

# Czech Republic

<b>Status Index</b> (Democracy: 5.0 / Market Economy: 4.6)		<b>9.6</b>	<b>Management Index</b>		<b>6.7</b>
<b>System of government</b>	Parliamentary Democracy		<b>Population</b>	10.3 Mio.	
<b>Voter turnout</b>	58 % (2002)		<b>GDP p. c. (\$, PPP)</b>	14,720	
<b>Women in Parliament</b>	14.2 %		<b>Unemployment rate</b>	8.9 %	
<b>Population growth</b>	0.1 %		<b>HDI</b>	0.861	
<b>Largest ethnic minority</b>	3.7 %		<b>UN-Education Index</b>	0.91	
			<b>Gini-Index</b>	25.4 (1996)	
<small>Figures for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. Sources: UNDP: Human Development Report 2002, 2003. Freedom House (<a href="http://www.freedomhouse.org">www.freedomhouse.org</a>). OECD: <i>OECD Economic Outlook</i> 2001/2. CIA: <i>The World Factbook</i> 2002 (<a href="http://www.cia.gov/cia/publications/factbook">http://www.cia.gov/cia/publications/factbook</a>). <i>Fischer Weltalmanach</i> (Fischer World Almanac), various years.</small>					

## 1. Introduction

The evaluation period begins with the establishment of the transitional government after the disintegration of the ruling coalition in November 1997. The first partisan transfer of power in the democratic Czech Republic took place with the early parliamentary elections in June 1998. After four years of a conservative coalition government, a minority Social Democratic government has been in charge, which is tolerated by the most powerful conservative opposition party, the ODS (Civic Democratic Party), which was the senior partner in the former ruling coalition.

After another election victory in 2002, the Social Democrats formed a left-wing – center – right-wing coalition with the Christian Democratic Union - Czechoslovak People's Party (KDU-ČSL) and the liberal Freedom Union - Democratic Union (US-DEU). According to the OSCE, the elections were carried out in accordance with all of the democratic standards. However, the fact that personal animosities hindered the formation of a “natural” coalition of parties with similar agendas was problematic. The prospect of joining the European Union was the driving force behind the democratic consolidation during this period. According to the European Commission's progress reports, which have been issued annually since 1998, the country has been making considerable progress in this area. Much of the need for harmonization was covered in the course of the pronounced legislative activity, especially in 2001 and 2002.

## 2. History and characteristics of transformation

The beginning of the Czech Republic's political, economic, and social transformation was characterized by the “dilemma of simultaneousness”, in which the political system and the economy were not the only areas that needed to be transformed. After the Czechoslovakian federation was dissolved in 1992, the country was confronted with the problem of nation-state building. The first laws to establish a pluralistic political system were adopted in early 1990 by the Federal Assembly, which was dissolved soon after. Political dissident Václav Havel was elected President of Czechoslovakia on December 20, 1989. After the Czech Republic was created, he was elected as the first Czech president, a position he held for the maximum two successive five-year terms in office (until February 2003).

The Czech party system stabilized quickly. Since the 1992 elections, parties with consolidated structures are represented in the Czech Parliament. The beginnings of the political transformation in the first half of the 1990s were controlled by politically inexperienced elite and the original reformers from the Prague Spring (1968) who had returned to lead the government. Classic recruitment routes gained significance later on. A new political elite emerged. For example, in 1998 54.5 % of the members of parliament had been reelected; in 2002 the number was 58 %.

The *transformation to a market economy* began in 1990, with the introduction of various economic reforms. One of the most important steps was the fundamental change in the even distribution of wealth. Communist Czechoslovakia was the most socialized of all the central and eastern European countries, with 97 % of its assets owned by the government. This was one of the reasons that the government implemented its controversial voucher privatization program, which proved to be problematic and involved heavy losses. It also liberalized prices and foreign trade. The legal foundations for the country's economic transformation were created between 1990 and 1992. The government adopted basic laws on privatization and the restitution of property. It also established a Ministry of Privatization and a National Property Fund. Most of the privatization process was completed by the mid-1990s. The transformation of the banking system began in 1991, but it took ten years to complete.

Since the beginning of the transformation process the country's integration into international structures has been forced. This was especially true of the Czech Republic's entry into the International Monetary Fund in 1993, since the IMF (like the World Bank) offered credit that the country urgently needed at the beginning of its economic reforms. The country's entry into the IMF also brought an added bonus of trust, which attracted investment capital and made it possible for the country to receive additional foreign loans to establish the national political and economic institutions.

