

National Plans as Indicative Targets for the Policies and Priorities of Public Administration

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The procedures of planning in communist countries, as the crucial instrument of economic governance in these societies, have not achieved the expected objectives of overtaking the advanced capitalist countries where governance is based on the usage of market mechanism. The economic levels of advanced capitalist countries were not reached by any of the former countries, whose usage of planning was quite different – be it Soviet Union, China, Hungary, Yugoslavia, or Poland. The Czechoslovak economy's performance between 1948 and 1989 was one of the most disappointing. As was marked by Benáček, 2008, the Czech economy fell from the rank of being the 15th most developed economy of the world (in GDP per capita in 1950) to the rank of 33rd at the end of the 1980s, which can be seen as one of the greatest losses in relative development in modern economic history. In spite of the poor experience and deep mistrust to the role of planning techniques in hands of the government, the Czech government has yielded to the demands of both the EU accession and the struggle with the faltering transformation. After 1996, it opened itself up to the techniques of indicative planning of priorities and the coordination of economic and social policies.

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. Also, the type of planning by the Czech public authorities since the late 1990s tried to be market-compatible by targeting its aims mainly at the provision of public goods. Planning of strategic priorities, as a means of public governance, has evolved in the last 12 years. After 2005, strategic planning 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 found to efficiently enhance the market 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 build-up 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 gets abused and turns into a new domain for government intrusion.

The use of national planning in preparing the schemes of economic policies was to a large extent facilitated by the influence of the following factors:

- a) 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,
- b) The crucial markets of transition economies (i.e. those for financial capital, labour services, and legal institutions) were subject to imperfections, which required intervention of public policies,

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- c) There was rising importance of public administration at European, national, and regional levels in the responsibilities for the efficient provision of public goods,
- d) And, 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 alternative other than to coordinate the actors by "plans" that harmonize the interrelated strategic, tactical, and operational moves between all kinds of stakeholders of such multi-faceted social governance.

The provision of public goods is a crucial feature that vindicates the interference of public policies to the economy. Firstly, we should prove that the importance of public goods is not a marginal constant in the direction of public affairs and their weight on public policies accelerated quite significantly in the last 25 years. The problem is illustrated in Figure 1 by means of Engel curves (Lewbel, 2006). As the industrial economies transfer into knowledge economies, there are diminishing rates of growth in "traditional" goods that are crowded out in their importance by the fast developing "new" goods that ever more associated with the features of public goods. The result is a declining share of "traditional goods" associated with manufacturing on the GDP. Meanwhile, in the last 50 years, the public goods (associated mainly with services and social welfare) became the fastest growing segment of developed economies.

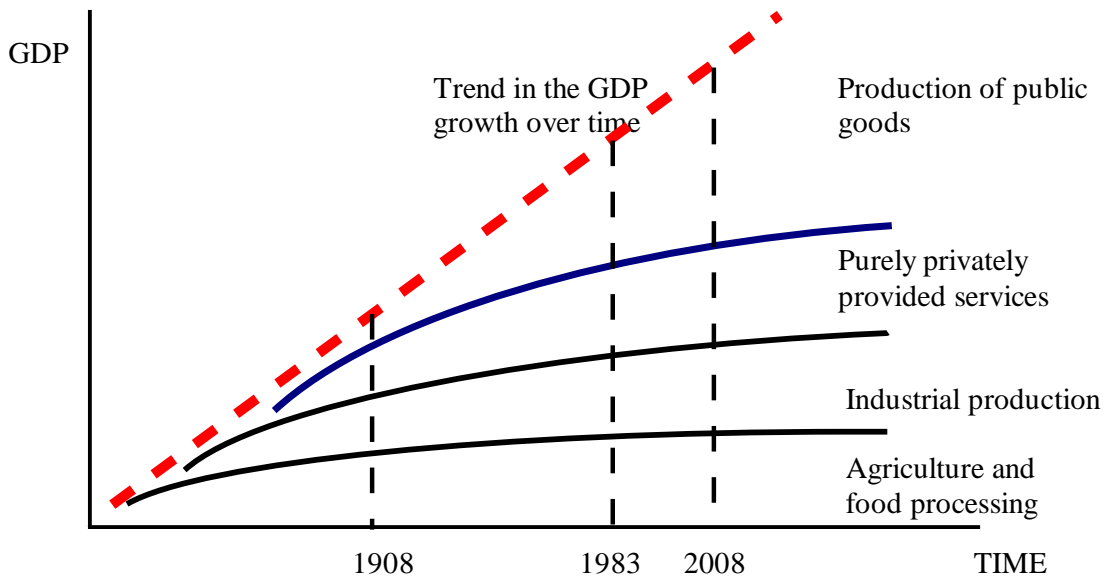


Figure 1: The rising share of public goods on the GDP

Of course, the government supervision of public goods does not imply that the goods should be 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 optimally such cooperation should be market-enhancing or at least market-compatible.

