this task and its possible success or failure (CVVM, November 2008).

As it takes up the EU Presidency, the Czech Republic is one of two countries that have not yet ratified the Lisbon Treaty signed in December 2007 which promises to reinforce democracy and efficiency in the EU and its strength on the global stage. The Treaty was passed by the government and is currently on the parliamentary agenda, after the Constitutional Court ruled (following a complaint submitted to it by a group of senators, also supported by President Václav Klaus) that the Lisbon Treaty is compatible with the Constitution of the Czech Republic.

Czechs have a rather positive opinion of the Lisbon Treaty. A survey conducted by STEM in October–November 2008 reported that 45% of respondents support ratification of the Treaty, and the percentage was higher than 60% by the end of the year. Those who are against it tend also to admit that they know little or even nothing at all about the document. People who declare themselves to be better informed, mostly young and more educated people (who largely overlap with ODS supporters), are for ratification.

The Presidency offers a good chance to display and strengthen the Czech Republic's position within the EU, though that depends on what the government does and the success of the propositions it puts forward. There are many challenging tasks, multiplied by the deepening global economic recession. One of the main new tasks is to balance support for “big actors” (banks and companies) and “small players” (firms, workers and consumers) within Member States and to harmonise this effort across the EU in order to prevent national governments from hastily implementing “popular” measures at home and dusting off the old economic protectionism and nationalistic tendencies.

Owing to the economic recession, Czech society is facing tests on manifold fronts. The solidity of the socio-economic policies the country applied so far will be put to a test, as will the country's established social structures and economic values. The close and reciprocal links between policies, structures, and values made increasingly more evident. Rising unemployment will test the efficiency of the welfare system but also the flexibility of people in the labour market. As consumers, people will be tested in terms of their ability to reduce their otherwise growing expectations. Many of them will be trapped by their own excess debt, incurred in an environment of prosperity and predatory lending.

In particular, as citizens, people will be tested in terms of their resistance to a populism intensively fuelled by political marketing. The situation of growing economic difficulties and expected uncertainties is indeed tempting for the introduction of populist policies. However, embarking on such populism while resigning on reforms would lead to indebting the country's future, with repercussions not just in financial terms but also in terms of the social structure, its motivation dynamics and incentives. The size and position of the middle class would be further weakened and the remaining capitalist virtues eroded.

Last but not least, we should mention the challenges to social reporting and socio-economic research. This area of research has a broad institutional base in the Czech Republic and is continuously expanding. However, it is too narrowly specialised on various topics and fails to form enough links between individual areas of research. Unlike the humanities – specifically history – it does not lead to synthesising efforts. Such efforts are not a purely academic exercise, since they make it possible to situate individual research topics in a broader framework. This can help to better formulate future-oriented and wide-ranging policies. Unlike this study, they certainly need to be produced from a larger pool of researchers.

Annex

COMPARATIVE TABLES



**Table A1**  
**Characteristics of employment in 2007 (%)**

Country	Employment rate (% 15–64)	Self-employed (% of total employment)	Part-time (% of total employment)	Fixed term (% of total employment)	As a % of total employment			Activity rate (% of 15–64)	Unemployment rate (% of LF 15+)	Long term unemployment (% of LF)
					Services	Industry	Agricul- ture			
AT	71.4	19.5	22.6	8.9	65.8	22.1	12.1	74.7	4.4	1.2
BE	62.0	16.2	22.1	8.6	.	.	.	67.1	7.5	3.8
BG	61.7	26.6	1.7	5.2	52.0	28.3	19.7	66.3	6.9	4.0
CY	71.0	19.7	7.3	13.2	75.1	20.3	4.5	73.9	3.9	0.7
CZ	66.1	18.2	5.0	8.6	58.4	38.0	3.5	69.9	5.3	2.8
DE	69.4	11.2	26.0	14.6	72.4	25.4	2.1	76.0	8.4	4.7
DK	77.1	6.4	24.1	8.7	76.3	20.8	2.9	80.2	3.8	0.6
EE	69.4	9.1	8.2	2.1	60.7	34.6	4.7	72.9	4.7	2.3
ES	65.6	13.8	11.8	31.7	66.8	28.7	4.5	71.6	8.3	1.7
FI	70.3	11.5	14.1	15.9	69.3	25.9	4.8	75.6	6.9	1.6
FR	64.6	8.9	17.2	14.4	76.4	20.3	3.3	70.2	8.3	3.3
GR	61.4	34.8	5.6	10.9	68.9	19.7	11.3	67.0	8.3	4.1
HU	57.3	12.4	4.1	7.3	62.8	32.6	4.6	61.9	7.4	3.4
IE	69.1	17.3	.	7.3	67.3	27.2	5.6	72.4	4.6	1.4
IT	58.7	24.1	13.6	13.2	67.5	28.5	4.0	62.5	6.1	2.9
LT	64.9	14.0	8.6	3.5	59.0	30.2	10.8	67.9	4.3	1.4
LU	63.6	6.3	18.0	6.8	.	.	.	66.3	4.7	1.3
LV	68.3	10.8	6.4	4.2	62.0	28.2	9.9	72.8	6.0	1.6
MT	55.7	11.8	11.1	5.2	.	.	.	59.5	6.4	2.6
NL	76.0	14.4	46.8	18.1	.	.	.	78.5	3.2	1.3
PL	57.0	25.0	9.2	28.2	.	.	.	63.2	9.6	4.9
PT	67.8	18.2	12.1	22.4	.	.	.	74.1	8.0	3.8
RO	58.8	31.8	9.7	1.6	.	.	.	63.0	6.4	3.2
SE	74.2	5.6	25.0	17.5	75.1	22.7	2.2	79.1	6.1	0.8
SI	67.8	17.0	9.3	18.5	56.2	34.7	9.0	71.3	4.8	2.2
SK	60.7	13.2	2.6	5.1	62.1	34.3	3.6	68.3	11.1	8.3
UK	71.3	13.4	25.5	5.8	80.8	17.7	1.4	75.3	5.3	1.3
EU-27	65.4	16.0	18.2	14.5	68.9	24.8	6.2	70.5	7.1	3.0
EU-25	65.8	15.1	18.8	15.1	70.7	24.6	4.8	70.9	7.2	3.0
EU-15	66.9	14.3	20.9	14.8	72.9	23.5	3.5	72.0	7.0	2.8

Source: Employment in Europe 2008.