The country's economic and social development took place in four phases. The first (primarily Czechoslovakian) phase (1990-1993) was characterized (as in all post-Communist economies) by a considerable decline in the Gross Domestic Product (GDP). The next phase was the progressive renewal of the capital stock, which manifested itself in considerable economic growth (1994-1996). The social situation gradually improved with the economic development, but the real wages did not reach a level comparable to 1990 until 1998. After another recession (1997-1999) the fourth phase (2000-2002) led to a new phase of economic growth.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

Rapid progress has been made on the way towards democracy and the rule of law. The republic has been considered stable since the mid-1990s. The citizens' relationship with the democratic state has radically improved. The Czech Republic passed a law regarding free access to information in 1999, and data protection and privacy has been legally sanctioned since 2001. The central constitutional institutions are quite similar to their Western European equivalents with respect to their stability.

##### **3.1.1 Political regime**

*(1) Stateness:* The Czech Republic is a consolidated representative democracy with a complex power structure. The Czech Parliament is composed of two chambers, the Chamber of Deputies (*Poslanecká sněmovna*) and the Senate (*Senát*). Members of Parliament are elected in regular, democratic, and free elections by a proportional representation election system (the Chamber of Deputies) and by a simple majority election system (the Senate). The Prime Minister is the head of the government. The President is elected by a joint session of the Chamber of Deputies and the Senate. One of the President's most important powers is the right to return laws to the Chamber of Deputies, but the Chamber of Deputies can override a presidential veto by an absolute majority. The President has exercised his veto right eighteen times during the evaluation period, and an absolute majority of the Chamber of Deputies has overridden his veto every time. As a result, the President has petitioned the Constitutional Court seven times to repeal the law or annul individual provisions. The President appoints Constitutional Court judges, the board of the Czech National Bank, and other constitutional apparatus on the recommendation of the Parliament. He also has the power to grant amnesties and pardons as well as the right to stop criminal proceedings before they reach the Court.

After some initial problems, communication has improved between the two houses of Parliament as well as between Parliament and the executive branch. An amendment to the Constitution (known as the “Euro Amendment”) came into force in 2002. The Euro Amendment contains two fundamental changes. On the one hand, it makes it possible to transfer some power from the authorities of the Czech state to an international organization or institution. However, this regulation applies to joining the EU. In this case, a legally binding referendum may be held due to constitutional law. On the other hand, the Euro Amendment also affects the implementation of civil rights. All of the international contracts that are approved by the Czech parliament and ratified by the head of state are incorporated into Czech law. If there is a contradiction between an international agreement that is binding for the Czech Republic and Czech legislation, it makes it obligatory for judges to give preference to the international agreement.

The administrative system underwent further decentralization between 1997 and 2002. After a seven-year delay, the 14 regions (“kraj” – plural “kraje”) formally came into existence in 2000, in accordance with the constitutional mandate. The first regional elections were held in 13 of the regions in 2001. Elections in Prague did not take place until 2002, at the same time as the municipal elections. The regional governor (“hejtman”) has the most authority at the regional level. The former districts (“okres”) were abolished on January 1, 2003, and their authority was transferred to the municipalities and the newly created regional and local authorities. As of January 1, 2003, the municipalities and regional and local authorities receive their funding through taxes. Any property belonging to the central state was transferred to the municipalities and the regional and local authorities. In addition, the government has taken steps to improve the functioning of the central government by adopting the Public Services Law, an ambitious law that provides the framework for a professional and independent public administration, in May 2002. The law provides for a gradual implementation process until 2006. However, the development of a modern, efficient and transparent public administration requires secure access and wide political consensus from all its citizens. The government officials at the regional and local levels are governed by a law that was passed in June 2002 for regional and local public service employees. This law is supposed to guarantee professional public administration at the regional and local levels.

The 1993 Constitution had already established the legal requirements for decentralizing public administration. However, the political elite had reservations. The citizens’ identification with the young nation state has stabilized since then, as the 2001 census, in which 90 % of the respondents gave their nationality as Czech, unequivocally proved. The Czech Republic is a state with a strongly homogenous ethnic structure as a result of the expulsion and transfer of the German minority after 1945 and the breakup of the Czechoslovak federation. The country’s relations with minorities have been problematic at times, especially with the Roma population. Roma are not socially or economically integrated into Czech society, and their civil rights are for the most part not guaranteed.

Unemployment among the Roma is estimated to be between 70 and 90 %. A special governmental commission, the Interministerial Commission for Roma Affairs, has been in operation since 1997. The government is working on developing a concept for their integration. The Constitutional Law on the Rights of National Minorities came into force in August 2001. Since 1999, an amendment to the citizenship law makes it easier for people to acquire Czech citizenship and governs the possibility of having dual citizenship in certain cases. The Czech Republic is a contracting party in the most important international human rights agreements such as the European Convention on Human Rights, both UN human rights pacts, the Framework Convention for the Protection of National Minorities, and the European Social Charter.