Although central planning could not ignore the importance of coordination of social agents, attempts at making a parallel between this kind of indicative "plans" and the

communist central planning were flawed. Firstly, central planning lacked functioning markets and the majority of its interventions were insufficient at providing the missing information. Secondly, central planning was not a democratic process of nation-wide negotiations. Instead of a devolution by surrendering autocratic powers to lower-ranking social representatives, it was a dictatorship of privileged individuals.

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 flow concerning the public goods. Secondly, the quality of planning information can be distorted as it crucially depends on the quality of performance of public agents in their hierarchical organization. For example, in the post-communist Czech Republic there have been constant problems in transforming strategic documents ("Plans") of one government into policies of a new government within the political cycle. There have even been problems with coordinating the work of ministries if different parties of the coalition are running them. The policies of CzechInvest (2000-2006) were some of the rare, strategic activities that were prone to inter-ministerial controversies (CzechInvest, 2007).

During 1948-1989 the system of central planning was not a dogma, especially after the waves of relaxation from Stalinism in 1956 and 1963, when various reforms tried to heal the economy. The enterprises masterminded the planning processes from the early 1960s until the demise of their system in 1990 (Mlčoch, 1990). It was a state capture that offered no advantages for either the consumers or for the competitiveness of enterprises. Nevertheless, such a "central planning" was able to survive. Thus, Czechoslovakia together with Eastern Germany still retained one of the most rigid planning systems among communist countries, which did not fall short vis-à-vis such planning innovators like Hungary or Poland. 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 of post-communism, any attempt at setting quantitative goals or commands for resource allocation by state authorities in the Czech Republic was at the beginning of transition intuitively opposed by all entrepreneurially-minded people. From 1990-97 the Czech Republic had a conservative government whose leader, Václav Klaus, was against any sort of central intervention into the economy. There were only macroeconomic targets (a 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 1991-1997 – all perfectly in harmony with the Washington Consensus of the World Bank (see Loužek, 2005, for a review of arguments). Only after 1996 was it apparent that **the government sector (i.e. public administration, education, R&D, police, transport, healthcare, defence)** needed some guidelines for policies and spending that would be longer than **the One Year Government Spending Plans** that were controlled by the Parliament.

Czech strategic plans are **strictly indicative** and they address the policies and spending within the public sector, including the interface with the private sector (such as R&D, pension contributions, FDI incentives). A large part of such plans responds 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 a parliament coalition,
- they are transparent and thus are better scrutinized by the national consensus and easily challenged by the political opposition,
- and more resistant to ad hoc (discretionary) policy-making by opportunistic bureaucrats.

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 a 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 the whole society as a flat projection, originated as late as in 2004 – the year of the Czech EU accession. The 2004 **National Development Plan I** (NRP I – Národní rozvojový plán) was launched and coordinated the areas of support from European Funds through national spending and also 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, **The Strategy of Sustainable Development** was proposed in 2004. It 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 a lot of criticism. In the end, its real impact on the economy (i.e. on the behaviour 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 implicitly interpreted it as a document of the Social Democrats and as a challenge to Conservatives (ODS) prior to the 2006 elections. The Vice-Prime Minister M. Jahn prepared SHR and it had an important impact on the government strategy of transferring policies of innovation and development to CzechInvest – formerly conceived as an investment promotion agency. After 2003, Czech development strategies were converging to the Irish schemes 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 the Research and Development Council with the help of the Ministry of Education and Ministry of Industry and Trade).

The initial move to set the long-term Economic Growth Strategy came from the **Tripartite** (The Council for Economic and Social Accord) 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 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 newly instituted centre-right government directed its policies to these new domains while the majority of previous schemes for building economic competitiveness via EU programs were retained.

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**. 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 2007-2013. Thus all 27 members of the EU are supposed to follow similar guidelines coordinating national and communitarian socio-economic strategies.

