



## Rebuilding the Social Welfare System

Jiri Pehe

*Radical economic reform in Czechoslovakia is to be accompanied by an extensive reform of the system guaranteeing Czechoslovak citizens a certain standard of social welfare. The government has prepared a comprehensive program of social welfare measures, the first such document since 1948. Designed to soften the adverse consequences of economic reform, the rebuilding of the social welfare system will be based on a radical decentralization of the system established by the Communists.*

**T**he Czechoslovak government has adopted a comprehensive program of measures aimed at reconstructing the country's social welfare system. While some measures will be implemented by the federal government, others will fall under the jurisdiction of the Czech and Slovak governments; most reforms will have to be approved by both the federal and the republican legislatures. The rebuilding of the social welfare system is considered necessary to counter the adverse effects of the radical economic reform that began in 1990; these include rising unemployment and a temporary decline in the standard of living.

The reform of social welfare will affect all basic components of that system: pensions, unemployment benefits, welfare payments of all kinds, family allowances, and health insurance. It will be based on a radical decentralization of the social welfare system established by the Communists and will aim to end the state's monopoly on that system.<sup>1</sup> Important government decisions on the reform will be subject to consultations with the so-called Council

of Economic and Social Consensus, which is composed of representatives of trade unions, major employers, and the government. While the council currently exists only at the central government level, similar tripartite councils will eventually be set up in all districts and will supervise the work of district "employment" and "social security" bureaus. However, the administration of the social welfare system will be left largely to local government agencies, in particular the municipal councils.

### **A Social Safety Net**

The government's program foresees a radical differentiation among the various forms of social welfare. Although in the past the state played a dominant role in running the system, it will now act only as a "last resort"; for example, when other forms of insurance have failed. Citizens will be able to opt for various kinds of voluntary insurance. Some social services will be subsidized by companies; others will be run by communities; still others will be left to various self-help groups. The state will

merely guarantee a "minimum" degree of social welfare, designed to help those people who would otherwise find themselves inexorably sliding below the subsistence level. In addition, it will continue to provide family benefits. Child allowances and financial support for needy parents will continue to be administered by the state and financed from the state budget, since it was felt that these services could not be delegated to private insurance companies.

The creation of a so-called social safety net is seen as the most urgent step. To avoid the possibility of an inadequate social welfare system becoming an obstacle to the country's eventual admission into the European Community (EC), the government intends to ensure that such a net takes into account the definition in the EC's Social Charter of the poverty level.

Currently, the minimum welfare payment for single people is 1,200 koruny a month (approximately \$43 at the present exchange rate of 28 koruny to \$1 or one-third of the average monthly wage in Czechoslovakia). This amount is paid to people who cannot find employment after the period in which they were entitled to draw unemployment benefit has expired and to those who have never found jobs. The latter category increasingly includes high-school and university graduates who have failed to find gainful employment.<sup>2</sup> For example, out of a total of 9,000 welfare recipients in the Czech Republic at the end of 1990,<sup>3</sup> some 2,000 were high-school graduates and 800 were university graduates.<sup>4</sup> In Slovakia, some 33,000 people received welfare payments at various times in the course of 1990 (the exact number of people on welfare at the end of the year was not announced). Federal Minister of Labor Petr Miller has recently said that an increase in the cost of living of only 10% could double the number of people living at the poverty level and could mean that between 700,000 and 1,300,000 people would require government assistance.<sup>5</sup>

In 1991, as prices and the rate of inflation rise, some welfare and other social security benefits will increase. The latter are not, however, expected to increase at the same rate as the former. The reason for this is that the government wants to counter inflationary pressures in 1991 by limiting wage increases, expecting a 12% decline in real wages.<sup>6</sup> If welfare and social security benefits were allowed to grow much faster than wages, namely, as fast as prices and inflation, some social groups might regard dependence on social welfare services as an attractive alternative to looking for employment. The government therefore wants to ensure that only welfare and social security benefits for the economically weakest social groups increase faster

than wages. Increases in welfare and social security payments to all other groups will be synchronized with overall wage increases.<sup>7</sup>

