

2017 Aspen Annual Conference

The Shape of (Central) Europe

Nov 30 2017

#AspenAnnual2017





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Foreword

Dear Conference Participants,

Welcome to the Annual Conference organized by the Aspen Institute Central Europe under the auspices of the Aspen Initiative for Europe. The title of this year's conference is "The Shape of (Central) Europe" and its main goal is to assess recent developments in Central Europe and to address European and transatlantic policy challenges in the wake of the German election and the first year of the presidency of Donald Trump, with a special focus on the goal of rebuilding trust in Western democracies.

We would like to address current opportunities and challenges through fresh and innovative perspectives as well as to provide a platform for candid and open dialogue. We will begin with an evaluation of "the shape of Central Europe" based on expert reports focusing on various aspects of competitiveness and resilience.

The first conference panel on competitiveness will respond to the question: how can Central Europe succeed in Europe and globally? It is based on reports prepared by working groups dealing with economic potential, education and governance.

The second panel will address the question of resilience and is based on reports by working groups in the area of security and quality of life.

In the third and fourth panels we expand our field of vision to the future of the EU and the prospects for European integration after the elections in France and Germany, with special attention to the flexibility of the European project with regard to current external and internal challenges. Last but not least, we will discuss the prospects of transatlantic relations after Brexit and the first year of the Trump presidency.

I hope that you find our reports and the debates with our guest speakers inspiring!



Jiří Schneider
Executive Director

Program

9:00 **Opening and welcome**

9:15 – 10:45 **Part I: The Shape of Central Europe – How to succeed in Europe and globally**

Chair: **Jiří Schneider**, Executive Director, Aspen Institute Central Europe
Aspen Expert Report presented by: **David Vávra**, OG Research, Czech Republic

Mikuláš Dzurinda, President, Wilfried Martens Centre, former Prime Minister, Slovakia

Jacek Rostowski, former Vice Prime Minister and Minister of Finance, Poland

Zsuzsanna Szélényi, Member of Parliament, Hungary

Ivan Vejvoda, Permanent Fellow, Institute for Human Sciences, Vienna

11:15 – 12:45 **Part II: The Shape of Central Europe – How to increase our resilience**

Chair: **Michael Žantovský**, Executive Director, Václav Havel Library
Aspen Expert Report: **Jan Havránek**, Policy Advisor, Office of the Secretary General, NATO

Zsolt Németh, Member of Parliament, Hungary

Milan Nič, Senior Fellow, German Council on Foreign Relations, Berlin

Jiří Šedivý, Permanent Representative of the Czech Republic to NATO

Tomasz Wardyński, Wardyński & Partners, Poland

12:45 – 14:00 **Lunch**

14:00 – 15:15 **Part III: The Future of Europe – Is the integration project flexible enough?**

Chair: **Ivan Hodáč**, President and Founder, Aspen Institute Central Europe

János Martonyi, former Minister of Foreign Affairs, Hungary

Martin Povejšil, Permanent Representative of the Czech Republic to the EU

Ulrich Speck, Senior Research Fellow, Elcano Royals Institute, Brussels

15:45 – 17:15 **Part IV: A New Era of the Transatlantic Partnership?**

Chair: **Martin Bútorá**, Honorary President, Institute for Public Affairs, Slovakia

Michał Kobosko, Director, Atlantic Council, Poland

Michael Leigh, Senior Fellow, German Marshall Fund of the United States, Brussels

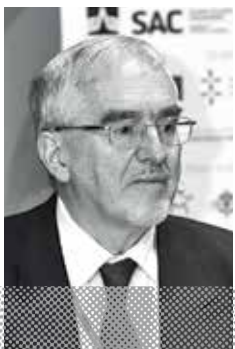
Réka Szemerényi, Executive Vice President, Center for European Policy Analysis, Washington, DC

Speakers



Nicholas Burns

Ambassador (Ret.) Nicholas Burns is the Roy and Barbara Goodman Family Professor of the Practice of Diplomacy and International Relations at the Harvard Kennedy School of Government. He is Faculty Director of the Future of Diplomacy Project and Faculty Chair of the programs on the Middle East and South Asia. He is the director of the Aspen Strategy Group and a senior counselor at the Cohen Group. From 2014 to 2016, he was a member of Secretary of State John Kerry's Foreign Affairs Policy Board at the US Department of State. He served in the United States Foreign Service for 27 years until his retirement in April 2008. He was Under Secretary of State for Political Affairs from 2005 to 2008. Prior to that, he was Ambassador to NATO (2001–05), Ambassador to Greece (1997–2001), and State Department Spokesman (1995–97). He worked on the National Security Council staff where he was Senior Director for Russia, Ukraine and Eurasia Affairs and Special Assistant to President Clinton and, before that, Director for Soviet Affairs for President George H.W. Bush. Earlier in his career, he worked at the American Consulate General in Jerusalem and in the American embassies in Egypt and Mauritania. He serves on the board of several corporate and non-profit organizations.



Martin Bútora

Ambassador (Ret.) Martin Bútora has been an advisor to Slovak President Andrej Kiska since 2014. In November 1989, he co-founded the Public Against Violence movement, and in 1990–92 he served as human rights advisor to Czechoslovak President Václav Havel. In 1997, he founded the Institute for Public Affairs in Bratislava and



Mikuláš Dzurinda

Mikuláš Dzurinda was elected president of the Wilfried Martens Centre for European Studies in 2013. He is the former prime minister of Slovakia (1998–2006) and has held various positions in government since first entering politics in 1990. Upon becoming prime minister and forming a coalition government in 1998, he introduced far-reaching reforms which enabled Slovakia to begin the process of joining the EU and NATO. After winning re-election in 2002, he led Slovakia to membership in the EU and NATO in 2004. He has also served as the country's Minister of Transportation and more recently as Minister of Foreign Affairs (2010–12), and was a member of the Slovak Parliament from 2012 to 2016. In 2007 he was awarded the F.A. Hayek International Prize for reforms and the fight against bureaucracy. He is also a marathon runner.



Jan Havránek

Jan Havránek is a policy advisor at the Policy Planning Unit of the Office of the NATO Secretary General in Brussels. He previously served as a defense counsellor at the Czech delegation to NATO HQ in Brussels. Prior to this assignment, he was the assistant to the first deputy minister and defense policy director of the Ministry of Defense of the Czech Republic and also served as the deputy defense policy director and foreign policy advisor to the Czech Minister of Defense. An active member of the transatlantic community, in 2013 he was named to the Diplomatic Courier's annual list of the "Top 99

Under 33 Foreign Policy Leaders.” He received a master’s degree in international security studies and business relations at the Fletcher School of Law and Diplomacy, Tufts University.



Ivan Hodáč

Ivan Hodáč is the founder and president of the Aspen Institute Prague. He completed his education at the University of Copenhagen and the College of Europe in Bruges. He was the secretary-general of the European Automobile Manufacturers’ Association (ACEA) from 2001 to 2013. Before joining the ACEA, he was Senior Vice-President and Head of the Time Warner corporate office for Europe. Previously he was also the secretary-general of the trade organization IFMA/IMACE, a senior economist at Didier & Associates, and an assistant professor at the College of Europe, Bruges. The *Financial Times* recently listed him among the most influential figures in Brussels politics.



Michał Kobosko

Michał Kobosko is the director of the Poland Office and the Wrocław Global Forum at the Atlantic Council of United States. In the early 1990s he worked for *Gazeta Wyborcza*, later acting as editor-in-chief of the newly introduced Polish edition of *Forbes* as well as editor-in-chief of *Newsweek Polska*. In 2011, he was responsible for the launch of *Bloomberg Businessweek Polska*, from where he moved to become the editor of the weekly news magazine *Wprost*. Since 2013, he has headed the Polish operations of Atlantic Council.



Michael Leigh

Sir Michael Leigh, PhD, KCMG has been a senior fellow at the German Marshall Fund of the United States since 2011, working on EU and transatlantic relations. He was an Erskine fellow at the National Centre for Research on Europe at the University of Canterbury, New Zealand in January/February 2017 and coordinated and moderated the European and Eurasian Studies Program Distinguished Lecture series at the Paul H. Nitze School of Advanced International Studies of the Johns Hopkins University in Washington in 2015 and 2016. He took on his current roles after spending more than 30 years in EU institutions, including as a cabinet member for British and Dutch Commissioners and as director in the Task Force for the EU Accession Negotiations. He became director-general for enlargement at the European Commission in 2006 after serving for three years as external relations deputy director-general with responsibility for European Neighbourhood Policy, relations with Eastern Europe, Southern Caucasus, Central Asia, the Middle East and the Mediterranean countries. Earlier he was chief negotiator with the Czech Republic and other candidate countries. He is a member of the Wilton Park Advisory Council (UK) and of Covington’s Public Policy and Government Affairs group.



János Martonyi

Professor János Martonyi is a politician, attorney, international arbitrator, and the author of numerous books, essays and articles, primarily in the fields of international trade law, competition policy and law, European integration and law, cooperation in Central Europe, global regulations and international relations. He was Hungarian Commissioner for Privatization in 1989–90, State Secretary of the Ministry of International Economic Relations in 1990–91, State Secretary of the

Ministry of Foreign Affairs in 1991–94 and Minister of Foreign Affairs in 1998–2002 and 2010–14. He was also a managing partner at the law firm Martonyi and Kajtár, Baker & McKenzie, Budapest in 1994–98 and 2002–09. Currently he is chairman of the Academic Advisory Group of the Ministry of Justice, a member of the board of the Wilfried Martens Centre, and chairman of the UNCITRAL, UN Commission on International Trade Law, 2017. He has taught at many universities, including the University of Szeged, ELTE University (Budapest), the College of Europe (Bruges and Natolin) and the Central European University (Budapest).

Zsolt Németh

Zsolt Németh is a founding member of Fidesz – Hungarian Civic Union, and an MP since 1990. He has chaired the Foreign Affairs Committee and has been deputy floor leader of the Parliamentary Group of Fidesz and head of the Hungarian Delegation to the PACE since 2014, and vice-president of the PACE and of the EPP-CD Group of the PACE since 2016. In addition, he chaired the Foreign Affairs Committee between 2002 and 2010, and was Parliamentary State Secretary in the Ministry for Foreign Affairs in 1998–2002 and in 2010–14. He holds an MA in economics and sociology from Karl Marx (Corvinus) University of Economic Sciences in Budapest and is a member of the Knight's Order of the Johannites. He studied political science at Oxford University St. Antony's College as a visiting student between 1988 and 1989.



Milan Nič

Milan Nič is a senior fellow at the German Council on Foreign Relations for Central Europe and the Western Balkans. Previously, he was director of the GLOBSEC Policy Institute and CEPI think tanks, advisor to the Deputy Foreign Minister of Slovakia, and to the EU Special Representative in Bosnia and Herzegovina (2007–09). He began his professional career as a broadcaster at Radio Free Europe / Radio Liberty in Prague, and was later program director at the Pontis Foundation based in Bratislava. He earned his MPhil from Charles University in Prague, his MA at the Central European University in Budapest, and also studied at SAIS Johns Hopkins University's Bologna Center. He is the co-author of a book of essays on Slovak and EU foreign policy (2010).



Martin Povejšil

Ambassador Martin Povejšil is a senior Czech diplomat who currently represents the Czech Republic in the European Union. A graduate of Palacký University in Olomouc, he studied modern philology and linguistics, and joined the Czechoslovak Foreign Service shortly after the political changes in the country in 1990. Throughout his career he has held a variety of senior posts in the Czechoslovak and Czech ministries of foreign affairs as well as in diplomatic missions abroad. His professional focus changed over time from third-world and development issues to European affairs and security policy, and from bilateral relations to multilateral diplomacy.



Jacek Rostowski

Jacek Rostowski is a former minister of finance and deputy prime minister of Poland. A lecturer at the UCL School of Slavonic and East European Studies from 1988 to 1995, he subsequently was a professor of economics at the Central European University in Budapest from 1995 to 2000, and head of its Department of Economics from 2005 to 2006. From 1997 to 2000, he was chairman of the Macro-Economic Policy Council at the Polish Ministry of Finance, and from 2002 to 2004 was an economic advisor to the National Bank of Poland. He joined the cabinet of Premier Donald Tusk in 2007, and served as Finance Minister until 2013, including as Deputy Prime Minister in the final year. Currently he is chairman of the board of the Foundation for Contemporary Liberalism in Warsaw. He has published around 40 academic papers on European enlargement, monetary policy, currency policy and the transformation of post-communist economies, and is the author of academic books, including *Macroeconomic Instability in Post-Communist Countries* (1998).



Jiří Schneider

Jiří Schneider is the executive director of the Aspen Institute Central Europe. He graduated from the Czech Technical University and obtained a degree in religious studies from the University of Cambridge. He was elected to the Czechoslovak Parliament in 1990 and 1992, and in 1993 joined the Ministry of Foreign Affairs, holding various positions in the Czech diplomatic service, most prominently as ambassador to Israel and as the first deputy foreign minister of the Czech Republic. He has also lectured at various universities in the Czech Republic and is closely associated with the Prague Security Studies Institute, a leading Czech security think tank.



Jiří Šedivý

Ambassador Jiří Šedivý is the Permanent Representative of the Czech Republic to NATO. Before being appointed to his current position in 2012, he served as First Deputy Minister of Defense (since 2010), NATO Assistant Secretary General for Defense Policy and Planning (2007–10), Deputy Minister for European Affairs (January – September 2007), and Minister of Defense (2006). From 2004 to 2006, he was professor of security studies at the George C. Marshall European Center for Security Studies. Between 1999 and 2004, he was the director of the Institute of International Relations in Prague, and assistant professor of international relations at Charles University. He is a graduate of Charles University, Prague (PhD in political science, 1999), and of King's College, London (MA in war studies, 1995).



Ulrich Speck

Ulrich Speck is a senior research fellow at the Brussels office of the Elcano Royal Institute. He works on German and EU foreign policy, transatlantic relations and global order. He was a senior fellow at the Transatlantic Academy in Washington, DC (2015–16) and a visiting scholar at Carnegie Europe in Brussels (2013–15). He holds a PhD in modern history from the University of Frankfurt. His articles have appeared in the *New York Times*, *Financial Times*, *Moscow Times*, *American Interest*, *Berlin Policy Journal* and elsewhere. He is a foreign policy columnist for *Neue Zürcher Zeitung*.



Zsuzsanna Szelényi

Zsuzsanna Szelényi is a Member of the Parliament of the Hungarian National Assembly, where she focuses on international affairs, migration and gender issues. She is particularly interested in the future of the European Union and the CEE countries. As a young politician at the regime change, she was a member of the first freely elected parliament until 1994, later joining the Council of Europe, where for 15 years she advised governments and NGOs on education, human rights and conflict management. From 2010 to 2013 she worked on human development policies in Eastern Europe and North Africa. She holds MAs in psychology (ELTE Budapest) and international relations (Corvinus Budapest) and a GMAP from the Fletcher School of Law and Diplomacy.



Réka Szemerkényi

Ambassador Réka Szemerkényi became CEPA's new executive vice-president in October 2017. Previously she was Hungary's Ambassador to the United States (2015–17), and has also held other political positions, including Chief Advisor in Foreign and Security Policy to the Prime Minister of Hungary (2011–15), State Secretary for Foreign and Security Policy in the Prime Minister's Office in Hungary (1998–2002), and was a senior advisor to the State Secretary in the Ministry of Defense of Hungary (1991–94). She worked as a senior advisor to the chairman and CEO of MOL Group, a Hungarian oil and gas company (2004–11), and was a consultant at the World Bank, Economic Development Institute in Washington, DC (1994). She earned her PhD, summa cum laude, at Pázmány Péter Catholic University, Hungary (2006) and an MA in strategic studies at the Johns



David Vávra

David Vávra is the founder and managing partner of OGREsearch. He holds a PhD in economics from CERGE-EI and his research interests lie in macroeconomic modeling, economic growth and development. When working for the International Monetary Fund, he advised dozens of central banks and national authorities. He is also an expert in macroeconomic modeling and forecasting, having introduced a forecasting and policy analysis system to support forward-looking monetary policy at the Czech National Bank. He also served as senior advisor to the governor of the Czech National Bank. As the managing partner of OGREsearch, he is responsible for marketing and strategic business development. Throughout his career, he has engaged with academic institutions and lectured frequently.



Ivan Vejvoda

Ivan Vejvoda is a permanent fellow and director of the Europe at Risk? project at the Institute for Human Sciences, Vienna. From 2010 to 2017 he was senior vice-president at the German Marshall Fund of the United States in Washington, DC, and from 2003 to 2010 was the executive director of the Balkan Trust for Democracy. Following his distinguished service in the Serbian government as a senior foreign policy advisor to Prime Minister Zoran Đinđić, Ivan joined the GMF in 2003. He was executive director of the Belgrade-based Fund for an Open Society from 1998 to 2002, and during the mid-1990s held various academic posts in the US and the UK. He was involved in the democratic opposition movement in Yugoslavia through the 1980s and 1990s and was a candidate for Minister of Foreign Affairs of Serbia in 2007. He has been awarded the French National Order of Merit in the rank of Officer (2006) and the Italian Order of the Star of Italian Solidarity rank of Commander (2007).



