

## CZECH REGIONS AND THEIR PAINFUL DRAWING ON EUROPE OF REGIONS

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Розглянуто деякі аспекти соціально-економічних тенденцій в Республіці Чехія після 1989 р., звертаючи увагу на соціальний розвиток, регіональну нерівність та інституційну структуру. Головною метою статті є критичний аналіз обраного регіонального розвитку, створеної регіональної нерівності та сформованої інституційної структури, які виникли в Республіці Чехії в трансформаційний період.

**The article concentrates on the chosen aspects of the spatial socioeconomic trends in the Czech Republic after 1989 with special regard to regional development, regional disparities and their institutional framework. The main objective of the paper is to analyze critically the chosen aspects of the regional development, regional disparities and institutional framework in which they appeared in the Czech Republic in the years of the transformation.**

**Problem Analysis.** The article concentrates on the chosen aspects of the spatial socioeconomic trends in the Czech Republic after 1989 with special regard to regional development, regional disparities and their institutional framework. At the beginning of the transformation, the attention was focused mainly on its macro aspects and inconspicuously growing regional inequalities remained on the bottom of the governmental priorities. Unsystematic and hectic transformation of the public administration in its consequence even deepened already existing regional disparities.

The absence of the regional level of the self-government was perceived particularly sensitively. There existed practically no regional policy at the state level, which also contributed to the creation of the socioeconomic polarization between the capital and the rest of the country. The introduction of the self-governing regions and launching of the gradual modification of the administrative division of the country according to the proven European standards meant the distinctive progress and formed the premises for more efficient future regional development as well as more spatially balanced development of the country as a whole. However, numerous problems persisted or remained unresolved. The main objective of the paper is to analyze critically the chosen aspects of the regional development, regional disparities and institutional framework in which they appeared in the Czech Republic in the years of the transformation.

### **Analysis of the previous research in the problem.**

#### **Communist legacy as a starting point of the transition**

During the socialistic era, it was only hardly possible to speak about regional policy in a contemporary sense. The regional policy was firmly embedded into the centrally planned system of the allocation of resources. Strictly and hierarchically organised structure of national, regional and local planning constituted the substance of the system. There existed the national and regional economic planning, national concepts of settlement structure and physical planning on regional, urban and intra-urban levels. In regional economic planning, the spatial goals were determined by the national plan of the allocation of economic activities, labour force and housing. The regional plans reflected the spatial policies and objectives of various ministries. Essentially, regional policy appeared to be unnecessary since regional economic planning determined the overall spatial arrangement and development. The role of physical planning was to design a particular spatial order of objectives declared in economic development plans.

As a result of this legacy, the Czech Republic entered the transformation period as a country with relatively small regional inequalities. Equalisation was regarded to be a truly magic notion of the policies

based primarily on ubiquitous planning. Nivelization policy could be characterised as a quite effective but very inefficient and finally it led towards the delay in the general societal development, which manifested itself rather painfully mainly in comparison with developed industrial countries. Comparatively small regional inequalities, low rate of unemployment, proclaimed neoliberal policy rejecting state intervention into the economy are the main reasons why regional policy was at the very bottom of the list of governmental priorities in the first half of 1990s.

However, shortly after the beginning of transformation processes, the regional disparities quickly emerged. Their appearance can be seen as a result of the whole complex of mutually connected factors such as the structure and the way of performance of public administration, economic structure, industrial and entrepreneurial tradition, geographic position, educational structure, development of technical infrastructure and the state of environment.

### **From the belief in the free market towards the regional disparities**

The post-1989 economic transformation turned earlier industrial strongholds into comparative disadvantages, changed the relation between public and private actors in favour of the latter and cities and regions became areas for the location of private investments instead of objects of public planning [1]. The territorial development reflected both socioeconomic and environmental burdens inherited from the Communist period as well as the new territorially selective activities of private investors. Inequalities increased not only with the decline in traditional industrial regions but also with foreign investments targeted on the capital, several regional centres and western border regions.

