The Role of the OECD and the EU in the Development of Labour Market Policy in the Czech Republic

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Abstract
This article analyses the role of the OECD through its "Jobs Strategy" and the European Union (EU) through the "European Employment Strategy" in the development of macro-economic, employment and labour market policy in the Czech Republic. As a full member of the two organisations, the Czech Republic has been subject to their soft non-binding policy advice in the area of labour market reform. The OECD and EU policy models are similar, both insisting on growth-oriented macro-economic policy, supported by active labour market policies, an active and effective public employment service (PES) and the de-regulation of labour markets. However, the OECD actively advocates private actor involvement in labour markets, while the EU insists on the role of the public sector. The inquisitive styles of the two organisations differ: the OECD has a decontextualised and quantified analysis of performance accompanied by a supportive in-depth qualitative analysis, while the EU has a more contextualised analysis, which is also more politicised. However, the EU's policy is partially supported by European structural funds, while the OECD has no comparable instrument. Despite some differences in policy model and inquisitive style, both the OECD and the EU have given the same major policy recommendations over time to the Czech Republic, although the OECD has insisted more on de-regulation, whereas the EU has also emphasised worker security and anti-discrimination. In macro-economic policy, de-regulation and increasing flexibility on the labour market, the Czech Republic conforms with OECD and EU policy models and recommendations. The PES has been developed institutionally to fit both models. However, activation, shifts in expenditure from passive to active labour market policy, training and placement of the PES have not changed substantially since the Czech Republic became member of the EU, suggesting that the real impact of the OECD and the EU has been weak.

Keywords
OECD; Jobs Strategy; EU; Lisbon Strategy; European Employment Strategy, policy coordination; labour market policy; employment policy.

BOTH THE OECD, VIA ITS 'JOBS STRATEGY' AND THE EUROPEAN UNION (EU), THROUGH the European Employment Strategy (EES) advocate high labour market participation as an important part of the solution to achieve economic growth and well-being. This article contributes to understanding the similarities and differences in policy prescription of the two actors, how the actors assess performance in the Central and Eastern European

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countries (CEE), which types of solutions have been adopted and ultimately, how influential the policy models of the OECD and the EU have been. The Communist system left an important institutional heritage in labour market policies and institutions in the CEE in their transition to democratic capitalism. Under communism, the countries were officially full employment societies, with no unemployment problems. The systems were paternalist and all individuals had rights to comprehensive social protection (education, health care, housing) via their job status' (Offe 2009). The post-1989 development has involved (sometimes very extensive) re-calibration of the former social and labour market policies and institutions, driven by the new elites in these countries, but in a context where external actors, including international organisations and the European Union (EU), have had an important impact on institutional change and policy development (Offe 2009; Ornestein 2008). The World Bank (WB) and other international organisations have been effective in directing pension reform in the CEE, promoting liberal policies based on individually funded solutions (World Bank 1994; Deacon *et al.* 1997; Deacon 2007). Ornestein (2008) argues that it was due to liberal pre-disposition in the CEE during the 1990s, that the WB and other international actors were able to persuade many of the CEE to adopt liberal policy solutions (Ornestein 2008). Ornestein (2008: 911) also claims that the governments in the CEE wanted to "out-liberalise" the EU and to become policy leaders in economic liberalisation.

The EU has been influential in the CEE through membership conditionality (Grabbe 2006) across a wide array of policy areas governed by the hard *acquis communautaire*, including the development of the Single Market. Strikingly, the new member states show a better track-record than the old member states in compliance with EU law (Sedelmeier 2008). On the other hand, compliance with convergence criteria of the Maastricht Treaty for full membership of the Economic and Monetary Union (EMU) has been partial and is still lagging behind (Johnson 2008), whilst the EU's influence in social policy has been weak due to the virtual absence of hard law in this area (de la Porte 2001; Ornestein 2008). In this context, what have been the (external) driving forces of reform in labour market and employment policy? What policies do the OECD and the EU promote and how do they do that? With a few exceptions, analyses of the impact of the OECD's Jobs Strategy and how the policy advice compares to reforms undertaken is quantitative (Armingeon and Beyeler 2004). Casey (2004) compares the OECD and the EES, but does not go into detail about the differentiated policy recommendations in the individual countries, measured against reform efforts. The analyses of the impact of the EES[1] are more detailed and in-depth, but focus mostly on old, rather than new EU member states (Zeitlin 2009; Buechs 2007). This article analyses the policy model of both actors, the specific recommendations they make to one country, and compares this with the reform outcome in that country.

To analyse the role of the OECD and the EU in this process, I draw on literature that analyses the role of international organisations in policy reform. Bengt Jacobsson (2010) has identified two means of non-traditional means of regulation used by international organisations: 'meditative' and 'inquisitive' modes of regulation (Jacobsson 2010; Mahon and McBride 2009). Meditative regulation refers to the development of a policy model that is advocated as the best solution to respond to a policy challenge; it involves the diffusion of norms that may embody a broad policy paradigm (Hall 1993). Inquisitive regulation, which often accompanies the meditative regulation of international organisations, involves surveillance, monitoring and benchmarking, used to support target countries in the achievement of the aims of the advocated policy model (Jacobsson 2010). It is these two modes of regulation that capture the means of influence of international organisations and that will be used in this article to analyse the OECD and the EU. More

[1] See Kröger (2009) for a comprehensive analysis of the Open Method of Coordination (OMC) and the EES.

specifically, what is the content of the advice for labour market reform and employment policy – meditative regulation - directed at the CEE by the OECD and the EU? To which extent is their meditative regulation consensual and on which points do they diverge? What are the characteristics of the inquisitive dimension of the OECD and of the EU and to which extent are they successful in coercing the countries to reach the policy aims that they prescribe? On the basis of their inquisitive regulation, what is the assessment of labour market reform by these two external actors? What kinds of policy solutions have the CEE developed, how do they compare to the blueprint of the international actors and to which extent do they deviate from these models, developing their own policy solutions, driven by domestic reform processes? This article provides answers to these questions on the basis of an analysis of one country, the Czech Republic, selected as a 'critical case', that can provide an answer to the main research question: to which extent are the international organisations influential and to which extent do they adapt their advice to the context of a particular country? (Flyvbjerg 2007).