Note: LF = Labour force. For abbreviations of countries see Abbreviations.

**Table A2**  
**Social benefits by function in 2005 (% GDP)**

Country	Old-age and survivor benefits	Sickness and health care	Disability	Family and children	Unemployment	Housing and social exclusion	Total
AT	13.5	7.1	2.2	3.0	1.6	0.4	28.8
BE	12.7	7.7	2.0	2.0	3.5	0.5	29.7
BG	7.9	4.5	1.3	1.1	0.3	0.4	16.1
CY	8.3	4.5	0.7	2.1	1.0	1.2	18.2
CZ	7.9	6.5	1.4	1.4	0.7	0.6	19.1
DE	12.4	7.8	2.2	3.2	2.1	0.8	29.4
DK	11.0	6.1	4.2	3.8	2.5	1.7	30.1
EE	5.4	3.9	1.2	1.5	0.2	0.1	12.5
ES	8.4	6.4	1.5	1.1	2.5	0.4	20.8
FI	9.6	6.7	3.4	3.0	2.4	0.8	26.7
FR	13.0	8.8	1.8	2.5	2.2	1.3	31.5
GR	12.0	6.5	1.2	1.5	1.2	1.1	24.2
HU	9.1	6.4	2.1	2.5	0.6	0.7	21.9
IE	4.5	6.9	0.9	2.5	1.3	0.9	18.2
IT	15.5	6.8	1.5	1.1	0.5	0.1	26.4
LT	6.0	3.9	1.3	1.2	0.2	0.2	13.2
LU	7.9	5.5	2.8	3.6	1.1	0.6	21.9
LV	5.7	3.1	1.1	1.3	0.5	0.2	12.4
MT	9.5	4.8	1.2	0.9	1.3	0.4	18.3
NL	11.1	8.1	2.6	1.3	1.5	1.6	28.2
PL	11.5	3.8	2.0	0.8	0.6	0.5	19.6
PT	10.9	7.0	2.4	1.2	1.3	0.2	24.7
RO	5.7	5.0	1.0	1.4	0.4	0.3	14.2
SE	12.5	7.5	4.8	3.0	1.9	1.2	32.0
SI	10.2	7.4	2.0	2.0	0.7	0.7	23.4
SK	7.0	4.8	1.5	1.9	0.7	0.5	16.9
UK	11.8	8.1	2.4	1.7	0.7	1.7	26.8
EU-27	12.0	7.5	2.1	2.1	1.6	0.9	27.2
EU-25	12.1	7.5	2.1	2.1	1.6	0.9	27.4
EU-15	12.2	7.7	2.1	2.2	1.7	0.9	27.8
EA-13	12.3	7.6	1.9	2.2	1.8	0.8	27.8

*Source:* Eurostat, 2008b (Social protection in the European Union. Statistics in Focus, Population and Social Conditions 46).

*Note:* The data for Portugal refers to 2004.

**Table A3**  
**Taxes and social contributions by categories in 2006 (% GDP)**

Country	Taxes					Social contributions				Total revenue
	VAT	Other taxes on products and imports	Income taxes	Other taxes on income and wealth	Total tax receipts	Employers	Employees	Self- and not-employed	Total social contributions**	
AT*	7.7	6.6	12.4	0.8	27.5	6.7	5.9	1.8	16.0	43.4
BE	7.1	6.7	16.0	1.2	31.0	8.3	4.1	1.2	15.7	46.8
BG*	12.5	6.9	6.4	0.5	26.3	5.4	2.2	1.1	8.8	34.4
CY	10.4	7.5	10.1	0.7	28.7	5.6	1.9	0.3	7.8	36.6
CZ	6.6	4.6	8.7	0.1	20.0	10.3	3.6	2.3	16.2	36.3
DE	6.3	6.1	10.4	0.6	23.3	6.8	6.4	3.1	17.2	40.6
DK*	10.3	7.7	28.8	1.4	48.2	0.1	1.0	.	1.9	50.0
EE	9.2	4.5	7.1	0.0	.	9.9	0.2	0.1	10.3	31.1
ES*	6.4	6.3	11.3	0.9	24.8	8.8	1.9	1.4	12.9	37.3
FI	8.7	5.2	16.6	0.9	31.4	8.9	2.4	0.9	12.2	43.6
FR*	7.3	8.4	10.8	1.5	27.9	11.1	4.2	1.2	18.3	46.1
GR	7.1	5.1	7.5	0.5	20.3	5.1	4.3	1.6	13.2	33.5
HU	7.6	7.7	9.1	0.3	24.7	9.5	2.5	0.6	12.6	37.3
IE	7.9	6.4	12.9	0.5	27.7	2.8	1.8	0.3	6.3	34.0
IT	6.3	8.8	14.0	0.5	29.6	8.8	2.3	1.7	13.0	42.6
LT*	7.7	3.9	9.7	0.0	21.3	7.6	0.8	0.1	8.8	30.0
LU	5.5	7.0	12.5	0.6	25.7	4.3	4.4	1.2	10.8	36.4
LV	8.5	4.5	8.2	0.2	21.5	6.3	2.4	0.0	9.0	30.4
MT	8.1	7.3	11.3	0.8	27.5	2.8	2.8	0.6	7.7	35.2
NL	7.5	5.8	10.7	1.3	25.3	4.6	6.6	3.0	15.1	40.4
PL*	8.1	6.4	7.0	0.5	22.0	4.9	4.9	2.5	12.2	33.8
PT	8.9	6.8	8.5	0.3	24.5	7.4	3.4	0.6	12.5	37.0
RO	7.9	4.8	5.8	0.3	18.8	6.3	1.4	2.0	10.4	29.2
SE	9.1	8.0	19.3	0.4	36.8	9.2	2.8	0.2	12.8	49.7
SI	8.7	6.8	9.0	0.3	24.9	5.6	7.5	1.2	14.5	39.3
SK	7.4	4.2	5.6	0.4	17.6	6.3	2.8	2.7	11.9	29.5
UK	6.7	6.4	14.8	2.7	30.6	4.2	3.4	0.2	8.4	39.0
EU-27	7.0	6.9	12.4	1.1	27.4	7.3	4.0	1.6	13.7	41.2
EA-13	6.8	7.1	11.6	0.9	26.4	8.1	4.3	1.9	15.5	41.8

Source: Eurostat, 2008c (Tax revenue in the EU. Statistics in Focus, Economy and Finance 47).

