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Sociologický ústav AV ČR

This study was reviewed by:
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This study was supported by the Targeted Grant Scheme of the Grant Agency of the Academy of Sciences of the Czech Republic No. S 7028351 under the title “Structural Tensions in the Interface between the Labour Market and Social Policy from the Perspective of Human Resources and Social Inclusion”.

Structural Tensions in the Interface between the Labour Market and Social Policy in the Czech Republic

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Abstract

Efficient policies must be based not only on mainstream economics but to a large degree also on the social sciences. This study tries to demonstrate the links between the social structure and social policies. While in traditional societies structures mostly precede policies, to a great extent it is the opposite that occurs during the transition from a command to a market economy. The post-communist state interferes more than other governments in the social structure, and it supports strong actors. This hinders the expansion of the main actor in a successful transition – the middle class – whose stagnation or adverse development causes the social structure (disintegrated, polarised, and unstable) to become implicitly the main social problem, which in turn generates other “minor” problems. The middle-class perspective provides the framework for many tensions and latent conflicts in the structure of society.

Using a socio-economic approach we exhibit four types of socio-economic friction that develop between the middle class and other groups, between the new and the old middle class, between pensioners and the economically active, and between people with employment and the non-working poor. The first involves insufficient incentives for middle class expansion, which leads to a socio-economic trap: social polarisation. The second relates to tensions between various sections of the middle class, which result in a socio-structural trap: the autonomous corporatisation of sections of the middle class. The third relates to the pension system, which may give rise to a socio-political trap: excessive redistribution. The fourth involves the effective ratio between the wages of low categories of workers and the guaranteed subsistence income, which creates a socio-cultural trap: the spread of dependency status.

Such controversies are observed also as examples of an integrative approach to human resource development and the process of social inclusion. Social cohesion cannot be reached only from without, i.e. by redistribution, which must remain within limits in order not to hinder social change by distorting individual motivation and personal effort. The delineation of such limits cannot be drawn from a rational economic calculation alone; the social structure and its political, economic and cultural dimensions must also be taken into consideration, as when certain of their limits are exceeded another type of redistributive trap evolves; one that in the end, however, leads to a similar type of stagnation.

Keywords

social structure, social policy, social inclusion, middle class, pension system, poverty, income distribution, redistribution, Czech Republic

Strukturní napětí na pomezí trhu práce a sociální politiky v České republice

Jiří Večerník

Abstrakt

Efektivní politiky musí být založeny nejen na ekonomii hlavního proudu, nýbrž v širším rámci společenských věd. Studie chce k tomu přispět ukázkami pojítek mezi sociální strukturou a sociálními politikami. Zatímco v tradičních společnostech je sociální struktura přítomna většinou dříve než jsou formulovány politiky, v průběhu transformace se prosazuje opačný sled. Postkomunistický stát intervenuje více než jiné vlády do sociální struktury a podporuje silné aktéry. To pak brání expanzi hlavního aktéra úspěšné tranzice – střední třídy. Její stagnace nebo protichůdný vývoj způsobuje to, že sociální struktura (dezintegrovaná, polarizovaná a nestabilní) se implicitně stává tím hlavním sociálním problémem, který generuje další „menší“ problémy. Perspektiva střední třídy tak představuje rámec mnoha napětí a latentních konfliktů ve struktuře společnosti.

Z hlediska sociálně-ekonomického přístupu ukazujeme čtyři typy sociálně-ekonomických frikcí, které se rozvíjejí mezi střední třídou a ostatními skupinami, mezi „novou“ a „starou“ střední třídou, důchodci a ekonomicky aktivními, pracujícími a nepracujícími chudými. První napětí se týká nedostatečných podnětů pro expanzi střední třídy, která vede do sociálně-ekonomické pasti: k sociální polarizaci. Druhá oblast zahrnuje napětí mezi různými sekcemi střední třídy, které ústí do sociálně-strukturní pasti: k autonomní korporativizaci jednotlivých oddílů střední třídy. Třetí oblast se týká penzijního systému, který může produkovat sociálně-politickou past: nadměrnou redistribuci. Čtvrtá oblast se týká nevhodného poměru mezi mzdou nejnižších kategorií pracovníků a zaručeným minimálním příjmem, který vytváří socio-kulturní past: rozšiřování statusu závislosti.

Uvedené kontroverze jsou sledovány rovněž jako příklady integrujícího přístupu k rozvoji lidských zdrojů a procesu sociální inkluze. Sociální koheze nemůže být dosaženo pouze zvenčí, např. redistribucí. Přerozdělování musí zůstat v určitých mezích, tak aby nepodlamovalo individuální motivaci a osobní úsilí. Vymezení uvedených hranic však nemůže být jen výsledkem racionální ekonomické kalkulace, nýbrž musí zahrnout rovněž úvahy o společenské struktuře, která má svůj politický, sociální a kulturní rozměr. V každé z nich překročení určitých hranic vede sice do jiného typu redistribuční pasti, avšak nakonec ke stejné stagnaci.

Klíčová slova

sociální struktura, sociální politika, sociální inkluze, střední třída, penzijní systém, chudoba, příjmové rozdělení, redistribuce, Česká republika

Strukturelle Spannungen zwischen Arbeitsmarkt und Sozialpolitik in der Tschechischen Republik

Jiří Večerník

Abstraktum

Eine effektive Politikgestaltung darf sich nicht nur auf die Mainstream-Ökonomie stützen, sondern muss im breiteren Rahmen der Gesellschaftswissenschaften stattfinden. Hierzu will diese Studie beitragen, indem sie auf die Verbindungen zwischen der Sozialstruktur und den verschiedenen Ausprägungen von Sozialpolitik hinweist. Während die Sozialstruktur in traditionellen Gesellschaften vorhanden ist, bevor die Grundsätze der Politik formuliert werden, so setzt sich im Laufe der Transformation eine umgekehrte Reihenfolge durch. Der postkommunistische Staat interveniert mehr als andere Regierungen in die Sozialstruktur und unterstützt starke Akteure. Dies wiederum steht der Expansion der Mittelschicht als Hauptakteur einer erfolgreichen Transition entgegen. Die Stagnierung oder gegenläufige Entwicklung der Mittelschicht bewirkt, dass die (desintegrierte, polarisierte und instabile) Sozialstruktur implizit zum hauptsächlichen sozialen Problem wird, welches weitere "kleinere" Probleme hervorruft. Die Perspektive der Mittelschicht stellt so den Rahmen zahlreicher Spannungen und latenter Konflikte in der Gesellschaftsstruktur dar.

Hinsichtlich des sozio-ökonomischen Ansatzes weisen wir auf vier Arten sozio-ökonomischer Spannungen hin, die sich zwischen der Mittelschicht und anderen Gruppen, zwischen "neuer" und "alter" Mittelschicht zwischen Rentnern und Erwerbstätigen, zwischen Arbeitenden und nicht arbeitenden Armen entwickeln. Die erste Spannung betrifft die mangelhaften Anregungen für eine Expansion des Mittelstandes, die in eine sozio-ökonomische Falle führen: zur sozialen Polarisierung. Der zweite Bereich umfasst die Spannungen zwischen verschiedenen Abschnitten der Mittelschicht, die in eine sozial-strukturelle Falle führen: zur autonomen Korporatisierung der einzelnen Bereiche der Mittelschicht. Der dritte Bereich betrifft das Rentensystem, welches in eine sozial-politische Falle führen kann: zu einer übermäßigen Umverteilung. Der vierte Bereich betrifft das ungeeignete Verhältnis zwischen den Tiefstlöhnen und dem garantierten Mindesteinkommen, was in eine sozio-kulturelle Falle führt: zur Ausweitung des Zustands der Abhängigkeit.

Die angeführten Kontroversen werden gleichfalls als Beispiele eines integrierenden Ansatzes zur Entwicklung des Humankapitals und eines Prozesses der sozialen Inklusion verfolgt. Eine soziale Kohäsion kann nicht nur von außen, z.B. durch Umverteilung, erzielt werden. Die Umverteilung muss in gewissen Grenzen bleiben, um die individuelle Motivation und die persönliche Anstrengung nicht zu untergraben. Die Festlegung von Grenzen darf jedoch nicht allein das Ergebnis einer rationell-ökonomischen Kalkulation sein, sondern sie muss auch Gedanken über die Gesellschaftsstruktur in ihren politischen, sozialen und kulturellen Dimensionen umfassen. In jeder dieser Dimensionen

führt die Überschreitung bestimmter Grenzen zwar in eine andere Umverteilungsfalle, letztendlich aber zur selben Stagnation.

Schlüsselwörter

Sozialstruktur, Sozialpolitik, soziale Inklusion, Mittelschicht, Rentensystem, Armut, Einkommensverteilung, Umverteilung, Tschechische Republik

1. Social structures and policies

The social problems exposed or induced by the transition from a communist regime to a democratic society represent a challenge for political decision-making, and also, however indirectly, for economic and social research. There are numerous options regarding both how to approach these problems and which specific policies are chosen to address them. Usually, a simple calculation of economic or financial costs is made. It is less common to look at social problems, not in terms of direct gains and losses, but in terms of the relevant social actors and the long-term development of the socio-economic structure. We believe that not only quantitative costs but also qualitative changes in social relations are what matter. These include the frictions, cleavages, and latent conflicts that may appear or even explode onto the scene.

Many social problems are legacies of the previous regime that were not addressed energetically enough after 1989. Politicians failed to exploit the enormous political capital flowing from the liberalisation of society and did not facilitate public acceptance for the dismantling of former structures. As a result, the period of post-communism has been inestimably prolonged. On the one hand, the euphoria over the power that fell into the lap of the “elite” led to the evaporation of their will to implement thorough reforms of the economy and society. On the other hand, the “people’s” dissatisfaction with the slow pace of change undermined their confidence in the efficiency of the new regime and the competence of political leaders (Večerník 1998).

The transition from a command to a market system is anything but a straightforward and transparent process. Instead, during this process, the Pandora’s box of the past is opened slowly and often with unexpected results, owing to the state of ignorance society had previously been kept in. As a consequence, tensions and conflicts, as well as vested networks and interests, become visible and are further developed. In the face of the complexity of the transition process, simplistic economic explanations then become untenable. Mainstream economics is now criticised not only from without (by various streams of economic sociology), but even from within, by economists themselves, e.g. under the umbrella of the “Post-Washington Consensus”, which challenges simplistic views (Stiglitz 1998).

In response to the economic descriptions of transformation and the real failures of macro-economic formulae, in the late 1990s many studies were made of institutions and social structures. The most important of these include the institutionally oriented study by Jon Elster, Claus Offe and others on “rebuilding the ship at sea” (Elster, Offe and Preuss 1998), and the socio-structural study by Iván Széleányi and his colleagues on “making capitalism without capitalists” (Eyal, Széleányi and Townsley 1998). Here, we can also refer to a study that featured a contrasting topic of financial markets on “how to save capitalism from the capitalists” (Rajan and Zingales 2003).

An area of special interest is the political and institutional background of social policy in general and of pension reform in particular (Cook, Orenstein and Rueschemeyer 1999; Orenstein 2000; Müller 1999). Another significant strand in this literature concerns the economic and social position of the middle class (Strobel 1993; Landes 1998; Kreml 1997; Večerník 1999; Easterly 2000). Also, the European Union has progressed, and it uses a broad conceptual framework for capturing and mainstreaming various policies aimed at promoting a competitive, knowledge-based, and socially inclusive society (European Commission 2002 and 2004).

A recent document on social inclusion in the acceding countries indicates that they “...face many of the same major structural changes as the existing Member States which, while creating new opportunities for jobs and social inclusion, also add in many cases to the vulnerability of those unable to adapt by themselves to the new needs. These include: restructuring of the labour market in response to rapid economic change and globalisation; rapid growth of the knowledge society and ICT; ageing populations and higher dependency ratios; continuing changes in household structures. However, the pace of industrial and agricultural restructuring tends to be higher in acceding countries and this is set to continue for some time. This brings significant new risks of exclusion for some people, particularly the unskilled and older workers, and for some regions in terms of increased unemployment. This, when combined with increasing income disparities that are likely to be the effect of rapid economic growth, may result in rising numbers of people at risk of poverty” (European Commission 2004: 5).

Although in poverty and social inclusion issues the Czech Republic performs better than some other acceding countries, it also faces many problems. Therefore, social cohesion should be addressed in policies and necessarily also in background research (Večerník 2002). We must comprehend the problem in a broader framework, beyond the standard economic approach. In the narrow economic approach, social problems are considered from without as the price to be paid for the achievement of reforms, and it is possible to give a quantitative estimation of their costs. But in a broader socio-economic approach we look at social problems from the inside and also consider the qualitative transformation of the social structure.

This study is organised as follows. In the first part, the importance of the social structure is emphasised, and an outline is made of the historically unique reversal of the traditional sequence of first social structure then policy in the case of the transitional society. In the second part, various channels of state intervention in the social structure and its various dimensions are overviewed. In the third part, a brief profile is provided of some of the main background actors. In the fourth part, the dynamics of the socio-economic structure are elaborated, with a focus on the middle class. In the conclusion, we look at the role of redistribution in modern society and its limits.

1.1 Structures and policies: normal or reversed sequence

The end of the command economy and of the oppressive and paternalistic communist state has brought opportunities for social promotion to many, but also economic difficulties for large sections of the population, as the whole social landscape went into flux. The increasing income inequality that occurs during a transition has raised questions about who gains and who loses, and about how individuals and households respond differently to new challenges. Researchers have begun adopting various policies from models in Western countries, comparing the effects of their inter-

vention in the economy, and whether they were favourable (increasing incentives for work and business) or unfavourable (abuse of benefits, poverty traps, and moral hazards).

Although influenced by path dependency (Stark 1992), the post-communist transformation differs in most respects from a continuous historical process. In reform countries, transformation entails radical interventions in which the centralised system is dismantled, the field of the state shrinks, and policies change considerably within a permanently adjusting political and economic framework. Necessarily, a new social structure results from the process, though only partly as an explicit objective of policy. This differs from the experience of continuous societies, where gradual changes in the social structure generate social problems that only afterwards become the object of specific social policies.

Here, Gösta Esping-Andersen's explanation of welfare regimes is inspiring. He went beyond the obvious quantitative measurements, using relevant expenditures, to include their qualitative definition according to divergent class interests lobbying for distinct social policies (Esping-Andersen 1990). This of course is not a new perspective. Karl Polanyi (1957) has already demonstrated that even the establishment of "laissez-faire" capitalism was anything but spontaneous. Even so, in the 19th century policy usually played more of a corrective role, unlike in the post-communist transformation, where the role of policy is foundational. The new structure of ownership, income, and the distribution of wealth have been formed from above through an exclusively political process.

However, it is also not a case of *tabula rasa*. Transition takes place in a society permeated by social networks from the past and in an environment full of vested interests and old habits. The "velvet" character of the Czech transition allowed these networks to remain active and to develop, and also made it possible to award unethical behaviour. The absence of any political will to enforce new rules allowed insiders to effectively shape both the redistribution of property and the functioning of new institutions. This demonstrates that politics is not something abstract and capable of imposing a rational order from above, but is rather only the product of lasting and newly created interests, usually more particular than they have been presented.

In such an extraordinary situation the original historical sequence of "social structure – social problems – social policies" was reversed. The former social system was dismantled by political instruments, while other policies reacted to the problems that had been newly created. A "side effect" of this process was a transformed social structure, which acted and worked in various ways: it could mitigate or exacerbate old problems, or generate or prevent new problems. The long and complex process of all sorts of replacements, conversions, adjustments, and modifications entails not only economic but also sociological and political dimensions.

From the perspective of the continuously changing social structure, social problems not only constitute deficiencies originating at the margins of the system, they are also in some sense the very attributes of its content. Therefore, the structure of society itself can become the main "social problem", if persistent or even intensifying tensions are built into its very core. Because the structure is no longer repressed by state force (as it was in the communist regime), latent conflicts between various social and interest groups can occasionally flare up. Short-term policies that address effects instead of causes can unintentionally contribute to undesirable changes in the social structure, which can eventually create bigger problems than those originally targeted.

Since social change can in reality only be achieved in a differentiated social structure, the concept of social change is crucial. However, the given concept should go beyond simplified and pure-

ly descriptive meanings. In particular, the Marxist focus on the central conflict between labour and capital must be altered, but the focus on the conflict of interests (in a broad sense) needs to be maintained. In fact, there are at least several concepts of structure which are more or less comprehensive, more or less explicit, and, therefore, more or less feasible and easily applicable in research. Let us briefly mention some which might provide inspiration for understanding transition.

Peter L. Berger somewhat imitates the Marxist conflictualist vision, but he also locates major social tensions within the middle class: “Contemporary Western societies are characterized by a continued conflict between two classes, the old middle class (occupied in the production and distribution of material goods and services) and the new middle class (occupied in the production and distribution of symbolic knowledge)” (Berger 1986: 67). It should be added that the new middle class is not homogeneous either, and the conflict between private and public services can also affect the future.

For Mark Granovetter and other proponents of the “new economic sociology”, economic behaviour is “embedded” in the social structure, the essence of which are social relations and networks. Here, not only individual interests are important, but also relationships, because economic action, like any other social action, is always permeated by sociability, approval, status, and power. Institutions can be viewed as congealed networks. Granovetter’s “structural analysis” rejects methodological individualism, technological and material determinism, and explanations that rely on abstract concepts such as ideas, values, or cognitive maps (Granovetter 1985; Swedberg 2003).

Pierre Bourdieu considers Granovetter’s interactionism to be too simplified, and he proposes understanding economic behaviour through the use of a bundle of closely interrelated (often substituted) notions: economic space or, preferably, fields, which are structured by various forms of capital (financial, cultural, social, symbolic, etc.) and reproduce power relations, which eventually shape and dominate the former. A related concept is that of *habitus* as “socialised subjectivity”: “The social agent provided with *habitus* is a collective individual or an individualized collective by the fact of incorporation of objective structures...” (Bourdieu 2000: 259).

Iván Szelényi and his collaborators applied and developed Bourdieu’s approach and explained the change of social structure under various regimes using concepts of capitals, social space and *habitus*. Unlike Bourdieu, they only marginally speak about the middle class, distinguishing basically a propertied class, a working class, and intellectuals. The formation of classes under post-communism is, however, a “highly contested process”, and they speak of a “bourgeoisie in-the-making”, with unclear outcomes for ownership and control (Eyal, Szelényi and Townsley 1998: 15).

In the transition society, it is only possible to refer to the middle class as “in-the-making”; we cannot be sure about its future. What matters is its “forward-oriented” open message, which corresponds to the change in values, the transforming economic structure, and the related dynamics of transition. This goes far beyond the usual application of the middle-class as a simple, descriptive tool of social composition. Bourdieu’s explanation of the social structure is enlightening here because of its compelling realism, and also because of his understanding of the often not visible but nonetheless crucial role of the state in the economy during the building of institutions as well as markets.¹

In Scheme 1.1, we provide an overview of different – if not opposing – value orientations, which involve all the main aspects of economic and social life. Of course, this is just a stylised draft,

¹ The best example of how this works was presented by Pierre Bourdieu in his in-depth survey of the housing market (Bourdieu 2000).

Scheme 1.1 Value orientations of the “working class” and the “middle class” (stylised)

Area	“Working class”	“Middle class”
Time is oriented towards	past (accumulated labour)	future (creative destruction)
Valued especially is	manual, routine work	intellectual, managerial work
Economic growth is mainly based on	productive capital	human capital
Economic value is produced on the side of	supply of producers (costs)	demand of consumers (attractiveness)
Consumption is oriented according to	needs (basic)	preferences
Social justice concerns	distributive results	opportunities
Social structure is directed towards	homogeneity	differentiation
Social contract concerns	social guarantees	social opportunities
Entrepreneur is conceived as	attribute of capital (Marx)	producer of innovations (Schumpeter)
Preferred type of firm	big company	small and medium enterprise

as it is rooted in, main doctrines of Marx on the one hand and many social-liberal thinkers on the other, such as Joseph Schumpeter, Karl Polanyi, P.L. Berger, or Pierre Bourdieu, and many others. All of them perceived society not as the sum of individuals but as structures, fields and, movements, which incorporate regulation and develop with the involvement of not only individual but also collective actors. We will discuss some aspects mentioned in Scheme 1.1 further on.

1.2 Policies: the state in the forefront

There are many channels through which the state may intervene in the economy and society. Not only is it responsible for general security, justice, and public goods, but the modern state also retains the responsibility for generating the institutional environment of markets, redistributing income, and assisting disadvantaged groups. Here, the state’s role varies depending on welfare system traditions, and policies are adapted according to the current government’s priorities. Despite the convergence of general approaches there is still considerable diversity in specific national policies, which differ according to the amounts that are spent and the channels that are used.

The Czech state has traditionally been one with a strong bureaucracy, a tradition that dates back to the time of the Austro-Hungarian Empire. The welfare state of pre-war Czechoslovakia was among the most generous in the world. Universal state care was converted into totalitarian paternalism under communist rule. The state’s powers peaked during privatisation, and then they shrank less than was expected after the accomplishment of the main steps of reform, developing the features of a “fiscal state”, in Schumpeter’s sense of the term (Swedberg 2003). On the one hand, big gov-

ernment creates a large fiscal burden and exaggerated expectations among the population. On the other hand, it can ensure social cohesion via protection and equalising income redistribution, but also by enforcing the activation of marginalised groups.

Tax policy. The overall tax burden in the country hovers around the OECD average, but it is far higher than it was in other countries at the same level of development, or than it is in the previous newcomers to the EU, such as Greece, Ireland, Portugal and Spain. According to analyses carried out by the OECD it is particularly the mandatory social contributions that increase labour costs in the CR. The result is growing unemployment, mainly among the low-skilled labour force (Bronchi and Burns 2000). The current trend is to replace direct taxes by indirect ones and to reduce the progressiveness of taxation. This should support business, but it will also restructure purchasing power to benefit higher income categories.

Housing policy. There are still systemic changes that need to be completed in order to open up the housing market and facilitate work-related migration. The situation remains good particularly for tenants of former state-owned flats, but it is critical for young people and for all those who would otherwise be willing to move for the sake of work (UN Economic Commission Report of July 2002). Rent regulation is the major reason why the maintenance of the existing housing stock suffers from under-investment, new houses with tenant flats are rarely built, and the prices of new flats are soaring owing to market speculation (Lux 2003). Considerably unfair differences are produced in social and generational terms.

Education policy. Although the Czech education system maintains its traditionally fair quality, it is far from fulfilling the requirements of a knowledge-based society. The development of information technology and e-knowledge is slow. The existing system of financing fails to respond to the increasing demand among young people for higher education, as well as the increasing demand among firms for well-educated and motivated professionals. In tertiary education enrolment the Czech Republic lags behind other reform countries, and the selection process for gaining access to higher education is a source of growing social inequality (Matějů and Simonová 2003).