Table 1 below summarizes key statistical data for the Czech Republic in 2000, 2005 and 2007/8, which shows that GDP per capita has increased incrementally and steadily, starting at 68.4% in 2000, increasing to 75.9% in 2005 and finally reaching 80.1% in 2008. Regarding the overall employment rates, the employment rate in the Czech Republic was already high in 2000 at 65%, increasing to 66.1% in 2007 (in fact it is the highest among the EU-8).[2] However, the Czech labour market is (still) dual, where Foreign Direct Investment has created employment in new areas and is flourishing, while the former industrial sector is costly and unproductive. The Czech Republic has had a low unemployment rate since EU membership, but the financial crisis in the autumn of 2008 has changed this. The unemployment rate was 4.5% in November 2008, increasing to 7.1% in November 2009 (Eurostat 2009a).

Table 1: *General economic and employment indicators for the Czech Republic*

Indicator (%)	Czech Republic 2000	Czech Republic 2005	Czech Republic 2007*	EU average/ targets
GDP per capita in PPS**	68.4	75.9	80.1	100
Overall employment rate	65.0	64.8	66.1	70
Female employment rate	56.9	56.3	57.3	60
Employment rate older workers	36.3	44.5	46.0	50
Notes: * The GDP per capita in PPS is for 2008; for employment rates the latest data is from 2007; ** The average EU GDP per capita in PPS is 100.				

Source: Eurostat (2009b)

As mentioned above, the Czech Republic is a 'critical case' (Flyvbjerg 2007): it is successful in terms of GDP growth, employment rates and until recently, unemployment rates, but there are structural problems to be confronted in the ineffective domestic industries. Have

[2] EU-8 refers to the 8 eastern European countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia) and Slovenia, formerly part of Yugoslavia, that became full EU members in 2004. Malta and Cyprus also became full EU members at this time.

the OECD and/or the EU played a role in reforms adopted in macro-economic policy, employment and labour market policy? And if so, to what extent and how have they addressed the dualism of the labour market? If the OECD and the EU tailor advice to this particular case, it can be expected that they do so for other countries as well. If not, then it can be expected that their advice is driven mostly by their blue-print. Reform advice should be informed by circumstances, rather than the pretention of the existence of a one-size fits all policy model. The remainder of this article is organised as follows. First of all, the OECD and the EU are compared along the meditative dimension and inquisitive dimensions, the former referring to their policy model in the area of labour market and employment policy and the latter to their means of analysis and surveillance. To support the analysis, I develop indicators for detecting the robustness of the meditative and inquisitive regulation of the OECD and the EU. Secondly, I undertake an analysis of labour market and employment policy development in the Czech Republic in the view of the policy models of the OECD and the EU and their assessments of policy reform. I analyse when reforms were undertaken in order to be able to assess whether the OECD and the EU, respectively, have had an influence. Finally, I draw conclusions about the relative influence of the OECD and the EU in the Czech Republic and point to some possible explanatory factors.

Meditative and inquisitive regulation of the OECD and the Lisbon Strategy

Meditative regulation refers to a consensual policy discourse or model, which includes the framing of a policy problem and then the drawing up of a specific policy solution, which is developed by experts in international organisations (Jacobsson 2010). A frame "provides conceptual coherence, a direction for action, a basis for persuasion, and a framework for the collection and analysis of data – order, action, rhetoric, and action" (Rein and Schon 1993: 153, in Fischer, 2003: 144).[3] The development of a policy model is accompanied by the inquisitive dimension of regulation, which refers to the means of 'inquiry' (peer review, benchmarking, visits of country experts, recommendations) used by international organisations to monitor and to assess policy development with regard to a policy template that they seek to uphold and to diffuse among their member countries. The literature on the policy advice of international actors and the EU has focused on their development of normative models (meditative regulation) together with their capacity to diffuse those norms to target countries (mainly through inquisitive regulation, or 'learning capabilities') (Deacon *et al.* 1997; Hartlapp 2009). However, the literature does not clearly define indicators to locate the robustness of a meditative discourse or of the inquisitive regulation of a particular organisation. In this article, four indicators are developed to compare the potential leverage of the OECD and EU in policy reform. The first is the *temporal dimension*, since the time at which an issue is put on a policy agenda affects its likelihood of being adopted (Kingdon 1994): when there is ideological congruence of a policy model promoted by external actors with national political priorities, this may enhance the adoption of the features of that policy model. The second is *competition*: were there other models of policy solutions proposed by domestic or international actors at the same time? The more alternative solutions were present during the process of restructuring labour market institutions, the less the likelihood of adoption of one specific solution. Conversely, if the policy advice of one actor is repeated by another actor, then that strengthens the potential influence of both actors. The third is *clarity*, as the clearer the objectives are, the more likely they are to appear feasible, and hence, to be adopted as intended by the international organisations. Here, it is not only the policy model that should be clear but equally, the assessments of member countries' performance by the

[3] See Daviter (2007) for a more detailed overview of the different strands of policy framing literature in the European Union.

international organisations and the policy recommendations to member countries, in the sense that they should be targeted, contextualised and realistic. The fourth is *consistency*: has the policy model of the international organisation changed over time or has it remained the same? As shown in public policy literature, it takes about a decade for policy learning to take place (Sabatier and Jenkins-Smith 1993). The longer the model is the same, the more likely it is to be influential; conversely, if the model changes, then it is less likely to be influential in the long-term.