Nevertheless, those days government of the Czech Republic did not pay sufficient attention to gradually accumulating regional problems and did not launch any relevant regional policy [2]. From the wider perspective, the central government largely omitted not only regional policy, but also housing policy and physical planning. Consequently, any spatial policies were characterised by the preference of ad hoc political decisions to the detriment of long-term strategic visions. In this situation, tailored but shortsighted approaches have developed, with local governments applying their own strategies, often incorporating elements from before 1989 [3].

Premature economic optimism connected with the neoliberal belief in the free market describable succinctly as “market solves everything” started to fade since the mid 1990s. The rate of economic growth slowed down substantially and reached even negative values, the rate of unemployment more than doubled between 1995 and 1998 and in several districts overcame the psychological border of 15%. Today, there are several districts with the unemployment rate even higher than 20%. Not surprisingly, the pressure from the European Union concerning Czech regional policy has increased considerably as well [4].

**Objectives.** The main objective of the paper is to analyze critically the chosen aspects and continuities of regional disparities in the Czech Republic in transitional years. At the same time, the structure and the way of performance of public administration that constitute one of underlying causes of regional differentiation will be examined thoroughly.

### **The problem solution.**

#### **The system of territorial administration and its shortcomings**

It is not necessary to underline that the structure and the way of performance of public administration play a crucial role in connection with regional development. In the Czech Republic the excessive influence of state administration to the detriment of the self-government manifested itself as one of the most important factors of the increase in interregional disparities.

The number of the inhabitants of the Czech Republic is approximately 10.2 million. The country covers the territory of 78 900 km<sup>2</sup>. In 1990, the old system of National Committees, which represented the state power in regions, districts and municipalities, was abolished and replaced by a new system of local government created by an amendment to the Constitution and through the new Municipal Act and District Office Act.

District National Committees were replaced by 77 District Offices representing the state administration and municipalities became the elementary units of local self-government. While Districts correspond approximately to NUTS IV units constituted by the European statistics, municipalities are expressed as NUTS V.

But what appeared to be the most striking and illogical was the abolition of the Regional National Committees without any replacement. Natural regions corresponding to NUTS II and NUTS III units thus essentially remained non-covered by the administration. Their administration is not only in accordance with Eurostat units, but also long run experiences show the necessity of the management – and best of all a self-governing one - of spatial development on NUTS II and NUTS III levels.

In other words, state administration and self-administration found themselves in a state of sharp imbalance. Self-government existed only on a municipal level and was curbed or practically oppressed by the excessive power and influence of the state administration.

#### **Long-term absence of self-government on a regional level and related problems**

The lax approach when regional policy practically did not exist manifested itself in a strong increase in regional discrepancies. The level of the imperfection of this situation was even multiplied by impossibility of the formation of independent policies on the regional level due to the non-existence of the self-governmental units at the regional level. After several postponements for the sake of political reasons and under the threat of the growing pressure of the European Union, regional governments were eventually launched in 2000.

A very limited role in rather local than regional development has been played by District Offices, which beside its state administration also attempted to substitute for non-existence of self-government on this level and have been engaged, for example, in promotion of the district in the sphere of tourism or the development of the technical infrastructure.

Since the abolishment of regional government at the end of 1990, there have been selected attempts to co-ordinate some activities on the regional level of which the most important have been the establishment of Regional development agencies. Those agencies essentially replaced the non-existing regions. They have been established by various actors, such as local institutions, including towns, local enterprises and banks, municipal associations, trade unions and several others. They worked as an independent bodies whose activities were not regulated by the state. They operated just on the territory of the former regions and strived for non-official fulfillment of at least of the part of self-governmental tasks. At present, regional development agencies act mostly as a consultancy service for both local governments and private sector.

Ministries that are responsible primarily for the management of the state affairs at that time absurdly tackled to the regional matters and problems as well. This only reflected the excessive influence of the state administration. After certain time, the ministries were even compelled to establish their branches in regions that symptomatically copied the territories of the former regions.

District Offices were directly subordinated to the Ministry of Interior and their departments to other ministries. The role of District Offices in the local development was limited to management of hospitals, social care facilities, libraries, museums, theatres and other public goods, which have not been transferred to municipalities. Succinctly, they functioned as an extended hand of the state and to certain extent created “small state kingdoms” that performed their activities in compliance with the will of the central power.

