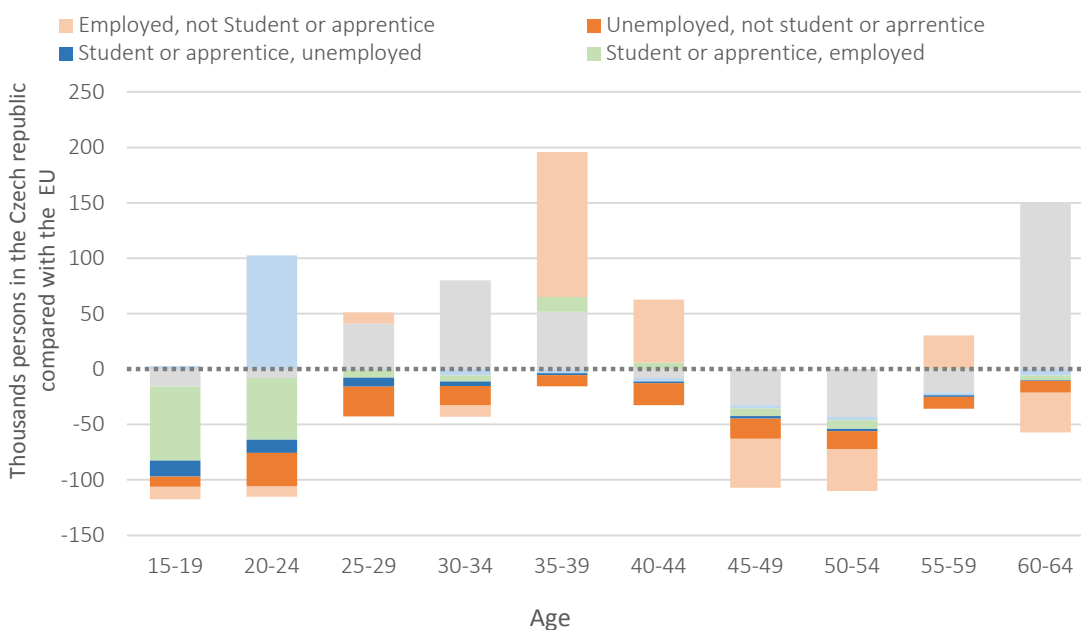


Summary

This document adopts a comparative approach to evaluate the social systems and socio-economic structures of the Czech Republic and the EU. Similarities and differences between the Czech social system and socio-economic structures, including education and economic status, could form an analytical basis for a discussion on the European pillar of social rights in the Czech context, as it formulates the main areas in which priorities and potential budget constraints might conflict.

The demographic structure only differs between the EU and the Czech Republic in specific age groups, but models expect its **partial convergence moving towards 2060 due to increasingly similar endogenous and exogenous conditions**. The differences that currently exist are displayed in Chart 1. Positive values demonstrate a higher proportion of the population in the specific socio-economic and age groups in the Czech Republic when compared to the average EU structure.

Chart 1 – Theoretical differences in the socio-economic structure between the Czech Republic and EU expressed as thousands of persons in the Czech population



Source: LFS 2014, Eurostat, calculation

The analysis concludes that the Czech Republic has, relative to the EU, (i) fewer people both in education and employed up to the age of 24 (absence of a dual educational system), (ii) a larger share of the active population aged between 35 and 44 (strong cohorts from the 1970s and 80s), (iii) a smaller share of population aged between 45 and 54 (comparatively weaker post-war cohorts) and (iv) a larger share of economically inactive individuals aged between 25 and 39 years (mostly women on maternity or parental leave) and (v) over the age of 60 (due to early retirement or departure from the labour force). The Czech economy also displays (vi) a lower rate of unemployment across all age groups.

The Czech Republic currently has one of the lowest unemployment rates in the EU (4.6%), as well as relatively high employment rate (71.3%). In general and over the long term, the Czech economy is characterised by low structural unemployment (5-7%), indicating a relatively flexible and well-functioning labour market. Despite these positive aggregate indicators, there are sub-groups of the population whose participation in the labour market is low or that are otherwise socially vulnerable, mainly socially excluded families and single parents. It can be concluded that internal cohesion is relatively high with some regional and demographic deviations.

Discussion questions

- 1) *To what extent is the social dimension a central issue for the future of the Eurozone and, by extension, of the European Union as such? What is its role in terms of pursuing a stable and effective Economic and Monetary Union?*
- 2) *Do you think there is a need for an adjustment of the European "acquis" in the areas of social affairs and employment? Should some areas be more harmonized in this respect?*
- 3) *How do you assess the proposal for the European Pillar of Social Rights, the preliminary outline of which was introduced by the European Commission in March? What should be the key messages of the Czech Government in the ongoing public consultation?*

Introduction

The importance of durable social systems for the future of the European project

The future of the European Union and the Eurozone depends on the ability of member states to cope with economic swings with the help of an efficient social security system and durable labour markets. The importance of social policy for the future of the European project and the common currency was emphasized in the Five Presidents' Report, which was published in June 2015. This Report was followed by release of so-called "pillar of social rights" ushering in public discussion of this issue, which is due to continue until the end of 2016.

New aspects of the future European social systems require the widest possible participation during its formation

This draft contains some aspects that are new to EU policies and that is why they need to be reviewed thoroughly by the widest possible spectrum of stakeholders. Detailed discussion is necessary in order to assess and consider the opportunities and risks, as well as to encourage national involvement in the debate. Inclusion in this conversation should not be limited to current Eurozone members but must also include all EU member states, especially those committed to adopting the euro in the future. The European Commission should submit a consolidated version of this pillar in the spring of 2017.

Contents of the document

The text below briefly introduces the proposed documents and, in particular, evaluates and compares social systems and the social structure in the Czech Republic, the Eurozone and the EU to identify differences, synergies and therefore the potential impacts of the coordination or harmonization of social policy at the EU level.

Analytical mapping of social systems within the EU

There are between three and five social systems in Europe

Although social systems were established independently and at different time periods in different countries, some of them, often those closest in geographic and historical terms, share certain characteristics. The most common typology and categorization of social systems by far derive from the *Three Worlds of Welfare Capitalism* by Gøsta Esping-Andersen, which distinguishes between liberal, conservative and social democratic welfare states¹. This analysis deals with the typology of EU social systems in the context of their socio-economic performance and geographical classification.