What, then, is the policy model of the OECD in labour market policy and how robust is it? How does this compare with the policy model of the EU in labour market policy? The aim of the OECD's 'Jobs strategy' developed in 1994 was to liberalise labour markets in order to enhance economic well-being[4]. The strategy consisted of 10 recommendations[5], unambiguously based on liberal policy and that remained stable for over a decade (Casey 2004; Mahon and McBride 2009). The aims were clearly stated, leaving little room for interpretation. As a policy model, then, it was very robust. It was not until 2006 that the recommendations (and policy model) were altered, involving more of a social dimension to complement the negative effects of liberalisation (Jacobsson and Noaksson 2010). The first component of the strategy recommended stable (non-inflationary) macro-economic growth, involving the reduction of budget deficits and public debt levels. The second aspect prescribed policies that should reduce unemployment and increase labour market participation, mainly via increasing flexibility on the labour market. This included the reduction of employment protection[6], the facilitation of enterprise start-up, the facilitation of dismissal, the development of different types of contracts (part-time, fixed term, partial retirement)[7] and making wage and labor costs more flexible (through a reduction in wage and non-wage labor costs). Third, the OECD advocated a shift in expenditure on labor market policy, from passive to active labor market policy (ALMP). In that process, the OECD identified the public employment service (PES) as an important (but not sole) actor that should be responsible for placement, counseling services, delivery of labor market programmes. The OECD especially highlighted the importance of targeting job creation at long-term unemployed youth and long-term unemployed. Fourth, the OECD's policy model also advocated the development of a (continuously) trained workforce, to be achieved by enhancing the quality of school (and pre-school) programmes but also by increasing the role of the private sector in the provision of educational services. Finally, regarding social partners, the OECD considered trade unions and worker protection a hindrance for the development of labor market flexibility and thus advocated the development of framework agreements that would leave enterprises free to respond flexibly to market trends.

To diffuse this model, the OECD has developed 'inquisitive regulation' extensively in the absence of other instruments, such as short-term loans, used by actors like the International Monetary Fund and the WB (Mahon and McBride 2009) or membership conditionality, as used by the EU. Its inquisitive regulation has been identified in the literature as decontextualised, explicitly assessing progress with the Jobs Strategy template as the benchmark, independently of the conditions in the country (Armingeon and Beyeler 2004; Jacobsson and Noaksson 2010; Casey 2004). The approach is also

[4] Here I only analyse the OECD Jobs Strategy and no other policy models that were developed subsequently (see Mahon and McBride 2009; Jacobsson and Noaksson 2010 for more details about other more socially oriented policy dimensions developed in the OECD after 2000).
[5] This article summarises only the main types of policies in labour market policy, in order to be able to compare the meditative regulation of the OECD and the EU.
[6] The OECD recommended decreasing the replacement rate and the duration of the unemployment benefit and increasing conditionality for access to the unemployment benefit.
[7] To meet this objective, the OECD recommended the development of contracts with lower degrees of protection, and test periods.

quantified, whereby each country receives a quantified 'score', expressed as a percentage, for each of the ten objectives of the Jobs Strategy. These ten scores are then added up and the average, expressed as a simple index, represents the overall 'performance' of the country. It is the econometric analysis and ranking that is intended to put pressure on the countries to comply with a particular policy template. This econometric approach makes it possible to 'rank' the OECD countries in terms of compliance with a policy model. However, this quantification of performance can be problematic, since increasing a minimum wage from a very low level, in all cases is assessed by the OECD as going *against* its recommendations, regardless of whether the minimum wage is above or below the poverty level (see analysis in Brandt *et al.* 2005). This is not to say, however, that the OECD does not undertake other qualitative analyses about reform measures. On the contrary, its research capacity is enormous and it comprehensively analyses development in different policy sectors for its 30 member countries over time. In addition to quantified ranking, the OECD also makes individual country recommendations, identifying the main challenges in priority policy areas. The OECD country assessments that include specific policy recommendations to each country must be approved by the country reviewed and by its peer reviewers. It is notable that the European Commission is also present in the Economic and Development Review Committee that prepares the assessments and recommendations.

How does the EU policy solution to high unemployment and low growth compare to that of the OECD and how does its inquisitive regulation compare to that of the OECD? While the OECD had a fully developed policy model about labour market reform already in 1994, the EU's labour market and employment policy was not fully institutionalised until 1997. The main objective and inquisitive mode of regulation of the European Employment Strategy (EES) is defined in the Employment Title of the Amsterdam Treaty (articles 125 EC – 130 EC), agreed in June 1997 (de la Porte 2007). Specific policy objectives were agreed at the European Council in November 1997, but have been adapted on a yearly basis since then, potentially rendering the policy model less robust, but perhaps more receptive to political priorities and economic and social realities, than that of the OECD. Nevertheless, there are some core features of the model that have been permanent from the outset. Foremost, in the area of macro-economic policy, the EU upholds, like the OECD, low budget deficits (theoretically allowing only 3% budget deficit for its member states) and controlled public expenditure (with a ceiling rate of 60% public debt). Secondly, the EU seeks, like the OECD, to maximise the participation of the active population in paid employment, which should in turn contribute to improving the economic growth rate. To reflect this aim, the EU agreed on quantitative employment rate targets (70% overall employment rate, 60% female employment rate, 50% older worker) in 2000 and 2001 (European Council, 2000; European Council, 2001). To reach this aim, various policies have been proposed. Many of these seem to be an emulation of OECD policies – reduction of very strict employment protection, development of different types of contractual arrangements, reduction of wage and non-wage labor costs.[8] However, for the OECD, flexibility was not accompanied by any complementary measures in its Jobs Strategy, and the role of social partners in the development of collective agreements was seen as an obstacle to the development of flexible labour markets. For the EU, flexibility is to be enhanced (particularly in countries with high regulation), but the importance of contractual arrangements and worker security is also emphasised and is embodied in the 'flexicurity' concept (European Commission, 2007). Worker security has been singled out as a particular problem for the CEE (Interview Commission 2, July 2009). The EU also has legal requirements in the area of labour law, requiring a lawful work contract, where labour inspectorates play a role in ensuring that this is enforced. This was even part of the *acquis*

