INCOME (IN)JUSTICE IN THE CZECH REPUBLIC

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Abstract

The present paper deals with the income situation of households in the Czech Republic between 2005 and 2011. The subject of observation is disposable income per equalized member. We attempt to assess income inequality based on a Gini coefficient and Lorenz curve. Another point of observation is the development of the poverty level. The poverty gap is assessed using a Sen index. Special attention is paid to groups of households according to economic activity (employed, self-employed, pensioner, unemployed, other). Using Scheffe's method of contrast, specific pairs of demonstrable differences between levels of economic activity are detected. The poverty of individual groups is assessed based on poverty level and risk-of-poverty index. The performed analyses showed that the total incomes of households within the given period were increasing, even though the year-on-year increments were gradually decreasing. The most significant increase was observed in the incomes of unemployed people, the least significant increase in the incomes of self-employed people. Social policy in the Czech Republic does mitigate poverty; however, it does not prevent the unfair development of incomes for various groups of households.

Keywords

Income, inequality, poverty, EU SILC, social transfers, economic activity

I. Introduction

The field of income is a decisive factor determining the standard of living and it is also a reflection of the socio-economic conditions of the country. In 2011, there were 119.6 million of people in the European Union, i.e. 24.2%, living in poverty and social exclusion, while income poverty affected 16.9% of the EU population. The situation was worst in

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Bulgaria and Romania. On the other hand, the Czech Republic has the least number of poor people in the EU. Based on this, the authors decided to perform a closer review of the state of the Czech population in order to determine the conditions of various population groups with regard to economic activity. The primary motive for writing this paper is to consider whether the lowest poverty level necessarily means a fair income distribution. It is also necessary to define which groups of people are exposed to the highest risk in terms of poverty.

Income analyses are based on detailed information gathered from large representative samples of households, containing detailed information on the incomes of all household members.⁴ Following the meeting of the European Council in Lisbon in 2000, a statistical infrastructure for the analysis of income and living conditions throughout the European Union was established.⁵ The objective of the regulation of the European Parliament and of the Council No. 1177/2003 concerning Community statistics on income and living conditions (EU-SILC) is to define a common framework for the systematic production of statistics that include comparable and timely summarizing and long-term information on incomes and on the level of poverty and social exclusion at the national and European level.⁶ Atkinson and Marlier consider EU-SILC a strong instrument and, at the same time, a large investment that has brought about enhanced ways to perform comparative analyses.⁷ Frick and Krell add that the EU-SILC project supplemented the former ECHP that was in operation between 1994 and 2001 in the EU countries.⁸ Annually gathered information within EU-SILC serves to provide an overview of income conditions and poverty, as well as to identify best practices to fight poverty in certain countries; practices which may then be adapted to conditions in other countries in order to facilitate the process of social convergence among the entire European population.

Income is *“the maximum value which a person can consume during a week and still expect to be as well off at the end of the week as he was at the beginning”*.⁹ Sefton and Weale put it more precisely, that the expression “to be as well off” is understood as a current discounted value of present and future benefit that is without a change during the assessed period.¹⁰ The essential variable for keeping track of income indicators is disposable income, which is the sum of household expenses for end consumption and savings. Hence, it is the sum of salaries, net common transfers and social benefits other than in-kind, minus income tax, tax on property and social security paid by the employee, self-employed person and unemployed person.¹¹ Barbone et al. explain the disposable income of a household as the sum of the gross incomes of natural persons in the household and components of the gross income at the household level, minus interest on mortgage, regular tax on property,

⁴ Figari et al. (2011).

⁵ Frick, Krell (2010).

⁶ EU (2003).

⁷ Atkinson, Marlier (2010).

⁸ Frick, Krell (2010).

⁹ Hicks in: Sefton, Weale (2006, p. 219).

¹⁰ Sefton, Weale (2006).

¹¹ OECD (2010).

income tax, regular intra-household transfers and social insurance.¹² For the purposes of EU-SILC, disposable income means the sum of the incomes of all household members upon taxation and receipt of benefits, which is then adjusted by division with a coefficient reflecting the number and the age of the household members.

