



Weekly Briefing

Czech Republic social briefing:
Crony Capitalism and Oligopolies in the Czech Republic
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Crony Capitalism and Oligopolies in the Czech Republic

Summary

The Czech Republic's socioeconomic structure suffers from a number of serious imbalances and deficiencies. Recent research revealed that some per cent of GDP may be generated by "crony sectors" based on close interconnections between business, state apparatus and politicians. The briefing, therefore, analyses these findings. It then goes on to a comparison of the dollar billionaires in chosen CEE countries (Austria, Czech Republic, Hungary, Poland and Slovakia) and shows that the first two countries differ from the rest in certain respects. The last part is dedicated to the oligopolies that exist in the Czech market and constitute one of its typical features.

Introduction

The Czech economy is strongly dependent on the so-called crony capitalism. This controversial conclusion has been recently drawn by the respected *The Economist*.¹ The newspaper has presented the crony-capitalism index for many years based on data about the world's wealthiest dollar billionaires collected by *Forbes*. It follows from *The Economist's* analysis that up to 15 per cent of the Czech Republic's GDP is produced by crony sectors which ranks the country in second place of the ranking after Russia with 19 per cent. The Czech Republic is followed by Malaysia, Singapore and Mexico. It indicates that the domestic economic system tends to be oligarchic in certain respects.

The Czech crony capitalism

The Economist argues that the phenomenon of crony capitalism is associated with "autocracies" rather than "democracies". If following its line of reasoning and conceptual scheme, one arrives at a conclusion that some 40 per cent of the wealth of dollar billionaires comes from "autocratic" countries. Sources of wealth are divided between rent-seeking and non-rent-seeking sectors where rent is defined as a surplus remaining after capital and labour

¹ *The 2023 crony-capitalism index* (2023, May 2). *The Economist*. <https://www.economist.com/international/2023/05/02/the-2023-crony-capitalism-index>

are paid off. The British newspaper argues that rent-seeking is typical for sectors such as banking, construction, property and natural resources and the economic actors in these fields frequently use the close links to the state and politicians to push through favourable regulations, gain access to lucrative land, licenses and resources while considering cartels as a legitimate form of doing business.

It then turns out that billionaires' wealth from both crony and non-crony sectors makes up 18 per cent of the Czech GDP overall while 15 per cent of GDP is generated by crony sectors only. According to the statistics from *Forbes*, there are 11 Czechs with a property worth 1 billion USD or more and five out of them, at the same time, belong to the world's 400 wealthiest people. The wealth of each of these five exceeds 6 billion USD which is an above-average value among the post-communist countries except for Russia. In other words, the 11 wealthiest Czechs handle property that corresponds to 18 per cent of GDP. Nevertheless, the analysis is partially subjective and the conclusions cannot be perceived as fully objective. The choice of the crony sectors is subjective and the journal's ranking includes solely 43 countries whose GDP is higher than 250 billion USD. The Czech Republic managed to reach this threshold only recently so the older evaluations did not include the country and a diachronic comparison thus cannot be made.²

Historical context

Even though the results presented by *The Economist* need not be accepted literally, they point to some of the important structural weaknesses of the Czech economy. The origins can be traced back to the transformation of the 1990s during which substantial economic assets and power were acquired by former communist apparatchiks and officials together with actors from the grey zone or black market. This development was especially tragic in Russia where it resulted in the establishment of the oligarchic elite which started to be fought back only by Vladimir Putin a decade later. Some of such features may be observed in the Czech case as well but at a considerably lower degree. Nonetheless, connections between politicians, state officials and business (and also organised crime) have existed and enabled the growth of wealth of a limited number of private actors through state contracts, licences and subsidies.

² Holub, P. (2023, May 11). *Komentář: V kamarádkém kapitalismu jsme přeborníci. Hned za Ruskem. Seznam Zprávy.* <https://www.seznamzpravy.cz/clanek/domaci-politika-komentar-v-kamaradskem-kapitalismu-jsme-prebornici-hned-za-ruskem-230720>

The transfers of public funds to the hands of the economic actors hinder their innovation and weaken investment in research and development. At the same time, close interconnections between leading enterprises and the state create favourable conditions for backstage deals which damage economic competition and equal market conditions. It is far from surprising that many political parties both from the ruling coalition and opposition oppose the current draft of a bill on public contracts which is to tighten up the state regulation in the field.³

Captains of capitalism

According to *Forbes* and its list of the world's billionaires in 2023, there are six Czech entrepreneurs whose net wealth exceeds 4 billion USD, namely, Renáta Kellnerová, Daniel Křetínský, Karel Komárek, Pavel Tykač, Radovan Vitek and Andrej Babiš. The following table sums up the property of the Czech dollar billionaires, the economic fields in which they carry on business and their position in the world's ranking.⁴

<i>Rank</i>	<i>Name</i>	<i>Property (in billion USD)</i>	<i>Industry</i>
101	Renáta Kellnerová	16.5	Finance, telecommunication
208	Daniel Křetínský	9.2	Energy, investments
256	Karel Komárek	8.1	Oil and gas, IT, lotteries
261	Pavel Tykač	8.0	Coal mines
390	Radovan Vitek	6.5	Real estate
679	Andrej Babiš	4.1	Agriculture
1516	Pavel Baudiš	2.0	Technology
1516	Michal Strnad	2.0	Defence industry
1516	Aleš Zavoral	2.0	E-commerce
1725	Marek Dospiva	1.7	Investments
2133	Eduard Kučera	1.3	Technology