The system of local government finance has changed several times during 1990s and this resulted in instability and caused difficulties for financial and investment planning on the municipal level. The further annoyance was caused by the absence of the local tax. The incomes of the municipalities were thus dependent on the rates of taxes determined and often altered by the Ministry of finance. Moreover, the budgets of the municipalities often suffered from the insufficient amount of incomes. It appeared that municipality is a too small unit for the solution of important problems at the regional level on the one hand and the state too big and bureaucratic mechanism that is unable to identify and solve the real needs of the regions on the other hand.

The depicted structure and way of performance of public administration constitute one of the underlying causes of the increase in the regional inequalities or more precisely, the creation of the socioeconomic polarization between the capital and the rest of the country. One of the outcomes of this

administrative state is the preference of the capital's interests to the detriment of the rest of the country, since virtually entire power of the state administration was concentrated into the capital city.

This resulted in the formation of the "oligopoly with the competitive edge" which represents spatial equivalent of the economic model. Oligopoly is composed of a few powerful players (both institutions and the firms) concentrated in the capital. Competitive edge on the contrary comprises the actors from the rest of the country that are compelled to struggle in a severe competition [5].

### **Slow approaching the European setting**

Regional policy of the European Union is generally perceived as a tool that mitigates the socioeconomic disparities between the regions of the member states. Geographic, demographic, economic and social indicators provided by Eurostat give us an ample evidence of the necessity of such a policy. The principle of solidarity is utilized not only due to the political reasons, but also regarding the pragmatic economic issues. If the European Union wants to be sufficiently competitive in the widest sense, it cannot afford the economic and social "black holes" on its territory. Not surprisingly, regional policies on the level of the Union attract almost one third of the European funds and are on the second position after common agricultural policy.

For the Czech Republic as well as any other candidate country, the European regional policy plays a crucial role. In the long-term perspective, the European resources (firstly the pre-accession aid and later the structural funds programs) will represent the dominant financial source for the support of the regional development.

In order to draw more accurate picture of the reality, we cannot omit several less favourable aspects of European approach towards the regions. They have common denominator in a frequent changes of the rules of the European regional policy. Union's help to the regions lagging behind is undoubtedly a laudable activity, however, taking into consideration huge bureaucratic procedures, it can hardly reach the desirable state expressible as "it is better to prevent the causes of the regional disparities than to cure their consequences". A really efficient fulfillment of this rule is essentially possible only on the territory of a smaller rank.

However, previously mentioned criticism does not deny that the huge majority of the problems has the trigger mechanism directly in the Czech Republic and European regional policy is much more developed. One of the most topical challenges for the Czech regional policy is its harmonization with the European cohesion policy.

At the very beginning of 1999, after a period of the long-term and rather uneasy negotiations, an agreement between the Czech Republic and European Commission on the delineation of the hierarchy NUTS regions was reached. La nomenclature des unités territoriales (NUTS) represent the result of the spatial statistical differentiation according to the Eurostat. In the European Union, the NUTS regions are used as a comparative basis in the sphere of policy of economic and social cohesion as well as for statistical purposes. In the Czech Republic, according to this agreement, 8 NUTS II regions and 14 NUTS III regions were defined. Districts are considered as regions NUTS IV.

Unfortunately, new administrative division of the Czech Republic is not entirely compatible with NUTS, which could lead towards the complications when utilizing the help from the European Union. According to the NUTS system, the Czech Republic is divided as follows:

- **Czech Republic (NUTS I)** - on the highest level the conceptual and executive activities of the state institutions in the field of the regional policy as well as the support of the regional development are performed. Those activities include also securing a financial means from the state budget and an adequate legislative measures. The principal body is the Ministry for Regional Development of the Czech Republic.

- **Territorial statistical units (NUTS II)** - we can find 8 territorial units at the NUTS II level in the Czech Republic altogether. Their tasks lie mainly in the preparation of the regional development programmes. The main institutions at this level are so-called Regional Councils that prepare, evaluate and approve the regional development programmes and subsequently accomplish and control those programming documents in compliance with the legislation of the European Union.

