3.1 Czech Republic

3.1.1 Setting the scene: key traits of the country's political economy

The Czech economic and financial outlook is showing signs of recovery after the years of fluctuating economic trends noted since the outbreak of the crisis. Following a period of rapid economic expansion, the country experienced a double-dip recession from 2009 to 2014. The GDP growth rate started to decline in late 2008 and reached its lowest level in 2009 (–4.8 per cent), mainly triggered by exports and financial channels. In 2010 and 2011, the national currency depreciation relative to the euro – limiting to a certain extent the drop in exports – as well as an increased public deficit (–5.5 per cent in 2009) led to slight GDP improvements. However, recession was experienced again in the next two years, followed in 2014 by an increase in the GDP growth rate of 2 per cent. Despite a regular increase of the gross government debt as a percentage of GDP in the aftermath of the crisis (from 28.7 per cent of GDP in 2008 to 45 per cent in 2013), its level remains well below the limit of 60 per cent and the EU average, and, for the first time since 2007, it experienced a reduction in 2014 (42.6 per cent of GDP) (Table 3).

With regard to labour market trends, the crisis has had a negative impact on both employment and unemployment rates. However, the Czech employment rate returned to growth in 2010, and in 2014 reached a high point of 73.5 per cent. Also, the national unemployment rate in 2014 fell to 6.1 per cent, while the region of Prague alone scored the lowest unemployment rate among all the European regions (2.5 per cent). However, this positive result influences the national performance, which is also characterised by a substantial gap between regions (Eurostat,

Table 3 **Czech Republic: selected socio-economic indicators, 2007–2014**

	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP growth	5.5	2.7	-4.8	2.3	2.0	-0.8	-0.7	2.0
General government gross debt (EDP concept)	27.9	28.7	34.1	38.2	39.9	44.6	45.0	42.6
General government deficit/surplus (% of GDP)	-0.7	-2.1	-5.5	-4.4	-2.7	-3.9	-1.2	-2.0
Employment rate (% 20-64)	72.0	72.4	70.9	70.4	70.9	71.5	72.5	73.5
Unemployment rate (%)	5.3	4.4	6.7	7.3	6.7	7.0	7.0	6.1
People at risk of poverty or social exclusion (% of the total population)	15.8	15.3	14.0	14.4	15.3	15.4	14.6	n.a.

Source: Agostini and Natali (forthcoming: Appendix).

2015).[12] As for poverty levels, in 2013 the Czech Republic was in a better position than the average of its peer economies from central and eastern Europe and the EU28. The country registered lower rates of people at risk of poverty or social exclusion (14.6 per cent against 24.5 per cent in the EU28). Moreover, the poverty statistics did not turn out to be seriously affected by the economic downturn, showing stable results during the whole post-crisis period.

As outlined by Agostini and Natali (forthcoming), the Czech Republic, along with its central and eastern European peers, is characterised by a highly internationally integrated neoliberal market economy, developed along with generous but targeted social protection measures and deregulated labour markets. With regard to the 'varieties of capitalism' approach, these are features of the cluster 'embedded neoliberal market economy', in which the Czech Republic is included (Table 4).

Nevertheless, even if the Czech Republic ultimately developed a similar economic and social model to its neighbours, the path followed from the Velvet Revolution to the economic downturn experienced in the country

12. The second lowest rate registered among regions is 5.1 per cent and the highest 8.7 per cent.

Table 4 **The Czech social model**

Country	Labour market regime	Welfare regimes	Variety of capitalism
Czech Republic	Central Eastern Europe (CEE)/Emergent	CEE/Post-communist	Embedded neoliberal market economies (ENLME)
			Peculiarities: – key role of FDI; – national sovereignty as a keystone of the country's political economy; - egalitarian welfare

Source: Agostini and Natali (forthcoming).

in 1996–1997 consistently differed from the process of transition undertaken in Hungary and Poland. This factor ultimately led to the development of some peculiarities within the model that still exist.