The Czech Republic is one of the countries with the highest percentage of nondenominational citizens. Over 58 % of all Czechs described themselves as having no religious affiliation (nondenominational) in the 2001 census. The majority of believers profess themselves to be members of the Roman Catholic Church (26.3 %), and approximately 2.2 % of the population belongs to the Protestant churches. It is impossible to find any objective information about how many church members there actually are in the Czech Republic, since there is no regulated church tax system. The churches are financed by the state. A religious community must have at least 300 members in order to qualify as a recognized church, and a church needs to collect 10,000 signatures in order to be able to offer religious instruction. The government has still not returned all church property that was confiscated by past regimes. All of the registered churches and religious communities receive direct state funding, depending on how many members they have. The separation of church and state that was discussed at the beginning of the transformation has not yet taken place. There are currently discussions at the parliamentary level about ratifying the concordance that has already been signed with the Holy See.

(2) *Political participation:* General, free, and equal elections were established at the start of the Czech state. Every citizen of the Czech Republic, on reaching the age of 18, has the right to vote. Every citizen who is eligible to vote and has reached the age of 21 has the right to run for office, with the exception of Senate elections and the presidential elections. The age limit for these elections is 40. Up to now, the only time premature elections have ever taken place was the Chamber of Deputies election in 1998. Thirteen political parties participated in this election, and only five of them exceeded the five-percent limit necessary for representation in Parliament. The 2002 elections were held as scheduled. Twenty nine political parties and groups ran for elections, and only four of them exceeded the five-percent limit (see appendix for election results). There has also only been one early election in the Senate (due to the death of one of the senators). There are currently discussions about whether the president should be directly elected. Under the so-called "Opposition Agreement" (1998-2002), which formed a minority government led by the ČSSD (Czech Social Democratic Party) with the parliamentary support of the ODS (Civic Democratic Party), a new election law

was drafted that aimed to marginalize smaller parties. However, the Constitutional Court reviewed the election law amendment and cancelled its most fundamental provisions.

Universal active and passive suffrage for women was already introduced in Czechoslovakia in 1920. The current (2002) percentage of women in the Chamber of Deputies is 17 %, 2 % more than in 1998. Although there were no women cabinet members during the legislative period from 1998 to 2002, the current cabinet contains two women ministers. The Basic Law and the constitution stipulate that basic human rights and freedoms be maintained and respected. The office of ombudsman was established at the beginning of 2001. The ombudsman answers to Parliament. During the first two years of its existence, approximately 6,000 citizens turned to the office of ombudsman for help, mostly regarding questions about restitution claims, property disputes, conflicts with the police or the army, or about pretrial detention.

The Law on Political Parties and Movements regulates the formation of political parties. The Ministry of the Interior recently counted 58 active political parties and movements. Ten political parties and groups have been disbanded. Despite the consolidation of political parties within parliament, there is still a lack of articulation and joining of societal interests by the political parties. This is demonstrated by the formation of various public initiatives that criticize the political parties such as Impulse 99 and Děkujeme, odejděte (Thank you, now leave) in 1999.

Non-governmental non-profit organizations are legally regulated. More than 49,000 civil associations were registered with the Czech statistics office in 2002, which is an increase of over 60 % compared to 1997. Corporations that generally offer services of benefit to the public are also considered non-governmental organizations. 762 public benefit corporations were registered in 2002. The Act on Foundations and Endowment Funds was passed in 1997 to support the civil society. They are defined as property-assembling associations created for the achievement of charitable goals.

Freedom of speech and freedom of the press in the Czech Republic has been formally assessed as being free and pluralistic since the country was founded. There is a wide spectrum of electronic and print media. The state owns and controls Česká televize (Czech Television), Český rozhlas (Czech Radio) and České noviny (Czech press agency). All the other media outlets are privately owned. Radio Free Europe, which was financed for a long time by the American government, now belongs to the public broadcast system of the Czech Republic. The debate between the political parties about the influence over Czech Television increased during the second half of the 1990s. The conflict culminated in a strike in December 2000, which briefly interrupted broadcasts at the national state-run channel CTV1.

Some political campaigns have exploited the media to eliminate political opponents. Connections between top government officials and organized crime were discovered after a failed assassination attempt against a political commentator. Investigative reporters have been taken to court because they have refused to divulge the names of their informants. Despite the formal freedom and pluralistic structure, political parties still heavily influence the Czech media. Some of the leading printed media are owned by foreign companies.

