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## STUDENT'S WORK

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# SOCIAL CAPITAL IN THE CZECH REPUBLIC AND PUBLIC POLICY IMPLICATIONS

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**Abstract:** *Social capital in Eastern Europe has received a fair amount of scholarly attention in recent years, including in the Czech Republic. This paper examines the stock of macro-level social capital in the Czech Republic in comparative European perspective. The notions of “missing” social capital and corruption as negative social capital are explored. The corruption situation in the Czech Republic and the progress in curbing it that was made in the last decade are evaluated. Regressions run with data from the World Value Survey and the Corruption Perception Index show that economic growth does not translate into correspondingly lower levels of corruption in the Czech case. State bureaucracy is identified as a possible reason for the failure to curb corruption successfully. Public policy recommendations and their usefulness for the Czech Republic are debated and a civil service reform is proposed as the most appropriate policy for addressing the situation.*

**Keywords:** *Czech Republic, social capital, generalized social trust, corruption, public policy*

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*In general, however, the concept of social capital has not yet taken root in the national debate in the Czech Republic with respect to public policy in general and social policy in particular, and there are no specific studies dealing with this link even though some new studies are in the planning stages.<sup>1</sup>*

## Introduction

It seems to be a standard to begin economic papers on the topic of social capital with a lamentation about how the literature and research on this arguably important topic are affected by the ambiguous nature of the concept. The ambiguity and multiplicity of social capital concepts is understandable given their origins in sociology and subsequent dispersion into other social sciences including economics, political science, psychology, and even criminology.<sup>2</sup> The notion of social capital was introduced into social science and analyzed on the individual level by Bourdieu (1986), extended to groups and social networks by Coleman (1988) and used by Putnam (1993) on the societal level in his groundbreaking study of local government effectiveness in Italy. For Putnam, social capital “refers to features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions” (1993: 167). According to the World Bank, “social capital refers to the norms and networks that enable collective action [and it] encompasses institutions, relationships, and customs that shape the quality and quantity of a society’s social interactions.” The World Bank also claims increasing evidence to show that social capital is critical for societies to prosper economically and for development to be sustainable. The vague nature of the concept of social capital is noted in OECD’s Glossary of statistical terms:

*The term social capital has found its way into economic analysis only recently, although various elements of the concept have been present under different names for a long time in institutional economics as well as in the political, sociological and anthropological literature. Economists have added the focus on the contribution of social capital to economic growth. There is still no consensus, however, on which aspects of interaction and organization merit the label of social capital, nor on how to measure it and how to determine empirically its contribution to economic growth and development.*

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1 European Observatory on the Social Situation (2007).

2 For an interesting example of criminological application of social capital, see Hagan & Radoeva (1998).

As the purpose of this paper is to review recent research on social capital and offer public policy recommendations for the Czech Republic, I focus on papers that survey the levels of social capital at country level. Papers reviewed employ Putnam's concept of social capital, and often use the percentage of a population that answers yes to the question "In general, do you think that most people can be trusted, or can't you be too careful" to measure the so-called *generalized social trust*. Bjørnskov (2006: 24–25) notes that the use of this and similarly derived datasets (the abovementioned question is part of the cross-country *World Value Survey*) is problematic due to cultural and/or language bias. The fundamental problem with using value survey answers, especially to the question "Generally speaking, would you say that most people can be trusted or that you cannot be too careful in dealing with people?"<sup>3</sup>, one widely used for assessing generalized social trust, is that people find it difficult to answer: "Respondents in our survey found this by far the most difficult question to answer, and many respondents made clear they could not answer such a question in general, but that it depends on the type of the other person" (Knorringa and Staveren, 2005 as cited in Nooteboom, 2006: 6). The problem is that different people might, and probably do, understand the question in different ways, even if they live in the same country and answer it in the same year. The question, then, is whether there is a point at all of running cross-sectional regressions using levels of GDP and other "hard" statistical data as independent variables with generalized social trust (as a proxy for social capital) as a dependent variable. But for the following discussion, let us accept the statement that "[t]his variable is central to much of the empirical literature on social capital and has proved to be a valid measure of trust and honesty" (Bjørnskov, 2006: 24), rather than question the validity and usefulness of this proxy for social capital.

As noted by Woo, Kim & Jang (2007: 2), most research on various forms or concepts of social capital has been done in the developed societies of Western Europe or North America, and therefore has limited relevance for other, less developed countries with different cultural, historical, and institutional backgrounds. Obviously, Eastern European countries differ from Western countries as well: they are less developed both economically and institutionally, and have recently undergone or are still in the process of transformation from command to free market economies and from totalitarian to democratic regimes.

Contrary to East Asia though, Eastern European countries have received much more attention from students of social capital, in fact to such a level that trust, as a synonym or as an accompanying concept to social capital, has become one of the central concepts in research on institutional change and interaction between formal and informal institutions in these countries. What is frequently pointed out by Western authors is the existence of a "missing," "negative," "premodern" or "primitive" social capital, and they tend to agree that there is a lack of confidence in government and limited trust in institutions in Eastern Europe as well. A problem is that this examination of the embeddedness of economic activities in social relations has often relied upon culturally essentialist and even "orientalist" attitudes that describe the "premodern" or "antimodern" character of social networks in Eastern Europe. It is only fair to note that this ethnocentric, "orientalist", or neocolonialist nature of transition debates has been challenged by significant voices among both researchers and development scholars (Mihaylova 2004: 19, 42, 76).

