

MARKETS AND PEOPLE

THE CZECH REFORM EXPERIENCE IN A COMPARATIVE PERSPECTIVE

To my wife Jana

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The Czech Reform Experience in a Comparative
Perspective

JIŘÍ VEČERNÍK
Institute of Sociology
Academy of Sciences
Prague

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Contents

<i>Figures and tables</i>	viii
<i>Acknowledgements</i>	xii
<i>Preface</i>	xiv
<i>List of abbreviations</i>	xvi

PART ONE: INTRODUCTION

1 Introduction: Setting up the framework	1
Pre-communist traditions and communist legacies	2
Neoclassical virtues and the theory of modernization	5
Transformation in the socio-economic perspective	9
Social structure and the three 'revolutions' of the middle classes	11
Transition in inequalities: from separation to association of segments	15
In conclusion	19

PART TWO: LABOUR MARKET AND EARNINGS

2 The emergent labour market and new job opportunities	25
Past and prospects: from scarcity to a surplus of workers?	26
Recent structural shifts: flows towards the tertiary sector	30
The main driving forces: human capital and business commitment	33
Secondary jobs and dual job strategies	37
Hard work values and business commitment comparatively	39
In conclusion	43
3 Changing earnings distribution	47
Earnings before 1989: shifts within a stable distribution framework	48
The economic reform: changing sources of disparities	51
New empirical evidence: towards a market adjustment	52
Cross-national comparison: continuing particularities	60
In conclusion	64

PART THREE: INCOME DISTRIBUTION AND POVERTY

4 Inequality in household income	71
Long-term trends and recent changes	72
Market and transfer income	75
Changing patterns and structure of income distribution	77
Household incomes in the CEE countries	81
Comparison with the West	84
In conclusion	88
5 Changes in the rate and types of poverty	92
Poverty under 'really existing' socialism	93
The vulnerable in emerging markets	94
The different faces of poverty	96
Poverty in consumption and wealth	105
Poverty in the CEE countries	108
In conclusion	112

PART FOUR: HOUSEHOLDS AS CONSUMERS AND CAPITALISTS

6 Changing family expenditures and housing	119
The need approach in communist doctrine and practice	120
Towards a consumer market	124
Changing structures and patterns of expenditure	129
Consumer expenditures East and West	133
The housing non-market	138
In conclusion	141
7 Privatization and financial markets	145
Expropriations and privatizations	145
New capitalists and the middle-class agenda	149
The privatization in people's minds	153
Emergence of the financial market	158
Privatization and 'political capitalism' in the CEE countries	160
In conclusion	165

PART FIVE: ESCAPING FROM SOCIALIST PATERNALISM

8 New hardships and the coping strategies of households	171
Economic background: capitalist and socialist assets	172
The informal economy: past and present	175
Coping capacities of households	178
Survival strategies in the CEE countries	184
In conclusion	188

9 Social policy reform	191
Communist paternalism as a control mechanism	192
Welfare state doctrines and models	193
Early modifications and later social reform	198
Perceptions of social security	203
Social transformation in the CEE countries	206
In conclusion	211
PART SIX: ECONOMIC REFORM AND POLITICAL BEHAVIOUR	
10 Perceptions of reforms and personal situation	217
Accepting changes: from enthusiasm to sobriety	218
Learning process and left shifts	223
Viewing reform and experiencing hardship comparatively	228
General and specific attitudes: strengthening links	231
In conclusion	237
11 Economic hardship and political attitudes	240
Crossing the economic/political boundary	241
Lessons learnt from recent changes	242
Financial hardship and expectations of the state	247
Questioning the democratic system?	250
Czech parties between two elections	254
In conclusion	258
PART SEVEN: CONCLUSION	
12 Conclusion: an open-ended story	265
<i>Bibliography</i>	273
<i>Data sources</i>	286
<i>Statistical methods</i>	289
<i>Name index</i>	291

Figures and tables

Figure 1.1 Relationships between segments of economic inequality	17
Figure 2.1 Registered unemployment rate	27
Figure 2.2 Long-term unemployment rate	27
Figure 2.3 Good prospects of occupations	29
Figure 2.4 Good prospects of firms	29
Figure 2.5 Level of conflicts	40
Figure 2.6 Factors of life success	42
Figure 3.1 Relative earnings in Czechoslovakia	49
Figure 3.2 Inequality in earnings in CEE countries	61
Figure 3.3 Determinants of disparities in earnings	63
Figure 4.1 Relative income per capita in Czechoslovakia	73
Figure 4.2 Incomes of the population	75
Figure 4.3 Incomes, wages and pensions	80
Figure 4.4 Inequality in incomes per capita in CEE countries	81
Figure 4.5 Determinants of disparities in equivalent income	83
Figure 5.1 Poverty will emerge in the near future	96
Figure 5.2 Consider themselves a poor family	104
Figure 5.3 Subjective income scale in 1988	111
Figure 5.4 Subjective income scale in 1993	111
Figure 6.1 Food and beverages in household budgets	122
Figure 6.2 Consumer Price Index	124
Figure 6.3 Enough money for food, clothing and housing	127
Figure 6.4 Financial difficulties in households	127
Figure 6.5 Some savings during the last three months	128
Figure 6.6 Apartments finished and started	140
Figure 6.7 Costs of housing in employee households	140
Figure 7.1 All state firms should be privatized	155
Figure 7.2 Unlimited freedom for foreign firms	155
Figure 7.3 Changes in economy as fast as possible	157
Figure 7.4 Privatization should be fast - Property in wrong hands	157
Figure 8.1 Secondary incomes are very important	178

Figure 8.2	Do as much as possible themselves	180
Figure 8.3	Coping strategies in 1989	186
Figure 8.4	Coping strategies in 1995	186
Figure 9.1	Social benefits are sufficient now	204
Figure 9.2	Expenditures on social security and health	208
Figure 9.3	Income, health and housing securities	210
Figure 9.4	Preference of the economic order	210
Figure 10.1	Satisfaction with economic reform	219
Figure 10.2	State should control prices	220
Figure 10.3	Satisfaction with economic measures	221
Figure 10.4	Fear of the economic future	222
Figure 10.5	State should provide jobs	224
Figure 10.6	State should provide apartments	224
Figure 10.7	Right or wrong: market economy	230
Figure 10.8	Right or wrong: country direction	230
Figure 11.1	Electorate of the main parties	243
Figure 11.2	Satisfaction with development of democracy	245
Figure 11.3	Evaluation of the current regime	246
Figure 11.4	Relationships between financial hardship and questioning of the system	251
Figure 11.5	Civic freedom as in the West	257
Figure 11.6	Strong leader would be better	257
Table 2.1	Job and occupation changes in 1989-1995	31
Table 2.2	Employed according to branch of employment	32
Table 2.3	Willingness to work hard and invest in personal human capital	34
Table 2.4	Working hours in the main job and secondary activities	39
Table 2.5	Private ventures: past, present and future	42
Table 3.1	Distribution of earnings	53
Table 3.2	Returns to education	55
Table 3.3	Earnings according to branch of employment	56
Table 3.4	Earnings according to education and sector of ownership	58
Table 3.5	Earnings from the main job and secondary activities	59
Table 3.6	Distribution of earnings in CEE countries	61
Table 3.7	Distribution of earnings in CEE and EU countries	62
Table 4.1	Distribution of household income	74
Table 4.2	Transfer income according to decile shares	76
Table 4.3	Determination of household income	78
Table 4.4	Household income according to occupational categories	80
Table 4.5	Distribution of household income in CEE countries	82

Table 4.6	Equivalent household income according to occupational category of the head	84
Table 4.7	Decile ratios in OECD countries and the Czech Republic	86
Table 4.8	Determination of household income East and West	87
Table 4.9	Distribution of taxes and transfers by quintiles shares of equivalent household income in selected OECD countries and the Czech Republic	88
Table 5.1	Population below the subsistence and social minimum in former Czechoslovakia	94
Table 5.2	Living minimum in CZK monthly	98
Table 5.3	Determination of households' poverty	100
Table 5.4	Poor households in EU countries and the Czech Republic	102
Table 5.5	Determination of households' poverty according to the SPL and feeling poor	104
Table 5.6	Family expenditures in employee households with children and pensioners' households	106
Table 5.7	Possession of durable goods of families with children and pensioners' households	107
Table 5.8	Poor households and persons in CEE countries	109
Table 6.1	Selected family expenditures in 1986 according to social category	121
Table 6.2	Determinants of satisfaction/dissatisfaction with meeting needs	129
Table 6.3	Determinants of expenditure shares in employee households	132
Table 6.4	Family expenditures in employee and pensioner households in CEE countries	134
Table 6.5	Family expenditures according to social category	135
Table 6.6	Family expenditures in selected EU countries in 1988	137
Table 6.7	Share of food according to social category in the Czech Republic and the EU countries	138
Table 7.1	Confiscation of property during and after the Second World War	147
Table 7.2	Transformation of property according forms used	148
Table 7.3	Characteristics of two types of entrepreneurship in Eastern Europe	151
Table 7.4	Participation in privatization and subsequent behaviour	158
Table 7.5	Appropriateness of privatization in minds of people	162
Table 8.1	Manifested values of education	173
Table 8.2	Potential coping strategies of individuals and households	182
Table 8.3	Actually used coping strategies of individuals and households	183
Table 8.4	Coping strategies of households	185

Table 8.5	Correlations of coping strategies with indicators of economic status of households	187
Table 9.1	Dependency ratio and social security expenditures	202
Table 9.2	Satisfaction and outlook in standards of living and social guarantees	205
Table 9.3	Social benefits in per cent of GDP in the CEE and EU countries	209
Table 10.1	Opinions on private ownership, the role of the state and inequality	225
Table 10.2	Correlations between opinions on private ownership, the role of the state and inequality of earnings	227
Table 10.3	Ability of households to make ends meet	231
Table 10.4	Opinions on income and role of the state in CEE and OECD countries	232
Table 10.5	Dissatisfaction with the regime according to the ability of households to make ends meet	234
Table 10.6	Opinions on why are people rich and poor in CEE and OECD countries	235
Table 10.7	Perception of social stratification	237
Table 11.1	Left-right political orientation	244
Table 11.2	Actual and desired 'decent' income	248
Table 11.3	State responsibility in various fields	249
Table 11.4	Participation on various actions	253
Table 11.5	Left/right orientation of potential voters of five main parties	255
Table 11.6	Classification of potential voters of five main parties	256

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3. 'Incomes in Central Europe: distributions, patterns and perceptions', *Journal of European Social Policy*, Vol. 6 (1996), No. 2.
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Preface

The main aim of the present publication is to show the socio-economic transition in the Czech Republic ‘from below’, i.e. as viewed by individuals and households and through differences and inequalities. I intend thereby to fill the gap between the relatively frequent macroeconomic description of the transformation and some microeconomic insights (on the part of firms and the labour market) on the one hand, and the rather scarce (if any) analysis of the acceptance of and participation in the socio-economic transformation on the side of ordinary citizens and their groupings.

To display the process in its manifold dimensions, several boundaries shall be crossed. The first is the boundary between economics and sociology: I shall combine data and insights from both disciplines. The second is the boundary between the macro- and microlevel: I acknowledge the macro-processes but stress their consequences on the micro-level. The third is the boundary between individuals and institutions: I describe the establishment and cultivation of institutions, specifically of markets (labour, consumer, housing and financial) and social policy responses to market challenges. The fourth is the boundary between objective and subjective evidence: I combine ‘hard’ statistical data with ‘soft’ sociological data in order to attenuate their shortcomings and display the changes within a broader description.

The Czech transformation is to be shown in the intertemporal changes 1989-1995 and in a cross-national comparison, primarily with Hungary, Poland and Slovakia as well as with the EU and other OECD countries in some aspects. The focus is on the ‘cash nexus’ of the transformation: I am interested mostly in earnings, secondary resources, household incomes and transfers, expenditures, financial hardship and poverty. I am also interested in the various consequences of standards of living on perceptions and expectations, subjective poverty and feelings, and their transformation into political preferences and orientations.

For this purpose, a large database is needed. I draw upon surveys conducted within the whole period 1988-1996, both statistical and sociological. From statisti-

cal surveys, I have used income surveys and family expenditure data while from sociological surveys, I mention here only the Economic Expectations and Attitudes (EEA) survey which was initiated as a regular survey in May 1990 and is still conducted annually. Not only national but also cross-national comparative surveys will be used, most East-East (e.g. SOCO database) but some of them East-West (e.g. Luxembourg Income Study, ISSP surveys, Social Justice survey). Although the list of surveys is long (see Data Sources), I refer exclusively to those which were used as microdata, producing original tables and analyses. Unless expressly stated otherwise, tables and figures refer to the Czech Republic.

The study does not refer to any accomplished period of the transformation. In the contrary, I stress the continuing character and incompleteness of the reform. The closer our look at people's behaviour, the longer the time span of the change. The more dimensions our analysis, the stronger the abnegation of any return or a simple transition from one system to another. The more we consider the socio-political dimension of the whole change, the more we have to acknowledge breaking effects of traditions, habits and easy relaxing in accustomed routines. And, the more realistic we are, the more we should focus our attention on uneven resources, gains and losses during transformation, all of which create new social network and hierarchies.

List of abbreviations

AS	Academy of Sciences
BCE	Business Central Europe (monthly journal)
CEE	Central-Eastern Europe
CMEA	Council of Mutual Economic Aid (organization of communist countries)
CPI	Consumer Price Index
CSO	Czech Statistical Office
CZK	Czech crown (currency)
ČD	Český deník (Czech daily)
DIK	Držitel investičních kuponů (Holder of Investment Coupons)
EBRD	European Bank for Reconstruction and Development, London
EEA	Economic Expectations and Attitudes (surveys)
EU	European Union
EUROSOCIAL	European Centre for Social Welfare and Research, Vienna
EUROSTAT	Statistical Office of the European Communities, Luxembourg
FES	Family Expenditures Survey
ILO	International Labour Office
IMF	International Monetary Fund
IPF	Investment Privatization Fund
ISSP	International Social Survey Programme
LIS	Luxembourg Income Study
LFS	Labour Force Survey
LN	Lidové noviny (Czech daily)
MFD	Mladá fronta DNES (Czech daily)
OECD	Organization for Economic Co-operation and Development
PPP	Purchasing Power Parity
SK	Slovak crown (currency)
SOCO	Social Costs of Economic Transformation (project)
SSEE	Social Stratification in Eastern Europe (survey)
STEM	Centre of Empirical Surveys, Prague

UNICEF United Nations Children's Fund

Political parties of the Czech Republic

ČSSD	Česká sociální demokratická strana (Czech Social Democratic Party)
KDU-ČSL	Křesťansko demokratická unie-Česká strana lidová (Christian Democratic Union-Czech People's Party)
KSČM	Komunistická strana Čech a Moravy (Communist Party of Bohemia and Moravia)
ODA	Občanská demokratická aliance (Civic Democratic Alliance)
ODS	Občanská demokratická strana (Civic Democratic Party)
OH	Občanské hnutí (Civic Movement)
SPR-RSČ	Sdružení pro republiku-Republikánská strana Československa (Association for Republic-Republican Party of Czechoslovakia)

1 Introduction: Setting up the framework

*'There is no end to history,
nor to the building of the state.'*

Václav Havel

In the autumn of 1993, the Czech Prime Minister Václav Klaus startled the nation with the announcement that all basic reform steps had already been accomplished and that, therefore, the economic reform had been completed. For the most part, this was understood as a typically optimistic exaggeration on the part of a narcissistic politician. Yet Klaus' statement is largely true if we have a particular concept of the reform in mind: conceived in macroeconomic terms - concretely as the economic liberalization, macroeconomic stabilization and privatization in Jeffrey D. Sachs' (1991, p. 27) wording - we can largely agree with him. Interpreted thus, all that is left to discuss is the degree of accomplishment and other details.

While it is true that none of these three 'pillars' has been wholly completed or adequately grounded, the Czech Republic has certainly made considerable progress in all three areas. The liberalization of all markets has advanced considerably, although still outstanding in housing, banking and networks. Macroeconomic stability has basically been maintained and GDP has begun to grow again. This notwithstanding, warning signals such as a shrinking export balance have recently appeared. Formally, the privatization has almost been completed and 75 percent of production now allegedly occurs within the private sector - this, in spite of the fact that a majority of large companies have not yet been fully emancipated from state ownership and 'true owners' are still sought.

When considering basic economic legislation and macroeconomic policy measures, the reform could be considered brief. When, however, the necessary redesign of economic institutions and mechanisms are also taken into account, it is clear the reform will be a lengthy process. Moreover, when considering the implementation of norms and the 'social encapsulation' (Etzioni, 1988) of the market economy,

transition should be understood as a long historical development. Here R. Dahrendorf's 'three clocks' thesis comes to mind, each clock running at a different speed: the time for constitutional changes (the hour of the lawyer) ticking the fastest, the time for establishing a well functioning and stable democracy and the market (the hour of the politicians) the second fastest, and the time for changes in peoples beliefs, patterns of behaviour, etc. (the hour of the citizen) the slowest (Dahrendorf, 1991).

Markets cannot be established fully or new actors (chambers, associations, trade unions) be ready to behave appropriately in the market economy unless both are sufficiently embedded in a 'market society' (Polanyi, 1944). For such an intensive re-implementation of markets, Czech society can draw upon two important sources. One is the 'collective memory' of the pre-war period or, better said, of the long history of capitalism in the Czech lands which commenced early in the 19th century and brought the country into the company of the most industrialized countries of the inter-war world. The other is, somewhat paradoxically, the habits formed under the pressure of the communist regime, whether engineered intentionally (what we call here 'neoclassical behaviour') or developed spontaneously (alternative 'survival strategies').

Here, I intend to present a variety of possible perspectives for inspecting the transformation from 'inside'. The first is the historical perspective surveying to what degree changes occur in continuity with the past. The second are the patterns of economic behaviour which, while originating from 'ideologically' various roots, are tailored to a certain concept of development. The third is a partial intersection of the economic and sociological optics. Fourth, the perspective of social structure is outlined, raising the argument that only the creation and establishment of middle classes can ensure the vitality and longevity of a free market society. Finally, I develop a framework for surveying changes both in the character of individual segments of inequality and their inter-connections.

Pre-communist traditions and communist legacies

In the literature on the transformation, the Czech Republic is mostly seen as part of the Western satellite rim of the former Soviet Empire and, therefore, as having shared in the history of the CEE region for over four decades. While this is obviously largely true, the historical roots of the individual countries are not so similar. Different backgrounds and characters were thrown by Stalin into the same Soviet melting pot in order to arrive at, so he hoped, an homogeneous substance. Fortunately, such a wild endeavour was unsuccessful and many differences remained. Indeed, even some disparities which were contained reappeared once the coercive methods of standardization were lifted.

The Czech lands, constantly challenged by a Germany traditionally in the lead, developed during the 19th century into an advanced country with a modern mechanical engineering industry, an efficient market economy, a predominantly social democratic political profile, rather moderate social differences and a developed civil society. The legacies of the pre-war democratic regime and economic strength play an important role as a distant model and prospective challenge. This fact, along with its 'psychological' value, is also stressed by economists:

The Czech people are acutely aware of this legacy and they resented the relative decline of their country's economic position after the 1948 Communist take-over. Combined with the historical identification of the country with western civilization, the legacy provides a strong force driving the Czechs to focus on regaining the status of an advanced country. This historical background helps explain the unparalleled popular acceptance of the radical transition policies and their tough outcomes (Svejnar, 1995, pp. 2-3).

Furthermore, the post-1945 recovery was easier than in other European countries because of the relatively small damages suffered during the war. A continuation of the traditional world-class mechanical engineering and light industry was expected both by the populace and, in fact, the communists. They heralded the establishment of a 'national communism' up to 1947, when Stalin ordered the withdrawal of the Czechoslovak application for the Marshall Plan. From this point, the country's economy was - directly or indirectly - under Soviet rule.¹

The communist putsch of 1948 brought disaster. Under Soviet pressure, manufacturing was re-oriented to the mining, metallurgy and heavy machinery industries, the qualified labour force was rapidly downgraded as it was flooded by former farmers and housewives, markets were destroyed and replaced by direct commands and Western-oriented export drifted East. As in East Germany, but in contrast with the other CEE countries, the socio-economic results of the communist regime's functioning were wholly negative in the Czech Republic. Only here did the building of socialism interrupt the modernization process and result in an increasing backwardness in relation to the West.

The initially strong support of the new regime by both blue and white collars allowed the 'communisation' of the former Czechoslovakia to be more consequent than elsewhere. The eradication of private ownership was almost fully achieved and control over the populace tighter: less space for churches, less higher education and a stricter approach to the secondary economy than in the other CEE countries. When a part of the original supporters of the 1948 communist putsch tried to give socialism 'a human face' and introduce economic reform in the late 1960s, Czechoslovakia was again punished with the most rigid communist system in Europe. Clever manoeuvring by communist leaders within a perverted environment saw this system survive almost intact until its sudden collapse in November 1989.

Even in the face of harsh control and political restrictions, Czechs (and Slovaks more so) still enjoyed relatively high standards of living. Warned by the Polish experience, Czechoslovak communist leaders continued to corrupt the working class through an egalitarian wage policy and support of the household economy with relatively generous social benefits. Relatively stable costs of living and a consumer market providing an almost constant selection of basic goods were to offset closed borders and intellectual devastation. People found alternative sources of satisfaction outside the official economy and political life.

In 1989, the Czech lands were a country with a traditional, rigid communist regime, a blocked modernization process and an almost completely repressed civil society, with little manifest social disparities and a largely demotivated population. They had, on the other hand, a reasonably functioning command economy, exportable manufactured goods, almost no foreign debt and an operational bureaucratic infrastructure. The populace was eager to achieve those freedoms - at least - that the Poles and Hungarians had enjoyed since the 1970s, and it expected economic reforms - at least - in 'perestroika' style.

In the light of 'perestroika', the leading communists changed their assertion that the Soviet model was the best; instead, they argued against it to preserve the harsh regime in the late 1980s. Simultaneously, two groups of economists debated alternatives. One - a concept developed by Valtr Komárek and the newly established Institute for Forecasting (Academy of Sciences) - proposed a vague perestroika-like reform, was discussed in a small circle and tacitly supported by the last communist Prime Minister. The other - a concept developed by Josef Zielenec (working on the Institute of Economics, AS and later Minister of Foreign Affairs) - secretly debated a genuine liberal market model. Researchers trained in modern macroeconomics Samuelson-style or familiarized with Hayek demanded much more than timid reforms of the command economy: a true liberal model with no third-way deviations (Zielenec, 1989).

After the implosion of the communist system in 1989, this antagonism continued as a controversy between Komárek (temporarily Vice Prime Minister responsible for economy) and Klaus (Minister of Finance). In 1992, Klaus once again rejected Komárek's (and the Institute for Forecasting team's) economic analysis and proposal for the reform, calling it central planning and dirigist (Klaus, 1995, p. 56). The two approaches have also been contrasted by Jan Svejnar and Komárek, the former talking about 'a solid foundation' and 'remarkable adjustment' (but warning about the possible costs of the Czech-Slovak split) and the latter talking about 'strategic mistakes in economic reform' and the threat constituted by a 'wave of bankruptcies' held at bay by several temporary factors (Portes, 1993).

The populace did not reflect upon such alternatives but was initially thrown by the new regime. Unrestricted freedom for private venture and state control of the

economy were demanded by equal percentages of the population (88 percent) in early 1990 (EEA, May 1990). People wanted to renew the pre-war model or install Western capitalism while simultaneously preserving the gains of the post-war communist model. Pragmatic 'dual morals' were logically displayed - whether consciously or not - in people's expectations. Economic consciousness has remained split during the transformation and is only slowly crystallizing.

Neoclassical virtues and the theory of modernization

The communist regime had a disastrous impact on individual responsibility, work motivation and investment in personal capacities. Instead of these traditional virtues, workers were encouraged or even forced to suppress responsibility for the results of their work, to hide their capabilities, to routinize their work. Like state firms, people also learned to live within 'weak constraints', expecting low but secure well-being provided by the party/state. Secondarily and tacitly, however, they developed substitute activities and kept spheres of intimate freedom, alternative realization and additional resources.

In contrast, the economic transformation is fueled by liberal and neoliberal thought which holds that it is always the individual who, in pursuing his or her utility, makes the greatest contribution to the general welfare of society. This is considered to be a natural reaction to decades of a failing command economy and Marxist-Leninist indoctrination.² The neoclassical approach was proclaimed to be the only 'true' economics (as opposed to the 'false' Marxist political economy) and the only economic religion of the core governmental economists. It should serve not only as a genuine theoretical background to the economic reform but also the rightist political orientation.³

Given the assumptions of modern economics, one can tentatively define 'neoclassical behaviour' as a synthesis of materialistic, rational and individualistic action. The question here is whether such behaviour was encouraged or subverted by the communist regime. We can then ask what the advantageous and disadvantageous features of this type of behaviour are. It seems, somewhat paradoxically, that some characteristics of 'really existing socialist' economic behaviour (in contrast to the original socialist theory) could be seen to parallel neoclassical assumptions. There are several arguments concerning the facilitation of 'neoclassical behaviour' by the communist regime.

First, the communist system eradicated or dramatically undermined all associational ties and emptied such notions as 'motherland', 'community', 'parish' or 'status group' of their content, replacing them largely with a mechanical and administrative relationship to the state. Family ties were reduced to a 'nucleus'. By repressing social structure and social networks, the regime humiliated individuals, transforming them into standardized units within the state apparatus.⁴ In so doing, it

isolated individuals and 'liberated' them from social relations, as is assumed by the neoclassical model's individualistic perspective.

Second, in its effort to destroy those attributes of 'bourgeois' society considered a threat to the regime, the communists systematically annihilated the moral base of human behaviour. Not only the functioning of churches but any activity aimed at moral education was repressed and the state monopoly of atheist and 'socialist patriotism' education established. In the economic sphere, cheating and stealing was implicitly promoted as an unwritten rule in the oft-repeated saying: 'he who does not steal robs his family'. Rent-seeking and pursuit of utility in ways inconsistent with societal well-being is incompatible with 'neoclassical behaviour' whereas liberation from moral prerequisites is not.⁵

Third, in the Marxist doctrine, the pursuit of material needs satisfaction is the very motivation of human behaviour, while the economic structure represents the base of societal life as a whole. Legal as well as moral norms are only 'derived' or 'produced' from this base and create a secondary 'superstructure' which has no intrinsic life or capacity for change. The prominent roles of economic structure and material needs are common to both the neoclassical and Marxist perspectives, although the hierarchies of needs (or preferences) are intrinsic in the former and externally imposed in the latter.⁶

Stressing materialism and individualism and releasing people from the moral obligations of both the community and society were not only typical of communism. One could say that the communist regime merely dramatically accelerated processes which have also occurred in Western countries. The difference was perhaps in their abruptness and scope, in the aggressiveness and comprehensiveness with which they were imposed. In most features, it contrasts but in others corresponds with the modern world as defined 'with reference to the social organization and culture of specifically Western societies, which were typified as individualistic, democratic, capitalist, scientific, secular and stable ...' (Alexander, 1994, p. 168).

Although socialism was mostly pre-modern in its institutional settings and led from a 'universalistic-achievement pattern' back to a 'particularistic-ascription pattern' (Srubar, 1991, p. 428), it also had some 'modern' characteristics. However, the democratic and capitalist elements were lacking and excessive individualism was suppressed. The communist societies' main goal was to promote industrialization and mobilize people through technical education. S.N. Eisenstadt stresses the 'widespread social mobilization and the expansion of education' as features distinguishing modernizing communist societies from the Third World. He adds, however, that those societies, 'in seeking to catch up with the more developed, selected and totalized the Jacobin ideological and institutional elements of modernity' (Eisenstadt, 1992, p. 33).

I do not agree that Czech society benefited from the 'Jacobin program' of industrialization and mobilization. In contrast with other CEE countries (and even more with the Eastern countries), this program resulted in backwardness and the demobilization of the creative part of society; it also replaced the corporative arrangement of social hierarchy involving strong and permanently expanding middle sections by a forced unity which actually meant a mixture of public collectivism and private individualism. Nevertheless, such individualism accords with certain views of modernity, as it does with the atomization of social life already advocated by Adam Smith, who suspected businessmen of conspiring against their customers whenever they meet (Granovetter, 1985, p. 484).

The above is also true of the centrality of economic values. A smooth kind of economic reductionism is inscribed in Parsonian modernization theories, be they 'leftist' or 'rightist'. Whereas the former cherish neoclassical economics as the most progressive social science (J. Habermas), the latter describe it as a self-motion of prices emancipated from needs as well as ecological and social burdens, both of which are moral-free. According to K. Müller (1995, pp. 43-44), neo-Parsonian sociology lacks a distance to the established economic dogma and is not, therefore, able to theoretically assess the feedback effects of economic crisis dynamics on the social integration and political legitimization of East European societies.

To adjust modernization theory to the transformation process, Müller suggests 'bring(ing) sociology back in', meaning firstly an enrichment of the orthodox market concept by behavioural theory 'in favour of the organizational performance of economic institutions and the market-related bargaining system' and secondly, 'recogniz(ing) the importance of such interpretative patterns in which actors of the transformation identify themselves'. The author posits that a revised modernization theory would be able to grasp disintegration processes after Marxism disappeared from the scene and after any universal concept of order such as the Keynesian method of modernizing capitalism vanished (Müller, 1995, pp. 56, 59).

After reviewing the conceptual inventory of modernization theory, I. Srubar is more sceptical about its applicability to post-socialist change. He finds that social inclusion is counteracted by strong exclusive tendencies on both the normative and real levels and that the differentiation of economic, political and social logics are thwarted by the formerly widespread perception that all is in the hands of the political elites. Despite a very complicated path towards civil society and scant probability that post-socialist societies will merely copy their Western models, research on modernization should, however, 'not be dismissed' because sociology, including modernization theory, has 'enough approaches to offer' (Srubar, 1994, p. 217).

One question should be raised, namely, where do the possibilities of revision and re-combination of the modernization conceptual framework end and where does a

full rejection of this theory begin? Although the explanation of this should reduce its ideological, linear and rationalistic character, the blurred reality of transformation (transition chaos, anomie or anarchy) invites another explanatory - even if complementary or alternative - concept. Whereas in the early post-communist period, everything in the West was seen as positive, rational, efficient and transparent, the present reality shows a more complex and realistic picture.

Whereas at the outset of the transformation, the 'transition' perspective revealed a relatively simple and fast process, its ambiguous, mixed and enduring character was developed into a 'transformation' perspective. This approach, which understands the transformation as a plurality of processes rather than a single path leading from one order to another, is considered conceptually more appropriate to what has happened in CEE countries. This plurality means the existence of distinct and mostly asynchronous actions occurring in the political system, the economy and the social structure, as David Stark observes:

Thus in place of transition we analyze transformations, in which the introduction of new elements most typically combines with adaptations, rearrangements, permutations, and reconfigurations of existing organizational forms. In a theory of social change based on an analysis of transformative practices, the new does not come from the new - or from nothing - but from reshaping existing resources. The resources include organizational forms ..., habituated practices, and social ties, whether official or informal. Thus, transformation will resemble innovative adaptations that combine seemingly discrepant elements - bricolage - more than architectural design (Stark, 1992a, pp. 300-301).

Independently, this view is stressed also by Pavel Machonin (1992b, p. 133) who, in criticizing normative conceptions of the transition and abstractly identified tendencies, strongly advocates a transformation approach which studies concrete processes, conflicts, a combination of various tendencies and activities, with possible abrupt shifts. 'This makes the future even more uncertain', he concludes.

Such a view corresponds better to the joint and/or combined economic and sociological perspectives which see ongoing changes as parallel and conflicting changes of both the economy and society. We should seek inspiration in various modifications of the resurrected economic sociology which has revitalized the tradition of Max Weber, Joseph Schumpeter and Karl Polanyi; in so doing we would study economic institutions as 'complementary articulations' of the economic issues (Smelser and Swedberg, 1994).

Transformation in the socio-economic perspective

Whereas modernization theory embraces the utilitarian, rationalist and individualist paradigm of neoclassical economics, 'socio-economics' challenges it energetically. In Amitai Etzioni's formulation, this is a synthesis which does not refute the neoclassical approach but seeks to encompass it in a broader framework, where it is not essentially wrong but partial. The neoclassical factors forming markets and rational decision-making are to be complemented by other factors forming human behaviour. Within the theoretical background and sociological roots of this integrative approach, the ideas of Karl Polanyi and Joseph Schumpeter (referring back to Max Weber) should be mentioned.

Polanyi identified two distinct features of economic life: 1. the 'substantive' aspect, which both defines the institutionalized relations between humans and their social and natural environments, and aims at the satisfaction of human needs; and 2. the 'formal' aspect, which rests both on the notion of choices between alternatives and the fact of a scarcity of means and on the idea of a logical relationship between means and ends. In his view, the neoclassical approach adopts the formal aspect and omits the substantive one. The 'economist-fallacy' is to mistake the second aspect as encompassing the whole of economic life: 'The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. To make Adam Smith's "simple and natural liberty" compatible with the needs of a human society was a most complicated affair' (Polanyi, 1944, p. 140).

In such an approach, all economic acts are necessarily 'embedded' in the institutional base and social structure (Polanyi and Arensberg, 1957; Martinelli and Smelser, 1990; Granovetter, 1985). Economic behaviour and the economic system cannot be treated as an independent system controlling all other spheres of social life. In contrast to the neoclassical view of the free market as the natural state of economy, Polanyi asserts that 'there was nothing natural about laissez-faire' and that the laissez-faire economy was the product of 'deliberate state action'. He showed that 'a market economy can exist only in a market society' and that 'labour, land and money are obviously not commodities' (Polanyi, 1944, pp. 139, 141, 71, 72).

Schumpeter, having advocating theoretical economics upon his arrival in the USA, then concentrated his efforts on balancing the formal and institutional aspects of economy and overcoming the alienation of economics and sociology. 'He soon came to feel that theoretical economics, underpinned by mathematics, was beginning to monopolize unduly economics at the expense of history and sociology. He started to warn against the type of economics he himself had helped to get going' (Swedberg, 1990, p. 35). In so doing, he followed M. Weber in his endea-

your to reconcile the marginalist and historical economic schools by postulating socio-economics.

Instead of an abstract design of economic behaviour established in 'model' settings, the socio-economic perspective fed by this tradition reveals a more realistic picture of human behaviour which is not only internally determined by rigid hierarchies of values and rationalistic schemes but also externally conditioned by the shared or common patterns and values of a narrower community and a larger society. According to Etzioni, moral behaviour acts independently of the search for pleasure and is, in this respect, irreducible. He stresses 'that it is productive to view choices as multi-staged, multi-level events, in which moral and pleasure considerations are combined in complex manners' (Etzioni, 1988, p. 67).

The socio-economic paradigm declares that: 1. people pursue not one but at least two irreducible utilities and have two sources of valuation: pleasure and morality; 2. along with rational deliberations, people often make non- or sub-rational choices, first because they build on their normative-affective foundations, and only secondly because they have weak and limited intellectual capabilities; and 3. instead of the neoclassical assumptions that the individual is the only decision-making unit, it should be stressed that social collectivities are the prime decision-making units and that individual choices often reflect collective attributes and processes (Etzioni, 1988, pp. 4, 90).

Etzioni's socio-economics is one of several streams of the 'new' economic sociology, reformulated in the 1970s as a synthesis of economic and sociological studies, focusing on economic institutions and processes and offering an alternative, generally broader explanation than standard economics (Smelser and Swedberg, 1994; Martinelli and Smelser, 1990). As Alexander shows, one of the central concepts - Granovetter's 'strengths of market weak ties' (Granovetter, 1974) - is a part of the neo-modern revival of market theory which is an intellectual rehabilitation of Adam Smith and a revival of Schumpeter's 'market realism'. In opposition to a deracinated, exploitative market, the market as social and interactive relationships is posed (Alexander, 1994, p. 185).

Both weak and strong social bonds produce problems, this most notably in the transformation context. On the one hand, we find enrooted social bonds (*nomenklatura* and old management networks, local mafia), the strength of which is due to initial intimidation resulting from the new situation and later by the opportunity of making exceptional profits in the privatization process. People create interest groupings, cartels, clans or even mafia, easily profiting from the legislative wasteland during the first steps of reform. On the other hand, very weak social bonds render the populace defenceless in the absence of community structures, civil society associations and occupational organizations.

In such an imbalanced environment, the market emerges in a crippled form, intruded upon by trade cartels which are still omnipotent in relation to dispersed consumers (no consumer associations, very weak state control) and which continue to produce monopolies in the main manufacturing branches. In some cases, many monopolistic positions are even strengthened by the administrative process governing the privatization.⁷ A vicious circle develops: an imperfect and sometimes purely illusive market is expected to create a market society and business ethics which, in turn, are supposed to provide a good environment for and a mechanism of social control of the market. Moreover, the state's responsibility is explicitly presented as minimal, in contrast with the social-market approach of *Ordo liberalism* (Barry, 1993).

In order to study these processes, the borders between economics and sociology should be opened. One of the most important concerns in this area is social structure in the sense of well-established and differentiated patterns of behaviour and economic life-styles which are mostly associated with types of ownership and occupations. Social classes and strata ensure the conformity of individual economic acts to both market and social norms.

Social structure and the three 'revolutions' of the middle classes

Economic transformation is necessarily paralleled and sustained by changing social structures. The relationship between economic and social processes, although close, is far from causal. Several historical levels have survived and are currently interplaying, selectively activated, accentuated or pushed aside. Here, we can adopt various methodological optics located between the two extremes of purely qualitative, historically identified 'class' groups (such as the petty bourgeoisie) on one hand and mainly quantitative, empirically identified 'strata' (such as the middle or upper classes) on the other. I focus mostly on the middle classes as qualitatively distinguished but still statistically accountable entrepreneurs and white collars.

In accordance with its predominant anti-modern stream (especially in the Czech lands), the communist system sought to squeeze the middle classes out of the social and mental scene. The very fact that the middle classes were the most important social category of pre-war Czechoslovakia (35 percent of the population in 1930), the fact that they were proudly upheld as an integrative amalgam of the society, had to be suppressed. The Czech society was characterized, with an exaggeration typical of the 1930s (resumed later in Geiger, 1949), as 'almost one homogeneous strata of urban workers and employees with very similar living conditions and a mentality corresponding to the unified mass culture of today' (Ullrich, 1937, p. 43).

The pretence that in place of the middle classes, the working class was invited to govern economically and politically, fictively endorsed and legitimized the communist regime. The middle classes were eliminated in reality (by expropriations and forced branch and occupational transfers), in the statistical picture (by manipulating occupational groups and deliberately shifting them into 'working class' and 'other employees' conglomerates) and from the collective memory (labelling the petty bourgeoisie a reactionary element sentenced by history to disappear forever and the intelligentsia as unreliable and suspect strata). Carefully registered 'class origin' became an important tool for social mobility, access to scarce goods and a key for securing important positions.

Not only was the petty bourgeoisie eliminated; white collar clerks were limited in their existence and occupational mobility.⁸ Coming under the common label of employees, no distinctions in wage settings and levels or in facilities allowing a life-style differentiation were made between rank-and-file non-manual workers and professionals. A non-conflict society by design, the communist system did not accept any deviation from the norms, explicitly stressing a homogeneous society as the supreme goal. Since social homogeneity was imposed by the political will, many fine distinctions did, however, survive and develop.

In the late 1960s, Czech society was presented as having an emergent, crystalizing social stratification with differences in education and occupation as the main axis, interconnected with differences in life-style and consumption. Such a gradual stratification contrasted with an extremely steep pyramid of power and extremely flat distribution of earnings (Machonin, 1992a). However, incipient forms of western-style stratification were further undermined by the de-stratificational effects of the refurbished communist system of the 1970s and 1980s. Lack of economic innovation produced a weakening of stratificational hierarchy and a growing incoherence in the individual dimensions of social position (Boguszak et al., 1990, p. 183).

Despite all equalization efforts, the post-1989 regime certainly did not come into being in a socially homogeneous society but entered a scene buzzing with differences. Two characteristics are striking here: the former 'upper' class (*nomenklatura*) and the 'lower' class (working class). According to one widely adopted hypothesis, it was the *nomenklatura* itself who contributed to the collapse of the communist regime in CEE countries. In some countries (Poland and Hungary), the former managements incited and used the laws which made possible the transformation of parts of state enterprises into private firms in their ownership. In other countries, it exploited the institutional and legal vacuum left by the political collapse in order to transfer a great deal of state property into its own hands.

Observing the transformation through the prism of the sociology of family, Ivo Možný proposes the main reason for the participation of the communist elite was

that it wanted to use and manifest its property openly, pass it on to their children legally and enjoy the status which it afforded officially (Možný, 1991). According to Georges Mink and Jean-Charles Szurek (1992, p. 9), the absence of main actors in the processes of the transformation allowed the *ex-nomenklatura* to usurp a central place among the 'winners' of the economic reform, thus ensuring its role in the formation of a new wealthy class.

The working class enjoyed negative privileges under communist rule, meaning that the rewards and status formerly directed to other 'classes' were downgraded to its position. It was, however, also corrupted ideologically by more accessible mobility channels and special rules for wage rises. Only so-called 'immediately productive' workers could benefit from increased labour productivity. Whereas white collar salaries had been fixed for years by tariffs, the wages of manual workers could be augmented by off-tariff components depending on the rise in productivity and the economic results of enterprises. This was added to the original advantages established during the 1948-1953 'wage revolution'.

The social stratification at the outset of the transformation is far from parallel to that in the West, where the middle classes are dominant in the statistical and socio-political senses. Not only is the traditional working class continuing to diminish in favour of the tertiary sector in advanced capitalism, but the main social tension is located within the middle class. This was clearly formulated by Peter L. Berger:

Contemporary Western societies are characterized by a protracted 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). There are *Belehrung*, *Betreuung* and *Beplanung* (indoctrination, therapy and planning) as the main functions of the new knowledge class located politically and ideologically to the left of the old middle class and being a major antagonist of capitalism (Berger, 1986, pp. 67-68).

Such a conflict is at least delayed in transforming countries. During the early phases of the transformation, there were no reasons or mechanisms for redistributive shifts away from the existing upper and working classes in favour of middle classes whose emerging silhouettes we can just recognize. Nonetheless, despite the fact that the new system is not very favourable to either 'old' or 'new' segments of the middle classes, the distinction between them appears somewhat clearer.

In fact, the privatization and liberalization of the economy has first and foremost introduced to the scene small entrepreneurs who escape from the 'grey' mass of public employees. The transformation of a part of employees into the 'service class' is less apparent and more difficult.⁹ Being neglected by the new regime, it is difficult for them to decide between the temptations of active self-identification and passive loyalty to the new regime; hence the new situation has affected the various categories to varying degrees. The main cleavage has appeared between the economic

segment (typically economists and lawyers) and the public segment (teachers, physicians) of the service class, the former advancing and the latter lagging behind. Emerging middle classes have been anticipated by three partial 'revolutions', all of which have either restored the pre-war situation or adjusted their situation to the developed Western countries, and each of which is introducing a middle 'sub-class' to the scene.

The first is the *capitalist revolution* in which the transformation opened the road to free business and where entrepreneurs are the key figures in the re-introduction of the market order. The second is the *information revolution*, whereby the transformation was expected to unlock the doors to technology and organizational innovations, allowing the advancement of those with particularly high qualifications. The third is the *expansion of the service society*, through which the societal change, it was assumed, would adjust the obsolete economic structure towards the tertiary and quaternary sectors and eliminate the 'Marxist' privileges of the production sector.

In this respect, there are considerable differences among the CEE countries, differences determined by deep historical roots and recent changes. Whereas Hungary, Poland and Slovakia were mostly agricultural lands before the war, small and medium-sized firms prevailed in the Czech lands. Whereas in Hungary and Poland, small services began to operate again from the early 1970s, they were restricted in the former Czechoslovakia until 1989. And whereas in Poland and Slovakia, higher education has developed slightly more intensively, it remained quite restrained in Hungary and Poland. This resulted in an uneven speed of change in individual countries after 1989.

All three mentioned 'revolutions' seem to be underway and better harmonized in the Czech Republic than in the other CEE countries. As the transformation did not begin before 1989, more socio-economic channels were ready to be used for promotion and mobility after 1989. Consequently, the Czech reform has succeeded in addressing much greater sections of the population. According to perceived mobility, the return of capitalism is, relatively, the most important mobility channel, as financial improvement in the new private sector documents. The second channel is the promotion of the tertiary sector which, however, does not favour traditional services (such as trade and catering) as much as social services (education, health, culture) and, more especially, public administration and banking. The least important, though still significant, channel is human capital advancement as measured by the promotion of people with higher education.

A conflict in Berger's sense might be more probable in Hungary and/or Poland than in the Czech lands. Due to the earlier commencement of private venture, it appears to have lost a great deal of its momentum before 1989, as the less-pronounced capitalist commitment in those countries testifies. From the other side, the

post-1989 development seems to be advantageous primarily across the educational hierarchy. This indicates the possibility of a certain cleavage between the 'old' and 'new' middle classes, the first being inhibited whereas the second have advanced in the changing situation. An urgent question is how far this advancement is related to the human capital hypothesis on growing labour productivity with educational investment, and to what degree it is still a product of redistribution through control and pressure.¹⁰

Transition in inequalities: from separation to association of segments

Two languages express respective ideologies of the building of society. One is the militaristic language prescribed by communist ideologies and originally by the Communist Manifesto: fighting (against the class enemy), struggling (for accomplishment of plans), battle (for grain), the front (of youth), command (economy), parade (of successes). Another, less impressive language is that of civil life prescribed by revolutions of the 'third estate': rights (of citizens), freedoms (political and economic), competition (of ideas, goods, services). The two ideologies are sourced in the different organizational principles of society and various systems of stratification and inequality.

The first entails the external administration of individual spheres of life by bureaucracy. While bureaucracy is centralized, these spheres are separated: wages, prices, benefits, expenditures, wealth, housing (to take some of the main themes of this study) are all administered separately. The individual's position in one sphere is defined to a negligible degree by his/her position in another. In this way, no sphere can escape from direct state control: if, for example, wages alone are controlled and the rest inferred from them, no space remains for generous 'gifts' in terms of 'free' subsidies, goods or services from the state to the population or individual categories.

Distribution in this approach is ruled by the principle of meeting basic needs. Like a peace army, workers have to be nourished, protected and reproduced. This corresponds to how Karl Marx described a 'model' capitalism in which the capitalist exploits the worker receiving from him the whole product but paying him for his simple reproduction. The equalization, although well coined by socialist-populist dogma, is a product of this mode of rewards. Thus, communists implicitly used Marx's model of capitalism for building 'really existing socialism'. Redistribution is one of its mechanisms and the top bureaucracy, which decides on transfers, is additionally rewarded for its loyalty and special services, receiving higher earnings and extra privileges.

In economics, this approach corresponds to the labour theory of value which asserts that the value of a good derives from the effort of production and is thus created on the supply side of market. The fact that, theoretically, value is determined

objectively by labour performed in the past by the working class had far-reaching consequences for historical events and real life under socialism. One of these consequences was that the working class was legitimated in expropriating all property accumulated up until that point. Another was that historical time could be slowed down or brought to a halt (giving rise to resistance to change, e.g. the attempt to fix definitive prices), devaluation of non-manual, inventive or managerial labour (futility of any spiritual), and the strengthening of production and supply, against distribution and demand (rational needs against frivolous wants).

In the other approach, society is organized from inside and according to the market principle. This notion, with Adam Smith as its main prophet, actually precedes the Marxian concept and describes the passage from *Gemeinschaft* to *Gesellschaft*: 'New social relations, based on contract instead of status, began to spread throughout the whole society, while the market - both economically and socially - was soon considered the most powerful regulative force in the new world' (Magatti, 1992, p. 47). This corresponds to the internal regulation of human behaviour by norms and profit-seeking, the rudimentary identification of which was hypothesized in M. Weber's (1930) theory on the Calvinist roots of capitalism, in which 'salvation panic' leads people to produce without consuming. In any case, it is the individual itself who thinks, chooses and decides.

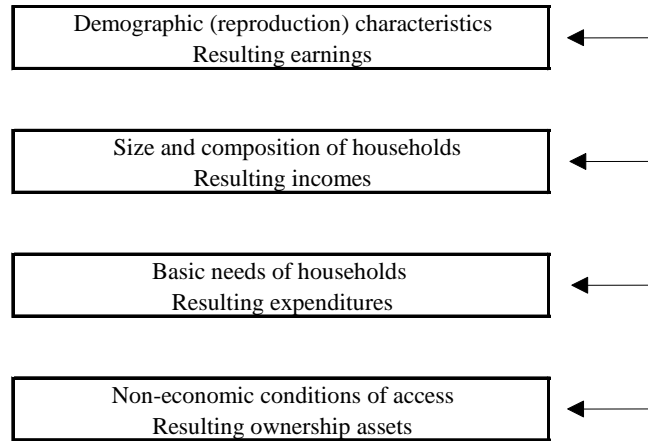
The actual opposition to the objective, supply and past-related concept culminated in the 'marginalist revolution' in economics and the subjective concept of value emphasized in the Austrian school: 'Market prices are entirely determined by the value judgements of men as they really act' (Mises, 1949, p. 332). This turn opened the door to the demand side, consumers and expectations. Not production, but purchasing of goods is the most serious problem spurring on people's inventiveness. Not meeting basic needs, but satisfaction of preferences becomes a criterion. Not relation to the past but orientation to the future emerges as the leading principle.

Each of the above approaches could also be considered 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, pp. 46-48). Although such a short-cut between economic theories and the class optic calls for criticism, the relationship between the two still expresses in a condensed form much of the everyday life reality of the two different kinds of society. Each has a different emphasis: either managers or rank-and-file workers, either producers or consumers, either working class or middle classes, either manual or mental work.

Emphasis on the successes of the past or the challenges of the future also corresponds to Raymond Aron's (1964) distinction between the pessimistic Marxist and

the optimistic view of capitalist growth. While according to the former, the worker receives the same or an even lesser wage, this causing a general pauperization of the working class and, ultimately, the self-destruction of the system, according to the latter, the worker receives a share of the national product, improving in this way, more or less, his/her well-being and simultaneously developing the capitalist system.

A. Directive system



B. Market system

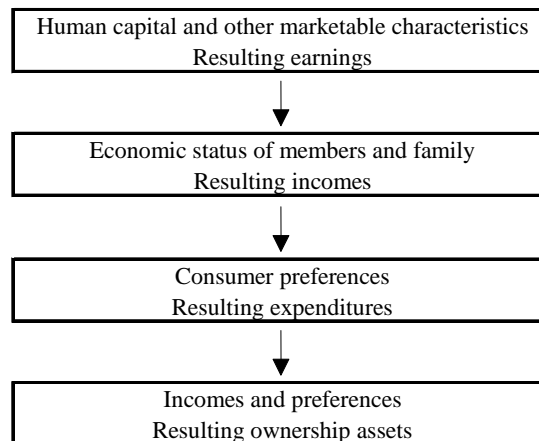


Figure 1.1 Relationship between segments of economic inequality

In this broad framework I will deal with problems of economic inequality. The various inequalities reveal both the functioning of the system and the outcomes thereof. The system should provide sufficient incentives by offering better returns for more active people, without, however, shredding the societal tissue which integrates this activity. I understand economic inequality on a micro-level as involving four main spheres and their reciprocal relationships: earnings (or personal incomes in general), family or household incomes, household expenditures and family wealth (assets, housing, durable goods).

In the communist system, head count and not unit efficiency are of the utmost importance. The state intervened in each of these sphere separately, thus weakening or even suspending the links between all of them. A household's income is determined by its size, not its economic performance. Expenditures are regulated by enforcing their 'basic' component and restraining their 'higher' part. Wealth stems very often from other resources than formal income, whether formal privileges or informal activities, and is created outside standard expenditure patterns. This is very simply indicated by horizontal arrows in the first part of Figure 1.1.

The transformation is restoring and strengthening the above links, within the general re-establishment of the individual's responsibility for his/her life. This is indicated by vertical arrows in the second part of Figure 1.1. Introducing markets means, in this sphere, the basic inter-connection of all four levels, so that earnings generate household incomes which determine expenditures, their structure of which again decides on the resulting wealth of a family. This is an elementary economic path which basically defines the socio-economic position of individuals and families (with, however, many detours, disturbances and side-effects).

Therefore, instead of demographic and reproduction characteristics, the economic market characteristics come to the fore. Administration according to reproduction needs is replaced by distribution according to the share in the national income which is itself produced by education, job commitment, responsibility and risk-taking. Instead of basic wants, the entire spectrum of civilized needs and consumer preferences is established. It is, to label it in terms of contrasting theoretical perspectives, a transition from the Marxist-based to a Weberian-based society. But it is a more complex transformation in the sense that the society still possesses communist, post-communist, pre-capitalist and capitalist features. Leaving the past behind and embracing the future is in reality much more difficult than had been assumed.

In conclusion

In presenting people's attitudes and behaviour, I have not used any single interpretative framework. Any deliberate 'construction of reality' is avoided here in order to sketch a plastic picture of several key fields of economic behaviour. Still, I have several dichotomies of the never-ending, ambivalent transitional reality in mind.

One is that between the modern and anti-modern narrative, meaning a choice between a 'model' and/or 'standard' Western capitalism (rational, transparent and progressive) on the one hand and a confused transition mixture of conflicting structures of rational and irrational, transparent and obscure, progressive and backward features on the other. Another alternative (connected with the above) is that between viewing transformation as a systematic, evolutionary and incremental change, or as revolutionary, sudden and far-reaching steps of a somewhat confused character.

Yet another is the choice between the economic and sociological perspectives. As I mostly apply the latter, I also use several economic working concepts. The same is true of the macro/micro interplay, institutional/individual frictions and the objective and subjective optics. I mostly use 'subjective' and 'micro' information but try to partly combine it with objective and macro-level data. One assumes that in the transformation process, when rapid changes occur, the possibility of comprehending them by standard 'objective' indicators is lower than in stabilized societies. This endorses the prevalence of attitudinal and opinion data in this study.

In fact, various perspectives and concepts could be applied simultaneously in a given time and given society as conflicting or coexisting, being embodied by different segments within the same social structure. Whereas for the upper classes, the transformation may appear rational, transparent and modern, for lower or even a part of the middle class, it may seem the quintessence of irrationality, confusion and backwardness. This also conforms to the differentiation and mobilization perspective derived from the modernization theory. The variant I would prefer, however, is the 'neo-modernization analysis' which stresses the primacy of interactive endogenous factors (Tiryakian, 1995, p. 254).

This study is divided into five main parts. In the second part, the emerging labour market, job prospects and opportunities as well as changing earnings disparities in the recent developments and cross-national comparison are shown. In the third part, inequalities in household incomes, their changing patterns and the different faces of poverty are analyzed. In the fourth, households as consumers and capitalists are displayed, hence focusing on their participation in the consumer and housing markets and in the privatization and restitutions processes. In the fifth part, I present how households escape from socialist paternalism either by seeking alternative resources or by receiving social security. Finally I use survey data to observe the

changing perception of the general and individual economic situation and analyze specifically the relationship between financial hardship and political attitudes.

As the sections on inequality (those observing earnings, household incomes and expenditures) are related to the shift from reproduction to efficiency settings, the sections on opinions (general outlook, economic hardship, political attitudes) are guided mostly by the differentiation and crystallization hypothesis. The institutional sections (labour market, privatization, social policy) seek to complement basic information on mechanisms and procedures with the view from below, mediated by the population's opinions. Unfortunately, the original intention, the presentation of the numerous interconnections between various levels, sections and perspectives of the transformation, was only achieved to a modest degree.

Notes

- 1 This turn of events was bitterly described by the Minister of Foreign Affairs, Jan Masaryk, upon his return from meeting Stalin in 1947, when he stated: 'I left for Moscow thinking myself a Minister of a free country. I came back feeling like Stalin's slave'.
- 2 'It was tacitly (and simplistically) supposed that if the Easterners did not want to return to their communist and social market utopias, they will opt for Hayek, Friedman or Buchanan' (Kovács, 1993, p. 85).
- 3 As Tomáš Ježek, the former Minister of Privatization said, everybody who knows anything about economics (meaning only neoclassical economics) should opt for the political right (LN, 21 October 1995).
- 4 The term 'repressed social structure' - formulated by Z. Ferje (1993) - refers to a situation in which limited by barriers intentionally created by the communist ruling class, structural forces cannot act normally.
- 5 This also concurs with Václav Klaus' opinion that the market creates the best morality: 'It is my deepest conviction that the market creates its own ethic spontaneously and this ethic corresponds well to the general opinions of an absolute majority of people about ethics and decency in interpersonal relations. What is important is that this is cultivated by the people themselves from below and is not implanted in them from above by a moralizing and actually undemocratic elite ... Market ethics can be commensurate to any externally imputed and postulated moral principles' (ÈD, 17 September 1993).
- 6 B. Perret and G. Roustang identify a deep philosophical affinity between the communist and liberal thinking, both referring to the 'utopian vision of a society which is entirely founded on economy and in which politics would be abolished as a separate order of regulation of human behaviour'. According to

them, 'both Marxism and liberalism theorized, each in its respective way, the identification of the social individual with the producer' (Perret and Roustang, 1993, p. 23).

- 7 The Czech car industry is a prime example. Not only did one single firm from among the many producers of passenger cars survive the communist concentration mania, but its monopoly was even strengthened by the custom surcharge for imported cars. With considerable help from the government, the Škoda-Volkswagen group has successfully resisted all attempts to moderate price increases.
- 8 In 1950s, the word 'intelligent' served as a swear-word meaning parasitic and destructive behaviour. Indeed, mental work was never rehabilitated under the communist regime, despite its frequent scientific-technological-revolution vocabulary of the 1970s. In this, communist and liberal (Hayekian) thinking could be also paralleled.
- 9 Here, we have in mind K. Renner's concept as developed by J.H. Goldthorpe (1995). The 'service class' or 'salarariat' is bound by service relationships rather than by labour contracts, takes a middle position between capitalists and workers and has far-reaching constitutive functions for a society.
- 10 This reminds us of the debate about the market transition in which the opportunities and gains of 'producers' and 'redistributors' during the transformation are compared (see the most recent chapter in this debate in *American Journal of Sociology*, Vol. 101, No. 4, January 1996). In fact, redistribution is continuing even if the 'true' communist redistributors have disappeared.

2 The emergent labour market and new job opportunities

The transformation of the political and economic systems in CEE countries has re-introduced the labour market to the scene. Having been suppressed for decades, the labour market is re-emerging and slowly weakening firmly interiorized job securities and, especially, to mobilize the capacities of workers. On the demand side, the strict capital constraints of efficiency are replacing the political requirements of full employment, which had been the main showcase of the communist system. On the supply side, skills and hard work have come, however still hesitantly, to the forefront, replacing loyalty to the regime and feigned fulfilment of occupational roles.

In studying the transformation of the former communist countries, we encounter two extreme poles. On the one hand, economics tends to disregard people's attitudes and expectations, using exclusively 'hard data' by focusing either on fixed behaviour or its results.¹ On the other hand, there is a clear tendency in the renewed interest in formerly almost non-existent or confidential public opinion surveys to exaggerate people's beliefs and feelings. Intent on avoiding both extremes, I shall search for a 'middle way' by complementing statistics with people's perceptions.

While the CEE labour market statistics have recently become comparable with the West, the reality of the labour market is not yet comparable. In fact, economic mechanisms and institutions are only now being formatted and people only now becoming familiar with the rules of economic behaviour. In this transitory setting, people are adapting to institutions still in the process of defining their form and functions while the standard patterns of incentives have not yet been calibrated either.² In these conditions, people's expectations, inclinations and intentions have taken on greater importance than they would in a normal, stabilized market-economy environment.

In this chapter, I examine labour markets mostly from the micro-perspective of individuals, combining objective and subjective data and stressing the effects of attitudes and prospects. First, I focus on changing opportunities for labour-market

participation and vulnerability to unemployment. Second, I present an overview of the main, recent shifts in the labour market. Third, human capital and business commitment are considered as the main driving forces of 'capitalist' labour. Fourth, I look at secondary jobs as a common survival strategy. Finally, I present people's evaluations of work values and some aspects of labour supply in a CEE-country comparative perspective.

Past and prospects: from scarcity to a surplus of workers?

The administration of labour under the communist regime had the appearance of one internal labour market - with all its disadvantages but only some of its advantages. From educational planning for future workers to worker placement and detailed wage tariffs, state bureaucracy kept the labour force under strict control. Only a marginal category of workers - those with highly sought-after manual skills - could allow themselves to profit from the labour shortage by moving from one job to another, each time demanding higher earnings.³ The strict labour administration had several long-term consequences. The large supply of cheap labour sustained both technological regressiveness and the expansion of bureaucracy.

A characteristic feature of labour allocation in the command economies was a permanent shortage of labour resulting from the inefficient or even wasteful use of labour. There was a generally high employment rate in all the communist countries, and especially in the former Czechoslovakia, which had the highest employment rate for women in the world (women represented 46 percent of the labour force). Similarly, the private sector was virtually non-existent and the informal economy not nearly as significant as in Hungary or Poland. This served to increase the population's dependence on centrally administered job allocation, the rationale of which was predominantly political.

Artificial overemployment, low qualification levels, and the inefficient use of labour inevitably turned into mass unemployment when market criteria were introduced (Oxenstierna, 1990). This is largely true of most of the post-communist societies with the exception of the Czech Republic. We can speculate either as to whether there is an iron logic to the transition, or whether the 'market criteria' have been fully implemented in the Czech economy. In fact, the Czech Republic continues to enjoy the lowest unemployment rate, this reaching a peak of 4.4 percent at the beginning of 1992, only to fall quickly below 3 percent (Figure 2.1). As Tito Boeri (1993) largely documented, it also constitutes the only exception to the low labour market flows which have produced significant long-term unemployment in other countries (Figure 2.2).

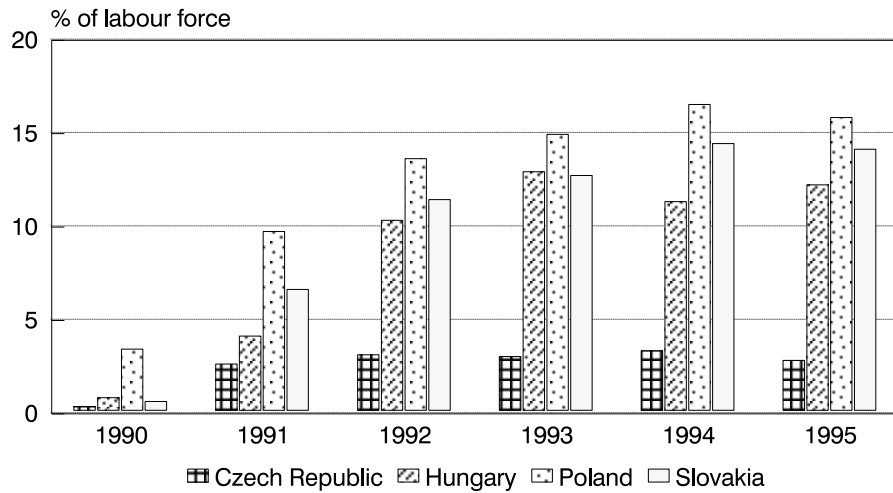


Figure 2.1 Registered unemployment rate

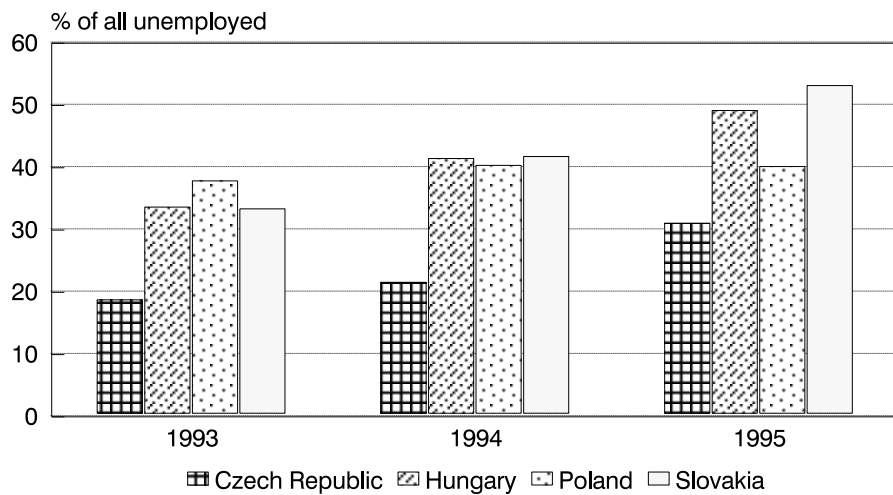


Figure 2.2 Long-term unemployment rate

Source: *Employment Observatory CEE; OECD-CCET Database.*

According to an OECD study, three main factors contributed to the Czech ‘employment miracle’: labour supply reductions, wage moderation and good initial conditions ‘in terms of the industrial structure of employment and the skill levels of the workforce’. On the other hand, explanations such as the slow pace of structural

change, unrecorded employment or hidden migration have been dismissed as of little relevance, while the role of labour market policies was stressed as being highly significant (Review, 1995, pp. 132ff).

Actually, both labour supply reductions and wage moderation testify to the high labour commitment and capacity for alternative strategies of the populace, which has responded actively and with inventiveness to market challenges. Since the private sector was non-existent and trade and services heavily underestimated in the past, those sectors manifested a high absorption capacity. Furthermore, large plants in the manufacturing industry exhibited pre-privatization behaviour and 'capitalist paternalism', both of which support labour hoarding in response to an uncertain future and the maintenance of the current management's positions through 'social employment' (Možný, 1993). A combined state/banks/private ownership creates a favourable economic environment for such behaviour.

Having observed occupational and employment outlooks, we can hypothesize about factors influencing workers' vulnerability to unemployment. The most striking disparities in perceived unemployment vulnerability are inter-regional and connected to community size: those most exposed to unemployment live in agricultural zones and localities where industry is concentrated in one large company. The other important disparities existed among firms, with workers in non-privatized manufacturing firms the most vulnerable. The weakest disparities are created by personal characteristics and age in particular. The not negligible role of education is minor in comparison to the regional aspect.

Some inverse parameters of the unemployment problem can be identified by examining employees' attitudes both toward job security and their firms' prospects. In December 1991, only 20 percent of employed respondents regarded their firms as having good economic prospects, and 26 percent were very optimistic about the prospects of their occupations. However the fact that there had been no bankruptcies contributed to workers' confidence both in their firms and in their occupations. This confidence has increased considerably since 1991 (up to one third of the workforce), testifying to the stabilization and growing demand for the labour force (Figures 2.3 and 2.4).

The flip side of the low unemployment rate and low fear of unemployment in the Czech Republic is the increasing pressure on wage growth and a decreasing willingness to work for a lower or even the minimum wage. In December 1991, 24 percent of respondents were willing to work for a lower wage than they were then on in order to maintain their jobs, while 17 percent were even willing to accept the official minimum wage. This acceptance level has decreased considerably, with a mere 17 and 7 percent respectively in January 1993 (EEA, 1991-1993). The reason for the drop was also that the minimum wage was frozen in nominal terms and experienced a relative decrease from 52 to 37 percent of the average wage.

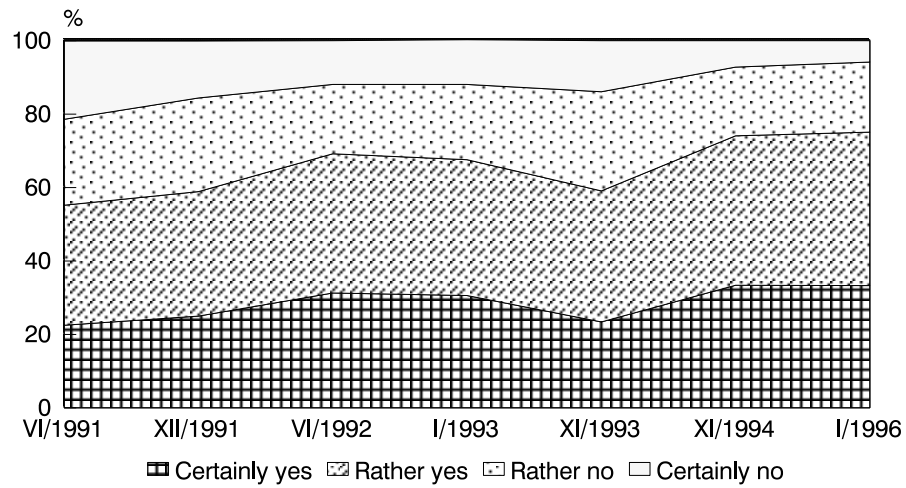


Figure 2.3 Good prospects of occupations

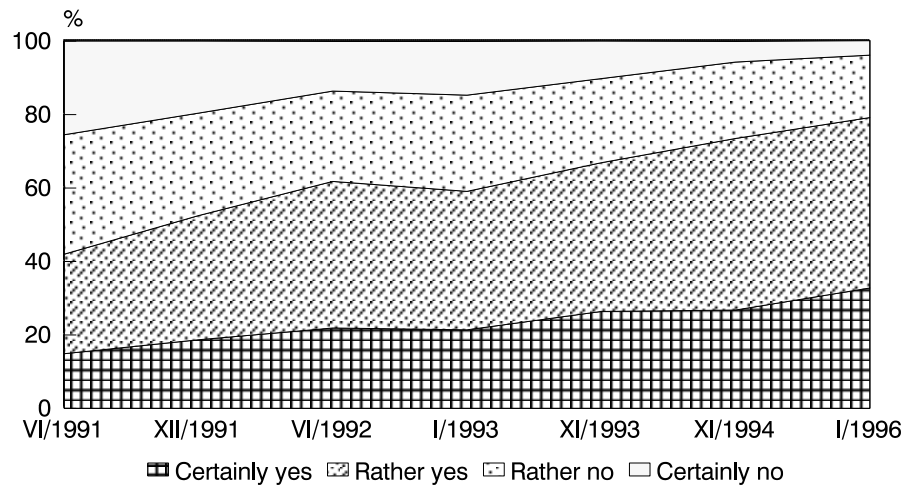


Figure 2.4 Good prospects of firms

Source: EEA surveys.

Future unemployment rates will be influenced by several contradictory tendencies. On the one hand, we might expect a certain increase in unemployment, resulting from the final privatization of large state firms, after which 'social employment' will be reduced considerably.⁴ On the other hand, the ability and efforts of

new private entrepreneurs to increase the number of jobs can be expected to rise. The number of firms involved in trade and services is still insufficient, and the activities of large firms should be complemented by medium-size firms with greater flexibility on the consumer market.

Generally, people are increasingly optimistic: the percentage of people in the labour force with intense fears of being licensed within the next two years has dropped from 6 to 3 percent in the past three years (EEA, January 1993 and 1996). Such fears are far more significant in the market sector than in public services and in large companies more than in medium-sized or small firms. While no gender distribution appeared, higher education almost fully dispels such fears.

Thus far, unemployment has been strictly local and there has been no general surplus of workers in the Czech Republic. On the contrary, in some regions (Prague), branches (construction) and educational levels (higher education in economics and law), the shortage of workers is increasing. This also has negative effects, in particular the low pressure on qualitative standards in both educational requirements and job performance. The most revealing example of the low requirements on both sides is the increasing number of students managing to study and hold down full-time jobs at the same time. For the majority, jobs continue to be 'socialist': easily available and poorly rewarded. Only for a limited but still increasing number of workers are jobs - especially the genuine 'service class' jobs - becoming 'capitalist' in that the requirements and salaries are high.

