

2017 Aspen Annual Conference

The Shape of the Czech Republic

Nov 29 2017

#AspenAnnual2017





Contents

Foreword	5
Program	6
Speakers	8
Economy and Competitiveness	24
Quality of Governance	27
Education	29
National Security and Resilience	32
Quality of Life	35

Foreword

We are doing well, but could be doing far better. How do we stack up against our closest neighbors? Who should we compare ourselves to? We will be meeting for the third time this year in order to address questions about the development of our society. **The Shape of the Czech Republic** conference followed up on the **Czech Republic: The Shape We're In** project which the Aspen Institute launched in 2015 and which sought to map the country's status in various areas based on available data and international comparisons. The conferences last year and the year before that successfully offered a number of answers to the question of why the Czech Republic fares poorly in comparison with similar countries and what can be done about it. The starting point was the attempt to place various aspects subject to international comparison into broader contexts: economic competitiveness, education, the functioning of public institutions, the quality of life and security. This year's conference on the Czech Republic is connected to an international conference entitled **The Shape of (Central) Europe**, which allows us to examine the local situation in the context of contemporary Europe.

Our thanks go to everyone who took part in the working groups, in particular their coordinators, who drafted the reports contained in this booklet. This is not an academic study intended for specialists, but material for public discussion. We believe that you will find in these reports a reflection of the actual state of affairs as well as ideas, proposals and recommendations for the best way forward. The purpose is not merely analytical, but also to motivate individuals to get to work and encourage public officials and Czech society as a whole to collaborate towards a bright future, the preservation of freedom, development of prosperity and greater security.

We will succeed in our endeavor not only by setting attainable goals, but mainly by holding accountable those who have the tools in their hands to achieve them. The year 2018 will offer many opportunities for this, as the new government could adopt a number of these recommendations. Let us hope we are pleasantly surprised!



Jiří Schneider

Director

Aspen Institute Central Europe

Program

8:30–9:00 **Registration**

9:00–9:15 **Opening Speech**

Ivan Hodáč, President, Aspen Institute Central Europe

Jiří Fajt, General Director, National Gallery in Prague

Roman Latuske, Chairman of the Board of Directors and CEO, Economía, a.s.

9:15–10:15 **Economic Competitiveness**

Chair: **Vladimír Dlouhý**, President of the Czech Chamber of Commerce

Aspen Expert Report: **David Vávra**, OG Research

Michal Kadera, Director of External Affairs, Škoda Auto a.s.

Lukáš Kovanda, Chief Economist, Cyrrus

Josef Středula, President of the Czech Moravian Confederation of Trade Unions

Eva Zamrazilová, Chief Economist, Czech Banking Association

10:15–10:30 **Coffee Break**

10:30–11:30 **Quality of Governance**

Chair: **Veronika Sedláčková**, Czech Radio Plus

Aspen Expert Report: **Karel Šimka**, Supreme Administrative Court

Marek Antoš, Director, Internet Info

Lenka Bradáčová, Chief of the High Prosecutor's Office in Prague

Jan Farský, Member of Parliament

11:30–11:45 **Coffee Break**

11:45–12:45 **Education**

Chair: **Martina Břeňová**, Director of Programs and Development, Avast Foundation

Aspen Expert Report: **Bohumil Kartous**, EDUin

Pavel Kysilka, President and Founder, 6D Academy

Tania le Moigne, Country Director, Google Czech Republic and Slovakia

Daniel Münich, IDEA-CERGE-EI

Aleš Weiser, President Bakala Scholars

12:45–14:15 **Buffet Lunch**

14:15–15:15 **National Security and Resilience**

Chair: **Zuzana Tvarůžková**, Czech Television

Aspen Expert Report: **Tomáš Pojar**, CEVRO Institute

Jan Hamáček, until 10/2017 Speaker of the Chamber of Deputies of the Parliament

Ivan Gabal, sociologist and security expert

Jakub Landovský, Deputy Minister of Defense

Petr Pavel, Chairman, NATO Military Committee

15:15–15:30 **Coffee Break**

15:30–16:30 **Quality of Life**

Chair: **Nikita Poljakov**, Hospodářské noviny

Aspen Expert Report: **Jan Hartl**, STEM

Markéta Pekarová Adamová, Member of Parliament

Kateřina Vacková, Founder, Loono

Michael Žantovský, Director, Václav Havel Library

16:30–17:15 **Recommendations for the Future Government**

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

Miroslav Singer, Director for Institutional Affairs and Chief Economist, Generali CEE Holding

Peter Stračár, CEO, GE for Central and Eastern Europe

17:15–19:00 **Reception**

Speakers



Marek Antoš

Marek Antoš is one of the pioneers of the Czech Internet. In 1998, he founded Internet Info, a company that publishes professional servers such as Lupa.cz, Měšec.cz and Slunečnice.cz. For many years he has been involved in CZ.NIC, the Czech national domain (.cz) registry. He also teaches constitutional law at the Faculty of Law, Charles University, of which he is himself a graduate. In addition he holds degrees in political science from the Faculty of Social Sciences in Prague and comparative constitutional law from the Central European University in Budapest.