Sources of income are very diverse today. The income structure may be viewed from the perspective of three components. The first and largest component consists of salaries received by employees, the second includes social incomes belonging mostly to pensioners and other beneficiaries of social benefits, and the last component is formed by other incomes, which are the most dynamic, but also at the same time most problematic. These consist of incomes from business activity, interest on deposits in banking institutions, capital market bonds, dividends from securities, etc. Author Večerník indicates that there were massive flows in income division and structure in the Czech Republic due to economic and social transformation after 1989.¹³

Perkins et al. (2006) indicate that a negative phenomenon for economy and society is increasing inequality between incomes, which is constituted by differences in incomes of people within the given population and has significant impact on development, poverty, achievements in the social area, and public finance. When it comes to achievements in the social sphere, income inequality influences several areas, including, but not limited to, health, education, criminality and violence.¹⁴ Income inequality can lead not only to aggravated social conditions, but also to limited public services and poor infrastructure.¹⁵ According to Moller et al., income inequality is a function of economic development, educational expansion, racial and ethnical structure, urbanisation, but also political and institutional factors.¹⁶ It is assumed that higher inequality within society results in psychosocial states among the population that leads to high-risk behaviour.¹⁷

Inequality is an ever-present phenomenon occurring in developed as well as developing economies. However, it is more visible in developing economies.¹⁸ Inequality is increasing due to globalisation. The essential fact is that the increasing income inequality decreases the efficiency of the economy. In low income countries, higher levels of income inequality seems to be related to lower fluctuations in consumption, and in high income countries, higher inequality is related to higher fluctuations.¹⁹ Inequality within a single country can be measured through inequality in income or through inequality in household consumption. Even though consumption is a more stable indicator compared with income, it is, however, more difficult to detect, so income is usually used to measure the inequality.²⁰

¹² Barbone et al. (2009).

¹³ Vavřejnová (2002); Večerník (2001).

¹⁴ Chakravarty (2009).

¹⁵ Link, Phelan in: Yang et al. (2012).

¹⁶ Moller et al. (2009).

¹⁷ Wilkinson, Marmot in: Yang et al. (2012).

¹⁸ Ying in: Roy, Haldar (2010).

¹⁹ Greig et al. (2007); Perkins et al. (2006); Iyigun, Owen (2004).

²⁰ Perkins et al. (2006).

*“Income inequality has an essential impact on polarization effect of class identification”.*²¹ The authors add that class identity is usually the strongest in countries with a high level of income inequality. It is essential to reflect not only the way in which income inequality is deepened, but also which social classes gain and which lose.²² Income inequality brings about a narrowing of the middle class and an increase in the numbers of the poor and rich.²³ Some authors point out that a sound middle class is important for a functioning political democracy.

Income inequality has seen an increasing trend for two centuries now and has recently risen even more rapidly. Improvement in the state of the economy does not necessarily mean any improvement of inequality. In a period of economic growth, income inequality may rise, which has a negative impact on poorer segments of the population.²⁴

That condition that does not allow people to live a decent life and provide for the necessities is called poverty. It is not only a lack of financial resources. Poor people lack safe potable water, access to education or to health services. There are two fundamental levels of poverty – absolute and relative. Absolute poverty applies mostly to developing countries and indicates material distress, wherein people lack necessities of life (food, housing, clothes). Relative poverty is defined as achieving not more than 60% of the median income within the society and constitutes the limit used by Eurostat. In a household facing relative poverty, the necessities of life are provided but on a level much lower compared with average individuals in the society.

Scholars have been trying for a long time to implement a concept of poverty within empiric research. The approaches have included:

- Measurement of income and expenses compared with budget;
- Measurement of income and expenses and calculating the relative shortage of income in poverty;
- Defining the relative shortage of items or activities that are necessary;
- Asking people about perceptions of poverty or handicap;
- Linking with the concept of social exclusion.²⁵

Hence, the dominant approach in most periods and most countries was a focus on income. A person is considered poor if his/her income drops below the poverty threshold. However, it is necessary to take into account the share of people under the income poverty threshold on the one hand, but also the difference between the poverty threshold and the average income of the poor population expressed as a percentage of the poverty threshold. Poverty is not changed by any transfer of income between two poor people. Another essential fact is that the poverty threshold does not capture those situations when a poor person becomes even poorer due to the cutting off of his/her income.²⁶

²¹ Andersen, Curtis (2012, p. 129).

²² Vavrejšnová (2002).

²³ Perkins et al. (2006).

²⁴ Cammack (2002); Greig et al. (2007).

²⁵ Broadshaw, Finch (2003).

²⁶ Sen, in: Chakravarty et al. (2008).