Social policy. According to EU and OECD recommendations, the Czech system needs to be transformed in order to better target the poor and simultaneously to strengthen work incentives. It is necessary to abolish abuses of the social and sickness benefits system, particularly on the part of low-income categories (OECD 2003). However, the system suffers from the flip side of generosity – the poverty trap. The more targeted the benefits to the poorest groups are, the more they interfere with work incentives (Schneider and Jelínek 2001). The unbalanced interface between welfare and the labour market is only slowly and hesitantly coming to be addressed.

Employment policy. Employment services support people in seeking new jobs or in starting up a business. Employers are provided with financial support to create new jobs and to retrain their employees. Active labour market policy was quite intensive immediately after 1990, but later it was reduced; it expanded somewhat again after 1998 when unemployment began to grow. Conditions for self-employment remain unfavourable and the only energetic measure – the increase of the minimum wage – has had rather adverse effects on employment (Kertein and Köllö 2004). The numbers and the proportion of long-term unemployed create a cleavage within the labour force.

Of course there are many more areas than those mentioned here. Various taxations, regulations, redistributions, selections, targeting (or not) of benefits, and impartial (or not) state support, all these contribute to the empowerment (or not) of people and their various capitals in Bourdieu's sense. Not only economic activity, work status, earnings, and the social prestige of individual persons and fam-

ilies are shaped by the state; it also configures the social structure and the economic space that channel people's efforts, motivations, and expectations. However, the state is not something abstract, and its policies are not formed solely with the rational aim of improving the general welfare. In fact, the state is permeated by various actors, and by their various networks, communities, organisations, and structures.

1.3 Structures: actors in the background

Transitional Czech society has maintained many of its former structures. Behind the facade of a liberal policy, strong actors have been supported and a high degree of redistribution maintained. Policies of granting generous credits to keep large firms afloat while exposing new firms to ruthless competition have been at cross-purposes with the declared aim of creating a free market economy. Social employment (labour hoarding) in large firms, rent regulation (which favours those citizens who received state apartments under communism), and quite generous social benefits nourish the continuing expectations of state protection.

The feasibility of any policy usually depends on deeply rooted structures of incentives/disincentives and active/resistant actors. Nevertheless, the patterns created during early transition are not always clear. Privatisation not only brought about the improved performance of the economy but also ushered in the disturbing forces of particularised interests and corruption. The newly gained freedom was expected to come hand in hand with a willingness to seek the best possible solutions and the onset of "meritocracy". However, exploitative and redistributive forces have proven to be generally faster and stronger than creative and productive ones. In fact, no new society was able to emerge; the previous one was just reconfigured by changing the frameworks, rules, conditions and incentives.

While bearing in mind the dialectics of continuity and discontinuity, here we offer an overview of the major networks and processes, and their difficulties and perspectives.

Ownership structures. Privatisation was processed in mainly a formal, administrative manner, which obscured the real processes occurring in interest and clan groupings. Here, Coase's theorem comes to mind, as it assumes that, however ownership rights are distributed in the beginning, in the end the assets will eventually get into the hands of responsible owners. According to this assumption, the most important thing for reaching this goal is speed, necessary in order to minimise the chances of a misappropriation of assets occurring in the "interregnum" (Klaus and Tříska 1995). Following many disturbances the ownership structure has gradually become clear, and among the reasons for this is the massive influx of foreign investors.

Management structures. During "big" privatisation, the dominant type of accepted privatisation projects were those presented by former managers of state-owned firms. This was because they were able to make effective use of inside information and familiar networks. The selection of managers also determined the future of these firms, which were administered in the "Homo se assicurans" mode that belonged to the previous era of the planned economy (Hlaváček 1999) instead of being run with modern management methods. Along with the clearance of property rights and the introduction of standard methods, there was a generational change, with the arrival of well-trained and responsible managers. Their links to the state continue to be numerous but they remain obscure.

Social partners. The two traditional partners in a social dialogue are not particularly strong in the Czech Republic. On the one hand, the action of trade unions has been limited owing to the legacy

of the communist past. On the other hand, employer organisations have emerged from above, and they have remained dispersed, filling more of an informative than mobilising function.² Neither has government contributed much to the dialogue. While the “liberal” governments of the early 1990s were somewhat hostile to social partnership (due to its inadequate market conformity), the “socialist” rulers of the late 1990s and 2000s are co-operative but only to a limited degree – and the trade unions accuse them of betraying their social-democratic programme.

Civil society’s networks. Civil society was one of the battlefields of the two political wings during most of the 1990s, in the face off between advocates of the “nothing-but-parties” political concept on the one hand and proponents of “capitalism with a human face” on the other. In fact, civic organisations faced numerous obstacles and received little support, and they have developed fairly well largely thanks to primarily international resources. Nevertheless, they are still expanding slowly from below, and they currently cover a remarkable range of activities. The several attempts they have made to get into politics have, however, failed.

State bureaucracy. State administration works ambivalently. In comparison with other transition countries the early transformation is generally considered to have been “administered quite well” (Orenstein 1994). At the same time, however, the state apparatus doubled in size, which contributed to the spread of the corrupt environment, further buttressed by the chaos of legislation in a state of flux. Although the idea of a “small but strong” state never caught on, certain improvements could (yet) be expected in that regard, given the better qualifications possessed by personnel, the more modern facilities, and the advantages of occupying a solid position in state administration in the light of the turbulent labour market outside.

While these and other structures are easy to see and describe, there are others that remain somewhat hidden, such as the networks built on personal ties of mutual profit and joint rent-seeking behaviour. They often transcend the boundaries between the market and the state, legal and non-legal entrepreneurship, and activities in the formal and informal spheres. The constant flux in the legislation and organisation relating to state administration obstructs the shaping of independent actors on the scene of the economy and society. Transition countries are generally more vulnerable to corruption, and the Czech Republic is no exception. The picture of corruption looks gloomy, and the country’s ranking in the corruption index is deteriorating.³

1.4 Middle-class dynamics and tensions

Emphasising the dynamics of structures and actors would seem an obvious approach, but it is not the custom to do so in socio-economic research concepts and analysis. Most often, static apparatus is used instead – such as the rich/poor division of society. Modern policy-oriented research rejects ideologically biased concepts and replaces them with dynamic policy concepts – such as empowerment, social inclusion, and social cohesion. This way, the concept of the middle class can also be used for analysing processes. Several economists have even used this concept for a broader explanation of economic growth, which contrasts with the simplistic view of the economic mainstream.

² For the first time since 1989, a demonstration of small entrepreneurs is planned to be held in mid-2004, protesting, in particular, the stricter conditions for payroll tax introduced in the latest government reform of public finance.

³ According to the Transparency International Index, the country fell from 37th to 47th position between 1998 and 2002 (Corruption 2002: 53).

Scheme 1.2 Barriers to the formation of the middle class under various regimes (stylised)

Area	“Communist regime”	“Capitalist regime”
Social classes:		
“Leisure” <i>upper class</i>	Political criteria of selection	Conversion of positions, assets stripping in privatisation
“Parasite” <i>lower class</i>	Compulsory employment	Unemployment and poverty traps, benefit dependency
State bureaucracy	Political control over citizens	Bureaucratic expansion, etatism
Social processes:		
Redistribution (of income and wealth)	Income equalisation, social homogeneity	Privatisation, nurturing state deficit
Stagnation of the public goods (education, infrastructure)	Industrial strategy, individuals as “soldiers of labour”	Inefficient state, people as “free citizens”
Rent-seeking (limiting incentives)	Absent relation between effort and reward	Political capitalism, redistribution
Social phenomena:		
Shadow economy	Replacement of the lack of services, alternative coping strategies	Avoiding the tax burden, income maintenance and better-off strategies
Corruption	Limits on the market	Rent-seeking
Indebting future	Political imperatives, indifference to the future	Corruption of voters, “state capture”

In the view of economists Engerman and Sokoloff (1997), unlike countries with rich natural resources, which create parasitic upper classes that arrogate the national wealth, societies with a strong middle class are better positioned to tap their human capital. William Easterly of the World Bank coined the term “middle-class consensus” to assess the situation of social equality and ethnic homogeneity that is important for reaching higher economic growth. Using 80 countries as an example he proved that the societies with a strong middle class show a greater accumulation of human capital and better infrastructure, resulting in higher incomes and growth rates, more democracy, and less political instability (Easterly 2000).

Taking the example of “the middle class and its enemies” (to paraphrase Karl Popper), we can frame social problems in the context of how they proceeded or took on new shapes during the transition (Scheme 1.2). From the middle-class standpoint an unproductive *upper class* emerged, quite in keeping with how Thorstein Veblen once described the formation of the “leisure class”, whose rise is not based on productive activities but on financial ones (Veblen 1962). In his view, the leisure class comprises activities connected with acquiring property, while in the productive class the activities involve manufacturing and other creative activities. Financial activities involve a higher level of respect than productive work, but they also encourage greed and predatory tendencies. Czech pri-

vatisation methods allowed such “financial activities” to expand and thus supported the establishment of the upper class.

On the other hand, Czech capitalism of the early 1990s also permitted the formation of a lower class of victims – some of them even willing ones – of the social system. Of course, there had already been many such persons during the socialist regime, hidden under the cloak of compulsory employment and basic social protection. During the early transformation so-called social employment continued to exist thanks to the shielding of companies through generous credit. Yet even today there is still a relatively generous welfare system, which traps those who would otherwise work or, under different circumstances, would be forced to. While governments in advanced countries are already applying various activation and workfare policies (Lind and Hornemann Möller 1999) only vague considerations in this regard have as yet been declared in the Czech Republic.

The reproduced upper and lower classes (or more precisely, segments of them profiting from illegitimate redistribution) oppose economic adjustment. The former class sends out an alluring signal that wealth does not stem from production but from redistribution (which precisely corresponds to the working class’ preoccupation with the past), while the latter class speaks of the protective welfare state (corresponding to the working class’ social guarantees). In the first case, creative and discovering business activity degenerates to transferring property rights. In the second case, human capital is reduced from being the most valued productive asset to dependency status. In both cases the key role is played by the state’s channels of redistribution, whether manifest or hidden.

However, there is yet a third social category, which also seems to be in opposition to the middle class, refusing its values (though they partially intersperse) – *the state bureaucracy*. It is nevertheless very hard to draw a line between the state administration as a public service to the economy and society to the necessary degree, and an expansionist, parasitic and authoritarian bureaucracy. Its size and power grows along with the scale of state redistribution: the bigger and more complex the structure of institutions, the more often they form rigid networks, and the more poorly they function.

The middle-class perspective involves many tensions and latent conflicts on the structural level of the economy and society. As examples we present here four types of socio-economic frictions, which concern pensioners, working/non-working poor, the middle class in society, and the internal composition of the middle class (Scheme 1.3).

1. *The middle class “versus” other groups.* The expansion of the middle class has been hindered during the transition by the weak support given to small businesses and by limited recovery of key sections of white-collar workers (professionals). The middle class has considerably benefited during the transition, gaining entrepreneurial and education freedoms. However, while the upper class were able to capitalise on their advantages, and the poor were able to continue to receive protection at the subsistence minimum, the middle class became the most burdened group (Večerník 1998). As a consequence a socio-economic trap may arise in the form of social polarisation, once lower sections of the middle class begin to move towards the poverty line.

The middle class is not just a manifest outcome, but is primarily an important precondition for a successful transition, one which has a constitutive or integrating role in many areas of social and economic life: “Countries with a middle class consensus are fortunate societies... We can see why relatively homogenous middle-class societies have more income and growth, because they have more human capital and infrastructure accumulation, they have better national economic poli-

Scheme 1.3 Two views of social problems (stylised)

Kind of controversy	Standard economic	Complementary socio-economic
1. Middle class vs. other categories	No focused analysis (poor vs. rich vocabulary)	Socio-economic trap, vertical cleavages, social polarisation
2. The “old” vs. “new” middle class, bureaucracy vs. human capital	No focused analysis (reference to market forces)	Socio-structural trap, horizontal cleavages, corporatism
3. Pensioners vs. economically active	Threat of fiscal crisis of the state	Socio-political trap, excessive redistribution
4. Working poor vs. non-working poor	Rise of wages, wage equalisation, unemployment	Socio-cultural trap, strengthening of “dependency status”

cies, more democracy, less political instability, more modern sectoral structure, and more urbanization” (Easterly 2000: 29).

2. *Sections of the middle class “versus” each other.* The current state of individual branches within the tertiary sector varies, mostly due to the policies applied early in the transition. The result is quite unequal positions and uneven dynamics in the individual sections of the middle class. Generally, however, human capital was pushed into the background by financial capital, and small business has suffered from weak support and selective credit policies. It looks as though the only small and medium-sized businesses to survive will be those connected to large enterprises and their cartels or to the state bureaucracy. Thus, they operate largely along the borderline between the formal and informal economies (Benáček 1994).

The socio-structural trap of unbalanced development within the middle class can lead to an autonomous corporatisation of individual sectors. This means that the middle class would no longer rely on the trickle-down effect, but would use corporatist instruments in asserting their demands. Despite their weak bargaining powers so far, it is likely that individual sections of the middle class will strengthen their existing associations or will form new corporatist bodies, making use of a greater range of chambers and unions which would ensure them better living standards through redistribution.

3. *Pensioners “versus” the economically active.* The fact that old-age security is exclusively a matter of redistribution handled by the state relegates pensioners to the status of the socially needy (poor) and pits them against the economically active population. From an economic point of view, the unresolved situation of pensioners could undoubtedly lead to a state fiscal crisis. From a structural point of view, we have to talk about the *socio-political redistribution trap*. If the pension system is founded only on intergenerational solidarity, and the social position of pensioners is based only

on redistribution, then their political support will focus on growing redistribution, with all the negative consequences that entails.

An effective strategy for dealing with this problem would be to weaken what until now has been the almost exclusive dependence of pensioners on the economically active population and to strengthen the continuity of an individual's social status throughout his or her life cycle. In other words, in addition to the principle of mandatory intergenerational solidarity, it is necessary to build up the principle of individual responsibility. Only by strengthening the dependence of the social position of the elderly on their prior savings and accumulated property will it be possible to relieve pensioners (their middle-class majority in particular) of the unwarranted status as poor or socially needy.

4. *Non-working poor "versus" low-paid workers.* The fact that social benefits almost equal to the lowest wage levels forces unskilled workers out of the labour market, keeps them there, and creates an unemployment trap. From the economic point of view, the inverted relationship between insufficient income derived from employment benefits and the relatively more comfortable income from welfare benefits produces an adverse effect (obviously, we must not forget that in this case we are comparing the situation of an individual with that of a family). Moreover, this indicates that the socio-cultural level of society is higher than the actual performance of the economy – in other words, the established "standard family budget" has little connection with the market price of labour.

This is how pressure for increasing social transfers arises. From the perspective of the labour market, it creates a dangerous unemployment trap, which facilitates exit from employment or even the labour force. From an employer's perspective, it weakens the undoubtedly desirable wage restraint stemming from a surplus of labour supply over demand. At the same time it also creates a *socio-cultural trap* in the production and reproduction of social exclusion, leading to increasing benefit dependency. A possible solution is workfare and activation, i.e. making the working and training activity of the unemployed person a relevant criterion for benefit entitlement.

From the structural point of view, the middle class is in this case not only a direct actor (as in the first and second case) but also serves as a reference group (as in the third and fourth case). Both pensioners and low-paid workers are involuntary poor and have a natural tendency to become middle-class members too – pensioners through "emeritus" status, and the working poor through labour mobility. Such an integrative framework is meant to stress that the use of the word "versus" in describing these frictions does not mean cleavages or open conflicts, but rather attention to divergent socio-economic interests. These interests are often built into the system itself and as a result they can have a long-term character and in time may show a tendency to increase.

1.5 Conclusion

This study tries to put social policies into the broader framework of social structures. There are many links between the social structure and social policies, and their sequencing and interactions can differ. While in traditional societies, structures mostly precede policies, to a great deal the opposite occurs during the transition from a command to a market economy. The post-communist state is "regulatory more than proprietary", like any other modern state (Turner 2000: 12). Nevertheless, it interferes more than others in the social structure, supporting strong actors instead of combating them. This hinders the formation of the main collective actor in a successful transition – the middle

class. In such a case, instead of being the main tool of social cohesion, the social structure becomes the main social problem, which generates endless chain of “minor” problems.

The size, position and dynamics of the middle class – whether as a direct actor or as a reference group – could be taken as the primary criterion of social cohesion. Its absence, insufficiencies and weaknesses lie also at the core of various tensions within the social structure. It is not the occurrence of tensions but rather their dynamics that matters – whether it is an integrative, creative and future-oriented development, or, in contrast, whether it is redistribution-based stagnation, which leads to a disintegrated, unstable, or even polarised social structure. Experience shows that development cannot be imported, it should be endogenous (Turner 2000: 12), and so it is with social cohesion, too. This is to say that it cannot be reached from the outside – e.g. by redistribution – alone.

In modern society, redistribution is undoubtedly an important tool for maintaining social cohesion. However, it must remain within restricted limits in order not to hinder social change by distorting individual motivation and personal effort, which produce middle-class economic values and the social environment. The determination of such limits cannot result from rational economic calculation alone, but should also involve consideration of the social structure and its political, economic, and cultural dimensions. Within each of these, exceeding certain limits leads to another type of redistributive trap and in the end also to the same stagnation.

2. The middle class

Post-communist transformation involves a thorough reform of the political regime, economic system, and also the system of social protection. Whereas political reform installs democracy in place of totalitarian rule, and economic reform introduces a market mechanism in place of the command system, social reform is directed at replacing state paternalism with a balanced mixture of moderate solidarity and individual responsibility. All reforms must be sufficiently harmonised in order to create a politically open, economically efficient, and socially just and cohesive society.

When referring to the social sphere we usually have in mind the system of providing pensions, social benefits, and services. But there is yet another “social aspect” of reforms that has often been neglected: the social structure, which undergoes substantial changes and can either support or impede social cohesion. Not only the social composition of society and the social hierarchy change, but “social hegemony” also experiences an important shift. Here we have in mind the leading or reference groups in society, and we assume that the shift of “social hegemony” in the post-communist period consists in substituting the working class with the middle classes at the centre of society.

However, the middle classes are not only a result but also a condition of successful transformation. Their expansion launches and strengthens modernising changes in the value system and institutions. This raises the questions of to what degree economic and social reforms have benefited the middle classes and how they have been able to expand and improve their position in the post-1989 changes. This chapter first tries to outline the concept of “social hegemony”. Second, it examines some effects of the economic reform on the middle classes. Third, it devotes attention to social reform, and special attention to income inequality and the redistribution of income through taxes and benefits. Fourth, it provides a comparison of attitudes among social classes, which document the continued though not too strong support of the new regime by the middle classes.

2.1 Changing social hegemony: from working class to middle class

Whereas the post-communist transformation is certainly well defined in political and economic terms, its definition in terms of social structure and cohesion is less clearly cut. It may be assumed that it is framed by a shift in class proportions and hegemony in favour of the middle classes. The concept of “social hegemony” defines the social group that is advantaged by the socio-economic system, and consequently, the social group that in turn supports the regime economically and politi-

cally and endorses it morally. Depending on the regime and the perspective, the social hegemony of a class might be real or normative, true or fictitious, apparent or hidden.⁴

The communist regime insisted that its system was designed for the working class, which was appointed to dominate and govern society. Because Marx's prophecy about the automatic elimination of all social groups located between the proletariat and bourgeoisie was not fulfilled in capitalist society, his later disciples tried to assert it by the forceful homogenisation of society into an "aggregate worker". Working class hegemony was certainly real, if we consider the fact that the living conditions of the entire society were deliberately reduced to the lowest common denominator of the industrial worker. It was, however, fictitious in the realm of political rule. In fact, it endorsed the communist regime and facilitated the totalitarian control of society by a small ruling class – the nomenklatura.

The middle classes – small entrepreneurs and white-collars – represented a challenge to the Marxist orthodoxy and were considered to be harmful to the functioning of the communist regime. Therefore, the latter sought to squeeze them out of social and intellectual life. They were 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 by the iron laws of history to disappear forever, and by stigmatising intelligentsia as an unreliable and suspect strata).

The fall of communism opened the door to three important changes that have returned the middle classes to the centre of socio-economic dynamics. The first is the "capitalist revolution", which opened the road to free trade and where entrepreneurs are the key figures in the reintroduction of the market system. The second is the "information revolution", whereby the transformation was to unlock the doors to technology and organisational innovations, allowing the advancement of those with particularly high qualifications. The third is 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 in relation to the economy and society. They also pave the road to the shift in proportion and social hegemony from the working class to the middle classes.

Working class hegemony is basically outlined in Marxist political economy, with the labour theory of value as its 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 on the basis of the labour performed in the past by manual workers had far-reaching consequences in terms of historical developments and real life under socialism. First, it legitimised the confiscation of all previously accumulated wealth. Second, historical time could be slowed down or brought to a halt (e.g. by the attempt to fix prices forever). Third, managerial or intellectual labour could be devalued, because it seemingly brought no new value. And fourth,

4 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). We can ascribe this concept with a larger meaning in the sense that the "hegemonic" class might also be that according to which the values of a society are directed or shaped.

the production and supply side could be strengthened to the disadvantage of trade and the demand side.

According to the capitalist alternative, society is organised from within, following the market principle. The opposition to the objective, supply, and past-related concept culminated in the “marginalist revolution” in economics and the engendering of the subjective concept of value, emphasised especially by the Austrian school: “Market prices are entirely determined by the value judgments of men as they really act” (Mises 1949: 332). This placed the focus on the demand side, consumers, and expectations. It is not production but the purchasing of goods that becomes the 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.

Each of the above approaches is also 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”, a “weapon against communism” and the “economic theory of the leisure class”, this most explicitly by N. Bukharin (Shand 1984: 46–48). Although such a shortcut between economic and class theory 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 of “Marxist” or “market” societies, the emphases are different: either manual or intellectual work, rank-and-file workers or managers, producers or consumers, the working class or the middle classes.

Contrary to Marx’s prophecy, the number of people located in between the sides of “pure” labour and “pure” capital and expressing the ambivalence of private and public spheres increased and became dominant in traditional Western societies in economic and socio-political terms. We must also consider that the methodology of the middle classes cannot be the same as that of the working class. The middle classes can hardly be objectively defined to such a degree as the working class in Marx’s interpretation. A definition based exclusively on occupation is not enough here. In understanding middle classes, the Weberian concepts of “the earning class” (*Erwerbsklasse*) as a market position, “the social class” (*Soziale Klasse*) in his specific sense, and “the status group” (*Stand*) are combined.⁵

In transforming countries, the social structure is even more obscure than in traditional capitalist countries and the degree to which the middle classes are established could be the subject of continuous debate. If we propose their more comprehensive delineation in the Weberian sense, we should observe not only changes in occupation but also in material conditions of life, associative links, and people’s opinions. Moreover, the distinct status and common interests of the individual groups belonging to the middle classes would be displayed in political life, creating chambers, associations, and trade unions.