Lenka Bradáčová

Lenka Bradáčová joined the Prosecution Service of the Czech Republic in 1998 and has held the post of Chief of the High Prosecutor's Office in Prague since 2012. As such she is responsible for prosecuting the country's most serious and high-profile cases. She has been a member of the Public Prosecutors Association since 1999, and was its president from 2008 to 2014. She takes part in many teaching activities, for example through the Judicial Academy of the Czech Republic or the Police Academy of the Czech Republic. She also lends her expertise to legislative work, being a counsel to the Minister for Justice from 2006 to 2008, and currently as a member of the Committee for the Recodification of the Code of Criminal Procedure.



Martina Břeňová

Martina Břeňová is Director of Programs and Development for the Avast Foundation. For the last 20 years she has brought together people, organizations, communities, nonprofits and the private and public sectors. She studied at the Faculty of Arts at Masaryk University in Brno, where she became deeply interested in the topics of human rights, personal freedom and dignity. She has worked for many non-profit organizations, including People in Need and the Via Foundation, focusing on the development of fundraising, philanthropy, corporate social responsibility, the civic sector and communities. For the last six years she has taken part in the development and mission of the Avast Foundation, which is currently the second-largest corporate foundation in the Czech Republic. Its main goal is to support the right of individuals to freely make decisions about their lives. The Foundation achieves its impact through innovation, expert partnerships and system changes.



Vladimír Dlouhý

Vladimír Dlouhý is as a member of the International Advisory Board of Goldman Sachs, president of the Czech Chamber of Commerce and chairman of the International Chamber of Commerce (ICC). He studied mathematical economics and econometrics at the School of Economics and at Charles University in Prague. He is a former Minister of Economy of Czechoslovakia and Minister of Industry and Trade of the Czech Republic. He holds the following positions as well: non-executive director (KSK Power Ventures, India), member of the advisory board (Meridiam Infrastructure, France), and professor at Charles University in Prague.



Jiří Fajt

Jiří Fajt is an art historian and current General Director of the National Gallery in Prague. He graduated from the Faculty of Arts at Charles University in Prague and from Czech University of Life Sciences in Prague. He specializes in medieval art, and has authored numerous publications, as well as edited several anthologies and exhibition catalogues. From 1998 to 2001 he was the director of the Center of Medieval Arts at the National Gallery in Prague and later a visiting professor at Technical University in Berlin.



Jan Farský

Jan Farský is a Member of the Parliament of the Czech Republic, serving as the deputy chairman of the Legal and Constitutional Committee. He graduated from the Faculty of Law at Masaryk University in Brno and practiced law at a firm in Semily, his hometown. In 2004 he became advisor to Deputy Prime Minister for Economic Policy, Martin Jahn, later leaving together with him for Auto Škoda. From 2006 to 2014, he served as the mayor of Semily, and he has been an MP since 2010. In 2017, he was the national leader of the Mayors and Independents movement, which he represents in the Parliament. Over the course of his political career he has advocated for transparency in public spending.



Ivan Gabal

Ivan Gabal is a sociologist and a security expert. From 2013 to 2017 he was a Member of the Parliament of the Czech Republic, as an independent on behalf of the Christian and Democratic Union – Czechoslovak People's Party (KDU-ČSL). He was deputy chairman of the Defense Committee and a member of the Security Committee. A graduate of Charles University in Prague majoring in sociology (1975), he worked from 1976 to 1990 as a researcher at the Institute of Philosophy and Sociology of the Czech Academy of Sciences and is one of the founders of the Circle of Independent Intelligence and Civic Forum established in 1989. He also managed the Department of Political Analysis under the Office of President Havel. Since 1994, he has been managing two companies focusing on sociological analysis: GAC spol. s.r.o. and Gabal Analysis & Consulting, which have carried out a number of unique projects in the area of security and defense, ethnic affairs, education, regional development, environment, NATO and the EU.



Jan Hamáček

Jan Hamáček is Vice President of the Chamber of Deputies for the Czech Social Democratic Party (ČSSD), serving as its Speaker until 2017. In the past, he was the ČSSD shadow Defense Minister and spokesperson on defense issues. He also held the position of vice-chairman of the Committee on Foreign Affairs, headed the Czech delegation to the NATO Parliamentary Assembly and served on the Committee on European Affairs. Prior to his election to parliament, he worked as advisor to two prime ministers, and as his party's international secretary.



Jan Hartl

In 1990, Jan Hartl founded the STEM Research Center, which he led until 2015. In 1994, he founded STEM/MARK, which is engaged in market and media research. He is the author and developer of a large number of sociological projects, and has advised a number of Czech and foreign institutions. Much of his work is focused on the popularization of sociological knowledge. He studied sociology, political science and film science at Charles University in Prague and since 1972 he has worked as a specialist and research assistant at the Institute of Philosophy and Sociology of the Czechoslovak Academy of Sciences. He was a member of the Scientific Council of the Sociological Institute, and worked on numerous editorial boards.



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.



