
CHANGING
INEQUALITIES
AND SOCIETAL
IMPACTS IN RICH
COUNTRIES

Thirty Countries' Experiences

Edited by

BRIAN NOLAN, WIEMER SALVERDA, DANIELE
CHECCHI, IVE MARX, ABIGAIL McKNIGHT,
ISTVÁN GYÖRGY TÓTH, AND
HERMAN VAN DE WERFHORST

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CHAPTER 24

SLOVAKIA AND THE CZECH REPUBLIC: INEQUALITIES AND CONVERGENCES AFTER THE VELVET DIVORCE*

MARTIN KAHANEC, MARTIN GUZI, MONIKA MARTIŠKOVÁ,
AND ZUZANA SIEBERTOVÁ

1. INTRODUCTION

THE roots of inequalities in the Czech Republic and Slovakia date back to the times even before the establishment of Czechoslovakia in 1918, when northern parts of the Austrian Empire—the present-day Czech Republic—and northern parts of the Kingdom of Hungary—present-day Slovakia and Carpathian Ruthenia—united in a new state.² The two parts of the newly established state differed in a number of aspects, including the degree of industrialization, urbanization, education and literacy (Slovakia being the less-industrialized part) and preferences (Slovakia being the more conservative and religious part). Within pre-war and post-war Czechoslovakia the two parts converged in many aspects, whether as a consequence of deliberate policies or as a by-product of mingling populations and economic and social interactions under one umbrella.

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¹ Most of Carpathian Ruthenia ceased to be part of Czechoslovakia after World War II.

The coup d'état in 1948, followed by four decades of communist rule, deeply affected the Czech and Slovak societies, with scarring effects that lasted well beyond the 1989 Velvet Revolution. One of the key policy doctrines during the communist period was reduction of inequality, which the communist regime often enforced using rather harsh methods, such as the 1953 currency reform.² After the Velvet Revolution, deep economic, social, and political reforms were implemented, leading to democratization and economic liberalization in Czechoslovakia. On 1 January 1993, the so-called Velvet Divorce resulted in two successor states to Czechoslovakia—the Czech Republic and Slovakia.

While some of these legacies have withered away (both Slovakia and the Czech Republic are now similarly non-agricultural), others have affected and still affect inequalities in the two independent republics (Slovakia, for example, remains more conservative). Understanding those legacies is thus crucial in interpreting inequalities and their impacts in the Czech Republic and Slovakia.

This chapter's main objective is to provide a comprehensive account of changing inequalities in income, wealth or education over time and their social, political and cultural impacts in the Czech Republic and Slovakia. This includes elaboration of country-specific narratives and interpretations linked to national policies and institutions, but also comparative accounts illuminating the variation observed between the two countries. Data permitting, the chapter primarily covers the period from 1980 to present, mainly focusing on the 1990s and 2000s. We offer a comprehensive description of the driving forces behind inequalities and their impacts, rather than extensive statistical evidence of all trends.³

To this end, Section 2 of this chapter depicts the nature of inequality and its development over time. Facing severe data limitations and measurement challenges, every effort is made to define and measure inequality over time and across the two countries as uniformly as possible, applying a common methodology. Sections 3 and 4 are dedicated to analysis of the social, political and cultural impacts of changing inequalities. The policy context is discussed in Section 5. Section 6 comparatively evaluates the experience of the two countries and offers conclusions. This chapter draws on the *GINI Country Report: The Czech Republic and Slovakia* (Kahanec, Guzi, Martišková, Paleník, Pertold and Siebertová, 2013).

2. THE NATURE OF INEQUALITY AND ITS DEVELOPMENT OVER TIME

The process of economic and political transformation at the beginning of the 1990s released economic and societal processes that provided drivers for rising income inequalities in the Czech Republic and Slovakia. Prior to 1989, the Czech and Slovak societies in Czechoslovakia had felt some income inequalities, but their extent had been modest, and they manifested in different ways. For example, some inequalities expressed themselves

² Other redistribution mechanisms included price subventions and regulations as well as wage interventions (Mareš, 1999).

³ These are provided in the underlying report Kahanec *et al.*, (2013), available online at <www.gini-research.org/CR-Czech-and-Slovak>.

in terms of the accessibility of goods. After the fall of the communist regime, the Czech Republic and Slovakia, along with many other post-socialist countries, went through a series of major political, social and economic changes. The formerly centrally-planned economy collapsed, resulting in various shocks to the economy. Producers lost their customers, unemployment grew, inflation hit savings, and former business and social ties were broken. In this chapter, we concentrate on the development of income and educational inequalities in the Czech Republic and Slovakia, especially during and after the transformation period of the 1990s. We reveal the drivers and the reasons for the observed developments as well as their consequences and social impacts, focusing on changes in the economy, labour markets, and education.

Has Inequality Grown?

Both the Czech Republic and Slovakia are considered to belong to the group of countries where inequalities grew significantly during the 1990s (OECD, 2011). However, in comparison with some other transition countries, income inequalities remained modest.⁴ In Figure 24.1 we observe a steady decline before the Velvet Revolution, a steep increase during the 1990s, and a levelling off during the 2000s. It appears that the observed variation has

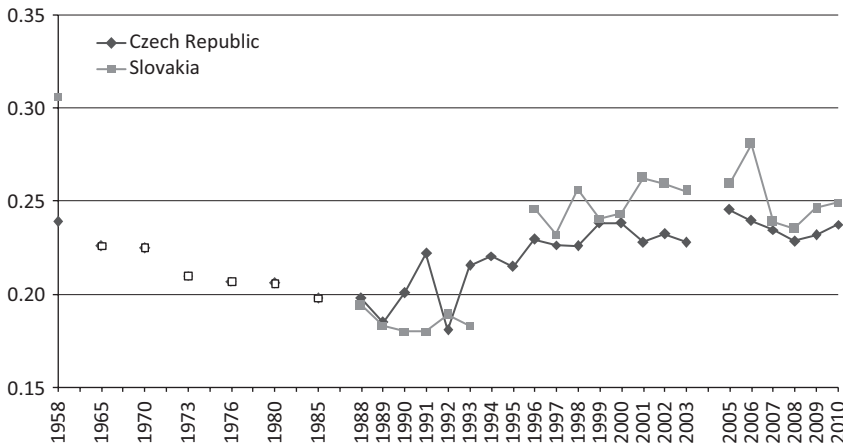


FIGURE 24.1 Income inequality in the Czech Republic and Slovakia

Notes: Gini coefficient in Czechoslovakia (hollow square), Czech Republic (diamond), Slovakia (square). Gini coefficient measures the dispersion among frequency distribution of incomes. It ranges from 0, which represents absolute equality, to 1 representing absolute inequality in society. Gini coefficients based on disposable income. The income sharing unit is the household. Equalization: household per capita until 1992; none 1993–2004; equalized since 2005.

Sources: 1958–1988 Atkinson and Micklewright (1992); 1989–1992 Cornia (1994); 1993–2002 Transmonee (2004) except for 1993–1995 for Slovakia; 1993 for Slovakia from Milanovic (1998); 2003 Transmonee (2005); 2005–2010 own calculations based on EU Survey of Income and Living Conditions.

⁴ For example, according to Transmonee (2004), the Gini coefficient in the Baltic states rose by about 0.1 over the 1990s, from about 0.25–0.30 to as high as 0.35–0.40. Compare to Figure 24.1.

been greater in Slovakia than in the Czech Republic, but data limitations do not permit a definite conclusion in this respect.