Czech scholars contributed to the social capital research by theorizing about the different conceptualizations, debating their usefulness, or examining the situation in the Czech Republic. Matějů (2002) asserted that there is a difference between developed countries where social capital (conceptualized as trust) may contribute to the explanation of economic performance and growth, and transforming societies where trust may vary significantly without clear patterns of relationships to the quality of institutional environment and economic performance. Matějů together with Vitásková (2006) later theorized about the difference of conceptualizing social capital as networks at the individual level or as trust at the social level and argued that investigating social capital in the former sense is more relevant to transition societies than Putnam's notion of macro-level social capital. At the individual level, Sirovátka and Mareš (2008) examined social capital among economically disadvantaged people in the Czech Republic, finding that informal social capital is more important than formal capital and that the level of formal social participation and trust is quite low in this particular population. In contrast, Sedláčková and Šafr (2008) used survey data to look for links between generalized social trust and non-institutionalized participation based on collective action. At the macro level, Kostelecký, Patočková & Vobecká (2007) looked for statistical relationships between performance of Czech regional governments, regional economic performance, and levels of social capital.

This paper would like to contribute to this body of knowledge by looking at macro-level social capital in the Czech Republic in its European context, and finding what kind of, if any, public policy would be the most appropriate to adopt. It is organized into five parts. Part 1 compares indicators of macro-level

3 The two different wordings of the same question are cited from two different papers to show that ambiguousness appears even if the same language is used, not to mention if the question is translated into numerous languages. The latter wording is the one used in WVS questionnaires.

social capital in the Czech Republic vis-à-vis some other European countries. In the following part, the notions of “missing” social capital and corruption as negative social capital are explored, and the corruption situation in the Czech Republic and progress in curbing it achieved in the past decade are evaluated. Part 3 identifies state bureaucracy as a possible reason for the failure to curb corruption successfully. Part 4 discusses public policy implications and the concluding part briefly sums up the findings.

## 1. Current level of social capital in Czech Republic

Fidrmuc and Gerxhani (2007) examined the gap in social capital between old and new EU member states using a recent set of surveys carried out for the European Commission. Their conclusion is that

*the low average stock of social capital in Central and Eastern European countries can be attributed to the lower level of economic development and the lower quality of institutions in the new member countries ... [and] the effect of corruption [on the latter] seems to be particularly important.*

They also suggest that divergence between the formal institutions of new member states (improved mainly as a prerequisite of joining the EU and due to the considerable pressure EU exerted vis-à-vis the candidate countries) and existing informal institutions and norms “embodied in the prevalence of corruption and other predatory activities may be the underlying reason for the gap in social capital.” They argue that empirical data support this notion, as the difference between old and new member states in participation rate in the so-called Olson groups (e.g., political parties, unions) is much lower than that in Putnam groups (e.g., educational, sports and art clubs, religious and charitable organizations, and youth groups), “reflecting the individuals’ lack of trust in formal institutions.”

The dataset used by Fidrmuc and Gerxhani allows comparing the recent level of social capital (measured as civic participation—involvement of citizens in various voluntary organisations—and as network density and altruism) in the Czech Republic with average values of both old and new EU member states and with the neighbouring states: Slovakia, which together with the Czech Republic formed Czechoslovakia until its dissolution in 1993, post-communist Poland, East and West Germany<sup>4</sup> that border the Czech Republic in the north-

4 As Fidrmuc and Gerxhani note, “East Germany [is] reported as separate entit[y] in the EB datasets because of the potentially special nature of [the region] and we maintain this distinction.”

**Table 1**—Civic participation and generalized social trust in EU and Central Europe

	Average participation	Olson groups	Putnam groups	Trust 1990	Trust 1999
EU, old members	0.91	0.28	0.64	41.16	37.43
EU, new members	0.55	0.12	0.42	23.96	19.68
Post communist countries	<b>0.94</b>	<b>0.21</b>	<b>0.73</b>	<b>30.2</b>	<b>23.4</b>
Slovakia	0.86	0.2	0.66	23.01	15.2
Poland	0.35	0.07	0.28	34.51	18.3
East Germany	0.54	0.12	0.42	25.6	40.7
Old EU members	0.93	0.19	0.73	34.24	31.2
Austria	0.88	0.25	0.63	31.82	31.3

Adapted from Fidrmuc and Gerxhani (2007).

*Average participation is the average number of voluntary organizations in which respondents actively participate. Putnam groups are charities, religious organizations, cultural or artistic organizations, youth organizations, sports clubs and associations, hobby clubs, and other clubs or organizations. Olson groups are trade unions or political parties, human rights movements or organizations, organizations for the protection of nature, animals, and the environment, and consumer organizations. Trust is generalized social trust from the respective waves of the World Values Survey.*

west, and Austria bordering the Czech Republic in the south. Austria, together with “West Germany,” are representatives of “old” EU member states (although Austria joined EU as late as 1995, it is a developed European market democracy; also, there are some cultural similarities as Czech lands and Slovakia were part of the Austrian Hapsburg monarchy for 300 years).