Tomasz Wardyński

Tomasz Wardyński CBE is the founding partner of Wardyński & Partners, where he specializes in arbitration proceedings involving foreign and domestic entities. He was one of the first lawyers in Poland to develop a practice in EU law and competition and is honorary legal advisor to the Ambassador of the United Kingdom to Poland. In 2001 he was appointed Honorary Commander of the British Empire by Her Majesty Queen Elizabeth. A member of the ICC Commission on Arbitration and ADR, he also serves as a member of the ICC International Court of Arbitration in Paris. He is an active member of the International Bar Association.



Michael Žantovský

Michael Žantovský is the executive director of the Václav Havel Library and a diplomat, politician, writer and translator. He is the former president of the Aspen Institute Prague, a member of the Forum 2000 Foundation Program Council, former chairman of the Civic Democratic Alliance and a one-time senator of the Civic Democratic Alliance in the Parliament of the Czech Republic. He has served as ambassador of the Czech Republic to the United Kingdom, the United States and the State of Israel. He was also the spokesman of President Václav Havel and political director at the Office of the President of the Czech Republic. He is a graduate of Charles University in Prague and of McGill University in Canada. His biography of his long-time friend Václav Havel, Václav Havel: A Life, was published in English, Czech and several other languages in November 2014 to high acclaim.

Economic Competitiveness

Working Group Coordinator: David Vávra

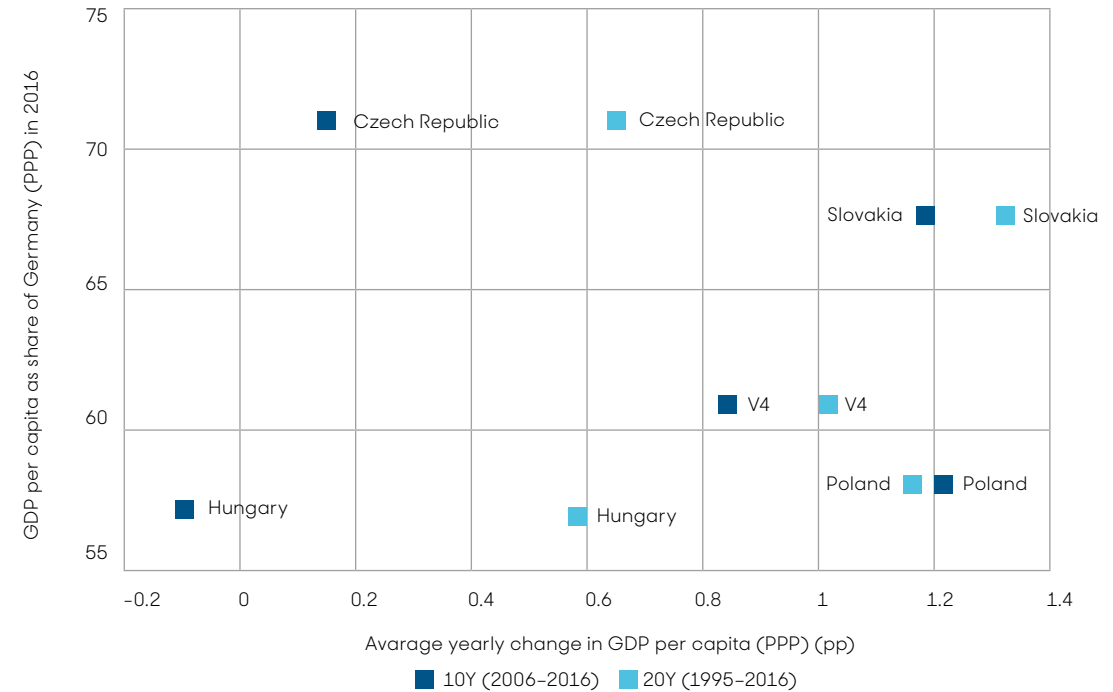
INTRODUCTION

The convergence of the V4 region to western levels of income has been rather unremarkable to date, mostly owing to the lackluster performance of the Czech Republic and Hungary since the global financial crisis. By contrast, Poland and Slovakia are emerging as regional convergence champions. Despite these interesting differences, the overall results – also manifested in low wage levels – are a disappointment.

It therefore appears that these countries face certain structural barriers to growth that prevent them from unlocking their economic potential.

This study examines the growth barriers in the region in an attempt to identify what needs to be done to accelerate or maintain the pace of economic convergence as well as to sustain or increase the capacity to turn this success into a widely shared concept of social welfare and well-being.

Dynamics of GDP per capita convergence in the last 20 years



Source: Eurostat, own calculations

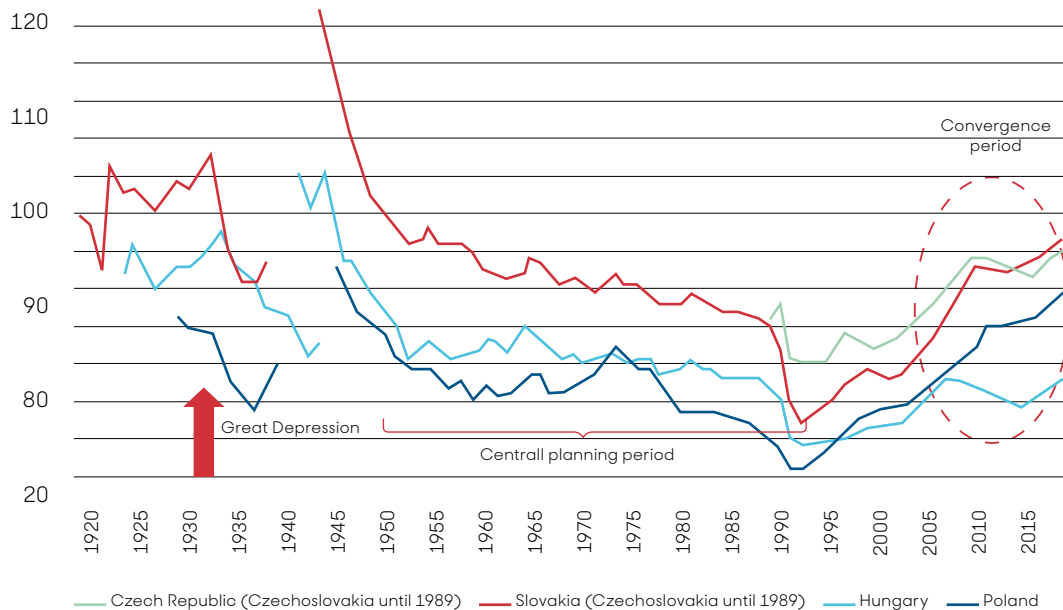
Unimpressive income convergence

Income levels in the V4 economies as a group still lag far behind those in the West. Indeed, over the past 20 years, the V4 economies have managed to close the initial gap in GDP per capita relative to Germany – the region’s anchor economy – by some 20 percentage points, reaching only about 60% of German GDP per capita by 2016.¹ At this rate, it will take another 40 years before German levels of income are reached. And should the convergence process slow down at higher income levels, as economic theory predicts, it may easily take close to a century.

The V4 economies fare even worse in relative wages – the main source of income for most of their population. The low wages and their stagnation are staggering. Annual average wages in PPP terms have hovered around 50% of German levels in all V4 countries for almost a decade, irrespective of the various patterns in productivity growth and convergence. For instance, the average annual wage in PPP terms in both the Czech Republic and Slovakia in 2016 was at the same level relative to Germany as in 2009. It is little wonder, then, that this topic has become a matter of public and political debate in several V4 countries.

¹ Unless otherwise indicated, all income statistics are expressed in comparable purchasing power parity (PPP) terms and in percent or percentage points relative to Germany.

Real GDP per capita as a share of Germany's



Source: Penn World Tables, OGREsearch calculations

With very low and stagnating wages, the vast majority of people in the V4 economies have to work longer hours than their colleagues from richer EU economies to generate the same income. Indeed, according to the ILO, the average worker in the V4 region works more hours (by about 10–15%) than her German colleague.

Moreover, relative wage levels are much lower than what would correspond to relative GDP levels overall (about 60%), probably owing to the quality of the production function and the role low wages play in determining the competitive advantage of the V4 economies.

In fact, given the slow rate of progress to date, it can rightly be questioned whether convergence to German levels of income is a feasible prospect for the V4 economies at all, and whether Germany is the appropriate convergence benchmark. Long-term historical observations do not yield much optimism. With the brief exception of a few post-war years, none of the four countries has ever enjoyed more than 80% of German income levels in the past century.² Judged from this perspective, perhaps the convergence benchmark for these economies is much lower and the relatively slow convergence over the last two decades is understandable, as the block is approaching its more natural benchmark of some 70–80% of German income levels.

Interestingly, the struggle to converge to German income levels is not confined to the V4 economies alone. For instance, the former East-German regions are facing similar

difficulties with respect to the former West Germany. These eastern regions have moved up relative to West Germany in GDP per capita by only about 8 percentage points over the last two decades.

Is the formerly communist and centrally planned Central Europe cursed?

... with recently diverging experiences

Fortunately, there is more cause for optimism in the evolution of the V4 convergence over time and the cross-country differences within the V4 group. First of all, what makes the V4 convergence record special is not the overall progress, but its durability. The convergence in the past decade has been almost as rapid as in the late 1990s and early 2000s.³ This is unusual internationally. For instance, the convergence in East Germany slowed markedly in the last decade.⁴

As it turns out, the slow speed and durability of progress are products of very diverse experience within the V4 group in the past decade. While Slovakia – the best performer – moved up by almost 30 percentage points over the last 20 years, Hungary closed off only about 12 percentage points.

It is astonishing that such cross-country differences arose almost entirely over the last decade. While all four countries moved up by around the same number of percentage points during the first decade of 1996–2006 (from 12 to 16 percentage points relative to Germany), their success in narrowing the GDP per capita gap in the last decade has varied. For instance, the Czech Republic moved up by 14 percentage points over 20 years, but it has hardly moved at all in the last decade. Hungary's position has even worsened – from 58% of German GDP per capita in 2006 to 57% in 2016.

... and a few success stories...

By contrast, Slovakia and Poland have kept up their progress, moving as quickly in narrowing the income gap with Germany in the past decade as before. Indeed, Slovakia overtook the Czech Republic in terms of labor productivity (GDP per hour worked) almost a decade ago and remains the clear regional champion in that respect. All this confirms that the V4 no longer has a homogenous record of convergence, as in recent years the countries have begun moving along different paths.

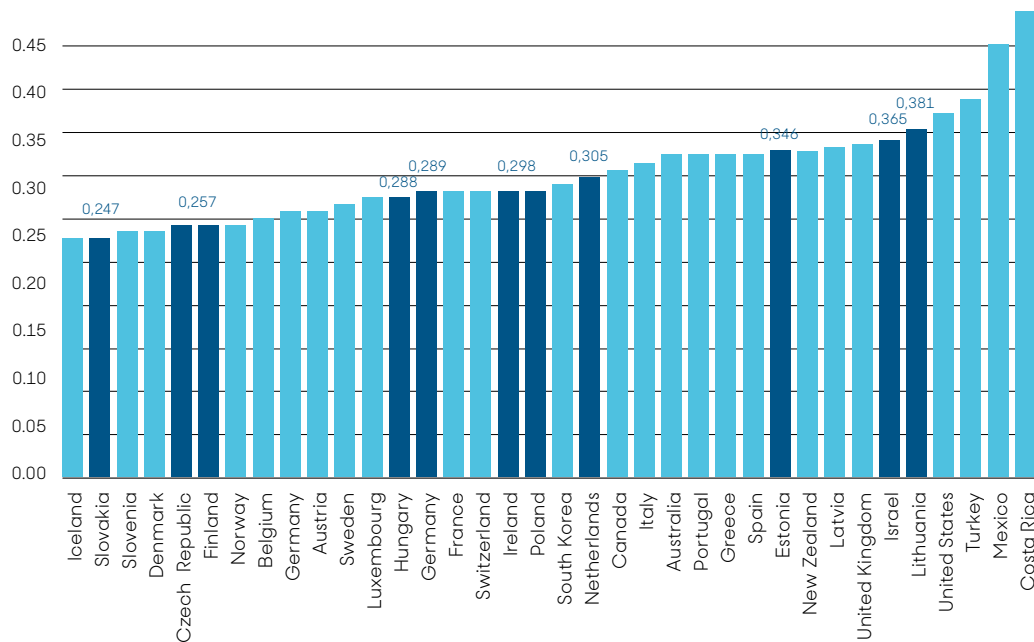
As a result of this intragroup growth divergence in the past decade, the V4 group now appears much more uniform in income levels than ever before. The Czech economy – the richest of the group – has lost much of its advantage over its peers and Slovakia is hot on its heels. If this trend continues, Slovakia may soon become the richest economy in the block.

Another positive feature of the V4 group growth performance is that all countries are relatively successful in sharing the economic wealth across the population and turning it into a more general concept of social well-being. Above all, the level of income

³ As elsewhere in the text, we measure convergence in terms of percentage points of the income gap with Germany closed per a unit of time.

⁴ The same is true for West Germany, which moved up less than 10 pp from 1961 to 1970 relative to the US – much less than in the first post-war decade of 1951–1960.

Income solidarity

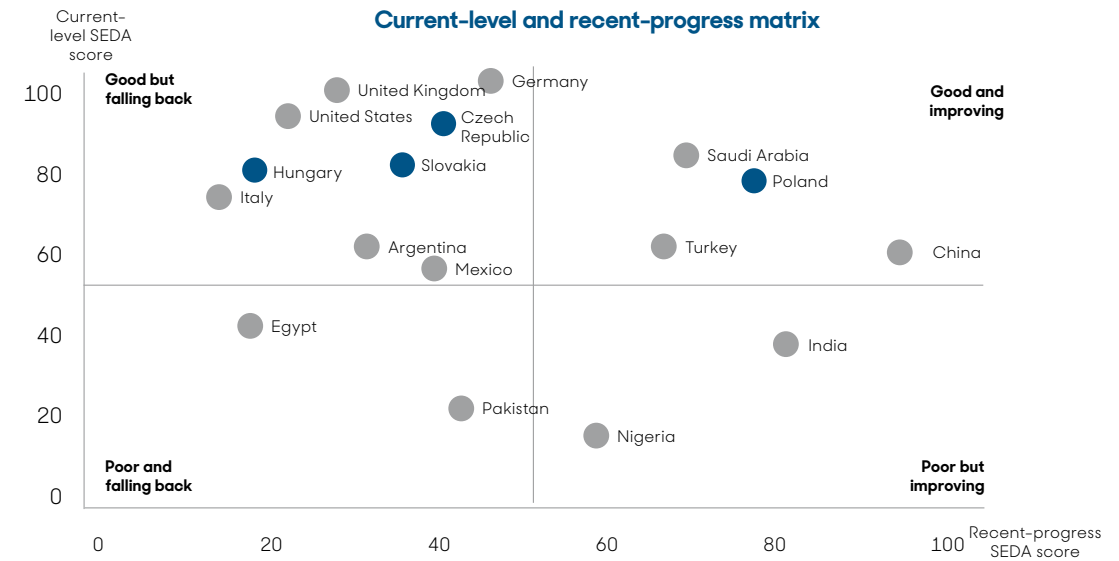


Source: OECD

equality is outstanding. Slovakia is second and the Czech Republic fifth among the OECD countries in the Gini coefficient, which measures income inequality. Only Poland is (marginally) worse than Germany. Furthermore, given their income levels, all countries display above-average levels of quality in physical infrastructure, health and education, enjoy relatively stable institutions and developed civic society, and have high environmental standards.

It is true, however, that much of this success in attaining a broad level of well-being is owing to the command economy past and the zeal for institutional reform in the 1990s. Indeed, measured across various indices, the capacity of the V4 countries to turn their recent economic progress into improving their general social well-being and welfare is diminishing. The zeal for institutional reform has dissipated and the stock of physical infrastructure, social and human capital is advancing more slowly than advocated by the relatively low income growth in the past decade.

Nevertheless, considering the situation more broadly, we can see that despite the slow convergence of the group as a whole, Poland and Slovakia are emerging as clear regional convergence champions. At the same time, it appears that the Czech Republic and Hungary in particular face important structural barriers to growth. And while all



Source: Boston Consulting Group, SEDA 2016⁵

countries enjoy a relatively high level of social well-being and income equality, the situation is gradually deteriorating. Understanding the convergence barriers, unlocking the economic potential, and strengthening the capacity to turn income growth into more general social welfare are therefore important agendas for the V4 group.

... underpinned by an obsolete production function...

So, where are the structural obstacles to growth? As small open economies, the long-term wealth of the V4 countries is a product of their productivity, competitiveness and population growth.

