

BTI 2010 | Czech Republic Country Report

Status Index	1-10	9.65	# 1 of 128	
Democracy	1-10	9.80	# 2 of 128	➔
Market Economy	1-10	9.50	# 1 of 128	➔
Management Index	1-10	6.95	# 9 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	10.3	HDI	0.90	GDP p.c.	\$	24001
Pop. growth	% p.a.	0.6	HDI rank of 182	36	Gini Index		25.8
Life expectancy	years	77	UN Education Index	0.94	Poverty ²	%	<2
Urban population	%	73.5	Gender equality ¹	0.65	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

In the last two years, the political situation in the Czech Republic was marked by continuous struggles between a weak center-right coalition government and a strengthening opposition as well as growing internal divisions within the major political parties. These two major cleavages – inter-party struggle and internal divisions within parties – represent the political context within which economic reforms such as pension and health care reforms, as well as the positions on the depth of European integration have been undertaken. This political development is accompanied by an ever-growing disenchantment of citizens with political parties and government performance.

However, the political system is fully consolidated and this is indicated by the declining trend in the effective number of parties, that is, a fall from 6.2 in 1990 to 3.9 in 2006. Within the Czech Republic there are no serious ethnic, religious or social conflicts. Most polarization is found within the socioeconomic dimension. Although there is wide societal consensus on the merits of a market economy, the major issue has been the scope of reform. In this respect, the distribution of powers in the parliament hampers the adoption of important long-term reforms. Apart from these difficulties, the Czech constitutional system of checks-and-balances functions quite well.

In terms of EU membership, the Lisbon Treaty was the central focus of a struggle between an extremely vocal euroskeptic president, Vaclav Klaus, and a government that moved from explicit euroskepticism toward a more “realistic” assessment of positive qualities of the country’s EU membership. Two events signaled a more pro-EU orientation in the Czech Republic. First, a ruling of the Czech Constitutional Court published in December 2008 stated that the Lisbon Treaty is in accordance with the country’s constitution and as such is no threat to the sovereignty of the Czech Republic. The second key event was the emergence of a more strident pro-European wing within the Civic Democratic Party led by incumbent chairman and Prime Minister Mirek Topolanek. Topolanek, in a party leadership contest in November 2008,

succeeded in defeating a euroskeptic challenger strongly associated with President Klaus. The victory of the pro-European wing led the president and founding father of the Civic Democratic Party to publicly renounce his position as honorary chairman and to announce his plan to support the emergence of new “political subjects” (i.e., a new political party that would be similar to Libertas, an Irish euroskeptic party).

During the period under review, the Czech Republic’s role in the international arena was marked by it signing an international agreement with the United States allowing the construction of a U.S. military radar base in the Czech Republic. The political debate between the pro-radar right and anti-radar left took place both within the governing coalition and on the floor of the parliament. The issue led to a mobilization of public opinion, both among communities that would be directly affected by the construction of the radar base and more generally among those critical of NATO. Calls for a referendum on the issue went unheeded by the government because of unfavorable public opinion polls showing deep divisions among Czech citizens on the issue and because there is no general law on holding referenda in the Czech Republic. Symbolically, the agreement between the Czech Republic and the United States was accompanied by an abolition of visa requirements for Czech citizens entering the United States starting on the nineteenth anniversary of the Velvet Revolution.

The country’s economy, having experienced steady economic growth since 2000, was hit hard by the global economic crisis of late 2008. The government’s attempts at reforming the health, pensions, law enforcement and legal systems have been constrained by its narrow parliamentary majority. In addition, the government has not yet dealt effectively with specific types of corruption, such as the influence of organized crime within the state administration, the police, and among political elites.

History and Characteristics of Transformation

The transformation of Czechoslovakia was an integral part of the political changes that took place in Central and Eastern Europe in 1988 and 1989. The fall of the Iron Curtain caught the rigid communist regime, which had overseen a relatively stable economy, off guard. The climax of the political changes came on 17 November 1989 in Prague, when police brutally intervened in a peaceful student demonstration. Students and artists traveled throughout the country to relay information about the events, thus overcoming the regime’s monopoly of the media. In the days that followed, there was a general strike in which more than half a million people protested against the police intervention and the communist regime in Prague. By using force against students, the communist regime lost the working class’s remaining tolerance for its policies. Generally speaking, the regime was never broadly supported, but rather tolerated by the majority. Most Czech citizens abhorred the state’s use of violence against students.

Students, artists and representatives of the opposition movement formed the revolutionary “Civic Forum.” After the Communist Party government renounced its monopoly on power on 28 November, the Civic Forum negotiated with the government and became a government partner. Two of the most important and immediate results of these negotiations were the reconstruction of parliament and the inclusion of members of the Civic Forum into the National and Federal Assemblies. The parliament elected dissident Vaclav Havel as president and Alexander Dubcek, a symbolic figure of the Prague Spring (1968), speaker of the Federal Assembly.

Transformation in the Czech Republic since 1990 has included major political and economic changes as well as a redefinition of the nation-state. There have been two major actors shaping the country during this period. The first is former dissident and key representative of the opposition movement Charter 77, Vaclav Havel. The second is the economist Vaclav Klaus. Havel became president of the Czechoslovak Federative Republic (1990 – 1992) and later the Czech Republic (1993 – 2003). Klaus became a Civic Forum leader and later chairman of the Civic Democratic Party (ODS), holding the offices of prime minister, speaker of the parliament and, since 2003, president. These two figures represent strong, and in some respects, opposing streams within Czech politics. They have often clashed in public for ideological and personal reasons. Their differences have shaped the nature of Czech politics significantly, resulting in a highly polarized system interlaced with ideological and personal animosities, which pose a major obstacle to effective governance in many respects.

Despite these difficulties, the Czech party system stabilized quickly in the 1990s. Politically inexperienced elites and socialist reformers from the Prague Spring period managed the initial phase of the political transformation process. In the mid-1990s, however, there was a shift away from a system characterized by “political amateurs” to one dominated by professional politicians. This was evident in the evolution of political recruitment patterns, which became increasingly similar to those common in other liberal multiparty democracies.

Since the beginning of the transformation process, the country has strived for inclusion in international structures such as the IMF, which the Czech Republic joined in 1993. Membership in the IMF and World Bank offered guaranteed credit necessary for economic and social reforms as part of a process that exhibited four main phases. The first was characterized by a considerable decline in major economic indicators, especially in GDP. The next phase (1994 – 1996) was characterized by considerable economic growth, followed by a third phase of recession (1997 – 1999). Since 2000, a new phase of economic growth has been observed. This trend in economic indicators, however, suggests that the success of Czech reforms has been limited.

The Czech Republic has attained its key goal of “a return to Europe” and integration into European structures. In March 1999, the Czech Republic became a member of NATO, and in May 2004, it became a member of the European Union. Rapid progress has been made in (re)-establishing democracy and the rule of law. While the public’s relationship with the democratic system is relatively good, the level of satisfaction with its political performance is rather low. In the course of the period under review, public opinion polls recorded the percentage of satisfied

citizens as hovering around 15%. It is primarily Communist Party sympathizers, the elderly, and socially and economically disadvantaged groups who are dissatisfied. Moreover, a large portion of the population believes that members of the former communist regime effectively exchanged their political capital for economic power. There is some merit in such suspicions, as many experts and middle-cadre members of the communist hierarchy now hold prominent positions in business.