Following P.L. Berger, we can distinguish here the “old” middle class, occupied with the production and distribution of material goods and services, and the “new” middle class, occupied with the production and distribution of symbolic knowledge (Berger 1986: 67). It turns out that where-

⁵ Max Weber defines “social class” by an easy intra- and intergenerational mobility and thus refers to the middle classes (farmers and small entrepreneurs) as the petty bourgeoisie and the intelligentsia. In his understanding, status group (*Stand*) is defined by lifestyle and prestige is very close to social class (Weber 1956: 223–227).

as the old (entrepreneur) middle class was almost completely destroyed, sections of the new middle class remained “physically” but not “socially”. The re-establishment of the entrepreneurial middle class is much slower and more complicated than was expected, and the transformation of important sections of public employees into the intellectual middle class is marked by disintegrative disparities. This at least is the picture we can see in Czech society.

2.2 Economic reforms: neglect of the middle classes

The former Czechoslovakia shared a fate similar to that of the other Soviet satellites, but in some aspects was treated even more harshly than its CEE neighbours. Owing to the 1968 Prague Spring and the ensuing “normalisation” process, it was unable to experience a moderate communist regime, as in Hungary and Poland. Whereas in those countries small services had once again become acceptable from the early 1970s, such activity was restricted in the former Czechoslovakia until 1989. Whereas in Hungary and Poland, higher education was significantly promoted from the 1970s, in Czechoslovakia it was more restricted.⁶ Viewed from the other side, however, once the barriers fell in 1989, it was possible to use more socio-economic channels for social mobility and the Czech economic reform was thus able to address much greater sections of the population.

The privatisation and liberalisation of the economy introduced small-scale entrepreneurs onto the scene, who were the first to stand out from the “grey mass” of state employees. Although people were eager to start business after forty years of “fasting”, no explosion in fact occurred (Table 2.1). Despite the great number of business licenses that have been issued, most of them are used to supplement income that is ensured by primary employment. According to survey data on people with trade licences in the Czech Republic in the mid-1990s, private business was the only job for 10–15 percent, primary employment for 30–40 percent, and a supplementary source of income for 45–60 percent (EEA surveys).

There has not been much support for small private entrepreneurs and only scant recognition of the fact that all had to start from scratch. In auctions for small firms, local residents with little credit were competing with big foreign capital and often even organised attacks by speculators – this despite all the promises made by the state to control such illegal operations. No tax holidays or allowances were accorded to these beginners in business, and tax rates were established on a level comparable with the most redistributive Western countries. New businessmen have thus suffered from the multiple burdens of high income tax, corporate tax, and payroll tax, and low depreciation (write-off) rates on their productive assets.

The gloomy story of the new entrepreneurs continues with regard to credit access and business policies. Credit access was distorted by the fact that the banking giants largely owned by the state have maintained a strong monopoly of power and have made credit expensive, except generous credits for big firms owned by bank investment funds.⁷ In newly created small banks, the management could easily defraud clients of their money under circumstances of absent or only symbolic

6 In the mid-1970s, the average gross salary of technical staff in the manufacturing industry was 135 percent of manual workers in Czechoslovakia, compared to 150 percent in Hungary and Poland (COMECON Statistical Yearbooks).

7 See Mlčoch (1995) for an extensive explanation of ownership intertwining created by voucher privatisation in the Czech Republic, where banks became owners through their own investment funds and thus credited them generously.

Table 2.1 Entrepreneurs, self-employed and business licenses (thousands and %)

	1993	1995	1997	1999	2001	2003
Numbers in thousand of:						
entrepreneurs	131	188	203	196	186	197
self-employed	308	375	410	464	500	581
Share in the economically active population in percent:						
entrepreneurs	2.7	3.8	4.2	4.1	3.9	4.2
self-employed	6.3	7.5	8.4	9.7	10.6	12.2
Business licenses issued in thousand (cumulated)	1264	1859	2611	.	3252	3402

Sources: Labour Force Surveys; Ministry of Economy and Trade.

Table 2.2 Branch structure of earnings in two historical periods (% of the average)

Branch	Czechoslovakia		Change	Czech Republic		Change
	1948	1953	1948–1953	1989	1997	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
Administration and defence	-	-	-	101.3	110.2	+8.9
Average	100.0	100.0	0.0	100.0	100.0	0.0

Sources: Statistical Yearbooks.

checks. This resulted in many cases of bankruptcy, diminishing the credibility of small banks and further strengthening the dominant position of banking giants. Regarding business policy, the liberal enthusiasm led to an underestimation of the importance of establishing the legislative framework and building institutions to enforce it.

When compared with the rebirth of the old middle class, the transformation of employees in the state sector into the new middle class or even a “service class” is less visible but still in some sense easier.⁸ This is because, “physically”, members of this class are already present, but they need to

8 In Karl Renner’s original sense, the service class provides functions delegated to it by capitalists, relating to economic service (managers), social service (distributive agents of welfare service), and public service (officials). Unlike the wage relationship, the service contract is based on the trust of an employer in an employee. This originally neo-Marxist concept was developed in a neo-Weberian sense by J.H. Goldthorpe (1995).

**Table 2.3 Returns to education: regression coefficients
(dependent variable \ln gross earnings)**

Category and variable	1988	1996	2002	1988	1996	2002
Men						
Years of school	0.040	0.083	0.091			
Experience	0.034	0.037	0.028	0.038	0.037	0.029
Experience squared/100	-0.074	-0.077	-0.055	-0.082	-0.077	-0.055
Intercept	8.071	8.005	10.833	7.634	8.659	11.552
Education:						
Vocational	-	-	-	0.043	0.166	0.153
Secondary	-	-	-	0.124	0.391	0.433
University	-	-	-	0.339	0.731	0.778
Adjusted R2	0.253	0.274	0.249	0.264	0.278	0.260
Women						
Years of school	0.051	0.094	0.102			
Experience	0.022	0.027	0.019	0.022	0.027	0.020
Experience squared/100	-0.038	-0.054	-0.032	-0.038	-0.054	-0.035
Intercept	6.922	7.614	10.456	7.358	8.390	11.285
Education:						
Vocational				0.055	0.107	0.100
Secondary				0.182	0.421	0.453
University				0.453	0.757	0.810
Adjusted R2	0.264	0.267	0.253	0.268	0.278	0.279

Sources: Microcensus 1989, 1996 and 2002.

All coefficients significant at the level < 0.001

establish themselves “socially”. Expectations concerning a return to their previous material standing have, however, remained unfulfilled, as wage statistics testify (Table 2.2). Hence the new situation has affected the various categories to varying degrees. It was particularly officials in public administration and finance that managed to expand in number and improve their income position during the early stage of transition, unlike their rivals providing services for firms and human capital.

In fact, the bureaucracy was developed, and even cherished, by the communist regime. After 1989, it transferred its loyalty to the new regime with ease and has continued with its typically low but still acceptable performance. The maintenance of the state administration was considered to be one of the reasons for the smooth implementation of the Czech economic reform (Orenstein 1994). Against prevailing expectations, even after accomplishing the first steps of state withdrawal from the economy, the bureaucracy has expanded both in numbers and costs: increasing in number from 88 thousand employees in 1989 to 175 thousand employees in 1997 and 189 thousand employees in 2001. The average salary improved its position in relation to the average wage from 102 percent in 1989 to 110 percent in 1997, but has now decreased to 105 percent.

The financial sector, including banking, insurance and all services offered to financial capital, has seen spectacular growth since 1989. An ordinary part of the state administration under the communist regime, this category was transformed almost overnight into an elite group in terms of remuneration and prestige. The number of employees in this sector rose from 25 thousand in 1989 to 93 thousand employees in 1997, but by 2001 fell again to 10 thousand employees. The average salary improved its position in relation to the average wage from 98 percent of the average in 1990 to 199 percent in 2001. No notable rise in productivity accompanied this growth, as banking fully made use of both its sudden indispensability and monopolistic position. Only since 2000 have the already fully privatised banks begun trying to reduce their staff and increase efficiency.⁹

Public services have been lagging behind, in contrast to finance, the economy and law. The social category represented most typically by teachers, doctors and researchers was not only excluded from the privatisation process, but with a tight and often frozen budget it was also exposed to the impact of the expanding market. In terms of average salary, education has improved its position only temporarily, and it regained its 1990 position in the early 2000s; the income position of health services had even deteriorated by 8 percent points by 1998 in contrast to the situation in 1990, and only started to improve in the early 2000s, owing to the redistribution of health care funds in favour of staff's wages, necessitated by the change in the tariff grid.

Despite unfavourable politics towards core groups of intellectuals, rewards according to education levels became more differentiated (Table 2.3). Unlike Hungary and Poland, in the Czech Republic the promotion of people with higher education only began after 1989. However, improvement of income levels was especially notable in managerial and financial positions and concerned typical intellectuals to a lesser degree. Although teachers, doctors and researchers do not declare themselves to be the explicit losers of the transformation, they enjoy their benefits more in terms of new-found freedoms than in terms of income and prestige.

2.3 The welfare state and the social structure: feedback

Not only the market but also the welfare system contributes to the changing shape of the social structure and cohesion. The question of the mutual relationship between social policy and the social structure is neither frequently posed, nor easy to answer. In his seminal work, G. Esping-Andersen asserts that "the welfare state is not just a mechanism that intervenes in, and possibly corrects, the structure of inequality; it is, in its own right, a system of stratification" (Esping-Andersen 1990: 23). He convincingly shows how various welfare state regimes have been formed, developed, and supported by different social classes. His threefold typology is briefly summarised here from a "stratificational" viewpoint.

The universalistic or social democratic system was launched as an instrument for mobilising the working class, by promoting equality of status while also serving the middle classes by providing them with substantial social security. The institutional, conservative, or corporatist wel-

⁹ In comparison with foreign banks, Czech banks are reproached for being too expensive for customers and compensate for lacking investments with high fees for banking transactions. The average annual fees for a current account are 115 EUR in the Czech Republic, which is less than in the USA, Canada and Scandinavian countries, but more than in most West European countries (EURO No. 24/2004).

fare state was established as a response to the fragmentation and individualisation introduced by the market and industry, and is dominated by the preservation of status differentials. The liberal or residual welfare state aims to support individualism by pushing social policy to the margins. The minimalist welfare state produces a dualism of those insured by themselves and those assisted by the state, often stigmatised by their dependence on state welfare.

Concrete national systems are, however, more complex than any generalised typology, combining elements of various “regimes”. Similarly, it is difficult to imagine that it would be possible to establish a welfare system by design, according to one concise theoretical concept. Even during the “revolutionary” transformation in CEE countries, historical traditions, established institutions and, especially, financial resources still proved to be constraining forces. Nevertheless, the initial conditions after the implosion of the communist regime invited and necessitated radical changes in the system. Proposed schemes generally tend to be politically loaded and financially restricted. Rarely, if ever, is the social structure on the agenda.

With regard to the question of how a certain social policy can contribute to the shape of the social structure, experiences differ according to the welfare regime. Whereas the individualistic system represents an “upper class strategy”, the other two regimes represent “middle class strategies” of welfare. The corporatist model was designed in a status-divided society to support the stratification hierarchy through occupational pensions and specific health insurance schemes. It is reasonable to expect that the introduction of its specific tools (e.g. earning-related benefits) would strengthen the desired process of status differentiation, without disintegrative or polarising effects. However, the resources of a largely redistributive social democratic model, aiming for equality at middle-class standards, are always threatened, because the model can discourage people from working and saving.

Since the fall of communism the welfare system has been re-designed in response to new challenges and limitations. The situation is confusing enough to prompt us to inquire into how the new social policy will contribute to the shape of social stratification and, more specifically, to the re-establishment of the middle classes and their subsequent hegemonic position in social life. The general trend of welfare reform in transforming societies, whether it intended or realised, was (with much criticism) characterised as a shift from universal state benefits to compulsory insurance, complementing social insurance with private schemes, which lower the standards of public provisions, expand targeted social assistance, introduce or increase fees, and advance the off-budget financing of social security (Ferge 1994; Götting 1995).

This trend was intentional and has largely been implemented in the Czech Republic since the 1992 elections, which brought to power the demonstratively liberal Klaus government. On the whole, the tendencies can be characterised as a retreat from Czech corporatist and social democratic traditions and the adoption of a system similar to the British model. Indeed, this also corresponds to a general European trend towards more frequent means-testing and making social security benefits less generous, following the rule “make work pay”. The leading concepts of the social reform were to target specific groups instead of adopting a universal approach, apply flat-rate rather than earnings-related benefits, and advocate individual-based rights over collective ones.

Regarding the social structure, the aim was to prevent poverty and thus the polarisation of society. The middle class agenda was referred to only negatively, following the liberal interpretation of redistribution from lower to higher income groups through educational and other services (Goodin and Le Grand 1987). The opposite argument that the “middle class matters” (Andries 1996) – mean-

ing that this category should be somewhat engaged if it is expected to finance the system – was not taken into account. Deafened by the refrain “only the poor have to be protected”, it goes without notice how much and to what degree the middle income categories have become increasingly burdened: by heavy taxes and contributions, rising living costs, and reduced or withdrawn benefits.

This trend continued further under social-democratic rule since 1998, only the perspective was changed somewhat. The minimum wage increased rapidly, which helped to maintain the income bottom. In consequence of rising unemployment, the categories of the needy population expanded. And, as a consequence of the situation on the labour market and owing to easy early retirement, the pensioner category also grew. All the trends strengthened redistribution in favour of socially weak categories, though not at the expense of the “truly rich” but rather the middle-income categories.

2.4 The economy, welfare and the distribution of income

Before we reflect on the changing income position of various social categories, we should think about the institutional framework. The reason is that the essence of transformation is not simply to turn the social hierarchy upside down but above all to change the mechanism of income packaging for all households. Generally speaking, the main goal of the transformation in income distribution may be seen as a shift from the “needs principle” asserted by the communist regime to the “market principle” implied in the capitalist regime.

By *needs principle* we mean the primary focus on the basic needs for the reproduction of society, which is understood mainly as uniform persons (“soldiers of work”). This principle was explicitly formulated by Marx as the prominent mechanism of 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 ascribed to capitalism, the principle was eventually implemented under “real socialism”. Conversely, we understand the *market principle* as the assertion of closer links between labour performance and results with rewards and incomes (Večerník 1996).

Here, we can refer again to “social hegemony”. Whereas the working class is mostly “needs” related and accustomed to maximising the number of active household members (starting with children), the middle-class pattern tends to be rather “market” oriented and oriented towards the quality of offspring, with the main breadwinner providing for the household as a whole. In modern times, this difference is much less apparent, and the distinction would be not worth raising had the 19th-century pattern not been artificially preserved in communist countries: through the equalisation of wages (which stressed the importance of the number of active earners for family income) and through price subsidies and/or burdens (which copied the consumption archetype of the 19th-century working class, emphasising especially meat and cereals).

Empirically, the shift “from needs to market” involves manifold changes in the distribution of family resources, distinguishing disposable income per household and income per capita. In real socialism, inequality of per capita income was compressed, following the assumption that people had more or less equal needs. Conversely, inequality of income per household remained considerable, owing to the gap between the average wage and pensions, and especially owing to the primary dependence of household income on the number of active earners. Both effects gave rise to an extreme range of household incomes, from single pensioners at the bottom and farmers’ families with multiple earners at the top of income distribution.

Table 2.4 Distribution of household income by deciles (%)

Decile	Per household			Per person			Per EU equivalent unit		
	1988	1996	2002	1988	1996	2002	1988	1996	2002
1	2.5	2.8	3.1	5.3	4.3	3.9	4.9	4.6	4.5
2	4.1	3.9	4.2	6.6	5.9	5.5	6.8	6.0	6.0
3	5.9	5.6	5.7	7.4	6.8	6.6	8.0	6.8	6.8
4	7.6	6.7	6.9	8.1	7.6	7.7	8.8	7.6	7.6
5	9.3	7.9	7.8	8.8	8.3	8.4	9.5	8.4	8.4
6	10.7	9.4	9.1	9.6	9.1	9.2	10.2	9.3	9.2
7	12.0	10.9	10.7	10.6	10.1	10.1	11.0	10.3	10.2
8	13.2	12.7	12.6	11.8	11.5	11.6	11.8	11.6	11.6
9	15.1	15.4	15.3	13.6	13.7	14.0	13.0	13.6	13.9
10	19.6	24.7	24.6	18.2	22.6	22.9	16.0	21.9	21.9
Robin Hood Index	20.6	23.7	23.2	14.2	17.9	18.6	12.0	17.4	17.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Microcensus 1988, 1996 and 2002.

Note: Per capita and equivalent income are weighted by persons.

Equivalent unit (modified OECD scale) is computed so that first adult = 1, other adults = 0.5 and each child (up to 13 years of age) = 0.3.

On the road to the market society a new pattern emerges. Disparities in “market income” are now becoming large enough to prevail over a family’s labour market participation. This process is reorganising the income hierarchy because even households with fewer active earners have the chance to prosper – which particularly affects middle-class families. While the correlation between family income per household and per capita is rising, the correlation between income and the number of family members is becoming weaker (Večerník 2001). The increasing association between family income and a person’s earnings certainly supports a modern order of social stratification, which is based not on demographic variables but on a household’s economic achievement.

Despite this development, introducing a “middle-class mechanism” of income packaging instead of a “working-class mechanism”, the actual shifts in income distribution since 1989 have not been especially advantageous to the middle classes. As the top income category improved its position considerably and the bottom-end of income distribution was kept at about the same relative position, the middle-income categories were necessarily squeezed. The position of categories above the income average worsened much more than the position of those below the income average (Table 2.4).

The distribution of income was also influenced by state redistribution through taxes and transfers. In the tax system, progressive income tax was introduced in 1993 in place of an almost flat wage tax. In social transfers, the targeting of social benefits was asserted later.¹⁰ Substantive compen-

¹⁰ The living minimum was officially established in 1991. In 1993, its level became a benchmark for the income testing of various benefits included in the state social support scheme, especially family allowances. In calculating the living minimum emphasis is put on individual members, and common family expenditures are disregarded. This means that, from the very beginning, extended families are preferred. With the increasing share of common costs in the consumption basket (especially housing), small families are increasingly disfavoured.

Table 2.5 Reduction of household market income to disposable income through taxes and transfers by deciles (%)

Decile	1988		1996		2002	
	Market	Disposable	Market	Disposable	Market	Disposable
1	43.3	53.4	33.2	45.2	34.9	38.9
2	59.2	66.1	48.5	57.5	50.5	55.8
3	70.0	74.1	59.7	66.2	60.8	67.2
4	78.7	80.9	69.8	74.8	72.6	77.1
5	87.2	87.9	80.2	83.8	83.1	86.2
6	97.5	96.1	90.3	93.4	93.1	95.8
7	108.8	106.1	104.6	104.7	106.3	105.8
8	123.2	118.5	121.2	118.7	119.8	119.5
9	143.7	136.4	147.8	139.6	147.2	141.7
10	188.6	180.8	245.0	216.3	232.0	212.2
Average	100.0	100.0	100.0	100.0	100.0	100.0
Gini	0.212	0.198	0.277	0.253	0.290	0.260
Difference		6.600		8.665		10.344

Sources: Microcensus 1988, 1996 and 2002.

Note: Only households of non-agricultural employees included. Household income is weighted by persons. In last row, there is reduction of Gini coefficient between gross and net income in percent of original distribution.

Table 2.6 Change of relative income position between 1989 and 1997 (%)

Social class	Regarded from the position in 1989			Regarded from the position in 1997		
	Down	Stable	Up	Down	Stable	Up
Old middle class	30.7	29.0	40.3	25.1	23.2	51.7
New middle class	24.0	37.0	39.0	27.6	33.5	38.9
Routine non-manual workers				13.5	19.0	67.5
Manual workers	40.2	31.7	28.1	36.4	29.0	34.6
Total	35.3	31.7	33.0	32.4	29.5	38.1

Source: Survey SIALS.

sation for the lowest incomes resulted in lower relative reductions than in the middle-income categories. Due to a generous indexation of pension benefits, the lowest category ceased to be represented solely by pensioners and took in the – families with children – to a large extent.

Whereas the piece of the “social pie” received by the bottom decile appears stable over time, the pieces going to those above the bottom (but below the middle) have increased. The rest of the population has lost its share of transfer income progressively to the top decile, which itself more than halved its share of transfer income. Taxes have developed in the opposite way. Regarding taxes, while

the sum paid into state revenue by the lowest income group was reduced to almost zero, the sum paid by the top income group has risen substantially. The reduction in income of the top income decile doubled during the period of 1988–2002 (Table 2.5). Tax/benefit reform thus strengthened redistribution flows.¹¹

This series of breakdowns does not, however, give us a picture of change over time. That could be investigated only with the aid of a panel surveyed over a longer period of time or – if a panel were not available – through a retrospective look at the past of respondents. In the latter case, which is relatively easily available, we get a compound of objective changes with their subjective reflection. When viewed through people’s eyes, the situation does not look that bad, but only if mobility is accounted for (Table 2.6). Whereas disparities in the relative chances to improve income position, viewed from the perspective of social positions in 1989, were only minor, when viewed retrospectively in 1997, we can see considerable disparities, especially among the old middle classes (self-employed) and the new middle classes (upper white-collars).¹²

The evidence concerning the rise of the middle classes is not unambiguous. Manifest in the comparison of several static pictures is that income hierarchy has been fixed at the bottom, opened up towards the top but compressed in the middle. This problem was even accentuated by the fact that the process occurred in conditions of stagnating real incomes. However, if we visualise “biographical” changes retrospectively, we find a marked income rise among the middle classes, caused by occupational mobility and change of social position. Two questions remain: first, how much did the squeeze experienced by the upper half of the income ladder hinder job promotion, which was nourished almost exclusively by mobility channels, and second, to what degree have the actual changes fulfilled the expectations ascribed to the transformation?

2.5 Economic expectations and political support

The fall of the communist regimes in the CEE countries produced overnight a huge “political reservoir”, because people were enthusiastic about breaking all ties with the totalitarian past and creating a democratic society and market economy. In the former Czechoslovakia, this enthusiasm was even greater due to the rigidity of the regime up until its final days. In the industrially developed Czech lands (as opposed to Slovakia), support for reform was even more intensive owing to the completely negative effect of the communist system in economic and social terms. This commitment manifested itself especially in the 1992 elections, in which the civic parties set on introducing major liberal reforms received strong support.