Note: VAT = Value added tax

\* Total revenue is after deduction of capital transfers from general government to relevant sectors representing taxes and social contributions assessed but unlikely to be collected.

\*\* Total social contributions include imputed social contributions not stated here.

**Table A4**  
**Household income, social benefits and taxes in 2004**  
 (% gross income)

Country	Market income (MI)	Family benefits	Gross income (GI)	Taxes	Net income	Transfer in % GI	Transfer in % MI
AT	95.0	5.0	100.0	26.9	73.1	21.9	23.1
BE	96.6	3.4	100.0	30.4	69.6	27.0	28.0
CY	97.3	2.7	100.0	10.5	89.5	7.8	8.0
CZ	96.7	3.3	100.0	20.7	79.3	17.4	18.0
DE	96.2	3.8	100.0	28.4	71.6	24.6	25.5
DK	97.9	2.1	100.0	34.9	65.1	32.8	33.5
EE	95.7	4.3	100.0	20.4	79.6	16.1	16.8
FI	95.3	4.7	100.0	27.6	72.4	22.9	24.1
HU	94.0	6.0	100.0	27.1	72.9	21.1	22.5
IE	96.1	3.9	100.0	19.3	80.7	15.4	16.0
LT	98.0	2.1	100.0	20.1	79.9	18.1	18.5
LU	94.2	5.8	100.0	22.0	78.0	16.2	17.1
NL	96.0	4.0	100.0	33.6	66.4	29.6	30.8
PL	98.4	1.6	100.0	25.6	74.4	23.9	24.3
SE	95.5	4.5	100.0	31.7	68.3	27.2	28.5
SI	95.7	4.3	100.0	28.5	71.5	24.1	25.2
SK	95.6	4.4	100.0	19.9	80.1	15.4	16.2
UK	95.6	4.4	100.0	27.4	72.6	23.0	24.0
OMS-10	96.0	4.0	100.0	28.8	71.2	24.7	25.8
NMS-8	96.9	3.1	100.0	23.9	76.1	20.8	21.4
EU-18	96.0	4.0	100.0	28.5	71.5	24.5	25.6

*Source:* Eurostat, cross-sectional EU-SILC 2005, version February 2008. Computed by the author and Martina Mysíková. Eurostat has no responsibility for the results. See Acknowledgement for more information. This concerns also Tables A6, A7, and A8.

*Note:* Only households with non-zero taxes and zero pension benefits are included. Market income is computed as gross income minus family benefits. Net income is computed as gross income minus taxes. Transfer is computed as taxes (income tax, tax on wealth, and social contributions) minus family benefits and it is related to the market income.

OMS-10: Old Member States with non-zero gross income.

NMS-8: New Member States with non-zero gross income.

EU-18: Member States with non-zero gross income.

**Table A5**  
**At-risk-of-poverty rate of persons aged 18 years and over by activity status in 2005 (%)**

Country	Total population	Persons employed	Not employed	Un-employed	Retired	Inactive population, others
AT	12	7	18	48	12	22
BE	14	4	23	31	18	26
BG	14	7	19	34	15	17
CY	17	7	32	37	49	19
CZ	8	3	15	51	6	16
DE	12	5	19	42	14	18
DK	12	5	22	26	16	31
EE	17	7	31	60	23	31
ES	19	10	28	35	25	28
FI	12	4	22	36	17	27
FR	13	6	20	29	13	27
GR	19	13	26	32	25	25
HU	12	10	15	48	10	17
IE	18	6	34	47	30	34
IT	18	9	25	44	16	28
LT	19	10	29	63	17	29
LU	11	9	13	46	6	14
LV	19	9	31	59	24	31
MT	13	5	19	48	17	18
NL	9	6	14	27	5	19
PL	18	14	22	46	11	26
PT	18	12	27	28	25	28
SE	9	5	15	26	10	26
SI	12	5	19	25	17	22
SK	12	9	16	39	7	19
UK	15	8	30	50	28	30
EU-25	15	8	22	40	16	25
EA	15	7	22	37	16	25

*Source:* Eurostat, 2008d (Europe in Figures – Eurostat Yearbook 2008, Table 4.1).

*Note:* In Bulgaria and Romania, persons aged 16 years and over. The data for Bulgaria refers to 2004.

**Table A6**  
**Reduction of income inequality and poverty rate by transfers in 2004 (%)**

Country	Income inequality: Gini coefficient			Poverty rate: the EU at-risk-of-poverty indicator		
	Before transfers	After transfers	Reduction by %	Before transfers	After transfers	Reduction by %
AT	34	26	24	24	12	50
BE	40	29	28	28	15	46
BG	.	.	.	18	15	17
CY	33	29	12	22	16	27
CZ	36	26	28	21	10	52
DE	36	26	28	24	13	46
DK	35	24	31	30	12	60
EE	41	34	17	24	18	25
ES	.	33	.	24	20	17
FI	38	26	32	28	12	57
FR	.	28	.	26	13	50
GR	.	33	.	23	20	13
HU	42	28	33	29	13	55
IE	45	32	29	32	20	38
IT	.	33	.	23	19	17
LT	43	36	16	26	21	19
LU	35	26	26	23	13	43
LV	.	36	.	26	19	27
MT	.	.	.	21	15	29
NL	35	27	23	22	11	50
PL	42	36	14	30	21	30
PT	.	38	.	26	19	27
RO	.	.	.	24	18	25
SE	34	23	32	29	9	69
SI	35	24	31	26	12	54
SK	34	26	24	22	13	41
UK	46	34	26	31	18	42
EU-25	.	.	.	26	16	38

*Source:* First section (Gini coefficients) – Eurostat, cross-sectional EU-SILC 2005, version February 2008. Computed by the author and Martina Mysíková. Eurostat has no responsibility for the results. Second section (poverty) – Eurostat, 2008d (Europe in Figures. Eurostat Yearbook 2008, Table 4.2).