Typology of social systems

The typology of social systems is based on a comparison of institutions

The typology of modern social systems is based on a comparison of socio-economic institutions that are pivotal for collective bargaining or other endeavours to assert social interests and the role of the government in this process. By monitoring the characteristics of these institutions, we can distinguish five main types of social system in Europe. However, the differences between the various types tend to reflect themselves in other individual parameters of the social system.

Table 1 - Typology of social systems

Typology of social system	Scandinavian	Continental	Liberal	South-European	Central-Eastern-European
Main characteristic	Organized corporatism	Corporatism, social partnership	Liberal pluralism	Centralised by state	Fragmented /centralized by state
Workers' representation	Expert-based, high participation	Dual system, high participation	Expert-based, high participation	Changeable	Expert-based, limited participation
Main level of negotiation	Industry	Industry	Enterprise	Changeable, unstable	Enterprise
Style of negotiation	Cooperative	Cooperative	Conflict-oriented	Conflict-oriented	Affirmative
Role of the government	Limited intermediary	Shadow of hierarchy	Non-interventionist	Frequent interventions	Organizer
Role of the social partners	Institutionalized	Institutionalized	Rate, event-driven	Not on regular basis	Not on regular basis
Approximate categorization of European countries	Finland (FI), Sweden (SE), Iceland (IS), Norway (NO), Denmark (DK), Netherlands (NL)	Austria (AT), Germany (DE), Luxemburg (LU), Belgium (BE), Slovenia (SI), France (FR), Switzerland (CH)	Great Britain (UK), Ireland (IE)	Italy (IT), Portugal (PT), Croatia (HR), Spain (ES), Greece (EL)	Czechia (CZ), Poland (PL), Hungary (HU), Slovakia (SK), Romania (RO), Estonia (EE), Latvia (LV), Lithuania (LT), Bulgaria (BG)

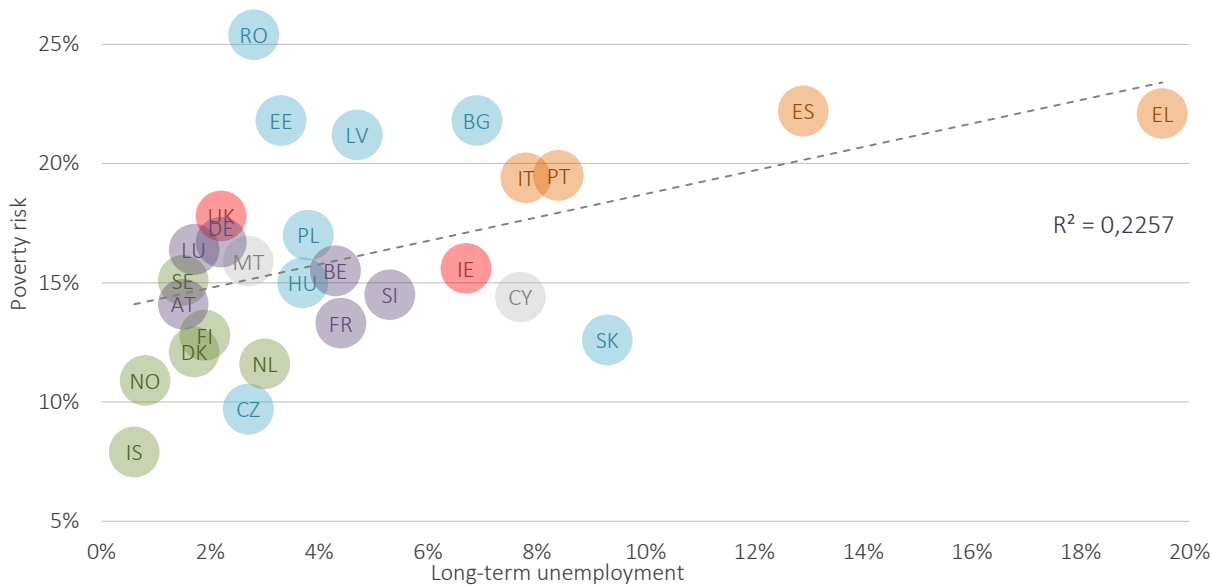
Source: European Commission (2016).

¹ Esping-Andersen, G. (2013). *The Three Worlds of Welfare Capitalism*. John Wiley & Sons.

A comparison of the performance of social systems: integration into the labour market and prevention of poverty

Each typology exhibits different values for socio-economic performance. Although they can be evaluated in different ways, their **capacity for integration into the labour market and prevention of poverty are two of the most common social policy goals**. Chart 2 below shows how the individual systems perform in these two categories, i.e. long-term unemployment and relative poverty rate. Countries below the line exhibit potentially higher social performance in the prevention of poverty when compared to the situation on the labour market. Countries closer to the bottom left border show higher overall socio-economic performance.

Chart 2 – Classification of countries according to basic quantities of performance of the social system and typology of social systems (represented by colour)

