

Czech welfare reform: what babies did we pour out with the bath water?



**The Seminar on Establishment
of Social Safety Net During Transition
University of Economics, Prague, November 9, 2016**

Martin Potůček

Head, Centre for Social and Economic Strategies, Charles University, Prague, Czech Republic

<http://www.martinpotucek.cz>

Chairman, Expert Committee on Pension Reform, Czech Republic

<http://www.duchodova-komise.cz>



Content

- Footprints of history
 - Determinants of the development
- Clash of ideas: Havel vs. Klaus
 - The role of the European Union
- Pension reform
 - Employment, Family, Health
- Conclusions



Footprints of history

- The Czech-Slavic Social Democratic Party was founded as early as in 1878.
- The Czech Lands have been influenced by Bismarck's conservative corporatist social policy model before the First World War.
- After 1918, Czechoslovakia put its stakes on the social dimension of individual and societal existence by advanced social legislation.
- Pre-1989 Czechoslovakia was described by the communist propaganda as a showcase example of a country with well-organized health and social services (within the Soviet bloc, it was like that).

External determinants of the reform path

Ideological	The prevalence of neoliberal ideology embodied in the 1990s Washington consensus
Institutional	<ul style="list-style-type: none">• Shift of power and resources from nation states to institutions of global economy• Considerable influence of the World Bank and International Monetary Fund in shaping welfare reform agendas• Increasing but biased influence of the European Union on domestic policy making: from Copenhagen criteria of accession (1993) through Lisbon Strategy (2000) to Europe 2020 (2010) and Fiscal Compact (2012)
Material	Exposure of national economies to the world market; access to modern technologies; impact of the economic crisis on economy and society since 2007

Internal determinants of the development

Ideological	Nearly total discrediting of the idea of social solidarity and its instrument - social policy (due to the failure of Soviet-type state socialism)
Institutional	• Insufficient experience with the practices of parliamentary democracy and the management of public sector, operating in the framework of market economy
Cultural	• Insufficient skills with the functional demands of political democracy and market economy. Individualization of life styles; consumerism on the rise
Material	• Considerably lower living standards in comparison to affluent Western democracies, associated with the post-communist economic trauma after the collapse of command economy

Domestic clash of ideas

Concepts	Václav Havel	Václav Klaus
Human being	Individual embedded in society	Selfish individual (rational choice theory)
„Choice of society“	Important	Dangerous
Commonly shared values	Important: belonging to the whole(s) that exceed individual existence	Limited to basic values: (negative) freedom, democracy, and market
Freedom	Positive freedom	Negative freedom
Democracy	Broad: representative, participatory and direct democracy	Narrow: only representative democracy
Government	Positive evaluation	Reserved evaluation
Civic society	Crucial for a prosperous society; warm attitude	Dismissed as social engineering; associations of free individuals instead
Civic sector	Crucial	Suspicious



Their influence on the „choice of society“

Václav Klaus: As the Chairman of the Civic Democratic Party, and as the Prime Minister, he had a lot of political and bureaucratic power to influence the development of the country. He did it mainly through the legislation (or the lack of it), through the structure of the state budgets, and through privatization.

Václav Havel: According to the Czech(oslovak) constitution, presidents have more or less only ceremonial power. Thus, he had not much direct influence on the happenings. Nevertheless, he was quite important as the generator of ideas in the public space, he stimulated discussions and influenced the ways citizens understood the world around them and acted.



Zig-zags of the political development

- 1990: Civic Movement government elaborated Scenario of social reform along with Scenario of economic reform: concept of social market economy
- 1992-1997: Victory of Václav Klaus' Civic Democratic Party: first neoliberal reforms
- 1998-2006: Coalitions of Czech Social Democratic Party with smaller centrist parties: accession to the EU, trials to impement more balanced reforms
- 2007-2013: Goverments led by Civic Democratic Party, further neoliberal reforms on the way
- 2014+: Coalition of Social Democrats with two centrist parties: comeback of social policies attentive to the needs of citizens



The role of the European Union

The European Union does not speak to its members in a single voice :

- **One of its two Janus faces** speaks about social justice, **social rights**, fight against poverty and social exclusion, and nurtures its own child - **the so called European Social Model.**
- ... whereas **the EU's other Janus face** speaks about further trade liberalization, flexible labour market, fiscal discipline, the need **to make the European economy the most competitive** in the world...