The national path to capitalism pursued in the Czech Republic until the economic recession of 1996–1997 was the product of two main factors: a political élite driving the transition from a state-planned to a market-oriented economy devoted to defending the national sovereignty of the newly born Republic – the Prime Minister Vaclav Klaus in the first place – as well as a different legacy of economic reforms implemented before the collapse of the regime – or rather, the lack of such reforms. Indeed, unlike Hungary and Poland, the Czech Republic started its transition phase from a solid financial position, a low level of government indebtedness and little or no reliance on foreign capital. Additionally, Prime Minister Klaus firmly pursued his attempt to create his own national way to capitalism, of which the 'voucher privatisation' scheme provides one of the most telling examples (Bohle and Greskovits 2012).

After 1997, it did not take long for the Czech Republic to become highly competitive in attracting FDI in comparison with its neighbours. Nowadays, therefore, the country can be fully included in the economic and social model of the whole central and eastern European region. As already mentioned, this model is strongly influenced by the marked presence of transnational companies within national borders, as well as strong reliance on the inflow of FDI and on exports of complex manufactured goods, of which the automotive sector is the leading industry (Myant and Drahokoupil 2012). The sound financial and macroeconomic conditions of the Czech economy are still an important feature of its capitalist model. This keeps the country on safer ground than its peer economies, which bear the weight of larger public debts.

The sought-after neoliberal market economy has been combined in the Czech Republic with a relatively generous (but targeted) welfare state, built on the previous socialist experience. This has resulted in greater levels of egalitarianism of pensions and greater concern for the prevention of unemployment, rather than compensation for job loss (Bohle and Greskovits 2012). The reasons behind the creation of the so-called 'pensioners' welfare state' varied from ideological motives to more practical political reasons. In this regard, both the influence of the socialist ideology rewarding work and productivity and the importance of generating consent through social provision have played an important role (Sirovátka 2011).

Despite the country's high level of political, economic and financial international integration, the government is the most important actor in shaping taxation, employment and welfare policies. This tendency became less clear during the process of accession to the EU, but it was confirmed in the aftermath of the crisis, partly because of the Eurosceptic position taken by the centre-right government coalitions. At the national level, the Czech political scene has suffered from a certain degree of instability, which saw the centre-right governments headed by Topolánek and Nečar fail to complete their terms of office and alternate with non-partisan caretaker governments (Table 5).

The peak of the instability was the corruption and spying scandal that led Nečar to resign in July 2013. Consequently, as a result of the last parliamentary elections, a clear political shift occurred. This was marked by the victory of the Czech Social Democratic Party (ČSSD), led by Prime Minister Sobotka and, more surprisingly, the Action of Dissatisfied Citizens (ANO 2011). The latter became the second most-supported party in the country at its first political elections. The economic programme of the current government was built on the desire to move away from the social standard devaluation implemented by the previous centre-right governments during the period 2007–2013. It includes more social expenditure in order to increase the minimum wage and pensions, introduce new pro-family relief, as well as public investments in infrastructure and construction. In order to make such an expensive programme more affordable, spending on administration is expected to be cut, while

Table 5 **Governments of the Czech Republic from 2006 to 2015**

Years	Prime Minister	Position in the political spectrum	Coalition forces	Reform programme
September 2006–May 2009	Mirek Topolánek (ODS)	Centre-right	Civic Democratic Party (ODS); Christian and Democratic Union–Czechoslovak People's Party (KDU-ČSL); Green Party	Social standard devaluation
May 2009–June 2010	Jan Fischer	Caretaker government		(1)
July 2010–July 2013	Petr Nečas (ODS)	Centre-right	Civic Democratic Party (ODS); Public Affairs (VV); Top 09	Social standard devaluation
July 2013–January 2014	Jiří Rusnok	Caretaker government		(1)
January 2014–	Bohuslav Sobotka (ČSSD)	Centre-left	Czech Social Democratic Party (ČSSD); ANO 2011; Christian and Democratic Union-Czechoslovak People's Party (KDU-ČSL)	Social standard improvement (key role of investments)

Note: (1) Due to the peculiar nature and short duration of the mandate, the caretaker government's approach to reform is not clear.
Source: Kałan 2014; Malek 2013.

corporate taxation and the budget deficit are expected to grow, although the latter will remain under the 3 per cent limit (Kałan 2014).