Transformation Status

I. Democracy

1 | Stateness

The Czech Republic has no major problems related to the integrity of the state.

Monopoly on the
use of force
State identity

The Czech Republic is a largely homogenous society. The Roma are the largest ethnic minority in the Czech Republic. This minority has traditionally faced problems in overcoming cultural and social barriers in society and high unemployment rates often stemming from low levels of education. The government's relationship toward minorities has improved over time. Its official goal has been to increase the social and economic integration of minorities into society.

The Czech Republic is one of the most secularized countries in Europe. Religious dogmas have no influence on politics or law. However, the Catholic Church has not been separated from the state and is in fact funded from the state budget. The restitution of church property and the ratification of a treaty with the Vatican remain unresolved.

No interference of
religious dogmas

The state has a differentiated administrative structure throughout the country, making it possible to extract and allocate state resources on a broad basis.

Basic
administration

2 | Political Participation

There are no important restraints on free and fair elections. In the period under study, elections for one third of the Senate mandates and regional elections took place (both in autumn 2008). Electoral turnout in these contests marked an improvement on previous elections. Voter participation in regional elections grew by more than 10% between the 2004 and 2008 elections, increasing from 29.6% to 40.3%. Senate election turnout remained largely constant between 2006 and 2008. In 2008, turnout was 39.5% in the first round and 29.8% in the second as compared to 42.1% in the first round and 20.7% in the second round in 2006. This pattern may

Free and fair
elections

be attributed to public mobilization by the oppositional social democrats against the center-right governing coalition, and a high level of dissatisfaction among citizens with the governing coalition, which did not communicate its reforms to the public. As a result, the Social Democrats won 23 out of 27 seats in the Senate, the Civic Democrats retained three seats, and the Communists won one seat.

In February 2008, presidential elections took place in which 281 members of parliament (200 Deputies and 81 Senators) elected in the third round of the second vote the incumbent Vaclav Klaus as president for his second term. The election of the president well illustrates the current state of Czech politics. While the leading party of the coalition government – the Civic Democrats and partially also the Christian Democrats – supported Vaclav Klaus, the Greens (also part of the governing coalition) together with the Social Democrats jointly supported the Czech-American economist Jan Svejnar. During the campaign, Jan Svejnar tried to communicate directly with the public and several parties announced intentions to support electoral reform whereby presidential elections in future would be decided by a popular vote of citizens. The presidential elections indicated deep divisions within the governing coalition and further destabilized the fragile governing coalition.

The democratically elected parliament and government of the Czech Republic have effective power to govern and are not constrained by any non-democratic veto powers.

Effective power to govern

Freedom of association and assembly is unrestricted within the Czech Republic. For example, in 2008 Czech citizens exercised their right of association to protest against the government's intention to allow construction of a U.S. anti-missile radar base on Czech territory.

Association / assembly rights

Freedom of speech and the press in the Czech Republic are guaranteed under law and there is currently a strong independent media. During the last two years the influence of political parties on the media has further decreased. However, given the polarization of party competition, a left-right division among the media can be observed. The ownership structure of the private media (i.e., print, radio and television) does not seem to affect news coverage, and investigative journalists continue to uncover and report important links between politicians and bureaucrats, private interests, and in some cases those involved in criminal activities.

Freedom of expression

3 | Rule of Law

In the Czech Republic, collusion among democratic institutions has not been a serious problem. In the past two years, tension has grown between the president and the fragile center-right coalition government. This situation has affected the

Separation of powers

legislative process, as the government struggles to find support for its reforms in the (lower) Chamber of the Deputies and in some cases has had to rely on an ad hoc coalition. During the review period, several deputies left their parties and parliamentary party grouping and became independent, voting ad hoc for or against government's legislative proposals.

President Klaus in his second (and last) electoral term has openly addressed controversial issues in a manner that contrasts with the Czech governments' official positions. For example, President Klaus has asserted that: (a) global warming is a process that may be interpreted as the product of natural long-term volatility; (b) European integration undermines national sovereignty; (c) Russian military intervention in South Ossetia and Georgia was justified. President Klaus's activities were perceived critically both within the European Union and by the Czech public, which according to opinion polls increasingly views the president's activities as detrimental to the image of the Czech Republic abroad.

There was also considerable tension between the president and the Constitutional Court when the president argued that the Lisbon Treaty was incompatible with the Czech Constitution because it undermined national sovereignty. In its judgment of 26 November 2008, the Constitutional Court ruled that the Treaty of Lisbon does not change the fundamental nature of European integration. Moreover, the court concluded that even after the entry into force of the Lisbon Treaty the European Union would remain a unique organization under international law. The Constitutional Court addressed specific issues queried by the Senate and the president. A central concern was the manner in which the Treaty of Lisbon is to be approved, that is, if ratification should be undertaken through a popular referendum or by parliament. The court judged that this question is not subject to judicial review under Article 87 paragraph 2 of the Czech Constitution.

The judiciary is free from unconstitutional interventions by other state institutions. The long waiting period prior to the hearing of court cases remains problematic. In fact, more than half of all cases heard at a regional court involve a wait of at least two years. An increasing number of complaints were lodged with the European Court for Human Rights (ECHR) with accession to the European Union in 2004. However, the annual number of applications to the ECHR stabilized thereafter.

Independent
judiciary

A Conflict of Interest Act (2006) now regulates situations in which holding different positions is deemed to be undesirable. Moreover, there are now sanctions against abuse of power. Unfortunately, there are loopholes within the legislation. One recent case in January 2009 concerning alleged abuse of office relates to Mr. Jan Spika, an MP representing South Bohemia. This Civic Democratic MP is a member of the Subcommittee for Energy in the lower chamber of the Czech parliament and simultaneously co-owner of an energy company called Lumen Energy. An anti-corruption NGO called Oziveni (Revival) reported the case, which

Prosecution of
office abuse

resulted in the MP leaving the parliamentary subcommittee. The Mandate and Immunity Committee of the lower chamber is to deal with the issue. However, it is not certain that this case will result in legal prosecution. In the period under study, there was no case of major political corruption comparable with the Kubice Affair (the leaking of a Ministry of Interior report on alleged connections between government officials and organized crime directly before the 2006 elections). However, the media continue to report on allegations of close ties between members of the political elite and special interest groups, as well as allegations of ties with known criminal groups. In the aftermath of the Kubice Affair many members of the police's anti-corruption unit resigned. In general, there appears to have been little progress in prosecuting those alleged to be involved in political corruption.

Probably the most important recent case of abuse of office relates to allegations of corruption made against Deputy Prime Minister Jiri Cunek (chairman of the Christian Democrats) during 2006 and 2007. The police suspected that Cunek, when he was mayor of Vsetin in February 2002, accepted a bribe of half a million Czech crowns (CZK) from a real estate company. The investigation was suspended after the prosecutor in charge of the case was dismissed for bias. This was the first time that this procedure was invoked since this legislation had been enacted. Consequently, Jiri Cunek was never formally charged.

Another case involving Cunek related to the conflict of interest law. In this case, Cunek did not include his mortgage in the obligatory list of activities, property, incomes and gifts, when his term as mayor ended. A journalist brought this case to court, and the Highest Administrative Court found Cunek guilty in January 2008. However, later in 2008 the court overruled this initial ruling, citing changes in legal norms. Cunek left the government for the duration of this legal process between November 2007 and April 2008. His return to office lasted nine months until he resigned as both deputy prime minister and minister for regional development in January 2009. Ostensibly, the main reason for his resignation was failure to secure the trust of his fellow party members and ministerial colleagues in the cabinet.