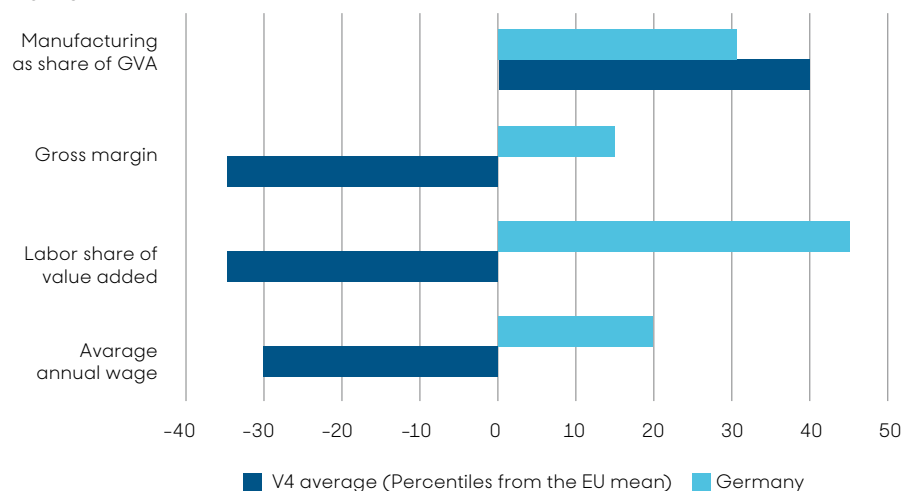
The most basic sources of the disappointing growth should be sought in the nature of the production process and the structure of the economy, as the main determinants of productivity and income growth. In this respect, the V4 economies share several important characteristics. The first is the significant role of industry and manufacturing. At around 25%, the Czech Republic and Hungary have the highest share of manufacturing in gross value added, above Germany and well above the EU average of about 15%. The manufacturing shares in Poland and Slovakia are only marginally lower (and comparable to Germany's). Corresponding to the high share of manufacturing is the relatively low share of market services compared to the richer economies in the west.

This goes hand in hand with the prevalence of automated jobs. According to the OECD, the share of automated jobs in the Czech Republic and Slovakia is the highest among the EU economies, which makes them especially vulnerable to the robotization of production.

⁵ The BCG's Sustainable Economic Development Assessment (SEDA) measures how the nation's wealth is being transformed into "well-being", comprising such variables as health, education, assessment of governance, economic stability, employment, infrastructure, etc. The figure shows that the V4 countries in general possess a higher capacity to transform wealth into well-being than would be predicted at their level of income. Moreover, Poland recently showed significant improvement in this capacity, while the dynamics in the other V4 economies are falling behind the expectations given by their income growth.

Productivity, labor share of value added and average wage

EU = 0



Source: OECD, Eurostat, OGRsearch calculations

Another important characteristic of the V4 production process is the relatively low labor share of value added – below 40%, i.e. much lower than the approximately 50% in Germany, which also has a very large share of manufacturing industries in GDP. This implies a much higher return to capital owners than is usual in the developed world, reflecting both the specific nature of the capital-intensive production function in the V4 countries as well as foreign-dominated ownership.

In the 1990s, the privatization process left many large and capital-intensive companies (including the banking sector) in the V4 region in the hands of foreign owners, who brought both capital and modern technology. After 20 years, however, other aspects of this ownership transfer are becoming less appealing. As a consequence, labor and not capital ownership is by far the main source of income for V4 households, while at the same time a large part of the value added is being repatriated abroad every year instead of being reinvested. For instance, in the Czech Republic, close to 7% of GDP was transferred abroad as dividends in 2016. This creates social tension and limits technological advancements in the production process. Indeed, the low share of value added explains why wage levels in the V4 region are so low – much lower than would be commensurate for the relative GDP levels (60% of GDP).

The relatively fossilized structure of the V4 economies can also be seen in their relatively low value added production. The V4 region has been rather pejoratively called the “assembly line of Western Europe”. For instance, the Czech Republic – still the richest in the V4 group, though no longer the most productive – has the lowest share

of value added in the total production among all EU economies.⁶ Other V4 economies are doing only marginally better.

These characteristics do not indicate of a very progressive and innovative production function capable of bridging the income and productive gaps between the V4 and the West. This is confirmed by the relatively poor standing of the V4 economies in terms of creating an environment attractive for innovative technologies. In the Global Innovation Index the V4 countries rank between 50th and 100th place in most indicators, such as university and industry research collaboration, R&D investments or e-government services.

... making low wages the main competitive advantage ...

Yet, these uninspiring production characteristics have given rise to very open and apparently competitive economies. Apart from Poland, all are extremely export-oriented, with export shares to GDP close to 100%, and their business cycle is therefore closely correlated with the swings in demand from the EU and Germany in particular.

This good export performance is above all underpinned by low labor costs of production. Unit labor costs in the V4 economies are comparable and have hovered at about 50% of German levels in the past decade.

However, looking at more qualitative aspects of competitiveness, the experience of the V4 countries is rather diverse. On the one hand, the Czech Republic and Poland are among the top 40 most competitive economies according to the Global Competitiveness Index (GCI) by the World Economic Forum measuring competitiveness across a large number of qualitative aspects. On the other hand, the level of competitiveness of Hungary and Slovakia according to the same index is average, comparable to those of Botswana or Iran.

... instead of a capacity to attract new innovative business

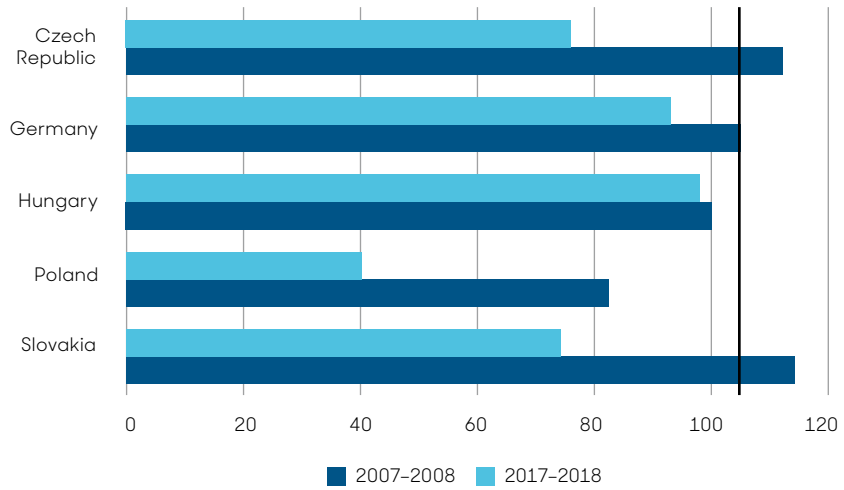
According to this indicator, the main qualitative factors strengthening the competitiveness of the V4 economies are a stable and predictable macroeconomic environment with a strong and developed financial sector. And yet, they are being bogged down by poor public institutions and labor market inefficiencies. In these areas, the rankings of the V4 countries (with the exception of the Czech Republic) are in the second half of the list. The quality of higher education and training is average.

Particularly troubling is the worsening capacity of the V4 economies to attract and retain talent, with rankings in the last third of the countries covered by the GCI.

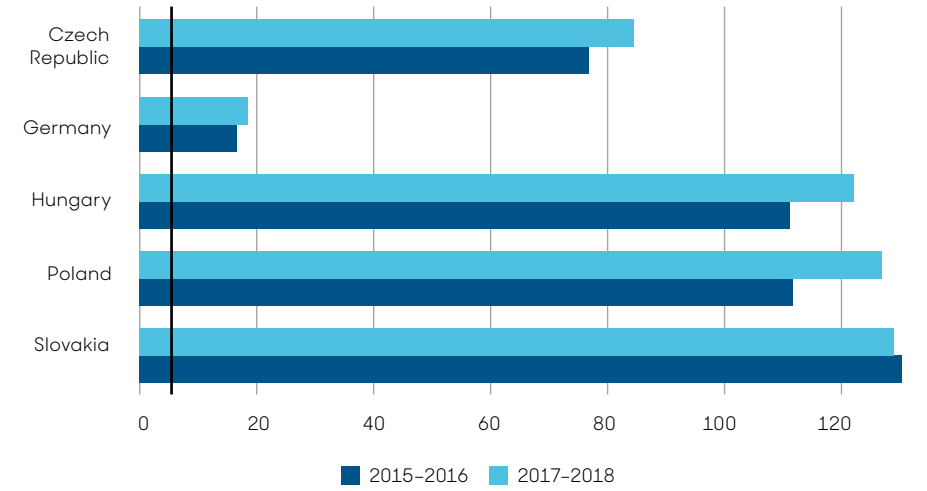
Also unsatisfactory is the level of taxation, which is high and growing, and in several important measures actually higher than in Germany. Labor taxation is especially high. For instance, with the exception of Poland, all V4 economies are well above the OECD

⁶ With the exception of two very small states harboring much off-shore financial service – Luxembourg and Malta.

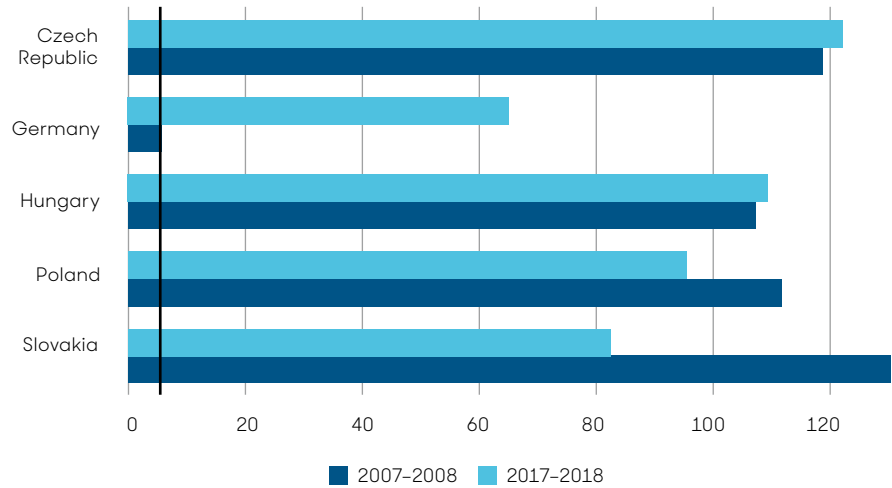
Total tax rate, % profits*



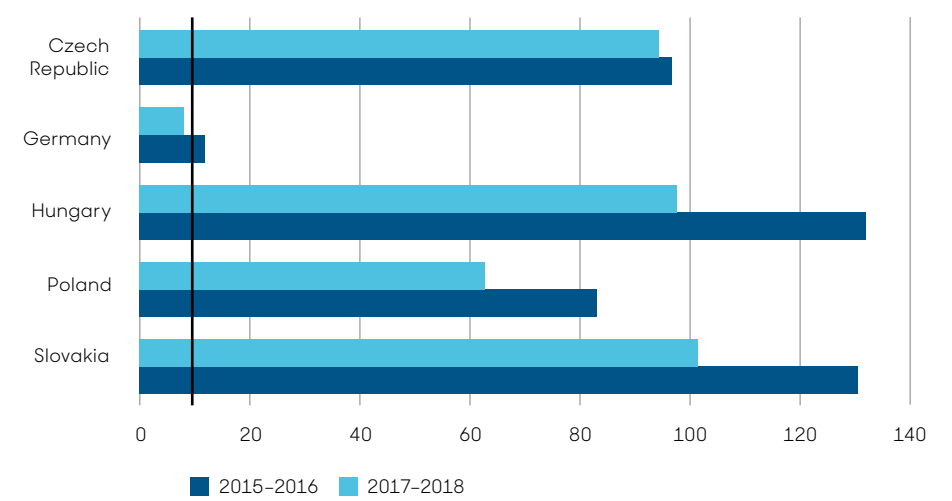
Country capacity to attract talent



Burden of government regulation



Favoritism in decisions of government officials



Source: Global Competitiveness Index 2017

average in terms of income tax and social contributions rates. Hungary is actually third and the Czech Republic eighth.

Dangerously negative tendencies have also been observed in the burden of government regulation, the efficiency of the legal framework and the degree of favoritism by public officials.

Taken together, these qualitative observations accurately reflect the problems that obstruct the convergence process in the V4 region. It is not only low wages and high productivity that determine competitiveness, but also the rule of law, stable institutions and other qualitative factors. In the absence of progress in these “soft” categories, the weight of the convergence process lies firmly on the low level of wages as the main source of competitiveness. This probably cannot endure forever, as the public debates over the issue illustrate.

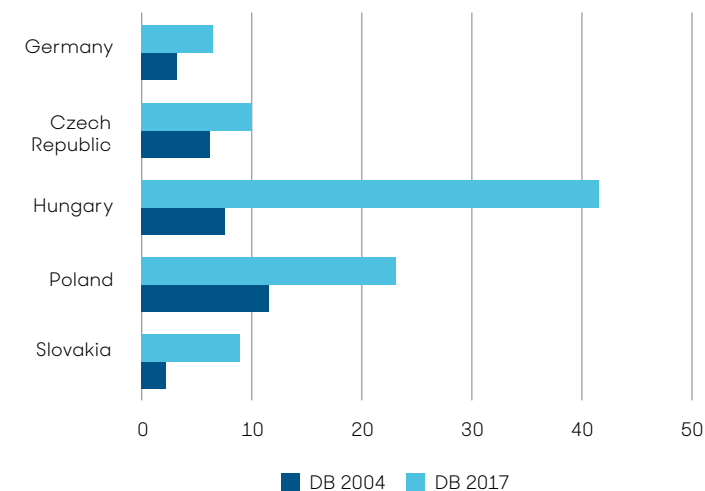
Despite these illuminating observations on the aggregate level, however, the various competitiveness measures do not provide much help in understanding the diverging convergence performance of the V4 countries in the last decade. Slovakia, hardly a star performer in the GCI, still outshines the rest in terms of labor productivity and income convergence.

Other measures of the quality of the institutional economic environment have similar implications. For instance, although there has been discernible improvement in these areas in recent years, the V4 economies generally lag behind Germany in indicators such as the costs and time needed to establish business, obtain a construction permit or pay taxes, according to the World Economic Forum’s Ease of Doing Business Index. Once again, these statistics may point to the importance of the institutional environment for the convergence progress, but are little help in explaining the different experiences of the V4 economies in the last decade. Indeed, the Czech Republic, which has been improving the most rapidly in many of these statistics over the last decade, is a laggard in terms of income convergence.

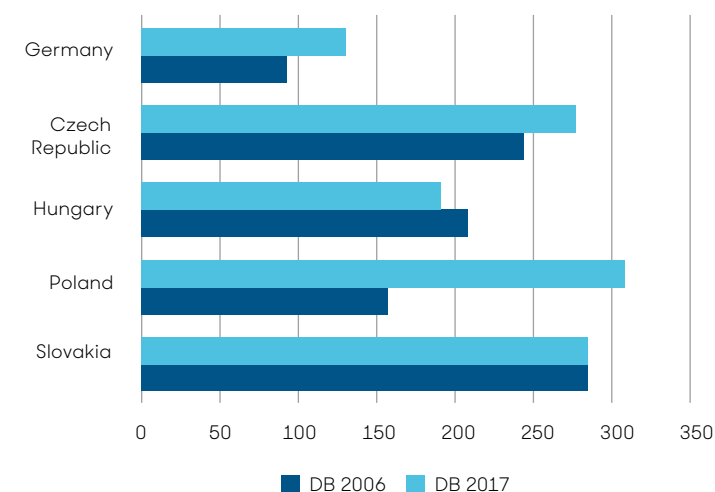
CONCLUSION

The unimpressive progress of the V4 economies in convergence to German levels of income is largely based on a low-wage competitive advantage. Indeed, considering the current production based on relatively low-skilled manufacturing jobs and low value added, it is hard to imagine the German levels of income ever being reached. For such a leap in incomes, a totally new production function will need to be created, something the V4 countries appear ill-equipped to do at the moment. Both the convergence laggards (the Czech Republic and Hungary) as well as the recent champions (Poland and Slovakia) will need to invest more in creating an environment conducive to new business and receptive to innovative technologies.

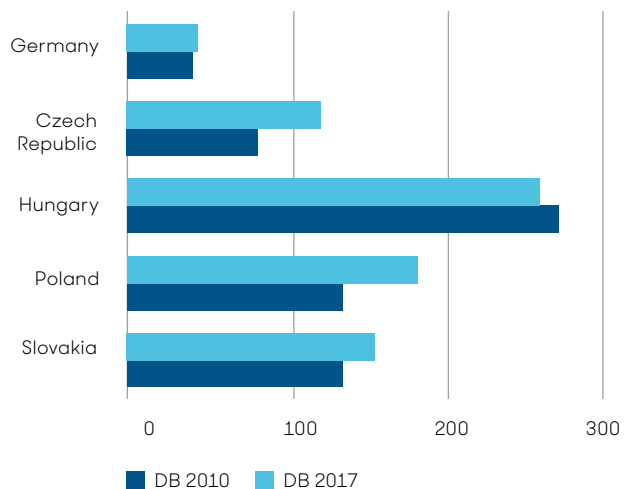
Starting a business - cost (% income per capita)



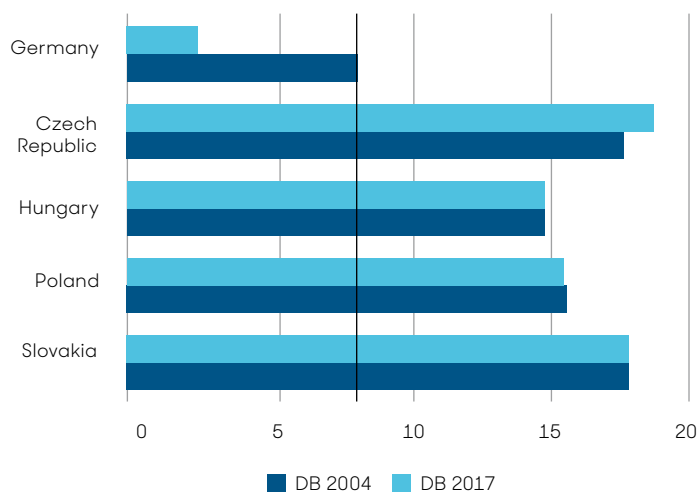
Construction permits - time (days)



Getting electricity - time (days)



Resolving insolvency - cost (% of estate)



Source: Ease of Doing Business 2017

There is a good base to build on: a high degree of income equality, still good health care, basic physical infrastructure and a stable macroeconomic environment. But more will need to be done as far as increasing the quality of public institutions, addressing labor market inefficiencies, improving the quality of education, and reducing the

administrative and tax burden, which are a plague especially for startups and small companies, those most likely to bring about the necessary changes in technology and production.

