

# **Management of the Policies of Development in the Czech Republic: CzechInvest as an Example of Public Administration Competence**

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## **Abstract**

This paper pays attention to two aspects of the good social governance:

- a/ To the strategies of such a governance that materialize visions and social priorities into operational guidelines, which can have a form of long-term plans.
- b/ To the practices of public administration competence that are illustrated on the conceptual evolution of CzechInvest – the path-breaking agency of Czech public administration dedicated to the promotion of investments, competitiveness, innovation and economic development.

Although these two aspects of social governance seem to illustrate highly dissimilar activities of public administration, in reality they were closely associated, as we describe it on the evolution of Czech economic policies. Starting since 1996, there was an upsurge of initiatives across Czech political parties aimed at a fundamental revision of previous policies of transition and restructuring. CzechInvest was singled out to become an experiment in the innovative approach to public administration. Its functions and organization evolved dramatically by responding flexibly both to the social demands and to the progress in economic transition.

CzechInvest adopted for its development managerial techniques of transnational corporations based on teamwork, managerial initiative and regularly monitored performance. CzechInvest's agenda extended quickly from investment consultancy and intermediation to the management of policies of investment incentives, industrial parks, clusters, innovation and development. After 2000 it became responsible for the policies supporting the supply chain linkages between foreign and indigenous firms, incentives for the enhancement of spillovers from innovative firms, for the support of domestic small and medium-sized firms, and for the distribution of European Funds.

CzechInvest became the pivot of economic policies targeted at the objectives of knowledge economy and competitiveness, as they were outlined by the Lisbon strategy of the European Commission. Thus we should always look at the plans (strategies) of the government as at a unity of social priorities, industrial policy instruments and operational agencies responsible for bringing them to life.

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## 1. The evolution of “planning” and its new roles in the post-communist transition economies

What concerns the methodology, this paper looks at the social governance from the evolutionary point of view. Thus the development of social governance has to be considered historically in its path-dependency that includes both its time and structural (instrumental or organizational) dimensions. First we must distinguish between the policy-making before transition, during the stabilization period of transition and at the end of transition.

The fall of central planning, widening of economic transition and opening up to globalization bring about new objectives to the public administration:

- enhancing the allocative efficiency of emerging infant markets;
- speeding up the reallocation of factors sunk in declining industries;
- supporting the emerging new businesses;
- decreasing the impediments to market transactions;
- preventing the abuses of market imperfections;
- establishing new alignments in supply and marketing chains;
- offering incentives to innovations.

These objectives cannot be achieved all at once. They have their logical sequencing and also the instruments for their implementation have to evolve in time. Public administration, as a hierarchical organization, must rely in its policy-making on the instruments of planning. Also the planning itself evolves with the evolution of the society it is supposed to guide.

The procedures of planning in communist countries, as the crucial instrument of economic governance in those societies, have not achieved their expected objectives of overtaking the advanced capitalist countries where the governance was underpinned by the market mechanism. Nor it happened in any of the former countries, whose reliance on planning differed – be it Soviet Union, China, Hungary, Yugoslavia or Poland. The performance of Czechoslovak economy in the period 1948-1989 was one of the most disappointing. As was marked by Benáček, 2008, the Czech economy fell from the rank of being 15<sup>th</sup> most developed economy of the world (in the GDP per capita in 1950) to the rank of becoming 33<sup>rd</sup> at the end of 1980s, which can be qualified as one of the greatest losses in relative development in the modern economic history. Notwithstanding the poor experience and the deep mistrust to the role of planning techniques in hands of the government, Czech government has yielded to the demands of both the EU accession and the requirements of faltering transformation, and after 1996 it entered actively into the practice of economic and social policies, thus getting engaged in the techniques of indicative planning and social priority setting.

It must be stressed that the concept of planning adopted by Czech public administration was diametrically different from the techniques of central (command) planning. The importance of market signals in the decision-making of economic agents in private enterprises was not questioned and the type of planning by the Czech public authorities since the late 1990s was trying to be market-compatible by targeting its aims mainly at the provision of public goods. Planning of strategic priorities, as means of public governance, has evolved in the last 12 years. After 2005 it was implemented in the management of operational plans of the European Funds for 2007-2013 where it included the principle of competition in its procedures of financing education, innovation and investments. Such a strategy was market efficiency enhancing because it eliminated the incidence of missing markets in the provision of some public goods (e.g. in dealing with the climatic changes or in the buildup of human capital and competitiveness) and opened their emerging markets to competition.