Civil liberties are respected in principle, and their observance is supervised by the Constitutional Court, the Supreme Administrative Court, and the Office of the Ombudsman (Public Defender of Rights). In association with the accession to the European Union, the Czech Republic began to protect all forms of legal personality against (illegal) interference by public administrative bodies, including new administrative rules that improved citizens' rights vis-à-vis the state.

Civil rights

In 2007, the public defenders office received 6,062 complaints. 4,813 callers used its information hotline, which offers simple legal advice and queries regarding how legal complaints are processed. The structure of complaints in terms of the public defender's office mandate did not change considerably in 2007. More than half

(58%) of the total number of complaints made during 2007 were found to fall within the public defender's mandate. The issues most frequently addressed were social security, public court administration, construction regulations, the police, and healthcare.

Concerning the civil rights of women, progress has been made on the issue of domestic violence where under new legislation domestic violence is now more likely to be reported and prosecuted. Despite such advances, the general implementation of laws relating to domestic violence and offering effective protection and prevention remains underdeveloped.

In order to strengthen the agenda of human rights and national minorities the Topolánek government established an Office for Human Rights and National Minorities, led by a minister. For a long time, the Czech Republic was a country characterized by emigration and transition. Since the 1990s, and especially following EU membership, the country has experienced increasing levels of immigration. In the period under study and following the EU accession, the country attempted to establish a system of so-called green cards for migrants from some non-EU countries. The largest immigrant groups are Ukrainians, Slovaks and Vietnamese.

4 | Stability of Democratic Institutions

Democratic institutions in the Czech Republic are effective in performing their functions. Disagreements between different political institutions such as between the president and government and the governments' inability to articulate decisive positions due to its slender majority in the lower chamber restrict the scope for effective public policy making. Notwithstanding such considerations, the state administration system is stable. Here the level of fragmentation in decision-making and ideological polarization among office-holders at different levels of governance is not significant. With regard to administrative transparency, the level of information provided by the public bodies to citizens is improving steadily. One issue that has caused concern is the lack of transparency regarding how public policy makers are appointed. In this respect, no clear differentiation yet exists between professional non-partisan officials and political appointees.

The 2008 regional and senate elections indicated a widespread dissatisfaction among citizens with the current political administration. In part, this situation stems from the current government's fragile majority in the lower chamber and public frustration about the cabinet's inability to implement its reform program. Furthermore, the government failed to effectively communicate to the public the reasons for the reforms that have been implemented to date. This added to popular disaffection. After a poor showing by the main governing party in the regional

Performance of
democratic
institutions

elections, Prime Minister Topolánek admitted that there were communication problems and sought to address the issue. Thereafter, the government's public communication policy has been more effective. The government's approval rating in polls is one indication of this improvement. In a cabinet re-shuffle in late January 2009, four ministers were replaced chiefly on the basis that they had failed to communicate government policy within their portfolios to citizens.

The victory of the left-wing oppositional parties in the regional elections held on 17 and 18 October 2008 led to a decrease in cooperation between the central and regional governments. Furthermore, several regional governments overruled parts of the health care reform concerning registration fees in hospitals under their direct control. Social Democrats and Communists won more than 60% of the votes in regional elections and were able to form governments (for the first time including the Communist Party in governing coalitions). Thus, the Social Democrats currently control 13 out of 14 regional governments, the exception being Prague, which remains controlled by the governing Civic Democrats.

Most citizens support democratic institutions and no important groups seek to change the Czech political system.

Commitment to
democratic
institutions

5 | Political and Social Integration

The most important trend is the continued consolidation of Czech parliamentary democracy. The results of the 2006 elections demonstrate that the degree of fragmentation (.68) and effective number of parties (3.1) continues to decline. Currently, there are five parties represented in the Czech parliament. This pattern stems primarily from the ability of the two largest political parties to secure more than two thirds of the popular vote in 2006 – a record since the fall of communism. The 2008 regional and senate elections further pointed towards the weakening role of the smaller political parties (with the exception of the Communist Party, which continues to attract a strong protest vote). All parties in the governing coalition, however, are facing deep internal divisions and power struggles. In the case of the Green Party, there appears to be a real electoral danger of it losing its mandate, as the party is still not rooted in the political landscape, and recent public opinion polls suggest that the party would attract less than 3% of the popular vote in new elections. It should be noted that the Czech electoral system has a 5% electoral threshold, which means that the Green Party is in danger of not being represented in the next parliament.

Party system

The European integration issue represents an important dividing line between Czech political parties. The Civic Democrats, now in government, struggled for a long time to adopt a clear position on Europe. However, more recently this party has adopted a more pro-European public stance thereby adopting a position more

consonant with that of its voters, who, it should be noted, are the most pro-European segment of the electorate. An important faction within the Civic Democrat Party, however, remains ideologically close to the euroskeptic President Vaclav Klaus. As a result of the poor showing of the Civic Democrats in the 2008 regional and senate elections and the Lisbon Treaty debate, at least two euroskeptic parties, one under the pan-European Libertas banner and another called Strana svobodných občanů (Party of Free Citizens), will likely contest the European parliament elections in June 2009.

Civil society in the Czech Republic has been successful in creating a space for itself between the sphere of private interests and the state. More specifically, accession to the European Union provided Czech national interest groups with opportunities to work in a multilevel system of governance and costs vis-à-vis the policy goals that can be addressed primarily at the national level. During the first decade of democratic transition, Czech interest groups were often outsiders and were regarded by politicians and state administration as rather difficult and not as important legitimate actors in the policy-making process. However, with the pre-accession process and the heavy burden of adopting the *acquis communautaire*, the role played by interest groups increased steadily. Since accession, Czech interest organizations have become increasingly involved in European interest representation structures through membership in European umbrella organizations. Moreover, because of the new policy-making regime, EU membership has resulted in the emergence of new civil society actors such as NGOs dealing with equal opportunities. In this respect, some of these civil society organizations now attempt to bypass the national level and to pursue their policy goals at the European level. In practical terms, this means that policies such as structural funding present an important opportunity for interest groups to cooperate fruitfully with the local and regional representations.

Interest groups

A clear disparity between a stable and high degree of general support for democracy and poor satisfaction with the current political situation exists in the Czech Republic. People associate democracy with freedom, participation and socioeconomic security. There is least confidence in political institutions among citizens who show greatest dissatisfaction with the current political and economic situation in the Czech Republic. Citizens' confidence in institutions is primarily based on evaluations of the state's performance.

Consent to democratic norms

According to the Centre for Public Opinion Research (CVVM), the general level of public trust in political institutions is rather low. Statistical analysis of this survey data reveals that the main determinants of trust in institutions are age, education and socioeconomic status, where the young, better educated and more affluent express greater levels of trust. Comparison of patterns of trust in institutions and interpersonal trust reveals that within Czech society both forms of trust exist only to a moderate degree. Some think that this is one of the persistent legacies of the communist era.