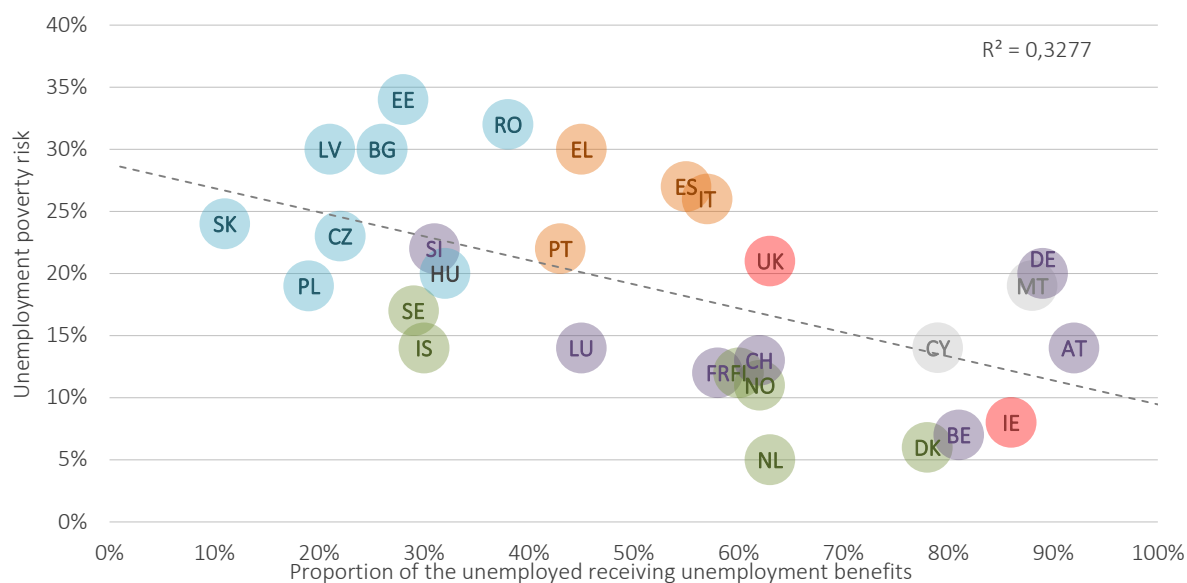


Source: Eurostat, 2014; own work. Note: Captions and colours are linked to Table 1.

The performance of the unemployment benefits system

Another of the main systemic parameters determining the coverage and performance of any given system is also the share of the unemployed who receive benefits and overall poverty levels among the unemployed, which determines the efficiency of systems established to prevent poverty in the unemployed. These parameters are depicted in Chart 3 below.

Chart 3 – Classification of countries according to the share of the unemployed receiving unemployment benefits and the risk of poverty and typology of social systems (represented by colours)



Source: Eurostat, 2014; own work. Note: Captions and colours are linked to Table 1.

Differences in the overall performance of individual systems

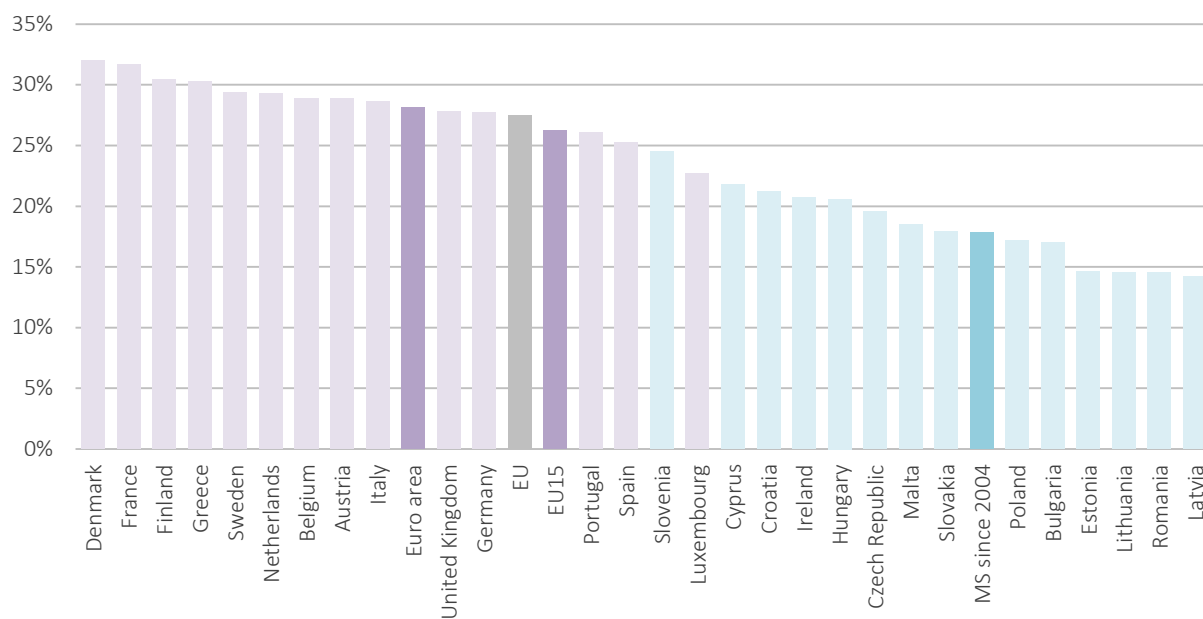
The previous chart shows that the Scandinavian system generally performs better than the South-European one (the position below the line indicates above-average performance and that above it below-average) while the Central-Eastern European system exhibits a slightly lower relative performance to the Continental system, although it operates with significantly lower levels of funding (see Chart 4). The Czech social system shows a similar relative social performance to the Scandinavian. However the amount of funding is more limited and its nominal output is therefore lower.

Expenditure on social policy

The EU and the Czech Republic, public expenditure in the social area

Another possible way of looking at the capacity of social systems is by aggregate public expenditure on social issues in the individual member state, as represented by the percentage of GDP. The Czech Republic's relatively low social expenditure, 20% of GDP, ranks it ninth from the bottom, which is approximately 8.5% lower than the EU average. Taking into consideration relative levels in prices and revenue in the Czech economy in 2015, this difference represents about CZK 380 billion. Countries that joined the EU in 2004 have on average lower relative expenditure on social policy (up to 10.3%).

Chart 4 – Public expenditure on social policy (as a % of GDP of a particular country) with colouring denoting the original euro-area members and EU member states which joined after 2004

