

# ECONOMIC IMPACT OF THE EUROPEAN UNION AND ITS PERCEPTION BY SOCIETY IN THE CZECH REPUBLIC

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## Abstract

The Czech Republic was invited to join the European Union in 2004. Despite its European integration, Czech Republic has problems with Europeanization, even after 13 years of membership. Current situation in the European Union (EU), its perception by society and the using of European funds is analyzed in the paper. This article emphasizes the analysis of the people's opinions on current European system, especially on the subsidies. The work is divided into two parts. The first part contains an analysis of the current economic situation (inc. European funds) in the Czech Republic. The second part contains the survey results from two groups of people. The first group **A** is represented by ordinary people who are mostly employed. The people who own companies or people with high business status were in the second group **B**. All respondents had to meet two criteria – Czech nationality and at least Bachelor's degree. Results were obtained through questionnaires and deep interviews were compared with statistical numbers. Eurostat data and Czech statistical office show positive impacts on economic growth by using European funds. Research shows rising euroscepticism and poorly informed public. How it will continue? Was the Great Britain the last one? What will be next regulation? Is Brussels still capable to lead the EU's members in the future? Is it still the same European Union that we entered into at the beginning?

**Key words:** European Union, subsidy, structural funds, Euroscepticism

**JEL Code:** A14, C42

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## Introduction

The European Union is much discussed topic. The EU brings many positives, but also some negatives. One of the greatest positive things had to be a cohesion policy, where meeting couple of requirements can guarantee simple source of money, which serves mainly to improve the competitiveness of private and public sector. In period 2007-2013 Czech Republic used 96,4%

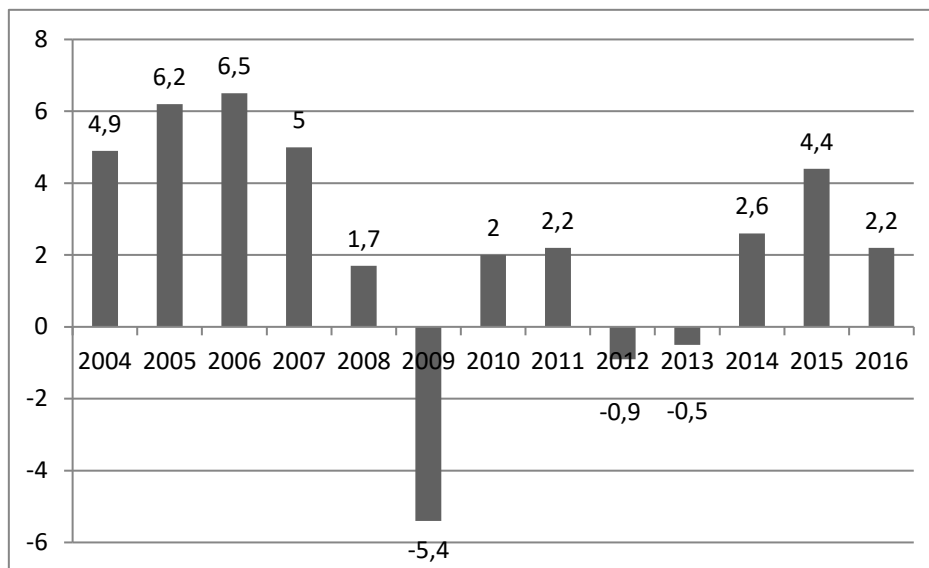
of available European money. That is exactly 25,8 billion EUR (697 billion CZK). (ČTK, 2017) This amount of money created 34% of our national investments during this period and helped our GDP to increase up about 2% every year. Also we achieved the lowest unemployment in recent years. Over 94 000 new jobs were created. For example, has been built over 4526 kilometers of sewage pipelines, which connected more than 600 000 households to sewerage system. Support from EU funds has received over 90% of elementary schools and 75% of secondary schools. Next investments were flowing to public transport, businesses and research. (Euroskop, 2017) This information is published by the Ministries, but how does this positive impact is being perceived by society? Why growing standards of living in the Czech Republic, according to statistic, are not enough for some citizens and why they want to leave the European Union?