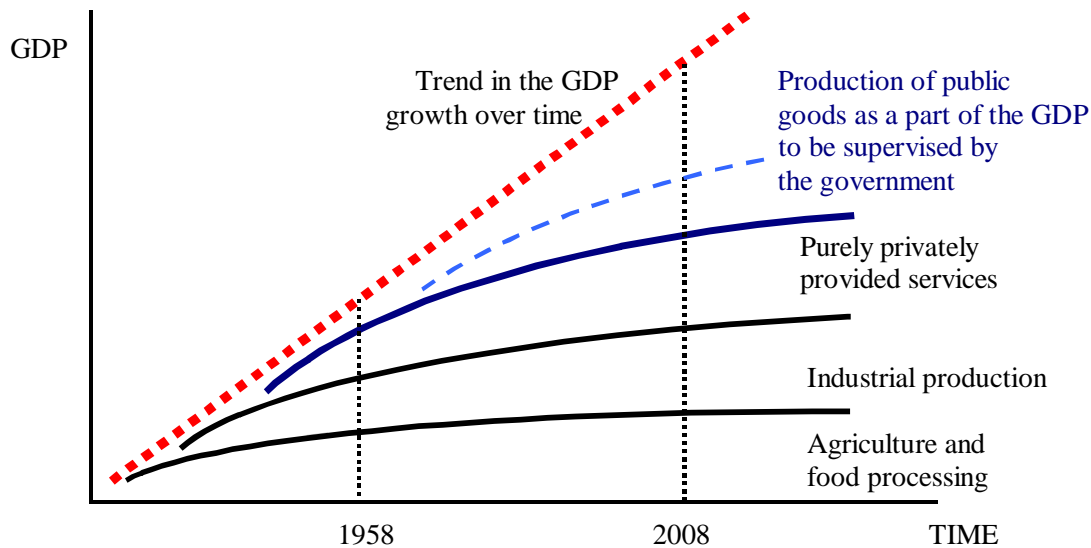
A similar pro-market type of government interventions in an environment of market imperfections was raised by the concept of “double-organized markets” (see Groenewegen, 1994). The double organized

markets presuppose that both firms and governments try to influence economic process and performance through organization, competition and cooperation. Such policies can produce efficient outcomes, e.g. by increased innovation or market contestability. However, they may also lead to inefficiency if the process get abused and turn into the government capture.

- The usage of national planning in preparing the schemes of economic policies was to a large extent facilitated by the influence of the following factors:
- The transition economies had to liberalize its trade and markets in an environment of accelerated globalization, which levied high requirements on the competitiveness and allocative flexibility of enterprises;
- The crucial markets of transition economies (i.e. those for financial capital, labor services and legal institutions) were subject to imperfections, which required intervention of public policies;
- There was rising importance of public administration at European, national and regional levels in the responsibilities for the efficient provision of public goods;
- There were present interventions and initiatives of the civil society in the sphere of social governance.

The combined impacts of these factors on the governance of transition economies imply that various social and political hierarchies and pressure groups were prone to intervene with the functioning of markets. The management of such hierarchies and interactions of involved social organizations requires a system of coordination, which should be guided by human values, ethics, political priorities and markets. There is no other alternative than to coordinate the actors by "plans" that harmonize the interrelated strategic, tactical and operational moves between all kinds of stakeholders of such a multi-faceted social governance.

The provision of public goods is a crucial feature that vindicates the interference of public policies to the economy. We should be aware that the importance of public goods is not a marginal episode in the direction of public affairs. In reality the share of public goods on GDP accelerated quite significantly in the last 60 years. The problem can be illustrated by means of Engel curves (Lewbel, 2006) – see Figure 1. As the industrial economies transfer into the economies of knowledge, there are diminishing rates of growth in "traditional" goods that are crowded out in their importance by the fast developing "new" goods that are ever more associated with the features of public goods. The result is a declining share of "traditional goods" (such as agriculture or manufacturing) on the GDP, meanwhile the public goods (associated mainly with services and social welfare) became in the last 25 years the fastest growing segment of developed economies.



**Figure 1: The Engel curves depicting the evolving structure of the GDP in time**

Of course, the government supervision of public goods does not imply that they should be also exclusively produced by the public sector. This feature results in the rising importance of the public-private interaction via the public policies of various kinds. The cooperation between the public and the private sectors is a feature that all market economies must include into their mechanisms of governance. The guiding principle is that such a cooperation should be optimally market-enhancing or at least market-compatible. The political battle concerns the question which goods are the true "public goods". In reality all goods are actually mixed goods where private and public aspects of their existence are intermingled, even though at highly differentiated degrees. Thus the issue is whether the "true" fuzzy division line is not lying somewhere in the space depicted by the intermittent thin blue curve in Figure 1.

Attempts at giving a parallel between this kind of indicative "plans" and the communist central planning are flawed, even though central planning could not ignore the importance of coordination of social agents. Firstly, central planning lacked functioning markets and the majority of its interventions were insufficient attempts at providing the missing information. Secondly, central planning was not a democratic process of nation-wide negotiations. It was a dictatorship of the privileged ones, instead of a devolution by surrendering autocratic powers to lower-ranking economic agents.

Nevertheless, one should not over-estimate the importance of these strategic (indicative) plans. Firstly, they cannot become dominant instruments of decision making. **They can only widen the margins of information flows concerning the public goods.** Secondly, the quality of planning information can be distorted as it depends crucially on the quality of performance of public agents in their hierarchical organization. For example, in the post-communist Czechia there have been constant problems in transforming strategic documents ("Plans") of one government into policies of a new government in the political cycle. There have been even problems in coordinating the work of ministries if they were run by different parties of the coalition. The **policies of CzechInvest** (2000-2006) were some of the rare strategic activities that were prone to inter-ministerial controversies (CzechInvest, 2007).