The trends in attitudes differ according to context – personal or societal. Whereas the degree of optimism that people have concerning their own prospects increased during the early 1990s, and then later decreased, the initial liberal commitment evaporated almost completely. The more workers felt secure about their jobs and skills, the fewer people there were to declare their belief

11 A sharpened slope of redistribution seems extreme even in comparison with the most liberal countries. In comparison with other OECD countries, the position of the Czech Republic seems rather unique, where both tax and transfer distribution is even steeper than in “liberal” countries – the UK and the USA (Večerník 1999).

12 In Table 2.6, so-called EGP classification (Erikson and Goldthorpe 1992) was used, concretely classes I and II (professionals) and IVa and IVb (entrepreneurs and self-employed), contrasted with classes V and VI (supervisors and skilled) and VII and IVc (unskilled and farmers).

in “pure market forces”. Although working and living conditions have not deteriorated considerably for the majority of the population, an ever increasing number of citizens expect state protection of jobs and rents and control of prices. A large number of people have also been attracted by the “social market” model, the desirability of which is growing, and the percentage of people supporting a return to “real socialism” more than doubled in the period between the 1992 and 1998 elections.¹³

This contradiction shows that the revolutionary enthusiasm has been fading and paternalistic expectations have begun to return. By the same token, it indicates people’s belief in a relatively fast and easy transformation process, which was strongly supported by Klaus’ self-congratulatory government. The low unemployment rate (mainly a result of the slow restructuring of former state firms) and the new opportunities to earn money in several newly thriving branches (banking, catering, travel agencies, real estate, etc.) created the impression that work in a capitalist society would be as easy as it was in the socialist one. The economic decline that became manifest in 1997 started an awakening, which was very slow, and eager to lay blame on both the previous and the incoming governments.

Such reasoning is, however, incomplete without a closer look into the structure of attitudes and their correlates in social stratification. It has been found that a striking process of differentiation and crystallisation of people’s opinions already occurred in the early 1990s, reflecting their experience and acquired position (Večerník 1996). This process involved not only the differentiation of kinds of social categories emerging from the former mass of state employees, but also the circumscription of social boundaries in the behaviour and consciousness of people. It approximately corresponds to the functional differentiation of the economy and society.

For an investigation of attitudes by social class, we constructed an elementary classification distinguishing between the old and new middle classes, and comparing them with routine non-manual and manual workers. Unlike Table 2.7, categorisation in Table 2.8 is based mostly on self-ranking, but controlled against occupation and education.¹⁴ The data show tremendous differences in virtually all attitudes, whether in relation to the country’s general situation or to individual perspectives on jobs and skills. For instance, whereas the inclination towards a liberal regime is overwhelming among the entrepreneurial middle classes, it is backed by only one-fifth of manual workers. And the preference for “liberal” solutions to pension benefits, child benefits, and the health care system systematically declines as we move from the middle to the lower classes.

It is not only the structure of attitudes but also and especially their dynamism that matters. The middle classes follow the general trends regarding a decrease in liberal attitudes and the acceptance of individual responsibility, but do so more slowly in some respects. Moreover, the old middle classes do so more slowly than the new. While the self-employed still retain a considerable portion of their enthusiasm for reform, professionals and public servants are less content. Even more apparent is the change in political affiliation: while the self-employed are slowly shifting from the categorical to the moderate right, people with tertiary-level education are rapidly moving

13 As the surveys titled *Economic Expectations and Attitudes* were terminated in 1998, there is no available continuation of this time series.

14 We used the question “Where would you rank yourself in our society regarding your occupation, income and overall situation?” Then we made cross-tabulations by education, occupation and indicators of self-employment and re-ranked discrepant cases accordingly (about 15 percent).

Table 2.7 Attitudes of economically active people by social class (%)

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

Source: *Economic Expectations and Attitudes*, April 1998.

from the political right to the middle and many of them on to the left. Despite the affinity that remains, this group, the core of any modern democratic society, is more reserved in its support for radical and far-reaching changes.

It seems that the new middle class especially is still waiting for better material rewards for its commitment, in addition to general political and economic liberties. If no apparent compensa-

tions are forthcoming and the burden increases, given the economic problems, its members might abandon the liberal principle in favour of corporatist mechanisms, which could hamper the completion of reforms in the economic and social spheres. Up until now, the middle classes have not lobbied extensively and have rarely gone on strike, despite the humble position of important sections of them.¹⁵ It wasn't until early in 2004 that some timid events were launched in reaction to the reform of public finance and the introduction of austerity measures.

2.6 Conclusion

It is contended here that the middle classes are not only the result but also and primarily an important condition of a successful transformation and the guarantee of its durability. This is because they occupy a constitutive or integrative role in the key areas of social and economic life. Their value system fully corresponds to an open democratic society and their central location between capital and labour ensures the integration of the society. Economic activities in their key sections support the three main structures of an efficient economy: buoyant markets, a rich flow of information, and functioning institutions. In political life they avoid extremes and express enough patience not to outrun the slow pace of elections.

It is evident that the Czech economic reform has not been as beneficial to the emergent middle classes as expected. The government was much more interested in the transformation of existing firms than in the creation of favourable conditions for the nouveau entrepreneurs. It allowed the expansion of the financial and administrative sectors but was inattentive towards the public services of health, education, and research. The core middle-class groups – such as teachers, doctors and researchers – are frustrated by their poor position, a situation many qualified people solve by working below their level of qualification. The quality of public services is deteriorating, which is a threat to the development of human capital.

Despite all recent gains in entrepreneurial freedom, the use and development of skills, and economic rewards and prestige, the middle classes have been somewhat constrained in their expansion. Recalling the vocabulary we used previously, we can summarise that the alteration of social hegemonies has been achieved to less than the expected degree. This might have important consequences for future social stratification: whereas the upper classes will advance without limits and the poor always remain well protected at the subsistence level, the middle strata can advance only unevenly and with difficulty. This means that social polarisation could be produced even if the category of the poor continues to remain small because some sections of the middle classes will move closer to it.

Even more important is the support of thorough reforms in the social sphere, leading to more individual responsibility and less redistribution. If the middle class loses hope in the occurrence of a fair distribution of tasks and rewards, and incline towards redistribution like the lower and upper

¹⁵ Two strikes by middle-class sections of workers were announced in 1995: a teacher's strike was cancelled after they were promised an increase in salaries. An "administrative" strike of doctors occurred but was terminated soon after the personal intervention of President Václav Havel. In the beginning of 1997, a timid "chain" strike of teachers finally occurred, followed by several very minor strikes by physicians. To avoid other actions, the social-democratic government has announced an increase of tariff wages in the public sector by 17 percent since 1 January 1999. In 2004, restrictive measures (cutting out the 13th and 14th salaries) produced a limited strike of teachers.

classes, reform may be terminated in mid-process. This could have serious consequences for the fiscal balance, economic incentives and the motivational climate, social justice and cohesion and, in the end, the political stability of the country.

3. Pensioners

The pension system is a highly sensitive socio-political and economic institution, and as a result of its steadily increasing role, it is a high-priority agenda item in all Western and Central-East European countries. Transition countries are sometimes considered as pioneers, testing approaches to social reform for traditional welfare-state countries (Müller 1999: 56). Both the retrenchment of social protection in general, and the systemic reform of pension schemes towards a welfare mix, involving greater engagement by individuals, present sizeable challenges for politicians who are anxious about voters' support. The pension system has also become the source of important research topics, though it is also true that scholarly debate does not always precede real reform of the system.

There is no single "best" pension system. In the EU, the systems share many similarities in basic structure and the main problems affecting them. To some extent, all Western European nations are currently faced with declining numbers of children and increasing life expectancy. Together they result in the ageing of the population, and this is accompanied by the disappearance of voluntary intergenerational cooperation. As the dependency ratio – i.e. the ratio of those requiring benefits in old age to those who are in employment and therefore treated as contributors – worsens, the pressure for welfare retrenchment grows. Currently, we can distinguish the following four patterns of reform in Europe (James Banks and Carl Emerson 2000):

1. *Parametric reform* relies on an adjustment of benefits and contributions that is based on the changing dependency ratio and projections regarding society's age composition. The adjustable parameters are the retirement age, the conditions of early retirement, the rate of contributions and the level of benefits. Adjustments of this kind are conditional upon certain feedbacks. So, for example, a higher contribution rate can be introduced only if it does not push contributors into early retirement or beyond the formal labour market. Such adjustments may appear smooth, but they are in some ways problematic. In particular they are best suited to countries where no radical shifts in demographic composition are expected.

2. *Actuarial fairness* is a special type of parametric reform that stresses explicit links between benefits and contributions within the "pay-as-you-go" (PAYG) system. Using so-called notional accounts, the rate of return linked to a given contribution is calculated under the assumption that it is equal to the surplus of wage growth over population growth (defined contributions – DC). This kind of reform may be politically unsustainable, because the low return of such a notional "investment" may turn out to be disadvantageous in comparison with the possible high returns of private old-age insurance. However, this is the most likely path of reform in Sweden, Italy, Poland and Latvia.

3. *The Chilean model* involves complete privatisation and the creation of a fully funded system. It is based on the expectation of higher returns from private capitalisation of life-long contribu-

tions. The main problems here are the high transition costs of the system and the degree of redistribution required. This kind of system has operated mainly in Latin America and (to a lesser extent) Australia. No European country has adopted it, but the fully funded (FF) pillar is quite strong in Kazakhstan (Orenstein 2000). This supports the argument that the implementation of radical overhauls of the pension system is more easily accomplished by an authoritarian regime.

4. *The World Bank mixed system* combines three pillars: (a) a mandatory, publicly managed scheme based on PAYG revenue financing, involving large-scale redistribution and providing minimum benefits; (b) a mandatory, privately managed scheme based on personal savings and thus fully funded, involving no or only limited redistribution and providing contributions-related pension benefits; (c) a voluntary, privately managed scheme based on personal (or collective) savings with both contributions and benefits defined (World Bank 1994). This approach, together with parametric reform of the non-funded part of the system, is the most likely option for pension reform in the UK, in combination with the occupational scheme.

As Banks and Emerson have summarised:

in the European policy debate, there is still little articulation of, let alone agreement over, the practical benefits of each reform approach. Indeed, it is not clear to us that the complete set of options has been spelled out explicitly.

However:

if current trends continue, there is no easy way out. Funding is not necessarily the whole answer, since asset prices may adjust adversely. Movements towards funding may not be a feasible option in some scenarios as a result of substantial transition costs and political issues. But something had to give, because the ageing of the population is inevitable. Not counting large-scale population shocks, however, there are still a number of margins on which the system could adjust ... The future of the unfunded pension system is still, in every sense, uncertain (Banks and Emerson 2000: 30, 55).

The future of pension reform in the Czech Republic regarding the dominant system is also uncertain. To explain the situation, we offer here a historical perspective aiming to identify the main actors and examine their roles in individual phases of reform. First, we reveal the salient features of the communist welfare regime, both official and as it functioned in reality. Second, we provide an overview of early modifications to the pension system after 1989, which eliminated earlier benefits and accommodated the new economic and political conditions. Third, we appraise the current pension reform debate and its driving forces. In conclusion we attempt to describe the individual actors that are or might be active in the long-term pension reform process, but find only personal reform efforts.

3.1 The communist regime: pensioners as the poor

One of the main catchphrases of the socialist revolution 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. Later, it served to encourage the legalisation of work duty and the persecution of alleged “social parasites”. Throughout the duration of the communist regime, however, it also provided, albeit implicitly, a rationale for neglecting pensioners and their benefits. After 1948 almost no earnings-relation formulae were applied. In 1957, a formula was formally applied, but in 1964 again

suppressed. Under varying formal conditions, the weight of previous earnings remained marginal and thus much less important than the three pensioner categories defined by previous occupation.¹⁶

In seeking to bring about 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, it even created the “social category of pensioners”. Marxist doctrine allowed only the (ruling) working class, (socialist) intelligentsia and (cooperative) farmers as elements of the social structure, but a fourth social group – that of pensioners – emerges in statistical and political analysis. It is defined by the specificity of its treatment and, in this connection, a certain standard of living. While the link between previous earnings and pension benefits was in fact broken, considerable disparities in benefits appeared according to pensioner age: the older the pensioner was, the less was his or her “right to eat”.

Instead of regular valorisation, the communist state bestowed on its citizens irregular “gifts”, couched in the paternalistic rhetoric of the “benevolent ruler”.¹⁷ In fact, however, social protection had the lowest priority in state spending, falling far below the army and police, industry and agriculture, the party and state bureaucracy. Social security was praised as pre-eminent among “socialist advantages”, but the provisions afforded were in fact a residual part of state expenditure. As compensation the state generously allowed pensioners to stay in employment and earn an extra income to supplement their modest benefits – this supplementary work was unlimited for manual workers and limited to 120 working days for non-manual occupations. By accumulating retirement benefits and wages while already living without dependent children, the households of “working pensioners” had on average a higher per capita income than any other social category.

Formally, the system appears to have been a balanced mixture of the systems of Bismarck and Beveridge. In reality, though, it was a perverse revision of both. The work-related basis and the rationale of ensuring loyalty to the state in exchange for old-age security were adopted from the Bismarckian system. This system had itself been the basis of the Austrian social security system. It was introduced to the Czech territories in the 1880s and continued to operate in the inter-war Czechoslovak republic. Meanwhile the state’s responsibility to make minimum provision was adopted from Beveridge. Implicitly, all pensioners were thus treated as poor citizens embraced by the state’s care, as in the residual type of welfare regime.

In spite of this, the gap between wages and pension benefits was not extreme under the communist regime. The reason was that, in principle, the social statuses of both current and former employees had the same – political – roots. Each was derived from the totalitarian regime, the functioning of which was embodied in the dominant “need” principle, as opposed to the “market” principle (Večerník 1999). Employees were not rewarded with differentiated, market-set income for their participation in the labour market, and pensioners were not provided for according to their previous earnings and related contributions. Not uneven merit, but uneven needs served as the rationale for disparities of income. Additional and more important disparities in income were created by the returns from loyalty and political position.

16 The highest of the three categories comprised, for example, miners, army officers, policemen and pilots. So-called “personal pensions” were assigned not only to top politicians, but also to prominent artists and sportsmen awarded national prizes.

17 The absence of valorisation was officially endorsed by the fact that no inflation existed in the socialist society. In fact, there was hidden, albeit slow, inflation.

We can therefore only consider the difference between “useful” workers and “useless” pensioners within the context of both groups’ dependence on the state and the considerable discretion the state possessed in determining their income. Given the general equalisation of incomes, both kinds of income were low and not far from the subsistence minimum. It was only later, when during the last two decades of the communism regime wages rose substantially, that the wage/benefit gap also increased. Fortunately, many of the far-reaching plans of the 1950s that stressed the uselessness of those individuals no longer working were either not fully implemented or simply abandoned as unfeasible. Such schemes included moving pensioners from cities to the countryside in order to make their apartments available to productive workers.¹⁸

It is difficult to identify various independent actors within the monolithic and oppressive regime that existed before transition. We see only the omnipotent communist party on the one side and the people, reduced to passivity, on the other. Even during the temporary thawing of the regime in the late 1960s the pension scheme was only one minor issue obscured by the more important issue of economic reform (Šulc 1996). No attention was devoted to the welfare system in any of the non-conformist intellectual centres in pre-November 1989 Czechoslovakia.¹⁹ Nevertheless, there was some awareness of the need for change, and a group of researchers at least discussed valorisation and some other issues (*Principles* 1990). But even here, no real plan to reform the pension system was prepared: there was no urgent need, and little chance in any case of responding to it.

3.2 The transition to democracy: pensioners as a constituency

In 1990 a radical change in the economic system began to take place: state ownership of production assets was dismantled, formerly distorted prices adjusted, and significant sectors of the economy opened up to market forces. Parallel to this, only to a lesser degree, the social security system began to adjust to the new conditions. The already levelled pension benefits were further equalised through several measures. First, so-called “personal pensions” for members of the nomenklatura, top athletes and artists were eliminated. Second, the categorisation of pensioners into three classes according to the importance of their occupations to the regime was eliminated. And third, a new valorisation scheme was introduced aiming to adjust pension benefits to price index and reduce disparities between pensions assigned at different times.

While pension benefits were valorised faster than wages and family allowances increased, the relative economic position of pensioners temporarily improved (Večerník 1999). Income surveys show that while in 1988 almost all pensioners occupied the bottom decile, there was massive movement to the lower-middle income categories in 1992. At this point families with children partly replaced pensioners in occupying the place at the bottom. In other words, the lowest income group ceased to be exclusively those with transfer income: pensioners, i.e. the non-working poor. Instead, families with children having low income, i.e. the working poor, joined this group. At the same time work-

18 Such a Stalinist mode of asset-redistribution according to class criteria was actually applied in cases involving the punishment of “class enemies”, e.g. expropriated owners and “bourgeois” intellectuals. These people were banished to half-derelict country houses and left to their fate without resources.

19 Here we have in mind especially the *Institute of Economics* and the *Institute of Forecasting* of the Academy of Sciences. At both, economic thinking was characterised by mainstream macroeconomics. Attention was devoted neither to distributional issues nor to social policy.

Table 3.1 Votes for political parties in the 1992, 1996 and 2002 parliamentary elections, by social category (%)

Political party or coalition	Professionals	Routine non-manual	Self-employed	Manual workers	Pensioners	Total	% pensioners : % total * 100
Elections in 1992:							
Civic Democratic Party (ODS)	31.7	33.2	42.6	22.8	27.1	28.9	93.8
Social Democratic Party (ČSSD)	7.2	7.3	2.4	7.1	6.2	6.6	93.9
Left Block (LB)	13.8	14.2	5.4	13.2	18.5	14.1	131.2
Christian Democratic Party (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	5.6	30.4
Civic Democratic Alliance (ODA)	12.9	7.9	7.0	3.4	4.1	5.9	69.5
Pensioners for Security (HDŽ)	1.1	1.2	0.2	1.9	12.9	4.0	322.5
Other parties	25.0	25.9	34.4	36.0	20.2	28.6	70.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Elections in 1996:							
Civic Democratic Party (ODS)	36.3	29.8	44.8	18.9	27.5	29.0	94.8
Social Democratic Party (ČSSD)	22.3	29.9	17.7	35.0	21.4	26.7	80.1
Left Block (LB)	9.4	10.2	5.5	11.7	19.5	12.3	158.5
Christian Democratic Party (KDU-ČSL)	9.8	6.2	4.7	8.2	10.4	7.9	131.6
Republicans (SPR-RSČ)	1.9	8.2	9.7	12.8	3.9	7.9	49.4
Civic Democratic Alliance (ODA)	11.8	7.1	8.7	3.8	3.3	5.9	55.9
Pensioners for Security (HDŽ)	0.3	1.3	0.9	2.1	8.9	3.3	269.7
Other parties	8.2	7.3	8.0	7.5	5.1	7.0	72.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Elections in 2002:							
Civic Democratic Party (ODS)	21.6	27.0	15.1	44.5	19.1	24.5	78.0
Social Democratic Party (ČSSD)	39.3	31.4	32.5	20.6	30.2	30.2	100.0
Coalition	12.6	16.5	10.4	12.6	14.4	14.3	100.7
Communist Party (KSČM)	14.6	12.7	27.4	10.0	28.3	18.5	153.0
Other parties	12.0	12.5	14.7	12.3	8.0	12.5	64.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Exit Polls carried out by INFAS and FACTUM for Czechoslovak TV in 1992 and by INFAS and SC&C for Czech TV in 1996 and by SC&C for Czech TV in 2002.

ing pensioners were pushed out of the labour force under pressure from employers and in response to – temporarily applied – heavy taxation of any earnings taken in tandem with pension benefits.

Such shifts on the income ladder were not the outcome of any explicit social policy goals. The general doctrine of the time was predominantly socio-liberal, although in the social sphere it included many social-democratic elements, e.g. earnings-related pensions, and quite generous and universal allowances. The period of 1990–1992 has been accurately described by Castle-Kanerova (1992:

115) as follows: “The current situation is such that social policy remains, despite the arguments to the contrary, a system of paternalistic and patriarchal proposals”. In some ways, the new regime merely paid off the debts of the former regime.

In fact, Czech economic reform has not yet directly addressed income inequality, nor has it been able to. It has mainly addressed the macroeconomic framework. The rectification of the failures of the former regime has been addressed in political rather than social terms. We can thus only refer to a coincidence of various circumstances in the reform of social policy. No reason for a change in the status of pensioners has been explicitly offered, but we can speculate on some of the reasons for such an intervention. One is the growing regard for pensioners as voters. When the purely formal elections held under the communist regime were replaced by truly democratic elections, the political importance of pensioners increased dramatically.

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, 1992 elections were a “real” democratic competition in which 20 political parties participated.²⁰ In these elections one in five voters were pensioners. Consequently, no political party failed to stress its commitment to pensioners in its election programme. It was expected that pensioners would sympathise more with the political left, especially the post-communist Left Block (LB), and the political centre, represented by the Christian Democrats (KDU-ČSL). 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 (Table 3.1).

The new regime, however, was unlikely to receive a warm welcome from pensioners. Pensioners had already left the labour market, and they could therefore hardly expect a very significant increase in their standard of living. Indeed, the liberal rhetoric predominant at the time must have caused them concern over their future subsistence. Most pensioners had spent their middle age under the communist regime. Many of them had enjoyed successful careers. In and around 1989 those entering retirement were the generation of people who had been young in 1948 and were advantaged heavily by the communist regime under the catch-phrase “youth forward”. Despite this, however, pensioners have not overwhelmingly supported leftist parties. They did not even strongly support what could be called their own party, the Movement of Pensioners for Social Security: the party received a mere 4 percent of the total vote and 13 percent of all pensioners’ votes in the 1992 elections.

A significant post-1992 personal arrangement – and one which anticipated the future of social reform – was the appointment of Jindřich Vodička as Minister of Labour and Social Affairs, who not only was a member of ODS (thus not a Christian Democrat, as might have been expected) but was also fully loyal to the Prime Minister, Václav Klaus. This appointment meant that no further tension within the government between the Welfare and Finance portfolios would develop.²¹ The comprehensive change that occurred in social security since 1993 was proclaimed as a shift away from the paternalistic welfare state and universal provisions towards an efficient and targeted wel-

20 For the sake of a comparison of the 1992 and later elections, we will discuss the 1992 elections to the Czech National Council, later transformed into the Chamber of Deputies of the Parliament of the Czech Republic. In fact, the first wave of politicians were listed for elections to the Federal Assembly in 1992. Most of them were thus removed from high-level politics in 1993 when the Czech and Slovak parts of the former Czechoslovakia separated.