There is perhaps an alternative that could be pursued in parallel and which would involve exploiting the current production process and convergence model to its limits. As the current business model in the V4 economies rests on very low wages, which are no longer socially tenable, the model could perhaps continue by bringing in migrant workers to fill low-wage value added jobs. For instance, demand for such jobs in the Czech Republic – the economy with the lowest unemployment in the EU – is already enormous, and large companies regularly scout migrant workers in their native economies.

Such a strategy has its merits – indeed, the economies of Singapore, South Africa and (to a certain extent) China used similar strategies to stay competitive and eventually succeeded in overhauling their production into technologically more advanced industries. However, for such a strategy to succeed in the V4 context over the long term, a dramatic reconsideration of migrant policy and administrative bureaucracy would be required, which seems unattainable in the current political climate in these economies and the EU as a whole.

Quality of Governance: Visegrád Four

Working Group Coordinator: Karel Šimka

INTRODUCTION

The countries of the Visegrád Four (Czech Republic, Hungary, Poland, Slovakia) share a joint history since the end of World War II, a geographic location between Western Europe and the former Soviet Union, certain socio-economic features (namely a similar standard of living) and some common interests. But there are also some differences among them in terms of their development, social, economic and political cultures; and they also have differing foreign policy interests.

As far as the general development of government, politics and constitutional organization is concerned, the similarities among the Visegrád countries are evident:

- Prior to WWII, all of the Visegrád countries were independent national states (or, in the case of Slovakia, an specific part of an independent national state) established after the end of WWI upon the disintegration of the Habsburg Empire.
- After WWII, they quickly fell under the Soviet sphere of influence and communist regimes took power virtually at the same time due to external pressure and internal communist movements.
- They emerged from the Soviet sphere of influence jointly around 1989, again through a combination of external influence (weakening of the Soviet Union) and the impact of local democratization movements.
- After 1989, all four countries embarked on a path of political, economic and social transformation towards democracy and capitalism. This transformation was successful, albeit not without minor problems, and led to the integration of all Visegrád countries first into NATO and then into the EU

All countries of the Visegrád Four are now part of the West, but differ from the “traditional” countries of Western Europe in a number of major socio-economic and political characteristics. They may be poorer, but they are growing rapidly on average. Their political and constitutional systems are more fragile and less “natural”. The basic political values and political culture differ from those of Western Europe. These countries are more wary of otherness, which is reflected in the refusal to accept migrants from non-European countries, in particular from the Islamic countries of the Middle East and Sub-Saharan Africa. They perceive global ecological problems such as climatic change to be less important. Generally, so-called post-material values are less prevalent in the Visegrád countries, while cultural conservatism is stronger. The latter, however, does not have to be necessarily related to higher religiosity or “traditional” socio-economic organization. Suspicion of migration is as high in the secular and industrial Czech Republic as it is in markedly Catholic and agrarian Poland.

General quality of democracy

The basic comparison of the quality of democracy is provided by a table based on data gathered by the OECD. It shows that the position of the Visegrád countries among the 41⁷ most developed and, with the exception of Turkey, democratic countries with a functional division of power and fair elections is average or even below-average.

⁷ Besides the 35 current OECD members (Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States) six more states are included in the assessment (Bulgaria, Croatia, Cyprus, Lithuania, Malta and Romania).

The Czech Republic is the best-rated country of the region over the long-term. Despite problems related to the transformation of its system of political parties and the advent of the oligarch Andrej Babiš, the country has retained its position in the top 20. Indeed, it is remarkable that the Czech Republic's rating has for many years now been comparable to that of Austria, a country that is considered a stable democracy.

What can be observed between 2014 and 2017 is the radical deterioration of Poland's position, which has moved from the top thirties to the top forties. This is clearly the outcome of radical measures taken by the present government, politically directed by Lech Kaczyński, towards certain political and constitutional institutions. Especially important was the government pressure on the government-controlled media and justice system, as well as the brazen dismissal of people belonging to the previous establishment (Civic Platform).

Slovakia has overcome the legacy of Vladimír Mečiar and has secured its place among working democracies. This is reflected in the country's rating for 2014 and 2017. In both years, it is at the top of the second half of the countries assessed, around 35th to be precise.

Hungary has had poor ratings recently and is at the bottom of the chart, followed only by Turkey. This can be ascribed to the fact that the local political and constitutional system was dominated by Viktor Orbán's Union of Young Democrats, sometimes using controversial methods of constitutional engineering.

Results of Elections: Chamber of Deputies -1992 - 2017

Country	Ranking in OECD 2014	Ranking in OECD 2017
Czech Republic	18	19
Hungary	40	40
Germany	6	5
Poland	22	32
Austria	19	19
Slovakia	25	26

Source: http://www.sgi-network.org/2017/Democracy/Quality_of_Democracy

After decades of stable democratic development, Europe in general (but also the United States) seems to be facing a certain level of "fatigue" with liberal democracy. Whatever its causes, even in the traditional democracies of Western Europe the party systems are changing or being dramatically transformed (Italy continuously since the 1990s, most recently France, Spain, Austria, the Netherlands and Sweden). The Visegrád countries are no exception.

What characterizes them compared to Western Europe is the long-term instability and volatility of their political party systems, a feature that could be called "high costs of government". Virtually all the parties in these countries that have formed a government or coalition have paid for it by a sharp decrease of their political importance or even by a decline or disappearance from the political map. The most profound examples are the Movement for Democratic Slovakia of Vladimír Mečiar in Slovakia, the Union of the Democratic Left of Aleksander Kwaśniewski in Poland or the Hungarian Socialist Party of Ferenc Gyurcsány. To a lesser extent, the key role played in the government was paid for by the Civic Democratic Party and Czech Social Democratic Party in the Czech Republic and the Civic Platform in Poland.

Systems of political parties

The current systems of parties in the Visegrád countries have different forms.

In the Czech Republic, the system of political parties is in a state of major transformation. Contrary to Hungary, Poland and Slovakia, the two main parties of the right (ODS) and left (ČSSD) have held dominant positions from 1992 to 2017. The bipolar system has collapsed and the political scene is now dominated by the populist movement of the oligarch Andrej Babiš. The further development of the party system is difficult to assess; its contours should be clearer after the next election scheduled for 2021.

The Hungarian party system has been recently dominated by FIDESZ. The party easily won the last elections in 2010 and 2014 (thanks to an electoral system which prefers the winner, but mainly thanks to strong popular support). It is expected to fare similarly in the election in spring 2018. Democratic opposition (in fact parties on the left, the strongest of them being the Hungarian Socialist Party) is weaker than radically nationalistic opposition, represented by Jobbik. Viktor Orbán and his party thus occupy a pivotal position between the radically nationalistic Jobbik and the fragmented left. There is no sign that Orbán's position will weaken in the near future.

In Poland, the system of political parties was shaken in the 2015 election, but has not been transformed. The system is starkly polarized and another election is scheduled for 2019. The current ruling party, the Civic Platform, lost 40% of its support compared to 2011, while the Law and Justice Party improved on its 2011 result by a quarter and formed a coalition government with two smaller parties which ran for election together with it. The opposition has been seriously weakened. The Civic Platform remains relevant, but there is virtually no post-communist left, which played a prominent part in the Polish system before.

The Slovak party system has been for some time dominated by the SMER-Social Democrats of PM Robert Fico, but the system is not as polarized as in Poland and there

is opposition in the country, fragmented albeit functional, contrary to Hungary. Since 2006 the dominant party has won around 30% of votes, but recently its dominance has dwindled. In the 2012 election it won a majority of seats in the parliament and 44.5% of all votes. In the 2016 election, however, it lost significantly, getting only 28% of all votes. It nevertheless remained the strongest party (the runner-up, Freedom and Solidarity, got only half of the votes) and won nearly one-third of all mandates. Mr. Fico benefits from exceptional pragmatism and the ability to negotiate coalitions.

STABILITY AND QUALITY OF CONSTITUTIONAL INSTITUTIONS

The form of government

All Visegrád countries have a parliamentary form of government and a president as head of state. In most countries (Hungary being an exception) the president is elected by popular vote. Even those presidents elected indirectly, i.e. by MPs, do not have positions comparable to that of the French president (a half-presidential system). The constitutional rights of the Visegrád presidents and their political importance are lower than those of the French president.

Stability of the basic parameters of the constitutional system

Changes of constitutional order

Unlike the other Visegrád countries, the Czech Republic has benefited from the rigidity and robustness of the constitutional order. The Czech parliament has two houses, contrary to Hungary and Slovakia, and the same as in Poland. Different electoral systems are used for election into the two houses of the Czech parliament. While a proportionate vote is used for the parliament, a majority vote is used for the senate. In this way, the Czech and Polish constitutional orders resemble one another. In contrast to Poland, however, there is a pronounced time gap between the elections to the houses of parliament in the Czech Republic. In Poland the election to the lower house and senate are held at the same time, which is why the composition of the two is similar. In the last three Polish elections (2007, 2011, 2015) this was indeed the case. In 2007 and 2011, the Civic Platform had the strongest position both in the Sejm and the senate. In 2015 it was the contrary – the strongest position in both houses belonged to Law and Justice. In the Czech Republic, one third of the senate is elected every two years and the senate elections never coincided with elections to the house – there is always a gap of several months. In the Czech system, therefore, it is likely that the composition of the two houses will be at least partially different.

As a qualified majority in both houses of the parliament is required for any change of the constitutional order and the change of election legislation would require a majority in both houses, it would be very difficult to make any constitutional changes without broader consensus across the political spectrums. A reform of the constitutional

system by a single dominant party holding a significant majority, but not a three-fifths or two-thirds majority, is virtually impossible if all required constitutional procedures are observed. Even in Poland, the ruling Law and Justice Party is currently running up against the limits of its possibilities vis-à-vis constitutional changes. They need a two-thirds majority in the parliament, which it does not have. This is why the party first focused on changes in the Constitutional Court, making it possible for the party to advance changes in the constitutional system for which it would, under fair conditions, need a constitutional majority. The present make-up of the Constitutional Court makes it unlikely that it would declare changes of legislation unconstitutional.

Unlike Poland and the Czech Republic with two houses of parliament, the systems in Hungary and Slovakia, where parliaments have just one chamber, are more vulnerable to changes of constitutional rules introduced by a single strong party. It is even easier to introduce such changes if the parliament is elected in a way that prefers the winning party.

Such a system exists in Hungary, where half of the parliament is elected by a relative majority in single-mandate districts and the second, slightly smaller, through a proportionate system. The election results of recent years show that the winner of the election, Viktor Orbán's FIDESZ, strongly benefits from this. In 2014 it won 45% of votes for a candidate list elected in the proportionate part of the election, which resulted in 133 of all 199 mandates, i.e. nearly 67%. A similar effect was produced by the differently organized, but similarly majority-forming system in the 2010 election, before the major reform of the parliament and election legislation in 2011. In 2010, FIDESZ won 52.7% of votes, which resulted in 263 of 368 mandates, i.e. 68% of all mandates.

In Slovakia, the easy change of the constitutional order is prevented by the proportionate election system, by which the National Council of the Slovak Republic is elected, as is by the higher number of parties elected to the parliament (six parties after the 2012 election, eight parties after the 2016 election). The reward for the election winner is quite modest. In 2016, Robert Fico's SMĚR won 28.3% of votes, which resulted in 49 of 150 mandates, i.e. 32.7%. In 2012, only the strong victory and lost votes due to the 5% limit resulted in SMĚR turning 44.4% of votes into 83 of 150 mandates, i.e. 55.3%. To change the Slovak Constitution, it is necessary to have a three-fifths majority in the Slovak National Council, i.e. at least 90 MPs.

The role of the constitutional court

Constitutional courts play major roles in the constitutional systems of the Visegrád countries. They make decisions both in the abstract control of constitutionality, i.e. compliance of the sub-constitutional legislations (namely the laws) with the constitution, but also take concrete decisions in the control of constitutionality, i.e. constitutional complaints of individuals against government and ordinary justice.

The most stable constitutional court is in the Czech Republic. It has not changed significantly since 1993, i.e. from the establishment of the independent Czech Republic. With the exception of a short period during the end of the second mandate of Václav Klaus and the first months of Miloš Zeman's presidency (namely the second half of 2012 and the spring of 2013), the Czech constitutional court was always fully staffed and functional. There have never been major political fights about its position and composition and the political sphere has always accepted, albeit with reservations, its decisions by which it annulled acts with the legal force of the constitutional law (shortening of the election period of the parliament in 2009 and the related Decree of the Constitutional Court No. 27/09). In the Czech Republic, constitutional judges can be appointed repeatedly (and they are), the reason being the current chair, Pavel Rychetský, appointed for the first time in 2003 and for the second time in 2013.

In Hungary, on the contrary, the internal structure of the constitutional court and its competences were changed, most recently with the complex constitutional reform effective as of January 2012. The reform explicitly prohibited the court from examining the compatibility of constitutional laws with the constitution (it is allowed only to examine the procedural appropriateness of such a change). Judges of the constitutional court are elected by the parliament by qualified majority.

The Polish constitutional court recently became the subject of an intense battle between the Civic Platform and Law and Justice. The Civic Platform, expecting its future defeat in the 2015 election, attempted to staff a part of the court with judges favorable to its cause. In response, Law and Justice tried to seize control of the court and to change its composition in their favor. The legality of this step is still in doubt.

In Slovakia, the constitutional court was originally built as a body close to politics (the judge's mandate lasted for just seven years), but this changed in 2002 and judges are now appointed for 12 years and cannot be reappointed. In this respect, the Slovak legislation ensures greater separation of judges from politics than the legislation in the Czech Republic. Judges are selected jointly by the president and the parliament.

FUNCTIONALITY OF GOVERNMENT

General quality of government

Compared internationally, the quality of government in the Visegrád countries is generally at a high level. Nevertheless, it does not match that of neighboring countries in the region without a communist past. A comparison of the results in the past four years reveals that the performance of all countries is rather similar and, with some minor exceptions, that there have not been any profound changes. In the global chart, these

countries are typically ranked in the high forties and fifties, lagging around 15 places behind Germany and 30 behind the exceptionally well-assessed Austria.

Looking at the Visegrád countries in terms of certain specific yet important criteria to assess the performance of government, the results in the category of online access of the general public to the bodies of government are especially poor. Forty-fifth ranked Poland scores the best in the region, Hungary is 57th, the Czech Republic 89th and Slovakia 95th. For the sake of comparison, Austria is 11th and Germany 21st.⁸

The Visegrád countries achieve better results in the effectiveness of government category. Here the Czech Republic has scored well over the long term, being ranked in the high forties followed by Slovakia, Poland and Hungary in the low forties and high fifties.

Regulatory environment for 2013 - 2017

Country	Ranking in the world 2013	Ranking in the world 2014	Ranking in the world 2015	Ranking in the world 2016	Ranking in the world 2017
Czech Republic	41	40	40	40	37
Hungary	33	33	33	36	38
Germany	31	29	26	24	25
Poland	43	42	42	41	41
Austria	9	8	8	10	9
Slovakia	30	45	46	46	48

Source: The Global Innovation Index, criterion 1.2. Regulatory environment for 2013-2017, www.globalinnovationindex.org

Trustworthiness and fairness of government, perception of corruption

Many people lack trust in the fairness of government in the Visegrád countries. People in these countries see corruption in general as a serious problem. It is evident that the more strongly people are convinced that the government is corrupt and untrustworthy, the weaker will be their feeling that hard work can breed success in their societies.⁹

⁸ Source: The Global Innovation Index, criterion 3.1.3. Government's online services for 2017, www.globalinnovationindex.org (cited 29.10.2017)

⁹ See details: Central and Eastern Europe Prosperity Report 2016, Legatum Institute 2017, esp. p. 32-35.

Problematic areas

A general feature of the exercise of government in the Visegrád countries is the increasing bureaucratization and complexity of legislation. This is caused, on the one hand, by the growing complexity of modern society, and on the other, by the gradual deepening of European integration and the growing importance of the EU's legislation, especially in public regulation.

The problems described above are reflected in a number of areas. Tax systems are becoming ever more complex, leading to a higher administrative burden on businesses. Some Visegrád countries, such as the Czech Republic and to a lesser extent Slovakia, have recently introduced electronic systems to monitor economic transactions and the flow of capital values in the economy. Generally, the tax systems of the Visegrád countries are rather more complicated. The best among them is Slovakia, whose system is ranked 49th globally, followed by Poland in 51st place and the Czech Republic in 53rd place. Worst-ranked Hungary lags behind significantly – in 93rd place. For comparison, Austria is 39th and Germany is 41st.¹⁰

Urbanism and the construction industry present similar complexities, namely due to the growing emphasis on environmental protection, resulting in longer construction and related administrative procedures. Central Europe does not fare well internationally in this area, although there are pronounced differences among the various countries in the region.¹¹

JUSTICE

Problems in the functioning of the judicial system have recently surfaced in all countries of the Visegrád Four.