Interestingly enough, as far as participation is measured, the Czech Republic seems to be closer to the average values of old EU member states than to new member states, possibly reflecting its status as one of the most developed former Eastern bloc countries, even in regard to the macro-level social capital stock. This applies even when the average participation value is broken down into the so-called Olson and Putnam groups, except in the former case the Czech Republic is closer to new member states, while in the latter it resembles old member states more.<sup>5</sup> When comparing Czech values with the two parts of Germany, it is clear that the Czech Republic is much closer to West Germany than to East Germany even after more than 15 years since the German re-unification. Comparison with Austria brings similar results: the Czech Republic has actually higher participation values than Austria, except for the Olson groups. On the other hand, the authors also reviewed the generalized social trust value from the 1990 World Values Survey,<sup>6</sup> and there the Czech Republic was closer to the values of other eastern European countries than to the Western ones.

The second table measures the density of networks individuals can tap in order to get help if necessary, and also includes two measures of philanthropic generosity.

The analysis of Table 2 unveils another interesting pattern. The Czech Republic (like its neighbouring countries, regardless of their old/new EU member status) is close to the average scores of old EU member states as far as networks are considered, but is lagging considerably in both measures of altruism (in fact, in the original table, the Czech Republic ranks 3<sup>rd</sup> lowest out of 30 in monetary altruism and 2<sup>nd</sup> lowest in temporal altruism). This contrasts very sharply with the rest of the values, be it participation, trust, or networks, where the Czech Republic seemed to be closer to the old member states than

**Table 2**—Networks and altruism in EU and Central Europe

	Networks: Depressed	Networks: Job	Networks: Money	Altruism: Money	Altruism: Time
EU, old members	0.86	0.70	0.80	0.84	0.40
EU, new members	0.78	0.53	0.70	0.73	0.39
<b>Czech Republic</b>	<b>0.86</b>	<b>0.67</b>	<b>0.80</b>	<b>0.45</b>	<b>0.20</b>
Slovakia	0.90	0.51	0.79	0.52	0.26
Poland	0.83	0.53	0.76	0.89	0.40
East Germany	0.78	0.54	0.62	0.60	0.32
West Germany	0.80	0.61	0.68	0.57	0.31
Austria	0.84	0.74	0.76	0.78	0.49

Adapted from Fidrmuc and Gerxhani (2007).

*Network variables take the value of one if the respondent feels she has someone (besides the members of her immediate household) to rely on when feeling depressed, in need of a new job for herself or a family member, or to borrow money urgently, and zero otherwise. Altruism variables measure whether the respondent contributed money or gave up some of her time during the preceding 12 months to help poor or socially excluded people.*

to the other post-communist countries. The explanation could lie in the strong materialistic worldview of Czechs and their low religiosity,<sup>7</sup> which might be responsible for the lower amounts of money and time spent on charity. Comparing the Czech Republic with the two neighbouring old EU members, we can see that, with the exception of altruism, Czechs fare higher in all three network measures.

To sum up, when measured as civic participation and network density, the current level of social capital in the Czech Republic seems to be on par with both the average levels in the old EU member states and the neighbouring old EU member states. On the other hand, the levels of generalized social trust and measures of altruism are lower than in the old EU member states (by almost 40% and 50%, respectively). Since Fidrmuc and Gerxhani suggest that low level of trust in formal institutions is correlated with corruption and lower level of economic development, papers exploring the relations between social capital (in the form of generalized social trust), corruption, and economic development will be examined in the following part.

<sup>7</sup> Only 19% of Czech citizens responded that “they believe there is a God,” compared to 52% in EU average (Eurobarometer, 2005). In a 2001 population census by the Czech Statistical Office, 59% Czechs claimed no religion.

This allows treatment of East Germany as one of the Eastern European transforming countries while treating West Germany as an “old” EU country. Comparing the Czech Republic to both parts of Germany yields some interesting results.

<sup>5</sup> The authors explain this finding as “reflect[ing] a general dissatisfaction with, and lack of trust in, formal institutions in the new member countries.”

<sup>6</sup> The 1999 values were computed from more recent data, and nicely illustrate the pitfalls of using the WVS data. Compare the trust values for East Germany in 1990 (25.6%) and 1999 (40.7%). Not only is the 1999 value higher than West Germany's, but it also surged by 67% in only two years (from 24.3% reported in 1997 survey, not included in the table). This suggests flawed data.