Pension reform

Since 1995 there has been a public discussion about the reform of the whole concept of the old-age pension system. It was initiated by experts from international financial institutions, namely the International Monetary Fund and the World Bank, who strongly recommended that the country opt for compulsory private co-insurance. By contrast to other post-communist countries, the Czech Republic did not accept it, though only in the voluntary version, until 2013 (see below). There were two main factors that could explain this significant difference:

- The country was not in as deep fiscal crisis as other central and eastern European countries and was less dependent on loans provided by these organizations;
- There were strong political opponents of this idea, namely the consecutive Social Democrat-led governments and the trade unions that stressed the risks of such a reform due to the fragility of financial markets and institutions and the huge demand for additional financial inputs from the state budget over a couple of decades within introducing such a reform.

Overview of troulbers of manadatory second pension pillars in post-communist countries

Country	Year of introduction	Changes
Hungary	1998	Collapsed 2011
Poland	1999	Reduced from 7,3 to 2,3 %
Slovenia	2000	Poor performance of funds during financial crisis 2013 followed by massive withdrawal decision (Ministry of Finance, 2013)
Latvia	2001	Reduced from 10 to 2 %
Estonia	2002	Suspended 6,5 to 0 % temporarily
Slovakia	2003	Tapped 9 to 4 %
Lithuania	2004	Reduced from 5,5 to 3 %
Romania	2008	Reduced from 6 to 2 %
Czech Republic	2013	(3 % - voluntarily only) Suspended by the end of 2015



Pension expenditures = 8,6 % of GDP (2015)

■ **Committee No. 1, 2005:**

The government established a cross-party task force in order to simulate the consequences of alternative pension reform options and thus contribute to rational discussion of the representatives of different ideological views. Outcome: politicians did not approve the proposal.

■ **Committee No 2, 2010:**

Ministry of finance established a body, composed mostly from representatives of pension funds, to prepare the privately funded pension pillar. Outcome: The pillar was introduced in 2013.

■ **Committee No 3, 2014 (www.duchodova-komise.cz):**

All parliamentary political parties, experts, social partners and institutions representing different interests were invited to collaborate on further path of reform, including the way how to abolish the privately funded pillar by the end of 2015.



Employment, family, health

■ **Employment policy**

Unemployment around 5 % (2016)

Establishment of Labour Offices in 1990, their centralization.

Labour market policy expenditures 0,4 % of GDP (2015)

Active labour market expenditures make less than 0,2 % of GDP (2015, European average 1 %)

■ **Family policy**

Abolishment of subsidies to baby items, diapers (1990s) and universal child benefits (1995), drop in the number of nurseries and kindergartens. Long parental benefits.

Public family support as a % of GDP: 2 % in 1990, less than 1 % in 2015.

Conception of family policy (2005), updated (2016)

■ **Health policy**

Compulsory health insurance, universal access to health care preserved. Public expenditures 4,8 % (1990), 6,8 % (2015)

Share of private expenditure on health care has been increasing: from 9 % in 1995 to 15,9 % in 2013.



Conclusions

“...there is the obvious difference in the perspective of Western and Eastern Europe. In the East, more basic material needs, as well as feelings about unjust and sharp social inequalities, are the source of social tensions.”

Musil, J. (2000) Hlavní závěry. (Main Conclusions, in Czech)
In: Musil, J. , Suda, Zd. (eds.) The European Left after 1989. West and East.
Prague: CEU and FES, p. 249.

„East and Central Europe is clearly the most under-defined region, a virtual laboratory of experimentation.“

Esping-Andersen, G. (1996) Welfare States in Transition. London, Sage, p. 267.