The growth of inequalities is primarily attributed to the increase in incomes in the top decile, as well as changing patterns of remuneration, where education gained an exceptional position as a key determinant of earnings. However, redistributive policies have partially mitigated the consequences of the economic transformations on inequalities.

Rising inequalities in the 1990s mostly affected middle-income groups. As claimed by Mysíková (2011), the distribution of income in the Czech Republic has shifted towards the tails of the density function, shrinking the middle section. This phenomenon, also called 'hollowing out the middle', suggests that the middle-income group shrank while income groups in both tails of the distribution grew. A possible explanation is offered by Sirovátka and Mareš (2006), who claim that the expensive redistributive policies were paid for mostly by the middle-income groups, lowering the levels of poverty rates at the cost of a lowered net income for the working population.

Despite the changes in the composition of income, growth of income inequalities remained relatively low compared to other transforming countries. This is mainly because wage differences were not high before the 1990s. In addition, the Czech Republic and, especially, Slovakia have moderate average wages and social benefits do not fall far short of the minimum wage. The combination of these factors results in a higher density of low-income workers and families and lower inequality overall.

The changes in the distribution of income in the 1990s can be linked to the changes in the remuneration schemes of employees, which themselves reflected changing demand for and supply of various types of labour and skills, as well as changing institutional contexts. In the Czech Republic, workers' characteristics, such as age and number of children have lost much of their importance since the 1990s. More recently, they do not explain much of the income variation, whereas education and position at work gained significance (Večerník, 2001). The changes in the composition of low-income households between 1988 and 1996 can serve as an example of the changing inequality patterns. According to Večerník (2001) the lowest-income households in the Czech Republic were composed of retirees receiving only social transfers in 1988 while, eight years later, low-income households were mostly families with children.

Instruments of redistribution play an important role in lowering income inequalities in both countries.⁵ For instance, in Slovakia, the Gini coefficient for income before taxes and transfers for the age group over 65 is around 0.80, while after redistribution it is circa 0.20.⁶ Similarly, in the Czech Republic redistribution in this cohort lowers the Gini coefficient from 0.85, before, to 0.19, after, taxes and transfers.⁷ Tax redistribution also lowers inequality for the working population, but we can observe some additional dynamics in Slovakia. In the mid 2000s taxation was significantly decreasing inequalities (from 0.40 to 0.23) while in the late 2000s taxation contributed significantly less to the income redistribution of the working population. A key factor was the introduction of a flat tax rate in 2004, which had positive impacts on high-income groups, but a neutral effect on low-income populations.⁸

⁵ See also Garner and Terrell (1998).

⁶ Based on OECD Social and Welfare statistics, late 2000s.

⁷ Based on OECD Social and Welfare statistics, late 2000s.

⁸ OECD Social expenditures database. For details see Figure 2.9 and the related discussion in Kahanec *et al.* (2013).

Labour Market

Growth of income inequalities in both countries in the 1990s was mostly determined by the growth of earnings inequalities, which in turn reflected the manifold changes in the labour market. The earnings distribution illustrates these changes. At the end of the 1980s in the Czech Republic, the 90th to 10th decile ratio of wages was 2.4. This ratio increased rapidly in the 1990s, with 90th decile wages three times higher than the 10th decile wages in 1999. The corresponding figure for 2009 was 3.19.⁹ In Slovakia, the corresponding ratio for gross earnings increased from 1.89 in 2002 to 2.00 in 2004, and has oscillated around that figure since.¹⁰

The overall number of self-employed individuals in the Czech Republic increased between 1993 and 1998 by 4 percentage points, or 130,000 people. In 2010, 17.7 per cent of households declared self-employment as their main source of income.¹¹ In Slovakia, the number of self-employed rose from 6 per cent of workers in 1998 to the current value of 16 per cent, near the EU average. According to Garner and Terrell (1998), the impact of self-employment gains in income redistribution within three years after 1989 was more visible in Slovakia than in the Czech Republic, comprising an 11.4 per cent share on Gini in Slovakia, compared to 9.2 in the Czech Republic.

Another new phenomenon in the labour market appeared in the late 1990s, when alternative forms of employment contracts, such as part-time work or temporary work, became available. Since 1997, the share of part-time workers has persistently fluctuated at around 5 per cent of the working population in the Czech Republic and around 4 per cent in Slovakia.¹²

An important variable, where the two countries have differed markedly, is the unemployment rate. One of the key factors behind the diverging unemployment rates were the historically given differences in the industrial structure in the two economies, including the large share of heavy industry built up in Slovakia before the Velvet Revolution. In the Czech Republic the unemployment rate has fluctuated around 7 per cent since the mid 1990s (see Figure 24.2). By contrast, in Slovakia, it steeply increased from 12 per cent in the first quarter of 1998 to 19.1 per cent in the second quarter of 2000, stayed at about that level for four years, and then sharply decreased to 8.9 per cent in the fourth quarter of 2008.¹³ The effects of the Great Recession dramatically worsened the labour market situation in 2009, pushing the unemployment rate to 14.1 per cent within this year, at which point it has approximately levelled off since.

Educational Inequality

The role of education in the changing distribution of wages was essential in the 1990s in both republics. According to Mysíková (2011), in the Czech Republic education contributed the most to the deepening of income inequalities during the transition period. Filer *et al.* (1999) estimate the impact of an additional year of education on wages using the standard Mincer

⁹ Eurostat. ¹⁰ OECD.

¹¹ Labour Force Survey, Eurostat; Kahanec *et al.* (2013), Table 2.6.

¹² Labour Force Survey, Eurostat. ¹³ Labour Force Survey, Eurostat.

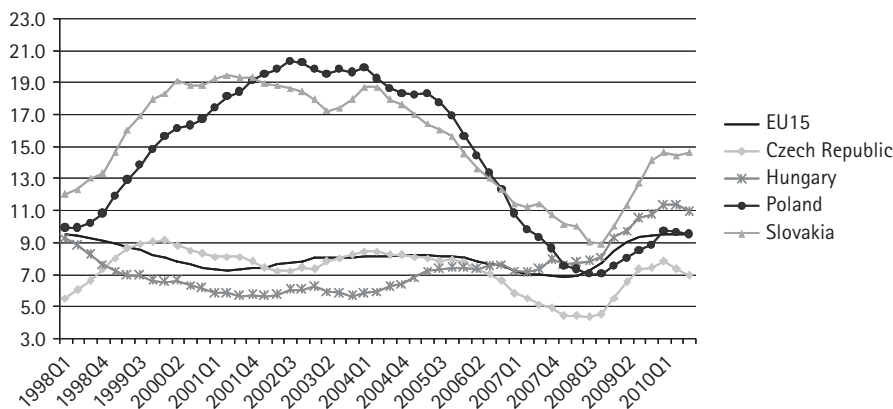


FIGURE 24.2 Unemployment rates in the Visegrad countries

Source: own calculations based on EU Labour Force Survey.

equation, finding an effective 12 per cent increase to wages of an additional year of education between 1995 and 1997, from 8.4 to 9.4 per cent. In 2010, tertiary-educated people in the Czech Republic had on average 62 per cent higher median yearly wages than primary-educated people; in Slovakia they earned 77 per cent more.¹⁴ The increasing importance of education also impacted the labour market position of people with different educational attainment. In the Czech Republic, the employment rate of tertiary-educated people is the highest, reaching 80 per cent (compared to the population average of 60 per cent).¹⁵ On the other hand, people with only primary education have difficulties finding a job, and compose more than two thirds of all unemployed.