- **Regions (NUTS III)** - the main tasks of the regions are the conceptual and executive activities of self-governing institutions of the regions in the field of the regional development. In case that the region is administratively identical with the regions NUTS II – in other words if NUTS II is an equivalent of the NUTS III – then the regions are responsible for the performance of the duties given to the NUTS II levels. The overall number of the NUTS III in the Czech Republic is 14. On this level, regions are the main actors.



units are usually induced. Many countries realised it and adjusted their administrative division according to the rules recommended by the Union. Despite the fact that this solution brings some inevitable short-term complications, advantages in the long run prevailed practically everywhere (France is at typical example).

Moreover, in case that an adequate willingness and real “spatial consciousness” can be found in a particular country, it is not so difficult to delineate the regions according to the NUTS II model. Administrative order, which takes into account NUTS II level enables the full elaboration of the principles of planning and programming. In other words, there exists a sufficient room for the harmonisation of the requirements and interests of the European Union, the state and the region itself. Subsequently, it is possible to meet high quality standards necessary for the utilisation of the resources from the European funds.

Unfortunately, the administrative division of the Czech republic reflects rather political negotiations and compromises on both parliamentary and regional levels than real socioeconomic and geographical needs of particular areas.

### **Chosen empirical evidence**

After the identification of the underlying causes of the regional inequalities in the Czech Republic, it is useful to show some empirical evidence. As already mentioned, regional disparities in the Czech Republic represent a rather serious issue also in view of the vague regional policy. In this chapter, the indicators that characterize the socio-economic state of the Czech regions will be introduced. We will exert the approach used by Eurostat on the one hand and simple comparison on the other hand.

The size of regional disparities in the unemployment rate is most often measured by the weighted standard deviation<sup>1</sup>.

Figure 3 depicts the development of weighted standard deviation on the level of NUTS II, NUTS III and NUTS IV regions in the years 1991-1998. After some fluctuations in the first half of 1990s, the curves illustrate a steep increase of inter-regional disparities since 1995. So, the unfavourable trend gets clear contours. The scale of disparities depends obviously on the number of units (regions) used in analysis. Therefore, not surprisingly, the smallest disparities were found on the level of NUTS II regions (8 units), the medium values on the level of regions (14 units) while the largest ones on the level of districts (77 units). Weighted standard deviation is used rather commonly since it expresses the seriousness of the unemployment in the befallen regions.

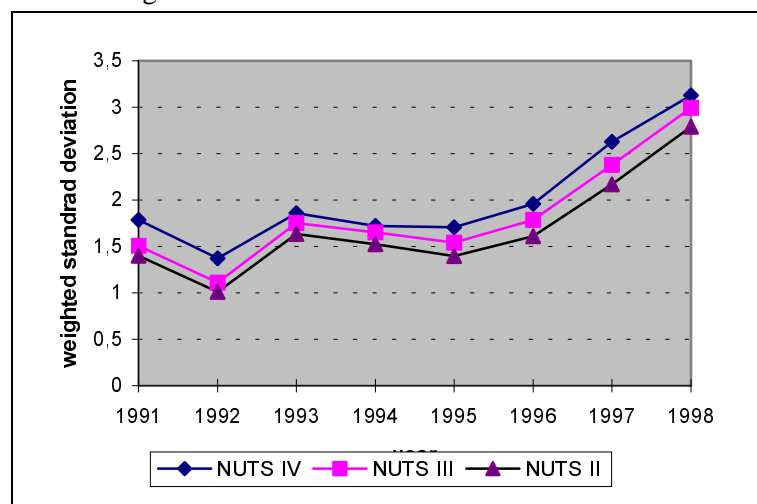


Figure No.3: Regional inequalities in unemployment in the Czech Republic between 1991-1998 according to Eurostat's approach

<sup>1</sup> The standard deviation is weighted by the size of the NUTS II regions which is measured either by the number of economically active population or by number of inhabitants. For calculations the following formula is used:  $WSD = \sqrt{\frac{\sum (x_i - \bar{x})^2 n_i}{\sum n_i}}$ , where  $x_i$  is the rate of unemployment in region  $i$ ,  $\bar{x}$  is the average rate of unemployment and  $n_i$  is the size of the region expressed by the number of inhabitants.