Conclusions

- The present condition of the Czech social policy may be characterized by **popular support of its main functions** (though the public remains rather critical of the quality of provided services), **weakening** (some time even non-existent) **redistribution toward the most vulnerable and the middle class**, and the modest (and in some situations even unsatisfactory), but still more or less **universal delivery of core social and health services**.
- Country experiences **enormous difficulties in searching for common denominator of varying social and economic interests in order to achieve a durable orientation of its social policies**. One trial of academic community to offer political class such a compass (Social doctrine of the Czech Republic, 2002, available at <http://www.martinpotucek.cz>) was neglected by political class. Zig-zag social policy making has continued.
- **Obvious losers** of social welfare transformation after the collapse of Communism in the Czech Republic were, and still are, **children, elderly, and ethnic Roma community**.

Personal bibliography on Czech welfare reform

- Potůček, M. (1997) Markets, States, and Social Citizenship in Central and Eastern Europe. In: Klausen, J. - Tilly, L.A. (eds.) *European Integration in Social and Historical Perspective, 1850 to the Present*. Boulder, Rowman & Littlefield Publishers, pp. 171-185.
- Potůček, M. (1999) Havel versus Klaus: Public Policy Making in the Czech Republic. *Journal of Comparative Policy Analysis: Research and Practice*, 1(2), 163-176.
- Potůček, M. (1999) *Not Only the Market. The Role of the Market, Government and Civic Sector in the Development of Postcommunist Societies*. Budapest: CEU Press 146 p.
- Potůček, M. (2001) Czech Social Reform after 1989 - Concepts and Reality. In: *International Social Security Review*, 54(2-3), 81-106.
- Potůček, M. (2003) Health policy reforms in the Czech and Slovak Republic as a political process. In: Kovács, János Mátyás (ed.) In: *Small transformations: the politics of welfare reform - East and West*. 1st ed. Münster: LIT Verlag, pp. 62-71.
- Potůček, M. (2004) Accession and social policy: the case of the Czech Republic. In: *Journal of European Social Policy*, 14(3), 253-266.
- Potůček, M. (2004) The capacities to govern in Central and Eastern Europe. In: Potůček, M. (ed.). *The capacity to govern in Central and Eastern Europe*. 1st ed. Bratislava: NISPAcee, pp. 91-108.
- Potůček, M. (2008) Metamorphoses of welfare states in Central and Eastern Europe. In: Seeleib-Kaiser, M. (ed.) *Welfare state transformations: comparative perspectives*. Basingstoke: Palgrave Macmillan, pp. 79-95.

Personal bibliography on Czech welfare reform

- Potůček, M. (2012) Discourses on social rights in the Czech Republic. In: Evers, A., Guillemard, A. M. (ed.) *Social policy and citizenship: the changing landscape*. New York: Oxford University Press., pp. 335-358.
- Potůček, M. (2014) A New Social Contract: The Key to European integration's Political Legitimacy. In: Zudová-Lešková Z., Voráček, E. a kol. *Theory and Practice of Welfare State in 20th Century*. Praha: Historický ústav AV ČR pp. 136-145.
- Potůček, M. (2014) Program to Enhance Human Potential vs. Socio-Political Reality. In: Zudová-Lešková Z., Voráček, E. a kol. *Theory and Practice of Welfare State in 20th Century*. Praha: Historický ústav AV ČR, pp. 549-559.
- Potůček, M. – Rudolfová, V. (2015) Czech Pension Reform: How to Reconcile Equivalence with Fiscal Discipline. *Central European Journal of Public Policy*, Vol. 9, No. 1, pp. 170 – 195.
- Potůček, M. – Rudolfová, V. (2016) Rivalry of Advocacy Coalitions in the Czech Pension Reform. *The NISPAcee Journal of Public Administration and Policy*, Vol. IX, No. 1, pp. 117 – 134.
- Potůček, M., Rudolfová, V. (2016) Who Has Had the Main Say in the Path of the Czech Pension Reform: Politicians, Experts – or Both? In: Špalková, D.; Matějová, L. (eds.) *Proceedings of the 20th International Conference: Current Trends in Public Sector Research 2016*. Brno: Masaryk University, 2016. pp. 179 – 186.

Thank you for your attention.



Martin Potůček

<http://www.martinpotucek.cz>

<http://www.duchodova-komise.cz>