In January 2009, the president, who had for a long period recorded the highest levels of popular trust among all political institutions in monthly opinion polls, experienced a decline in support. Trust in the office of president was 65% and in local municipal government was 66%, while trust in regional assemblies was somewhat lower at 49%. As in many other European countries, Czech citizens express least trust in the parliament (upper and lower chambers) where about one out of five of those interviewed currently exhibit some trust in these representative institutions. Approval of the governments' performance declined in late 2006, stemming most likely from protracted coalition formation negotiations that lasted a record 219 days. During 2007 and 2008, government approval varied between 20% and 30%. In January 2009, public approval of the government returned to the level last reached in late 2006. Although, poll results demonstrate popular support for a democratic system of governance, satisfaction with the "current political situation" varies over time. In late 2006 and early 2009, six out of ten citizens were dissatisfied with the political situation, while one out of ten expressed satisfaction, suggesting that Czech citizens are rather critical of the current government's performance.

At present, more than 85,000 NGOs are currently registered in the Czech Republic – a number that has increased markedly following accession. The status of NGOs is legally regulated. The Czech non-profit sector's greatest weakness is its inability to generate resources from their members, and thus their continued dependence on funding from public and foreign sources.

Associational
activities

After seventeen years of democratic transformation, the Czech Republic is still in a phase of building social cohesion, social empathy and solidarity among social groups as well as between generations. The social function of the community and neighborhood has not yet been fully restored.

II. Market Economy

The Czech Republic is one of the most stable and prosperous post-communist states of Central and Eastern Europe. Economic growth between 2000 and 2007 was supported by exports to the European Union, primarily to Germany, and access to a relatively high level of foreign and domestic investment. In the second half of 2008, however, the Czech Republic's economic prospects have declined in the wake of the global financial crisis and subsequent economic recession. The orientation of the Czech economy toward exports and its dependence on the automotive industry has made it vulnerable to the economic downturn in international markets. In November 2008, annual car production in the Czech Republic decreased by 17.4%, one of the steepest declines in automobile manufacturing within the European Union. In

addition to a general decline in industrial production, the inflation rate increased sharply to its highest value in a decade. As a result, Czech inflation is currently beyond the limits associated with the Maastricht criteria for EMU.

In January 2009, with the aim to manage the economic problems, the government created the Government's National Economic Council (NERV) as its expert advisory and consultative body. Currently, the council's primary task is to analyze the risks and potential impacts of the global financial crisis on the Czech Republic and to propose measures, steps and tools to mitigate or eliminate its potential impacts. The council has 10 members, and its activity is led and coordinated by the prime minister. The council is a technocratic non-partisan body composed of leading Czech economists and business experts.

6 | Level of Socioeconomic Development

Due to a combination of internal and external factors, the growth of the Czech economy measured by GDP slowed down at the end of the period under examination. Among the key external factors influencing Czech economic development was a decline in demand for the products of export-oriented industries caused by a general slowdown in trade with the country's main trading partners. Consequently, GDP declined from 6.0% to 4.2% between 2007 and 2008. Simultaneously, gross wages increased from 6.5% to 7.3% during the same period and were projected to increase to 7.9% in 2008. Turning now to inflation, the consumer price index grew significantly. Real wage growth declined from 4.4% in 2007 to 1.7% in the third quarter of 2008. Despite this decline, Czech wages grew faster than labor productivity.

Income inequalities still exist, especially at the regional level and between the capital (Prague) and the rest of the country. In spite of this, among the 30 OECD countries, the Czech Republic has the fifth lowest income inequality, as documented by the GINI index. Nevertheless, differences in incomes between men and women persist.

Unemployment fell by 1.8% between 2006 and 2007, but has started to increase once more with the economic recession starting at the end of 2008. Gender and regional differences in unemployment persist. Long-term unemployment remains a serious problem and constitutes almost half of the unemployed labor force. With the exception of the Roma population, there is no social exclusion due to poverty, education, ethnic or sex based discrimination.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	109524.9	124548.6	142312.9	173958.2
Growth of GDP	%	4.5	6.3	6.8	6.0
Inflation (CPI)	%	2.8	1.8	2.5	2.9
Unemployment	%	8.3	7.9	7.1	5.3
Foreign direct investment	% of GDP	4.5	9.3	3.9	5.3
Export growth	%	20.7	11.6	15.8	14.6
Import growth	%	17.9	5.0	14.2	13.8
Current account balance	\$ mn.	-5749.4	-1577.3	-3782.9	-5662.0
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-3.2	-3.5	-4.3	-1.7
Tax Revenue	% of GDP	15.7	15.6	14.7	15.2
Government consumption	% of GDP	22.1	22.1	21.3	20.4
Public expnd. on edu.	% of GDP	4.4	4.3	4.6	-
Public expnd. on health	% of GDP	6.4	6.3	6.1	-
R&D expenditure	% of GDP	1.2	1.4	1.5	1.6
Military expenditure	% of GDP	1.9	2.0	1.7	1.5

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The Czech Republic has a rather complex legal framework regulating private enterprise. The fundamentals of free market competition are firmly rooted in the Czech Republic. However, problems did surface during the period under review. There are still long procedures and high costs associated with setting up a business in the Czech Republic. In order to simplify and speed up the process of business registrations, the Czech Commercial Code and Civil Procedure Act became operational under EC law from 1 July 2005. In the 2008, the Ministry of Industry and Trade in cooperation with the Ministry of the Interior prepared proposals for

Market-based
competition

decreasing the administrative burdens on entrepreneurs. It is expected that these measures will reduce the level of administration for entrepreneurs by a fifth in 2010. Further improvements should also come from the Trade Amendment Act (2008). Notwithstanding these reforms, a recent World Bank study concluded that the Czech Republic has one of the most rigid regulatory regimes for entrepreneurial activities within the European Union.

The informal economy doesn't pose an especially large problem in the Czech Republic, but nevertheless it persists in domains employing cheap foreign workers from non-EU countries. Proposed revisions to the penal code envisage much higher sentences for employers using undocumented foreign labor. In September 2008, the parliament approved the amendments of the Employment Act, enabling the issuing of the so-called green cards for foreigners from selected countries.

In 1996, the Office for the Protection of Competition was established. The law protecting economic competition was amended in August 2004 as part of the process of harmonizing Czech legislation with the *acquis communautaire*. The Office for the Protection of Competition is the central administrative authority responsible for creating conditions that favor and protect competition, supervision over public procurement and consultation, and monitoring in relation to the provision of state aid. In 2007, 321 administrative proceedings were initiated and the Czech competition authority imposed record sanctions on a cartel of sixteen multi-national machinery companies in electrical industry. The total amount of sanctions imposed was around CZK 942 million. In 2008, the highest penalty was imposed on the Czech Railways Company (CZK 270 million) for its abuse of a dominant position in the market for the transportation of large volume substrates by rail.

Anti-monopoly
policy

The Czech economy is strongly export-oriented and liberalization of foreign trade is essential for economic success. The Czech Republic is still an attractive country for foreign investors. State incentives play a great role in attracting foreign investments. This strategy has had some negative consequences where the government has been unable to deal effectively with the negative environmental, economic, and societal effects associated with the activities of foreign investors.

Liberalization of
foreign trade

FDI undoubtedly contributed a great extent to the growth of Czech economy after 2000. During the period under study, several new important foreign investment programs emerged. There was a large increase in the amount of foreign capital invested in the country, and this was important in boosting employment growth. Unfortunately, only about a half of these new jobs were taken by local Czech people; the rest were secured by cheap labor from other European and non-European countries. From this perspective, an increase in FDI in the Czech Republic eased unemployment problems in other countries. However, FDI did run into some limits due to the shortage of qualified labor and limitations in the transport system.