Recent structural shifts: flows towards the tertiary sector

The standard labour market is usually described in terms of the demand side, supply side, and, in some cases, a matching procedure. According to Max Weber or Talcott Parsons, jobs precede workers while the labour market is merely the place for matching the 'right' people with the 'right' jobs. Mark Granovetter (1981, p. 12) parallels three components of distribution: 'a) the characteristics of the job and the employer; b) the characteristics of the individual in the job; and c) how *a* and *b* are linked together - matching processes'. In each of these approaches, both structures are given and ready to be matched, be it with high or low transaction costs.

In the transformation period, markets are opening and the boundary between the demand and supply sides could sometimes appear indistinct. In a suddenly changing framework, active people are creating firms and, therefore, new jobs answering to the as yet insufficiently articulated demand. Supply and demand are appearing immediately such that matching is unnecessary. For this reason, we register not only exits from and entries to the labour market but also manifold shifts within it, be they changes of employer, occupation or position. When entries and exits to and

from the labour market as well as the privatization and reorganization of previously existing firms are left aside, still more than 70 percent of the labour force has experienced such a change and almost a half more than one kind of change (Table 2.1).

Table 2.1
Job and occupation changes 1989-1995 (%)

Type of change	Men	Women	Total
Single change of employer	27.6	30.9	29.2
Several changes of employer	23.0	18.7	20.9
Single change of occupation one time	24.3	26.3	25.3
Several changes of occupation	11.9	9.7	10.9
Run a private business	21.5	11.0	16.5
Promotion	25.5	21.3	23.5
Demotion	7.7	7.2	7.5
Loss of job once	12.5	19.5	15.9
Loss of job several times	4.9	5.4	5.1
<i>All changes together:</i>			
No change	26.4	30.2	28.2
One change	23.6	23.8	23.7
Two changes	25.9	22.0	24.1
Three or more changes	24.1	24.0	24.0
Total	100.0	100.0	100.0

Source: EEA survey, January 1996 (population: economically active or unemployed in 1996).

In such motions, upward mobility has far exceeded downward mobility and voluntary shifts considerably exceeded changes forced by closing plants, staff reductions or reorganizations. While 40 percent of mobile people were actually relinquished from their previous job, 60 percent were attracted by a better opportunity or resigned as a result of dissatisfaction. This proportion is less advantageous for workers with elementary education and more advantageous for workers with university qualifications. The proportion of external/internal mobility shifts is even more striking: in three quarters of all shifts, people moved to a new firm. This clearly displays the importance of the external labour market in the transformation process, and reminds us to reconsider the theory of labour market segmentation.

According to this theory, the labour market is not homogeneous, but heterogeneous. At least two sectors of the economy differ in their recruitment processes and the other characteristics of the labour market. It is only the external market (or secondary sector) that is characterized by the play of open supply and demand, whereas the internal market is treated as 'an administrative unit ... within which the market functions of pricing, allocating, and often training are governed by a set of institutional rules and procedures' (Doeringer and Piore, 1971, pp. 1-2).

In the primary sector, working conditions are more favourable, principles of allocation clearer, returns to personal investments higher, and the rules of promotion more advantageous.

The Czech labour market is moving from a rigid administrative system, through a revolutionary change involving large externalization to a more diversified labour market which will include large internal markets. In the 1990-1995 period, only 25 percent of the change of employers was a result of privatization or reorganization; for the rest, transferring to another, already existing firm amounted to 28 percent of these employer changes, moving to a new firm 32 percent and starting a private venture 15 percent (EEA, January 1996). The biggest changes approaching their halt, the multinationals, banks and many corporations are starting to build up a stable staff and are increasingly concerned with training personnel (67 percent of companies with 100 and more employers). While the mobility from public administration to big business is declining, the established bureaucracy is seeking status advantages by demanding legal guarantees of a life-long job and a stable career.

In the external market heterogeneity is growing, with most Eastern migrants as 'flexiworkers' and the Roms as 'detached stratum' largely deprived of their former state protection.⁵ Also operating in the external market are consultant firms hunting highly skilled managers and experts for foreign firms. The core of the labour force remains, however, relatively homogeneous in terms of skills and work commitment. Most workers relaxed their efforts somewhat once experience showed them that the labour market was much less demanding than expected. This also will lead to the gradual internalization of the labour market, depending on the degree to which the largest companies and networks stabilize their staff.

Table 2.2
Employed according to branch of employment (%)

Branch	1990	1991	1992	1993	1994	1995
Manufacturing industry	37.8	38.5	36.5	35.3	33.1	32.5
Construction	7.5	8.0	8.3	9.3	9.1	8.9
Agriculture	11.8	10.0	8.6	6.8	6.9	6.2
Transport and commun.	6.9	7.3	7.4	7.9	7.2	7.1
Trade and catering	9.8	9.6	11.0	12.6	14.4	17.8
Health and welfare	5.2	5.3	5.4	5.4	5.3	5.2
Education	5.9	6.4	6.6	6.7	6.6	6.5
Banking and insurance	0.5	0.7	1.0	1.3	1.6	1.7
Administration, defence	1.8	2.0	2.5	2.7	3.0	3.2
Other services	12.7	12.2	12.5	11.9	12.8	10.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Employment statistics.

Structural shifts are statistically displayed in the changing branch distribution of the labour force (Table 2.2). After a long period of stability under the command economy, the agriculture and manufacturing industries are rapidly diminishing while the traditional tertiary sector (trade and material services) is expanding. Within the quarterly sector (immaterial services), state administration has increased while education and health services have rather stagnated. There is a great deal of substance to the rationalization for the rise of state bureaucracy as a necessary replacement of the administrative and accounting functions of former state firms. There is, however, much less substance to the claim that, as a legacy of the communist system, 'human capital' services must stagnate due to the assumed surplus of workers.

Clearly, the Czech labour force is currently filling only the first of several gaps separating it from the West: the restricted tertiary sector involving trade, catering and personal material services. In this process, the higher 'knowledge' services might be reduced somewhat due to their actual undervaluation in terms of prestige and discouraging salaries. A selection process is currently underway which could undermine the quality of staff in the public sphere. This process includes the transfer of many skilled and competent people to the private sphere, whereby they frequently trade-off their qualification and occupational preferences for better rewards. This could well delay the second step - that is, the strengthening of the quarterly sector (education, health and research) - with serious consequences for both economic growth and social integration.

The main driving forces: human capital and business commitment

At the very outset of the communist regime, the prewar system of differentiated schooling was unified, and the emphasis on classical education replaced by a mixture of indoctrination and pragmatic skills. Instead of the diploma, the working class 'political sense' and 'universities of life' were championed in the early communisation. Secondary education was presented as economically more practical (and considered politically less dangerous) than university training. The low percentage of people with higher education was a specific feature of the former Czechoslovakia, even in comparison with other CEE countries.

The precious heritage of a generally high cultural level, professionalism, and work ethics was systematically devastated by the communist regime. Rather than the best workers, the most obedient and the most willing were rewarded, and respected professionals were replaced by hastily trained 'working class cadres'. Negative influences on human resources prevailed through two emigration waves (coming immediately after 1948 and 1968), affecting the most qualified and committed people in particular: to the 60,000 people legally emigrated between 1948 and 1989, a further 500,000 illegal emigrants should be added (Kuèera, 1994, p. 145).

Fortunately, however, this precious heritage was not completely destroyed and has been in the process of re-emerging since 1989. Success in the competitive labour market requires exactly those dispositions and abilities suppressed under communism: competence, qualifications, adaptability and mobility-capacity. Although education, ambition and hard work are more highly valued now than they were during the communist regime, the amount of utilizable human capital in market competition is seriously limited. Moreover, it is extremely hard to examine the current level of human capital.

According to the original concept of human capital (Becker, 1964; Mincer, 1974), labour productivity can be increased by higher education and experience. From this point of view, the returns to education systematically decreased during the communist rule, in parallel with the increasing 'credential' character of the society. Besides the classical components of the economic concept - education, experience and health - we join R.S. Burt (1993, p. 66) in identifying natural components of human capital such as charm, intelligence and looks or characteristics especially advantageous during the transformation such as speed, inventiveness or plain unscrupulousness.

Table 2.3
Willingness to work hard and invest in personal human capital

	December 1991	January 1993	November 1993	November 1994	January 1996
<i>Index:*)</i>					
Manager	41.4	50.7	50.8	49.1	52.3
Work more	70.0	72.4	72.4	73.4	71.4
Self-training	65.5	66.6	68.0	64.8	66.0
Learn language	50.6	56.5	52.7	49.0	51.3
<i>Number of activities (%):</i>					
No	42.0	40.0	37.8	45.4	44.9
One	20.6	20.8	24.2	20.0	19.4
Two or more	37.5	39.2	38.0	34.6	35.7
Total	100.0	100.0	100.0	100.0	100.0

Source: EEA surveys (population: all people aged 25-60).

Question: If somebody were to offer you a job with double your current earnings, would be you willing to:

- A. take a managerial position;*
- B. work 10 hours per day;*
- C. train for more than 6 months;*
- D. learn a foreign language within one year.*

**) Index is calculated so that 100= certainly yes and 0= certainly no, with 66= rather yes and 33= rather no.*

Keeping the complex character of human capital in mind, we should turn to people's views on the compatibility of their qualifications with the marketplace. At the beginning of the transformation, only one fifth of the population were confident about the suitability of their qualifications. Although there has been some fluctuation over time, recent developments clearly indicate a rise in those satisfied with their qualifications to one third of the population and a further 40 percent who are quite confident in this sense. Younger and especially university-educated men are clearly more confident about their qualifications than others.

Not surprisingly, education is also the main factor influencing willingness to train further and to assume managerial responsibility. The Czech population seems quite receptive to training and longer work hours if the work is better paid. However, such receptiveness has not increased recently. When tallying the four types of potential activities, we see that the disinterested part of the workforce grew slightly to a current level of 45 percent of the population in the main active age group (Table 2.3). At the same time, the well educated are less concerned and young people more concerned with investments. This testifies to the general relaxation in attitudes towards jobs, especially among middle-aged educated workers.

In contrast to the still high association between education and willingness to make a personal investment (despite some decline), there is almost zero correlation between vulnerability to unemployment and willingness to invest in one's own human capital. While workers with lower qualifications are less confident about their skills and employment securities, they are far from seeing training as the best way of asserting themselves on the labour market. We would hardly expect that willingness to undertake training will mirror a lack of job confidence. However, both characteristics are quite mutually independent in the statistical sense and the populations affected sometimes polar opposites.

Not only human capital but also entrepreneurial responsibility and 'business spirit' are important factors in labour market participation and in the forces driving economic expansion. As only a minimum of private ventures were allowed to exist up until 1989, great enthusiasm followed after 1989, with an accompanying sharp rise in the number of business licenses. At first, the overwhelming majority of new firms were only second and part-time jobs for craftsmen, construction workers, vendors, lawyers, consultants, etc.⁶ Current estimates suggest that about a half of the total number of 1,200 thousand licenses awarded represent a real firm and that at least 200 thousand are only part-time entrepreneurs.

The originally steeply rising tendency to start a private business seems to be on the decrease. A deceleration in the rise in the total number of licences has, however, been accompanied by an increasing number of true private firms, i.e. firms which represent the single or main income sources for the person or household. According to the EEA surveys, the percentage of those for whom a private firm

provides the main job increased from 30 to 45 percent of business-licence holders between mid-1992 and the end of 1995. A recent, unexpected rise in licence applications is attributed to the desire on the part of the same people to run a parallel business in another branch or the establishment of daughter firms by successful companies in order to distribute the tax burden.

EEA surveys show that the actual or potential businessman is most likely to be an urban, well qualified middle-aged man; however, the possibility of providing an adequate explanation of business aptitude according to standard demographic and social characteristics is generally very low. The social profile of the average new capitalist is more likely to be built by capital inheritance, previous endowments and personal attributes than by standard statistical characteristics. Qualitatively, there are various paths to the new entrepreneurship which are determined by personal or family biography and previous positions. New entrepreneurs frequently:

- continue their former illegal private activities and use already accumulated capital for new entrepreneurial deals in the same or another sector (legalized former blackmarketeers);
- use their managerial experience and former political capital to convert former state firms into their private property (converted communist technocracy);
- regain their former family property under the restitution and continue the family business (reborn pre-communist capitalists).

The first scenario relates mostly to small and medium-sized firms, the second to large companies and the third to both. These two scenarios involve the continuity of wealth and positions across regimes, the third indicates a return to the roots and 'good old' capitalism as opposed to the 'hasty new' one. All three scenarios are interacting and competing against one another during the transformation. As no category of new entrepreneurs is clearly dominant, no explanatory hypothesis about the new social structure is satisfactory. The transformation is apparently merging the qualitatively different capitalist and socialist origins of self-employed and new capitalists.⁷

According to the SSEE survey, we can estimate that about 5 percent of current self-employed come from former communist cadres, about 15 percent were among the former blackmarketeers and at least 15 percent are restituted owners, the corresponding figures for employers being 15, 10 and 25 percent respectively. The remaining 65 percent of self-employed and 50 percent of employers might truly be new entrepreneurs. Most are probably not absolute 'virgins' because they make use of the social (network) capital acquired in communist times, be it to secure premises, credit or customers.

In this category, profit motives are here surely primordial but not the only ones. Many Czechs seek adventure and independence, pleasure in conquering a new frontier, exactly as identified by Joseph Schumpeter when he stressed the non-

utilitarian motives of entrepreneurship: 'the will of founding a private kingdom ..., the impulse to fight ..., the joy of creating ..., exercising one's energy and ingenuity' (Burt, 1993, p. 91). Although the transformation is far from being the period of the innovative Schumpeterian entrepreneur, the revitalization of unconstrained skilful work is striking.

In entrepreneurship in the Czech Republic of today, the classical 'capitalist virtues' are, however, apparently insufficient. Contrary to expectations of large support for establishing the class of small entrepreneurs, the conditions are rather harsh, the government not taking into account the fact that people had to start their firms from scratch. Unlike the continuing control of apartment rents, rent of business premises was liberalized and has almost reached Western levels. Banks have proved rather reluctant to support small- and medium-sized firms and no state support for credit was launched. Entrepreneurs complain that bureaucracy has too much power and that corruption and nepotism are flourishing under the transformation.⁸

Tax levels are also limiting capitalist drive. Despite some reduction, corporate tax (39 percent) is higher than in most Western countries; the same is true of labour costs (35 percent of the gross payroll, as compared with 23 in Belgium, and 31 in France). However, income tax currently ranges between 15 and 40 percent and therefore not much higher than in Western countries. With the budgetary surplus in mind, coalition parties are discussing a decrease of the tax burden, the speed of which has not yet been agreed upon. Since tax quotas are decreasing in the Czech Republic and slightly increasing in EU countries, their levels are converging, representing 26 and 29 percent of GDP for the tax itself and 44 and 43 percent for all taxes and insurances together.

However favourable this comparison appears, EU and CEE countries clearly differ in their initial conditions and development levels. The position of entrepreneurs in well-established and newly emerged market economies differs considerably in terms of financial, production and 'social' (supplier and customer networks) capitals. In the CEE countries, various burdens invite and the lack of control allows extensive by-passing of laws, tax evasion, employment of undeclared workers and unregistered activities. To a certain degree, these factors undermine internalizations and the further development of 'business spirit'.⁹

Secondary jobs and dual job strategies

One of the mysteries of transforming economies is how people manage to survive on such low wages. One possible answer is the 'alternative strategies', and secondary income sources in particular. According to the Czech LFS, 240,000 workers declared a secondary job in autumn 1993 (4.7 percent of employed), this number falling to 215,000 by spring 1996 (4.2 percent of employed). While these figures

are reliable, they refer solely to legally contracted part-time jobs, thus under-representing the full scale of additional income activities.

The results of the SSEE survey provide similar figures. With regard to the percentage of the active population declaring any secondary activity, the survey firstly documents a significant gap between the Czech Republic and Slovakia, with quite a low percentage of secondary activities (5 and 9 percent of employed), while Hungary and Poland declare much higher shares (27 and 17 percent). Differences in extension (the number of workers involved) are greater than differences in intensity (the contribution to the family budget as estimated by respondents themselves).

These data somewhat underestimate the total sum of secondary activities. The results of EEA surveys, which cover a far wider scope of activities, reveal that at least 35 percent of all active earners are involved in formal or informal secondary activities. Men and workers with secondary education are clearly more active than women and workers with other educational levels. In the age curve, secondary activities culminate in two cohorts: 30-34 years and 50-54 years. Given the high concentration of secondary activities in trade and services (40 percent), the percentage of workers earning in the same branch as his/her main job is relatively small (around 12 percent).

Of those who declare supplementary activities, only 28 percent are active in a legal secondary job, 26 percent are self-employed and the rest earn by some 'other' way. It is precisely the 'other' activities which are important and produce most of the difference between figures declared by the statistical and sociological surveys. They include unreported and mostly untaxed regular activities such as manual work, trade and consultancy as well as many irregular activities.

Secondary activities increase the average working week by almost 15 hours for those performing them, and by 6 hours for the total population (Table 2.4). While the official hours are 42.5 hours, the actual working hours are 52.5, with new private entrepreneurs working a 62 hour week on average. These are impressive and cautionary figures - impressive because they testify to an intensive use of human resources and a strong work commitment, cautionary because in terms of work hygiene and possible overburden, they are rather high. For many people, however, the burden is constant, while only its form and return change: under communism, people used to work extra hours to reduce cash expenses.

Secondary activities have both positive and negative features. On the one hand, they might be considered a relict of socialism, reducing performance and further training in the main job. On the other hand, secondary activities are very often a channel for labour mobility or the transition to self-employment or entrepreneurship. According to EEA survey, 15 percent of workers declaring secondary activities are considering a transition to full-time entrepreneurship within the next two

years. Moreover, people active outside their regular employment are more prepared to invest in their human capital, work longer hours and take on managerial responsibility.

Table 2.4
Working hours in the main job and secondary activities (hours per week)

	Only one job	Secondary activities			total	Total workers
		employee	self- employed	other		
<i>Men:</i>						
Elementary	48.2	16.0	15.0	11.6	12.7	51.4
Vocational	50.6	17.7	20.0	15.4	17.5	56.3
Secondary	50.4	12.0	24.6	14.4	16.2	57.0
University	52.1	7.0	20.4	14.9	15.4	56.5
Total	50.5	13.8	21.2	14.6	16.4	56.0
<i>Women:</i>						
Elementary	40.6	15.7	22.5	8.8	13.8	44.4
Vocational	45.9	12.5	16.4	12.1	13.1	49.4
Secondary	45.7	11.3	13.9	8.8	10.9	49.3
University	47.0	5.5	12.7	11.8	11.4	51.8
Total	45.2	12.4	14.9	10.1	12.0	48.9

Source: EEA survey, November 1994.

As C. and C. Tilly (1994, p. 307) theorize, ‘standard labour markets seem to be decaying just as we begin to formulate coherent theories about them’. This is especially true under the transformation. In many aspects, the transforming societies are following the paths inherited from the communist period. However, a considerable part of this secondary economy was legalized, the gap it left within the shadow being occupied by new secondary activities. Whereas part-time entrepreneurship will transform itself into full-time entrepreneurship, the other kinds and forms of secondary activities will develop and expand. They will probably become more confined to certain categories of the populace, as opposed to their original mass scale.

Hard work values and business commitment comparatively

The revolutions in CEE countries were expected to introduce better job opportunities, incentives and more equal chances relative to the previous rigid, unchallenging and privilege-based system. Since the state administration of labour was abolished and the labour market emerged, people have been able to move across the occupational vertical more easily and freely, according to personal competence and risk taking capacities. At the same time, however, some people could feel threatened by the overly harsh reform steps. Moreover, the continuing power of

local and branch networks or suddenly emerged large capitals causes the impact of these reforms to hit people unequally.

Job mobility should be considered a component of social structure. Once the crystallization process progresses, we will discover whether the social structure in the individual countries will be of a 'social class' type (i.e. opposing and conflicting social groups sharing different values) or a 'social stratification' type (i.e. social groups sharing universalistic values differing in terms of hierarchy). Currently, we can only derive from indirect evidence such as the perceived intensity of conflict and equality of opportunities. I suppose that where the conflict level is viewed as lower and perception of equal opportunities is stronger, people will be encouraged to be more active on the labour market, train and retrain, migrate and change jobs, etc.

Comparing the perception of conflicts across the CEE region, we find considerable differences among countries. The question was: *In all countries, there are certain contradictions or even conflicts between various social groups. What, in your opinion, is the situation in your country? How sharp are the conflicts between various groups?* Whereas the Czech Republic emerges as the society with the lowest level of conflicts between rich and poor people, between the working and middle classes and the employed and unemployed, Poland is perceived as the society with the lowest level of conflicts between management and workers, this obviously due to the significant role played by unions. Hungary, on the other hand, appears as the country with the highest level of conflicts in all perspectives (Figure 2.5).

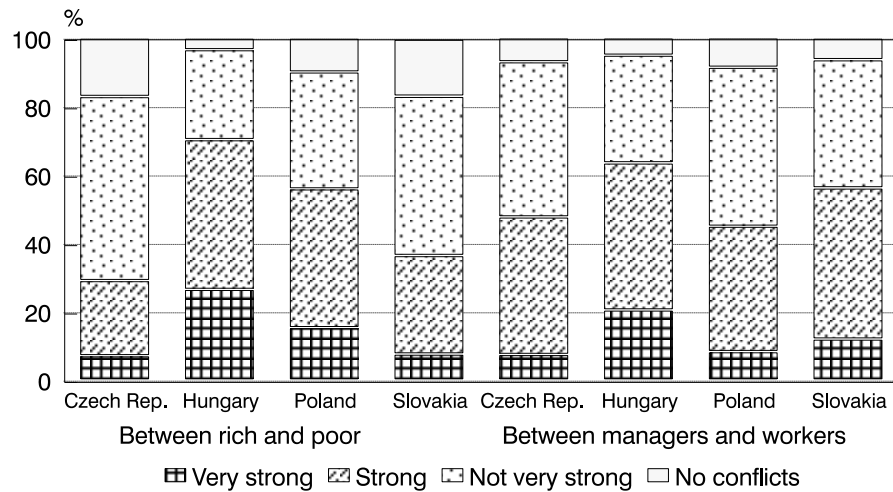


Figure 2.5 Level of conflicts
Source: ISSP - Social Inequality 1992.

In addition, the evaluation of equal opportunities at different periods reveals that populations differ considerably across the region. In 1991, the current system was the best for Czechs, for whom the communist regime was definitely the worst. The opposite was true for Hungarians and Poles, who mostly rejected the prewar period and evaluated the system around 1975 as the best. This difference is explained by the fact that the communist system of the mid-1970s was characterized by a strengthening ‘normalization’ in Czechoslovakia, in contrast with the economic reform in Hungary (‘morning in communism, afternoon in capitalism’).

Appreciation of opportunities is closely associated with the individualistic/collectivist option or, better said, an alternative between personal responsibility and activity on the one hand and reliance on the state and indolence on the other. Here, we should acknowledge the specificity of the transitory labour market, in contrast to a standard, well established labour market. We can hypothesize that labour market participation, mobility and advancement will be higher in those areas where people rely more on themselves and expect less from the state.

In the subjective concept of life success (using the question *How important are the following items for achieving life success?*, included in the ISSP Social Inequality module), I identified four clusters of variables: 1. *hard work* (being ambitious, talented and willing to work hard); 2. *family background* (coming from a rich family, having highly educated parents, being well educated); 3. *good contacts* (knowing the right people, having political connections and partly also rightist political beliefs); 4. *ascription* (ethnic or racial affiliation, religion, region of origin, gender and partly also rightist political beliefs).

In all countries under observation, the ‘hard work’ set was ranked first, ‘family background’ second, ‘social connections’ third and ‘ascription’ last. At least in the three first sets, there are, nevertheless, significant inter-country differences. Indeed, the more important the factor, the greater the inter-country disparities. In the ‘hard work’ set, the Czech population scores very high and the Polish population very low. Differences in ‘family background’ are almost fully reversed, being the lowest in the Czech Republic and highest in Poland. Lesser differences are to be observed in the ‘good contacts’ (social capital) which is highly appreciated in Hungary and Slovakia and very little in Poland (Figure 2.6).

There is certainly a difference between deeply enrooted values and declared opinions which are often a reaction to the concrete situation in a country or a respondent’s neighbourhood. With this in mind, we can conditionally understand the results as latent patterns of behaviour and people’s visions of opportunities. These facts illustrate the continuing dissimilarity of the psychological climate across the region despite the equalization efforts of the communist regime. In the cross-country comparison, we identified a marked difference between the Czech Republic and other countries. Work commitment and a sense of individual responsibility,

although far from being direct causes of individual labour market participation, are certainly associated with it.

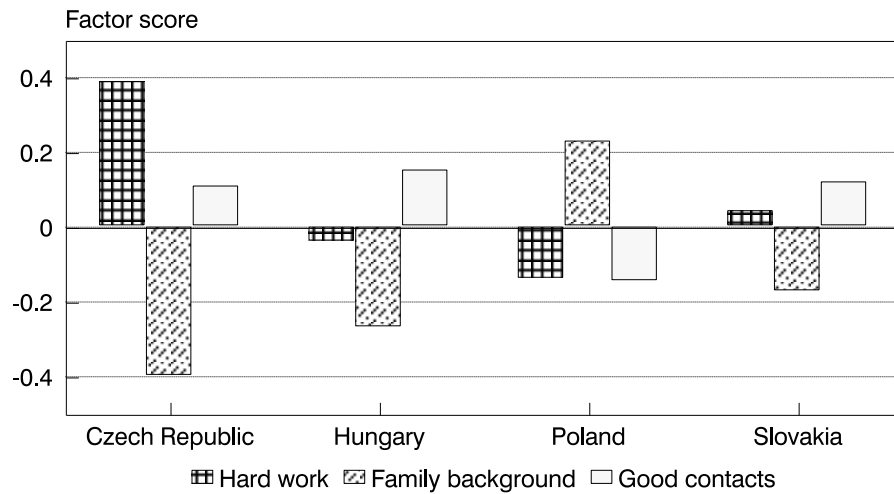


Figure 2.6 Factors of life success
Source: ISSP - Social Inequality 1992.

Table 2.5
Private ventures: past, present and future (%)

	Czech R.	Hungary	Poland	Slovakia
<i>Households started:</i>				
Before 1990	1.4	9.4	7.5	2.0
After 1990	19.1	15.3	10.6	17.6
Total	20.5	24.7	18.1	19.6
<i>Current state:</i>				
Doing well	37.2	17.7	15.0	15.9
Surviving	45.2	42.2	46.3	43.8
Struggling	7.4	15.6	13.6	18.2
Stopped	10.1	24.5	25.2	22.2
Total	100.0	100.0	100.0	100.0
<i>Future expectations:</i>				
Developing	45.0	25.9	47.3	65.4
Unchanging	50.3	63.3	47.3	27.1
Giving up	4.7	10.9	5.5	7.5
Total	100.0	100.0	100.0	100.0
<i>Planned new ventures</i>	7.9	7.5	4.0	10.0

Source: SOCO survey 1995.

There is also difference between assumed labour supply in subjective and objective terms. Educational growth was hampered by the communist regimes in all CEE countries. Among them, educational mobility in the Czech Republic (48 percent upwardly mobile in the intergenerational comparison) strongly contrasted with all other countries, where around 65 percent of the current active population saw a rise (ISSP Social Inequality). Consequently, the Czech Republic is the country with greatest vocationally trained population and the lowest university-educated workers (according to the LFS, 10 percent, as in Hungary, against 14 percent in Poland and Slovakia). Blockage of higher education has also devaluated its role in people's minds: it is the lowest in the Czech Republic and highest in Poland. The reserve of human capital seems to be greater and better appreciated in countries other than the Czech Republic.

Unlike describing educational mobility and levels, it is much more difficult to indicate the 'capitalist spirit' in the sense of business commitment. According to the SOCO survey, Hungary is still in the lead in terms of the percentage of households running a private venture, although the Czech Republic has experienced the fastest increase. The Czech Republic also differs from other countries in the subjective evaluation of economic performance, with only one tenth of firms being temporarily or definitively closed down. The Czech Republic and Poland share quite optimistic expectations about the further development of existing firms, in comparison with the much worse outlook in Hungary and the much better one in Slovakia (Table 2.5).

In conclusion

In studying the emerging labour market in transforming economies, the standard labour statistics serve as a necessary 'hard', 'objective' and 'result' base which invites complementation with attitudinal data viewing labour market problems from the subjective and behavioural perspectives. People do perceive the objective situation in much greater detail than can be described by standard statistical data. Their concerns vis-à-vis the labour market involve microeconomic and micro-regional aspects and, more importantly, their own capabilities and capacities as well as those of their firms.

From this perspective, some intrinsic discrepancies appear. The first is between the objective and subjective evaluation of labour capacities, or - in other words - between the actual screening and filtering functions of the labour market on the one hand and the respondents' perceived prospects of occupation and qualifications on the other. The expectations were that re-emerging capitalism screens people's skills and abilities more strictly than is actually the case. Since demand for human capital

is increasing, workers are becoming more relaxed and their confidence in their specializations and qualifications is slowly rising. Moreover, the critical distance a considerable number of workers have taken from their abilities is resulting in a restored reliance upon the state rather than a stimulus to activity.

The second discrepancy is to be found between the short-term and long-term tendencies of production and utilization of human capital. The dismantling of the 'one big internal market' under communism is provoking immense flows between sectors and branches and across the occupational and management hierarchy. In the first years of the transformation, law, finance and management have been expanding, while education, health services and research have not. In other words, while the old resources of human capital are being exploited further, the branches responsible for its future development are struggling for survival. There is no specific rationale behind this opposition, which seems to be the simple refusal of any planning and the rash acceptance of 'market play', whereby short-term profits win over long-term comparative advantages.

The third discrepancy concerns the segmentation and/or externalization/internalization tendencies in the labour market. In contrast to the segmentation theory's assumption of the eventual separation of markets, the transformation is proceeding rather through the formation of the national labour market from several largely independent sub-markets. These can be described in sets of alternatives such as the public/private sector, foreign/domestic capital, formal/illegal economy, capitalist/communist roots, etc. Instead of fragmentation in distinctive strata, the labour market is organizing itself along the above main axes. Moreover, the transformation is causing an extensive and temporary externalization of the labour market in which mobility channels are draining the public sector and the outflow is pouring into expanding companies, while skilled craftsmen are feeding new small firms and consultant firm are head-hunting managers and experts. After these mass movements, the internalization of labour markets will gradually strengthen.

The fourth discrepancy is between the social stratification (vertical) and regional structure (horizontal) outcome of the labour market. While the labour market is quite successful in promoting the middle classes in their 'old' (entrepreneur) and 'new' (clerk) variants across the occupational ladder, it is very rigid in regional and inter-locality terms. Due to the absence of a housing market, people continue to be extremely confined in their spatial mobility. This is hindering the mass mobility of medium-qualified workers to where the labour is and increasing the vulnerability of industrially homogeneous micro-regions. This pattern, cultivated for decades, was largely interiorized in values and attitudes and resulted in a very strong affiliation of people to their homes.

On the one hand, despite all discrepancies, the labour market saw a considerable development after 1989. People are moving more freely and are thinking more

actively, labour and capital are recognizing their respective interests in together challenging the state to create more favourable conditions for private venture. On the other hand, a low unemployment rate and scarcity of workers in numerous occupations is engendering more confidence in most people and producing a slight relaxation in their activity, returning them to reliance upon the state. This is legitimated by the fact that the state has not yet fully abandoned the economy and continues, through crossed ownership and huge credits given to de-etatized firms, to back the core manufacturing industry. We talk only about an adjusting, but still far from adjusted, labour market.

Notes

- 1 As R. Freeman (1989, p. 291) shows, 'subjective variables like job satisfaction, which economists traditionally view with suspicion, contain useful information for predicting and understanding behaviour, but they also lead to complexities due to their dependency on psychological states'.
- 2 As P. Mertlík (1993) makes clear, new institutions act solely as 'empty shells'. Built according to the Western model, they have the external appearance of normal institutions but their internal functioning is different, often being misused for private interests. According to this author, true transformation is the task of at least one generation.
- 3 This fact explained the paradox of workers in jobs corresponding to their qualifications earning less than workers not working in the area of their specialization (suitability of the job to formal education was carefully surveyed by pre-1989 labour statistics and administration).
- 4 As of November 1992 (when the 'bankruptcy law' was passed), 4,500 cases were presented but only 600 firms (most of them small) were declared bankrupt by the court. An update of the 'bankruptcy law' which would speed up the process is expected soon.
- 5 Here, I use the vocabulary of Guy Standing (1991, p. 8) describing the fragmentation of the labour force as it is occurring in the West and which is 'characterized by distinctive strata with cumulative advantages or disadvantages, the spread of labour insecurities to groups that had grown used to the prospect of a steady improvement'.
- 6 After 1989, the possession of a business licence was a must for employment in many private firms. In order to avoid social security payments, many employers opted to employ only those people with their own business licenses. This system was forbidden by law at the end of 1991.

- 7 While the first way corresponds to the interrupted embourgeoisement thesis as formulated by I. Széleányi (1988), the second conforms to the path dependency thesis derived from the transaction costs approach and elaborated most notably by D. Stark (1992b).
- 8 According to the EEA survey from January 1996, half of respondents (whether employers, self-employed or employees) are convinced that there is lot of corruption in state administration.
- 9 Those characteristics were summarized, in conscientiously overstated form, by V. Benáček (1994a), who asserted in a newspaper interview that ‘business conditions are such that it is nearly impossible for an honest entrepreneur to survive and prosper’. He claims that ‘the Czech economy is fuelled by hidden economic forces’ and that ‘black marketeers, crooks and tax evaders could be as responsible for the Czech economic miracle as the Minister of Finance’.

3 Changing earnings distribution

Socialist Czechoslovakia had one of the most equalized income distributions in Europe, together with Eastern Germany, Rumania and Albania. This was achieved by the interplay of its social-democratic roots and the political/economic pressure of the communist regime. The equalization of wages in favour of manual labour was not only consonant with communist ideology and economically advantageous - it also served to maintain the political loyalty of the key categories in the working class. However, behind the strictly controlled wages in the formal economy, party privileges and the functioning of informal economies created large, hidden disparities.

In normative terms, the ideal model of earnings distribution in a market economy is expressed by the 'meritocratic triad' of education, occupation and income. An individual's qualifications should be convertible into an appropriate occupational position with an appropriate earnings level (Kreckel, 1992, p. 97). The achievement ideology legitimates the income inequality supportive of economic efficiency and growth. It creates a vertical stratification whereby people are distinguished by their human capital, occupational prestige and income rewards. In this approach, the theory of human capital (Mincer, 1974) is closely interconnected with the 'status attainment' perspective (Sewell and Hauser, 1975; Featherman and Hauser, 1984), according to which the supply side of the labour market is complemented by social background.

The re-privatization, re-marketization and re-liberalization of the economy is dismantling the strict administration of wages while maintaining the tariff system in the public sector and temporarily applying income policies for wage control of state companies during privatization. Low economic efficiency is impeding the rapid adjustment of the reward system at the same time as the general decrease in real wages tends to support low incomes rather than middle and higher incomes. Behind macroeconomic policy, there is no explicit idea as to how much and in which direction earnings disparities should move. Despite the absence of a distributional design and the prevention of large shifts in wage disparity by the restrictive economic policy, some important changes have already occurred.

In this chapter, I give a brief overview of the pre-1989 situation and present an explanatory hypothesis of income distribution under communism. This is followed by an overview of the main changes to date brought about by the transition. In the third section, I describe the available data sources and present the empirical results for the period 1988-1996 in various breakdowns of earnings, and stress the changing proportion of demographic and market predictors as the main tendency. In the fourth section, I place the Czech data in a broader cross-national - predominantly CEE - context. I conclude with a consideration of the stratificational effects of current changes in earnings distribution.

Earnings before 1989: shifts within a stable distribution framework

Communist revolutions were heralded by the introduction of equality among people. They pledged the eradication of private property, across-the-board accessibility to wealth and the removal of social disparities. Somewhat more pragmatic, although remaining on an abstract ideological level, Marx's (1966) proposed law for 'the first phase of communism' (socialist society) posited equality of rewards according to a person's contribution to the common well-being, which he formulated as 'each according to his abilities, to each according to his work'. Numerous textbooks on the Marxist political economy and 'scientific communism' displayed and drilled the appropriate application of this principle in the 'really existing socialist' societies. Reality, however, proved far less rosy than ideals and followed a different rationale than that of predetermined distributive justice.

In the former Czechoslovakia, the deepest changes in earnings distribution occurred during the 1948-1953 period, when the strengthening of communist power was accompanied by the introduction of compulsory employment and earnings equalization. Branch differences indicate dramatic changes whereby redistribution flowed from the service sector (undergoing considerable feminization at this time) into manufacturing - especially heavy machinery - and construction.¹ Huge state support of cooperative agriculture followed in the 1960s, by which time the sector was fully 'socialized'; earnings first reached wage levels in manufacturing and then exceeded them.

Sadly, the period of the first major wage changes was inadequately recorded in income surveys so that the possibility of calculating distributional differences by characteristics other than those of branch was lost. Regular statistical monitoring including periodic wage surveys based on the census of firms only began in 1959. By this time, the main features of the socialist transformation were already in place: earnings were thoroughly equalized, with preferential treatment of particular industrial branches. New priorities were introduced by the tariff system

(distinguishing occupational categories and branches), a system of so-called extra-qualificational preferences indicating the ‘societal significance’ of different kinds of work (Brčák and Brýdlová, 1973). The police, the army and the party/state bureaucracy enjoyed special advantages.

The three decades following 1959 constituted a period of remarkable and perhaps unique stability in overall earnings distribution (Figure 3.1). In the other European communist countries, there were periodic pressures both to increase differentials (e.g. during the periods of attempted reform in Hungary and Poland) or to diminish the range in earnings (e.g. through the establishment and periodic increase of a minimum wage in the USSR and Bulgaria). In communist Czechoslovakia, however, nothing in this vein seems to have occurred. The efforts of the Prague Spring economic reform of 1968-69 succeeded in only slightly accelerating wage rises for qualified people and very moderately increasing earnings differentials to the benefit of the very narrow income top.

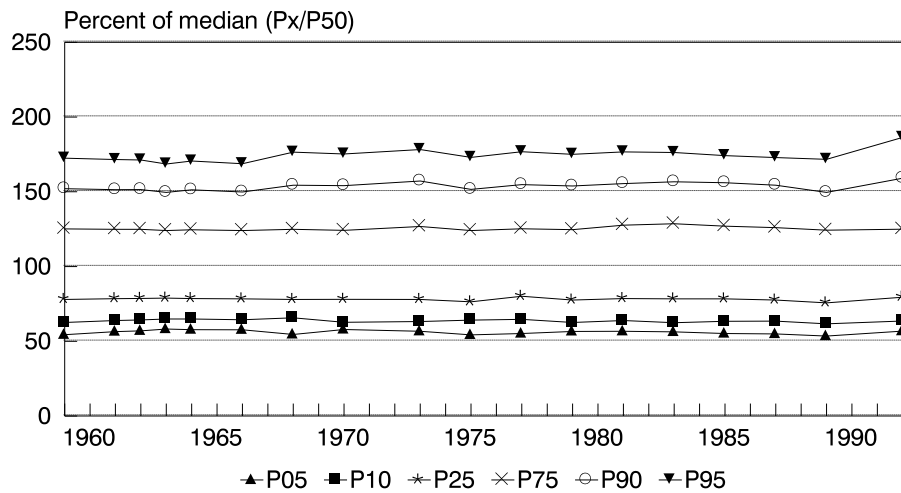


Figure 3.1 Relative earnings in Czechoslovakia
Source: Atkinson and Micklewright, 1992; Microcensus 1992.

Nevertheless, behind this stability in overall earnings distribution, important changes took place in the relative positions of different groups. Those changes were hidden, due either to deliberate policy forbidding any deeper insight into social disparities or to the inaccessibility of earnings microdata. It was in 1968 that I analyzed income microdata in the first social stratification survey for Czechoslovakia (Večerník, 1969). I later found three major developments to have taken place

in wage inequality during the communist period. For the most part, these developments can be considered consistent with the logic of the communist regime. As the support of the working class was required and real incomes rose only very slowly, considerable transfers were activated within the largely stable distribution framework (Večerník, 1991b).

First, the peak of the age curve gradually shifted in favour of older workers as a means of maintaining the advantages enjoyed by the founding (1948) generation of communism. Second, the relative wages of those in the production sector (including manufacturing, construction and transport) improved, while the position of the service branches (trade, education, banking and other services) weakened. Third, corresponding changes in earnings differentials by qualification also occurred: the relative position of university-educated people deteriorated while the differences between various levels of education gradually diminished. Educational differentials in the former Czechoslovakia were kept low, even in relation to other communist countries.

Hence, the above-described changes in earnings inequality were prompted by political needs. With its labour administration and rigid production patterns, the command economy did not require incentives for more qualified and inventive work, labour engagement or risk-taking. Continuous appeals to strengthen the motivational function of wages were more an intrinsic part of the ideological facade than the expression of any serious attempts to reform the economic system. Only production workers received special rewards for increased work intensity and additional hours. This advantage systematically diminished the difference between rewards to manual and non-manual (so-called unproductive) work.

The actual reward system under communism can be explained by Marx's theory of the exploitation mechanism under 'classic capitalism' rather than by his prophecies for a communist society. The procedure whereby the employer does not reward labour according to its productivity but according to its reproduction costs (Marx, 1965) was a part of the functioning of 'really existing socialism', where the state preferred to cover workers' basic needs rather than pay them according to their contribution to the national product.² Consequently, differences in earnings between manual and non-manual labour disappeared; indeed, non-manual labour was generally rewarded less than manual labour due to the greater nutritional requirements of the latter. Earnings differences between the various educational degrees barely covered study costs including income foregone during schooling (Večerník, 1991a).

Outside this formal and strictly administered system, billed as the 'just' socialist distribution, another four mechanisms operated. Whereas the first two were intrinsic components of the regime, the other two were more or less tolerated compensations for the population: 1. party privileges such as free or very cheap goods

and/or goods unavailable to the ordinary citizen (including special stores, health services and recreation areas) which increased their purchasing power much more than any regular rise in earnings; 2. hidden ownership rights bestowed upon managers, directors and party officials who had extensive opportunities to convert their position into concrete benefits in the form of goods, services, housing, recreation, etc.; 3. in-kind incomes, especially those of cooperative peasants recompensed by retaining pieces of land where food could be produced, either for private consumption or for the local market; 4. an informal economy encompassing a wide range of services, including those in the social sector, be it in health care, education, the allocation of apartments, the provision of exit visas, etc.

The economic reform: changing sources of disparities

The economic reform liberated the labour market on its demand and supply sides and, through extensive privatization, introduced business incomes as well as greater freedom to employer/employee contracts. However, earnings in the production sector remained under state control through wage regulation (until mid-1995) whereas earnings in the public sector were determined by tariffs which were equalized and rewarded experience more than qualifications.³ By providing work incentives and gradually adjusting the reward system to that in the West, the sources and extent of earnings inequality saw marked movements through which the conditions necessary for improving returns to skills, managerial responsibility, risk-taking and performance were created. At the same time, some social measures were introduced in order to protect low-wage categories against poverty.

Indeed, some transformation changes had a potentially equalizing effect, others a de-equalizing effect on earnings distribution. The previously non-existent minimum wage was established in 1991 and increased shortly after. This was introduced by the Civic Movement (OH) government, under pressure from the ILO and amidst protests from the liberal camp. The dilemma of such a 'social' measure within the liberal environment was solved by imposing a freeze on the level of the minimum wage which was not lifted until the end of 1995.

Within the framework of the macroeconomic stabilization policy, a regulation through taxing the wage bill was agreed in the Tripartite Commission for all firms with more than 25 employees. As a result, the nominal wages increased in 1991 by a mere 15 percent while the real wage fell by 25 percent. Although in 1992, wages were partially liberalized, regulation continued in a less strict form for state-owned firms. The nominal wage increased by 21 percent, the real wage by almost 10 percent. After no wage control whatsoever in early 1993, a tax-based wage regulation was re-introduced and its removal scheduled for the completion of the large-scale

voucher privatization (Flanagan, 1995; Flek and Buchtíková, 1995). The wage regulation was definitively abolished in mid-1995 - a move being welcomed both by liberals (more market) and unions (more freedom for wage rise).⁴

The transformation resulted in increasing opportunities for private entrepreneurship, employment abroad or in foreign firms, high rewards for managers and a general upward mobility: as we have shown earlier, over the 1989-1995 period, 24 percent of workers declared themselves to be climbing the occupational hierarchy in comparison with the 8 percent declaring themselves downwardly mobile. While the state and large private firms were confined, both small (less than 25 employees) and foreign firms had liberty in wage settings, with many seeking to attract highly qualified people by offering many times the wages received in their previous or current employment. Moreover, companies were free to distribute the wage bill and therefore had the option of rewarding better qualified and more productive workers.

In examining earnings inequality during this period, it is important to consider to what extent, if at all, earnings inequality has increased and how it has affected the relative position of both the lowest and highest income categories. It is even more important to study changing patterns of disparities in earnings such as the gender gap, age profiles, returns to human capital and changes in earnings in terms of industry. More general questions concern the trade-off between demographic and economic criteria as well as 'political' and 'property rights' constituent in wage settings.

New empirical evidence: towards a market adjustment

In investigating earnings disparities, we can draw upon several data sources. The most obvious source of earnings data are the wage statistics based on a census on firms. Since only domestic firms with more than 25 workers are under scrutiny here, this data may be somewhat biased. Given the focus on distributional issues, I have used the personal files of household income surveys (Microcensuses) as the main source since they are large enough and based on representative random samples. On the other hand, they lack important variables such as industry or occupation characteristics. Therefore, I have also used social stratification surveys conducted in 1984 and 1993 (the only source including communist party membership) and EEA surveys, which include greater number of variables characterizing, among others, type of ownership.

In the analyses that follow, I focus on the full-time labour force, wage-earners in 1988 and all active earners from 1992 onwards. Only a small group of cooperative farmers was excluded from the 1988 and 1992 Microcensus data as their exemption from wage tax would bias results and render comparability with the other countries

impossible. The dependent variable in our analyses is earnings, meaning all forms of wage and salary income including the self-employed income gross of employee taxes but net of employer taxes. This definition of earnings accords with the Luxembourg Income Study definition (Smeeding and Coder, 1993). While gross earnings are analyzed in Microcensus data (uniformly with the official statistics), only net earnings are presented in the social stratification and EEA results.

Overall earnings inequality. During the early transition period, important changes clearly occurred in overall earnings distribution. The relative position of the lowest earnings deciles remained relatively stable between 1988 and 1992. This means that the introduction of the minimum wage and a generous policy towards low wages created a protracted relative position for the lowest income groups. Simultaneously, the position of the highest categories increased significantly. The openings for higher earnings and wage possibilities in the private sector induced a shift in the highest incomes and, consequently, a general expansion in the income distribution range (Table 3.1).

Table 3.1
Distribution of earnings

Decile shares and coefficients	Year 1988 gross	Year 1992 gross	January 1993 net	November 1993 net	November 1994 net	January 1996 net
<i>Decile shares:</i>						
1	5.3	5.0	4.8	4.5	4.4	4.4
2	6.6	6.1	5.6	5.7	5.1	5.3
3	7.4	6.9	6.4	6.5	6.4	6.3
4	8.3	7.7	7.2	7.1	7.2	7.1
5	9.2	8.5	8.1	7.9	8.1	7.9
6	10.0	9.4	9.0	8.8	8.9	8.8
7	10.9	10.4	10.5	10.1	10.3	10.0
8	12.0	11.7	12.1	11.7	11.8	11.4
9	13.3	13.8	14.1	13.9	14.2	14.3
10	17.0	20.5	22.2	23.8	23.6	24.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Coefficient Gini	0.19	0.23	0.25	0.26	0.26	0.27
Robin Hood Index	13.2	16.4	18.9	19.5	19.9	20.2

Sources: Microcensus 1989; Microcensus 1992; EEA surveys.

Since 1992, earnings inequality has continued to widen in the above mentioned manner. Protected by the minimum wage, the bottom of income distribution is decreasing only minimally, if at all, while the income top is rising quite considerably. The results of EEA surveys reveal a generally higher level of inequality than statistical surveys, in spite of the fact that net incomes are declared.⁵ This could be because either people remember last month's income more clearly than

last year's income (as in statistical surveys) or respondents are more willing to report honestly when surveys are fully anonymous. We should be aware that these results could also be underestimated in relation to the entire real income both from primary and secondary jobs and from the formal and informal economy.

Returns to education. The effect of education on earnings under the communist regime was measured even before 1989, although in a somewhat deliberately obscure form. Petr Matijù (1986) found that education plays a far less important role in both occupational prestige and rewarding labour. In previous work, I have shown that both the earnings and household income distribution were ruled by demographic characteristics. The predominance of these characteristics indicated the efforts of the regime to cover the reproduction costs of the labour force instead of a 'just' share of the product, the latter of which would have served as a work incentive (Večerník, 1986, 1991a).

After a period so unfriendly to human capital evaluation and investment, one can hardly expect qualifacational differences to undergo a rapid increase. We must also take into account the problematic nature of skills and diplomas acquired in the communist era. Nevertheless, survey data testify to a certain valorization of human capital as measured by formal education alone. According to Mincer (1974), the human capital earnings function is specified as

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

where $\ln(y)$ = natural logarithm of earnings, s = years of schooling and e = years of experience. The schooling variable is calculated in the standard manner by taking the years needed on average to obtain the degree reported in the survey, while experience is calculated as age minus schooling minus six. In order to distinguish the returns of various educational levels we use another equation in the form

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

where sv = dummy for vocational training, ss = dummy for secondary education and su = dummy for university education, with elementary education as an omitted category. All earnings functions are estimated by ordinary least squares (OLS).

Table 3.2 presents the results of basic human capital equations, showing earnings returns to years of education (or individual educational levels) and experience. At the end of the communist era, one year of schooling constituted a minimum increase of 4 percent to a man's earnings and 5.7 percent to a woman's earnings. In 1992, this figure increased to 5.3 percent for men and 6.7 percent for women. In contrast, experience's effect on earnings (years on the job) decreased considerably for both genders, but especially for women. Whereas before 1989, experience (or, better said, age and/or generation effect alone) dominated over education, the opposite is true after 1989.

When examining individual categories of education, we see that the largest increment occurs in men's vocational education and the lowest in women's university education. It is no surprise that the early transformation period has brought opportunities primarily for the lower ranges of education due to the boom in services and construction and incentives for qualified workers in new small firms. Only secondarily does it also offer opportunities for secondary and university education, depending upon the industry. The lower determination of earnings by both schooling and experience suggests that greater variance arises from other characteristics such as the occupational and the personal.

Table 3.2
Returns to education
(regression analysis, dependent variable logarithm of earnings)

	1988	1992	1996	1988	1992	1996
	gross	gross	net	gross	gross	net
<i>Men:</i>						
Constant	7.28	7.62	8.39	7.62	8.05	8.72
Years school	0.04	0.05	0.04			
Experience	0.05	0.03	0.02	0.05	0.03	0.02
Exp squared	-0.08	-0.07	-0.05	-0.08	-0.07	-0.05
<i>Education</i>						
Vocational				0.05	0.09	0.10*
Secondary				0.14	0.23	0.24
University				0.34	0.46	0.39
R ²	0.23	0.18	0.12	0.24	0.18	0.12
<i>Women:</i>						
Constant	6.89	7.27	7.70	7.37	7.81	8.19
Years school	0.06	0.07	0.07			
Experience	0.03	0.02	0.02	0.03	0.02	0.02
Exp squared	-0.05	-0.03	-0.03*	-0.05	-0.03	-0.03*
<i>Education</i>						
Vocational				0.07	0.08	0.19
Secondary				0.22	0.30	0.37
University				0.50	0.55	0.61
R ²	0.29	0.24	0.17	0.30	0.25	0.17

Sources: Microcensus 1989; Microcensus 1992; EEA survey, January 1996.

*All coefficients except * significant on the level < 0.001*

For the post-1992 period, the EEA surveys testify to a continuing improvement of rewarding education for both sexes until the end of 1994. Since 1994, only women have been reaping benefits from their higher education while the oppor-

tunities for men to receive higher earnings at different levels of formal skills have been diminishing. This is especially noticeable on the university level, where disparities between rewards to services for productive and financial capital (managers, bank officers) and services for human capital reinforce and, thus, return ultimately lower averages for the university level as a whole. Generally, the explanatory power of education in earnings variance continues to increase slightly while the role of gender is decreasing.

Table 3.3
Earnings according to branch of employment (ratio in % of average)

Branch	1989	1990	1991	1992	1993	1994	1995
Manufacturing	104.4	103.8	103.6	103.5	101.3	99.9	100.4
Construction	111.2	109.9	106.6	108.2	112.3	110.6	108.9
Agriculture	108.2	109.6	97.7	91.8	87.7	85.0	84.7
Transport and communications	106.4	104.6	103.2	99.1	97.5	98.7	100.8
Trade and catering	83.8	85.0	86.2	90.1	88.6	91.6	88.4
Health and welfare	90.1	92.6	96.6	94.5	95.0	93.9	92.4
Education	89.8	88.1	90.3	90.6	90.3	91.7	90.4
Banking and insurance	98.3	102.0	136.9	169.6	177.7	175.2	171.5
Administration and defence	101.3	100.4	105.3	114.6	117.8	120.7	117.7

Source: Employment statistics.

Earnings by branches. After a long period of stable branch disparities, when differentials were controlled as 'societal significance of work', considerable changes have occurred in the short post-1989 period (Table 3.3). Regressive changes occurred in agriculture, manufacturing and transport and the position of the service sector as a whole improved somewhat. Within it, trade and catering improved their earnings position more dynamically, while health and social services, education, research and culture changed only slightly or stagnated completely. The most apparent change is the drive of the banking sector, which advanced considerably by employing all possible means to avoid wage regulations including payments of taxes for crossing the wage limit. State administration also underwent significant change, this especially at the top levels of bureaucracy.

We should keep in mind that the available statistics do not present fully shifts in branch disparities. As the data only includes firms of over 25 employees, rapidly increasing incomes in retail trade and catering are not adequately represented in statistical figures. Generally, however, wage shifts according to industry led to a diminishing significance of this dimension of income distribution: there are cur-

rently more intra- than inter-branch income disparities than before 1989. In addition, unification of the tariff system across the entire public sector has contributed to this result, pushing branch, age and skills disparities down.

Political factors. Under the communist regime, political factors exerted a comprehensive influence on earnings. First, they influenced the individual's educational level (access to secondary and university education) and the type of school he/she attended (prestigious branches such as medicine, law or foreign trade). Second, they had a considerable influence both on job searches by special party networks and on the possibility of securing a managerial position in low-level organizations or any position in high-level organizations. Third, the application of higher wage tariffs or higher premiums saw party members privileged, even when occupying the same positions as non-members.

Due to their confidential character, most of these factors cannot be identified. I can only compare the effect of party membership and functions. The regression analysis based on the 1984 social stratification survey (not presented here) yields significant and positive coefficients for party membership and party office: for men, party office is associated with an earnings premium of 14 percent and party membership with an earnings premium of 10 percent; for women both figures were slightly lower. This political factor lost most of its importance after the collapse of the communist regime, but did not disappear completely. According to the 1993 social stratification survey, pre-1989 communist party membership still indicates favourable labour market opportunities, be it through intrinsic skills or access to important networks (current and/or former communist party members receive a party premium at about 5 percent of their earnings).⁶

Sector of ownership. While the political dimension of earnings distribution has almost disappeared in the transition period, the process of privatization has introduced some temporary differences with as yet unprivatized state firms on the one extreme, completely new private firms on the other, and various forms in between. According to the EEA surveys, the ownership variable itself contributes almost 10 percent of the explained variance. The self-employed, either with or without employees, allocate themselves the highest earnings. They are followed by the employees of new private enterprises and last of all, employees of privatized state firms.

Sectors of ownership also differ in rewarding education. According to the 1992 Microcensus data, self-employment is more advantageous for vocational and secondary education and less advantageous for university education. Stratification data show that the privatization process seems to have triggered a greater return to human capital, peaking in foreign-owned firms and/or firms with some foreign capital participation (Table 3.4). Recent EEA surveys reveal that there is a marked difference between state firms before and after privatization, the latter rewarding

secondary and higher levels of education markedly more than the former. In contrast, the educational differential in new private firms appears the narrowest, this corresponding to the fact that most of the new firms employ medium-skilled labour.

Table 3.4
Earnings according to education and sector of ownership (ratio in % of average)*)

Education	State	State	New privately owned firm	Foreign firm	Total
	before	during			
	privatization				
Elementary	85.7	84.2	81.7	62.2	83.6
Vocational	96.6	96.0	97.8	86.6	97.1
Secondary	111.2	121.6	116.2	71.8	110.4
University	137.4	160.7	129.8	176.1	139.4

Source: SSEE survey 1993. *) Adjusted to age and sex.

Demographic and economic factors. The weak economic status of labour under the communist regime resulted in the domination of demographic factors over economic ones. Particularly in the Czech Republic, disparity by gender was the most striking feature of wage distribution, explaining 25 percent of the total variance while the combination of the main characteristics (gender, age, education and occupation) explained 50 percent of the variance. Age was also more important than in other CEE countries because of its generational significance and the rigidity of careers (old age as an obligatory requirement for top managers). Unlike gender and age, high skills and special training were rated much lower in the reward system. This corresponds to our ‘exploitation’ hypothesis mentioned above as a possible tool for explaining earnings distribution under the communist regime.

The proportion of demographic and economic characteristics have changed significantly during the transformation: in 1988, gender and age explained 36 percent of earnings variance while education increased the variance explained by an additional 8 percent; in 1992, the variance explained by gender and age dropped to 19 percent, while education increased it by 12 percent; in early 1996, the variance explained by gender and age dropped further to a mere 14 percent, while the education increment decreased it by 10 percent. This result, based on an EEA survey, should be noted with caution. An important finding confirmed by all post-1992 EEA surveys is a continuing, although slight, decrease in demographic characteristics (a return of labour reproduction costs) in favour of economic characteristics (a return of market capacities).

Incomes from secondary activities. If official earnings are generally underestimated, then this is even more the case when it comes to incomes generated by secondary activities. Nevertheless, declared incomes do testify to the fact that second

jobs are lucrative. There is a 50 percent income increase for the sub-population of those involved in secondary activities, which equals a 10 percent income increase on average. University-educated men receive the most secondary incomes in absolute terms, while men and women with vocational education receive the most in relative terms (Table 3.5). While the total range of earnings increases once secondary incomes are included, the educational earnings disparities narrow considerably.

Table 3.5
Earnings from the main job and secondary activities (CZK per month)

	Only main job	Main job and sec. activities	Difference in CZK	Difference in percent
<i>Men:</i>				
Elementary	4870	7770	2900	159.6
Vocational	5900	9600	3700	162.7
Secondary	6740	8290	1550	122.9
University	8940	13160	4220	147.2
Total	6500	9650	3150	148.5
<i>Women:</i>				
Elementary	390	5820	1940	150.2
Vocational	4730	7710	2980	163.0
Secondary	5930	8730	2800	147.2
University	8040	10400	2360	129.4
Total	5370	8140	2770	151.5

Source: EEA survey, November 1994.

Are higher incomes determined solely by higher extensity or in combination with work intensity? Or, in other words, is a 'secondary' hour worth more than a 'primary' hour? The comparison of earnings and the working hours of people receiving secondary incomes with those not receiving secondary incomes shows that the average differences are not large. This, however, is due to the better opportunities enjoyed by less educated workers. Better educated people with secondary employment earn considerably more per hour: men with secondary education 25 percent more, men with university education 16 percent and women with university education 35 percent more. Since EEA data do not distinguish between earnings in the first and second job, the actual differences will be even higher.

Acceptance of new differences. Although the socialist society was generally considered as extremely equalized, acceptance of increasing differences in earnings vanished very early in transformation: in 1991, only 19 percent of respondents found disparities in earnings too small, 12 percent adequate and 69 percent too large. By 1995, these percentages had developed into more critical attitudes: 5 percent too small, 14 percent adequate and 81 percent too great. In 1995, people

agreed that 'just' salaries should be more unequal than they declared in 1991, but simultaneously maintain that current incomes are more unequal than is acceptable. While the ratio of a blue-collar worker's wage to a director's salary is estimated by respondents as 1:10, 1:6 is considered 'just' (Social Justice survey).

Similar disagreement appears regarding business profit and the alleged 'trickle-down' effect: *Large profits for entrepreneurs are fair because everyone ultimately benefits from them.* The percentage of people agreeing with this a statement decreased from 67 percent in 1991 to 38 percent in 1995. Although both attitudes will probably attenuate with strengthening 'capitalization' and 'informatization' of society (both entrepreneurs and university-educated people are much more in favour of disparities), such a continuing 'equalization climate' may be harmful to the reconstruction of the distributional system and be easily politicized by stressing cleavages between the higher and lower social strata.

Cross-national comparison: continuing particularities

The original impetus of the equalized earnings distribution under communism was the massive demands of Stalinist-type industrialization. The extensive employment of women allowed the male labour force to shift into mining, metallurgy and heavy industry, while the female labour force fed the light manufacturing industry and the lower levels of the expanding bureaucracy. In order to reward the growing workforce within the given limits, it became necessary to equalize earnings while branch differentials were shifted in favour of manufacturing and construction, the police, army and party bureaucracy and to the detriment of the service sector.

This general strategy which applied across the Soviet block was modified into specific national patterns. In the 1960s and 1970s, inequality in earnings oscillated most in Poland and least in the former Czechoslovakia. In branch disparities, the gap between manufacturing and agriculture narrowed and that between the tertiary (transport, trade, catering) and quaternary (health services, education, research) sectors increased. In qualification differentials, there was a narrowing between highly and routinely qualified labour. In 1980, university educated staff in manufacturing received 131 percent of a routine worker's earnings in Czechoslovakia, 140 percent in Hungary and 125 percent in Poland (CMEA Statistical Yearbooks).

In the 1980s, the paths followed by the socialist countries diverged (Figure 3.2). In Hungary, a certain dispersion of wages appeared as a component of a careful implementation of market-oriented reforms in the economic system. In Poland, Solidarity imposed a flattening of income differentials aimed at increasing the standard of living of the lower strata. In the former Czechoslovakia, preferences for the working class and older generations were advanced behind the frozen facade of aggregate disparities. At the end of communist rule, Hungary had the highest and still increasing wage disparities, these being the lowest and stagnant in the former Czechoslovakia.

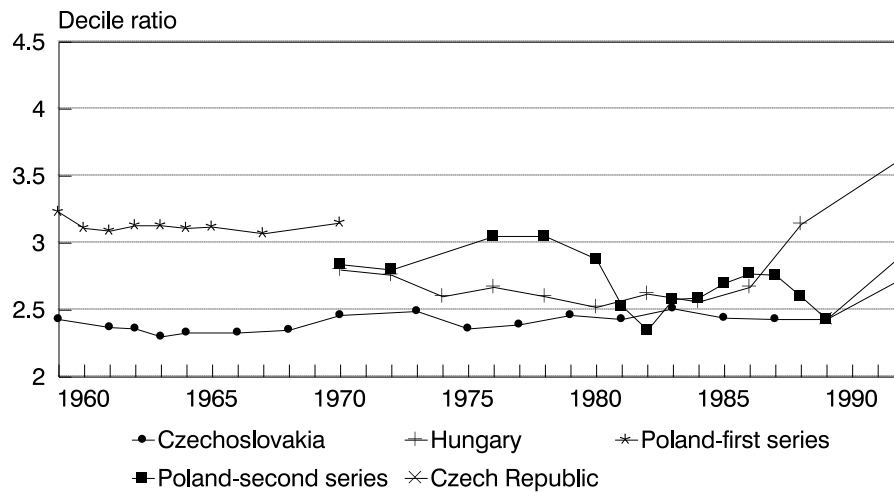


Figure 3.2 Inequality in earnings in CEE countries
Source: Atkinson and Micklewright, 1992; SOCO database.

Table 3.6
Distribution of earnings in CEE countries

Quintile shares and coefficients	Czech Republic		Hungary		Poland		Slovakia	
	1988	1992	1989	1992	1989	1992	1988	1992
<i>Quintile shares:</i>								
1	11.9	11.1	8.9	8.4	12.7	11.2	12.0	12.6
2	15.7	14.6	13.4	12.7	16.1	14.6	15.8	15.6
3	19.2	17.9	17.2	16.4	18.5	17.2	19.0	18.5
4	22.9	22.1	22.0	21.6	21.5	21.0	22.8	22.1
5	30.3	34.3	38.5	40.9	31.2	36.0	30.4	31.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Robin Hood Index</i>								
Hood Index Coefficient	13.2	16.4	20.5	22.5	12.7	27.0	13.2	13.3
<i>Gini</i>								
Gini	0.19	0.23	0.29	0.32	0.18	0.25	0.18	0.18

Source: SOCO database.

Once the transformation began after 1989, economic reforms started to re-design earnings distribution towards a greater inequality in all CEE countries. The differences between them were, however, mostly maintained or even strengthened. Thus, earnings inequality is still the highest in Hungary and relatively low in the Czech Republic, but even lower in Slovakia (Table 3.6). There is no longer any gap

between the CEE and EU figures. While recent Czech figures are on the level of Germany, Polish figures appear on a level with France, while Hungarian disparities exceed even those in such Western countries as Austria or the UK (Table 3.7).

It is not, however, the range of inequality which reveals the intrinsic changes, but the structure of disparities displayed by the predictors of earnings determination. For this purpose, I have used the analysis of variance which distinguishes four categories of education (elementary, industrial, secondary, tertiary), four categories of ownership (state or similar enterprise, state enterprise under or after privatization, new private firms, new private firms with foreign capital), eight categories of industry (agriculture, manufacturing, transport and communications, trade and catering, education and health services, public administration, banking, other) and three categories of managerial position (no subordinates, 1-9, 10 or more subordinates).

Table 3.7
Distribution of earnings in CEE and EU countries

Country	Percentile (in % of median)					Ratio 90/10	
	5th	10th	25th	75th	90th		
<i>1988</i>							
Czech Republic ^{a)}	53.8	60.0	74.4	118.9	143.8	162.5	2.40
Slovakia ^{a)}	53.6	61.7	77.0	123.2	149.3	168.0	2.42
Hungary ^{b)}	50.0	58.3	74.4	135.1	183.3	225.9	3.14
Poland ^{b)}	55.4	62.7	78.2	126.3	163.3	191.6	2.60
Germany East ^{d)}		68.1	82.1	121.1	141.9		2.08
Germany West ^{d)}		62.5	78.3	129.7	173.1		2.08
Austria ^{f)}		51.0			181.0		3.55
UK ^{b)}	47.3	54.7	72.3	137.1	183.9	226.5	3.36
France ^{f)}		65.0			194.0		2.98
<i>1991/1992</i>							
Czech Republic ^{a)}	51.2	56.1	69.6	116.7	153.5	184.2	2.74
Slovakia ^{a)}		68.1			170.5		2.50
Poland ^{c)}		61.6	77.3	132.4	179.8	219.3	2.92
Hungary ^{e)}	48.3	56.0	72.6	145.9	203.7	257.1	3.64
Germany East ^{d)}		69.6	82.9	123.8	159.4		2.29
Austria ^{f)}		51.0			178.0		3.49
UK ^{b)}	47.3	54.8	71.7	138.0	186.5	228.0	3.40
France ^{f)}		65.0			196.0		3.02

Sources:

a) Microcensus 1989 and 1992.

b) Atkinson and Micklewright, 1992.

c) Rutkowski, 1994.

d) Krueger and Pischke, 1992.

e) Personal communication from the Central Statistical Office.

f) OECD Economic Outlook, 1993.

Figure 3.3 displays beta coefficients calculated by analysis of variance and showing the relative weights of individual predictors of earnings. The data display a diversity of country-specific patterns. In the former Czechoslovakia, the most important predictor of earnings (although its influence has recently attenuated) is still gender, the male/female earnings ratio being the lowest in Hungary and the highest in Poland. Education is the most important factor of earnings in Hungary and Poland and the second most important (after gender) in both parts of the former Czechoslovakia.⁷

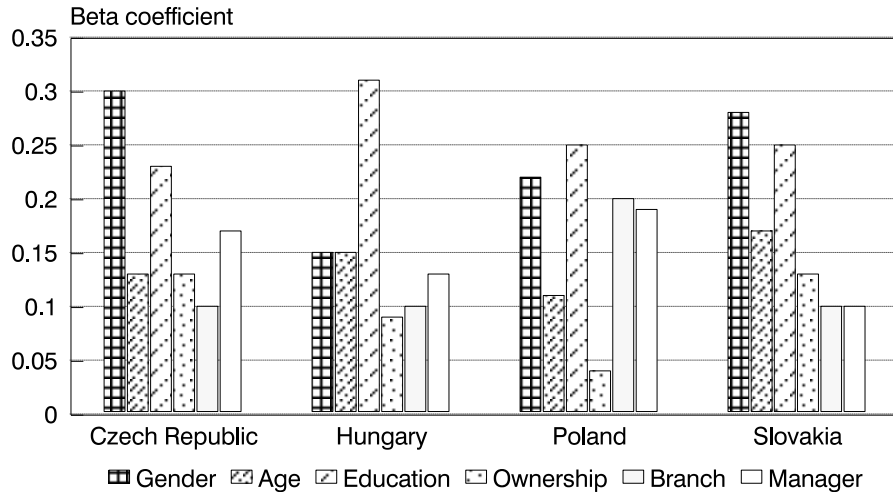


Figure 3.3 Determinants of disparities in earnings

Source: SSEE survey.

Earnings disparities by sector of ownership and branch are far slighter. Branch distribution is striking in Poland, due to extraordinarily low earnings in agriculture while differences according to the sector of firm ownership are more significant in Slovakia than in the other countries, this largely due to the strong income position of the new domestic entrepreneurs. Managerial position is very significant in the Czech Republic and Poland but much less so in Hungary and Slovakia.

Taking the proportions of demographic predictors (gender, age) and market predictors (education, firm ownership, branch and managerial position) in terms of variance explained by sets of corresponding variables, very similar patterns can be seen in the Czech Republic and Slovakia (15:14 and 15:12), where the demographic and market determinants are balanced. There are very different patterns in Hungary (6:16) and Poland (7:20), however, where demographic determinants are considerably outweighed by market ones.⁸ Among market determinants, education

and ownership are more important in Hungary, whereas branch and managerial position are most influential in Poland.

The general trajectory which began earlier in Hungary and Poland and later in the former Czechoslovakia is a contraction of the demographic predictors of earnings originally settled by the state planning offices. The gender gap narrowed somewhat in 1988-1992. According to the data from the mid-1980s, Czech figures are very close to those of Germany, better than those in the UK or USA, but worse than those in Austria or the Scandinavian countries, where the rate is generally over 70 percent (Blau and Kahn, 1992). With regard to experience, the picture is not very different. With the diminishing role of experience, Czech figures are lower than those in any Western country (Lorenz and Wagner, 1990; Flanagan, 1993).

In the place of demographic attributes, market characteristics - education, job qualifications, special training - have now asserted themselves. In terms of the ongoing process, however, we suppose that the overall determination of earnings is merely in temporary decline before it increases again in response to the growing influence of job and qualification characteristics.⁹ Education, the most important predictor of earnings, will be far more differentiated than it was under the communist regime, under which educational forms and levels were significantly simplified into a uniform system. Its increasing appropriateness to the new requirements will strengthen its role on the labour market as a screening device.

