

CZECH NATIONAL ANTI - CRISIS PLAN IN A EUROPE OF KNOWLEDGE CONTEXT¹

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Abstract

Financial crisis quickly followed with economic decline all round the Globe has been reaching also the Central European area including the Czech Republic. In February the Czech government presented National Crisis Management Plan. The first part of the article discuss the differences in EU member states approach to the crisis since the Czech governmental response differs to another anti - crisis programs, especially those of the largest countries. If these ones are seen mostly to assist the declining demand side the Czech plan is focused on supporting the supply side. The present right-wing Czech government considers a growth of a public debt more serious danger compared to a cyclical economic slowdown. This is a main issue of all the governmental approach. The Czech Anti - Crisis plan has been certainly reflecting the European Economic Recovery Plan (EERP) basic ideas from December 2008 to some extent. This reflecting extent is a base for hypothesis formulation. The Czech government has paid to the goals of Lisbon Strategy on Growth and Jobs a relatively small attention. Basic hypothesis of the article is a question if the approach of the Czech government under the economic crisis has been changing. The EERP requires not only short-term measures focused on fiscal boosting of the demand side of the economy but also to address the long term challenges – providing conditions to support structural changes of the economy. EERP is a part of Lisbon Strategy for Growth and Jobs in the current crisis.

Recent developments of the Czech economy marked with bankruptcies of large producers from traditional glass and porcelain industries are confirming the need of a structural change. Such a change shall respect more the development of costs (costs of labor especially) in labor intensive industries. Structural change which has been predicted in the leading ideas of the Lisbon Strategy: getting ready and building up an information/knowledge society and prepare an easier way for companies to go through structural changes towards economic activities using more efficiently advantages of such a society. Global economic crisis can be taken also as a concentrated control of competitiveness. And competitiveness is a way of keeping Europe employed. The article is focused on analyses of the Czech Anti-Crisis Plan from point of medium and long term measures of the Lisbon Strategy reflected in the EERP contributes to the structural change agenda.

Analysis will examine the following parts:

- Support and expenditures on Research and Development
- Support and expenditures of education and life-long learning
- Measures supporting flexibility of companies and creating for them a space for structural change.

Finally an importance of specific measures to orient and motivate companies to move in direction of the structural change is discussed.

Keywords:

Czech Anti-Crisis Plan, Europe of Knowledge, Lisbon Strategy on Growth and Jobs.

Introduction

Let start with a question: Is part of the Czech economy related to a knowledge economy in danger? Funds for education R&D have always been economized in the CR. The upcoming crisis is requiring extra expenses on economic stabilization. Are these areas going to be

first victims of the crisis, since these funds will be the first economized? Recommendations from the Lisbon Strategy and the EU for this area have not been taken as binding in the CR.

The financial crisis and its impacts on countries require an active governmental stabilization policy, which will affect public finance (rising of expenses or reducing income). Also, taking into account the revision of budgets of companies and families, the question on

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sustainability of industries of knowledge economy is legitimate.

The answer will be given on the base of analysis of the available data on financing of these industries and evaluation of priorities and recommendations of stabilization programs. Stabilization programs priorities in general, as they are recommended by the OECD and European Economic Recovery Plan (EERP), will be compared.

We are aware of the great simplification in limiting the knowledge economy in only education and R&D industries. But the core of the research is on describing and estimating the future approach of the Czech government towards these parts of the economy, especially if the government will be under pressure of an economic crisis. The Czech government has not considered a knowledge economy as a priority and only gave the minimum acceptable amount of funds.

Our approach to the analysis is based on system dynamics, although the feed-back which is the core of this method will not be emphasized.

The OECD and EU recommend to their members to take the knowledge economy industries as one of the most important priorities of their stabilization plans. That is why we summarize the main principles and steps of these stabilization packages.

Since the 80s we can observe the diminishing role of the state in the economy: as a result of liberalization the share of public finance of the total GDP has been reduced and privatization cut down the public sector. The number of tax and fiscal reforms affected the size and role of automatic stabilizers built in the systems. The EU countries have more of these stabilizers built in than the U.S. These countries also declared that a present level of integration has a specific value, which should not be threatened.

Overview of principles of active stabilization plans

The anticipated hit of the present crisis is so strong that the governments must take an active approach, an active stabilization policy. It is up to every government to pick up ingredients and find an optimal mixture for their stabilization program:

A. Time horizons of effects and mechanisms of different instruments and measures have to be considered and reflecting the course of the crisis priorities should be chosen.

