

The Invisible
in the Czech
Republic:
When the Social
System
Is Expensive
and Inefficient



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The Czech Republic is one of the Eastern European economies that, despite its socialist past, is catching up economically with Western Europe¹. However, in addition to the increase in social welfare and overall national income, this process is naturally associated with a form of income and wealth inequality which is perfectly natural in modern market economies. The existence of a welfare system is, therefore, a kind of compromise between the philosophies of liberalism and egalitarianism, which is supposed to create a form of social cohesion to act as a fixed point in the current form of market economy.

Unfortunately, however, it very often happens that this idea of a *lifeline* for disadvantaged groups degenerates into increasingly swelling cushions, which – instead of providing help and a much-needed rebound for these groups – only cause them to sink deeper into it. Nevertheless, in the case of the Czech Republic, it could be cynically noted that, while the social system functions as an ever-widening cushion, disadvantaged groups fall outside its reach. The situation is, therefore, all the worse because the country has a social system that is not only costly, but also does not bring about social cohesion.

The situation is more complex because it is not just another form of non-receipt of social benefits (in the sense that the unwillingness to receive social benefits is only one of the problems). The reasons, problems, costs, and possible policies leading to an improvement of the case are specific to each subgroup of the total number of 1.3 million people falling through the social system of the Czech Republic – the so-called ‘invisible’².

¹ Blaha F., Pánek M., and M. Opatrný (2022) *Strategic Autonomy and the V4 Economies*, Prague: Center for Economic and Market Analysis.

² See the website devoted to the invisible: <https://neviditelni.org/> [in Czech]

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THE EXISTENCE OF A WELFARE SYSTEM IS A KIND OF COMPROMISE BETWEEN THE PHILOSOPHIES OF LIBERALISM AND EGALITARIANISM

One of the most pressing problems – which will be analyzed in a greater detail below – is undoubtedly the fact that these invisibles include not only the *recipients* of social services, but also the *providers*. This leads to a situation where those who help often need the assistance of public institutions themselves, thus creating a vicious circle of public spending. This is, perhaps, one of the reasons for the endless growth in spending on social transfers.

As already indicated, in this case, it is not possible to move in the classic dichotomy of ‘more money spent will save the world’. Indeed, it is a common misconception that the total amount and number of social transfers paid out is the best indication of how the weakest are being taken care of. In contrast, in a functioning society, the volume of social transfers paid out should be low because there should be a low number of disadvantaged individuals and groups. The initial idea in this case should be to try to reduce the total number of invisibles permanently, which

cannot simply be achieved by mindlessly increasing public spending.

INVISIBLE INDIVIDUALS, BUT A VISIBLE PROBLEM

In every modern society, there are individuals or groups of people who live on the margins of society – whether in the long or short term. In terms of public policy, these groups could be called ‘invisible’ actors³. Hejzlarová argues that these are often informalized groups without a distinct history and public policy experience shaped together⁴. These groups do not have the power or public-policy relevance to address the problem at hand, nor adequate resources (financial, social, or cultural capital) to enable them to solve problems.

Applying these theoretical principles to the Czech society, one can then make the Czech invisibles more concrete and categorize them into specific groups, each of which suffers from different problems and falls through the social system for different reasons⁵:

- **Single parents** (up to 210,000): a group of women (90%) / men (10%) who spend most of their time working, have low turnout and low incomes.
- **Low-income families** (up to 1,153,000): a group of people in a household whose income covers the monthly consumption of basic necessities of life without being able to build up a financial reserve or invest in human capital and quality of life.
- **Involuntarily unemployed** (up to 77,400): people who lost their jobs a few years before retirement (risk group 50+).

³ Hejzlarová E. (2014) “‘Invisible’ Stakeholders in Policy Analysis”, [in]: *Sociální Studia*, Vol. 1.

⁴ Ibid.

⁵ See the website devoted to the invisible: <https://nevid-itelni.org/> [in Czech]



THE COUNTRY HAS A SOCIAL SYSTEM THAT IS NOT ONLY COSTLY, BUT ALSO DOES NOT BRING ABOUT SOCIAL COHESION

- **College students** (between 800-1,200): This is a group of students from low-income families who must earn their own way through college because their families cannot provide the necessary financial support (dormitory, textbooks, fares, food, etc.).
- **Disabled** (up to 88,100): these may be persons with mild disabilities (either mental or physical – but the disability allows them to work) who have difficulty finding employment in competition with able-bodied persons.
- **Small entrepreneurs/entrepreneurs** (up to 290,000): a group is similar in type to farmers or low-income families. These are the people without state-guaranteed social security who devote most of their time to work.
- **Social service/non-profit sector workers** (up to 219,000): a low-income group that often receives little attention – either public or fiscal.
- **Retirees** (up to 838,000): low replacement rates combined with historically low wages, low savings, limited financial literacy and inflation are causing serious economic problems and poor quality of life.