II. Methodology

An essential source of data is the survey results entitled European Union Statistics on Income and Living Conditions (EU SILC). The results of EU-SILC contain both objective and subjective aspects of income, poverty, social exclusion and other living conditions. The statistical survey EU-SILC is mandatory for all EU States and is mostly performed by statistics offices in each country. The analyses performed apply to the period 2005–2011. In 2005, the survey was launched in the Czech Republic and 2011 is the last year that the data were available at the time of processing.

The basic unit in the survey is a household. That means that the family relationships between the household members are not really essential. Table 1 indicates the number of households included in the EU-SILC survey for each year from 2005 to 2011.

Table 1: Number of households involved in the survey EU SILC

Year	2005	2006	2007	2008	2009	2010	2011
Number of households	4351	7483	9675	11294	9911	9098	8866

Source: Czech Statistical Office (2005–2011)

An essential variable is disposable income per equivalent member. Individual household members are allocated various coefficients. The head of the household is given the value of 1, children under 13 years 0.3, and other persons in the household are given the coefficient of 0.5 (Wolff, 2010). The head of the household in a complete family is always the husband or the partner, as applicable, in incomplete two-generation families it is the parent, in tree-generation families it is a member of the middle generation, and in multi-member households that are not considered a family it is the person that has been designated as the head of the housekeeping.

The income inequality is assessed based on a Gini coefficient. The coefficient of 1 indicates an absolute inequality in the state. The formula for the calculation of the Gini coefficient is as follows:

$$G = \left| 1 - \sum_{k=0}^{k=n-1} (X_{k+1} - X_k)(Y_{k+1} - Y_k) \right| \quad (1)$$

The variables X_k a Y_k are accumulated population and pension quantities.

An analysis is then made of households with jeopardized income which are considered to be those with income under the poverty threshold that will be calculated based on the definition by Eurostat as 60% of equivalent median income. The essential task is to determine which households are at the highest risk of poverty. This is made using the risk-of-poverty index that is calculated as the share of the percentage of poor households in a certain group to the percentage of the same group within the population.²⁷ To better assess poverty, a coefficient of the poverty gap is used that expresses the ratio of the average household income to the poverty threshold. The calculation requires knowing the poverty threshold (A) and the average income of households living under the poverty threshold

²⁷ Sirovátka et al. (2011).

(a). The index of the poverty gap, in its relative formulation known as a Sen index, is calculated using the following formula:

$$\text{Senov koeficient} = \frac{A - a}{A} \quad (2)$$

The closer the values are to 1, the deeper the poverty.²⁸

The income situation has also been assessed from the perspective of economic activity. Changes in the incomes of various groups (employees, self-employed, pensioners, unemployed, and others) were tracked in the limited number of years of the period. The poverty levels for individual groups are detected, as well as poverty risks.

Specific pairs of demonstrable differences between the levels of the economic activity factor are detected using Scheffe's method of contrast. The test of contrast significance hypothesis means to verify the hypothesis that the contrast $\psi = 0$. It is performed based on the test characteristics t .

$$|t| = \frac{|\psi|}{s_{\psi}} \quad (3)$$

The contrast is declared as significant if:

$$t = \frac{|\psi|}{s_{\psi}} > S \quad (4)$$

where

$$S = \sqrt{\nu_A * F_{\alpha(\nu_A, \nu_B)}} \quad (5)$$

ν_A – degrees of group variation, ν_B – degrees of residual variation, $F_{\alpha(\nu_A, \nu_B)}$ – critical value of Snedecor's F-distribution for significance level $\alpha = 0.05$, degrees of numerator variation (ν_A) and degrees of denominator variation (ν_B).

III. Results

According to the national “net monetary income of households” index, the household disposable income was drawn up according to the methodology of Eurostat in order to allow international comparison and the calculation of indicators to assess poverty. It is an average income recalculated per household member. This paper deals with calculations applicable not to a physical member but to an equalized member. The essential statistical characteristic in this paper is the monthly disposable income per equalized member (EQ). Development of income in the period 2005–2011 is shown in Table 2.

²⁸ Kabát (2007).