*Note:* Income inequality is computed on household income adjusted to the EU indicator (see the Appendix to Chapter 5). In Gini reduction, transfers include taxes and social benefits (related to the gross income), in poverty reduction only family social benefits (related to the disposable income). Pensions are excluded from benefits in both cases.

**Table A7**  
**Ability to make ends meet in 2005 (%)**

Country	With great difficulty	With difficulty	With some difficulty	Fairly easily	Easily	Very easily	Total	Mean
AT	3.1	6.5	28.9	34.5	20.9	6.2	100.0	3.8
BE	6.6	11.8	23.4	28.7	25.0	4.5	100.0	3.7
CY	14.2	28.0	29.9	18.7	8.1	1.0	100.0	2.8
CZ	10.1	19.3	37.7	22.2	9.2	1.4	100.0	3.1
DE	3.4	8.1	36.6	27.0	19.0	5.9	100.0	3.7
DK	3.1	4.4	11.5	23.6	36.1	21.2	100.0	4.5
EE	1.3	12.5	28.8	48.7	7.6	1.0	100.0	3.5
ES	10.4	15.8	32.1	28.2	12.4	1.1	100.0	3.2
FI	3.3	5.9	20.4	37.2	20.9	12.4	100.0	4.0
FR	2.9	13.5	40.2	30.1	11.2	2.1	100.0	3.4
GR	18.1	33.2	27.2	14.9	5.7	0.9	100.0	2.6
HU	13.4	21.6	44.5	16.2	3.8	0.6	100.0	2.8
IE	8.9	14.7	30.6	30.6	10.4	4.8	100.0	3.3
IT	14.7	19.3	39.2	19.8	6.1	0.9	100.0	2.9
LT	10.8	21.7	41.3	22.0	4.0	0.1	100.0	2.9
LU	1.9	4.1	12.6	26.6	40.7	14.0	100.0	4.4
LV	27.5	27.0	32.1	11.1	2.1	0.2	100.0	2.3
NL	4.7	12.7	17.5	14.1	40.0	10.9	100.0	4.0
PL	25.7	25.5	30.5	12.6	4.6	1.1	100.0	2.5
PT	16.8	20.3	39.1	17.4	5.5	1.1	100.0	2.8
SE	3.6	5.0	21.7	35.5	17.8	16.3	100.0	4.1
SI	7.3	21.0	43.1	18.4	8.9	1.3	100.0	3.0
SK	12.4	19.2	47.1	16.9	3.5	0.9	100.0	2.8
UK	5.0	7.8	24.0	37.5	16.8	8.9	100.0	3.8
EU-15	6.7	12.3	32.5	27.7	15.6	5.1	100.0	3.5
NMS-9	18.8	23.1	35.7	16.2	5.2	1.0	100.0	2.7

*Source:* Eurostat, cross-sectional EU-SILC 2005, version February 2008. Computed by the author and Martina Mysiková. Eurostat has no responsibility for the results.

*Note:* The mean is computed as the average response value ranging from 1 (with great difficulty) to 6 (very easily).

NMS-9: New Member States without Malta.

**Table A8**  
**Lowest subjective income to make ends meet in 2005 (EUR and %)**

Country	Thousand EUR yearly		LSI as a % of DHI	LSI as a % of DHI of households declaring they make ends meet				
	Disposable household income (DHI)	Lowest subjective income (LSI)		Percentage of households below the LSI	Percentage of persons below the LSI	with great difficulty	with difficulty	with some difficulty
AT	32,31	18,69	57.8	11.0	9.2	77.5	73.0	67.1
BE	28,96	22,49	77.7	36.7	31.5	115.9	107.4	98.1
CY	28,08	24,71	88.0	48.4	45.8	113.9	107.9	87.4
CZ	8,16	6,86	84.1	39.8	37.5	123.1	103.5	89.2
DE	27,18	20,39	75.0	29.7	24.6	112.2	101.7	88.2
DK	32,98	21,50	65.2	14.6	11.1	74.4	82.1	76.1
EE	5,76	7,51	130.4	74.6	72.0	217.1	196.6	168.6
ES	21,94	20,62	94.0	52.4	48.9	125.7	112.9	102.2
FI	28,79	16,47	57.2	13.1	10.4	87.4	84.8	71.0
FR	28,46	25,48	89.5	42.5	39.1	122.8	113.1	101.1
GR	19,27	23,29	120.9	74.1	72.5	156.2	135.6	113.8
HU	6,51	5,36	82.3	31.7	29.9	94.1	89.8	81.4
IE	39,39	27,27	69.2	20.6	17.1	87.3	80.8	77.7
IT	27,82	22,23	79.9	43.8	39.9	116.4	101.0	84.6
LT	4,23	5,33	126.0	71.0	68.8	206.3	156.6	133.3
LU	54,05	27,92	51.7	10.5	9.8	94.0	78.0	73.9
LV	4,50	7,19	159.8	85.5	84.0	206.5	187.3	156.0
NL	29,68	20,24	68.2	18.7	15.6	92.1	84.7	80.7
PL	5,65	5,76	101.9	59.3	57.2	136.8	115.6	100.1
PT	16,97	14,44	85.1	49.2	46.4	121.0	105.6	93.7
SE	27,18	18,80	69.2	21.5	16.8	107.5	91.8	81.7
SI	17,22	14,97	86.9	45.3	40.3	116.2	102.5	89.9
SK	5,77	8,99	155.8	83.6	80.0	185.2	174.3	159.0
UK	35,43	24,84	70.1	16.1	14.5	92.1	86.1	78.4
EU-15	28,37	22,13	78.0	34.3	31.5	113.7	102.9	89.4
NMS-9	6,56	6,59	100.5	55.2	53.4	134.8	116.0	101.5

*Source:* Eurostat, cross-sectional EU-SILC 2005, version February 2008. Computed by the author and Martina Mysíková. Eurostat has no responsibility for the results.