Michal Kadera

Michal Kadera is director of external affairs at ŠKODA AUTO responsible for overall lobbying, public/government affairs, political communication, CSR and state aid. A graduate of the Faculty of Law of the University of West Bohemia in Pilsen, he completed postgraduate studies at the Faculty of Law of the University of Passau, Germany. He is a former Director of the Czech Business Representation to the EU in Brussels (2007–12), prior to which he served as Head of the EU Affairs Unit at the Ministry of Education (2005–07) and as an expert on EU law in the Senate of the Czech Republic (2004–05). When his schedule permits, he also teaches European law and European lobbying at the University of Economics in Prague, the University of West Bohemia and others, writes articles about the EU, and takes part in international conferences.



Bohumil Kartous

Bohumil (Bob) Kartous is Head of Communications and an analyst at the EDUin think-tank. He graduated from the Pedagogical Faculty and Faculty of Sports Studies of Masaryk University in Brno and holds a PhD from the Media Institute at the Faculty of Social Sciences of Charles University in Prague. His articles about education are published in many Czech media outlets and he is a regular media commentator on educational events. He teaches at the University of Economics and Management in Prague and helped launch the start-up Education Republic. In 2015 he participated on the content and implementation of Forum 2000 and created the *Map of Social Stereotypes* together with the DOX Centre for Contemporary Art. He has been participating on the implementation of Philip Zimbardo's Heroic Imagination Project and is the editor of the Czech critical internet daily *Britské listy*.



Lukáš Kovanda

Lukáš Kovanda is chief economist at CYRRUS, a leading brokerage in the Czech Republic, and a lecturer at the University of Economics in Prague. From 2010 to 2013 he was managing director of Prague Twenty, a Czech think-tank focusing on economic and international issues. One of the most quoted financial experts in the Czech media, he has published several books and numerous articles. During the financial crisis, for example, he interviewed more than a hundred leading global financiers and economists, including many Nobel laureates in economics, to subsequently publish a book compilation called *The Story of A Perfect Storm*. An avid long-distance runner, Lukáš completed the New York City Marathon in 2014.



Pavel Kysilka

Pavel Kysilka is a graduate of the University of Economics in Prague. From 1986 to 1990 he worked at the Institute of Economics of the Czechoslovak Academy of Sciences, and from 1990 to 1991 was the chief economic advisor to the Minister for Economic Policy. He was appointed vice-governor of the Czech National Bank in 1993 and acting governor in 1998. He was responsible for the introduction of the Czech national currency in 1993 and was an external expert of the International Monetary Fund for the introduction of national currencies in several Eastern European countries. In the 1990s he was elected the President of the Czech Economic Society. In 2000, he became the chief economist of Česká spořitelna, the largest Czech bank, where he was appointed deputy CEO and a member of the board of directors in 2004, and later CEO and chairman of the board from 2011 to 2015. He was named Banker of the Year three times – in 2011, 2012 and 2013. He is keenly interested in the economic, business



Jakub Landovský

Jakub Landovský has been serving as the Deputy Minister of Defense for Defense Policy and Strategy since 2015. He is responsible for the development of defense and security principles and defense strategy to be applied by the Czech Republic. His previous roles included advisor to the Foreign Affairs Committee of the Czech Chamber of Deputies and consultant at the Czech Ministry of Foreign Affairs or the UNDP. He is an attorney and holds a postgraduate degree in political science from the Faculty of Social Sciences of Charles University in Prague.



Tania le Moigne

Tania le Moigne is the Country Director for Google Czech Republic and Slovakia. She graduated from the University of Economics, Prague and spent more than nine years at Microsoft in Prague, Munich and London, where she held various management positions in the areas of marketing, IP protection and enterprise strategy. In 2006 and 2010 she launched the Google Czech and Slovak offices and she is a member and mentor of the non-commercial mentoring project Odyssey and the author of 4bambini, a series of board games for children that promote important life values. She occasionally cooperates with the University of Economics, New

York University and European Leadership & Academic Institute in Prague, where she lectures on Values Based Leadership. She is also a board member of the Aspen Institute Prague and the NGO Good Angel.



Markéta Pekarová Adamová

Markéta Pekarová Adamová is a Member of the Parliament of the Czech Republic, until 2017 a member of the Committee on Social Affairs, the Committee on Petitions, and Chair of the Subcommittee on Human Rights. Since 2015 she has been vice-president of the political party TOP 09. In 2010, she was elected in the municipal elections and became Councilor for Social Affairs in Prague 8. A graduate of the Czech Technical University in Prague and Charles University, she specializes in human rights, social affairs, economics and education.



Tomáš Pojar

Tomáš Pojar is the vice-president of the CEVRO Institute, vice-president of the Czech-Israeli Chamber of Commerce (ČISOK) and a security and defense consultant. He studied politics and graduated from the Faculty of Social Studies at Charles University, and also has a degree in counterterrorism studies and homeland security from the Interdisciplinary Center (IDC) in Israel. In 1995 he began to work for the NGO People in Need (PIN), which he led from 1997 to 2005. He then became Permanent Secretary for Bilateral Relations and First Permanent Secretary for Security Matters, EU Matters and Bilateral Relations with European States. From 2010 to 2014, he was the ambassador of the Czech Republic to Israel.