(3) *The rule of law:* In addition to the separation of power between the legislative and executive branches, the judicial branch has also been able to maintain its independence. The Czech Republic has a four-level court system. In addition, the judicial branch has a Constitutional Court and, since January 2003, a new administrative judiciary (the Supreme Administrative Court), which is the main judiciary in a two-level system of administrative law. The establishment of the Supreme Administrative Court, which was already provided for in the 1993 constitution, is one of the most important legislative achievements in recent years. Supreme Administrative Court justices are nominated by the Ministry of Justice and appointed for life by the President of the Republic. Constitutional Court judges are also appointed for a one-time tenure of ten years by the President. A controversial law, the Act on Courts and Judges, was adopted in May 2002; however, the Constitutional Court soon declared that certain provisions of the Act were unconstitutional. The Court interpreted the provisions concerning the reevaluation of judges' competence and compulsory further education, which was to be regulated by the Ministry of Justice, as a threat to the separation of powers. The duration of judicial proceedings and the judges' lack of training with regard to Community law remains an issue of concern in the European Commission's regular reports.

The immunity enjoyed by Czech deputies and senators is also controversial. The State Prosecutor can request that a deputy or senator be stripped of his or her immunity in certain cases. This request is evaluated by the Mandate and Immunity Committee in each House; however, the committees usually decide in favor of the deputies and senators. Over the past few years, there has been an increase in the number of libel and slander cases. The attitude of individual politicians and the occasional lack of respect for verdicts (which is the case with former Prime Minister Miloš Zeman) should be considered an expression of the constitutional culture that has not yet consolidated.

Citizens can turn to the Constitutional Court or the Office of the Ombudsman when their civil or human rights have been violated. The human rights situation has improved for the Roma population; however, they still continue to suffer from social discrimination. There has been continued improvement in the area of equal rights for women during the second half of the evaluation period. An amendment to the Labor Code, which came into force on January 1, 2001, defines the principle of equal rights in the workplace and institutes harsher penalties for violations against the Code. The Government Council for Equal Opportunities for

Men and Women formally began its work at the beginning of 2002. The Council is comprised of a representative from the Chamber of Deputies, Deputy Ministers from all of the ministries, representatives selected from NGOs, various experts, and the Government Commissioner for Human Rights. The work of the Council has not yet led to any concrete results.

### 3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The overwhelming majority of the political elite and the population felt there was no other alternative to the democratic constitution. The citizens in the Czech Republic accept the prevailing democratic institutions to varying degrees. The President still has the highest acceptance rating, followed at a considerable distance by the federal government and the Chamber of Deputies. According to public opinion polls, the citizens trust the Senate the least. Citizens' confidence in the regional governments has grown since their introduction in 2001.

However, the citizens are critical of the overall performance of the democratic institutions. It is true that democracy is supported as the only form of government. Its stability is not questioned. Apart from the personal friction between the President and the Prime Minister, the cooperation between the constitutional bodies is now considered to be consolidated. There is still less public support for the political institutions than is the case among the more established democracies of Western Europe. However, the Czechs are much more critical of how democracy and its institutions work than the citizens of established Western European countries.

(2) *Political and social integration*: Political representation has continued to consolidate. Parties that oppose the system have only been somewhat marginalized, for example, in the case of the SPR-RSČ (Republicans) in the 1998 elections. The Communist party KSČM, which barely underwent any reforms and has remained true to the Communist orthodoxy, is slowly becoming less isolated and an active participant in the government. The party won 18.5 % of the votes in the 2002 elections, compared with 11 % in 1998. The diminishing voter turnout is conspicuous: 73 % in 1998 and 58 % in the 2002 elections. Low voter turnout means that there is an increasing danger that the political system will be delegitimized.

These polarization tendencies amongst the elite are negatively complemented by growing political passivity. The potential for forming coalitions was limited during the evaluation period. This limited the chances of developing a majority government that was capable of instituting reform. The party system is still moderately fragmented, and, compared with the first half of the 1990s, the factions in parliament have consolidated.

The major political parties have a stable number of regular, loyal voters. The Civic Democratic Party (Občanská demokratická strana or ODS), the Christian Democrat Union - Czech Populist Party (Křesťanské a demokratické unie - Československa strana lidové or KDU-ČSL), and the Communist party of Bohemia and Moravia (Komunistická strana Čech a Moravy or KSČM) can count on their standing voters. During the 1998 elections, the ODS (80 %), the KSČM (74 %), the KDU-ČSL (58 %), and the ČSSD (53 %) had the most loyal voters. During the 2002 elections, 75 % of the ODS voters, 66 % of the KSČM voters, and 53 % of the ČSSD voters remained true to their parties.