The clear political shift has been mirrored also at European level, where the cohabitation of the Prime Minister Sobotka with the first directly-elected President Zeman – who calls himself a European federalist – should make the Czech Republic a more predictable member of the EU. Indeed, in the wake of the crisis and after the launch of the new EU system of economic governance, the Czech Republic has resisted deeper integration by refusing to adopt the Fiscal Compact on financial stability and slowing the path towards the adoption of the single currency (Kałan 2012).

Therefore, the 'EU influence effort', as defined by Stamati and Baeten (2014), could only be effective in the country by means of the country-specific recommendations (CSR) and the Excessive Deficit Procedure (EDP) launched in December 2009. However, the latter turned out to be a rather light fiscal and financial conditionality tool from the EU, as the country is not a member of the euro zone. Nevertheless, it is worth mentioning the decision taken by the Sobotka cabinet to adopt the Fiscal Compact (not yet ratified) and to move forward on the path towards the adoption of the single currency, which could ultimately occur not earlier than in 2020.

3.1.2 Structural reforms, sector by sector

Pensions

Although generous public pensions have been depicted as one of the main features of the Czech welfare regime, the reforms implemented since 2009 altered this tendency, as they were devoted mainly to improving the financial sustainability of the whole system. Restrictive reforms were introduced from 2008, when the revision of entitlements to disability pensions adopted by the Topolánek-led government – and coming into force in 2010 – led to a drop in the number of newly granted disability pensions. The measure prevented an increase in this kind of pension throughout the crisis period, also producing a long-term impact on the extension of working lives in the country (Natali and Zaidi 2015).

Between 2011 and 2013, the Nečar government adopted various measures in order to improve the financial sustainability of the pension system. The results of these changes, however, did not significantly affect pension benefits in relative terms (Natali and Zaidi 2015), nor were these restrictive measures continued by the following government. With regard to the reduction of pension payments, in 2013 the centre-right government introduced a temporary change to the indexation mechanism for old age, survivor and disability pensions, aiming to reduce the increase in pension benefits for financial consolidation purposes. Also, another measure to reduce public spending was the prevention of economically active pensioners from applying a basic tax credit when calculating their personal income tax from labour income. However, the measure, which was supposed to be implemented in 2013–2015, was abrogated by the Constitutional Court in mid-2014.

Upon adoption of the act introducing a (funded) pension savings pillar in November 2012, pension savings were launched at the beginning of 2013. This reform was intended by the government to be an instrument to increase the long-term security of the system, through diversification of the pension system and by providing a viable complement to the pay-as-you-go system. The reform envisaged voluntary entry for persons under 35 years of age to the savings pillar and it was open to employed (or self-employed) persons when the reform was launched, but not to unemployed or economically inactive persons (Ministry of Finance of the Czech Republic 2013).

Furthermore, the ODS-led government introduced an increase in the retirement age by two months per year without setting a final target age. For women, the amendment of the Act on Pension Insurance speeded up the increase in retirement age temporarily from four to six months per year until 2041, when the unification of the pension age is expected to occur (Office of the Government of the Czech Republic 2014). The amendment has been shaped in accordance with the prospect of an ageing population and changes in life expectancy, also responding to specific EU pressure related to this concern. It will gradually lower the average period of pension payments for individual generations to approximately 20 years.