Table 2: Income characteristics

Year	2005	2006	2007	2008	2009	2010	2011
EQ (CZK)	12232	12629	13620	14627	15872	16496	16818
Basic index EQ (%)	–	3.2	7.9	7.4	8.5	3.9	1.9
Median (CZK)	10500	10958	11815	12798	13856	14435	14689

Source: Calculations of authors based on EU SILC data

The monthly equalized income increased throughout the whole period. In 2005, it was 12,232 CZK and in 2011 it amounted to 16,818 CZK. Although incomes were increasing in total, the increase has been slower since 2009. Between 2010 and 2011 the increase was at its lowest, corresponding to the inflation level shown in Table 3.

Table 3: Basic macroeconomic indicators

Year	2005	2006	2007	2008	2009	2010	2011
Annual growth of GDP (%)	6.80	7.00	5.70	3.10	–4.70	2.70	1.90
Registered unemployment rate (%)	8.96	8.13	6.62	5.44	7.98	9.01	8.57
Inflation rate (%)	1.90	2.50	2.80	6.30	1.00	1.50	1.90

Source: Czech Statistical Office (2005–2011)

The dynamics of GDP development by the year 2007 put the Czech Republic among the fastest developing countries in Europe. However, 2008 brought about a decline due to the impact of the crisis. The domestic product of the Czech Republic was strongly influenced by the fact that the most important market for domestic production, the countries of the European Union, was in recession from the 2nd quarter. In 2008, the year-on-year GDP increase of EU-27 was 0.9%. The crisis also adversely impacted the labour market, though with some delay. In 2009, the unemployment rate increased to 7.98% and in 2009 it amounted to 9.01%. This fact also influenced income distribution in society. To express the income disparity, a Lorenz curve and the calculated Gini coefficient are used in Figure 1 and Figure 2.

Figure 1: Lorenz Curve, year 2011

Source: Calculations of authors based on EU SILC data

The graph shows that the first two deciles, referred to as the lower class, gain only 11% of the cumulative value of all incomes. The last two deciles, referred to as the higher class, gain 38% of the volume of all incomes, instead of the ideal 20%.

Figure 2: Gini coefficient, 2005–2011

Source: Calculations of authors based on EU SILC data

The Gini coefficient decreased from 0.2456 in 2005 to 0.2296 in 2008. In later years, it increased more gradually. However, by 2011, the income inequality was no longer as high as it was in the first year of the period. Despite the quoted changes, we can state that income inequality in the Czech Republic is moderate. The results of a past survey by the authors indicate that income inequality has a significant impact on the poverty level in a country.²⁹ The characteristics applicable to poverty are laid down in Table 4.

²⁹ Birčáková, Antošová, Stávková (2013).

Table 4: Households with jeopardized income, 2005–2011

Year	2005	2006	2007	2008	2009	2010	2011
Poverty thresholds (CZK)	6 300	6 575	7 089	7 679	8 314	8 661	8 813
Households at risk of poverty (%)	6.80	6.49	5.97	5.56	6.16	6.50	7.09
Average income of household at risk of poverty	4999	5276	5669	6142	6715	6776	6951

Source: Calculations of authors based on EU SILC data

The poverty threshold increased from 6,300 CZK to 8,813 CZK between 2005 and 2011. In the first year, 6.8% of Czech households lived under this threshold. The poverty level decreased until 2008 and since 2009 it has been rising. In the first tracked year, it peaked at 7.09%. However, it must be realized that the poverty level is calculated based on disposable income with a significant component being social transfers. An overview of those is shown in Table 5. It is evident that the largest support from the state goes to pensioners, while on the other hand the least part of social transfers goes to benefits for material distress.

Table 5: Components of social transfers (%)

Social transfer	2005	2011
1. State social support benefits	9.79	6.90
1.1. Benefits paid with regard to household income (child allowance, social allowance, housing allowance)	6.21	1.55
1.2. Benefits paid without regard to household income (parental allowance, foster care, maternity, funeral expenses)	3.65	5.35
2. Retirement insurance benefits	81.45	84.99
2.1. Retirement and widows' pensions	70.46	76.09
2.2. Disability and orphans' pensions	10.99	8.90
3. Benefits for material distress	1.53	0.29
4. Illness benefits	4.02	3.17
5. Unemployment benefits	1.64	1.55
6. Other social transfers	1.50	3.11

Source: Calculations of authors based on EU SILC data

The maturity of the state with regard to the social area is measured based on the index called the social quota that expresses the summary of social expenses of the state in proportion to GDP. In the Czech Republic, the social quota was 18.36% in 2005 and in 2011 it was 20.56%. To compare, in Finland it was 26.7% and 30.46%, respectively.