The media and the citizens' assessment of the institutions is important for the accumulation of social capital. While the more conventional methods of political participation lost their importance (low voter turnout and a decrease in party membership), more unconventional methods of political participation such as petitions, meetings, marches, street parties and "happenings" became more significant. This form of political participation is tied to the growing significance of post-materialistic values. Protests were held to protest against economic globalization, support the legalization of marijuana and encourage the government to establish same-sex partnership registration.

The trade unions operate on behalf of the employees. The amended Labor Code enables the establishment of works councils. Professional associations and employers' associations represent the interests of the employers. The trade unions underwent a radical reform in the early 1990s. They are divided up into four umbrella organizations, two of which are involved in a social dialogue between the employers and the government. Membership in trade unions has been steadily declining. In 2001 there were only 1.3 million trade union members; 33 % of the labor force was unionized. However, the social recognition of the trade unions has increased in the last five years.

## **3.2 Market economy**

### **3.2.1 Level of socioeconomic development**

There is no apparent social exclusion due to poverty, education, or sex-specific discrimination. The average per capita income has increased to 57 % of the European Union's average income level. At the same time, there are large differences between the capital and the other areas of the country. Differences in income between men and women, which fluctuate between 30 and 50 %, are only slowly becoming less apparent. There is still a need for regulatory control in commercial laws, and legal norms are often broken. White-collar crime has increased during the transformation. The government has not done enough to fight corruption. The anti-corruption "Clean Hands Campaign", which was introduced by the Social Democratic government in 1998, was unsuccessful.

### **3.2.2 Market structures and competition**

The fundamental aspects of free-market competition have stabilized. A special department, the Office for the Protection of Competition, guarantees the protection of economic competition. The office has been in existence since November 1, 1996 and continues the work of the former Ministry of Economic Competition. The activities of the office (such as enforcing the competition rules and instituting sanctions) are regulated by a 1999 Act on the Protection of Economic Competition. All of the office's legally binding decisions are published to help maintain transparency. The office is an independent central organ of the Czech Republic's public administration. No other organ, with the exception of the government, can encroach on its decisions. Political control is out of the question. The Chairman must not be a member of any political party or movement. He or she is appointed and can be recalled by the President of the Czech Republic.

The Office was able to better monitor public procurement once the new Act, which was in compliance with EU legislation, came into force in 2001. There have been problems in the past few years regarding the protection of foreign investments. Two spectacular and unexplained cases affected foreign investors in the Czech Republic's largest private television station, TV Nova, and the IPB Bank. Both matters are to be decided in the course of international arbitration proceedings.

The Czech government began liberalizing prices in 1991, and the price liberalization process was largely finished by 1995. Some prices (in particular those for electricity and housing) were gradually deregulated. The continuing regulation of housing costs has delayed the development of a dynamic housing market. This has resulted in speculations with subsidized state housing and housing cooperatives.

Despite the reform successes in the financial sector, the government has not been able to eliminate all the deficiencies in the banking supervision agency and in monitoring of the financial market. The independence of the Czech National Bank is guaranteed by the Czech Constitution as well as the Law of the Central Bank. The President of the Czech Republic is the only person who has some influence on the CNB; he appoints the Governor and members of the Bank Council of the Czech National Bank to a six-year term of office. However, a bill placed some additional restrictions on the president's right to appoint the board in 2000. The candidates for the Bank Council are now recommended by the government and appointed by the President. However, the intense discussion about the new Law of the Central Bank was not about the independence of the Central National Bank on the whole. The Central National Bank will remain autonomous from the Parliament. As a result, the Czech Central National Bank's situation has adapted to Western European standards.

### **3.2.3 Stability of currency and prices**

The evaluation period is characterized by a relative stable currency. The exchange rate fell from between CZK 40 and 42 for US\$ 1 in 2000 to 29 to 30 CZK in 2002, stimulating imports and holding back exports. The rate of inflation remained relatively low. After reaching 9.7 % in 1998, it stayed below 5 % the following years. An inflation target for 1998 to 2001 was set for the first time in 1998. A similar time frame was also drawn up for 2002 to 2005.

Two major problems facing the country are its rapidly growing budget deficit and the increase in its total indebtedness. The national budgets, which were balanced until 1996, had to be covered by an increase in net borrowing. The additional financial burdens were caused by the delayed implementation of structural reforms, in particular reforms of the banking sector and the restructuring of the corporate sector.

### **3.2.4 Private property**

In the banking sector, the prolonged and cost-intensive privatization process, which has sometimes been accompanied by scandals, was almost completed by 2001. The government also continued the privatization of state-owned enterprises in the industrial and service sector. While private enterprise accounted for 74.7 % of the gross domestic product in 1997, already 79.8 % of the GDP was produced by the private sector by 2001. Apart from a few "difficult cases" (large-scale industrial enterprises), the rest of the privatization process went off without a hitch. As of the end of March 2002, the Czech banking sector was made up of 38 banks. 26 of those banks have foreign entities as the largest stakeholders.