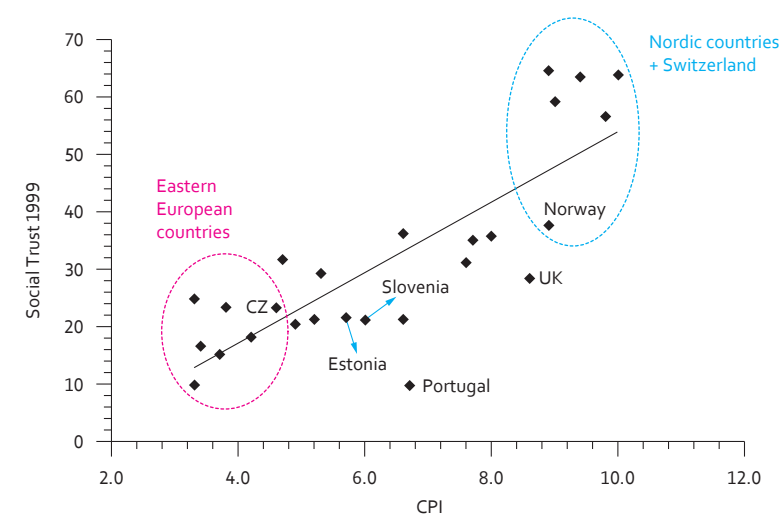
## 2. Social capital and corruption

Paldam and Svendsen (2000) argue that the disappointing pace of economic development in post-communist European countries (the average output collapse just after the revolutions in 1989/90 equalled 40% of GDP, the following growth was slow, and there was an increase in corruption, rent-seeking, and crime), given the amount of physical and human capital available at the start of the transition, was caused by the lack of social capital, which they consider an important factor of production. They propose a “dictatorship theory of missing social capital” that may account for the low levels of social capital in post-communist Eastern European countries. According to this theory, the communist system(s) destroyed social capital by employing a set of grey/black networks of “fixers” (illegal but tolerated and controlled) to attain the necessary flexibility to cope with two features of communist economy: supply constraints for consumers and plan fulfilment pressures on managers. With the collapse of communist regimes, official organizations and most network system controls collapsed as well, allowing the grey/black networks to flourish. This may be harmful to the operations of a market economy. The authors find a close correlation between measures of generalized social trust and corruption index (used as a measure of negative social trust), where post-communist Eastern European countries all display low levels of generalized (= positive) social capital, and at the same time, high levels of corruption (perceived by the authors as a form of negative social capital). Latin American countries that experienced right-wing dictatorships also have low levels of social capital, showing that social capital destruction is common to all totalitarian systems. The regression run by Paldam and Svendsen included 40 countries, and lumped together European and Latin American countries with those termed “oriental countries”, which resulted in some clear outliers such as China, Brazil and Turkey (ibid: 13).

To examine Paldam and Svendsen's claims in the more homogenous European context, a scatter plot of generalized social trust from the 1999<sup>8</sup> wave of WVS and Transparency International's Corruption Perception Index (CPI) for the same year was drawn for 27 European countries.

The values' fit is about 0.65, with clear grouping of Eastern European countries in the low trust/high corruption corner,<sup>9</sup> Nordic countries with the no-

**Figure 1**—Generalized social trust and Corruption Perception Index in Europe, 1999



$$y = 6.1422x - 7.5456, R^2 = 0.6557$$

Source: WVS, Transparency International, own computation

toriously high levels of social trust and low corruption in the opposite corner, and the rest of European countries in between. Portugal and United Kingdom are outliers (low levels of trust accompanied by relatively little corruption) and Slovenia and Estonia are the only Eastern European countries outside the lower left corner. The Czech Republic is close to the regression line with the highest CPI score amongst the post-communist countries, apart from the two mentioned above. The regression seems to confirm the authors' findings. Post-communist countries do have low levels of social trust along with high levels of corruption.

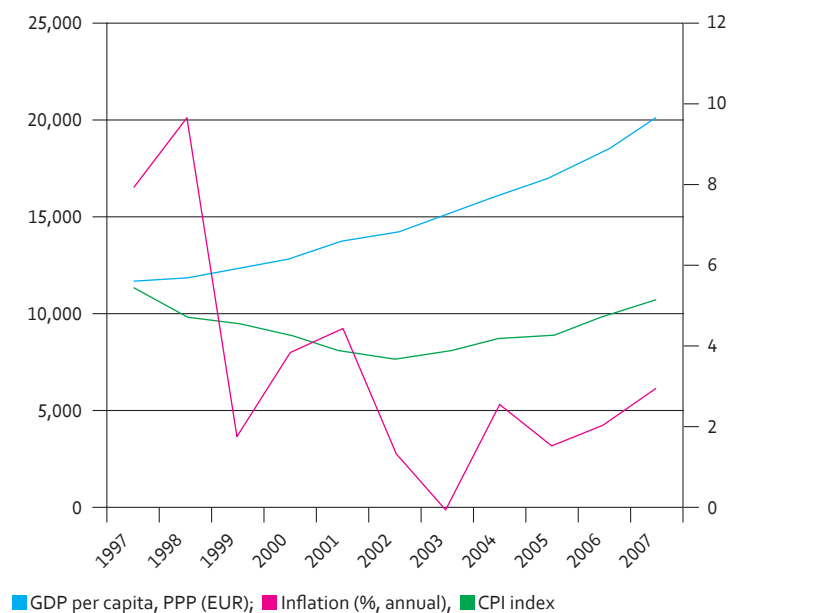
In a later paper, Paldam (2002b) explored cross-country corruption levels (negative social capital) and estimated that “more than 60 percent of the cross-country variation in corruption can be explained simply by GDP per capita (the poorer the country, the more corrupt), and since GDP changes only slowly, so does the level of corruption.” Of the remaining 40 percent of cross-country variation, 8 percentage points can be explained by various cultural measures, while inflation is the strongest of the other variables found to influence corruption. If inflation rises by a factor of 10, corruption increases by almost one point on Transparency International's 10-point CPI scale. Inflation also quickly undermines trust in institutions.

8 It would be interesting to run the same regression using the values of generalized social trust and CPI from 2005/2006, when another wave of WVS took place, but unfortunately the data are not yet available to general public.

9 CPI gives higher marks to low corruption countries, so a low score means high perceived level of corruption.

This suggests that the economic growth Czechs enjoyed in the past should have translated into slowly decreasing corruption. The following table shows the trends of GDP per capita (in EUR, measured on the left) and inflation and CPI (measured in % and units, respectively, on the right) in the Czech Republic in the last decade.