It is worth comparing the Czech case with some other Central European countries, that is, Austria, Hungary, Poland and Slovakia. The Forbes ranking shows that the highest number

³ Kopečný, O. (2023, May 17). *Klientelistický kapitalismus ohrožuje naši demokracii i prosperitu*. Deník Referendum. <https://denikreferendum.cz/clanek/35224-klientelisticky-kapitalismus-ohrozuje-nasi-demokracii-i-prosperitu>

⁴ LafRanco, R., Peterson-Withorn, C. (Eds.) (2023). *World's Billionaires List*. <https://www.forbes.com/billionaires/>

of dollar billionaires is in the Czech Republic and Austria alike (11) and Poland (7) whereas such concentration of wealth is still an exception in Hungary (3) and Slovakia (2). The contrast between the Czech Republic and Slovakia which formed a single state in the last century is particularly striking. The branch of business of billionaires in individual countries are diversified and it cannot be said that certain industries dominate. The wealth of billionaires is distributed among several actors and there are no giants who would be far away from others. The only exceptions are Mark Mateschitz from Austria who inherited a share in Red Bull from his father in 2022 and Renáta Kellnerová from the Czech Republic who, in turn, became a majority shareholder in the PPF Group after his husband Petr Kellner tragically died in 2021.

<i>Rank</i>	<i>Name</i>	<i>Property (in billion USD)</i>	<i>Industry</i>
Austria			
37	Mark Mateschitz	34.7	Food and beverage
268	Georg Stumpf	7.9	Real estate, construction
325	Johann Graf	7.1	Gambling
425	Rene Benko	6.0	Real estate
445	Helmut Sohmen	5.7	Shipping
1217	Wolfgang Leitner	2.5	Engineering
1804	Stefan Pierer	1.6	Automotive
1804	Michael Tojner	1.6	Batteries, investments
2020	Reinold Geiger	1.4	Fashion
2259	Ulrich Mommert	1.2	Automotive
2540	Toto Wolff	1.0	Sports
Hungary			
1905	Sándor Csányi	1.5	Finance, real estate
2259	Lőrinc Meszaros	1.2	Diversified
2259	Zsolt Felcsuti	1.2	Manufacturing
Poland			
411	Michał Solowow	6.2	Investments
567	Tomasz Biernacki	4.8	Supermarkets
699	Jerzy Starak	4.0	Pharmaceuticals
1516	Zygmunt Solorz-Żak	2.0	Media
1575	Dominika Kulczyk	1.9	Finance and investments
2020	Sebastian Kulczyk	1.4	Finance and investment
2133	Zbigniew Juroszek	1.3	Real estate, gambling
Slovakia			
1804	Ivan Chrenko	1.6	Real estate
1905	Jaroslav Haščák	1.5	Investments

The risk of oligopoly

In connection with the long-term galloping inflation, the media and the public have started to discuss the behaviour of individual economic actors in certain fields which have been suspected of an excessive increase in price, in other words, capitalising on the current negative price dynamic. The Office for Competition (ÚOHS) investigated suspicions of cartels and other illegal practices in the Czech market but the state officials did not ascertain them, limiting themselves to the statement that oligopolies do exist but they do not pose a risk. To put it concretely, up to 45 per cent of eggs are produced by four companies which have the same owner. In 2022, the prices of eggs soared by 70 per cent. Up to 60 per cent of milk, in turn, is produced by three companies. In the case of butter, 70 per cent of production is in the hands of four subjects. A similar composition can be observed when it comes to flour and chicken. The problem with oligopolies is that they tend to conclude cartels, eliminate genuine competition and prevent small- and medium-sized firms from entering the market in question. According to the Association of Private Farming, the overall situation deteriorated after Andrej Babiš became prime minister when the state subsidies were increasingly often transferred to large enterprises including Babiš' Agrofert which belongs to the largest companies in the Czech Republic.⁵

Conclusion

The Office for Competition confirmed in May that there were oligopolies in the domestic market. At the same time, the state body does not consider it a problem, for the market is allegedly working in a natural way.⁶ It can be reminded that much more critical are the findings presented by the Supreme Audit Office (NKÚ) a month earlier according to which the Czech market has been increasingly distorted by a complex system of state subsidies and the national economy has become subsidy-based.⁷ All these examples indicate that the state authorities and political representatives must improve the regulatory framework and make an effort to gradually eliminate the structural imbalances.

⁵ Horáček, F. (2023, May 29). *Oligopoly v Česku. Kdo ovládá většinu trhu s potravinami a proč to škodí*. Seznam Zprávy. <https://www.seznamzpravy.cz/clanek/ekonomika-oligopoly-v-cesku-kdo-ovlada-vetsinu-trhu-s-potravinami-a-proc-to-skodi-231638>

⁶ Horáček, F. (2023, May 23). *Úřad ukončil vyšetřování cen potravin: V Česku je oligopol, ale trh funguje*. Seznam Zprávy. <https://www.seznamzpravy.cz/clanek/ekonomika-zdravy-oligopol-trh-s-potravinami-funguje-normalne-rika-urad-231377>

⁷ Šéf NKÚ Kala: *Naše ekonomika neřízeně a plíživě přešla z tržní do silně závislé na dotacích* (2023, April 4). Český Rozhlas Plus. <https://plus.rozhlas.cz/sef-nku-kala-nase-ekonomika-nerizene-a-plizive-presla-z-trzni-do-silne-zavisle-8964726>