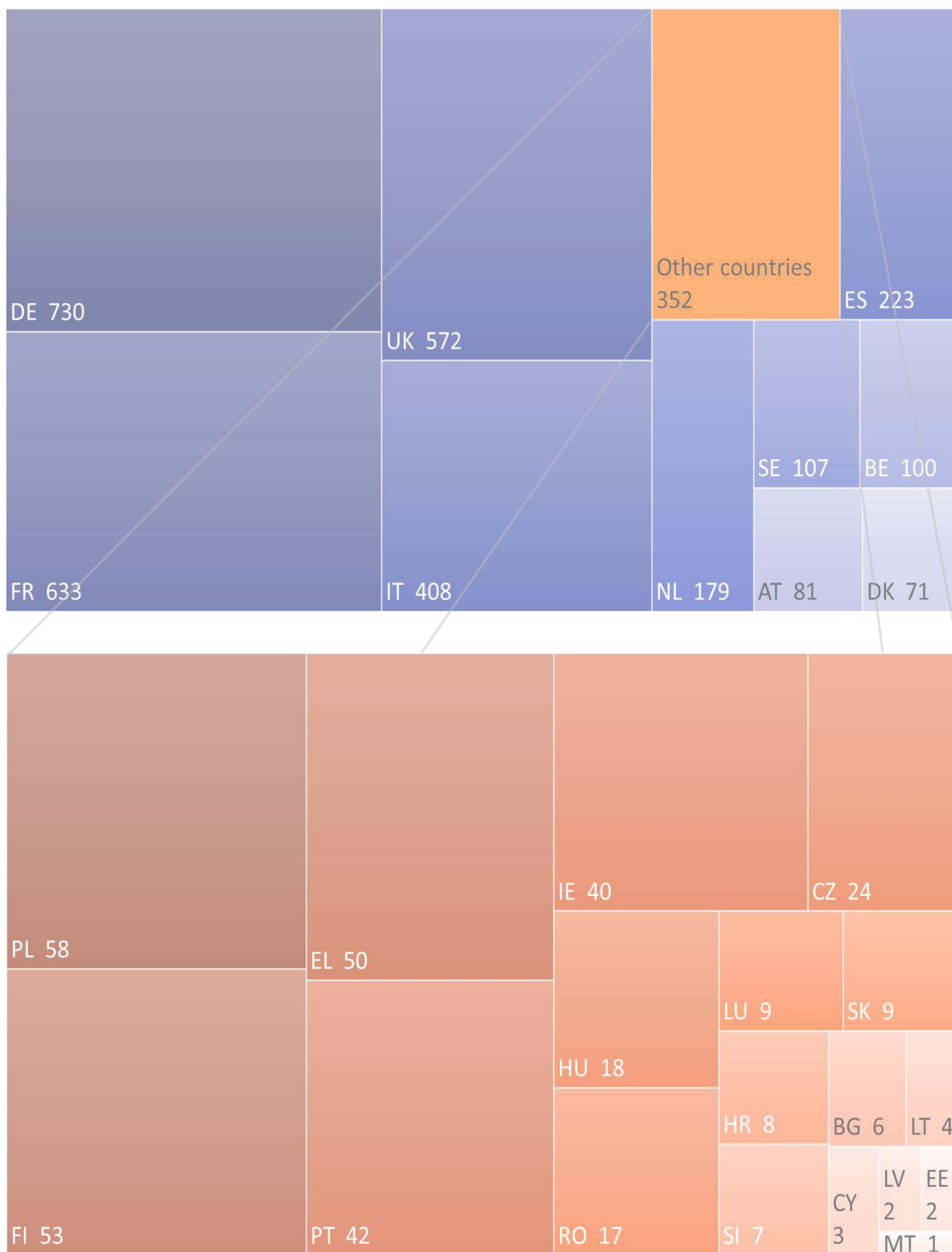


Source: Eurostat.
 Note: Data for 2013, for Greece, Poland, EA18 a EU28 for 2012.

Levels of social expenditure in the EU

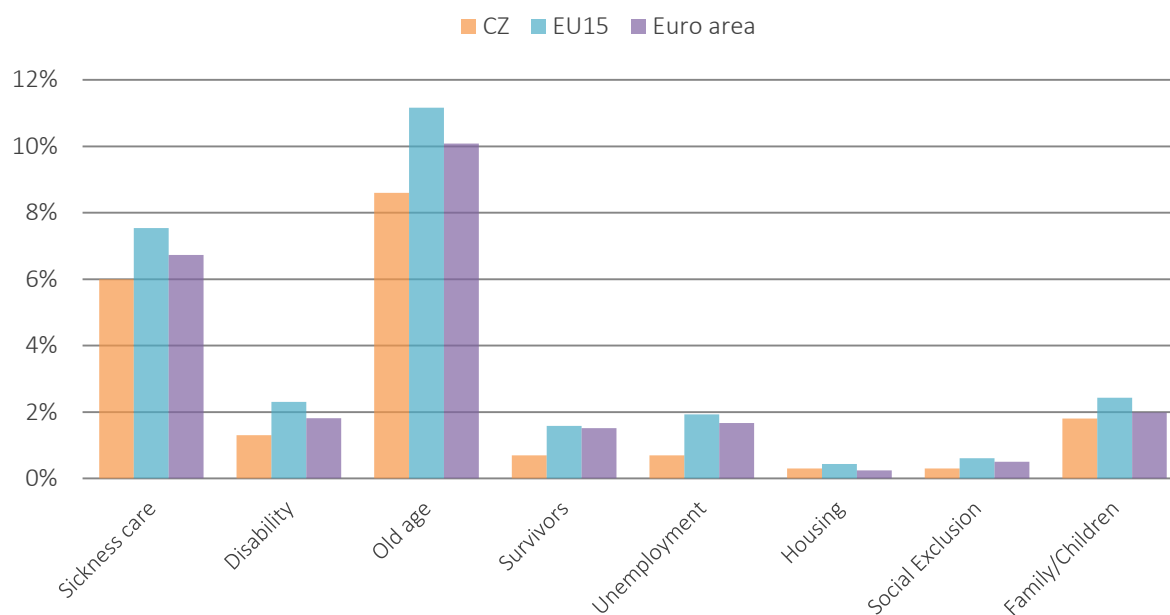
Within the EU, the highest share of social expenditure is concentrated in the largest countries. The **four member states with the highest social expenditure represent more than half of overall social expenditure in the EU** and six member states account for more than two-thirds of this volume. Besides determinants such as the size and economic power of those member states, the typology of the individual systems is also important. High structural expenditure in the social area is especially typical for states following the Scandinavian model.

Chart 5 – Total public expenditure on social policy by country in 2013 (billions of EUR)



Source: Eurostat, 2014

Chart 6 – Specific types of social policy expenditure (% GDP)



Source: Eurostat, 2014

Demographics and population structure by economic activity

Potential impact of ageing of the population compared with the EU

This age composition will keep placing greater demands on the superannuation plan up to 2060 (especially in view of the stronger generation of today's thirty and forty year olds, who are going to move under the superannuation plan), but it will not exceed the EU average because it will be compensated by the number of their working descendants. The population drop-out from the weaker generation born in the 1990s is more significant as it will continue to decrease the share of the economically active population to the economically inactive one until approximately 2070.