**Figure 2**—Economic growth, inflation and corruption in the Czech Republic, 1997–2007



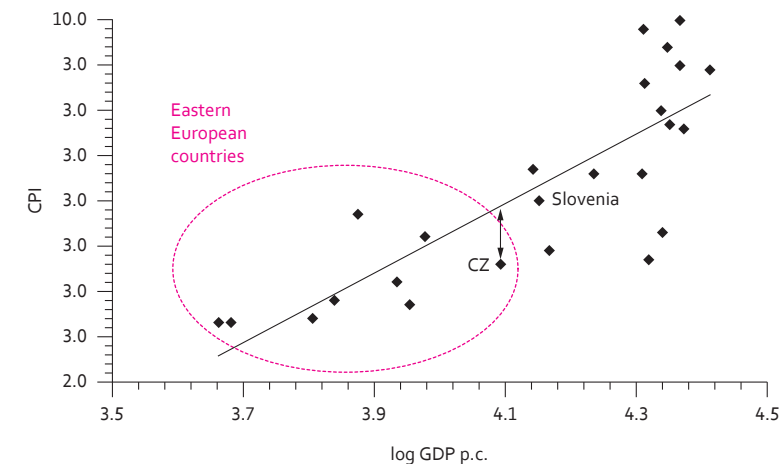
CPI started to be measured in the Czech Republic in 1997. Growing corruption was recorded even as the GDP per capita grew up to 2002, while government managed to slow down the high inflation from around 9% during 1994–1998 to levels close to the 3% target in 1999. Since 2002 the corruption situation started to improve, but the Czech Republic did not escape the recent worldwide growth of inflation reaching almost 7%, which does not bode well for the corruption level in the future.

This kind of trend analysis might be problematic, though. Paldam (2002a) notes in a different paper that while the CPI index is widely used for measuring perceived corruption, it “is problematic because it contains much inertia, and at the same time the annual movements are very small.” Thus it is useful for a

cross-country comparison in a given year, but has “no meaningful dynamic dimension (yet).” In 2008, CPI as a time series has more relevance, as it is now available for an entire decade, and an improvement or a worsening trend can be discerned. Indeed in the case of the Czech Republic, the trend is positive, one of decreasing corruption, in line with Paldam’s assessment.

But if we put Czech corruption in European context, it becomes obvious that the gradual improvement is too slow. Following Paldam,<sup>10</sup> three cross-country regressions are run here, concentrating on the European area for three separate years (1999, 2003 and 2007), providing three snapshots that will enable evaluation of the progress, or lack of it, of the Czech Republic in recent years.

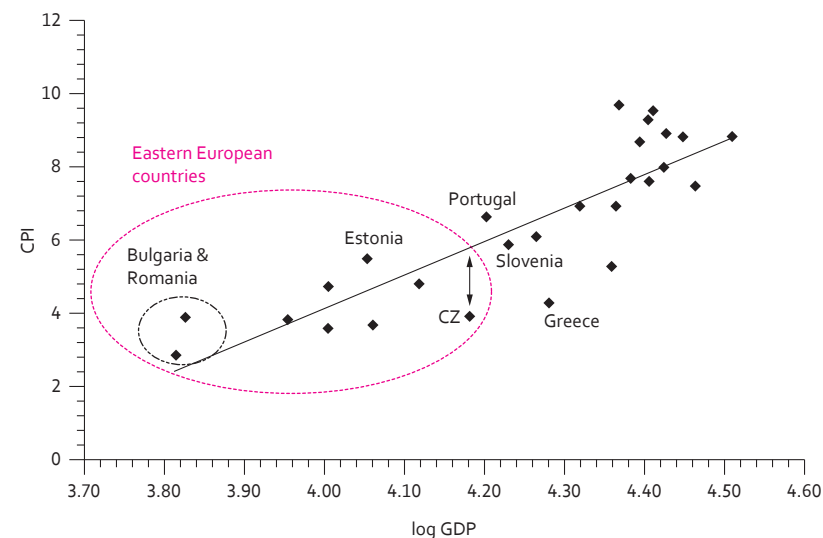
**Figure 3**—GDP per capita and Corruption Perception Index in Europe, 1999



In 1999, Eastern European countries formed a group of low per-capita GDP/high corruption countries, with the exception of Slovenia. The Czech Republic had relatively more corruption than the model predicts for its relatively high per-capita GDP.

<sup>10</sup> Paldam used the average level of GDP per capita in the years 1994–1996 (PPP) from the Penn tables and 1999 CPI. These regressions use GDP per capita (PPP) from Österreichische Nationalbank (Central Bank of Austria) for the respective years, i.e., are not averaged or lagged.