The system of central planning failed in all countries where it was introduced, notwithstanding the myriad of reforms tried to heal their economies. The system of planning commands that precluded the existence of private property could not compete with entrepreneurial capitalist systems. Therefore, as a recoil effect characteristic for post-communism, any attempt at setting quantitative goals or commands for resource allocation by state authorities in this country was at the beginning of transition intuitively opposed by all entrepreneurially-minded people. During 1990-97 Czechia had a conservative

government, whose leader Václav Klaus was against any sort of central intervention into the economy. There were only macroeconomic targets (balanced budget, stable exchange rate and stable monetary policy under inflationary targets converging from 10% in 1992 to 5% in 1998). There was also the Privatization Strategy for 1991-97 – all perfectly in harmony with Washington Consensus of the World Bank (see Loužek, 2005, for a review of arguments). Only after 1996 it was apparent that **the government sector (i.e. public administration, education, R&D, police, transport, healthcare, defense)** will need some guidelines for policies and spending that would be longer than One Year Government Spending Plans that were controlled by the Parliament.

Czech strategic plans, adopted after 1996, have been **strictly indicative** and they addressed the policies and spending in the public sector, including the interface with the private sector (such as R&D, pension contributions, FDI incentives). A large part of such plans responded to the EU/EC policies (e.g. the Lisbon Strategy covering education and R&D, or the European Funds dealing with structural, cohesion, competitiveness and agricultural policies). The positive side of such plans is that government interventions are:

- Guided by long-term visions that require the support of parliament coalition;
- They can be delegated to a special cross-ministerial agency, whose administration could adjust to requirements of modern governance;
- They are transparent and thus better scrutinized by the national consensus and easily challenged by the political opposition;
- More resistant to ad hoc (discretionary) policy-making by opportunistic bureaucrats.

In the remaining part of this paper we will discuss in more detail how the instruments of social and economic strategies (policies) are structured, as illustrated on the case of CzechInvest agency. Such a pivotal arrangement evolved in time, as the priorities of development (industrial) policies were dramatically changing after 1996. For a better overview, before discussing their functioning in latter chapters, we have included the basic building blocks of such policies in Tables 1 and 2.

**Table 1: Structure of economic development instruments where CzechInvest (CzI) acted as a cross-sectional government agency, generally in the operational and sometimes in coordinative positions**

Instruments	Agency	Targeted sectors
Export strategy	CzechTrade, MIT, CzI	private firms
CzechInvest Strategy Projection	CzechInvest	private firms, municipalities, public institutions
Investment policy	CzI (conceptual & operational empowerment), MIT, Gvt	private firms, municipalities
Innovation policies	Government, RDC, MRD, CzI	private and public enterprises
Innovation strategy	MRD, RDC, CzI	economic agents and government institutions
Policies of R&D	Ministry of Education, RDC, CzI	economic agents and public institutions
Strategic Reference Framework	MRD, CzI, (European Commission)	economic and social organizations
Strategy of Economic Growth	Government, CzI	public administration, enterprises
National Development Plan	Gvt, MRD, CzI	national economy, EU funds, social organizations

Remark about acronyms used in Tables 1 and 2: CzI = CzechInvest; MIT = Ministry of Industry and Trade; MRD = Ministry of Regional Development; Gvt = Central Government; RDC = Research and Development Council; NGO = non-government organization.

**Table 2: Structure of social, political and economic development instruments at a wide socio-political context**

<b>Instruments</b>	<b>Agency</b>	<b>Targeted sectors</b>
One year government spending	Ministry of Finance, Parliament	whole society
Strategy of Sustainable Development	Government, Taskforce of Experts, NGOs	whole society
Tripartite	Gvt, trade unions, enterprises	political consensus building
Election programs	Political parties	whole society
Coalition Agreement	Gvt coalition	whole society
EU funds	European Commission, national government	whole society

## 2. Czech long-range strategic planning institutions and instruments in a nutshell

This crucial mechanism of social governance in the Czech Republic after 1989 can be described as a **flexible evolution of the interface between the public administration and the private sector**. As a result, the metamorphosis of the whole Czech society, converging to the patterns of Western democracy, could become much faster.

After the fall of conservative government in 1997 it became clear that the new government must set an indicative document of long-term VISIONS (without any quantitative targets of structural limits that would have an impact on the **private** sector), which should be called officially a STRATEGY or a PLAN. The first plans targeting as a flat projection the whole society, originated as late as in 2004 – the year of the Czech EU accession. There was launched the 2004 **National Development Plan I** (NRP I – Národní rozvojový plán) that coordinated the areas of support from European Funds with national spending and policies on R&D (see NRP I, 2004). In reality, this plan influenced the real economy only marginally. Nevertheless, it had an important impact on the design of the **National Innovation Strategy** of 2004 and the **National Innovation Policy for 2005-2010**. (See NIS, 2004 - Národní inovační strategie ČR and NIP, 2005 – Národní inovační politika).

In parallel with the NRP there was proposed in 2004 **The Strategy of Sustainable Development**, which was influenced by the World Summits in Rio and Johannesburg (see SUR, 2004 – Strategie udržitelného rozvoje). It was a product of the **Government Taskforce of Experts**. This extensive document was proposed to a national debate, where it received quite a critical response. At the end, its real impact on the economy (i.e. on the behavior of agents) was constrained by the lack of government policies.