We can now ask what poverty would be like in the Czech Republic if the state did not support its population by means of social transfers. The poverty level before and after the payment of social transfers is shown in Figure 3.

Figure 3: Number of households with at risk income before and after social transfers (%)

Source: Calculations of authors based on EU SILC data

The figure shows that, without social transfers, 40% of the population would suffer from poverty. Hence, social transfers indeed have a significant influence on mitigating poverty. Of course, this applies to situations where they are paid to the proper groups of populations, i.e. where the state performs its redistribution function efficiently; this is, however, a very complicated issue in reality, since it is necessary to select not only the population groups eligible for support, but also the amount of support. Too few benefits may not help the poor to rise above the poverty level, while, on the other hand, benefits that are too high may lead to misuse of the social system. The amount necessary to add to a poor Czech household on average to break loose of the poverty level is indicated in Table 6. This calculation is dependent on the difference between the poverty threshold (A) and the average income of poor households (a). The relative expression is the Sen index.

Table 6: Poverty gap

Year	a	A	A – a	Sen index
2005	4 999	6 300	1 301	0.21
2006	5 276	6 575	1 299	0.20
2007	5 669	7 089	1 420	0.20
2008	6 142	7 679	1 537	0.20
2009	6 715	8 314	1 599	0.19
2010	6 776	8 661	1 885	0.22
2011	6 951	8 813	1 862	0.21

Source: Calculations of authors based on EU SILC data

The poverty gap expressed using the Sen index was aggravated a little between the first and the last year of the period, from 0.206 to 0.211. In 2011, a poor household needed only approximately 43% of the amount of disposable income than they had to have in 2005 to rise above the poverty level. This increase is higher than the increase in disposable equalized income for all Czech households. The poverty gap is a parameter to take into account in the assessment. There is indeed a difference between when a poor household needs one crown or a thousand to stop being poor.

According to this methodology, the population is divided into five groups according to their economic activity: the employed, self-employed, pensioners, unemployed, and others. The self-employed category includes people doing business based on trade licences or special regulations, participants in joint ventures based on agreements, independent occupations (physicians, advocates, tax counsellors) and people working for royalties (artists, interpreters). The group of others includes people taking care of households, infirm members of households or other close persons, and people living with no property or own income who could not be classified in any other group. The income situation of these groups is shown in Table 7.

Table 7: Income situation of households based on economic activity

	2005	2011	Increase in %
Employed	13 843	19 483	40.7
Self-employed	17 621	21 093	19.7
Pensioner	9 520	13 438	41.1
Unemployed	5 957	9 256	55.3
Other	7 073	10 046	42.0

Source: Calculations of authors based on EU SILC data

It must be noted that, based on the previous findings by the writers, economic activity is one of the factors with a demonstrable effect on household income, and hence the social status of the household is influenced by the economic activity of the head of the household.³⁰

The increase in income in the tracked years in individual groups is much diverse. The unemployed enjoyed the most significant increase, of 55.3%. Their income grew faster than that of the employed, self-employed, or pensioners. Based on this fact, it may be questioned whether the income development is fair. Because the income of the unemployed is growing much faster compared to other groups of the population, the question arises whether the unemployed will want to change their status to employed. It is indeed possible that, due to such income development, they actually lack the motivation to emerge from their group, which makes the long-term unemployed situation look worse. Long-term unemployment in the Czech Republic for 2011 was, according to Eurostat (2012), 40.6%, which is better than the European average (42.9%), however it is questionable to what extent the long-term unemployment is involuntary.

The lowest increase of income was recorded for self-employed people (19.7%), which may be predominantly due to the large influence of the economic cycle on this group.

³⁰ Stávková, Souček, Birčiaková (2013).

Economic activity in both tracked years showed demonstrable differences in incomes between various groups (i.e. levels of economic activity). Using Scheffe's method of contrast, it was detected that the groups of unemployed and other were an exception. Between these groups, indemonstrable differences were detected. In 2011, indemonstrable differences were detected even between the groups of unemployed vs. pensioners and other vs. pensioners. This finding leads us to the conclusion that pensioners' income approximates the groups with the lowest income. Of course, it is not their own fault that the pensioners group is in this situation: it is a result of the social policy arrangement. Once again, there is doubt regarding justice in the field of population incomes. Poverty affects various groups of the population in different ways. Table 8 indicates the poverty level by individual groups according to economic activity. Moreover, the table shows the risk-of-poverty index that allows us to determine which groups of the population bear the highest risk in terms of poverty.