For example, in the Czech Republic are parties who don't like regulations, subsidies and want to leave the EU. Svobodní občané (Free Citizens), led by MEP Petr Mach, Svoboda a přímá demokracie (Freedom and direct democracy), which has about 7,5% of total voters, Dělnická strana sociální spravedlnosti (Workers' party of social justice), Národní demokracie (National democracy) and another small groups. These tendencies aren't only in the Czech Republic, where there are still mild. Germany - AdF (Alternative for Deutschland), which is combining Euroscepticism with liberal economic policies and a conservative social issue agenda. (F. Decker, 2016) France - M. Le Pen, who is leading Nation Front and was in the second round of presidential elections and in Austria nearly won presidential elections Norbert Hofer (49,7%) – FPÖ leader – Free-Party of Austria. A similar political sentiment can be found in every member state. (McCann, Hainsworth, 2017)

## **The European Union in figures**

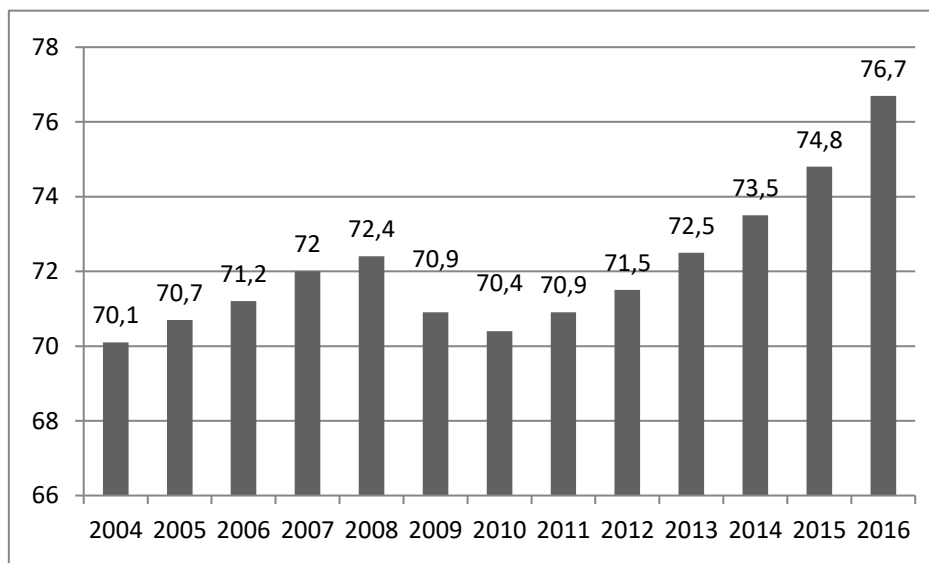
In 2009 – 2012 was global financial and economic crisis. This is evidenced by the numbers in graph. As we can see, only 2009, 2012 and 2013 were years which weren't in positive numbers. (Carnicky, Megyesiova, 2017) On the other hand, the Czech Republic was in positive numbers since 1998, so strong economy was before joining the EU.

**Fig.1: GDP [%] 2004 - 2016**



Source: Eurostat (<http://ec.europa.eu/eurostat/web/products-datasets/-/tec00114>)