21 In inter-war Czechoslovakia, the Ministry of Labour and Social Affairs was in the hands of the Social Democrats, and disagreement between them and the finance ministries always existed. Such is often the case elsewhere, and the latent conflict indicated here between these ministries plays a role in Müller’s explanation of pension reform.

fare policy. The vocabulary that was used here stressed the strengthening of individual responsibility and the maintenance of state care only for the truly needy.

This situation, in which such an openly liberal setting took shape, differed substantially from that in which reform took place in other countries. Unlike Hungary and Poland, the number of pensioners rose only slightly in the Czech Republic. The overall balance of income and expenditures on the (still imaginary) pension bill was also very positive. The leading party, ODS, was not interested in withdrawing pension-based access to state revenue and opposed requests from ČSSD and the trade unions for a public pension fund that would capitalise on the current surplus of contributions.²² Unlike Hungary and Poland, World Bank leverage was not that strong in the Czech Republic and foreign experts were generally not welcomed by leading ODS politicians. As a consequence the new Czech leaders felt sufficiently powerful and competent to plan and implement their own type of reform. No radical reform introducing a fully funded system was considered at that time.²³

However, a clear intention to distribute the risk was incorporated into a two-tier project of ODS involving a PAYG basic pension and a state-contributory type of supplementary pension insurance. The basic pension itself was conceived as a combination of two components. One of these was fixed at what was considered to be a guaranteed minimum and the other was variable and earnings-related. The rate of the basic pension as a whole was to shrink and finally settle at only 40 per cent of the average wage, while the earnings-related component was to increase. In spite of huge trade union pressure, no occupational pension scheme was included in this project, as ODS argued it would be an infringement of the “civic” principle. Firms were able to support their employees, in accordance with their profit margin, only by using the services of private insurance companies. But to appease the trade unions, and to preserve the coalition between ODS and KDU-ČSL, the conditions relating to early retirement were relaxed.

As the dependency ratio worsened, the retirement age was gradually raised. Left-wing opposition parties disapproved of this, arguing that the dependency ratio would in fact worsen later than expected. The proposal provoked a 25 000-strong manifestation in March 1995. The Pension Insurance Act, one of the most controversial bills passed by Parliament since 1990, was eventually approved, 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 a non-governing Moravian party (Polívka 1998). The Christian Democrats together with opposition Social Democrats proposed the immediate revocation of the Act.

It was supposed that a supplementary, private, fully funded pension would expand to compensate for the expected reduction in the basic pension, thus increasing income disparities between pensioners. Since 1994, additional pension insurance schemes have enabled citizens, with the assistance of a state contribution, to insure themselves with commercial insurance companies. For this purpose pension funds were established as stock companies, and anyone over the age of 18 is able to purchase old-age insurance. While the number of people participating in the system is rising (it increased from 1.3 million participants in 1996 to 2.6 in 2002, which equals 56 per cent of the insured in the PAYG system), their average savings remain low, on average at just about 3 per cent of net earnings.

²² However, a special account was established within the state revenue in 1996.

²³ In fact, the preparation of Czech reform was under way before the crucial World Bank document (World Bank 1994) was released. The generally liberal orientation was common to both, although the implementation of principles in the Czech Republic was far from thorough.

In the mid-1990s political parties participated in the pension reform process collectively, but more often with a “veto” than with the submission of individual proposals. At the time, this reform was probably the maximum that was possible. It acknowledged the current state of knowledge and the given conditions on the political scene. While the original policy – with a citizenship principle and no occupational pensions – was retained, the main goals were considerably diluted in subsequent developments. In a sense, reality thwarted the initial intention: while the “liberal project” treated the public pension as a source of basic income only and relied on the notion that supplementary private schemes would eventually become the main source of the pensioner’s livelihood, centre-left politicians and the public took the opposite view.

3.3 The current reform debate: pensioners as captives

Debate over further pension reform in the Czech Republic continues against a backdrop of a mounting deficit and gloomy demographic prospects. Like all radical policy changes, the reforms require genuine political will. Starting in 1998 the Czech political scene was afflicted for four years by the cool truce produced by the “opposition treaty” between the two main parties on the left and the right, aimed at strengthening their positions to the detriment of other parties. The weak centre-left government coalition that took power in 2002 rendered it unlikely that any attempts to carry through further fundamental reform of the social security system could occur. Vigorous government rhetoric about the urgency of the problem has starkly contrasted with the limited real activity, and alternative proposals for radical form are nowhere near ready.

The outcome of the first “weak reform” of the pension system revealed the ambivalent position of the leading “liberal” party ODS. While ODS promoted individual responsibility and indeed cultivated the rhetoric in favour of mandatory private old-age insurance, in reality, and against all advice that they use the yields from privatisation to establish private or public pension funds, the ODS-led government made no resources or funds available for the introduction of pension funds and utilised the entire pension surplus to balance the state budget.²⁴ It was the small coalition party, ODA, that insisted on earmarking collected contributions as the first step and elaborated a radical pension reform involving the introduction of a second, fully funded pillar – this, however, remained nothing more than an idea.

The swansong of the Klaus-led government was the report prepared by the Ministry of Labour and Social Affairs called *Possibilities for Changes in the System of Pension Insurance and Its Financing*, which was discussed by the Council of Economic Ministers in April 1997, but was never submitted to the government. The report proposed a basic pension benefit with two components as the first pillar (a fixed-rate component and an earnings-related component, each comprising about 15 percent of gross average earnings), and a compulsory old-age private savings scheme as the second pillar (comprising another 15 percent). Altogether the system would provide about 45 percent of the average wage in pension benefits. In addition, voluntary private insurance already in existence would ensure both that benefits are differentiated and that pension benefits bear a stronger relation to previous earnings. This proposed system thus closely adhered to the suggestions that had been made by the World Bank (World Bank 1994).

²⁴ Following the reduction of an employee’s rate of contribution to old-age security (from 27.2% to 26%) in 1996 and the worsening of the dependency ratio, the surplus rapidly evaporated.

Under the interim right-centrist government of Josef Tošovský, the Minister of Labour and Social Affairs, Stanislav Volák, proposed the introduction of radical reform. In 1997, the Czechoslovak Commercial Bank (ČSOB) prepared a review of experiences in various countries. The resulting study confirmed the need for radical reform, but offered no clear policy recommendations (Kočišová et al. 1997). In January 1998 a collection of articles by Czech authors on pension reform was published in the monthly review *Finance and Credit*, but again no concrete policy suggestions were made. The Czech National Bank conducted a study showing that, when combined, an increase in the retirement age and a voluntary, partial contracting-out from the PAYG would make the pension system less redistributive and thus more sustainable in the long run (Bezděk 2000).

In opposition, the Social Democrats objected to the introduction of changes to the system and demanded a 50 percent replacement rate of gross income (Hiršl 1997). They also abandoned their efforts to have the retirement age lowered. After taking office in 1998, Social Democratic politicians again explicitly rejected any radical pension reform and announced only parametric adjustments to the current PAYG system along with a proposal for public social insurance. They persisted in this despite several important changes that occurred in the late 1990s, which considerably altered the circumstances under which previous pension reforms had been implemented:

- Economic growth slowed down considerably.
- The dependency ratio, which had been favourable at the beginning of the 1990s, worsened and the demographic forecast had to be re-evaluated.²⁵
- The balance of pension revenue and expenditure that was positive until 1997 became negative, and the risk of a rapid increase in the budget deficit emerged.²⁶
- As a result of the relaxed, limited restrictions on early retirement, the number of retirees grew considerably and the proportion of early retirees came to equal one half of the total.
- Supplementary private insurance was less popular than had been expected, particularly with regard to the level of payments, which in 1999 fell below 2.4 percent of wages.
- After the privatisation of the last semi-state banks, state-supported high employment ceased to be a feature of the economy and higher levels of unemployment reduced the pension contributions and payroll tax paid by employees and employers.

Questions about systemic pension reform surfaced on both sides of the political spectrum, especially with regard to the escalation of the situation: on the one hand, there was an increasing dependency ratio, on the other hand, there were the interests of an aging electorate, accustomed to a still quite generous scheme. Political efforts were however frozen by the opposition agreement between ČSSD and ODS, whose views on reform strategy otherwise clashed.²⁷ Although elaborated unevenly at best, the two competing approaches can be summarised here as follows:

25 As soon became clear after the passing of the Pension Insurance Act, the underlying demographic forecast was excessively optimistic. The misleading forecast, however, made it easier for the Social Democrats to reject the act on the grounds that an increase in the retirement age was not urgent.

26 The surplus of four billion CZK in 1996 turned into a deficit of seven billion in 1997 and 20 billion in 1999. Forecasts predicting a further rapid increase have not been fulfilled. In 2002, the deficit was 16 billion and in 2003 17.5 billion CZK. The future, however, looks much more gloomy.

27 The "opposition treaty" contained only a general statement that the envisaged pension reform would be based on a combination of PAYG and FF financing.

- *The proposal of the Ministry of Labour and Social Affairs* presented in October 2000 (*Concept 2000*) rejected compulsory private insurance and suggested parametric reform. This reform approach introduced an actuarially fair scheme with defined contributions and involved some economic measures. It also established new occupational pensions and envisaged support for more voluntary private insurance.
- *The vague centre-right counter-consensus* of ODS, the Freedom Union, and some Christian Democrats referred to the necessity of introducing a “second pillar” of mandatory private insurance and further raising the retirement age. The Freedom Union put much greater emphasis on the second pillar than ODS, which envisaged more voluntary old-age savings.

The main elements of both proposals have remained to the present time. The “weak reform” introduced by the Ministry of Labour and Social Affairs is aimed at separating pension funds and the general budget and administering them through a Public Social Insurance Company instead of the current Social Security Administration. Notional personal accounts are intended to ensure a closer relation between pension benefits and both previous earnings and the number of contribution years.

Private insurance is to be further encouraged by income tax allowances. The aim is to reach a 60–70 percent net replacement rate, of which four-fifths would be covered by basic pensions and one-fifth would be covered by private insurance.²⁸ The current system of financing, based on PAYG, is to be complemented by revenues from the state budget, the latter presumably covering pension credits for non-contributory periods.

Evaluations of the draft proposal vary enormously. The Social Democrats call it a bold and balanced plan that manages to change the current, unsustainable system in an appropriate way. Liberals, on the other hand, have referred to it as “slinking reform”, or “non-reform”, which in no way addresses the main problem, i.e. the increasing pension deficit.

The long period of harmony that previously existed between the Social Democratic government and the trade unions was damaged by the early retirement scheme. While the trade unions supported the early retirement pension in its generous form and regarded it as a convenient means for attenuating unemployment, the government considered it a departure from the principle of solidarity and a misuse of an otherwise uniform pension system. Liberals vehemently rejected facilitating early retirement, arguing that each early retiree costs twice as much as an unemployed person on benefits. It was only with the onset of a massive increase in early retirement (which in 2002–2003 reached a level of one-half of all new pensioners) that some restrictions were put on the conditions for early retirement.

The most consistent counter-proposal has been drafted by the Freedom Union. This recommended increasing the retirement age to 65 years for men and women as a means of keeping the number of pensioners in 2010 at the same level as that in 2000. It further recommended a mixture of PAYG and FF systems to establish a stable and fair pension programme. The benefit would be set at 45 percent of the calculation base (providing a 58 percent replacement ratio) in the following way: 10 percent of gross earned income would come from a fully solidarity-based PAYG system providing flat benefits; 15 percent would come from a PAYG system based on limited solidari-

²⁸ In fact, the actuarially based rate could reach 40 percent maximally in 2005.

Table 3.2 Preference for the system of old-age security by education, age and party vote (% and statistical significance)

	Revenue-financed, fixed-rate pension benefits	Earnings-related benefits from a public fund	State benefits for the poor, private schemes for others	Total
Education:				
Elementary	55.2 +++	38.9 —	5.9 0	100.0
Vocational and lower secondary	42.6 0	51.1 0	6.3 0	100.0
General and specialised secondary	34.9 —	55.7 +	9.4 0	100.0
University	28.1 —	58.8 ++	13.1 ++	100.0
Age:				
20–29	37.3 0	51.7 0	11.0 ++	100.0
30–39	37.0 0	53.9 0	9.1 0	100.0
40–49	36.1 —	55.6 +	8.3 0	100.0
50–50	41.0 0	52.0 0	7.0 0	100.0
60 and more	55.1 +++	40.9 —	4.0 —	100.0
Political preference:				
Freedom Union	25.1 —	63.9 +++	11.0 0	100.0
Civic Democratic Party (ODS)	21.1 —	63.3 +++	15.6 +++	100.0
Christian Democratic Party (KDU-ČSL)	45.5 0	46.4 0	8.0 0	100.0
Social Democratic Party (ČSSD)	52.1 +++	43.4 —	4.5 —	100.0
Pensioners for Security (DŽJ)	49.4 0	45.8 0	4.8 0	100.0
Communist Party (KSČM)	62.2 +++	37.2 —	0.7 —	100.0
Republicans (SPR-RSČ)	50.0 0	45.7 0	4.3 0	100.0
Total	41.7	50.4	7.9	100.0

Source: *Economic Expectations and Attitudes*, 1998.

Exact wording of the question: Which system of pension security do you prefer?

1. Pensions are paid by the state from the state budget to all people at a fixed-rate. Furthermore, everyone can pay for his/her own private supplementary insurance.
2. Pensions are paid from a pension fund. Everyone contributes according to his/her income to a fund and pensions are calculated according to these payments.
3. The state cares only for the needy. Others pay their own private insurance and pensions are calculated according to these payments.

ty; and the remaining 20 percent would come from a compulsory FF system. However, this was only an academic exercise, as the party's support has weakened rapidly.²⁹

The main conflict is thus over compulsory savings in private funds and the establishment of a second mandatory FF pillar that ensures equivalence between contributions and benefits. ČSSD have raised both defensive and offensive arguments. The former include the claim that “only the state can never go bankrupt” and that “nobody can force people to save in private institutions”. In their comments on the reforms implemented in Poland and Hungary, Social Democratic politicians stress their difficulties and later revisions. On the offensive side, Social Democrats speak, for instance, about the economic advantages of strong capital groupings that want to establish large private pension insurance funds for the sake of future profits.

Broadly speaking, both of the main approaches to reform have enjoyed considerable support among the public. By contrast the “purely liberal” system remains marginal (Table 3.2):

- A “Bismarckian system” of public funding, proposed by the Ministry of Labour and Social Affairs, has received the greatest support, with one-half of the adult population in favour of this plan, especially among middle-aged and more educated people with higher incomes. Supporters of the “pensioners” party”, however, are in no way inclined towards this plan.³⁰
- *The Beveridge system* proposes a fixed-rate minimum pension paid from state revenue, combined with individual choice among private FF insurance schemes. This plan enjoys considerably less support than the one above and is favoured mostly by pensioners and people with lower levels of education and lower incomes. Conversely, communist party members are the strongest opponents to this plan, followed by the Social Democrats.
- *The residual system*, in which the state assists only the truly poor and all others take care of their old-age subsistence through private assets and insurance schemes, was acceptable to only 8 percent of the population. The people inclined towards such a liberal solution were mostly well educated and well paid, young people, supporters of rightist parties, and, to much less of an extent, followers of the Christian Democrats.

Over the long term, surveys have indicated decreasing satisfaction with the pension system, accompanied by increasing expectations among the public from the state. In late 2000 only 14 percent of respondents considered the current system to be an appropriate one for the future. At the same time, however, people are increasingly reluctant to take individual responsibility for their old-age subsistence. Altogether, 60 percent of respondents think that the state is responsible for the basic pension, and that potential pensioners bear responsibility only for arranging supplementary income/pensions, while 10 percent of respondents believe that old-age security is the exclusive responsibility of the state. On average, people expect a 60 percent replacement of previous earnings (a survey by the STEM/MARK agency, October 2000).

There is apparently no direct relationship between public opinion and concrete reform alternatives. Neither the financial experts who favour a fully funded pillar, nor the experts from the Ministry of Labour and Social Affairs who prefer to stick to a reformed PAYG system employ pub-

29 Although the Freedom Union is still in the Coalition in Government since 2002, it would not be capable of crossing the 5-percent threshold in the next elections.

30 The party called *Pensioners for Social Security* (later the *Movement of Pensioners for Social Security*) was mistakenly expected, on the basis of polls, to get into Parliament after the 1998 elections.

lic perceptions in their arguments. Politicians though are more attentive to the public's general inclinations. They are also aware of the huge economic, and thus also political, transaction costs of the system. This is probably the reason why no political party actively promotes any radical solution. This very prudence means that the necessary reduction in basic pension benefits, following a parametric adjustment of the current system according to a defined-contributions (DC) model, has not been stressed in the debate.

3.4 Conclusion

With regard to the pension system, the current Czech political scene is ideologically quite clearly structured, but in terms of real action the situation is rather blurred. This raises the question of whether it is possible to accurately describe matters by means of distinguishing between "dominant" and "less significant" actors, as Katharina Müller does (1999), or by specifying actors according to their "proposal" or "veto" roles, as Mitchell Orenstein does (2000). Political parties routinely present their personal "visions" in the area, but behind these declarations there is a blatant lack of political will to implement them. They explain their lack of action by the fact that pension reform requires a large political consensus. The declared interests, and the expected roles of collective actors are nowhere near as clear and straightforward as the party ideologies might suggest they are.

In Scheme 3.1, we offer an overview of the actors we have addressed above. Government bodies such as the Ministry of Finance have as yet played no specific role in social reform, either because the pension burden at the outset was not as great as in other transition countries, or because instead of the typical conflict between the two ministries some kind of "pre-agreed harmony" has dominated. Nevertheless, in the *Concept for the Reform of Public Finance*, drawn up by the Ministry of Finance and approved by the government in 2003, it is clearly indicated that, "the basic system of pension reform is unsustainable in the long term and it must be submitted to fundamental reform" (p. 55). However, instead of fundamental changes, what is proposed are just parametric adjustments relating to restrictions on early retirement and the inclusion of time as a student into the calculation.

Trade unions reject, on principle, any privatisation of the pension system, and they demand that the rate of equivalence between paid insurance contributions and pension levels be strengthened, that the emergence of employee pension funds be enabled, and that the considerable advantage given to the self-employed over employees be eliminated. Their pressure on establishing occupational pensions failed.³¹ The trade unions held a demonstration in September 2003 in protest against the "deforming" (instead of reforming) of public finance and specifically against the enforcement of stricter conditions for early retirement, the increase in the retirement age, and the increase in the tax burden on employees as opposed to advantaged employers.

Associations of employers are not particularly actively engaged in the debate on reform. Regarding employers themselves, after the tax allowance for supporting private old-age insurance was introduced in 2001, the number of those making employee contributions mounted. A survey conducted among 447 firms showed that while 37 percent of firms already contribute to a private scheme as

31 The last proposal for occupational pensions was rejected by Parliament in 2001 and there has been no plan to reintroduce it since then.

Scheme 3.1 Overview of the social actors involved in pension reform before the 2002 elections (stylised)

Type of actors	Supported pension system		Degree of difference	Reasons for the lack of activity
	PAYG	Fully funded		
Political parties	Left (ČSSD, KSČM)	Right (ODS, Freedom Union)	Verbally strong difference, limited action	“Opposition treaty” between ODS and ČSSD
Governmental bodies	Ministry of Labour and Social Affairs (MLSA)	Ministry of Finance (MF) but only allusions	Indistinct, MF not active	One-party ministries, no worry of the MF
Pressure bodies	Trade unions	Employers’ chambers	Adequately distinct	Little engagement of employers
Lobby bodies	“Grey lobby”	Finance and insurance companies	Very distinct	Not visible
Expert background	Actuarial	Macro-economics	Very distinct	Weak acknowledgement by politicians
International bodies	EU, ILO	IMF, WB (to a decreasing degree)	Quite distinct	Strengthening conservatism

employers, 16 percent are interested in doing so in the future, while 47 percent are not interested. The frequency depends on the turnover of the firm and is positively associated with foreign ownership. Employers are not very interested in any new arrangement for supplementary systems of life/old-age insurance and instead call for more tax allowances within the current system (the STEM agency for the MLSA in 2003).

Private pension funds might have a stake in establishing a mandatory FF pillar that could enable them to expand their business (provided they were able to compete with large foreign insurance companies). The opposite however has been true. The reason is that given the current legislation and the state of regulation they are obliged to keep short-term conservative strategies of investment and thus they collect small but secure profit, under only a weak supervision. Therefore, they have been rather reluctant to exchange their current ease for vague prospects of expansion under much stricter control of the state. Only recently has there been any change in this view and the Association of Pension Funds has become interested in getting involved in the debate over pension reform.³²

Experts, in particular those on the borderline between research and finance, have formed the group most vocal in support of an FF pillar. Economists trained in mainstream economics at American universities, such as Ondřej Schneider, Tomáš Jelínek and Vladimír Kreidl, in cooperation with CERGE/EI and the non-governmental Civic Institute or Liberal Institute, have issued the first studies in this area, inspired by the 1994 World Bank programme study (Schneider 1995; Kreidl 1997). Each of

³² Evidence of this is provided by the change in personnel at the head of the Association of Pension Funds, as in the spring of 2004 the president of the Association became Jan Chalupa, who heads the largest private pension fund in the Czech Republic – the Credit Suisse L&P.

these young experts originally began their critical studies as part of their purely academic work (Schneider 1996; Kreidl 1998; Schneider and Jelínek 1999). Some of them were among those invited by the ČSSD Minister of Finance to work on the draft of public finance reform, but only a few of their ideas were accepted in the final document.

Regarding international institutions, and the “American” ones in particular – the International Monetary Fund (IMF) and the World Bank – their initial vehemence about endorsing the introduction of an FF pillar has gradually weakened over time. Thomas Laursen cautiously pointed out that:

the alterations to the basic PAYG parameters can go a long way towards addressing the problems, although more systemic changes – such as pre-funding, strengthening the link between contributions and benefits and diverting part of the pension contributions to a mandatory, private pension saving pillar – could also help (Laursen 2000).

The IMF regular country report on the Czech Republic was even more conservative, when it recommended “raising retirement ages above the new levels currently being phased in and reducing the wages used to calculate benefits accrued during non-contributory periods” (IMF 2000).

Even the current recommendations of the World Bank do not go far beyond the range of proposals made by the government and its most recent analysis considers the advantages of various proposals and models their impact. The first proposal corresponds to the current state, in which a PAYG system is maintained and accompanied by an increase in the retirement age to 63 years. The second considers the transition to notional accounts and defined contributions instead of defined benefits. In order to alleviate the deteriorating replacement rate consideration is also given to the introduction of a third pillar of employee pension funds. Mandatory pension savings occupy only a marginal role in this study (Lasagabaster, Rocha and Wiese 2002). The World Bank along with the OECD recommend of course restricting access to benefits from supplementary systems prior to the fulfilment of retirement conditions from the main pillar.