In comparison with the West, returns to education could be considered weak. Czech coefficients are slightly higher than data reported for Austria, but still lower than figures reported for Germany or Scandinavian countries (about 6-7 percent) and much lower than figures reported for the UK or the USA (9-11 percent) (Danziger and Gottschalk, 1993). In the industry-related disparities, the general character and low range of branch differences brings Czech figures very close to such Western countries as the Netherlands and Sweden. Very high earnings in the banking sector are, however, an exception to all transitional CEE countries and, most likely, a temporary feature.¹⁰

In conclusion

After decades of apparent stability in earnings distribution in communist Czechoslovakia, the overall range of inequality started to increase of 1990. This increase concerns the bottom and the top of income distribution, as measured by decile distribution. The income lowest is protected by the minimum wage and a socially motivated rise of income while the top categories enjoy opportunities created by private business, foreign capital, new management requirements and the financial market. The middle income categories are, however, considerably suppressed by

this and have in no way profited from the transformation in real earnings terms. Indeed, it was only the top income category that won in real terms.¹¹

Although no wage counter-revolution (which would suspend the outcomes of the 1948-1953 communist 'wage revolution') has taken place, some important changes have occurred in the structure of earnings. The current distribution of earnings has no clear-cut pattern but is a compound of previous features (which perpetuate the importance of gender), transitory characteristics (part of disparities within the ownership sector and the exceptional position of some branches) and a target system (including, for example, greater returns to education).

The important message confirmed by all post-1992 EEA surveys is the but slight continuing decrease in influence of demographic characteristics (which indicate the labour reproduction costs approach) in favour of economic characteristics (indicating rewards to workers' market capacities). In concrete terms, returns to education increased while the gender gap attenuated somewhat and the age profile of earnings became flatter. In the branch division, former administrative preferences were replaced by milder market differences which have promoted trade and especially banking. Instead of political factors (party membership and loyalty), new economic factors (such as the ownership sector) were found to be more important.

In fact, 'market capacities' could only be approximated. On the labour demand side, the dominance of the ownership sector over the branch structure is probably not a purely transitional feature but a partially permanent distinction. On the labour supply side, the weight of education is increasing in the place of demographic features. The rupture between the administration of labour and the labour market is apparent in the sharply decreasing level of determination of earnings disparities. Instead of easily measurable demographic features, personal characteristics such as courage, inventiveness, risk-taking and responsibility are coming to the fore, but are understandably hard to indicate.

We should acknowledge that thus far only the first steps of a long journey have been taken and that earnings distribution in the Czech Republic is closer to the previous regime than to the Western system. Given the uneven regulations, the adjustment is more rapid in some segments (new private firms, firms with foreign capital and/or management) than in others (newly privatized state firms, public services). And it is precisely in the former segments that the reconstruction of social structure in the Weberian sense of 'earnings classes' (*Erwerbklassen*) is beginning, these classes being generated by opportunities for the market valuation of skills people offer or activities they perform.

Unlike 'social classes' based on personal and intergenerational exchange, 'earnings classes' in M. Weber's (1956, p. 225) conceptualization are defined by the monopolization of positive or negative property, education, skills or talent. Those classes are, then, expressed mostly in quantitative terms (such as lower,

middle or upper classes), as opposed to the qualitative terms characteristic of 'social classes' (such as working class, bourgeoisie or professionals). Whereas the social structure used to be composed of both quantitatively and qualitatively interpreted settings, under the transformation, the 'earnings classes' may become the leading bearers of the refurbishment of the social structure.

As no 'harmony' of education, occupation and income will ever be established on the societal level, this criterion could be successfully applied to some segments of the transitory labour market. We can conceive of it as a distant model for organization of labour. In approximating this model, Czechs will develop a clearer occupational profile, after being only 'employees' under communism. It is a process which involves clearly defined settings on both the earnings and prestige ladders, distinguishing not only the lowest and the highest but also the middle rungs. The lack of differences in the middle of the occupational hierarchy seems to have been the clearest deficit of earnings distribution during the transformation.

Notes

- 1 Between 1948 and 1953, the relative wage in the manufacturing industry rose from 92 to 108 percent of the average wage and from 101 to 115 percent in construction; in health and social services, it fell from 121 to 92 percent and from 125 to 90 percent in education and culture (Hron, 1968).
- 2 Consequently, the Soviet human sciences accorded an enormous interest in calculating the 'rational' needs and costs of food, clothing, housing, etc. according to the character of a person's job and work. These were to be taken as the base of a just reward, as opposed to Marx's concept of reward as a share in the national product.
- 3 In the new tariff system (introduced in 1993), years of experience and skill levels are crosstabulated, with an emphasis on experience which can easily counterbalance education. This is justified by the possibility of multiplying earnings for higher skill levels, providing it is affordable for the employer.
- 4 The grounds for its final suppression were somewhat contradictory. According to Prime Minister Klaus, it was supposed to have a negative psychological effect, inviting some firms to increase the wage up to the allowed limit. According to the Minister of Labour, it implicated only a very small number of firms and was ineffective.
- 5 1992 was the last operational year of the communist tax system. Comparison of the gross and net earnings for 1992 shows that while wage tax lowered earnings by 18 percent on average, it did not affect inequality of distribution in

terms of the Gini coefficient or the decile ratio. The progressivity of taxation slightly increased once the wage tax was replaced by income tax in 1993.

- 6 Drawing upon a panel survey, Matějů and Řeháková (1993) revealed that even after 1989, former party membership has been a positive factor in attaining managerial positions or starting private business.
- 7 According to the SSEE survey, women received 67 percent of men's earnings in the former Czechoslovakia, 77 percent in Hungary and 62 percent in Poland in 1992. Growth rates also differ: in 1988-1992, university-educated men improved their position relative to men with elementary education from 206 percent to 248 percent in Hungary and from 136 percent to 156 percent in the Czech Republic (SOCO database).
- 8 The first figure in parentheses is the variance explained by gender and age and the second the variance explained by education, ownership, branch and managerial position. The sum of the two is the variance explained by all variables, i.e. 29 percent in the Czech Republic, 22 percent in Hungary, and 27 percent in Poland and Slovakia.
- 9 According to Blau and Kahn's (1992) analysis based on ISSP surveys, the variance explained by experience, education, occupation and industry amounts in Western countries to about 40 percent. Comparable figures for CEE, based on the SSEE survey, are between 20 and 30 percent.
- 10 1992 earnings in the banking sector was, according to the national statistics, 178 percent of the national average in the Czech Republic, 197 percent in Slovakia, 195 in Hungary and 148 in Poland (SOCO database).
- 11 In 1988-1995, the bottom decile share decreased by 22 percent in real terms, the loss gradually diminishing to the eighth decile share, thus amounting to a 4 percent decrease. Winners were situated on the ninth decile share (8 percent) and top decile share (47 percent).

4 Inequality in household income

Household income distribution cannot be said to follow the same distributional pattern as earnings due to the intervention of several mediating factors in this relationship. The first of these is the employment of other adult members or the incidence of family income (e.g. from property), which biases the relation between the main breadwinner's earnings and the resulting household income; the second, taxes and welfare benefits which redistribute incomes among generations and across the income hierarchy and the third, the adjustment of income to the size and composition of a household, thus expressing its members' needs and real well-being.

Generally, the separation of the economy from politics, begun after 1989, has made income distribution increasingly transparent. In the communist regime, distribution was deliberately opaque and transfers never accounted so that any income could be presented as a gift from the party/state. This system, in which wage tax also included social security payments and state support of families with children operated in the Czech Republic until the end of 1992. As of 1993, distribution and re-distribution through taxes, contributions and benefits are being separated and instead of obscure machinations within the state budget, tax inflows and benefit outflows are becoming clearer.

In this process, it is not only amounts that are changing in response to the new sources of earned incomes, benefit reorganization and inflation. It also involves important shifts in household income distribution caused by the uneven development of individual categories of the population. The transformation is introducing considerable distributional flows which favour certain categories of the population. Behind the aggregate figures, there are considerable disparities in the distribution of gains and losses while behind slow fluctuations in average income there are more rapid changes in the well-being of different social strata.

To display recent changes, I have mostly relied upon large statistical surveys and reported incomes in sociological surveys. We should be aware that although the 'statistical story' is very important, it does not provide a complete picture of all shifts and changes. The extent of unreported income has probably increased as a

result of the extent of informal activities and newly available sources of income. The transformation period has allowed and produced very high incomes and the creation of new wealth. Unlike the macro-level, where some estimations of unreported incomes are possible, this difficulty can be never satisfactorily overcome on the micro-level.

Following a short historical introduction, this chapter directs specific attention to the statistical picture of income distributions in section two and to the changing patterns of income determination in section three. In the fourth section, I locate Czech society within the regional context of the CEE countries to view differences among them and their recent individual shifts. In the last section, I compare the range and distributional patterns of income inequalities in the Czech Republic with several other OECD countries. The shift from the 'need' to the 'market' principle is emphasized in the conclusion.

Long-term trends and recent changes

Using the statistical income surveys, we can map the long-term changes in household income distribution from the late 1950s through until 1992. The data published by the statistical offices are, however, limited to household income per capita. Tables on total disposable income were never produced. This might be seen as a manifestation of the need approach, whereby not households and families but active earners and persons were important.

As we shall see below, the range of inequality in total disposable household income in the former Czechoslovakia was quite close to that of Western societies; unlike them, however, this range was generated by varying household size combined with economic activity. Whereas pensioner households (mainly single-person) occupied the income bottom, households with several earnings (often large rural families) were located at the top. Those two types of households represented the poles of income distribution, staking out space enough for disparities.

After the 'wage revolution' of the 1948-1953 period, when general disparities were minimized and new preferences established, the ensuing changes during the early 1960s introduced a predominantly demographic determination of income differences. What followed was a period of long-term stability of income distribution, unique in relation to both West European and other Eastern communist countries. While in the 1958-1965 period, the range of disparities attenuated considerably, the per capita income distribution underwent no significant changes from the mid-1960s up until the end of the communist regime (Figure 4.1).

The change in the 1958-1965 period was not caused by shifts in the distribution of the main sources of income. Evidence of earnings disparities, displayed in chapter 3, clearly demonstrate that no important change in wage distribution occurred during this time. Moreover, the pension and other social benefits were somewhat

equalized. In fact, this change was caused by the transition of almost all households from the 'single-earnings' to the 'double-earnings' model. Not only was variability of families according to the number of active earners eradicated but variability of families according to the number of dependent children was also significantly reduced, with the two-earners/two-children family becoming the option most preferred by the populace.

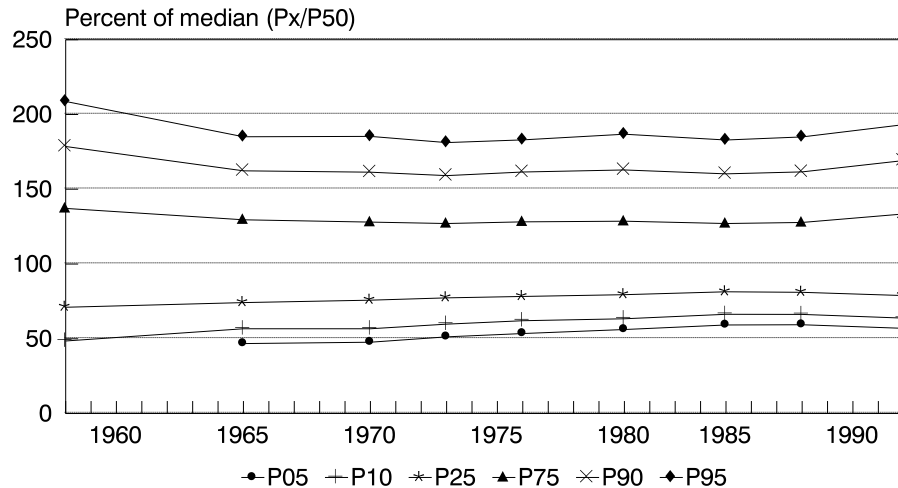


Figure 4.1 Relative income per capita in Czechoslovakia

Source: Atkinson and Micklewright, 1992; Microcensus 1992.

The economic reform allowed an increase in the formerly frozen wage differential through private business, foreign firms and less strict regulation. It also endorsed the use or amplification of other income sources generated by property, the secondary economy and financial speculation. The change of regimes has also implicated the method of statistical income surveys. While in 'communist' Microcensuses, wages and pensions were confirmed by their payers (employers and post offices), this practice had to be abolished for private employers. Unreported incomes were probably greater in the upper part of the income inequality.¹

The statistical data tells us that between 1988 and 1992, inequality in the distribution of household income increased significantly (Table 4.1). The increment in inequality was symmetrical in the total disposable household income as in equivalent income.² The income bottom remained relatively stable, this indicating the efficiency of various measures such as the introduction and increase of the minimum wage, the repeated valorization of minimum pensions and the continuing

state compensation benefit for children and pensioners. The range of income distribution expanded in favour of the top income households while the relative position of the middle income categories deteriorated.

The development after 1992 can only be observed in the EEA surveys which differ from statistical surveys in period of observation and sampling (see Data sources). Generally, they show a more marked inequality, this especially in adjusted income. One reason is that people are less reluctant to declare their unofficial income if the survey is fully anonymous. This concerns mostly the economically active population which causes a more similar distribution of total disposable and adjusted income. Another reason, related to objective change and not to the kind of data, is a slower separation of households, be them young or old, done by increasing housing shortage. Fewer single-person households makes both income distributions closer.

Table 4.1
Distribution of household income

Quintile shares and coefficients	Year 1988	Year 1992	November 1993	November 1994	January 1996
<i>Total household income:</i>					
1	6.6	7.1	7.0	6.9	6.7
2	13.2	12.7	12.3	12.1	12.2
3	19.9	17.8	16.7	16.4	16.4
4	25.5	24.0	22.8	22.6	22.4
5	34.8	38.4	41.2	42.0	42.3
Total	100.0	100.0	100.0	100.0	100.0
Robin Hood Index	20.3	22.4	24.0	24.6	24.7
Coefficient Gini	0.29	0.32	0.34	0.35	0.36
<i>Adjusted household income:</i>					
1	11.1	11.9	11.5	11.1	11.0
2	15.7	15.0	13.4	13.7	13.6
3	19.3	17.7	16.6	16.7	16.6
4	23.0	21.4	21.5	21.1	21.0
5	30.9	34.0	37.0	37.4	37.8
Total	100.0	100.0	100.0	100.0	100.0
Robin Hood Index	13.9	15.4	19.5	19.5	19.8
Coefficient Gini	0.20	0.22	0.25	0.25	0.26

Sources: Microcensus 1989; Microcensus 1992; EEA surveys.

When combining the relative and absolute figures, we discover that the decrease in purchasing power was much stronger for the middle and upper-middle income levels than for both the top and low income categories. Due, on the one hand, to inflation and an income decrease in real terms and uneven changes at various income levels, only the bottom and top quintiles managed to regain their previous

position by the end of the 1989-1995 period. The middle income categories are still losing ground in relation to their original position, the very middle of income distribution losing about 25 percent and the second and fourth quintile about 20 percent of their purchasing power.

The above result, however, is based on official estimates of income and inflation and does not incorporate additional incomes and other coping possibilities. Serious scepticism about statistical figures is expressed with the expansion of the consumer market and the absence of apparent poverty. Simultaneously, the same people are not maintaining the same positions on the income ladder due to extensive income mobility during the transformation.

Market and transfer income

Privatization and opening markets have introduced considerable changes to the composition of household income. While the share of wages and income from farming fell (after the removal of subsidies awarded under the former regime), 'other' incomes rose (Figure 4.2). This statistical category comprises various incomes and receipts such as loans, interest, insurance claims, grants and scholarships; its level increase is, however, especially due to incomes from business and from abroad. Income from social transfer (pensions, sickness and family benefits) has remained at a relatively constant level since 1989, prior to which it experienced a slight increase.

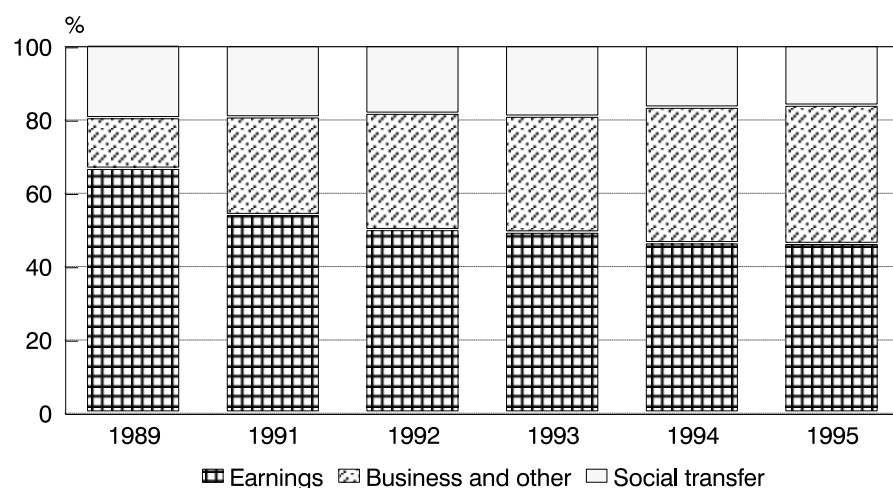


Figure 4.2 Incomes of the population

Source: Czech National Bank.

Intertemporal comparison of the period 1988-1992 creates an opportunity to compare the distributional rigidities of the communist system with the first consequences of the transformation. There was no substantial difference in the income increases between the top and bottom deciles, both of which rose by about 80 percent. However, a much slower increase was displayed in the middle of the income distribution, the lowest being in the fifth decile group (33 percent). Similar changes appear in the distribution of household income adjusted per equivalent adult. The fastest income increase was declared by the extreme deciles and the slowest by the middle.

Substantive compensation of the lowest income category resulted in far more losers in the lower as well as the upper middle income classes rather than at the very bottom. Simultaneously, the period 1988-1992 saw a shift in the relative income position of pensioners and children, concretely from the former to the latter. The bottom of the household equivalent income ceased to be represented solely by transfer income but also by (low) market income. The percentage of social transfer slightly rose and the equalizing effect of transfer income seems to have increased in 1988-1992. Whereas in the lower half of distribution, the percentage of transfer income was higher (except the bottom decile share), it was somewhat lower in 1992 than in 1988 in the upper half (Table 4.2).

Table 4.2
Transfer income according to decile shares (in % of total income)

Decile shares	Distribution per household income			
	Total		Adjusted	
	1988	1992	1988	1992
1	95.0	90.0	81.6	61.7
2	68.2	74.4	61.0	59.5
3	55.2	69.2	46.9	57.8
4	40.6	66.0	32.8	54.9
5	29.5	40.6	25.4	44.4
6	23.2	27.6	21.7	32.6
7	19.1	20.0	19.0	24.6
8	16.8	16.7	16.9	17.9
9	15.2	14.0	15.9	12.4
10	13.6	8.6	15.1	5.8
Average	26.2	28.7	26.2	28.7

Sources: Microcensus 1989; Microcensus 1992.

Unfortunately, the 1992 Microcensus maps an outdated situation in two senses. Not only are the income data less recent, but the transformation of the tax and benefit system was begun in 1993. By January 1993, a personal income tax had

replaced the wage tax. By January 1995, a new method of benefit payments based partly on income and means testing replaced the former universal benefits (see chapter 9). Clearly identified contributions to pension, sickness, health care and employment insurance of employees (12.5 percent instead of an unidentified part of the 15-20 percent wage tax) and employers (35 percent instead of 50 percent payroll tax) were introduced. Although the burden is not (according to simulations) significantly greater for households, people oppose any further increase: 80 percent are against any rise in taxes, even to meet mounting social benefits (EEA surveys, 1994-1996).³

Here, I use two sources to distinguish the changing effect of the new tax and benefit system: the results of the Ministry of Labour and Social Affairs income simulation and the current Family Expenditures Surveys.

Simulation of the income survey microdata introducing the main changes in tax and benefits shows that whereas the average burden has remained the same, the redistribution effect of transfer income is slightly stronger. Among families, young and childless couples as well those with four or more children can profit more from the change than single-parent and one-child families. The new system places less of a burden on the self-employed than on employees and, among employees, less on those in the active than in the post-active age (working pensioners). Changes proposed in 1996 should contribute to the advancement of the lower income categories (Dlouhý, 1996).⁴

Family expenditures, surveyed on an annual basis, provide information about the new system but not, unfortunately, on a representative sample. Comparison of two comparable groups - employee and pensioner households (self-employed and farmers excluded) - shows that the averages of taxes and benefits are very close in 1994 as in 1992, but inequality in their distribution has decreased. Less transfer income was received and more taxes were paid by the bottom quintile of income distribution in 1994 (the percentage of working poor surpassing that of pensioner poor) and somewhat higher taxes have also been paid by the top quintile of income distribution. Under-representation of both the lowest and the highest income categories makes the distributions of benefits and taxes flatter than corresponds to Microcensus results and, without a doubt, to reality.

Changing patterns and structure of income distribution

As with earnings distribution (see chapter 3), I examine the contributions of individual predictors to the explained variance of disparities as well as the interrelationship of the former. The selection of predictors depends on the availability of data. Due to the given limits of the statistical income surveys, I have used the following standard variables of households or household heads: the number of adult members, the number of dependent children, the age of the household head, his/her

education, and the size of the locality. In the EEA surveys, occupation and ownership sector variables are also added.

According to the logic of the 'need approach', the main determinants in household income distribution under the communist regime were of a 'demographic' character, their influence even increasing over time (Večerník, 1976; 1986). These determinants were the number of active earners as the main predictor of household income distribution and the number of dependent children as the main predictor of adjusted per capita or equivalent adult income. This means that the personal characteristics of the household head and/or his partner - marketable characteristics such as education and occupation - influenced income distribution to a much lesser or negligible degree.

Table 4.3
Determination of household income
(analysis of variance, dependent variable logarithm of income)

Variable	No. of categories	Coefficients beta			
		1988	1992	1996	1996
<i>Total household income:</i>					
N of active earners	(4)	.64	.56	.39	.41
N of children	(5)	.24	.30	.07*	.12*
Age of the head	(9)	.24	.10	.10*	.10*
Education of the head	(4)	.14	.24	.22	.15
Locality	(3)	.02*	.04*	.07	.10*
Occupation	(6)				.11*
Sector of ownership	(7)				.20
R ²		.67	.47	.25	.33
<i>Adjusted income:</i>					
N of active earners	(4)	.28	.23	.11	.14
N of children	(5)	.48	.35	.36	.36
Age of the head	(9)	.28	.10	.19	.12*
Education of the head	(4)	.14	.32	.24	.17
Locality	(3)	.04*	.10	.10	.10
Occupation	(6)				.11*
Sector of ownership	(7)				.23
R ²		.44	.30	.18	.24

Sources: Microcensus 1989; Microcensus 1992; EEA survey, January 1996 (population: households with economically active head).

*All beta coefficients except * significant on the level < 0.001.*

Although the period observed by statistical surveys is somewhat short for radical changes to occur, the intertemporal comparison displays quite marked shifts from 'needs' to the 'market'. In the distribution of total household income, the weight of the number of active earners is much lower in 1992 than in 1988, while the weight

of the head's age diminished considerably. Concretely, the extremely low income position of the youngest households improved slightly and the overall distribution in terms of the household head's age become flatter while income suddenly decreased for the oldest cohorts. On the other hand, the role of the household head's educational level strengthened significantly. The variance explained by all these variables combined declined considerably (Table 4.3).

In the distribution of adjusted income, the most apparent change is the diminishing role of the number of dependent children and that of the head's age. With the exception of the two youngest cohorts, the income age profile is - after controlling for other variables - almost flat in 1992. Similar to the previous analysis, coefficients for both the head's educational level and locality size are more significant in 1992. Moreover, the percentage of total variance explained decreased considerably, meaning that income was less determined by standard household attributes and more by personal socio-economic characteristics.

Despite the larger variance explained by education and type of locality, the variance explained by all variables under observation decreased considerably. While in 1988, the adjusted income primarily measured differences in the number of dependent children (over 40 percent of the variance of per capita income was determined by the number of children), in 1992 the correlation with the number of children was much smaller (the above variance decreased to 30 percent) while its correlation with education of the head of the household was greater. This points to an expanding space for characteristics other than demographic, i.e. marketable ones.

Changes since 1992 are analyzed on a much smaller sample such that caution is necessary in any comparison. Regarding the total disposable income, the results do not differ from the previous tendencies: the degree of determination is decreasing and within this, the variance explained by the structure of households is declining relatively in favour of education. If we adjust income to family size, the message is similar but less impressive with the decreasing role of education. Inclusion of occupation and sector of ownership in the analysis allows us to explain an additional 5-6 percent variance. Although the 'demographic' determination of income continues to prevail in 1996, the weight of 'market' determination is apparently increasing.

In terms of the various kinds of income, 1992 represents a certain break in previous tendencies: the average wage began to rise more rapidly than the average pension benefit and the average income per capita of the population rose more rapidly than the average wage (Figure 4.3). While the first tendency indicates a slight growth in the differentiation between market and transfer income (and, therefore, between the economically active and dependent part of the populace), the second tendency indicates a more rapid growth of business than wage income.

Moreover, a slight increase in disparities occurred in the business and salary components of the population's income. In contrast, equalization of the pension benefits in response to the more rapid valorization of the lowest benefits is still progressing slowly.

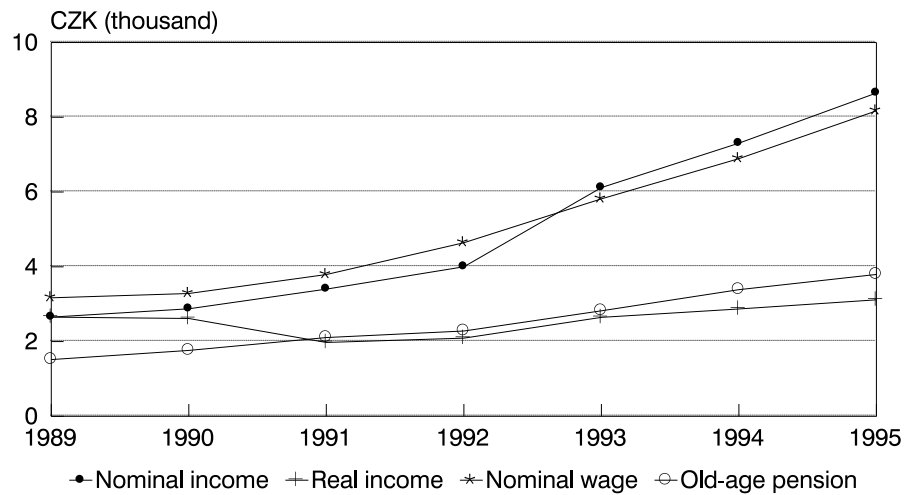


Figure 4.3 Incomes, wages and pensions

Source: Statistical Yearbooks.

Table 4.4
Household income according to occupational categories (ratio in % of average)

Occupational category	Total household income			Per capita income		
	1984	1992	1996	1984	1992	1996
Professionals	111.6	121.1	143.2	113.4	122.1	141.2
Middle non-manual	105.8	98.4	112.7	105.2	103.1	110.9
Routine non-manual	91.9	85.7	105.5	100.2	100.8	98.8
Entrepreneurs		137.4			135.5	
Self-employed		118.9	137.8		119.6	161.3
Supervisors		111.5	110.3		107.6	94.4
Skilled manual	99.5	95.1	91.7	95.3	90.5	99.6
Unskilled manual	89.7	89.7	79.7	96.2	88.3	84.1
Farmers	107.8	90.9	77.4	103.5	80.5	73.2

Sources: Social Stratification 1984; SSEE survey; EEA survey, January 1996 (population: households with economically active head).

These changes are clearly displayed in the growing disparities between occupational categories (Table 4.4). Farmers' and manual workers' households are the apparent losers of the market regime while the households of professionals and self-employed are the clear winners. These changes have increased the range of disparities in total household income between professionals and unskilled manual workers from 1.2 in 1984 to 1.8 in 1996 and switched the highest disparity between farmers and entrepreneurs. Unlike the other prisms of differentiation, this is quite an impressive result, placing the Czech experience much closer to those of developed Western countries.⁵

Household incomes in the CEE countries

The communist regime placed extreme importance on redistribution per person (measured by per capita income) and disregarded the household as an economic unit (measured by total disposable household income). Basic needs satisfaction was the only important criterion; hence, from the 1950s, only per capita income statistics were available. According to this indicator, individual countries differ considerably in their levels and change over time. Whereas in the former Czechoslovakia, the tendency to squeeze disparities even continued into the 1980s, in Hungary and Poland inequality increased. In the early 1990s, however, disparities increased in all countries under observation (Figure 4.4).

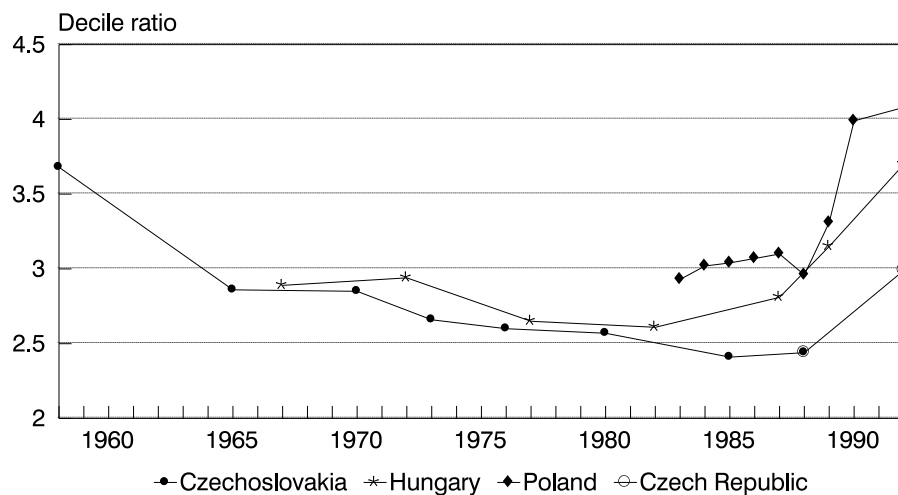


Figure 4.4 Inequality in incomes per capita in CEE countries

Source: Atkinson and Micklewright, 1992; *Statistical Yearbooks*.

Adjustment of income to persons obscured much higher inequalities in total disposable household income and thus prevented comparison with the OECD countries where this indicator was most used (Wiles, 1974). As Table 4.5 shows, while the inequality of adjusted income was quite slight (less than that of earnings), disparities of total household income were much greater, reaching levels comparable to those in Western societies. This difference means that households collected incomes ‘extensively’ rather than ‘intensively’ such that number of earnings in the former case contrasts with unequal individual contributions in the latter.

Table 4.5
Distribution of household income in CEE countries ^{*)}

Quintile shares and coefficients	Hungary		Poland		Slovakia	
	1989	1992	1989	1992	1988	1992
<i>Total household income:</i>						
1	7.0	6.5	5.9	7.4	6.5	7.6
2	13.0	12.2	12.3	13.2	13.7	13.6
3	18.3	17.5	18.3	18.1	20.0	18.7
4	24.1	23.8	24.5	24.1	25.0	24.2
5	37.6	40.1	39.1	37.2	34.8	35.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Robin Hood Index	21.7	23.9	23.6	21.3	19.8	20.0
Coefficient Gini	0.31	0.34	0.33	0.30	0.29	0.28
<i>Adjusted household income:</i>						
1	11.2	10.3	9.3	9.7	11.9	12.6
2	15.1	14.2	14.2	14.4	16.5	16.3
3	18.1	17.3	18.4	18.1	19.2	19.0
4	22.0	22.0	23.1	23.0	22.7	21.9
5	33.6	36.2	35.0	34.8	29.7	30.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Robin Hood Index	15.6	18.2	18.1	17.8	12.4	12.2
Coefficient Gini	0.22	0.26	0.26	0.25	0.18	0.18

Source: SOCO database.

**) Corresponding data for the Czech Republic see in Table 4.1.*

The ‘need’ model seems to have been gradually transformed into the ‘market’ model typical of Western developed countries in other CEE countries as well. In this model, the more favourable placement of a person in the earnings hierarchy can offset or even outweigh incomes brought into the household by additional active earners and social transfers. Given the restricted availability of data, I have compared change over time in the Czech Republic, Slovakia and, with some limitations, in Poland. The finding was that in all three countries, these shifts have involved a decrease in the weight of demographic variables and an increase in the weight of education and other personal economic characteristics (job and branch).

This should not be the case for Hungary, where income distribution displayed marked ‘capitalist’ features even before 1989.⁶

Using the SSEE survey, I present a more detailed picture of the determinants of equivalent income. The number of children seems to dominate in all countries, being the highest in Slovakia and lowest in Poland. In Hungary and Poland, education still scores very high, whereas characteristics other than educational and socio-economic ones were important in the former Czechoslovakia. Taking the rough proportions of demographic and economic predictors, we can see almost identical patterns in the Czech Republic and Slovakia, where demographic variables clearly outweigh market variables (17:13 and 18:14). Hungary displays a different pattern in which market variables are more important than demographic ones (10:18), and Poland yet another (20:19) in which the two sets of determinants are quite balanced (Figure 4.5).⁷

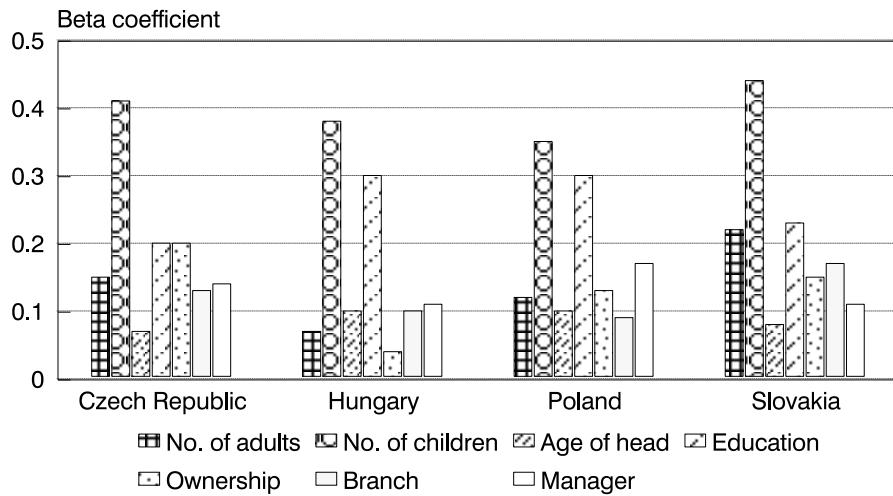


Figure 4.5 Determinants of disparities in equivalent income

Source: SSEE survey 1993.

The shift from needs to market in mind compels us to examine how close the association between personal and household income in individual countries is or - conversely - how strong the structures mediating between personal contributions and the resulting well-being of a household are. Mediating structures might be either labour market participation (employment of spouse and other adults), or social transfers (pensions and family benefits). Generally, the planned and ‘needs-based’ societies manifested weaker association than market societies.

In this sense, Poland appears as a very ‘patriarchal’ country with the closest association between the heads’ income and those of the household and the weakest association between the other adults’ incomes and those of the household. Hungary displays rather weak associations due to a large share of additional income sources in family budgets. The low association in Hungary might, however, be caused by a higher under-reporting of incomes. Both parts of the former Czechoslovakia are in the middle, but the Czech Republic appears to be slightly more redistributive than Slovakia and displays less unequal contributions according to heads and spouses (SSEE surveys).

Table 4.6
Equivalent household income according to occupational
category of the head (ratio in % of average)

Occupational category	Czech Republic	Hungary	Poland	Slovakia
Professionals	124.4	135.1	143.6	121.7
Other non-manual	103.2	101.7	102.7	111.4
Small proprietors	122.8	111.1	117.1	105.4
Supervisors and skilled manual	100.1	102.8	86.9	92.6
Unskilled manual	93.8	100.6	88.1	88.8
Farmers and labourers	90.4	92.6	87.6	83.2
Total employed	106.2	103.4	104.0	100.8
Unemployed	89.6	83.7	67.1	90.6
Pensioners	86.1	91.0	109.9	98.1
Other	93.8	82.7	88.5	98.6

Source: SSEE survey 1993.

Despite the comparatively strong influence of intervening variables, differences in household income conform, according to the economic activity status and occupational categories, to disparities in earnings and other personal income (Table 4.6). They appear, however, as mostly attenuated or, in some cases, even inverted. This is manifest in the relations of active and pensioner categories in per capita income: they are quite close in all countries except Poland, where the position of pensioners appears to be quite high, in contrast with the rather low position of the unemployed. The position of self-employed in Slovakia is exceptionally low.

Comparison with the West

As Atkinson and Micklewright found, the distribution of household income in the CEE countries is quite narrow and close to that of earnings (Atkinson and Micklewright, 1992, p. 17). This is wholly true when observing adjusted household incomes. It is, however, less valid when observing the total disposable household

incomes, before any adjustment. As we have shown earlier, whereas inequality in per capita income is low in the CEE countries, inequality in the total household income is quite large. However, in terms of adjusted income too, the former Czechoslovakia belonged to the more equalized countries, unlike the other CEE countries. This fact becomes more evident in the comparison with Western countries.

In their thorough analysis of income distribution in the OECD countries, Atkinson, Rainwater and Smeeding used the Gini coefficient as one possible measure of the range of inequality. According to Sen (1973), this coefficient in per cent expression could be interpreted as the 'cost' of inequality which should be added to the 'equivalent level' of income, computed as $(1 - \text{Gini})$. The income concept being the total disposable income per equivalent adult (calculated as the square root of household size), the period around mid-1980 and the data base the Luxembourg Income Study, four groupings of countries with differing ranges of inequality could be established (Atkinson, Rainwater and Smeeding, 1995, p. 46):

- Gini 0.20-0.24: Scandinavia (Finland, Norway, Sweden), Belgium and Luxembourg;
- Gini 0.25-0.27: North Central Europe (Germany, the Netherlands);
- Gini 0.29-0.32: Southern Europe (France, Italy); Commonwealth (the UK, Canada, Australia), and Switzerland;
- Gini 0.33-0.34: USA and Ireland.

From the other data sources referred to in this study (that is, those not included in the LIS database), Spain and Portugal could be included in the Southern European cluster with more expensive inequality whereas Austria is close to Northern European countries with less expensive inequality. According to the strictly comparative calculation of the 1992 SSEE data, the Czech Republic and Slovakia (Gini 0.24 and 0.22) would belong to the lowest group of Scandinavian countries whereas Hungary and Poland (Gini 0.29) would belong to the third group of Southern European and liberal countries. In this latter case, the inequality of adjusted income challenges the assumption about the high equalization of communist countries. This result conforms to our previous finding in the case of the inequality of unadjusted income.

An interesting comparison concerns the ratio of adjusted and unadjusted income. With few exceptions (France and USA), the distribution of per capita income is generally more equal than the distribution of the total, unadjusted income. However, in all OECD countries, ranges in the inequality of both income indicators are quite similar. In contrast, Czech figures show a gap between unadjusted and adjusted household income, the inequality of the latter being a mere half of the former. Even in those Scandinavian countries with a huge redistribution (Finland and Sweden), both figures are much closer than in the Czech Republic. Here, the rela-

tions remained almost unchanged in 1988-1992. More recent EEA surveys, however, signal that the gap between these two distributions is diminishing as a result of stable household income distribution and widening disparities in adjusted income (Table 4.7).⁸

Table 4.7
Decile ratios in OECD countries (mid-1980s) and the Czech Republic

	Total household income (1)	Per capita income (2)	Share (2:1)
Belgium	3.6	3.1	0.86
Finland	3.8	2.7	0.71
France	4.2	4.3	1.02
Germany	3.9	3.6	0.92
Italy	4.5	4.4	0.98
The Netherlands	3.6	3.5	0.97
Sweden	4.2	3.0	0.71
UK	5.0	4.5	0.90
USA	6.6	7.0	1.06
Czech Republic 1988	5.1	2.6	0.50
Czech Republic 1992	4.9	2.4	0.49
Czech Republic 1996	5.2	3.2	0.61

Sources: Atkinson, Rainwater and Smeeding, 1995; Microcensus 1989; Microcensus 1992; EEA survey, January 1996.

Similarly, we can measure the determination of income by household size. Whether unadjusted and adjusted household income, the impact of household size is far lower in the OECD countries, although these countries differ considerably. By comparison, we see that the Czech Republic remains slightly singular in this respect. The degree to which the total household income is determined by the number of adults and children is by far the highest and still much higher than in Sweden which is itself of unique status in the West. The same is true with regard to the per capita income adjustment, where the Czech Republic, while maintaining its specificity, is somewhat closer to Germany or the Netherlands (Table 4.8).

Earlier I surveyed the association between personal and household income. Although the Czech figures are lower than the Polish and Slovak figures, the differences are not considerable. In the East-West comparison, all CEE countries seem to be very redistributive, with quite weak links between market incomes and resulting household well-being. Using the Luxembourg Income Study database, Johan Fritzell calculated Kendall's Tau_b index between the earnings of the head of the household and adjusted factor income in the OECD countries. Whereas those figures were lowest in Germany (0.34), Norway (0.35) and Switzerland (0.38)

(Fritzell, 1989), comparative figures for the CEE countries seem not to exceed 0.30 (SSEE survey).

Table 4.8
Determination of household income East and West
(standardized regression coefficients, dependent variable logarithm of income)

	Adult	Child	R ²
<i>Luxembourg Income Study (late 1980s):</i>			
Belgium	0.37	0.24	0.16
France	0.31	0.19	0.14
Germany	0.28	0.03	0.08
Italy	0.25	0.00	0.06
The Netherlands	0.37	0.03	0.14
Poland	0.50	0.05	0.24
Sweden	0.53	0.12	0.35
UK	0.42	0.06	0.18
USA	0.40	0.01	0.16
<i>CZ Microcensuses:</i>			
Czech Republic 1988	0.68	0.29	0.56
Czech Republic 1992	0.44	0.14	0.20
<i>SSEE survey (1992):</i>			
Czech Republic	0.45	0.13	0.25
Hungary	0.42	0.10	0.20
Poland	0.27	0.01	0.07
Slovakia	0.33	0.18	0.17

Sources: Luxembourg Income Study; Microcensus 1989; Microcensus 1992; SSEE survey (population: households with head between 25-54 years).

Income inequality is not rising in the CEE countries alone. Contrary to the expectations included in Kuznets' (1955) hypothesis asserting that inequality decreases when the economic level of a country increases, no systematic change across time was identified in the OECD countries. In some of them, income disparities apparently rose in the 1980s (Australia, Japan, Sweden, the UK and USA) while rising only slightly or stagnating in others. No definite decline in any country was discovered in the LIS study (Atkinson, Rainwater and Smeeding, 1995). The ascent inequality in the CEE countries could be attributed not only to the transformation process but also to a more general trend of diminishing redistribution in the economically developed world.

OECD countries also differ considerably in terms of redistribution. In Table 4.9, several OECD countries are compared using adjusted income where the equivalent unit is calculated as the square root of household size. The tax burden is huge in the Netherlands and Sweden and moderate in Germany, the UK and USA. The level of transfer does not mirror taxes precisely, with the USA as the main 'anomaly'.

Whereas taxes are distributed very steeply among the population, social benefits are flatter. The 'liberal' countries (the UK and USA) appear very redistributive in taxes and slightly more redistributive in transfer income.

Table 4.9
Distribution of taxes and transfers by quintiles shares of equivalent household income in selected OECD countries (mid-1980s) and the Czech Republic

Quintile shares and ratio	Germany	Netherlands	Sweden	UK	USA	Czech Republic	
						1992	1996
<i>Taxes:</i>							
1	7.0	10.3	6.3	4.5	3.8	2.0	1.2
2	12.2	10.0	12.5	8.1	6.9	5.6	4.9
3	17.6	16.2	17.7	15.9	13.9	13.4	13.4
4	23.8	22.3	23.3	25.0	22.6	24.5	23.7
5	39.3	41.2	40.1	46.4	52.7	54.5	56.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average tax	29.5	67.2	45.0	31.0	30.6	19.7	23.1
Ratio Q5/Q1	5.6	4.0	6.4	10.3	13.9	27.2	47.2
<i>Transfers:</i>							
1	21.8	24.9	15.2	26.7	29.2	20.3	23.0
2	22.2	21.3	25.8	25.9	21.2	28.1	31.2
3	15.7	16.9	21.7	19.4	17.1	23.3	21.4
4	21.0	17.7	19.9	16.1	17.5	16.4	14.4
5	18.3	19.2	17.4	11.9	15.1	11.9	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average transfer	19.8	28.3	35.5	24.3	9.4	28.6	25.8
Ratio Q1/Q5	1.2	1.3	0.9	2.2	1.9	1.7	2.3

Sources: Atkinson, Rainwater and Smeeding, 1995; Microcensus 1992; Simulation of Jiří Dlouhý.

Surprisingly, the Czech Republic seems to strictly belong to the liberal model in both tax and transfer distribution. The distribution of taxes appears very steep, though that should be viewed with caution as the proportion of pensioners (not paying taxes at all) is still very high in the bottom income category. In the distribution of transfers, the Czech Republic is closest to the UK, which was incidentally the model of the 1993-1996 social reform. This reform strengthened already considerable redistributive flows.

In conclusion

As a consequence of privatization, the liberalization of the labour market, shifts in wages and subsequent changes in the tax and benefit systems, important changes have occurred in the distribution of household income since 1989. These changes

were both of quantitative and qualitative character and have occurred in both aggregate and distributional terms.

In quantitative and macro-terms, individual sources of income are changing in proportion; the share of earnings from dependent activities is decreasing while the share of income from self-employment and entrepreneurship is slowly rising. We can also speculate about a rising share of income from the informal economy. In terms of distribution, the range of income inequality is generally increasing slightly, and in a specific manner: the income bottom has been maintained while the new disparities have mostly hit the highest distribution categories. This means that the middle of the income distribution was relatively compressed.

Social transfer income played a slightly more marked redistributive role in 1992 than in 1988 in both unadjusted and adjusted income while the old, quite flat wage tax was maintained. Indeed, the redistributive role of the tax and benefit system was even strengthened in the new system of income tax (introduced by 1993) and targeted benefits (introduced by 1996).

The most important change concerns the qualitative characteristics of income packaging. The degree and content of income determination illustrate the control the state is imposing on economic life. Under the communist regime, the main predictors of household income were demographic, i.e. the number of active earners for the distribution of total household income and the number of dependent children for adjusted income. By narrowing wage disparities, introducing compulsory employment and transforming the social security system, the state was easily able to control household income. The system was governed - in contradiction to the ideological doctrine - by the 'need' principle, meaning that incomes are to be distributed equally, with advantages awarded for more strenuous manual work.

Although the 'socialist' model, manifest in the predominantly demographic determination of household income, had largely survived until the early 1990s, we can also ascertain marked tendencies towards market adjustment in both income definitions. This corresponds to the emerging market order, where income distribution is much less determined by conditions under state control. While the statist model continued to prevail (also due to regulations), it is slowly being dismantled and transformed into the economic and liberal model characteristic of the developed Western countries. The income hierarchy correlates less strongly with the number of active earners and continues to express the educational, occupational and ownership status of a family.

Concerning the position of the Czech Republic among the CEE countries, there is no simple answer. In total household income, the Czech Republic is not an equalized country now, nor was it before 1989. The range of income inequality in the early 1990s is the same as in Hungary and slightly higher than in Poland. The Czech Republic and Slovakia were still extremely equalized countries in adjusted

income in 1992 but approach the levels in Hungary and Poland later.⁹ The difference between rankings in total household and equivalent income suggests that it is still household size which creates most income extremes.

An adjustment toward patterns of income distribution typical of the other OECD countries is certainly occurring, although slowly. We could hardly expect a fast process when for the majority of the populace incomes continue to be restricted. The fact that inflation was kept low in the former Czechoslovakia was certainly a positive feature which, however, has hampered larger changes in income hierarchy like those which have appeared in other countries. Unlike Hungary and Poland, the Czech Republic has maintained stable social expenditures which also contributed to a certain rigidity of distributional patterns.

Less of the 'need' principle and equal sharing in adjusted income in favour of more 'market' and a greater inequality also means a closer association between personal and household income, the individual's effort and the resulting well-being of a family. Although middle-income categories have lost out in the recent process, middle class values have gained somewhat in importance. Instead of autocratic allocation from above, modern principles of distribution from below seem once again to have been asserted.

Notes

- 1 Acknowledging the difference between the pre- and post-1989 method, the CSO hypothesized a possible underestimation and corrected the final data according to a formula derived from one previous income survey which included both official and declared income.
- 2 Unless expressly stated otherwise, the adjusted or equivalent income is calculated by the standard procedure used in the EU countries: the total household income is divided by the number of equivalent adults computed so that the first adult in the household equals 1.0, all other adults 0.7 and each child 0.5.
- 3 As the tax level is increasing due to rising incomes and inflation, a decrease aimed to maintain the original tax level of 1993 has been proposed by one of coalition parties (ODA). The proposition to fix income tax at between 12 and 33 percent provoked the government to throw together a less generous and less progressive moderation of between 15 and 39 percent.
- 4 The simulation model, elaborated by Jiří Dlouhý (1996) is based on the 1992 Microcensus. It acknowledges all well identified changes in tax and benefits but not the rise in disparities in market income. For 1996, it includes a projected rise in individual sources of income.

- 5 In 1989, for instance, the ratio of the total disposable income of cadres/manual workers in France was 1.88 and that of entrepreneurs/manual workers 2.03 (Données sociales, 1993, p. 353).
- 6 The comparison was based on Microcensus data for the Czech Republic and Slovakia and on FES Polish data held in the LIS database. The situation in Hungary was analyzed on the basis of 1985 FES data.
- 7 Figures in parentheses indicate the variance explained by ‘demographic’ (numbers of adults and children, age of the head) and ‘market’ (all other) sets of explanatory variables involved in the analysis of variance, as displayed in Figure 4.5.
- 8 Here it is important to point to the difference between deciles and decile shares. Instead of the decile shares used in Table 4.5, Table 4.7 is based on decile values, relating the first and ninth deciles. In this measurement, income inequality narrowed between 1988 and 1992. This is due to the above-mentioned fact that while the bottom of income distribution was protected, most of the income increase was located in the top decile share, i.e. above the ninth decile.
- 9 Garner and Terrell (1996b) found less differences than we have in income inequality between the Czech Republic and Slovakia in early 1990s (coefficient Gini in 1993 0.215 and 0.210 respectively) which still locates the Czech Republic among very equalized countries. The reason for this could be Garner and Terrell’s source of data - FES, which usually underestimate especially top (and partly also low) income categories. Pseudo-panel character of the survey even stresses the time continuity of results.

5 Changes in the rate and types of poverty

The socio-economic transition in the CEE countries has brought with it a number of social problems. First, price liberalization has led to a general decrease in income purchasing power and thus made part of the population vulnerable to poverty. Second, the reduced state monopoly and the start of the privatization has resulted in unemployment, a mostly unknown phenomenon until this time. Consequently, in addition to the 'old' poverty which endangered especially female-headed or large families and the oldest pensioners, a 'new' poverty is emerging, created by unemployment and/or the low adaptability of some households to the new conditions.

Although the actual socio-economic situation is not so acute in the Czech Republic, the threat of future poverty to a part of the populace demands attention in economic and social research. However, unlike Western countries, where the study of poverty has a long tradition and constitutes an important research topic, such a tradition was broken in the former Czechoslovakia. From beneath the macro-economic mainstream, the economics of inequality and social security are only slowly surfacing and there is but little research activity on the relationship between economics and sociology in this field.

In this chapter, I show the relevance and scope of the poverty issue in the Czech Republic. First I present an account of poverty under communism. This is followed by a description of the new sources of poverty in emerging markets. Section three identifies the various indicators of poverty in the Czech Republic in comparison with the other OECD countries and section four investigates the relationship between income, consumption and wealth. Section five presents a comparison of income insufficiency in the Czech Republic with that in the other CEE countries. In conclusion, the question of the potential relationship between poverty and social exclusion is examined.

Poverty under 'really existing' socialism

Discussion of poverty in communist Czechoslovakia was taboo. Officially, there was no poverty at all, thanks to the social security system that covered the whole population from the late 1960s. The very reason for the low incidence of relative poverty was, however, low income inequality. The narrow range of income distribution created a situation in which the lowest sector of the population was not too far from the average. By impoverishing the population as a whole in absolute terms, the communist regime succeeded in camouflaging individual poverty in relative terms.

In terms of starvation and homelessness, there was little poverty in the former Czechoslovakia. Due to the continuing pre-war social democratic traditions, equalization policy and the economy's relatively good performance, the Czechoslovak populace succeeded in maintaining a decent standard of living, ranking with East Germany as the highest among the communist countries. The social security system also functioned satisfactorily and met at least the subsistence needs of an overwhelming majority of the population.

This does not mean, however, that poverty in absolute terms was entirely eliminated. Extremely low pension benefits allocated to members of the former bourgeoisie and expropriated peasants were the communist regime's weapons in the 'class war' of the 1950s and early 1960s. Due to the absence of any valorization or indexing, the purchasing power of the average pension dropped far behind the average wage. Among pensioners, considerable differences appeared between those of different ages, the younger pensioners being advantaged by the logic of the system.¹ The living conditions of single women with children were also very acute, despite the low costs of state care of children.

Except for some unofficial calculations on relative poverty in the late 1960s, socio-economic research on poverty was prohibited. Neither existing Microcensuses nor Family Expenditures Surveys (FES) were used to depict the situation of low-income households. Microcensuses were, however, utilized in studies by Miroslav Hiršl (1992) to compute changes in the number of households and individuals below the relative poverty line.² He defined a 'social minimum' as 58 percent and a 'subsistence minimum' as 46 percent of the average equivalent income, the equivalence scale taking into account the economic status of the individual and the age of children.

Changes in the percentage of the population falling below both the social and subsistence minimum (Table 5.1) resulted mostly from shifts in the distribution of household incomes. Due to the low and stable range of wage distribution, these shifts were mainly caused by changes in the size and composition of households as related to the number of active and dependent members. The profile of low-income

categories was, therefore, especially demographic and overwhelmingly transitory.³ The effect of narrowing the per capita income distribution raised households from below the subsistence minimum and induced a decrease of households below the social minimum.

Table 5.1
Population below the subsistence and social minimum in Czechoslovakia (%)

	1958	1965	1970	1976	1980	1985	1988
<i>Subsistence minimum (42 percent of equivalent income):</i>							
Households	5.5	3.4	2.4	2.3	1.1	1.0	0.0
Persons	5.5	2.6	2.2	2.0	0.9	0.9	0.0
Children	5.7	2.5	2.8	2.2	1.1	1.3	0.0
<i>Social minimum (56 percent of equivalent income):</i>							
Households	10.9	10.0	12.3	11.7	9.5	7.7	7.3
Persons	10.9	9.1	10.6	10.1	8.2	6.8	7.4
Children	11.7	10.3	12.0	11.4	9.3	8.3	10.0

Source: Hiršl, 1992.

Established in the mid-1980s, the 'line of social necessity' served as an orientation base for local authorities to administer means-tested social benefits. No exact rationale was provided by government authorities for the amounts of money to be allocated to households in need. No statistical information on the number of households and the proportion of the 'officially poor' was ever published. This differs from the situation in Poland, Hungary and the former Yugoslavia, where the officially established minimum is not connected to social benefits. However, statistical information on the percentage of the poor has been available in all three countries for many years (Milanovic, 1990).

The vulnerable in emerging markets

The new economic and social situation after the collapse of communism has exposed the problem of poverty manifestly and urgently. In addition to the fact that social problems can finally be treated explicitly and barriers to statistics and research have been removed, several important changes have occurred in the economic life and material well-being of the Czech and Slovak populations. In part, these are changes that have led to a considerable lowering of household incomes and their purchasing power.

1. In July 1990, the old system of price subsidies was partly removed and replaced by a flat-rate universal benefit. Instead of heavily subsidized prices for foodstuffs, everybody received an equal amount of money calculated as an average subsidy. Due to the various economies of scale, pensioners and families with older children were therefore subjected to substantial discrimination. In 1992, these sub-

sidies were maintained exclusively for children and pensioners. They finally disappeared with the introduction of a new benefit system in 1995.

2. In January 1991, price liberalization commenced and the prices of almost all goods, except several food items (where the ceiling on prices had been established), increased rapidly. After the initial rise, price levels more or less stabilized, with some prices even falling a little. On average, living costs increased by 54 percent in 1991 (by 45 percent for food, 72 percent for other commodities and 40 percent for services). In 1992, the remaining price ceilings were removed but rents (heavily undervalued) were allowed to increase by a mere 100 percent. Currently, only rents, energy, public transport and the postal service remain under price control.

3. Unemployment has emerged with the first steps of the economic reform. The apparent overemployment and labour shortages under the communist regime transformed into increasing unemployment: 1.5 percent in January, 3.8 percent in June and 6.7 percent in December 1991. Since January 1992, the unemployment rate has once again declined, falling to below 3 percent in early 1993. For many reasons, the unemployment rate has remained low, despite forecasts and gloomy expectations pointing to the contrary.

On the other hand, however, personal and household incomes saw a significant increase as a result of other factors: Most social benefits (pensions and family allowances) were valorized several times; low wages rose due to the establishment of a minimum wage; and, within limits determined by the government, the nominal wage has risen considerably. The slowly growing private sector has started to bring profits to the new self-employed and capitalists. Many people now work either for foreign firms for much higher wages or abroad, in the latter case benefiting from a very advantageous exchange rate upon returning home. Numerous other additional resources have been mobilized.

According to the official figures, the real incomes of the population fell by 25 percent in 1991 and began to rise again by 1992 (see Figure 4.3 in previous chapter). The actual growth of incomes was probably much higher, however, due to hidden incomes from the informal economy and abroad. At the same time, inequality in living conditions rose considerably and financial hardship affected many households; the lowest incomes were, however, largely compensated by social benefits.

Nevertheless, expectations of poverty are much greater than the actual incidence thereof. Fear of poverty increased suddenly during the second half of 1990 (when foodstuff price subsidies were removed) and the first half of 1991 (when prices were liberalized), decreased in mid-1992 (when the population adapted itself to the higher prices) and rose again in early 1993 (when a new tax and benefit system was introduced). Although the fear has declined since then, its level remains considerable and has recently showed no signs of decreasing (Figure 5.1). Yet while in

the early 1990s fears were not expressed by special categories of the population, they are now clearly concentrated among the older, less educated and less wealthy population.

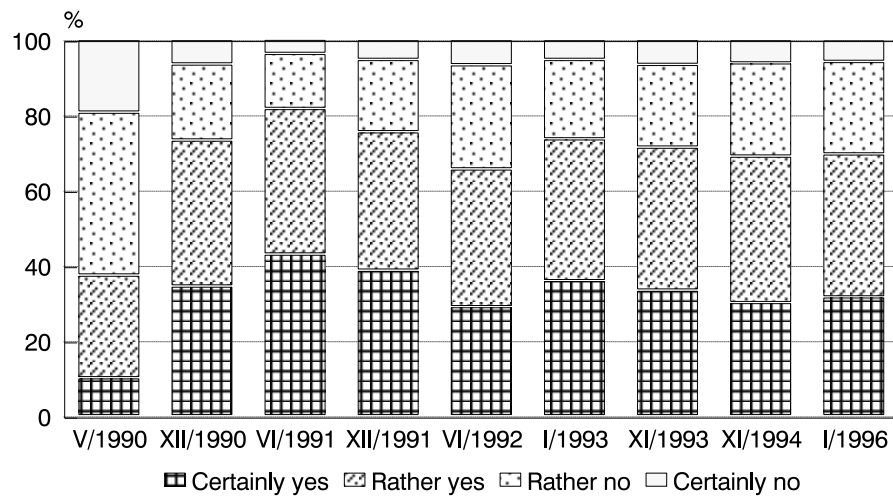


Figure 5.1 Poverty will emerge in the near future

Source: EEA surveys.

The different faces of poverty

It is not easy to provide current representative data on poverty due to extremely rapid changes in income composition and distribution. Earnings, household incomes, consumption and unemployment are not monitored concurrently in official surveys. No governmental documentation is available on the numbers and types of households under the legal poverty line receiving social benefits. In addition, no systematic socio-economic research has thus far focused on the poor and/or vulnerable population.

Here, we utilize three sources of information on poverty. The first and most reliable source is the income survey (the Microcensus) based on a large random sample that representatively describes household incomes in detailed terms. The second source is quota-sampled smaller FES that observe households' income, expenses and wealth. In order to increase the number of poor households, a special sub-sample of low income households was added as of 1991. The third source is EEA surveys which include sets of questions useful for the calculation of both objective and subjective indicators of poverty.

Poverty measurements have been discussed at great length in economic literature from both the methodological and statistical points of view (Atkinson, 1989; Atkinson, 1990; Townsend, 1970; Goedhart, Halberstadt, Kapteyn and Van Praag, 1977). Here we shall not go into the details of theories and methods. Limiting ourselves to available data, we will present an overview and show the population characteristics of those falling below the four following thresholds of poverty:

The legal poverty line. Households below the living minimum (according to the exact wording of the law) which serves as a base for means-tested social benefits.

The European Union (EU) line. Households below 50 percent of the median of income per equivalent adult, computed as 1.0 for the first adult, 0.7 for other adults and 0.5 for each child (O'Higgins and Jenkins, 1990).

The subjective poverty line (SPL). Households below the Subjective Poverty Line as explained below.

Feeling poor. Households of respondents who answered 'definitely yes' to the question *Do you consider your household to be poor?*

Through these yardsticks, of which two are objective indicators (Legal and EU) two subjective (SPL and Feeling), two comparative (EU and SPL), two domestic (Legal and Feeling), two rather absolute (Legal and Feeling) and two somewhat relative (EU and SPL), a balanced picture of poverty can be assembled. Using this inventory of indicators, we can identify different levels of poverty and the various groups of the population it affects. We can also compare the situation in the Czech Republic with Western countries.

Legal poverty. Social policy conceives poverty as either an objective situation of means insufficiency, calculated with reference to nutrition and other basic needs (an absolute approach), or as a distance from the average income in a society (a relative approach). A combination of the absolute and relative approaches was used for the calculation of cash benefits aiming to support households whose incomes are below the poverty line. It is included in the Law on the Living Minimum passed by the Parliament in autumn 1991 as a replacement for the former, rather vague regulation of state aid for low income households. According to the law, assistance is extended to all citizens whose incomes fall short of a certain level and who are not considered able to increase their incomes due to their age, health situation or other legitimate reasons. Eligibility is reviewed by social security offices in districts upon individual request and after testing the household's income and property.

The living minimum is composed of the amounts of money required to meet persons' basic needs and the amounts needed to meet household costs. The living minimum is increased each time the rise in the living costs of households below the legal poverty line exceeds 10 percent. The ratio of newly established minimum sums and average incomes should be maintained by this procedure. As Table 5.2 shows, the implicit equivalence scale of the calculation is very steep. Whereas

household size elasticity is 0.8 in the Czech living minimum calculation, it is about 0.4 in Belgium, the Netherlands and Luxembourg and about 0.5 in France and Spain.

Table 5.2
Living minimum in CZK monthly

	Before 1990	November 1991	March 1993	January 1996
<i>Costs of persons:</i>				
Child under 6 years	600	900	1020	1320
Child 6 - 10 years	700	1000	1130	1460
Child 10 - 15 years	800	1200	1360	1730
Child 15 - 25 years	800	1300	1470	1900
Adult	800	1200	1360	1800
<i>Costs of households:</i>				
1 person	300	500	600	860
2 persons	300	650	780	1130
3-4 persons	500	800	960	1400
More persons	500	950	1140	1580

Source: Czech social legislation.

According to the estimates of the Ministry of Labour and Social Affairs, some 110,000 households (about 3 percent) fell below the living minimum in 1992, when the new procedure commenced. In 1993, an amendment introduced stricter eligibility conditions, excluding people who are reluctant to work, change their job on insufficient grounds or do not cooperate with the labour office. Mutual responsibility between household members and very careful means testing is stressed in the provision of new benefits. As a result of this amendment, the number of households below the poverty line was maintained at roughly the same level until the new benefit system was introduced.

Due, in turn, to the newly introduced system of benefits, the number of households with incomes below the living minimum is expected to decrease in 1996 to about one half of the previous number. This drop will occur for two reasons: 1. As the poverty line follows the costs of living, less households fall below this line when real incomes rise; 2. the new system of social support is bringing more money to low income households through more generous child and other family-related benefits. On the other hand, however, the tax burden is rising more rapidly than inflation.

The welfare statistics provide no detailed information on the composition of poor households. Social departments merely indicate how much money is spent to support people living below the living minimum but do not report the number of recipients nor the period for which recipients receive benefits. The Microcensus

data show that over the 1988-1992 period, the percentage of households declaring incomes below the legal poverty line fell from 4.5 to 2.9 percent (households), rose from 2.7 to 3.5 percent (persons) and from 2.1 to 6.0 percent (children). This somewhat contradictory result is due to the narrower definition of the living minimum (which did not follow the rising costs of living when the new calculation was established in 1991) and the more generous calibration of children's benefits.⁴

Legal poverty in 1988 was predominantly experienced by single person households and the elderly and, secondarily, by families with four or more children. Looking at the explained variance, it was quite significantly determined by those characteristics. Poverty in 1992 was predominantly experienced by young adults and families with three or more children. In comparison with 1988, it is much less determined by demographic characteristics. Whereas the role of the head's age decreased in that period, the weight of education rose considerably (Table 5.3).

Since 1989, there has been a considerable shift in the determinants of legal poverty. Whereas the weight of the number of adult members and the head's age has decreased, the weight of the number of dependent children has increased. These developments correspond to the purpose of the post-1989 poverty definition. First, legal poverty should be limited to the non-elderly population as the minimum pension benefit is slightly higher than the poverty line. Second, given the disregard for larger economies of scale, it should include families with more children and, consequently, of lower educational levels

EU poverty. The definition of the legal poverty line differs minimally from the poverty line commonly used in the EU countries. Consequently, the percentages of poor households and persons are only slightly higher than those under the legal poverty definition that is arrived at by a different calculation of equivalent incomes. In the calculation of equivalence scale used in the legal poverty line, the weight of children is higher and that of adults lower than in the equivalence units used in the EU countries. The burden of common household costs is slightly higher under the legal poverty line.

The calculation of equivalent income using the same scale for individual countries is highly problematic, due to different consumption baskets, price structures and advantages accorded children, all of which are expressed in different economies of scale. Direct observation of expenditures within families reveals that the costs of children in Czechoslovakia of the late 1980s were very close to or even higher than the costs of adults and depended significantly on their number.⁵ The advantage of a uniform scale, however, lies in its easy comparability.

Table 5.3
Determination of households' poverty (analysis of variance)

Variable	No. of categories	Coefficients beta		Vulnerable populations
		1988	1992	
<i>Legal definition</i>	<i>- incidence</i>	4.54 %	2.88 %	
N of adults	(4)	0.16	0.08	single adult
N of children	(5)	0.06	0.18	3, 4 or more
Age (head)	(12)	0.30	0.12	75- (1988), -24 (1992)
Education (head)	(4)	0.01	0.11	elementary (1992)
Locality	(3)	0.03*	0.02*	
R ²		0.14	0.05	
<i>EU definition</i>	<i>- incidence</i>	6.12 %	2.34 %	
N of adults	(4)	0.30	0.08	single adult
N of children	(5)	0.04	0.08	3, 4 or more
Age (head)	(12)	0.33	0.14	75- (1988), -24 (1992)
Education (head)	(4)	0.05	0.10	elementary (1992)
Locality	(3)	0.04*	0.03*	
R ²		0.22	0.04	

Sources: *Microcensus 1989; Microcensus 1992.*

All beta coefficients except * significant on the level < 0.001 .

In the 1980s, the percentage of poor was extremely low in comparative measurement in the former Czechoslovakia, affecting especially households of pensioners.⁶ After 1989, this proportion decreased, due to an intervention policy targeting the bottom of the income distribution. As a result, the composition of the poor population changed. Until 1989, there was a substantial percentage of pensioner households at the bottom of the income hierarchy, with the result that the percentage of poor households exceeded the percentage of poor persons. Between 1989 and 1992, families with children took the place of pensioners on the lowest income ladders, being favoured by social policy less than pensioners.

In the 1988-1992 period, the percentage of poor according to the EU standard fell from 6.1 to 2.3 percent (households), from 3.1 to 2.4 percent (persons) and rose from 1.2 to 3.5 percent (children), this drop being due to the fairly substantial increase of the income bottom. Paradoxically enough, the percentage of needy individuals was much lower than the percentage of poor households in either the former Czechoslovakia or the Czech Republic. This is due to the fact that single pensioners were most affected by poverty, as opposed to the situation in Western countries where very large families and, consequently, children are far more affected.

The socio-demographic incidence of EU poverty is quite similar to that of legal poverty, especially in terms of the number of adult members, the head's age and education. Following a different equivalence scale, children are less affected. 1988 poverty was largely age-specific, being concentrated in the oldest cohorts and, simultaneously, single-person households. 1992 poverty is not only much lower but also spread further across various demographic categories (Table 5.3).

For the post-1992 period, no estimations of EU poverty can be made on the basis of statistical data. Given its proximity to legal poverty, I estimated it to be around 2-3 percent of households in 1994-1995, and less in 1996, when the new system of social support started to function and the income lowest rose. Given the coincidence of still narrow income distribution and state support of low-income families, the poverty rate in the Czech Republic still remains exceptional among OECD countries. Nevertheless, the slightly widening gap between market and transfer incomes signalizes a possible rise in poverty in relative terms and its divergence from the legal poverty from which pensioners' households are ex definitione excluded. Families themselves tell yet another story about how they experience income insufficiency.

Subjective poverty. According to Rainwater, Van Praag, Kapteyn, Goedhart and other authors, the objective definition of poverty manifests a paternalistic and etatist approach. They posit that it is the citizens or families themselves who should decide on the adequacy of their means to meet needs (Goedhart et al., 1977; Kapteyn et al., 1985). Poverty is understood as 'a feeling and not an objective situation' (Van Praag and Flik, 1991). In Lee Rainwater's wording, both poverty and the equivalence scale are social constructs and we should distinguish between 'state' and 'societal' poverty lines (Rainwater, 1974;1990).

There are several possible measures of subjective poverty, all of which have their basis in various respondents' declarations about their relative deprivation. Most of them were developed by the Dutch-Flemish econometric school. Here, we applied the Subjective Poverty Line (SPL) which is based on the same logic as the Centre of Social Policy (CSP) line, which, for reasons of limited space, has been excluded from our comparison:

Both subjective methods have as their aim the estimation of a minimum level of income with which it is still possible to live 'decently'. This minimum income level is therefore derived from the sample households' answers to the following question: *What is the minimum amount of income that your family, in your circumstances, needs to make ends meet?* Empirically, one finds that the amounts declared in response to this question rise systematically with the household's actual income. 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. The difference between both subjective methods lies precisely in the way they identify those households that are in a state of budgetary balance (Deleeck and Van den Bosch, 1992, p. 109).

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

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

and poverty thresholds for each household size are calculated as:

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

I compared the Czech data with various poverty rates resulting from analysis of household panel data in seven EU countries or regions. Three definitions have been used: the legal poverty line, the EU measurement and the Subjective Poverty Line (Table 5.4). There are clearly significant differences between objective and subjective poverty in Western countries. Whereas in socially generous countries such as Belgium or the Netherlands, objective poverty amounts to about 7 percent of households, and the subjective poverty between 10 and 20 percent, in Southern countries without a developed social system, objective poverty amounts to between 15 and 20 percent, and subjective poverty between 30 and 40 percent.