Daniel Münich

Daniel Münich is Professor of Professional Practice at CERGE-EI since 1994. His research deals with labor economics, economics of education and schooling, and in his expert work he also focuses on impact evaluation of public policies and evaluation of research. He has served in a number of advisory bodies to national and international institutions, and is the executive director of the IDEA think-tank.



Petr Pavel

General Petr Pavel was appointed Chairman of the NATO Military Committee in 2015. Since graduating from the Army College in Vyškov (CZE) in 1983, he has held a wide range of positions, the most prominent being Commander of the Czech Special Forces, National Military Representative to the US Central Command and to SHAPE in Belgium, and Chief of the General Staff of the Czech Armed Forces (2012–15). He also studied at Camberley Staff College and the Royal College of Defence Studies, and obtained an MA in International Relations from King's College.



Nikita Poljakov

Nikita Poljakov is the head of the Economic Department at *Hospodářské Noviny Daily*. Nikita spent four years in Great Britain, seven years in Russia and almost two decades in the Czech Republic. For him, the rapid convergence of these countries' economic cultures was crucial, and their individual stories brought him to journalism. During his studies at the Faculty of Journalism in Prague, he started to describe the business environment through articles in *Hospodářské Noviny Daily*, which he has been doing for the last five years. At the same time, he has been deepening his academic knowledge at the London School of Economics and Political Science.



Veronika Sedláčková

Veronika Sedláčková is the host of the Czech radio program *Pro a proti* (For and Against). For the past several years she has also hosted a weekly interview show on TV NOE and regularly holds discussions in the Malostranská beseda cultural center on Czech politics and society. In addition to other projects, she hosts her own talk show together with moderator and actor Ondřej Cihlář in Prague's Opero Center. She graduated from the Department of Journalism of the Faculty of Social Sciences, Charles University in Prague. She got her start as a journalist in the mid-90s on the Czech Television news program, where she focused on national news. She then spent a year managing the communications department of Prague Airport before returning to journalism.



Miroslav Singer

Miroslav Singer served as Governor of the Czech National Bank (CNB) from 2010 to 2016 and from 2005 to 2010, he was a CNB board member and vice governor. In January 2017 he was appointed Director for Institutional Affairs and Chief Economist of Generali CEE Holding. Miroslav is also Chairman of the Supervisory Board of Česká pojišťovna, a member of Generali Group. As of May 2017, he has been Vice Chairman of the Supervisory Board of MONETA Money Bank. He is also a lecturer at the University of Economics in Prague. Prior to serving at the CNB, he worked as a deputy director, researcher and lecturer at the Economic Institute of the Charles University in Prague and the Center for Economic Research and Graduate Education of the Czech Academy of Science between 1991 and 1995. He also held management posts at the financial and industrial group Expandia, becoming its CEO in 1995, until 2001. From 2001 to 2005 he was a director at PricewaterhouseCoopers. In 1995/1996 he was a member of the supervisory board and later of the board of directors at Czech market leader Česká pojišťovna. His many prestigious awards include "Central Banker of the Year in Europe" for 2014. After graduating in mathematical methods in economics, he completed his postgraduate thesis at the University of Pittsburgh and was awarded a PhD in 1995.



Karel Šimka

Karel Šimka, a judge of the Supreme Administrative Court, obtained degrees in law and political science from universities in Pilsen, Prague and Passau. Initially he served as a judge in the field of civil law and since 2004 he has been a member of the Enlarged Chamber, the Chamber for Matters of Competence Complaints and a substitute member of the Special Chamber in Matters of Jurisdiction Conflicts at the Supreme Administrative Court. Since 1998 he has been a lecturer at the University of West Bohemia in Pilsen. He also teaches constitutional and tax law at the CEVRO Institute College and is or was formerly a member of several expert bodies and the editorial boards of the Bulletin of the Chamber of Tax Advisors of the Czech Republic and The Law Advisor.



Josef Středula

Josef Středula is the president of the Czech-Moravian Confederation of Trade Unions (CMKOS). Upon completing the Secondary Industrial School in Opava, he started to work in technical professions in Vítkovice Steel. After the Velvet Revolution in November 1989, he actively participated in setting up new trade unions, holding leading positions since the early 1990s. In 1993, he was elected vice-president of the KOVO trade union, and in 2005 he was elected its president. In May 2014 he became president of the Czech-Moravian Confederation of Trade Unions – the biggest trade union center in the Czech Republic. He has participated in many social partners negotiations and is a member of the Steering Committee of the European Trade Union Confederation.



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.



Zuzana Tvarůžková

Zuzana Tvarůžková is a reporter, journalist and TV presenter. She began her career in media in 2003 as a journalist for *Nedělní svět*, then joined the Czech news channel ČT24 in 2005, where she specialized in politics and justice. In 2013 she briefly hosted the shows *168 Hours* and *Events, Commentary*. She and Václav Moravec prepared special debates for the municipal elections in 2014, the regional elections in 2016, and this year's parliamentary elections. She currently hosts the show *Interview ČT24*.