In Slovakia, employment statistics clearly show that the situation there is similarly stacked against less-educated individuals.¹⁶ Although the employment rate of people with diplomas dropped from 85.2 per cent in 1998 to 73.2 per cent in 2011, this group is still the best paid and most employed.¹⁷ In contrast, less-educated individuals (ISCED 0-2) have significantly lower probabilities of labour force participation, employment, permanent contract or full time contract than their more educated counterparts (Brožovičová *et al.*, 2012).

A lamentable phenomenon that remains largely sidelined by the political elites is the social exclusion of some vulnerable groups. This is of especial concern for the Romani people, but also for the elderly or single-parent families with more children. In the Czech Republic, for the Roma population aged 15–64, the employment rate is 31 per cent and the unemployment rate is 39 per cent; the corresponding figures for Slovakia are 15 and 70 per cent.¹⁸ Among the Roma, females and young cohorts seem to suffer from even worse employment prospects.

¹⁴ Eurostat and authors' calculations.

¹⁵ Eurostat, for details see the Figure 2.15, Kahanec *et al.* (2013).

¹⁶ EU Labour Force Survey and authors' calculations.

¹⁷ Kahanec *et al.* (2013), Figure 2.19.

¹⁸ UNDP 2011.

3. THE SOCIAL IMPACTS OF INEQUALITY

The effects of inequality go beyond economic categories. According to a 1990 survey, the shares of 'objectively poor' were 3.7 per cent in the Czech part and 5.9 per cent in the Slovak part of the then Czechoslovakia (Večerník, 1991). The poverty rates are still lower in the Czech Republic compared to Slovakia today. Figure 24.3 shows that the shares of people in poverty or social exclusion exhibit a declining trend in both countries, with Slovakia reducing this rate quite sharply from 32 per cent in 2005 to about 20 per cent in 2011, and the Czech Republic reducing it from about 20 per cent to slightly above 15 per cent during the same period. The figures indicate that the economic boom before the economic recession substantially reduced the risk of poverty and material deprivation, but the Great Recession has stopped or even reversed this trend.

Low education is a strong predictor of poverty, as it is often associated with low levels of income and a higher risk of unemployment. Our findings based on the EU SILC confirm the declining trend of poverty rates for all educational groups. However, as of 2010, the risk of poverty was four times higher among groups with little education compared to persons with tertiary education.

Household structure is another key factor, and has effects on income inequality. Statistics from national statistical offices document a substantial increase in the number of single-earner households with children. This trend is mainly driven by the rising number of single-person households accompanied by the rising number of newborns to non-married couples. As single-earner households with children exhibit the highest risk of poverty, the continuation of this trend may pose a significant disadvantage for children growing up in incomplete families.

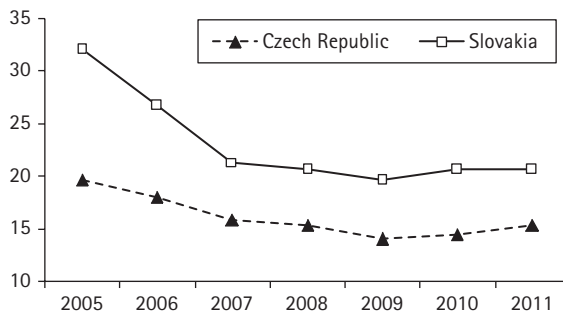


FIGURE 24.3 People at risk of poverty or social exclusion (per cent of total population)

Notes: this indicator corresponds to the sum of persons who are: at risk of poverty; or severely materially deprived; or living in households with very low work intensity. At risk-of-poverty are persons with an equivalized disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalized disposable income (after social transfers). Severely materially deprived persons have living conditions severely constrained by a lack of resources who experience at least 4 out of 9 deprivations items. People living in households with very low work intensity are those aged 0–59 living in households where the adults (aged 18–59) work less than 20% of their total work potential during the past year.

Source: Eurostat (EU-SILC).

The most visible evidence of high concentrations of poverty and material deprivation is among the Roma minority. A recent World Bank (2012) study estimates a population of 320,000 Roma living in Slovakia. A World Bank survey shows that the vast majority of Roma in Slovakia—87 per cent of those households interviewed—live in poverty. Slovak Roma rank among the poorest communities in the EU (World Bank, 2012). In the Czech Republic, Gabal (2006) identifies over 300 socially excluded Roma communities often characterized by low levels of education, high long-term unemployment rates (90 per cent to 100 per cent) and high inactivity. Davidová *et al.* (2010) report that more than 60 per cent of the Roma minority attain only primary education. From interviews with members of Roma communities, the authors draw a conclusion that the motivation to pursue education is extremely low because of anticipated labour market discrimination. The number of Roma living in unbearable conditions in rural communities and devastated central city zones represents a potentially very serious social and economic problem in both republics. Inter-ethnic tensions between the majority population and this significant minority have caused many problems in the past. Moreover, such tensions undermine the creation of inter-ethnic social ties and social cohesion.

The indicators of social cohesion approximated by the frequency of meetings with friends, relatives or colleagues have visibly improved between 2002 and 2010. Based on the 2010 European Social Survey, one in ten individuals reported meeting with their peers less than once a month in the Czech Republic. Social isolation has dominated among individuals older than 60 years. This category of elderly people often live alone and face the greatest risk of no or rare contact with their peers. One in five elderly reports meeting with their peers less than once a month. Even higher social isolation is observed among the elderly population in city areas. The figures for Slovakia are very similar, the only difference being that the elderly population shows a higher rate of exclusion in villages than in cities.

The housing market in both countries has been characterized by high homeownership rates, a growing number of mortgages (especially in the early 2000s), increasing housing prices until 2008 followed by moderate decline, and wide regional price disparities. In particular, developments of regional housing disparities have contributed to wealth and income disparities. Due to the expected weaker economic growth in the early 2010s, a rise in the over-indebtedness of low-income households can be expected. This may further increase the difficulties of low-income households in meeting their obligations. In 2008 and 2009, this risk was 2.4 times higher among the 20 per cent of households with the lowest equivalized income than among the richest 20 per cent (Czech Statistical Office based on EU-SILC calculations).

Concerning health inequalities, the overall health status of people remained rather stable in the Czech Republic and has somewhat deteriorated in Slovakia since 2005. Figure 2.4.4 shows that the positive long-run development is specific only to high-income and highly-educated people. In 2011, Eurostat estimates from EU-SILC showed that about 31 per cent of people reported long-standing illness or health problems in each country. In the Czech Republic, an interesting tentative pattern is observed, whereby the generally decreasing trend in the share of people reporting health issues reversed around the same time as the crisis started. A similar pattern is observed in Slovakia among groups with low and medium education. This could have been caused by worsened living conditions or increased unemployment during the crisis.