[8] In the Commission Communication on flexicurity, the knowledge and data developed by the OECD is referred to explicitly (European Commission 2007).

communautaire in the social policy area for the CEE. The EU, like the OECD, has underlined that Member States should shift expenditure from passive labour market policies (PLMP) to active labour market policies (ALMP).[9] While the OECD has highlighted 'activation' as a core component of its strategy, the main political emphasis of the EU has been on 'employability', which refers not only to 'activating' individuals through employment, but also in ensuring that they are trained continuously throughout their working lives. Similar to the OECD, the EU identifies the PES as the key actor that should be responsible for placing individuals in various types of employment schemes. However, contrary to the OECD that explicitly advocated the involvement of other private actors in the announcement and administration of vacancies and training, the EU (at least theoretically) promoted only the PES. This is an important point of difference with the OECD policy template developed in the 'Jobs Strategy'. Like the OECD, the EU has emphasised the need to focus on 'activation' and the increase of labour market participation. The EES explicitly refers to more target groups than the OECD – young people, women, older workers, immigrants, long-term unemployed – although the emphasis on which groups of individuals should be 'activated' has changed over time (de la Porte 2007). Like the OECD, the EU insists on the upgrading of skills and training, under the term 'life-long learning'. It is not only the PES but various actors that should be involved in this activity, but contrary to the OECD approach, there is no explicit reference to the private sector[10]. Another point of difference is that the EU advocates that social partners take on an important responsibility in the development of norms in the area of labour law, including contractual conditions and working time, while the OECD identifies social partners as an obstacle to deregulation of the labour market. Finally, although the EU, particularly the Economic and Financial Affairs Council and the DG for Economic and Financial Affairs in the European Commission, upholds the importance of controlling public expenditure, the Social Affairs Council and DG for Employment and Social Affairs in the European Commission upholds that it is important to develop modern social security systems, which can ensure equity and access to high quality health care and pensions (European Commission 2007).

Concerning the inquisitive regulation, there are important differences between the OECD and the EU. First, the Council of Ministers sets the political agenda of the EU, which influences and indeed, politicises the policy objectives of the EES, which is different from the OECD that is not affected by the political tendencies within the European Council. The policy cycle of the strategy, repeated iteratively is as follows: first, the policy objectives (employment guidelines) of the EES are agreed at the level of the Council; second, member states show compliance with policy aims in regular[11] national reports (compiled by governmental actors with the involvement of different ministries), which are peer reviewed by two countries, and third, the European Commission[12] prepares comparative information and statistical analyses on member state performance, together with

[9] Eurostat and the OECD collaborate in the development of statistics, namely the EU's labour force survey and the OECD's statistics on passive and active labour market policies.
[10] With the EES the EU has from the very beginning promoted policies to reconcile work and family life, in particular the development of high quality care for the 0 to 3 year olds and for the 3 to 6 year olds. The EU here explicitly refers to the role of the public sector in the development of (and/or subsidising of) child-care institutions. The OECD, in its 1994 Jobs Strategy, excluded family policy altogether, but it has been developed subsequently in "Babies and Bosses" and even in the revised Jobs Strategy in 2006 (Jacobsson and Noaksson 2010). However, family policy will not be analysed here, since the scope of the article is limited.
[11] The reports were yearly until 2005. Since 2005, the reports have become tri-annual.
[12] The European Parliament was initially side-lined from the Lisbon Strategy. Since 2005, its role – which it conducts through its Economic and Monetary Affairs Committee and its Employment and Social Affairs Committee - has been strengthened somewhat. It is consulted, but it is not a core actor in the Lisbon strategy. Its role has recently, at least on paper, been strengthened in the Strategy in the recently adopted Lisbon Treaty.

individual country recommendations. These three aspects of surveillance carried out by the European Commission must all be endorsed by the Labour and Social Affairs Council to be officially published.[13] The inquisitive dimension of the EU is similar to, but more frequent than that of the OECD. Perhaps more important, the assessments of country performance and country recommendations are more contextualised, i.e. they take more account of the diverse challenges faced by the member states and of their economic and social conditions than the econometric approach by the OECD. The EU, like the OECD, issues individual country recommendations, which highlight the most important challenges faced by that country. However, EU recommendations are more politicised than the recommendations of the OECD, as are the country assessments.[14] As expressed by a Commission official, "[in] a sense, recommendations can be considered to set priorities for each member state…The instruments do not focus on economic or other policy issues in neutral ground, but involve political actors. From a political perspective, it is not possible to issue 8 to 9 recommendations for Bulgaria, Poland or other new member states and then to issue fewer recommendations to some of the more successful old member states. The governments simply would not accept that. That is why we have a few broad-ranging recommendations within which there may be some sub-recommendations" (Interview Commission official 3, August 2009).