Kateřina Vacková

Kateřina Vacková is a young medical doctor from Prague, currently practicing at Harvard Medical School in Boston. After her personal experience with cancer, she founded the non-profit organization Loono with the mission to motivate people to monitor their health. Loono's first campaign called #prsakoule (#boobsballs) teaches young people how to detect breast and testicular cancers at an early stage. With more than 22,000 people trained, dozens have already identified cancer. In April 2017, Loono launched the "You Live by Heart" campaign, which educates young people about cardiovascular disease and how to react if they or someone around them suffers a heart attack or stroke. She won the SozialMarie Prize for social innovation and was named a young leader in the 30 Under 30 list by *Forbes Magazine*.



Aleš Weiser

Aleš Weiser is a manager at Mars Chocolate UK Ltd. and also serves as president of the Bakala Scholars. He left home at the age of 18 to spend a year at a secondary school in the UK, from which he eventually graduated with A-levels and continued with a BA degree in contemporary European studies and Chinese studies at the University of Nottingham. As a student, he lived in Canada, China and France and gained formative work experience as a logistics specialist at the Czech Pavilion at the EXPO 2010 in Shanghai and as an intern at the Czech Embassy in Malaysia. He gained his MA in East Asian studies at Stanford University in California between 2012 and 2014. His studies focus primarily on the role of China in global politics and US foreign policy towards North-East Asia.



Eva Zamrazilová

Eva Zamrazilová is the chief economist of the Czech Banking Association and a professor at the University of Economics in Prague. Coming from an academic background, she has vast experience in both commercial and central banking. After completing her studies at the University of Economics in Prague, she lectured on statistical theory and economic statistics at the University of Economics, later working as a researcher at the Economic Institute of the Czechoslovak Academy of Sciences. From 1994 to 2008 she was senior macroeconomic analyst at Komerční banka. She also served as a member of the board of the Czech National Bank from 2008 to 2014.



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.

Economy and Competitiveness

Expert Group Coordinator: David Vávra

It's as if the Czech Republic's euphoria at being described as one of the fastest-growing economies in Europe has driven hope for an economic miracle. But there is little reason to celebrate, as the country's reality is a non-convergent economy that still has a lot of catching up to do to reach the level of its more developed western neighbors, while other East European competitors nip at its heels. Indeed, labor productivity and salaries are growing slowly, and the only longer period, in which the Czech economy was systematically closing the gap with the EU, was between 2000 and 2008.

Objectively, many indicators suggest that the Czech Republic is doing very well economically. Competitiveness is high and growing, unemployment has dropped to record levels, inflation remains low and stable, debt is at manageable levels and public finances are in good shape. Moreover, the country boasts one of the lowest levels of income inequality in the EU. But despite all these positives, the desired acceleration towards German levels of income and productivity has yet to arrive. It's as though the country has hit some overlooked structural barriers to economic growth and convergence.

Recent Aspen Institute reports on the condition of the Czech economy have identified the poor quality of education, non-efficient institutional environment and government, and inflexible labor market as the main barriers to growth. At the same time, they have articulated a vision of a highly urbanized economy based on entrepreneurship, innovation and technology through a more intensive mobilization of domestic capital.

Although the most recent macroeconomic data might suggest otherwise, the Czech Republic is growing slowly. In the past ten years, as far as the parity of buying power is concerned, we have not taken a single step towards the German levels and remain at about 70%. The level of Czech salaries is even lower than the country's GDP per capita – about 50th in the parity of buying power, lagging behind even Poland. This is all the more egregious once we realize that most of the country's industry and services are foreign-owned and that income from labor, not from capital, is virtually the only source of income for most of the population.

Unfortunately, there is no compelling reason to believe that this will change dramatically in the near future. Labor productivity is more or less stagnant, which is perhaps understandable if we look at the basic characteristics of production in the Czech economy, dominated as it is by industry (mainly manufacturing), whose share of GDP is the second highest in Europe after Ireland. On the other hand, the Czech economy lacks the market services that drive growth in modern economies.

The high share of the manufacturing industry would not be a problem in and of itself (it is high in Germany too) were it not burdened – like the economy as a whole – by the low share of added value and of labor in added value. Here the Czech economy is way behind the European pack. Indeed, in terms of gross margins it is dead last. No wonder, then, that the country is pejoratively called the “assembly line of Western Europe”. This goes hand in hand with a large share of jobs that can be easily automated, making the Czech economy one of the most vulnerable in Europe to future robotization.

Visions of the future

Implementing the vision of a highly urbanized economy based on entrepreneurship, innovation and technology through more intense mobilization of domestic capital is not just a way to speed up the Czech Republic's convergence with western living standards but, above all, to transform the very structure of the economy as a whole. To create new production processes, however, it is necessary to have a stable institutional environment which is friendly to business and innovation, one that can nurture, attract and retain talent. You also need a financial sector that is ready to provide flexible funding for such development. It is precisely in these areas that the Czech Republic lags significantly behind not just Western Europe but also its Eastern European neighbors. Generally, most indicators and surveys by international institutions see the country's public institutions, namely the functioning of government, as the main obstacle to the fulfilment of the Czech economy's potential. It makes life hard for the private sector and does not contribute towards the creation of an environment that is friendly for innovation and business. The Czech Republic is also well behind its competitors (including some from Eastern Europe) in terms of the stability of its laws, levels of corruption and trust in political institutions.