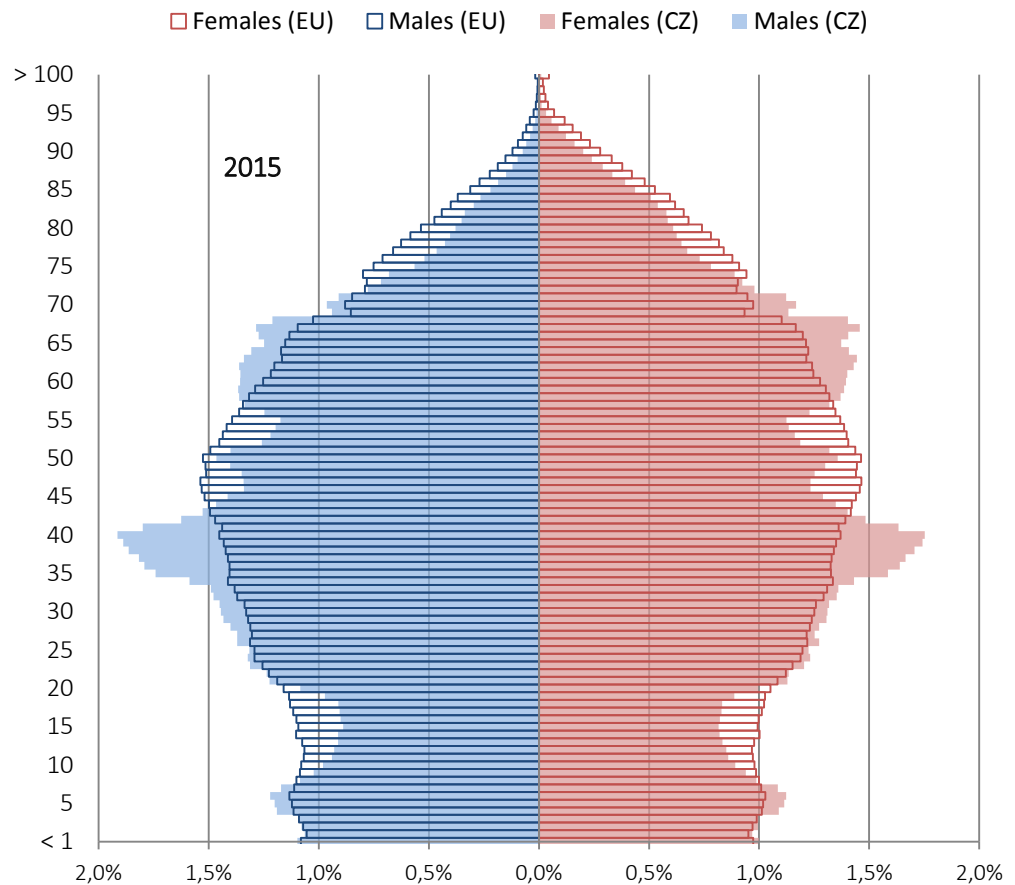
Demographics is the key factor determining the future volume of social expenditure

The key factor determining the volume of social expenditure and its future development is the demographic structure. In comparison with the EU the Czech Republic presents a weaker population of adolescents, the post-war generation (referred to in the west as *baby-boomers*) and inhabitants over the age of 70. In contrast, the volume of children born in the 1970s and 1980s is relatively strong compared to the rest of Europe, as is the generation that is just approaching retirement age (Chart 7 and Chart 9).

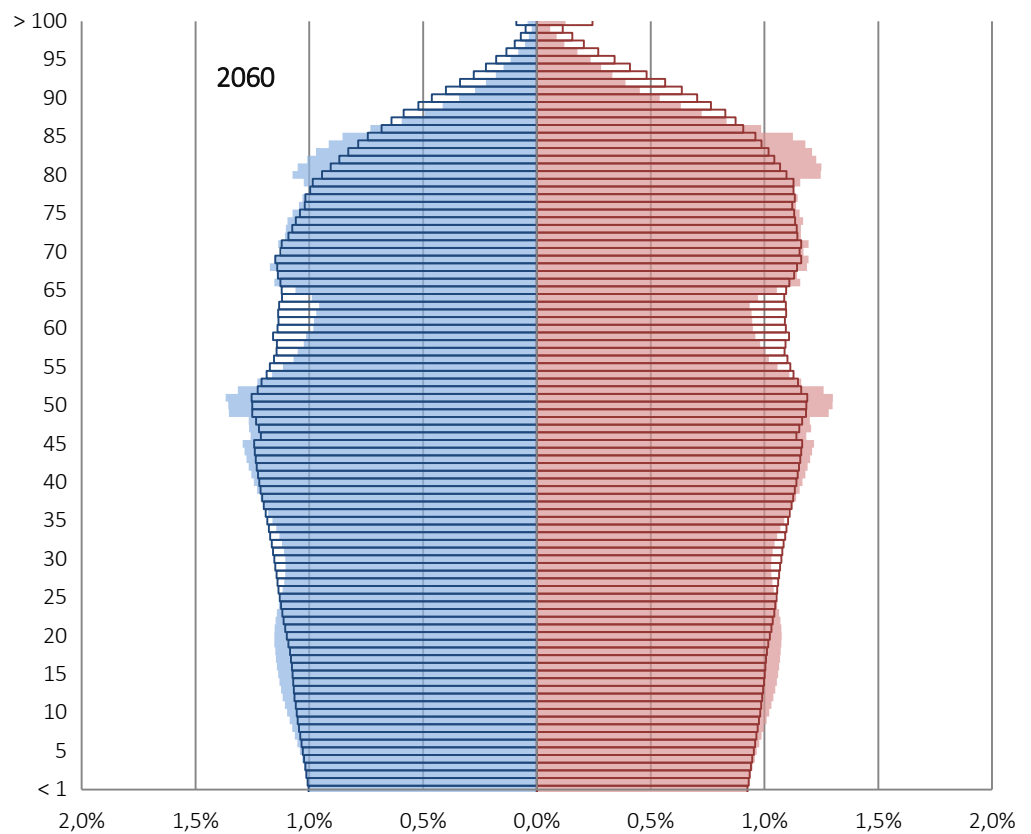
Greater demands on the superannuation plan in 2060 compared to today, but not to the EU