After problems with Czech banks' excessive debts and problematic credit policy in the late 1990s, the banking sector today is stable. The central bank of the Czech Republic and the supervisor of the Czech financial market is the Czech National Bank (CNB). CNB is an independent institution and this independence has proven to be a key precondition for the successful implementation of monetary policy and hence for sustainable non-inflationary economic growth. Besides the CNB there exist many other banking institutions. Concerning bank ownership, foreign-owned banks dominate the domestic market. In 2008, out of a total of 38 banks only 7 were Czech-owned.

Banking system

There are some weaknesses in the banking services sector. Upon the recommendations of the World Bank, the state places more emphasis on consumer protection within financial markets. In the period under review, the Anti Monopoly Authority dealt with issue of bank fees – charges that are very high compared with the rest of the European Union. The Office for the Protection of Competition regularly monitors the activities of banks operating in the Czech Republic.

8 | Currency and Price Stability

In recent years the Czech currency (the Czech Crown: CZK) has been stable. The annual average for daily nominal exchange rates of the CZK to the Euro was around 28 CZK to one Euro and around 21 CZK to the U.S. dollar. In the first half of 2008, the CZK started to appreciate rapidly against U.S. dollar and Euro, and this had a negative impact on exports and the revenues from the tourist industry. Since July 2008, the value of the CZK declined rapidly and is currently experiencing one its worst periods over the last two years.

Anti-inflation /
forex policy

The annual inflation rate, which in the immediate past was rather low – 2.5% in 2006 and 2.8% in 2007 – increased dramatically to 6.3% in 2008. This was mainly due to a growth in the following items: energy costs, regulated rents, the VAT rate on basic consumer goods, consumer tax on cigarettes and tobacco, and the introduction of new environmental taxes and health care fees. However, by the end of the period under study, the inflation rate started to decrease significantly once again. According to the current inflation forecast by CBB and the Ministry of Finance, the inflation rate for 2009 should remain below 3%.

One of the other convergence targets for EMU is having a public budget deficit ratio of no more than 3% of GDP. The Czech government has not met this target. National expenditure continues to grow and its structure remains largely unchanged, i.e., there is a high degree of mandatory social expenditure. In view of the distribution of political forces and the stalemate after the 2006 elections, the probability of greater budgetary discipline in the near future is not high. While the state budget deficit fell in the 2006 budget, it increased again in the budget

Macrostability

approved for 2007. Due to the adverse economic conditions prevailing at the end of 2008, the Czech government prudently proposed a budgetary correction for 2009. It is expected that by 2010 the budget deficit will have doubled to 75 billion CZK.

In spite of economic growth, the indebtedness of the state has increased. The degree of real economic convergence is an important indicator of the Czech economy's readiness to join the euro zone. Currently, the government is considering postponing the target year for joining the euro zone to 2013. The Czech Government together with the CNB has produced a plan called The Euro-area Accession Strategy. This strategy is regularly updated on the basis of economic developments. According to the CNB and the government, in the current global financial crisis the existence of an independent monetary policy is seen to be an advantage.

9 | Private Property

Within the Czech Republic private property rights are respected and government authorities regulate the acquisition, use, and sale of property. Private enterprises form the backbone of the national economy, but some large state companies remain. Upon accession to the European Union in 2004, the government launched a seven-year transition period during which non-Czech citizens were banned from owning both property and land in the Czech Republic. In early 2009, a proposal was pending to make an early end to this seven-year transition. As of January 2009, the only way for a foreigner to purchase agricultural land was by starting a Czech company or by using a third person, employing a practice in the grey economy called "using the white horse."

Property rights

Privatization of large state enterprises continues within the Czech Republic. As of October 2008, 86% of the public companies scheduled for privatization have been privatized. The most salient privatization projects discussed during the last two years have been Prague Airport, the Czech Energy Company (ČEZ), and most recently Czech Post. However, the necessary political decisions to carry through these specific privatization plans had not been taken by January 2009.

Private enterprise

10 | Welfare Regime

The state's system of social support is regulated by law. There are no sectors or social groups excluded from the welfare system. Citizens have a right to benefits if they and their household members permanently reside in the Czech Republic, or if they are EU citizens. For non-EU foreign nationals there is a special regulation. In the last two years, after the new government came into office, the Czech welfare system underwent some important changes. At the start of 2009, there have been

Social safety nets

further significant changes with regard to provisions relating to sick pay benefits. In general, the current government's policy is to reduce the state's current budget deficit through targeted initiatives aimed at reducing social welfare payment fraud and encouraging Czech citizens to take increased responsibility for their own health and welfare provisions.

The Czech health care system was developed in the early 1990s following the example of neighboring West European countries. All citizens are entitled to free medical treatment paid for by the state and public insurance schemes. The Czech health care system ensures a wide range of choice for both providers and consumers of health care, and provides a good level of service. The system is sometimes criticized for not prioritizing prevention over treatment, and suffers from management problems and rising costs. The center-right government, which came to power after the 2006 elections, has introduced the first stage of health care system reform. These reforms introduced charges for pharmacy prescriptions, visiting a doctor, and receiving overnight treatment in a hospital. Both citizens and the opposition (and at the end of the period under study also some sections of the governing coalition) criticized this set of health care reforms. Towards the end of 2008, the issue of financing health services created one of the most important cleavages among political parties. Dissatisfaction with the introduced reform among the population helped the strongest opposition party – Social Democrats – achieve victory in regional elections in autumn 2008.

The pension system is organized using a pay-as-you-go model. An ageing population, declining natality and the necessity of reducing the budget deficit necessitate changes in the existing system. The principal aim of the government's pension reform proposals is to make the Czech pension system more viable over the long term by moving from a single to a multi-pillar system (i.e., to a mandatory plus voluntary scheme) and by gradually increasing the retirement age thereby cutting costs.

Czech law guarantees equality of access to work, education and social services. Implementation of EU directives has underpinned such guarantees. A legal and institutional system for the protection of people against discrimination based on sex has also been implemented, though not always enforced in practice. An Anti-Discrimination Act has still not been adopted as President Klaus refused to sign the bill in May 2008 and the lower chamber of parliament has been unable to overturn the presidential veto.

Equal opportunity

A support system for improving the position of marginalized groups in Czech society has not always been effective in redressing inequality. This particular issue is primarily associated with Roma children of school going age. Currently, more than half of all Roma children are educated in special schools devoted to pupils with some learning difficulties, and as a result these Roma children are much less likely

than other pupils to secure places in higher education and hence compete successfully in the labor market. Members of the Roma community are also among the most vulnerable groups within the labor market. Overt and covert forms of xenophobia and ethnic discrimination aggravate their situation. In 2008, an agency with the task of improving the level of social inclusion for members of the Roma community started work in twelve selected communities with pilot projects.

11 | Economic Performance

Macroeconomic development during the period under review was characterized by economic growth and low levels of inflation. Despite these positive economic trends, the persistence of a high state budget deficit remains problematic.

Output strength

The strengthening of the Czech Crown (CZK) against the U.S. dollar and the euro contributed to a slowdown in export growth. In combination with the global economic recession, which came in the second half of 2008, this currency strengthening caused one of the steepest declines in industrial production within the European Union. The Czech economy is dependent on foreign trade and is thus dependent on the domestic economic activities of its trading partners. Because Germany is the Czech Republic's main trading partner, domestic German economic conditions have an important impact on the Czech economy. As German economic activity slowed in late 2008, demand fell for Czech exports. For this reason, industrial production and construction decreased sharply as did demand for transport services and equipment. Specifically, five Czech car assembly plants and automotive component producers scaled down production and reduced labor costs by laying off temporary contract workers and later full-time employees.