Nevertheless, the Sobotka government, in power since January 2014, reversed the approach to reform characterising the centre-right governments preceding it and set out on a path of deficit spending with regard to pension benefits. It also proved to be less prone to follow recommendations from Brussels with regard to further increases in the retirement age and pre-retirement schemes. Indeed, while maintaining unaltered the legislation on the retirement age, it restored the standard formula that links the indexation of pensions to 100 per cent of the consumer price index and one-third of real wage increases. Moreover, it included in the 2015 budget a discretionary 1.8 per cent pension increase (Office of the Government of the Czech Republic, 2014). It also planned to make the second pillar inactive starting from January 2016, when contributions to the fully-funded pillar will be either returned to the participants in cash or transferred to the existing voluntary third pension pillar.

Summing up, the economic downturn and more stringent budget constraints have led to a high concentration of new measures in the field of pensions. Specifically, from 2008 to 2013 the clear attempt to reduce the state budget deficit led to the adoption of restrictive policies. This implied more difficult pension entitlement and increased retirement age, as well as changes to the indexation mechanism. Nonetheless, since 2014 there has been a move towards a social standards improvement strategy especially with regard to pension indexation and with the possibility of discretionary increases in pension payments.

Labour market

In the aftermath of the crisis, the Czech labour market has suffered mainly from worsened services offered to job seekers as a consequence of major reshuffling of the Public Employment Services (PES) and cuts in unemployment benefits. Nevertheless, since 2010 the labour market has responded positively to the crisis. There have been improved performances in terms of both employment and unemployment rates, although structural problems were still identified, and started to be addressed only in 2013 and in 2014, as outlined below.

With regard to Passive Labour Market Policies (PLMP), the tendency of centre-right governments was directed mainly towards the implementation of restrictive measures, while no major reforms have been adopted since 2013. In 2010 unemployment benefits were cut from 65 per cent to 45 per cent of previous earnings from the first month of unemployment. Furthermore, in January 2012 an important attempt to reduce unemployment benefits was made by the Nečar government, through the introduction of a measure whereby the unemployed could be obliged to participate in the public service programme. If the unemployed person refused, their entitlement to unemployment benefits would have been lost. However, the measure was not implemented because it was cancelled by the Constitutional Court in November of the same year (Sirovátka *et al.* 2015).

During the period 2010–2012, the attempt to reduce public spending was also pursued through restructuring of the Czech PES, the Labour Office of the Czech Republic. This attempt was accomplished by means of a substantial cut in the number of Labour Office employees from 8,136 to 6,237. This staff reduction was combined with the merging of the minimum income scheme/social assistance administration with the employment offices, thus adversely affecting the performance of both offices in delivering their services (ibid.). However, given the shortcomings experienced as a result of the cuts, the year 2013 represented a turning point in the restructuring of the Czech Labour Office, which started during Nečar's mandate and continued during the caretaker government in office since July 2013. The number of employees was raised twice: slightly in March and more substantially in July, when 700 new jobs were created (Office of the Government of the Czech Republic 2014). For the Sobotka government, the commitment to continue restructuring the Labour Office through improved efficiency and streamlined cooperation between the central and regional level is also a result of pressures from specific EU recommendations on the topic.

Although public expenditure on ALMP remains substantially lower in the Czech Republic than in other Member States, the number of participants in these policies has increased in the past few years. Specifically, in 2014 accessibility to ALMP increased thanks to the high participation of the unemployed in the vocational training programme 'Requalification by Choice', as well as the implementation of the Youth Guarantee scheme (Sirovátka *et al.* 2015). The Czech Republic presented a Youth Guarantee Implementation Plan in December 2013, which was revised in April 2014. Several actions were launched during the year, mainly delivered by the PES, although their main focus was on education. The implementation of these policies was supported by European funds. Nonetheless, despite the responsive approach shown in implementing the Youth Guarantee, further national funding for the Youth Guarantee Implementation Plan was not provided. Further financing of youth programmes is also available in the Severozapad region (the only eligible region in the country) thanks to the allocation of 13.6 million euros from the Youth Employment Initiative (European Commission 2015e).