- Young families (up to 9,400): a group of persons in a single household where partners became parents of children very early (either in high school or early college) and were not adequately prepared for this role.
- People on the margins of the shadow economy (214,000 to 535,000): the employed, self-employed, or unemployed people who officially receive very low wages (or social benefits and other social transfers) and generate the rest of their livelihood through so-called informal (unreported wages).

Determining the total number of invisibles is not easy, especially given the intermingling of the groups. The estimate made, based on the methods used in the analysis, is established on quantifying the number of people in low-income families, adjusted for the balances of other groups – especially participants in the informal economy. Thus, the total estimate of the invisible in the Czech Republic is between 1.3 and 1.6 million people⁶.

The main reason that makes the existence of these groups in the Czech Republic problematic, apart from the poor living situation of those affected (because one of the things these groups have in common is that their incomes are lower than the median wage in the country), is the impact on public finances. On the basis of a model calculation, when comparing the income of these particular groups with the median income in the Czech Republic, one can calculate that the state loses up to 174 billion crowns per year in tax collection from income taxes, social insurance, and health insurance⁷.

⁶ Ibid.

⁷ Consumer Forum (2021) *1,3 milionu Čechů je neviditelných. Na péči o ně vynaloží stát 174 miliard korun ročně*. Available [online]: <https://spotřebitelskeforum.cz/cs/2021/06/15/tz-13-milionu-cechu-je-neviditelných-na-pecí-o-ně-vynaloží-stat-174-miliard-korun-ročně/> [in Czech]

Logically, the social system should be a natural tool to reduce the number of the invisible and, therefore, to reduce the cost of their existence for public budgets. However, in its current form, this is, unfortunately, one of the reasons why the number of invisibles is increasing.

AS TRANSFERS INCREASE, SO DOES THE NUMBER OF RECIPIENTS

The total volume of social transfers paid through the Ministry of Labor and Social Affairs⁸ of the Czech Republic as well as the group of the invisible (the recipients of these transfers) continues to grow [See: Table 1]. At first glance, it is obvious that the growth of transfers has unfortunately not resulted in a reduction in the number of invisibles and that the Czech social system is failing in this respect. However, there are two main arguments against such a conclusion.

Opponents could certainly argue that the growth in the number of invisibles has only increased the total number of recipients of social benefits and, therefore, the number of individual transfers paid – which, in effect, means an increase in the total amount of social transfers. However, this argument is flawed because the increase in volume is mainly due to the increase and indexation of individual transfers⁹.

A second argument in favor of the Czech social system could be several socio-economic crises that Czech society has had to deal with in the past few years – the COVID-19 pandemic, the energy crisis, the war in Ukraine, and the poor economic situation. However, it is precisely under the argument of these crises that in recent years there has been such a marked increase in spending on social

⁸ Czech Ministry of Labor and Social Affairs (2023) *Informace o vyplacených dávkách*, Available [online]: <https://www.mpsv.cz/informace-o-vyplacenych-davkach> [in Czech]

⁹ Ibid.

Table 1: Growth in the number of Invisible and paid social transfers (2021–2023)

	Amount of paid social transfers (in million CZK)	Number of Invisibles (in millions)
2020	666,486	1.3–1.6
2021	671,907	1.3–1.6
2022	742,723	1.4–1.7
2023*	806,253	1.7–2.3

Source: Own processing on the basis of the data provided by the Czech Ministry of Social Affairs and Neviditelni.cz
*Estimates for this year

transfers to help vulnerable groups and prevent people from falling into such a difficult situation – which, according to data above, is not happening.

SLIDING THE PILLOW BACK UNDER THE FALLING

Although the Scandinavian countries, Germany, and Austria are often cited as examples of good practice in debates about reforming the Czech welfare system, it is not possible to simply take legislative regulations from these countries and apply them to Czech society overnight. In addition to the different levels of the economies, it is also necessary to consider the different institutions and socio-cultural norms¹⁰, which have an equally non-negligible impact on the success of the social system.

However, a model of good practice can also be sought in the existing system, which already operates with Czech institutions and socio-cultural norms. The working aspects of effective social transfers can then be applied to the less effective ones.