Political parties therefore remain the most obvious collective actors in pension reform – currently, as the government, ČSSD is the “proposal” actor, and ODS, as the opposition, is the “veto” actor. There are of course many more ideas at play. Scheme 2 indicates their main goals and specific issues as defined prior to the elections in 2002. On the political right the Freedom Union was the only party to advocate a fully funded (FF) pillar, while ODS backed the idea of voluntary old-age insurance. On the political left the Social Democrats and the Communists supported only “weak reform” of the PAYG system and resolutely rejected compulsory savings.³³ The Christian Democrats occupy the political centre and fluctuate between these two standpoints. They are, however, more inclined towards mild reform and the preservation of the kind of solidarity involved in the PAYG system.

Regarding the affiliation of pensioners themselves, it changed considerably between the 1992 and 2002 elections (Table 3.1). In 1996, ODS maintained its relative position, as did the Left Block. The Social Democrats received huge support from the population and pensioners followed this trend, although with some gap. This continued in the 1998 by-elections, when the Social Democrats won (not included in the table). Testimony to the swing of pensioners to the political left is provided by the results of the 2002 elections, when already almost 60 percent of their votes were given to leftist parties – Social Democrats and Communists. While their tendency to support Social Democrats

³³ On the insistence of leftist parties, even minor contributions to future pension funding from the yields of privatisation (i.e. 100 billion CZK = 2.5 billion USD) were rejected by Parliament.

Scheme 3.2 Overview of pension reform proposals by main political parties (stylised)

Social Democratic Party (ČSSD)	Christian Democratic Party (KDU-ČSL)	Communist Party (KSČM)	Civic Democratic Party (ODS)	Freedom Union
Continuing PAYG system and voluntary private insurance	Compulsory private insurance (tentatively)	Continuing PAYG system and voluntary private insurance	Compulsory private insurance (not very strong)	Compulsory private insurance
Separation of pension insurance from state budget, creation of a <i>Social Insurance Company</i>	Greater support for voluntary private insurance	Deficits on pension bill finance from the state budget	Greater support for voluntary private insurance, higher tax deduction	Strengthening of actuarial fairness in PAYG pillar
Voluntary occupational funds	Higher pension benefits for working in retirement period	No increase of the retirement age	Increase of the retirement age	Substantial reduction of early retirement
Reduction of early retirement				Greater support for voluntary private insurance, higher tax deduction
Reduction of pension credit for non-contributory period				Increase of the retirement age
				Advantages for people working in retirement age

equals the average, their support for Communists is much above the average. While the ratio between pensioners and the total population has not changed much in the interim, their support for Communists has increased by 1.5 times.

In 2004 the situation is at once simpler and more problematic. There are fewer key players on the political stage, as the Freedom Union has become an irrelevant force. The only agreement between political parties is over the need for reform, with no consensus over the shape it should take. Some political compromise would be required to push through reform, but under the current circumstances that likelihood must be ruled out. The ČSSD-led government called on ODS and KSČM for discussions and proposed the formation of an expert committee, which would be assigned with the task of finding an appropriate middle route. The offers of compromise may of course be interpreted as nothing more than a political tactic – none of the large parties in reality wants to or is even able to change anything; their programmes are too strictly defined, and the parties have little reform strength.

Both reform packages – on the left and the right – feature certain internal inconsistencies. The Social Democratic proposal intends to strengthen the connection between pensions and life-long earnings by means of notional accounts. This however is an illusory notion given the circumstances in which the total volume of funds for payments is to continually decrease while the min-

imum pension payment – guaranteed state pension – is to become more or less fixed. Thus the more likely outcome is that state pensions will be levelled towards the minimum, and the connection with earnings will consequently be weakened further, and the higher the earnings in question the more so.³⁴

The Civic Democrats' idea, as indicated in their programme document, relies on only a minimum state pension and otherwise emphasises “individual retirement insurance, investments and savings” (the party programme document called *Blue Chance*, p. 22). This vision however has some unrealistic expectations. First, the current individual payments to the “minimum” state pension itself are at level where those contributing to the system have insufficient means left over for them to be able to invest in private retirement pensions. Second, the majority of Czech consumers are not oriented towards long-term investments, nor are they in any way motivated in this direction; on the contrary, they are more often motivated into debt. One other problem continues to be the public's shaken confidence in the domestic financial system, whose troubled beginnings are continuously recalled in one affair after another.

As it turned out, the last governmental proposal introduced envisaged only parametric, not systemic changes. On the one hand, the second pillar (occupational pension scheme) was definitively omitted as unfeasible. On the other hand, the third pillar (private insurance) remained as only voluntary, with two options for old-age and life insurance. The only change concerned the defined contributions (DC) or defined benefits (DB) of financing the first (mandatory PAYG) pillar.

Since there is little likelihood that a thorough reform of the pension system will be implemented, a serious threat now hangs over society: the tax burden will have to grow, which will push workers and firms out of the formal economy and aggregate revenue will fall. The real level of basic pensions will decrease and as a result a large portion of the retired population will face poverty. This will serve to increase inequalities between the active and inactive parts of the population and within these groups.

A compromise between the PAYG system and private funds is likely only on the condition that the state supports both and as such tries to satisfy the interests of all main social strata. The lowest class would remain in the care of a distributive system, while the middle class would take greater advantage of the possibilities offered by private schemes. The ruling class would thus avoid radical change, for which it has neither the strength nor the will.

34 According to World Bank estimates the replacement ratio at the average wage level should fall from today's 48% to 32% and for wages at the 150% of the average should only fall from 34% to 32%. This model of course assumes that the relation of lowest pensions (corresponding to one-half of the average wage) to average wage will be only 25%. Such a situation would evidently be politically unacceptable for any government and distribution would have to be higher.

4. The non-working and the working poor

Under the communist regime, various circumstances meant that poverty remained mostly invisible. First, ideology rendered it taboo, and all manifestations of poverty were deliberately concealed. Second, owing to the general equalisation of living conditions, disparities in income were quite small and the living standard of the majority of the population was not far from the minimum. Third, owing to compulsory employment, there was no poverty caused by labour market failures. In the end, by impoverishing and subordinating the entire population, the regime managed to conceal poor individuals and groups.

Since 1990, poverty issues have become a standard part of the agenda of social policy and research (Večerník 1991; Mareš 1999). In comparison with advanced countries, knowledge in this area continues to be insufficient. An important impetus is the country's accession to the EU, which included it in the so-called Lisbon process, oriented towards strengthening competitiveness and alleviating poverty. *The Joint Memorandum on Social Inclusion in the Czech Republic* (2003) identified the main problems and outlined policies to combat social exclusion. *The National Action Plan on Social Inclusion* (2004) gathered policies in various areas and set the course for 2004–2006.

There are a great many problems related to poverty definition and research. Basically, it is never possible to unambiguously establish the presence of poverty in a society. This is because need is not a state but a relation, which should have some permanence and which has many faces and references. It can be defined relative to a “standard package” of goods and services, to the average income in society, or to various reference groups of the population, from the outer circle of, say, the most advanced countries, to the inner circle of a neighbourhood or a professional community.

One must distinguish, then, between poverty criteria (set from above) and poverty experience (gathered from below). There is a considerable mismatch between belonging to the category of poor and really feeling poor. From above, the choice of poverty indicator is never unbiased: “a ‘scientific’ definition of poverty is a mirage; all definitions of poverty, ultimately, are political” (Barr 1994: 193). The political status of the definition of poverty is, however, rarely made explicit or debated as such. In analysis, it is quite difficult to differentiate between purely “academic” research and “policy-oriented” research.

This chapter presents some evidence of the development of poverty in the Czech Republic. More change occurred in the composition than in the amount of poverty. While need was far from negligible before 1989, it was mainly caused by demographic factors and primarily affected the elderly and households with a large number of children. In contrast, under the market economy, unemployment became the strongest factor behind income insufficiency and poverty. This largely manifested itself after 1997, when there was a rapid increase in unemployment in the Czech Republic

and the numbers of long-term unemployed grew even faster. Simultaneously, the problem of the “working poor” also appeared.

The chapter is structured as follows. First, we describe the new sources of poverty after 1989 and the new measures introduced to prevent or combat it. Second, we consider the relative ease of leaving the labour force and the impact of departures on household income. Third, we present a variety of measurements that show the different faces of poverty, comparing so-called objective and subjective indicators. Fourth, we focus on the working poor and compare them with the non-working poor. We conclude with a discussion of informal sources and other “hidden aspects” of the poverty story.

4.1 New situation, new policies

The labour market that arose after 1989 became a new source of poverty. Unlike the mandatory employment and often life-long loyalty to one firm under the previous regime, in the new conditions many people were laid-off, remained unemployed, or were forced to shift to lower paid jobs. In the first period of transition, frictions between labour demand and supply were in most cases resolved – otherwise the majority of job shifts were voluntary or promotions. Self-employment and entrepreneurship, and new sectors and opportunities attracted active people. However, since 1997, unemployment has surfaced in full force.

From the outset of the transition, the government responded by introducing new measures or by reshaping or administrating old ones. Several measures were implemented to combat declining incomes and the risk of poverty.

Unemployment benefits (officially called “material support for a jobseeker”) were first established in 1990. At that time unemployment benefits were set for twelve months and at the level of 60 percent of the recipient’s previous net wage (90 percent if the job loss was due to restructuring). This advantageous arrangement was withdrawn in 1991, and unemployment benefits were then set at the 65 percent level for the first six months and at 60 percent for the rest (70 percent during retraining). In 1992, the entitlement period was shortened to six months only, and unemployment benefits were set at the 60 percent level for the first three months and 50 percent for the rest.

Since October 1999 a job seeker can receive 50 percent of previous earnings during the first three months and 40 percent for the second three months (60 percent during retraining). The ceiling for financial support is higher, at 2.5 times the corresponding subsistence minimum in general (previously 1.5), and 2.8 times for jobseekers in retraining (previously 1.8). 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 older than 55 years of age (12 months). For the second three-month period the benefit increases from 40 to 45 percent (50 percent for the first period).

The living minimum serves as the official poverty line, establishing the entitlement to request benefits up to a given level, set according to the size and composition of a household. It was established anew in 1991, but its principles have remained almost intact from the previous regime, i.e. it takes little account of the shared needs of households and of scale economies. Benefits calculated in this way are therefore advantageous to large households and disadvantageous to small families and single persons. Because the share of family expenditures on foodstuffs is declining and the share on housing rising, this imbalance is strengthening.

Table 4.1 Wage and benefits levels (CZK monthly and %)

Indicator	1990	1992	1994	1996	1998	1999 **	2000 **	2001	2002	2003	1stQ 2004
In CZK monthly:											
Gross average wage	3286	4644	6894	9676	11693	12666	13499	14640	15707	16917	16722
Net average wage	2691	3715	5398	7538	9144	9931	10571	11465	12283	13057	12909
Gross minimum wage	2000	2200	2200	2500	2650	3250	4000	5000	5700	6200	6700
						3600	4500				
Net minimum wage	x	x	x	x	x	2844	3412	4194	4715	5087	5494
						3114	3784				
Average unemployment benefit	x	1404	1839	2306	2335	2529	2781	2961	3164	3324	3480
Living minimum of single adult	x	1700	2160	2890	3430	3430	3770	4100	4100	4100	4100
Living minimum of family of four***	x	5450	6860	8810	9250	10060	10660	11420	11420	11420	11420
Average pension benefit	1731	2413	3059	4613	5367	5724	5962	6352	6830	7071	7232
Newly granted early pension benefit – by two years	x	x	x	x	5176	5370	5513	5837	5917		
Newly granted early pension benefit – by three years	x	x	x	x	5406	5593	5659	5844	5667		
In percentages of the net (gross) average wage:*											
Minimum wage	60.9	47.4	31.9	25.8	22.7	25.7 31.3	29.6 42.6	34.2	36.3	36.6	40.0
Average unemployment benefit	x	37.8	34.1	30.6	25.5	25.5	26.3	25.8	25.8	25.5	x
Living minimum of single adult	x	45.8	40.0	38.3	37.5	34.5	35.7	35.8	33.4	31.4	31.8
Living minimum of family of four***	x	146.7	127.1	116.9	101.2	101.3	100.8	99.6	93.0	87.5	88.5
Average pension benefit	64.3	65.0	56.7	61.2	58.7	57.6	56.4	55.4	55.6	54.2	56.2
Newly granted early pension benefit – by two years	x	x	x	x		56.6	54.1	52.2	50.9	48.2	
Newly granted early pension benefit – by three years	x	x	x	x		59.1	56.3	53.5	51.0	46.1	
Net minimum wage in % of living minimum of single adult		x	x	x	x	82.9 90.8	90.5 100.4	102.3	115.0	124.1	134.0

Sources: Statistical Yearbooks of the Czech Republic, Ministry of Labour and Social Affairs.

* Only the minimum wage is related to gross average wage, all other items are related to the estimated net wage. The estimate is made on family expenditures data by the Ministry of Labour and Social Affairs.

** In those years, the minimum wage was increased twice.

*** Two adults and two children 10-15 years old.

The *minimum wage* was first established in the Czech Republic in 1991 and was set at the level of 2000 CZK (53 percent of the average wage). Soon after it was raised to 2200 CZK and then remained frozen until 1996. Its long-term nominal stagnation and real fall was an escape from the dilemma faced by the governing “liberals”, who considered the minimum wage inappropriate to a free market economy, but who had to respect the already ratified international agreements that guaranteed its existence. When the Social Democrats came into office, the minimum wage started to rise again. It was only in January 2001 that it came to exceed the living minimum for a single adult, and it has continued to increase.

In Table 4.1 we provide an overview of various minimum levels and their changes over time. The minimum wage has started to improve its relative position, and since January 2004 it has been at the level of 6700 CZK (equal to 40 percent of the average wage). In 2001, it exceeded the amount for the living minimum for a single adult and is currently one-third higher. The replacement rate of the unemployment benefit has been decreasing steadily since it was introduced, and it now represents a mere one-quarter of the average wage. Pension benefits have maintained their relative weight since 2000, at about 55 percent of the average wage.

In fact, the guaranteed minimum wage, unemployment benefits, and the living minimum, together with benefits of state social support and the minimum pension benefits (which is set higher than the living minimum), create quite a solid social safety net, and the Czech system thus ranks among the most advanced in Europe. Despite the fact that its social spending does not reach the relative level of some Western European countries, the poverty rate is among the lowest in the EU25.

The other side of the embracing safety net, protection in the temporary situation of job loss, is its welcoming affect for all those who give up – from the outset or after gathering gloomy experiences in the job search – on re-employment. Then, the state budget suffers from the rise in spending on unemployment and social benefits. There are adverse effects on employers, who suffer as a result of rising wages and related non-wage costs, and the reluctance of employees to take worse jobs. The voices calling for reconstruction of the system towards greater efficiency are getting stronger.

4.2 Easy exits from the labour market

In order to avoid unemployment status and/or ease their work burden, people – and the most vulnerable in particular – tend to leave precarious or poorly paid employment, either temporarily or permanently. Before 1989, state paternalism was accompanied by compulsory work, and departures from the labour force were regulated by law. Since 1990, job security is unevenly distributed among the population, in accordance with people’s education and skills, local opportunities, and employment availability. Employment behaviour is substantially affected by institutional conditions.

The state has proceeded inconsistently, keeping the newly settled minimum wage and unemployment benefits low, while providing easily accessible and higher social subsistence provisions. At the same time, easy exits from the labour force or employment have persisted or were even supported, such as early retirement. Specific “coping strategies” are provided by the sick-leave system. In sum, there are a couple of basic methods used (and often misused) in order to get out of the active labour force:

1. *Early retirement* is not as widespread in the Czech Republic as in Hungary and (especially) in Poland, but nonetheless it is facilitated by a relatively favourable scheme. Two possibilities were introduced by the Pension Insurance Act in 1997.³⁵ Permanently reduced early retirement can be taken by any worker after 25 years of pension insurance contributions, but no earlier than three years before legal retirement age. Temporarily reduced benefits are allowed solely for the long-term unemployed, also after 25 years of pension insurance contributions, but not earlier than two years before the legal retirement age. In either case, early retirees are not permitted to engage in any economic activity before reaching the legal retirement age.

Early retirement became very popular and its share in the number of pensions granted in recent years has grown steadily: 30 percent of all old-age pensions were in the form of early retirement in 1997, 48 percent in 1998, 52 percent in 1999 and nearly 60 percent in 2000 and 2001 (with only a small proportion of temporarily reduced early pensions). Early pension benefits granted in 2001 provided their beneficiaries with 90 percent of the full average pension. The mounting deficit for the pension bill triggered a government effort to alter the design of early retirement to make it less attractive. Consequently the share of early pensions out of all newly allotted pensions fell to 33 percent – which was probably also due to the fact that many of those interested in early retirement had already taken it, anticipating the introduction of stricter rules.

2. *Disability pensions* have been abundantly used and probably also misused. The number of disability pensions only began increasing in the early 1990s and since then it has become stable at 540 000 (17 percent of all pension entitlements). Among all newly granted disability pensions, full pensions prevail: in 2001, 6600 new full disability pensions were granted in comparison with 3900 partial disability pensions. In 2001, the average level of full disability pension benefit was 97 percent of the full retirement benefit, while the partial disability pension benefit amounted to 61 percent. Since 1998, partially disabled persons are also entitled to claim the temporarily reduced early pension benefits.

3. *Sick leave*, though only a temporary exit, is also being used increasingly. While in 1990 the percentage of sick-leave days out of total working time was 4.8 percent, it increased to 6.7 percent in 2001; the average sick leave was 18 days in 1990, but by 2002 it had already reached 31 days. A relaxed (or sometimes even co-operative) attitude on the part of physicians and the minimal control executed by responsible bodies are what facilitate the taking of sick leave, which is used in particular by lower-wage categories to avoid work strain or, even, the risk of being laid-off. Recently, the low ceiling of sickness benefits was increased, which makes them more advantageous for middle-wage categories of workers.

4. *Welfare dependency* is a welcome exit for not a large, but nevertheless a significant, category of the population. While among households headed by a person aged 55–59 only 25 percent have earned income of less than one-half of the total household income, this percentage steeply rises to 73 percent for the 60–64 age cohort and to 93 percent for the 65–69 cohort. The number of households having earned income of at least one-quarter of the total household income is only 11 percent in the 60–64 cohort and 8 percent in the 65–69 cohort (*Social Situation of Households 2001*). This is despite the

35 As the introduction of the main change in the Pension Act – the gradual increase of the retirement age – evolved into a hot political debate and caused widespread aversion among trade unions (a mass demonstration – otherwise exceptional – was organised), the change was compensated with the introduction of easier conditions for early retirement.

fact that a later departure into retirement is rewarded with a 1.5 percent benefit increase for each 90 days of work.

Of the population aged 50–64 in 2001, 38.5 percent were already out of the labour force (28 percent of men and 48 percent of women). The main reason for the final separation of the labour force was leaving for retirement after reaching retirement age (45 percent of men and 62 percent of women), disability or sickness (34 percent of men and 16 percent of women), taking early retirement (11 percent of men and 9 percent of women) and reasons on the part of the employer – redundancy, the firm was shut down (7 percent of men and 9 percent of women). Other reasons, such as termination of a fixed-term contract, termination of a person’s own business, or personal and family reasons were only cited rarely (*Social Situation of Households 2001*).

Therefore, the crucial task remains of making exits from employment more restricted and weakening their one-way direction by strengthening the incentives that will keep people in their jobs as long as possible or enable them to return to employment. This task rests on the shoulders of state administration and public policy, as well as employers and individuals. The dominant ideology of there being a fixed and early date for terminating working life, supported by a small difference between earned and social income for large sections of the population, must be transformed into motivation towards an open-ended career. One supportive measure to this end would be the removal of earning limits for pensioners.

In a certain sense, this is a legacy of the communist “premature welfare state” (Kornai 1995: 131). As work was compulsory for all, no unemployment trap or benefit dependency could appear. The welfare state was rooted in employment that often assumed the character of social security rather than real working tasks. At the same time, the shame attached to unemployment and rent-seeking, originally rooted in Czech middle-class society, largely disappeared during communist times. The massive abuse of the welfare system has thus since then been viewed as something deserved rather than something shameful.

Under pressure from deficitary public finances, the government is considering benefit reduction and some workfare measures. Specifically, the living minimum is to be lower and flatter, local governments are to have discretion in setting the concrete amount of benefits (acknowledging regional differences), and public works are to be compulsory for the long-term unemployed. The subsistence minimum as a fraction of the living minimum may even be applied to uncooperative unemployed. Early or temporary exits of the labour force and activity might thus be hindered.

4.3 The different faces of poverty

Poverty has many aspects and faces. Consequently, there are also many indicators and measurements of poverty. Research on poverty measurement is more than one hundred years old, and it continues to develop further. For ten years now the Comparative Research Programme on Poverty (CROP), 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. The debate over poverty measurement was best summarised in the study “Income Poverty in Advanced Countries” by M. Jäntti and S. Danziger (Atkinson and Bourguignon 2000: Chapter 6).

Table 4.2 Poor households and persons by legal and EU poverty line and family status 1988–2002 (%)

Family status	Legal poverty line				EU poverty line			
	1988	1992	1996	2002	1988	1992	1996	2002
Households:								
Couple with children	1.1	3.4	2.7	4.4	1.1	3.2	5.8	7.3
One parent with children	9.7	19.5	16.8	16.4	11.0	17.8	26.4	27.4
One person household	13.5	1.4	1.0	2.5	45.5	4.0	5.3	9.9
Other	1.8	1.4	0.6	1.3	6.9	1.7	1.7	2.6
Average	4.5	2.8	2.1	3.3	13.7	3.3	5.0	7.2
Persons:								
Couple with children	1.1	3.7	3.2	4.8	1.4	4.0	7.5	8.9
One parent with children	10.7	21.1	18.6	16.8	12.0	21.2	29.8	31.5
One-person household	13.5	1.4	1.0	2.5	48.5	6.0	6.3	13.0
Other	1.7	1.6	0.7	1.4	7.0	2.2	2.1	3.1
Average	2.7	3.4	2.7	3.9	7.5	4.1	6.4	8.3

Source: Microcensus 1988, 1992, 1996 and 2002, households files.

Note: *Legal poverty line*: the percentage of households (persons) below the official living minimum.

EU poverty line: the percentage of households (persons) below the 60 percent median equivalent income (if the first adult is computed as 1.0, each other adult as 0.5 and each child as 0.3).