The focus on job creation was also included in the reform of the system of investment incentives provided to employers. This was done through an amendment to the Act on Investment Incentives introduced by the current government (Office of the Government of the Czech Republic 2014). The main implications for the labour market produced by the amendment – which took effect on 1 May 2015, will result from the increase in incentives in the form of cash grants provided to employers in order to create new jobs, and an increase in retraining and training activities in regions with higher unemployment rates in comparison with the national average. The amendment also removes previous restrictions in certain fields of investment, including limits on job creation for technology centres and business support services centres (CzechInvest 2015).

As outlined above, labour market policies in the Czech Republic included a tightening of unemployment benefits throughout the period 2008–2014. Restrictive measures were taken also in relation to the restructuring of the PES by means of substantial staff cuts and mergers. An increased focus on ALMP since 2014 is visible through the implementation of programmes using EU funds, as well as in the provision of investment incentives to businesses to finance job creation and training activities.

Education

In the aftermath of the crisis, public expenditure on education as a percentage of GDP was lower in the Czech Republic than the EU average for the whole period. It experienced a slight decrease relative to GDP and as a percentage of total public expenditure in 2008, followed by slight increases in the following years (Agostini and Natali forthcoming).

In 2011, the amendment to the Education Act of 2004 brought about modifications in the financing of schools and school facilities, including the addition of a differentiation between teaching and non-teaching staff and between employees by school types (OECD 2015a; 2015b). Prior to 2013, allocation of resources for non-teaching staff was reduced by 9.5 per cent, particularly staff in early childhood education and care, while the pay cuts in the public sector did not affect teachers' wages. School management, especially in small schools, has faced financial difficulties, as salaries of pedagogical staff have increased, while those of non-pedagogical staff have been reduced (Sirovátka *et al*. 2015). Shortages of places in early childhood education and care and, more in general, shortcomings in the management of childcare facilities have been addressed subsequently to the approval of the Act on Children's groups in 2014. Responding to the necessity to facilitate the participation of women in further education and the labour market, the Act represents an increase in public expenditure of about CZK 1.5 billion, with about 300,000 children in pre-school care, aged between 3 and school age, benefiting from the measure (ibid.).

During the EU budgetary period 2007–2013, through the Education for Competitiveness Operational Programme (ECOP), grants based on project applications were allocated, most of them to promote the use of ITC. The programme, mostly covered through the European Social Fund, also aimed at prioritising the further training of teachers and other education staff.

On a similar trend, the education reform strategy approved by the Sobotka government, also responding to specific CSRs on the topic, has focused on enhancing quality and equity in education, thus taking a restructuring approach to reform. Moreover, the focus on pro-growth measures in the fields of education, R&D and transportation has been mirrored in the 2014 state budget, where national financing (before additional European funding) for the purpose has been established to the tune of CZK 26.6 billion for the three-year period from 2014 to 2016 (Annex, Office of the Government of the Czech Republic 2014).

As for higher education, in 2010 the Ministry of Education, Youth and Sport presented a Strategic Plan for 2011–2015 devoted mainly to bringing about a change in the focus of higher education institutions from quantity to quality in all their main activities and functions. Indeed, slow reactions to labour market needs and increased participation in tertiary education without a proper increase in resources have led to concerns about the quality of the services offered (OECD 2013a). A substantial reform in the field was recently adopted by the coalition government headed by Sobotka in March 2015. The amendment to the Higher Education Act, already under discussion by previous governments, established rules for the evaluation of universities. It also creates academic and professional profiles in order to support synergy between study programmes and the specificities of the labour market. The transition between education and the labour market is a focus of national policies, partly those favouring cooperation between businesses and universities, which is still at a low level of development in the country. Additionally, within the framework of the Youth Guarantee, several measures related to education policies are now active. This is particularly the case with regard to preventive actions taken in relation to early school leaving and facilitating the return of early school-leavers back to education (OECD 2013a).