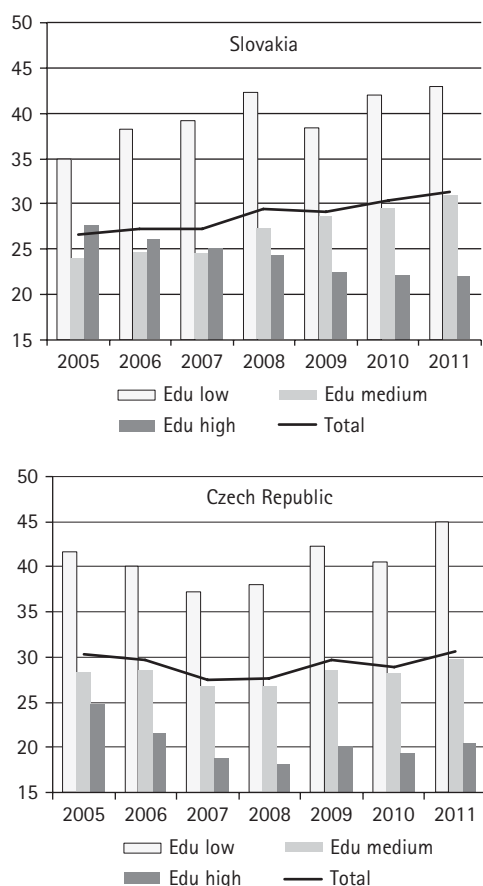


FIGURE 24.4 People having a long-standing illness or health problem

Notes: In per cent of adult population. Edu low: pre-primary, primary and lower secondary education (ISCED-97 levels 0–2); Edu medium: upper secondary and post-secondary non-tertiary education (ISCED-97 levels 3 and 4); Edu high: first and second stage of tertiary education (ISCED-97 levels 5 and 6).

Source: Eurostat (EU-SILC).

Crime in the Czech Republic is characterized by a continuous fall in the crime rate, while surprisingly the number of prisoners has been steadily increasing in the last ten years. This outcome is driven by the recent changes in criminal law that increased the duration of the mandatory minimum prison sentence (Dusek, 2012). While 95 per cent of prisoners are men and 70 per cent are younger than 40 years, they are almost exclusively less-educated individuals.¹⁹ In Slovakia, the crime rate has also been falling for most of the studied period, except for the years 2000–2004, when it steeply increased.²⁰ The number of prisoners in Slovakia increases in the long term but the development is cyclical. The highest

¹⁹ Information is taken from yearbooks of the Prison Service of the Czech Republic.

²⁰ Eurostat.

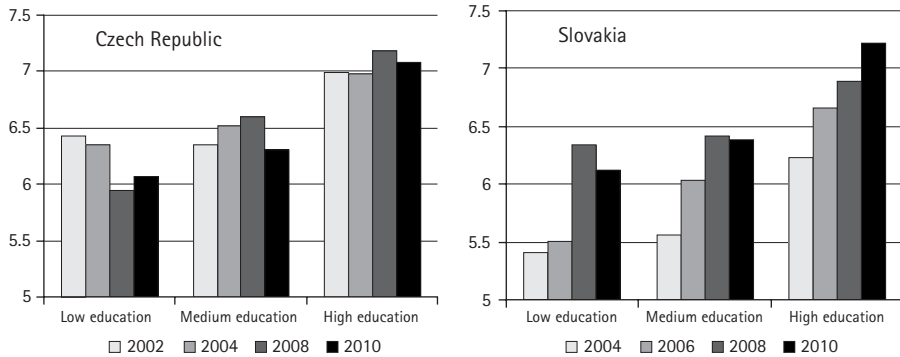


FIGURE 24.5 Average subjective well-being ratings by education

Notes: Adults aged 16 and over were asked: ‘Overall, how satisfied are you with your life nowadays?’ Possible answers are on the scale from 0 to 10. For the definitions of Low, Medium and High level education see Figure 4.

Source: Own calculations based on ESS Cumulative file 1–4 (2011). Weighted by design weight.

number was recorded in 2004, after which it experienced a decrease and has been rising again since 2008.

Education is one of the main drivers of intergenerational social mobility. The education of parents plays a crucial role in both educational choices and the educational performance of children. The former is partially determined by the early tracking of children into different types of secondary school. Drnáková (2007) points to the strong influence of parental education on the choice of school for their children. The influence of parental background on student test score (PISA) achievements is analysed in OECD (2010) study. International comparisons put the Czech Republic and the Slovak Republic into the group of countries in which the influence of family plays a major role.

An important component of national well-being is the subjective well-being of individuals, which is measured by finding out how people think and feel about their own lives. Well-being in seven eastern European countries at the very beginning of the transformation process is analysed by Hayo (2007), using New Democracy Barometer 1991 data. The highest national happiness levels in Eastern Europe at that time were observed in Czechoslovakia. The recent development of life satisfaction in the Czech Republic based on ESS shows a drop of life satisfaction levels after the start of the economic recession in 2009. A closer look reveals that reported levels are very stable for the group with the highest education, while the aggregate drop in life satisfaction is mainly driven by less-educated workers (see Figure 24.5). In the case of Slovakia, the satisfaction levels rose in recent years and the drop in 2009 for groups with less education was milder. Interestingly, although Slovakia recorded visibly lower satisfaction levels than the Czech Republic in 2004, the average satisfaction was slightly higher in Slovakia at the end of 2010.

To conclude, social indicators discussed in the text show divergent patterns across groups defined by education. This particularly concerns health status and crime. Several trends are identified that constitute a risk of increasing inequality in the future, such as the increasing number of single-earner households with children and persistently low intergenerational educational mobility. Recent developments show an increasing divide in subjective well-being levels between less- and highly-educated individuals, particularly in the Czech

Republic. This may be at least partly attributed to the worsening labour market conditions during the economic crisis.

4. POLITICAL AND CULTURAL IMPACTS

After the Velvet Revolution and Velvet Divorce, the political system in the Czech Republic quickly consolidated and stabilized, and two newly emerged political parties—the conservatives and social democrats—became the major players in Czech politics. Another phenomenon in the Czech political scene is the gradual amalgamation of the Communist Party (KSCM) into the political mainstream. The KSCM has an important position in the party system, although it has never entered any governmental coalition. The explanation for the success of the Communist Party (compared to other neighbouring post-communist countries) can perhaps be linked to a historical tradition of *Sozialstaat* ideas in the Czech Republic, as well as the relatively straightforward transformation after 1989.

In Slovakia, the early transformation period has been considerably more complicated. The situation especially deteriorated during the coalition under Prime Minister Mečiar, who, with a short intermission, led the country from 1992 to 1998. His government employed a populist, nationalist rhetoric and threatened democratic institutions in Slovakia. In 1997, Slovakia was excluded from the first accession round to the European Union. In the election year 1998, the political situation became highly polarized and the mobilized masses in the democratic (mainly centre-right but also reformed left) segment of the political spectrum succeeded in ousting Mečiar's cabinet. These events determined the nature of the political system in Slovakia, with a group of heterogeneous parties sharing a more democratic vision on the centre-right and a single dominant party with some pendants on the centre-left.

After 1998, the political situation in Slovakia consolidated under the first Dzurinda cabinet (1998–2002). The second Dzurinda government (2002–2006) passed major structural reforms, such as the introduction of a flat-rate tax system and reform of the pension system. However, the true effect of economic reforms became visible only later, and citizen discontent with social policy and labour-code reforms resulted in a change of the government in the 2006 elections. The reform efforts have stalled since the mid 2000s, mainly due to a lack of will on the left and lack of cohesion on the right sides of the political spectrum.