The administrative burden on business is high, whether through overly complex tax procedures or the costs necessary to establish a business. Start-ups and small businesses suffer from poor conditions for private business. Support for and perceptions of business are low, making it an unattractive pursuit for talented people and rendering it difficult to renew the economy through a dynamic business environment. Most Czechs also think that the black-market economy is hobbling economic growth, decreasing

competitiveness and limiting the volume of public finances and thus the ability of government to provide public services.

We think that competing based on low salaries with very low added value is not a satisfactory future. Given the current production function of the Czech economy, there is little potential for any targeted reform campaign. The manner in which foreign investment incentives are set up, directed as they are at high unemployment, is quite unsatisfactory. It is therefore welcome that a new system of investment incentives is being drafted, one that should put greater emphasis on the development of added value.

Instead, we think it is better to focus on eliminating barriers to growth in areas which impact competitiveness indirectly and which can foster brand new industries with high added value that will remain largely at home. Such areas include the poor quality of the institutional environment and education system, lack of qualified labor and inflexible labor market, or inefficient distribution and mobilization of capital resources for the growth needs of the local economy. Eliminating these barriers will make it possible to create conditions to implement the vision of a long-term, highly urbanized economy based on entrepreneurship, innovation and technology.

Quality of Governance

Expert Group Coordinator: Karel Šimka

In the Aspen Institute's reports, the following aspects of the political, legal and administrative system have been monitored over the long term: 1) stability; 2) professionalism, i.e. transparency and user-friendliness, humane qualities, trustworthiness, professional competence, speed, functionality and efficiency, the ability to be perceived as a legitimate authority; and 3) the question of whether the system is sufficiently conceptual and flexible, i.e. whether it is able to act pursuant to a long-term vision of possible future development, whether it is predictable, yet able to respond adeptly to changing conditions.

On the general level, in 2016 and 2017 the Czech constitutional and political system was stable on average, comparable to other post-communist countries in the region but also Austria. As far as the assessment of the general quality of democratic institutions is concerned, the Czech Republic improved its relative position within the region, because Poland dropped significantly.

In absolute numbers, however, no significant changes towards the better can be observed. OECD observers have been critical of recent developments in the Czech Republic, mainly due to the unusually influential role of Andrej Babiš, who combines economic, media and political power, but also a growing aversion to otherness in society in his attitude towards Muslim immigration and lingering problems with the integration of Romani people. The constitutional system has not seen any significant changes in the past year; however, laws were passed that have significant constitutional and legal overlap. The trends in the development of Czech law described in the autumn 2016 report have not altered during the past year. The Czech legislation is still too cumbersome and complex. The role of government and the courts, and the impact of their decisions on the economy, is still high. The quality of the legal environment remains the same as in the preceding period and there have been no significant measures directed at simplifying and achieving more transparent laws. The government considered regulatory interventions in some sectors of the so-called shared economy. The judicial system is relatively independent and so far there have not been any clear efforts to intervene in the verdict independence of the courts.



Education

Expert Group Coordinator: Bohumil Kartous

The only significant legislative step passed last year aimed at addressing issues related to the functioning of a key sector of government is the comprehensive amendment of the Construction Act and related provisions. The amendment simplifies the process of updating local planning documents, in some cases conditioning the issuance of planning approval with EIA. It limits the scope of parties concerned by eliminating environmentalist groups and retains among the parties concerned (besides the applicant and the owner of the plot on which the construction is to be built) only neighbors and the municipality. The tax burden was not changed significantly last year; however, the paperwork related to tax collection has increased (in the control reporting and electronic recording of sales, already mentioned in our last report). The topic last year was the use of so-called securing orders by the tax authority. There has not been any major development in fighting bribery. Criminal cases are still pending and there has been no evidence of politicians making an effort to intervene in them in any way. The general public still believes strongly that Czech politics is heavily influenced by bribery.

In the everyday functioning of the government, the trends of the past years have continued. The number of staff has grown and the paperwork burden on business has increased, as have the control and penalty rights of government. Surveys show that the general public in the Czech Republic has an ambiguous attitude towards political institutions. Some, such as the police and army, enjoy high levels of trust, while others, such as the parliament, are perceived negatively. Last year's report drew attention to the need for long-term conceptual thinking by government on questions whose answers exceed the length of political cycles. At the same time, we thought it necessary – however idealistic it was – to achieve broader political consensus on some of these questions, one that would make it possible to solve these issues even if the actual composition of the government changes. There is no reason to change anything about this opinion.

We live in turbulent times. Technological innovations, their character and speed, create a volatile environment and limit our ability to predict further economic development. The uncertainty caused by these trends is transferred to society and politics. Technological changes are likely to eliminate the current conditions of competitiveness, while internal developments in society and politics are no guarantee that society will continue to accept democratic principles. Its future disintegration could be enormous and could throw the country back decades. There might not be a quick way out of such a trap.