In 2005 the government launched the first global economic document: **The Economic Growth Strategy** (see SHR, 2004 – Strategie hospodářského rozvoje). Even though it was a plan akin to the EU (e.g. Scandinavian or Austrian) growth strategies, politicians interpreted implicitly it as a document of Social Democrats and as a challenge to Conservatives (ODS) prior to elections in 2006. SHR was prepared by the Vice-Prime Minister M. Jahn and it had an important impact on the government strategy to transfer the policies of innovation and development on CzechInvest – formerly conceived as an investment promotion agency. Czech development strategies after 2003 were converging to the Irish schemes that were concentrated around a network of FORFAS - IDA - Enterprise Ireland. Similarly the SHR influenced the **New Export Strategy of the MIT** (for 2006-2010, see NES, 2005) and the **Innovation Policy** (proposed by Research and Development Council with the help of the Ministry of Education and Ministry of Industry and Trade). As we have shown it in Table 1, CzechInvest became an institution that was evolving in a close relationship with strategies outlined in policy instruments enlisted there.

Actually the initial move to set the long-term Economic Growth Strategy came from the **Tripartite** (The Council for Economic and Social Accord) already in 2004. It had a cross-party aspiration and it

avoided the use of policies that might lead to left-right controversies (e.g. taxation rates, university fees, payments for healthcare or pension reform). The SHR was not repealed officially even after the changes in the government in 2006 and 2007 (socialists out, conservatives in). However, its impact on the design of new policies – flat tax, healthcare private co-financing, privatization of hospitals and downsizing of CzechInvest – was minimal. The new center-right government directed its policies to these new domains, while the majority of previous schemes for building economic competitiveness via EU programs were retained.

Such development can be also interpreted as an illustration of the path-dependence in the evolution of social environment in democracies. There the past decisions remain embedded in the institutional environment and new policies crowd-out some of the elements of accumulated socio-economic setup in a slow gradual process. For example, the extent of policies coordinated via CzechInvest culminated in 2004-2006 when the previous policies of investment were phased-out by being replaced by new policies of innovation and R&D. As the core of the latter shifted from private enterprises in the domain of Ministry of Industry and Trade towards the sectors of science, ICT, European Funds and education, so the role of CzechInvest had to be attenuated and replaced by new organizations of social governance.

### **3. Czech National Development Plan and National Strategic Reference Framework**

The **National Strategic Reference Framework (NSRF)** for 2007 - 2013 was drafted as a reference document for negotiating the development policies with the European Commission (see NSRF, 2007). It followed the indicative visions outlined in The **National Development Plan II** (2007 - 2013), see NRP II, 2006. Both documents are based on the **principle of social partnership** – a principle of crucial importance in countries ranked to the top of economic competitiveness: Ireland, Scandinavian countries, Austria, New Zealand, Malaysia, etc. In the Czech case the partnership stresses three pillars of development: the cooperation between governments (central and regional), businesses (now practically all private) and the civil society (e.g. NGOs and other civic initiatives).

In 2006 the European Commission laid down new general provisions for Common European Policies: on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, which guide the EU policies for 2007-13. Thus all 27 members of the EU were supposed to follow similar guidelines coordinating national and communitarian socio-economic strategies. The EU approach to policy-making is quite different from what we could observe in the United States, where central coordination is rather weak and where the importance of monetary and banking policies dominates over fiscal and legal (*acquis communautaire*) instruments. It is even more different from what we can now observe in the patterns of governance in Putin's Russia where centralization and political power dominate over both the micro-economy and the civil society.

The Czech **Ministry for Regional Development** (MMR – Ministerstvo pro místní rozvoj) is in charge of the overall co-ordination between the EU and the national development plans. It was also the driver behind the preparation of the National Development Plans (NRP) and the NSRF. As an illustration, CzechInvest had an ambition for becoming a national leader also in this agenda after 2000, especially during 2004-2006 when it could rely on its former CEO Mr. Jahn who became the Vice Prime Minister for economic affairs. The government, however, opted for a division of responsibilities. Thus the responsibilities of technically more elite CzechInvest were not upgraded into this strategically paramount area and the Ministry for Regional Development dominated its field. Its minister holds therefore a parallel the position of Vice Prime Minister.

The attention to a **procedural partnership** (i.e. to processes of mutually balanced decision-making between private and public representations, including even political adversaries, in contrast to autocratic guidelines dictated a central planning authority) is in the foreground of Czech policies of development after 1989. With the EU entry it also guides the coordination between the national and the EU structural and cohesion policies. Its results were quite surprising: Czech society is considered to be the leader in social equity (it has the lowest rate of poverty among EU-27 countries) and in

January 2008 Czech Republic ranked number 1 (out of 125 countries) in the prestigious Bertelsmann Foundation Report on Transformation. Even though Czechia is not a country with the strongest political transformation or the highest economic growth, a multicriterial evaluation where economic, political and social objectives are amalgamated, lifts her economic performance to the top (Bertelsmann Stiftung, 2008).

Since 1989 Czechia went through several waves of political, economic and social changes that were not always compatible with each other. A fast transition is not a linear evolution – it is characterized by bends in development, often accompanied by policies based on trial and error. Such a development reflects an enormous capacity for re-adjustments reacting to changing nature of the society and to the unexpected consequences of opening-up to global environment. The active involvement of the country in the EU since its full membership in 2004 has not attenuated such a drive to restructuring. A similar trend is apparent in other new EU members. Thus their convergence towards the more advanced countries of the world is universally recognized. E.g. in 2005 the World Bank upgraded the status of Czechia from a transition (developing) country to that of a developed country.