So far the fewest problems with independent justice have been in the Czech Republic, whose judicial system has functioned without major legislative changes since the establishment of the independent country in 1993. So far the judiciary has not been the target of major efforts to compromise its independence. There have been long-term political controversies about the position of the Supreme Public Prosecutor's Office.

The situation is different in Hungary, which has seen major interventions in its judicial system, namely the personal composition of the highest instance court, related to the last constitutional reform effective as of 2012. The European Court of Human Rights, however, prevented some of the most problematic changes (it defended the prematurely released chairman of the Supreme Court, András Baka¹²).

In Poland, the judiciary was, until recently, spared major interventions from the legislative or executive branches. Although the Constitutional Court halted the efforts of the Law and Justice Party to strengthen the executive branch from 2005 to 2007,

this all changed when Law and Justice took power following the 2015 election and the composition of the Constitutional Court was altered. This year the parliament approved legislation strengthening the powers of the executive in relation to the judiciary and weakening the hitherto significant role of judicial autonomy. The first of these laws makes it easier for the minister of justice to remove the chairmen of the court from office and weakens the role of judicial autonomy in appointing new chairmen. Another law strengthens the role of the executive in choosing new judges – and here too the judicial autonomy is weakened. Another problematic act, especially in terms of the general principle of an independent judiciary, makes it possible for the executive to change the composition of the Supreme Court.

Government effectiveness 2013 – 2017

Country	World Ranking 2013	World Ranking 2014	World Ranking 2015	World Ranking 2016	World Ranking 2017
Czech Republic	30	36	37	32	31
Hungary	42	43	42	42	45
Germany	17	14	16	12	12
Poland	39	42	40	39	40
Austria	14	15	15	17	19
Slovakia	36	40	39	38	39

Source: The Global Innovation Index, criterion 1.1.2. Government effectiveness for in years 2013-2017, www.globalinnovationindex.org

The judiciary in Slovakia, when Štefan Harabín held important positions, faced many controversies among individual groups of judges. Strong judicial autonomy played a negative role here.

GENERAL PROBLEMS AND FUTURE OUTLOOK

There have been some problematic tendencies in Central Europe impacting constitutional order and the performance of government. To some degree these trends also can be seen elsewhere in Europe or in Western countries generally. But partially these trends are also specific to this region, namely the Visegrád countries.

Firstly there is growing general skepticism about European integration. The general public in the Visegrád countries feel geographically and culturally part of Europe and it is with a growing sense of dissatisfaction that they perceive certain phenomena associated with European integration, namely oppressive bureaucracy and overly complex legislation. People in the Visegrád countries are generally more culturally conservative than in Western Europe. This is reflected in lower levels of understanding as regards antidiscrimination, feminism and multiculturalism.

¹⁰ See: Data from the Doing Business 2017 rankings, <http://www.doingbusiness.org/data/exploretopics/paying-taxes> (cited 9.11.2017)

¹¹ See: Data from the Doing Business 2017 rankings, <http://www.doingbusiness.org/data/exploretopics/dealing-with-construction-permits> (cited 9.11.2017)

¹² European Court of Human Rights, Baka vs Hungary, complaint no. 20261/12, judgment of the Grand Chamber of the ECoHR of June 23, 2016.

A significant majority of the general public in all Visegrád countries is against accepting any migrants from the Middle East and sub-Saharan Africa, i.e. migrants mostly from Muslim countries who are ethnically and culturally different from the majority populations here. The general public in the Visegrád countries believes that accepting the migrants would mean repeating the mistakes and related problems with assimilation and integration that have been seen in Western Europe. It needs to be emphasized, however, that the Visegrád countries do not have problems with migration generally. Indeed, they have accepted hundreds of thousands of economic migrants from Eastern Europe and the former Soviet Union (Ukraine, Moldavia and to a lesser extent Russia and the countries of the Caucasus), as well as from Vietnam, as laborers. The integration of these foreigners into the societies of the Visegrád countries has been smooth and not accompanied by ethnic tension.

The political systems of some Visegrád countries are under threat from the oligarchization of politics. This is manifested in the strong connection between political leaders with particular business groups or individuals (Slovakia, Hungary) or even in rich businessmen assuming key roles in politics (the Czech Republic).

In some countries, political parties are deeply polarized, in some cases accompanied by the strengthening of nationalistic tendencies and the weakening of the role of parliamentary political opposition. All of this is related to the efforts of the ruling government party to control, if possible, all spheres of the political and constitutional system – including the judiciary.

These developments are now taking place in Hungary. Viktor Orbán's ruling Fidesz party has taken control of all important positions in the country and to significantly weakened the opposition by gradually reforming the constitutional order. In some cases, the ruling party tactically abstained from taking too radical measures, but generally it has managed to assume control of the political system.

In Poland, the local ruling Law and Justice Party of Jarosław Kaczyński is trying to take over the political system in a similar way. Contrary to Hungary, in the Polish political system the winning party traditionally makes significant personnel changes in all offices and government-controlled media. The now opposition Civic Platform formerly behaved in the same way.

Going forward, however, it is important that the Visegrád countries:

- communicate in the European Union that they do not share some of the attitudes prevalent amongst policymakers in Western Europe (migration, cultural conservatism vs. progressivism, but also more radical environmentalism in the energy industry);
- reject measures which are not seen as appropriate in these countries' societies (migration quotas or rapid transition to carbon-free economy);
- maintain standards of democracy and law, as well as a truly plural political system at a level similar to that in Western European states.



Education

Working Group Coordinator: Bohumil Kartous

INTRODUCTION

Central Europe, especially the Visegrád group of Poland, Hungary, Slovakia and the Czech Republic, bears a common historical burden. Twenty-seven years after a profound social transformation, these post-totalitarian countries are still involved in a transition process. There has been not negligible progress in economic, social and cultural fields. But we cannot close our eyes to the challenges and threats that have occurred during the transition process and which we must now face.

Some of them are closely related to the inheritance from the past. According to German social philosopher Ralf Dahrendorf, it takes just a few months to change laws, a few years to change an economic environment, but decades to change the values upon which a society is built. As we can see in many global examples, democracy cannot be imposed. The only way to make it right is to strengthen these core values via a process of learning, where people are given the chance to understand why democracy and its current structures are inevitable for overall prosperity and to create an environment where everybody has the same opportunity to pursue his or her own vision of success while respecting democratic rules. This process is what we are used to call education.

Global development has introduced additional challenges to the Visegrád countries. The rapid technological leap since the dawn of the internet age has radically changed our economic and social customs. Routine economic and social activities will surely become easy prey for automation, which is coming closer with every passing month. The Visegrád countries built their relative economic success and their competitive advantage on the back of a cheap and skilled labor force, but they will lose this advantage, because automation will dismiss the need for a semi-qualified labor force and will likely concentrate production – nowadays partly distributed to developing countries – according to the new scheme.

The only chance for the Visegrád countries to not be left behind is to profoundly improve their approach to innovation. We must begin creating our own economic structures which are more driven by "in-house" ideas and initiatives, and less by the demand to produce supplies for more developed countries. We need to reform our education policy as radically as Finland did. The first step is to break out of our seemingly comfortable economic and social bubble, because it will soon burst. The longer we neglect this task, the less chance for social, cultural and economic progress.

We have chosen five indicators reflecting the most influential factors in education systems. These are: 1) investment in public education; 2) teachers, their age and income; 3) the structure of the education system at its upper secondary level; 4) tertiary education expectations; and 5) the influence of socio-economic background and parents' education on education attainment.

Investment in public education

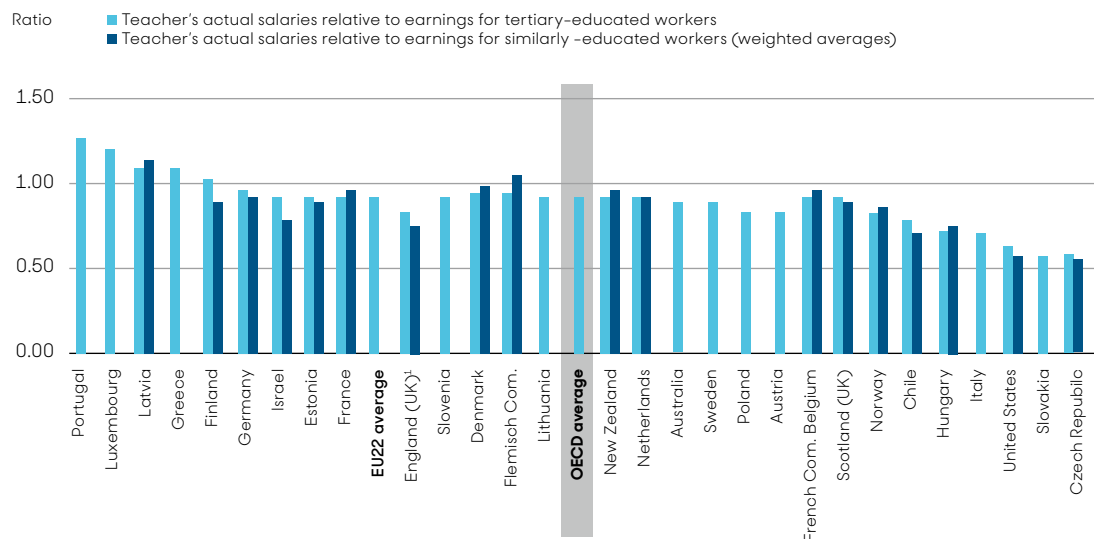
Investment in education is one of the most important indicators. Higher investment in education means that society believes in its own future and that there is a willingness to equip the next generation and to help them stay innovative, resilient and competitive.

Poland's investment in education has faltered from 5.3% of GDP to 4.7%, but its pursuit is still remarkably higher than in Hungary, Slovakia and the Czech Republic. Hungary also greatly decreased its investment in education over the past decades (from 4.5% to 3.8% of GDP), whereas Czech and Slovak investment is more or less similar: stable and low.

The gap between average investment in the OECD and the Czech Republic is approximately CZK 4.2 billion (approx. EUR 168 million) every year. The situation in Hungary and Slovakia is roughly the same (in percentage terms) and differs regarding the total amount of GDP. Poland is the only Visegrád country approaching the OECD average, but it is still a long way from developed western countries. By comparison, Scandinavians, except in Sweden (slightly above average of OECD investment), consider their education systems worth around 6.5% of GDP. In other words, billions of EUR missing every year and a widening rift between the future prospects of “educated” and “non-educated” countries.

Lower secondary teacher's salaries relative to earnings for tertiary-educated workers (2015)

Actual salaries of lower secondary teachers teaching general programs in public institutions



Teachers, their age and income

The role of teachers and their impact in education is incomparable with any other factor we are able to measure. Hence, teachers' income is a crucial benchmark helping us estimate the potential of this or that education system, how attractive it is for young people to imagine becoming a teacher and joining their careers with the mission to educate next generations, or how satisfied or motivated teachers are.

There is no stronger comparable factor influencing a school's education achievement that we can gauge than teachers and their quality. We therefore have to try to answer how the Visegrád countries treat their education systems when it comes to teachers. It means attempting to figure out how and why teachers (and potential teachers) enter a teaching career, how motivated they are to stay in schools for a particular time, to improve their skills and adapt to changing conditions.

The OECD statistics regarding total investment in the education systems across Europe bear this out. Teacher salaries in Poland are similar to the average in the OECD and EU, even slightly better. Hungary is not far behind, while the lowest salaries are in Slovakia and the Czech Republic, where the salaries of primary school teachers are only 58% that of other university educated professionals. The situation in Slovakia is only marginally better (62%), followed by Hungary (69%), and obviously the best situation is in Poland, where teachers' salaries are 85% that of other professionals with tertiary education.

Providing a good education in a rapidly changing world is a challenge for schools and teachers as never before. It is increasingly obvious that the education model used for decades no longer works. In our new digital world of easily acquirable information, schools have lost their position as “knowledge owners”. Changes in where and how we get information and how we use it have led to the need for new teaching methods. It requires teachers with complex personalities and strong professional training, an ability to constantly educate themselves and maintain a strong core of values to help them distinguish between important and trivial changes. For schools, the ideal solution is a blend of experienced teachers who are able to coach and mentor their younger colleagues, and relatively young, vigorous, open-minded teachers with strong yet respectful characters.

Among the Visegrád countries, the lowest average age of teachers in lower and upper secondary education is in Poland, followed by Hungary, Slovakia and the Czech Republic. It is important to clarify that the margin between the lowest and highest number is relatively small: ranging from approximately 43 in Poland to 47 in the Czech Republic. But the trend is clear: across Europe the population of teachers is ageing, making the above-stated goals hard to attain in the short term. The older the teachers in schools, the harder it will be to redesign the education system and public education will be more vulnerable to potential dismissal or questioning of its effectiveness or even purpose.

Structure of the education system at the upper secondary level

In most developing countries there is a dense network of preschool facilities and enrolment of children is usually overwhelming. What makes a real difference – especially as regards the looming challenges of a robotic and automated future – is the structure at the secondary education stage, where historically students begin choosing their careers.

Education systems are more rigid than technological or economic ones and thus have been unable to follow the rapid sequence of technological changes that has triggered economic and social development in the last two decades. The debate about this issue is burdened by the lack of social agreement on what the key goal of education should be for both individuals and society as a whole. Many argue that the school system must adapt to the current requirements of business, a notion that is often fiercely opposed by those who warn against the shortsighted prospects of these requirements and against narrowing the purpose of education to purely utilitarian goals at the expense of cultural and social enlightenment.

The education system itself, especially in countries which invest less in this sector, is relatively resistant to outside pressure. That is why the vast majority of upper secondary students in the Czech Republic still enroll in vocational study programs (almost 74%), while slightly more than a quarter apply to general study programs. This is a consequence of historical developments during the second half of the 20th century, when most jobs in the former Czechoslovakia were in heavy industry, and explains the similarity between the structures of the Czech and Slovak upper secondary education stage. In Slovakia, the share of vocational enrolments is only slightly smaller (70%). Nevertheless, the structure of the economy has changed remarkably over the last 30 years.

In Poland and Hungary, statistics reveal significant discrepancies. Polish students are split between general and vocational programs almost exactly 50/50. Three quarters of young Hungarians on the verge of upper secondary education choose general study programs, inverse to the situation in Slovakia and the Czech Republic.

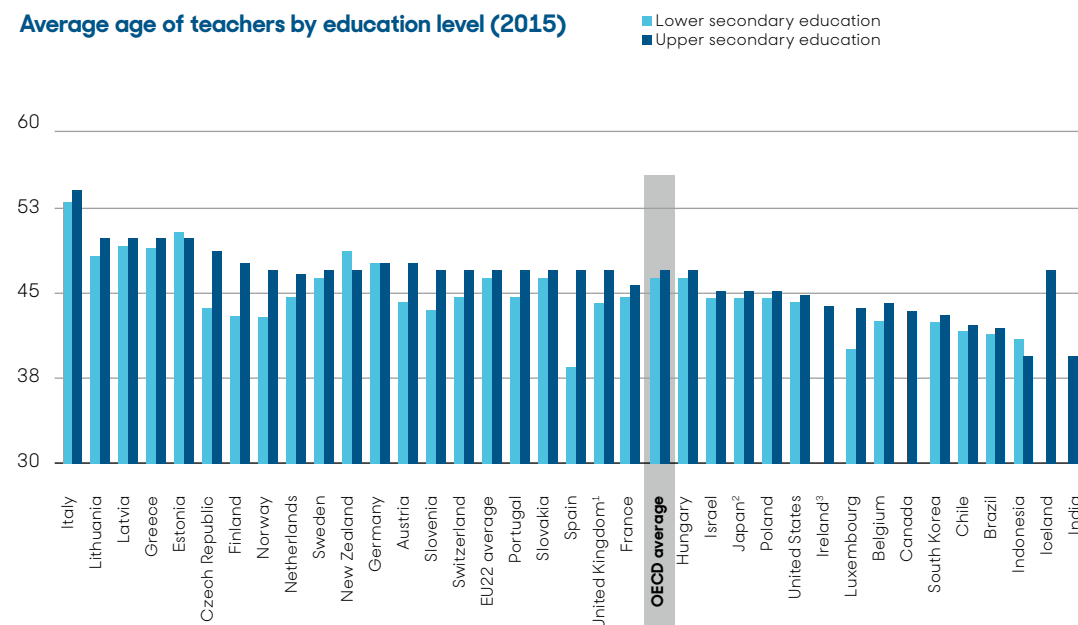
Why is this important? According to the OECD 15-year horizon forecast, the labor market will be affected by the automation of economic production. Not surprisingly, the Czech Republic and Slovakia are expected to be at highest risk among the countries compared (more than 45% of affected jobs).

Experts in the field of education policy agree that general study programs at the level of secondary education provide students with stronger skills (numeracy, reading, critical thinking, digital literacy and various soft skills) and allow them to better adapt to changing economic and social realities. General upper secondary education is objectively a better entry ticket to tertiary education, propelling students with stronger and deeper academic skills, which are most often used as admission criteria for university and college programs.

Tertiary education expectations

The driving force behind the “economic miracle” in South Korea, long a poor and backward country, was education, namely the rapid growth in the number of tertiary graduates. A higher number of tertiary students means a greater ability to face changing realities, and a higher number of college and university graduates is the reality of every developed society in the last two decades.

Average age of teachers by education level (2015)



1. Lower secondary education comprises secondary schools for ages 11-16. Upper secondary education includes colleges for ages 16+ and adult learning. See Annex 3 for details.
 2. Upper secondary education includes post-secondary non-tertiary.
 3. Upper secondary education includes lower secondary.

