



EUROPE 2020 SEEN FROM THE CZECH REPUBLIC

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Introduction

European Union is approaching the mid-term evaluation of its political and economic strategy – Europe 2020. This process is supposed to start in 2015 and the European Commission will have a deep look into the implementation of this strategy at national levels.

In comparison with the previous Lisbon strategy (2000 – 2010), the current Europe 2020 strategy has a significant advantage. Despite relatively radical rhetoric of the first one (e.g. “...make the EU the most competitive and dynamic knowledge-based economy in the world...”) ¹ it has never fulfilled its ambitious goals and was intensively criticized by both politicians and experts.

The European Commission proposed the current strategy on March 3, 2010² and provided it with much more sophisticated tools of implementation and division of competencies between the EU and national institutions. Being adopted in 2010, it strives to overcome the economic and financial (and to some extent institutional) crises in the European Union and to eliminate shortcomings in the EU’s economy. Europe 2020 identifies economic growth as its main mantra and defines it as smart, sustainable and inclusive. Smart growth means more investments into research and development and

education, sustainable growth emphasizes low-carbon economy and vast investments into environment-friendly projects while inclusive growth is focused on increasing employment and poverty reduction.

Five clearly defined targets were arranged for the Europe 2020 strategy. These are as follows:

- Employment (75% of 20-64 years old population to be employed)
- Research and Development (3% of EU GDP to be invested)
- Climate change and energy sustainability
- Education (increase number of people completing tertiary education and reduce early school leaving below 10%)
- Fighting poverty and social exclusion (at least 20 million of people fewer at risk of poverty)

These indicators which are supposed to be achieved by 2020 are translated into national targets and thus every EU member state can define its national target and assess its own progress towards the EU goals.

One of the main challenges of the Europe 2020 strategy is a need of co-ordination between the European Commission and individual member state governments. The cross-cutting policies and tools have been adopted which in reality shape some of EU policies (e.g. cohesion policy).

The system of implementation and monitoring was elaborated in relative detail based on yearly cycles of European Semesters whose aim is to co-ordinate economic and budgetary policies. The whole procedure begins with European Commission’s Annual Growth Survey, discussions and conclusions of the European Council, National Reform Programme (NRP) and finishes with Country

¹ Presidency conclusions of Lisbon European Council, March 2000

²<http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf> (31-10-2014)



Specific Recommendations published by the European Commission.

Although the role of national government is supposed to be strengthened via NRP (which should be a national contribution to Europe 2020 strategy and its overall goals) the role of the European Commission seems to be crucial (via Annual Growth Survey and Country-Specific Recommendations).

National targets for the Czech Republic

Target 1 – Employment

The Czech Republic is one of the EU countries with the lowest unemployment rate. This fact might be surprising especially when compared with the situation in other Central and Eastern countries (e.g. Slovakia). The reasons are not fully clear but it might be a combination of several factors, e.g. level of protection of employees in the labour code, lack of access and willingness to resolve the labour disputes in court, relative equality in incomes,³ existence of a minimum wage as well as a minimum living wage. Another reason might be relatively high number of agency employees whose protection is much lower than in case of regular employees.

In any case the Czech government adopted the same national target (i.e. 75%) as the European one. Even though the employment rates have worsened during the economic crisis period (2010-2012) especially in some of the examined groups (e.g. young people aged 15-24 and low skilled employees), the overall tendency is positive and the target is likely to be achieved in 2020. It is though important to note that this positive tendency has been also significantly influenced by the fact that average retirement age has increased. Therefore the employment of the group aged 55-64 has been growing steadily since 2008.⁴

³ Low Gini index – see <http://wdi.worldbank.org/table/2.9> (31-10-2014)

⁴ 2008 – 47.6% comp. 2013 – 51.6% - see http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-19052014-BP/EN/3-19052014-BP-EN.PDF (31-10-2014)

Table 1 - Employment rate (age group 20-64 years old)