Democracy in the two republics is currently confronted with an increasing gap between political parties and citizens. In both countries the lack of interest in public matters is reflected in falling voter turnouts. In the Czech Republic, this can be attributed to the power-sharing agreement—the so-called 'opposition contract'—established after the 1998 elections by the two major political parties. This mutual cooperation has been perceived as a breach of the pre-election promises of both parties, leading to lower turnout rates in subsequent elections (Linek, 2011).

The Slovak elections in 1998 were exceptional as the political situation at that time was highly polarized and led to 84 per cent turnout. After 2002, turnout rates in parliamentary elections in both countries dropped markedly to a relatively stable level of 55 to 65 per cent.²¹

²¹ Statistical Office of the Czech Republic, Statistical Office of the Slovak Republic.

In both countries parliamentary elections attract the largest shares of voters, and regional and European election exhibit the lowest turn-out rates, with municipal elections somewhere in between. Voters with a higher socio-economic status have the highest participation in parliamentary elections in both countries. Similarly the observed participation in civic organizations is higher among more educated and wealthier people.

During the communist regime, there was *de facto* (although not *de iure*) obligatory membership of trade unions. Following the change of the political regime, union density (i.e. the proportion of employees who are union members) dropped from more than 60 per cent in 1993 to only 17 per cent in 2009 in each of the countries.²² Union coverage, defined as the share of employees whose contract is regulated by wage bargaining agreements, stabilized at around 40 per cent in recent years. A detailed analysis of trends and an historical overview of union membership can be found in Myant (2010).

Social inequality affects not only civic and political engagement but also the degree to which people trust other people and society as a whole (see Table 2.4.1). The Czech Republic exhibits higher levels of social trust (i.e. trust in other people) among Central and Eastern European (CEE) countries. Sedláčková and Šafr (2008) report that the level of social trust in the Czech Republic has been relatively stable over the last 20 years. Opinion polls from the Public Opinion Research Centre²³ in the years 1998–2006 show that the level of institutional trust in the Czech Republic was relatively stable over that period, along with the ordering of institutions based on the observed levels of public confidence. Stachova *et al.* (2008) confirm that the president was the most trusted institution in the Czech Republic in 2004 (trusted by 74 per cent of respondents). Other institutions with a high level of trust are municipal (61 per cent) and regional (42 per cent) councils. National institutions, such as the parliament (23 per cent) and government (32 per cent) have much lower levels of trust. These results are in line with Mishler and Rose (2001) who show that distrust in post-communist societies is greatest for political institutions, especially parliaments and parties.²⁴

The level of trust in national institutions in Slovakia is generally low from the European perspective. Using the ESS surveys, Lovaš (2010) observes that the Slovak people report higher trust in international institutions such as the European Parliament and the United Nations than in national institutions. In particular, trust in the Slovak judiciary is amongst the lowest in the European Union. Bojarski and Koster (2012) argue that the public generally does not have trust in the impartiality of its judges, believes the judiciary is corrupt, and complains about the lengthiness of legal procedures. On the other hand, trust in the Slovak government and parliament has increased. Based on the Eurobarometer surveys, the share of people trusting the Slovak parliament and government steadily increased from 23 per cent in 2005 to 40 per cent in 2010. Trust in justice remained stable over the same period, at about 30 per cent. The reported trust varies little by educational attainment, yet people with the lowest levels of education report slightly higher trust in national institutions. Our analysis of the data from the ESS shows that one in three respondents in 2010 agreed that most people can be trusted in both countries. Individuals with higher education and those

²² Figures on union density and union coverage are taken from ICTWSS database (<www.uva-aias.net/208>).

²³ Public Opinion Research Centre, Sociological Data Archive IS CAS CR, <<http://archiv.soc.cas.cz>>.

²⁴ Based on New Democracies Barometer survey conducted in 1998 in Belarus, Bulgaria, the Czech Republic, Hungary, Poland, the Russian Federation, Romania, Slovakia, Slovenia and Ukraine.

Table 24.1 Trust indicators, political values and values about social policy (per cent of total population)

	Czech Republic						Slovakia					
	2005	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009	2010
Trust in others and in institutions												
Institutional trust (Government)	24	31	21	20	28		23	27	42	43	39	
Institutional trust (Parliament)	17	22	17	16	21		25	30	38	39	40	
Institutional trust (Justice)	34	37	33	34	41		28	33	28	32	31	
Interpersonal trust				38		35		28		27		31
Political values and legitimacy												
EU membership approval	50	52	48	51	45	30	55	57	65	65	71	59
Agreeing no further immigrants to be allowed to country (from poorer countries)				22		26		13		15		20
Values about social policy and welfare state												
Income differences are too large in the country					53							61
Government should reduce differences	63			54		63		74		68		77
Consider the social welfare situation as good	35	41	35				12	20	24			
Poor are lazy					28	25					23	19

Note: For more details see Kahanec *et al.* (2013).

Source: Authors' calculations based on ESS, ISSP and Eurobarometer surveys.

in richer households report higher levels of trust in people and the observed gap is larger in Slovakia.

The Czech and Slovak societies also differ markedly when it comes to their support for, and the benefits they perceive to come from, the European Union. While the Czech Republic can be characterized by growing Euro-scepticism, support for the European Union and approval of EU membership remain strong in Slovakia. In the Czech Republic, public criticism of the European Union has grown, and faith in its benefits and institutions has eroded. In general, the Czech population appears to be either indifferent or mildly supportive of pessimistic beliefs about the future of the European Union.

Interestingly, despite the adverse effects of the current economic crisis, both countries have exhibited declining support for extremist parties since the late 2000s. In the Czech Republic, the aggregated support for extremist parties reached its pinnacle in 1992 and then again in 2002, and since then it has dropped to 12.4 per cent. In Slovakia, the aggregated support for extremist parties culminated in 2006 at 15.8 per cent, since which time it has dropped to just above 7 per cent in the 2010 and 2012 elections, with no extremist party making it into the parliament in 2012.

One has to approach these positive developments with due caution. When asked about right and left preferences,²⁵ a relatively stable share of Czechs, 16 to 19 per cent, identify themselves with extreme political views on the left-right spectrum, whereas the corresponding share in Slovakia increased from 16 per cent in 2004 to 22 per cent in 2010. In both countries, the gradients by education and income are negative for the support of left-extreme parties, and positive for the support of right-extreme parties; and in the case of education they are significantly more pronounced in the Czech Republic than in Slovakia.²⁶

These concerns are confirmed by the statistics on tolerance toward immigration, which has declined in both countries, more steeply and to somewhat lower levels in the Czech Republic. This latter observation may be linked to the relatively high recent inflow of immigrants in the Czech Republic (but not in Slovakia). In 2010, on average one in four respondents of ESS in the Czech Republic opposed the immigration of either different ethnic groups or those from poorer countries outside Europe, while the corresponding rate in Slovakia was one in five.²⁷ In both countries the education and income gradients of tolerance to immigration are steeply negative. On average, people with higher education oppose immigration half as often as less-educated individuals.

The negative perceptions of the existing income inequalities have been declining in both countries, from significantly higher levels in Slovakia. In both countries, the educational and income gradients of these perceptions are negative. Support for governmental redistribution of income is significantly stronger in Slovakia than in the Czech Republic, with both countries sharing negative gradients by education and income. Satisfaction with the social situation is higher and stable in the Czech Republic, and one in three respondents in the

²⁵ Political self-identification is based on the question in ESS 'In politics, people sometimes talk of "left" and "right." Where would you place yourself on this scale, where 0 means the left and 10 means the right?' Answers 0 and 1 are treated as 'extreme left' while 9 and 10 as 'extreme right'.