Aside from higher frequency and more politicisation of the EU inquisitive regulation, there are other particular features that distinguish the EU employment strategy from the OECD's 'Jobs strategy'. One is that there is funding – European structural funds – associated with the EES. When there is funding, it can and does act as a carrot to implement a particular policy, particularly if that policy is costly (Interview commission official 2; interview commission official 3).[15] An independent expert has stated that: "the EU's soft coordination system is associated with another policy instrument, i.e. the Structural Funds (European Social Fund and European Regional Development Fund). In many cases, these funds act like a carrot (some other instruments may also act like sticks, whilst soft coordination is rather a matter of sermons). The instruments reinforce one another. That is something we have seen in many countries, of course in member states benefiting most from structural funds (new member states and old Mediterranean member states)" (Interview Independent Expert, August 2009). Second, in some areas, such as anti-discrimination and labour law, the EU has a body of EU hard law that backs up the policy objectives of the EES.[16] In particular, three EC directives in the area of labour law have provisions for equal treatment, the prohibition of discrimination, and labour contracts concluded for a definite

[13] Since 2005, the Economic and Financial Council has more weight in the EES as the economic and employment policy coordination cycles have been synchronized.
[14] There are different assessments in the literature on the EES about its inquisitive dimension. Hartlapp (2009) argues that the inquisitive dimension of the EES, or its potential for learning, is not particularly strong, despite the various EES instruments that have the potential to induce policy change (guidelines and recommendations, national reform programmes, benchmarking, peer review and indicators). Others, such as Zeitlin (2005 and 2009), have argued that the EES has induced learning and led to policy change through several of its inquisitive tools.
[15] In 2005, an EU programme to support the reform process associated with the aims of the Lisbon strategy (the Community Lisbon Programme) was launched. While many of the measures launched through the programme represent a re-grouping of former programmes and measures, notably the Structural Funds, the programme provides EU support only when it is connected to the implementation of the Lisbon strategy (Begg 2007: i).
[16] There is also a third dimension: in 2005, national Lisbon "coordinators" have been appointed in order to enhance the integration of the EU policy aims into national policy. The existing academic analyses about the role of Lisbon coordinators show mixed results. In some cases, they have led to more integration, in others they have acted as gate-keepers for presentation of national policy to the EU, whereas in still others, they have spurred a national debate along different dimensions (Borras and Peters 2009; Poulsen 2009). As it is a recent development, it will not be included in the scope of this article.

period of time. These provisions must be integrated into legislation in all member states, and must be implemented. In addition, a Labour Inspectorate must be established to ensure that labour law is enacted lawfully. The EU-8 member states have been obliged to comply with EU legislation and have also been involved in the EES policy cycle since they became full EU members in 2004.[17]

Policy advice of the OECD and the EU and the reform outcome in the Czech Republic

The OECD and the EU, then, share a diagnosis of policy challenges in industrialised/EU economies (low economic growth, high unemployment, low employment rates) and in essence, propose similar solutions in their policy models in terms of labour market flexibilisation and activation, although there are also important differences. The case analysis below presents the country-specific recommendations made by each organisation to the Czech Republic (focusing mainly on the 2004-2009 period when it was subject simultaneously to OECD and EU pressure), which casts light on whether and if so, how, the two organisations actually differ in terms of the policy advice they give. It also analyses the reforms undertaken in the Czech Republic, which shows the real leverage of the OECD and the EU for policy reform in employment and labor market policy. Table 2 below summarises the main policy recommendations to the Czech Republic in the key areas of macro-economic and labour market policy and reforms in the Czech Republic

In macro-economic policy, the Czech Republic has been recommended by both the OECD and the EU throughout the 2000s to reduce its public deficit and its public debt, in particular by making fundamental reforms in pensions and health care. The OECD recommended that the pension system should be reformed to make it financially sustainable, by channeling contributions to private pension funds and by enhancing the voluntary pillar of the pension system. Like the OECD, the EU has iteratively recommended that the Czech Republic undertake fundamental reforms in the pensions system to reduce the public deficit. The Czech Republic has undertaken several reforms, in line with these recommendations. It has incrementally adapted the existing PAYG system (increasing the required contribution period for being able to receive a full pension, increasing the mandatory retirement age and decreasing the replacement rate). In 2008, yet another change in this direction was taken: the retirement age was increased to 65 (by 2030) and the minimum contribution period required for a full pension changed from 25 to 35 years (also to be achieved by 2030). The OECD states that the parametric changes to make the existing system more sustainable should be accompanied by the development of a second pillar, to counteract the decline of replacement rates in the PAYG system. The EU does not make this recommendation but states that the reforms should contribute to maintaining sustainability in the pensions system (OECD 2008; European Commission 2008).

The OECD also recommended that the Czech Republic should make fundamental changes in health care reform, by increasing the privately funded share of health care services and by facilitating the emergence of a private health care market (OECD 2003, 2008). The EU has also consistently recommended the reform of the health care system in the Czech Republic, in line with the OECD advice. Reforms have been introduced recently by the Czech Republic in this area: user fees were introduced for some health care services in

[17] Prior to EU membership, the "accession countries" participated in the EES by preparing national reports to the European Commission. However, as shown by Jacobsson and West (2006), the pre-accession action plans were passive and reactive documents (Jacobsson and West 2006: 120). Also, their statistics were harmonised and integrated with EU statistics prior to EU membership. This has had an impact on the capacity to analyse and then quantify policy problems (Interview statistical expert Czech Republic, November 2009).