Although it comes as an external spin-off, the **policies of partnership** have been a part of the Czech culture since the time of the National Revival (a sort of cultural and nationalistic follow-up of the locally belated industrial revolution and democratization of the 19th century). Thus, Czechs have been used to a system in which power is shared between social groups (or their representations) at various levels of the society (e.g. in the cross-section of income hierarchy). The functioning of such a system needs a lot of negotiations, compromises, and compensations. Thus, their negative externalities which lead to rivalry, corruption, anti-elitism, and the general discontent² are its most visible liabilities – notwithstanding that this system is constantly demanded by the public because it allows everybody, in the end, to get a bit of his/her demands satisfied. The other country that is closest culturally to this type of social governance is Austria³, a country Czechs shared from 1620-1918. The opposite is Putin's present government in Russia where centralization and political power dominate 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 driving force behind the preparation of the National Development Plans (NRP) and the NSRF. As an illustration, the ambition for a very similar power game was exercised by CzechInvest after 2000 and especially from 2004-2006 when its former CEO Mr. Jahn became the Vice-PM for economic affairs. Unfortunately (and quite characteristically), the technically and intellectually more elite CzechInvest lost that battle. Thus, we should not be surprised by the inflation of parallel strategic documents produced in the last 8 years.

The attention to a **procedural partnership**, i.e. the processes of mutually balanced decision-making between private and public representations, including political adversaries (which is in contrast to autocratic guidelines which dictate a central planning authority), was in the foreground of Czech policies of development after 1989. With 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, the Czech Republic ranked number 1 (out of 125 countries) in the prestigious Bertelsmann Foundation Report on Transformation. Even though the Czech Republic 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, has lifted the country's economic performance to the top (Bertelsmann Stiftung, 2008).

² It became a sort of a national folklore that Czechs (as well as the Austrians, for example) are always complaining in the public opinion polls about the public policies, though (paradoxically) it does not mean they object to such policies.

³ The most easily available description of the Austrian system can be found in *The Economist*, November 24, 2007, "The Sound of Success: a Special Report on Austria", pp. 1-14.

The NRP and NSRF were prepared by the **Management and Co-ordination Committee** (MCC) that was set up by the Ministry of Regional Development. This committee became the most important instrument of the co-ordination through which all relevant public stakeholders were involved in the preparation of strategies for the implementation of the EU Funds. The Minister for Regional Development chairs the Committee and other members include representatives of relevant ministries, territorial self-government (represented by regions, City of Prague, and representatives of the Union of Towns and Municipalities), economic and social partners, educational institutions, and the non-profit sector. Meetings of the MCC were regularly attended by representatives of the Union of Czech and Moravian Production Co-operatives, the Agrarian Chamber, and the Academy of Sciences. These representatives acted as observers.

Particular institutions nominated their representatives at a high enough level so that the MCC was able to adopt important decisions. Between May 2005 and April 2007 the MCC met nine times. Nominated representatives of partner organizations were actively involved in the preparation of strategic documents for the 2007-2013 programming period, mainly by commenting on the submitted versions of strategic and programming documents. The comments were presented at the meetings of the working groups. The comments were then incorporated into the relevant documents, subject to the final approval of the MCC.

The partners also took part in the final commenting procedure. One of their main comments was the requirement for the representation of social partners in newly created management and co-ordination bodies for the economic and social cohesion policy, since such approaches have proven to be beneficial in the past. The partners are supposed to participate in the Monitoring Committees and Working Groups of MCC dealing with a solution for the individual questions of implementation. The partners also proposed the requirement of a better interconnection of document analysis, policy instruments, and NRP strategies. Other comments were concerned with formal or formulation aspects (such as complementation of SWOT analyses, utilization of updated data, or better formulation of objectives). Many such comments were accepted and incorporated into the document. Further discussion with managing authorities was recommended for all comments going beyond the scope of the NSRF and concerning operational programs in a more specific way.

Co-operation with non-governmental, non-profit organizations proved to be a constructive step. Parts of both strategic documents were designed (not only reviewed) under the supervision of NGOs. The overhauling of the drafts of NRP and NSRF 2007-2013 was significantly influenced by the non-profit sector. For example, the Centre for Community Work, a union of NGOs, carried out the project of Technical Assistance and the information campaign. Projects of NRP and NSRF also included workshops, round tables, seminars, and working meetings of stakeholders that were carried out in individual regions of the country. A public debate on the NRP 2007-2013 took place in January 2006. A similar public debate on the NSRF took place in November 2006. These documents are available on the website of the Structural Funds and the Cohesion Fund or on other websites of partner organizations.