Table 5.4
Poor households in EU countries and the Czech Republic (%)

Country	Year	Legal	EU	SPL
<i>EU countries:</i>				
Belgium	1985	2.9	6.1	24.9
The Netherlands	1986	7.2	7.2	15.9
Luxembourg	1986	5.0	7.6	12.5
Lorraine	1986	4.0	10.8	26.5
Catalonia	1988	.	15.1	37.3
Ireland	1987	8.1	17.2	31.6
Greece	1988	.	19.9	42.0
<i>Czech Republic:</i>				
December	1990	2.0	2.6	25.3
January	1993	1.9	2.3	26.9
November	1994	2.0	2.2	32.8
January	1996	3.7	3.9	28.2

Sources: Deleeck and Van den Bosch 1992; EEA surveys.

In the Czech Republic, objective poverty is the lowest while subjective poverty is on the level of that of Lorraine or Belgium. Recently, however, subjective poverty

has increased significantly and currently amounts to around 30 percent. The Czech Republic would belong rather to the poorer countries of the EU in terms of the relation of subjective poverty lines to the average and/or median household income. The 75 percent threshold is lower than in Greece but higher than in all other EU countries. In contrast, the legal poverty line is set at around 40 percent, as in the EU countries, with the exception of the more generous Netherlands.⁷

According to EEA surveys, we observe a gradually increasing number of households who declare their own minimum income to be lower than the SPL up to November 1994. There are two possible reasons why these percentages are high. First, the amount of basic needs could be exaggerated and second, the current income could be underestimated. Under-reporting actual income is likely since people probably do not declare incomes from informal sources, one-off gains and gifts, etc. As real incomes have recently started to rise, less households register a significant gap between current and required minimum income. As a result, the percentage is once again on the decrease.

In contrast with the very steep equivalence scale implicit in social legislation, the equivalence scale in people's minds is very flat.⁸ This means that households see themselves much more as economic actors and budgetary units by stressing the 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, commonly shared costs. Consequently, households with more members are advantaged and smaller households disadvantaged.

Feeling poor. Although Van Praag and others refer to subjective poverty as feeling poor (Van Praag and Flik, 1991), this may not necessarily be the case. It is assumed that poverty is an income insufficiency and that the respondents' declarations about both the current and minimum required income are reliable. Moreover, perceived poverty is always a relational feature dependent on the social environment, the pace of change and expectations. Low incomes can be purely transitional, without reflecting the financial problems as actual poverty. For this reason, we also pose the simple question *Do you feel your household is poor?* in the EEA surveys.

Unlike subjective poverty, feeling poor seems to be more stable over time, amounting to about 8 percent households. The price liberalization in 1991 and the tax reform in 1993 caused a slight increase in self-declared poverty (Figure 5.2). Nevertheless, most households falling below the SPL have no intense feeling of poverty. Slightly over half these households express a feeling of poverty when the 'certainly yes' and 'rather yes' responses are combined. The correlation between subjective poverty (SPL) and feeling poor is, however, slowly strengthening.

The indicator of feeling poor is much less predicted by socio-demographic characteristics than the percentage of vulnerable people according to the SPL (Table 5.5). Subjective poverty (SPL) depends on demographic characteristics such as the

age of the head and the number of children. Poverty is highest at the beginning of the life cycle and declines towards middle age; it increases again for the oldest cohorts in up to 80 percent of households. In the SPL measurement, there is a linear increase in poverty with an increasing number of children. Education is a very important determinant of poverty within the subjective definition. Better educated people not only have higher incomes, but are also less demanding when declaring a minimum income and complaining about financial difficulties.⁹

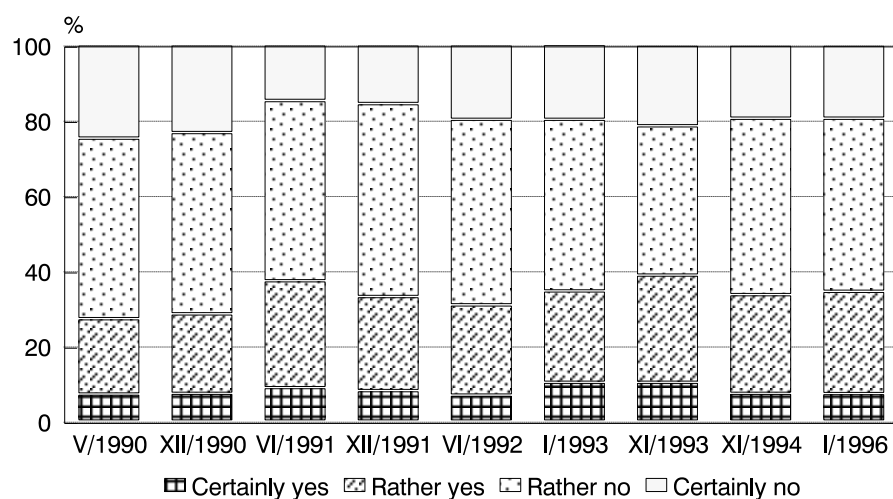


Figure 5.2 Consider themselves a poor family

Source: EEA surveys.

Table 5.5
Determination of households' poverty according to the SPL and feeling poor
(analysis of variance)

Variable	No. of categories	Coefficients beta		Vulnerable populations
		SPL	Feel poor	
<i>Incidence</i>		28.10 %	7.40 %	
N of children	(5)	0.11	0.02*	3 or more
N of adults	(4)	0.24	0.11	single adult
Education (head)	(4)	0.15	0.12	elementary
Age (head)	(10)	0.33	0.08*	65- (SPL)
Unemployment	(2)	0.02*	0.04*	
Wealth	(9)	0.22	0.21	two lowest categories
Locality	(6)	0.10	0.06*	countryside (SPL)
R ²		0.33	0.11	

Source: EEA survey, January 1996.

All beta coefficients except * significant on the level < 0.001.

In contrast, the feeling of being a poor family is distributed much more evenly among the population. The more significant explanatory variables, if any, are wealth and property. This indicator is relatively closely correlated with ownership of a family house as well as the estimated wealth and equipment of the household. In particular, families with an unresolved housing situation feel poor more frequently (32 percent) than the general population (8 percent). This seems to be related to Peter Townsend's (1979) broader notion of poverty, which incorporates more indicators of a household's material well-being.

We have found no significant association between unemployment (indicated by experience of being out of work over the last two years) and subjective poverty. This low correlation is mostly due to the generally small incidence of unemployment and, especially, to a rapid turnover of unemployed staff. For most households, unemployment is only a transitory situation which seriously affects neither their financial status nor their self-esteem. While in Poland and Hungary, between 4 and 5 percent of the labour force is in long-term unemployment, this figure amounts to less than 1 percent in the Czech Republic.

Poverty in consumption and wealth

The economic approach mostly measures poverty as relation of household income or consumption to the average. Here, many questions remain open: How is the structure of consumption of poor households affected? How do the poor perceive 'objective' income insufficiency in subjective terms? What is the relationship between income or consumption-based poverty and family wealth? How do economically poor people feel in their social and political lives? This reminds us of the distinction between poverty defined as economic or social status or, in another words, in the 'distributional' or 'relational' perspective, as inspired by G. Simmel's approach. As B. Hvinden (1994) remarks, poor people occupy an ambiguous position, being in some respects outside but in another respects inside society.

In terms of expenditure patterns, low income households spend relatively less on clothing, transport and leisure, and more on food and housing necessities. Applying the legal poverty definition, the difference between the average and poor households increased in the 1991-1995 period, especially among families with children. Poor pensioner households differ from their better-off peers especially in the share of food, which amounts to almost half of their budget. The rising share of housing in pensioner budgets suggests that this fixed item determines other expenditures (Table 5.6).

Table 5.6
Family expenditures in employee households with children and pensioners'
households (%)

Expenditure	All		Poor		Difference	
	1991	1995	1991	1995	1991	1995
<i>Families with children:</i>						
Food	30.5	28.2	35.1	36.9	4.6	8.7
Beverages and tobacco	5.6	4.4	6.2	4.8	0.6	0.4
Clothing and footwear	11.7	10.7	11.0	9.0	-0.7	-1.7
Housing	15.5	18.2	15.2	19.5	-0.3	1.3
Household maintenance	5.0	5.0	5.1	5.1	0.1	0.1
Personal needs, health	2.8	4.2	2.4	3.6	-0.4	-0.6
Transport	10.7	10.6	8.5	6.6	-2.2	-4.0
Culture and leisure	12.4	12.9	9.8	9.2	-2.6	-3.7
Else	5.9	5.8	6.7	5.3	0.8	-0.5
Total	100.0	100.0	100.0	100.0	0.0	0.0
<i>Pensioners' households:</i>						
Food	40.0	36.5	47.5	43.1	7.5	6.6
Beverages and tobacco	6.4	5.0	5.5	4.8	-0.9	-0.2
Clothing and footwear	7.1	5.9	5.7	5.1	-1.4	-0.8
Housing	16.6	21.7	17.7	22.7	1.1	1.0
Household maintenance	5.1	4.6	4.8	4.2	-0.3	-0.4
Personal needs, health	3.6	4.9	3.0	4.4	-0.6	-0.5
Transport	5.8	5.7	2.3	2.3	-3.5	-3.4
Culture and leisure	8.6	7.3	6.6	6.0	-2.0	-1.3
Else	6.8	8.4	6.8	7.3	0.0	-1.1
Total	100.0	100.0	100.0	100.0	0.0	0.0

Source: FES 1991, 1995.

Surprisingly, low income is only weakly related to the perceived reduction in consumption. On the basis of the 1993 survey data, I have compared three measures of poverty: EU poverty, consumption insufficiency (measured by a declaration as to the serious and recurring lack of money for food, clothing and other goods of everyday use) and low wealth (measured as the bottom level of estimated family property). While all three measures return similar percentages (5-6 percent), their associations (in Spearman's correlation coefficients) are rather weak, being 0.10 between EU poverty and reduced consumption, 0.14 between EU poverty and low wealth and zero between consumption reduction and wealth (Opinions on social changes, 1993).

The income-based measure of poverty mirrors reality accurately if poverty is tailored symmetrically in economic and social terms as a long-term situation in which low incomes are reflected in little wealth and vice versa. Another condition is the relative stability of the economic environment, especially the price structure.

The measure based on perceived consumption reflects not only the most appropriate adjustment of income to family size and structure, but also considers a household's 'atypical' problems and 'hidden' resources. Its weak association with main poverty measures illustrates transitory gaps between the national and household economies.

The correlation between income insufficiency and wealth status is a simple but telling indicator of the social/demographic status of poverty. This correlation appears not to have changed since 1991 in terms of feeling poor (having stabilized at around 0.25) but to have increased significantly over time in terms of subjective poverty (SPL), from 0.10 to 0.33 in early 1993 (EEA surveys). This means that while feelings of poverty are still associated with the same characteristics (rather vague and of a long-term nature), subjectively perceived income poverty reflects an increasing conjunction of family income and wealth. Instead of the communist dissociation of income and property structures, current and long-term economic statuses are converging.¹⁰

Table 5.7
Possession of durable goods of families with children and pensioners' households (%)

Durable goods	All		Poor		Difference	
	1991	1995	1991	1995	1991	1995
<i>Families with children:</i>						
Freezer	46.4	49.5	44.9	36.2	-1.5	-13.3
Automatic washing	82.3	86.4	78.1	75.9	-4.2	-10.5
Color TV set	76.7	93.2	69.9	81.2	-6.8	-12.0
Videorecorder	12.0	38.1	10.2	22.0	-1.8	-16.1
Personal computer	6.5	12.2	3.8	3.9	-2.7	- 8.3
Telephone	35.7	44.2	25.3	28.8	-10.4	-15.4
Car	70.4	62.1	58.9	36.7	-11.5	-25.4
Summer house	12.8	10.2	5.6	3.0	-7.2	-7.2
<i>Pensioners' households:</i>						
Freezer	16.9	30.2	5.9	16.5	-11.0	-13.7
Automatic washing	28.7	44.4	14.5	19.0	-14.2	-25.4
Color TV set	41.0	71.3	20.4	49.4	-20.6	-21.9
Videorecorder	0.4	4.2	0.0	1.3	-0.4	-2.9
Telephone	36.7	47.0	20.0	24.1	-16.7	-22.9
Car	22.5	20.6	6.7	7.6	-15.8	-13.0
Summer house	11.8	14.4	2.7	4.4	-9.1	-10.0

Source: FES 1991, 1995.

In legal poverty terms, the increasing conformity of income and wealth hierarchies and, consequently, the rising dissimilarity of average and poor households in terms of wealth is depicted by the FES data (Table 5.7). Although poor households

are still quite well equipped and almost 40 percent have a car, the gap between average and poor households in terms of possession of 'modern' durable goods has clearly been on the increase since 1991. It is not that the same households have fallen into poverty since then but that the category of poor households in 1994 differs considerably from that of 1991, such that the income measure strongly indicates households also poor in terms of wealth.

There are various indications of the changing status of poverty. This status is progressively losing its mostly demographic base, whereby poverty appears and disappears in the life-cycle, with both the changing economic status of adult family members and the number of children. This was precisely the common situation under the communist regime, and one which largely continued through the early stages of the transformation. However, more recent data announce a strengthening link between income and family wealth which manifests poverty of a more enduring character for a part of the population. Already characteristic of a considerable part of pensioners, this is now beginning to characterize a part of the working poor as well.

As it appears, 'distributional' poverty has had no consequences for 'relational' poverty so far. Neither is the frequency of poor people's contacts with friends lower than in the standard population, nor does the educational level of the 'best friend' indicate any isolation within the social circle. All specificities are sufficiently explained by age and generational characteristics. Neither is the intensity of political life significantly lower, nor is the feeling of leaders' disinterest (*nobody is interested in what is happen with me*) more widespread among the poor. Only 20 percent of poor as defined by the EU identify themselves with the lower class (57 percent lower middle, 23 percent middle), while 46 percent of people declaring consumption restrictions identify with the lower class (47 percent lower middle, 7 percent middle) (Opinions on social changes, 1993).

Poverty in the CEE countries

There is no uniform indicator of poverty in the CEE countries and, moreover, no uniform source of income data allowing a comparative calculation of poverty.¹¹ In Hungary or Poland, it is still impossible to find any analogy to the Czech legal poverty line entitling people to state assistance. Instead of assisted poverty, various yardsticks such as the minimum or average wage and the minimum or average pension are used, the distance from them being measured by alternative means. The SOCO database sought to gather the most comparable possible indicators (Table 5.8).

The subsistence minimum income in Hungary is calculated by the Central Statistical Office at 50-70 percent of the average wage. This line, considered to be quite generous, identified about 15 percent of the population as poor in 1992. Another estimate made by T. Kolosi et al. on household panel data returns 20 percent poor

households in 1991/2 and 30-35 percent in 1993/4 (Andorka and Spéder, 1995). The poverty incidence is generally estimated to have been sharply rising since the late 1980s, but remains shallow, meaning that the average income of the poor is not substantially below any given poverty line. Being single, unemployed, inactive, not well educated, Gypsy or having four or more children results in a higher vulnerability to poverty, according to the World Bank study (World Bank, 1995a, p. 28).

Table 5.8
Poor households and persons in CEE countries (%)

Poverty measurement	Czech Republic		Hungary		Poland		Slovakia	
	1988	1992	1989	1992	1989	1993	1988	1992
<i>Legal poverty:</i>								
Households	4.5	2.9	8.3	16.8	18.4	33.8	6.8	8.7
Persons	2.7	3.5	6.9	14.9	21.0	43.6	4.7	11.4
<i>EU poverty:</i>								
Households	6.1	2.3	5.1	8.1	12.1	9.3	1.9	2.8
Persons	3.1	2.4	4.4	7.2	11.1	12.1	2.4	4.3

Source: SOCO database.

There is a variety of subsistence minimum incomes in Poland. The 'low income line', proposed by the Central Statistical Office on a per capita basis, returns a 12 percent poor population. Other calculations correspond to the minimum pension or wage. If we take the criteria of the minimum pension (the full amount for each adult, half for each child in a household), 14 percent of the population could have been classified poor in 1993. Whereas in the 1980s, the poverty rate amounted to 5-10 percent of the population, it jumped to 15 percent in 1990, when the stabilization programme was commenced. Among the primary poverty factors, low earnings was estimated to account for 60 percent, unemployment 35 percent and old age (over 65) 5 percent, this according to another World Bank study (World Bank, 1995b, pp. XIII-XVII).

One comparative indicator of poverty is used in the MONEE Database of UNICEF's International Child Development Centre. The poverty line is set as a 35-45 percent fraction of the 1989 average wage in individual countries. According to this measure, 25 percent of the population of the Czech Republic was poor (the 35 percent option), 19 percent in Hungary, 44 percent in Poland and 34 percent in Slovakia (all countries taking the 40 percent option) in 1991-1992. These figures seem high and the comparison not very convincing. However, the authors also specify the extreme poverty line at 60 percent of their poverty line, which is closer to the official subsistence minimum and returns about 2 percent of households in the Czech Republic, 3 percent in Slovakia and 10 percent in Poland (Cornia, 1994, p. 38).

Another comparative poverty line was established by Branko Milanovic (1996) as 120 USD per capita per month at 1990 prices and adjusted to the PPP Index. Unlike the UNICEF study, this indicator estimates poverty in the CEE in 1992-93 as much lower: less than 1 percent in the Czech Republic, 2 percent in Slovakia and 3 percent in Hungary, but 26 percent in Poland. The Polish figures might be deformed by extreme official inflation, particularly as they do not recognize households' alternative strategies. In contrast to the quite low CEE figures, the poverty rate ranges from about 20 percent in Bulgaria and Romania, 30 percent in Russia and 40 percent in the Baltic.

At this point, I would like to tackle the problem from the subjective perspective. When respondents of the SSEE survey were asked to retrospectively self-evaluate their current location on the ladder, they answered quite uniformly in all CEE countries. They also answered quite symmetrically and nearly in line with the normal distribution (Figure 5.3). This contrasts with the current 1993 location which has shifted markedly to the left, whereas disparities between countries augmented (Figure 5.4). With regard to the difference between the retrospective and current location, the results of the 1993 SSEE and the 1995 SOCO survey show a relatively similar picture.

In 1993, 14 percent of Czechs, 17 percent of Hungarians, 21 percent of Poles and Slovaks located themselves on the two lowest degrees of a 10-grade income ladder (SSEE survey). In 1995, 20 percent of Czechs, 32 percent of Hungarians, 37 percent of Poles and 31 percent of Slovaks located themselves on the two lowest degrees of a 7-grade income distribution (SOCO survey). Thus, the distances between countries apparently increased. Moreover, it seems that after the split of Czechoslovakia, the standard of living and perceptions of it deteriorated in Slovakia. This is the sole point in which the 1992 perception of income structure does not more or less correspond with less recent data.

Subjective income ladders are only relative and do not limit the low income population in absolute terms. The alternative view can be presented by people's estimation of financial comfort or difficulties. The bottom line of great difficulty delineates 5 percent of households in the Czech Republic, 24 percent in Hungary, 27 percent in Poland and 10 percent in Slovakia as vulnerable populations in 1995. Though the percentages vary as multiples of those retrospective evaluations, with the exception of Slovakia, the ordering of countries remained constant. In the case of Slovakia, the situation was seen as better than in the Czech Republic in 1988, but is currently considered much worse (SOCO survey).

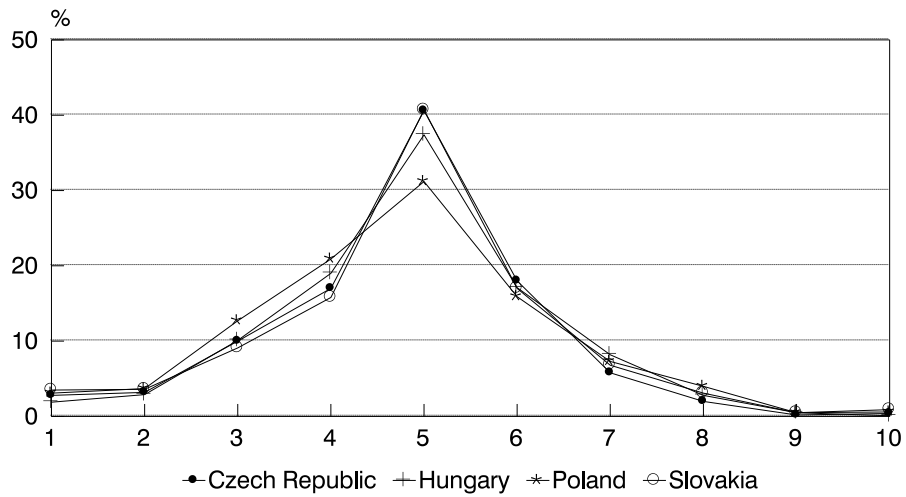


Figure 5.3 Subjective income scale in 1988

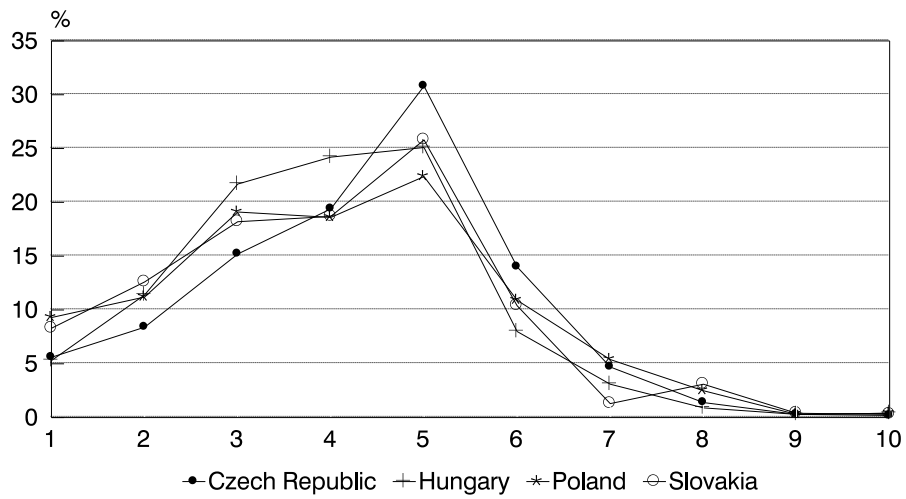


Figure 5.4 Subjective income scale in 1993
 Source: SSEE survey 1993.

The thresholds of survival income declared in the Czech Republic seem rather minimal in comparison with the other CEE countries. For the latter, the percentages of households with problems making ends meet is roughly double those for the Czech Republic and amount to close to half of the populace. Disparities between social categories are enormous in all countries. Besides the unemployed, which constitute the most vulnerable group, farmers, agricultural and unskilled workers are the most numerous victims or near victims of poverty. Unlike the lowest occupational categories, pensioners are hit by poverty only slightly more than average in all countries.

The amount and dynamics of income poverty is a sensitive problem everywhere. Its economic consequences are to challenge the redistributive policy and burden the tax system and state budget. Its political consequences turn people to the left and undermine radical market reforms. The occurrence of poverty in individual countries differs according to their economic situation and the extent to which the economic behaviour of the population is enrooted in capitalist traditions. Before any redistribution, the general performance of the national economy is the most important factor. Before any state assistance, various coping activities of households should be mobilized. And before any final conclusions about the comparative rate of poverty are drawn, the accuracy of our measurements should be carefully proved.

In conclusion

The poverty line can never be established satisfactorily and unambiguously. This is because need is not a state but a relation with a large number of faces and references. It could 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. As Nicholas Barr (1994, p. 193) reminds us, the choice of indicator is never unbiased: 'a "scientific" definition of poverty is a mirage; all definitions of poverty, ultimately, are political'. The political status of poverty definition is, however, rarely made explicit or debated as such.

Here, I have surveyed poverty in four alternative indications. While legal poverty and the standard EU indication rate the poverty incidence at about 2-4 percent of households, the declaration of perceived poverty is established at about 10 percent of households while the Subjective Poverty Line (SPL) returns a poverty rate close to 30 percent. In all indicators, the Czech Republic is faring much better than the other CEE countries and is close to the most social EU countries, especially the BENELUX countries. In a subjective indication, moreover, the Czech Republic

does not diverge from generously redistributive countries such as France or Belgium.

Due to a still high labour market participation, the sources of the 'new' poverty seem to be frozen in the Czech Republic. As social policy is very much concerned with pensioners, the 'old' poverty is also unlikely to rise. In official terms, the new social benefits system aims to reduce the percentage of officially poor - only families with children can fall below the living minimum, after all other benefits have been awarded. In subjective terms, feeling poor has remained quite stable and the most recent data on SPL poverty indicate a reverse downward trend. This is for the most part good news among the many warning signals as to the excessive social burden of the economic transition.

We should be, however, aware that transformation expose people to the threat of poverty. Although poverty in the narrow sense remains limited, vulnerability to poverty is still high and people have to mobilize all ways to avoid serious financial problems. Some households do not pay rent, many households do not modernize their apartments, most of them severely economize on everyday consumption. Training in adaptive and inventive behaviour from the communist period is useful in the transformation also. What is new is, however, that poverty became a public problem which can be exposed, discussed and solved using different resources.

In consequence, a massive surge in social exclusion is not probable. Poverty remains mostly an economic characteristic and a life-cycle-related phenomenon rather than a social or stratification category. No 'social' exclusion (in the strict sense of the term) has been encountered in the Czech Republic so far, unlike ethnic and life-style-related exclusion, which impacts upon the Romany population and especially Gypsy newcomers from Slovakia. Their lack of adherence to common working habits and a specific way of life precludes acceptance by the majority population. At the same time, a problem of 'imported exclusion' has emerged. Specifically, the immigrant populations from the former USSR and Balkan countries are being not accepted by the majority of the Czech population.¹²

Notes

- 1 The pension and other benefits were increased from time to time according to government decrees or new laws. The increase was presented as a 'gift' from the party/state. The retirement pension dropped from 51 percent of the average gross wage in 1960 to 41 percent in 1975, then began to increase again slowly.
- 2 Miroslav Hiršl used to work in the Research Institute of the Ministry of Labour, focusing there on the project of 'households with restrained possibilities of consumption' (as the poor were cautiously labelled at the time). He aimed to

conduct an empirical survey about poor families but never succeeded in securing funding for this project.

- 3 The transitory character of poverty was proved in a retrospective quasi-panel study on Microcensus data 1980-1984, in which less than 10 percent of the low-income households in 1980 remained in the same position in 1984.
- 4 Unlike Microcensuses, FES data return less poverty but a systematic rise of both the poor households (from 0.3 in 1989 to 1.7 percent in 1993) and persons (from 1.1 in 1989 to 2.6 percent in 1993) (Garner and Fratantoni, 1996a). Lesser rate of poverty is apparently due to under-sampling of low income households in the Czech FES surveys, participation in which require a long-term participation of households involved. Symmetry in the rise of poor households and persons is due to the lesser incidence of single pensioner households.
- 5 At the special request of the Ministry of Labour and Social Affairs, households observed in the 1988 FES survey were asked to declare food and some other expenditure items separately for each member of the family. According to this unique data, the costs of one child constituted 88 percent of the costs of one adult in one-child families, 82 percent in two-children and 84 percent three-children families (Šetření, 1990).
- 6 According to the consumption-based EUROSTAT data for the situation in the mid-1980s, the former Czechoslovakia - with its 6 percent of poor households - ranked among those EU countries with the lowest rates of poverty (Belgium (5 percent), the Netherlands or Denmark (8 percent) (EUROSTAT, 1990; Microcensuses 1989).
- 7 The Czech data are designed comparatively by Deleeck and Van den Bosch (1992) as the geometric mean of income median. According to this data, the Dutch legal poverty line is 55 percent, Lorraine 35 percent, Belgium 38 percent and Luxembourg 41 percent of the mean.
- 8 This generally reflects the finding by Buhman et al. (1988) of a considerable difference between 'program' and 'subjective' scales. While the average household-size elasticity of the program scale corresponds well to Lorraine and Catalonia in the Deleeck et al. data (0.55), the Czech Republic's scale is much steeper (0.84). However, while they averaged the elasticity of the subjective scale at 0.25, this only corresponds to the Netherlands and Luxembourg, while the other countries including the Czech Republic record higher levels (about 0.4).
- 9 Here, we can only speculate as to the legacy of the communist system. Whereas the working class was protected and supported, people with diplomas were repressed. It therefore seems that both modesty and the utility of the same amount of money increase with increasing education.

- 10 A weak association between income and wealth is also identified in Machonin's (1993) study based on the 1991 Transformation of Social Structure survey. Separating the lowest 30 percent of households in terms of per capita income, possession of durable goods and estimated wealth, he found only 7 percent of households fitted all three criteria. He designated them poor while another 20 percent of households, meeting at least one of the two criteria, were designated vulnerable to poverty.
- 11 In fact, Microcensuses were conducted in Hungary and Poland but the data are scarcely used due to some collection and reliability problems. Instead, Hungarian Socio-Economic Household Panel and Polish FES are used.
- 12 According to the January 1996 EEA survey, 75 percent of the population would welcome a stricter punishment of Gypsy delinquents and almost 80 percent would accept closing borders to immigrants from the East. The official statistics report 50,000 immigrants in 1992 and 160,000 in 1995 (LN, 29 March 1996).

6 Changing family expenditures and housing

Consumption is a field of immense variety. Spending behaviour not only reflects households' financial possibilities, but also the traditions of the region, social status, and families' culturally based tastes. Modern society has created mass-scale production and consumption which simultaneously channels and provokes people's dispositions and preferences. A 'standard package' of goods and services materializes as a 'theme' displaying a considerable uniformity and representing a national standard of living, but with 'variations' identifying regions, classes, ethnic groups and occupations (Riesman, 1964, pp. 114-115).

The communist regime was rather restrictive as regards the level and variability of personal consumption. In its early ideology, long-term goals of building a 'just social order' in the future were prioritized over the affluence for present generations. In the early 'really existing socialism', the main objective was the creation of a heavy manufacturing industry as the base of military power. Rather than a variety of goods and services, mass-scale and highly standardized products were promoted, presumably with the purpose of replacing the chaotic capitalist market waste with rational, planned calculation and rash consumer choice with cleverly administered distribution.

In the long run, the return to the market means a return to modern times in the sense of consumer power, discretionary income and psychological wants (Katona, 1964). Not only are preferences restored in place of planned 'rational' needs, but the creation of artificial needs (Galbraith, 1958) and the post-capitalist 'buying goods we do not need with money we do not have' is emerging in Czech society. In other words, the consumer market is returning, with both its positive and dark sides. Whereas in the transformation period, the insufficient supply of goods and services has been largely solved, constraints on household budgets have further tightened for many.

In this chapter, I do not aim to analyze consumption from the ideological and theoretical points of view, but mostly from the perspective of household economy

and in quantitative terms. With expenditure data as a base, I describe the recent changes in family spending behaviour. Here, many questions arise concerning the shares, inequalities in and determinants of various expenditures. By analyzing attitudes, I try to show the varying levels of household satisfaction and dissatisfaction as they are provoked by the early functioning of a consumer market in a transitional landscape. Special attention will be paid to housing which remains the most burdened by the communist legacy.

In the first section, I briefly expose the basic features of consumption under the communist regime, still present and active in many aspects of household economic behaviour. Then I review changes introduced by the economic liberalization and their acceptance by households as spending and consumer units. In the third section, post-1989 changes in patterns of family expenditures and their determinants are analyzed. In the fourth section, I attempt to locate the characteristics of Czech expenditure patterns in a twofold comparative framework of CEE and EU countries. And, in a special note before concluding, I display some features of the housing market/non market.

The need approach in communist doctrine and practice

The communist regime idolized the satisfaction of needs (those presumably permanently advancing during the building of communism) instead of considering consumer preferences. Such a voluntary ideological choice had far-reaching consequences: the main goal was to outline, standardize and meet necessary or 'rational' needs. Whereas in the first phase of building communism (the socialist period), consumption was intended to cover mainly the reproduction of the human being (food, clothing, shelter), in the second phase (genuine communism), consumption was to support human development (education, recreation, travel).

No 'second phase' was ever commenced, and the standard satisfaction of certain elementary needs was not achieved by 1989. Household budgets were permanently burdened by expenses of prime necessity. This was due to the generally low purchasing power of income and in spite of relatively favourable prices. Reflecting the gap between low (subsidized) food prices and high (burdened) prices for other goods, households preferred food consumption (especially meat and cereals). Simultaneously, rents and energy prices were also subsidized, thus artificially lowering the share of housing expenditures in family budgets.

I have already described the weak association between earnings and household incomes under communism (chapter 4). In the distributional system, other factors are more important than disparities in rewarding work, concretely the number of active members. This too was a result of the need approach, head count always being more important than any differentiation between persons and families. Similarly, differences between income and consumption are only weakly associ-

ated. Both distributions were subordinated to the requirements of labour force reproduction, instead of displaying a person's or a household's contribution to or their share in the national product.

The symmetry of income level and needs satisfaction was deformed by the state's deliberate manipulation of the needs hierarchy. The role of its ideologists, planners and administrators was to distinguish between basic and dispensable (luxury) needs: the first was to be supported and the second restrained. The higher the location of a need in the hierarchy ordered from short-term to long-term needs, the larger the disparity between money expenditures and actual consumption of a given good, relative to production costs and implicit market prices.

For the manipulation of the needs hierarchy, the turn-over tax was established as a difference between gross-trade and retail-trade prices, its range extending from the very negative to the very positive. Through price subsidies, consumer preferences for food and 'simple reproduction' at an elementary level were strengthened. Through the price burden, consumer preferences for durable goods, household equipment and new housing were limited or almost blocked. State regulation thus acted against Engel's (1895) first rule, according to which an increasing income is accompanied by a decreasing share in food consumption.

Table 6.1
Selected family expenditures in 1986 according to social category (%)

	White collars	Blue collars	Farmers	Pensioners
<i>Observed (with transfer by turn-over tax):</i>				
Food and beverages	33.3	37.2	35.0	49.1
Clothing	12.4	11.7	12.3	7.9
Housing	11.4	11.3	12.1	16.2
Equipment	7.5	7.0	9.0	4.8
Transport	11.4	10.3	10.3	6.0
<i>Adjusted (without transfer by turn-over tax):</i>				
Food and beverages	35.7	39.2	35.9	49.2
Clothing	10.1	9.4	9.6	6.0
Housing	13.5	14.5	18.2	19.9
Equipment	6.4	5.9	7.2	4.1
Transport	9.8	8.4	8.1	5.6

Sources: Czechoslovak FES 1986; Turn-over tax register.

As an exercise, I have compared family expenditure in the mid-1980s as observed and registered in the hypothetical situation that no turn-over tax (negative or positive) had been applied (Table 6.1).¹ Under market prices (although still deformed by the command economy), food and housing outlays would be significantly higher whereas outlays for clothing, transport, durable goods and recreation would be lower. The closer the individual expenditure item to the traditional con-

sumption pattern of the 19th century working class, the higher the state subsidy. Thus, history was to be frozen by socialist economic policy. The engagement of the state in family expenditures retarded structural change in household spending behaviour while effecting only slight differences in consumption among social groups, educational levels and occupational categories.

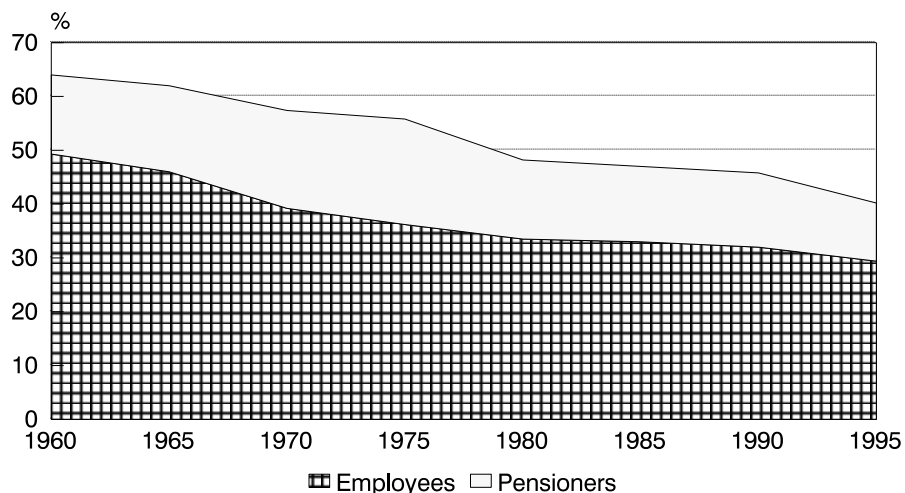


Figure 6.1 Food and beverages in household budgets

Source: Czech FES.

Despite the continuous and remarkable change in spending structures in the last few decades, this change was neither fast nor did it transform the basic character of the average household budget. Throughout the period which is described in the FES (beginning in the late 1950s), the share of food and beverages decreased from one half to one third in employee households and from 65 to 38 percent in pensioner households (Figure 6.1). Given that a rapidly increasing standard of living was incessantly stressed in politics and ideology, such a decrease can hardly be considered a spectacular change within a historical period of 30 years. Nor does the communist regime deserve credit for the fact that despite the large state subsidies making prices more favourable, food expenses continued to place a considerable burden on family budgets.

However, the world of Marxist ideology and the command economy was not the only economic scene in which people used to live. Be it for purely economic reasons (simple survival or a better standard of living), social reasons (demonstrating social status and balancing between cultural and material levels) or cultural reasons (enjoying attractive but prohibited ‘bourgeois’ values), they tried to escape strictly

delineated paths and modify them by legal or illegal means. The higher one's social status and the greater the locality, the more the primary (exhibited) and alternative (hidden) ways of life became separated and dichotomized.

One such source of adjustment to a normal (meaning the Western) life - however moderated and uneven - was the secondary cash or in-kind income. Another source was bricolage and the do-it-yourself approach, these prospering in the first and especially in recreational homes. In addition, dachas and rustic homes provided an alternative ambience of individuality, a traditional environment and, thus, an escape from the uniform ambience and forced standardization. By working extra hours and mobilizing all their inventiveness, people attempted to traverse the narrow limits fixed by the regime and to distantly imitate the 'Western way of live'.

Such a 'shadow' lifestyle also involved tastes and consumer preferences other than those assumed by the communist regime ideologists and the command economy planners. Instead of using the collective ways of meeting needs, private methods were established. Instead of limiting penalized purchases of equipment and durable goods, people combined all possible ways to obtain them. Furthermore, instead of accepting the mass-scale forms of 'rational' habitation, many people reduced them to weekday dormitories, complementing them with individual and traditional housing forms during weekends.²

Although consumer power was strictly minimized, the communist regime did not succeed in fully suppressing consumer freedom and choice. The 1970s and 1980s, in particular, saw an expansion of alternative channels to better consumption, this paralleling the return to family and private life once the hard-line regime was re-introduced after the 1968 attempt at reforming communism.³ Not only double talk and morality, but also double income standards and consumption patterns emerged, one of them planned, levelled and widely standardized, the other rather spontaneous, differentiated and individualized.

It was not exclusively weekends and leisure time that became the domain of such hidden consumer activities - working hours were also used for hunting goods and arranging activities, if not to directly work for an extra income. The strict obligation to be 'in work' combined with benevolent control of output even encouraged such behaviour. The majority of the population was able to follow the rule 'we are pretending to work and you are pretending to pay us for it'. It was tacitly tolerated within the general social contract, according to which the regime conferred minimum living standards and some freedom in the private sphere and required political passivity and a basic loyalty in the public sphere.

Towards a consumer market

The most conspicuous change after 1989 was the sudden promotion of the consumer market. Even before commencing the programme of economic reform, open-air markets began to flourish and compete with state institutions. Street vendors appeared overnight to sell butter and other primary goods, attracting people with their advantageous prices. After somewhat ridiculous, jumble-sale-like beginnings, the private retail trade expanded and changed the character of this field extensively and profoundly. Very early on, Western-made durable goods (which before 1989 were scarce and only available for hard currency in special shops or had been smuggled into the country) became commonly available.



Figure 6.2 Consumer Price Index (1989= 100)

Source: Statistical Yearbooks.

The true emergence of consumer markets began with the liberalization of prices of most goods. In the first step (in mid-1990), food price subsidies were removed and replaced by the state compensatory benefit. This was calculated as an average subsidy and distributed evenly among the population in the form of a flat benefit paid together with wages or pensions. In the second step (the beginning of 1991), most other prices - with the exception of rent and energy - were liberalized. Simultaneously, the compensatory benefit was removed for the economically active population, being retained only for children and pensioners. In the third step (the beginning of 1993), value-added tax replaced the negative turn-over tax and pushed prices up again (Figure 6.2).

Price liberalization had two outcomes. On the one hand, it placed a sudden burden on households, which virtually overnight faced higher prices. The compensatory benefit did not entirely neutralize the actual price increase and slightly redistributed purchasing capacity in favour of households with a lesser share of food. On the other hand, the former gap between food prices and the price of other goods disappeared and a variety of goods and prices began to provide a much larger consumer choice. Instead of anticipating the hierarchy of needs through bureaucratic decision-making, preferences came to play a greater role in governing the structure of consumption.⁴

Although the 'supply shock' was widely welcomed, the positive features of trade liberalization were largely obscured by rising prices. For most people, the conditions for meeting needs began to worsen, be it objectively (rising costs of living) or subjectively (feelings of insecurity when faced with rising prices after a long period of stability), absolutely (diminishing food consumption in nutritional terms) or relatively (not meeting rising requirements relative to the reference categories of the population or neighbouring countries).

Under the communist regime, the consumer quasi-market was highly homogeneous in supply and prices. For a select few, special stores were established, some quite hidden (for party and state top bureaucracy) and others public (stores for people in possession of hard currency or its equivalent). In the liberalization process, markets differentiate much more. Along with traditional stores and tourist-oriented boutiques, two other kinds of markets appeared, representing two extremes on the tradition-modernity line. The first are supermarkets of foreign or multinational firms, which took a large share of consumer demand, thus dominating over first-time shop owners and their small outlets. The other kind is the open-air markets run mostly by Vietnamese, offering smuggled textile goods and electronic goods at low prices.

Czech markets are not yet settled and still offer loopholes for dishonest business, smuggling and cheating. Four different inspection bodies - confirmed instead of abolished following a campaign launched by market fundamentalists - monitor food and other markets. In spite of their claim that the 'invisible hand' of the market will ensure quality goods, the government finally slightly modified former control mechanisms. Establishing any control, however, is more difficult than under the previous regime and should be complemented by citizens' activity. The latter is only now emerging, with one consumer weekly available so far.

Since meeting needs and satisfying preferences is always a relative process, it is hard to compare levels of satisfaction both over time and across categories of the population. Dissatisfaction used to exceed satisfaction, while due to selective memory and biased optics, the former situation is perceived as better than the present and the reference groups better-off than one's own household. Subjective

evaluations far from reflect the objective situation, but are filtered by socially bound values and expectations. We must therefore be cautious when analyzing survey data and, in particular, retrospective questions comparing the current situation with the pre-1989 period.

In the archives of the former Institute for Public Opinion, we discovered that, in fact, the populace's satisfaction decreased during the 1980s. According to confidential surveys made for party officials, 49 percent of respondents in 1970 saw their standard of living as having improved over the previous five years, followed by 44 percent in 1985 and 38 percent in 1989, the outlook for the following five years being perceived optimistically by 38 percent in 1970, 34 percent in 1985 and 32 percent in 1989 in the former Czechoslovakia. The retrospective and prospective situation in the Czech lands were perceived to be much worse than in Slovakia (Názory občanů, 1989).

After 1990, EEA surveys indicate a curvilinear change in perception (unlike some other attitudes displaying linear trends). In the first half of 1991 (when the bulk of price liberalization occurred), we observe a sharp increase in declarations of troubles and the most limited budget discretion. Households' declarations concerning 'enough money for good food' are always much more optimistic than 'enough money for decent clothing' although changes in these two areas are parallel. There was a sharp fall in agreement that 'housing costs are reasonable' during the early stages of the transformation (when rents and energy prices jumped); this subsequently stabilized, despite a continuous increase in overall costs (Figure 6.3).

In households' overall evaluation of financial difficulties, we can see that from the second half of 1991 onwards, the upward trend in manifesting financial troubles calmed and dropped, but rose again in 1993, when a new tax system and social payments reform were introduced. In comparison with 1991, this second peak of perceived difficulties was slightly lower in terms of extreme difficulties but slightly higher in terms of all difficulties declared. Households' evaluation of their financial situation as recorded in the latest EEA survey is the most favourable yet (Figure 6.4).

Behind this trend, important changes did occur. First, the association of perceived difficulties with reported income is increasing. Both the total disposable and adjusted income indicators are equally important (unlike per capita income which is less important), with the correlation coefficient between hardship and income rising from 0.25 in 1992 to 0.5 in early 1996. Second, an even better predictor of financial difficulties than current income is the perspective of improvement in the near future: households with a good outlook report less difficulties despite the fact their income is not as high. And third, while in early transformation the overall hardship was related mostly to problems with food, it is

currently more closely related to provision of clothing and recreation that shows an increasing consumer discretion.

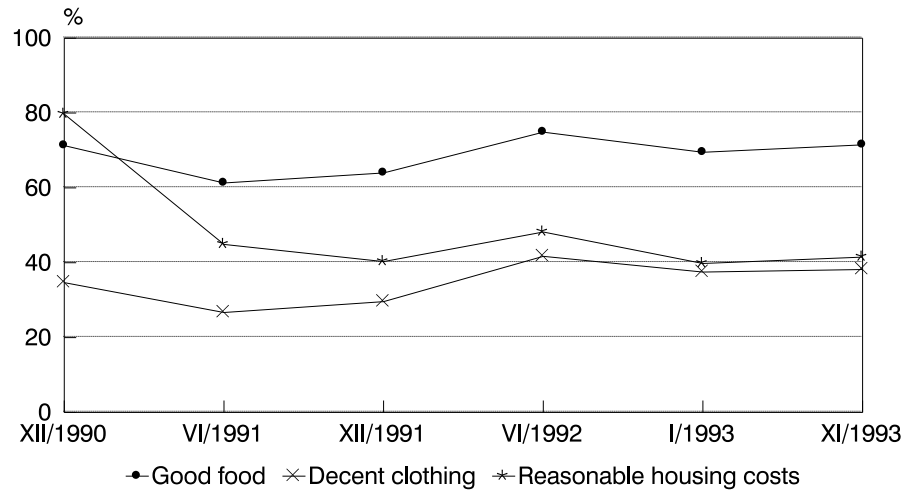


Figure 6.3 Enough money for food, clothing and housing

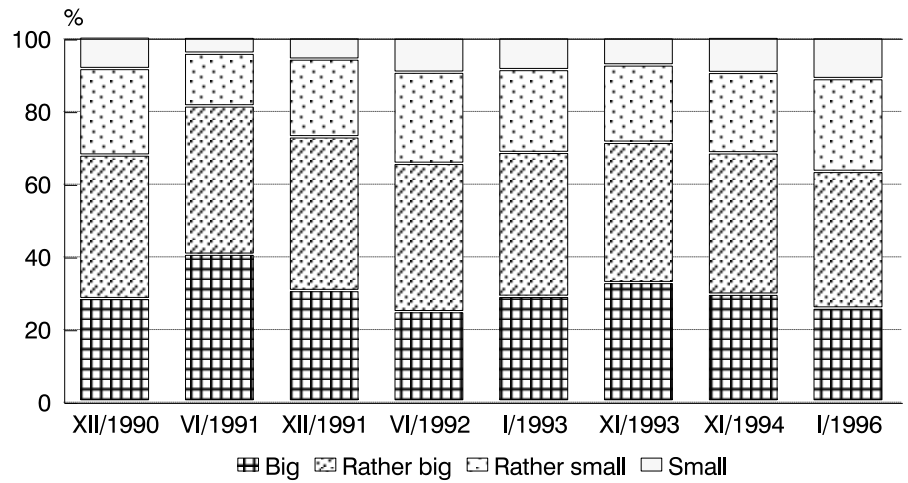


Figure 6.4 Financial difficulties in households

Source: EEA surveys.

Consumer discretion can also be measured by savings capacity. We assume that households able to save are not so much under the constraint of immediate expenses and that most savings are directed to purchases of durable goods and improving housing. Surprisingly, there are fewer ups and downs in savings capacity than in any other expenditures: the percentage of households absolutely unable to save has oscillated at around 40 percent, whereas the percentage of households certainly able to save remains steady at 10-15 percent (Figure 6.5). This testifies to the capacity of households to absorb the 'transitional vibrations'. Furthermore, savings capacity has recently advanced to the highest level.

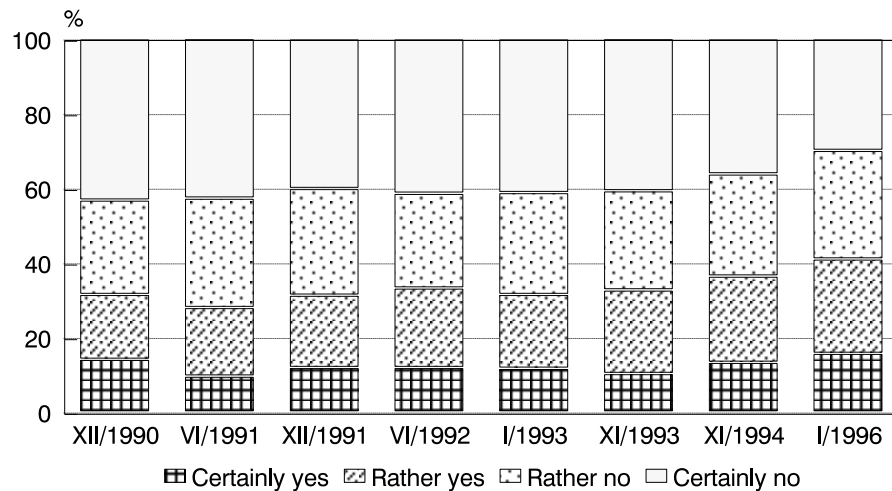


Figure 6.5 Some savings during the last three months

Source: EEA surveys.

The socio-demographic determinants of financial hardship or discretion (the number of children, the age of respondent) are less important than the socio-economic determinants (approximated by education and employed/self-employed status). The explanatory power of both kinds of standard characteristics is, however, very low. The explanation of variance in household financial problems should be sought in more subtle constituents and the combination of constant and transitory moments. Except for the contrast between elementary and university-educated people, I cannot identify any single and easily labelled population category which would be more or less vulnerable than the others.

Viewed retrospectively, the changes appear much more radical than when viewed across time. In the former approach, a considerable deterioration is declared in all areas, the highest in housing and health services and the lowest in everyday-use

non-food goods. Satisfaction levels in 1993 show only a few people situated themselves at the extremes, i.e. as either satisfied or dissatisfied in all areas. Although only two variables have a strong differentiating effect (education and dependent/independent job), the variance explained is quite considerable, amounting to about 20 percent (Table 6.2).

Table 6.2
Determinants of satisfaction/dissatisfaction with meeting needs
(analysis of variance)

Variable	No. of categories	Coefficient beta	Satisfied/dissatisfied populations
<i>Satisfied in all areas (3.5 percent):</i>			
Gender	(2)	0.07*	men
Age	(6)	0.13***	young or old
Number of children	(4)	0.11**	no child
Education	(4)	0.21***	secondary or university
Employed/self-employed	(3)	0.24***	full-time business
Locality	(8)	0.09*	cities or small towns
R ²		0.21	
<i>Dissatisfied in all areas (5.4 percent):</i>			
Gender	(2)	0.09***	women
Age	(6)	0.13***	middle aged
Number of children	(4)	0.09*	3 and more children
Education	(4)	0.21***	elementary
Employed/self-employed	(3)	0.24***	
Locality	(8)	0.08	
R ²		0.20	

Source: Opinions on social change 1993.

Question: What is the level of satisfaction of different needs in your household? Do you have enough money for: food; clothing and footwear; housing (rent, energy); housing equipment, industrial goods of everyday use; current services; goods and services for culture and recreation; goods and services for travelling; health care.

Statistical significance:

*** < 0.001

** < 0.01

* < 0.05

Changing structures and patterns of expenditure

Values of affluence and wealth are not rated the highest of those declared by the Czech populace. Political freedom, an interesting job, education and skills are evaluated as more important. Nevertheless, material values (income, wealth and an affluent life) are the most significant source of differences in people's attitudes. The same percentages of people (about 40 percent) prefer either affluent or modest

life-styles, the first group being rather less educated, young or pre-retirement people and especially inhabitants of cities, whereas the second group are people with higher education, elderly and living in the countryside. All these characteristics explain only a small portion of the differences (Opinions on social changes, 1993).

Such a dichotomy (however indistinct) should also manifest itself in the structure and patterns of consumption. After the period of forced homogenization, a differentiation process should be expected. Although the 1990-1994 period is rather short for far-reaching changes to occur, it is still sufficient for the main directions to be delineated. Three distinct factors contribute to changing shares of budget on various consumption items: rise/decline and constraints/discretion in household demand, changes and (lack of) limits in market supply and, finally, structural changes on both sides, especially changing distributions of households' financial resources and corresponding tastes.

According to Czech FES, shares of household budgets spent on various goods and services have changed minimally in the main type of families (dependent white and blue collar workers with children). Expenditures on food and beverages have decreased only slightly, while housing, equipment and health have increased somewhat (Table 5.6 in chapter 5). The evaluation of recent developments is two-fold: on the one hand, all apparent changes have been mostly price-induced, with no increase in 'higher' needs such as transport and recreation appearing; on the other hand, the fact that no shift in favour of the goods of prime necessity has occurred and previous structures have been maintained means that no extreme hardship occurred in the first transitional period.

Pensioner households, however, saw more striking changes. The leading change is apparently the rising costs of housing (by 6 percent), which necessitated compression of all other expenses, beginning with beverages and clothing and ending with transport and leisure. An additional necessity is health care (especially the purchase of medicine) which has grown from a negligible item into quite a considerable burden for these particular household budgets. Due to the faster price increase of services and restaurant fare, such items have become even less accessible for pensioners.

Within the same share of money spent on food, there are some important changes in kinds. In comparison with the previous period, the Czech population consumes less meat, fat, milk and sugar, and more vegetables, fruit, potatoes and cereals. This change in diet inversely reflects the planned priorities of the communist regime as displayed in price subsidies. Whereas meat and fat were negatively taxed, almost no subsidies were provided for fruits and vegetables. This conformed to the 'dietary norms' asserted by the communist regime; indeed it reflected the high value the working class placed upon traditionally heavy nutrition. Simultaneously, the

consumption of all stimulants (coffee, tea) and alcoholic beverages has increased while smoking has decreased.⁵

Although the share of money spent on equipment has not changed considerably and prices of industrial goods are increasing more rapidly than average, household equipment by durable goods is increasing slightly, especially by modern facilities such as freezers, microwave ovens and videorecorders (Table 5.7 in chapter 5). FES data point to decreasing car ownership, which is not, however, confirmed by statistical estimation corrected to purchases. Open borders have led to higher imports of new as well as second-hand Western cars, mostly aimed to replace old Soviet-block cars.⁶

Important questions concern the determinants of various expenditures, designed similarly as in the analysis of household income. I investigated the change over time in 'expenditure patterns', understood as the relative weights of the individual determinants of distribution and their proportions. Again, we have mainly distinguished between demographic determinants (such as the size and composition of household and the age of the head), socio-economic determinants (occupation and education of adult members) and territorial variables (region and locality size).

As is the case with income distribution, the main determinants of variance in household expenditure under the communist regime were mostly of a 'demographic' character. Income policy was further strengthened by a price policy which resulted in profound differences between the active and non-active populations and - within the active population - between families with differing numbers of dependent children. Despite price subsidies, the share of food in household budgets determined the most important explanatory variables of spending as a whole. Moreover, the bulk of consumption differences between households was demographically based, especially with reference to the number of children.

Using the FES data, I compare expenditure determinants in 1989 and 1994 (Table 6.3). Food consumption, almost wholly independent of income in 1989, has become considerably income-dependent during the transition. Simultaneously, age disparities are increasing and education disparities decreasing. Clothing is more intensively determined by income and the number of children, but insignificantly by education. Housing costs are also increasingly dependent on income (the poor paying relatively more) and locality (the formerly equal rent increasing according to locality size). The same is true for equipment, outlays for which are less concentrated in the first phase of the life-cycle. Expenditures for recreation and leisure (before paid partly by employers) are also increasingly determined by income and the number of children.

Table 6.3
Determinants of expenditure shares in employee households
(analysis of variance)

Variable	No. of categories	Coefficient beta		Higher expenditures in 1994
		1989	1994	
<i>Food</i>		28.2 %	29.4 %	
Age of head	(4)	.22	.29	pre-retirement
Number of children	(4)	.18	.09*	
Education of head	(4)	.21	.15	elementary
Household income	(5)	.11	.54	bottom quintile
Size of locality	(5)	.06*	.03	
R ²		.12	.31	
<i>Clothing</i>		12.9 %	10.9 %	
Age of head	(4)	.07*	.12*	young
Number of children	(4)	.09*	.25	two-three
Education of head	(4)	.05*	.04*	
Household income	(5)	.15	.34	upper quintiles
Size of locality	(5)	.12	.08	
R ²		.04	.10	
<i>Housing</i>		9.6 %	16.0 %	
Age of head	(4)	.15	.11	young
Number of children	(4)	.11	.28	no child
Education of head	(4)	.15	.06*	
Household income	(5)	.14	.39	bottom quintile
Size of locality	(5)	.07*	.17	cities
R ²		.06	.28	
<i>Equipment</i>		8.5 %	8.6 %	
Age of head	(4)	.19	.09	young
Number of children	(4)	.12	.04*	
Education of head	(4)	.09*	.06*	
Household income	(5)	.06*	.22	upper quintile
Size of locality	(5)	.07*	.11	
R ²		.06	.07	
<i>Recreation</i>		13.5 %	11.1 %	
Age of head	(4)	.03*	.09	middle
Number of children	(4)	.02*	.28	two-three
Education of head	(4)	.11	.16	higher
Household income	(5)	.07	.39	upper quintile
Size of locality	(5)	.09	.11*	
R ²		.03	.18	

Sources: Czech FES 1989, 1994.

All coefficient except * significant on < 0.001 level.

With the price liberalization and increasing income disparities, household spending behaviour has definitively changed. Instead of state support and - partly - collective consumption, people have to fend for themselves. The main change is

that income matters much more now than it did before 1989. Whereas the weight of some demographic variables is declining, the weight of income has risen systematically. The percentage of variance explained by all factors is also rising, which suggests that differences in expenditure are increasingly socio-economically 'calibrated'.

Consumer expenditures East and West

Due to its extremely relative character, it is not easy to locate consumer behaviour in a comparative context. Various price structures and amounts of in-kind consumption also limit data comparability of monetary expenditures. Bearing this in mind, I sketch the main features of consumer orientation and disparities in two CEE and several EU countries on the basis of national FES data and EUROSTAT comparative tables, using the standard EUROSTAT categorization of expenditures.

Since the CEE countries differed in their economic levels, they also varied in patterns of household expenditure. At the end of the communist rule, the share of food, beverages and tobacco among families with an active head amounted to 34 percent in the former Czechoslovakia, 41 percent in Hungary and 49 percent in Poland. The burden of goods of primary necessity among families with an inactive head was considerably higher, with 47 percent in the former Czechoslovakia, 50 percent in Hungary and 62 percent in Poland. Most pensioner households have no discretionary income (Table 6.4).

The initial situation has changed in different ways, with only one common feature concerning the costs of housing. The share of money spent for rent and fuels increased across the whole region and for all households, this most rapidly in Poland and least rapidly in the Czech Republic. Health expenditures also increased systematically, although at a much lower speed. In both cases, households were simply forced to spend more everywhere the state decided to participate less. Such a general trend also means an adjustment of family budgets to the Western model, although the increasing share of housing is not the result of free choice but a necessary reaction to rent and price rises.

Three distinct trends are observed in food consumption. In the Czech Republic, stability prevails in the two types of households with active heads. Meanwhile, a marked decrease appearing among employee and pensioner households is bringing Poland more into line with other countries. In Slovakia, households of active people responded to rising food prices with a rising share of food expenditure, thereby maintaining the quantity. Households in all countries economized on clothing, especially in Poland. In contrast, the purchase of durable goods was maintained in the Czech Republic and decreased somewhat in Slovakia and considerably in Poland.

Table 6.4
Family expenditures in employee and pensioners households
in CEE countries (%)

Expenditure	Czech Republic		Poland		Slovakia	
	1989	1994	1989	1994	1989	1994
<i>Employees:</i>						
Food	28.4	26.8	45.0	37.3	30.5	32.3
Beverages and tobacco	6.0	5.3	3.9	2.7	6.4	4.2
Clothing and footwear	12.8	10.0	16.7	7.6	15.1	11.8
Housing	9.9	13.5	3.4	16.5	10.7	14.0
Equipment	8.4	9.7	9.2	4.2	7.5	7.7
Personal needs, health	2.8	5.5	2.9	6.3	2.6	4.5
Transport	11.3	10.9	10.2	9.6	9.3	8.6
Recreation	13.2	10.4	6.3	8.8	10.5	7.2
Else	7.1	8.0	2.3	7.0	7.5	9.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
<i>Pensioners:</i>						
Food	41.5	37.4	59.1	41.6	44.1	42.1
Beverages and tobacco	5.4	5.0	2.8	2.2	6.9	4.0
Clothing and footwear	8.7	5.2	10.9	5.4	9.1	5.2
Housing	14.9	21.2	5.9	19.9	15.6	20.5
Equipment	6.1	8.3	6.5	3.2	5.6	7.0
Personal needs, health	2.9	4.6	3.2	8.4	2.4	3.7
Transport	6.1	5.8	5.8	6.5	4.8	4.8
Recreation	7.5	6.4	3.2	4.7	4.6	4.5
Else	6.8	6.1	2.7	8.1	6.8	8.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Czech, Polish and Slovak FES.

Due to the difficulties in accessing FES microdata for other CEE countries, I cannot go into further comparative detail, especially concerning the main differentiation lines. What can be asserted, however, is that budgetary structures were less dissimilar between countries in the early 1990s than in 1989. They are also less dissimilar between broad social categories, the huge cleavage between the economically active and inactive households slightly attenuating. We assume that behind averages, considerably higher disparities occur, developing along the 'capitalist' dimensions of ownership and human capital.

Nevertheless, most family budgets are still heavily burdened by food expenditures and only some weak signals of consumer discretion can be observed: no decrease in purchases of equipment in the Czech Republic and higher expenditures for recreation in Poland. It is quite clear that we can hardly expect significant changes in the averages of consumer expenditures during the transformation. Only a part of households is liberated from the pressure of elementary needs; only upper

income categories have really been able to enjoy greater consumer supply and re-orientate their budget towards modern consumption.

Whereas the Czech consumer structure scores highest among the CEE countries, it differs considerably in comparison with some Western countries. This is a legacy of the communist past. In the analysis using the 1980 EUROSTAT comparative tables, I analyzed breakdowns according to the population's demographic, social and income categories.⁷ It emerged that the demographic dimension (here especially the difference between active earner and pensioner households) was the most striking in the former Czechoslovakia and close to the level of the less developed EU countries (Greece and Ireland). Families with children declared budgets more burdened by expenditures of prime necessity in Czechoslovakia than in the EU countries (except Italy and Greece). In addition, when comparing families with varying numbers of children, each child represented a larger increase in consumption in Czechoslovakia than elsewhere.

Unlike the prevailing demographic differences, the social categories produced the strongest disparities in the Western countries. Although I was only able to measure them in the simplified form of white collar/blue collar/farmer groupings, they produced large disparities in all consumption categories, excepting food expenditures in some countries. Such differences were almost negligible in the former Czechoslovakia, this not only regarding elementary needs but also higher outlays on equipment, transport and recreation. The Czechoslovakia of the mid-1980s differed not only from the EU countries but also from Hungary, where the non-manual/manual cleavage was much more striking (Table 6.5).

Table 6.5
Family expenditures according to social category
(variation coefficients between three categories)

Expenditure	Czecho- slovakia	Hungary	Belgium	France	Ger- many	Italy	Spain
Food	0.02	0.02	0.10	0.02	0.02	0.19	0.10
Clothing	0.07	0.16	0.17	0.27	0.25	0.15	0.30
Housing	0.08	0.23	0.23	0.23	0.09	0.22	0.34
Equipment	0.14	0.19	0.29	0.26	0.25	0.21	0.39
Health	0.19	0.30	0.28	0.14	0.90	0.19	0.35
Transport	0.10	0.31	0.33	0.21	0.17	0.23	0.40
Recreation	0.10	0.40	0.27	0.31	0.40	0.24	0.53
Total	0.05	0.16	0.24	0.20	0.20	0.19	0.29

Sources: Czechoslovak FES 1986; Hungarian FES 1985; Family Budgets, 1985.

Social categories:

1. *Manual workers in manufacturing and services*
2. *Non-manual workers*
3. *Farmers and agricultural workers*

Despite some rapprochement in the 1980s, there is hardly a single expenditure pattern in EU countries, since each of them represents a particular case. In relation to the population averages around 1988, while the share of food does not exceed 20 percent in Western Europe, it narrows or even surpasses 30 percent in South European countries. While in Belgium, Denmark, Germany, the Netherlands and the United Kingdom, housing costs surpass 20 percent, in other countries they are close to 15 percent. Transport appears to be the most expensive in Denmark, Germany and France (17 percent) and recreation in the Netherlands and Germany. Expenditures for health are almost negligible in the United Kingdom (0.8 percent) and very high in France (4.7 percent) (Family budgets, 1993).

Unlike the other CEE countries where family budgets are especially burdened by basic needs, the Czech Republic would feature among the Southern European 'family of nations' (Table 6.6). Even here, however, food outlays surpass those in Spain or other less developed European countries. Pursuing the comparison with Spain, Czech housing is still less expensive but expenditures for household equipment are higher; less money is spent on transport but more is outlaid for recreation and culture, health and personal care. What currently distinguishes the Czech expenditure patterns from neighbouring CEE countries will distinguish it from South European nations once the main trade-off between food and housing is addressed.

The question is, then, how far the adjustment process has advanced in the most recent period. As comparison with EU countries suggests, there is lot of dynamism in the Czech Republic, forced as this mainly is by the changing price structure and larger budgetary constraints for many households. Czech households are transforming their budgets toward less current and more long-term consumption and are ready to increase their expenditures on typical 'Western' items such as transport and recreation. This process is inhibited by the slow rise of real income and is, therefore, rather selective, with growing disparities among social categories.

When approximating the structure of the average household budget by the share of food and beverages, we observe little difference between white- and blue-collar workers. Farmer households have been advantaged in this sense by their large in-kind consumption while pensioner households were extremely restricted in their expenditures by low budgets. By 1990, a slow differentiation process began, reducing farmers' advantages and increasing those to pensioners somewhat, increasing the difference between the white and blue-collar workers and starting to narrow the former extreme gap between households with and without active members. The main differentiation lines are, however, finer than the statistical categorization of social categories indicates (Table 6.7).

Table 6.6
Family expenditures in selected EU countries in 1988 (%)

Expenditure	Belgium	France	Germany	Italy	Spain	UK
<i>Employees:</i>						
Food and beverages	17.6	16.4	18.9	24.7	26.6	15.7
Clothing and footwear	6.5	5.7	7.6	9.9	10.8	7.4
Housing	21.7	28.8	19.8	17.9	18.7	20.7
Equipment	7.4	7.4	8.0	7.8	6.6	6.1
Personal needs, health	3.6	4.5	4.7	1.9	2.3	1.0
Transport	14.0	17.1	15.6	17.5	14.3	12.4
Recreation	6.7	5.9	9.5	6.9	6.7	8.7
Else	22.5	14.1	16.0	13.4	13.9	27.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
<i>Pensioners:</i>						
Food and beverages	19.7	19.9	19.0	27.8	31.5	20.4
Clothing and footwear	4.7	4.3	6.6	8.6	10.4	5.0
Housing	29.4	32.9	22.5	23.2	21.4	33.0
Equipment	6.1	7.5	7.6	7.8	6.4	5.5
Personal needs, health	5.4	7.8	5.7	2.8	2.5	1.1
Transport	10.9	11.1	11.6	12.8	10.4	8.3
Recreation	5.1	4.6	7.5	5.1	4.1	6.8
Else	18.6	12.0	19.4	11.9	13.3	19.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Family Budgets 1993.

Table 6.7
Share of food according to social category in the Czech Republic (1989-1994)
and the EU countries (1988) (%)

	White collars	Blue collars	Self-employed	Farmers	Pensioners
Czech Republic 1989	27.2	29.5	.	25.1	41.5
Czech Republic 1994	28.1	30.6	26.3	28.2	41.0
Belgium	16.5	20.1	18.2	23.0	19.7
France	14.8	18.3	16.5	24.7	19.9
Germany	18.2	22.3	18.2	22.7	18.9
Italy	22.3	27.7	22.6	28.8	27.8
Spain	26.0	30.1	26.6	34.7	31.5
UK	14.8	19.1	18.2	20.2	20.4

Sources: Czech FES; Family Budgets 1993.

As in all other fields, the communist regime imposed strict regulations on housing which were based on predominantly political criteria. Almost all rented houses were expropriated and the rights of the remaining owners strictly reduced.

State-owned houses, instead of being a solution-oriented instrument to the housing problem for everyone (according to the original intention) or the needy population (in a later modification), became mainly a tool for attracting and/or recompensing the key categories of the communist regime, among them armed-forces officers, the police, state and party bureaucracy, loyal intellectuals, together with relatives and satraps of top, regional and local rulers.

Whereas loyalty and service to the regime were recompensed with state apartments (no purchase price), most people joined a waiting list of many years for cooperative apartments (high prices but still with considerable state support); many, however, were still able to construct their family houses themselves (with minimal state support). The housing crisis, however, was never solved despite mass construction of small apartments in austere housing estates. The fulfilment of the goal 'one apartment for each household' was postponed from one decade to another, finally to be tacitly abandoned in the 1980s.

The housing non-market

In 1989, 40 percent of all apartments was constructed before 1945 and the percentages for the main types of apartments were as follows: state and company 37 percent, cooperative 17 percent and owner-occupied (exclusively family houses) 46 percent. Housing costs for the different types of apartments differed considerably: low rent was paid for state apartments, so-called 'economic' rent (covering nearly full maintenance costs) for cooperative apartments and full housing costs plus house tax by the owners of family houses. The rent varied according to the period of construction, new apartments being somewhat more expensive than the old.

Although reforms in housing were far less radical than in other fields, some changes have occurred since 1989. Part of real estates was restituted to the original owners or their descendants, while most of the other houses were handed over to local governments. Whether the new owner was a private person or a municipality, rents for apartments remained strictly regulated. This was not the case with rents of business premises, which were gradually liberalized. While dealing with housing as a public good continues, it is, nevertheless, presented as a private good: the government handed over housing maintenance and construction to the private sector but continues to supervise rents.⁸

Strict rent regulation certainly helped moderate the rise in the living costs of some households but, simultaneously, has had some counterproductive consequences: 1. the necessary investments in houses (many not modernized or repaired since 1938) had to be postponed further; 2. the amount of new construction has dropped dramatically (to one third in the last five years); 3. the prices of new

houses and apartments (where the rents are excepted from regulation) have multiplied to reach the Western level; 4. housing mobility (which occurred mainly through exchange of apartments between families) was almost frozen.

While the situation is quite advantageous for people already housed (among them, the tenants of former state-owned apartments in particular), it has become critical for young people looking for new apartments. According to the January 1996 EEA survey, 15 percent of people do not see their own or their children's housing needs of the next five years as met. These are mostly young people thinking about their own prospects (35 percent not solved) as well as middle-aged concerned about prospects for their growing children (20 percent). There is a discrepancy between small localities and cities (10 vs. 20 percent). An uncertain housing situation significantly contributes to feelings of poverty.