A comparison of the projected difference in 2060 between the Czech Republic and the EU shows a convergence of the Czech demographic structure to the EU's (see Chart 8 and Chart 10), which is only partially determined by similar parameters of the demographic model. **Over the next 40 years there will be probably a tendency for demographic and, most likely economic, structures to converge between the Czech Republic and the rest of the EU, given that specific exogenous and partially also endogenous socio-economic trends will be similar due to the presumptive economic integration and regulatory and economic convergence.**

**Chart 7 –
Demographic
structure in 2015 –
comparison between
the Czech Republic
and the EU average**

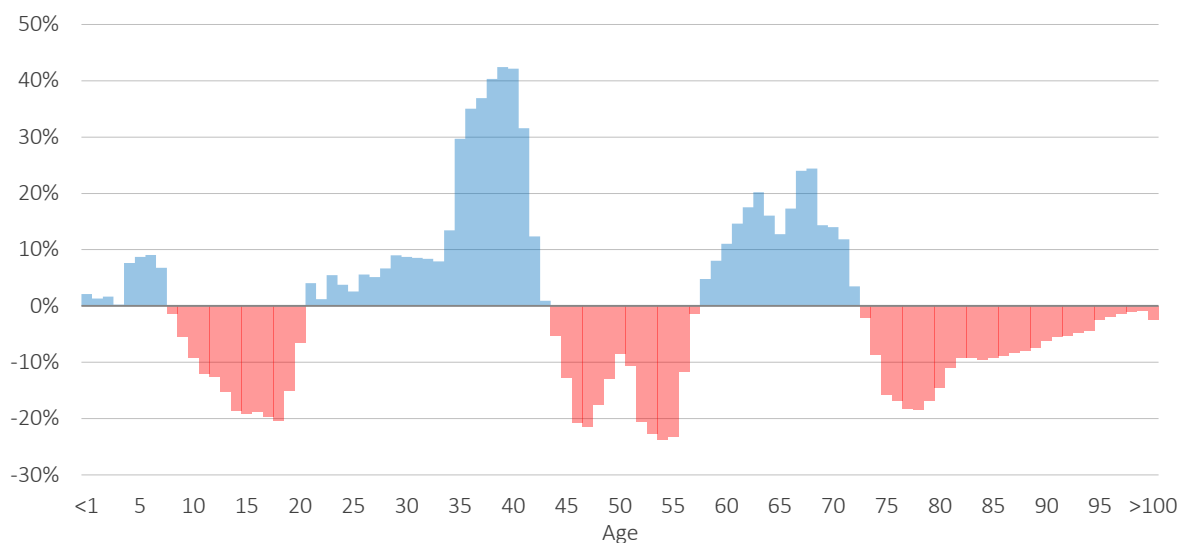


**Chart 8 –
Demographic
structure in 2060 –
comparison between
the Czech Republic
and the EU average**



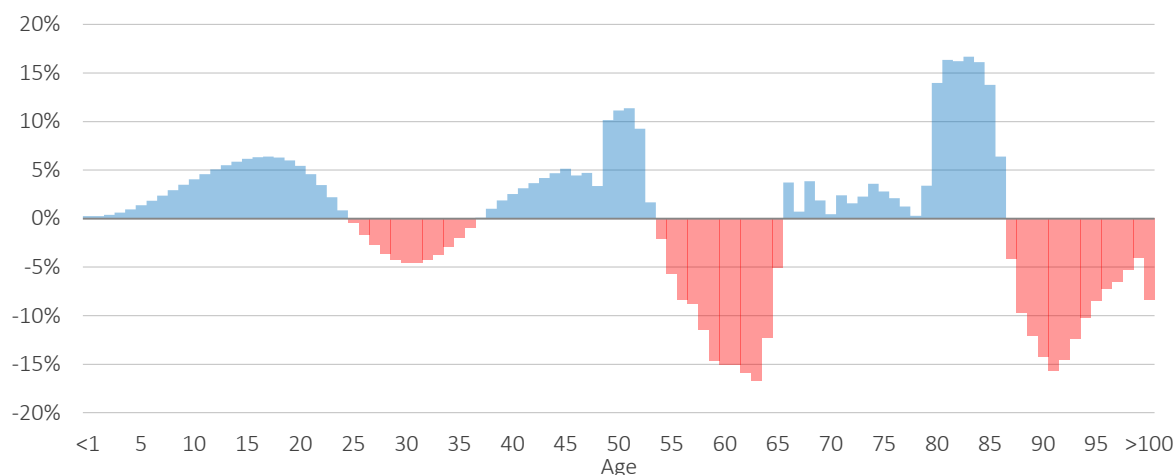
Source: Eurostat

Chart 9 – Differences in the demographic structure of population of the Czech Republic and the EU in 2015



Source: Eurostat. Note: Blue represents a higher share in the Czech Republic compared to the EU, red a lower share.

Chart 10 – Differences in the demographic structure of population of the Czech Republic and the EU in 2060