Notwithstanding several years of economic growth, the relatively high proportion of long-term unemployed remains a persistent problem. Such structural unemployment is primarily composed of those who are unskilled, age fifty years or more, women with young children and members of the Roma community.

12 | Sustainability

The Czech Republic must contend with two environmental legacies that place a heavy burden on current public policy-making. First, communist era witnessed a strong emphasis on developing heavy industry at the expense of environmental concerns. Secondly, the post-communist transition process prioritized economic over environmental goals. This situation started to change, first, in the beginning of the 1990s with an increase of investments to reduce environmental pollution, and, second, with preparations for accession to the European Union. In practice, however, Czech public policy-making tends to marginalize environmental issues. A

Environmental
policy

key characteristic of Czech environmental policy is that the national government has tended to transfer responsibility for issues such as waste management to those most directly involved in waste management, that is, the private sector, regional and local governments.

The Czech Republic has one of the highest proportions of people with secondary education among OECD member countries. The current situation is less positive with regard to tertiary education as only 13% of the population has a tertiary level of education. Therefore, one of the government's priorities is to increase the proportion of those who complete a college or university level of education and thereby increase the Czech Republic's economic competitiveness. At present, primary, secondary and tertiary education are free. The most anticipated change in the area of educational policy remains the long-debated introduction of university tuition fees. In addition, the government has proposed increasing competition among Czech universities in order to improve standards. These reforms are not likely to be fully implemented before 2010, as the Topolanek government has agreed with its coalition partners to postpone their implementation until after the next general election.

Education policy /
R&D

Public R&D expenditures in the Czech Republic have been slowly but steadily growing over the last number of years. The government has failed, however, to meet its obligation to the European Union to raise R&D spending to 0.65% of GDP. Czech R&D's main weakness is the lack of private funding. As in other areas, the research funding in the Czech Republic suffers from a legacy in which state funding of R&D prevailed over all other potential sources. In the recent years, the Research and Development Council (RDC), a governmental body whose chairman is the prime minister, plays an increasingly important role in shaping the national R&D policy. Annual RDC reports are influential as they are submitted each year to the government for discussion.

Transformation Management

I. Level of Difficulty

Socioeconomic conditions within the Czech Republic are stable and have not changed significantly across successive governments. In fact, it seems reasonable to conclude that the Czech Republic does not have important structural problems, as is the case in some developing states. The Czech Republic ranks 35 (0.897) in the 2006 U.N. Human Development Index (HDI). Other important structural indicators such as GDP and Purchasing Power Parity (PPP) exhibit positive trends of steady growth. If one considers the structural constraints imposed by the Czech Republic's educational system, one finds that within the United Nation's education index ranking system the Czech system has a good reputation, attaining a score of 0.938 in the United Nations' 2006 human development report. At present, all levels of education in the Czech Republic are free. Plans exist, however, to introduce fees for third level education in the future. An important structural constraint on economic growth, related to education and training, has been the shortage of skilled industrial labor. Differences in the structural nature of educational and training have a strong regional aspect, as the skills base in Prague far exceeds that of the rest of the country. In an attempt to redress this structural imbalance, the government launched a number of lifelong education programs over the last two years.

Structural
constraints

Extreme poverty does not exist within the Czech Republic, and in fact the Czech Republic has one of the lowest income disparities within the OECD. In part, this stems from provisions such as a minimum wage law.

With regard to health care, the number of HIV/AIDS cases recorded in the Czech Republic was 0.1% of the population (15-45 years) in 2007. A large number of AIDS awareness and prevention programs operate in partnership between national and local government and NGOs. Moreover, all second level students participate in an HIV/AIDS prevention program as a compulsory part of the curriculum.

Within the Czech Republic a tradition of civil organizations dates back to the 19th century. Under communism, civil society organizations were for the most part subordinated to the state and in effect became moribund between 1948 and 1989. Following the Velvet Revolution, civil society organizations flourished and currently three main types may be identified: (1) organizations that have been

Civil society
traditions

revived from the pre-communist era; (2) organizations that existed under communist rule and still exist today; and (3) organizations that were formed after 1989. In the early 1990s, there was a sharp increase in the number and membership of NGOs in the Czech Republic. This initial public enthusiasm for participating in civil society organizations was replaced by an equally sharp fall in citizen activism. Within the last decade, membership and activism within civil society organizations has been marked by a process of stabilization within some NGOs and steady decline in others. Consequently, a widening gap has appeared between stabilizing and declining civil society organizations on the basis of successfully adapting to the post-communist transition process. An example of a pre-existing organization that is in a process of decline is Svatobor – a Czech literary and cultural organization which dates back to 1862. In contrast, another organization with a similarly long history is the Hasici, a volunteer fire fighting association. The Hasici are currently one of the largest NGOs in the Czech Republic. After the Velvet Revolution, Hasici membership declined, then stabilized around 2000 and has steadily increased thereafter.

At present, there are no major ethnic, religious, or social conflicts in the Czech Republic. Most accounts of party competition within the Czech Republic stress the importance of left-right orientation in explaining party positions and vote choices. Presently, there is an almost even balance within the lower chamber between support for left and right wing parties. Consequently, the Czech Republic is one of the few countries where minimum winning coalitions or minority governments frequently occur. With regard to social conflict, the key issues in the Czech Republic are reconciliation with the communist past and the political and social inclusion of the Roma into mainstream society.

Conflict intensity

II. Management Performance

14 | Steering Capability

The period under review started with a new coalition government, which was only approved after a seven-month period of protracted negotiations lasting for all of the latter half of 2006 and early 2007. Although no major change in political direction occurred, the necessity of negotiating support among parliamentary parties in the context of a fine parliamentary balance between the left and right proved to be an obstacle to policy reform in domains such as reducing social welfare spending.

Prioritization

No governmental office or parliamentary committee deals directly with strategic public policy planning. The government sets the basic framework for short to medium term public policy by its program declaration, which the Chamber of Deputies then approves. Within the Czech Republic there is some skepticism toward strategic planning for three reasons. First, the duration of strategic plans spans the lifetimes of a number of governments and thus there is not likely to be a guiding vision based on a single party leader or party. Secondly, the prognostic capacity of strategic planning remains underdeveloped, and this represents a serious flaw for any current proposal. Thirdly, there is no political consensus on what should constitute the core of a national strategic development plan. Responses to current economic recession signal some changes in this respect, though no concrete outcomes can be observed for the period under study.

Government actions related to democratic and economic reforms are primarily a product of Czech membership in the European Union. If accession to the EU was a positive assessment of democratic reforms, today such reforms refer primarily to the improvement of the legal environment, simplification of administration and the creation of a more favorable business environment. The constant amending of basic legal regulations and adoption of new regulatory measures, combined with poor coordination, have created numerous implementation problems and increased the transaction costs for society.

Implementation

Fragile governing coalitions with limited parliamentary support are the main constraint on implementing the far-reaching plans presented within the electoral program. The current government has nonetheless had some success in implementing the policy objectives outlined in its program. To summarize, in the period under study the Czech government was partially successful in implementing its policy objectives.