²⁶ Kahanec *et al.* (2013).

²⁷ The number is the share of ESS respondents who agree that no further immigrants should be allowed to come and live in the country.

ESS survey consider the social situation as good or very good. In Slovakia, based on the ESS, popular satisfaction with the social situation has doubled between 2005 and 2007, with one in four respondents expressing satisfaction in 2007. The educational and income gradients concerning this variable are rather flat in both countries.²⁸

The two countries do not differ much in how the important factors for getting ahead in life are perceived, although in Slovakia getting a good education, working hard, knowing the right people, or being smart are, compared to the Czech Republic, viewed as relatively more important than coming from a wealthy family or being lucky.²⁹ On the other hand, a somewhat higher share of people in the Czech Republic than in Slovakia think that people live in poverty because of laziness and lack willpower.

5. ARE PUBLIC POLICIES EFFECTIVE IN COMBATTING INEQUALITIES?

In this section, we study the main features of public policies in the Czech Republic and Slovakia that have affected or potentially could affect socio-economic inequalities. The role of trade unions notably conditions these linkages. In both countries, as in most of Central Europe, the power of trade unions declined dramatically in the 1990s. Unionization in the two republics is lower than the EU average in spite of an economic structure relatively favourable to unions, with a large share of manufacturing and middle-sized firms. To illustrate, in Slovakia the actual coverage rate is estimated at 40 per cent, and only a few sectors in the economy preserve collective bargaining.³⁰

The general weakness of unions is similarly reflected in other important domains. The last change to the minimum wage in the Czech Republic took place in 2007, and its current level is about 33 per cent of the average wage.³¹ In Slovakia the minimum wage had fallen to 35 per cent of the average wage by 2000. In the early 2010s, the minimum wage was once again at about 40 per cent of the average wage, with 5.4 per cent of employees earning the minimum wage.³² Due to its relatively low and declining relative value the minimum wage did not affect many workers especially in the Czech Republic. The overall effect of the minimum wage is not clear, however. On the one hand, a relatively low minimum wage facilitates employment of low-skilled employees, enabling firms to hire them at affordable costs. On the other hand, low levels of minimum wages create conditions for the emergence of a stratum of working poor in the labour market, although the underlying cause has more to do with the inefficient educational system and labour market mismatches.

²⁸ Kahanec *et al.* (2013).

²⁹ Figures come from the Eurobarometer 2006 survey which asked its respondents to identify two important things for getting ahead in life.

³⁰ Source: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS), <www.uva-aias.net/208>.

³¹ Source: Czech Statistical Office. For detailed data see Table 5.1 in Kahanec *et al.* (2013).

³² Source: SOSR, authors' calculations. For detailed data see Table 5.2 in Kahanec *et al.* (2013).

In the 1990s, the number of self-employed workers grew rapidly in most of Central Europe, necessitating a hastened adjustment of the legislative framework, sometimes with unforeseen consequences. Both the Czech and Slovak labour markets feature a special regime for self-employed workers entitling them to pay lower social security and health insurance contributions than comparable employees have to pay. While this reduces the cost of their labour and may have enabled some workers to find a job—often as dependent self-employed—the lower social security contributions for self-employed workers result in lower future social entitlements and threaten stable social development in the future. Indeed there already is a group of retired self-employed who need to be supported by additional social transfers because they are only entitled to very low pensions.

The Czech tax system consists mainly of income taxes and taxes on production. According to Eurostat, the share of taxes on production reaches around 60 per cent of the total tax receipt and has been increasing. Restructuring the tax burden from income to production and consumption taxes has shifted the tax burden onto lower-income households. The most important recent change in the income tax system was the introduction of the flat-rate tax in 2006, which slightly reduced the tax burden for all income groups. The development over time suggests that after its introduction the level of redistribution increased compared to 2005.³³ Effective as of 1 January 2013, a second tax rate of 22 per cent is applied to income over CZK100,000 per month. Although this implies a slight increase in the degree of redistribution, the Nečas government is also increasing consumption taxes, which can be expected to have an adverse effect on the relative well-being of low-income households.

Until the mid 2000s, Slovakia had progressive tax brackets for income taxes. One of the milestones in taxation policy was the introduction of a flat income tax rate in 2004. The tax reform also included changes in value added tax (VAT) and in taxes on capital. In income taxation, instead of a progressive scheme, a single tax rate was introduced together with a system of deductions. An analysis by the Ministry of Finance claimed a ‘not negative’ impact on low-income groups, a slightly negative impact on middle-income groups and a strictly positive impact on high-income groups (MF SR, 2005). However, the potentially positive effect on low-income groups of the increase of tax deductibles was in part countermanded by the simultaneous introduction of a flat VAT rate, which effectively increased the VAT tax rate on some basic goods and services. Overall, the new taxation system in Slovakia seems to be less redistributive than the former one (Brook and Leibfritz, 2005; Moore, 2005). Most recently, the second Fico government has introduced a tax of 25 per cent on income over €39,600 per annum. This formally increases the progressiveness of the tax system, but it is expected to affect only about 1 per cent of taxpayers.

Both the Czech Republic and Slovakia impose high social security contributions on labour.³⁴ These significantly increase labour costs and may result in unemployment. The problem appears to be more severe in Slovakia, which suffers from some of the highest long-term unemployment rates in Europe.

As Jurajda and Münich (2011, 2012) point out, in the Czech Republic in the late 2000s around 27 per cent of all expenditures on employment policies were spent on active labour market

³³ Source: Eurostat. For detailed data see Table 5.4 in Kahanec *et al.* (2013).

³⁴ The Czech Republic and Slovakia have the highest labour costs among the Visegrad countries (OECD, 2006).

Table 24.2 Social expenditures

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Czech Republic										
<i>All functions</i>	18.2	18.1	18.8	18.8	18	17.8	17.4	17.5	17.5	19.8
Sickness/health care	6.1	6.2	6.6	6.7	6.3	6.3	6	5.9	5.8	6.4
Invalidity	1.4	1.4	1.5	1.5	1.4	1.4	1.5	1.4	1.4	1.5
Old age	7.1	6.9	7.1	6.9	6.6	6.8	6.8	6.9	7.3	8.3
Survivors	0.8	0.8	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.8
Family/children	1.5	1.5	1.5	1.4	1.5	1.3	1.3	1.6	1.4	1.4
Unemployment	0.6	0.6	0.6	0.8	0.7	0.6	0.6	0.6	0.6	1.1
Housing	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social exclusion	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.2	0.2	0.2
Slovakia										
<i>All functions</i>	18.8	18.4	18.5	17.8	16.6	15.9	15.7	15.4	15.5	18.2
Sickness/health care	6.5	6.4	6.3	5.7	5.0	4.8	4.8	4.7	5.1	5.8
Invalidity	1.4	1.5	1.6	1.6	1.3	1.3	1.3	1.3	1.4	1.5
Old age	6.0	6.1	6.2	6.3	6.1	6.2	6.1	5.9	5.8	6.8
Survivors	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	1.0
Family/children	1.7	1.5	1.5	1.5	1.7	1.7	1.6	1.5	1.5	1.7
Unemployment	0.9	0.7	0.8	1.0	1.0	0.5	0.5	0.6	0.6	1.0
Housing	0.1	0.1	0.1	0.1	0.0					
Social exclusion	1.2	1.2	1.1	0.8	0.5	0.5	0.6	0.5	0.4	0.4

Note: In per cent of GDP.