It follows that the reform path taken in the field of education has been rather selective in the choice of investment. Spending cuts were experienced in terms of wage reductions for non-teaching staff. Moreover, the reforms implemented were mainly devoted to improving the quality and fairness of the system, thus achieving better outcomes with the resources allocated. However, the country has relied substantially on European funds in operational programmes devoted to increasing the national competitiveness through higher educational outcomes and improved ICT knowledge. Several measures were also implemented in 2014 within the framework of the Youth Guarantee.

Public sector

In the aftermath of the crisis, the process of restructuring the public sector in the Czech Republic has been characterised by measures devoted to cost-containment and modernisation. In 2011, one of the most significant and contested measures implemented was a 10 per cent reduction in the budget for public sector wages (Eurofound 2015). The measures impacted government departments and organisations fully or partly funded by the state. Only teachers were not subject to the reduction, while the budget to pay their wages was expected to increase. Whether the reduction of the budget affected the number of employees through lay-offs or whether it meant a reduction of wages (or both) was up to ministries. However, as provided for by law, in case of lay-offs the government was still required to propose reallocation options and the employee was entitled to an allowance (OECD 2015d). The main input for the launch of this restrictive reform process came from the national level, where the newly elected Nečar government in 2010 decided to pursue its objectives of financial containment by substantially reducing public expenditure on employment in the public sector. However, additional external elements such as the EDP may have played a role in this process.

The introduction of restrictive legislative measures was opposed by trade unions. This prevented the government from abolishing the automatic progression of public employees' salaries through a 12-point pay scale on the basis of service and replacing it with one based purely on performance. However, the pay cuts were ultimately adopted despite the protests. Indeed, social dialogue remains rather weak and uncertain in the country and the decision-making process in the Czech labour market, regulated in detail by the Labour Code, is shaped around a top-down approach of legal regulation rather than on consultation with the social partners (EPSU 2012).

Specific pressure from the EU has been highlighted in the CSRs addressed to the Czech Republic concerning the need to start restructuring of the public administration in order to improve its quality and efficiency. Specifically, the recommendations stressed the importance of adopting the long-awaited Civil Service Act, ultimately adopted by the Sobotka government and effective since January 2015. This act aims at improving the efficiency of the public service, which would be consistent with the process of social investment and increased productivity pursued by the centre-left government – although new regulation on remuneration in the sector is still pending adoption. However, when it comes to the transparency and efficiency of the Public Administration, influence has been exerted by the EU on the national decision-making process, as an improved and more transparent funding administration is instrumental in the total allocation of European funds.

Overall, the strategy pursued in reforming the public sector in the Czech Republic in recent years has been consistent with the path of selective investment. Restructuring of the sector did indeed lead to the deterioration of employees' protection and salaries, especially during the period 2010–2011, but it was also focused on modernising the sector and improving its efficiency and transparency. This is particularly true with regard to public administration reforms and the need to improve the management of EU funds.

Research and development

Gross domestic expenditure (as a percentage of GDP) on R&D has increased regularly since 2002. The country has formally reached its national Europe 2020 target and is well placed to achieve the common European target of 3 per cent of public and private spending on R&D. Total public and private expenditure in 2012 amounted to CZK 72.36 billion, of which total public expenditure on R&D support was CZK 39.1 billion. This led to an increase in public spending in this area to 1.02 per cent of GDP. The largest share of the R&D conducted (53.6 per cent) in 2012 was carried out in the corporate sector, 18.4 per cent in the government sector and 27.4 per cent in higher education (Office of the Government of the Czech Republic, 2014).

Despite the substantial public investment effort in the sector, poor innovation outcomes in relation to the level of R&D spending and a lack of cooperation between the public research sector and the sphere of application, particularly the corporate sector, have proved to be major causes for concern. The reforms implemented and the strategies applied attempted to address these structural weaknesses. The amendment of the Income Tax Act (Act No. 458/2011 Sb) adopted in 2011 boosted tax deductibility to include services related to R&D projects. In 2014, the reduction would have increased from 100 per cent to 110 per cent if expenditure had also increased in comparison with the previous tax period (OECD 2014b). As for cooperation among the different bodies, a continuation of the cooperation programme between businesses and higher education institutions – the 'education for competitiveness' operational programme – has been planned for the period 2014–2020.