B. Sectors, industries and branches where the stabilization will aim:

1. Financial sector stabilization including limiting of credit crunch. Part of the credibility recovery plan will be financial markets reforms.
2. Industries with the highest multiplier of growth.

3. Areas with the most concentrated problems (environment, infrastructure, the energy sector)
4. Use the crisis to prepare and start a new structure of economy which will be a base for a long term economic growth.

C Side of the market – to whom and in what way will assistance come from stabilization provided:

1. Demand
2. Supply

D Distribution of costs and contributions of the stabilization and affects of the crisis.

1. General or selective assistance
2. All the economic subjects will take part in financing the stabilization, but their shares differ:
 - a) state using public funds
 - b) companies
 - c) households

At a beginning period of crisis is very hard to estimate effects of the national stabilization plans. It is a politically legitimate to dispute distribution of costs and contributions of the stabilization and the affects of the crisis among the different social groups in the society.

3. The same decision about distribution of costs and contributions of the stabilization plan must be made while considering international aspects:
 - 1) home country and domestic interests
 - 2) other – foreign countries

Such a decision is important in cases of:

- a) integration area, especially regional integration
- b) Cases of introduction of restrictive trade policies

E. In t case the stabilization cost are covered by the state:

1. Expense side of the governmental budgets
2. Reducing the income side

Every country has to find its own combination. The choice will be influenced with:

1. characteristics of the particular economy and its potential
2. political orientation of the government

The OECD and EU recommendations

European Economic Recovery Plan (EERP) is based on a majority of principles recommended by the OECD.

The present level of integration is considered important and its potential could be used for stabilizing the Member states' economy. The Plan is based on two pillars and one underlying principle. The first pillar brings a massive impulse to purchasing power stimulating demand and supporting recovering of credibility. This

pillar fully respects the Stability and Growth Pact. The second pillar is based on a direct short-term action to reinforce competitiveness of the EU in the long-term. This represents "smart investment" to:

- Develop the wide spreading of knowledge and abilities for tomorrow needs
- efficiently create jobs and reduce energy consumption
- Clean technology (construction, automobiles) to get ready for low-carbon markets in the future
- Infrastructure to promote efficiency and innovations.

The basic principle is solidarity and social justice.

From the knowledge economy point of view the crises can be considered as a challenge to an „intelligent destruction“. Sources which will be used for stabilization could be driven in a way to support basic structural changes.

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National Anti-crisis Plan of the CR

The CR government introduced its national Anti-Crisis plan in the second half of February, 2009. The plan does not prefer any direct stimulus to a demand side and is fully concentrated on the supply side. The aim is to create an environment for reduction of costs. Part of the plan is also a number of instruments supporting export in area of insurance and crediting. These instruments are substantial in an extensively export oriented economy like the Czech economy. Another set of tools, like reduction of social insurance payments, is focused on preservation of jobs. Actually there are three main interconnected priorities: preserving jobs through reduction of costs and keeping public finance balanced within the Maastricht criteria. There is no mention of knowledge economy or investments in this area among the priorities.

Realization of this anti-crisis plan was stopped almost as soon as it started because of the political situation. The government which introduced this plan lost the support of the majority in the Czech Parliament. It is evident that this plan will be revised in the first decade of April 2009. The Parliament political parties have been pushed by the President of the Republic to create a temporary large coalition – every party will have its representation in the temporary government. There is a high probability that a new consensual anti-crisis plan will be set up as consent and some measures from the Social Democratic Stabilization Program will be added.

Recent proposal of a new governmental stabilization plan is described in the following table.

Scheme 1 Proposal for a new consensual stabilization plan of the CR

<i>Government proposal</i>	<i>Opposition proposal</i>
Reducing of social insurance payments paid by employers	Financial subsidy to purchasing a new car (30 thousand CZK)
Acceleration of depreciation	Increasing of tax reduction of families with children
Amendment of bankruptcy law	Extension of period and growth of unemployment allowances Family allowances growth

Source: <http://aktualne.centrum.cz/domaci/politika/clanek.phtml?id=629839#tabule>, 8.4.2009

It is true that the Social Democrats' plan, which is a part of their pre-election program, contains a part solely focused on the development of an information society. Briefly said, their program reflects the EERP recommendations concerning more the knowledge society support. But none of the theses are in the negotiation. The final consent and priorities is hard to guess at this point.

Let's look at the expenses on R&D and on education in more detail and compare them with the trends in the recent years.