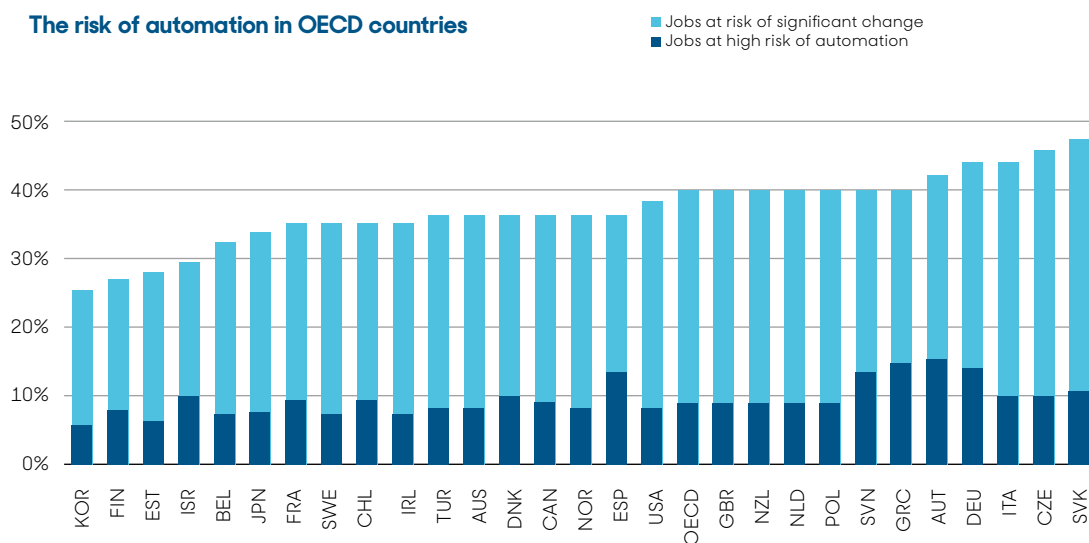
Following the previous indicator – the share of general and vocational programs in upper secondary education – the key factor in the fastest changing part of education in the

last 25 years is the tertiary sector. The spread of higher education in the last decades has brought most young people onto academic soil and raised questions about how to attain quality and excellence, while allowing most of the population to obtain tertiary education suitable to their social and economic self-realization in unpredictable times.

There are two factors which show us that this trend is probably unavoidable. Firstly, the spread of higher education is perfectly synchronized with the acceleration of economic changes. This is not a process which began with the internet, but much earlier – although the internet kicked off a whole new era and set new developments in motion. It is related to the fact of gradually failing models in the world, which require new solutions and new skills. It is hypothetically possible to redesign an education system to be more efficient at lower levels. But the lasting response of education systems globally has been to prolong the length of education. Less predictability means better preparation for the future and it can be done by deepening the level of education in the early stages of life or by remaining in the education system longer.

Secondly, we can return to the OECD forecast of changes in the labor market over the next 15 years. The chart below shows one strong trend accompanying gradual automation: fewer and fewer jobs requiring middle qualifications. Newly emerged jobs appear mainly in the area of higher qualification, less than among low qualified jobs.

The risk of automation in OECD countries



Note: Jobs are at high risk of automation if the likelihood of the work being automated is at least 70%. Jobs at risk of significant change are those with the likelihood of the work being automated estimated at between 50 and 70%. Data for Belgium refers to Flanders and data for the United Kingdom refers to England and Northern Ireland. Data refers to 2012 for countries participating in the first round of the Survey of Adult Skills: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Poland, Slovakia, Spain, South Korea, Sweden, the United States and the United Kingdom. Data refers to 2015 for countries participating in the second round of the Survey of Adult Skills: Chile, Greece, Israel, New Zealand, Slovenia and Turkey.

The OECD provides a detailed look at the distribution of tertiary education in participating countries and allows a comparison of the changes in the last 40 years by dividing tertiary education attainment into age cohorts (chart below). The majority of compared countries show a remarkable increase of people with higher education, including the Visegrád group. But we can see that Poland, where approximately 43% of the population has tertiary education, is ahead significantly compared to the next best Visegrád country. Looking at the oldest age cohort, we can see that these countries have almost the same proportion of tertiary graduates. The most significant divergence started in the 1990s and 2000s, when Poland shows a much higher share of tertiary education in the age cohort of 35 – 44 years and this is continuing within the youngest cohort. Slovakia and the Czech Republic, which are tightly bound in many other aspects of education, are at 32% and 33% respectively of tertiary education attainment, with the highest increase in the last 15 years. Hungary is the most stable among the Visegrád countries.

Influence of socio-economic background and parents' education on education attainment

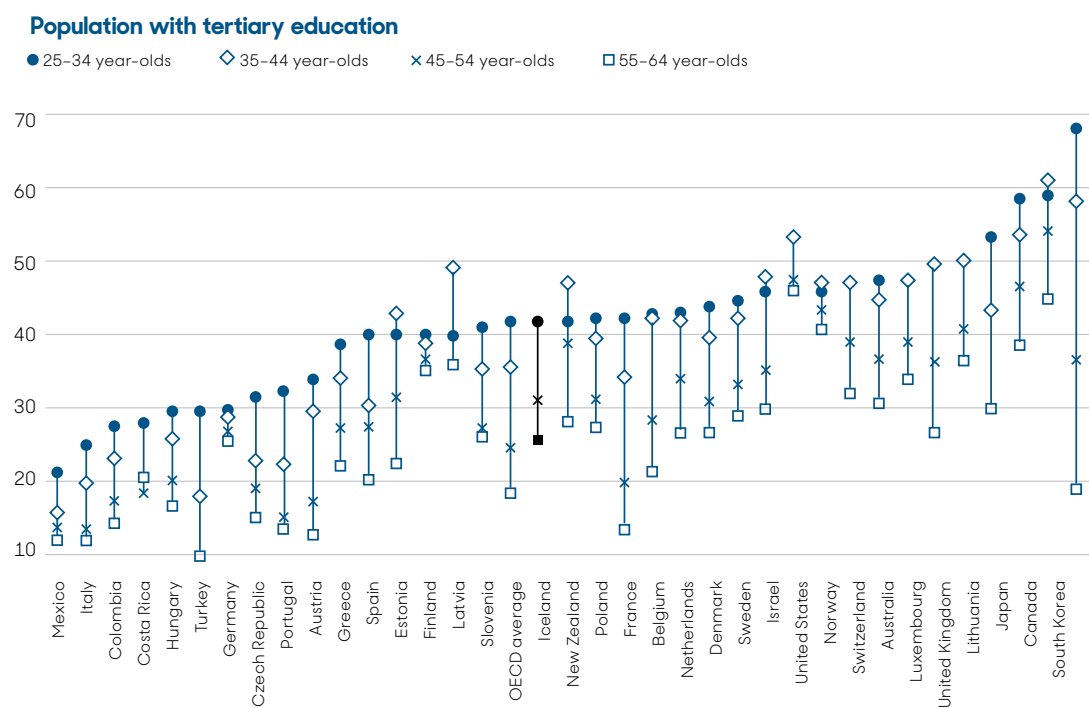
Education is the main driver of social mobility. And despite the fact that education has become a more common social and economic commodity than ever before, affordable education and equal opportunity to obtain higher education remains one of the differing factors between developed and developing countries. The widening or – on the contrary – closing of the gap within societies could be regulated when the education system provides vulnerable children and families with support to bridge the insufficient socio-economic and educational conditions of their daily reality and allow children to break out of their seemingly unbreakable social ceiling.

Social cohesion is a powerful principle which can be used for complex social development. A more cohesive society leads to higher political stability (a smaller social gap ensures weaker tensions), greater probability to reach agreement on pivotal policies, long-term conceptual progress, easier resolution of social or economic problems, which more and more often occur unexpectedly. Social cohesion creates greater inner confidence, legitimizes and supports relationships of individuals to the common interest (confidence widens the overlap of interests beyond private, family or community circles). Consequently, social cohesion allows for better planning and supports reforms that benefit future generations. Socially cohesive countries can rely on this advantage, especially in a time when the technological race is accelerating, making societies more vulnerable to a constantly changing world. As mentioned, Central European countries (and not only the Visegrád group) are expected to enter a period of turbulent economic transformation. This period will test these societies' ability to react adequately to massive new challenges and even take advantage

of them. In the context of the forgoing indicators (structure of upper secondary education and rate of tertiary education in the population), greater social cohesion can improve social mobility via education (more people from disadvantaged socio-economic backgrounds achieving better general literacy and higher education), because these young people are more focused and better motivated to accept education as a means to a better standard of living.

In societies where the original ideological and value-based structures have quickly evaporated, public education is one of the most influential factors on the future. Sometimes, school is the only place where children from various backgrounds and social classes can spend time together and achieve a better understanding of diversity. In economic (and cultural) competition, it should be considered unconditional to try to capitalize human potential, i.e. to increase a population's abilities and skills to a level where children from disadvantaged environments can improve their prospects and break through their social ceiling.

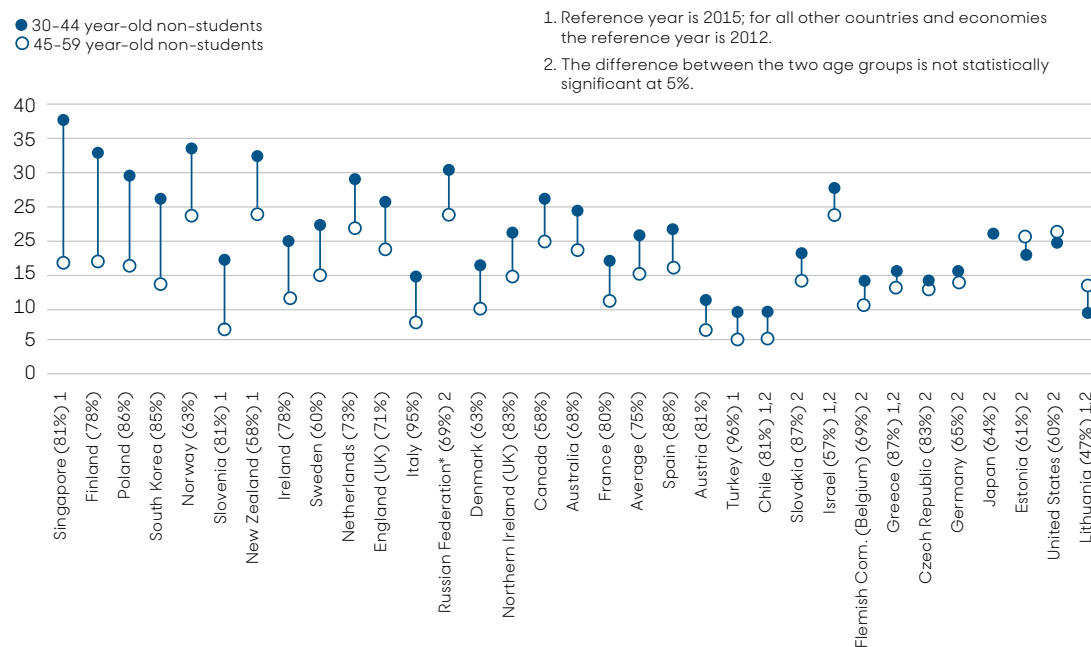
That's why we should examine the relationship between socio-economic backgrounds (naturally bound to the educational attainment of parents).



The OECD statistics are clear: Again, Poland has shown progress in the number of people with tertiary education whose parents do not hold diplomas. The Czech Republic and Slovakia are trailing; Hungary is unfortunately missing.

The following chart shows which countries or regions have been more successful in terms of eliminating the effects of socio-economic background on educational attainment. Poland is at the level of the OECD average, the Czech Republic and Slovakia trail significantly, and Hungary is again missing (participation or nonparticipation is itself telling).

Share of 30-44 and 45-59 year-olds with no tertiary-educated parent who completed a tertiary-type A or an advanced research program (2012 or 2015)



CONCLUSION

The title of this analysis intentionally asks who within the Visegrád group cares the most about education. In this article we tried to show why it is so crucial in a world where the only certainty is that there will be uncertainty. The prospects for individuals and for society as a whole have changed radically. While economic growth, social and political stability and individual self-realization are hardly ruled out, we all must seek and devise new ideas and solutions to succeed. Individuals and societies must react appropriately

when examining the range of skills needed to overcome new barriers and respond to new challenges.

As stated in the foreword, the Visegrád countries are facing many of these challenges right now. Education and the ability to use it as a powerful tool will shape the future. Either its design will remain unchanged and Central Europe will be stuck in the past or we will better understand the new configuration and adequately prepare ourselves for it.

We have chosen five indicators reflecting what we believe are the most influential factors within education systems. Considering that these indicators are partial, that they are just statistics which cannot capture a colorful and complex reality, and that education subsystems are closely interconnected with many other subsystems shaping society in institutional and functional terms, we should not take our conclusions too far. On the other hand, total investment, the quality of teachers, the structure of education attainment and contribution to social cohesion can really make a difference. And if we are to rely on statistics, among the Visegrád countries only Poland displays a willingness to care more about its future. At least in most of these indicators Poland is demonstrating an attempt to keep pace with developed countries. Hungary, the Czech Republic and Slovakia are obviously neglecting their education systems and putting their mid-term futures at risk. The future may show that some more influential factors will shape the Visegrád countries more powerfully than the state of education systems – for instance political (in)stability and divergence with the west; but there is no way to bridge the deficiency caused by education which does not work for our basic needs. The message is clear and political leaders in our countries should take it more seriously. It is almost too late.

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Security, Defense and Resilience

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Principal Co-author: Daniel Kunštát

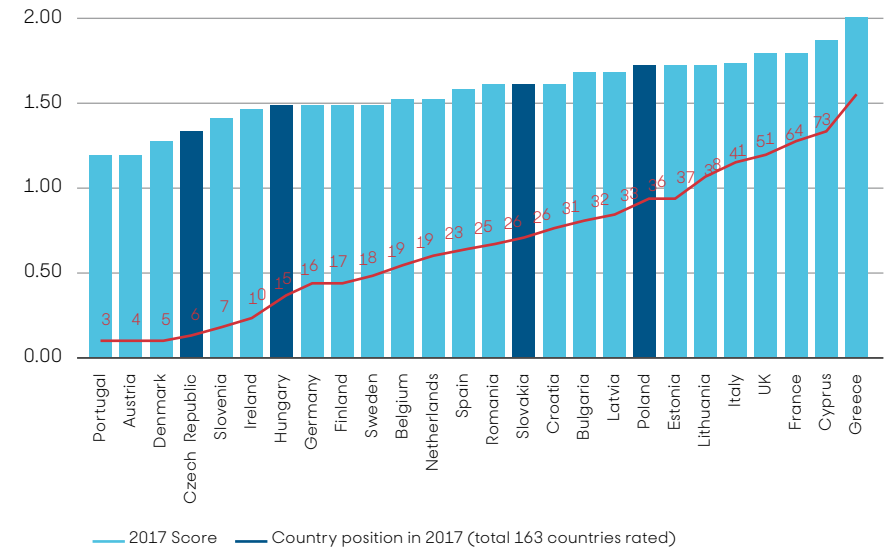
INTRODUCTION

The Czech Republic, Hungary, Poland and Slovakia are enjoying a period of unprecedented security. All four countries are integrated into NATO and the European Union. The levels of domestic crime and international cross-border organized crime as well as threats from international terrorism are low. In spite of all the difficulties and the deteriorating situation in many parts of the world, external threats are not imminent. All four Visegrád countries have very good – or at least relatively good – relations with all or most of their neighbors. It is fair to say that despite the ongoing war in Ukraine and continuing problems of stability and governance in some parts of the Balkans, the European continent is still one of the safest, most democratic and most prosperous places in the world.

Nevertheless, over the last couple of years the situation around the world, including in Europe's immediate neighborhood, has deteriorated significantly. The fighting continues in Eastern Ukraine and a change in Russia's assertive policy is hardly to be expected. The chaotic situation in the Middle East and many parts of Sub-Saharan Africa is not improving. Europe has had to get used to acts of jihadist terrorism in its own cities and the EU is still being flooded with outpourings of migrants.

Despite some easing in the migration crisis since 2015, many people continue to reach the EU and the Schengen Area. Migration has been a hot-button issue in all recent European elections and referendums. The continuing failure to integrate immigrants often leads to radicalization of citizens in many European countries – from immigrant communities as well as homegrown populations. Likewise embroiled in their own crisis and stagnation are the institutions of the European Union. And while the EU and its institutions face serious challenges, the functionality of NATO in the event of a real crisis is rightly being questioned as well.