The selection criteria for projects have been a result of consultations with economic and social partners. There have been seminars and trainings organized for applicants with partners. Operational programs are being introduced to the general public with the help of the partners and information is also published on web portals of NGOs. The list of government partners includes representatives of NGOs, the Chamber of Commerce, the Czech Statistical Office, the Agrarian Chamber, the Union of Towns and Municipalities, the Union of Co-operatives, the Confederation of Industry and Transport, the Chamber of Trade Unions, the Confederation of Employers' and Entrepreneurs' Associations, universities, the Government Council for NGOs, the Government Council for Research and Development, the Government Council for Human Resource Development, etc.

Since 1989 the Czech Republic went through several waves of political, economic, and social changes that were not always compatible with each other. They reflected an enormous capacity for re-adjustment reacting to the changing nature of the society and to the opening-up to the global environment. The active involvement of the country in the EU since its full membership in 2004 has not attenuated such a drive for 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. For example, in 2005, the World Bank upgraded the status of the Czech Republic from a transition (developing) country to that of a developed country.

In spite of such a fundamental progress in growth and adjustments, the Czech economy must still face serious new challenges. There are threats to competitiveness (such as a sharply appreciating exchange rate, rising wages, shortage of labour, 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-term battle that would require programs in the quality of long-range strategies beyond the life of a single government. 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. The importance of public finance has declined with the progress of transition. The private sector which 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 towards 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 for further progress.

4. Social Partnership Principles in the Czech Socio-economic Governance

There were two sources of guiding mechanisms for social governance that arose from plans of public policies in this country: internal (nationally autonomous) and external (coming from the European Commission). The former was first associated (1991-1998) 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 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 to the EU members by Brussels. The domestic autonomy in development policies gradually weakened. 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 spin-off of the EU Lisbon Strategy) were outlined 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 and MIT. It became a particularly useful instrument for implementing the policies of competitiveness. We have mentioned above that in 2002 there was the first attempt of the Czech government to define a mutually balanced indicative long-range Strategy of Sustainable Development (SUR) that covered the economy, the

environment, and social equity. With 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 a 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 centre of social interaction. It is no surprise that the role of governments and political parties in modern societies has gained importance significantly. In contrast to communist or totalitarian organization of the society, the modern system is more open to democratic principles vis-à-vis the citizens, as is shown in Figure 2. Along with the widening of democracy, there was also observed a deepening of the scope of politics. Moreover, the relationship between state and businesses reveals similar trends; the private sector depends now more intensively on partnership and cooperation with the public administration.

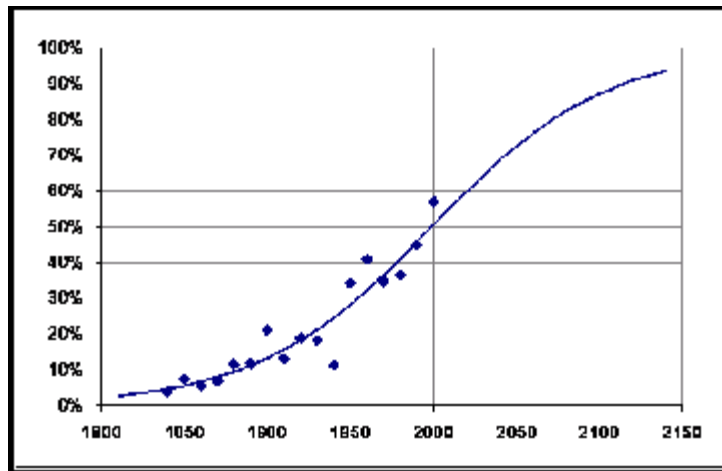


Figure 2: Democratization trends in the world where the number of people living in a pluralistic and parliamentary governance system is steadily rising.