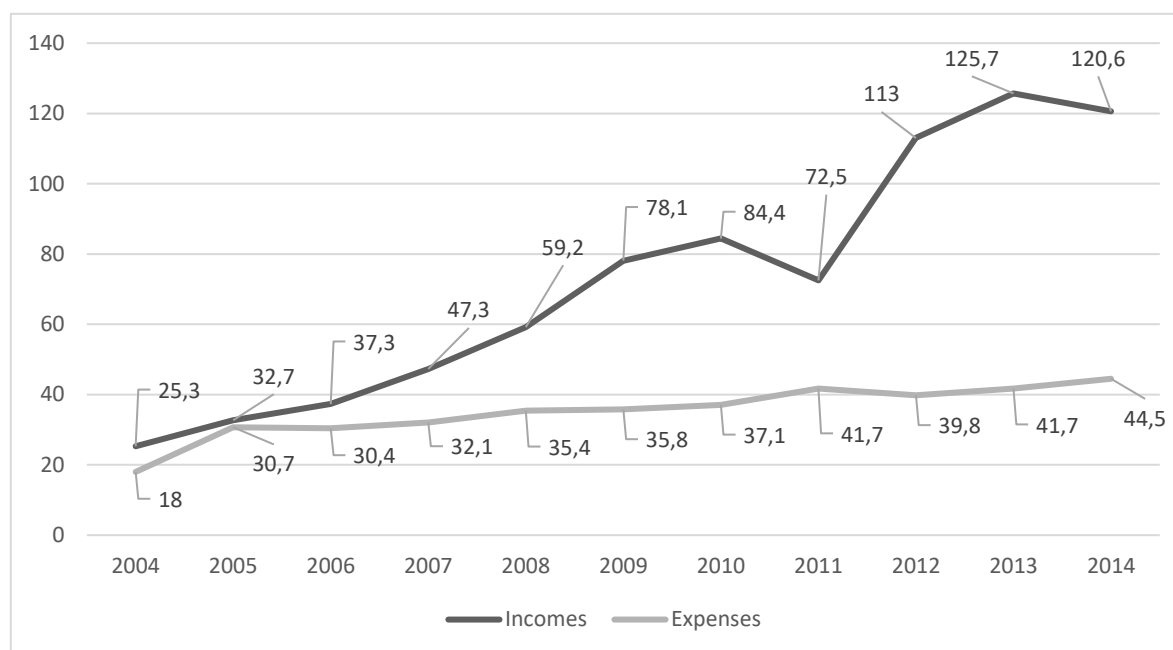
**Fig.2: Total Employment rate - age 20-64 [%]**



Source: Eurostat (<http://ec.europa.eu/eurostat/web/products-datasets/-/tsdec410>)

Overall employment in the first quarter of 2017 increased by 82,5 thousand people and reached 5 169,2 thousand. The employment rate for aged 20-64 is shown in graph. The number of unemployed persons according to ILO methodology decreased by 46,6 thousand. The general unemployment rate in the Czech Republic fell by 0,9 percentage point against Q1 2016 and actual rate is now 3,5%. (CZSO, 2017)

**Fig.3: Incomes and expenses [billion CZK]**



Source: MFCR (<http://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2015/cista-pozice-ceske-republiky-vuci-rozpoc-20319>)

Last graph points on annual increasing amount of money received from the European Union. The Czech Republic had to pay 387,3 billion CZK to the EU budget since 1 May 2004 to 31 December 2014 and received 797,5 billion CZK. (Žurovec, 2017 and Ležatka 2015). The difference between incomes and costs is increasing. To what extent does European money affect the Czech economy, we unfortunately don't know, as there are many variables. (Megyesiova, Lieskovska, 2015) But everybody has to admit that the extra money has a positive impact and also increase number in the statistics. What about effectiveness? (Šipikal, Pisár, 2013)

## Perception of European subsidies in society

### Methodology

Questionnaires and deep interviews were main instruments of this research. Most of respondents were from Luhačovice, which is spa town located on southeast Moravia and also using money from structural funds. The questionnaire contained questions about EU. If some of the answers were unclear, they were solved through an interview. We have two groups of people – employees (120 respondents) and employers (20 respondents). Results were applied on scale 1-100%. At the end was a space for their opinion on whole current situation.

First question was mind-opening-dialogue. The second one was the result of the first question. The interviewee had to choose if they like the EU subsidies or not. Third question

was a little more complicated. Respondents who say that they don't know much about European subsidies and projects were moved to the *group "NO"*. People who answered "YES" got 5 simple questions about the EU:

- 1) Number of EU states.
- 2) At least three European institutions.
- 3) At least one Czech MEP.
- 4) At least three projects funded by the EU in the Czech Republic.
- 5) Difference between the European Union and the Eurozone.