However, if we concentrate on mere comparisons of the rates of unemployment on the NUTS II level, we can observe the strong and increasing polarization between the capital Prague (PHA) and the rest of the country. The numbers are even distorted because of the huge influx of people hunting for jobs to Prague. Also the position of the regions that share the border with Austria and Germany is very good (JHZ – Southern and Western Bohemia). On the contrary, the rates of unemployment in the regions with the heritage of old industries (SVZ, MSK – Northern Bohemia and Northern Moravia and Silesia) show the vulnerability of their economic monostructure. The situation is even worse in some district belonging to those two NUTS II regions (see the Figure No. 4).

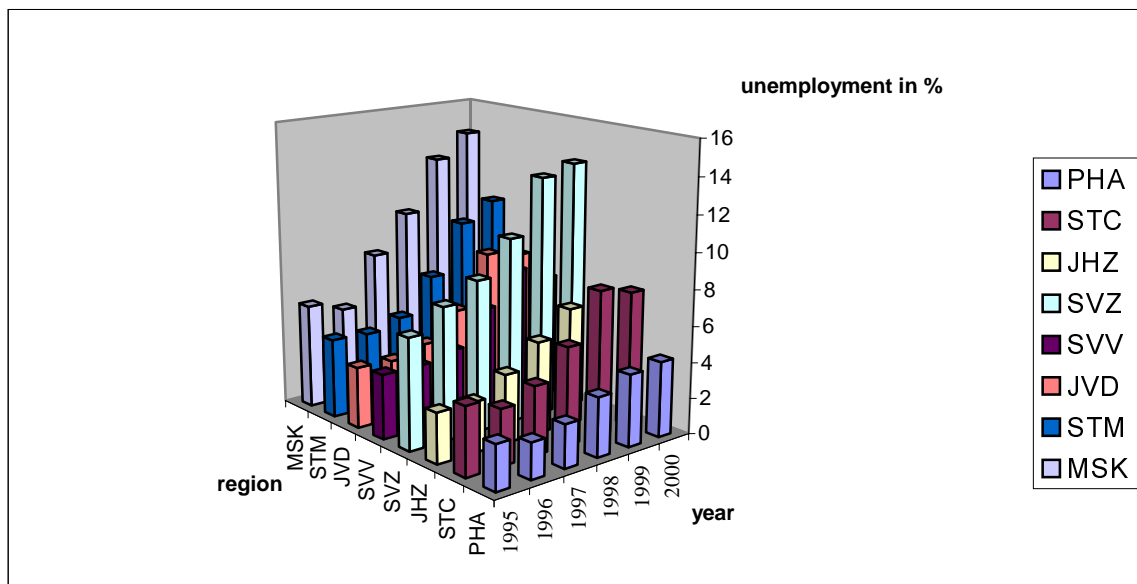


Figure No.4: The rates of unemployment in the Czech Republic on the level of NUTS II regions between 1995-2000

The next figure gives us more accurate picture of the purchasing power parity in Czech regions. Again, NUTS II level serves as a basis for our comparisons. While the development in practically all regions could be characterized as stagnation or fluctuation, the unique position of the capital (PHA) is evident again. Moreover, already mentioned polarization between the capital and the others has a distinctively increasing tendency.