In spite of such a fundamental progress in growth and adjustments, Czech economy must still face serious new challenges. There are threats to competitiveness (such as sharply appreciating exchange rate, rising wages, shortage of labor, lack of human capital, replacement of FDI by indigenous investments, etc.), social cohesion, sustainability of public finance and governance without corruption or bureaucracy. The solution of these problems is definitely a long-run battle that would require programs in the quality of long-range strategies that would over-arch the terms of governments. The need for cooperation between the public and the private sectors has evidently survived the period of transition, notwithstanding the existence or non-existence of the European Funds. Neither the importance of public finance has declined with the progress of transition. Private sector opened to international competition is now viable and self-sustainable. The bottleneck in growth rests with the non-tradable sector where public services are clearly its least efficient part. The re-adjustments of public services to efficiency cannot rely so much on the market forces as the tradable sector could. The importance of reforms guided by long-term strategies (plans) thus seems to remain a key to further progress.

#### **4. Principles of partnership in the Czech social and economic governance**

There are two sources of mechanisms of social governance guided by plans of public policies in this country: internal (nationally autonomous) and external (coming from the European Commission). The former was associated first (1991-98) with the policies of macroeconomic stability and privatization (following the Washington Consensus). The early policies of the Ministry of Industry and Trade and CzechInvest, that targeted the promotion of FDI and technology transfers (1996-2000), acquired a locally-based features of strategic planning. Later, in the pre-EU accession period (1998-2003), there were attempts at outlining some partial long-term strategies for coming to terms with the annual audits (country reports) of the European Commission that conditioned the EU entry. Thus internal initiatives transformed gradually (after 1999) into activities triggered by the requirements passed on the EU members from Brussels. The domestic autonomy in development policies was gradually weakening. The accession policies dealt with the adoption of the EU legislation (schedules for the adoption of *Acquis Communautaire*), absorption of EU funds and with questions of nominal and real convergence.

R&D and innovation requirements (partially a spinoff of the EU Lisbon Strategy) were outlined already in 2000 by adopting **The National Research and Development Policy** (see NPVV, 2004 - *Národní politika vědy a výzkumu*). It represents a list of priorities, tasks and financial requirements that integrate the R&D agendas of European Funds with the policies of the Ministry of Education, MIT and CzechInvest. It became a particularly useful instrument for implementing the policies of competitiveness. We have already mentioned that in 2002 there was the first attempt of the Czech government at defining a mutually balanced indicative long-range Strategy of Sustainable Development (SUR) that covered economy, environment and social equity. With the EU accession, strategic policies of similar orientation are now coordinated with the European Commission.



Let us return back to the principles of democratic socio-economic governance where the openness to globalized world implies a permanent re-adjustment to the changes of relative positions between internal and external factors of development. New windows of opportunities and new costs of exchanges between agents call for a smooth reallocation of activities, the gains and the costs of which fall on agents asymmetrically. Their natural outcome is that politics become an extremely sensitive center of social interaction. No surprise that the role of governments and political parties in modern societies gained significantly on importance. In contrast to communist or totalitarian organization of the society, the post-communist systems of governance became more open to democratic principles throughout the world. Along with the widening of democracy, there was also observed the deepening of the scope of politics (Modelski and Gardner, 2002). Also the relationship between state and businesses reveal similar trends: the private sector depends now more intensively on partnership and cooperation with the public administration.

The concept of alliances and mutual countervailing powers of modern democratic societies arises under the pressure of **objective processes** – that means due to processes exogenous to any grouping of local agents. Thus it goes beyond lobbying and political electoral platforms of specific parties. The causes for creating alliances rise above partisan politics – they would be present notwithstanding any political arrangements. Politics and alliances can, however, either speed-up the re-adjustments or they can become an instrument for impeding their influence. In this study we have shown on the case of Czech society how both forces act in parallel, whose final outcome depends on the policies that alleviate the restructuring, build the consensus and enhance cooperation that lead to economic and social prosperity.

Hence there arises a paramount objective to balance the political claims of agents by means of **democratic auctioning**. There the bilateral relationship between the private and the public sectors have to be open to social accountability. The balance between agents is negotiated at the level of organized public polity – i.e. via political parties, social pressure groups and voices of the civil society. Although the main body of decision-making processes is made at the level of interacting enterprises and institutions of public governance, the final checks and balances remain on the democratic mechanisms.

Czech economic policies during 1989-2007 had to adjust to several turning points in the social setup, as they evolved extremely quickly during transition. For example, those of the transition from public to private ownership, from production commands to market-based auctioning, from state bureaucracy to competing entrepreneurship and from the shortage of capital combined with the glut of unemployed to the excess of financial capital and the shortage of human capital. The tasks of new industrial policy-making in such a changing environment were bestowed on CzechInvest. During 1992-96 CzechInvest evolved from an information agency into a public service organization that had to break the economic isolation by opening the enterprise sector to international capital because the initial policies of transition (like in the majority of countries of former Soviet empire) were marked by excessive reliance on national capital, national entrepreneurs and national markets. Though such pro-national policies were natural in their evolution, they were in conflict with the economic globalization and economic growth. The latter was led by massive gains that emanated from the specialization in traded sectors.