	2009	2011	2013	target
EU 28	69	68.5	68.4	75%
CZ	70.9	70.9	72.5	75%

Source: <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tsdec420&language=en>

Target 2 – Research & Development

As seen from the table number 2, the goals of the Czech government in the area of research and development are not very ambitious. Although the national target of investment of 1.00% of GDP into R&D in 2020 must be taken with a reserve (the Czech commitment includes only public expenditures on R&D) it is more than probable that the Czech Republic would be able to achieve at least 2.5% of R&D investments in 2020. It is positive that most of the Czech governments were aware of its importance and kept increasing the investments into R&D. Certain risk poses sustainability of big research projects (financed from the EU funds) which might threaten the investments into other research and development areas.

Table 2 – Gross Domestic Expenditures on Research & Development

	2008	2010	2012	target
EU 28	1.91	2.00	2.07	3.00
CZ	1.30	1.40	1.88	1.00

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_20&tableSelection=1

Target 3 – Climate change and energy security

The Czech targets in the environmental part of Europe 2020 strategy have been often characterized as insufficiently ambitious. As for the greenhouse gas emissions the Czech Republic as well as other countries in Central and Eastern Europe benefit from the fact that the year 1990 has been set as a reference base. Due to changes in structure of industry after the fall of communist regime in the Czech Republic



and closing down of many energy-demanding factories (and implementation of more environment-friendly technologies into the power stations) the target (i.e. 80% from the base in 1990) was not very difficult to achieve. In 2012 the Czech Republic reached 67% of its greenhouse gas emissions in 1990. The overall data⁵ show that the European Union as a whole has already achieved 82.1% (2012) and the overall decrease during the first five years was by 10 percentage points (comp. 2007 – 92.3%). Despite the economic crisis, which took place in this period, it would be good to pose a question whether this target of Europe 2020 is sufficiently ambitious.

Table 3 – Renewable sources as a percentage on overall consumption

	2008	2010	2012	target
EU 28	10.5%	12.5%	14.1%	20%
CZ	7.6%	9.3%	11.2%	13%

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_31&tableSelection=1

The second subsection of Climate change and energy security part of Europe 2020 is devoted to renewable energy. The European Union has bound itself to achieve 20% share of renewable sources on gross energy consumption. While on the EU level this target seems to be viable the Czech Republic could have set again a more ambitious target. As illustrated by table 3 this share gradually increases roughly by one percentage point a year. Even though there are some technological, environmental and capacity limits the Czech Republic could easily reach at least 16% of this share by 2020. Unfortunately, the Czech government is quite reluctant to further support renewable energy due to inappropriate support of solar parks construction in 2009 and 2010.⁶

⁵ http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_30&tableSelection=1 (31-10-2014)

⁶ Conditions of support and guaranteed prices of electricity from renewable sources were included in the Act no 180/2005 Coll. On support of renewable sources.

Target 4 – Education

The section focused on education has been divided into two targets, i.e. 1) percentage of population aged 18-24 with maximum of lower secondary education and not in further education and training (early leavers) and 2) attainment of tertiary education in the age group 30-34. In the area of early leavers the Czech target (5.5%) has already been achieved (comp. 5.4% in 2013) and the situation in the country is almost two times better than the overall EU target (10%).

As for the attainment of tertiary education the Czech Republic lacks behind most of EU countries. The table 4 shows the Czech commitments (32%) compared with the EU one (40%). Thanks to increase of capacity of the Czech universities and establishment of smaller colleges, the country is likely to achieve the target of 32% of population aged 30-34 in 2020.

Table 4 - Tertiary educational attainment, age group 30-34 (%)

	2008	2010	2012	target
EU (28)	31.2	33.6	35.8	40
CZ	15.4	20.4	25.6	32

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_41&tableSelection=1

Target 5 – Poverty reduction

This target regards number of people living at risk of poverty or social exclusion. The Czech Republic has been also criticized for insufficiently ambitious goals because it wanted to reduce the number of people by 30,000 in comparison with the level of 2008. However, as table number 5 shows this relatively modest target seemed to be not so easy to achieve especially with respect to economic problems of European economies. Compared with the overall tendency of EU 28 which is increasing, the stagnation of number of people at risk of poverty in the Czech Republic appears to be a success on its own.⁷

⁷ In 2013 the Czech target has been achieved since the number of people decreased to 1,508,000.