*Note:* For adjustment to EUR, the average exchange rate based on the year prior to the survey is applied. The declared minimum monthly income was multiplied by 12. NMS-9: New Member States without Malta. The lowest subjective income is based on the question: "In your opinion, what is the very lowest net monthly income that your household would have to have in order to make ends meet?"

**Table A9**  
**Structure of household consumption expenditure in 1999 (%)**

Country	Food, beverages and tobacco	Clothing and footwear	Housing, water, electricity, gas and other fuels	Furnishings, household equipment	Transport and communication	Leisure and culture	Other goods and services
AT	17.4	7.2	17.1	7.8	18.5	19.3	12.6
BE	18.2	6.3	13.9	7.6	17.2	19.1	17.7
BG	53.0	6.1	13.8	3.9	9.1	6.8	7.4
CZ	26.6	7.0	17.5	7.7	13.8	16.1	11.3
DE	19.2	6.1	20.5	7.1	18.0	17.0	12.1
DK	15.9	6.6	20.9	8.8	18.1	19.4	10.5
EE	38.0	7.0	18.0	5.0	10.0	10.0	9.0
ES	26.0	9.1	10.4	6.2	17.9	19.0	11.1
FI	20.9	5.6	12.0	5.5	24.2	18.1	13.5
FR	20.8	6.7	16.5	6.4	18.8	15.2	15.7
GR	23.0	9.8	10.6	8.6	16.6	15.2	16.2
HU	30.1	6.7	20.0	5.3	16.5	9.5	11.9
IE	29.2	7.8	9.7	5.7	19.6	17.9	9.9
IT	24.6	8.8	11.5	8.9	19.0	12.8	14.5
LT	49.9	7.7	12.9	4.7	9.9	7.7	7.2
LU	14.8	7.2	11.2	10.0	21.5	22.4	12.8
LV	41.5	6.7	17.7	5.0	11.9	8.0	9.2
NL	14.3	6.8	17.1	8.1	14.1	19.7	19.9
PL	35.6	6.3	19.1	6.5	12.5	8.4	11.1
PT	24.3	7.5	9.4	8.1	20.7	16.2	14.2
RO	58.0	6.9	13.0	3.6	8.4	3.9	6.2
SE	21.6	6.1	13.6	5.9	18.9	21.7	12.2
UK	16.6	6.8	11.9	9.0	19.5	26.2	10.1
EU-15	19.5	7.2	15.2	8.0	18.6	18.9	12.8
NMS-6	33.9	6.6	18.7	6.4	13.2	9.9	11.0

*Source:* Eurostat, 2005b (The European consumer in the enlarged Union. Statistics in Focus, Population and Social Conditions 2).

*Note:* NMS-6: Czech Republic, Estonia, Latvia, Lithuania, Hungary and Poland. Excluding imputed rent for dwelling services.

**Table A10**  
**Attitudes toward the European Union in 2008 (%)**

Country	EU membership is a good thing	EU membership is beneficial	Trust in the European Commission	Trust in the European Parliament	Image of the EU is positive	The situation of the EU economy is good
AT	39	47	44	47	29	43
BE	65	68	64	65	51	31
BG	48	43	51	57	58	54
CY	40	43	53	55	50	35
CZ	46	62	54	58	44	51
DE	64	58	43	47	48	47
DK	64	76	53	63	42	54
EE	61	78	58	61	46	45
ES	62	63	52	57	51	22
FI	48	57	57	59	28	56
FR	49	51	45	52	46	20
GR	45	70	56	59	41	24
HU	31	39	56	59	34	32
IE	67	79	50	54	59	18
IT	40	41	49	53	46	15
LT	55	69	55	57	48	52
LU	71	68	57	64	46	35
LV	27	48	38	41	29	40
MT	46	60	59	64	49	29
NL	80	76	62	58	52	57
PL	65	73	47	52	54	56
PT	50	60	53	57	48	11
RO	66	69	55	63	63	52
SE	59	53	52	57	44	35
SI	59	71	61	62	58	55
SK	62	77	63	70	54	62
UK	32	39	27	27	26	19
EU-27	53	56	47	51	45	33

Source: Eurobarometer, 2008b (Standard Eurobarometer No. 70).

# Data sources

*Only sources used by the author as datasets for original computations are presented here.*

## **Statistical surveys**

The *Microcensus surveys* started in 1958 as an income survey based on a 1–2% sample of households, wherein wages are confirmed by employers and pension benefits by post offices. This report draws on the 1988 Microcensus, conducted by the Federal Statistical Office on a 2% random sample (N = 69 912) in March 1989 and referring to yearly incomes in 1988, the 1992 Microcensus, conducted by the Czech Statistical Office (CSO) on a 0.5% random sample (N = 16 234) in March 1993 and referring to yearly incomes in 1992, the 1996 Microcensus, conducted on a 1% random sample (N = 28 148) in March 1997 and referring to annual incomes in 1996, and the 2002 Microcensus, conducted on 0.25% random sample (N = 7 678) in March 2003 and referring to annual incomes in 2002.

The *Social Situation of Households 2001* is a survey that was conducted by the CSO in May–June 2001 on a sample of 10 870 households. In addition to examining household characteristics and income, it also looked at opinions on well-being and employment.

*Living Conditions 2005* is a survey of household income and living conditions conducted in all EU Member States and several non-EU European countries within the EU-SILC programme (see the information below). In the Czech Republic, the first wave of the survey was carried out in April–May 2005, and its reference period is the survey date and (for incomes) the year 2004. The sample contained 7 000 flats, and of them 4 286 households were ultimately surveyed.

The aim, in phase with the EU-SILC programme, is to increase the sample to around 10 000 households. The other waves of this programme were conducted in February–April 2006 (7 483 households surveyed), and in February–April 2007 (9 675 households surveyed). The results were available to the author only in tables published by the CSO, unlike the 2005 survey which was available as dataset. Some additional computations were made on Czech data included in 2006 EU-SILC cross-national dataset provided by the Eurostat (see below).