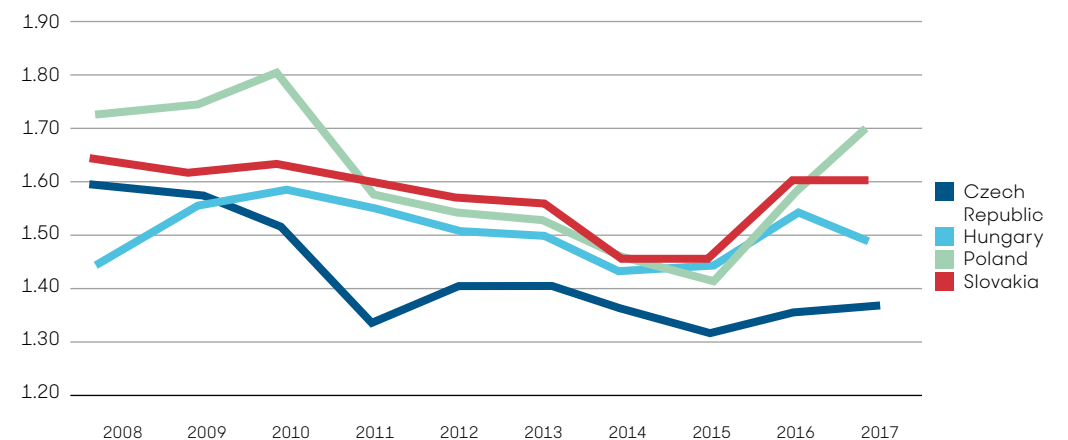
Defense spending (% of GDP) in 2017



IEP: Global Peace Index 2017

Yet it's not all doom and gloom. According to the Global Peace Index compiled by the Institute for Economics and Peace (IEP) in Sydney, European countries continue to be among the safest in the world. The Czech Republic was ranked sixth in 2017, the highest among the V4 members. Only Portugal, Austria and Denmark scored better among European countries, while Hungary came in 15th, Slovakia 26th, and Poland 33rd out of the 163 countries rated globally.

GPI score



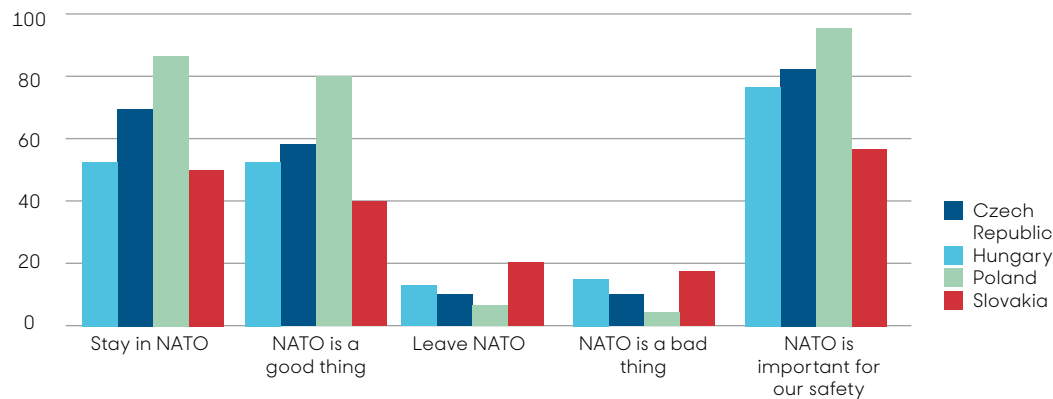
IEP: Global Peace Index 2017

Resilience

In general, people in Central Europe feel safe and secure. Czech public opinion, for example, clearly exhibits an overall sense of security. The number of citizens who feel safe in their homes as well as in the country as a whole is well above 80% and rising over the last couple of years. The Czech Police and the Czech Army enjoy a stable confidence rating among the majority of citizens – more than 60%.

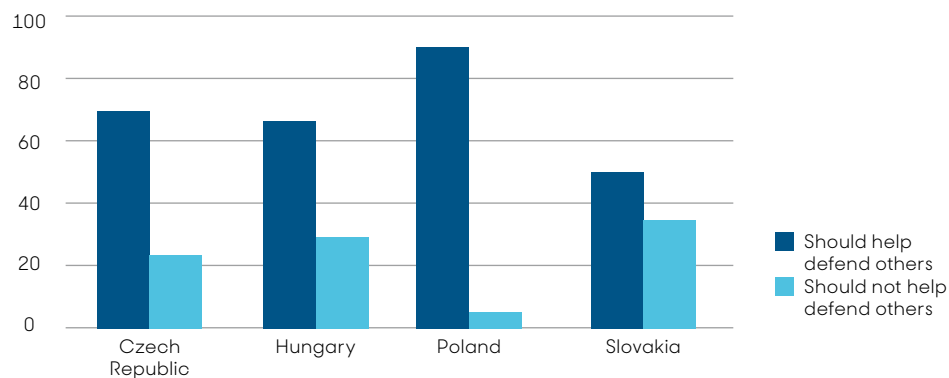
At the same time, people do see a deteriorating security situation in Europe and its neighbors compared to a decade ago. The perception of threats reached a peak in 2015 and 2016, depending on the timing of various surveys, before predictably easing slightly in 2017. People got used to instability in Eastern Europe and the Middle East and stopped being so frightened of the thousands of migrants crossing Europe's borders every day. The significant reduction of people entering the continent via the Balkan migrant route has definitely had an effect.

Public opinion on NATO



GLOBSEC: Views on NATO

Public opinion on solidarity and NATO



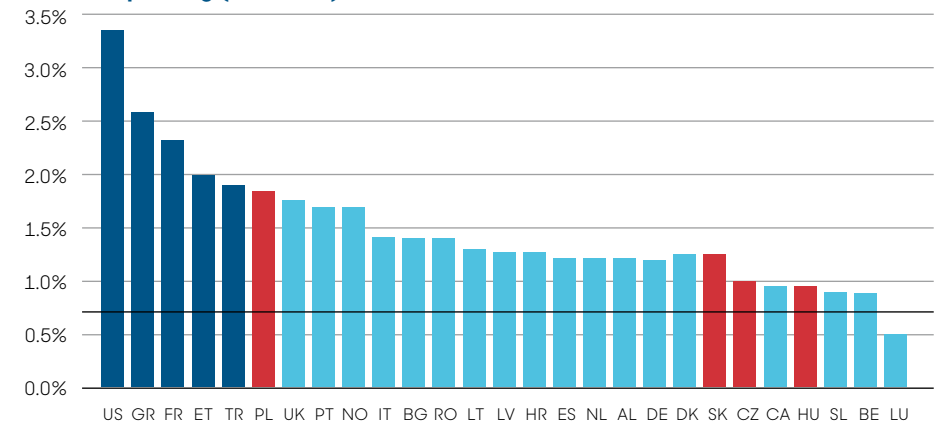
GLOBSEC: Article 5 in practice: Would you help to defend your NATO allies in case of an attack?

The Visegrád countries have a rather favorable and stable view of NATO. Traditionally there is more enthusiasm in Poland, skepticism in the Czech Republic, and pessimism in Slovakia. However, as confirmed in the Globsec 2017 Survey, the majority of the population in each Visegrád country considers NATO to be a security guarantee. While the level of enthusiasm varies, supporters of NATO significantly outnumber its opponents even in Slovakia, where support for the alliance is weakest. NATO is therefore seen as a fundamental pillar of security in Central Europe. Most people in the region even proclaim a willingness to help others if attacked, although the difference between Poland and Slovakia is striking.

In light of the rising perception of threats, one would expect all governments to use the opportunity of favorable views of NATO and higher demand for defense spending to increase defense spending and to strengthen defense capabilities. Such a move would undoubtedly increase a country's significance in international relations. The improved economic and budgetary situation in recent years has played an equally favorable role. However, the reality is that so far only Poland has seized the opportunity.

People in all four countries have taken note of the deteriorating security situation as a result of the so-called Arab Spring, the Russian invasion of Ukraine, terrorist attacks in Europe, and the migration crisis. Opposition to increasing defense and security spending has weakened. Nevertheless, there remains little evidence of any substantial and effective increase in defense and security budgets in the Czech Republic, Hungary and Slovakia.¹³

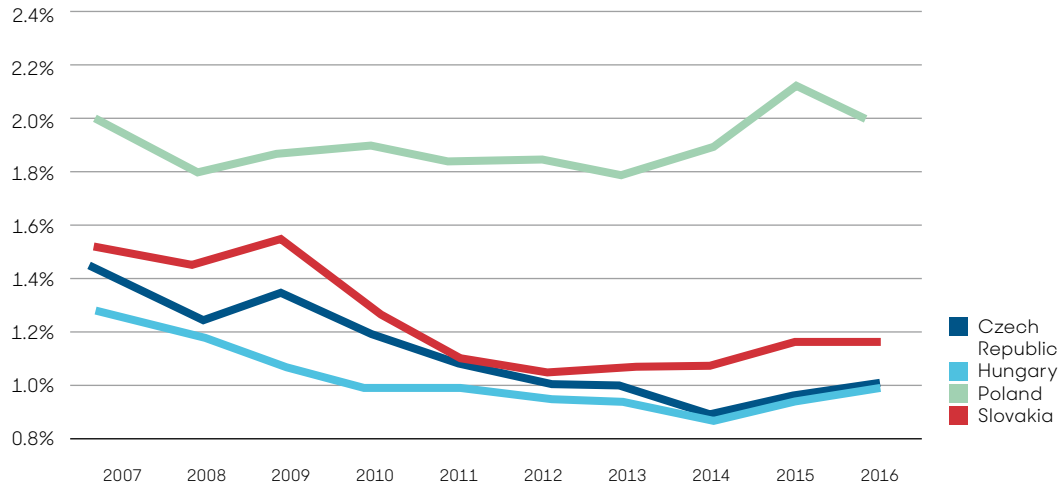
Defense spending (% of GDP) in 2016



Source: NATO

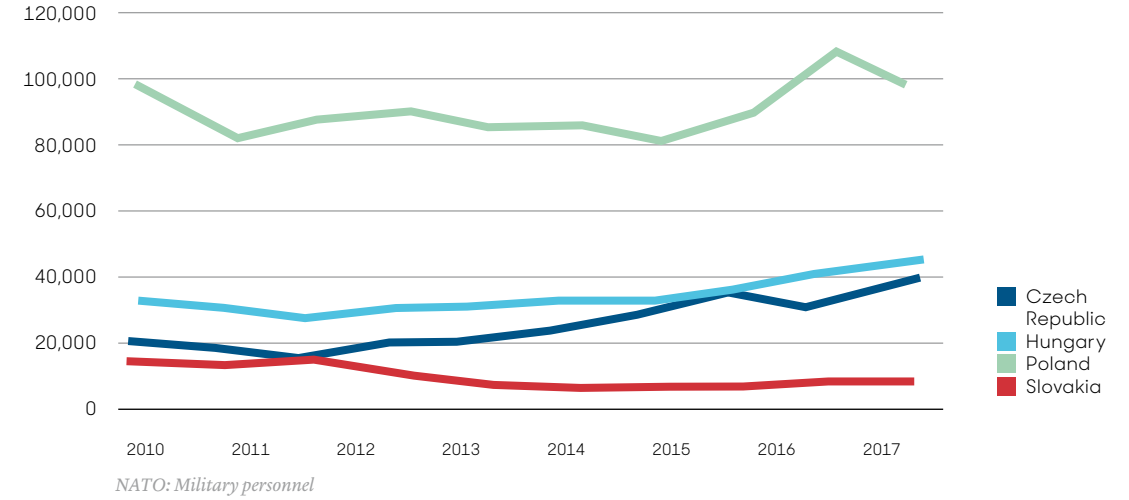
¹³ Slovakia has recently made more budgetary improvements than the Czech Republic and Hungary, but there is still no evidence that the 2% goal can be reached within the next several years.

Defense spending (% of GDP) 2007 - 2016



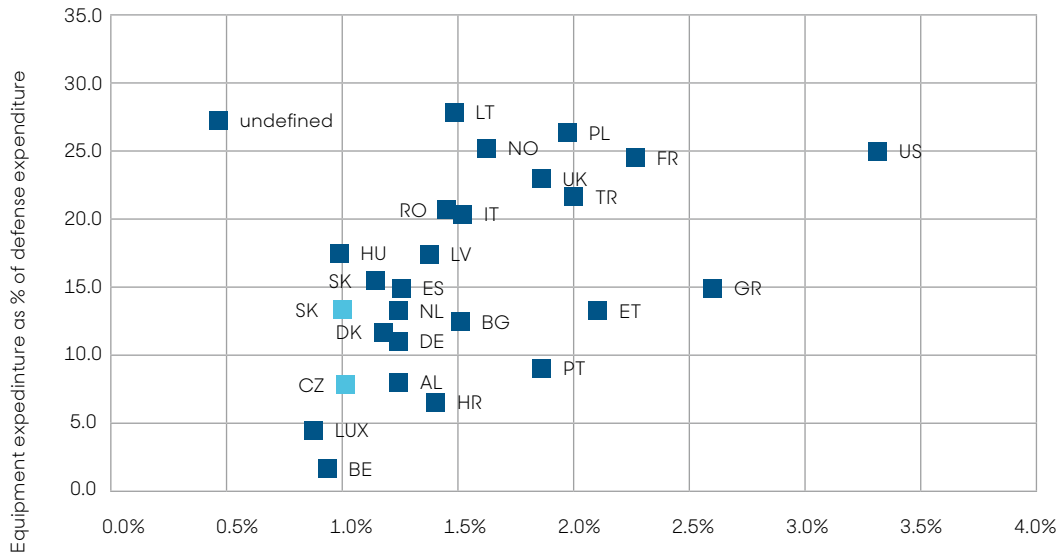
Source: NATO

Military personnel 2010 - 2017



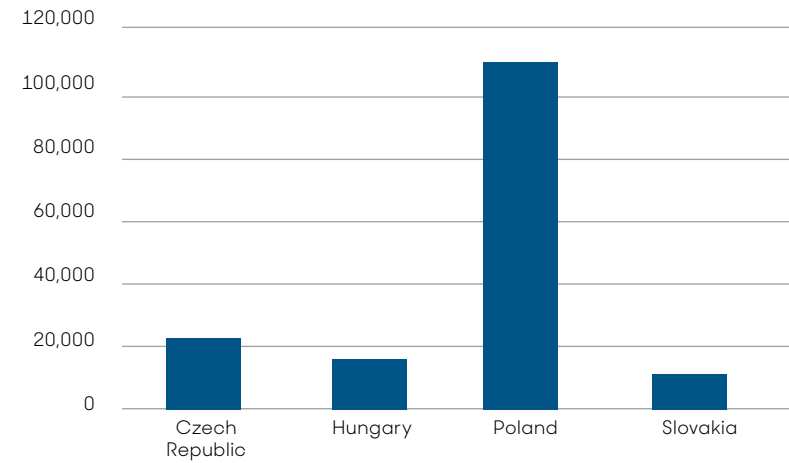
NATO: Military personnel

Defense and investment spending



NATO: Defense expenditure regarding 2% GDP and 20% investment threshold

Military personnel 2017



NATO: Military personnel (est. 2017)

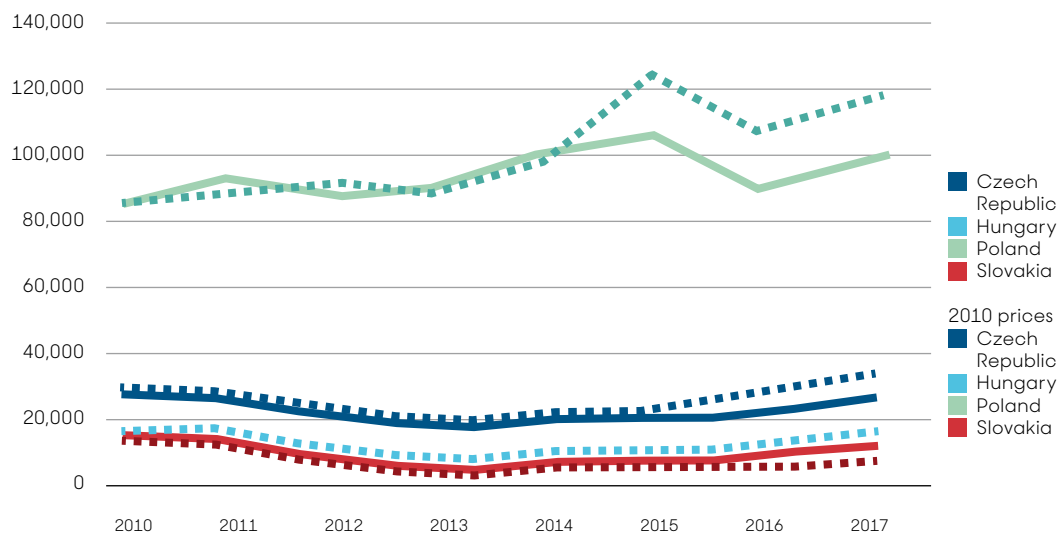
All three countries are among the worst performing members of NATO. Poland, meanwhile, is one of six countries whose defense spending reaches 2% of GDP and surpasses the 20% investment threshold. Poland nominally spends twice as much on its defense annually as the other three Visegrád countries combined! The gap between the capabilities of the Polish armed forces and that of the others is growing from year to year.

Defense

Although the European members of NATO, including the Visegrad countries, have in general managed to stop the several years long trend of decline in defense spending, the increases are still minimal, and can be accurately described as stagnant. The same is true of the Visegrád countries, with Poland the only exception. Although the defense budgets of all four countries have nominally increased, it has not been enough to see a significant (or in some cases any) increase in terms of the ratio to GDP and in the actual capabilities of defense forces.

The Czech Republic is the worst performing of the Visegrád group once the 2% and 20% targets are combined. For three years now the Czech budget has hardly reached 1% of GDP spent on defense, and it is not able to reach even half of the requirement of the budget allocation for sustainable investment. Due to the lack of investment, the real ability to conduct military operations is either stagnant or even deteriorating. The situation in Hungary and Slovakia is not much better. In some performance-based criteria their ratings are even worse.