The two main problems (on the recipient side of the system) concerning the functioning of the Czech social system are administrative burden and awareness about the transfer on the side of recipients¹¹ [See: Table 2]. Parental allowance¹², for example, performs positively in these two aspects, as it is granted automatically, it is targeted (as the target group is clearly defined), and there is also a high level of awareness about it¹³. A similar situation exists for old-age pensions, which – despite a number of other problems¹⁴ – can be considered an effectively distributed payment as it is automatically paid to the recipients since they announce their retirement.

¹¹ Novinky.cz (2022) *Průzkum: Systém sociálních dávek je nepřehledný*. Available [online]: <https://www.novinky.cz/clanek/finance-pruzkum-system-socialnich-davek-je-neprehledny-40416575> [in Czech]

¹² Parental allowance is a social benefit for a parent who personally, full-time, and properly cares for the youngest child in the family for a whole calendar month. It is a fixed amount – the parent only chooses the rate of drawdown for each month.

¹³ Novinky.cz (2022) *Průzkum: Systém sociálních dávek je nepřehledný*. Available [online]: <https://www.novinky.cz/clanek/finance-pruzkum-system-socialnich-davek-je-neprehledny-40416575> [in Czech]

¹⁴ The Czech pension system is based on intergenerational payments, where the social insurance paid by the productive generation is used to pay the pension of the elderly. However, given the demographics of Czech society, the disparity between these groups is increasing and the system is becoming unsustainable.

¹⁰ Ostrom, E. (2015) *Governing the Commons*, Cambridge: Cambridge University Press.



THE SOCIAL SYSTEM SHOULD BE A NATURAL TOOL TO REDUCE THE NUMBER OF THE INVISIBLE AND, THEREFORE, TO REDUCE THE COST OF THEIR EXISTENCE FOR PUBLIC BUDGETS

In the current situation, caused by the energy crisis, it appears that the benefits that are supposed to alleviate the burden (such as the housing allowance and the extraordinary immediate assistance) are absolutely failing¹⁵. There is a high level of awareness of the former, but its payment entails a lot of paperwork. For the latter, the situation is even more dire, as most potential recipients do not even know about it¹⁶.

¹⁵ Aktuálně.cz (2021) *Místo zneužívání leží příspěvky na bydlení lidem. Pobírá je jen zlomek domácností*. Available [online]: <https://zpravy.aktualne.cz/domaci/misto-zneužívání-leží-prispěvky-na-bydlení-lidem-vyuzívá-je/r-909ffdcff6b11eba7d3ac1f6b220ee8/> [in Czech]

¹⁶ Novinky.cz (2022) *Průzkum: Systém sociálních dávek je nepřehledný*. Available [online]: <https://www.novinky.cz/clanek/finance-pruzkum-system-socialnich-davek-je-neprehledny-40416575> [in Czech]

Moreover, assistance through NGOs or municipal governments is also problematic in terms of information. These platforms are much closer to the recipients than the traditional central authorities, and institutions and the assistance through them is usually the most targeted. Unfortunately, the recipients are quite often unaware of this possibility¹⁷.

Thus, the socially effective position is undoubtedly position I, whereas the less effective positions II, III, and IV can be placed in the middle of the imaginary axis [See: Table 2]. Of course, the ideal situation would be to move from position IV straight to I, but such changes usually reflect costs that politicians are mostly unwilling to incur. Moreover, this effort is further dampened by a possible low social transfer subconscious, since a possible reform will not automatically win *plus points* with voters.

A more logical step is, therefore, a gradual evolution – i.e., a shift from IV to II or III, and then to I. From a pragmatic point of view, a push to raise awareness is perhaps a more sensible step. Even though the transfer will still be administratively demanding, the recipients will know about it and can be helped by NGOs to reach them, and they can also push politicians even more with a possible reform that will become much more attractive to them and as well marketable to voters.

The more specific areas for reform that could be printed in line with the movement in the matrix and, also, the most frequent criticism of the social system are the following parameters:

¹⁷ Novinky.cz (2022) *Průzkum: Systém sociálních dávek je nepřehledný*. Available [online]: <https://www.novinky.cz/clanek/finance-pruzkum-system-socialnich-davek-je-neprehledny-40416575> [in Czech]

Table 2: Matrix of ideal social transfers in the Czech Republic

	high awareness	low awareness
low administrative burden	parental contribution, retirement pension	assistance by NGOs
high administrative burden	housing contribution	extraordinary immediate assistance

Source: Own processing

- clarity of the system for the recipients of assistance,
- administrative complexity and speed of disbursement,
- effectiveness of communication towards people with entitlements,
- capacity of contact points,
- digitization of the agenda.