*The Family Expenditures Survey (FES)* was established in 1958 as a quota-sample survey of households of manual workers (working class), non-manual workers (employees), and cooperative farmers, with pensioners (households without economically active members) added later. The survey is conducted on about a 0.1% sample as a permanent survey based on daily records of all incomes and expenditures. Czech families are obliged to keep diaries continuously in return for a small amount of money, differentiated by household size and by whether detailed expenditures on food are filled in. Unlike the standard FESs in Western countries, which are based on random samples, the Czech sample is quota-based with respect to social category, size of locality, disposable income per person, and the numbers of economically active members and dependent children. After 1989, the category of entrepreneurs was also added. The FES sample was reduced after 1989, falling to a mere 2 500 households in 1997, but has since stabilised at about 3 000 households. A special subsample of 400 households is also surveyed in order to over-represent the number of households living below or close to the official living minimum. Owing to the necessity of intensive cooperation of households involved in the FES with CSO officers and the quota-based sample, the representativeness of the FES sample is limited, especially in the high-income category.

The datasets of individual Microcensuses, the survey on Social Situation of Households, Living Conditions surveys, and Family Expenditures surveys were made available for the project on the basis of successive contracts concluded between the CSO and the Department of Economic Sociology, the Institute of Sociology of the Academy of Sciences of the Czech Republic (AS CR). If not stated otherwise, the author is solely responsible for the presented results.

### **National sociological surveys**

*Economic Expectations and Attitudes (EEA)* is a semi-annual (1990–1992) or annual (1993 onwards) survey organized by the Department of Economic Sociology of the Institute of Sociology of the Academy of Sciences under the direction of Jiří Večerník. Data are collected by the Centre for Empirical Surveys STEM.

*The (Second) International Adult Literacy Survey (IALS)* was conducted within an international programme headed by Statistics Canada and ETS Princeton. Data in the Czech Republic were collected in January–February 1998 on a random sample of 2 000 adult respondents by the agency SC&C. In this study only the questions added to the Czech national questionnaire are used.

*The CVVM March 2006 survey* was a special survey conducted by the CVVM that looked at the attitudes of the population towards reforms in the social sphere, housing, employment and education. The sample involved 1 076 adult respondents. The other results of the CVVM (Public Opinion Research Centre of the Institute of Sociology, AS CR) are based on Press Releases, see <http://www.cvvm.cas.cz/>.

*The Social Inequalities 2007 survey* was a special survey conducted by the CVVM as a pre-test for the ISSP 2009 module on social inequalities. The sample contained 1 050 adult respondents.

## Comparative sociological surveys

*ISSP Work Orientations.* The module was conducted for the first time in the Czech Republic in September 1997 by STEM (1 014 respondents, 505 of which were economically active) and for the second time in May 2005 by the agency SC&C (1 226 respondents, 660 of which were economically active).

*Households, Work and Flexibility (HWF).* The survey was conducted under the EU 6th Framework Project “Households, Work and Flexibility” by STEM in the spring 2001 on a random sample of 1 556 persons aged 15–64. Other countries involved in the project were Hungary, Slovenia, Bulgaria, Romania, the United Kingdom, the Netherlands and Sweden (see [www.hwf.at](http://www.hwf.at)).

*World and European Values Study.* The project started in 1978, but former Czechoslovakia and eight other post-communist countries joined the project only in its second wave in 1991. The report draws on data from the third and last wave of the study conducted in 1999 in 27 countries.

*Perception of Social Justice.* The survey was conducted in 1991 within the International Social Justice Project, the survey includes 13 countries, among them Czechoslovakia, East Germany, Poland, Hungary, Russia and Slovenia. The average sample is about 1 300 respondents. Repeated in 1995 in the Czech Republic on a 1 185 respondent sample and again in 1999 (together with ISSP module on social inequalities) on a 1 834 respondent sample. Czech data are collected by STEM.

## Statistics on Income and Living Conditions (EU-SILC)

The survey of household income and living conditions has been conducted in all EU Member States and several non-EU European countries since 2005. Data are collected from a rotating panel sample, in which each household is surveyed for four consecutive years. The survey provides information on demography and incomes, devoting attention to housing and some other aspect of household well-being.

The final sample of the 2005 survey contains approximately 200 000 households from all over Europe; individual country samples range from about 3 000 households in Island to 22 000 households in Italy. The reference period for the 2005 survey for income variables is the year 2004, and in countries where the information is obtained from a national register (Scandinavian countries) it is the survey date.

The EU-SILC datasets are available for research in two kinds of datasets: cross-sectional and longitudinal. As stated in the Acknowledgement, they were made available for the project on the basis of contract no. EU-SILC/2007/16 signed on 3 August 2007 between the European Commission, Eurostat, and the Institute of Sociology, Academy of Sciences of the Czech Republic. This report uses cross-sectional data from 2005 (revised version released by the Eurostat in February 2008), only in the comparative Annex, Tables A4, A6, A7, and A8.

# Abbreviations

CERGE-EI	Center for Economic Research and Graduate Education of Charles University (CERGE) and the Economics Institute of the Academy of Sciences of the Czech Republic (EI)
CESES	Center for Social and Economic Strategies
CNB	Czech National Bank
CSO	Czech Statistical Office
CZK	Czech crown (currency)
EA	Euro Area (13 Member States of the EU that use the Euro as their currency, plus Malta and Cyprus since 2008)
EEA	Economic Expectations and Attitudes (surveys)
ESF	European Social Fund
EUROMOD	Europe-wide tax-benefit model (administered by the Microsimulation Unit, University of Essex)
EU-SILC	European Union – Statistics on Income and Living Conditions
FES	Family Expenditures Surveys
FDI	Foreign Direct Investment
HWF	Households, Work and Flexibility (project and survey)
ICT	Information and Communications Technology
I-CUE	Improving the Capacity and Usability of the EUROMOD (project)
IPF	Investment Privatization Fund
ISG	Subgroup on Indicators of the SPC
ISPV	Information System on the Average Wage
ISSP	International Social Survey Programme
LFS	Labour Force Surveys
LIS	Luxembourg Income Study
MLSA	Ministry of Labour and Social Affairs
MS	Member State of the European Union
NAPE	National Action Plan for Employment
NAPSI	National Action Plan on Social Inclusion
NGO	Non Governmental Organisation
NMS	New Member State of the European Union