Table 5 - People at risk of poverty or social exclusion (unit: 1,000 persons)

	2008	2010	2012	target
EU (28)	116,418	118,085	124,488	Sub 100,000
CZ	1,566	1,495	1,580	level of 2008 minus 30.000 people

Source: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=0&pcode=t2020_50&language=en

National Reform Programme and Country Specific Recommendations

In the introductory chapter we mentioned that an indispensable component of EUROPE 2020 strategy is a National Reform Programme drafted by the government which is then commented by the European Commission and a Country Specific Recommendation is issued by the Council. This relevant document⁸ recommends the Czech Republic to take the following selected actions in the period 2014-2015 (quotations in italics):

1. *Following the correction of the excessive deficit, preserve a sound **fiscal** position in 2014. Significantly strengthen the budgetary strategy in 2015 to ensure that the medium-term objective is achieved and remain at the medium-term objective thereafter. Prioritise growth-enhancing expenditure to support the recovery and improve growth prospects. Adopt and implement measures to strengthen the fiscal framework, and in particular establish an independent fiscal institution to monitor fiscal policies, introduce fiscal rules for local and regional governments and improve co-ordination between all layers of government.*

⁸ Council Recommendation of 8 July 2014 on the National Reform Programme (OJ 247/12) - http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_czech_en.pdf (31-10-2014)

Commentary: The Czech Republic went through economic recession in 2009 and then between 2012 and 2013. While the first recession in 2009 was influenced especially by external factors (e.g. instability of market, crisis in Greece and other EU countries), the latter economic downturn was to some extent strengthened by the fiscal policy of the Czech government. From 2010 to 2013 the government adopted several austerity measures which reduced public investments especially in infrastructure. It led to significant decrease in construction as well as other industrial and service sectors which are connected to such public investments. In the end the economic slowdown caused public deficit which fortunately did not exceed 4.4% in 2010⁹ and overall public debt reached its peak in 2013 (45.7%) with declining tendency in 2014. Current government (in power from January 2014) has changed to some extent the fiscal policy and decided to stimulate the economy by public investment.

2. *Improve tax compliance with particular focus on VAT and reduce the costs of collecting and paying taxes by simplifying the tax system and harmonising the tax bases for personal income tax and social and health contributions. Reduce the high level of taxation on labour, particularly for low-income earners. Shift taxation to areas less detrimental to growth, such as recurrent taxes on housing and environmental taxes. Further reduce discrepancies in the tax treatment of employees and the self-employed.*

Commentary: Efficiency in collecting VAT is one of the priorities of new Czech government which has already announced a tax reform that should take place in January 2015. A new reduced VAT rate will be implemented for some sensitive goods (e.g. medicine, children's diapers, etc.). Second important step of this tax reform is a reduction of discrepancy in the taxing of employees and self-employed. Finally, the third step is the establishment of special

⁹ Eurostat data – ESA 2010 methodology



police investigation teams dealing with tax crimes. On the other hand the Czech government has not yet adopted any measure which would reduce direct taxes at the expense of indirect taxes which remain very low (e.g. property taxes).

3. *Ensure the long-term sustainability of the public pension scheme, in particular by accelerating the increase of the statutory retirement age and by linking it more clearly to changes in life expectancy. Promote the employability of older workers and review the pension indexation mechanism. Take measures to improve significantly the cost-effectiveness and governance of the healthcare sector, in particular for hospital care.*

Commentary: The reform of pension system remains the main challenge for the Czech government. Despite an intensive public debate there is no consensus among main political parties how to tackle the ageing of population and in what way how to increase the retirement age. There is no link between the retirement age and the life expectancy and the retirement age is only slowly increasing in order to reach 65 years of age limit in 2030. The effort to reduce costs in the healthcare sector is in a long-term unsuccessful and unlikely to be achieved since there is a direct correlation between higher age and higher demands for healthcare system. The only partial success is a growth of older employees' employment (age group 55-64).