### **3.2.5 Welfare regime**

The minimum wage is guaranteed by law. The government has continuously raised the minimum wage over the last few years. The Subsistence Minimum Act, which legally established a fixed minimum income that is the beginning of the official poverty line, has been in effect since 1991. The subsistence minimum serves as a criterion for calculating the amount of social benefits each individual receives from the state. The slight difference between the minimum wage and minimum social benefits has been criticized, especially by the liberal camp. As in many established EU economies, it appears that the difference between the amount of government aid and the net income earned at a job will not be able to be maintained. The result is less growth in the lower service sector and a practically unavoidable tendency for the citizens to enjoy a free ride, i.e. either not look for a job because they can live well enough on social welfare or else work in the shadow economy, not pay taxes, and pick up their monthly welfare contribution as an extra bonus. The insufficient financial backing of the state

education system at all levels brings the equality of opportunity between the upper and lower classes increasingly out of balance. Progress has been made in the development of a social security system; however, it is not enough to guarantee sufficient minimum protection for all sectors of the population.

### **3.2.6 Strength of the economy**

1998 and 1999 were characterized by a recession that began in 1997. There was a drop in the GDP, and unemployment rose from 5.9 % in 1998 to almost 10 % in 2002, which also included an increase in long-term unemployment. There was an increase in regional disparities at the same time. Unemployment primarily affects young people below the age of 25, women, and unskilled and untrained workers. The government's employment policy has not been very successful so far, especially in addressing the needs of these problem groups, even though it has regularly prepared a National Action Plan for Employment since 1998. After the balanced budgets in the first half of the 1990s, the second half of the decade was characterized by growing deficits in the national budget. The period from 2000 to 2002 was once again marked by targeted growth stimulation. This policy proved to be a successful one. The growth rates (-1.0 % in 1998) rose to 3.3 % in both 2000 and 2001.

The most urgent problems facing the country continue to be rising unemployment and an increase in real wages without a sufficient increase in productivity. Other unresolved problems include the reforms of the pensions and social security systems. Because of this, the public coffers have been increasingly strained since 1995 without achieving more social equality. Since 1995 the state's obligatory expenditures have increased by approximately 10 % of the GDP and constitute for around 80 % of the government's spending. This considerably limits the latitude for investments to improve the country's potential.

### **3.2.7 Sustainability**

According to the Organization for Economic Cooperation and Development (OECD), the country spent 4.1 % of its GDP on education in the late 1990s. Private spending for education remained low. In 2002, the average spending on research and development was only 0.54 % of the GDP, despite many new programs promoting science, research, and development. This underfinancing will prove to be a burden on the way to asserting or even improving the Czech economy's competitiveness in the global economy. The Czech government has not made environmental protection a high political priority.

#### **4. Trend**

(1) *Democracy*: The most important steps in the establishment of functioning democratic institutions took place before and immediately after the “velvet divorce” of the Czech and Slovak Republics. 1998 to 2003 were no longer marked by institution-building. Instead, the country concentrated on the implementation of all elements of the EU’s “*acquis communautaire*” (the institutional and regulatory framework of the EU), since the citizens had decided in a referendum that the country should join the EU. The delayed start of reform and decentralization of the bureaucracy resulted in a sustained lack of efficiency and transparency and insufficient citizen participation in the administration’s actions. The sense of a gulf between the administration and the citizens resulted in a decrease in political participation. Voter turnout decreased, the number of party members shrunk, and the citizens’ trust in the democratic institutions diminished. Unconventional forms of political participation gained importance. There were violent protests, such as during the IMF conference in Prague in 2000. However, recent reforms of the state administration have improved the communication with the citizens and civil society. In addition, the participation of civic organizations in the decision-making process has also helped improve the lines of communication.

(2) *Market economy*: The government tried to increase the competitiveness of the industrial sector by implementing an industry-specific restructuring program. The program was supposed to promote the competitiveness of the Czech industry in the EU. In addition, the government is preparing to use the EU Cohesion and Structural Funds, and there is still a deficit in the development of small and medium-sized companies.

#### **5. Transformation management**

##### **5.1 Level of difficulty**

The level of difficulty of the Czech Republic’s transformation is considered low compared to other post-Communist countries. This applies especially to the evaluation period after 1997, since all of the important decisions had been made, implemented, and consolidated by then. In the late 1990s, after the recession had begun and the initial patience for reform had worn thin, more and more citizens were demanding socially responsible guarantees and that the state regulate the economy more. In 2000, there were protests because some of the larger firms were late paying their employees’ wages.