Who had 3 or more answers correctly was moved to the *"YES" group*.

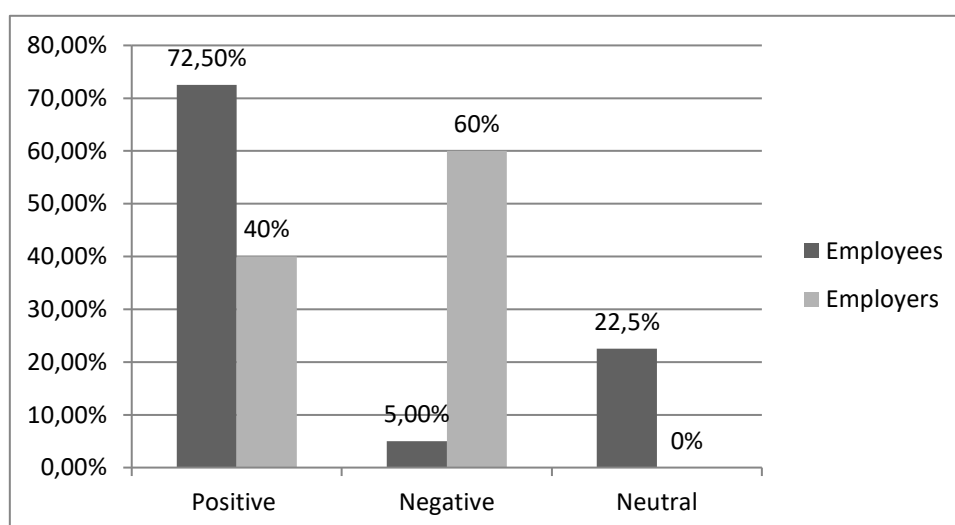
For this paper are important only 3 questions from questionnaire:

- 1) What do you think about European Union?

The first group was more positive than the second one. They were very happy that we are part of the big Europe, that we can travel without passports that, EU will help us when we will have troubles and that we are in free trade zone. On question "What do you remember last in connection with the EU?" a lot of them answered "Čapí hnízdo", which is controversial European project of the Minister of Finance - Andrej Babiš. People from the second group were answering way more negatively because of subsidies system (next question).

- 2) How do you perceive subsidies?

**Fig.4: Questionnaire - question 2**



Source: Author

Almost three quarters (72,5%) – 87 respondents perceive subsidies from European funds positively. Money has been perceived as an economy booster. People think that many expensive projects could not be implemented without international help. Most common answer was: “Rather something than nothing. Everyone uses them so why we should not?” Answers were short and austere.

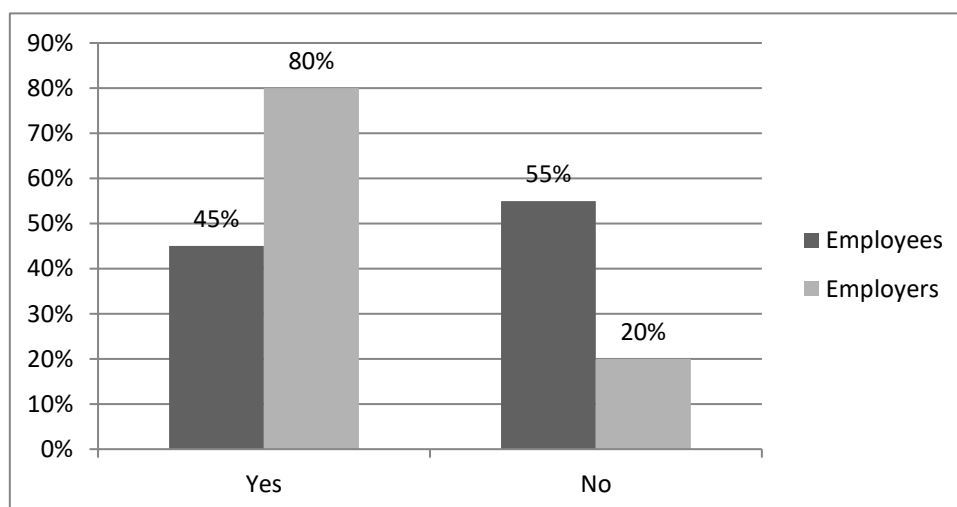
Another 27 participants were neutral. They were not interested in this topic, but they were happy, that something is going on, that something is helping us.