4. *Strengthen the efficiency and effectiveness of the public employment service, in particular by setting up a performance measurement system. Reach out to non-registered youth and provide individualised services. Increase considerably the availability of affordable and quality childcare facilities and services, with a focus on children up to three years old.*

Commentary: A need for more individualized services of employment service has been repeated several times in country specific recommendation. The

government has not yet prepared any concrete measure in this field. As for the availability of child-care facilities a new law is in process of adoption. It would enact possibility to establish informal children's groups. However, the facilities are supposed to be above all for pre-school children (from 3-6 years old). The long maternity and parental leaves in the Czech Republic (up to four years) thus remain one of the main obstacles for females to come back on the labour market.

5. *Ensure that the accreditation, governance and financing of higher education, contribute to improving its quality and labour market relevance. Accelerate the development and introduction of a new methodology for evaluating research and allocating funding in view of increasing the share of performance-based funding of research institutions. In compulsory education, make the teaching profession more attractive, implement a comprehensive evaluation framework and support schools and pupils with poor outcomes. Increase the inclusiveness of education, notably by promoting the participation of socially disadvantaged and Roma children in particular in early childhood education.*

Commentary: Inclusiveness is one of the most important deficiencies of the Czech educational system. Socially disadvantaged children are often separated in special schools. There is a lack of sufficient support of teacher assistants in the classrooms who could effectively assist to disadvantaged children. Number of university students originating from socially disadvantaged environment and with low educated parents is still lower in the Czech Republic than in other developed countries.¹⁰

6. *In 2014 adopt and implement a Civil Service Act that will ensure a stable, efficient and professional state administration service. Speed up and substantially reinforce the fight against corruption by implementing the*

¹⁰ <http://www.oecd.org/edu/Czech-Republic-EAG2014-Country-Note-czech.pdf> (31-10-2014)



remaining legislative measures provided for in the anti-corruption strategy for 2013-2014 and by developing plans for the next period. Further improve the management of EU funds by simplifying implementing structures, improving capacity and tackling conflicts of interest. Increase transparency of public procurement and improve the implementation of public tenders by providing appropriate guidance and supervision.

Commentary: One of the most crucial chapters in government declaration concerns the good governance and the fight against corruption. Absence of a civil service act has been criticized by both the European Commission as well as other stakeholders in the Czech Republic for a long time. The new law is in process of adoption and is supposed to be in force since January 2015. Concrete steps are also expected to be applied in the anti-corruption fight. On the control level it consists of setting up special police team focused on organized corruption activities. Crucial is also strengthening the central financial authorities. Other measures which can significantly influence the transparency in the governance is intensely discussed (e.g. law on public contracts register, law on political parties financing, etc.).

Conclusions

The Czech Republic has set relatively modest targets for the EUROPE 2020 strategy. Some of them could have been definitely more ambitious (e.g. research and development, renewable sources) while others are realistic and likely to be achieved (e.g. education targets). In the Czech political debate some of EUROPE 2020 priorities are taken very seriously (e.g. employment, research and development) but in other areas there is no political consensus (e.g. environmental issues, strategy how to promote renewable sources).

The Czech Republic has been evaluated¹¹ as a country with a limited progress (i.e. grade 2 on the level 5-best to 1-worst). Fiscal situation is under control and there is some progress in tax compliance. New measures are expected to be in force from January 2015, especially in the area of good governance (e.g. civil servants act) and support of informal children's groups. On the other hand no progress has been reported in the high taxation of labour. There was also no improvement in shift of the tax burden to more indirect taxes (e.g. property taxes). Nonetheless, the biggest challenge remains in the sustainability of pension and health care systems.

¹¹http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_czech_en.pdf (31-10-2014)