## ABBREVIATIONS

NRP	National Reform Programme for Growth and Jobs
NSR	National Report on Strategies for Social Protection and Social Inclusion
NSRP	National Strategy Report on Adequate and Sustainable Pensions
NDC	Notional individual accounts (pension system)
NÚOV	National Institute of Technical and Vocational Education
OMC	Open Method of Coordination
PAYG	Pay-As-You-Go (pension system)
PIT	Personal income tax
RILSA	Research Institute of Labour and Social Affairs
SC&C	Marketing and social research (agency)
IALS	International Adult Literacy Survey (survey)
SIC	Social and health insurance contributions
SKOK	Association of Branch Conference of Non-Governmental Organizations
SME	Small and medium enterprise
SPC	Social Protection Committee of the European Commission
STEM	Centre for Empirical Surveys (agency)
VAT	Value added tax

### ***Political parties:***

ČSSD	Czech Social Democratic Party
HDŽJ	Movement of Pensioners for Living Security
KDS	Christian-Democratic Party
KDU-ČSL	Christian Democratic Union – Czechoslovak Peoples’ Party
KSČM	Communist Party of Bohemia and Moravia
LB	Left Block (Coalition of KSČM and the Party of Democratic Left)
ODA	Civic Democratic Alliance
ODS	Civic Democratic Party
SPR-RSČ	Association of the Republic – Czechoslovak Republican Party
SZ	Green Party
US-DEU	Freedom Union – Democratic Union

***EU countries:***

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

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# Summaries of chapters

## **Introduction: policies, structures, inequalities and values**

The ambition of the study is to report on several aspects of socio-economic life in the Czech Republic after 1989. The choice of perspectives and concepts used in the study – policies, inequalities, structures and values – is not intended to conform to any particular theoretical model and instead is largely based on the availability of data from statistical and sociological surveys. The division of topics is more a framework for organising facts and data than it is an outline explaining a process of events. The rationale behind the sequence of topics is discussed, the conclusion being that there is no “correct” order for the individual sections. With the state in the forefront, structure and actors centre stage, and values in the background, the introduction presents the context for a discussion of policies.

## **1 The labour market: developments and policies**

The Czech labour market underwent substantial changes since 1990. The chapter attempts to observe them from various perspectives. First it examines the rate of economic activity, the changing composition of the labour force, and labour mobility. Second, it presents an analysis of the flexibility of the labour market in its various – formal and informal – forms. Third, it looks at vulnerable categories of the population. Policies, especially active labour market policies, are described in the fourth section. The chapter concludes by raising several questions about the future of the Czech labour market that concern the future character of the Czech economy, labour productivity, work commitment, and recent measures aimed at enhancing work motivation.

## **2 The welfare system: past reforms and enduring problems**

This chapter looks at the post-1989 modifications of the social system and challenges for the future. The first part describes basic features of the Czechoslovak communist welfare state and discusses theoretical alternatives to that system. The second part describes the early reforms and the subsequent stagnation of the reform process. The third part outlines the arena of social actors relevant to social reform. The fourth part draws attention to the solid performance of the current social system, while simultaneously pointing out some long-term problems: the well-being of families with

children, the future of the pension system, and work incentives in relation to social benefits. The chapter concludes with some thoughts on the feasibility of further reforms in social area.

### **3 Social inclusion: implementing EU policies**

There is a constant search for a conceptual umbrella capable of encompassing individual social policies. This chapter looks at various aspects of social inclusion and summarises the steps taken by the Czech government and other relevant organisations in this sphere. First, the chapter describes the Open Method of Coordination in the social sphere, along with its challenges and problems. Second, attention is devoted to the specific target categories of social protection and policies at various levels of risk of exclusion. Third, the desired process of mutually reinforcing interaction between economic and social goals is addressed. And fourth, problems connected with indicators and monitoring the entire process are dealt with. The conclusion to the chapter highlights the importance of the framework for social inclusion – an inclusive middle-class society.

### **4 Disparities in earnings: education to the fore**

The introduction of the market economy has led to a significant increase in earnings disparities. This chapter draws on wage and income surveys to reveal changes in the wage structure and its factors. First, several hypotheses about qualitative changes in the system are proposed. Then the chapter looks at the changes that have occurred in the distribution and structure of earnings and how these have adapted to market conditions. Special attention is devoted to the growing effects of education, industry, and occupation. The last section examines the diminishing influence of political factors, which have partially and temporarily been replaced by the influence of the ownership sector. The chapter closes with a discussion of the substantive effect of the systemic change in earnings distribution and raises some doubts about the explanatory scope of the available data.

### **5 Household income: rising inequality, changing structure**

While economics focuses mostly on personal earnings, in the real world, the choices, decisions, and strategies that relate to income occur within the household. This chapter provides a comprehensive picture of the changes in the disparities of household income and the sources of those changes after 1989. The first part describes the difficulties in indicating a family's well-being. The second part presents basic data on the development of income inequality after 1989 and suggests that a systemic change occurred. The third part presents the changes in the structure of household income and the factors underlying those changes, involving a shift from demographic to socio-economic factors. The fourth section focuses on the labour market participation of women and the packaging of earnings in couples. The chapter concludes with a discussion of the role of education, family size, and composition in income packaging.

## **6 Taxes and transfers: less redistribution, more progressivity**

The extent of overall income redistribution has decreased substantially in connection with the market transition and economic reforms. Keeping a micro-analytical and population-representative direction in mind, the objective of this chapter is to document the quantitative change in the re-distribution of household income on the micro level. In the first part, income surveys are utilised to show the changes in the redistributional effects of taxes and family benefits since 1989. The second part focuses on personal income tax and the recent reforms thereof. The third part deals with indirect taxes in an effort to include them in the overall picture of redistribution based on a representative sample. The fourth part examines the public opinion on taxes and benefits. In conclusion, the situation in the Czech Republic is placed in a cross-national context and the limits to available data sources are noted.

## **7 The middle class: less advancement than expected**

Following the assumption that the middle class matters in the building of a democratic and cohesive society, the chapter presents evidence of the benefits it has gained from economic and social reforms in the Czech Republic after 1989. First, the various definitions of the middle class are presented and situated in the context of the social structure. Then the concept of “social hegemony” is described and an attempt is made to apply it. Third, the effects of economic reforms on the material status and the position of the middle class are investigated, showing that the middle class has benefited less than expected from the transformation process. It is then speculated in the fourth part that while the middle class was not explicitly supported, some middle-class mechanisms went ahead nonetheless. However, identification with the middle class remained at a low level once the initial enthusiasm had evaporated by the mid-1990s. The three “revolutions” that indicate a general functional and value shift – towards a capitalist economy, information society, and service class – have succeeded less than expected, while “social hegemony” has been sidetracked.