Young couples are barely able to compete with Western firms when buying an apartment at market prices (equivalent of at least 150 monthly salaries). Ultimately, the current housing shortage could obstruct the standard life-course of a large part of the population and distort the vital statistics of the population. While the government argues that the number of apartments is sufficient and only the distribution inefficient, the number of finished flats is still falling and the amount of construction commenced is taking off - hesitantly - from almost zero (Figure 6.6).⁹

In the meantime, a sort of 'class war' has begun, waged between the restituted owners or home-buyers and continuing tenants. While the former want to repair (and capitalize on) their houses and thus need to increase extremely low rents, the latter obviously wish their advantageous situation - which posits housing an inferior good - to continue.¹⁰ Frequently, a paradoxical situation arises: since no restrictions are placed on protected tenants, they can use their apartments not only as personal good and hence for their own housing needs, but also as a capital for business by sub-renting the space for a market price amounting to multiple times the official rent.

Housing costs are rising under regulation more slowly than inflation (Figure 6.7). After a certain rise in the rents of former state apartments was given the go-ahead, they converged to those in cooperative apartments; the gap between rented apartments and the cost of living in one's own house, however, has endured. In family houses (over 60 percent built before 1945), the heating, energy and maintenance are especially high. In cooperative houses, expenses for heating are the highest, due to wasteful district heating which does not allow the tenants to exercise any control of energy usage.

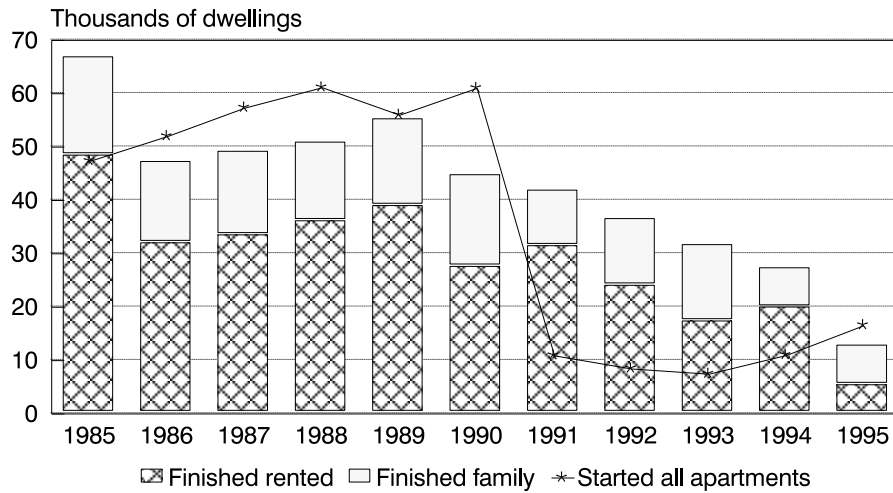


Figure 6.6 Apartments finished and started

Source: Statistical Yearbooks.

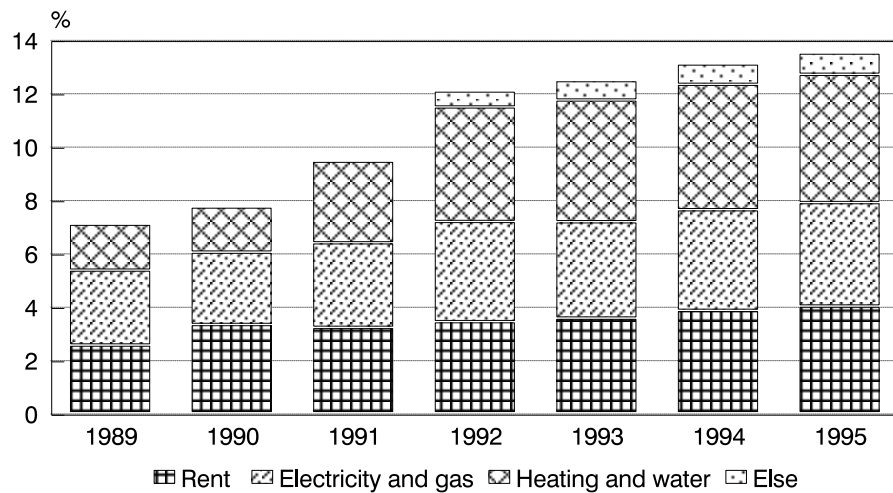


Figure 6.7 Costs of housing in employee households

Source: Czech FES.

Not everyone has set opinions on private ownership of houses and apartments. Although 56 percent agree that private property better guarantees the preservation

of housing stock, only 36 percent agree that apartments should be taken as a standard good with a market value while 33 percent agree that privatization should continue, even given the attendant risks and problems. On the other side, 70 percent of respondents demand state control of rents, even after apartments are fully privatized. Among those who intend to buy the apartment in which they live (altogether 40 percent of tenants), younger people and those with a higher education prevail (STEM Trends V/1994).

People's opinions on market/state shares in housing naturally differ according to their ownership status. A 'market approach' prevails even among owner-occupiers while more tenants of former state apartments support the continuing state control of rents and other housing-related prices. However, the strongest difference is to be found regarding the further state ownership of apartments. Only 22 percent of owner-occupiers and 27 percent of tenants of cooperative apartments think that the state should be the main owner of apartments, in contrast to the 45 percent of tenants of former state apartments. Despite the pronounced dissatisfaction with the state as owner, such a significant percentage of people still prefer this scenario, the older and less educated understandably more.

No systematic housing policy was launched by the post-1989 governments. The only systemic change has been the newly introduced mortgage schemes whose conditions are still, despite additional unloading, too tight to address more than the upper income category. The percentage of potential interested people declined from 10 percent to 5 percent between March 1995 and January 1996 (LN, 21 February 1996). Another innovation is the construction savings subsidized by the state: although wider in scope (1.1 million contracts by the end of 1995), it can only cover 20-30 percent of the current apartment prices, and this after a long period of savings. Ultimately, banks gain more than customers, receiving state-guaranteed, long-term, low interest savings.

The main criticism of the state housing policy is that measures are only taken in the owner-occupier area, with no encouragement and support for the construction of rented houses, despite the possibility of renting new apartments at market price. The deregulation of rents is too slow to redeem the housing stock and avoid the black market, whereas non-existent distribution criteria for the few remaining apartments allow speculations and enrichment of bureaucracy. State support for new construction is much lower than state intervention in the price of heating, and is only advantageous for a third of the population.

In conclusion

The consumer market has transformed deeply in the Czech Republic and other CEE countries and is in turn profoundly transforming the appearance and functioning of their societies. The sudden removal of limits and regulations on the supply side enabled a much greater consumer choice. Increasing income disparities and developing tastes brought new incentives for markets and differentiated the demand side. The inventory of goods available on the Czech market now parallels that in developed Western countries. The shortage economy disappeared almost overnight.

At the same time, constraints of demand are continuing or even strengthening, becoming a much more important limiting factor. The budgets of many households are under stress, especially as they face the challenges of a 'dream' supply. Instead of modernizing the budget in favour of higher needs, most families are compelled to retain their old budget or even reshape it to meet their elementary needs. Nevertheless, a 'modernizing process' is occurring under the pressure of changing prices as they adjusted by the market; this is leading to an increasing percentage of housing and health outlays which had previously been suppressed by state intervention.

In the determination patterns of consumer expenditures, a revolution has virtually occurred in the form of a sharp increase in the explanatory power of income differences which started to dominate clearly over all other household characteristics. This indicates the restoration of the formerly close association between income and consumption and the new domination of the 'cash nexus' in the private sphere, replacing the reproduction-oriented mechanism of the previous regime. It also means that while the disparities between large social categories are changing slowly, differences within those categories are growing.

In comparison with the other CEE countries, Czech households are quite well situated in terms of the relative discretion of their budget. Household economy here is not only the most marketed (concerning the share of in-kind consumption) but also the most liberated from among the goods of prime necessity. In comparison with the EU countries, however, patterns of consumption in the Czech Republic most resemble the less developed Southern countries such as Spain. Not only is the share of food high (due to the generally low budget in terms of purchasing power), but the share of housing is relatively low, due to its low quality and - in the Czech case - continuing state subsidies for some apartments.

Unlike the expansion of the consumer market, housing is victim to the ambiguity arising from the continuing support of rents in former state apartments, on the one hand, and the surrender of all state responsibilities in the construction of new houses. While construction of business premises is burgeoning, the number of newly built apartments is actually lower than the decrease caused by destruction or

transformation of old apartments. Only a small fraction of the required capital is flowing in this sphere, and is focused on luxurious apartments for the upper strata. Protected housing not only delays the adjustment of family budgets to Western standards, but especially threatens the future development of future generations who face the speculative prices of the old or new apartments with little likelihood of being able to afford them.

Notes

- 1 This is a result of a stepwise calculation: in the first step, very detailed turnover tax classifications were adjusted to less detailed categories of family expenditure data; in the second step, this information was added to each expenditure item in the data file. The calculation was made by the author in cooperation with Hana Zatkalíková and Josefa Antalová from the former Institute of Social Development and Labour in Bratislava.
- 2 This post-1968 trend is most apparent in the boom of reconstruction of former farmers' houses into secondary residences. Instead of building new standardized summer houses, people rebuilt rustic houses with much care and respect for traditional values. According to the 1989 Microcensus, 12.5 percent of households possessed a recreational house in the Czech Republic and 29 percent in Prague.
- 3 This fact also contributed to the 'baby boom' which the Czech lands saw in the early 1970s, and which the regime presented as being primarily the result of its clever population policy and state support for young couples.
- 4 The closing of price scissors and the 'Westernization' of the consumer market could be well documented on the convergence between bread and car prices. Whereas the price of bread increased by about 50 percent in the 1991-1995 period, prices of foreign cars decreased by about 10 percent. Inflation included, cars are 30-60 percent less expensive than before.
- 5 The change in diet, caused by the price liberalization, a better supply and much wider information on a healthy life-style is supposed to have contributed to an increase in life chances of the Czech population. Life expectancy for men at birth increased from 68.1 to 69.5 years over the 1989-1994 period and for women from 75.4 to 76.6 years. On the other hand, 41 percent of men and 30 percent of women smoke, 70 percent of men and 40 percent of women drink alcohol regularly (yet only 16 percent of men and 2 percent women exceeded the WHO norm of excessive consumption) and around 20 percent of men and 10 percent of women admit to having a very bad diet (Institute of Health Information and Statistics, 1993).

- 6 One explanation is that for tax deduction purposes many people starting up a business transferred their car from personal to firm property.
- 7 Calculation - constrained by availability of two-dimensional crosstabulations - occurred in two steps. In the first step, expenditures were recalculated on equivalent adults. In the second step, coefficients of variation were calculated measuring disparities between the main family types, social categories and income levels.
- 8 Rents were increased by 100 percent on 1 January 1992, 40 percent on 1 January 1994, 22 percent on 1 July 1995, 25 percent on 1 July 1996 and will increase further, within limits set by a governmental decree. The maximum legal increase varies according to the size and type of locality.
- 9 According to the CSO, there are 360 apartments per thousand inhabitants in the Czech Republic, which parallels Belgium (363), is close to France (371) and surpasses Italy (331) or any other less developed EU country.
- 10 After recent changes, the correlation of total housing costs per apartment with household income increased up to 0.15 (Spearman coefficient) for all households and 0.25 for those living in rented apartments. There is no correlation, however, if costs per square meter are calculated (Microcensus 1992).

7 Privatization and financial markets

The revolutions in the CEE countries were all communists' worst nightmare come true: they commenced the reintroduction of private property and the return of the 'bourgeoisie'. But as became quickly apparent, re-privatization is an even more complex process than the expropriations and nationalizations that occurred in the post-war period. Change of ownership on such a large scale is a huge, virtually unprecedented experiment. Good intentions and initial successes alone do not suffice: long-term economic (opening markets), political (restoring democracy), social (establishing middle-classes) and moral (guaranteeing fairness) results are essential to success.

A simple return to past structures is not possible and justice cannot simply be restored. Without a violent revolution, people expropriated and victimized by the communist regime will never obtain what they actually deserve, whereas other people, favoured by the former regime, can easily increase their property and improve their social positions. In the transformation period, there is a serious lack of financial capital and a normative vacuum which creates space for sometimes wild abuse of markets and facilitates speculation. Individual markets emerge very unevenly, with many frictions and conflicts.

In this chapter, I first show the main formal features of privatization in the former Czechoslovakia and the Czech Republic. In the second part, I observe certain psychological and social correlates of privatization. The focus then shifts to the middle-class agenda with respect to the privatization process. Attention is then briefly directed to financial markets and the 'speculative behaviour' of Czechs. The comparative section considers the privatization process in the other CEE countries and reviews the various forms of 'political capitalism'. In conclusion, I recapitulate specific features of 'Czech made' privatization.

Expropriations and privatizations

According to Marxist theory, all productive assets should be placed in the hands of the state (which represents 'all people's interests') in order to avoid the exploitation

of one person by another, the waste of goods and human labour and the capitalist anarchy that all necessarily cause economic crises. This theory proved very useful in endorsing the property expropriation of the grand bourgeoisie at the beginning of communisation and later in subordinating the CEE populations to Soviet rule through the expropriation of the petite bourgeoisie.¹

In the former Czechoslovakia, nationalization started in 1945 when the most important branches (mining, metallurgy, banking) and the biggest enterprises were expropriated in accordance with the decrees of the non-communist President Edvard Beneš. The next expropriation wave followed after the final victory of the Communist Party in February 1948, when all firms with more than 50 workers were nationalized. In the early 1950s, small firms (shops, workshops) also fell into the hands of the state through the medium of coercively created cooperatives. Then, in the late 1950s, farmers were forced en masse to enter into agricultural cooperatives directly administered by the state.

In the former Czechoslovakia, communist property relations were the most comprehensively established of all CEE countries. The extreme effort to nationalize as much as possible can be explained by the fears of resistance by the deeply enrooted Czech democracy as well as by the extreme importance of the Czech uranium mines and the metallurgy and machinery industries for the military power of the 'socialist camp of peace'. By 1960, the state sector constituted almost 100 percent of all production branches, with the exception of agriculture, where it made up a 'mere' 85 percent. Private farmers, the self-employed and free-lancers represented just 3 percent of the population in 1960. In view of this 'victory of progressive productive relations', Czechoslovakia was officially proclaimed socialist in 1961.

In early 1990, a reverse transformation of property relations began in all CEE countries. Although the former Czechoslovakia entered into this process last, its dynamism and speed has perhaps been the greatest. Here, we shall focus on the privatization of the manufacturing industries and services.

The privatization process involved the 'small-scale' privatization of shops and workshops, the 'large-scale' privatization of large state firms, and the transformation of agricultural cooperatives. Small-scale privatization could be effectuated by the simple return of property to the previous owners or their descendants, by direct sale, public auction or public tender. The large-scale privatization had even more forms: direct sale to an owner known in advance, sale in a public competition, sale by auction, transfer to municipal bodies, the establishment of a joint stock company and its subsequent privatization via sale of its shares, placing the shares in the voucher privatization or by transfer of its shares to local or other bodies (Mlèoch, 1992; Earle et al., 1994; Kotrba, 1995).

Particular to the Czech and Slovak privatizations were restitutions of property to the previous owners or their descendants. The amount of property confiscated by

the communists was huge and included 70,000 small businesses. According to respondents' retrospective declarations, almost half of Czech families were deprived of some property by the Nazis or, more frequently, by the communists. Of course, the main expropriations concerned farms and land (Table 7.1).

Table 7.1
Confiscation of property during and after the Second World War (%)

	Czech Republic	Slovakia
Firm, big workshop	1.8	1.1
Small workshop, shop	12.7	5.5
Farm	21.9	27.0
House	5.6	3.9
Large amount of money	10.4	5.3
Household equipment	2.5	3.1
Collections, jewellery	1.5	1.3
Land	23.3	33.3
<i>Together:</i>		
Nothing	55.8	51.1
One item	20.8	29.1
Two items	15.5	13.0
Three and more items	7.9	6.8
Total	100.0	100.0

Source: Transformation of the social structure 1991.

Question: Have you, your family, your partner or his or her family lost some property during or after the war, either by expropriation or under some other pressure?

Restitution was not originally supported by leading economists, who feared complications and conflicts resulting in endless legal proceedings which could cause delays in the privatization process. Restitutions were called by some a 'Pandora's box', dangerous to open. In spite of their firm stance, popular support finally decided on the launching of restitutions. After a long debate, two important historical cut-off dates were established: 1955 for small businesses and 1948 for large firms. However, after accepting restitutions, emigrants were again excluded from participating in the process.

In fact, restitutions represented a large percentage in number of units but a small percentage in the value of privatized property (Table 7.2). A considerable amount of property has been sold to buyers known in advance, most of whom are foreigners. Much property has fallen into the hands of local governments (mostly houses), which have then had to find other methods of privatization (such as selling dwellings to their tenants). The largest amount of property has been privatized, however, by transforming state enterprises into joint-stock companies and offering a

considerable part of the resulting shares to the public under the voucher privatization.

Voucher privatization was effectuated by selling vouchers for the rather symbolic price of 1000 CZK (35 USD) to all adult citizens. These vouchers entitled them to receive shares in firms of their choice from a public list. In the first wave (1992), 988 joint stock companies were offered to 6 million Czechs, acting independently or through spontaneously created investment funds. In the second wave (1994), 861 companies were transferred to 6.2 million Czechs. Surprisingly, a majority of investment points were handed over to investment privatization funds (IPF), in exchange for their promises to buy shares, loan money, provide private pensions, etc.

Table 7.2
Transformation of property according forms used (estimation)

Privatization form	Billion CZK	Billion USD	Billion USD
		nominal ER	adjusted to PPP
Restitutions	70-120	2.4-4.1	6.7-11.5
State property given to municipalities	over 350	over 12	over 34
Small-scale privatization	23	0.8	2.2
Large-scale privatization	626	22	62
<i>From it: voucher privatization</i>	343	12	34
Transformation of cooperatives	200-250	7-9	20-25
Total	1612-1712	56-60	159-169

Source: Ministry of Privatization.

Recalculated according to the 1993 exchange rate (nominal ER) and according to the 1993 purchasing power parity (adjusted to PPP), estimated by the Institute for Comparative Economic Research (WIIW), Vienna.

At the end of 1995, about 70 percent of the property estimated at a value of 60 billion USD worth had been privatized. However, only 600 firms were fully transferred into private hands, so that the shares of 1,200 firms remained in the portfolio of the National Property Fund. However, the National Property Fund has majority shares in only 150 firms and in the other 60 firms applies so-called 'strategic' participation (Telecom, electricity production, banks).

Despite the successful completion of the main privatization steps, the privatization process cannot be considered finished.² According to Prime Minister Klaus, the target was not actually to find the final owners, only the first. According to L. Mlčoch, the withdrawal of the state from the economy was largely nominal: 'The state still remains the core investor in the major financial institutions that founded the largest privatization funds ... The state remains the greatest creditor of many large and medium-sized enterprises ... Many companies are thus private in name

only' (Mlčoch, 1995, p. 155). Transforming nominal, passive and abstract property rights into real, active and concrete ownership relationships in a short time period is next to impossible.

The interim result is, then, a 'recombinant property' (in David Stark's wording) with the government playing a central role as a core investor indirectly controlling the most important banks and, through them, the most important enterprises. Since banks function as both owners and creditors, the harsh structural reform of enterprises is hindered; their dual function also contributes to the continuing high employment rates. Since the power of managers and the financial sector was increased by this transformation, one speaks of the 'corporate', 'managerial' or 'banking' revolution in the Czech economy (Mertlík, 1995).

In such a context, a further privatization and concentration of property is continuing. Dubbed the 'silent privatization' or the 'third wave' of privatization, it means the purchase of remaining shares from citizens by banks and IPF as well as transfers of shares between consolidated owners aiming to restructure and better focus their portfolio. Late attempts to protect small shareholders and avoid unfair practices on financial markets can only be of minor impact in the process whereby economic power is concentrating among a small category of people, using legal loopholes and enjoying tacit tolerance of the state bureaucracy.

The main problem is that the bulk of restructuration and modernization of production and management is being postponed to the future. The Czech economy remains under paternalistic care of state-related creditors unwilling or unable to apply hard budgetary constraints while individual shareholders have no power to require rationalizing measures, even if they would be interested in doing so. On the one hand, the 'Klaus strategy' certainly works in the sense of political support from the part of restitutees, voucher bearers and workers related to the private sector (Earle et al., 1996). On the other hand, this strategy has not created sufficient urgency to follow-up privatization with transformation of modes of production and incentive patterns which would result in increased economic competitiveness.

New capitalists and the middle-class agenda

Economic analysis of the privatization has so far focused on its administrative framework, partly neglecting the resulting real capital and power distribution. One of the most important criteria was the speed of the privatization procedure. Although the original concept of 'shock therapy' was thoroughly revised for Czech use, the high speed of the main reform steps remained one of the most important imperatives of the privatization.³ This argument was also used as an excuse for various exemptions such as the considerable price reductions in direct sales or

eventual mistakes made during the whole process. While in formal terms speed is considered one of the principle virtues of the economic reform, the results in real terms are being questioned.

From the sociological point of view, the observation of citizens' formal entitlements and their original distribution should be paralleled by their final distribution within the socio-economic structure. While the speed of the privatization process certainly corresponds well with the economic transition in formal and legal terms, it suits the social transformation far less in substantive and stratification terms. One of the most important changes expected from the privatization was a considerable contribution to the establishment of entrepreneurship as one of the constitutive categories of the middle class. This process was to be achieved in several forms.

Restitutions provide property to former owners or, more frequently, their children and other heirs, who, one assumes, dispose of the business culture and 'capitalist spirit'. The main form of small privatization, public auctions and tenders, was often used by current employees of privatized shops and workshops, potentially ensuring high entrepreneurial commitment. Unfortunately, it was also used by former black marketeers and immigrant Eastern mafia to wash their 'dirty money'. Large-scale privatization projects were often submitted by the firms' current or previous managers, who utilized their social and political capital to their advantage.

In mapping out the various roots of the re-emerging entrepreneurial class, Vladimír Benáček sketched the main characteristics of two groups - the so-called 'operators' (restaurant and hotel staff, taxi-drivers, foreign exchange dealers, shop assistants and managers, various agents, etc.) and the 'nomenklatura' (directors and deputies of companies, paid party apparatchiks, high-ranking bureaucrats, members of district and municipal councils, etc.). There are many contrasts between these two groupings, not only in economic, but also political and social terms. While the first could serve as a base for traditional middle-class capitalism, the other might undermine its fresh roots and establish a rich/poor cleavage (Table 7.3).

Although rather representing extreme 'ideal types' in Max Weber's sense, such hypothetical groups - who have no illusions about simply 'going West' or 'back to the roots' - are relatively helpful illustrations of the range of diversity in social structure during the transformation. Here, for study of the transformation, we could modify Peter L. Berger's (1986) argument concerning the protracted conflict between the 'old' and 'new' middle classes as the main driving force of contemporary capitalism. In the Czech Republic, we can identify rather a latent conflict between the surviving managerial and emerging entrepreneurial classes, the labels 'old' and 'new' being exchanged between the continuous (pre-communist) and reintroduced (post-communist) capitalism.⁴

Table 7.3
Characteristics of two types of entrepreneurship in Eastern Europe

Characteristic	Capitalist roots	Socialist roots
Type of market environment	Perfect competition	Imperfect competition
Attitude to market	Market development	Market suppression
Communist Party support	Negative	Positive
Size of activity	Small business	Corporations
Main fields of activity	Small- scale services and exchange	Corporate sector, material production, banking-
Contacts with state bureaucracy	Occasional (through bribery)	Daily (through subordi- nation)
Original source of power	Bargaining skill	Politics, personal net- work-
Source of main income	Shadow or illegal	Official remuneration
Fringe benefits	None	Various (housing, car, travel)
Execution of power	Through skill and cash	Through bureaucracy, remuneration and pull
Social prestige	Low	High
Risk- taking	High	Low
Level of education	Low	High

Source: Benáček, 1994b.

So far, the privatization process has ended in the partly concentrated ownership of legal persons (banks, privatization funds, National Property Fund) and the partly dispersed ownership of physical persons (DIKs = holders of investment coupons). In such a situation, control dominates ownership and managers dominate small shareholders. Viewing this dynamic, Ivan Szelény speaks of post-communism as a managerial system in which property relations are not well identified, thus resulting in the situation whereby bank and fund directors as well as national and international financial experts become the most powerful players.⁵

Although grass-roots entrepreneurship has had a rather energetic beginning, it could hardly be termed an explosion. According to LFS, 6.2 percent of the Czech labour force were self-employed and 2.5 percent were entrepreneurs with employees in Spring 1992 while 7.5 percent were self-employed and 3.8 percent were entrepreneurs in Fall 1995. Most entrepreneurship is still backed by dependent employment and formally constitutes a secondary job (if declared officially at all). According to the survey data, of those holding a licence in the Czech Republic in early 1996, private business was still the only job for 16 percent, primary employment for 31 and a supplementary source of income for 53 percent (EEA, January 1996).

I largely agree with I. Szelényi that the managerial class has managed to preserve or indeed increase its power in the transformation period. Its success contrasts with small and medium-sized entrepreneurs who may have improved their standard of living (mostly in return for exceptionally hard work) but have not increased their participation in power, even on the local level. However, I disagree with Szelényi's explanation that it is know-how and cultural capital which matter in this field and that, therefore, intellectuals are the dominant category of the post-communist ruling class. For the Czech Republic, at least, this is not the case.

Unlike Hungary and Poland, where people with higher education were promoted considerably after 1989, such advancement was restricted to managerial and financial positions in the Czech Republic. Whereas the society is undergoing a modernization process, this process affects typical intellectuals to a lesser degree. Although teachers, physicians, researchers and artists do not declare themselves explicit 'losers' of the transformation, they enjoy their attainment more in terms of freedoms than in terms of securities. They continue to support the process but, simultaneously, are beginning to manifest their particular status interests.⁶

Obviously, there are as yet no middle classes to speak of in Czech society. We can only hypothesize about a crystallization process apparent in material, associative and psychological indicators. Incomes and the standard of living of the entrepreneurial and, to some degree, the 'service' classes are improving and moving away from the working class. During the transformation process, some occupational groups are becoming aware of their status and interests, creating chambers, associations and trade unions. In the surveys, this process is indicated by a more consistent location of individuals on the social ladder, better distinguishing the lower, middle and higher classes (Matějů, 1995).

This crystallization process could also be interpreted as the functional differentiation emerging from the ambiguity of the transformation period in which communism and capitalism, distorted traditions and modernity are mixed. This process not only means the differentiation of social categories issuing from the former mass of state employees, but also the circumscription of social boundaries and, consequently, social tensions and conflicts. Only in such an hypothetical and preliminary meaning can we speak about the tension or latent conflict between the surviving managerial class and its strong state backing and the emerging entrepreneurial class with its problematic support.

In the scheme P.L. Berger designed for advanced capitalism, the knowledge class privileged by educational credentials is the main representative of the 'new' middle class. During the transformation, managers privileged by their social capital tend to appear in this role (but are climbing to the upper class). Instead of being on the left as intellectuals, managers tend to the right, conflicting with their previous formal communist attachment but conforming to their interests in the privatization and the

withdrawal of the state from the economy. On the other hand, the 'old' middle class is newly constituted and is hence much weaker. This might push new entrepreneurs to the political left, a location which seemingly offers them some support and protection.⁷

Besides this latent conflict, yet another has become even more visible. This is the tension between the 'service class' in the public sector and the government's assertion of restrictions upon it. This social category, represented typically by teachers, physicians and researchers, was excluded from the privatization and exposed to the expanding market and a tight budget: education, health and research should pay market prices but be subject to strictly regulated revenues. Obviously, no simple mechanism for the restoration of their former (prewar or slightly worse immediately post-war) positions has been established. Neither public opinion nor the governmental position, however, are favourably inclined to this group.

Public opinion remains familiarized with the 'equal treatment' of manual and non-manual work in earnings, the value of education having increased only marginally in people's minds. According to Prime Minister Klaus, these categories exhibit a belief of exclusiveness, of being 'above the market' and a lack of humility by comparing their relative situation with Western countries (LN, 6 January 1996). The middle classes issue is viewed as a suspicious leftist agenda, not worthy of being tackled by conservative parties, which distrust any 'collective' interests. Even the public discourse in terms of human capital is still constrained and overshadowed by the preferred rhetoric of productive capital and financial assets.

The privatization in people's minds

Behind the formal equal opportunity rule of the voucher privatization, there was an assumption that 'only a social elite ... could be successful. The government believed that thanks to the voucher method of privatization the national property would quickly and safely fall into the most capable hands in the nation - the individuals with the greatest wisdom, ability and education. Thus the social order would efficiently and promptly return from the dangerous and distorting communist experiment to some Hayekian spontaneous order, or to a natural state of affairs in which the best are the richest and vice versa' (Mertlík, 1995, p. 325).

Contrary to such a naive assumption, experience shows that people's abilities are not the most important investment in such a game. Not human capital and competence but previous positions, contacts and information or simply belonging to closed networks are what really matters when privatization projects requiring a detailed knowledge of the organization are submitted. As rather vehemently formulated by a Czech/British economist, 'a considerable part of the national property

was divided between a group of plunderers using inside information, corruption and other obscure methods to enrich themselves' (Nepil, 1995, p. 31).⁸

As a matter of fact, after four decades of collective waste and irresponsibility, the equal distribution of property among citizens has a problematic moral background. Formally, the goal of the process seems to be the accomplishment of the imaginary 'all-people property' announced by the communist regime. In contrast to the myth, this property was rigorously administered by the communist political and economic bureaucracy. As the property was never in the people's hands, it could, in fact, never be fairly redistributed to them. In a sense, one imaginary was replaced by another, the break in formal ownership being obscured by continuity in real ownership.

The non-violent character of the anti-Communist revolutions facilitated the survival of the previously ruling strata and even fortified their economic position by formally passing property into their hands. The question is whether there was another solution, i.e. to replace the relatively skilled communist managerial class with another managerial class which had emerged from thin air. This was the case after 1948, when the communist regime promoted 'working-class-cadres' to managerial positions, with disastrous effects even for the command economy. After 1989, there were neither the economic nor the political conditions to do so and attempts to lustrate managers because of their communist past had to be rapidly abandoned.

In the beginning, privatization was for the most part welcomed by the Czech population. In the end of 1990, 60 percent of respondents more or less agreed that all large state enterprises should be transformed into joint-stock companies or private firms, and 55 percent agreed that foreign firms should not be limited in their activities (EEA, May 1990). As they began to perceive the interplay of formal and substantial features, people gradually changed their minds. Both percentages later decreased, especially the share of people welcoming foreign firms having free rein (Figures 7.1 and 7.2).

Before the voucher privatization started, the populace's interest was considerable but far from constituted a majority. More people declared that they understood the principle (44 percent) than were interested in buying coupons (35 percent) (EEA, November 1990). The understanding and desired participation increased somewhat just prior to the first wave in May 1992, when 57 percent declared that they understood and 50 percent that they would participate. Although not all, more than a half of the populace endorsed coupons as the right form for distributing national property, the support increasing with education and the preference for the political right (EEA, December 1991).

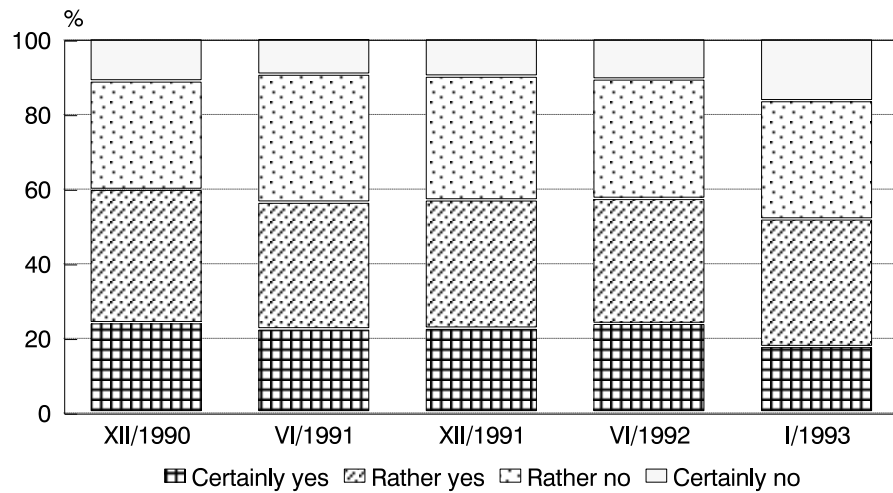


Figure 7.1 All state firms should be privatized

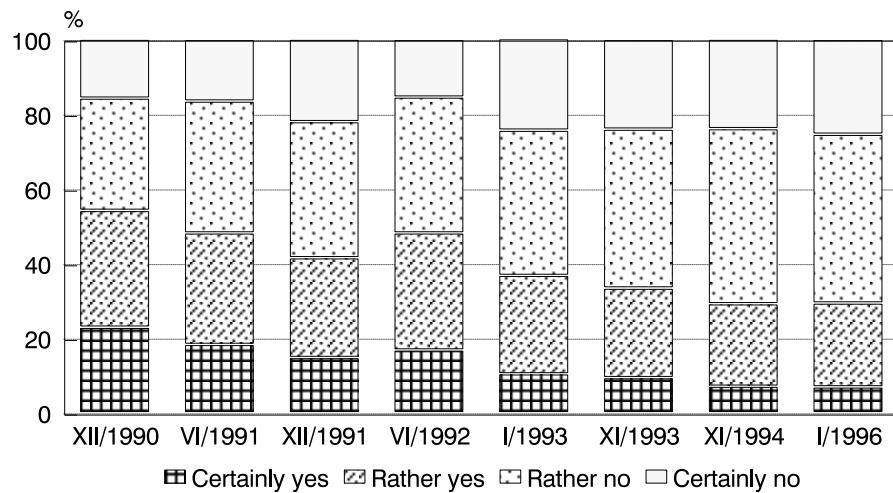


Figure 7.2 Unlimited freedom for foreign firms

Source: EEA surveys.

As Hrabá et al. (1993) demonstrated on the basis of the EEA surveys, education was an important determinant of participation in the voucher privatization, as opposed to the capitalist ideology which was generally spread among the population. Although people possessing human capital would be the best disposed to start a

business, insufficient physical capital (a result of the low rewards under communism) has prevented them from doing so. They have therefore decided to participate through passive investment instead of active entrepreneurship, the former bringing greater profit from the market reforms.

The genuine turning point in the coupon privatization was the aggressive campaign launched by Harvard Investment and Consulting Funds. These investors presented vouchers as virtual liquid money by promising to buy them back for 'a guaranteed ten times more' within a year. People were attracted by the vision of quick profit rather than by the idea of becoming true co-owners and hence assigned much more of their coupons to privatization investment funds than they had initially envisaged. Yet at the end of 1991, about a half of those people intending to participate decided to invest in firms directly (EEA, December 1991).

Following the general reform postulate, people also agreed that speed counts. Not only did they understand that 'changes in the economy must be as fast as possible even if it causes a temporary lowering of the standard of living' (Figure 7.3), but they also partly accepted that 'privatization should continue even with the risk that property will fall into the wrong hands'. In both cases, tolerance decreased: the percentage of people who agreed with the continuing privatization at any price dropped from 28 to 18 percent from mid-1992 to the end of 1993. The final pronouncement on the privatization seems to have been formulated at the end of 1994, when more than a half of the populace (54 percent) shared the opinion that privatization primarily means a transfer of property into the wrong hands (Figure 7.4).

The perceived legitimacy of privatization is associated with current wealth, recent job experience and human capital. Rich people, the upwardly mobile and the better educated understandably have fewer doubts about the fairness of acquiring property. The fact that no relationship is to be found between employer/employee status and the moral endorsement of new wealth testifies to the above mentioned ambiguity of getting rich. New wealth is also questioned more by old people and less by young people. However, the main and even strengthening determinant continues to be political affiliation: 80 percent of people located on the left question the fairness of the privatization, as opposed to 35 percent of people on the right (EEA, January 1996).

Unlike the somewhat hesitant acceptance of coupon privatization, restitutions were largely appreciated from the very beginning, when 77 percent of the Czech populace supported them (as opposed to 63 percent in Slovakia). Apart from people with a strong communist attachment, it is hard to identify which part of the population was against it. However, the solution was largely considered inadequate: only one tenth of respondents regarded it as definitely adequate and one half regarded it as more or less adequate (EEA, December 1990).

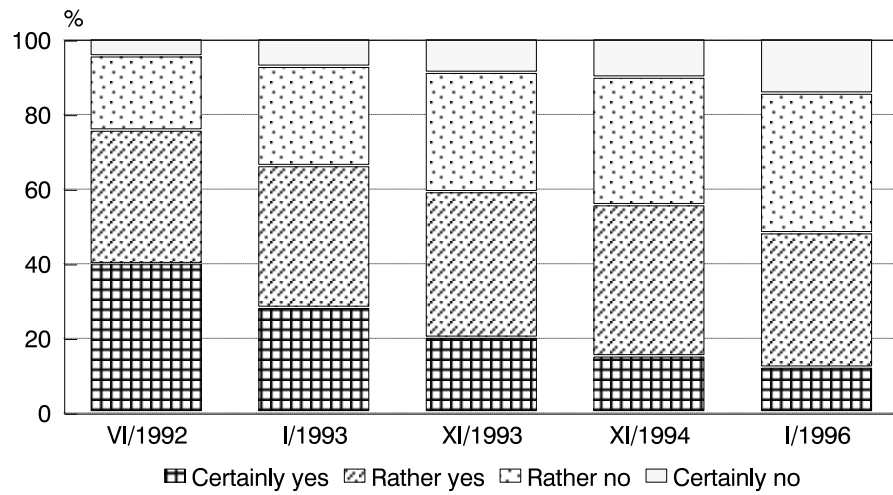
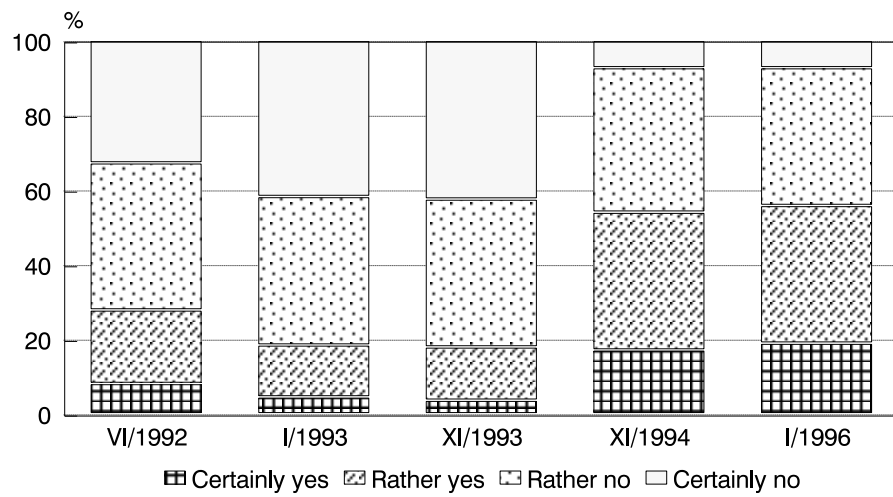


Figure 7.3 Changes in economy as fast as possible



**Figure 7.4 Privatization should be fast (1992-93)
Property in wrong hands (1994-96)**

Source: EEA surveys.

Emergence of the financial market

The voucher privatization was certainly not designed to establish a people's capitalism. The general success of this privatization form was not a result of people's enthusiasm to assume ownership responsibilities but of their desire not to be absent when the socialist 'all-people's cake' was about to be shared out. For most, it was a source of liquid money rather than a tool of long-term participation in the economic game. By the beginning of 1996, 24 percent of 7.3 million DIK accounts were declared empty; many are still closed daily. Nevertheless, current indicators report the still extensive participation of the Czech population in the emerging financial market.⁹

Table 7.4
Participation in privatization and subsequent behaviour (%)

	Points passed to IPF		Shares sold
	1st wave	2nd wave	
<i>Participation</i>	81.7	81.4	
<i>From them passed or sold the shares:</i>			
No	27.5	38.7	52.8
Less than half	3.3	4.4	7.1
About half	9.5	8.3	16.2
More than half	2.9	2.8	4.7
All	56.8	45.8	19.3
Total	100.0	100.0	100.0
<i>Those saying 'no' according to education (educational category=100%):</i>			
Elementary	13.0	15.8	37.3
Vocational	19.3	26.3	44.4
Secondary	27.1	41.0	51.2
University	38.7	53.6	60.7

Source: EEA survey, January 1996.

The general statistics on the privatization report about 72 percent points in the first wave and 64 percent points in the second wave implemented through IPF. From the perspective of individuals, the January 1996 EEA survey also reveals that only a minority acted individually during the two privatization waves. Such a decision strongly corresponds to the educational level: the higher the schooling, the greater the willingness to take risks independently. Over 50 percent of university-educated people refused the intermediation of IPF in the second privatization wave (Table 7.4).

The behaviour during the distribution of shares is only weakly linked to how they are subsequently handled. People acting individually do not necessarily keep the

shares for speculation once the market has settled down. Furthermore, breakdown by education - still the strongest explanatory division of the population - is much less convincing than it is in the above case. Currently, 44 percent of respondents declare themselves to hold joint-stock company shares and 49 percent IPF shares. Most company shareholders are better educated, young and middle-aged people belonging to the higher categories of wealth.

A small majority of people ultimately endorsed the result of the coupon privatization. To the question *All in all, would you say that you have gained from the coupon privatization?*, 22 percent answered 'certainly yes', 38 'rather yes', 21 'rather no' and 20 'certainly no'. In the 1994 FES, one fifth of households declared some income from selling shares, the decile ratio of those incomes being 78. In January 1996, 30 percent of households report income in the previous year from financial operations. Of course, we cannot enquire as to the absolute profit but we can safely assume that this income is more differentiated than any other income source. Insider information, patience, time and luck produced a variety of outcomes in this all-national game.

The main result and expected outcome of the coupon privatization was the launching of the financial market of shares and, later, the collection of additional capital. The beginnings of such a market have, however, been difficult. After the initial boom of certain shares, prices unexpectedly began to decline in spite of a satisfactory economic development. One possible explanation was the relative riskiness of locating capital for portfolio investors who are not protected against the powerful main investors. The continuing fall of the financial market was interrupted by the action of a previously unknown bank which, through the targeted purchase of shares owned by certain IPFs and banks, pushed the prices up and thus triggered the so-called 'third wave' of the privatization process, i.e. the concentration of ownership.

The financial market still lacks transparency and gives out confused price signals. In a short time span, the Prague Stock Exchange (April 1993) and the 'people's stock-exchange' RM-S (July 1993) were established, each declaring different prices. While the first is professional, the second is public, using the registration posts of the coupon privatization for negotiated trading or continual auction. The bulk of stock trading, however, still proceeds directly over the counter of the Centre of Securities. The variety of forms is endorsed by the still high interest in trading. The number of people declaring they scan stock-exchange reports is unexpectedly high: 15 percent answer 'certainly yes', 23 'rather yes', 26 'rather no' and only 36 'certainly no' (EEA, January 1996).

The concentration drives of the 'third wave' of privatization generated attempts to protect small shareholders. This is part of an implicit clash between two groups of economists, the first keeping the 'lights off' and thus allowing rapid privatization

in the 'Wild East' style and the second trying to switch the 'lights on' and thus strengthen the transparency and the rights of minority owners through a legislative process. According to the latter, companies should be restricted when changing the status of free-trade shares, information about small shareholders should be confidential and they would have to be invited to sell their shares for a decent price as property concentrates. Damages inflicted on small shareholders should be compensated.¹⁰

The struggle between strong banks, investment funds and companies on the one hand and citizens rewarded with coupons on the other is one small detail in the whole scenario of a reform which stressed nominal features and 'neoclassical' stabilization tools instead of real characteristics and the restructuring of institutions. This was summarized as follows:

The capital structure which emerged for Czech industry between 1990 and 1993, to some extent, is a result of the failure of the ambitious voucher-privatization program to provide the liquidity and flexibility which firms required. Yet the capital market was also squeezed by the countervailing effects of universal banking laws which granted banks powers to manage investment funds which owned the lion's shares of privatizing firms. Due to the influence of the large banks spun off the unitary, communist banking system, little effort was taken to force the break-up of these financial conglomerates. Thus the fledgling capital market created in 1993 was dominated by banking power, and remained highly vulnerable to collusion, price fixing through artificial bidding-up of share prices, and volatility due to fluctuations in prices of single issues (Desai, 1995, p. 36).

In the process, people have learnt a lot about confidence and reliability in the financial sphere. In fact, inexperienced customers have served as a convenient target for speculators and crooks, thousands of people having placed their trust in newly opened banks and investment companies in response to their aggressive advertising campaign promising extraordinary interest rates. Now, both the regulatory function of the Czech National Bank is stronger and people are more cautious about their money. This, on the other hand, undermines confidence in small banks and supports the concentration process led by several banking giants.

Privatization and 'political capitalism' in the CEE countries

Across the CEE region, the meaning of re-privatization has been the same but its path and pace different. Various factors come into play here: the initial conditions or, as the case may be, the historical traditions, the assertion of an 'expert' design competing with domestic ideas, political support and turbulence during the transformation.

The process of privatization in Hungary began in 1989-1990 with the so-called 'managerial' privatization. Firm managements themselves sought domestic or - preferably - foreign partners and agreed with them on the price and conditions of the privatization. Legally, managers divided enterprises and created satellite organizations, keeping shares partly for themselves. To avoid the enrichment of management teams, the State Property Agency was established to supervise about 500 large firms and to clean them up enough to attract foreign capital. For this task, international investment banks and consulting firms were invited to help formulate privatization programs.

Unlike the Czechoslovak and partly also the Polish programs, the Hungarian privatization was not centered on free (or symbolically priced) share distribution. The arranged Accelerated Privatization Fund was to invite one million people to pay a low (1,000 Forint=10 USD) registration fee in return for which they would be offered interest-free loans of up to 100,000 Forint, repayable over five years. With these loans, they would be able to buy shares in special offers on the stock exchange. Participants would not, however, become the legal owners of the shares and would not be able to trade them until the loans were repaid (BCE, October 1993).

Currently, Hungary is considered the leading country in privatization because strategic industries such as banking, energy production and telecommunications have been sold to foreign companies. Unlike the hesitant and confused steps of early 1995 which only confirmed expectations that the socialist government would adopt a defensive strategy, the end of 1995 saw 8 billion USD of property available to domestic and foreign capital, 3 billion USD actually sold, with yet more foreign investors still expected. The private sector thus grew to occupy 75-80 percent of the economy, the new proprietors being the 'true' owners, unlike the recombined state/banks/funds property in the Czech Republic.

In Poland, the organization of mass privatization has been very complicated in legal terms, resulting in a short-term negative resonance among the Poles. The finally approved version of large-scale privatization left less for the market than the Czech model. 15 National Investment Funds (NIFs) gained over 60 percent of the shares in 514 firms in manufacturing, construction and transport. Citizens pay around 15 USD (one tenth of the average monthly wage) to receive shares in the NIFs, which will become tradable securities. The NIFs were to be run by experienced managers, many of them from the West, and to trade their shares early on, while the liquid secondary market were to indicate the companies' actual worth (BCE, October 1993).

Only six million citizens had registered for shares by the end of 1995. In the referendum *Are you for the general participation of citizens in the de-etatization of property?*, held in February 1996, only 30 percent of eligible voters participated.

However, in the distribution of coupons exchangeable for 15 shares (nominal price 8 USD, market price over 30 USD), which has to start in November 1996, participation is expected to be 80 percent. The Polish privatization being considered slow, the government is seriously discussing its continuation with an additional 4,000 firms. As its main aim is to find strategic or, if possible, the best owners guaranteeing modernization, it is criticized for transferring too much economic power to international bodies and to banks governing National Investment Funds.

In Slovakia, privatization proceeded at an almost identical pace to the one in the Czech Republic until the June 1992 elections, after which the process of large-scale privatization seems to have ground to a complete halt. Unlike the methods chosen by the Czech government, employee share-ownership, direct sale and public tenders were preferred by the Slovak government. In 1993 and 1994, only a very small percentage of property was privatized and the process itself became a hot political issue. The HZDS-ruled parliament delegated all powers to the Fund of National Property, simultaneously exchanging its top personnel, and cancelled already approved direct sales (Bútorá, Hunčík, 1996, p. 91).

The procedure took another radical turn in January 1996, when the Fund of National Property assigned state bonds with a nominal value of 10,000 SK (about 350 USD) to Slovak citizens already registered for the second wave of coupon privatization. They were said to be payable, including interest rates, after 31 December 2000, or used for buying other bonds, buying private insurance, paying off privatized firms, apartments and the like. As most of people decided to sell the bonds immediately, their minimal value was reduced by the government to 7,500 SK but they are still hardly saleable and home owners refuse to accept them.

The new arrangement was largely disapproved by the populace, 65 percent considering it wrong (against 11.5 considering it right) and 67 percent unhappy with the halt of coupon privatization (against 19 percent approving) in January 1996 (according to the agency Focus). After failing to sell the bonds, people feel cheated, suspecting the government misuse the privatization for political goals. The lack of legitimacy, however, does not exclude efficiency and the lack of 'popular' capitalism announces a stronger 'political' capitalism. According to BCE (May, 1990) evaluating the recent changes, 'it is grossly unfair, possibly corrupt, certainly political, but it should work'.

Perceptions of the privatization process and its consequences also vary among the CEE countries. In late 1991, the greatest inclination to privatization was manifested by Czechs, followed by Poles, Slovaks and Hungarians. This difference was mostly caused by dissimilarities concerning the privatization of television and state farms (in both cases largely opposed by Hungarians and Slovaks). The differences are much smaller with regard to large enterprises, Czechs and Hungarians being

rather in favour, whereas the Slovaks are rather against this procedure and the Poles' acceptance specifies that it be contained with limits (Table 7.5).

Table 7.5
Appropriateness of privatization in minds of people (index)

Subject	Czech Republic	Hungary	Poland	Slovakia
Large-scale firms	68.5	65.7	62.1	63.4
Banks	71.5	66.0	67.3	67.9
Hospitals	64.2	62.5	62.8	65.3
TV stations	77.2	68.4	77.5	73.0
State farms	77.3	66.9	80.3	70.6
Power stations	66.8	61.7	65.3	64.5

Source: Dismantling of the safety net 1991.

Question: 'Do you think that the following areas of our economy should be privatized without limits, privatized only partially or not at all?'

Index is calculated so that answers 'privatize without limits' =100, 'privatize partly' =50 and 'do not privatize at all' =0.

Observing the general attitude to privatization according to categories of the population, we uncover similar basic tendencies in all four countries. Of those in favour of privatization, there were more men than women (especially in the Czech Republic), younger rather than older people (the age differentiation being the most striking in Slovakia), those from larger localities (especially in Poland) and those politically oriented to the right (again mostly in the Czech Republic).

Whereas the exigency of privatization is accepted by a majority of population in all CEE countries, the emergence of the new owners is perceived with certain reservations and sometimes antagonism. Capitalist property relations in abstract terms are accepted more than capitalists themselves and resulting inequalities in concrete terms. This might be explained both by the legacy of the communist past (when people were bombarded with the image of the capitalist as the greatest social evil) and by certain problematic privatization methods (which allowed the nomenklatura to maintain its position and opened the door to speculative foreign capital).

We have already mentioned the hypothesis according to which the nomenklatura itself prepared - or contributed in the early stages to - the collapse of the communist regime. The suggested reason for their behaviour was to continue their power and/or to use and manifest property openly, like a formerly exorcised bourgeois. In Pierre Bourdieu's (1986) wording, untransferable 'social capital' could and should have been converted into transferable 'economic capital' in the case that nomenklatura networks were sufficiently firm and dense in the societal infrastructure and the efficiency of coercion no longer adequate.

The former elites differ among the CEE countries according to their political cultures and roles in the 'perestroika' 1980s. George Mink and Jean-Charles Szurek (1992) distinguish between the 'rationalist nomenklatura' in Poland and Hungary (well trained and ready to accept changes) and the 'reactionary nomenklatura' in Czechoslovakia. While in Hungary and Poland, the process of privatization started many years before the political change (private farming, trade and catering, private schools and health services, etc.), only a few private activities were permitted in the former Czechoslovakia.

Using Polish experience, Jadwiga Staniszkis (1991, pp. 41-45) distinguished several early forms of the power/capital combination such as the dual status of fixed capital, spin-offs of certain functions of the enterprise and having work done by a private company set up by the managerial cadre and some of the employees, selective leasing of chosen departments of a state enterprise to private companies in which people associated with the managerial staff often have shares, or the participation of the managerial cadre of a state enterprise in private companies with foreign capital.

Similarly, in Hungary, foreign participation as a minority partner in joint ventures was encouraged in the 1970s, and economic working teams could be established in state enterprises as small-scale profit-oriented entrepreneurial centres in the 1980s. Later, state-owned enterprises were allowed to change their legal form, on the condition that the management was in favour, that the company's assets were valued and that an outside investor was willing to acquire at least 20 percent of those assets. In the absence of state control, managers were not so much concerned with obtaining a fair price for the company as they were securing their own positions and private enrichment.

In further developments, managers of the former state enterprises and members of the political nomenklatura became direct legal owners or co-owners (through ownership of a majority packet of shares) of existing or newly-created firms. To this end, they used - in active terms - huge 'social capital' (good contacts and access to important information about people and firms, the ability to manipulate people) and abused - in passive terms - the fact that most people were inexperienced in economic and financial affairs and too dispersed to challenge them.

Unlike in Hungary and Poland, no legal possibilities of capitalizing on political positions and contacts existed in the former Czechoslovakia. This does not mean, however, that the Czech nomenklatura is less 'rational'. Such possibilities largely emerged during the privatization process. Formally, anyone could submit a privatization project; in reality, only those with good access to information or directly producing this information could succeed and triumph in the competition. The large participation of old cadres in the new economic elite is confirmed by various sources.

Benáček (1994b) estimated that since practically all top and middle-ranking managers prior to 1990 were members of the Communist Party, approximately half of the emerging Czech capitalist class was composed of people chosen by the communists. Since, after forty years of a command economy, there were no other people with business experience available, some sort and level of political capitalism was considered a necessary feature of the transformation period - as were obvious risks such as rigidity, preferred use of bureaucratic methods and clique behaviour.

Furthermore, the probability of becoming an entrepreneur was shown to be apparently higher among former members of the Communist Party. As Petr Matějů and Blanka Řeháková (1993, p. 86) showed, 'the greatest circulation occurs in the group of higher professionals and especially for the group who were members of the Communist Party in 1989 or were in positions qualifying them as cadres. It was precisely these two groups that had, in comparison with others, far higher chances of entering the group of entrepreneurs'. However, being a cadre (regardless of party membership) turned out to be a far more important factor in this particular strategy for getting ahead than membership in the Communist Party alone.

The most accurate explanation is that the conversion of cadres into capitalists was one of several ways of recruiting the new entrepreneurial class. Based on the SSEE survey, Eric Hanley (1995, pp. 22-23) documents the reality of the same people continuing to form the elite across regimes as well as the importance of human capital, experience of the secondary economy and resumption of interrupted entrepreneurial trajectories under the new conditions. These findings suggest 'that markets are having a dual effect on stratification order in Eastern Europe, reproducing socialist-era inequalities in a new and durable form on the one hand while exercising a partially transformative effect on the other ...'.

In conclusion

The privatization process was necessary to restore owners' responsibilities over production forces. It was also expected to substantially contribute to launching standard market mechanisms and re-establishing the capitalist and middle classes, to ease relations between people and introduce a 'market moral' rendering all other controls unnecessary. Both the prewar past and developed countries of the West still serve as a model. Many expectations and hopes could be met but none of them fully. Reality shows the complex character of this many-storeyed and still shaky building which should be structured and reinforced in the making.

The Czech-made privatization was faster than in other CEE countries, representing a sort of 'shock' privatization which happened so quickly that many people

saw their chances too late. It was less political in terms of the legal conversion of former managers into new entrepreneurs. The Czech privatization tended to give exceptional powers to the state bureaucracy which managed this process. In many cases, the administration of individual privatization projects acted as a mobility channel for clerks to enter the managerial or entrepreneurial classes. Moreover, the state bureaucracy maintained its outwardly visible involvement in the national economy as well as its invisible connections to it. According to Mitchell Orenstein (1994, p. 24), one of the major factors of the Czech reforms 'has been a high level of government control and administrative effectiveness'.

Everybody was formally invited to participate in the privatization and almost everybody accepted. However, people quickly abandoned beliefs about equal shares in the former national property, equal opportunities to acquire wealth and equal access to financial markets. On the contrary, the privatization served for many as a lesson in inequality which undermined the general confidence in new wealth and riches. As 'the ultimate effect of large-scale privatization is as yet unclear' (Kotrba, 1995, p. 198), both interpretations thereof are still in competition: the greatest success (Václav Klaus' version) and the 'swindle of century' (the social-democratic leader Miloš Zeman's version).

Statistically, the Czech economy is considered largely privatized. But individual markets are not developing in parallel. Whereas productive forces were distributed by leaps, the financial market is expanding by - still impressive - steps while the housing market is rather shifting from one foot to the other. More market and more state intervention is required at once in housing, health services, transport and other areas. In this way, social cleavages appear: poor house-owners against well-to-do tenants, neglected physicians against privileged bank officers, heavily taxed small entrepreneurs against state bureaucracy and small shareholders against powerful investment funds and bank monopolies.

This process is challenged by several inconsistencies. Unfortunately, there is far more privatization in legal terms than in reality. Whereas the appointment of formal owners is a technical matter, their training in economic and social responsibilities is the task of a generation. Fortunately, however, there is more privatization in practice than in people's minds. After their revolutionary enthusiasm, many people have become critical or declare themselves even hostile towards the market. As this hostility is sourced more in envy than in morality, people's behaviour is rather adaptive and participative than rigid and demanding. Their appraisal of the privatization is also clearly cleaved: while most people declare themselves to have gained from it more still declare that the new wealth is illegitimate.

Notes

- 1 Soviet routine served as an obligatory model, Soviet experts helping the national communist cliques execute expropriations through a wily combination of formally legal and violent forms. Thousands of sentences for 'sabotage', 'tax-dodging' and other crimes paved the road to state ownership and cooperative agriculture.
- 2 Privatized firms have been described by a journalist as an expectant, heavily made-up mistress waiting for her lover (foreign capital), who has still not arrived (*Respekt*, No. 41, 1995).
- 3 Here, the principle rule was the Coase theorem, according to which economic efficiency presupposes full allocation of property rights. It does not matter who owns what initially but only that everything should be owned by someone.
- 4 Whereas the 'old' middle class is engaged in the production and distribution of material goods and services, the 'new' middle class is engaged in the production and distribution of symbolic knowledge. It is accordingly called a 'knowledge' or 'service' class, not providing, however, production or personal but symbolic and analytical services (Berger, 1986; Reich, 1991).
- 5 This is a preliminary result based on an empirical survey of 3,000 managers of key firms in five CEE countries (Bulgaria, the Czech Republic, Hungary, Poland, Slovakia, Russia). According to the survey, 90 percent of cadres were already in those positions before 1989 (Szelényi, 1995).
- 6 In 1995, two strikes of the 'new' middle classes were announced. The teachers' strike was, however, cancelled a long time before the planned date, after a compromise in which they were promised their extremely low earnings would soon be increased. An 'administrative' strike by physicians did occur, but was terminated early, after an intervention by President Václav Havel.
- 7 Unlike Poland and Hungary, where the 'business vote' (the electorate of small and middle entrepreneurs) had considerably supported leftist parties, this appeared only weakly in the 1996 Czech elections.
- 8 In a similar way, the Hungarian economist L. Lengyel describes the plundering of national property during the transformation in which political leaders divided whole branches among themselves. He ascribes the lack of corruption scandals to the widespread reluctance to cast blame on anybody since everyone is implicated (*LN*, 6 December 1995).
- 9 According to the European Association for Share Promotion, the Czech Republic is the leading country of shareholders. The percentage of people holding shares is here 57 percent that is more than in Sweden (35), Russia (27), USA and Canada (25) and far more than in such countries like Germany and Austria (4-5 percent) (*MFD*, 22 August 1996).

- 10 This initiative is led by Tomáš Ježek, one of the ‘fathers’ of the coupon privatization and Chairman of Parliamentary Budget Committee: ‘Privatization was made for people and not for predatory companies. Concentration is inevitable but must be played fairly’ (MFD, 16 March 1996). He thus opposes Václav Klaus’ opinion that legislation can only come after people, as in pioneers’ America.

8 New hardships and the coping strategies of households

In early 1990, most Czechs decided to accept a temporarily lower standard of living and to conform their economic behaviour to capitalist norms. This included adjusting their work and living habits to the requirements of the market economy. As the market order is neither given (as in traditional Western societies) nor imported (as in the German *Neue Länder*), the mode of adaptation is somewhat complicated: people must adopt the new forms of behaviour as they are being introduced and adjust to new institutions which are only now appearing or are undergoing substantial changes. Only households are to remain stable.

Of the various actors in the transformation process, households are rather neglected in both politics and research. They are too small, too numerous, too atomized, too weak and apparently defenceless. They are accountable only after summarizing their activities into global aggregates of incomes, labour supply and consumer demand. From another perspective, they are quite reliable units because a family can never go fully bankrupt. Households are basically active, dynamic and flexible mini-actors within the process and the success of societal transformation depends greatly on their spontaneous activity in the labour market, the informal economy, the consumer market and other fields of economic and social behaviour.

By observing household behaviour, we uncover the interrelations of economic, social and political changes and discern features of re-emerging and transforming social structures. The process of change will necessarily divide the population into categories determined according to their capacity and willingness to adopt new forms of behaviour and the speed at which they are able to do so. Market adjustment is both a short-term and long-term process. In the short term, control mechanisms weaken, the price environment changes and new incentives of economic behaviour appear. In the long term, 'market capacities' (in Max Weber's sense) are asserted, important redistributions in wealth occur and the social hierarchy undergoes transformation towards greater consistency of knowledge, prestige and power.

In this chapter, I focus first on the situation of households regarding of their economic assets and human capital at the outset of the transformation. Second, some fragments indicating the hidden economy and its tremendous variety are collected. Third, I analyze various 'coping strategies' adopted by individuals and households and the modifications they undergo during the process of transformation. And fourth, the Czech realities are observed in the broader comparative CEE framework. The conclusion stresses the ambivalent information value of household's additional market and off-market activities.

Economic background: capitalist and socialist assets

There is no point zero, no empty space or social vacuum from which transformations start. Each society in transition, and each individual member of that society bears legacies of the communist past, most of which are negative, some of which, nevertheless, are functional. There is no simple transition from one system to another but rather a host of transformations from the old structures towards new ones: political and institutional as well as social and psychological. There are many legacies of the past - economic or moral, beneficial or harmful, universal or particular - which continue through the present to the future.

One detrimental legacy of the past is certainly the destruction of individual responsibility for one's life and the consequent discouragement of longitudinal (intra- and intergenerational) economic orientation. In the decades following 1948, many forms of investment - economic and educational - and many habits of prospective economic thinking were discouraged or hindered. Instead, reliance upon the state was required and blind loyalty to the regime rewarded. Expropriation of almost all private property destroyed long enrooted custody of the land, property and family businesses.

This process lasted 40 years in Czechoslovakia and was firmly entrenched in material structures (lack of private ownership and financial capital, low incomes permitting only small savings), in educational assets (often mostly politically featured credentials), and in the minds of the people (feelings of powerlessness and reliance upon state benefits and other guarantees). Simultaneously, people have developed very alien and abusive relations towards the state because the apparent tax-benefits transfer was replaced by the black box of the state budget and a 'gift-giving' authority.

A paradoxically functional legacy of communism was the cultivation by individuals and households of manifold adaptive capacities, skills and strategies for survival. Under conditions of full and forced employment, low and unchanged wages, paralleled by a permanent scarcity of many goods and services, people

learned to economize their time/money exchange with the state. They developed ways of providing as much as possible for themselves and limiting their work for the state. Along with the formal exploitative system, a huge informal economic sector evolved ranging from semi-official local services provided as 'neighbours' interhelp' to criminal activities.

Household economics was substituted for the shortcomings of the formal economy and became the main survival strategy. Cooperation in large families, social networks and local communities was intensively cultivated and maintained. A great deal of time was invested in apartments and houses because it was necessary to economize for materials and hired labour. Typically, materials were hunted in working hours and actual construction occurred after official hours, during weekends and holidays. Instead of working as top specialists in their main jobs, most Czech men became semi-skilled large-scale handymen.

Table 8.1
Manifested values of education (%)

Variants of answers	Current situation		Ideal situation	
	1991	1993	1991	1993
1. Highest	14.8	27.1	20.5	36.9
2. Higher	46.5	49.3	25.5	48.6
3. Lower	31.5	20.4	37.9	10.3
4. Lowest	7.2	3.2	16.1	4.1

Source: Transformation of the social structure 1991; Opinions on social change 1993.

Questions:

1991 What, in your opinion, is currently important to be a successful man/woman? (variants: 1. no importance, 2. some importance, 3. rather important, 4. the most important).

How much, in your opinion, has the importance of the stated circumstances changed in comparison with this time two years ago? (variants 1. less important, 2. same importance, 3. rather more important, 4. certainly more important).

1993 What, in your opinion, is currently important for a man/woman's position in society? The position depends on ... (variants: 1. certainly yes, 2. rather yes, 3. rather no, 4. certainly no).

What, in your opinion, should be important for a man's/woman's position in society? The position should depend on ... (variants: 1. certainly yes, 2. rather yes, 3. rather no, 4. certainly no).

Education constitutes an ambiguous legacy of the past. The system of differentiated education in prewar Czechoslovakia was crippled into a unified, pragmatic and highly politicized training. Instead of selection according to abilities, a predominance of working class children in higher levels of education was imposed.

Surprisingly, however, most of the middle class offspring found ways of attaining schooling so that patterns of education mobility far removed from those of Western industrial societies did not evolve (Matijù, 1991). Nor did the quality of schooling deteriorate drastically or the universities close their doors totally to children from the former upper classes.

Although in people's eyes, the value of education has risen since 1989 (Table 8.1), the population is still somewhat hesitant to accept the usefulness of formal education in relation to their evaluation of practical abilities and hard work. Thus among the various factors which have influenced success in life and/or position in society, education is valued highly but not the highest. After years of absorbing manual work values, most people still emphasize pragmatic rather than cultural and academic schooling and, generally, prefer 'universities of life' to a formal education. These attitudes are also of consequence in the current debate on physicians' and teachers' salaries, the public declaring: 'in fact, we financed their studies and they chose them freely, after all'.

Unlike education, wealth was a more practical legacy. Manifest, hidden or camouflaged, significant material wealth was tolerated and accumulated by particular categories of the population, in particular farmers (due to several-earnings households and considerable in-kind incomes), some craftsmen and salesmen (active for extra money in and after official work hours), blackmarketers and speculators (especially acting in the unofficial foreign currency market), and the communist nomenklatura (high earnings and material privileges, plus the benefits of political capital).

Under the communist regime, a considerable part of wealth was derived from political power. Any high position in the party, economy or state bureaucracy was associated with free or low cost access to some consumer goods, services and housing. Political capital was organized in alliances and networks - managerial, police, state administration or party organizations - which survived the implosion of the regime. Even after losing its political power, the economic position of the former ruling class has continued through capitalization of its initial position and penetration of the privatization process.

People also consider 'social capital' to be the most important prerequisite for a favourable social position (Opinions on social change, 1993). This includes connections with people in important positions, useful knowledge about people, membership in long-existing and developing networks. In addition, it involves knowledge of and access to the hidden scene and the operational mechanisms of the state administration which can be quickly capitalized and made use of. Based on a comparative panel survey, Petr Matějù (1996) has confirmed the fundamental importance of social capital for upward mobility after 1989.

We can conclude that despite the huge levelling impact of the previous regime, the starting conditions for individual and family success in the new market order were quite uneven. This inequality was partly derived from the prewar capitalism, but mostly from the communist regime and includes both merited and unmerited advantages. These will continue and expand, obviously with many conditions and exceptions. The main point is that no 'counter-revolution' involving an extensive reversal of positions and inequalities occurred after 1989, but only a very timid correction of some injustices and restitutions of a part of property etatized after 1948.

The informal economy: past and present

Economic activities circumventing official channels of administration, payments and taxing are to be found in any economy, their status differing according to the particular framework. On this point, David Stark's distinction between capitalism's informal economy and socialism's second economy is still instructive. Whereas the former economic activities 'operate accordingly to principles disparate from those of the rules of the internal labour market but congruent with the market principles', with the latter 'the embryonic market relations ... are incongruent with the bureaucratic principles' and, thus, 'a source of fundamental change of the economic institutions of socialism' (Stark, 1989, p. 637).

This finding was mostly inspired from a familiarity with the Hungarian experience (where the second economy was largely permitted by Kádár's regime) and has less validity for Czech society. The Czechoslovak regime was much stricter in this sense and would not allow any challenge from secondary activities. Nevertheless, even here, the informal economy developed somewhat, in accordance with the systemic features of the communist regime. On the one hand, this regime created more areas of scarcity - in services, construction, housing or access to education, health care or even exit visas to the West - than any other regime. On the other hand, low wages and benefits forced people to earn extra money or obtain free goods and services. However strictly controlled, underground activities necessarily expanded during the 'building of socialism'.

Unlike the neighbouring countries, the economic underground was tabooed in the former Czechoslovakia. No official analysis or estimation was made, and only the economic police confronted it, confidentially and in selected cases.¹ On several occasions from the mid-1980s onwards, the Institute of Public Opinion, in cooperation with criminologists, conducted confidential surveys on alegal and illegal activities. Officially, it was considered a rare abuse within the sea of the honest socialist economic sector.² Even before the November 1989 events, however,

people reported extensively on 'negative episodes' in the economic sphere. According to a confidential survey conducted in October 1989, the populace encountered the following (Názory na úplatkářství, 1990):

- the purchase of smuggled goods 61 percent;
- bartering of services 51 percent;
- bribes in return for a service 47 percent;
- theft of state property 44 percent;
- abuse of high position 43 percent;
- use of the black exchange for foreign currency 41 percent;
- bribery to obtain goods or services 39 percent;
- paying bribes to governmental bureaucrats 16 percent.

The literature mostly provides information on Hungary, Poland and the former USSR. A.B. Atkinson and J. Micklewright (1992, pp. 64-65) speak of incomes 'outside the socialized sector as a growing phenomenon in the 1980s', without quoting any figure. Endré Sik, using various Hungarian sources, refers to the unregistered economy's 14-17 percent share in the national income in the first half of the 1980s. He quotes only Polish and Soviet Union studies, assuming that 'as part of the "Hungarian experiment" it was in Hungary that both the second economy and social scientists interested in the operation of this ... phenomenon were allowed to flourish' (Sik, 1995, p. 22).

Since 1989, there has been no real progress in research in this field. At the end of 1991, R. Rose and Ch. Haerpfer (1992) conducted a comparative survey oriented toward measuring various 'economies' around the region. They distinguished, in addition to the official, legal and monetized economy, three 'social', non-monetized and alegal economies (household production, help of friends and relatives and free connections) and three illegal, monetized economies (second jobs, paid connections and use of foreign currency). Czechoslovakia scored lowest in all areas of the informal economy (a finding which corresponds to everyday experience) but scores the highest in the number of secondary jobs (25 percent as opposed to 21 in Hungary and 17 in Poland), which is a rather questionable finding.