Recent financing of knowledge economy industries in the CR

The recent financing of knowledge economy industries in the CR were below average in the EU and OECD members. This average is about 6%; it is in the CR 4.7%.² Demographic development cannot explain this numbers. Low financing was visible at tertiary education, where the total cost per student dropped down for more than one third in 1995-2005. Costs per student had stagnated in other countries, too, though there was a little decline in Slovakia (6%) as well., An increased occurred only in Hungary, where rescuing the general financial situation required large cuts at an expense side of the Hungarian public finance after 1995.³ The Czech data have not improved to date.

Financing of R&D shows a different picture. The European Council in Barcelona (2002) recommended to the Member States to give 3% of GDP to R&D and 2/3 from private business resources. That means 1% of GDP from governmental resources.

According to the last available statistics from 2006, R&D received 50 billion CZK and 28 billion came from private businesses. Compared to 1995, it was 3.6 times more, and the GDP had risen 2.2 times. Such a rate of growth of these expenses put the CR on the top of

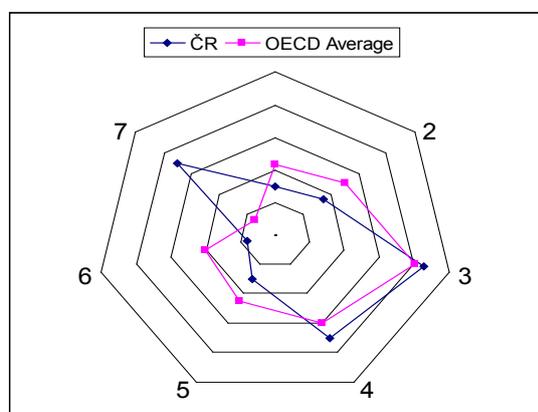
² Education at a Glance - OECD Indicators 2008, <http://www.oecd.org/dataoecd/23/46/41284038.pdf>, p.237, 30.3.2009

³ *ibid*

the statistics. The reason for this development was an economic growth and a new set of incentives for investors shifting their attention from labor intensive branches to branches with a higher value added. Anyway, the share of R&D expenses remained 1.55% and the governmental share under 1%.⁴

The largest portion went to a technical R&D connected to an automotive industry. It was 2.5 more than what went to medical research and 22 times more than what went into the humanities.⁵ This orientation was related to a concentration of automotive industry in the CR and its importance for the whole economy and export. It is a little exaggerated but this used to be compared to Finland (Nokia). Expenses of the private sector into the technical R&D brought a good number of patents as it is seen at the following scheme.

Scheme 2. Selected indicators of a scientific and innovation profile the CR in 2006



Notes:

1	Business Expenditures on R&D as a % of GDP
2	Governmental Expenditures on R&D as a % of GDP
3	Human Resources for Science & Technology occupations as a % of total employment
4	Science and Engineering degrees as % of all new degrees
5	Researchers per thousand total employment
6	% of Governmental Expenditures on R&D financed by abroad
7	Patents of foreign co-investors

Source: OECD Science, Technology and Industry Outlook 2008: Profile of the Czech Republic, ISBN 975-92-54-04-01, OECD, 2008, p. 113, <http://www.oecd.org/dataoecd/17/34/41559010.pdf>, 30.3.2009

Expenses for knowledge economy planned in the National anti-crisis plan of the CR

The plan is not considering any specific program towards education. There are only two steps. The first one is an offer to employers to send their employees to

⁴ Dubská, D.: Polovinu výzkumu a vývoje v ČR financují firmy, HN IHNE D 4.10.2007, <http://hn.ihned.cz/c1-22152950-polovinu-vyzkumu-a-vyvoje-v-cr-financuji-firmy>, 15.03.2009

⁵ ibid

educative courses instead of laying them off. Wages and salaries of these employees will be covered up to 80% from an Operation Plan "Adaptabilita" which is financed from the EU Social Fund. In the recent cases of lays off no company has used this opportunity.

The second measure is connected to releasing funds from the state budget. Every budgetary chapter has settled a percentage which is the potential cut off in a case of instability. This percentage is 8-10% but education has only 0.5%, and in the case of R&D, 0%.

A little increase of governmental expenses on R&D has been already a part of this year budget. The total growth is 1.5 billion CZK. This represents just a small increase of a percentage of GDP given to R&D. The core question will be development of private funds on R&D. There are no measures that will stimulate them in the plan.

Conclusions

With the assumption of no dramatic development of the Czech public finance within one year, we expect the sustainability and perspective of the Czech industries of knowledge economy as far from their financing from public funds. There is an estimation of the same or even a little rise of public sources. Uncertainty is coming from the private sector since this share was almost two thirds of the total financial sources given to these industries.

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