Combating poverty and social exclusion has become an important task of the EU. The Lisbon European Council in March 2000 established common objectives on poverty and social exclusion, which were then agreed by the Nice European Council in December 2000. National Action Plans on social inclusion have been prepared by Member States and common indicators agreed on for monitoring progress towards common objectives and for encouraging mutual sharing of best experience. Following consideration devoted to the issue by experts in the field, the Laeken European Council in December 2001 endorsed the first set of 18 common statistical indicators for social inclusion (Atkinson, Cantillon, Marlier and Nolan 2002).

Czech statistics and government began making use of the so-called Laeken indicators of poverty, along with the standard measurement by living minimum. A comparative analysis of indicators is, however, missing. Therefore, in this study I continue in my previous research (Večerník 1996 and 1998) and present some new data. In Table 4.2, the change over time of two basic indicators is displayed – according to the legal poverty line and the EU poverty line. Further, I use the survey *Social Conditions of Households* conducted following the Eurostat recommendations for matching information on persons and households and comparing “objective” and “subjective” indicators.

EU poverty. The poverty-risk rate has most recently been set at 60 percent of median equivalent income, 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 by the Czech living minimum calculation, while the burden of common household costs is higher. The implicit equivalence scale is thus quite flat.

Legal poverty. The Czech living minimum is composed of the amount of money required to meet a person's basic needs and the amount needed to meet household costs. The implicit equivalence scale of the calculation is very steep. Whereas household size elasticity is 0.8 in the calculation of the Czech official poverty line, it is about 0.4 in Belgium, the Netherlands, and Luxembourg, and about 0.5 in France and Spain (Večerník 1996).³⁶

Calculating equivalent income using the same scale for various countries is a process freighted with problems, owing to the different consumption baskets, price structures, and advantages accorded to children or families, since all of these are expressed in different economies of scale. The advantage of a uniform scale, however, lies in its easy application and comparability.

If the EU equivalence scale is used, the poverty head count is twice as high as the living minimum measurement, while the share of pensioner households is even higher.³⁷ Whereas the percentage of the official poor increases, the percentage of poor according to the EU measurement decreases slightly, and the composition of vulnerable categories changes substantially to the advantage of pensioners and to the disadvantage of families with children.

Subjective poverty. According to many authors, poverty is a feeling and not an objective situation, and families themselves should decide on the adequacy of their means to meet needs. There are various ways of measuring subjective poverty, all of which have their basis in respondents' declarations about their relative deprivation. Most methods were developed by the Dutch-Flemish econometric school and are based on respondents' estimates of the minimum level of income with which it is still possible to "live decently".

One such method is the 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?" To derive the income standard, it is assumed that only households that are just able to balance their budget (i.e. that are on the brink of poverty) are able to give a useful estimate of what level of income correlates with a "normal" standard of living (Deleek and Van den Bosch 1992).

In the calculation of SPL, logarithms of Y_{min} (income estimated by the Minimum Income Question), Y (current income of the household) and f_s (size of the household) are calculated first. The log-linear relationship is then calculated as

$$\ln Y_{min} = \beta_0 + \beta_1 \ln f_s + \beta_2 \ln Y,$$

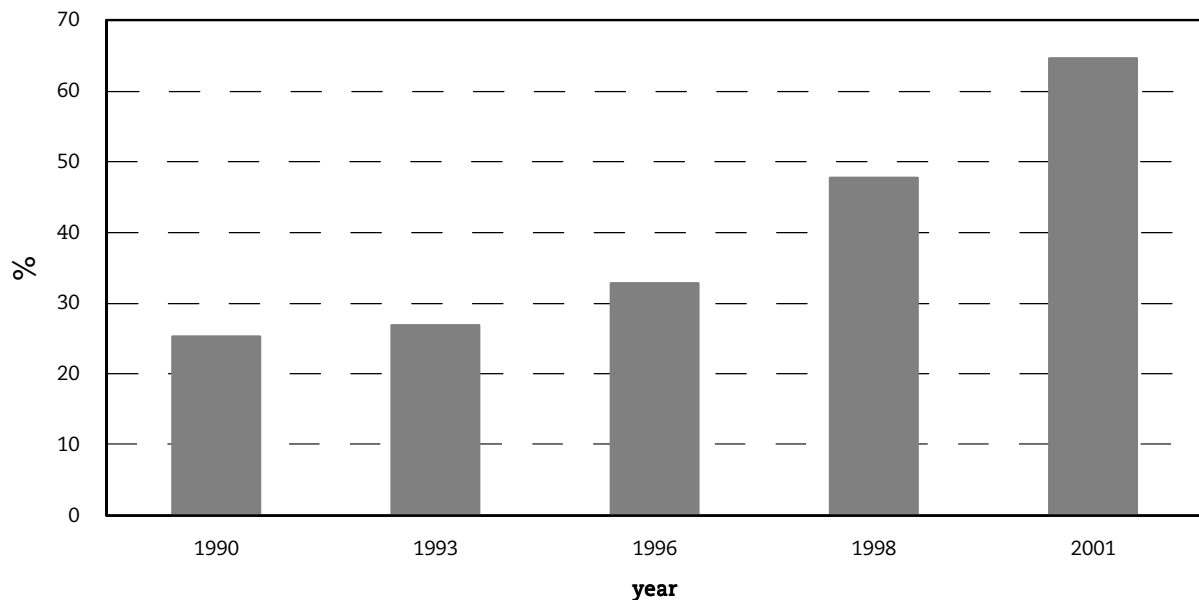
and the poverty thresholds for each household size are calculated as

$$Y_{min} = \exp [(\beta_0 + \beta_1 \ln f_s) / (1 - \beta_2)].$$

In the mid-1990s I compared the Czech data with various poverty rates in seven EU countries and regions (Večerník 1996). Whereas in socially generous countries, such as Belgium or the Netherlands, objective poverty amounted to 7 percent of households, and subjective poverty equalled between 10 and 20 percent, in southern countries without a developed social system objective pover-

36 Within restructuring of the benefit system a new calculation is planned, wherein instead of the current two-component calculation (the cumulated costs of each person and household) only costs of persons will be involved, with a separate housing benefit.

37 Formally, no pensioner's household should be among the poor, according to the official threshold. This is because the minimum pension benefits slightly exceed the minimum income according to the living minimum.

Figure 4.1 Poverty of households according to SPL measurement (%)

Source: *Economic Expectations and Attitudes*, December 1990, January 1993, January 1996 and April 1998; *Social Situation of Households 2001*.

ty amounted to between 15 and 20 percent and subjective poverty between 30 and 40 percent. 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 has increased steadily and significantly in the Czech Republic. In 1998 it surpassed the level of Greece, and in 2001 it reached an unbelievable 65 percent of the general population (Figure 4.1). Whereas in the early 1990s the relation of subjective poverty lines to the average household income was about 75 percent, the perceived minimum income was, on average, higher than the declared current income.³⁸ This suggests that the budget standard perceived by Czechs is more a reflection of the consumption level of advanced Western countries than the conditions in the home country.

There are several possible reasons why these percentages are high. First, the amount of basic needs is exaggerated, as the “minimum amount” includes an expanding number of goods and services. Second, the declared actual income is underestimated, as people tend to declare only formal income and do not mention informal, secondary, and supplementary income. Third, the method con-

³⁸ I took this surprising result and consulted with one of the founding fathers of the “subjective poverty school”, Bernard M.S. van Praag. He admitted that the method returns quite high figures but was also surprised by the result. Unfortunately, comparative figures are missing, though the Czech survey was designed according to Eurostat recommendations and in anticipation of new EU-SILC (EU Statistics on Income and Living Conditions).

Table 4.3 Various measurements of poverty risk by type of household (percent)

Type of household	EU	Living minimum	SPL	Feel poor	People around are better-off
	1	2	3	4	5
Single, under 65	4.7	2.5	41.7	16.9	9.3
Single, over 65	14.1	5.3	75.5	24.5	10.6
Couple, both under 65	9.6	0.0	98.6	27.0	13.1
Couple, at least one over 65	2.0	0.7	44.6	12.0	7.9
Couple with one child	1.2	0.4	87.1	15.1	10.8
Couple with two children	4.3	2.6	48.5	10.7	6.6
Couple with three or more children	4.9	3.4	66.8	10.6	6.5
Couple with at least one child and other members	13.6	10.3	86.4	22.4	10.3
Single-parent family	6.2	4.5	48.8	16.5	8.2
Other	21.5	16.4	82.1	26.9	12.5
Total	5.8	3.1	59.6	16.0	8.9

Source: Social Situation of Households 2001, households file.

Note: While indicators 1-3 are based on the information about households, indicators 4-5 are based on what the person reported. To enable their combination, the household data were assigned to each person. Unlike Table 4.1, the unit of observation here is an adult person (16 years and older) and thus the data slightly differ.

siders the minimum too generously. In fact, there is only a very small reduction of the declared minimum income using the above-mentioned method. Nevertheless, when comparing the figures over time, the central message remains – a rapidly rising “minimum budget”.

In contrast with the very steep equivalence scale implicit in social legislation, the equivalence scale in people’s minds is very flat. This generally reflects the finding by Buhman et al. (1988) regarding the considerable difference between “programme” and “subjective” scales. It means that households see themselves much more as economic actors and budgetary units by stressing common needs and costs, while the calculation of the officially established living minimums see them much more as a sum of individual members with only low shared costs. Consequently, households with more members are advantaged and smaller households disadvantaged.

Feeling poor. Unlike the concept of poverty as an income insufficiency, 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* surveys (1990–1998), a question was posed “Do you feel your household is poor?” which returned the answer “definitely yes” (out of four variants) in about 8 percent of cases.

In 2001, a similar question was posed in the statistical survey on the Social Situation of Households, with only three variants (poor, not poor-not rich, rich). The resulting poverty head count is twice as high, whether as a result of the fewer available response variants or the actual worsening of the situation in the view of households over time (column 4 in Table 4.3). Another question asked whether respondents consider the other people around them as belonging to the same,

Table 4.4 Simultaneous incidence of poverty risk by various measurements (%)

Persons living in poor households according to measurement	Percentage of cases	EU	Living minimum	SPL reduced*	Feel poor	People around are better-off
		1	2	3	4	5
Not poor by any indicator	75.5	—	—	—	—	—
Poor by one indicator	16.9	5.6	0.1	0.0	62.9	31.4
Poor by two indicators	4.3	37.2	12.7	9.0	76.0	65.6
Poor by three indicators	1.9	100.0	68.4	72.7	45.2	13.5
Poor by four indicators	1.1	100.0	85.6	95.6	93.3	25.6
Poor by five indicators	0.3	100.0	100.0	100.0	100.0	100.0
Total	100.0	5.8	3.1	3.1	16.1	8.9

Source: Social Situation of Households 2001, persons and households files merged.

* The SPL poverty was reduced by a calculation of only 40 percent of the amount required as the minimum income.

a higher, or a lower social class (with the variant “don’t know” for the rest). We can assume that if people perceive the people around them as belonging to a higher class, this is an indication of social exclusion (column 5 in Table 4.3).

We gathered five poverty measurements on one sample of individuals for further analysis, each of which is based on a different kind of information and gives specific results. The question then arises of how far they overlap, or, conversely, how much they address different faces of poverty. The analysis (Table 4.4) shows that:

- about one-quarter of adult persons are poor according to at least one measurement;
- while Legal and EU poverty fit well together (Pearson correlation coefficient 0.7), all other indicators are weakly associated (Pearson correlation coefficients below 0.2);
- 70 percent of poor adult persons are poor according to one indicator only, which most frequently is the indicator “feeling poor”;
- about one-fifth of poor adult persons are poor according to two indicators, the most frequent indicators being “feeling poor” and “worse-off than people around”.

Besides income poverty, there are various deprivation indexes based on information on housing and possession of durable goods. One of the most recent attempts applied also to CEE data (the Czech Republic, Hungary and Slovenia) determined four indicators of deprivation (deprived in basic needs, in secondary needs, in accommodation standards, and in subjective income satisfaction). Next, the authors combined deprivation indices with income insufficiency and constructed an index of “consistent poverty”. Finally they proposed combining the universal European absolute minimum set for non-income items with the national relative income standard (Förster, Tarcali and Till 2002; Förster, Fuchs, Immervoll and Tarcali 2003).

Another attempt was made in the Eurostat survey using national data for the new EU member and candidate countries. For the sake of exploratory analysis, several durable goods were cho-

Table 4.5 Monetary and subjective measurements of poverty risk (%)

Persons living in poor households according to measurement	Feel poor	People around are better-off	1 and 2 together	Dissatisfied* with household finance	Dissatisfied* with housing	3 and 4 together
	1	2		3	4	
1. EU	48.2	10.3	14.2	44.3	15.4	18.8
2. Living minimum	51.5	12.1	16.0	45.6	14.1	13.4
3. SPL reduced**	53.1	14.2	18.9	40.7	14.0	10.8

Source: *Social Situation of Households 2001, persons and households files merged.*

* We took the lowest variant of answers of six possible (between “fully satisfied” and “fully dissatisfied”).

** The SPL poverty was reduced by a calculation of only 40 percent of the amount required as the minimum income.

sen, 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 is a preparatory step to the EU-SILC, where a common core set of deprivation items will be collected, including questions on the enforced 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).³⁹

Our additional indicators of satisfaction and income deprivation return ambiguous results (Table 4.5). Only about one-half of the persons belonging to poor households measured by monetary indicators (EU, Legal, SPL) actually feel poor, and even fewer are dissatisfied with household finance. If we match indicators approximating social exclusion (columns 1 and 2 in Table 4.5 combined), only about 15 percent of EU or legally poor are affected. A similar result is returned through a combination of simultaneous dissatisfaction with household finance and housing (columns 3 and 4 in Table 4.5 combined).

Another measurement exercise is enabled through the use of a common “subjective poverty” question: “How does your household get by on the finance you have?” (Table 4.6). Here, the explanatory potential of the individual poverty measurements appears to be much better. Indeed, 88 percent of people living under the legal poverty line and 82 percent of people living under the EU poverty line declare financial difficulties. A question then arises: why do people who claim to have small financial difficulties feel themselves to be poor? Hardly any reason can be found among the available explanatory variables – the only particular feature we can identify is the positive correlation to transfer income among those households, which could refer to a stigmatising effect arising from social benefits.

Last but not least, we turn to the eternal question: what is the “best” income indicator for measuring the welfare of households? There are numerous variants of ways to adjust disposable household income to the size and composition of a family, and therefore the scholarly debate over equiv-

39 Instead of the European Community Household Panel, stopped after the 2001 wave, a new statistical instrument, the *EU Statistics on Income and Living Conditions* (EU-SILC) is to become the new EU reference source for comparative statistics on income distribution and social exclusion at the European level.

Table 4.6 Get along statements correlated with poverty risk by various measurements (%)

How household gets along with finance	Frequency	EU	Living minimum	SPL reduced*	Feel poor	People around are better-off	Dissatisfied** with household finance
With great difficulty	15.0	20.5	12.7	13.7	43.4	15.2	41.3
With difficulty	25.8	6.3	3.0	5.5	21.8	11.2	12.2
With minor difficulty	38.3	2.2	0.9	2.4	8.2	7.1	3.6
Rather easily	15.7	1.0	0.3	1.5	3.3	5.2	2.0
Easily	4.2	1.1	0.0	1.4	3.7	3.7	2.6
Very easily	0.9	0.0	0.0	0.0	2.7	5.3	0.0
Total	100.0	5.8	3.1	4.7	16.0	8.9	11.1

Source: Social Situation of Households 2001, persons and households files merged.

* The SPL poverty was reduced by a calculation of only 40 percent of the amount required as the minimum income.

** We took the lowest variant of answers of six possible (between “completely satisfied” and “completely dissatisfied”).

Table 4.7 Poverty risk by various measurements correlated with various income concepts (correlation coefficients)

Persons living in poor households according to measurement	Total disposable income	Net market income	Net transfer income	Income per			
				capita	EU equivalent unit	square root unit	living minimum scale
EU	-0.23	-0.21	0.00	-0.22	-0.25	-0.25	-0.01
Living minimum	-0.16	-0.15	0.00	-0.18	-0.19	-0.19	0.07
SPL reduced*	-0.24	-0.22	0.00	-0.16	-0.22	-0.23	-0.18
Feel poor	-0.19	-0.21	0.11	-0.16	-0.19	-0.19	-0.06
People around are better-off	-0.08	-0.10	0.07	-0.06	-0.08	-0.08	-0.04
Dissatisfied with household finance**	-0.13	-0.13	0.03	-0.16	-0.16	-0.15	0.06
Great difficulties by get along with household finance	-0.17	-0.17	0.01	-0.20	-0.21	-0.20	0.07

Source: Social Situation of Households 2001, persons and households files merged.

* The SPL poverty was reduced by a calculation of only 40 percent of the amount required as the minimum income.

** We took the lowest variant of answers of six possible (between “completely satisfied” and “completely dissatisfied”).

alence scales has lasted for decades. Here, we can test empirically which income indicators best fit one or another of the methods of poverty measurement (Table 4.7). Surprisingly, the differences between the three most frequently used indicators – income per capita, per EU (modified OECD) equivalence unit, and per square root unit – are almost negligible. So, they can be substituted for one another. The EU poverty indicator exhibits the strongest association with the most income indicators.

4.4 Preventing poverty by redistribution or by employment

As we have demonstrated, what occurred after 1989 was 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 labour market failures. In income terms, while poverty previously referred to insufficient transfer income, currently an important source of poverty – if not increasingly the main one – is low earnings. This also has consequences for the politics of poverty alleviation – instead of the standard channels of income equalisation through redistribution, what is necessary is the introduction of better income packaging through employment participation.

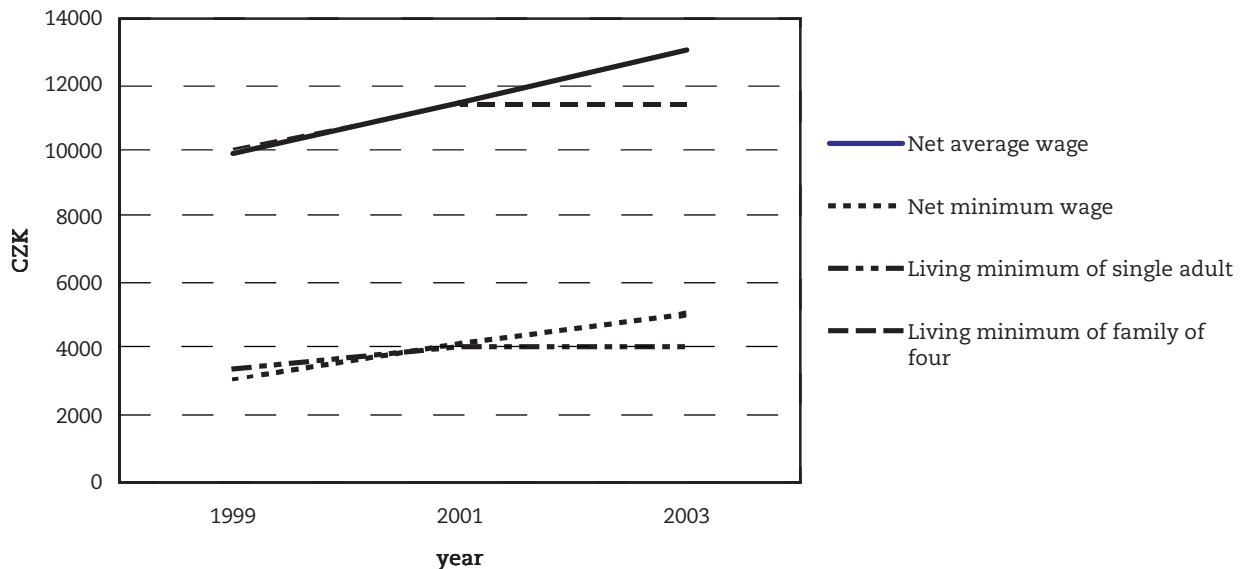
Redistribution through taxes and transfers probably remains the main tool for alleviating poverty anyway. As a comparison of selected OECD countries showed, more than one-third of the population in some countries would, hypothetically, live in poverty if there were no redistribution. In the Czech Republic the figure would be one-fifth, given the still small gap between low incomes and the average. This is similar to the situation in other countries, such as Germany, the Netherlands, and Denmark, where wage bargaining takes place, which has an equalising effect on the distribution of market income. State redistribution generally reduces poverty by 5–15 percent; the Czech figure is the lowest (Förster 2000; Večerník 2002).

The transfer of money is only a temporarily efficient measure, as no new resources are generated and the work motivation of people eventually declines owing to their reliance on state support. As the dependency rate has risen steadily in advanced countries, the effort has been to reduce it and to “make work pay”. It is necessary to place the emphasis on activation policies, i.e. making social benefits depend on the activity of the unemployed (searching for a job, training and re-training, taking temporary jobs). Firms also need to become more interested in job creation and retention. “Employment should be financially rewarding for workers, but it also needs to be affordable for employers” (OECD 2003: 114).

Adjustments to both the supply and demand sides of support for employment are also a concern for the Czech Republic. In terms of net replacement rates the country ranks among the most generous European countries. The net replacement rate of wages by social benefits is as high as in the most generous European countries, where social benefits can fully replace the average earnings of a production worker with a family (OECD 2004). Despite the fact that the differences between average wage and subsistence benefits have become smaller (see Table 4.1), the gap between the guaranteed social minimum and wages of the less skilled workers have created a relatively inviting poverty trap, which has diminished in recent years as the living minimum has frozen (Figure 4.2).⁴⁰

40 The living minimum has remained stable because of very low inflation. The legal conditions for its increase have thus not been met.

Figure 4.2 Wage and benefits levels (CZK monthly)



Source: Statistical Yearbooks, Ministry of Labour and Social Affairs.

Given the quite generous social security scheme, the reservation wage of the long-term unemployed remains close to the economy's average wage. The problem is that the bulk of the long-term unemployed suffer from low qualifications and poor employability. This state of affairs is mainly advantageous for Roma families, where the number of children is usually high and employability low. Furthermore, this trap is similarly appealing to rural households, where living costs are low due to considerable income in kind, while expenditures connected with employment are high due to greater transportation costs.

Minimum wage. A simple remedy is to administratively hold wages above the level of social benefits. In 1999 the government began making an effort to resolve the inconsistency between a low minimum wage and higher subsistence benefits by setting the minimum wage higher. By January 2000 the dominance of the minimum wage over the subsistence minimum for a single person had been achieved, and this has continued even further (see Table 4.1). The motivational function of the minimum wage is, however, questionable, on both the supply and demand sides of labour.