## **8 Pensioners: changing socio-political status**

Together with other European nations, Czech society is currently faced with declining fertility and increasing life expectancy. Unlike the pension system, pensioners themselves have been less the subject of research. In this chapter, the changing social status of pensioners is described and structured according to stylised periods. First, the shift of pensioners to the margins of society under the communist regime is identified. Second, the empowering of pensioners as voters as a result of the democratic transition is traced. Third, the debates about pension reform are summed up along with the possible effect of system proposals on the future position of pensioners. Fourth, the difficulties attached to shaping current expectations based on the challenges of the future are identified. The importance of bringing children back into the pension system and increasing the activity rate of older persons are also stressed. The closing section comments on the possible social position of future pensioners.

## **9 The poor: non-working and working**

This chapter presents a summary of evidence on the development of poverty in the Czech Republic since 1989. First, the new sources of poverty after 1989 are described along with the new policy measures introduced to prevent or combat poverty. Income survey data is compared to show that it was the composition rather than the overall amount of relative poverty that changed most. Second, various monetary and subjective indicators of poverty are compared across time. Third, a special deprivation index is constructed and differences in the consumption patterns of poor and non-poor families are compared. Fourth, attention is devoted to the shift from “old poverty” to the “new poverty” that has arisen out of labour market failures. The problem of “the working poor” has emerged, but it is far less acute in the Czech Republic than in other EU countries. The chapter concludes by reviewing the particular features of the poor in the Czech Republic and outlining the directions for further research on the topic.

## **10 Work values and job attitudes**

The chapter is conceived as a contribution to a critical reading of opinion data and the presentation of ISSP modules on Work Orientations from 1997 and 2005 for the Czech Republic. In the first part, methodological problems regarding the inspection of work and job values are enumerated, using examples drawn from previous research. In the second part, some hypotheses are presented regarding work attitudes from the perspective of gender, age, and education. In the third part, people’s job and work expectations are compared with their perceived fulfilment. In the fourth part, workers’ perceptions of where they stand between the remote worlds of family and firm are considered and some factors of work and job satisfaction are examined. In the conclusion, the role of subjective perceptions in the economy is discussed.

## **11 The pervasive consumer society**

A variety of evidence demonstrating the rapid development of household consumption in the Czech Republic during the post-1989 period is gathered in this chapter. In the first part, the basic features of household consumption under the communist regime are described. In the second part, the transition to a market economy and its likely positive impact on the economic well-being and behaviour of households is discussed. In the third part, post-1989 changes in patterns of family expenditures are documented and compared with several other EU countries. In the fourth part, a critical assessment of the development of Czech consumer culture with its agencies and clients is placed in the context of broader debates about the meaning of mass consumerism. Both the positive and negative features of booming consumption are summarised in the conclusion.

## **12 Economic culture in transition**

There are no reliable tools for measuring changes in the subtle area of everyday culture. The distinction between communist and post-communist society was drafted

only in terms of assumptions, declarations, and expectations. This chapter first looks at the simplistic assumptions of the early phase of transition and at some possible ways of achieving a more realistic reflection on societal change. It then describes the patterns of economic behaviour during the transition and some of the ways in which the behaviour asserted by the communist regime resembles the assumptions of mainstream economics and “neoclassical virtues”. Third, several key concepts of economic thinking and the areas of ambiguity they engender across regimes are described. Fourth, the impact of EU accession on economic values in CEE countries and the Czech Republic is examined. The conclusion tackles the question of whether there was a true change in values during the transition.

### **Conclusion: The challenges of the future**

Although society responds to both politics and the economy, it evolves relatively independently of both and is a somewhat intangible entity. It contains richer sources of change, progresses at a slower pace, and functions with greater variety on its different levels. New essentials – the market and democracy – are rather challenges than given facts and the same is true of membership in the European Union. As a result of the economic recession, Czech society is facing tests on manifold fronts and the close reciprocal links between policies, structures and values become increasingly evident. Synthesising efforts in social research are needed that will help to better formulate future-oriented and wide-ranging policies.

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**This book** is a kind of “social report” on development over the past almost two decades in the areas of employment, social policies, earnings, income inequalities, and social structures with a focus to the situation of the middle class, pensioners and the poor, and socio-economic values relating to work and consumption. The aim is to provide a documented picture of Czech society using statistical and sociological surveys and other sources, and look also for systemic changes behind quantitative shifts.

*“Social reporting does not get any better than this. The author is a teacher of the people, not by lecturing but by informing. The book seeks to explain what happened in the Czech Republic by as far as possible displaying the facts and allowing facts to speak. It does not seek to trumpet any specific theory of transition, nor any discipline of analysis above others. It mixes and combines economic, sociological, and political analysis effortlessly and to great effect. Every chapter is robustly documented, including by both institutional analysis of policies and statistical analysis of social trends and distributions.”*

Professor Stein Ringen, University of Oxford

*“The study is a bright summary of the author’s extensive research work. It provides an original and innovative view of developments in Czech society in 1989–2008 by a high-profile researcher who has personally lived through the transition process. It is the best post-1990 socio-economic study of social developments about the Czech Republic I have read. The division of information corresponds to the basic problems of current Czech society. Although the author claims his scope is selective, all the basic socio-economic issues are nonetheless covered.”*

Professor Igor Tomeš, former Deputy Labour Minister  
and World Bank expert, Prague

**Jiří Večerník** is a senior researcher and head of the Department of Economic Sociology at the Institute of Sociology, Academy of Sciences of the Czech Republic. He is also editor-in-chief of the *Czech Sociological Review*. He has published work on the labour market and economic inequalities and cooperated with the OECD, the ILO, and the European Commission. In 1999, he co-edited the book *Ten Years of Re-building Capitalism. Czech Society after 1989* (Academia).



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