In the past two years, the government did not take full advantage of the opportunity presented by stable economic growth conditions to gradually reduce expenditures. In the next period, the economizing behavior in respect to employment policy and purchases of goods and services can be expected among governmental organizations. The organization of government and public administration has been relatively rigid. Much of the practice of governing is bound to the nature of coalition governments, reinforced by the inertia of officials, and very difficult to change. Following EU accession, programs were initiated to improve administrative practices and to take advantage of modern methods of management. Preliminary steps have proved much easier than actual implementation, with the Czech presidency of the European Union representing an important impulse and accelerating factor of these changes.

Policy learning

15 | Resource Efficiency

The government is committed to bringing the Czech economy on par with the most advanced EU member states. It drafted and approved the Economic Growth Strategy (2005), the goal of which is to set targets for the 2005 – 2013 period. This strategy has two main objectives: (a) to set priorities for coordinating economic policies and directing EU funds; and (b) communication of these priorities to the public and business spheres.

Efficient use of
assets

The implementation of government measures has been complicated by the heterogeneous composition of government, its narrow majority and the weak position of the prime minister. Even though the government has tailored its goals accordingly, a substantial gap exists between proposed goals and actual results. Apart from this, the prime minister has lacked the formal means to sanction MPs who defected during roll calls, especially if such defections were ministers from other parties. In practice, ministerial compliance has often hinged upon the personal authority of the prime minister.

The current government has tried, with only partial success, to reconcile conflicting objectives and interests. Limited parliamentary support and tensions within the governing coalition have limited the executive power of the government. The necessity to negotiate every vote within the parliament forces the government to undertake numerous compromises and to remain halfway in its reform program. Additionally, the reforms are insufficiently communicated among the different ministries and to the public. Coordination between the political forces in government is limited; however, the situation has improved in the last half year in connection with the Czech EU presidency. It has been the practice for prime ministers to appoint a team of advisers who will be able to evaluate policy areas; these teams often included individuals with varied political views. The involvement of the government office in the preparation of policy proposals is limited. The government's legislative plan divides tasks among the ministries and other central bodies of the state administration and sets deadlines for the submission of bills to the cabinet. Along with other ministries, the government office takes part in the inter-ministerial consultation process. However, strong barriers among the ministries exist; cross-cutting project groups are only rarely established.

Policy
coordination

Czech political elites often tackle corruption in their public speeches, especially if in opposition. No government since 1990, however, has taken adequate steps to fight corruption. With its public highly critical of political corruption, but in large part having personal experience with corruption (about one sixth of the population or their relatives have direct experiences with corruption), the Czech Republic seems unable to strengthen the integrity mechanisms against corruption. As a result, trust in political institutions such as the lower chamber and political parties remains

Anti-corruption
policy

rather low. To some degree, corruption has become an accepted yet despised part of social interactions.

In the Transparency International (TI) index the Czech Republic regularly has one of the worst rankings within the European Union. In 2006, it improved by half a point and moved to 46th place; by 2008, the Czech Republic had progressed up the league table to 45th place. This meager improvement is a consequence of the persistent ignoring of the corruption issue and its manifestations in almost all walks of life.

According to Transparency International, corruption appears to have the greatest influence on political parties and the police, with the legal system and judiciary ranking third. The most critical areas appear to be the allocation public funds, distribution of state and municipal property, and the penetration of organized crime into the state administration. Thus far, no effective counter measures have been implemented, which in part seems to stem from a lack of interest on the part of the ruling elites to reduce the level of opportunities for corruption.

According to Transparency International's Global Corruption Barometer, the Czech legal system ranks in the third quintile (6 – 21%) in terms of corruption. According to this survey, the Czech Republic belongs to those countries who believe government efforts to fight corruption are least effective. Only 14% of citizens think that the government is effective in tackling corruption.

16 | Consensus-Building

There is a general consensus among the major political actors and the public on the merits of democracy and a market economy. The 2006 parliamentary elections revitalized the socioeconomic cleavage and polarized society. This, in combination with the election results where the left and right wing parties both secured half the seats in the lower chamber, led to increased tensions between the governing coalition and the opposition where both sides attempted to entice deputies to defect. Such a finely balanced legislature encouraged dissent within the governing coalition. Compelled to strive for consensus among the coalition partners and gain public support, the government struggled to push through its package of key reforms. Simultaneously, the past once again became a vehicle on the route to power as the Civic Democrats stressed the possibility that they would be both able and willing to cooperate with the Czech Communist Party. While this left-wing coalition still remains taboo at the national level, it turned out to be an acceptable proposition for citizens at the regional level. After the main governing party's poor showing in the senate and regional elections in late 2008, the government's search for consensus with legislators in the parliament became even more difficult.

In principle, there are no anti-democratic veto players in the Czech Republic, but within Czech political parties there is a growing tendency to bloc governmental

Consensus on goals

Anti-democratic
veto actors

decisions. Major political actors recognize the necessity of reforms. However, the experience to date suggests that small governing majorities in the lower chamber do not facilitate the implementation of major long-term reform plans.

The political management of social cleavages is rather poor as the main political actors contribute greatly to increased polarization of the underlying socioeconomic divisions in Czech society. The potential strengthening of the Czech Communist Party, which unlike most other communist parties in Central and Eastern European countries has never undergone a reform process, ensues mainly from its success in attracting protest votes from those who have lost out in the transition process. With the exception of the Roma community, the government has not had to deal with any ethnic conflicts. However, the presence of a large number of immigrants who provide a cheap pool of labor is likely to lead to social unrest as the current global economic recession creates increased competition for jobs. In this situation, it seems reasonable to expect that small populist far right-wing parties will attempt to mobilize support in regions marked by high levels of unemployment where foreigners will be blamed as one of the main causes of economic hardship.

Cleavage /
conflict
management

In 2008, tension grew between the Topolánek government and President Klaus. The decisive issue was the growing pro-European orientation of the government and its support of the Lisbon Treaty. In the fall of 2008, Prime Minister Topolánek defended his position as chairman of the Civic Democrats following his party's bad performance in regional and senate elections, and shifted the party's position on Europe toward a more pro-European stance. This led President Vaclav Klaus to dramatically renounce his honorary chairmanship of the party he founded. Subsequently, he announced his intention to found a Czech branch of the Irish euroskeptic lobby group and newly formed party Libertas. Consequently, several other euroskeptic groups announced their intention to form political parties; however, within the period under study, no new party of this orientation was registered.

Political representatives in the Czech Republic tend to overlook civil society as an important partner in policy formulation. The situation has improved with the Czech Republic's accession into the European Union. In general, the government tends to act unilaterally in formulating and implementing policy, and as a result civil society associations have only marginal influence. However, the partnership principle of managing the EU's structural funds stipulates that the involvement of civil society in projects that aim to address important issues is to be encouraged. At the local and regional levels, civil society is increasingly recognized and involved. The social dialogue, especially the so-called tripartite dialogue (the mediation between the representatives of the government, employees and employers) plays an important role. In attempts to find adequate solutions to mitigate the worst effects of the current economic crisis, the importance of this body is likely to grow considerably.

Civil society
participation

In the period under study, proposals to place a U.S. radar base in the Czech

Republic led to considerable public debate. Specific civil society organizations mobilized a campaign against having the radar base in the Czech Republic. Some commentators have argued that these civil society organizations were instrumental in shaping public opinion against the proposal. As a result, the Czech government felt compelled to communicate more effectively with citizens and local governments who would be directly affected by the construction of a radar base. The Social Democrats in their role as the main opposition party proposed holding a popular referendum on the radar issue. As public opinion polls suggested a negative outcome, the government rejected such calls by legitimately claiming that there was no compelling legal reason to hold a referendum on this issue.