Figure 4—GDP per capita and Corruption Perception Index in Europe, 2003



$$y = 9.100x - 32.24, R^2 = 0.732$$

Source: Österreichische Nationalbank, Transparency International, own computation

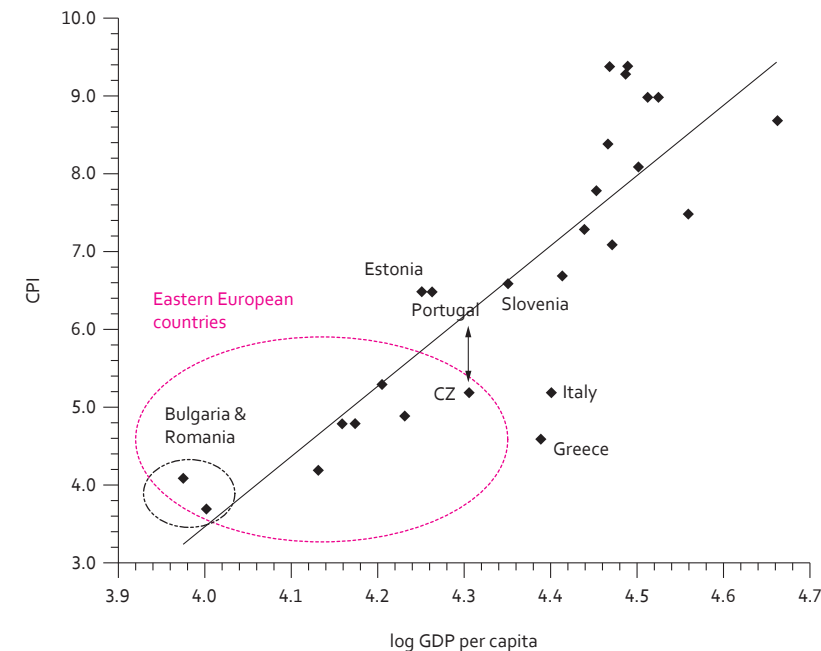
The 2003 regression looks quite similar. Again, Slovenia is the only post-communist state outside the lower left corner occupied by Eastern European countries, with Bulgaria and Romania in the extreme lower left end.

Finally, in the 2007 cross-country regression, Estonia joined Slovenia in managing to “escape” from the Eastern European cluster, while the most recent EU members, Romania and Bulgaria, continued to form a separate duo trailing the rest. Also notable is the fact that the level of corruption in Eastern European countries is now lower and comparable with the two most corrupt older EU member states, Italy and Greece.

Two general observations can be made. First, although the Czech Republic's GDP per capita is one of the highest among Eastern European countries, its corruption level is consistently higher than the regression estimate would suggest. Second, while the other Eastern European countries are scattered around the regression line, the Czech Republic is slipping farther away from it and seems to be on the way of becoming a Greece (or Italy) of Eastern Europe, whose intermediate level of GDP per capita does not translate into lower levels of corruption.

Both of these facts make one wonder whether it is the case that economic growth in the Czech Republic has lower effect on eradicating corruption than

Figure 5—GDP per capita and Corruption Perception Index in Europe, 2007



$$y = 9.0161x - 32.587, R^2 = 0.7186$$

Source: Österreichische Nationalbank, Transparency International, own computation

in other countries. That would suggest that the government has to increase its anti-corruption efforts to a relatively larger extent than other Eastern European countries in order to be successful. On the other hand, government efforts may have been adequate. Lízal and Kočenda (2001) argued that it is the institutional environment and governance structure that “favors the persistent presence of corruption within the society and economy of the Czech Republic.” This notion will be explored in the following part.

### 3. Social capital and institutions

A recent collaborative study on social capital in the EU (European Observatory on the Social Situation, 2007) noted:

*In relation to the role of public institutions ... the impartiality and fairness of political and social institutions in general and street-level bureaucracy in particular constitutes a prerequisite for the creation of generalized trust and the building of social capital. ... [T]*

he most important explanatory variable for the existing differences in social capital endowments and capacities for collaborative collective action between European countries may be institutions.

Could the Czech Republic's institutions explain the lower level of social capital on the macro level? Some of the data available for assessing trust in institutions and levels of social trust in OECD countries are presented in figure 6 below. A few countries of interest (Czech Republic, Hungary, Poland, Slovakia and Korea) were highlighted, showing no clear relation between level of trust in some public institutions and levels of generalized social trust.<sup>11</sup>

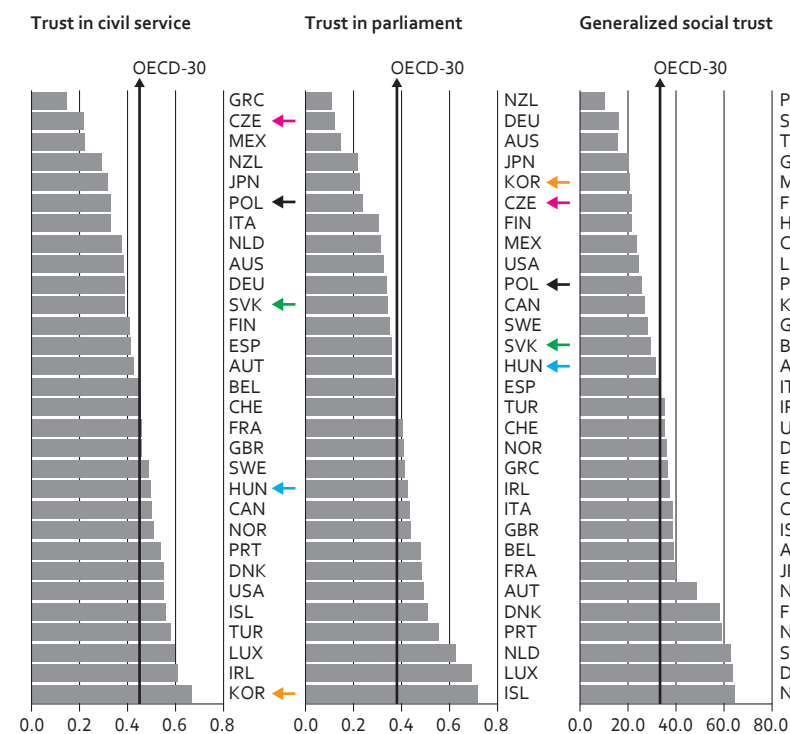
In general, post-communist Eastern European OECD members have under-average levels of trust in both civil service and the parliament. The Czech Republic is notable for having the second lowest trust in civil service in the OECD. This is predominantly caused by low perceived quality and effectiveness of civil service. For example, the Czech Republic ranked 28<sup>th</sup> out of 55 countries in overall competitiveness in the IMD World Competitiveness Yearbook 2008 (up from 32<sup>nd</sup> in 2007). Although the aggregate indicator labelled "Government Efficiency" puts the Czech Republic in the 33<sup>rd</sup> place (slightly lower than the overall competitiveness score, and up from the 41<sup>st</sup> position in 2007), this is mainly due to good performance in macroeconomic indicators, while the quality of formal institutions and bureaucracy is way behind (civil service 40<sup>th</sup>, bribing & corruption 38<sup>th</sup>, legal & regulatory framework 43<sup>rd</sup>).