A law was passed in May 2000 to protect the employees of bankrupt companies. There is still consensus about democracy’s values and institutions despite rising unemployment, growing differences between the regions, and the glaring political inertia of the Czech citizens. The Czech people are sticking to the rules of the

game; however, the citizens are becoming increasingly critical of the details, which were also reflected in the 2002 election results. Nevertheless, the transformation management has stayed on course over the last few years due to the necessity of fulfilling the criteria for EU membership. This has resulted in more legal security for the Czech citizens. The EU has proven itself to be a crucial external force in the consolidation of democracy and a market economy in the Czech Republic.

## **5.2 Reliable pursuit of goals**

The government is maintaining its perspective on economic reform independent of the transfer of political power. One of the reasons for this is that the social democratic government entered into a coalition with the largest opposition party, the ODS, under the so-called “opposition agreement”. The left-right coalition has contributed to the country’s continuity since 2002. The priorities (particularly the Czech Republic’s integration into the European structures) have remained unchanged. The Czech Republic is a member of NATO and has become a member of the EU in 2004. However, it is lacking the vision of social renewal (embodied by Václav Havel) that was so characteristic for the first half of the 1990s. Many people doubt that the new president, Václav Klaus, will be able to play a similar role. However, Klaus believes in forcing economic liberalization reforms, as opposed to Václav Havel, who had stronger social integration in mind.

## **5.3 Effective use of resources**

The government has made progress in the effective use of resources. This was apparent when it was coping with the bank crisis as well as during its campaign against monopoly building and distorting competition. Moreover, the government was able to improve the workability and professionalism of the administrative system at the regional and local levels. This could be used in the medium-term to intensify and modernize the local economic structures and to attract investment capital.

As in many other post-Communist countries, the fight against corruption has not been very successful, even though the Supreme Audit Office (Nejvyšší kontrolní úřad or NKÚ) controls the management of state property and financial resources. Certain legacies of the former Communist regime do not play much of a role here, but rather state, administrative and judicial weaknesses that have not been completely eradicated.

#### **5.4 Governance capability**

The government's organizational capability has diminished. One of the reasons is the more strongly established institutions which restrict the leeway of the government in particular. This limitation has not yet been balanced out by the improved use of the institutions as "enabling structures", but for a post-autocratic country this is also not very surprising. However, in the past as well as during the preceding period, the political elite has proven itself to not be sufficiently capable of learning and cooperating. The polarizing competitive logic of the party system dominated them more than the search for mutual compromise and cooperation, but this is not a foreign concept to competitive democracy in general as well as to the young post-Communist countries of Eastern Central Europe. Comparable developments in the last few years in Hungary, Poland or Slovakia demonstrate this. The political cleverness of cooperative yields that were designed for the longer-term for the purpose of public welfare was sacrificed to particular short-term yields.

However, the government has shown formative power in some areas, for example in coping with the bank crisis. However, this cannot hide the fact that the ability of the government and the political elite to win the support of the population for further reform efforts has diminished over the last few years, which is a poor prerequisite for the social security reforms that are planned in the near future and the privatization or closure of unprofitable companies from the "old" industry.

Public funds will have to be used to revitalize the banks and provide collateral security for loans. This can be evaluated as a temporary misallocation of government resources. Another reform of public finances is essential. This especially applies to the reform of the health care and pension systems.

#### **5.5 Consensus-building**

The political elite is still relatively incapable of making compromises. Unlike the situation in Poland, the old conflict between the incriminated elite and the collaborators of the old regime and the new democratic powers is not playing the decisive role in this, but rather new personalized disputes between the democratic parties. The lustration law (screening law that forbids certain Communist officials and secret police collaborators from holding certain positions in the government) proved itself to be ineffective in punishing the offenses of the old regime and did not help the government come to terms with its past. The issue of reconciliation between the offenders and the victims of the former Communist regime is apparently no longer a subject of intense public discussion. To a large extent it was excluded from political discussion. The initial attempts to identify and if necessary punish the incriminated elite of the Communist regime ended with long-drawn-out processes and often without any results.

The extension of the lustration law for another five years is just about the only step taken to help the country come to terms with the past. However, this very law was heavily criticized by various international organizations (the Council of Europe and the ILO), since the law encroaches on the fundamental human rights of those who were lustrated. Up to now there has not been a social debate about the legacy of the autocratic past. No one has discussed the difficult question of the offenders, the victims, and the collaborators. This should not just be considered negatively; the government was able to avoid a social split like in Poland by passing this law. Up to now the problem of coming to terms with the past has not been very important part of the country's social integration or the democratic consolidation of the Czech democracy.