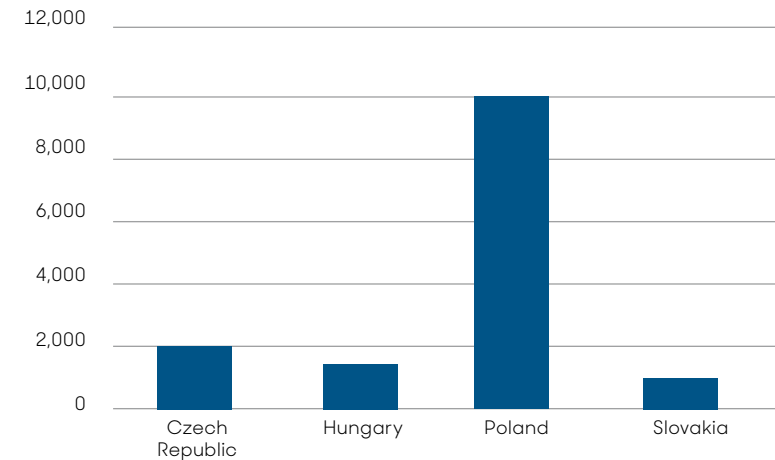
Defense expenditures 2010 - 2017



NATO: Defense expenditures: Current prices and exchange rates/constant 2010 prices exchange rates

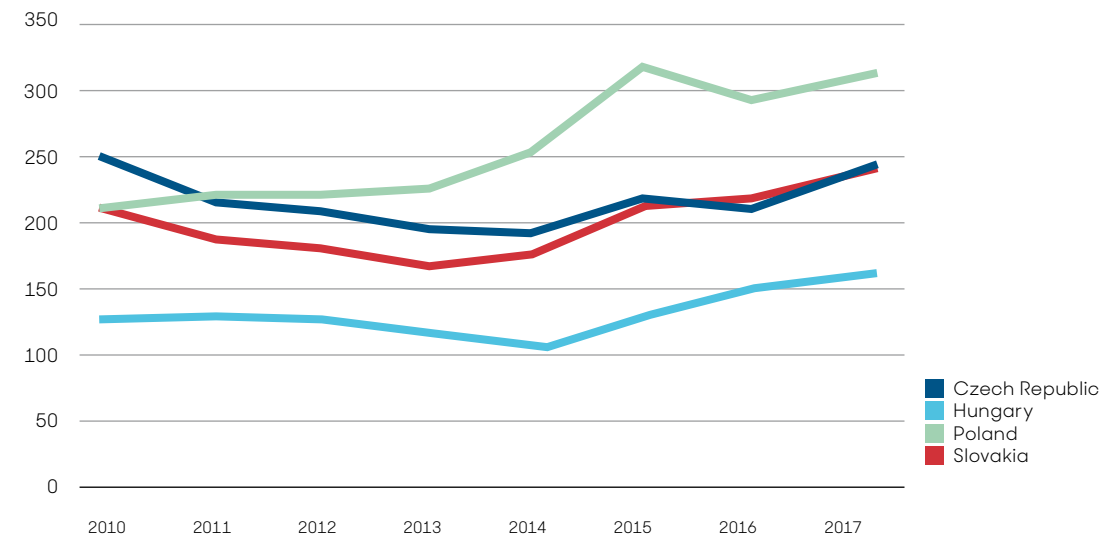
The estimated total number of military personnel of NATO members in 2017 is 3,174,000. The Visegrád countries contribute 164,000 or 5.17% of the total.¹⁴ However, the estimated total budget of NATO¹⁵ members in 2017 is USD 945,962 million and Visegrád contributes USD 14,561 million or 1.54% of the total.¹⁶ Poland has twice as many soldiers and its budget is more than double that of the Czech Republic, Hungary and Slovakia combined. Poland therefore plays in a different defense/diplomatic league, but not only due to the larger size of its population.

Military personnel 2017



NATO: Defense expenditures (est. 2017)

Defense expenditure per capita (2010 USD)



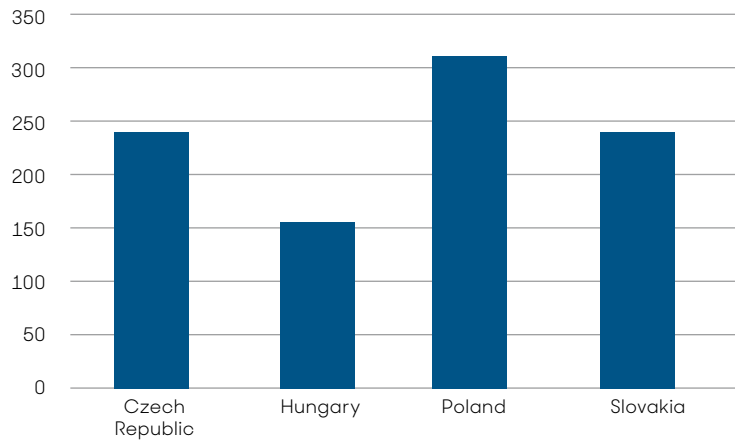
NATO: Defense expenditures Per Capita (2010 USD)

¹⁴ Czech Republic: 23,000 / 0.72%; Hungary: 18,000 / 0.57%; Poland 111,000 / 3.5%; and Slovakia 12,000 / 0.38%.

¹⁵ Based on NATO statistics.

¹⁶ Czech Republic: USD 2.119 million / 0.22%; Hungary: USD 1.355 million / 0.14%; Poland: USD 9.997 million / 1.06%; and Slovakia: USD 1.090 million / 0.12%.

Defense expenditure per capita (2017)



NATO: Est. 2017 defense expenditure per capita

While Poland is the largest of the Visegrád countries and has the largest economy, the population ratio as well as the GDP ratio of Poland compared to the other Visegrád countries combined is far from 2:1. Poland's GDP per capita is the same as that of Hungary, and lower than in Slovakia and the Czech Republic. Nevertheless, Poland has by far the highest per capita defense spending.¹⁷

The tepid approach to defense spending by the vast majority of European NATO members continues to undermine the relevance of the alliance and the long-term willingness of the United States to guarantee the security of the European continent. It is shameful that the Czech Republic, Hungary and Slovakia are contributing to this trend more than most others. Unfortunately, it is hard to see a significant change in this trend that will avoid dire straits in the future. By neglecting their own defense capabilities, all three Visegrád countries are also significantly reducing their diplomatic and foreign policy standing. The same can be said of the relevance of Visegrád as such.

CONCLUSION

Mainstream European politicians sometimes forget that there is no freedom and prosperity without security. Long-term underinvestment in defense has been a tragic and strategic mistake by successive governments in Bratislava, Budapest and Prague. The deteriorating security situation in Europe and its neighbors combined with the good economic and budgetary situation in Central Europe has created an opportunity to reverse this trend and upgrade our defense capabilities to desirable levels. With the exception of Poland, however, it still looks rather like a missed opportunity. Let's hope that Central Europe will not pay a heavy price for this shortsightedness.

¹⁷ The estimated 2017 defense expenditure per capita (in 2010 US dollars) is USD 238 in the Czech Republic, USD 163 in Hungary, USD 310 in Poland, and USD 237 in Slovakia.

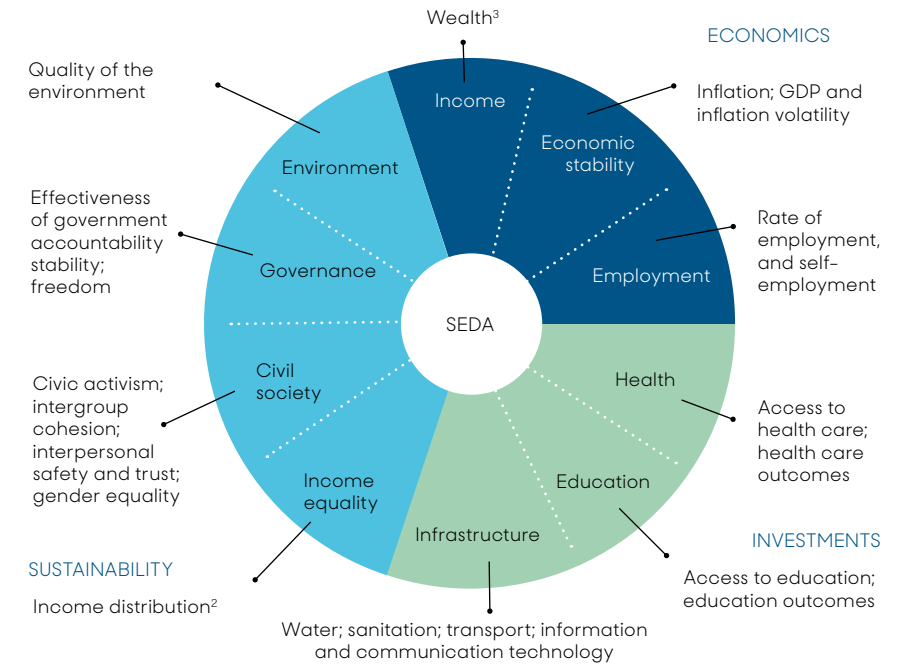
Quality of Life

Working Group Coordinator: Pavel Fischer

INTRODUCTION

How do we live? How satisfied are we and what is our outlook on the future? Where have we arrived in the past three years since the Aspen Institute focused its attention on the quality of life in the Czech Republic? And how do we fare in comparison with other countries in the region, in Europe and globally?

SEDA's Ten Dimensions of Well-Being



Source: BCG analysis

² Wealth is measured as GDP per capita (purchasing-power parity, current international \$) for current-level scores, and GDP per capita (constant local currency unit) for recent-progress scores.

² Income distribution is based on the Gini coefficient.

The region in a comparative perspective (the SEDA index)

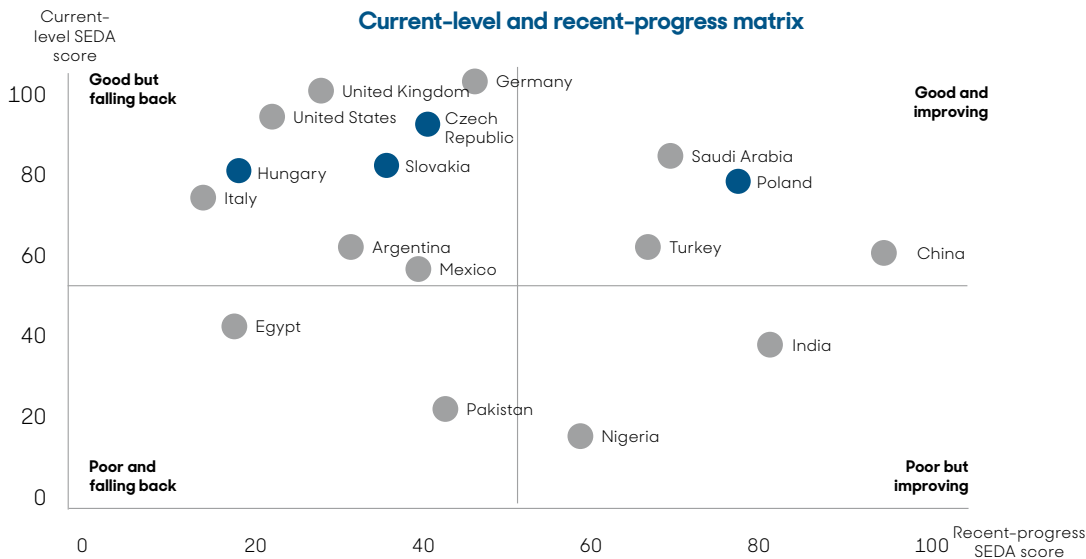
Can sustainable economic development be judged by the degree to which wealth is transformed into human welfare? With the help of the SEDA index (sustainable economic development assessment), an original tool combined with the GDP sustainability and life satisfaction index (in partnership with the Boston Consulting Group), we will be able to provide an outlook on the Czech Republic in the global context.

The efforts of generations of economists, including Nobel Prize laureates such as Amartya Sen, Michael Spence and Joseph Stiglitz, led to an initiative to define the priorities of public investment with regard to the welfare of citizens. How to measure it? The SEDA index, developed by the Boston Consulting Group, is one of the many methods available.

SEDA combines empirical data on health care and education with other inputs, such as an expert assessment of government. The comparison includes 162 countries (2017) and

is similar to a graph by which progress is measured over the course of time. The goal is to supplement purely economic indicators with other important parameters (a total of 44 indicators are used). The results are assigned a score and classified from 0 to 100.

SEDA's ten dimensions provide an organizational framework to review priorities and even suggest measures to be taken.



Source: BCG analysis

This year's report again shows that the ability to transform wealth into good living conditions changes very little over time in particular countries. While the level of income and growth can increase or decrease, the ability of the government to effectively use wealth to achieve good living conditions changes only gradually.

The SEDA index consists of ten parameters. They help to review priorities and to check how each country fares in global competition, what its strong and weak points are and, possibly, what measures to take.

International comparison

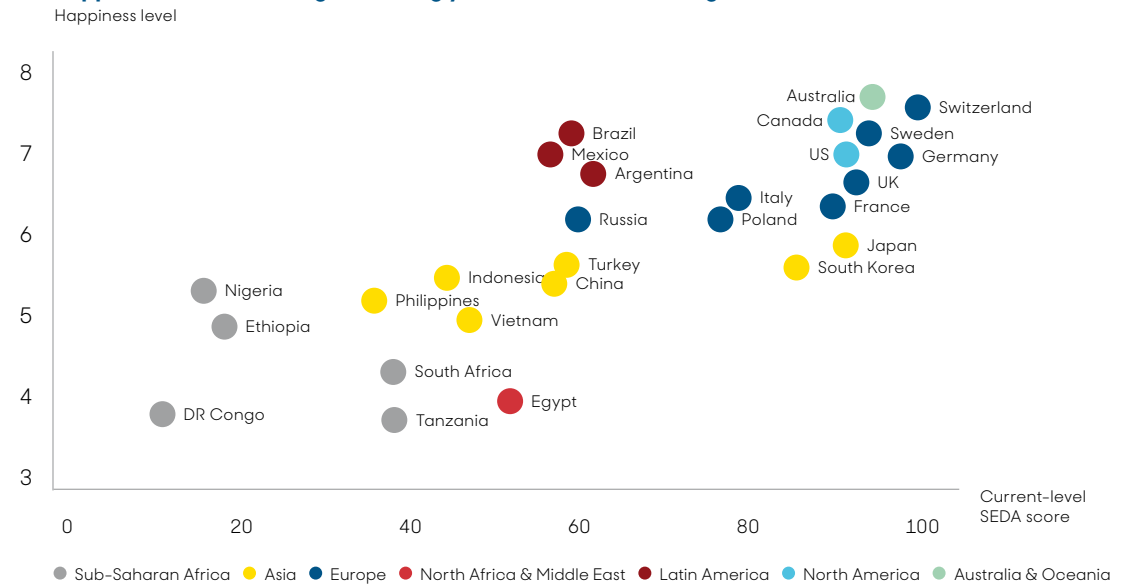
If we use the SEDA method to classify countries into four basic groups, the figure drafted on the basis of individual parameters will show us the following:

The top left quarter includes countries which can be labelled "good but falling back". Besides the Czech Republic, this group includes Slovakia, Canada and the United

States. The top right section includes countries whose current and recent progress was above the median. It is a group that can be characterized as "good and improving". This section includes Poland, Germany, Turkey and China. The bottom left quarter contains the most challenging countries, whose current and recent progress scores are below the median. They can be characterized as "poor and falling back".

Even though the countries with lower levels of wealth at the beginning of the period under review (2006–2015) had more room for improvement, the biggest progress has been achieved by others.

Happiness and well-being are strongly linked, with marked regional differences



Sources: SEDA 2017; UN 2017 World Happiness Report.

Note: These are the 35 countries in our subset with the largest populations and/or economies.

Are people happy?

How are higher levels of income inequality and feelings of happiness intertwined? If we compare the SEDA index and happiness index as measured by the UN in the special report on global happiness, we will see that both are heavily interdependent.

Countries with high levels of income inequality tend increasingly towards higher differences between feelings of happiness and the absence of these feelings. On the other hand, countries with low income inequality show a stronger tendency towards higher levels of happiness than the more objective SEDA satisfaction level would suggest.

Globally, happiness and well-being are largely influenced by cultural differences. Latin Americans can be prone to optimism, while in Central and Eastern Europe the opposite is often the case. And the high levels of happiness among East Asians are quite in tune with the good results scored by these countries.

CONCLUSION

As a method, examining quality of life is full of discoveries and surprises. It compels us to turn our attention from purely mathematical or economic data to less tangible phenomena. The hidden costs of economic transformation, unidentified or unresolved issues and uncompleted reforms are among the things we find when we go off the beaten path of international statistics.

Feelings of satisfaction with life are influenced by many factors. SEDA analyses suggest a close correlation between a society's inclusiveness – in terms of income equality, quality of civil society and management of public affairs – and its ability to turn wealth into well-being. The stronger a country's civil society and the more compelling it is to live in it, the greater the chances for V4 countries to succeed in other matters. Although the Visegrád countries have much in common, each of them is undergoing a unique process of political development. Their conditions cannot be examined in isolation from the rest of Europe, and the challenges for democracy in countries such as Italy, Greece or Spain have their echoes in the Czech Republic. The results of the general election in Germany or the Brexit talks can in many ways serve as points of contrast for us to better see the context in which we live today.

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