And here is where I see the cause of low levels of macro-level social capital. Recall from the quote above that fair and impartial institutions, particularly bureaucracy, are considered a *prerequisite* for the creation of generalized social trust. In the Czech Republic, this particular prerequisite is lacking as its institutions are perceived as anything but fair and impartial. As the high corruption perception indexes (both CPI and IMD) document, they are seen as corrupt and ineffective. This brings us to the next part that will address the public policy implications of the findings presented above.

#### 4. Social capital and public policy

What are the general policy recommendations suggested by the literature reviewed, and are they applicable to the Czech Republic? One group of suggestions can be summed up as "let laissez-faire do its magic". As there is a

Figure 6—Trust in public institutions and generalized social trust in OECD



Source: OECD (2007) for trust in public institutions, World Value Survey wave 1999–2004 for generalized social trust

The indicators used in the first two tables refer to respondents indicating either "a great deal" or "quite a lot" of confidence in civil service and parliament, as a percentage of all respondents. The third table presents the level of generalized social trust.

relationship between GDP and corruption, economic growth will in due time result in lower corruption. For example, Paldam and Svendsen (2000) presume that a couple decades may be sufficient for rebuilding positive social capital in Eastern European countries, and see the role of governments as one of "creating the proper enabling environment for social capital generation and by fighting negative social capital." Svendsen (2003) describes such enabling environment in more detail: minimizing the state's role in the economy to make more room for beneficial voluntary organisations and entrepreneurship. Government withdrawal should be combined with efforts to increase economic growth, preferably with a rapid and far-reaching move to make it harder for

11 Simple regression of trust in civil service and generalized trust has  $R^2=0.0036$ , and of trust in parliament and generalized trust  $R^2=0.294$ .

individual interest groups to mobilize resources and block market liberalisation. Subsidising civic participation is a bad public policy that can have negative outcomes such as turning voluntary associations into harmful rent-seeking groups. Instead, they should be allowed to grow into the space that was freed by the state.

Unfortunately, these policy recommendations are of little help to Czech policymakers. The country's economy was liberalized, state role in the economy diminished, but as Czech citizens enjoyed the resulting economic growth, not only was social capital not generated and accumulated, but also—numerous government efforts notwithstanding—the corruption situation failed to improve substantially. As we have seen, the Czech Republic has instead become a country where rising GDP is not being translated into lower corruption.

Another group of suggestions warns against government interference in general, and against subsidising civic participation in particular. While Bjørnskov (2006) emphasizes that policies to stimulate associational activity as a way to mend institutional problems of a country would be merely ineffectual, Paldam and Svendsen (2000) warn against “active interference” and Svendsen (2003) even judges them to be bad public policies that can have negative outcomes such as turning voluntary associations into harmful rent-seeking groups.

Whatever might be the case, one can conclude that subsidising civic participation is not a policy the Czech Republic should consider adopting. As we have seen earlier in Part 1, the Czech levels of associational activity are generally comparable with those of Western European countries. Moreover, according to Bjørnskov (2006), it is only generalized social trust (rather than other forms of social capital) that is responsible for the beneficial macroeconomic and societal effects and is therefore relevant for policymaking. Therefore, while there is no need to contemplate active government involvement in stimulating the growth of civic participation in the Czech Republic, our attention should focus toward the notion of corruption as negative social capital.

As was hinted at in the previous part, I believe that Czech institutions are to be blamed for the pervasiveness of corruption, or negative social capital, and the resulting considerable gap in the level of generalized social trust between the Czech Republic and the old EU member states. I also believe this is where policymakers' attention should be focused and could result in the greatest improvement. One institution I would like to single out is the inefficient and reform-ripe bureaucracy.