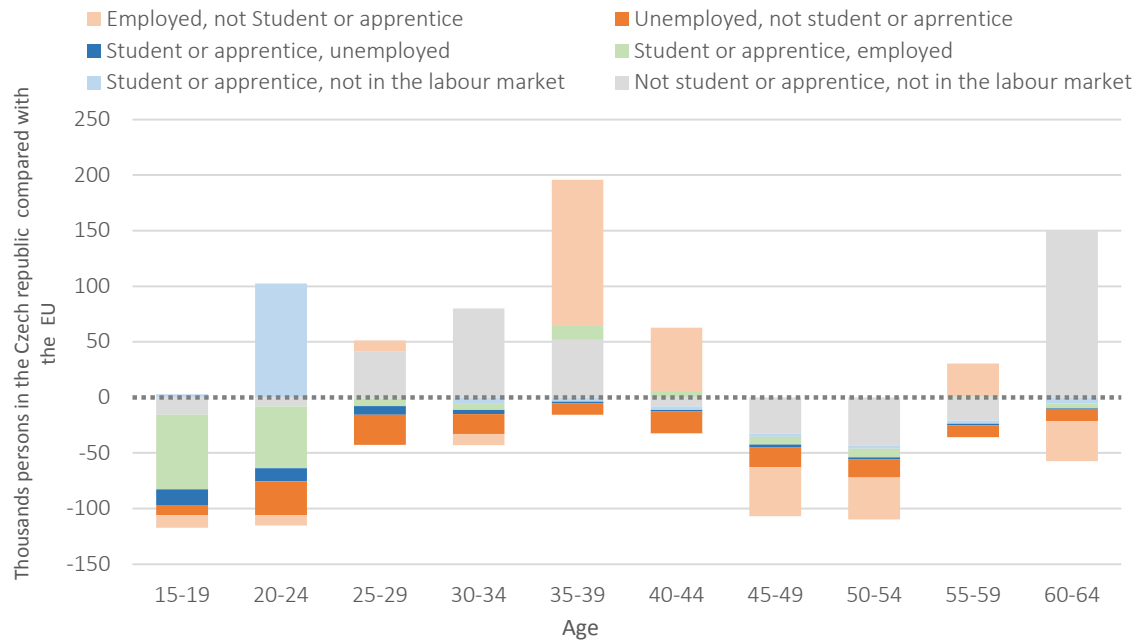
Source: Eurostat. Note: Blue represents a higher share in the Czech Republic compared to the EU, red a lower share.

Structure by education and economic activity

Differences in the structure of society by education and economic activity

However the demographic shift in itself will not bring about a change in needs in the event it does not significantly affect the ratio of the active population to the inactive. The following chapter describes the structure of society in relation to its involvement in educational systems or the labour market in the EU and the Czech Republic and evaluates the main differences in the structure of society in terms of education and economic activity.

Chart 11 – Theoretical difference in the socio-economic structure between the Czech Republic and the EU expressed as thousands of persons in the Czech population (positive values indicate a larger number of people in the Czech Republic than would correspond to the EU average)



Source: LFS 2014, Eurostat, own calculation

Chart 12 – Structure of population in the EU by education status and economic status

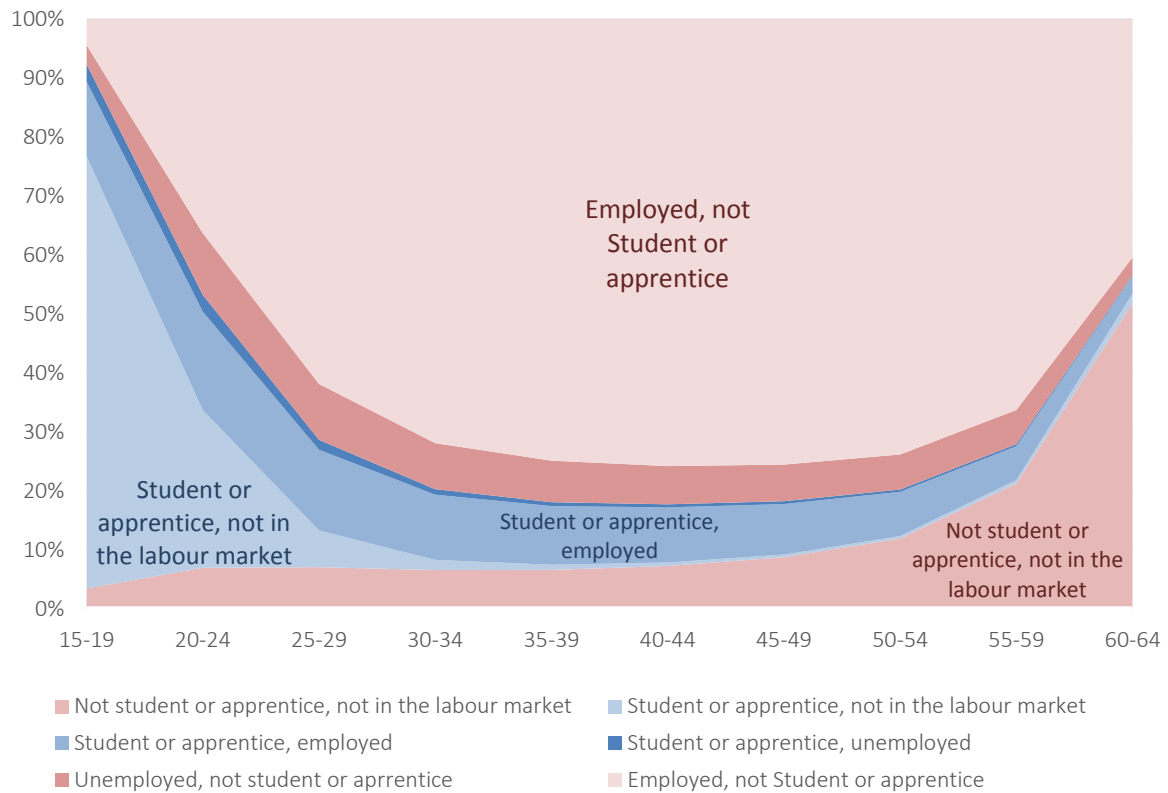
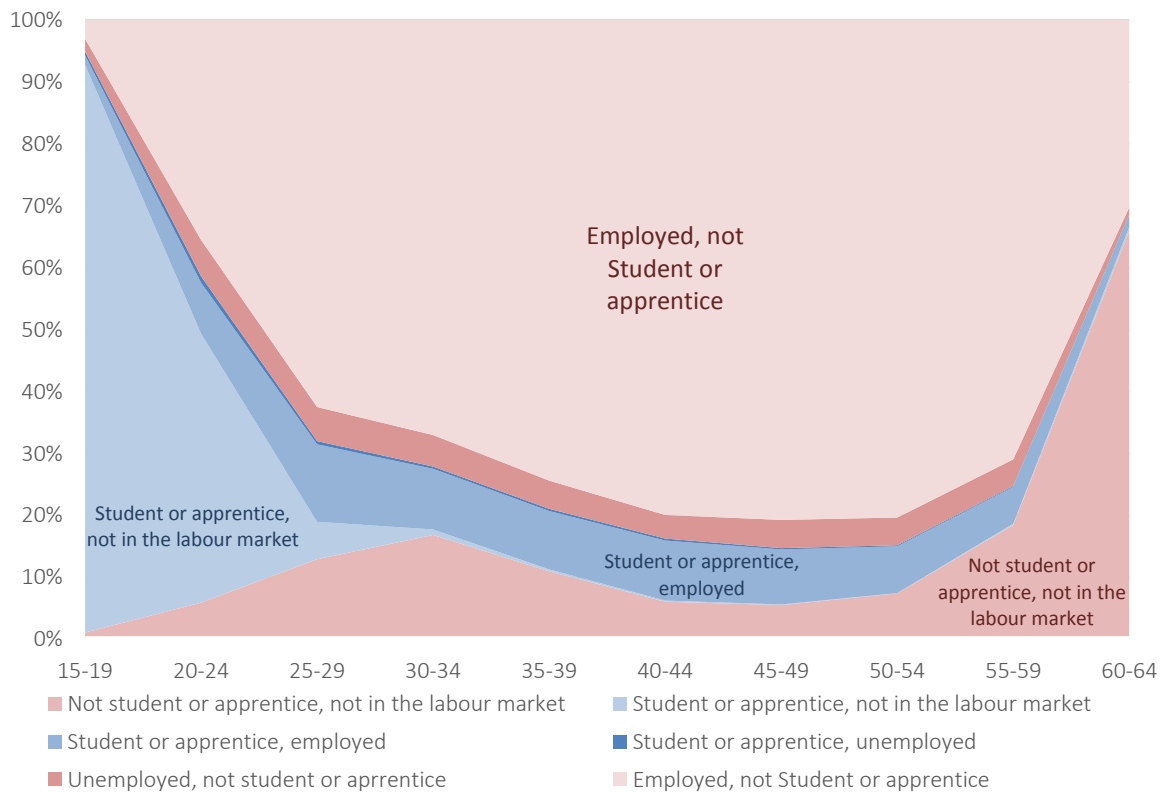