In contrast to the previous period, there are positive signs regarding Czech society's reconciliation with its past, especially with regard to the communist regime. In 2008, several anniversaries (1938, 1948, 1968) and the forthcoming twentieth anniversary of the fall of communism (1989) represent important opportunities to strengthen the reconciliation process. An example of the struggle with the communist past is the continuous efforts of several individual senators to legally ban the Communist Party of Bohemia and Moravia. Increasingly, the national historical narratives include those who suffered in the Roma Holocaust and those ethnic Germans living (as Czech citizens) in Czechoslovakia who were forcibly repatriated at the end of World War Two. Both of these events were either ignored or misinterpreted under communism. An example of this new outlook can be seen in the campaign for the removal of a pig farm from the site of the former Roma concentration camp in Lety. Social debate continues on the issue of compensating German anti-fascist fighters.

Reconciliation

In June 2007, the parliament approved a bill establishing the Institute for the Study of Totalitarian Regimes and the Security Services Archive. The aim of both of these institutions is research and non-partisan evaluation of events that occurred under the communist regime (1948 – 1989). More specifically, these two institutions will facilitate research into the anti-democratic and criminal activities of institutions within the communist state. There will be a special focus on the actions of the security services and criminal activities carried out on behalf of the Communist Party of Czechoslovakia and other organizations with a similar ideology. During 2008, some research produced by members of the Institute for the Study of Totalitarian Regimes resulted in considerable academic and public discussion. There was some concern that researchers from this institute were interpreting some of the historical evidence placed in the public domain in a partial manner and without adequate academic standards.

One interesting example of historical reconciliation is a recent legal case where a communist era state prosecutor who had participated in a number of infamous "show trials" in the 1950s was successfully prosecuted and given a two-year prison sentence despite being quite elderly.

17 | International Cooperation

The Czech Republic's presidency of the Council of the European Union in the first half of 2009, which takes place under the new "triple shared" procedure adopted in January 2007, is seen as a very important occasion for consolidating the country's standing in Europe. Such is the political importance of this period that Prime Minister Topolánek decided to establish a new cabinet position, the vice prime minister responsible for European affairs, for coordinating preparatory activities for the Czech EU presidency during 2007.

Effective use of support

In general, the government acts as a trustworthy and reliable partner in its relations with the international community. By joining the European Union, the Czech Republic acquired greater credibility on the global stage. This was manifested in the decision to have the Czech Republic hold the EU presidency in the first half of 2009. Such is the importance of this decision that Prime Minister Topolánek established a new cabinet position, the vice prime minister responsible for European affairs, for coordinating preparatory activities.

Credibility

External security is one of the priorities of the current government. Czech military expenditure is comparable with security expenditures in fellow NATO member states. The government sees Czech membership of NATO as a cornerstone of the country's external security.

In the period under study, the role of the Czech Republic in the international arena was marked with the signing of an international agreement with the United States thereby allowing the construction of a U.S. military radar base in the Czech Republic. The political controversy surrounding this issue took place both within the governing coalition and on the floor of the parliament between the pro-radar right and anti-radar left. The radar issue led to considerable public debate among the communities that would be directly affected by the construction and among those who are concerned about the Czech Republic's membership of NATO. The government rejected calls for a referendum on the issue. Unfavorable public opinion polls showing deep divisions among citizens on this issue reinforced the government's reluctance to hold a popular referendum they were likely to lose. Moreover, the legislation dealing with referendums gives the government discretion on how they are exercised. The agreement between the Czech Republic and the United States was accompanied by an abolition of visa requirements for Czech citizens entering the United States. This new visa regime commenced on the 19th anniversary of the Velvet Revolution.

Regional cooperation

In addition to membership in the European Union, the Czech Republic is also a member of the Visegrad 4 (V4) group. In the eyes of the European Commission, regional groupings like V4 are very useful in delivering a valuable and effective

regional response to European Community policies. Efforts to define common interests within the European Union have resulted in a further strengthening of V4 regional cooperation. Within the context of the EU presidency, these activities assumed less importance. The ministers for foreign affairs for the V4 states and the Baltic-three (B3) countries (Estonia, Latvia and Lithuania) expressed strong interest in joining the Schengen Area, and in October 2007 the Czech Republic and other members of the V4 and B3 groups became part of the Schengen Area. One result of this international orientation is closer communication and cooperation with the U.S. government, which resulted in the lift of visa requirements for the Czech citizens in October 2008.

Strategic Outlook

The Czech Republic faces a number of important policy challenges. The Czech economy is currently overly dependent on foreign investment by multinational companies. Many of these international firms tend to seek out economies with cheap, moderately skilled labor and often make little contribution to the development of a domestic enterprise sector. In order to make economic growth sustainable, the Czech government needs to pay more attention to research, innovation and education policy. Economic development has for a long time been confronted with the need to reduce the budget deficit. In the current economic crisis, reducing the budget deficit is politically impossible.

The government expects that the budgetary situation will worsen and assumes that an improvement of the fiscal situation requires a reduction of social welfare spending. In contrast, the opposition parties favor a preservation of universal access to core social rights, which can be secured only by a more generous public welfare spending (at 18.5 % of GDP in 2007, very Czech public welfare spending is much below the EU average). They accuse the present government of an attack on public finance budgets by reducing taxes and compulsory social contributions in its design of public finance reform implemented since 2007. The concept and content of the welfare reform correspond with the economic cleavage that is still the most important dividing line in the Czech Republic.

Unfortunately, establishing firm foundations for fiscal rectitude is not facilitated by a fragile political equilibrium where bold policy reforms are likely to lead to the fall of a government. Regardless of such political constraints, demographic change and increasing unemployment necessitate urgent reform of the Czech welfare state. A key priority is to restructure the health care and pension systems. In addition, labor market policy needs to become more effective, and family policy must become more proactive in supporting working parents through greater provision of affordable childcare facilities.

On the global stage, the Czech Republic needs to strengthen its international role and straighten out its position on the European integration issue. The Czech presidency of the European Union in the first half of 2009 provides an opportunity for more wide-ranging domestic debate and discussion and greater Czech involvement in the details of EU policy, thus enabling a progressive move away from posturing and euroskeptic rhetoric. Ratification of the Lisbon Treaty should also be finalized. In addition, the U.S. anti-missile radar system and Lisbon Treaty debates offer a unique opportunity for both the public and decision makers to gain a greater appreciation of the global security threats facing the Czech Republic.

The Czech political system complicates government reaction to these policy challenges. First, the electoral law has tended to produce weak coalition governments with small majorities. Secondly, Czech governments have suffered from a weak executive capacity. Finally, a sharp

partisan division between the left and right hinders policy-making. Without overcoming these problems, it is unlikely that the existing policy challenges can be addressed successfully.

In order to increase executive capacity, Czech governments need to expand their planning capacities and modernize public administration. For policy-making to become more coherent, inter-ministerial coordination should be strengthened. This requires a stronger position for the government office. Capacity building would benefit from regular monitoring of institutional arrangements. Greater priority should also be attached to the fight against corruption. With regard to the partisan division between left and right, a key goal should be to find consensus on what should be the basic goals for Czech society. More specifically, there needs to be greater political agreement on the desired level of state intervention into the economy, extent of social welfare provision, and degree of wealth redistribution.