That (at least) central government needs to be staffed by professional, dedicated, and talented bureaucrats, and that any reforms or initiatives by the government are impeded if opposite is the case, is self-explanatory. The staffing

problems of ministries and other central government offices are legion. Most offices are located in the capital city of Prague, where demand for both talented graduates and experienced professionals is very high and current salaries offered by the ministries simply cannot compete with the private sector.<sup>12</sup> This is coupled with the meagre career and pay-rise prospects (most higher positions from department heads upwards are staffed according to political affiliation) and an extremely low social status of civil servants.<sup>13</sup> This means that the offices of central government are mostly staffed by workers who have difficulties finding a private sector job, i.e., either fresh graduates looking for their first job experience and leaving in a year or two, or elderly workers. Constant fluctuation and costs of retraining new personnel, together with the inability to attract the most talented, skilled and experienced workers, do not add to the performance of ministries.

The Bertelsmann foundation recently ranked the Czech Republic as the best out of 125 countries in its Bertelsmann Transformation Index 2008,<sup>14</sup> but concluded in the “Strategic Outlook” part of the country report:

*The main objectives for the future remain increasing the state administration's effectiveness and de-politicizing the executive branch. The successful implementation of the law on the civil service constitutes an important step in this direction.*

It can only be noted here with regret that successive Czech governments have been avoiding this long-due reform consistently (and regardless of their political affiliation) for over a decade. A Civil Service Act was eventually passed in 2002, after considerable pressure from the EU, as part of the institutional reform required from the country before becoming an EU member.<sup>15</sup> Neverthe-

12 While competitive pay cannot be expected from public sector, the benefits awarded to civil servants could make a difference. For example, the Ministry of Finance offers flexible working hours and accommodation for out-of-capital employees. Accordingly, most young civil servants flock from outside the capital.

13 After years of bashing by the media and politicians, the public perception of “the bureaucrats” is extremely negative. The general public does not perceive state administration at any level as a socially prestigious and valuable occupation (Lizal and Kočenda, 2001). This was experienced by the author after joining the Ministry of Finance as well. Both family and friends expressed views that it will be a waste of my skills, a lost time, and that there are better opportunities and career prospects elsewhere.

14 125 countries that have yet to achieve a fully consolidated democracy and market economy and have populations of more than two million are ranked based on 17 criteria concerning democracy, market economy, and political management.

15 From the EU Commission Report (2002) on the Czech Republic: “The Commission has consistently stressed that a stable public administration based on a clear legal framework and characterised by professionalism and independence from undue influences is essential if the Czech Republic is to fully benefit from membership of the European Union. However, the transition

less, the date of its taking effect was postponed four times since, and the last postponement made in 2008 is to last until 2011 while an entirely new law is being prepared. This means that the 2002 law will never become effective, making the whole process of creating it a mere farce undertaken to formally meet the requirements of EU membership.

That the obvious need for building a competent bureaucracy, even in concert with EU pressure, were not enough to convince Czech politicians about the necessity of civil service reform is an illustration of the sorry state of Czech politics, and the questionable priorities Czech political parties have. We can trace this unwillingness to reform bureaucracy back to the strong liberal mindset of the early reformers such as Václav Klaus and Dušan Tříška who were loath to the strong state of the pre-1989 era and, at the same time, feared that giving power back to the state could impede or even revert some of their liberal reforms. Klaus (2001) provides an instructive summary of these views: since the first liberalization of the early 1990s, there was a constant return of the state through immense increase in regulation and control; bureaucratic powers have increased; the civil service law will not improve servants' motivation to work for the state; the periodic replacements of top bureaucrats due to election cycle will not be remedied; negative impacts will include the entrenchment of existing bureaucratic structures that were inherited from the communist state and even reinforce the Hapsburg (!) bureaucratic mindset that still survives among civil servants.

Constant warnings about the damaging impact of unelected bureaucrats on free markets have become a sort of Czech national political folklore. As the EU pressure to professionalize and empower bureaucracy mounted, the myths of incompetent yet unstoppable bureaucrats started to serve as a convenient fig leaf for Czech politicians, who got accustomed to the unusual degree of influence over the bureaucracy enjoyed over the years, to maintain status quo.

The former Civil Service Act was designed to provide central government officials with more competitive payments and benefits to help attract talented people and protect them from undue influence of politicians. While the new Act that is being drafted at the moment is a step back, it will provide a foundation on which a professional and competent bureaucracy can be built. Czech policymakers should make the adoption of the Civil Service Act their top priority.

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period for full implementation of the Act extends to the end of 2006 and it may take a considerable amount of time before the benefits of the Act will start to be felt. Therefore, an acceleration of the timetable for implementation would be desirable."

## 5. Conclusion

This article has surveyed the indicator of macro-level social capital in the Czech Republic and found that it lags behind developed European countries, mainly in the level of generalized social trust. Based on the notion of corruption as a form of negative social capital, it was found that the level of corruption in the Czech Republic is higher than its economic performance would suggest. What is more worrying, it does not seem to decrease as the economy grows, although the literature suggests it should.

The public policy suggestions that were obtained from the literature were judged as inappropriate for the Czech Republic, as they were being followed without substantially increasing the level of generalized social trust or reducing corruption. Instead, one of the institutions, the state bureaucracy, was identified as a possible reason for the failure to accumulate generalized social trust and stem corrupt behaviour.

The long overdue civil service reform and creation of a professional and competent bureaucracy was identified as the best policy to decrease corruption and increase the level of generalized social trust in the future. Civil service should become one of the top government priorities, not only because a more efficient bureaucracy will make the Czech economy more competitive in the long run. Czech politicians have been delaying the process of creating an effective bureaucracy for too long. It is high time for them change the course.

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