Source: Eurostat.

policies. In Slovakia, the expenditures on active labour market policies were low and even fell from 16 to 14 per cent of all expenditures on employment policies between 2004 to 2010.³⁵

In the Czech Republic, 17.5 per cent of GDP was spent on social expenditures in 2008 but with the crisis, this increased to 19.8 per cent in 2009 (See Table 24.2). In Slovakia, according to the OECD SOCX database, social expenditures expressed as a percentage of GDP were near the OECD average in 1995, but considerably lower in 2007—the OECD average was 19.2 per cent of GDP, whereas for Slovakia it was 15.7 per cent.³⁶ The current discussion about social policies in the Czech Republic and Slovakia alike is centred around their negative effect on incentives to seek employment, especially for individuals with lower productivity. Such distortions could negatively affect income distribution, driving less productive workers into long-term unemployment or the inactivity trap. On the other hand, the potential enabling and empowering effects of social benefits and services are habitually ignored in the debate.

Old age pensions are one of the biggest long-term challenges for the sustainability of public finances in both the Czech Republic and Slovakia. In Slovakia, the reform introduced in

³⁵ Eurostat database on Labour market policies (LMP)

³⁶ For detailed data see Table 5.7 in Kahanec *et al.* (2013).

2004 changed the former pay-as-you-go pension system to a three-pillar system. The first pillar retained the features of the former PAYG system (i.e. non-funded pillar and mandatory), the second pillar is fully funded and mandatory, and the third pillar is fully funded but voluntary. The reforms were intended to strengthen the link between the contributions and benefits as well as to create a more stable pension system based on diversified sources (Melicherčík and Ungvarský, 2004).

The Czech Republic has a pay-as-you-go (PAYG) public pension system, although there have been several attempts to reform the system and maintain sustainability with respect to demographic challenges such as an ageing population. Recently, however, measures were undertaken to make early retirement less attractive; the statutory retirement age has been increased each year; and a new second pillar will be established in 2013.

In Slovakia, the accessibility of health services is in general satisfactory, although the level of services provided varies. Moreover, the health sector generates a considerable share of public debt. Verhoeven *et al.* (2007) found that health care efficiency is rather low compared to western European standards. As the main source of inefficiency, they identified the low private contributions and high number of consultations and visits to doctors. During the 2000s, some reforms, such as privatization of city hospitals and the introduction of co-payments by patients, were introduced. However, their level was rather low and the expected result—the decrease of unnecessary visits at the doctor—was not achieved. The co-payments were abolished in 2006 when the first Fico government took office. None of the reform measures implemented in 2003 and 2004 resolved the problem of systemically generated debt in the sector.

The health-care system in the Czech Republic functions relatively well, with formally equal access for the whole population.³⁷ It is publicly funded, but the government recently established several policy changes that increased private co-payment into the system. First, there are gradually increasing co-payments for prescribed medication. The second change dates back to 2008 when the Czech government imposed co-payment for each visit to a general practitioner, prescriptions, and days of hospitalization. The reform did not change the behaviour of the most vulnerable groups of patients. The increasing trend of utilization by older individuals persists, and thus they carry a larger financial burden.³⁸

The Czech and Slovak education systems are notoriously under-financed and in need of structural reforms, yet there have been few signs of improvement. Teachers' wages at all educational levels are too low to be competitive in the labour market. However, there has been significant improvement in the accessibility of tertiary education in both countries. In the Czech Republic, the number of university students increased by 68 per cent from 2001 to 2010. In Slovakia, the increase over the same period was 63 per cent.³⁹ The increased number of tertiary educated people has the potential to reduce earnings inequalities by eroding the skill premium.⁴⁰ However, the inflated numbers of university students put significant

³⁷ Hromadkova and Zdenek (2012).

³⁸ Hromadkova and Zdenek (2012).

³⁹ Own calculations, Eurostat Data Explorer (educ_itertp).

⁴⁰ See Kahanec and Zimmermann (2009) for an argument on how increased supply of skilled workers can reduce the Gini coefficient.

pressure on the capacity of tertiary education to provide quality. Moreover, university programmes often fail to meet the demand for skills in the labour market.

Secondary education in both republics is based on the early tracking of children into different types of schools. There is a strong sorting of students based on their background into the *gymnázium* (secondary grammar school), vocational schools and apprenticeships. In fact, the pool of children is fairly homogeneous within school types. This is an important source of inequality, as those students who choose the ‘wrong’ type of school are disadvantaged in access to further education and ultimately to the labour market.

To conclude, there have recently been a number of institutional developments, some of which decreased and some of which increased the degree of redistribution in the two republics. The two countries in fact shared a very similar pattern and contrary to the preceding decade in the 2000s it was Slovakia which introduced a number of key reform measures first.

Among the measures that decreased the degree of redistribution could be considered the shift to consumption and production taxes such as the VAT, the introduction of the flat tax rate, the introduction of the funded pension pillar in Slovakia (with a similar reform planned in the Czech Republic), the stricter conditionality of access to and decreased generosity of social security, and the introduction of co-payments in the health care sector. The weakening of trade unions in both republics and diminishing minimum wage in the Czech Republic provides for additional impacts on inequalities.

On the other hand, some of these reforms have resulted in a greater degree of redistribution. Among the primary examples are the higher taxation of income over certain thresholds, weakening of the funded pension pillar, and discontinuation of some co-payments in Slovakia. More accessible tertiary education can be expected to lower income inequalities in the future. In addition, the positive effects of reforms on employment and labour market participation provide for more equitable access to labour income.

6. CONCLUSIONS AND IMPLICATIONS: A COMPARATIVE PERSPECTIVE ON INEQUALITY IN THE CZECH REPUBLIC AND SLOVAKIA

The two nations under scrutiny shared one state from 1918 until 1992, with a de facto exception in the period between 1939 and 1945 during World War II. Even after their independence on 1 January 1993, the two republics underwent broadly similar social, economic and political transitions. This history of shared institutions and similar transformations can be expected to manifest itself in similar inequalities with similar development.

On the other hand, the two nations differed in many aspects as well. While, in 1918, the Czech, Moravian and Silesian Lands emerged as a rather industrialized part of the Austrian part of Austria-Hungary, Slovakia entered the newly established Czechoslovakia with a legacy of underdeveloped institutions and a predominantly agrarian population from the Hungarian part of Austria-Hungary. While, by European standards, Czech society is traditionally very secularized, religiosity—primarily Roman Catholic—is rather high in Slovakia. The Czech Republic started as a vigorous reformer in the 1990s, slowing down a bit

in the 2000s. Slovakia lagged behind its neighbours in the 1990s, but has reformed at a very high pace since 1998, especially up to the mid 2000s. In some important aspects, such as the introduction of the flat-rate tax regime, funded pension schemes, and introduction of the Euro it was even ahead of its western neighbour.

Such differences resulted in some divergences in the development of inequalities in the two countries. Inasmuch as we can interpret historical data from several sources, the two republics shared a general pattern of decreasing income inequality until just after the fall of the Iron Curtain, increasing inequality until the late 1990s, and rather trendless, or slightly decreasing, inequality since then. In both countries, increasing inequality during the early transition period can be ascribed to the massive transformations that the two nations went through at that time. These primarily involve price liberalization, introduction of hard budget constraints, privatization, labour market reforms, and changes in the social security system. Another related development is the increase in the share of rather unequally distributed non-labour income in people's total income in both countries, as self-employment and private ownership were legalized after the Velvet Revolution. After the initial transformation turmoil of the 1990s subsided, it appears that in each country income inequalities stayed relatively stable. Taxation and transfers have mitigated income inequalities significantly.