According to the social welfare program adopted by the government, the number of social services and state benefits for families will be increased. For example, the state will provide housing allowances for some families as well as allowances for disabled and sick children. The subsistence level for families set by the state will differ according to the size of the family and the age of the children. In 1990 the government increased the so-called maternal allowance, which is paid to those mothers who opt to stay at home with their children after the expiry of maternity leave benefits. During maternity leave, which extends for 28 weeks after giving birth, mothers receive 90% of the wage they earned before taking maternity leave. After the 28th week, mothers now receive 900 koruny a month (\$32 at the current exchange rate), a 50% increase over the June 1990 level, and are entitled to receive these benefits until the child is three years old.<sup>8</sup> Single mothers will also receive welfare payments guaranteeing them a subsistence income. Moreover, looking after a child has been given the legal status of "employment," meaning that the time mothers spend looking after their children is counted for social security purposes (pensions and unemployment benefits) in the same way as if they had been employed.

#### Other Forms of Social Assistance

While the state will guarantee a social safety net and introduce measures benefiting families, some other forms of social security, such as pensions and, to a lesser extent, unemployment benefits, will be financed from so-called public funds. These funds will not be part of the state budget and will be administered by the so-called social security bureaus. All those gainfully employed will be expected to contribute to these funds, and contributions will be mandatory. It is expected, however, that many people will insure themselves privately, either through private insurance companies of their choice or through self-help groups. Employers, too, will be allowed to set up special pension funds.

Most pensions will have three basic components. The amount paid out as the first component will be the same for all citizens and will guarantee the subsistence level. The sum paid as the second component will depend on an individual's earnings and the number of years he spent working. The third component will provide pensioners who are seriously ill, disabled, or otherwise handicapped with special allowances.<sup>9</sup> In an attempt to offset the rising cost of living, the Federal Assembly recently debated a draft law that would increase the pensions of some 3,500,000 people in Czechoslovakia; the

law is expected to be passed in February. Low pensions will rise on average by some 8%, while the highest pensions will be increased only slightly or not at all. The upper limit for a pension has been set at 3,800 koruny (\$100) a month. The minimum pension for a single person will increase from the current 1,200 koruny (\$42) to 1,440 koruny (\$52) a month. The minimum pension for couples will increase from the current 2,000 koruny (\$71) to 2,400 koruny (\$86) a month.<sup>10</sup>

Radical differentiation is envisaged in health insurance, which the state will continue to dominate for some time. Basic health insurance will be mandatory for all working people, and contributions will depend on the earnings of the individual. People without a job will automatically be insured by the state. However, the state-run insurance system is expected to be supplemented soon by a private insurance network, which will offer additional and different forms of insurance. People with higher earnings will be able to insure themselves for "nonessential medical care" at state-run insurance companies. Major companies and professional associations will be allowed to set up their own insurance schemes and pension funds and use them to invest in the companies' development. Finally, people will be able to use the services of private insurance companies.<sup>11</sup>

### Unemployment Services

The government expects a 5% unemployment rate (some 350,000 people) by the end of 1991. (Some projections have put this figure at between 10% and 15%.<sup>12</sup>) At the end of 1990, some 30,000 people were unemployed in the Czech Republic, 21,000 of whom were receiving unemployment benefits.<sup>13</sup> In Slovakia, the unemployment rate was three times higher than in the Czech Republic. In the course of 1990, some 53,000 people were registered as unemployed; at the end of 1990, there were 37,586 registered job seekers in Slovakia, constituting an unemployment rate of 1.2%.<sup>14</sup> Both the Czech and the Slovak governments expect unemployment to rise, mainly because of the closure of enterprises unable to survive in a market economy. While the projected figure of 5% seems relatively low by Western standards, some government officials have warned that even such relatively low unemployment could lead to social upheavals in Czechoslovakia, which is unaccustomed to unemployment.