However, more stable collaborations have developed in the socioeconomic realm. For example, there has been a trilateral social dialogue at the national level since 1991 between representatives of the employers, employees and the government. The Council for Economic and Social Agreement (CESA) has acted as an arena for negotiations in this social dialogue and stabilized it. As soon as the reform process in the administrative branch has come to an end, the social dialogue is supposed to be expanded to the regional level as well. However, even the Council could not stop the erosion of social peace. Labor disputes and public protests have become more prevalent over the last few years.

Extremist groups have formed on the edge of the social and political consensus. The struggle against these (most often illegal) groups, which are rooted in neo-fascist, racist and xenophobic ideologies, has mounted in the past few years. This also applies to left-wing extremists as well as anarchist and neo-Bolshevik groups, even though their influence is minimal. In the last few years extremist groups have increasingly used the Internet to disseminate their extremist ideologies. The Ministry of the Interior's Report on the Issue of Extremism in the Czech Republic in 2001 noted that the number of racially motivated offenses had risen to 452 (compared with 364 in 2000 and 316 in 1999). Moreover, it also reported that the extremist groups were skillfully taking advantage of legal loopholes and were operating on the edge of the Constitution. A huge debate arose in connection with the profit-oriented publication of Hitler's "Mein Kampf". The publisher released the book without commentary and then defended the decision based on freedom of expression. However, the courts felt that the book was disseminating anti-constitutional ideologies. The remaining editions were confiscated and outlawed. In that respect, the Czech Republic follows the German model of defensive democracy rather than the American interpretation, which attaches superior importance to protecting freedom of speech.

## **5.6 International cooperation**

The Czech Republic has continued to develop international collaboration at the bilateral and multilateral level in the past five years. The main foreign policy

objective after joining NATO in March 1999 is joining the EU. The Czech Republic has a good chance of fulfilling the remaining criteria of the Acquis communautaire and participating in the European Parliament elections as an EU member in 2004. Each year since 1998, the government has passed a National Programme for the Preparation of the Czech Republic for Membership in the European Union. This plan specifies the short-term and medium-term tasks that the government must complete in order to join the EU.

While the number of direct investments from abroad has increased over the last few years, public financial support of governmental, non-governmental or multilateral organizations has decreased. EU funds, especially PHARE, are among the most important sources of external funding for national non-governmental organizations. The PHARE program paid out approximately ten million Euro during the evaluation period. Some other support organizations include US AID and the EBRD and foundations such as the Open Society Fund, the Robert Bosch Foundation, or some party-related foundations in Germany. Funding from abroad has been on the decline since the second half of the 1990s, which is a result of the improved economic and political situation and can therefore be considered a positive sign for the consolidation of democracy and the market economy in the Czech Republic.

## **6. Overall evaluation**

The country had to undergo three transformation processes at the same time during the development of the Czech Republic: the democratization of the political structures, the introduction of a market economy, and the redefinition of the Czech national state. Nevertheless, the originating conditions for the consolidation of democracy and a market economy in the Czech Republic were favorable compared to the other post-Communist states. The Czech Republic had a more favorable baseline position, especially compared to Slovakia. The majority of the Czech citizens were in favor of democratization reforms, and the support proved to be stable.

NATO and EU membership were and are accepted goals among the elite as well as among the general population. The transformation to democracy and its consolidation is complete. The fundamental democratic institutions operate similar to the democratic institutions in Western Europe. There have been no mentionable attempts to get around or limit their rules. The party system is also relatively consolidated. The most important market-based institutions are established in the Czech Republic.

At the same time, the quality in the political and economic sectors still leaves room for improvement. A reform of the administrative system has still not been completely implemented. The speed and efficiency of the judicial system still leaves much to be desired. The fight against crime and corruption requires a

concentrated effort by the state. The politics are too party-centered and hierarchical. The communication between the state and civil society has not yet sufficiently developed. The attempts of some politicians to mislead the public, of which the citizens do not approve, and the diminishing participation stand in the way of further vitalization of democratic life. A complicated reform of the social security system is imminent. The success of this reform will determine whether the citizens will consider their community to be just and social.

## **7. Outlook**

The Czech Republic will be missing a great integrative leader in the future. The retirement of Václav Havel does not just mean that an outstanding actor from the change of political systems is receding from the political arena, but the country is also losing a moral authority who has done a lot for the Czech Republic's integration in the past. It remains to be seen whether Havel's successor Václav Klaus, who was also a leading figure in the transformation, will be able to fill Havel's shoes. He will have to strip away a lot of his polarizing political outlook so that he can become an integrative leader like Havel. Membership in the EU will undoubtedly do much to improve country's democratic quality and economic efficiency. Together with Slovenia and Hungary, the Czech Republic is one of the most consolidated democratic systems of the former Communist countries in Europe.