Although the data do not permit a decisive conclusion on whether inequality rose more in Slovakia than in the Czech Republic over the 1990s, it appears that more vigorous reforms in the Czech Republic in that period did not lead to larger, but rather to perhaps smaller, increases in income inequality. On the other hand, the reforms implemented during the late 1990s and early 2000s in Slovakia do not appear to have increased income inequality in Slovakia, excepting perhaps an initial shock in late 1990s. However, the long run effects of the flat-tax rate, funded second pillar of the pension systems, and decreasing social security benefits may lead to increased inequality in the two countries in the future.

In spite of these similarities, the two countries differ markedly in their experience with the labour market. While the unemployment rate has been rather high and varying in Slovakia, it has been moderate and stable in the Czech Republic.⁴¹ As concerns labour force participation rates, they have been rather high and at about the same levels in the two countries for prime-age workers, increasing for elderly workers and decreasing for the youth.⁴² The last trend can be explained by steeply increasing university enrolment rates, underscoring the importance of a marketable education for the younger generations, who are trading off expected returns to human capital investment for the labour income forgone during their studies.

Current inequalities are also driven by the sectoral restructuring through which the two countries have gone since the fall of the communist regime. Both countries exhibit a relatively large and growing service sector, although the gap relative to the EU15 has declined only moderately. Even more remarkable is the decline of the agricultural sectors in the two countries, attaining the levels typical for the EU15.⁴³ From the historical perspective, and for the interpretation of our findings, it is important to note that the legacy of an agricultural, less-industrialized Slovakia from the earlier 20th century has been obliterated during the last few decades. Slovakia now has the largest service sector and smallest agricultural sector, measured by employment, among the

⁴¹ Own calculations based on EU LFS. See Figure 6.2 in Kahanec *et al.* (2013).

⁴² Own calculations based on EU LFS. See Figures 6.3-5 in Kahanec *et al.* (2013).

⁴³ Own calculations based on EU LFS. See Figures 6.6-7 in Kahanec *et al.* (2013).

Visegrad countries. The relative size of the agricultural sector in Slovakia has recently declined below the level of the Czech Republic and below the EU15 average.

In both countries we observe significant positive gradients of educational attainment and labour market success, whether measured by earnings or employment probabilities.⁴⁴ With the steeply increased university enrolment rates, we can expect attenuation of these gradients and inequality when these larger cohorts of university graduates enter the labour market. This may also happen through the decreased quality of overcrowded institutions of higher education.

While inequalities have affected the whole Czech and Slovak populations, some of the sub-populations have been more affected than others. In both countries, women, the elderly and the young, the less educated, and those living in less-developed regions are among the most affected. Most of the Roma people are affected by severe social exclusion and poverty.

The effects of inequality go well beyond economic categories. People at the bottom of the income distribution often suffer from material deprivation. In both countries, the gains from the robust economic performance in the recent decade appear to have trickled down to the poorer echelons of the society, as the rate of material deprivation fell significantly in each of the countries. This decrease appears to have stalled during the crisis. Among those most affected by material deprivation are women, the Roma people, less-educated people, and people living in less-developed regions.

The two countries also shared a diminishing rate of poverty or social exclusion in the 2000s. While Slovakia was reducing its rate of poverty or social exclusion faster, it also started at higher levels. In both countries, young people appear to be more likely to find themselves in poverty or social exclusion, and to some extent this is the case also for the elderly, especially women, in Slovakia. In contrast, in the Czech Republic the elderly appear to be in a better position than any other age group.

Household structure is a key factor, and effect, of income inequality. Both countries under scrutiny suffer from an ageing population and low fertility rates, declining through the 1990s and slightly recovering during the 2000s. Both countries have experienced a significant increase of age at first marriage during the last two decades and a decrease in the number of marriages, excepting the first half of the 2000s.

The two countries share similar developments in the housing market: high homeownership rates, increasing housing prices and fast-growing numbers of mortgages prior to the Great Recession, as well as large regional disparities in housing prices. These regional disparities in housing prices have contributed to wealth and income disparities and, combined with credit constraints, impeded labour migration.

The overall perceptions of health status have improved in both countries, although fewer females than males report good or fairly good health. During the last decade crime has been in decline in the Czech Republic, but the number of people in prison has been growing. The same holds for Slovakia, excepting the early 2000s.

A key variable reflecting people's participation in the political life of the society is electoral turn out. We observe similar patterns in the Czech Republic and Slovakia, urban or rural: the turn-out rates increase from regional and European elections through municipal elections up to the highest rates for parliamentary elections. Unlike in Slovakia, the impact of education on inequality in electoral participation in the Czech Republic is rather high.

⁴⁴ SOSR 2010, Eurostat, and own calculations.

Civic participation is somewhat higher in the Czech Republic, which also exhibits a steeper gradient by education and to some extent also by income. Both nations have experienced rather similar patterns of declining union density and union coverage. In both countries trust in other people has been generally increasing since the early 2000s, with Slovakia enjoying a considerably more significant improvement in this measure of trust, although still at somewhat lower levels than in the Czech Republic. The educational and especially income gradients are steeper in Slovakia.

Institutional trust has also been improving in the two countries, although remaining relatively low by the standards observed in Western Europe. Slovakia belongs to the countries with a robust support for European Union institutions, whereas the Czech Republic exhibits a higher degree of Euro-scepticism.

The two countries differ significantly when it comes to voters' preferences for extremist parties. While, in Slovakia, the majority of votes for extremists go to right-wing parties, in the Czech Republic they go to the left extreme of the spectrum. The underlying explanatory factor may be a higher degree of conservatism in Slovak society. Quite remarkably, in spite of the adverse effects of the Great Recession, both countries, especially Slovakia, have exhibited declining support for extremist parties since the late 2000s. On the other hand, the shares of people identifying with extreme political views on the left-right spectrum remained significant in both countries. In the same vein, tolerance toward immigration has declined in both countries.

The negative perceptions of existing income inequality have been declining in both countries, from significantly higher levels in Slovakia. The approval of governmental redistribution of income is significantly stronger in Slovakia than the Czech Republic, with both countries sharing negative gradients by education and income. While satisfaction with the social situation is higher and stagnating in the Czech Republic, it is growing in Slovakia.

The future prospects of inequalities are largely determined by the quality of health care and education. Public expenditures on health care have been relatively high and increasing in the Czech Republic, whereas in Slovakia they have been stagnating. When it comes to education, both countries share the trend of decreasing numbers of pupils but increased participation in tertiary education, an early-tracking educational system, and limited life-long learning. Against this background, both countries also experienced decreasing expenditures on education until 2008, with a slight increase in 2009. While part of this development can be explained by strong GDP growth prior to 2008 and a decline in 2009, these trends still signify a decreasing priority given to education and result in several problems, including a deteriorating quality of education and negative selection into teaching occupations. All these factors combined to provide for increased inequalities in the distribution of human capital. With the declining capacity of the welfare state to dampen their impacts, these fundamental inequalities will, in both countries, manifest themselves in increasing inequalities in terms of most socio-economic variables, including income, poverty, political and civic participation, or crime.

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