Internationalization of the Czech economy that accelerated after 1997, marked an important break-even point in the policies of public-private partnership. The crucial change in the development policies came with granting CzechInvest powers for implementing new investment incentive schemes. It also required a dramatic change in the legislative framework of the economic system. It was only after revamping of economic institutions in 1997 and 2004, which allowed for massive inflows of foreign capital and entrepreneurship. Subsequently that **made the public sector able to become an equal partner to multinational businesses and to institutions of European Commission**. Additional economic gains from such a partnership had to be shared with MNCs, which required new skills and

new organization of public agencies. This process took some time to develop and it was not without relying on trials and errors. However, learning by doing brought its fruits quite soon.

One of the lessons that calibrated the new FDI policies was that subsidized activities must show clear potential for spillover and demonstration effects, and that its incentives should be provided only to (locally) new activities, diversifying the economy. The buildup of agencies specialized in industrial policies required to apply new techniques for both the recruitment of human resources and the communication with all kinds of customers. For example, the crucial point in the performance of CzechInvest was the combination of its alignment of global strategies of the MIT with its own managerial independence in other strategic matters. Thus the minister of MIT has the right to nominate and recall the CEO of CzechInvest, but the remaining decision making in CzechInvest was left autonomous.

Similarly, MIT nominated the Steering Committee of CzechInvest, but its powers could not go beyond being an advisory board only. Its main mission was to enhance the flow of information and coordination across ministries and other important FDI stakeholders. Thus MIT had in it two members, as did CzechInvest, Ministry of Regional Development, Ministry of Labor and Social Affairs, and AFI (Association for Foreign Investment). Other partners had one member: Foreign Ministry, Ministry of Finance, Chamber of Commerce, Confederation of Industry, Association of Entrepreneurs, Union of SME, Union of Cooperatives and Guarantee & Development Bank. Multi-channelled financing of CzechInvest from public, private and communitarian (EU) sources made it to a large extent independent from fluctuations in the domestic fiscal sector. The communication between foreign investors, their domestic private partners, government and general public was achieved by establishing AFI, even though exactly this type of interface organization can be supposed to be in conflict with the traditional organization of the public sector, according to which the public administration should be deemed to be at arm's length with private firms.

Enlargement of the private-public partnership into the **Tripartite** is another institution of modern social governance that is considered crucial for socio-economic stability. In the Czech case its importance increased in parallel with expanding international openness after 1997. The official title of Tripartite is "The Council for Economic and Social Accord". It is an advisory board of the government, whose members are: the Prime Minister (chair) and six ministers of the central government. Then there are seven representatives of businesses (e.g. their chambers and unions) and seven representatives of trade unions. Tripartite meets six times a year and their agenda covers such topics like taxes, social safety net, employment, industrial parks, EU funds, attraction of investors, strikes as industrial actions and the institutions of PPP (public-private partnership).

In no case the negotiations of Tripartite can be described as a consensual harmony. It is an extra-parliamentary political instrument without a mechanism that would made its outcomes (strategies) binding. Nevertheless, it constitutes an important instrument for reaching politically viable strategies. It also lessens the tensions by offering its partners the scope for further negotiations. Let us mention that such negotiations can proceed in the chambers of Parliament, in negotiations between political parties, in media and in actions of the NGOs.

Here we come again to the role of CzechInvest that can be described as another public institution that, by its charter, explicitly aligns the interests of private enterprises with the objectives of the government. In addition, there is an implicit coordination of the former with the aims of citizens. Thus the problems with development policies associated with investments, innovation and entrepreneurship, were delegated in Czechia to the development agencies. It was a follow-up of similar strategies in Ireland and Finland, where their organizations of industrial policies became the engines of prosperity and economic competitiveness.

Such institutions in Ireland included: National Economic and Social Council, National Development Plan of the Ministry of Finance, development institutions of IDA, Enterprise Ireland (Indigenous Industry & Export Development), Science Foundation Ireland and National Competitiveness Council.

In Finland there were such institutions as: Science and Technology Policy Council, TEKES, Sintra, Academy of Finland, Finnvera, Finpro, VTT or Institutes for Tech Transfer, among others. In the Czech case there was the rise of CzechInvest, as an instrument of openness to the globalized world that mediated the interaction between foreign investors, domestic enterprises, municipalities and employees. We should stress that such policies had to exceed the mere promotion of new businesses (especially only those of MNCs). Thus the policies of CzechInvest had to be complemented with the trade promotion via CzechTrade agency, promotion of science and education (Research and Development Council), support of SMEs (CzechIndustry) and social relief schemes for agents stricken by relocation (Consolidation Agency).