Table 8: Households with jeopardized income based on economic activity

Year	2005		2011	
	Poverty level (%)	Risk-of-poverty index	Poverty level (%)	Risk-of-poverty index
Employed	3.07	0.06	2.90	0.07
Self-employed	5.12	0.56	7.38	0.79
Pensioner	4.99	0.22	7.06	0.27
Unemployed	66.41	7.98	56.64	7.81
Other	55.13	1.63	56.10	0.83

Source: Calculations of authors based on EU SILC data

The calculations in the table above show that as much as 66.41% of the unemployed in 2005 and 56.64% in 2011 fall below the poverty line. This group of the population is at the same time exposed to the highest risk. The risk-of-poverty index decreased from 7.98 to 7.81 between these years, but is, however, still significantly higher compared with other groups. The second most jeopardized group is other. However, the risk-of-poverty index fell more in this group, from 1.63 in 2005 to 0.83 in 2011. The lowest risk of poverty exists in the employed and self-employed group, which is the result of their inherent economic activity.

IV. Conclusion

During 2005–2011, the monthly disposable income per equalized member gradually increased, but with various annual increments. After 2009, these increments started to decrease, which was due to the effects of the economic crisis that broke out in 2007. Income inequality started to gradually increase as late as 2008. The same pattern applied to the poverty level, which is partly due to the fact that income inequality has a strong impact on the poverty level. However, it must be noted that the objective is not to eliminate income inequality altogether. Moderate income inequality in society is desirable.

Over a long-term period, the Czech Republic is the country with the lowest number of poor people in the EU. The poverty gap is also moderate. It has been shown that redistribution in relation to mitigation of income inequality is effective.

In this paper, attention was paid to population based on economic activity. Within the reviewed period, the income of the unemployed increased at a much higher rate than that of the entire set of households, and the number of unemployed at risk of poverty also decreased. It is because the unemployed have lower incomes that they are eligible for various kinds of social transfers. It is, however, questionable as to whether this approach is correct, since strong support for the unemployed has brought about a significant demotivational effect on the entire population.

To observe which households are at the highest risk of poverty, the risk-of-poverty index was used. Its use was necessitated by the fact that it is not possible to compare poverty between individual groups of households purely on the grounds of the percentage of how many of them are poor, since each group of households has a different size within the total population. The risk level index puts into proportion the percentage of the number of poor households within the given group to the representation of the same group among the total population of the country. During the entire period, the group at the highest risk is the unemployed; while the lowest risk of poverty exists for the employed.

Economic activity is a factor with its individual levels, i.e. employed, self-employed, pensioner, unemployed, and other, significantly influencing the income level. The highest income is attained by the self-employed and employed, the lowest by the unemployed and other. During the tracking period, the highest increase of income was recorded for the unemployed, i.e. 55%, the lowest for the self-employed (19.7%). Based on Scheffe's method, demonstrable differences between various levels were detected in 2005, except for the unemployed and other groups. However, in 2011, the pensioners group marked an indemonstrable difference when compared to the unemployed and other. This fact indicates an income similarity between pensioners and the above lowest income groups. When it comes to the self-employed, their income is related to economic development and is also influenced by unfavourable legislative and organizational and administrative conditions that are manifested not only in the slow increases of this group's income, but also in the number of bankrupt companies.

Hence, it may be concluded that the increase of income is highest in the unemployed group and lowest in the self-employed group. Pensioners are similar to the lowest income households in terms of income. Based on the above findings, the income situation of the population in the Czech Republic cannot be considered fair. Those who do not work enjoy a much higher increase in their income than those who engage in business activities. In other states of the European Union, such as France, the United Kingdom, or Finland, pensioners' incomes grow faster than those of the unemployed. It may be stated that the social policy of the Czech Republic does not motivate work activity; on the contrary, it in a way unintentionally fosters long-term unemployment. Also, its arrangements result in the approximation of pensioner incomes to the level of the lowest income groups.

Recessions often tend to affect the most vulnerable groups of the population. For this reason, it is necessary to properly adjust the social policy of each state. Since the EU Member

States have a free hand in this area, each state has its own arrangement of conditions, which is determined by the cultural development of the country in question. However, it is very difficult to define them so as to prevent the misuse of the system, to allocate the social benefits to those who really need them, and at the same time avoid stimulating a reluctance to work.

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