2008 and reforms will be pursued in this direction. In addition, the Czech Republic plans to open up the health care market to private actors, which has been highlighted as a positive development in the country assessments by both the OECD and the EU (OECD 2008; European Commission, 2007a, 2009). The result of incremental changes to the health care and pensions systems in the Czech Republic is that the budget deficit has been reduced over several years, from 5% of the GDP in 2001 to 1.2% of the GDP in 2008.

Table 2: *Policy Advice of the OECD and the EU for the Czech Republic (2004-2009)*

Policy area/ organisation-reform	OECD	EU	Reforms Czech Republic
Macro-economic policy	reduce public deficits via sustainable expenditure cuts (health care and pensions); strengthen bankruptcy conditions(targeted at ineffective domestic industries)	Achieve fiscal stabilization and improve the long-term sustainability of public finances (health care and pensions)	Incremental changes to existing systems in health care and pensions; Recently plans to introduce private agents in health care, and to undertake more substantial pension reform
Flexibility/security, minimum wage, employment protection, Public employment service and Activation	Reduce non-wage labour costs, reduce regulation to be able to start-up businesses, enable the development of different types of contractual arrangements (part-time, temporary employment); Increase conditionality for the reception of unemployment benefit; decrease the length of reception of unemployment benefit; decrease the income replacement rates; Increase the retirement age and adjust early and late retirement regulation.	"modernise" employment protection: facilitate the development of labour contracts, mainly by de-regulation; Security should be enhanced for workers; Invest in training for older workers and the low-skilled, increase activation.	Possibility to conclude different types of labour market contracts enabled; Unemployment benefit has been changed, hardening conditions and decreasing the benefit; Social assistance has been reformed to make access conditional; A lower "minimum survival" rate has been introduced; Minimum wage has incrementally increased; Programme for activating older people has been adopted; pensionable age increased, total years of contribution to receive full pension changed from 25 to 35 years.
Education and Training*	Education systems should be improved, especially to facilitate the transition from secondary to tertiary education and to render the skills provided in the education system relevant for the labour market; Introduce tuition fees in tertiary education	The efficiency and equity of education and training should be improved, and rendered more responsive to the labour market needs	National progarmme has been adopted for improving education, with the support of the ESF
Social Partner Involvement	Decrease collective agreements to over-protect some sectors: construction, textiles and metal-working	No recommendation	Trade unions did not approve of the last national reform programme (reflecting reforms planned in economic and employment policy).
"Score"**	The OECD "score" was 22.5% for following through on more specific recommendations (rank 18 out of 30 countries); the "reform intensity"*** indicator is 6.2, whereby the Czech Republic is ranked 28 out of 30		

Notes: * Due to lack of space, education and training will not be discussed in detail in the text. But it is shown here to reflect the difference in OECD and EU policy advice; ** It is only the OECD that quantifies progress. This data is derived from the 2005 comparative assessment of country reforms, after 10 years of implementation of the Jobs Strategy. The EU has no corresponding quantified benchmarking and ranking system; *** For each area an assessment was made on a basis of reforms scoring positively being in line with OECD policy and negatively when against OECD recommendations. In the quantification process, if reforms go in opposite directions, the two reform initiatives cancel each other out, so that reform effort is "0". The reform intensity indicator represents the average reform efforts in the 10 areas covered by the OECD recommendations

Source: OECD (2003, 2005); European Commission (2007a, 2009)

Despite these reforms, the OECD re-enforced these recommendations in 2008, calling for "more ambitious" deficit targeting, further health care reform, in particular the reduction of public expenditure and the decrease of coverage of "ever expanding treatment possibilities", as well as the creation of conditions favourable to private actors in the health care sector (OECD 2008). The EU is more positive and does not press for more change, assessing that reforms undertaken should improve the prospect of ensuring long-term sustainability of public finances. Indeed, the budget deficit is lower than the requirement in the Stability and Growth Pact of 3% of the budget deficit. In this area, then, the two organisations are strongly driven by their respective blue-prints, which are widely similar. However, the OECD is more stringent than the EU, which is satisfied once the criteria for the Stability and Growth Pact have been met (OECD 2008, European Commission 2009). It is the agenda of the economic actors in the OECD and the EU.

Compared to the area of macro-economic policy, where the OECD and the EU have the same position, the core of the OECD and EU models in labour market policy are the same, as are their policy recommendations, but there are also some differences. When the Czech Republic became member of the EU in 2004, it had to revise its Employment Act to conform to EU legislation, in particular with regard to the issues of equal treatment and non-discrimination, but also that of protection against repeated extension of temporary contracts. In this sense, and unsurprisingly, the Czech legal framework has directly been affected by the EU membership conditionality (British Chamber of Commerce 2004). Since then, the Employment Act has been altered several times, not only to implement legal EU membership requirements but also to implement political decisions, regarding the development of flexibility in labour market contracts and changes to the minimum wage, to employment protection and to the provision of employment services.

In 2009, alterations were made in the Employment Act regarding the changes in conditions for concluding employment contracts. In line with OECD and EU recommendations, possibilities to conclude labour contracts have been facilitated, as have the possibilities to create part-time jobs. Financial incentives for employers to employ people on a part-time basis (lower social security contributions) have been enhanced. The assessment of the recent reforms by the OECD and the EU differ: the EU has noted that, while the Czech Republic has successfully facilitated the development of flexible working arrangements, it has failed to ensure that more security is incorporated in contract law for those with full-time contracts. The OECD, on the other hand, considers that the changes are going in the right direction, but that more deregulation needs to be introduced, in particular for jobs with short job tenure (OECD 2008). Here, the OECD and the EU differ. Whilst the OECD more blatantly follows its blue-print, the EU insists more on lawful employment and security, backed up by legislation. This agenda is pushed forward mainly by socially-oriented actors (Social Affairs ministries and DG Social Affairs in the European Commission).