The so-called employment bureaus will be responsible for helping the unemployed find jobs. In the Czech Republic alone, some 3,500 people will work in these bureaus.<sup>15</sup> People who have lost their jobs will be registered with these bureaus as "job seekers" and will eventually be offered new positions or the chance to retrain. According to the current

regulations, someone who has lost his job is entitled to receive for six months 80% of the net wage he earned prior to becoming unemployed. If an individual is made redundant because of "organizational changes within the company," he will receive 90% of his net wage for six months. During the following six months, he will continue to draw 80% of his last wage but not more than 2,400 koruny (\$86) a month.<sup>16</sup>

New regulations that went into effect on January 1, 1991, stipulate that when someone loses his job as a result of organizational changes, the company is obliged to pay the worker made redundant a lump sum equivalent to two months' wages. Trade unions and employers may agree on a higher amount of compensation.<sup>17</sup> Partly owing to the introduction of mandatory compensation for workers made redundant, new laws on employment, which are soon to be passed by the Czech and Slovak National Councils, envisage a reduction in monthly unemployment benefits. These new benefit levels were agreed to by the tripartite Council of Economic and Social Consensus. During the first six months after losing his job as a result of organizational changes, the person in question will receive 65% of his net wage; this will drop to 60% during the next six months. If someone loses his job for reasons other than organizational changes, he will receive 60% of his net wage for one year.<sup>18</sup> An employment bureau will start paying out unemployment benefit to anyone registered with the bureau for whom it was unable to find a new position within seven days. Unemployment benefit is to be paid over 12 months; this period can be extended only if the unemployed person is being retrained. Anyone registered with an employment bureau must be able to prove that he is actively looking for new employment; otherwise, he may cease to be entitled to unemployment benefit.<sup>19</sup>

The Council of Economic and Social Consensus also agreed that the new minimum wage should be 10.8 koruny (40 cents) an hour or 2,000 koruny (\$71) a month. It also agreed that if the cost of living rose by more than 25% in the first two months of 1991, wages would be increased so that the decline in real wages did not exceed 12%.<sup>20</sup>

### Conclusion

According to some Czechoslovak politicians, the country's new social welfare system is based on the German model. It is clear, however, that as unemployment rises rapidly and budgetary constraints are enforced, the new system will face many difficulties. Even without any unexpected economic problems, pressure for expanded services and increased benefits is likely to emerge, as many people are not prepared to pay the price for rapid

economic change. Some recent opinion polls indicated that more than half of the Czechoslovak population welcomed economic reform but did not want their standard of living to fall.<sup>21</sup> Since economic improvements are not likely in the foreseeable future, many people will undoubtedly expect the social welfare system to offset the impact of the rising cost of living. The system will obviously be

able to do so only partly. Later, when economic conditions have improved, the new system should be able to emulate social welfare systems in developed countries, giving the people a number of choices and offering more than simply a social safety net.

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## Notes:

- 1 *Hospodarske Noviny*, January 17, 1991, p. 5.
- 2 *Rude Pravo*, December 12, 1990, p. 1.
- 3 Radio Czechoslovakia, December 19, 1990, noon.
- 4 *Hospodarske Noviny*, December 27, 1990, p. 8.
- 5 *Narodna Obroda*, January 10, 1991, p. 1; and AP, December 29, 1990.
- 6 Czechoslovak Television, January 28, 1991, 7:30 P.M.
- 7 *Hospodarske Noviny*, January 17, 1991, p. 1.
- 8 Radio Czechoslovakia, June 20, 1990, 7:30 P.M.
- 9 *Hospodarske Noviny*, January 17, 1991, p. 5.
- 10 Czechoslovak Television, January 22, 1991, 7:30 P.M.
- 11 *Hospodarske Noviny*, January 17, 1991, p. 5. See also Jiri Pehe, "Changes in the Health Care System," *Report on Eastern Europe*, no. 37, September 14, 1990.
- 12 AP, December 29, 1990.
- 13 Radio Czechoslovakia, December 19, 1990, noon.
- 14 *Narodna Obroda*, January 10, 1991, p. 2.
- 15 Radio Czechoslovakia, December 19, 1990, noon.
- 16 *Rude Pravo*, December 30, 1990, p. 2.
- 17 *Prace*, November 23, 1990, p. 2.
- 18 Radio Czechoslovakia, January 23, 1991, 3:20 P.M.
- 19 *Lidove Noviny*, December 13, 1990, p. 1.
- 20 Czechoslovak Television, January 28, 1991, 7:30 P.M.
- 21 See Jiri Pehe, "Recent Opinion Polls on Economic Reform," *Report on Eastern Europe*, no. 4, January 25, 1991.