Source: Modelski and Gardner, 2002

The concept of alliances and mutual countervailing powers of modern democratic societies arises under the pressure of **objective processes, or** processes exogenous to any grouping of local agents. Thus, this concept 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 try to impede them. In this study, we have shown with the case of Czech society how both forces act in tandem and whose final outcome depends on the policies that alleviate the restructuring, build a consensus, and enhance cooperation which leads 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 has 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 had to overcome several turning points with far-reaching impacts on the whole society as they evolved in time. There were turning points with the transition from totalitarian economics into market-based auctioning, about changing state monopolies into competing private businesses. Another turning point consisted in the transition from the shortage of capital combined with the glut of unemployed to the excess of financial capital and the shortage of human capital. We can see such an evolution in the organization and policies bestowed on CzechInvest. From 1992-1996 CzechInvest evolved from an information agency into a public service organization that had to break the ice in the economy by opening-up 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 initial policies were natural in their evolution, they were in conflict with the economic globalization and economic growth led by massive gains that emanated from the traded sectors.

Internationalization of the Czech economy that accelerated after 1997 marked an important breaking point in the policies of public-private partnership. Only after economic institutions were revamped in 1997 and 2004 did it allow for massive inflows of foreign capital and entrepreneurship and this **made the public sector able to become an equal partner to multinational businesses and institutions of the Economic 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 time to develop and included numerous errors. However, learning through experience brought the fruits of their labour sooner.

One of the lessons that calibrated the new FDI policies was that subsidized activities must show clear potential for spill-over and demonstration effects and that its incentives should be provided only to (locally) new activities, diversifying the economy. The build-up of agencies specialized in industrial policies required them 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 organization of 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 two members, as did CzechInvest, the Ministry of Regional Development, the Ministry of Labour and Social Affairs, and the 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, the government, and the general public was achieved by establishing AFI, even though this type of interface organization can be thought to be in conflict with the traditional organization of the public sector according to which the public administration can 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 tandem with expanding international openness after 1997. The official title of the Czech 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. There are also seven representatives of businesses (e.g. their chambers and unions) and seven representatives of trade unions. The Tripartite meets six times a year and their agenda is varied. We can mention among its most discussed topics questions about taxes, social safety net, employment, industrial parks, EU funds, attraction of investors, strikes as industrial actions, and the institution of PPP (public-private partnership). In no instance can the negotiations of Tripartite be described as a consensual harmony. All partners fight for their partial interests. The concluding agenda that is published for the public has three parts:

- a) Common agreements about the agenda discussed,
- b) Recommendations for revisions/amendments from one of the parties,
- c) and Disagreements (sometimes even protests) about the policies.

Although Tripartite has no mechanism that would make its outcomes (strategies) binding, it constitutes an important mechanism for reaching politically viable decisions. It also lessens the tensions by offering its partners the ability for further negotiations. Let us mention that such negotiations can proceed in the chambers of Parliament, in negotiations between political parties, in the media, and through the actions of NGOs.

Another institution that aligns the interests of private enterprises with the aims of citizens and with the objectives of the government (such as building a society of innovation and knowledge) is the creation of development agencies. Let us mention here the examples of Ireland or Finland, where their organizations of industrial policies became the engines of prosperity and economic competitiveness⁴. 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 must go beyond the mere promotion of new businesses (especially those of MNCs). Thus the policies of CzechInvest had to be complemented with the trade promotion via CzechTrade agency, promotion of education, support of SMEs, and social relief schemes for agents stricken by relocation.

Planning activities of the public administration could not be discarded completely even though Czech experience in the past offers clear, empirical proof confirming that central planning was in **fundamental conflict** with long-term economic development due to the fact that it could not build upon the knowledge and entrepreneurial skills of millions of agents in their mutual interaction. The reason for retaining a part of central planning activities rests in the continual existence of hierarchies parallel to the markets. These hierarchies consist 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 a role left for the managerial and organizational bureaucracy, whose main instruments of functioning are entrepreneurial visions (strategies of global importance brought to real life) and plans.
- b) Hierarchies of governments (central, regional, municipal), whose existence as decision-making bodies inherently cannot function without strategies and tactics incorporated into plans.
- c) Hierarchies of political parties that feed on individual, entrenched interests, which they amalgamate into political programs. Once such partial interests are inherently and socially contradicting political programs cannot help but be biased towards certain social groups. It

⁴ Such institutions in Ireland consisted of: 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.

may happen 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, and individual freedom must be guaranteed if such a social arrangement is to be sustained.