Last, very small group of people, were skeptical about EU funds.. Most of them were scared about bureaucracy, sustainability and loss of creativity, because this day is most important thing how to fill a paper.

We can see difference between group A and B. Group B was more negative because of subsidies. More than half of group B say that the main problems are hidden behind difficulty of submitting applications and meeting all the parameters (for example, documenting the limitation of energy savings by company size, commitment to increasing the number of employees, raising turnovers, etc.). Next problematic area is system MS 2014+ which they call as “beta version” because it still has technical issues (unexpected errors, loses of documents). Many of them were frustrated by the slowness of the whole system. Some decisions last up to 19 months. This causes uncertainty not only on the side of businessmen but especially on the side of banks which lose interest in supporting some businesses. The topic of corruption, bureaucracy and frauds were here as well.

3) Are you sufficiently informed about subsidies and projects?

**Fig. 5: Questionnaire - question 3**



Source: Author

Graph shows again significant differences between both groups. First group is more uninformed than second one. More than half (55%) didn't have enough knowledge to answer on basic questions. On other hand, second group knew nearly everything. The rest of them (20%) hired someone on it or they weren't using money from European funds.

### **Conclusion** (*researcher's subjective view*)

Statistical data shows us the positive progress of the Czech economy. They indicate that living standards are improving and will continue to improve in the future (without another unexpected crisis like 2009). How much European subsidies affect this growth cannot be said because there are many variables. Every year, more and more money is being earned from European funds, which promotes not only regional development. In spite of the pessimistic sermon, the Czech Republic has been able to use most of the available resources and allocated them into "economy-boosting" projects. How much is a question of efficiency of its usage. We are expecting same progress in 2014 – 2020 period. This research builds on the subjective views of citizens of the Czech Republic and despite the improving economic situation (growth of GDP and employment rate) is voice of euroscepticism getting stronger and stronger.

The benefits that outweighed the EU's weaknesses in last years have begun to diminish, and the fear of the immigration crisis and rising xenophobia are becoming a huge negative which cannot be ignored. People are afraid of terroristic attacks and cohesion policy with subsidies is no more unusual activity. People are becoming more informed about the EU more than ever before and started asking questions. The Eurosceptics came up with three arguments why to leave, just as the UK did.

- Trade – without EU, the Czech Republic can independently pursue international trade deals with United States of America, India and China. Central Agricultural Policy (CAP) they see as expensive and wasteful.
- Administration/Bureaucracy – the system is over-regulated, bureaucracy burden. EU had to be about trade, unfortunately it changed into a *federal bloc* with increasing costs of administration.
- Immigration – free movement of people is now main problem. People are afraid of terroristic organizations, mainly Islamic ones. They see absolutely zero long-term economic benefits by people who came from the south because of "war".

We cannot be like the USA because in Europe we have cultural differences and different history. The Czech Republic is on the way to accept the Euro currency which will have another huge financial impact. We are talking about a European stabilization mechanism (ESM). During first four years, we will have to provide 51 billion CZK to the ESM, if necessary it can be up to 390 billion CZK (around third of the whole state budget). Also our banks will have to transfer up to 8,7-20,9 billion CZK to the Single Resolution Mechanism (SRM, crisis fund). Among other things, as I constantly emphasize, that political representations are not even trying to understand the causes of the current problems. The Change must come or the Great Britain wasn't the last one.

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