In addition to the downsizing of bureaucracy and increasing awareness of specific transfers (a step that, in the current situation, could best be done by decentralizing the payment of transfers to municipalities or through the non-profit sector), there are two new parameters that can help Czechs move into more sympathetic quadrants: digitization and staffing – the two parameters that need to be reformed on the provider side.

DIGITAL DATA MUST CIRCULATE BETWEEN OFFICES

Recently, digitalization has been mentioned as a panacea for any lack of public services in the Czech Republic. In this case, it could indeed help significantly (with the administrative burden), but it must be applied in the right area. In fact, digitalization of the application process alone could do more harm than good, as a large proportion of welfare recipients do not have the necessary digital knowledge or access to navigate such a system, and digitalization could even make the situation worse.

This state is proven, among other things, by surveys that examine the state of digital literacy in the Czech Republic. According to the Czech Statistical Office survey¹⁸, which maps the level of digital knowledge and availability of software applications among Czech society, 21% of people downloaded and installed an app on their computer within 3 months, which is less than twice the number of people who downloaded and installed an app on their phone. Even so, the proportion of people who have done so decreases with age. In the 16-24 age group, 42% of people have downloaded and installed a software on a computer, while among 45–54-year-olds it was 16%, whereas among the people aged 75+, it was only 1%. While there is relatively little difference between men and women when it comes to downloading apps on their phones, downloading a software to a computer was significantly more likely to be done by men (27%) than by women (15%). Only 8% of people with only primary education downloaded a software while 41% of those with higher education did so. Therefore, working with digital technologies remains an obstacle for a large part of Czech society.

¹⁸ Czech Statistical Office (2022) *Informační technologie v domácnostech a mezi jednotlivci*, Available [online]: https://www.czso.cz/csu/czso/domacnosti_a_jednotlivci [in Czech]

The option of digital application is certainly a welcome alternative, however, for citizens with insufficient digital skills, the traditional option should be maintained. However, digitization should take place between the authorities and the individual social security institutions, which, through the joint storage and sharing of data, would save a lot of bureaucratic effort and work for the recipients themselves, who have to repeatedly fill in their birth number and health insurance number, even though these data are linked to each other. Not only would this reduce the bureaucratic complexity and make the system more transparent, but it would also significantly improve the situation of social administrative workers, who are often frustrated by their low tabular salaries and the high demands of their work and, thus, do not provide the socially optimal quality of service at the offices.

FLEXIBLE WAGES FOR SOCIAL WORKERS

The fundamental disproportion between the workload, the psychological demands of work, and the same table wage across all regions is one of the main reasons for the dysfunctionality of social security institutions. The same salary is available to a civil servant from the capital city of Prague and to an employee of the Labor Office from a medium-sized municipality – although in the case of the former, one must remember about a much higher frequency of the position and the complexity of the problems such an employee has to deal with, as well as higher cost of living in the capital city.

The idea of flexible, even market-based salaries within the civil service sector may sound tempting, but its implementation is almost unrealistic as public administrations tend to stand in opposition to any more radical reforms that may directly affect them. However, the delegation of powers to non-profit organizations, which are subsidized to a large

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IN THE CURRENT SITUATION, CAUSED BY THE ENERGY CRISIS, IT APPEARS THAT THE BENEFITS THAT ARE SUPPOSED TO ALLEVIATE THE BURDEN (SUCH AS THE HOUSING ALLOWANCE AND THE EXTRAORDINARY IMMEDIATE ASSISTANCE) ARE ABSOLUTELY FAILING

extent by the state, could help here. Those NGOs are then governed by market principles and mechanisms, at least as far as the salaries of their employees are concerned, which compensate for the disproportion between workload and table salaries (even their salaries are often below average. Therefore, the use of existing funds from the social institutions of the Czech Republic and the *de facto* provision of social services and transfers through NGOs could reduce this disproportion).

TRANSFORMING THE PILLOW BACK INTO A TRAMPOLINE

As mentioned at the beginning, the original idea of the welfare system was that it would serve as a steppingstone, a kind of a trampoline to help disadvantaged people return to a functioning and productive life. Reforms inspired by the matrix constructed above would help improve the situation on the recipient side greatly, and thus move the pillow back under the fallen. However, for the *pillow* to become a *trampoline* again, reforms are also needed on the provider side.