Let us look at the **transmission mechanism between the plans of political parties and governments**. In the Czech case, the medium-term strategies are formed before elections in the form of "Election Programs" that are prepared by all competing parties. For example, the present winning party (ODS, belonging to the right) came with a thick book called "Blue Chance", where each shadow minister presented his/her priorities backed by past statistics and expected new trends influenced by their policies.

The next step after winning the elections is to form a coalition. It is the specificity of the Czech political scene that any winning party does not have a simple majority in the Parliament⁵. The governments are formed by signing a Coalition Agreement – an act that often takes months of negotiations and public discussions. Oddly enough, the signed Agreements usually have been honoured quite strictly, even though the government presented a wide plurality of interests followed by their parties. The Coalition Agreement is less detailed than the Election Programs of the parties, even though the former could be backed by indicative figures for some targets. The Agreement 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. A modified Election Program for the given party then manages the ministries.

Annual Plans of Fiscal Spending are the crucial instruments for keeping the cooperation of government coalition in mutual balance. Thus, alternative visions within the coalition must be harmonized before the start of the budget period. The Central Budget is structured according to ministries and its individual programs, while Regional Budgets are autonomous. In the Czech Republic, as in other member states of the EU, national sovereignty is only partial. Some important objectives dealing with public goods (such as competition, trade, R&D, education, defence, or environment), given by the directives of the European Commission, must be "internalized" into domestic laws and programs. Also, the European Funds have a compulsory structure and 7 year indicative figures.

Although regional and municipal elections are often combined with national elections, their campaign and outcomes can be very different. The ensuing complicated negotiations about harmonizing central and local decisions are simplified by granting local governments a clearly defined autonomy guarded by strict rules for fiscal management.

Returning to the problem of coordination among such a diverse spectrum of democratic institutions, it is clear that there is a need for building institutions that overlap both

⁵ The Czech political system is characterized by its rather stable structure. There are two main rivals: right-inclined Democrats (ODS, akin to British Conservatives) and left-inclined Socialists (CSSD) that both fight for the margin of 30-35% of votes. Then there are the Communists with a maximum of 15%, Greens with approximately 10%, and Christians with 7%. Czech communists have a unique role in that while no government would accept them into a coalition, in the end, they decide at the margin about the existence or non-existence of most important policies.

the regional and the ministerial domains. 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. Similarly, some centralized financial institutions, such as the administration of European Funds, support of SMEs or Consolidation Agency administering the bail-outs, had to be managed independently of political cycles. The same concerns the institutions that coordinate science, education, quality of products, environment, or culture. Alongside them are numerous active NGOs that heat the discussion from autonomous positions⁶.

It should be stressed again that the aforementioned 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) is not forced by explicit commands to fulfil certain quantitative targets and there are no quotas limiting their output. Only agriculture is subject to a quota system that is operated by the European Commission. 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.

The reality, however, is more complicated and contradicts such a general principle. Although central planning was completely abolished in 1991, significant indirect government interferences that limit the scope and flexibility of decision-making of enterprises are still present. There are regulations that limit the existence of negative externalities (e.g. pollution or crime). In addition to Acquis Communautaire (the so-called "Brussels' bureaucracy"), there are still just as many local regulations, whose text covers tens of thousands of pages. Except for indirect valid incentives, the government can influence the private sector by "consolidation policies" that involve the usage of rather discrete subsidies. Since bailouts and subsidies are not allowed after EU accession, this vestige from the times of early transition can be implemented by means of government procurement contracts.

Nevertheless, Czech government "planning" converges upon industrial policies coordinated at the level of the European Commission, which have clear general rules that aim ideally at being market-compatible. This is not always guaranteed. European states will remain differentiated, though. The local differences will be determined from the grass-roots: in the positive cases by the talents among local entrepreneurs, the quality of education, the local bureaucracy that is not subject to rent-seeking, and by individual preferences biased more towards work instead of towards leisure and social welfare. In the end, it is the local civil society and its culture that decide upon national long-term development by guiding markets and governments to a higher performance.

⁶ As an example, let us consider the NGOs' monitoring of the government's policies on the promotion of FDI. The most active civil society group is called GARDE (Global Alliance for Responsibility, Democracy, and Equity), which screens legal and environmental aspects of FDI promotion schemes, issues analyses of the impacts of FDI on the society, and supports the litigations of individuals who suffered damage from FDI. It proposes revisions of the laws that regulate the FDI entry. The network of GARDE covers the whole country and it has earned prestige in the media (see EPS, 2008).

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