Even though the Czech past experience offered a clear empirical proof confirming that central planning was in a **fundamental conflict** with long-term economic development because it could not build upon the knowledge and entrepreneurial skills of millions of agents in their mutual interaction, **planning activities of the public administration could not be discarded completely**. The reason for retaining a part of them rests in the continual existence of hierarchies in parallel with markets. These hierarchies are of three types:

a/ Hierarchies of enterprises, whose necessary existence was explained by Coase, 1937. Markets cannot support all decisions and activities because the efficiency of markets can be limited by high transaction costs. Thus there is the role left for managerial and organizational bureaucracy, whose main instruments of functioning are entrepreneurial visions (as strategies of global importance relevant for a real life) and plans for their implementation;

b/ Hierarchies of governments (central, regional, municipal), whose existence as decision-making bodies inherently cannot function without strategies incorporated into plans;

c/ Hierarchies of political parties that feed on individual entrenched interests, which the parties amalgamate into political programs. Once such partial interests are inherently socially contradicting, political programs cannot but be biased towards certain social groups. That may happen notwithstanding that the natural causes behind such diversified programs are identical. Thus both conservatives and socialists can offer different policies dealing with globalization, productivity increase or euro accession.

It must be stressed here that these kinds of planning have their meaning only within the domains of three mentioned hierarchies. Their plans generally represent the **hierarchies of priorities**, to which there are assigned instruments (means) of implementation – forming thus another subset of hierarchies. The plans of all kinds must not crowd out (or distort) both the mechanism of markets and the autonomy of citizens (as the sovereign bearers of ethics and of freedom in consumption, entrepreneurship and employment). Once again the idea of complementarity (i.e. of the partnership) between government strategies (revealed in plans and policies), markets that guide enterprises and individual freedom of citizens must be guaranteed, if such a social arrangement is to be sustained.

Let us look in brief at the transmission mechanism between government policies (e.g. the establishment of CzechInvest) and political parties. In the Czech case the medium-term strategies are formed before elections in form of "Election Programs" that are prepared by all competing parties. The next step after winning the elections is to form a coalition that is guided by a Coalition Agreement that states the common guiding principles and agreed concessions to Election Programs. The most important task of the Agreement is to distribute the ministries among parties. The ministries are then managed by such a modified Election Program of the given party and by the Annual Plan of Fiscal Spending.

In Czechia, as in other member states of the EU, the sovereignty of national policies is only partial. Thus some important objectives dealing with public goods (such as competition, trade, R&D, education, defense or environment) are given by the directives of the European Commission, which must be "internalized" into domestic laws and programs. Also the European Funds have their compulsory structure and 7 years' indicative figures. The inter-temporal stability of any development agency in the EU depends thus on the consensus across political parties and, quite crucially, also on

the policies of the European Commission, which guarantee that national development is consistent with national industrial policies.

## 5. Policies of CzechInvest in a wider perspective

In the preceding chapters we have outlined the global context of particular economic policies, concretely the policies dealing with development and competitiveness, as they were delegated upon CzechInvest. All policies of that kind require a strong political backing, a degree of autonomy and an indirect "rule" by incentives (i.e. by institutions) acting at grassroots, as explained by Rodrik, 2004. Nevertheless, the socio-economic governance remains a hierarchical concept. In the base of the pyramid there are social visions and global strategies or plans of general importance. Its more operational plans of policies require a cross-sectional coordination that is usually in conflict with the management by much more narrow ministerial agendas. Thus there arises the need for establishing a specialized agency of public administration that would be able to balance the conflicting interests and retain a high degree of executive professionalism. Often its organization must abandon the traditional hierarchical subordination and build its decision-making on more decentralized models used by the corporate business sector. Such government agencies, in addition to overlapping the ministerial domains, must be also able to overlap the regional and municipal governance.

CzechInvest was a typical example of such an agency where co-acting had to be shared across all political orientations in order to achieve aims of economic restructuring. It had to have powers to coordinate ministries, regional governments and municipalities – within the framework of its development agenda. Its policy-making should be authorized to negotiate with government financial institutions (such as Ministry of Finance, European Funds or Consolidation Agency administering the bail-outs), to administer the SME support schemes and coordinate the policies of investment, trade and competitiveness. It should be in working contacts with the institutions coordinating science, education, quality of products or environment. All in a mode that would be free of political cycles. In parallel to them there are active numerous NGOs that check the performance of public administration from critical autonomous positions.

It took several stages to transform *ad hoc* investment promotion (1993-98) into the administration of modern development policies. Actually the process commenced in 1999, before the Lisbon Strategy of the EU was launched, when the Czech government decided about the Investment Incentives Act. This Act created in 2000 a universal frame based on explicit rules that were binding for all stakeholders of investments: for investors, their indigenous private partners, municipalities and government institutions, so that conditions for every company would be equal. Universally valid rules were compatible with the EU rules and they also eliminated the attempts at discretionary ("case-by-case") negotiations at the level of the central or regional governments. By cutting the embeddedness of ministries with the operational agenda of investments (both foreign and domestic) and by vesting these activities in an agency with demonstrated competence accountable to the MIT and the Government only, the space for corruption was minimized, while the strategies could still be very flexible and the channel for information flow between private and public sector actually widened. According to Rodrik, 2004, these conditions are crucial for sound central decision-making.

The strategies used by CzechInvest since 2000 avoided the liability of traditional industrial policies that were biased to "hand-picking the winners" (that often moved to picking the losers) or by an obsession of targeting "preferred industries" with the risk of hitting the strong by supporting the weak. The new policies were based on **supporting the buildup of endowments** that gave modern technologies a natural comparative advantage. Thus the concentration was on activities and projects **supporting the processes underpinning the high-tech** instead of supporting concrete industries.