The minimum wage in the Czech Republic was initially very low, in the mid-1990s, but it has progressively been adapted upwards, and has from 2000 onwards increased relative to average gross wage. Table 3 below summarises the developments from 1995 to 2007. This change was against OECD recommendations and the OECD has highlighted this as a negative development, despite the fact that the minimum wage has been increasing from a very low initial level. These developments took place well before EU membership and the EU has not made recommendations in this area. In essence, the reforms were domestically driven and the minimum wage has been increased in order to make work pay and to ensure minimum living standards. In the Czech Republic, it is estimated that 2-3% of the population receive the minimum wage (EIRO-online 2005). Another point is that there has been an increase in the payroll tax on low-wage earners in 2004, which is against both the OECD and EU policy models (Brandt *et al.* 2005). The OECD and the EU, then, have had no leverage in this area.

Table 3: *Development of the minimum wage in the Czech Republic*

	1995	1998	2001	2002	2003	2004	2007
Average wage (euros)	2,200	2,650	5,000	5,700	6,200	6,700	7,000
% of average gross wage	27	23	34	36	37	37	-

Source: EIRO-online (2005); NRP (2008).

In the unemployment scheme, the changes have gone the opposite way than that of the minimum wage, towards a decrease in the benefit level and increase of conditionality. In 1991, unemployment support was codified in the Employment Act. Initially, it could be obtained for one year, the first six months at a 60% replacement rate (65% for those that were unemployed due to restructuring) and the following six months at a 50% replacement rate, with no upper benefit levels. Since then, it has been downsized incrementally. Already in 1992, the benefit period was reduced to six months, and the higher rates of replacement for those that lost jobs due to restructuring was removed. After a fiscal crisis in 1997, the replacement ratio in the unemployment benefit was decreased in 1998 to 50% of the last wage for 3 months, and 40% of the last wage the remaining 3 months. In 1999, conditionality was increased and a ceiling rate was introduced: the upper limit of the unemployment benefit was agreed to be 250% of the minimum living standard and to 280% when in training. In 2004, the benefit became dependent on the age of the beneficiary. The benefit level for the latter 3 months of unemployment was increased from 40% to 45% of the replacement rate. This last change was criticised by the OECD (Brandt *et al.* 2005). The OECD, once again, sticks systematically to its blue-print. In 2004, partial unemployment was introduced (Kaluzna 2008: 33). In 2009, conditionality was further enhanced and the total duration of the period for receiving the benefit decreased from 6 to 5 months (NRP 2008). The result of these reforms in the unemployment scheme are that the average unemployment benefit level as a percentage of the gross average wage has decreased over time, and the share of jobseekers receiving the unemployment benefit has also decreased. This effect can be seen in the data in table 4 below.

Table 4: *Share of unemployed receiving benefits and average unemployment benefit level in the Czech Republic*

	1991	1994	1997	2000	2003	2006
% share of jobseekers receiving unemployment benefit	65	47.5	50.7	37.5	35	28.1
Benefit level (% of gross average wage)	-	26.2	23.7	20.6	19.8	22.4
Social assistance expenditure (% GDP)	-	-	0.16	0.39	0.40	0.27

Souce: Kaluzna (2008: 33 and 42)

Due to the fact that conditions have been made more stringent for receiving unemployment benefits and that the social assistance system has received more beneficiaries, different levels of benefits and increased conditionality have been introduced. In 2007, it was re-organised substantially, as there had previously been no central management of the social assistance system. The 2007 system developed different types of benefits, including a 'subsistence benefit', that is equivalent to the living minimum, considered necessary for minimal survival. A second even lower rate called 'existence minimum' was also introduced as a final safety net. In 2007, the subsistence benefit was CZK 3126 (€120.33) per month and the 'existence minimum' was CZK 2020 (€77.76) per month. This system is punitive, in the sense that individuals who fail to be active (i.e. actively seeking for job or performing voluntary work) are eligible only for social benefits on the level of the existence minimum (Kaluzna 2006: 43). As part of the overall macro-economic policy, expenditure in social assistance has decreased over time (see table 4 above). Once again, the OECD assesses performance exclusively on the basis of its policy model, but taking little heed to the implications for the material conditions of existence of the beneficiaries. The EU, on the other hand, is elusive about commentary in this area.

Another major area where the OECD and the EU have provided policy advice is in the development of employment services. In that area, the OECD insists more on competition in the provision of services, with the PES as the central agent, whereas the EU recommends that the PES be the sole agent in the administration of unemployment, retraining and placement (OECD, 2003, 2008; European Commission, 2007, 2009). In the Czech Republic, the PES has been established as the key agent in the management of unemployment vacancies, the monitoring of compliance of employers with employment legislation and activation. Regarding unemployment vacancies, employers are required to notify job vacancies to the PES, and since 2006, employers can be fined if they fail to comply with this requirement (0.5 million CZK – 19,369.77 euros). Indeed, the role of the PES has developed considerably following EU membership, which the OECD, like the EU, sees as a positive development. Furthermore, in line with EU anti-discriminatory legislation, employers are required to indicate whether the job is suitable for school leavers or people with disabilities. In addition, if requested by a labour office, employers should identify vacancies suitable for disadvantaged jobseekers. In this sense, all jobs are announced in the PES. The role of the PES in placement, however, has been decreasing over time. Table 5 below summarizes the rate of placements assisted by the PES between 1999 and 2006.

