



# THE PARLIAMENT OF THE CZECH REPUBLIC

## SENATE

8<sup>th</sup> term

210<sup>th</sup>

### RESOLUTION OF THE SENATE

delivered on the 8<sup>th</sup> plenary session held on May 4, 2011

**on the National Reform Programme /Senate press Nr. 79/**

#### The Senate

- I. **reject** the National Reform Programme of the Czech Republic 2011 prepared by the government of the Czech Republic as a contribution to the Europe 2020 strategy;
- II. **approve** the following accompanying statement appended to this resolution;
- III. **authorise** the President of the Senate to deliver this resolution including the accompanying statement to the European Commission.

Milan Štěch  
President of the Senate

Soňa Paukrtová  
Senate verifier

**Position of the Senate of the Parliament of the Czech Republic on the Material  
Called Investment for European Competitiveness  
(Contribution of the Czech Republic to the Europe 2020 Strategy  
National Reform Programme of the Czech Republic 2011)**

The Senate considers the main objectives of the Europe 2020 Strategy to be generally logical and believes that it is necessary to implement them in the interest of future successful development of the European Union. There is also no doubt that the Czech Republic should also contribute to it.

The National Reform Programme (NPR) as a strategic government material should be closely linked to other documents, in particular with the Convergence Programme. The Convergence Programme has not been discussed in the Senate, which, in our opinion, is a serious negligence of the government.

In the National Reform Programme the government verbally supports the Europe 2020 Strategy and the Europe-wide effort to achieve improved competitiveness of our integration organization in the global competition of this decade; however, at the March meeting of the European Council it did not join the majority of European countries. The declared objective of the Euro Plus Pact, after all, is to strengthen the economic pillar of the monetary union, to achieve better coordination of economic policies within the eurozone, and to strengthen competitiveness, i.e., objectives and indicators which also largely comply with the Czech national interests.

Although the Senate takes note of the government's argument that the Euro Plus Pact is not supported by any article of the Treaty and that the period between the receipt of the final version of the Pact and the European Council was only one week and it was therefore not possible to make all the necessary consultations adequate to the importance of the material, we believe that not joining the Pact is a mistake which puts the Czech Republic in an unfavourable position within the EU.

Although the government supports the five headline targets of the Europe 2020 Strategy in the National Reform Programme, it is attempting, by means of the planned government reforms which are consistently based on the policy statement of the current coalition, to push through reform laws in the parliament in the form which, if passed and implemented, will not lead, according to the majority view of the Senate, to the fulfilment of the objectives of the Europe 2020 Strategy. The government only intends to continue with the reforms started by Topolánek's failed coalition government. That government not only did not help stabilize public budgets but made the public finances unbearably worse by accelerated debt accumulation. At the same time, these "reforms" significantly impaired the performance of the Czech economy.

A continuation of this unfavourable and harmful trend was confirmed also by the first reform of labour offices which was voted through by force by the majority of government deputies. Although the National Reform Programme outlines quite ambitious targets of higher employment rates, it also states that it will be achieved mainly by people assuming greater individual responsibility for their own fate. It does not specify the needed financial and human resources of the active employment policy which is only briefly mentioned in the text. The active employment policy is currently significantly under-funded, inefficient, and it is possible to expect that the aforesaid planned reform of labour offices will paralyse it even more. Other planned reforms are to follow – for example, the social reform with centralization and reduction in social benefits.

The need for further reduction in labour costs is declared although these costs in the Czech Republic are already lower in aggregate terms than what would correspond to labour productivity and do not motivate employers to achieve technological innovations. We believe that the effort to continue in the policy of cheap labour, including the reduction of labour costs, is absolutely unacceptable. The Czech Republic does not have another factor from which it could fund public expenditures. The fact that the National Reform Programme does not distinguish between reduction in labour costs and unit labour costs is noteworthy. An absolute reduction in labour costs cannot be accepted because this country can never compete on labour costs in the global market with countries such as Vietnam or Bangladesh. Unit labour costs, however, present a different

story. What is important is that growth in wages must be based on the growth of labour productivity and competitiveness. Germany achieved this in the recent years, and therefore its economic situation is significantly better than in many EU countries. This is the path that the Czech Republic should follow– nevertheless it is not evident from the text.

The document, on the other hand, clearly implies that the government correctly relies on the export performance of the Czech economy but at the same time it curbs domestic demand and consumption by reducing salaries in the public sector. In addition, with the recent abolishment of tariff levels of public sector employees it has destabilized the government administration and made it even more political, departed from the meaning and content of the state service act. The relevant act has been in place for a long time but its effectiveness keeps being postponed. This approach gives more chance for increase in corruption.

In a number of cases it can be proven that the text includes claims which are materially indefensible. For example, as regards the "small" and "big pension reform" the text mentions a contribution to fiscal consolidation but, as a matter of fact, the well-known option to take out 3 % of social security contributions from the public pension pillar is proposed, which would in fact result in doubling of the annual deficits of the pension account.

From the point of view of the system, the Senate considers it a significant problem that the National Reform Programme exceeds with its ten-year horizon 2.5 times the duration of the mandate of this government which did not think it necessary to consult it with the opposition continuously, and only informs both chambers of the Parliament. It is therefore not possible to expect that the future governments will necessarily accept this material and follow it. In reality it is not a National Reform Programme but a long-term elaboration of tasks included in the policy statement of Nečas' current coalition government, including the definition of the means and ways to achieve them, i.e., reforms of key segments of the public finances. On the side of resources it involves mainly the tax reform and a part of the pension reform (in particular the impact of the adoption of the opt-out version, if passed); on the side of expenditures it involves other reforms – social and healthcare, education (if implemented), and again the pension reform. Moreover, it is not possible to ignore the fact that the first year of this government coalition is characterized by a number of corruption scandals and unexplained financial scheming which critically jeopardize its credibility.

The Senate therefore cannot identify with a number of actions by which the National Reform Programme of the Czech Republic 2011 is supposed to be implemented, which is the reason why it cannot be endorsed.