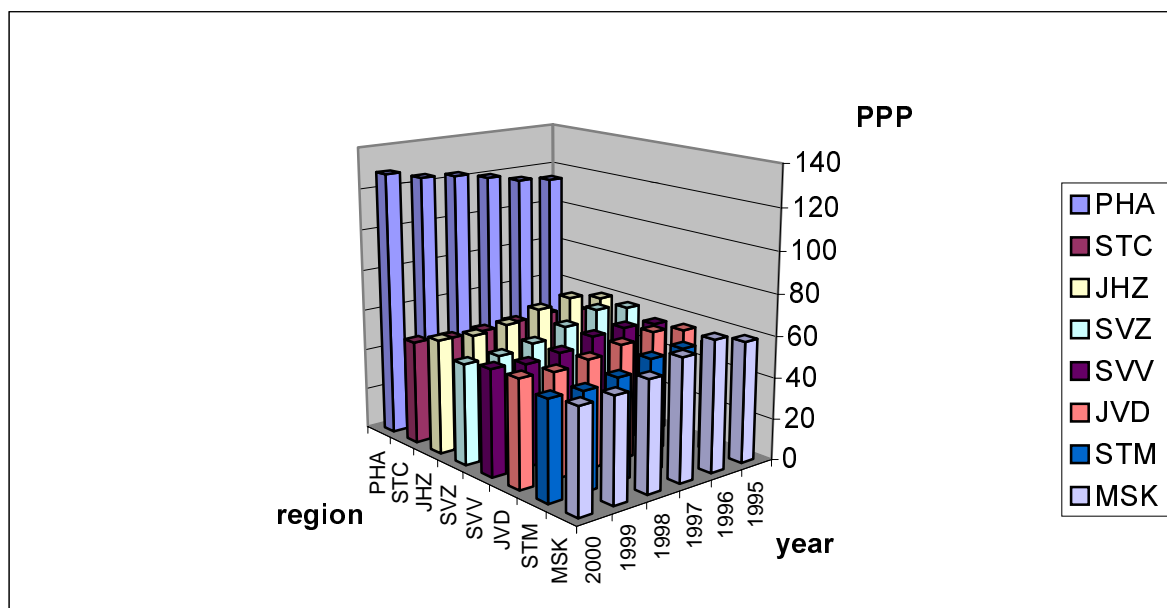


Figure No.5: Purchasing power parity in Czech NUTS II regions (EU=100) between 1995-2000

### **Several relevant topics that determine the future development of Czech regions**

In the course of the transformation the regional issues gradually ceased to be the marginal affair that does not deserve any special attention. It is still a very long way to perfection, nevertheless situation get better also due to the indication of the emergence of the top-down approach, which stem from the activity of state administration and is a result of the pressure of both objective facts and the European administration. This approach is a complete one in relation towards the traditional regional striving for local or regional prosperity.

Strategy of the regional development in the Czech Republic is periodically discussed and modified by the central government. Both strengths and weaknesses of all regions are analyzed, problem regions identified and strategic objectives of the regional development in the country formulated. The set of so-called “descriptors” that characterize individual regions is regularly watched and evaluated. Descriptors express general characteristics of the regions, their economic potential, human potential, technical infrastructure and the environment. They are regularly modified on the basis of the practical needs. Further, regions lagging behind and eligible for the state subsidies are named. However, the system is still quite changeable and improvisations are often prevailing over the routine processes.

Self-governing regions are still very young. They are forced to concentrate the majority of their energy on their own running or rather surviving since elementary conceptual questions concerning financing and the transfer of the competencies are not resolved until now. Reluctance of the Ministries to give over the part of their competencies and financial resources creates the principal braking factor of the further development of the self-administration on the regional level. Any major initiatives of regions that would stimulate their development thus remain the question of the future.

**Conclusions.** The paper offers a succinct overview of chosen aspects of regional development, regional inequalities and their institutional framework in the Czech Republic during the transitional period. Apart from traditional factors of regional development, such as economic structure, industrial and entrepreneurial tradition, geographic position, educational structure, development of technical infrastructure or the state of environment, the attention is focused mainly on the public administration. It is argued that the transformation of the structure and the way of performance of public administration was accomplished too headlong. The imbalance between the state administration and self-administration worked as a factor that strengthened already existing regional discrepancies and partly suppressed the local initiatives on regional development. Parallely to the increase of regional disparities, the general consciousness on the regional development is improving, nevertheless a great number of steps still remains to be done.

There are numerous arguments against the cohesion policy of the European Union. Nevertheless taking into consideration the similarity of the priorities of the Czech regional policy with the European regional priorities and approaches as well as the enormous amount of finance that could be potentially directed into the Czech regions and after all also proven standards of the Union’s regional policy, the future challenge for the Czech regional policy is obvious: modification according to the European cohesion policy rules and standards.

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