To sum up, when it comes to R&D spending and programmes activated in the field, government activities over the years have aimed at implementing an investment strategy and improving educational outcomes, as well as cooperation between the public and private sector.

3.1.3 Preliminary remarks on Czech structural reforms and their determinants

In the Czech Republic, the structural reforms undertaken during 2008–2015 have been influenced mainly by domestic factors. Within this framework, the EU played a restrictive role – by imposing fiscal and financial constraints by means of the EDP and the CSRs – as well as providing a stimulus for the optimisation of resources and pro-growth investment through the allocation of structural and cohesion funds.

As for the implementation of restrictive measures and cuts during 2008–2013, a certain level of agreement between national reform programmes and EU pressure helped in shaping the economic policy of the centre-right governments with regard to ways of 'reducing the deficit'. The launch of the EDP in December 2009 might have played a formal role in this regard. Nonetheless, the corrective instrument was not so severe, because the country is not a member of the euro zone and it did not sign the Fiscal Compact in 2012. During the aforementioned period, the path to structural reforms undertaken in the country reflected, to some extent, a *social standards devaluation* strategy, combined with limited investment, especially in policy sectors defined as growth-enhancing, such as education and R&D. Even more so, this was due to the use of EU funds.

Since January 2014 and the change of government's stance, the national political factor has become more important in shaping the reform programme. The government is indeed more willing to increase deficit spending on both social and pro-growth policies, thus adopting a *social standards improvement* strategy. However, the allocation of EU funds remains an important instrument for influencing national policies. This is proved by the responsive approach of the Sobotka government to the Youth Guarantee and to the recommendations on the need to improve the quality of the European Parliament, as well as the management of the funds for the period 2014–2020.

Table 6 **Summary table: drivers of reform and major reform trends in the Czech Republic, 2008–2014**

	2008–2009	2010–2013	2014–2015
Drivers of reform			
Economic crisis	Economic recession; excessive general government deficit	Slight economic recovery (2010–2011)/ slight recession (2012–2013); excessive general government deficit	Slight economic recovery; general government deficit below the threshold
Coalition governments	Centre-right	Centre-right	Centre-left
EU influence	EDP (from Dec 2009) EU funds	EDP; European Semester; EU funds	EDP (until June 2014) European Semester; EU funds
Structural reforms			
Reform path (for the five policies under scrutiny)	Social standards devaluation	Social standards devaluation	Social standards improvement
Main reforms in each policy field			
Pensions	- Revision of entitlement to disability pensions - Increased retirement age from 62 to 65	- Temporary change to indexation mechanism - Introduction of pension savings pillar - Increased retirement age	- Restoration of standard formula for pension indexation; - (planned) increase of pensions by 1.8%
Labour market	- Tightening unemployment benefit	- Cuts in unemployment benefits from 65% to 45% of previous earnings - Reform of PES	- Youth guarantee - Youth Employment Initiative - Investment incentives for job creation - ALMP
Education	- Strategy of lifelong learning (2007) - ECOP	- Cuts in resources for non-teaching staff - ECOP	- Youth guarantee - Higher Education Act - Investment in early childhood education and care
Public sector		- 10% reduction in public sector wages - Public Procurement Act	- Civil Service Act
Research and development		- Income Tax Act	- Education for competitiveness operational programme

Source: Authors' elaboration.

Overall, the Czech capitalist and social models have significantly influenced reform of taxation and investment incentive policies aimed at attracting inward FDI. This is also true of spending on R&D and the focus on improving educational outcomes, as well as on increasing possibilities for the private sector, mainly corporate, to invest in research in the Czech Republic.