The Czech Republic – a relatively unimportant country from the continental and global perspectives – must now decide whether to opt for greater economic and political sovereignty or to stay in the tow of continental and global developments as an entity whose future is more or less decided elsewhere. The first option is only viable if Czech society is able to respond properly to the coming changes, seeing them not as threats from which to hide in the shell of retrotopia – an escape into the “golden age” of the past – but rather as an opportunity that can be used to its benefit and strength. Such a dynamic state, however, cannot be achieved without considering the role of education.

A society cannot overcome challenges unless it is cohesive at the elementary level, i.e. unless it is able to define and try to fulfil public interests, including democratic organization, health care, education, social care, water resources management, as well as transport and energy infrastructure. The growing gap in the public discourse, the growing economic disparity among classes, but also among regions, and the difference of everyday social reality in various places across the country cannot only paralyze economic development but also seriously damage the very identity of future generations and their sense of belonging in society. The education system is the only place where various layers of society closely interact, and as such should serve as the natural vehicle for social cohesion and its reproduction.

The speed at which technological innovations are developed, accompanied by a higher degree of automation in manufacturing, communications, management and provision of services results in changes in the economy and the labor market that provide opportunities for those countries that are able to adapt to the new configuration, while being threats to those that cannot. According to an OECD analysis, the Czech Republic

is among those countries whose labor market will be hit hardest by the changes. This will significantly affect the structure of the education system and its ability to prepare graduates for the economic conditions that await them.

RECOMMENDATIONS

- Significantly increase investment into the education system, namely teacher salaries. The Czech Republic shamefully neglects its education system. Among developed OECD and EU countries it (along with Hungary and Slovakia) is at the very bottom of the chart in terms of the share of GDP invested in education. The difference is huge (Education at a Glance, OECD, 2016).
- Raise teacher salaries, attract suitable applicants and candidates for the job, cultivate and reform the profession which is of key importance for the future; open the profession up to university educated people who wish to teach. As an analysis published by the IDEA think-tank shows, the low salaries of teachers in the Czech Republic follow the level of investment into education and effectively deter potential applicants.
- The role of headmasters as key actors of change. It is crucial to depoliticize the selection of headmasters and base the process on merit, acknowledging and strengthening their role as education managers (Education foremost, 2017). A good headmaster can turn a bad school into a good school in five years, and a system change will be reflected in 20 years. Headmasters need to receive higher salaries.
- Significantly transform the structure of the education system, especially at the secondary level. The pronounced change of the labor market in the Czech Republic, predicted by the OECD, is accompanied by a significant shift in the education system at the secondary level into the professional area. Technical schools in the Czech Republic are not sufficiently interconnected with current developments in the economy, which has a negative impact on the future job prospects of their graduates. The low level of general literacy among technical school graduates (PIAAC 2013), accompanied by the change of qualification requirements (polarization towards lower and higher qualifications – see OECD Employment Outlook 2017) limits their further education and future adaptation to changes in the labor market.
- Honor the obligation to strengthen the inclusive approach at schools. The strategy of the educational policy in the Czech Republic until 2020 presupposes the development of joint education as one of three main targets. The legislative framework is just the initial step and will not be fulfilled without funding and

the support of teachers in practice. If this happens, social cohesion as one of the principles of development can be severely endangered.

- Strengthen education with the goal of strengthening democracy. The efforts of populists to limit the education of citizens and the furthering of democracy can indeed lead to increased distrust in democracy. Democracy is not self-sustainable and once the so-called “alternative” outlook on reality prevails over reality itself, it becomes rather fragile. This can be seen in examples from Hungary or Poland. Democracy presupposes critical thinking, high levels of informational and media literacy, and a focus on civic education. Moreover, the total level of civic literacy leads to the rather dubious results of education in this area.

National Security and Resilience

Expert Group Coordinator: Tomáš Pojar

Over the past two decades, the Czech Republic has experienced a period of unprecedented security. The country has good relations with its neighbors and is located in a continent that is still relatively safe. In the Global Peace Index drafted by the Sydney-based Institute for Economics and Peace (IEP), the Czech Republic is still among the safest countries in the world, placing sixth of 163 countries assessed. In Europe, only Portugal (3), Austria (4) and Denmark (5) are ranked higher. Hungary came in 15th, Germany 16th, Slovakia 26th and Poland 33rd – although from the global perspective the differences among EU Member States were rather marginal. The sense of security is shared by the Czech general public. Over 80% of citizens feel safe around their homes and in the Czech Republic at large.

The situation in the world and in the neighboring regions of Europe has, however, worsened dramatically in recent years. The war in Ukraine continues and no change in Russia's assertive policy is to be expected. Likewise, migrant pressure and tensions in the Middle East and in Sub-Saharan Africa are unlikely to subside any time soon. In addition, international security could become even more unstable due to a potential escalation of the situation in the Korean peninsula. Nevertheless, these threats are not strongly perceived in Czech society. In most of the monitored categories the perception of threats has decreased. Czechs still consider terrorism to be the most serious threat to society (70%), followed by refugees and international organized crime. There has been a significant decrease in fears about a large-scale war – from 50% to 37%. The Ukrainian conflict has become more of a cold war and people, the media and politicians have gotten used to it. They have also gotten used to the dynamics of conflicts in the Middle East. Even the migration crisis, which reached its peak in 2015, has alleviated somewhat.