From the providers' side, in addition to the functions of the social security institutions, it is necessary, among other things, to act within certain boundaries and to find an imaginary golden mean on these three axes:

- addressability versus administrative complexity,
- emergency assistance versus motivation of respondents,
- economic cycle versus fiscal impact.



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From a cost-minimizing perspective, it is ideal for a social transfer to be as targeted as possible, so that it goes to the individuals who need it most and are most helped. However, to identify as narrow a group as possible would, in the extreme, increase bureaucratic complexity for a state that has a problem in collecting information from a position of central authority under the guise of specifying claimants.

Closely related to this phenomenon is the abusiveness of the system, with the need to ensure that transfers go to the truly affected and to those who demonstrate that they are eligible and interested in using them as a steppingstone, rather than to the individuals for whom it would serve as a convenient cushion.

Finally, the economic impact must be considered. The volume of social transfers paid out in the Czech Republic over the last three years has been between CZK 670 billion and CZK 800 billion (26,8 and 32 billion EUR)¹⁹, notwithstanding the worsening economic situation. On the contrary, it is precisely the crisis and assistance to groups at risk that the advocates of increasing social transfers argue as a reason for higher budget spending. However, in this case, it is perfectly legitimate to stop indexation, and even to reduce social transfers in times of economic recovery.

Following these principles should then ideally result in a slow transformation of the cushion (but a cushion in *the right place*) back into a springboard, which should help to integrate the invisibles into the society and reduce their overall numbers.

¹⁹ Czech Ministry of Labor and Social Affairs (2023) *Informace o vyplacených dávkách*, Available [online]: <https://www.mpsv.cz/informace-o-vyplacenych-davkach> [in Czech]

WHAT DOES THE FUTURE HOLD?

Like other market or social market economies in Europe, the Czech Republic has a rich social system. However, from the beginning of its existence (like most of the state apparatus), this system has swelled both in the volume of social benefits paid out, and in the various types and complexity of payment processes that have made the system increasingly opaque. Thus, while the social security system continues to grow, its real benefits are questionable.

At the same time, there is an ever-present group in Czech society (spread across 10 subgroups), whose number ranges between 1.4 and 1.7 million (13,3 -16,2% of total population) individuals who are not covered by the social security system²⁰. What these individuals have in common is that their wages are below the typical median wage in their characteristic group, which puts them below the wage level they should be able to achieve thanks to their qualifications. However, the social system in the Czech Republic is unable to help them because of its inefficiency.

Meanwhile, there is a noticeable willingness to struggle with their difficult life situation and it can be assumed that if offered a steppingstone, they would successfully return to society²¹. Public budgets thus incur costs in terms of social transfer payments, which have no noticeable effect (the number of invisible people is not decreasing), but also in terms of foregone income tax, social insurance, and health insurance. It is these foregone taxes that are estimated at up to CZK 174 billion a year²².

²⁰ Ibid.

²¹ Ibid.

²² Consumer Forum (2021) *1,3 milionu Čechů je neviditelných. Na péči o ně vynaloží stát 174 miliard korun ročně*. Available [online]: <https://spotřebitelskeforum.cz/cs/2021/06/15/tz-13-millionu-cechu-je-neviditelnych-na-peci-o-ne-vynalozi-stat-174-miliard-korun-rocne/> [in Czech]

The key to reducing the number of invisibles (and thus reducing the burden on public budgets) is the transformation of the Czech social welfare system, which must affect both the recipients' side through a reduction in the administrative complexity of applying for support, and in the awareness of available support in general. This would turn the cushion that does not catch the fall of the disadvantaged into one that does. Ideally, however, the welfare system should serve as a steppingstone back into society, and reforms are needed on the provider side as well, in particular to transfer benefit payments more to the level of municipalities and through non-profit organizations that have a closer relationship with recipients. Essentially, the principle of subsidiarity should be more present.

In light of the inefficiency of the Czech social system, which has become fully apparent due to several crises, and with the number of the invisible rising steadily, there is a need for such a reform at the present time. The Czech government has already announced its plans to reform old-age pensions²³, so one can only hope that this is only the first of many steps towards a comprehensive reform of the social system.

²³ Český rozhlas (2023) *Úprava valorizací i věku odchodu do důchodu. Důchodová reforma je podle expertů nezbytná*. Available [online]: <https://cesky.radio.cz/uprava-valorizaci-i-veku-odchodu-do-duchodu-duchodova-reforma-je-podle-expertu-8775295> [in Czech]



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