Table 5: *Placement with the assistance of the PES in the Czech Republic (1999 – 2006)*

	Number of registered job seekers	**Placed with assistance of PES**	**Rate of placements assisted by PES**
1999	443171	120104	27.1
2000	469967	146217	31.1
2001	443826	137044	30.9
2002	477466	116900	24.5
2003	521583	109732	21.0
2004	537426	115414	21.5
2005	514310	103372	20.1
2006	474790	106759	22.5

Source: Kaluzna (2008: 31)

Concerning activation, there has been a change from virtually no systematic planning about how to organise and to implement activation schemes in 2002, to detailed yearly planning about how to target ALMP in 2007. This is in line with both the OECD and EU policy models. The planning component is implemented at municipal level and is part of a general policy of evaluating performance of the individual labour offices according to their activities, including how they fare in activation and how successful they are in the management of the ESF. The ESF has made a significant contribution to the development of services by the PES: almost 80% of the ESF Funds earmarked for skills improvement were used by the PES for this purpose (Kaluzna 2008: 20).The ESF has especially been used for the development and implementation of counselling services to advise jobseekers in their search for employment. In its National reform programme, the Czech Republic notes that some initiatives have been developed, notably a programme to activate older people and to integrate Roma on the labour market (National Reform Programme of the Czech Republic 2008). However, the EU has stated that ALMP are still small scale and not sufficiently targeted towards disadvantaged groups (European Commission 2009). Indeed, the overall expenditure on employment services (running the PES and activation measures) is still low, and has not increased substantially over time. The ratio of expenditure of active to passive labour market expenditure has increased only slightly (see table 6 below).

Table 6: *Expenditure on employment services, active labour market policies and passive labour market policies (millions of euro)*

Labour market policy	2002	2003	2004	2005	2006	2007
Total LMP	36884	40463	44425	49290	55539	58277
ALMP	93.47	94.22	115.17	122.16	143.68	153.28
PLMP	221.76	249.14	221.55	241.57	264.31	259.73
ALMP/PLMP	0.425	0.378	0.520	0.505	0.544	0.590
Notes: Total expenditure on labour market policy (Total LMP) refers to expenditure on labour market services (including running the public employment services), active labour market policies (ALMP), and passive labour market policies (PLMP) (unemployment benefits and early retirement)						

Source: Eurostat (2009) and own calculations (ALMP/PLMP)

This development suggests that one of the core elements of the OECD Jobs strategy and the EES – to shift from passive to active expenditure on labour market policy – has not taken place. This shows that the leverage of both organisations in this area has been weak.

Finally, regarding the development of wage structures and wage-setting, social partners are very weak in the Czech Republic. Collective bargains apply to half the total number of employees. Furthermore, obligatory sectoral and regional tariff agreements are absent (National Reform Programme of the Czech Republic 2008). Employers practise independent wage policy within the framework of existing legal regulations. Despite their weak position in wage negotiations and norm-setting in labour market policy, the OECD would like the leverage of social partners to further decrease (OECD 2003, 2008). The EU model calls for EU social partner involvement, but no country specific recommendations have been made to the Czech Republic in this regard. It is notable that the social partners in the Czech Republic did not approve of the National Reform Programme that outlines economic and employment policy, because worker security was not addressed (National Reform Programme of the Czech Republic 2008).

Conclusion

In macro-economic policy, the Czech Republic has generally conformed with the recommendations of both the OECD and the EU, cutting expenditure in pensions and health care, but without major institutional changes. In employment protection, the reforms have followed OECD policy prescriptions, which have been supported by the EU: increasing conditionality, decreasing the duration and the replacement rate of the unemployment benefit. However, the major changes were enacted incrementally, particularly during economic instability and were not due to the pressure of the EU or the

OECD. Labour market flexibility has been enhanced, but worker security has not improved, which is more in line with the OECD than the EU policy model. Regarding the minimum wage, it has incrementally been increased over time (from a very low level), which has nevertheless been criticised by the OECD, while the EU has silently supported this change. Concerning the management of employment services, the results are mixed. The institutional set-up of the PES has been developed in line with OECD and EU policy, but placement, activation and re-training remain underdeveloped, whereas control over employers and jobseekers has been enhanced. Some activities of the PES have been developed with the support of the ESF, but the relevance of these activities for confronting the dualism on the Czech labour market (in particular re-training of the workforce in the industrial sector) is questionable. There has been no genuine domestic will (or policy advice by the OECD or the EU) to develop the PES into a service that retrains and up-skills workers, rather than a service that focuses mainly on monitoring compliance of employers and employees with the rules and procedures in labour market policy and administration of unemployment schemes. Altogether, the OECD has unconditionally assessed performance on the basis of its Jobs Strategy blue-print. The EU has developed the same policy advice in macro-economic policy, but in labour market policy, EU policy advice differs since it emphasises that flexibility should be combined with security. However, its voice is not as loud in this area because the EU Finance ministers, with their emphasis on the economic and financial criteria of the Stability and Growth Pact, ultimately, are decisive, rather than the EU Social ministers, who are in a weaker position. The OECD has been clear, concise and consistent over time in meditative regulation, while its de-contextualised inquisitive approach has reconfirmed its message. The EU has been unclear, ambiguous and contradictory in its meditative regulation due to the underlying and permanent battle of strong economic versus weaker social interests and actors in the EU. In addition, the EU has been driven by a diplomatic approach in its inquisitive approach in macro-economic and employment policy, where no hard critique to any member state is permitted. The reform outcome in the Czech Republic has taken place incrementally, where domestic actors have incrementally introduced changes, particularly in the aftermath of economic crises.

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