Czech society is traditionally skeptical and the majority of its citizenry trusts the work of the country's security services. In 2016, the number of victims of crime decreased again and the detection rate was on the increase (though still not even 50%). The number of registered criminal acts decreased again, including crimes against property and economic crimes. Compared to Europe, the Czech Republic has an above-average number of police officers, but despite making purchases aimed at modernizing the force, still lags in terms of investment into workplace equipment. The establishment of new central headquarters for tackling cybercrime and security in 2017 is a positive step. Moreover, despite budget cuts there was no significant decrease in funding of the intelligence services and National Security Authority.

The military has long enjoyed the trust of a majority of the Czech population. Typically around 60% of Czechs trust the army, and in spring 2017 it was 63%. The conviction that military costs do not represent an unnecessary burden on the budget decreased in the spring from 52% to 41%, probably due to declining fears of major threats. Around 90% of the population is convinced that the country's sovereignty must be protected at all costs. Czechs thus demand the protection of their sovereignty, but are not willing to pay for and take an active part in it. A significant majority of Czech citizens are convinced that NATO increases stability and peace in Europe. In 2016, the number of people holding this belief fell significantly, but increased again slightly in the spring. Over half the population (57%) is satisfied with the Czech Republic's membership in NATO, and over the long-term people's attitudes towards NATO are more or less stable.

Despite declarations by government leaders (supported by representatives of the opposition parties) on the need to increase defense spending to 1.4% of GDP by 2020, the data clearly shows that in 2016 (third year in a row) the country did not reach even 1%! Likewise, in 2016 only 7% of the Ministry of Defense budget was allocated to investment, i.e. around one-third of the sum required to keep the army operational over the long term. An important part of the defense budget consists of costs related to deployment of armed forces abroad, which usually demonstrates the willingness of the given country to engage in international security. International engagement is perceived positively when it comes to organizations such as NATO or the EU. The Czech Republic has contributed troops and peacekeepers since the early 1990s and the budget for foreign operations has never decreased below 2% of the total costs of the Ministry of Defense. In 2009 it soared to 4.9%, then decreased to 2.4% in 2015, and in 2016 it grew again.

RECOMMENDATIONS

- Continue to increase defense and security spending, not just nominally but with regard to the overall composition of the national budget and in relation to GDP.
- Focus on strengthening the quality and long-term retain rate of employees in security and armed services.
- Focus on investments into state-of-the-art weapon systems and modern technologies. Allocate the recommended 20% of individual budgets to investment.
- Focus on increasing investment into efficient research, development and innovations in security and defense.
- Support boosting the abilities of individual NATO and EU members.
- Strengthen the role of the country's Security Council and establish the position of National Security Advisor with the Government.

- Strengthen the trustworthiness of Czech institutions, including the intelligence services.
- Take the Czech intelligence services' warnings about the activities of Russian and Chinese intelligence in the country seriously.
- Continue the conservative approach towards migration and asylum policy.
- Focus on building a truly functional system of cyber security, including obtaining of offensive abilities.

Quality of Life

Expert Group Coordinator: Pavel Fischer

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 began to focus its attention on the quality of life in the Czech Republic?

From the economic perspective, the country has just experienced a period of unparalleled prosperity. How is this reflected in the assessment of the quality of life? And in what light do we now see recommendations from past years?

Two years ago we set ourselves the goal of reviving the public discussion on supporting social capital and defending personal freedom. In 2016 we recommended monitoring the extent to which government ensures strategic management for all of society in key areas. It was from this perspective that we drew attention to the consensus achieved among the Czech general public concerning a dignified life for senior citizens. Finally, if liberal society is to be based on the foundations of freedom and opportunity for all, then our findings suggest that Czech society – oddly enough – has closed itself off from skilled and hardworking people. It's as if the conviction that there is limited room for initiative has been strengthened. We believe that this phenomenon is important enough to be included among our further recommendations. If this were indeed the case, then talented people may start leaving the Czech Republic to seek better opportunities elsewhere.

In light of these questions, the Czech Republic seems like a country whose people do not trust the media and is ready for a government of technocrats, since they believe that most politicians pursue their own interests anyway. It is also a society that perceives globalization as a threat and believes the last 20 years have been a negative development. In a world where the Czech Republic promotes itself as an open country for exports and as an economy ready to succeed in global competition, such distrust in globalization could be damaging in the long term.

The Czech Republic has a long way to go to improve its social capital, i.e. social cohesion, strength of community and family ties, trust in institutions or the willingness to get engaged in politics. Trust in institutions and among people makes it easier to develop business. An environment of distrust limits further economic development, including that of the digital economy. Whereas in the eight other criteria the Czech Republic places 24th to 34th, in social capital it is ranked as low as 78th.

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. 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.

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 the country's civil society and the more compelling it is to live in it, the greater the chances for the Czech Republic to succeed in other areas, too.

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