Chart 13 – Structure of population in the CZ by education status and economic status



Source: LFS 2014, Eurostat

Annex

Proposal for the EU social pillar

First indications of new course of the European social policy are included in the Five Presidents' Report	Indications of the future course of social policy at the Pan-European level are included in the Five Presidents' Report, which was published on June 22 nd 2015 ² . For instance, the second chapter of the Report contains references to economic as well as social convergence. Increased emphasis is also laid on the social pillar and employment. These measures are due to come into effect during the first of three scheduled phases of implementation of the Report (2015-2017).
Three areas for future development of social policy of the EU	In the social area the Report focuses on support for employment, education and social systems. It is anticipated that measurement of these areas will be put into practice in close cooperation with the European Semester. The Report subsequently mentions unemployment, especially long-term unemployment, as one of the main causes of inequality and social exclusion.
In the area of social policy there is no one solution that would suit all the member states	The Report further states that there is no one solution, which would satisfy everyone (<i>one-size-fits-all</i>). However, the challenges every single member state has to face are often similar. These include ensuring the involvement of people of all age groups in the labour process, finding a balance between flexibility and security of labour contracts, preventing further widening of the gap between insiders with high levels of security and outsiders in the opposite position, and balanced taxation of labour in comparison to other tax sources.
The foundation of social protection is a system of minimal social security for everyone	Outside the labour market, it is important that every citizen should have access to adequate education. The social system should also be designed to be efficient enough to protect those members of society who are most vulnerable, which includes a so-called social protection floor (a system of minimal social protection for everyone). Another trend addressed by the consultation document is the demographic shift (population ageing) which will put pressure on current social systems and will most likely lead to reforms to ensure the sustainability of superannuation plans and health care as well as treatment services.
Further integration of the labour markets	The Report further states that a deeper integration of labour markets, which will also be achieved by enabling greater labour mobility, will be needed to ensure the long-term success of the EMU. This can be achieved through easier recognition of professional qualifications or better coordination of social security systems.
Social acquis in primary and secondary law	At present states are regulated by primary as well as secondary law. Examples of primary law include the Treaty on the functioning of the European Union (Articles 5 and 9) and the Charter of Fundamental Rights of the European Union. In the case of secondary law there exists a whole range of directives and regulations that affect social affairs. Among the most significant we can mention, for example, the Directive on maternity leave, the Directive on working hours or the Directive on temporary work and part-time contracts.

² Juncker, J.-C., Tusk, D., Dijsselbloem, J., Draghi, Schulz, M. (2015). The Five Presidents' Report <http://goo.gl/SKJth0>

Consultation and future legislative process

Four documents representing the primal contours of the social pillar

Following the Five Presidents' Report, the European Commission published four documents on March 8th 2016. A legislative proposal is also scheduled for issue during the period around spring 2017. These documents provide the first contours of potential progress for the social pillar of the European Union before the inception of the legislative process itself. Its mission is rather to define its scope of authority and the main goals of the social pillar, with references to the legal basis and a broad economic analysis, than to provide specific proposals.

Report on the launching of the European social pillar initiative

The European social pillar initiative is trying to respond to questions on why the European social pillar is important and ushers it into the context of current initiatives such as the strengthening of the EMU, it outlines the sectors and the scope of the European social pillar, determines levels of added value and its legal nature. The text also sets out the form of the future consultation process on the European social pillar.

Preliminary outline following the Report on the launching of the European social pillar initiative

The documents cover up to 20 areas, which will be the focus of the European social pillar. It provides a general description of the social areas within which the EU will act, very broadly outlines the objectives and, instead of concrete measurements, refers to the corresponding legal basis as an argument and preparation for the future measurements (in the form of the relevant articles of the Treaty on the functioning of the EU and the Charter of Fundamental Rights of the EU).

Documents of the Section for European Affairs of the Czech Government Office (SEA) are prepared by the Analytical Strategy and Trends Unit. They serve as comprehensive discussion material for topics with economic and European relevance. Analytic documents in this series are informational material to be discussed by experts as well as the general public. Their purpose is to serve as a background for discussion and they therefore do not represent the opinions of SEA or of the Czech Government.



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