Bruno Dallago speaks of the controversial development during the transformation in the former Czechoslovakia: 'Following the decline in the standard of living in 1991 and 1992, a substantial reduction of the demand of goods and services in the irregular market happened, while the irregular supply of labour increased'. Here, we should add that a high tax, rent and interest burden on new entrepreneurs causing high consumer prices invited customers to adopt informal ways of obtaining services. Further, Dallago (1993, p. 21) mentions the disappearance of the black currency market as a result of the legalization of exchange and, in contrast, the increasing laundering of money of uncertain origin.

Indirect indicators reveal a great deal of the informal economy. Růžena Vintrová (1994, pp. 3-4) supposes a sharp increase in the shadow economy over the transitional period, when the barriers of central planning disappeared. She adds, moreover, that it is hard to establish a clear boundary between the official and shadow economies and designates national accounts as one possible tool for identifying unregistered activities (the surplus of expenditures of the population over incomes). Other evidence is the puzzling disappearance from the labour force of around 250,000 workers, suspected of working abroad or in unregistered private activities. She estimates the share of the informal economy at 10-20 percent of GDP.

Vladimír Benáček estimates the size of the vanished workforce at 450,000 persons and reiterates the guess-estimation that a large percentage of registered unemployed people may in fact work illegally in the private sector as cheap full- or part-time workers. He further assumes that a significant number of full-time employees have private 'parallel fringes' during their working hours, as well as secondary or temporary jobs abroad, all of which go mostly unrecorded. He estimates a total of over 100,000 jobs for Czechs abroad and refers to 110,000 officially registered immigrants.

Drawing upon other facts, Benáček (1994b, pp. 5-7) concludes that 'the actual production must have been significantly higher than the officially reported one. It can also be roughly estimated that at least 15 percent, but potentially even up to 30 percent, of the labour force may be engaged in the shadow or black economies. If their income were to be added to the official figures of the GDP, the alleged dramatic decline in the standard of living over the last four years may not prove to be a reality'. He finally hypothesizes that the second economy in its widest definition contributes an additional 17-25 percent to the officially estimated GDP.

In pursuing indirect information further, not only are expenditures of the population observed as higher than declared incomes, but there is also a high level of savings with an increasing share of high savings. While the rate of savings was 3.6 percent in 1989 and dropped to 0.1 percent in 1990, it jumped to 10 percent in 1991 and is increasing steadily, reaching 12 percent in 1995 (Czech National Bank). In addition, there are high and increasing purchases of durable goods, cars, apartments and houses, or other conspicuous luxury consumption beyond the limits of the 'standard' income. Sales of cars mostly imported from the West have increased from 137,000 in 1987 to 267,000 in 1992 and continue to be high (220,500 in 1995).

Among the various sources of secondary income, substitution of differently taxed goods (fuels for heating or cars) and false declarations of export (alcohol, tobacco or any heavily taxed goods) are estimated to be not so significant, although they bring huge money to a small group of people. More significant are such profitable activities as rewarding people who transfer to the Czech Republic foreign capital

for the purchase of real estate, sub-rent apartments and smuggle cigarettes and many other goods.

Attempts to estimate the informal economy even on the macro-level are rare and more than tentative. Vladimír Kadera (1994) of the Commercial Bank estimated the shadow economy according to detailed items as a grey economy of 28-44 billion CZK and a black economy of 47-52 billion CZK, thus totalling 75-96 billion CZK (288-369 million USD) or 8-10 percent GDP. The official estimate of the Czech Statistical Office confirms Kadera's estimate and that of the developed Western countries as being between 10 and 14 percent. According to this estimate, about 500,000 people are active in the second economy, the majority of them employed in the first economy as well. Unfortunately, the CSO estimate is not founded on any publicly available calculation.

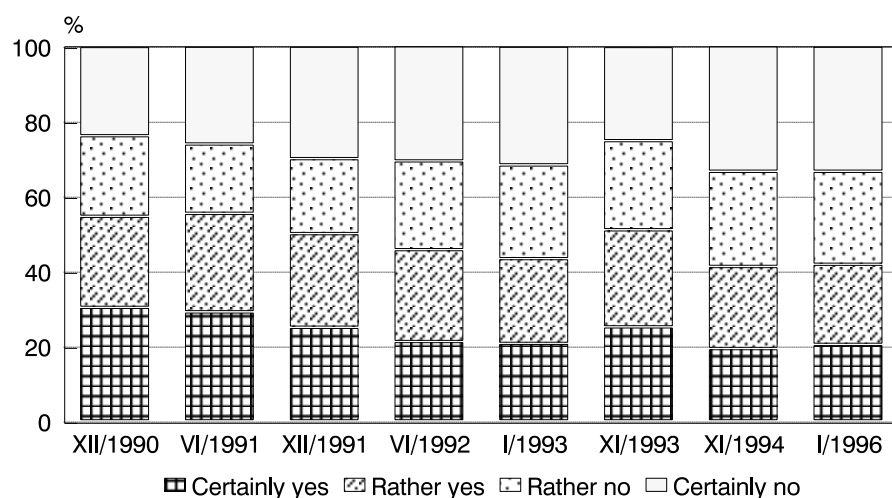


Figure 8.1 Secondary incomes are very important

Source: EEA surveys.

In households' perceptions, secondary incomes are important, but to a diminishing degree. Whereas in 1991 one quarter of the populace regarded them as very important and the other quarter as quite important, these figures are decreasing (Figure 8.1). These figures can be taken as the most reliable indicator of a certain formalization of the economy. Surprisingly, no identifiable category of the population is characterized by a higher incidence of secondary incomes. We found only a slight association with size of locality: the smaller the size, the higher the incidence which is clearly connected to agricultural activities.

Coping capacities of households

Economic reforms, price increases and job losses challenge the economic behaviour of households. These adapt by both economizing and looking for additional income sources; they mobilize their forces to cope with the new financial circumstances and difficulties; they look for assets and capacities enabling them to maintain their standard of living or use newly created economic spaces to improve this standard. They trade their leisure and, unfortunately, family life, for additional work, money and business success. In all of this, previously accumulated resources are used where possible.

The most immediate source of additional income is two categories of accumulated wealth: financial assets which can be used either to solve temporary financial difficulties or to start up a business (or both) and inherited property such as houses, apartments, workshops or land which can be used - legally - as productive capital. Although the communist regime did not permit significant private property and it was next to impossible for an absolute majority of people to save large amounts of money from their regular earnings, the value of assets thrown on the newly opened market has been quite high.

Certain parts of household property can be used for business activities, e.g. renting housing property for either business premises or residential purposes and using land for additional farming. This form of property seems to be scarce: whereas 31 percent of respondents declared in June 1992 they have a business license, only 6 percent report that they also have the material base to run a firm. This situation improved after a part of the expropriated property was returned to private hands and people surmounted the initial problems.

During the transformation period, with its increasing opportunities for business ventures, attitudes such as spirit and willingness to take risks may often count as much as physical assets. On this point, Czech capitalist traditions seem to have revitalized remarkably. Launching a private firm became one of the favourite strategies, despite the difficulties facing new entrepreneurs, especially administrative complications and lack of capital. Clearly, then, it is not only traditional capitalist virtues that are required: other habits enforced by the communist regime such as cheating the state have become helpful. As Benáček (1994b, pp. 32-33) remarks: 'tax evasion thus became one of the most important instruments for capital accumulation of small and medium-sized entrepreneurs during transition. Unfortunately not everyone is able to use this instrument. As a result, this unofficial (but tolerated) scheme for the promotion of small business punishes virtues and rewards vices, becoming one of the least efficient schemes which could have been adopted'.

There is no exact official evidence about the shares of 'full-time' and 'part-time' firms. According to estimates, only one half of the 1.2 million registered entrepreneurs actually run a business, while another 200,000 are supposed to conduct

complementary or occasional business. The unexpected further increase in the number of business licenses after 1994 is considered to be an attempt both to allow entrepreneurs parallel entrepreneurship in different fields and to enable legal persons to tax-dodge since with the division of one firm into several, the tax category decreases (MFD, 3 November 1995).

The main field in which problems have to be faced, coping strategies developed and/or one's position improved is the labour market. Only 14 percent of people in the active age would leave their current job if they inherited or won a large sum of money, 35 percent would continue in their current job and 51 percent would work under other conditions (EEA, June 1992). In early 1996, three quarters of people in the labour force declared confidence in their occupation and/or qualifications (60 percent about both) and only 6 percent of people were either unemployed or feared being fired in the two next years (EEA, January 1996).

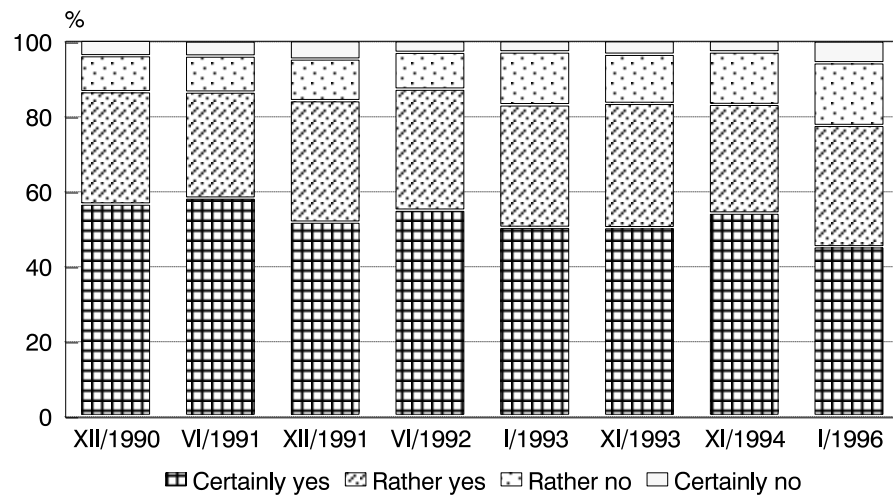


Figure 8.2 Do as much as possible themselves

Source: EEA surveys.

Outside the labour market, the self-service strategy developed under the communist regime continues to operate and, for some households, has even strengthened in the transformation period. The hope that more services could be paid instead of performed at home is very small and increased only slowly in the early period of transformation. Available data does not reveal any clear trend here, the percentage of people declaring that they try to do as much as possible themselves oscillating at the 90 percent level during the entire transformation period, but falling suddenly in 1995 (Figure 8.2).

In contrast with the slowly increasing tendency to pay for domestic services from the formal labour market is the somewhat rising declaration of the need for help from relatives and friends. While the share of people reporting this necessity is slightly above 10 percent, the share of people claiming the opposite diminished from 50 to 40 percent over the 1991-1994 period (EEA surveys). This is not necessarily an indication of an increasing feeling of economic threat but might be interpreted as the strengthening of family ties in response to the shaky economic environment. This is also documented by the fact that the incidence of such an expectation is mostly spread evenly across various categories of the population.

In the EEA surveys, a distinction was made between potential and actual coping behaviour. Whereas one question asked what respondents would do if financial difficulties came, another one asked what they had actually done in the previous year. In Table 8.2 and 8.3, we report first on individual activities and then add them together. We then distinguish between active and passive respondents and households, the first intending or achieving some labour mobility and the second staying in their job, waiting for a higher income. Similarly, while active units are those renting rooms or selling products, passive units economize and do as much as possible themselves.

Surprisingly, if we take into account the 'certainly yes' answers alone, then latent strategies are no more frequently reported than actually used. About one half of the population declared itself already active or prepared to be active on the personal level; only about 20 percent was active on the household level, where some material prerequisites are indispensable. Trends, however, are different: we discern a slow increase of activity on the personal level and a slow decrease on the household level.

While the aggregates are similar, structures of activities differ in their latent and actual meaning. When considering latent personal strategies, respondents are more courageous than in real life, choosing 'work abroad' and 'starting up a firm' more frequently than they do in reality. In real life, they opt much more often for traditional strategies such as a second job or any moonlighting. In contrast, they are more active on the household level than they intend and intend to economize less than they really do.

The propensity to engage oneself in an active coping strategy is almost inexplicable by standard socio-demographic characteristics. The strongest predictor of labour mobility is age (young and middle-aged people), launching a private business is determined by gender (men) and education (secondary, tertiary) whereas job-hunting abroad is not associated with any standard variable. This confirms other relevant characteristics, be they personal (risk-taking, business drive) or social (acquaintances, networks), casting the 'hidden face' of market success.

However the case may be, persons and households are responding actively to the changing economic conditions in which they find themselves. While conventional and familiar strategies are, understandably, the nearest at hand, labour mobility has clearly been an important experience and a source of higher income over the last five years: about 17 percent of respondents moved to a better paid job, 2-3 percent worked abroad, and 10 percent were engaged in private business. In total, one half of the economically active age groups have been active in some way with the goal of improving their situation.

Table 8.2
Potential coping strategies of individuals and households (%)

	June 1991	Decem- ber 1991	June 1992	Janu- ary 1993	Novem- ber 1994
<i>Respondents for themselves:</i>					
A. Try to increase the income from present employment	31.1	30.2	32.9	37.0	38.3
B. Find a better paid job	28.2	28.8	31.0	31.3	35.0
C. Work abroad	13.8	8.4	9.2	7.9	9.4
D. Find a supplementary job, perform paid services for others	21.3	20.2	28.3	29.4	26.6
E. Run a private business	13.5	12.5	11.5	10.8	10.9
<i>Respondents for their household:</i>					
F. Let rooms, summer house	9.5	7.2	5.6	8.5	7.8
G. Sell home-made products	12.8	8.3	7.2	8.1	5.7
H. Sell home-grown fruits, vegetables, flowers	14.0	10.4	7.4	7.2	8.2
I. Make, produce, repair as much as possible oneself	64.2	61.6	61.6	62.4	54.8
J. Economize	66.4	64.1	58.5	63.7	51.4
<i>Accounted personal activities:</i>					
Only passive (A)	52.4	54.1	49.1	47.7	47.8
One of the active (B-E)	28.8	29.6	30.9	32.6	31.1
Two of the active (B-E)	11.3	10.7	13.5	13.6	14.4
Three of the active (B-E)	7.5	5.4	6.5	6.2	6.7
<i>Accounted household activities:</i>					
Only passive (I-J)	76.3	81.7	87.3	82.9	84.0
One of the active (F-H)	14.4	12.2	7.3	11.7	11.6
Two of the active (F-H)	7.0	5.0	3.4	4.0	3.3
Three of the active (F-H)	2.3	1.1	2.0	1.3	1.1

Source: EEA surveys (population: 25-60 years only).

Question: If your households were to fall into financial difficulties, which of the suggested possible solutions would you adopt to emerge from this? (answers 'certainly yes').

Table 8.3
Actually used coping strategies of individuals and households (%)

	June 1992	January 1993	November 1994
<i>Respondents for themselves:</i>			
A. Try to increase the income from present employment	53.3	57.6	59.2
B. Find a better paid job	16.6	17.2	15.9
C. Work abroad	2.4	2.9	1.9
D. Find a supplementary job, perform paid services for others	32.7	29.6	35.5
E. Run a private business	9.8	10.4	9.6
<i>Respondents for their household:</i>			
F. Let rooms, summer house	3.8	6.0	6.7
G. Sell home-made products	9.4	9.0	7.6
H. Sell home-grown fruits, vegetables, flowers	13.5	12.5	14.9
I. Make, produce, repair as much as possible oneself	85.5	87.0	82.6
J. Economize	87.3	88.0	82.5
<i>Accounted personal activities:</i>			
Only passive (A)	53.4	53.4	50.1
One of the active (B-E)	34.2	35.4	38.9
Two or more of the active (B-E)	12.4	10.2	11.0
<i>Accounted household activities:</i>			
Only passive (I-J)	78.8	78.6	77.9
One of the active (F-H)	16.2	16.0	15.7
Two or more of the active (F-H)	5.0	5.4	6.5

Source: EEA surveys (population: 25-60 years only).

Question: Which of the suggested possible solutions did you or your family actually use within the last year? (answers 'yes').

At the other pole, there is another part of the population who have no opportunity of even considering any significant change in their economic behaviour. These are, first of all, households of very old pensioners, single mothers and less educated people of economically active age who have been excluded from the labour market and, in some cases, have been disqualified from family life (and are living in social institutions or homeless). For these groups, few legal strategies exist other than reliance upon state subsidies and other forms of charity. Although we cannot speak about an underclass in the Czech Republic that is socially excluded from the core society, opening scissors have most certainly pushed them further onto the periphery.

Survival strategies in the CEE countries

When comparing the coping behaviour of households across CEE countries, we have to be aware of their double nature. On the one hand, it is certainly an expression and indicator of reactions to financial hardship. Households have to cope with the persistent and/or sudden difficulties which force them to search for additional resources and new ways of economizing. Nevertheless, households also react to the enlarged space for economic activity. This concerns especially new channels of labour mobility such as moving across sectors of ownership or along the occupational hierarchy. Simultaneously, opportunities for finding a supplementary job or work do arise.

It is near impossible to order the CEE countries along the two above-mentioned dimensions - intensity of hardship and extension of incentives and mobility space - and, even less, to distinguish which part of household activities is due to the first or second factor. This we can only achieve secondarily, according to the factual or perceived position of the household. One might hypothesize that households which are well-off and still seeking additional resources are in fact attempting a higher standard of living enabled by the new opportunities, unlike households which are worse-off and which are probably striving to maintain the previous low standard or prevent its further decline.

According to the comparative data collected in the SOCO survey, five types of coping behaviour could be distinguished:³

1. *Offensive or market activities*: earning more money through labour mobility or secondary work, selling more home-made products;
2. *Defensive or home production activities*: doing more things at home, repairing old things;
3. *Economizing activities*: shopping around for goods at lower prices, reducing costs;
4. *Crisis or rescue activities*: pawning items, selling family goods, requesting public assistance;
5. *Borrowing money*: asking for loans or credits, borrowing money from family or neighbours.

The first four activities could be described according to whether people earn money, work more at home or economize, maintain their property themselves or not. However, the last option - borrowing money from the bank or relations - is somewhat ambivalent in its status. Although it could be related mostly to crisis activities, it might, in some cases, indicate an offensive action when associated with launching a firm, investing in training, surmounting hardships attending gainful labour mobility, etc.

When comparing these results with earlier analyzed EEA data, we recognize different levels of activities according to each survey. However, we can only compare the Czech Republic and Slovakia. According to the 1994 EEA survey, 54 percent of Czech and 64 percent Slovak households were in some way active through the labour or produce market. According to the SOCO survey, only 33 percent of Czech and 42 percent Slovak households declared themselves to have adopted offensive strategies in the market economy, with Hungarians and Poles reporting 32 and 39 percent respectively. The difference is obviously a result of the design of the questions inclining to active measures in the EEA survey and to rather passive measures in the SOCO survey. Bearing this in mind, we can compare the relative levels of activities and their structures.

Table 8.4
Coping strategies of households (index)

Strategy	Czech Republic	Hungary	Poland	Slovakia
1. Earn extra money	28.5	23.0	22.8	34.4
2. Sell more products	4.4	5.1	14.7	6.8
3. Work more at home	70.5	65.1	72.9	66.2
4. Seek lower prices	67.5	79.2	75.1	68.2
5. Repair old things	61.9	70.6	72.9	64.5
6. Reduce costs	78.3	80.2	81.4	64.9
7. Ask for loans	5.3	14.6	16.1	9.2
8. Borrow money	13.9	17.2	29.4	19.9
9. Go to pawn shop	1.4	3.4	1.0	1.6
10. Sell family's goods	5.4	3.1	2.8	4.4
11. Ask for assistance	6.4	12.5	10.0	4.7

Source: SOCO survey 1995.

Question: When you had or have difficulties in making ends meet (paying bills, buying enough food, etc.), did you (in 1989) or do you (now) use any of the following solutions?

1. Try to earn extra money (better paid job, extra work).
2. Sell more home-made products.
3. Work more in/for the household (maintenance jobs, more preserves, etc.).
4. Buy goods in places where the prices are lower (sales, etc.).
5. Repair old things instead of buying new ones.
6. Try to reduce costs, cut down on expenditure in general.
7. Ask for loans, credits from official places (banks, etc.).
8. Borrow money from family, neighbours.
9. Go to the pawn shop.
10. Sell one or more of the family's possessions.
11. Ask for assistance (local authority, charities).

Index is created so that answer 'often'=100, 'seldom'=50 and 'never'=0.

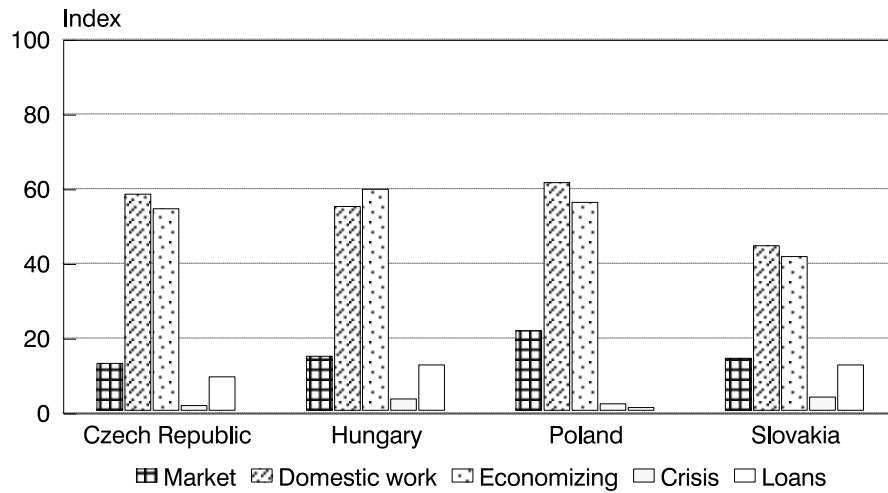


Figure 8.3 Coping strategies in 1989

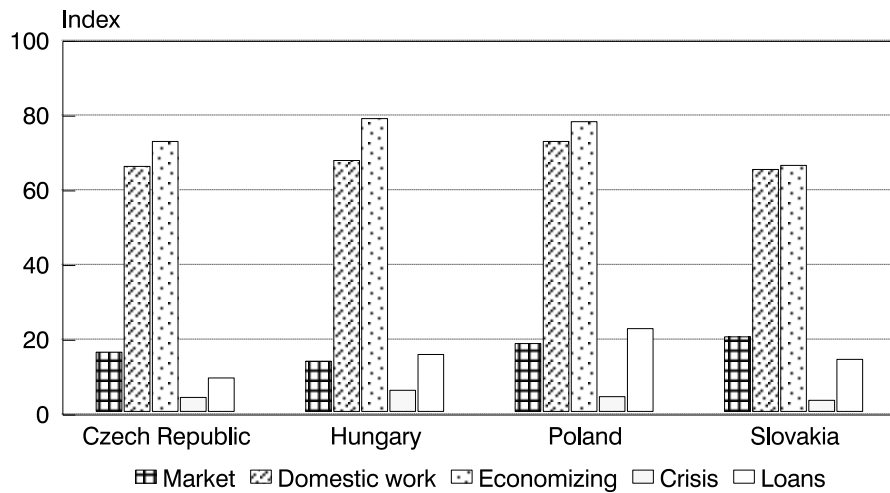


Figure 8.4 Coping strategies in 1995

Source: SOCO survey.

CEE countries differ more in the shares of various strategies than in their total numbers. Czech households declare the lowest level of loaning and borrowing, for which they could be identified as rather conservative. Hungarian households display no striking features in our comparison. In contrast, Polish households declare themselves to be very active, this being due mainly to opportunities for secondary

farming. Due to less strict budgeting, Slovak households are less likely to be defensive. They are also accustomed to borrowing money with relative ease (Table 8.4).

We should exercise caution with regard to the intertemporal comparison due to its retrospective character. People use their selective memories, rendering the past more and the present less rosy than they appear from other perspectives. In such a 1989-1995 comparison, the amount of alternative activities is declared to increase in all countries. This is a rise mostly in defensive strategies and keeps Hungary and Poland on a higher level than the Czech Republic and Slovakia. Czech households emerge less offensive, economize and invest more in the do-it-yourself approach than Slovak households. Slovak households declare themselves to be the most active on the labour market and the least active in adopting crisis activities. As yet, the patterns of coping in the two parts of the former Czechoslovakia have not diverged considerably (Figures 8.3 and 8.4).

Table 8.5
Correlations of coping strategies with indicators of economic status of households (Spearman coefficients)

Strategy	Income	Wealth	Make ends meet
<i>Czech Republic:</i>			
Offensive	.15	.16	
Defensive	-.25		-.31
Crisis			-.23
Loans			-.14
<i>Hungary:</i>			
Offensive	.13		
Defensive	-.10		-.30
Crisis		-.12	-.27
Loans		-.23	
<i>Poland:</i>			
Offensive		.17	
Defensive	-.13	-.18	-.45
Crisis		-.18	-.29
Loans			-.28
<i>Slovakia:</i>			
Offensive			-.11
Defensive	-.14	-.12	-.40
Crisis			
Loans			-.15

Source: SOCO survey 1995.

All coefficients significant on > 0.001 level.

Referring back to the 'double nature' of coping strategies, I checked their associations with household well-being, as measured by three indicators: household equivalent income, estimated family wealth and the subjective measure of how the household makes ends meet. Labour market strategies significantly increase family income in the Czech Republic and Hungary seem to have a purely compensatory effect in Poland and Slovakia. In the Czech Republic and Poland, they increase family wealth and thus demonstrate their status-making power. In contrast, defensive strategies are associated negatively with incomes in all countries but the most in the Czech Republic, which points to a closer association to economic hardships in this country (Table 8.5).

Correlations between defensive strategies and perceived financial hardship document the increasing pressure of circumstances in the rank order of nations: Czechs, Hungarians, Poles, Slovaks. Crisis strategies and loans seem to have the same status and are related to equivalent income, as reflected by the statement as to whether households manage to make ends meet. These are the most significant correlations testifying both to the critical value of this indicator and the strong association between peoples' economic perceptions and behaviour. In Hungary and Poland, crisis measures are also linked to low family wealth, thus indicating a larger inequality in wealth and the more pronounced dependence of poor households on their property.

In conclusion

Without a doubt, the advent of political liberty and the market economy was welcomed by overwhelming sections of the population, from the lowest to the highest strata. During the transformation, people feel themselves partly pushed, partly pulled to learn new ways of behaviour, to familiarize themselves with market institutions and to accept responsibility for their own or their family's standard of living. This process is occurring in conditions where the former schizophrenia of the formal and informal economy and the double moral of the official and private behaviour have far from disappeared.

The speed of the economic reform is necessarily faster than the adaptive capabilities of many households. Transformation is also a selective procedure in which people move up, down and across the income ladder and social hierarchy. Established social relations disintegrate and new constellations emerge. Parallel processes develop in political, economic and social life, often in conflictual interaction. An important source of conflict is that expectations of equal opportunities have been disappointed while ascriptive inequalities have survived and, indeed,

strengthened. In this process, social capital often predominates over human capital and family property frequently outweighed individual capacities.

People differ greatly in, for example, the propensity towards offensive rather than defensive coping strategies. These disparities reflect considerable differences in the distribution of resources at the outset of reform and will produce new inequalities in the distribution of the resulting resources. It is only another application of the 'St. Matthew rule', formulated by Robert Merton (1968) for science. It predicts increasing rewards and wealth for those who already have and deprivation for those who have not. Important differences are generated by the capacity for coping on the demand side (age, family care, risk-taking) and supply side (regional and local markets).

Despite some comparative advantages enjoyed by the Czech population in comparison with the other CEE countries, one should not underestimate the hardships households must confront, beginning with price liberalizations, continuing with changing taxes and benefit systems, toward the establishment of real labour and housing markets. Nevertheless, it appears that the Czech population is coping relatively well with the hardships of social transformation. Households are responding actively, including through widespread job mobility and private business ventures, and people are becoming more relaxed about the dangers of economic change.

Of the CEE countries, the Czech population appears least attached to the informal economy. The most probable reason is that the formal economy remained relatively efficient here and the labour market was not so harsh as elsewhere. Another reason could be that Czechs have been trained much less by the previous regime in the secondary and black market activities than Poles and Hungarians, and have much less of an agricultural background than Slovaks. They declare clear patterns of offensive/defensive distinction: whereas offensive strategies are positively associated with household income and wealth, defensive strategies apparently express financial hardship.

The available data are still too indistinct to reveal the true nature of household coping activities in terms of tradition versus modernity or even rational choices of economic behaviour. Both qualities could be behind the same figures, with no possibility of distinguishing between the mere survival of households or their adherence to the driving forces of the market economy. Moreover, even an activity initially taken on for elementary survival can develop into a modern business strategy, as the great number of people moving from a second job to a private venture and from self-employment to a true firm indicate. Economizing could be also taken as a market-like response to the former diseconomies of subsidized food and energy.

By simplifying the problem, the challenges of transformation end in a bifurcation: one road leads to new business or profitable employment, be it by detour of

informal or secondary activities; another road leads from distress to passivity and defencelessness, pushing individuals or households to the brink of poverty. However important the starting positions and objective characteristics are, they explain only a fraction of the whole variance. We can hypothesize that the workshop of coping strategies, disordered in the beginning of transformation, is becoming more rational and will make a considerable contribution to the formation of both advantaged and disadvantaged social strata.

Notes

- 1 The secret police's misuse of such information was common. Activities of sufficiently 'cooperative' people were tolerated or people suspected of a crime were invited to cooperate with the police as informers and, in return, were exempted from any charges.
- 2 Some debate did nevertheless begin in the late 1980s. After Martin Fassman (1988), an economist with the Ministry of Planning, tried to calculate the minimum likely extra incomes of some occupations (physicians and nurses, salesmen and craftsmen), a sort of confined public scandal erupted in which representatives of the implicated professions and the Minister of Health himself strongly protested against such an 'unfair accusation of honest workers'.
- 3 The design of the SOCO survey is somewhat different from that of the EEA survey. The unit of observation is a household, the list of activities is wider regarding the options for passive strategies and narrower for active ones. Respondents (presumably heads of households) were asked whether they use them 'often', 'seldom' or 'never'. The same sets of questions were used for the 1989 retrospective and the then current 1995 situation.

9 Social policy reform

The transition to a market economy necessarily rocks social security. Therefore, mechanisms should be created to prevent the financial ruin and consequent social alienation of those who are unable to adapt to the new conditions. In order for economic reform to progress, social peace and basic social integration must be maintained. The social democratic tradition of prewar Czechoslovakia and the proximity of 'Social Europe' has prevented unrestrained capitalism from returning. None of the Czech political parties question the importance of the social dimension of the transformation and the population ranks it second only to personal security.

However, the reform was introduced with no explicit idea as to the interplay between the economic and social spheres. Liberals stressed a strong commitment to strengthening individual responsibility and targeting social aid. Social democrats expressed their concern at an excessive increase in social inequalities and insolvency of large parts of the populace due to inflation and unemployment. Christian democrats sought to combine market principles and solidarity into a sort of social-market economy. These general approaches were only vaguely shaped into theoretical models of social policy, especially in terms of the impact they might have on social stratification.

In the early transformation, theoretical debate about social policy in a broader sense was impeded by several factors. After swimming in Marxist-Leninist clichés for years, academics lack appropriate conceptual frameworks. Unfamiliar with the systemic features of social policy, politicians had no other choice but to keep to the technical routine of administering social benefits. Furthermore, any thorough discussion of social policy was suspiciously socialist in its connotation.¹ The list of urgent questions - among them introducing basic laws, launching economic reform and splitting the country - does not include social policy. This was especially the case in the Czech Republic where social problems were not as sharply visible there as in other CEE countries.

This chapter will examine the problems related to the social security system currently in the process of being established. First I consider the point of departure - the advantages and disadvantages inherited from the past. Then I outline the main

theoretical regimes which could serve as alternatives for understanding and steering the new social system. The third section depicts the early transformation and recent developments in social policy. Then perceptions of the recent changes are briefly described. In the fifth section, basic changes and the responses to them in the CEE countries are documented. I conclude with a hypothesis on the potential side-effects the new social regime could have on social stratification.

Communist paternalism as a control mechanism

T.H. Marshall (1964) described the historical process of the formation of modern society as follows: in the 18th century, citizens' rights established individual freedom, political rights were asserted in the 19th century, while the 20th century is characterized by the constitution of social rights. During the transformation of the CEE countries, this sequence appears to have been reversed. All that could be retained from the communist past by the population and state is, paradoxically enough, the last item in this sequence. Whereas everybody feels that dependency on the state has to be decreased in the market system, people's trust in the new regime is reinforced to a high degree by the maintenance of social security.

The social policy of post-1948 Czechoslovakia had two different faces. In accordance with communist ideology, it proclaimed itself to be universal, protective and generous. When the Constitution of 1960 pronounced Czechoslovakia a 'socialist' state, everybody had the right to free health care and pension benefits. Those demoted to the working class or the 'socialist intelligentsia' and, later, members of the class of cooperative farmers were set to benefit from the 'advantages of socialism'. As conceived in communist ideology, Czechoslovakia was indeed a state without real unemployment, without visibly wide social disparities or official poverty.

However, the system was intrinsically and deeply totalitarian: every citizen was under lifelong control. Jobs and careers, wages and premiums, pensions, stipends, child benefits and family allowances functioned as the party/state's control mechanisms over the population. Rather than work efficiency, fidelity to the job, loyalty to the regime and work in privileged branches decided the level of one's social security. A part of the population (pensioners as a whole and especially the oldest of them) was distinctly marginalized by the increasingly disadvantageous relationship between benefits and wages.

Totalitarian control of the populace is a more important explanatory key to the social policy under the communist system than the universality of social generosity. Work was not only a right, but primarily a duty and, consequently, administration of employment served as a tool of domination over the citizenry. People displaying

insufficient loyalty to the regime were sentenced by the invisible hand of the Party to perform the least desirable jobs.² State social benefits were universal in order to control people's futures. The total opacity of pension financing was supposed to manifest, from the paternalistic point of view of the 'good ruler', that the state bestowed generous gifts upon citizens.

The system was not necessarily interpreted as a mechanism of control, however. People also perceived it as a continuation of social democratic traditions, an extension of pre-war social policy and an expression of the intrinsic 'classlessness' of Czech society. Both according to the ideology which advertised full coverage of the population by employment and benefits and in reality, state paternalism was advantageous for a large part of the population. The population which were first to benefit from the new system were the original supporters of the communist party, primarily, that is, the lower strata of the working class. However, the other parts of the populace also came to accept and learn how to use and abuse the life-long paternalistic state care.

Currently, both interpretations of social policy are actively present in people's expectations and their reactions to political decisions. On the one hand, there are emancipatory efforts and a rejection of the double-edged paternalism by a part of the population as it stresses the values of individualism. On the other, the habitual expectation of state care is still evident and, indeed, increasing. On the one hand, efforts both to reduce redistribution through the state budget and to limit the role of the state as much as possible were made. On the other, attempts to maintain its functions and preserve bureaucratic power are continuing.

Welfare state doctrines and models

While a clear program and time schedule for the economic reforms were elaborated, there was no original blueprint regarding the social sphere. The old system has continued at the same time as a confusing 'safety-net' vocabulary was introduced. Yet neither the World Bank recommendations nor those of other international experts were given any clear doctrinal or ideological formulation; instead, they restricted themselves to the rather technical level of providing efficient tools for income maintenance and active pro-employment services. In the representative World Bank publication, terms such as 'welfare state' or 'social regime' are avoided and the purpose of the transformation is described in rather neutral terms such as supporting the living standard, reducing inequality, strengthening social integration and so on (Barr, 1994, pp. 30ff). The EUROSOCIAL experts expressed their critical stance towards this approach as follows:

To date, the role of social policy - particularly during this process of transformation or transition - has largely been ignored. Social policy has played second fiddle to economic reform. Little has been said, particularly by Western eco-

conomic advisers, about the complementary social changes which will determine a country's ability to put the right sort of economic structure into place. The role of social policy in generating and sustaining social consensus, essential to accomplishing the reform process, has been neglected (Welfare, 1993, p. 123).

Theoretically speaking, one of three possible variants of the welfare state was to be implemented, following Gösta Esping-Andersen's (1990) well-known typology.

The first is the universalist or social democratic type as is represented by the Scandinavian countries. It closely resembles the socialist type in that people are treated first and foremost as workers, and the state is assigned responsibility for full employment. Here the welfare state comes to the fore as the 'employer of the first resort'. The second is the institutional or corporatist welfare state, typified by Austria, Germany or France. Its social security serves the maintenance and reproduction of status and income differences. The state is not so much concerned with employment as with the family, and arrives on the scene as the 'compensator of the first resort'. The third is the liberal or residual welfare state, as it is known in the USA, Canada or, following the Thatcherite reforms, in the UK. In this case, the state relies fully or almost fully upon the market and acts as the 'compensator of the last resort', i.e. only ensuring the means-test minimum for small categories of the population. Whereas the poor in this system are equal, the non-poor are very unequal.

A parallel to Esping-Andersen's typology of welfare states is Ian Gough's (1994) distinction of different sorts of capitalism or, concretely speaking, state, corporatist and neoliberal capitalism. In the field of social policy, state capitalism corresponds most to the social democratic welfare state based on full employment, wherein the state cultivates an active labour market policy and functions as an important employer (Kolberg, 1992).

Unlike the concept of the 'autonomous economy, operating according to its own coherent logic, independent from the rest of human social life' (Block, 1985, p. 19), corporatist capitalism understands economy as naturally embedded in civil society. The functioning of a market economy requires trust and cooperation among the main interest groups in society, as well as their active participation in political negotiations. On the basis of social partnerships and negotiations among the collective actors, different interests can be harmonized either through compromise or through their redefinition.

Corporatism, however, can easily degenerate into interest cartels, particularism and clientelism. It can marginalize and exclude unrepresented groups such as the youth, the elderly or the disabled, as well as certain occupational categories such as free-lancers. Such 'selective corporatism' both resolves short-term conflicts and simultaneously helps lay open new fields for long-term conflict (Aleman, 1990).

Corporatism ensures an effective social policy supported by social insurance and universal social help.

Neoliberal or minimally regulated capitalism results from the combination of liberal and conservative elements. The New Right program supposes that the failure of the government is more likely and more dangerous than the collapse of the market. State intervention can be neither rational (it is impossible to express the will of dispersed participants), nor universal (it is necessarily controlled by lobbies); it causes the disintegration of the market and is counterproductive. State policy is inevitably clientelistic when various groups influence the government and put forward specific claims and ideas.

It is more likely, defenders of liberalism say, that the state will assert particular rather than universal interests. The state bureaucracy necessarily tends to find routine solutions according to rules laid out in advance, and tends to strengthen its own position instead of building up well-founded and targeted projects. That is why the state seeks, simultaneously, to decrease its own powers (through deregulation, deatization, privatization, tax cuts) and weaken the role of other institutions (trade unions, occupational associations, etc.). Under liberal capitalism, state social policy is limited to the safety net, and can thus easily cause marginalization and stigmatization.

Like other qualitative typologies of welfare state regimes, the above typologies are prevailingly academic. Concrete national systems are much vaguer, combining elements from various 'models'. In a similar way, it is impossible to realize the 'building of capitalism' according to one concise theoretical concept, just as it is impossible to 'build socialism' according to Marxist-Leninist ideology detailed in a long-term plan. The choice of one of the mentioned possibilities cannot be made free of constraint. Furthermore, the experience of the 1970s and 1980s, when the very concept of the welfare state was challenged and the 'crisis of the welfare state' announced (O'Connor, 1973), should be drawn upon to facilitate and guide any decisions on the kind of social policy to be introduced.

Simple criticism of the welfare state was rejected in S. Ringen's (1987) thorough analysis testing the 'possibility of politics' from aspects of legitimacy, efficiency, governability, political, redistributive and economic consistency. Against the prevailing view, the author presents the welfare state as high on effectiveness and low on side-effects. He sees the capacity of political reform as not unlimited, but as considerable. Instead of one big trade-off between equality and efficiency, only several small trade-offs were confirmed and moderate side-effects identified.

Economic crisis induced reductions in unemployment benefits and other areas in the 1970s and 1980s (Social Protection, 1993). As J.-P. Jallade (1992, p. 55) epitomizes the lessons of the recent history of the European welfare states, 'they have adjusted remarkably well to the adverse economic and social conditions which

have prevailed during the past 15 years. The crisis has put heavy demands on them and, far from being a factor of rigidity, they have responded to these demands in a flexible way. They are no longer expected to provide ever increasing benefits. Flexibility means responding to new urgent needs but also scaling down unnecessary benefits in line with circumstances’.

In actual fact, the problems of financing costly social programs are continuing: many countries are experiencing mounting state debt (Belgium, Austria) or are being forced to reduce some benefits (the UK, Sweden). In Germany, this cradle of social-market economy, considerable reductions in expenditures on unemployment, pension benefits, family allowances and state bureaucracy are being asserted and the pension age will be gradually increased. Early retirement will be less advantageous and could even enlarge the current army of four million unemployed.

Not all changes have, however, been necessarily for the worse. As Bent Greve shows, cuts (such as the change of the state pension system in the UK or the introduction of an upper limit on expenditure on medicine in Germany) were accompanied by the introduction of more generous schemes (such as increasing family allowances in Belgium and Denmark or introducing a family supplement in Ireland). Greve (1994, pp. 111-113) describes the general tendency as improvements for pensioners and reductions for long-term unemployed and people living on social assistance.

In terms of the choice of alternatives, Czech society was at a crossroads. Liberal ideas and the ‘market without adjectives’ concept of governmental economists endorsed the liberal welfare state, with the UK forming the leading model. For the people, a social democratic, largely redistributive welfare state seemed to be the best option, especially as it maintained the ‘good side’ of the communist regime. Traditionally, however, Czech society belongs to the corporatist welfare state arising from Bismarckian Germany and Taffe’s Austria. This model was developed in the pre-war Czechoslovak Republic, where the social democratic governments and Ministers of Social Care nurtured a relatively generous social policy.

One can distinguish two periods in the post-1989 development of social policy in the Czech Republic. The first (until mid-1992) stressed the prevailing continuity of the social democratic system, meaning universal benefits, earnings-related pensions and quite generous arrangements.³ The second (starting with the mid-1992 elections) has tried to tighten entitlements, establish means-testing where possible, implement flat-rate instead of earnings-related benefits, and advocate individual-based instead of collective-based rights. This shift accompanied a change in political leadership from the original widely popular Civic Movement (OH) to the rather exclusive Civic Democratic Party (ODS). According to its leader, Václav Klaus (quoting Ludwig Erhard), ‘the best social policy is the right economic policy’ (Klaus, 1995).

In order to make social policy less expensive and more efficient, the following measures were taken: 1. with regard to social assistance, the development and tightening of the means-test; 2. with regard to state pensions, the weakening of the earnings-relation, the widening of the gap between the average wage and benefits, and encouraging people to join private pension schemes; 3. with regard to child and other family benefits, the introduction of an income test and/or the establishment of a ceiling on benefits; 4. generally, the prevention of employers and professional associations from sharing social guarantees and basing social security on citizenship rights alone.

All in all, these tendencies could be characterized as a departure from the social democratic traditions and a partial conversion of the system towards the residual model, in accordance with the New Right ideology and with knowledge of the UK experience: in the early 1980s, earnings-related supplements for both sickness and unemployment benefits were abolished, earnings-related state pension schemes reduced and some maximum benefits considerably lowered. This trend also corresponds to a more concerted effort on the part of European countries towards more frequent means-testing and less generous social security as concessions to necessary budget-cuts in a situation of expanding social claims (Van Oorschot and Schell, 1990).

All such measures help confine the number of those in need and compensate them at the lowest cost and with the highest motivational effect. Some negative effects have also been observed. In the UK, targeting benefits through means-testing was accused of having a stigmatizing effect on beneficiaries and contributing to non-take-up and the poverty trap. Flat-rate benefits potentially have proven to create a division in society as well as stratification cleavages between the poor and non-poor. However, such results were not observed in Australia, where the means-test flat-rate, revenue financed program is counterbalanced by occupational welfare and the 'owner-occupier society' (Castles and Mitchell, 1996). In the Czech Republic, people have generally accepted the principle of targeted benefits but complain about complicated administration and queues in 'contact offices'.

The conservative stream is apparent but far from wholly dominant. The social-democratic opposition seeks to maintain a universal system and make the benefits more generous in their support of both families and pensioners. From within the governmental coalition, the Christian Democrats are challenging the economizing approach and are pushing for postponement of the increase in the pension age. Using the label of the social-market economy, this party proposes combining market principles and solidarity, arguing from the economic prosperity of such countries as Germany and Austria. At the same time, the Christian Democrats hold that a great deal of this approach is already an active part of current governmental policy.

Early modifications and later social reform

Once the economic system began to change, several immediate social measures had to be introduced. Their aim was to slow down the decline in the standard of living of those people who were unable to cope with financial hardship on their own. Among these measures was the introduction of unemployment benefits, the valorization of pensions and other benefits, the fixing of the guaranteed minimum wage and the establishment of the state compensatory benefit for the removal of subsidies in foodstuff prices.

In 1991, the government prepared the new *social insurance system*, which tightened entitlements and introduced a new calculation of benefits. The newly introduced valorization scheme was to bring a reduction in differences between pensions assigned at different times and an increase in pensions in relation to the Consumer Price Index. Special schemes for different work categories and 'personal' pensions, expressing the privileges afforded by jobs of importance to the communist regime, were abolished.⁴ In 1991-1992 alone, all state pensions were valorized four times so that the pensions assigned earlier were increased more than the recently granted ones, this measure leading to a considerable equalization of benefits.

At the same time, the legislative framework for the labour market was created and employment policy was more clearly defined. The Labour Code, along with the Collective Bargaining Act, established the premises for granting rights in the implementation of employment policy. Unemployment benefits were introduced and quickly tightened: the 60 percent period was shortened from six to three months (50 percent thereafter), the whole period shortened from one year to six months and the upper limit established at 150 percent of the minimum wage. During the period that an employment-seeker receives benefits, he or she may not receive any additional earnings or grants.

Regarding *social benefits*, a new act transformed the formerly flat-rate family allowances such that the rate was determined according to the age of the children. The basis for their valorization, hitherto non-existent, was also created. In April 1992, the parental benefit was increased to the subsistence income level. Following the liberalization of food prices in 1990, the state compensatory benefit was introduced to replace the negative turnover tax. In January 1992, this benefit was cancelled for the active population and maintained solely for children, pensioners and those receiving the parental benefit.

In the area of *social assistance*, the Living Minimum Act was passed by the Parliament in October 1991. This act shifted the limit of 'social neediness' up 50 percent in nominal terms but down 25 percent in real terms. The state monopoly on the provision of assistance was lifted by an amendment to the Social Security Act in 1990. Non-governmental organizations - in particular churches and charity or-

ganizations such as the Salvation Army, Diacony Charity and organizations for the disabled - were permitted to provide social services as well. In many cases, the state helps cover expenses connected with such activities.

More important and systematic changes began after the June 1992 elections, when the 'rightist' government under the leadership of Václav Klaus came to power. This move was proclaimed a shift away from the paternalistic state and general social guarantees toward an efficient and well-targeted welfare policy, strengthening the responsibility of individuals and families, and focusing state care solely on the truly needy. Instead of an overly complicated and expensive system, a transparent and lower-cost system had to be introduced in which state and private resources would be combined and an income- or means-test introduced for the majority of benefits.

The transformation of the social security system was proposed in three fields. Social insurance is designed to accommodate predictable situations such as unemployment, illness and old age. State social support aims to solve some situations - such as maternity, child rearing and disability - which might cause financial problems. Social assistance should solve situations of material need. Each of these fields has again three levels. The first is a compulsory and state-guaranteed system. The second is a voluntary system without state guarantees based on inter-group solidarity. The third is a purely private system based on commercial principles, with state support available in some cases.

The main component of *social insurance* is pension insurance. Its regulation should take into account the deteriorating dependency ratio (of the economically active and non-active population). This was the reason for the new scheme which accepted a gradual rise in the retirement age, set to rise in 2006 from the current 60 years for men and 53-57 for women (dependent on the number of children) to 62 for men and 57-61 for women. In response to the leftist opposition's arguments that the dependency ratio will worsen later than expected and life expectancy in our country fall, the government warned of a potential pension deficit and the tendency of advanced countries to set a high pension age.⁵ The proposition provoked a 25,000-strong strike in March 1995 and the law was one of the most controversial issues in the Parliament. Its revocation is still proposed by the Social Democrats, Christian Democrats and the extreme Republican Party.

The government is obliged to valorize pensions against inflation (in response to each price increase of 5 percent or more) and real wage rises (by at least one third of this rise). The ratio of the average pension benefit to the average gross wage is about 45 percent; a decrease of 10 to 35 percent was proposed for the long term, but revoked in order to keep in line with EU norms. Early retirement is permitted after 25 years of activity. The pension benefit can be calculated from the entire earnings of applicants' working lives and earnings valorized for this purpose. The

pension benefit is to be composed of two parts, the first flat-rate (currently 680 CZK) and the second earnings-related; earnings, meanwhile, are to be accounted (no ceiling) as follows:

- up to 5,000 CZK 100%
- 5,000-10,000 CZK 30%
- over 10,000 CZK 10%

In the new system, the earnings-relation is weakening, counter to the recommendation of World Bank experts to strengthen the relationship due to reasons of equity, retirement decisions and incentives (Barr, 1994, p. 208). The system is presented as an optimal Bismarck/Beveridge combination containing insurance and solidarity. Financing continues to be based on the pay-as-you-go system, the government rejecting pension funds on the grounds that that they would destroy solidarity and lead to a risk if monies were insufficient. Recently, a coalition agreement proposed a transitory ear-marking of collected contributions and the creation of a separate account for surplus which would serve as a source for future pension funds.

State social support includes targeted and differentiated aid for those households with incomes above the living minimum which fall victim to certain situations of financial hardship. Several family benefits are combined by the new system, significantly complemented by new benefits and income-tested. The living minimum serves as a dual testing basis: a) an income threshold (by multiples) at which the benefit will be withdrawn and b) as the amount of money on which the benefit will be calculated. The main benefit of this category is the child allowance, which will be calculated according to the following formula):

Household income in multiples of living minimum	Household income in multiples of living minimum			
	up to 1.1	1.1 - 1.8	1.8 - 3.0	over 3.0
In percent of living minimum for a child:	32%	28%	14%	0
In CZK monthly for a child of:				
- 6 years	390	340	170	
6-10	435	380	190	
10-15	520	450	230	
15-26	570	490	290	

The other income-tested benefits are the housing benefit, transport benefit and social contribution. The housing benefit is to assist households in coping with rising rent during the liberalization period. While in 1993 only the officially designated maximum rise in rent for the same apartment was compensated, in the new

scheme all families with income up to 1.4 times the living minimum are entitled to housing support (about 22 percent of families). The transport benefit is for all children living away from the school locality and for students from families with an income two times below the living minimum. The social contribution is designed for all families with children with an income 1.6 times below the living minimum.

The other universal benefits are the parental allowance (extended until the child reaches the age of four), a benefit for adopted children, a benefit for foster-parent care, birth grants and burial benefits.

Social assistance is oriented towards households with incomes below the living minimum and is aimed at the maximum possible de-centralization of decision-making on benefit entitlements (district and local social administration). In order to make social assistance more flexible in relation to the problems of needy households, a network of new 'contact offices' providing support is to be established. The regulations and administration of social assistance have to ensure better targeting and means-testing: only those who are not able to escape from financial hardship through their own efforts will be eligible.

In 1993, stricter eligibility conditions were introduced, thus excluding cases where people are reluctant to work, change their job on insufficient grounds, do not cooperate with the labour office and so on. Mutual responsibility between household members and very careful means-testing is stressed in the provision of new benefits. It is estimated that the number of households below the poverty line will not increase dramatically, the highest estimates for 1995-1996 being 3-4 percent of households.

Complementary private schemes should encourage people to take more responsibility for their current and future situation. Whereas an employment insurance scheme was rejected (as were all other corporatist elements), a personal insurance program was developed. Since 1993, additional pension insurance has enabled citizens to insure themselves with commercial insurance companies, this with the help of a state contribution. For this purpose, pension funds are established as stock companies, with any person over 18 able to buy insurance. The state contribution is established according to the following formula (progressive in absolute and regressive in relative terms):

Participant	State
100-199 CZK	40 CZK and 32% of an amount exceeding 100 CZK
200-299 CZK	72 CZK and 24% of an amount exceeding 200 CZK
300-399 CZK	96 CZK and 16% of an amount exceeding 300 CZK
400-499 CZK	112 CZK and 8% of an amount exceeding 400 CZK
over 500	120 CZK

In the beginning of 1996, 1.5 million people had already contracted a private pension insurance scheme with one of 44 private companies. According to a survey of people between 40 and 50 years, this figure corresponds to 58 percent of respondents while a further 16 percent are considering this possibility. The main obstacle to further expansion is that if a firm wants to contribute to employee pensions, this can only come from the net profit, i.e. after double taxation (corporate and income tax). In this case, the economic status of the system is stressed to the detriment of its social character. Security of money is, however, monitored by the Ministry of Finance and no bankruptcy is possible - an unprofitable fund is, by law, to be swallowed up by a profitable one.

Table 9.1
Dependency ratio and social security expenditures

	1990	1991	1992	1993	1994	1995
Dependency ratio ^{*)}	0.99	0.98	1.08	1.06	1.04	1.02
<i>Social security expenditures:</i>						
In bil. CRK	80.8	108.8	114.9	128.7	149.4	171.4
In % GDP	14.2	15.2	14.6	14.1	14.4	14.1
<i>Growth of security expenditures:</i>						
Nominal	100.0	134.6	142.2	159.3	184.9	212.1
Real	100.0	87.9	83.6	77.3	81.5	85.9
<i>Composition (%):</i>						
Pensions	56.3	51.5	55.5	57.7	57.4	62.4
Sickpay	11.1	8.5	8.8	9.3	10.8	10.5
Family allowances	14.8	12.3	11.7	11.4	12.1	11.0
Employment	0.0	2.3	2.7	1.7	1.7	1.4
Price compensation	10.5	18.8	12.6	10.2	7.1	3.5
State support	6.6	4.4	6.1	7.1	7.7	7.7
Else	0.6	2.3	2.6	2.7	3.1	3.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Research Institute of Labour and Social Affairs.

*) Dependency ratio is calculated as inactive population divided by active population.

The transformation of the *health services* thus far has been very confused. The centralized system (district administrative bodies) has been dismantled and 20,500 independent units established. A new accounting system (points) has caused a rapid rise in services provided and their costs, especially in the consumption of medicine. Instead of free state services, a universal health insurance was introduced; however, the range of basic services it was to provide was not determined. Costs are rising, the efficiency of the system is being undermined, personnel are complaining about stagnant salaries and people are compelled to leave their job if they are unable to establish a private practice (due either to a lack of credentials or capital). A

thorough revision of the reform is still awaited, under growing pressure of the Chamber of Physicians and the expressly formed Union Club of Physicians.

On the whole, the social reform was less radical than anticipated. Not only the opposition parties (the Social Democrats and Communists) but some coalition parties did not give their support to some of its key elements. The draft of the Law on State Social Support is to be renegotiated and instead of all benefits, a mere half remain income-tested. Family allowances (the main benefit in this group) were finally settled as gradual, with just 5 percent of top income households disallowed this entitlement. The Law on Basic Pension Insurance was passed by the Parliament, with only the support of one non-governing party. The launching of the entire system was postponed from mid-1995 until January 1996.

So far, the introduced modifications to the system have not led to any substantial change in the aggregate level of transfer income. While the share of social security expenditures in GDP oscillated around 14 percent in 1990-1995, the share of cash benefits in the monetary incomes of the population fluctuated at around 20 percent. Within the social package, the percentage of pensions increased and the share of family allowances decreased considerably, this reflecting only partly shifts in the demographic composition of the population which see an increase of pensioners and a decrease in the number of children (Table 9.1).

Perceptions of social security

Awaiting escape from the state welfare monopoly, the acceptability of private services was among questions raised in early surveys on the beginning of the transformation. Preferences for the private services within the welfare sector reached their highest level in 1990-1991 but have generally decreased since then. In the health services, the acceptance of private venture still prevails, although having decreased somewhat recently (80 percent still agree more or less). In social care (like elderly care), the acceptance is somewhat lower and the decreasing tendency is more striking (65 percent agree). There is a mixture of emerging envy of high profits and considerable scepticism towards the financial endurance of private institutions in the wake of bad experiences.

Generally, the Czech public - like any other populace - is quite critical of the state's social security standards. More or less the same overwhelming majority of the populace considers the current benefits insufficient. The percentage has remained almost unchanged: 76 percent of respondents at the end of 1991 and 78 percent at the end of 1994 consider the social benefits not to cover households' costs sufficiently (Figure 9.1). On the contrary, in order to be more socially generous, 30 percent of respondents would agree to an increase in taxes in mid-1992 while only 22 percent would agree to this at the end of 1994 (EEA surveys).

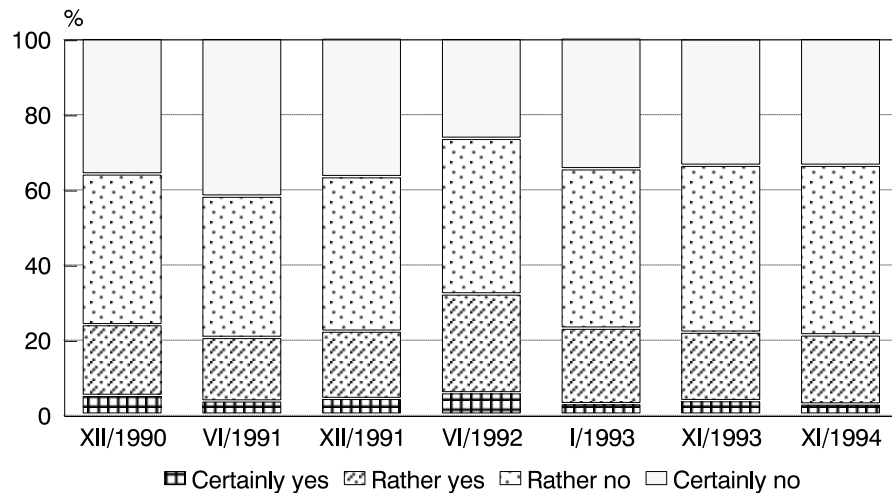


Figure 9.1 Social benefits are sufficient now

Source: EEA surveys.

Inconsistency of opinions seems to be growing concurrent to the government's restrictive and economizing policy, which touches both the revenue and expenditure sides of the state budget. Such an approach may seem totally unsound but in fact it is not. The possible solution is identified in the increased efficiency of revenue offices and a decreasing motivation for tax evasion. These arguments were systematized recently by the Civic Democratic Alliance (ODA) into a motion to decrease considerably the tax burden of private and legal persons.⁶

In the social benefits reform, most of the populace welcomed targeted support of needy families: 25 percent accept the new system 'certainly' and the other 40 percent 'rather' in January 1996 (EEA survey). No marked division appeared within the population, except across political affiliation, the right wing stressing the targeted approach slightly more. While benefit expenditure is lower than estimated, the non-take-up of benefits is not large. According to people's declarations, 40 percent know they are eligible and almost all have already asked or plan to apply for benefits soon; 15 percent do not know if they are eligible and only a minority of them plan to check it.⁷ Of the eligible, 33 percent will get less (middle-aged people), 29 percent the same, 24 percent more (young) while 14 percent do not know yet. People consider the current system to be more redistributive than the previous one (Institute for Public Opinion, March 1996).

Opinions in response to the first concrete steps in the health care reform were still quite optimistic. In November 1993, 35 percent of respondents saw some improvement, 45 percent no change and 20 percent a worsening (STEM-Trends 12-

93). Only 15 percent of respondents signalled a deterioration caused by the new health insurance. The positive evaluation has decreased since then, this reflecting the mounting problems in the system. In September 1995, 22 percent of respondents saw some improvement, 33 no change and 45 percent a worsening (STEM-Trends 9-95). People even hesitantly accepted the privatization of hospitals: 25 percent supporting that the majority be privatized, 60 percent only some and 15 percent none of them. A special privatization regime was deemed necessary by half of the populace but only one quarter demanded the postponement or total cancellation of the privatization of health institutions (EEA, November 1993).

Table 9.2
Satisfaction and outlook in standards of living and social guarantees (%)

	Standards of living		Social guarantees	
	Czech Republic	Slovakia	Czech Republic	Slovakia
<i>Recent development:</i>				
Very satisfied	2.9	0.4	2.1	0.5
Rather satisfied	30.0	11.0	22.9	8.3
Rather unsatisfied	45.9	42.7	43.9	36.7
Very unsatisfied	21.2	45.9	31.2	54.5
Total	100.0	100.0	100.0	100.0
<i>Outlook for 3-5 years:</i>				
Fast improvement	1.9	1.0	0.9	1.1
Gradual improvement	38.4	23.1	28.3	19.1
Little change	35.8	35.7	40.0	37.7
Gradual worsening	19.9	31.0	24.0	29.7
Rapid worsening	3.9	9.3	6.7	12.5
Total	100.0	100.0	100.0	100.0

Source: Opinions on social changes 1993.

Unlike the generally negative evaluation of the present state of social guarantees - reportedly unfavourable for 70 percent of people -, the short-term outlook (3-5 years) was quite optimistic in 1993: only 30 percent of respondents expected a deterioration of the current situation and the other 30 percent anticipated some improvement (Table 9.2). It is next to impossible to find any explanatory characteristics of the population's opinions on this issue, except that higher education makes people more optimistic. The new tax and benefit system was accepted ambiguously, with 30 percent positive and 35 percent negative response. It was welcomed more by better educated, but also by older, less implicated people (Opinions on social changes, 1993).

Social transformation in the CEE countries

Although such an economizing social reform has not started in the other CEE countries, particular features of their recent development do not greatly differ from those characterizing the intended development of the Czech Republic: generally a shift from state universal benefits to compulsory insurance, complementing social insurance with private schemes, lowering the standards of public provisions, expanding targeted social assistance, introducing or increasing fees and advancing the off-budget financing of social security (Ferge, 1994; Götting, 1996).⁸

However similar the main current of changes, the expert evaluation of their meaning and purpose differs considerably. On the one hand, the argument about the excessively generous welfare systems and rising social expenditures - mostly formulated by the World Bank and IMF experts - frequently arises:

In most countries of Eastern Europe, social spending has not only remained an unusually high proportion of GNP, it has actually soared. The postcommunist countries in Eastern Europe have among the most generous social welfare budgets in the world when measured as a percentage of GNP, especially when considering the level of development as measured by per capita income adjusted to purchasing power parity. Social spending budgets tend to be between 15 and 30 percent of GNP, in comparison with the outlays of East Asian countries at similar income levels, which average between 5 and 10 percent of GNP for similar social programs (Sachs, 1991, pp. 1-2).

On the other hand, the recent development is accused of being too cruel in its efforts to introduce the predatory, 19th century 'wild' capitalism. This corresponds rather to the philosophy of European organizations like ILO, Council of Europe, European Commission and the EBRD. While the international institutions resident in the USA base its social policy recommendations on ideas of American individualism, in the European institutions, 'social policy has a corporative and social democratic character' (Deacon, 1992). Considering the huge costs of transition in terms of the loss of existential security and the rapid impoverishment of large segments of the population, new social cleavages and exclusion, Zsuzsa Ferge observes:

It is an open question ... how much of these troubles is a natural or inevitable consequence of the heavy legacy of the past and of having released hitherto stifled social forces and passions, and to what extent are they due to political mismanagement ... Our assumption is that the efforts to cope with the present troubles were influenced by a hidden (and probably only partly conscious) agenda

about the type of society the currently dominant political forces would like to promote. In this society unemployment, poverty, homelessness, large and unattended inequalities are taken for granted (Ferge, 1994, p. 20).

There is no doubt that the high social spending betrays a certain frivolity on the part of post-communist rulers, nor that new post-communist governments are attempting to considerably reduce those expenditures and hence deliberately provoking social problems. Neither can communist paternalism be removed overnight, nor the Asian or any other system (being encapsulated in quite different societal and normative structure) be introduced by a simple order. The CEE governments have to act in a double constraint, being limited by a tight financial budget on the one hand and by a socially highly sensitive electorate on the other.

Evaluations of recent transitional changes in social policy also disagree. On the one hand, post-communist welfare state is appraised as a 'frozen edifice' like in the Western countries (Esping-Andersen, 1996, p. 2), as a 'protracted process' with a 'remarkable degree of durability' (Götting, 1996, p. 22). On the other hand, the talk is of 'a combined, liberal and conservative attack against universal benefits ... based not only on budgetary constraints but also on (in our assessment) false historical parallels, and political demagoguery' (Ferge, 1994, p. 19).

In fact in all countries, important changes have occurred in the protection of the labour market, these having been provoked by imminent problems of huge unemployment and the stagnant unemployment pool. The reluctance of CEE governments to pursue systematic social reform was actually caused by a coincidence of rising social problems under conditions of political instability which, in turn, incited populist behaviour. Instead of giving the populace lessons in self-reliance, post-communist governments should cultivate their political support and act with the utmost restraint in their withdrawal from communist paternalism.

The stability in other welfare areas is neither so convincing as stated, nor is it valid for all countries. Moreover, Western experts recommending less social spending should be familiar with the intrinsic difficulties of such a strategy. The retrenchment of the welfare state in Western countries was only minor despite the huge effort invested. Paul Pierson has shown the strength of political forces, enrooted in democratic institutions, which hamper radical reduction in expenditures and the high level of the electorate costs associated with retrenchment activities. Retrenchment is far from a symmetrical process to welfare state expansion, 'which can be read to suggest that the decline in union power, or the presence of a *strong state* create the preconditions for radical retrenchment' (Pierson, 1995, p. 39).

Although in the Czech Republic the original liberal design of social reform was considerably reduced and off-set by generous measures in the process, it has nevertheless brought about far-reaching and relatively consistent change. This was made

possible by the good performance of the economy, the less urgent character of social problems, the stability of the political right and the population's still quite high commitment to liberal values. In financial terms too, the Czech system appears, along with Slovakia, as the most economizing and least expanding of the CEE countries (Figure 9.2).

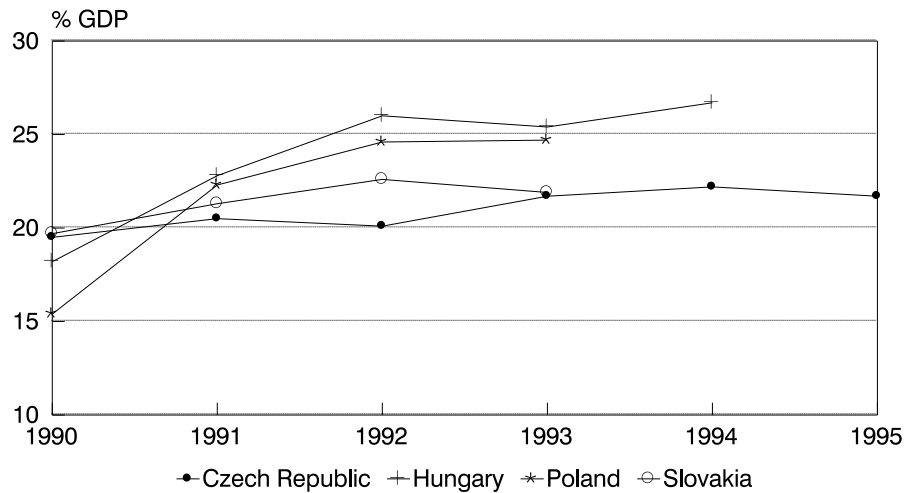


Figure 9.2 Expenditures on social security and health

Source: UNICEF 3, 1995; CSO.

Mitchell Orenstein (1995, p. 193) contrasts the 'strong package of social policies' expressing a strategy to smooth the transition in the Czech Republic with Poland's 'fragmented safety net' exhibiting a lack of policy direction, premature decentralization and misallocation of resources. Mirosław Ksiezopolski (1993, pp. 192-3) also criticized lack of any coherent vision of social policy in Poland and considered growing loss of control in social sphere as untenable. Vladimír Rys (1995, p. 207) is highly sceptical about social reform in Hungary and Poland 'due to economic and political imperatives' but also draws attention to a 'disparity of elements' in the Czech system which will make it difficult for the scheme to function coherently.

Whichever way we evaluate the specificities of the Czech system as they relate to the CEE region, the comparison of cash benefits with EU countries reveals no exceptional lack of moderation on the part of the CEE countries. Expanding expenditures in Hungary and Poland do not exceed 'socialist' France, the 'welfarist' Netherlands or the 'social-market' Germany. The Czech and Slovak systems still

seem to be far less expensive than the British or Irish residual welfare state, whereas the Hungarian and Polish systems are on exactly this level (Table 9.3).

Table 9.3
Social benefits in percent of GDP in the CEE (1993) and EU (1991) countries

Country	Pensions	Family	Health	Unemployment	Else	Total
Czech Republic	8.2	2.9	7.6	0.2	2.8	21.7
Hungary	10.4	4.0	4.5	3.2	3.3	25.4
Poland	14.9	1.5	4.7	2.3	1.3	24.7
Slovakia	9.4	2.7	4.7	1.5	2.6	20.9
Belgium	12.2	2.4	9.1	2.8	0.3	26.8
Denmark	10.9	3.6	8.3	4.9	2.1	29.8
France	12.9	2.8	9.8	2.0	1.2	28.7
Germany	11.1	1.8	11.1	1.6	1.0	26.6
Ireland	6.6	2.7	7.6	3.3	1.0	21.3
Italy	14.9	1.0	8.1	0.5	0.0	24.4
Netherlands	12.0	1.9	14.5	2.7	1.4	32.4
Portugal	7.1	1.2	8.7	0.9	1.5	19.4
Spain	8.8	0.3	7.9	4.0	0.4	21.4
UK	10.7	2.6	8.1	1.6	1.8	24.7

Source: UNICEF 3,1995; Social Protection, 1993.

The populace's opinions testify to the sensitiveness of the social question. As early as 1991, even before any substantial change of the welfare system had occurred, a critical stance towards the state's performance in the field of social security prevailed in all countries: 65 percent of Czechs, 74 percent of Hungarians, 78 percent of Poles and 82 percent of Slovaks declared that their national governments underestimated social guarantees required by the population (Dismantling of the Social Safety Net). There is no doubt that this sensitiveness even strengthened under leftist governments forced to apply economizing social measures like in recent Hungary. In the Czech Republic too, the first statements of the social democratic leaders after the 'victorious' 1996 elections have demanded the social sensitivity of politics be strengthened.

Despite advantageous conditions, the reaction of Czechs was far from positive and projected itself in a rise in leftist attitudes and a preference for the Social Democrats. While Czechs are slightly distanced from other CEE countries in income security, they feel surprisingly worse-off in terms of health service and housing securities. With regard to these two issues, Hungarians displayed more satisfaction in 1995, followed by Slovaks (Figure 9.3). Here, we can hypothesize about the greater concern of the more generous, truly 'post-communist' governments for the social needs of people, a concern which is criticized by international institutions and has led to unbearable fiscal burdens.