On the supply side, and 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 its pain and strain, are taken into account. Despite the fact that the relative level of the minimum wage is currently 34 percentage points above the living minimum for a single person, each family headed by a minimum-wage earner needs contributions through social benefits, unless more active earners are present.

On the demand side, this has also created a series of adverse effects: it raises the costs of unskilled work above the market price. As a result, employers are reluctant to hire less-skilled workers and try to replace them with technology or, more often, undemanding illegal workers (usually Ukrainians). Moreover, the minimum wage is frequently declared as the official payment of employees who are compensated by employers with unregistered remuneration, too, particularly in the services and catering sectors.

As there are no statistics for minimum wage recipients (wage surveys do not cover firms with less than 20 employees, which is where the minimum wage is most often applied), there is room for speculation on its real impact. Estimates refer to about 1–2 percent of employees, but in fact probably no one works for such a low amount. Once the amount increases substantially, payroll tax rises, too, which has an adverse effect on formal employment: either employers maintain the job but as fully informal, or they reduce or cease the activity and dismiss the employee completely.

According to a study based on individual data in France, raising the minimum wage has a clearly negative effect on the employment of low-paid workers. With a rise of 10 percent, the probability of a male employee losing his job increases by 13 percent, and by 10 percent for a female employee. While the effect was zero for young workers (up to 25 years), it increased significantly for older workers (Kramarz and Margolis 1999).

The fact that an increase in the minimum wage could have an adverse effect on employment was also demonstrated in a study on Hungary. Gábor Kertesi and János Köllö concluded from their empirical analysis that the Hungarian decision to increase the minimum wage by 57 percent in 2001 represented a loss of employment opportunities. Although the situation in large firms remained the same, the sector of small firms lost about 3 percent of its jobs in less than a year, while the job retention and job finding potential of low-wage workers deteriorated. Depressed regions were more severely affected despite possessing more favourable conditions for achieving a positive effect (Kertesi and Köllö 2004).

Activation policies. The direct opposite to administrative intervention in the labour market is the direction that emphasises the enhancement of work flexibility through the development of broad skills and multitask occupations, flexible contracts and hours, and the adaptability of the workplace and related commuting or migration. However, unlike in developed countries, which are intensively seeking a route away from labour market rigidity and excessive social dependency, there has not yet been much discussion about the flexibility of the labour force in the Czech Republic. In this sense there is no difference between the “liberal” and the “socialist” period. When the problem is mentioned, only the extreme positions are indicated, in specific terms, setting the position of ideological economic liberalism against a rigid, socially protective stance. A realistic approach, considering both the necessity of change and its real limitations, is rarely taken.

Unlike the lively debate that has been taking place on workfare and other labour activation measures in Western Europe (Lind and Hornemann Möller 1999), these issues have not been discussed in the Czech Republic. The opinion of the government has only recently changed. The Ministry of Labour and Social Affairs estimates that approximately 140 000 people are receiving benefits without entitlement. The Labour Minister has declared a readiness to take any measure aimed at ensuring benefits are better targeted and abuses minimised. A good example of this is the recent restrictions on sickness benefits, which has led to their significant reduction.

But the current situation is rather one of ambivalence. On the one hand, the rules for receiving unemployment benefits are strict. Any person who refuses to take a suitable job or undergo a med-

**Table 4.8 Factors of poverty risk by various measurements
(standardised regression coefficients)**

Persons living in poor households according to measurement	Number of active earners	Number of children	Number of un-employed	Education of the household head	Labour income	Pension benefits	Other social benefits	R ²
EU	-0.13	0.09	0.21	-0.04	-0.21	-0.20	-0.07	0.14
Living minimum	-0.05	0.15	0.24	-0.02	-0.17	-0.12	-0.05	0.11
SPL reduced*	-0.26	-0.02	0.09	-0.07	-0.12	-0.25	-0.11	0.11
Feel poor	-0.07	-0.02	0.13	-0.09	-0.14	-0.08	0.08	0.09
People around are better-off	-0.05	0.00	0.01	-0.05	-0.05	-0.00	0.03	0.02

Source: Social Situation of Households, 2001, persons and households files merged.

Note: Regression results are only preliminary as all explanatory variables were included as ordinal variables. All coefficients are significant at the 0.000 level except those in italics.

* The SPL poverty was reduced by a calculation of only 40 percent of the amount required as the minimum income.

ical examination, or who refuses to co-operate with the labour office (attending regular consultations or complying with the conditions of the Individual Action Plan) must be de-registered. On the other hand, the enforcement of rules is weak and informal avenues are frequently employed. There are various practices in use that make it possible to receive benefits and work informally at the same time.⁴¹

The system needs to be restructured. *The Conception of Public Finance Reform* (June 2003) requires benefits to be better targeted. It proposes withdrawing the social allowance and has re-set the housing allowance. It criticises the fact that under the new administrative arrangements poverty relief benefits are paid by local authorities, which take no interest in efficiency measures. They receive relevant funds from the state, but otherwise have no capacity to consider individual cases, as the current *Act on Material Need* prescribes. Systemic and organisational changes regarding the division of tasks between the state and the localities are thus necessary.

The main task, however, is to alleviate poverty by means of redistribution (transfer income) to a lesser extent, and instead to do more to prevent it by means employment (earned income). In other words, keep redistribution to tackle the “old” poverty (derived from the life cycle) and do the maximum to reduce the “new” poverty (induced by the labour market). Analysis should respond to such questions as what the relative impact of various factors on poverty is and how employment and earned income affect vulnerability. A specific issue is the trapping effect that the actual benefits/wages replacement rate has on people’s behaviour.

41 Moreover, it has received new legal encouragement – e.g. the new *Employment Act* (in acting since October 2004) introduces the possibility of engaging in paid activity while receiving unemployment benefits (up to half the minimum wage). Therefore, benefit receivers can easily combine an official part-time job with unofficial work paid in cash, with no chance any checks.

Table 4.9 Poverty among non-pensioner households by the number of active earners, children and unemployed persons (%)

Persons living in poor households according to measurement	Number of active earners								
	None	One		Two or more					
		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
EU	46.6	5.5	14.2	9.5	30.8	0.9	5.6	2.5	0.0
Living minimum	33.2	1.9	7.7	7.0	26.7	0.5	3.0	1.2	0.0
SPL reduced*	36.4	4.3	6.0	4.4	20.0	0.3	0.7	0.6	0.0
Feel poor	52.4	12.3	36.8	15.3	29.5	8.9	19.1	9.1	8.7
People around are better-off	13.8	7.9	16.4	10.5	8.6	5.9	4.9	6.7	4.3

Source: Social Situation of Households 2001, persons and households file merged.

UN=unemployed persons.

Note: Only households with no pensioner are included.

In Table 4.8, individual measurements of poverty are regressed to various characteristics of households and/or adult persons. The explanatory power of household characteristics is evidently quite weak; altogether they explain only about ten percent of the variance, with the exception of EU poverty (14 percent variance explained). The age of the head of the household and the size of the locality were excluded from the final analysis as having only negligible relevance. The strongest predictors are the numbers of unemployed, active earners, and dependent children.

A more specific look into the exposure of households of non-pensioners to poverty, based on those three main factors, is provided in Table 4.9. Here we find three interesting results:

- unemployment is the dominant factor behind poverty in its manifold profiles, even if family income is above the living minimum and the family burden is low;
- unemployment together with the burden of a family (two or more children) makes people poor according to all measurements;
- feeling poor produces the greatest differences with regard to other poverty measurements in almost all categories of households.

Another set of results stems from the inspection of income sources through a simple division between labour income and transfer income among non-pensioner households, as indicated in Table 4.10:

- while monetary measurements identify households where labour and transfer income are more or less equal, the subjectively poor are much more often people who live primarily off of work;
- the poor according to monetary measurements receive one-fifth of the labour income of the non-poor and between 2 and 2.5 times more transfer income;
- the total income of the poor by monetary measurements is only one-third of the income of non-poor households; however, it is much higher in the case of subjective measurements.

Table 4.10 Income sources among non-pensioner poor households and their distance from the non-poor (%)

Persons living in poor households according to measurement	Composition of household income			Income of the poor in % of non-poor		
	Labour income	Social benefits	Total	Labour income	Social benefits	Total
EU	57.8	40.4	100.0	22.2	229.9	34.8
Living minimum	52.0	45.7	100.0	19.6	246.4	34.1
SPL reduced*	47.3	49.7	100.0	14.8	219.2	28.3
Feel poor	79.7	17.8	100.0	59.1	211.9	67.7
People around are better-off	86.4	10.6	100.0	79.4	133.6	82.9

Source: Social Situation of Households 2001, persons and households files merged.

Note: Only households with no pensioner are included.

Table 4.11 Income per equivalent unit and poverty by legal and EU poverty line (%)

Number of children	Income gap*			Legal poverty percentage			EU poverty percentage		
	UN	First 5%	Second 5%	UN	First 5%	Second 5%	UN	First 5%	Second 5%
No	32.0	20.4	15.4	10.1	0.0	1.2	25.0	6.4	1.8
One	43.8	30.3	26.8	23.7	5.3	4.3	38.8	16.0	11.1
Two	46.8	32.5	29.3	29.4	3.8	7.3	45.5	5.2	7.3
Three	54.8	37.7	32.5	32.3	14.4	0.0	51.7	19.0	0.0
Total	39.5	25.9	20.8	18.9	2.6	3.0	34.4	8.9	4.9

Source: Microcensus 2002, persons and households files merged.

Note: Only adult persons employees or the unemployed are included. The equivalent unit is computed as in EU poverty: the first adult is calculated as 1.0, each additional adult as 0.5, and each child up to 13 as 0.3.

UN=unemployed persons

First 5%= employees having earnings in the 1st vintile of the distribution of earnings.

Second 5%= employees having earnings in the 2nd vintile of the distribution of earnings.

* The overall average (persons in the labour force) of the income per equivalent unit minus the corresponding income in the category.

Microcensus 2002 provides another look at the vulnerability of low-wage categories in comparison with the unemployed.⁴² In Table 4.11, we compare the unemployed with employees with a wage within the first or second vintile (each 5 percent of income receivers) of the distribution of earnings. The results indicate the following:

42 Unlike the survey *Social Situation of Households*, where only data on household income are available, *Microcensus* provides detailed information also about personal income. Thus we can define individuals according their personal earnings and ascribe to them household characteristics such as equivalent income or poverty exposure.

Table 4.12 Distribution of poverty among the unemployed, low-wage earners, and other employed persons (%)

Number of children	Legal poverty percentage					EU poverty percentage				
	UN	First 5%	Second 5%	Other	Total	UN	First 5%	Second 5%	Other	Total
No	20.0	0.0	1.1	1.4	22.5	25.2	2.7	0.8	2.5	31.2
One	27.9	1.9	1.5	4.2	35.5	23.3	2.9	2.0	4.8	33.0
Two	24.9	1.2	2.2	3.1	31.4	19.6	0.8	1.1	5.9	27.5
Three	7.1	1.0	0.0	2.5	10.5	5.9	0.7	0.0	1.8	8.3
Total	79.9	4.2	4.7	11.2	100.0	74.0	7.1	3.9	15.0	100.0

Source: Microcensus 2002, persons and households file merged.

See the notes below Table 4.11.

- income gaps between the unemployed and the first two vintiles of the employed are considerable – 15 and 20 percent on average; the gaps increase with the number of children;
- near one-fifth (in the case of legal poverty) and more than one-third (in the case of EU poverty) of the unemployed are poor in comparison with the much lower figures among the low-wage employed – their poverty rates do not fall away from the national averages;
- while poverty rises considerably and monotonously by the number of children in the case of the unemployed, this is not necessarily the case for low-wage employees.

Finally, we can observe the degree of dispersion of legal poverty and the risk of poverty among the most vulnerable groups, i.e. the unemployed and the lowest two vintiles of employees. In Table 4.12, the percentages of the total of those in the labour force (i.e. not including the self-employed or non-active persons) are displayed and show the following:

- 85–90 percent of poor employees or the unemployed are concentrated in the three categories and 75–80 percent in the sole category of the unemployed;
- regarding the number of children, families with three or more children represent only a very small portion of the poverty stock due to their minor occurrence among the population; in contrast, the unemployed living in childless households make up 20–25 percent;
- when the two criteria are combined, the change to the poverty stock differs only slightly in relation to poverty measurement: according to the legal poverty line, mostly one and two-child families are included here; according to the EU poverty line, childless households are also important.

In this particular study, we left out self-employed persons. The reason is that we believe they tend to underestimate their actual income even more than employees do, which makes the results less reliable and not comparable. In fact, more of the self-employed than employees fall below the poverty lines, whether the legal or EU measurement. This otherwise corresponds to EU statistics, where a risk of poverty is reported by 6 percent of employees, 14 percent of the self-employed, and 39 percent of unemployed persons, as the EU average (without Greece). In Portugal and Spain,

and also Austria and Sweden, the gap is even greater (*Working Poor* 2004). Comparative data for the Czech Republic return 2 percent for employees, 6 percent for the self-employed and 34 percent for the unemployed. Using the official poverty line, the figures are halved in each case.

There are, then, not many working poor in the country and the risk of poverty is much higher among unemployed persons than among low-wage recipients. The gap between percentages of non-working and working poor is also much larger in comparison with EU countries. There are at least two reasons for this: wage disparities increased considerably after 1989, but the relative position of lowest categories was maintained (Večerník 2001); and unemployment benefits are quite low, even in comparison with low wages and also with the social benefits from state social support. However, one must profess some doubts about the data, given the fact that thus far supplementary earnings to unemployment benefits have been forbidden. Whether or not they actually exist, they have certainly never been declared.

4.5 Conclusion

Poverty is a multi-faceted and multi-dimensional phenomenon, which cannot be described with one indicator but only through a bundle of them. Here, I have surveyed poverty through four alternative indications. While legal poverty and the standard EU indicators report poverty at about 3–7 percent of households, the declaration of perceived poverty is established at 16 percent of households, while the Subjective Poverty Line (SPL) returns an immense poverty rate that is close to 60 percent.

In monetary poverty (i.e. the legal and the EU measurement), the Czech Republic is at one-half of the EU-15 average and close to the EU countries with the most general social systems, such as Belgium, the Netherlands, or the Scandinavian countries. In comparison with the other new EU member countries the advantage is even greater: the figure for Hungary is 10 percent, for Poland 15 percent, for the Baltic countries between 15 and 20 percent, and for Slovakia even slightly above 20 percent (Guio 2004).

While so many countries saw a rapid increase in poverty during the transition, monetary poverty has changed its face rather than its rate in the Czech Republic. Although before 1990 poverty affected mostly the elderly (single pensioner households), their share in the figure has sunk close to zero according to the legal measurement or to one-quarter of the original figure in the EU scale. Instead, the percentage of poor families has quadrupled and the percentage of single-parent families has also increased significantly. Simply put, the social security system protects better and more reliably against poverty than the labour market.

In subjective terms the situation is different. There are people of active age, even working, who feel poor, despite their decent income. The reason for this could be either children, who cannot be provided for out of the “standard package” of clothing and leisure facilities, or the situation of the younger elderly, who cannot afford anything except a simple subsistence level. Surprisingly enough, one-half of people considered poor according to legal or EU measurement do not feel subjectively poor, which means that income insufficiency is not necessarily perceived in terms of poverty.

Evidently the main source of poverty in the Czech Republic – as elsewhere in advanced countries – is unemployment. The labour market is thus the main battlefield in this area. It clearly means

that all possible strategies of activation and making work pay should be put forward, while simultaneously tightening the channels to social benefits and conditioning corresponding entitlements. This is the master plan recommended by the EU, the OECD, and other organisations, and applied in the most advanced Western countries in various ways. The recent plans of the Czech government indicate that future efforts are moving in this direction.

Despite satisfactory figures on poverty, we should bear in mind that the transition itself exposed people to the threat of poverty. Although poverty in the narrow sense remains limited, vulnerability to poverty is still high, and people are sometimes forced to mobilise various measures in order to avoid serious financial problems, some of which are on the brink of “acceptable behaviour”. Some households do not pay rent, many families do not modernise their apartments, most of them severely economise even on basic consumption. The practices of adaptive and inventive behaviour developed during the communist period also surfaced during the transition.

A massive surge in social exclusion is not likely. Poverty remains mostly an economic characteristic rather than a social stratification category. Little social exclusion has been encountered in the Czech Republic so far, unlike ethnic and life-style-related exclusion, which affect the Roma population and especially Roma newcomers from Slovakia. Their non-adherence to common work habits and their specific way of life precludes acceptance by the majority population. At the same time, the problem of “imported exclusion” has also emerged, specifically with regard to immigrants from the former USSR and the Balkan countries.

In any case, what is positive is that poverty has become a public problem. The social inclusion process, developed by the EU, is a big challenge for tackling and monitoring poverty. In view of this, Czech poverty research still suffers from several problems:

First, it is not easy to provide current representative data on poverty owing to rapid changes in income composition and distribution. Earnings, household incomes, consumption, and employment status of individual family members are monitored simultaneously only in the Family Expenditures Surveys, which are not however representative. The Microcensus surveys, which provide the most complex source of information, have become only occasional.⁴³

Second, poverty is a minority problem after all, and it moreover comprises various specific types.⁴⁴ Qualitative sociological and anthropological methods, focusing on research and participatory observation concerning marginalised or vulnerable groups, are needed here. Unfortunately, they are not frequently applied, despite the generous support for such research.

Third, poverty is always relative and subjective, in the end. Not only poverty itself but also the context is thus important. Not only the objective circumstances but also the “soft” public climate matter in its perception and for the endorsement of policies for its alleviation. This is related to such terms as “social justice”, “social equality” and “equal chances”, and newly also “social cohesion” and “social inclusion”. The internal consistency and the external legitimacy of these terms might significantly ease the inclusion process.

43 While the usual time interval between individual surveys was four years, it recently became six years (1996 and 2002).

44 Let us recall the fact that statistical income surveys are collected using even smaller samples, which decreased from 2 percent to 0.25 of the targeted (but not reached) households. Although results are adjusted with various procedures, the basic bias – the missing extremes of income distribution – can hardly be rectified.

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Data sources

1. Sources used as primary data in the study

Microcensus surveys

Large income surveys started in 1958 as regular statistical surveys conducted every 3–5 years on 1–2 percent samples of households. Data on wages were notified by employers and pension benefits by post offices. Here, we used the 1989 Microcensus conducted by the CSO on a 2 percent random sample (N=69,912) in March 1989 including yearly incomes in 1988; the 1992 Microcensus, conducted by the CSO on a 0.5 percent random sample (N=16,234) in March 1993 and including yearly incomes in 1992, and the 1996 Microcensus, conducted by the CSO on a 1 percent random sample (N=28,148) in March 1997 and including yearly incomes in 1996; the 2002 Microcensus was conducted on 0.25 percent random sample (N=7,678) in March 2003 and including yearly incomes in 2002.

Economic Expectations and Attitudes (EEA)

The surveys of the Czechoslovak and later only Czech population started in May 1990 and were conducted biannually in 1990–1992, and in the following years annually (1993–1998). Surveys were organised by the socio-economics team of the Institute of Sociology of the Academy of Sciences, headed by Jiří Večerník. The samples include adults selected by a two-step quota sampling procedure, whereby the region and size of the locality were defined in the first step, and gender, age and education in the second. The data was collected by the Center for Empirical Research STEM.

(Second) International Adult Literacy Survey (SIALS)

A long-term international research project, which originated in 1995 and is backed by Statistics Canada and ETS at Princeton University. The survey is focused on detailed surveying of the so-called functional literacy of adult persons based on testing their ability to understand printed information and use it in everyday life. Czech data were collected by SC&C agency in December 1997–April 1998 from a sample of 3132 respondents (from 5000 targeted).

Households, Work and Flexibility (HWF) – survey made in the 2001 in Czech Republic, Hungary, Slovenia, Bulgaria, Romania, Great Britain, Netherlands and Sweden. It was a part of the EU Fifth Framework project (see www.hwf.at). It focuses mostly on the objective characteristics of employment, multiple jobs and their conditions with regard to hours, location and contract arrangements.

Social Situation of Households – survey collected by the Czech Statistical Office in May–June 2001 on a sample of 10,870 households (re-weighted for the entire population). In each household, each adult

person was investigated. In addition to household characteristics and income, for the various opinions on person's employment and family well-being were also determined.

2. Other sources

Documents of the Ministry of Labour and Social Affairs (MLSA), Department of social insurance 1996–2000.

Documents of the Temporary Commission for Pension Reform. The Parliament of the Czech Republic, Chamber of Deputies, 2000.

Daily press: Mladá fronta DNES (MFD), Hospodářské noviny (HN), Lidové noviny (LN).

Weeklies: Ekonom, EURO, Soudy.

Monthlies: Pohledy, Finance a úvěr (Finance and Credit).

Insurance Programmes of Occupational Advantages. Survey made by agency STEM, August 2003.

Abbreviations

APF	Association of Pension Funds
CERGE/EI	Center for Economic Research and Graduate Education of Charles University & Economics Institute of the Academy of Science of the Czech Republic
ČMKOS	Czech-Moravian Confederation of Trade Unions
CSO	Czech Statistical Office
ČSOB	Czechoslovak Commercial Bank
ČSSD	Czech Social Democratic Party (political party)
CZK	Czech Crown (currency)
DC	Defined Contributions
DB	Defined Benefits
EEA	Economic Expectations and Attitudes (survey)
FF	Fully funded
GDP	Gross Domestic Product
HN	Hospodářské noviny (daily newspaper)
IMF	International Monetary Fund
KDU-ČSL	Christian Democratic Party (political party)
KSČM	Communist Party of Bohemia and Moravia
LN	Lidové noviny (daily newspaper)
MLSA	Ministry of Labour and Social Affairs
MFD	Mladá fronta DNES (daily newspaper)
ODS	Civic Democratic Party
ODA	Civic Democratic Alliance
PAYG	Pay-As-You-Go
STEM	Centre of Empirical Surveys (agency)

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**Structural Tensions in the Interface
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in the Czech Republic**

Jiří Večerník

Edice Sociologické studie/Sociological Studies 04:04

Řídí: Marie Čermáková

Překlady abstraktů a klíčových slov: Robin Cassling, Daniel Meier

Jazykové korektury: Robin Cassling

Redakce: Anna Gabrielová

Sazba: Martin Pokorný, REKOSA

Tisk a vazba: Tiskárna AV ČR, Praha

Vydal: Sociologický ústav AV ČR

Jilská 1, 110 00 Praha 1

Náklad 170 ks

1. vydání

Prodej zajišťuje Tiskové a ediční oddělení

Sociologického ústavu AV ČR

tel.: 222 221 761, fax: 222 220 143

e-mail: Eva.Strnadova@soc.cas.cz