Czech economy has reached suddenly such a level of attraction that CzechInvest got into the position of assisting preferentially (above the standard services that emanated from the Act) only projects with high potential of spillovers. There was a call for introducing additional schemes that were not associated directly with any concrete investors. Due to these initiatives Government Resolution no.

573 was put into practice in July 2002. It coped with requirements **facilitating investments into software design, information technologies, innovation and production development, customer support centers, shared service centers and research and consultancy centers**. Five years after, CzechInvest could limit its support exclusively to these types of investment. The position of ICT in the Czech economy has significantly increased since 2000, becoming in 2008 as important driver of growth as the automobile industry. The activities of IBM, Honeywell, DHL, AVX, Matsushita or Skoda pushed important parts of the Czech economy from industrial mediocrity towards a market leadership at the European level.

The challenges of globalization, however, required that policies of development be as flexible as were the external factors. The organization of CzechInvest after 2002 became an experiment, whose principles diverged from Czech traditional mechanisms of governance. Its project management techniques resembled more to the management of huge business corporations with diversified activities transgressing their national borders. We could say that CzechInvest became an experimental pilot scheme of the public governance for the 21st century.

As an attempt at evaluating the policies of CzechInvest according to criteria outlined by Rodrik, 2004, we cannot but accept that all of the Rodrik's principles could be found in the form or in the contents of CzechInvest policy design and implementation. Also the six examples of programs mentioned by Rodrik (p. 26-29) have their respective representatives in the Czech policies, even though not all of them were coordinated solely by CzechInvest.

## 6. Conclusions

The experiences from the policies and managerial style of CzechInvest during 2000-2006 could be summarized into the following general rules for development agencies:

- a/ There is a crucial importance of the political consensus at the national level that must safeguard the agency throughout the whole time of its existence. Once the agency becomes a target of political fights, its efficient performance can no longer be upheld;
- b/ Political consensus should be incorporated into the long-term national strategies and development plans that are not subject to opportunism in political cycles;
- c/ The state development agency has to behave like a private consultancy without being paid for their services by clients;
- d/ Agencies should target its plans on the demonstration effects that act as an externality leverage for both domestic spinoffs and for building the image of the country abroad;
- e/ The managerial standards should be sought in the management of MNCs and not in the standards of the government bureaucracies that rely on the network of clients and where the rungs of hierarchy (and age) dictate the level of subordination and its constraints on personal initiative;
- f/ Independence from the government or ministries in strategic decision-making can be only informal. Thus their alliance must be based on consensus seeking where the agency is an equal partner;
- g/ Independence in the operative aspects of the policy implementation in the agency should be very high and delegated to divisions and teams;
- h/ The government policies should be continuously adjusted to the changing situation in both the national economy (e.g. the progress in ownership, transition and restructuring) and the world markets. The feedback for a change should come from the coordinating agents, i.e. from the agency;
- i/ The staff of the agency can be very young, e.g. with an average age of 28 years, as it was in CzechInvest. The studies of employees abroad are an advantage that should continue during employment;

- j/ The salaries of employees can be subject to standard norms valid for the government sector. E.g. the average pre-tax salary of the junior executives need not be more than the treble of the national average wage, notwithstanding that such wages could not compete with the significantly higher income offered by the multinationals. It is the prestige and the long-run potential for carrier-building that should motivate the employees;
- k/ Personal contact of the agency's employees with investors and with field-work is a must but it must be complemented with personal accountability and safeguards against corruption;
- l/ The importance of ethics and behavior free of corruption should be assigned a paramount importance. Thus the neutrality to politics and non-alignment with any kind of lobbyism should be a part of the employment code, guided by explicit rules of conduct and professional performance;
- m/ Investment and development promotion agencies should work in a competitive environment. Although they have institutionally embedded privileges, there should be open windows of opportunities to competing private investment/development agencies;
- n/ Personal contact with investors, mobility to the regions of investment and field-work should be a part of working routines;
- o/ Each project should have its bottom line and workers should be accountable to the heads of divisions;
- p/ Agencies can be efficient in policy-making only if they have instruments and motives that would allow them to recognize "good" policies from the failing ones in due time. Thus the administrators should have instruments for breaking the barriers of information asymmetry, but also withstand the political pressure when some of the policies fail;
- q/ Policy-making is an evolutionary process where the agency should behave like an entrepreneur: it must take risks, analyze their outcomes and re-adjust its means of implementation. There should be also added a proviso applied to entrepreneurship: a successful manager should be proportionally rewarded, while a failing manager should bear the long-run costs, though not the immediate costs;
- r/ Development agencies should become national leaders in building the pockets of bureaucratic competence.

It should be stressed at the end that above mentioned cases of planning deal strictly with the good governance practices at the level of government hierarchies only. As a general policy, the private sector (enterprises) must not be forced by explicit commands to fulfill certain quantitative targets and there should be no quotas limiting their output. Ideally speaking, the aim of government guidelines and institutions is to create **incentives for more efficient allocation of resources** and to minimize the impediments to entrepreneurship and growth. Policies delegated to special cross-ministerial agencies can be just a small part of such principles of social and economic governance.

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