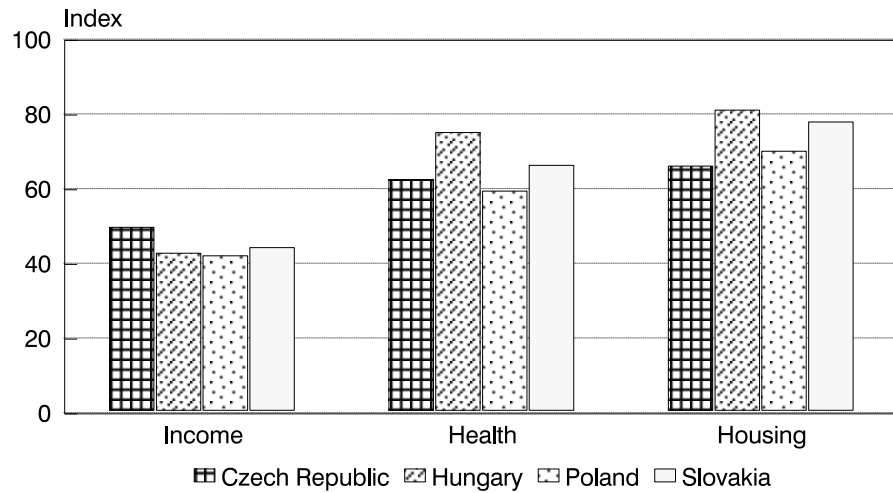


Figure 9.3 Income, health and housing securities
 Source: SOCO survey 1995.

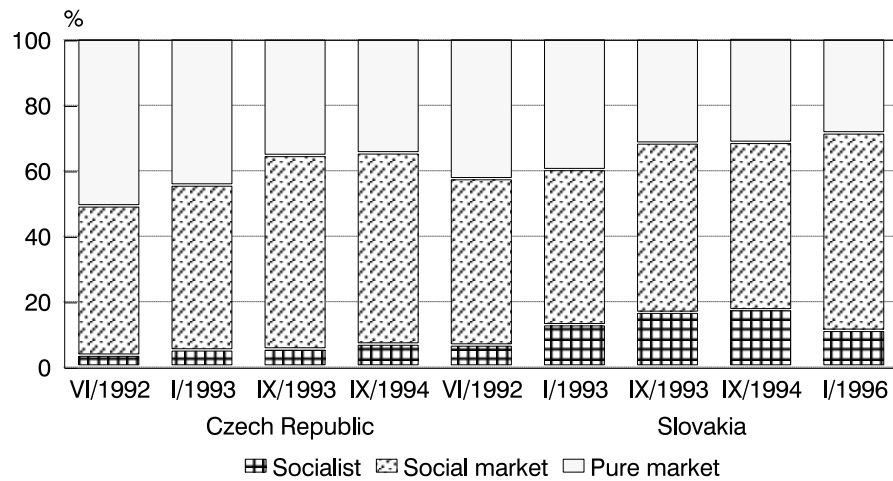


Figure 9.4 Preference of the economic order
 Source: EEA surveys.

We can follow the recent development in greater detail through a Czech-Slovak comparison. Generally, Slovaks appear much more 'social' than their former fellow citizens, the Czechs. Whereas only a few Czechs would still opt for the former socialist system, far more Slovaks do (Figure 9.4). This is due to two facts: the

largely redistributive communist regime was more advantageous to the less developed Slovakia and, secondly, it was more generous to Slovaks especially after 1968, when their representatives were leading figures in the Czechoslovak state. Currently, Slovaks are slightly more dissatisfied than Czechs with social benefits (83 and 79 percent respectively) but less willing to accept higher taxes for this purpose (20 and 24 percent respectively) (EEA, November 1994).

Surprisingly, the difference in satisfaction with social benefits between the two nations attenuated somewhat after the Czechoslovak split in 1993. Two reasons can be considered here. The first is that the Slovak government revised its social program in accordance with its proclamations about a less painful road to a market economy, thus rejecting what it saw as the excessively harsh Czech-made transformation. Despite the quite favourable performance of the Slovak economy, this has not in fact happened and benefit levels have not diverged from the Czech ones; moreover, the living minimum was not valorized since November 1993. The second reason: people are more tolerant of their own national government even if benefits are as tight as before. Actually, satisfaction with the economic performance and the feeling of financial improvement has increased in last years (Bůtora, Hunčík, 1995, p. 246).

In conclusion

The Czech Republic appears as the leading country in welfare reforms. There are many positive and negative aspects to the newly introduced system. It dispenses in part with the country's social-democratic and corporatist past and is steering towards the liberal system. It is assumed to be less expensive and so is enabling the government to decrease the tax burden. It is also predicted to involve people more, encouraging them to participate, through private insurance, in their own social security. Introduction of stricter criteria led in practice to several hardships excluding people really in need from benefits (disabled, foster parents) or to providing people by negligible benefits (housing benefit proportionally decreasing according to income, to almost zero). People feel frustrated and many of them humiliated by administrative procedure, especially in the case of child benefits.

In the long-term, there is a discrepancy between the time of the institutional change and the historical production of need. Concretely, state pensions may decline considerably before private insurance will actually step in. We also should be aware that functioning of the system is still backed by the high employment rate which is not fully efficient in economic terms. In this sense, the communist welfare system is partly surviving in the sense that social security is directly anchored in the production sphere. Through 'social employment' and earned income, burden of the

welfare system and transfer income is alleviated. Separation of the distribution and redistribution of income is proceeding, but far not finished.

From the sociological point of view, not only the strictly economic functioning of the system, but also the relationship between social policy and social structure is important. The question is neither frequently posed, nor easy to answer. One direction to pursue is how an established social structure produces a certain social policy. According to Esping-Andersen (1990), whereas the social democratic universal system was launched as a mobilization instrument of the working class against the establishment, the corporatist system was a typical middle-class strategy intended to maintain social and economic disparities, while the liberal regime aimed to support individualism by marginalizing social policy.

The other perspective is how a certain social policy, launched according to a design, influences the stratification regime by interfering with the effects of re-emerging private ownership, labour market segmentation and changing income distribution. This is the particular case of transforming societies which are establishing a new welfare regime, presumably from scratch. The problem is how far they are aware of the long-term consequences of decisions made often under pressure of pending budgetary constraint. How do different welfare regimes function in this sense?

The liberal regime functions well when the poor represent only a very small category of the populace, when people are able to cope with short-term difficulties and when flat-rate benefits are complemented by private pension and health insurance schemes. If these conditions are not fulfilled, however, the liberal system contributes to social disintegration. Quite clear stratification effects could also be attributed to the corporatist model typical of continental European nations. Irrespective of its heavy conservative, traditional and Catholic load, it supports the stratification hierarchy through occupational and associational pensions, health insurance schemes and other status specific arrangements.

Both of the above-mentioned models of social policy are in opposition to the social democratic model, where atomization is replaced by universalism, and corporate distinctness by middle-class standards spread over the whole population. Due to the highest degree of redistribution, this system is suspected of leading to economic inefficiency. According to the efficiency-equality trade-off rule (Okun, 1975), if income is directly proportional to output, personal effort grows. Evidence shows, however, that in the more egalitarian countries such as Germany, Sweden and Japan, productivity growth was faster than in the less egalitarian USA, Australia and Switzerland.

Despite the newly introduced liberal load, the Czech social policy system has not yet fully crystallized and its further crystallization is even less probable after the 1996 elections. Furthermore, though the principal tendencies in social stratification

can be described in rough contours, it is too early to discern the details. Two inter-related questions should therefore be raised at this point. The first regards the role of social policy in preventing poverty and formation of an underclass. The second is whether the adopted model of social policy is sufficiently supportive to social integration and the creation of a middle class.

With regard to the underclass, I only partly share the opinion of Ivo Možný and Petr Mareš (1995, p. 44): 'An underclass will undoubtedly appear in Czech society, whether on an ethnic basis (Gypsies), a social basis (the long-term unemployed) or on the territorial basis. The underclass will also tend to concentrate'. Leaving aside ambivalent meaning of concept, underclass is a relationship having two sides: position of the minority and attitude of the majority. In fact, the Czech society is increasingly hostile towards hardly adaptable Roms, but unchangeably friendly to people who failed. In another words, whereas the 'moral turpitude' version of underclass could act, the 'outcast poverty' could not.⁹ Welfare system is basically efficient in this sense.

Although we do not assume social policy design will have any direct impact on the stratification system, the main profile of the recent stream in welfare policy suggests some strengthening of inequalities. In this policy, residual attempts to limit state care to the most needy are evident while the corporatist elements guaranteeing the position of the middle classes are being suspended. This is, however, a long-term political issue which will require demands further revisions once the social democratic stream is asserted.

Notes

- 1 As Johan De Deken (1992, p. 21) made clear: 'The Leninist regime effectively discredited anything that makes even the most moderate allusion to socialism'. Similarly Z. Ferge (1992, p. 210) showed that because of the past, social policy is the weakest aspect of socialist party activity in Hungary.
- 2 Foreign visitors during the Czechoslovak 'normalization' period may well have been surprised how many Czech stokers spoke English or how many window-cleaners had university degrees. To avoid any conflict with the Labour Code, the procedure of appointing disobedient citizens to 'dirty' jobs was never made explicit.
- 3 This phase was correctly commented upon by M. Castle-Kanerova (1992, p. 115): 'The current situation is such that social policy remains, despite the arguments to the contrary, a system of paternalistic and patriarchal proposals'.

- 4 The highest of three categories comprised of, for example, miners, army officers, policemen and pilots. Especially high personal pensions were assigned to the top politicians as well as artists and sportsmen as a special form of reward.
- 5 For example, in Austria, Greece, Portugal, Sweden and the UK, the proposed or the set retirement age is 65 or 66 years for both men and women. The limit remains lower in the Czech Republic, the estimated life expectancy comparable for men (14 years in pension) and slightly higher for women (21 years).
- 6 The motion seems to parallel the Reagan 1986 reform. It assumes that the tax burden rises more rapidly than inflation such that state expenditures could then be covered on an even lower tax level. A decrease in the marginal corporate tax from 39 to 32 percent and income tax from 40 to 33 percent is set to occur in 1997.
- 7 Probable non-take-up of benefits is an area of public debate. The government argues that the new system should be a lesson for people in how to withdraw themselves from paternalist care. Only those who really need benefits are expected to apply for them. The Social Democrats estimate the non-take-up at 20 percent and insist that means-testing is an affront to people's dignity and that it is humiliating to have to stand in queues.
- 8 For further details, see a summary of recent developments in Barr (1994).
- 9 I have borrowed those labels from J. Westergaard (1992) who applies 'moral turpitude' the underclass culture, where poverty is a matter of individual, family or collective choice. Similarly, 'outcast poverty' expresses the need which is structurally produced by a more demanding and less expanding labour market.

10 Perceptions of reforms and personal situation

Political transformation and economic reforms are far from purely administrative matters accomplishable in a resistance-free environment according to a 'rational' blueprint with no or negligible transaction costs. Sophistication of the reform design, its political dimension and popular image are all important. Not only the inventiveness of the reform program but also the degree of its vocabulary's consistency with historical roots and the social milieu contribute to its success. Not only economic rationality, but also emotional devotion expressed in political enthusiasm were important.

In this sense, several features are particular to the Czech economic reform. The most apparent is its calculated political support. The scenario of the economic reform was accompanied by the establishment and steep rise in support of the Civic Democratic Party (ODS), the latter being fully identified with the former from the very outset. It was not the case that a group of politicians adopted an economic program, but the other way round: a quite compact group of economists moved into politics in order to guarantee political support for their economic aims. Moreover, many of them were members of a circle interconnected by both professional and friendship ties.¹

Another particularity was that Czechs had retained in their memories the 'glorious' twenty years of prewar Czechoslovakia. The communist version of history, which presented this period as a gloomy time of economic crisis (when striking workers were shot by the police), only enhanced its appeal. Objectively, Czechoslovakia was one of the most developed countries in the world, with a stable currency, sophisticated machinery, a model democratic regime and extensive social protection. This was true modernity in people's minds and worth re-establishing. The new governmental economists also remembered prewar Czech financiers and economists, most of whom were sentenced by the communists to die in poverty and oblivion.²

In this chapter, I intend to show how people understood the reforms. First, I sketch changes over time in perceptions of the economic reform and its main measures. Second, reactions to the increasing costs of living and other consequences of marketization are placed in a comparative CEE context. Third, I pursue the associations between general attitudes toward the economic situation and personal feelings of hardships and poverty. And fourth, I show the strengthening association between people's perceptions of the general economic situation and their own. The chapter concludes with hypotheses about the crystallization of attitudes and the re-stratification process.

Accepting changes: from enthusiasm to sobriety

It was only in 1991 that the former Czechoslovakia embarked upon a far-reaching economic transformation which aimed to establish functional consumer, labour and financial markets. After some timid and vaguely expressed intentions to reform socialism in the 1968 style, an uncompromising 'back to capitalism' proposal clearly won. Price liberalization, the dismantling of labour administration, the privatization of enterprises and the abolition of most barriers to capital flows were essential components of this process. The macroeconomic priority was to freeze the inflationary process by restrictive income, budgetary and foreign currency policies, and to maintain a balance in external economic relations.

All these processes certainly stimulated people's interest and generated a number of hopes and fears about the future. In Spring 1990, i.e. even before any reform program had begun, 65 percent of people expected significant changes in the economy (EEA, May 1990). These expectations, however, were somewhat confused. Almost 90 percent of respondents wanted private business to have complete freedom and the same percentage (mostly the same people) insisted on preserving the controlling role of the state in the economy. This testifies to the huge confusion of the initial period, with people responding 'yes' to most questions and paralleling expectations of continuity with expectations of fundamental change.³

Although widespread satisfaction with the preparation and progress of the economic reform quickly rose, it was never explicitly dominant. Only a minority of the populace accepted the reform entirely, overall approval stabilizing at around 40 percent in 1991. During the very pro-liberal election period in 1992, this support expanded and stabilized at 50 percent in the Czech part of the country. Much lower acceptance was expressed by the Slovak population, the percentage remaining at the 20 percent level, except for the temporary mid-1992 liberal disposition (Figure 10.1).

Since the design of the economic reform was constantly accused of being exclusively 'Czech made' and thus inappropriate or even detrimental to Slovakia, its support dropped rapidly after Slovak independence in 1993. Since mid-1992, the

percentage of Slovaks holding that the pre-1989 economic system required substantial changes systematically decreased to a mere 40 percent by the end of 1994, in comparison with 68 percent in the Czech Republic. Unlike Czechs, Slovaks evaluate the regime from the point of view of their standard of living rather more than from the point of view of its general merit (comparative survey of STEM and FOCUS, November/December 1994).

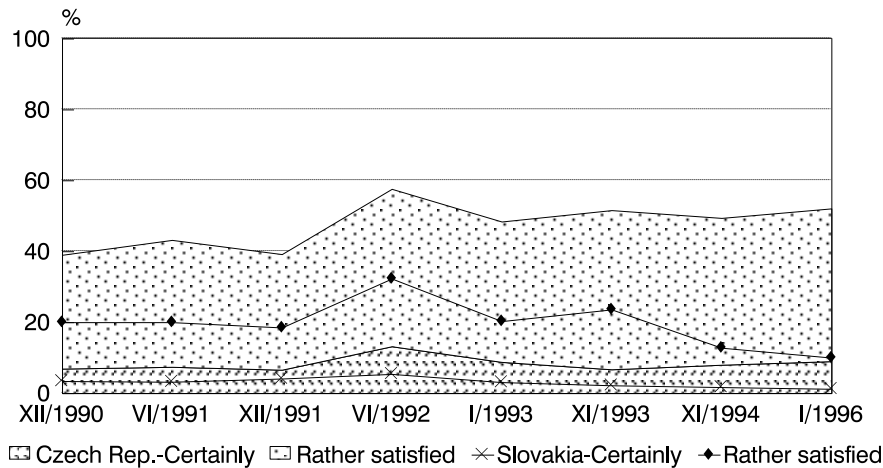


Figure 10.1 Satisfaction with economic reform

Source: EEA surveys.

The overall picture of support for the reform in the Czech Republic is basically satisfactory. The net score of satisfaction with the preparation and progress of the economic reform has slowly moved from negative to positive and has been quite steady over time. In fact, only a small percentage of the populace is really dissatisfied, in contrast to Slovakia, where the part of the dissatisfied population is growing. Czech figures contrast even more with Polish figures, where the net score of the popular attitude to the Balcerowicz Plan fell from +33 to -32 between January 1990 and August 1991 (Perreira et al. 1993, p. 161).

The introduction of the market necessitated price liberalization. After a long period in which the state deliberately manipulated all prices, most prices have been liberalized, agitating the consumer market but pushing inflation up to a record 57 percent in 1991. In general terms, price liberalization was largely accepted by the population: more than 80 percent of respondents in mid-1991 considered it inevitable. As usual, people accepted the idea but contested the form, scope and pace of its accomplishment. For 82 percent respondents, prices increased more than was expected, but the same percentage of people refused strikes as a form of protest against the price changes (EEA, June 1991).

The concept of price regulation is still operative in people's minds. Despite welcoming the price liberalization, more than one half of the populace still thinks that the price of more goods should be officially fixed. This recognition oscillates over time depending on the current situation. It was highest at the end of 1991, when prices rose steeply and relaxed in the following year. In 1993, it increased again when prices rose due to the introduction of VAT and the new contribution system; since this time it has been more or less stable. Even at its lowest value (during the election period in 1992), 48 percent of respondents would have welcomed wider state control of prices (Figure 10.2).

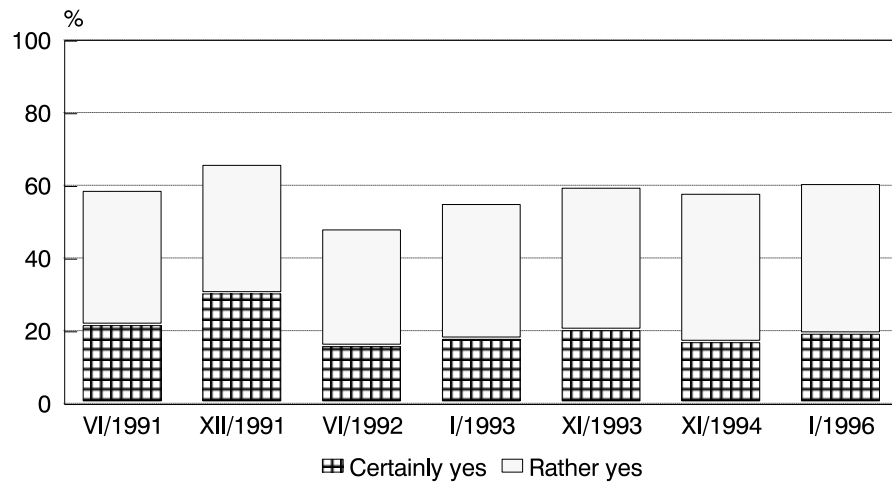


Figure 10.2 State should control prices

Source: EEA surveys.

As we have shown earlier (see chapter 7), the population responded to the privatization with clear commitment. In mid-1990, 57 percent of respondents more or less agreed that all large state enterprises should be transformed into joint stock companies or private firms and 47 percent agreed that foreign firms should not be limited in their activities. Both percentages later decreased, especially the share of people welcoming unlimited business on the part of foreign firms. The idea of restitutions of formerly confiscated property to previous owners or their inheritors was accepted almost fully, whereas its range and procedure have been called into question by the majority of the population.

The tenor of the 1993 'interim reports' the population presented the government differed according to the issue. A favourite in people's eyes was the restitution of all properties confiscated after the communist victory in 1948. Privatization, the voucher method included, was supported by one half of the population. Rent regulation of (former) state apartments was endorsed mostly by people who stood

to profit from it and disapproved of by those who did not. The new tax and contribution system and the bankruptcy procedure for struggling firms found support from 30 percent of respondents. The least support was given to the transformation of agricultural cooperatives and the restitution of farms to their former owners (Figure 10.3).⁴

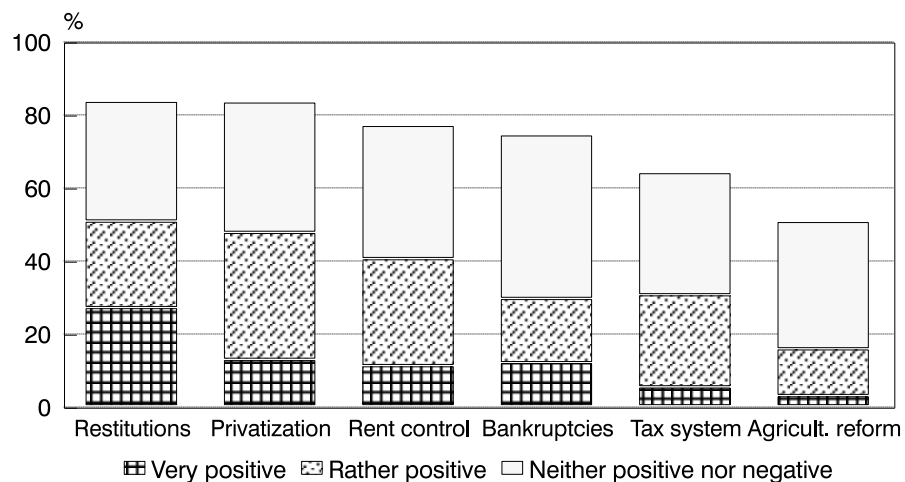


Figure 10.3 Satisfaction with economic measures

Source: *Opinions on social change 1993*.

Although the establishment of markets was basically welcomed, transformation induced many fears among people. Instead of a familiar environment and familiarized patterns of economic life, the institutions and mechanisms suddenly started to change. People were warned they would have to ‘tighten their belts’ and work harder in order to pay the painful price for entering the economically developed world. Gloomy prospects were particularly characteristic of the very beginning of the period when about 30 percent of Czechs and 40 percent of Slovaks declared fears concerning economic development in the near future. Those fears declined gradually in the Czech Republic but remained high and even increased in Slovakia in 1994-1995 (Figure 10.4).

There have been several attempts to periodize the course of the transformation according to people’s perceptions. Both of them involve only early stages of transformation, easier to itemize according to liberalization measures. One is a simple ‘shock-related’ periodization, whereby the shock is primarily monitored in responses to the liberalization of prices. In their analysis of EEA surveys, Hrabá et al. (1966) accordingly distinguished pre-shock and early shock, shock and late shock,

and finally post-shock phases, the culmination of the shock occurring at the end of 1991.

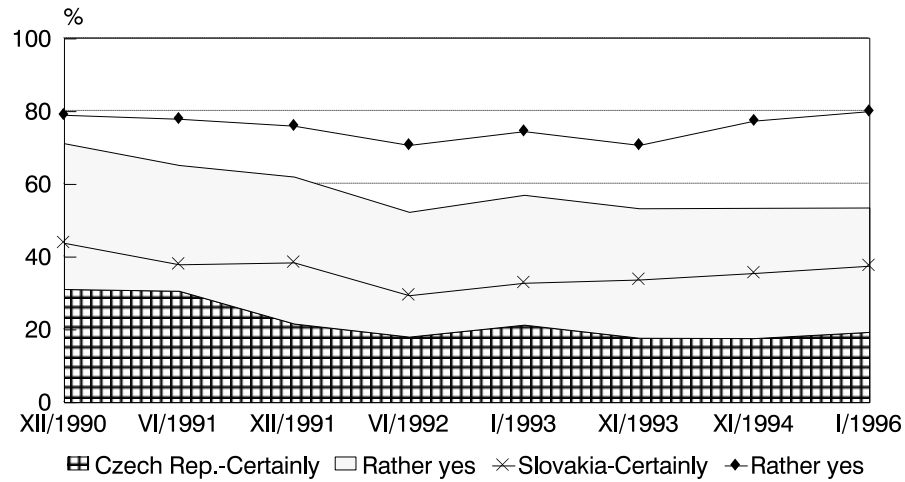


Figure 10.4 Fear of the economic future

Source: EEA surveys.

Jan Hartl (1993) discerned six stages: 1. the period of revolution euphoria characterized by high consensus within the populace (early 1990), 2. the period of disillusionment, when the new elite was saturated and its interaction with the public was weakened (after the 1990 elections), 3. the interim period when economic reform was considered to be proceeding too slowly and public opinion showed signs of frustration and distress (peaking in autumn 1991), 4. the period of political crystallization, when the differentiation and routinization of the political scene began, and pragmatic approaches started to prevail (1992), 5. the period of diversification where opposing interests and latent tensions were displayed (1993).

There is no direct inference from people's feelings to an explicit cycle of the transition. Apart from the 1991 price shock, stability or smooth trends towards expectations of more social security have prevailed. The main change, obscured in averaged data, is indeed the diversification and crystallization of opinions connected with social stratification processes. This change is manifest in the growing consistency of opinions on the one hand and their growing predictability by social characteristics on the other. The 'learning process' in the practical market economy and political democracy is accompanied by a higher awareness of interests. Precisely because of the relative success of the reform, Czechs have moved away from mass-mentality reactions to more individualistic ones.

Learning process and left shifts

The transformation is not only a period when institutions and their functioning are reformed and settled. It is also a period of learning where people start to think in terms of more specific concepts, rather than in those of the accustomed clichés of the ‘problem-free’ socialist society. Despite some vague ideas about markets and capital, people’s understanding was rather confused in the early period, as their enthusiastic reactions to all questions concerning markets demonstrate. The previously split consciousness of the communist regime (public ‘yes’ against private ‘no’) has been replaced by the transformation ‘say-yes-to-everything-except-communism’ approach reflecting a sudden confusion; this itself is bound to be replaced by relatively consistent attitudes.

When comparing surveys since 1990, we must recognize their dual character, reflecting as they do the interplay between understanding concepts and perceiving the situation. During the transformation, people have learned to conceptualize the changing socio-economic environment more clearly and have started to cast their various opinions into more compact sets. This is what we call a crystallization process which occurs with differing intensity in various countries, social strata and/or historical periods. This process develops within a more or less steady background or general tendencies.

In the Czech Republic, we basically see an initial, relatively high liberal commitment which later weakens. After the early enthusiasm, the gradual rise of ‘rightist’ attitudes culminated during the mid-1992 election period, and has decreased significantly since then. The recent ‘leftist’ shift is manifested, among other reasons, by the fact that more people expect state protection of jobs, rents and prices as well as the establishment of a ceiling on income. During the 1992-1996 inter-election period, when the right-center coalition was in power, no decrease in expectations of job securities or apartment provision appeared (Figure 10.5 and 10.6).

A greater number of people are also attracted by the ‘social market’ model which, from 1993, became the most desirable solution, unlike the previous period, when the majority of the population voted for the ‘market without adjectives’ model (Figure 9.4 in previous chapter). The popular perception of the social market model is far from the original concept of W. Eucken, A. Müller-Armack and *Kreis Ordo* of Freiburg University, in which the state was supposed to be a guarantor of the market economic order (Barry, 1993). It is much closer to a social democratic regime, where the state provides large social guarantees and redistributes incomes, with Austria and Germany as the most familiar examples.

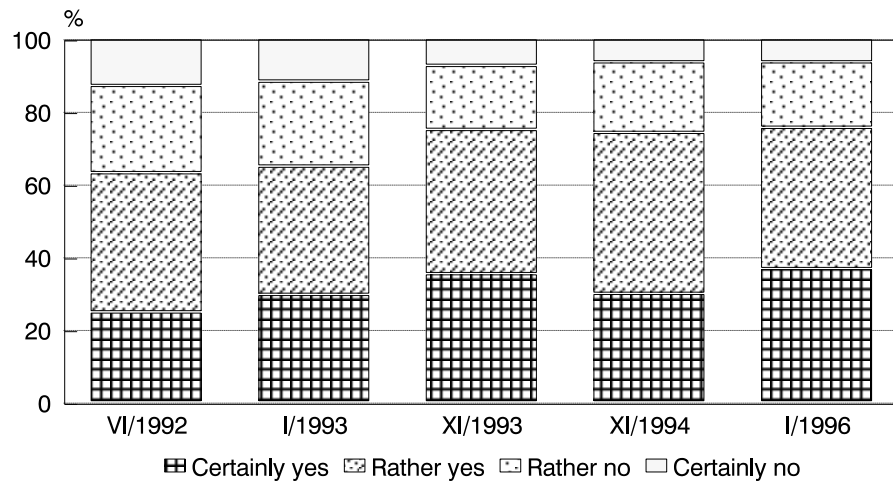


Figure 10.5 State should provide jobs

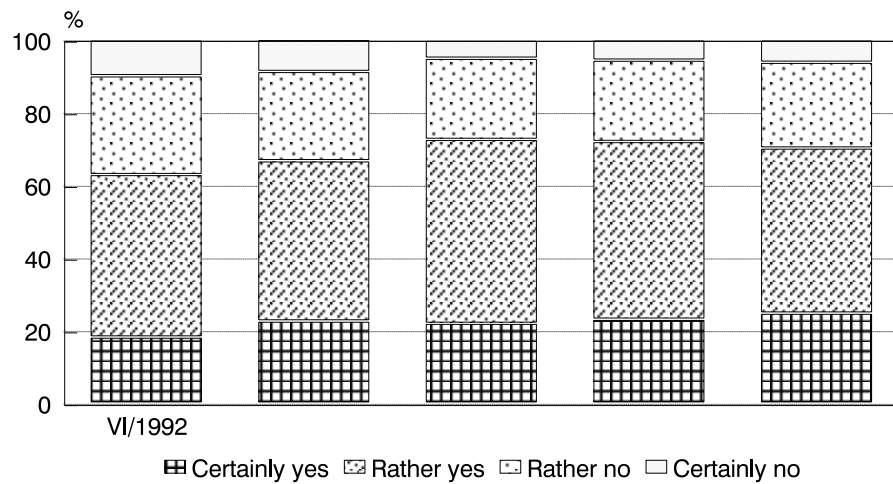


Figure 10.6 State should provide apartments

Source: EEA surveys.

Although fewer people now agree with state control of the economy, the percentage of respondents accepting complete freedom for private ventures and foreign firms is in continuous decline. After a short period of enthusiasm for the widening range of earnings distribution, most people are growing suspicious of greater inequalities. The percentage of people who believe that differences in salaries should be greater is decreasing, less people share the attitude that poverty is the

responsibility of the individual, and more people consider that wealth is mostly acquired by unfair practices (Table 10.1).

Table 10.1
Opinions on private ownership, the role of the state and inequality (%)

May 1990	Dec. 1990	June 1991	Dec. 1991	June 1992	Jan. 1993	Nov. 1993	Nov. 1994	Jan. 1996
<i>A. Private entrepreneurship should be given complete freedom.</i>								
49.7	45.8	40.0	28.3	33.6	25.8	24.9	21.2	19.5
86.8	79.0	75.6	63.1	67.8	63.3	58.6	59.3	53.9
<i>B. There should be an absolutely open space for foreign firms in our country.</i>								
17.1	22.5	19.3	15.9	16.6	10.0		7.1	6.9
47.3	54.2	48.2	41.5	48.2	36.7		29.1	29.3
<i>C. Even in the new conditions, the economy should be under state control.</i>								
52.0	39.7	39.0	37.3	29.2	28.6	31.6	27.6	35.0
87.5	77.6	81.6	81.9	72.7	75.2	79.5	78.7	81.7
<i>D. Big firms in state ownership should be transformed into joint-stock or private firms.</i>								
17.1	23.9	22.2	22.4	23.7	17.3			
56.9	59.6	56.2	56.8	57.2	51.8			
<i>E. It is right that capable and competent people have a lot of money, even millions.</i>								
40.3	47.3	49.5	45.0	47.4	41.8	37.4	33.6	32.0
66.3	74.8	76.9	75.2	78.4	76.7	75.3	75.6	76.0
<i>F. Differences in wages and salaries should increase.</i>								
57.8	55.5		46.9	43.4	35.2	24.8	18.9	15.5
88.6	87.7		82.6	80.2	72.9	66.0	59.4	52.8
<i>G. Everybody is responsible for his/her own poverty.</i>								
				16.2	10.9		6.8	6.7
				46.7	39.1		34.8	33.9
<i>H. People get rich mostly by unfair means.</i>								
				33.6	34.3		38.5	34.6
				78.0	79.9		80.5	79.3

Source: EEA surveys.

First line = % answers 'definitely yes'.

Second line = % answers 'definitely yes' plus 'rather yes'.

Such a continuous change in attitudes is partly legitimized by direct experience, which has provided numerous negative examples. On the one hand, the communist nomenklatura is successfully converting its political capital into business capital; black marketeers are able to enrich themselves with little hindrance, speculators triumph over honest entrepreneurs, and the creation of new firms is burdened by complicated procedures and huge taxation. On the other hand, the costs of living have increased and households without extra incomes are being forced to limit their habitual expenditures considerably. It should come as no surprise that such changes have brought about the return of the former equality claims and social envy toward the new rich.

There could be several other explanations for such a shift. First: liberal commitment was a fashionable deviation at the beginning of the transformation but now people are looking for easier solutions. Second: the recent period has been a lesson in restraint, with the fears of a further rise in living costs generating demands for increased state protection. Third: the pendulum of history has reached the extreme right and is swinging back to the left, as political left shifts in Poland and Hungary have demonstrated. Fourth: Czechs are traditional levellers and social democrats and have resisted extreme disparities since the loss of their nobility following the Battle on the White Mountain in 1620.

However, the most probable and reasonable explication can be seen in the crystallization and differentiation of people's opinions, following their behaviour, experience and training in market economy/political democracy discipline. In the period immediately after the Velvet Revolution, people actually asked for market freedom and state guarantees simultaneously. A new commitment to liberal values was simply added to continuing expectations of state engagement in the economy, job and wage securities, price controls and the like. The almost completely collapsed former regime and only vaguely sketched new regime understandably overlapped both in reality and in people's minds.

Such ambiguous attitudes are being abandoned and replaced by less commonly shared but more consistent opinions leaning either to free market play or to job and price guarantees by the state. Not only do fewer people hold that no constraints should be placed upon private entrepreneurship but fewer people demand state control of the economy (only very recently, demands for greater control of the economy increased slightly). Instead of vague opinion blends, more consistent profiles are evolving, connected (although still weakly) to people's socio-economic positions and (more considerably) to their economic success and outlook. However, the common background of these tendencies is the return to more 'social attitudes'.

This crystallization process is documented by correlations of various opinions (Table 10.2). The demands for freedom for private entrepreneurship, on the one hand, and state control over the economy, on the other, are incompatible and whereas both were championed at the beginning, they are now conceived as less compatible. Admitting substantial sums of money for competent people and increasing earnings disparities are rather similar and, while initially were considered not to be necessarily interlinked, are more and more jointly surveyed in recent observations. The same is true of other correlations which testify to the emergence of much clearer opinion patterns.

Table 10.2
Correlations between opinions on private ownership, the role of the state and inequality of earnings (Spearman correlation coefficients)

	A.	C.	E.	F.
<i>May 1990</i>				
A.	1.00	-0.10*	0.18**	0.14**
C.		1.00	-0.20**	-0.04
E.			1.00	0.20**
<i>June 1991</i>				
A.	1.00	-0.21**	0.43**	
C.		1.00	-0.20**	
E.			1.00	
<i>June 1992</i>				
A.	1.00	-0.26**	0.41**	0.14**
C.		1.00	-0.23**	-0.17**
E.			1.00	0.36**
<i>November 1993</i>				
A.	1.00	-0.38**	0.39**	0.21**
C.		1.00	-0.20**	-0.19**
E.			1.00	0.34**
<i>November 1994</i>				
A.	1.00	-0.40**	0.41**	0.26**
C.		1.00	-0.32**	-0.25**
E.			1.00	0.47**
<i>January 1996</i>				
A.	1.00	-0.34**	0.37**	0.28**
C.		1.00	-0.28**	-0.22**
E.			1.00	0.50**

Source: EEA surveys.

Statistical significance:

** < 0.001

* < 0.01

A. C. E. F. see questions in Table 10.1.

Until now, the emerging system of economic inequalities was not highly legitimized in people's minds. It is surprising that such a great majority of respondents does not accept new wealth as fairly acquired or questions the procedure. The percentage of people agreeing that the speed of privatization was the most important thing is dropping. Both the small-scale and large-scale privatization is suspected of attracting dirty money and engendering corruption, actually reflecting the fact that the accepted rules were in many cases broken. This is the reverse side of the Czech privatization, respected from outside as relatively fair but viewed from inside with growing criticism.

Declarations of legitimacy are not so categorical regarding poverty. According to EEA surveys, 34 percent of people still think that the individual rather than society is responsible for his or her poverty. However, the change of attitudes over time, especially those of older and less educated people, is tending to expectations of greater involvement by the state. Here too, attitude consistency is increasing: the people contesting the legitimacy of acquired property are the same who blame the state for neglecting poverty and who feel poor themselves. Although this process is far from producing a polarization in society, more contrasting lines of division within the populace are forming.

Viewing reform and experiencing hardship comparatively

Countries of the former 'socialist camp', sentenced by Soviets to homogeneity through downgrading to the lowest common denominator, still entered the transition with highly varying backgrounds and from different historical situations. Whereas the former Czechoslovakia joined it as an intact 'communist virgin', with a relatively well functioning system, Poland had already experienced a conflictual, politically advantageous but economically damaging Solidarity past, while Hungary had two decades of 'goulash communism' - nourishing people but eroding the business ethic - behind it. Furthermore, the intactness of the state system bureaucracy was a comparative advantage which facilitated the transformation.

In the evaluation of the present regime, the long-term and recent changes are mixed together. Here, the differences between the individual CEE countries are quite striking. In 1991, the prewar regime represented the peak of justice in the minds of Czechs, while the communist regime was the worst, and the post-1989 evolution meant a clear improvement for most. In every other CEE country, the gap in people's evaluations of the fairness of the prewar and postwar systems was not so big. What is more, it is only in the Czech Republic (once again) that the early post-1989 changes are perceived by the majority as an improvement (Dismantling of the Social Safety Net).

There are, of course, disparities between population categories: the current regime is more positively evaluated by men than women, by young in comparison with older people and by higher educated than elementary educated people. These educational disparities are most pronounced in Poland and only weak in Slovakia. However, all socio-demographic characteristics explain only a very small percentage of disparities, thus confirming the importance of people's special 'transitory' features such as property inheritance, readiness to take risks, unquantifiable skills and social capital.

In 1995, the general evaluation of the current regime in comparison with the previous one differs even more greatly. The upper two strata which consider the current regime better amount to a slight majority within the Czech population (almost 60 percent), but a minority within the Hungarian population (26 percent), with Poland and Slovakia in between. In each country, the regime was accused of producing excessive inequalities, with Hungary ranking first again (89 percent of households) and the Czech Republic last (67 percent) (SOCO survey).

In addition, net scores of positive/negative evaluation show disparities and different trends. In evaluating the market economy, almost all scores are positive (satisfaction exceeding dissatisfaction) over time and across countries. Nevertheless, this evaluation is decreasing in all countries except the Czech Republic (Figure 10.7). Concerning the general country direction, only Czechs display a positive score and a very steady trend. In the other countries, the score is negative and there is an oscillation over time, with the evaluation having recently deteriorated in Poland and Slovakia (Figure 10.8).

A similar message is brought across by people's perceptions of their personal situation. Retrospectively, a majority of households in all countries except the Czech Republic felt that they were less able to make ends meet in 1995 than in 1989. A deterioration was perceived by 60 percent of Hungarians, 54 percent of Poles and 52 percent of Slovaks as opposed to only 35 percent of Czechs. In 1995, between 33 percent (Slovakia) and 60 percent (Poland) of households declared financial difficulties as opposed to 24 percent of Czech households. In the Czech Republic, the extremes of satisfaction are quite symmetrical in this sense (Table 10.3).

The pattern of determining financial difficulties only converges in two explanatory variables in the countries under observation. The first is the education of the household head, by far the most important characteristic in Poland and the least in Slovakia. The second is the incidence of unemployed persons in a household, again the strongest in Poland. The other determinants are the number of pensioners in a household and age cohort: both the pensioners' households and young couples declare more difficulties than other households in Poland and Slovakia. The number of children is only significant in the Czech Republic.

There is no direct association between the macroeconomic development of a country and the evaluation of the situation by respondents. In the Czechoslovakia of 1991, when inflation was high and real wages dropped, people were still positive in their opinions about the market economy. Despite the improvement of the macroeconomic situation in all countries since the beginning of the reform, such an evaluation has declined rapidly, with the exception of Poland. This is especially striking in the Czech Republic, where the general economic rating is rising steadily.

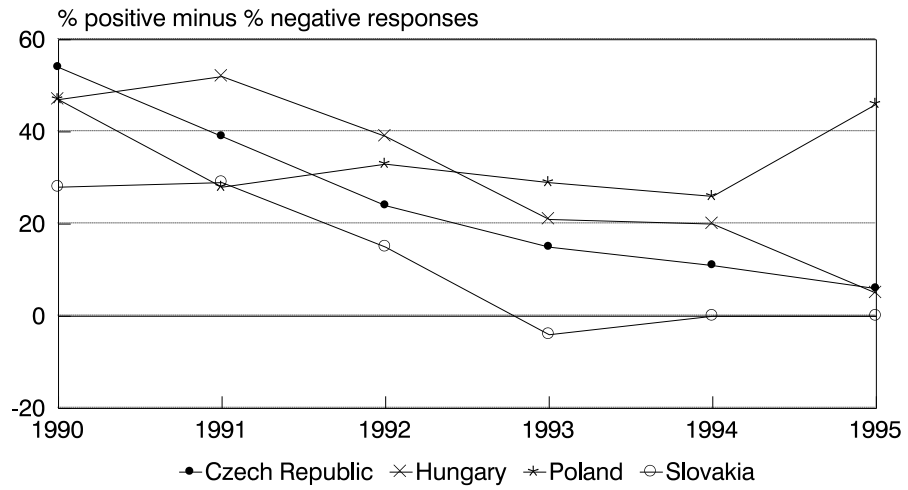


Figure 10.7 Right or wrong: market economy

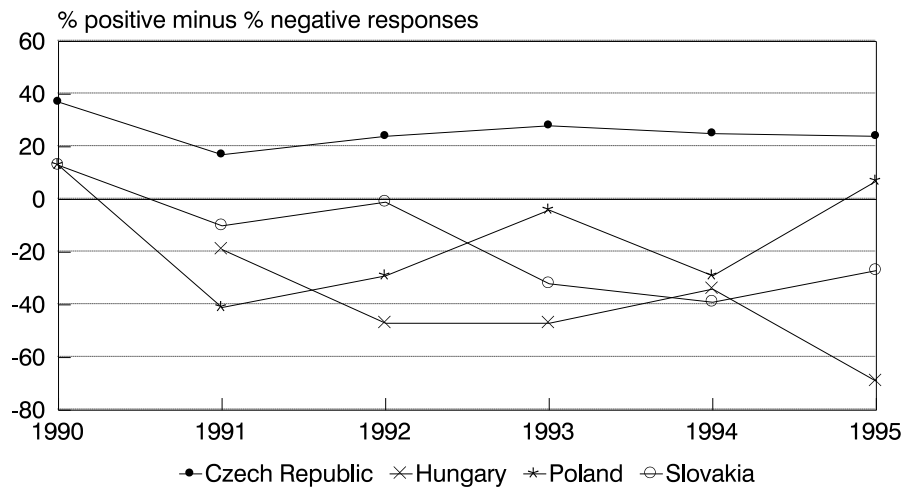


Figure 10.8 Right or wrong: country direction

Source: CEE Barometer.

Table 10.3
Ability of households to make ends meet (%)

	Czech Republic	Hungary	Poland	Slovakia
<i>Situation in 1989:</i>				
With great difficulty	1.7	3.5	6.6	0.8
With some difficulty	11.4	17.1	18.2	6.5
So-so	37.8	34.7	42.7	39.3
Well	45.2	42.6	29.1	48.6
Very well	3.8	2.1	3.4	4.8
Total	100.0	100.0	100.0	100.0
<i>Situation in 1995:</i>				
With great difficulty	5.4	23.5	26.6	10.5
With some difficulty	18.4	23.2	33.0	22.2
So-so	39.9	40.6	26.8	43.7
Well	31.9	11.9	12.3	22.2
Very well	4.4	0.7	1.4	1.4
Total	100.0	100.0	100.0	100.0
<i>Change 1989-1995:</i>				
A worsening by more than one degree	11.1	20.6	25.2	19.6
A worsening by one degree	23.9	39.6	28.7	32.4
No change	49.7	33.4	37.4	40.7
Improvement by one degree	11.4	5.7	7.2	6.1
Improvement by more than one degree	3.9	0.6	1.5	1.2
Total	100.0	100.0	100.0	100.0

Source: SOCO survey 1995.

There are two possible sources of such a mismatch. First, the stock of ‘political capital’ accumulated during the long communist dominance and which was the revolutionary commitment to the complex regime’s change was drained early on in the transition and people became sober and pragmatic. Second, the reform is promoting higher expectations and the increased proximity of developed countries is making people more critical and demanding. Moreover, people’s expectations are normalizing (toward the Western model) more rapidly than their behaviour, just as the economy is normalizing more rapidly in its macro-indication than its micro-functioning.

General and specific attitudes: strengthening links

Unless reforms are drafted in administrative concepts and political slogans, rather than embodied in acting institutions and everyday reality, people can neither measure nor predict how much they stand to profit from their support of the regime. Rather, people expressed their ideological preferences and anticipated future gains and losses by opting for the direction of a general revision of the economy, politics

and society. Very often, they expressed dissatisfaction with the current state of affairs without having any explicit political and/or economic alternative in mind.

Although private property was partly allowed and some preliminary 'pro-capitalist' changes had already occurred in Hungary and Poland before 1989, the awareness of reform was perceived in these two countries as strongly as in the inhibited Czechoslovakia. In 1990, 78 percent of Hungarians and 67 percent of Poles completely agreed that the country's economic system needed fundamental changes and another 18 percent in Hungary and 30 percent in Poland agreed somewhat with such an opinion (Heyns and Jasinska-Kania, 1993, p. 173). Similarly, in the former Czechoslovakia, almost everyone agreed that a far-reaching reform was needed but debated only the scope and character of such a reform.

The original reform ideologies in the CEE countries appear more similar than their outcomes. According to the 1990 European Value Survey, Hungarians appeared somewhat more liberal than Poles in agreeing upon the usefulness of competition, hard work and the withdrawal of the state from the economy. According to the 1991 data, some CEE countries came across as even more 'liberal' than Western Europe (especially the Czech Republic) with regard to the acceptance of earnings disparities and the public gain from business profits, but more 'socialist' regarding state guarantees of jobs and a ceiling on income. Although on the one hand, Czechs demanded job protection like their Eastern neighbours, on the other, they did not require a limit on the top incomes like the Germans or the Dutch (Table 10.4).

As no ideal can ever be achieved and all illusion must be abandoned, people came down to earth and started to focus more on themselves. This shift is not a simple trajectory but a complex process which could be described as a gradual increase in 'pragmatic' and 'individualistic' reasoning expelling 'ideological' intentions and 'higher principles'. We assume that in this process, people began to connect personal and societal interests, the former gradually dominating over the latter. This trend is further strengthened by liberal and individualistic ideas: the assumptions of neoclassical economics act as a self-fulfilling prophecy undermining the very moral base of the economy.⁵

Measuring the association between personal (household) financial hardship and satisfaction with the reform process, we found that the correlation is apparently strengthening in the Czech Republic, reaching twice that of its 1990 value (Spearman correlation coefficient 0.44 instead of 0.27) by the end of 1994 and maintaining this value in early 1996, in comparison with an almost unchanged weak association in Slovakia. According to EEA surveys, people declaring great financial difficulties contest economic reform increasingly intensively despite the fact that the total percentage of dissatisfied population is on the decrease; in con-

trast, about 85 percent of relatively satisfied people are currently supporters of the reform as opposed to 40 percent in 1990.

Table 10.4
Opinions on income and role of the state in CEE and OECD countries (%)

	Disparities 1	Profits 2	Jobs 3	Top of income 4
Czech Republic	72.4	66.3	78.4	26.8
<i>Czech R. 1995</i>	63.5	47.2	74.8	22.1
Hungary	48.6	39.3	90.6	63.9
Poland	70.9	59.5	85.5	53.7
Slovakia	66.9	53.7	88.4	44.5
Germany East	64.3	42.0	94.3	62.6
Germany West	67.2	53.7	72.6	39.6
Netherlands	60.8	50.1	59.3	38.0
UK	63.4	47.3	68.1	43.4
USA	60.1	52.0	52.2	20.4

Source: *Social justice 1991, 1995.*

Questions:

1. *There is an incentive for individual effort only if differences in income are large enough.*
 2. *It is all right if businessmen make good profits because everyone benefits in the end.*
 3. *The state should provide a job for everyone who wants one.*
 4. *The state should place an upper limit on the amount of money any one person can make.*
- Answers 'fully agree' and 'rather agree'.

Table 10.5
Dissatisfaction with the regime according to the ability of households to make ends meet (%)

Variant of answer	Czech Republic	Hungary	Poland	Slovakia
With great difficulty	57.4	60.4	57.0	73.0
With some difficulty	36.6	49.1	42.1	55.0
So-so	23.6	46.6	26.7	53.4
Well	11.3	27.7	12.5	30.0
Very well	4.5	14.2	21.4	21.4
Total	23.0	47.9	38.0	50.2

Source: *SOCO survey 1995.*

In cells, percentages of those responding to the question: *All things considered, would you say that the present regime is better or worse than the system before 1989?* by variants 'a bit worse' or 'much worse'.

Slovak figures were quite close to the Czech ones under the former Czecho-Slovak Federal Republic, but began to diverge after the split of country. There, the association between personal success or failure and satisfaction with reforms has remained at a constant level. After the split in 1993, the economic reform was dismantled without being replaced by a clear concept. Large-scale privatization was replaced by direct sales and politically distributed gifts or leasing. This might explain why the connection between personal success/failure and endorsement of the regime has frozen at the same level.

Due to the lack of consistent data, we cannot measure the change over time in all CEE countries accurately. According to various surveys, the paths differ somewhat: a strong increase in association between financial ease and evaluation of the regime in the Czech Republic, relative stability in Poland and a decrease in Hungary and Slovakia.⁶ The association for 1995 seems to be the weakest in Hungary while remaining at about the same level in Poland and Slovakia (Table 10.5).

The reasons for the differences in associations should be sought on two sides: on the one, it is the 'readability' of the regime and its explicitness in the division of tasks between the individual and state, the degree of the state's withdrawal from the private sphere, etc.; on the other, it is the rate of dependence of people's personal projects on conditions and transfers provided by the state - in other words, the degree of autonomy people have regarding their personal success. Both sides are obviously interdependent as a coherent and well accountable regime makes its citizens more independent than a vague and confused one.

It is difficult to identify simple indicators of the regime's readability or explicitness. One of them might be the existence of a well articulated and generally accepted political philosophy or programme. Since such a programme can obviously change from one election to another, we also have to look at the continuity of the political mainstream as measured by endurance of governments, parties and coalitions. Sudden jumps in support for rightist/leftist parties in Hungary and Poland indicates also the shaky confidence of the citizen in the regime. The Slovak regime, with its manipulation of democracy, seems to be the most opaque. Until now, the Czech regime appeared as the most reliable in this sense, although it became somewhat less clear after the 1996 elections.

On the other hand, projects of personal success could be examined through perceptions of equal opportunities and how people view their capacities to participate and succeed on the labour market. As we have shown earlier (see chapter 2), perceptions of equal opportunities in the CEE countries differ considerably. The same is true of concepts of poverty and wealth and the share of responsibilities between individuals and the state (Table 10.6).

Table 10.6
Opinions on why are people rich and poor in CEE and OECD countries
(index)

	Talent	Luck	Moral	Work	Discrimination	Opportunities	System
Country	1	2	3	4	5	6	7
<i>A. Why people are poor:</i>							
Czech Republic	54.3	40.4	70.3	54.7	38.4	54.4	66.5
Czech R. 1995	54.3	45.5	67.9	59.0	35.6	54.4	49.8
Hungary	55.5	47.7	73.8	49.2	44.4	62.8	74.7
Poland	53.3	50.8	76.8	58.7	31.1	60.4	74.4
Slovakia	49.2	45.4	69.3	48.8	34.2	58.6	69.1
Germany East	44.5	38.9	62.6	47.0	54.7	58.5	56.2
Germany West	50.7	46.7	56.6	53.2	53.8	55.2	49.3
Netherlands	52.5	37.5	52.6	55.3	50.8	52.6	51.1
UK	54.0	45.9	52.8	55.1	52.8	54.7	63.2
USA	55.0	39.7	59.0	63.1	56.4	53.7	60.0
<i>B. Why people are rich:</i>							
Czech Republic	63.6	44.2	74.3	51.0	75.0	61.2	65.0
Czech R. 1995	69.2	57.5	75.2	56.7	79.4	66.1	66.3
Hungary	65.3	57.4	72.3	51.4	72.9	69.6	63.8
Poland	59.1	54.8	71.2	49.8	75.5	66.8	67.3
Slovakia	61.1	51.8	75.6	50.4	78.6	67.6	72.5
Germany East	68.8	48.0	51.5	61.7	71.7	69.5	52.3
Germany West	67.8	56.5	52.4	62.8	74.7	70.4	46.4
Netherlands	70.8	53.5	52.8	67.2	72.9	70.7	55.8
UK	64.8	54.5	55.8	66.7	77.8	71.5	62.1
USA	67.9	47.6	60.1	70.5	76.1	69.5	57.2

Source: Social justice 1991, 1995.

Questions:

In your view, how often do each of the following factors make people poor (rich) in your country today? 1. very often, 2. often, 3. sometimes, 4. rarely or 5. never.

Index is recalculated so that 1=100 and 5=0.

1. Lack of ability or talent (A); presence of ability or talent (B)

2. Bad luck (A); good luck (B)

3. Bad morals and drinking (A); dishonesty (B)

4. Insufficient effort (A); hard work (B)

5. Prejudices and discrimination (A); having the right connections (B)

6. Lack of equal opportunities (A); more opportunities to begin with (B)

7. Bad economic system (A); the economic system allowing the rich to take an unfair advantage (B).

Blaming the poor for being lazy is generally higher in the CEE countries than in Western Europe, while laying blame on the economic system for one's poverty is especially widespread in Hungary and Poland. In contrast, prejudices or discrimi-

nation are considered much weaker determinants of poverty in the East than in the West. In 1991, Czech society was somewhat less sympathetic to the poor and expected the economic system would be fair. In the 1991-1995 period, it developed greater understanding of both the poor (they have bad luck) and the state (the system is less guilty).

Among the reasons for wealth, dishonest behaviour and unfair advantages are perceived as more important in the East, while hard work has greater recognition in the West. There are two specifically Czech indicators within the CEE region which define them as more self-critical. They do not rank 'good luck' so high and do not cite 'lack of opportunities' so much as factors creating wealth. However, they do join their neighbours in their sceptical stance towards the role of honesty in the acquisition of new properties. In 1995, the Czech populace was simultaneously more ascriptional and assertive, assigning higher values to talent, good luck and the appropriate connections on the one hand and, on the other, to hard work and opportunities.

We have not found any crystallized pattern of opinions concerning the perceived legitimacy of both poverty and wealth in the West, contrasting with presumably vague patterns in the East, as might be expected when comparing the 'old' and 'new' democracies (Eurobarometer, 1991). Nor did we find a stronger association between a person's economic and social status in the West than in the East. People differing by their personal incomes and social position differ only in the appreciation or culpabilization of the system, the better-off and higher ranked people viewing it as more fair and open. This class-based perspective is, however, not cleaved along the West/East axis. Whereas in the UK and USA, the association is as high as the Czech Republic and Hungary, in the Netherlands and Germany it is as low as in Poland and Slovakia.⁷

An interesting picture of how people perceive society regarding their latent chances to 'climb the pyramid' is provided by the 1992 ISSP data (Table 10.7). There are too few possibilities to escape from the lowest class if the main channel leading from the bottom to the top classes is as narrow as picture *A* shows - the way most people in Poland and Slovakia, but also many Hungarians, saw the situation in 1992. There is, in contrast, a relatively wide upward road if the social pyramid is perceived as pictures *C* and *D*, those selected significantly more by Czechs.

This picture also indicates that the perception of social stratification, as a part of the value system, is far from homogeneous. The social pyramid always appears much steeper from below than from above. We might expect that better educated people will prefer a more gradual shaping of the societal hierarchy. This, however, is much less the case than the subjective location of the respondent on the social ladder. People locating themselves at the bottom of society prefer the 'dichotomous' picture.

Table 10.7
Perception of social stratification (%)

	Czech Republic	Hungary	Poland	Slovakia
A	22.4	36.0	50.3	58.0
B	39.2	38.4	32.5	21.4
C	13.9	8.9	6.8	7.0
D	21.2	14.3	7.1	8.8
Other and no answer	3.3	2.4	3.3	4.8
Total	100.0	100.0	100.0	100.0

Source: ISSP - Social inequality 1992.

Furthermore, the situation this snapshot depicts has, with all probability, already changed. It does, however, reveal a great deal about the 'original position' of the personal outlook. People, we assume, are ready to invest only if the expected return promises to be a sufficient reward for their efforts. In the end, such investments could transform the picture of society into a more middle-class one for the successful and into a more polarized one for those who have failed to fulfil their expectations.

In conclusion

Understanding and acceptance of the transformation process is far from linear. Whereas in the first period, people apprehended the transformation in ideological concepts rather than in pragmatic terms, they later related general preferences to personal chances more intensively. Piotr Sztompka (1992, p. 10) called this the 'deideologization and pragmatization of social consciousness'. Although this con-

trast is not simply correlated with the action potential, we can hypothesize about the ideological priorities being more closely linked to 'destructive' operations while pragmatic options are linked rather to 'creative' activities.

The 'Big Bang' strategy originally announced in the Czech Republic was actually packaged in a series of small, partial shocks. Consequently, the steady and slightly increasing support for the liberalization steps has experienced several brief ups and downs, in contrast with the moderately decreasing liberal commitment. More state engagement in favour of jobs, apartments, guaranteed income and limits on both market expansion and freedom in earning and price settings is demanded by communists and social democrats as well as liberals and civic democrats.⁸

In the comparative perspective, however, Czech society certainly displays more liberal commitment and manifest individualism on the one hand, and less perceived economic hardship and statist requirements on the other. Unlike the other CEE nations, Czechs apparently relate their personal outlooks more closely to systemic changes of the overall socio-economic environment through market reform. This may contribute to a greater readability and predictability of behaviour of the population on the boundary between the economic and political fields.

For the most part, we have failed to explain the variability of attitudes according to standard socio-demographic characteristics such as gender, age, education and type of locality. Although all these explanatory variables produce expected differences, they usually explain less than 5-10 percent of the variance in attitudes. Although not dramatically less than in Western countries, it is still less. One reason for this might be that the transformation process has weakened many established resolutions and has prepared the groundwork for a new social stratification. We should add, however, that the previous stratification was not well described either since the routinized standard characteristics failed to reflect informal and secondary resources.

Although during the communist regime, Czechs were intensively trained in the use of ideologies, their rationality and pragmatism always prevailed. The crystallization of attitudes is proceeding quickly as is the growing derivation of general views from the personal situation. Instead of global capitalist and market commitment, individual commitment is emerging, however slowly, with many detours and not without complaint. Simultaneously, social-specific patterns of attitudes and behaviour are emerging which testify to the re-appearance of the new social stratification rooted in restitution/privatization/labour market success or failure.

Notes

- 1 While the role of the Institute for Forecasting is often mentioned, the true 'common nest' of today's leading politicians and economists was in fact the Institute of Economics of the Czechoslovak Academy of Sciences in Prague.
- 2 It is not by chance that the first post-1989 Minister of Finance, Václav Klaus, had on the wall above his table a portrait of the first Czechoslovak Minister of Finance, Alois Rašín, who applied a restrictive monetary policy, asserted the revaluation of the Czechoslovak crown and was largely responsible for the economic recovery in early 1920s (he was assassinated in 1923 by a young communist enthusiast).
- 3 This partly endorses the statement of pre-1990 leading communists that, in fact, the populace only demanded an improvement of the socialist regime and not the return of capitalism (see the interview with the former secretary general of the Czechoslovak Communist Party, Milouš Jakeš, on TV Nova in September 1995).
- 4 The standard method by which the management of former agricultural co-operatives negatively affect restitutions in that they offer substitutes in place of the original tracts and return land without the buildings, machine or animals.
- 5 Here, we have in mind A. Etzioni's (1988, p. 257) dictum that 'the more people accept the neoclassical paradigm as a guide to their behaviour, the more their ability to sustain a market economy is undermined'.
- 6 This is concluded from a comparison of the association between the post-1989 change in income with the evaluation of the regime in 1991 (Dismantling of the Social Safety Net), and the association between the current 'make-ends-meet' rating with the evaluation of the regime in 1995 (SOCO survey).
- 7 While in the former case, the association points to a divergence between the liberal and welfarist system, it also indicates the general cohesion of opinions rather than the degree of social stratification in the latter. This is especially to be expected in Slovakia with its generally confused patterns of public opinion.
- 8 Many cases of 'rightist' deputies demanding a municipal apartment clearly demonstrate for ordinary citizens that the liberal philosophy does not necessarily bind their preachers. This obviously endorses paternalistic expectations of supporters of the political right.

11 Economic hardship and political attitudes

The thus far short transformation period has still been long enough to allow far-reaching changes in the CEE countries. Political and economic systems underwent extensive changes toward the Western democratic and market model, albeit partially and hesitantly on occasion. The re-establishment of the market economy and pluralist political systems in the CEE countries is associated with the dismantling of the social security system formerly rooted in the production sphere and supported by revenue financing. Unemployment, new sources of inequality and poverty, the marginalization and exclusion of a part of the population are all potential sources of dissatisfaction with the new regime.

How citizens experience ongoing transformations has profound consequences on social peace, political stability and the maintenance of the liberal economic order. Dissatisfaction can engender support for leftist, authoritarian and populist parties and ultimately threaten the emerging democracy. Many questions arise in this context: What are the relationships between economic attitudes, the probability of leftist attitudes and latent acceptance of an authoritarian regime? What kind of political organization and leadership do people support? Is the Czech population specific and, if so, in which sense? How is it cleaved in terms of party preferences?

In this chapter, I aim to show some obvious links between the economic and political spheres, concretely between financial hardship and leftist and radical attitudes. First, I try to display the problem of association between economic and political attitudes in general terms. Second, I deal with recent developments in the CEE countries and what can be learned from them. Third, I present two explanatory tools of recent left turns in several CEE countries: the deprivation and entitlement theses. Then I ask whether questioning of the democratic regime is probable and conclude with doubts as to any linear derivation of radical attitudes. Special attention is devoted to the Czech political scene and recent changes that have occurred there.

Crossing the economic/political boundary

The relationship between economic well-being and political behaviour has been studied by eminent social scholars. In his famous work, *Political Man*, S.M. Lipset referred to rich documentation on 'the relation between low capita wealth and the precipitation of sufficient discontent to provide the social basis for political extremism' and 'the strong relationship between lower social position and support of 'leftist' politics' (Lipset, 1981, pp. 47-48).

Erich Fromm (1965) demonstrated that in transitory situations and economic crises, everyday decision-making is accompanied by a fear resulting from insecurity and a sense of threat, this itself a result of economic and moral crisis. This fear may be reduced by surrendering any decision-making concerning one's life to an external authority, whether a person, group or organization. In such a way, a person loses freedom but gains security. Democratic institutions are accused of inefficiency and ineptitude and are replaced by the rule of a 'strong hand', resulting in totalitarian or authoritarian power relations.

During the transformation of the communist system, all possible sources of sudden dissatisfaction may be created and/or strengthened. The adjustment of established economic standards and the introduction of markets is rightly suspected of causing a decline in the national product, a rise in unemployment and a fall in the population's real incomes. The dissolution of the former social security system generates vulnerability to poverty. This is, however, only one side of the problem, i.e. the 'absolute' source of discontent.

Simultaneously, 'relative' sources are also emerging due to the creation of new or the strengthening of old 'reference groups'.¹ Open borders allow far more extensive contact with the rich Western countries, demonstrating for many the gap between 'communist' and 'capitalist' affluence for the first time. Thanks to liberalization and marketization, earlier accumulated properties can now be publicly exhibited. A new, wealthy class is being generated by restitutions, privatization and the second 'primitive accumulation'. All this is challenging activities people perform to increase their well-being as well as their discontent and jealousy of the well-being of others.

From the temporal perspective, the fall of real incomes and the loss of social guarantees contributes to an absolute or relative poverty. Both absolute and relative deprivation are an important source of discontent and radicalism, as was already shown by Karl Marx.² All of this alters the scales on which 'the ordinary person' measures the standard of living and its transformation. Therefore, the 'absolutely' anchored discontent could be amplified by 'relative deprivation' and vice versa, triggering political shifts towards radicalism.

Survey research on political attitudes in Western democracies traditionally emphasizes the demographic and socio-economic characteristics of the individual. In the absence of a profound and rapid structural transformation, historical milestones are frequently conceptualized as cohort phenomena and discussed in terms of political generations like the 'children of the Great Depression' (Elder, 1974) or the French or Czech '68 generation. In theoretical discussions, it is assumed that historical events at the macro-level transcend individual characteristics and define key aspects of the reality people face in their personal lives.

Across the CEE region, there is also a considerable amount of ongoing research on economic behaviour and political attitudes. On the one hand, there are analyses of public opinion polls documenting shifts as well as reversals in people's attitudes and the political scene (e.g. Rose and Haerpfer, 1992; Plasser and Ulram, 1993; Heyns and Jasinska-Kania, 1993); on the other, systematic research on the economic situation of households and perceptions thereof is emerging (e.g. Beskid et al., 1993; Berger, 1994). There has also been extensive research - initiated by the World Bank - on the 'social costs' of the transformation and poverty (Milanovic, 1992; Cavalcanti, 1993; McAuley, 1994; Kakwani, 1994) and paralleled by the Social Costs of Economic Transformation (SOCO) project, initiated by the Institute for Human Sciences in Vienna.

The process of attitude formation is clearly not a passive one. Individuals are actively engaged in their long-term biographies and short-term experiences, modifying externalities into latent and actual activities. However, the explanatory power of personal characteristics is, as a result of the weaker crystallization of social structure, generally much lower in the CEE region than in Western democracies. A synthesis establishing links between household hardship and individual poverty on the one hand and political attitudes and latent controversial behaviour on the other is needed. The recent political changes in the CEE countries underline the importance of such a study.

Lessons learnt from recent changes

Since 1989, important changes have occurred on the political scene. In Poland, Hungary and Slovakia, leftist parties took power or - at least - began to participate in government to a considerable degree. In the Czech Republic, the 1994-96 political scene saw a marked rise in the social democratic party's popularity. The leading parties ODS (the Civic Democratic Party) and ODA (the Civic Democratic Alliance) experienced a decrease in their potential support whereas the ČSSD (Czech Social Democracy) has doubled its potential support since the mid-1992 elections, with the result that the numbers of ODS and ČSSD supporters are for the time being closer than ever before (Figure 11.1).

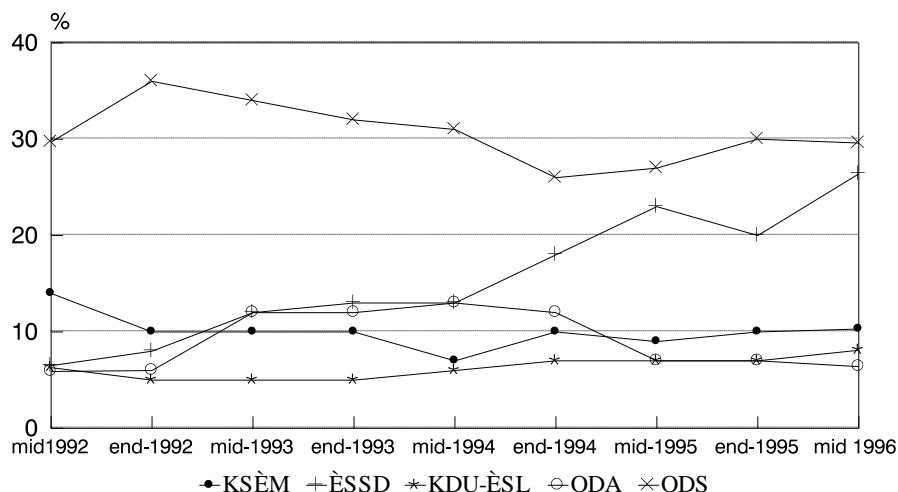


Figure 11.1 Electorate of the main parties

Source: Elections June 1992 and May/June 1996; STEM surveys.

In the September 1993 Polish elections, the Alliance of the Democratic Left (the teaming up of the former reform-communist Social Democracy with the OPZZ trade unions) increased its vote from 12 percent to 20 percent, becoming the largest party in Parliament. The Hungarian Socialist Party (formed in 1989 by those who ‘destroyed the communist system from within’) received 33 percent of all valid votes and 54 percent of the parliamentary seats in the May 1994 elections. In Slovakia, the populist/authoritarian HZDS (Movement For a Democratic Slovakia) clearly won the October 1994 elections with 35 percent of the votes, the leftist Common Option coming in with 10 percent and the new Association of Slovak Workers securing an important place with 7 percent of the votes.

The distribution of left-right political affiliation and its recent shifts is displayed in Table 11.1. The rank order of countries is the same in 1991 and 1995, with Hungary the most ‘leftist’ (and even more ‘centrist’) country and the Czech Republic the most ‘rightist’. Looking at the Left/Right Index, there was a small shift toward the right in the Czech Republic whereas other countries turned to the left, Slovakia somewhat less and Hungary and Poland at a more rapid pace. The dispersion around the political centre decreased slightly in the Czech and Slovak populations while dispersing less in Hungary and remaining the same in Poland.

There are at least two explanatory keys to the left-turn and/or authoritarian tendencies of CEE democracies. The first is the ‘relative deprivation’ thesis on either a worsening of the population’s well-being or unfulfilled expectations of its im-

provement. The second is the ‘entitlements’ thesis according to which people have not relinquished their reliance upon the state and still welcome a strong redistributive state, expecting this to be better guaranteed by leftist parties. Experience of the communist past is also very important: the more positive this experience in economic and social terms, the easier the return to support post-communist parties.

Table 11.1
Left-right political orientation (%)

Orientation	Czech Republic	Hungary	Poland	Slovakia
<i>1991</i>				
Extreme left	5.6	4.2	5.1	9.1
Rather left	17.1	19.2	18.2	18.7
Middle	38.4	56.9	50.6	40.9
Rather right	26.3	15.7	17.4	21.4
Extreme right	12.7	4.0	8.7	9.9
Total	100.0	100.0	100.0	100.0
L/R Index ^{*)}	44.2	51.0	48.4	48.9
<i>1995</i>				
Extreme left	3.3	4.5	7.1	6.5
Left	5.6	5.3	8.9	7.6
Middle left	9.7	16.5	14.9	14.6
Middle	35.7	60.9	46.3	44.7
Middle right	19.5	8.5	10.8	13.5
Right	16.0	2.4	7.2	6.4
Extreme right	10.2	1.9	4.8	6.7
Total	100.0	100.0	100.0	100.0
L/R Index ^{*)}	41.6	53.7	52.5	50.6

Sources: *Dismantling of the safety net; SOCO Survey.*

*) *The left/right index is calculated such as 0=extreme right and 100=extreme left.*

According to Edmund Wnuk-Lipinski (1994), there has been a general shift from value-oriented to interest-oriented perceptions of the transformation. As long as the economic transformation was evaluated in terms of values, the majority of the Polish population supported it as ‘right’. However, once implementation of the reform began to touch the standard of living of important categories of the populace (especially qualified workers in large state enterprises and private farmers), the social base of economic reforms eroded and, finally, the radical reform strategy was rejected, despite enjoying partial success.

According to Petr Matějů (1996, p. 22), in all countries except the Czech Republic, the downward social and income mobility has not been counterbalanced by an upward mobility. This has made those countries vulnerable to the left-turn: ‘other things being equal, the higher the number of people who feel like “losers” in

a given country, the higher is the risk of a left-turn'. People recall the equality of the previous regime but fail to recall its inefficiency. Sensitivity to whether and what people have lost is, moreover, greater than that to whether and what they have gained (Řeháková and Vlachová, 1995, p. 152).

In the comparative data, the Czech Republic actually scores the highest of the CEE countries in terms of the population's satisfaction with recent developments. Despite the fact that acceptance of the market economy is decreasing (Figure 10.7 in chapter 10), satisfaction with the developing democracy is increasing (Figure 11.2). This is the only country among the CEE region where levels of satisfaction with the market economy, human rights, democracy and the overall direction of the country converged and reached similar levels in 1995. Whereas commitment to the free market is also high in Poland, the gap between the evaluation of the development of the economy, on the one hand, and democracy, on the other, is greater. In contrast to the Czech Republic and Poland, satisfaction with both the democratic development and country direction is, according to the CEE Barometer, perceived as decreasing in Hungary and Slovakia over the last several years.

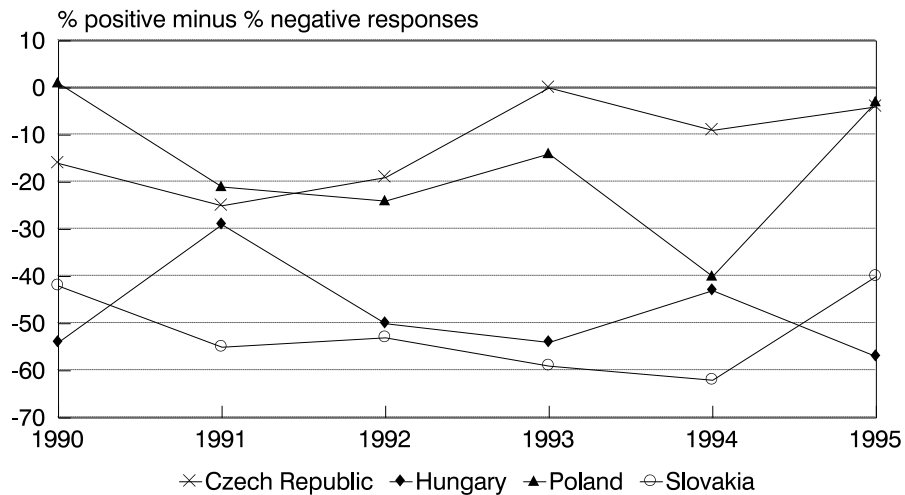


Figure 11.2 Satisfaction with development of democracy

Source: CEE Barometer.

The most telling synthesis of inter-country differences in attitudes is the comparative evaluation of the present regime and the pre-1989 system as revealed most recently by the SOCO comparative survey. Whereas the present regime was better for 57 percent of Czechs, only 43 percent of Poles, 32 percent of Slovaks and a mere 25 percent of Hungarians evaluated the new regime as better than the previ-

ous one in 1995 (Figure 11.3). According to this indicator, the level of today's financial troubles in fact differs considerably more than any leftist or authoritarian preferences.

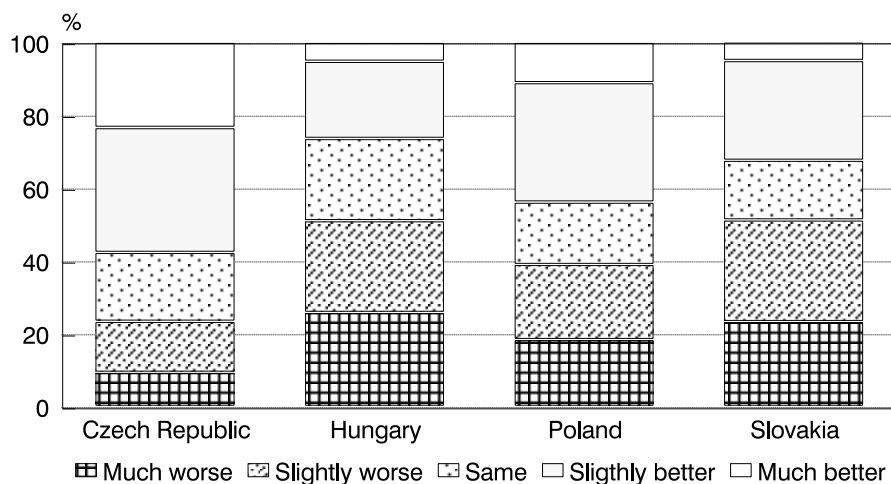


Figure 11.3 Evaluation of the current regime

Source: SOCO survey 1995.

In the cross-country comparison of the past five years, the Czech population could be considered the winner of the reform process. Latent unemployment was largely absorbed by services and the new private sector, poverty was kept low and protected by the state and households successfully mobilized their resources and seemed very active in both the formal and informal economies. Nevertheless, there are also many social problems and sources of dissatisfaction: perceived (subjective) poverty is rising and most households are experiencing financial problems. Liberal markets are finding less acceptance and a social-market solution is increasingly preferred. For the future, less Czechs expect an advancement on the income ladder than Poles and Slovaks.

As the legacy of the communist regime is still evaluated as wholly negative, we should be aware of the double legacy of the capitalist period. On the one hand, the Czech populace has a stronger market commitment when compared with other nations with a middle-class and small entrepreneurship past. While the traditional (urban and rural) working class represented one half of the population in 1930, the other half was composed of petty bourgeoisie, individual farmers and small employees. On the other hand, such a social structure prescribed largely social-democratic preferences with huge support for the communists. This renders it incompatible with the other CEE countries.³

Such petty-bourgeois/plebeian ambivalence has always been a part of the Czech mentality, preferences and expectations. In its popular meaning, the social-market economy would probably prove the best solution for Czechs as it has been for the Germans and Austrians. As a result, people move between the right-middle and left-middle parties with relative ease, adeptly balancing individual responsibility and state protection values. This was also the reason for the rapid return to expectations of a generous welfare state.

Financial hardship and expectations of the state

The communist society appeared extremely equalized in terms of wages, income and the consumer market. Furthermore, people were drilled and indoctrinated in the ideology of equality such that higher incomes and wealth were always considered to be unfairly acquired. In line with its ideological and pragmatic functions, the communist state protected people in their jobs and provided them with a minimum security in exchange for loyalty and formal support. The generally low living-standard was more or less acceptable because it was a general phenomenon and individual poverty was not necessarily reflected as such in the widespread shortage.

The current economic reform and societal changes have had a sudden impact on both objective and subjective, absolute and relative standards. The decreasing consumption levels of large parts of the population is being met with rising claims and expectations. Higher expectations also contribute to perceptions of increasing financial difficulties. In other words, the utility of the same amount of money (in absolute terms) is decreasing in a period of rising expectations (in relative terms), especially now that Austria and Germany are becoming the reference point for the living-standards of CEE countries.

When people estimate their financial comfort or difficulties in absolute terms, the bottom line of great difficulty comprises 5 percent of households in the Czech Republic, 24 percent in Hungary, 27 percent in Poland and 10 percent in Slovakia as a vulnerable population. When comparing the 1980s retrospective with the current situation, the percentages vary as multiples of those retrospective evaluations, while the ordering of countries has remained the same. The only exception is Slovakia, where people considered the situation in 1988 better than in the Czech Republic but the 1995 state of affairs to be much worse (SOCO survey).

In relative terms, nearly one half of the Hungarian, Polish and Slovak populations experienced a deterioration in their relative income position within society, while slightly more than one tenth experienced an improvement. In contrast, only 30 percent of the Czech population declared downward income mobility and 18 percent upward mobility. Predictions of the change in income position within the

next three years are somewhat less gloomy than the evaluation of the past, despite the fact that disparities between countries have attenuated only slightly.

I compare national gaps between actual and desired income, as reflected in the SOCO survey question *What would be the monthly sum sufficient to allow a decent way of life for your household?* (Table 11.2). Regarding total household income, the gap between actual and desired income is the largest in Poland, in both absolute and relative terms. Regarding income adjusted per capita, the absolute gap is the largest in Slovakia and once again, in relative terms, in Poland. Hypothetically, while the Czech population's desired level of living would be saturated by an increase of GDP to the level of Portugal (about 12,000 USD), the GDP level of Greece (about 9,000 USD) would be sufficient for the other CEE nations.

Table 11.2
Actual and desired 'decent' income
(in USD, adjusted to purchasing power parity)

	Czech Republic	Hungary	Poland	Slovakia
<i>Total household income:</i>				
Current (C)	719	441	495	572
Desired (D)	1101	796	1005	990
Difference	-382	-355	-510	-418
C in % of D	65	55	49	58
<i>Per capita household income:</i>				
Current (C)	273	170	171	187
Desired (D)	413	295	313	320
Difference	-140	-125	-142	-133
C in % of D	66	58	55	58

Source: SOCO survey 1995.

Recalculation of purchasing power parity according to the Vienna Institute for Comparative Economic Research (WIIW).

Simplifying the problem, financial hardship could be solved in two ways: either by mobilizing personal labour efforts and households' alternative resources or by making the state responsible and demanding its commitment to providing households with a minimum standard of living. Between the 'pure' liberal and 'pure' paternalistic solutions, there is an endless variety of forms and combinations, real life being more diverse than any conceivable model. Nevertheless, there is a considerable reliance on state protection within post-communist nations, be it a legacy of state control forcefully implemented by the previous regime or feelings of helplessness in the face of sudden hardship.

According to J. Sachs, the living-standards of the CEE populations have not really dropped nor do people want to use the left-wing parties as instruments to undo the new market economy:

Rather than seeing the Eastern European elections as great referenda on the market system, or on capitalism versus communism, or even as protest votes against harsh reforms, one can see that the elections ... have become exactly like elections in Western Europe and the United States: dominated by interest-group politics. Left-wing parties are winning the elections ... because they are seen by the organized recipients of state largesse as the parties most likely to maintain or increase the entitlements of the social welfare state (Sachs, 1995, pp. 1-2).⁴

Within the generally high level of expectations from the state, there are considerable differences among CEE countries. In this, the results of the 1991 Social Justice survey were confirmed by the 1995 SOCO survey. According to the score of 'core' securities (jobs, housing, costs of children and pensions), the lowest level of expectations is declared by the Czech population whilst the highest level of paternalistic expectations seems to be located in Hungary (Table 11.3).

Table 11.3
State responsibility in various fields (index)

Field	Czech Republic	Hungary	Poland	Slovakia
Health care	87.4	85.5	84.9	90.0
Child (under 6)	67.4	69.1	66.4	70.3
Primary education	90.3	83.5	92.4	89.6
Secondary education	70.2	80.5	82.1	74.7
Higher education	57.9	78.5	70.5	63.3
Costs of children	58.9	69.4	54.2	62.3
Decent pensions	88.2	91.4	90.7	92.7
First home for the young	69.5	81.6	68.7	77.0
Availability of jobs	73.8	88.0	85.2	85.4
Living conditions for disabled	92.9	86.0	92.5	91.9

Source: SOCO survey 1995.

Index is calculated such as 0=no responsibility and 100=full responsibility.

In Western Europe, there is, according to the ISSP survey Role of the Government - 1990, a generally high expectation that the state will provide a decent standard of living for the old (above 90 percent), a somewhat lower requirement of decent housing for those who cannot afford it (around 80 percent) and an even lower requirement that the state should provide a job for everyone who wants one (60-70 percent) (Bean and Papadakis, 1995). There are certain differences between more liberal and more social countries, the Scandinavian populations almost reaching the same high levels of expectations as in the CEE region.

Although the Czech populace is somewhat particular, it is not so distanced from its Eastern neighbours regarding high and increasing expectations of state protec-

tion. As we saw earlier (chapter 10), the general tendency is increasing anticipation of state protection of jobs, rents and prices. In all countries, budgetary constraints are such that nobody can meet these requirements. This means that the objective and necessary gap between expectation and reality could be used for political goals. It implicitly involves centralist, etatist and/or authoritarian tendencies which could be used for the rise of leftist parties and fuel political radicalism.

Questioning the democratic system?

When studying and evaluating households' financial hardship on the one hand and their expectations of the state on the other, one important question arises: namely, the relationships between perceptions of the economic situation and political attitudes, and, in consequence, demands for or approval of a change in the political system. The argument could be developed as follows (Figure 11.4):

A. Due to unemployment, frozen or decreasing real incomes and inflation, households are coming up against financial difficulties. They express these difficulties in terms of feelings of hardship, subjective poverty, insecurity and a gloomy economic outlook.

B. Due to both the objective situation and subjective feelings, the economic reforms and political regime could be blamed: poverty is not the responsibility of the individual but primarily that of the state; new wealth is illegitimate; the socio-political system is unfair and should be transformed.

C. The necessity for change is manifested in the demand that the state play a greater role and reassert its responsibilities, limit the free play of market forces and democratic discussion. A strong leader would be welcomed.

D. Due to such needs, people are attracted to leftist parties and acknowledge the possibility of civil disobedience and, as the case may be, less peaceful ways of voicing discontent.

In fact, this argument could proceed from any one of the abovementioned points. Instead of a causal relationship, we are dealing with a circuit where dependent and independent variables are to be distinguished simply by selecting this or that hypothesis. We could therefore feed (with data) and develop (by analyses) all levels and components of the model and consider all possible feedbacks without ever finding a 'true' cause.

Starting with the 'ideological' point of view (*B*), individual sensitivity to sudden hardship is biased by personal ideological perspectives. If economic and social inequalities are considered unfair from the outset, one's own situation is likely to be perceived as undeserved poverty, other things remaining equal. With memories of the communist past and sympathies with a rather strong state as the point of departure (*C*), evaluation of one's current financial situation could be negatively biased, with the state and market failures being far more painfully experienced.

And if a political orientation or party affiliations (*D*) is originally determined by family background, community or important others, all ideological perspectives and ways of voicing discontent can be pre-formed by this fact.

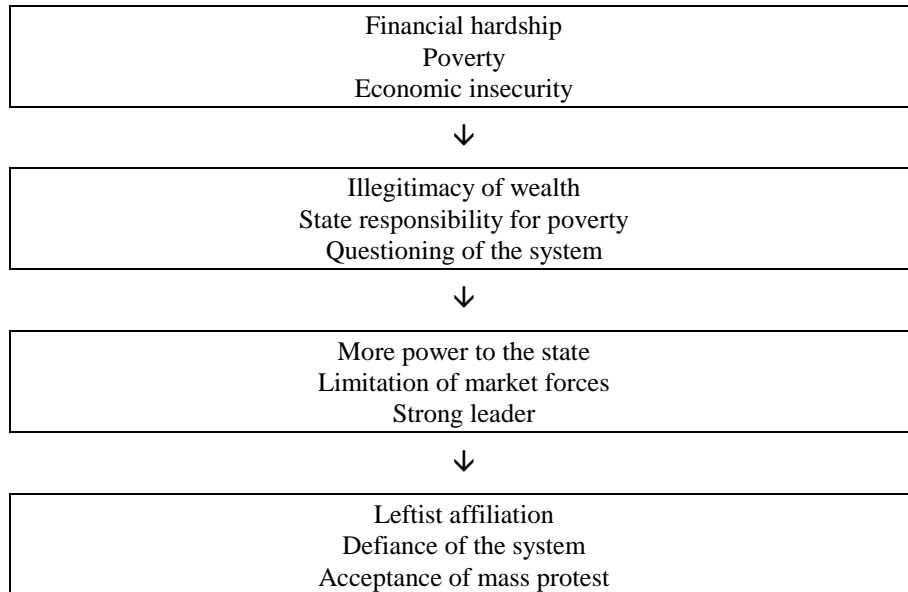


Figure 11.4 Relationships between financial hardship and questioning of the system

Here, for a number of reasons, we should be somewhat sceptical of survey data: they are exclusively individual and do not reveal collective attitudes and goals; they are often biased by the imputations of the researchers' hypotheses in survey questions, and further, they cannot expose the historical roots and cultural norms which actually and simultaneously form attitudes and behaviour. Current survey data do not allow sufficient distance for sound analysis of present global trends such as social-democratic tendencies in the Czech Republic, populist tendencies in Hungary, authoritarian tendencies in Poland and nationalist tendencies in Slovakia - or rather, differently accentuated mixtures of all tendencies in all countries under observation.

Using the survey *Dismantling of the Safety Net*, I found that the relationships between feelings of economic threat and political attitudes were already strong in 1991. There was a high degree of similarity in the relationship patterns between

leftist attitudes and preference for the rule of a 'strong hand' in the CEE region, while the relevant associations confirmed cross-national differences.⁵

The Czech Republic showed the most consistent structure of relationships, characterized by the strongest association between economic insecurity and leftist orientation on the one hand and authoritarian inclination on the other. Hungary also exposed a quite consistent structure of attitudes with two specific features: whereas the feelings of insecurity feature less in leftist attitudes, leftist attitudes engender a more authoritarian inclination. Poland showed the weakest associations between feelings of insecurity, leftist attitudes and authoritarian inclination. The demand for a strong leader scores the highest there of the countries under observation and appears rather as an objective in itself. Slovakia, still part of Czechoslovakia in 1991, already displayed a slightly different pattern to its 'older brother'. Though the feelings of insecurity revealed a markedly weaker association with leftist attitudes, its association with authoritarian inclination was already stronger.

According to EEA surveys, there are ever growing differences in attitudes between the Czech Republic and Slovakia. There are more intensive feelings of insecurity and poverty, a stronger reliance upon the state and a greater demand for a 'true' leader in Slovakia. While in the Czech Republic, the call for a strong leader is decreasing sharply, in Slovakia this demand has remained on a constantly high level. In December 1991, 30 percent of Czech and 33 percent of Slovak respondents answered 'certainly yes' to the question as to whether a 'strong hand' would be welcomed. In November 1994, the respective figures were 15 and 30 percent. Concerning the across-time trajectories in the Czech Republic and Slovakia, the results suggest that only one tendency was common to both countries, namely an increase in the association between feelings of insecurity and leftist preferences.

In the Czech Republic we are witnessing an increasing coherence between the economic threat, leftist orientation and authoritarian inclination. This supports the crystallization thesis, i.e. that the links between individual opinions are becoming more pronounced, thus testifying to people's deeper insight into the socio-economic-political field. In the crystallization process, the specific association between feelings of economic insecurity and acceptance of a strong leader is weakening, thus suggesting that the economic threat is leading to leftist attitudes of a social democratic vein, not including authoritarian options. Independently of feeling poor, however, the political left is increasingly associated with welcoming a strong leader.

In Slovakia, where - similar to the Czech Republic - feelings of economic insecurity are strengthening leftist inclination, the association between economic hardship and preference for a strong leader almost disappeared between 1991 and 1994. In its place, however, the direct association between an explicit affiliation to the left and the option for a strong leader dramatically increased. Thus, unlike the Czech

Republic, those experiencing economic hardship have lost their earlier illusions that a strong leader could solve their problems. Generally, Slovak society is moving towards more authoritarian preferences and less readability of attitudes and, consequently, diminished predictability of the political scene.

Special attention should be paid to declared acceptance of demonstrations and strikes. Although the level of this acceptance is not negligible and is, to some degree, interconnected with the other attitudes, its inclusion with 'standard' political attitudes seems rather problematic. First, its links to other attitudes are much weaker than the links between other opinions; second, its location within the population's categories is weaker and less determined by respondents' characteristics than any other; and third, only a very small extreme group's expression of this attitude is consonant with its political vocabulary.

Nevertheless, comparative data are rather surprising in this sense. According to mid-1991 Social Justice survey data, Czechs and Slovaks (together with East Germans) are already considerably more experienced in various manifestations of civic disobedience than any other Western nation (Table 11.4). Although we acknowledge a concentration of such events at the turn of 1990, the gap between the former Czechoslovakia and Poland (with its Solidarity history) is surprising. Moreover the disposition to join demonstrations and strikes was much higher among the Czech population (and even higher among Slovaks) than in Hungary and Poland in late 1991 (Dismantling of the Safety Net).

Table 11.4
Participation on various actions (%)

Country	Boycott	Demonstration	Public rally	Unoff. strike
Czech Republic	10.6	34.1	52.8	17.1
Hungary	1.8	6.6	6.9	1.1
Poland	5.9	8.8	11.6	8.3
Slovakia	11.8	22.6	48.2	13.8
Germany East	4.8	43.4	66.7	2.3
Germany West	11.5	27.2	48.4	4.0
Netherlands	15.5	30.5	37.1	4.2
UK	9.2	13.8	37.1	9.8
USA	21.2	22.0	71.1	5.9

Source: Social justice 1991.

Question: There are various possibilities of expressing your own position and indicating injustice. Have you participated in any actions to assert your requirements?

Despite the fact that Czech strike statistics are almost non-existent, the populace continues to declare itself ready to use this form of pressure. To the statement *Consider as right to express discontent by demonstrations and strikes* 12 percent responded 'certainly yes' (32 'rather yes') at the end of 1994 and 17 percent

‘certainly yes’ (35 ‘rather yes’) at the beginning of 1996. Such readiness indicates continuing financial difficulties (mostly for low income and low property individuals and families) and, increasingly, a political stance. This is indicated both by the more leftist location of people accepting demonstrations and strikes as well as by the more widespread welcome of a strong leader.

Czech parties between two elections

In traditional democracies, social categories and interests engender political parties; with economic growth and social integration, the ‘class vote’ is weakening and the spectrum of parties misting. Having escaped communism, political subjects firstly represented some general values, then slowly diversified and finally found a more concrete social setting. A dual process is developing here. As formerly repressed social differences and group interests are appearing, the association between political preferences and social position is consolidating. Yet since people have been intensively mobile in the transformation period, this social mobility is simultaneously producing frequent movements within the political spectrum.

If the first postcommunist elections in 1990 were essentially a referendum about democracy, with the Civic Movement representing the absolute majority of the population, the second elections in June 1992 were mostly a voice for the market economy, with the Civic Democratic Party presenting the most clearly targeted program. The political scene diversified, however, and instead of a plebiscitary democracy of movements, parties with more or less specific programs appeared. Currently, five main parties receive three quarters of all votes: the revamped Communist Party (KSČM) and the reborn Social Democratic party (ČSSD) on the left, the old/new Christian Democrats (KDU-ČSL) in the middle and the two new civic parties - the Civic Democratic Alliance (ODA) and the Civic Democratic Party (ODS) - on the right.⁶

Using the EEA surveys that frame the period between January 1993 and January 1996, I observe changes of potential supporters of those five parties.⁷ Locating the supporters according to their affiliation to the left or right, the communists shifted more to the left and all other parties moved to the centre. Thus the distance between the communists and the civic democrats was extended (Table 11.5).

Simultaneously, the social profile of the two parties representing the poles became clearer, this especially in three aspects: age, education and property. The Communist Party is an extremely generation-specific category: their original and still loyal supporters, who started or peaked in their careers in the 1950s and 1960s, are getting older; it remains a party of less educated and less wealthy people, as it was before the war. The ODS profile is that of a party of successful people which collects the votes of well educated and better situated self-employed and employees and is clearly supported by youth. While the socio-demographic profile of the

social democrats has also crystallized (increasing support from less wealthy people), the constituency of the two remaining parties was less articulated in early 1996, despite the greater importance of such ‘transformation’ variables as self-employment and unemployment.⁸

Table 11.5
Left/right orientation of potential voters of five main parties (%)

Variable	KSČM	ČSSD	KDU-ČSL	ODA	ODS
<i>January 1993:</i>	10.8%	8.0%	5.0%	12.5%	31.1%
Clear left	35.2	5.5	0.0	0.7	0.0
Rather left	52.5	46.2	5.3	0.0	0.8
Center	12.3	42.9	38.6	35.2	22.4
Rather right	0.0	5.5	36.8	47.9	50.4
Clear right	0.0	0.0	19.3	16.2	26.3
Total	100.0	100.0	100.0	100.0	100.0
L/R index ^{*)}	80.1	62.9	32.4	30.2	24.4
<i>January 1996:</i>	8.0%	22.1%	7.7%	7.9%	29.3%
Clear left	43.9	1.2	0.9	0.0	0.5
Rather left	49.1	33.2	1.8	4.3	0.9
Center	6.1	60.6	52.3	45.2	24.1
Rather right	0.9	4.7	40.5	41.7	51.5
Clear right	0.0	0.3	4.5	8.7	23.0
Total	100.0	100.0	100.0	100.0	100.0
L/R index ^{*)}	84.0	57.6	38.5	36.3	26.1

Sources: *EEA surveys, January 1993 and 1996.*

*) *The left/right index is calculated such as 0=clear right and 100=clear left.*

Despite the fact that the main cleavage is generational in nature, there is, however, some ‘class’ content in the leftist/rightist party polarity, the first pole standing for stable order, social protection and equality and the other for new opportunities, free competition, and social disparity. Old/new communists aside, there are few cleavages between the remaining parties. In their support of governing civic parties, both the ‘old’ (productive) and ‘new’ (redistributive) middle classes meet, each selecting its slice from the liberal/social cake of governmental politics.

When surveying the various economic attitudes which locate supporters between the poles of the pure market and extensive state protection, between the poles of efficiency and equality, we encounter clear differences between party supporters in spite of the gradual character of the spectrum. It is of interest that communist and civic parties differ less in liberal than in paternalistic attitudes: while 30 percent of KSČM supporters welcome business freedom, almost 60 percent of ODS supporters still think the state is responsible for providing jobs.

The question is how clear the distinctions between the supporters of the various parties are and how consistent they are in their opinions. The degree of consistency

could be caused by the clarity of political programs on the one hand and by the selective social attractiveness of individual parties. In 1993, the communists were the most consistent in their opinions, all other party supporters being much more confused. By 1996, the clarity of opinions of communists waned while that of the other parties, most particularly of ODS supporters, increased. The supporters of ČSSD continue to be the most confused in their opinions (Table 11.6).⁹

Table 11.6

Classification of potential voters of five main parties (discriminant analysis)

Actual group membership	Predicted group membership					Total
	KSČM	ČSSD	KDU-ČSL	ODA	ODS	
<i>January 1993 (total cases correctly classified 38.7%):</i>						
KSČM	67.5	17.1	8.1	4.1	3.3	100.0
ČSSD	36.3	24.2	13.2	13.2	13.2	100.0
KDU-ČSL	17.5	24.6	33.3	7.0	17.5	100.0
ODA	7.7	14.8	14.1	30.3	33.1	100.0
ODS	5.1	10.5	19.8	28.0	36.7	100.0
<i>January 1996 (total cases correctly classified 42.1%):</i>						
KSČM	58.0	17.0	16.1	4.5	4.5	100.0
ČSSD	26.2	29.4	20.8	12.5	11.2	100.0
KDU-ČSL	18.2	9.1	40.9	12.7	19.1	100.0
ODA	8.9	7.1	19.6	33.0	31.3	100.0
ODS	2.9	11.4	15.2	20.5	50.0	100.0

Sources: EEA surveys.

The same analysis also reveals which are the closest ‘relatives’ of individual parties and how they converted between the two elections. The closest party to the Communists are the Social Democrats and, increasingly, the Christian Democrats. While in 1993, many Social Democrats held rather communist opinions, in 1996 they are closer to Christian Democrats. In turn, Christian Democrats shifted from leftist and inclined to civic parties. The two civic parties formed a close alliance of opinions which has since strengthened. All in all, economic opinions have crystallized since the 1992 elections and now identify more people with ‘their’ chosen party.

The shift from the left to the centre has probably considerably helped Social Democrats maintain the support they had before the May/June 1996 elections. If the transformation has indeed finished, as Václav Klaus stated, neither harsh measures nor economizing liberal parties are needed any longer. The country can more easily return to its social democratic nature, following its roots and social-market neighbours. In any case, leftist inclination is typical of Czechs even more than of Hungarians and Poles. While endurance of the communist regime in the former Czechoslovakia facilitated the impressive entrance of civic parties, the separation of the communist and social democratic parties facilitated a certain left turn.

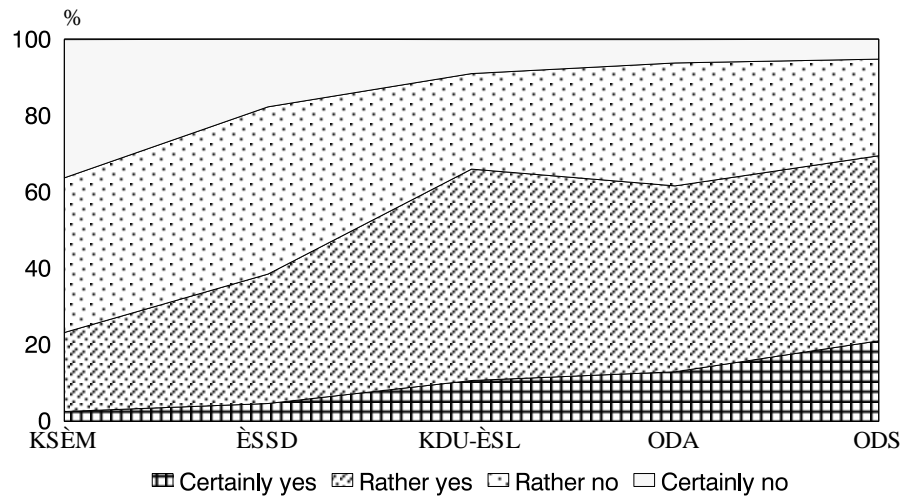


Figure 11.5 Civic freedoms as in the West

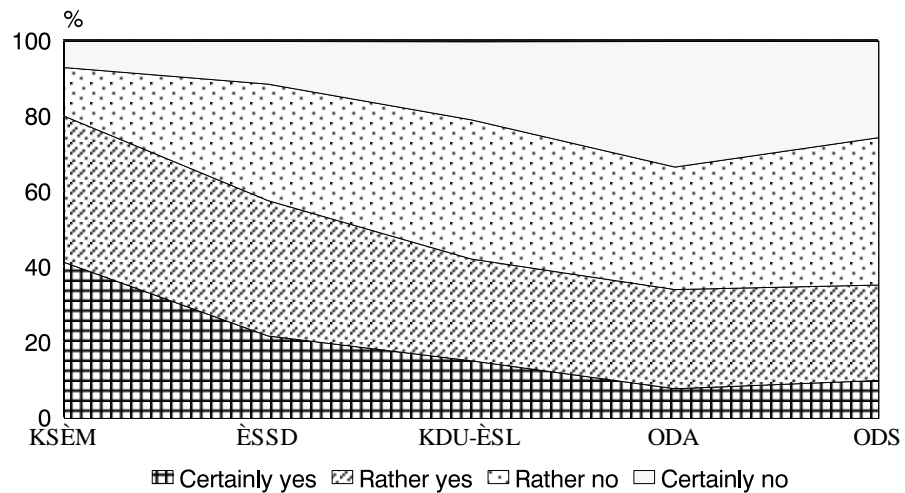


Figure 11.6 Strong leader would be better

Source: EEA, January 1996.

Along with economic fears, the demand for a strong leader who *would clearly tell us what to do, instead of engaging in endless debates* has declined since 1993; confidence in the emerging democracy has not increased, however. Satisfaction with political freedoms is rising from the left to the right with a positive deviation of 'centrist' Christian Democrats. Enjoying the full tolerance of the new regime, the

Communists are the least satisfied with the degree of democracy and demand a strong hand most vigorously, as does the extreme Republican Party. ODA sympathizers display the lowest level of authoritarian preferences (Figure 11.5 and 11.6).

Many people opting for democracy simultaneously demand authoritarian rule. This is characteristic of Communists and Social Democrats. Some people declare at the same time authoritarian expectations and the utility of strikes and demonstrations. This is the case of many Christian Democrats who would employ pressure activities to enforce social securities. For leftist parties, a 'strong hand' also means stricter policy regarding Roms and the construction of a wall against Eastern emigrants. On the whole, up to one half of the population considers strikes and demonstrations more or less acceptable expressions of discontent. If we take the most resolute responses into account, however, then only 15 percent of the populace endorses them. According to political affiliation, one half of communists, one fifth of social democrats and one tenth of civic party supporters endorse such expression of discontent.

In conclusion

Dismantling communism is creating a wholly unprecedented situation in which all variables tend to be unknown. Actors in the changes are newly defined (or define themselves), as are their fields of interest and proposed aims. After being imperceptibly interlinked and subordinated to one political will, the economy and polity are starting to separate from one another while the formerly repressed social structure is beginning to emerge and crystallize. This complex change is difficult to label without crossing boundaries of fixed disciplinary claims: economics, sociology and political science. As Klaus Müller states succinctly:

Without exaggerating too much, we can describe an easy division of roles between economic theory, political science and sociology: neoclassical economists argue from the functional requirements of efficient markets; political scientists stress the imperatives of Western-style democracy; sociology relates to the institutional prerequisites of the functional market. All of this makes sense as long as we identify what Eastern European societies do not have. In any case, the interesting question is how rudimentary markets can cooperate with as yet fragile democracies in a time of weakening social orientation and in an environment of delegitimated institutions, and, moreover, which dynamics are liberated by this (Müller, 1995, p. 42).

In contrast with the standard post-communist vocabulary, there is no imperative harmony between a political democracy and a market economy. As Claus Offe

pointed out, the introduction of democracy and the establishment of a market economy can block each other (Offe, 1991, 1994). Similarly, there are no necessary causal links between economic hardship and questioning of the parliamentary system. Here, our experience is similar to that identified by Perreira et al.: 'We are aware that the causal chain that leads from individual discontent to organized reaction and from organized reaction to the abandonment of reforms is contingent and complex. Reform may continue against popular resistance, even under democratic institutions' (Perreira et al., 1993, p. 207).

Here, I have proposed two explanatory vehicles for the recent or latent turn towards the left or towards authoritarianism in the CEE countries: the relative deprivation caused by transformation and lasting entitlements to paternalistic care. The two rationales are undoubtedly interrelated and mutually reinforcing. Deprivation calls for redistribution and redistribution necessitates a strong state; to work backwards, a large redistribution might undermine market forces which, in turn, could produce deprivation, and so on. This makes distinctions between the individual driving forces of political reactions next to impossible.

A small majority of the Czech population agrees that the basis for democracy has already been successfully established, while a small minority thinks that it is right to manifest dissatisfaction by demonstrations and strikes. The leftist orientation has a prevailing social democratic character which hampers the direct translation of economic dissatisfaction into questioning of the democratic system. When combining the acceptance of demonstration and authoritarian preferences, we find loosely dispersed in the social structure a mere 5 percent of the population committed to both.

Compared with the Czech Republic, Slovakia scores twice as high on the authoritarian scale, as measured by the 'strong hand' preference. Simultaneously, this attitude is dispersed among other beliefs without a significant consciousness contour or social status profile. The general unspecificity of public opinion, i.e. a lasting confusion of various attitudes (contrasting with the gradual crystallization of the Czech opinion landscape) also indicates the absence of distinct political actors and/or an unwillingness and/or incapacity to generate any marked change.¹⁰ The analysis revealed a discrepancy between the diminishing belief that a strong leader will offer a swift solution to economic hardship and the emerging association of leftism and authoritarianism.

The Hungarian population locates itself most on the political left, the leftist attitudes producing a more authoritarian inclination. The propensity to favour a strong leader and demonstrations is as strong there as in Slovakia. This might be interpreted as an important action potential for the political scene. In fact, internal policy is cleaved by the fact that the social-liberal government (established in 1994) is bound to battle for severe cuts in what is the largest social budget in the region.¹¹

The population declared itself somewhat more optimistic in 1994 than in 1993, despite a deterioration in the financial situation and the fact that its potential participation in legal demonstrations and strikes amounted to 33 percent (Lengyel, 1995).

The Polish population is most receptive to the idea of a strong leader. The 'strong leader' stands as a sort of single value in itself, is correlated with a questioning of the legitimacy of wealth and the belief that the state is responsible for poverty but bears no relation to the aggregate of opinions indicating latent contestation of the system. Poland is the CEE country with the greatest experience of large-scale and mass movements, demonstrations and strikes. Surveys confirmed that without being more firmly anchored in the opinion structure, various forms of civic disobedience are considered more likely to be used there than in the other countries.

In fact, we did not endeavour to hypothesize about any strict relationships between the emerging financial hardship, disapproval of economic reforms, support for leftist parties and the salutation of a strong leader. The reason for this is that we are dealing not with simple causal links but with a circuit where it is difficult to distinguish the cause and consequence. The relationship is far from abstract or model. In each country, it is rooted in history, modified by the cultural and behavioural setting, and eventually prompted by a particular political situation.

The level of acceptance of demonstrations and strikes is certainly not negligible and isolated from the other attitudes. Its inclusion in 'standard' political attitudes is not, however, very pronounced, and its location within the population's categories is weaker than any other attitude. This leads us to conclude that economic reforms and political democracy are unlikely to be threatened by a mass movement 'from below' and that there is no immediate threat to new democracies in the CEE countries. This does not, however, diminish the important contribution the economic hardship/political pressure link can make to a mass movement once it is triggered off and/or fuelled by political conflicts.

Notes

- 1 Relative deprivation was conceptualized alternatively as the perception that the individual and/or his/her group is in a disadvantageous position or the perception that individual achievements have failed to keep pace with the individual's and/or his/her group expectations (Gurney and Tierney, 1982).
- 2 'A house may be large or small; as long as surrounding houses are equally small it satisfies all social demands for a dwelling. But if a palace arises beside the little house, the little house shrinks into a hut' (K. Marx, *Wage, Labour and*

Capital, as quoted in Lipset, 1981, p. 48). See, however, especially his theory on absolute and relative 'miseration'.

- 3 Recalculating the results of the 1930 parliamentary elections for the Czech lands and Czech political parties alone, 23 percent voted for the Social Democrats and 14 percent for the Communist Party (Statistická ročenka, 1934). In 1946, 40 percent of Czechs voted for the Communist Party and 16 percent for the Social Democrats as opposed to 30 percent of Slovaks voting for the Communist Party. In Slovakia, there was no social democratic party at that time (Historická statistická ročenka, 1985).
- 4 This view was vehemently challenged by two Polish economists who state that 'the frequent elections and negative campaigns, the derailment of the economic policy, and the absence of right-wing parties from the Parliament since 1993, all have their immediate origin in the unduly cruel reforms. It was not careless social policy that led to the expenditures explosion. Instead, it was the unforeseen consequences of the overall economic policy and, in particular, of the stabilization program sponsored by the IMF and vigorously recommended by Professor Sachs' (Kabaj and Kowalik, 1995, p. 7).
- 5 Here I briefly summarize the result of two confirmatory factor analyses of relationships between economic insecurity and political attitudes in a cross-national (four countries) and over time (Czech Republic and Slovakia) comparison. The design and interpretation were made in a cooperation with Petr Matějů. For greater detail see Večerník (1995).
- 6 Due to a small sample size, I omitted the small but still parliamentary Republican Party (SPR-RSČ) displaying extreme nationalist opinions. Although the supporters locate themselves on the extreme right, their opinions relate them most closely to communists. It is a mainly middle-aged, less educated, often self-employed electorate.
- 7 In the 1992 elections, KSČM, with some other partners, created the Left Block platform and which was designated as such in our January 1993 EEA survey. As the original KSČM later distanced itself from the Left Block parliamentary representatives, survey they reappear as KSČM in the January 1993. For the sake of simplicity, we label communists KSČM in both cases.
- 8 Here I summarized the main results of the analysis of variance observing nine explanatory variables: gender, age, education, branch, self-employment, unemployment income, wealth and size of the locality. The significance of variables and the total variance explained is, however, still low: KSČM 12 percent (10 in 1993), ČSSD 9 percent (5), KDU-ČSL 6 percent (10), ODA 5 percent (7) and ODS 15 percent (9).
- 9 The SPSSX discriminant analysis - applied in Table 11.6 - is a statistical technique in which linear combinations of variables are used to distinguish

between two or more categories of cases. The variables 'discriminate' between groups of cases and predict into which group a case falls, based upon the values of these variables. In this case, groups are parties and variables are ten opinions concerning the free market, individual or state responsibility, inequality, legitimacy of poverty and wealth.

- 10 This is clearly demonstrated by the fact that no disapproval was manifested in and after the 1995 'Red July', when a package of four anti-transformation 'strategic' laws was passed by the Parliament. According to the first law, the general (Czechoslovak) privatization scheme was abandoned. The other three laws concern securities, investment funds (no public exchange of capital), and 'securing the strategic interests of Slovakia'. A law enabling the state to control prices in the 'public interest' is also to be discussed. As the Deputy Prime Minister said: 'Do not fear the word socialism. The world tends towards socialism with a capitalist face or towards capitalism with a socialist face'.
- 11 This event well documents the abovementioned market/democracy disharmony. In fact, the Constitutional Court disapproved budget cuts proposed by the government due to the 'unreadiness of the population' and refused a larger reduction of family allowances and maternity benefits. The question arises as to whether the IMF will rank financial discipline and a government's efforts to economize more highly than its respect for democratic rules.

12 Conclusion: an open-ended story

There are basically three mainstreams in empirical analysis of the transformation of the CEE countries. One is the economic and, more specifically, the macroeconomic stream, focusing on standard indicators of economic stability and growth. The second is sociological, more narrowly speaking social stratification, focusing on the collective 'actors' of the transition (managers and entrepreneurs in particular) and changing inequalities. The third is that of political science, primarily studying shifts of political regimes and their popular support by observing elections, political parties and their constituencies. Among these approaches to the transformation as a complex process there are many overlappings and bridges.

Economic subjects, social institutions and political bodies are all important actors of the socio-economic reconstruction and transformation. I propose, in addition, individuals and households as not negligible actors of the transformation, however inexperienced, dispersed and powerless they may seem. Using various perspectives and different accents, we can attribute the relative success of the Czech reform to the clever government, efficient bureaucracy, determined rightist parties, competent post-communist managers, active entrepreneurs, reticent trade unions or, as the case may be, clever speculators. But always and everywhere, ordinary citizens, families, households and their respective networks count.

Simplifying the problem, resumption of the interrupted modernization was relatively easy in a country of basically 'modern' people with the necessary corresponding work, thought and behavioural patterns. With the 'authentic' modernity still in the collective memory and fortified by many generations of inventive small entrepreneurs and highly skilled workers, Czech society was not compelled to yield to the 'fake' modernity of communism. Nevertheless, the disastrous experience of the communist regime in the Czech lands motivated Czechs more than other nations to deny it in everyday life. As a general, however, the less heroic and warrior-like past, the more pragmatic and practical the present; the weaker the bonds to the former paternalistic state, the more understandable the self-reliance of individuals under market conditions.

Such a picture, although not incorrect, is still very generalized and executed far from reality. Instead of broad speculation, I have drawn here a more detailed illustration, fragmentary in many areas and still far from complete in its rendition of the main lines of the transformation. It portrays the scene mostly from below and inside, and not according to a rigorous theoretical program. My ambition has been rather to bring together rich empirical documentation depicting the micro-level and perceived characteristics of the transformation, in order to complement more common macro-level, objective and politically-outlined pictures.

The second part of this book was devoted to the sudden re-appearance of *the labour market and the distribution of earnings*. I have found that people are more critical of their own capacities than the labour market itself. Since the demand for more skills and effort has not risen dramatically, workers are becoming more relaxed about their performance. Two complementary explanatory hypotheses can be considered here: the first that the re-classified 'socialist' labour is for the time being adequate for reborn capitalism, and the second that Czech capitalism is mostly a re-classified socialism involving refurbished and still legitimized expectations of stronger state guarantees. Generally, there was far greater continuity between economic regimes than expected.

The truth is also that Czechs are facing the market's challenges actively, reacting with an incredibly high rate of job and sectoral mobility. During the past five years, most of the economically active population saw some change in terms of employment status, job, profession or position. On the other hand, only a very small minority experienced merciless job loss followed by involuntary unemployment. In spite of considerable changes, most labour is still adjusted to available skills rather than to higher requirements. We hope that imminent need of integration into the European context will have a challenging 'Pygmalion' effect which will act together with pressures of a more competitive environment.

In the distribution of earnings, the Czech labour market is certainly far from a compact 'meritocratic triad' of education, occupation and income; the portrayal of disparities is closer to a post-modern diversity than to a modern order. In income terms, some branches (banking and public administration) as well as some social categories (managers and employers) could be viewed as the visible winners of the transformation. Political affinity to the previous regime appears to be no obstacle in this process. People operating with financial and productive capital are the first, those servicing and developing human capital (in education, research and health services) the last in slicing the cake. Such an apparent disproportion is worthy of attention if we have the long-term modernization process and social restructuring of Czech society in mind.

Although no counter-revolution in wages has actually taken place, the long process of replacing the communist-style dominance of demographic characteristics

with market competencies has been started. The change has been visibly more rapid in some segments (new private firms, firms with foreign capital and management) than in others (former state firms, public services). This corresponds to the modern differentiation process and to the reconstruction of social structure in the Weberian sense of 'earnings classes' rewarded according to their abilities and effort, in contrast to the Marxist 'social classes' rewarded according to their needs and 'socialist castes' remunerated for their service to the regime.

The third part of this book was devoted to *the distribution of household income and poverty*. The range of inequality is increasing such that the bottom income category has maintained its relative level and the top incomes have rapidly grown; the middle of the distribution is therefore more compressed. In mounting contrast with the former statist model, an economic and market model is emerging in which education and occupation play a more important role. Less of the 'need principle' and equal sharing in personal and household income and more 'market principle' and greater inequality also means a closer association between individual effort and the resulting well-being of a family. These middle-class values have increased somewhat in importance despite the fact that middle-income categories were actually losers under the transformation process.

With the protection of the lowest income categories and the strict regulation of income minima, poverty has not changed considerably in objective terms while increasing in subjective terms. This has been influenced more by changing standards than swiftly rising hardships. The Czech Republic rates much better than the other CEE countries in all poverty indications, and its population does not feel considerably poorer (in relative terms) than Western populations. The general trend of differentiation is greater dispersion of poverty throughout the population: neither are there large and compact categories vulnerable to penury nor are unemployment and social policy trapping people into a massive poverty.

The Czech society under transformation is, however, no idyllic landscape. Price liberalization, combined with wage moderation, has seriously limited the living-standard of the population and has attacked the last reserves of many households. The legal poverty line is very strict indeed and the discrepancy between it and a subjective poverty line is therefore steadily increasing. The regime is, however, more restrictive towards families with children (addressing capacities of their parents) than towards pensioners (not having other sources of income). Lecture in restraint was actually better accepted than was expected and social peace was maintained despite introduction of some measures (e.g. the replacement of the universal by targeted benefits) or the lack of other (e.g. absent housing policy) invited to break it .

The 'capitalist reconstruction' of income distribution aims to decrease the amount of redistribution. In comparison with Western countries, the Czech Re-

public seems highly redistributive, this feature being largely maintained in the transformation changes. On the one hand, it currently ranks among countries with the steepest inequality in taxes. This is at odds with the liberal vocabulary, contradicts the equity principle, is likely to undermine business activity and to support evasion of the formal economy. On the other hand, people are benefiting very unevenly from state support, indicating tighter targeting and diminishing generosity of the system. Secondary incomes only strengthen the equality/inequality mismatch of the entire system.

The fourth part concerned *people's participation in the consumer market and the privatization process*. Generally, the consumer market is a scene of expansion on the supply side and continuing large constraints on the demand side. Concretely, however, it is a scene of growing diversity and differentiation. While many households have already managed to modernize the budget to accommodate higher needs, most families have had to maintain the former expenditure patterns. After market adjustment of prices, health and housing expenditure has risen. While Czech households are quite well situated in the CEE context regarding the relative discretion of their budget, they most resemble the less developed Southern countries in the EU framework such as Greece or Spain.

Unlike the relatively calm consumer market, housing remains a hot issue in economic and political debates. In fact, the privileges accorded to tenants of state apartments under communism continue, speculations flourish and new constructions suffer as a result of disincentives. Policy measures are targeted more to owner-occupiers and disregard the mass of potential tenants of rented apartments kept waiting. Mainstream liberal terminology is accused of dissimulation, the state budget is reproached with redistributing money from the poor to the rich and the lack of apartments for the young generations is given for the falling of natality.

While the consumer market appeared suddenly, the process of introducing private owners of productive premises has been long and complex. The Czech privatization was faster and is considered fairer than elsewhere. It was less political in terms of the legal conversion of former managers into new entrepreneurs, but more administrative due to the exceptional powers of bureaucracy. During the process, many inequalities, cleavages and inconsistencies appeared. There is still more privatization in legal terms than in reality; in contrast, people have assumed more private responsibility for their personal lives in their behaviour than they have declared in their opinions.

The outcome of the privatization so far appears just as confused from above as from below. From above, the share of GNP produced in private sector may well rank among the highest among the CEE countries, but very few new owners have embarked upon necessary structural and organizational changes leading to sufficient competitiveness on the European market. From below, the majority of people

may well state that they have profited more or less from privatization, but even more people doubt its fairness and the business ethics of the new owners. An unofficial 'third wave' of the coupon privatization has only just started, meaning that the capital concentration process as well as a 'third stage' of public opinion has yet to be crystallized. This also means a sort of a coming to terms with the *Gründer* capitalism, traditionally - and not without good reason - distrusted as easily abused and unjust.

The fifth part of the book shows *how households and the state share the burden in coping with financial hardships resulting from the transformation*. I identified variability in households' reactions, ranging from resigned and defensive to active and offensive behaviour. It appears that the Czech population is coping relatively well with the hardships of social transformation. Households are responding actively, through, for example, widespread job mobility and private business ventures, and people are becoming more relaxed about the risks of the reform. Both tradition and modernity are apparent in the same activities, some of them changing from a simple survival strategy into a regular mode of capitalist expansion.

In parallel, the socio-political wheel is steering towards more intense individual engagement in social security. There are many positive and negative features of the newly introduced welfare system which is designed in purely financial and technical terms and presented as less expensive (in family benefits) and less of a burden for future generations (in pension benefits). In political terms, it dispenses in part with the country's social-democratic and corporatist past and accentuates the economizing liberal model. In stratification terms, it includes less support of middle classes and a risk of future social polarization.

The Czech social reform, however its design was perverted in political negotiations, is probably the most consistent and market-conform change in the CEE region. It precludes future budgetary constraints and a worsening dependency ratio of the population. The public's response is far from enthusiastic but still very muted in view of the revolutionary character of the shift from universal to means-tested benefits. Instead of automatically receiving the social wage people now have to apply for benefits. Moreover, relative to earnings, the level of benefits has fallen. These two factors have contributed to an immediate differentiation of the political scene and will influence the degree of social integration in the future.

The sixth part concentrates on *people's attitudes in the economic and political spheres*. Although Czechs have been intensively drilled by the communist regime in the use of ideological clichés, their rationality and pragmatism prevails. The crystallization of attitudes is proceeding fast as is the growing derivation of people's general views from their personal situation. While public opinion reflected each sub-shock of the reform, its general support remained strong. Simultaneously, people have returned to higher expectations of increased state engagement in jobs,

apartments, guaranteed income and against too great a market-influence and freedom in earnings and price settings. As attitudes are forming more consistent clusters, the populace is becoming differentiated along slowly emerging social stratification axis.

However, in the comparative perspective, Czech society certainly displays a more liberal commitment and manifest individualism on the one hand, and less perceived economic hardship and statist requirements on the other. Unlike the other CEE nations, Czechs apparently relate their personal outlooks more closely to systemic changes through market reform in the overall socio-economic environment. This also contributes to increased readability and predictability of the population's behaviour on the boundary between the economic and political fields. Since the 'velvet divorce', this readability has become even more apparent than in Slovakia.

I have examined two explanatory vehicles for the recent or latent turn towards the left or towards authoritarianism in the CEE countries: the relative deprivation caused by transformation and lasting entitlements to paternalistic care. The two rationales are undoubtedly interrelated and mutually reinforcing. A deprivation calls for a redistribution, and a redistribution necessitates a strong state; inversely, a strong state legitimates itself through a large redistribution which again may undermine market forces and finally create economic problems. Thus distinction between the individual driving forces leading to political reactions is almost impossible and the very role of politics becomes controversial. The general political climate is here as important as precarious.

A small majority of the Czech population agrees that the basis for democracy has already been successfully established, while a small minority thinks that it is right to manifest dissatisfaction by demonstrations and strikes. The leftist orientation has a prevalingly social democratic character which hampers the direct translation of economic dissatisfaction into questioning of the democratic system. Social peace has been maintained despite rising and unfulfilled expectations of state involvement and thanks to the loyalty of frustrated middle classes, re-emerging with a hope of creating a petty-bourgeois society akin to the prewar social democratic regime.

The empirical evidence in all fields of household well-being and people's behaviour testifies to the fact that Czech society has undergone a considerable differentiation process. This has comprised two aspects: the dismantling of the previous system and the mobilization of people and institutions. Both of these have led to the emergence of new preferences, activities, inequalities and social categories.

Regarding the dismantling process, we have touched on its several modes: the dismantling of the administration of labour and the differentiation of the socialist mass of employees; the dismantling of exclusive state property and reappearance of private ownership, the dismantling of the work-based welfare system and creation

of a multi-level social protection, the dismantling of the unified 'socialist consciousness' and crystallization of distinct mental patterns, etc. Despite the fact that totalitarian phenomena are mostly ideological and their market substitutes are far more pragmatic, neither the depth of internalization of the former nor their persistence should be underestimated.

The communist rule persisted not only because of the oppression but also because the silent 'social contract' between the regime and populace was still advantageous for certain categories. The communist regime obviously had a contract with the lower strata, guaranteeing them basic provisions and services and reducing other strata to the same level. Extensive equality was reached through full employment, low wages, subsidized prices, free goods and services, all of them offered in place of civic liberties and activity incentives. Under the transformation, the potential middle classes replaced the lower classes as the main contractor while equality of results was expected to be replaced by equality of opportunities: less security but more motivation, less collective generosity but more individual encouragement.

While from outside or from the macroview there appear to be no serious problems in Czech society, the insider's microview could give cause for concern: privatization is suspected of being unfair, the voucher distribution has not yet found responsible owners, many small entrepreneurs are near crippled by huge taxes and contributions which, moreover, the fiscus does not need, rewards to education are improving only for selected categories, the middle-class issue has become a leftist agenda rather than one of liberal parties. It could be imagined that the contract with the middle classes on equal opportunities was tacitly replaced by a contract with the upper classes (including former managements and new speculators) on continuing advantages and centralized regulations which again support state bureaucracy in their numbers, powers and rewards.

Banks as owners obstruct bankruptcies and do not encourage necessary structural reforms to enterprise. The absence of restructuration may mean low unemployment but it also means low wages and weak incentives for qualified work. Similarly, blocking the corporative arrangements may mean less harmful interest pressures but it also means more atomized citizens who can scarcely capitalize on the new opportunities. Neither old managements nor the state bureaucracy are allowing their powers, cartels and monopolies to dissolve and are thus impeding greater efficiency and market fair-play. However many of the necessary steps towards capitalism have to be made 'by design' from above, its true realization can only be made from below, through everyday activity. This is the case of the mobilization processes.

The core of mobilization was the privatization and restitution processes, both of which started to rebridge ownership and production, responsibilities and activities.

Despite its current incompleteness, the new owners and entrepreneurs have considerably changed the character of the Czech economy. We have largely focused on the middle classes and their three 'revolutions'. However far the revolutions are from being accomplished or middle classes established, the latter do act as an amalgam of the new society without being immediately rewarded in cash or prestige or explicitly supported in their interests. The various mobilizations do not seem to have had a disintegrative impact, Czech society manifesting a remarkably durable support of conservative and liberal values, despite some retrenchments towards more social protection.

While the CEE countries differ from their Eastern neighbours, who are seeing more de-modernization, re-traditionalization and pro-archaization trends (especially associated with the various fundamentalisms and nationalisms of the former USSR and Yugoslavia), the unique modern and capitalist traditions of Czech society are the source of its specificity in comparison with its CEE partners. This - together with several other advantages such as qualified labour force, an efficient administrative system, a profound trust to the new regime and geographical proximity to the West, - has no doubt eased the return of the Czech society to market economy.

Last, but not least, the adaptability the population cultivated under the communist regime has played a very important role. Remarkable engagement on the part of the majority of the population has made the transformation process energetic, manifold and durable. This brings to mind Tiryakian's (1995) emphasis on the social and temporal structuration of the neo-modernization process. This issue poses a great challenge for further research, for more detailed observation of this process and greater emphasis on the role of social categories and networks in-the-making. Concepts of homogeneity, rigidity and the 'end of history' should be abandoned. In their place, concepts of diversity, flexibility and open-ended stories should serve as guides.

From this point of view, the Czech transformation should be seen as a basically active, energetic and determined process with, however, many pitfalls and uncertainties. The mid-1996 elections have proved that the market and social, individualist and statist, capitalist and socialist elements are quite balanced in the society, with non-negligible parts of the population looking back, looking for a strong leader and/or disinterested in the ongoing process. This study, although essentially academic, sides fully with a 'standardization' approaching the Czech society to a West European free market and liberal-democratic model. Being attentive to questions raised and responses given 'from below', we should admit that the transformation is not just a single story based on a coherent design with a pre-determined happy-end but an intersection of conflicting histories with an open end.

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Data sources

Only sources used as microdata are included here.

Statistical surveys

Microcensus surveys started in 1958 as income surveys based on 1-2 percent sample of households with wages confirmed by employers and pension benefits confirmed by post-offices. They were regularly repeated every 3-5 years. Here, we use especially the 1989 Microcensus conducted by the Federal Statistical Office on a 2 percent random sample (N=69912) in March 1989 including yearly incomes in 1988, and the 1992 Microcensus, conducted by the Czech Statistical Office on a 0.5 percent random sample (N=16234) in March 1993 and including yearly incomes in 1992. In this survey, incomes were not confirmed.

The Family Expenditures Survey (FES) was established in 1958 as a quota-sample based survey of households of manual workers (working class), non-manual workers (employees) and cooperative farmers, with pensioners (without economically active members) added later. The survey is conducted on about a 0.1 percent sample and - unlike FES in other countries - it is a permanent survey based on daily records of all incomes and expenditures. After 1989, the category of entrepreneurs was also included, with the whole sample totalling 3320 households in 1994. A special sub-sample is also observed aiming to over-represent the number of households living below or close to the legal living minimum.

National (Czech and Slovak) sociological surveys

Transformation of the Social Structure: survey conducted in September-October 1991 on a random sample of 2850 adult respondents by the Institute of Sociology of the Academy of Sciences and the Institute of Socio-Political Sciences of Charles University, Prague. Collected by the Centre for Empirical Surveys STEM.

Opinions on Social Changes: survey conducted in October 1993 on a quota sample of 4740 adult respondents by the Institute of Sociology of the Academy of Sciences. Collected by the agency Universitas.

Economic Expectations and Attitudes (EEA): a semi-annual (1990-1992) or annual (1993 onwards) survey organized by the socio-economic 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. Collected by the Centre for Empirical Surveys STEM. In order to produce household-specific characteristics, the person-level data were reweighted using Microcensus data on the size and social category of households.

Time and samples of EEA surveys:

		Czech	Slovak
I.	May, 1990	1107	544
II.	December, 1990	1160	584
III.	June, 1991	1092	597
IV.	December, 1991	1126	583
V.	July, 1992	1104	980
VI.	January, 1993	1142	829
VII.	November, 1993	1113	853
VIII.	November, 1994	1307	816
IX.	January, 1996	1459	

Comparative sociological surveys

Dismantling of the Safety Net and its Political Consequences: survey conducted in October 1991. Coordinated and financed by the Institute of East West Security Studies, New York. The international file includes: the Czech Republic (N=1187), Slovakia (817), Hungary (1500) and Poland (1491). Czech data collected by the Centre for Empirical Surveys STEM.

ISSP Social Inequality: regular module of the ISSP (International Social Science Programme) series, realized in October, 1992. Four national files were used here: the Czech Republic (N=687), Slovakia (423), Hungary (1250) and Poland (1647). Czech data collected by the Centre for Empirical Surveys STEM.

Perception of Social Justice: survey conducted in 1991 by the International Social Justice Project, the survey includes 13 countries, among them Czechoslovakia, East Germany, Poland, Hungary, Russia and Slovenia. The average sample is about 1300 respondents. Repeated in 1995 in the Czech Republic on a 1185-respondent sample. Czech data collected by the Centre for Empirical Surveys STEM.

Social Stratification in Eastern Europe after 1989 (SSEE survey): international comparative research project conducted in 1993 under heading of Donald J. Treiman and Ivan Szelényi, University of California in Los Angeles. National samples of the Czech Republic, Slovakia, Hungary, Poland, Russia and Bulgaria involve about 5000 adult respondents from each country. Czech data collected by the Czech Statistical Office. In order to produce household-specific characteristics, the person-level data were reweighted using the variable of the size of households. Income indicators refer to 1992.

The Social Consequences of Transition (SOCO survey): survey conducted in early 1995 on a 1000 household random samples in the Czech Republic, Hungary, Poland, Slovakia and the former East Germany. The survey was conducted under the aegis of Social Costs of Economic Transformation (SOCO) project initiated and coordinated by the Institute for Human Sciences, Vienna. Coordinator of the survey was Zsuzsa Ferge, Economic University in Budapest. Czech data collected by the agency Factum Non Fabula.

SOCO Database: comparative tables including statistical and sociological data on the labour market, incomes, expenditures and poverty in the Czech Republic, Hungary, Poland and Slovakia. The Social Consequences of Transition database was created under the aegis of Social Costs of Economic Transformation (SOCO) initiated and coordinated by the Institute for Human Sciences, Vienna. Coordinator of the database was Jiří Večerník.

Luxembourg Income Study (LIS) database

International database of standardized income surveys of 25 countries including one year or more of years from 1960 to 1992, accessible via electronic mail. LIS was established in 1983 under the direction of Lee Rainwater (Harvard University) and Timothy M. Smeeding (Syracuse University). In the study, the following surveys and analytic samples were used:

Country	Year	Sample size
Australia	1985	4799
Belgium	1988	2099
Canada	1991	13036
France	1984	7616
Germany	1989	2687
Italy	1986	4590
The Netherlands	1987	2591
Poland	1986	6678
Sweden	1987	5633
UK	1986	3733
USA	1991	9725

Statistical methods

Robin Hood Index

This is the "maximum equalization percentage" largely used in the first post-war comparative analysis of income distribution (Incomes, 1967). It involves taking those decile groups whose share exceeds 10 percent or quintile groups whose share exceeds 20 percent and adding the excess of these shares over that level. Algebraically, it is half the mean deviation divided by the mean. Because it basically measure the percentage which would be needed to redistribute to obtain an equal distribution, it was called the Robin Hood Index by Joanna Gomulka and as such is used in the Micklewright and Atkinson (1992) comparative study.

Coefficient Gini

The Gini coefficient ranges from a value zero (perfect equality) to one (perfect inequality). Mathematically, twice the coefficient Gini is equal to the expected absolute difference in income, relative to the mean, between any two persons drawn at random from the population. Graphically, it is derived from the Lorenz curve. If income recipients are ranked from lowest to highest income, the Lorenz curve plots the cumulative percentage of recipient units against the cumulative percentage of income received by these recipients. The Gini coefficients measures the proportion of the total area below the line of perfect equality (the 45° line) that is between the Lorenz curve and the 45° line (Danziger and Gottschalk, 1993, p. 26).

Analysis of variance and multiple classification analysis

In many tables, a summarized picture provided by the multiple classification analysis is used. This is a part of the procedure Anova of the SPSSX which performs analysis of variance for factorial designs. Analysis of variance tests the hypothesis that the group means of the dependent variable are equal. The dependent variable is the interval level and categorical variables (called factors) define groups. In the multiple classification analysis, unadjusted (eta) and adjusted

(beta) coefficients are computed. Beta is a statistic associated with the adjusted category effects for each factor and can be read as standardized regression coefficients in the sense used in multiple regression. The square of the beta coefficient (*100) indicates the proportion of additional variance explained by each factor. Coefficient R^2 (*100) measures the total variance explained by all variables in the analysis. Interaction terms were omitted in all analyses presented here (see SPSSX User's Guide).

Name index

- Adams, C.T. 284
Aleman, U. 194, 273
Antalová, J. 143,
Alexander, J.C. 6, 10, 273
Andorka, K. 109, 273
Arensberg, C. 9, 282
Aron, R. 16, 273
Atkinson, A.B. 84, 85, 87, 97, 176,
273
Barr, N. 112, 193, 200, 214, 273
Barry, N. 11, 223, 273
Beans, C. 249, 273
Becker, G.S. 34, 273
Benáček, V. 46, 164, 177, 179, 273
Beneš, E. 146
Berg, I. 277
Berger, H. 167, 242, 274
Berger, P.L. 13, 14, 150, 152, 274
Beskid, L. 93, 274
Blau, F.D. 64, 67, 274
Block, F. 194, 274
Boeri, T. 26, 274
Boguszak, M. 12, 274
Boháč, A. 284
Bourdieu, P. 163, 274
Brčák, J. 49, 274
Brýdlová, H. 49, 274
Buchanan, J. 20
Buhmann, B. 114, 274
Buchtíková, A. 51, 276
Bukharin, N. 16
Burt, R.S. 34, 37, 274
Butler, T. 277
Bútora, M. 162, 211
Castle-Kanerova, M. 213, 274
Castles, F. 197, 274
Cavalcanti, C. 93, 274
Coder, J. 53, 283
Coppieters, B. 275
Cornia, G.A. 109, 274
Dahrendorf, R. 2, 275
Dallago, B. 176, 275
Danziger, S. 64, 275
David, M. 278
De Deken, J. J. 213, 275
Deacon, B. 206, 274, 275
Deleek, H. 102, 114, 275
Deschouwer, K. 275
Desai, R.M. 160, 275
Dlouhý, J. 90, 77, 275
Doeringer P.B. 31, 275
Dobratz, B. 278
Earle, J.S. 146, 149, 275
Eisenstadt, S.N. 6, 275
Elder, G.H. Jr. 242, 275
Engel, E. 121, 275
Erhard, L. 196

Esping-Andersen, G. 194, 207, 212, 274, 275
 Etzioni, A. 1, 9, 10, 239, 276
 Eucken, W. 223
 Fassman, M. 190, 276
 Featherman, D.L. 47, 276
 Ferge, Z. 20, 206, 207, 213, 276
 Flanagan, R.J. 51, 64, 276
 Flek, V. 51, 276
 Flik, R.J. 101, 103, 284
 Fratantoni, M. 114, 277
 Freeman, R.B. 45, 276
 Frick, J. 277
 Friedman, M. 20
 Fritzell, J. 86, 87, 276
 Fromm, E. 241, 276
 Frydman, R. 275
 Gabal, I. 274
 Galbraith, J.K. 119, 276
 Garner, T.I. 91, 114, 277
 Gehlbach, S. 275
 Geiger, T. 11, 276
 Goedhart, Th. 97, 101, 277
 Goldthorpe, J.H. 21, 277
 Gottschalk, P. 64, 275
 Gough, I. 194, 277
 Götting, U. 206, 207, 277
 Grancelli, B. 277, 283
 Granovetter, M. 7, 9, 10, 30, 277
 Greve, B. 196, 277
 Gurney, J.N. 260, 277
 Habermas, J. 7
 Haerpfer, Ch. 176, 242, 282
 Halberstadt, V. 97, 277
 Ham, J. 277
 Hanley, E. 165, 277
 Hartl, J. 222, 277
 Hauser, R.M. 47, 276, 277, 282
 Havel, V. 167
 Hayek, F. 4, 20
 Heclo, H. 284
 Heidenheimer, A.J. 284
 Heyns, B. 242, 232, 277
 Hiršl, M. 93, 113, 278
 Hrabá, J. 155, 221, 278
 Hron, J. 66, 278
 Hunčík, P. 162, 211
 Hvinden, B. 105, 278
 Jakeš, M. 239
 Jallade, J.-P. 195, 278
 Jenkins, S. 97, 281
 Jasinska-Kania, A. 232, 242, 277
 Ježek, T. 20, 167
 Kabaj, M. 261, 278
 Kadera, V. 177, 178, 278
 Kahn, L.M. 64, 67, 274
 Kakwani, N. 93, 278
 Kapteyn, A. 97, 101, 277, 278
 Katona, G. 119, 278
 Klaus, V. 1, 4, 20, 66, 148, 153, 166, 167, 196, 199, 239, 256, 278
 Kolberg, J.E. 194, 276, 278
 Komárek, V. 4
 Kosonen, P. 277
 Kotrba, J. 146, 166, 278
 Kovács, J.M. 20, 279
 Kowalik, T. 261, 278
 Kreckel, T. 47, 279
 Krueger, A.B. 279
 Ksiezopolski, M. 208, 279
 Kučera, M. 33, 279
 Kuznets, S. 87, 279
 Lengyel, G. 167, 260, 279
 Lipset, S.M. 241, 260, 279
 Lorenz, W. 64, 279
 Machonin, P. 8, 12, 114, 279
 Madsen, P.K. 277
 Magatti, M. 16, 279
 Marawal, J.M. 281
 Mareš, P. 213, 281

Marshall, T.H. 192, 279
 Martinelli, A. 9, 10,
 Marx, K. 15, 48, 50, 66, 241, 260,
 279, 280
 Masaryk, J. 20
 Matějů, P. 54, 67, 152, 165, 174,
 244, 261, 274, 280
 McAuley, A. 93, 280
 McCutcheon, A.L. 278
 Mertlík, P. 45, 149, 153, 280
 Merton, R. 189
 Micklewright, J. 84, 176, 273
 Milanovic, B. 93, 94, 110, 280
 Mincer, J. 34, 47, 54, 280
 Mink, G. 13, 163, 280
 Mises, L. von 16, 280
 Mitchell, D. 197, 274
 Mišoch, L. 146, 148, 280, 281
 Možný, I. 12, 13, 28, 213, 281
 Müller, K. 7, 258, 277, 281
 Müller-Armack, A. 223
 Nepil, F. 153, 281
 O'Connor, J. 195, 281
 O'Higgins, M. 97, 281
 Offe, C. 258, 259, 281
 Okun, A.M. 212, 281
 Orenstein, M. 166, 208, 281
 Oxenstierna, S. 26, 281
 Papadakis, E. 249, 273
 Parsons, T. 30
 Pereira, L.C. 219, 259, 281
 Perret, B. 20, 21, 281
 Pierson, P. 207, 282
 Pischke, J.S. 279
 Piore, M.J. 31, 275
 Plasser, F. 242, 282
 Polanyi, K. 2, 8, 9, 282
 Portes, R. 4, 282
 Przeworski, A. 281
 Rainwater, L. 85, 87, 101, 273, 274,
 282
 Rapaczynski, A. 275
 Rašín, A. 239
 Reich, R.B. 167, 282
 Rein, M. 274
 Renner, K. 21
 Richardson, J.G. 274
 Riesman, D. 119, 282
 Ringen, S. 195, 274, 282
 Rose, R. 176, 242, 282
 Roustang, G. 20, 21, 281
 Rutkowski, J. 282
 Rys, V. 208, 282
 Řeháková, B. 67, 165, 245, 280,
 282
 Sachs, J.D. 1, 206, 248, 249, 261,
 282
 Saková, Z. 275
 Savage, M. 277
 Schell, J. 197, 284
 Schmaus, G. 274
 Schumpeter, J. 8, 9, 10, 36
 Sen, A. 85, 282
 Sewell, W.H. 47, 282
 Shand, A.H. 16, 283
 Sik, E. 176, 283
 Simmel, G. 105
 Smeeding, T.M. 53, 85, 87, 273,
 274, 278, 283
 Smelser, N.J. 8, 9, 10, 279, 283, 284
 Smith, A. 7, 9, 10, 16
 Sojka, M. 281
 Spéder, Z. 109, 273
 Srubar, I. 6, 7, 283
 Stalin, J.V. 3, 20
 Standing, G. 45, 283
 Staniszkis, J. 164, 283
 Stark, D. 8, 46, 149, 175, 283
 Svejnar, J. 3, 4, 277, 283

