



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

Papers downloaded from AgEcon Search may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

CERGE

WORKING PAPER SERIES

WP 68

68

LIBRARY

MAR 6 1996

GIANNINI FOUNDATION OF
AGRICULTURAL ECONOMICS

THE POLITICAL
SUCCESS OF
NEO-LIBERALISM IN
THE CZECH REPUBLIC

Mitchell Orenstein

CERGE - EI

CENTER OF EXCELLENCE

— CENTER FOR ECONOMIC RESEARCH
AND GRADUATE EDUCATION —
CHARLES UNIVERSITY

ECONOMICS INSTITUTE
OF THE ACADEMY OF SCIENCES OF
THE CZECH REPUBLIC

~~NOT DRAWN~~

Giannini FDN Library



015422

**The Political Success of Neo-Liberalism
in the Czech Republic**

Mitchell Orenstein

CERGE-EI
Prague, June 1994

1. *Leucosia* *leucosia* (L.)

2. *Leucosia* *leucosia* (L.)

3. *Leucosia* *leucosia* (L.)

4. *Leucosia* *leucosia* (L.)

5. *Leucosia* *leucosia* (L.)

6. *Leucosia* *leucosia* (L.)

7. *Leucosia* *leucosia* (L.)

8. *Leucosia* *leucosia* (L.)

The Political Success of Neo-Liberalism in the Czech Republic

Mitchell Orenstein

June 1994

Abstract

"The Czech Republic is emerging as a vast exception to the post-socialist political development of Eastern and Central Europe."

Drawing political parallels between the Czech Republic and other members of the Višegrad group of countries, the author explains the continuing popularity of neo-liberal politics in the Czech Republic and some of the policies deployed to achieve it: unemployment control and wage regulation, bankruptcy prevention, social safety nets, and active labor market policies. Many of these policies, although inconsistent with the Thatcherite rhetoric of the government, form the backbone of its popular support.

The privatization program, its adept implementation by the government, and its contribution to government popularity are also described. The sociological consequences of these political actions are discussed with reference to the Czech transformation; the author defines important public attitudes and describes how the population was prepared to make compromises, thus indicating the degree of confidence in the government.

In conclusion, political culture and economic strength are recognized as integral parts of this complicated reform, whose success the author attributes to its social acceptability with regard to the voters, and to the skill of the government in its implementation.

Abstrakt

"Česká republika se objevuje jako světlá výjimka na pozadí politického vývoje střední a východní Evropy."

Autor zachycuje politické paralely mezi Českou republikou a ostatními zeměmi višegradské skupiny. Vysvětluje přetrávající pouliční neoliberální politiky v České republice a uvádí některé kroky, které vedly k dosažení této popularity (kontrolu nezaměstnanosti a mzdrovou regulaci, zabránění bankrotům, vytvoření sociální záchranné sítě a aktivní politiku na trhu práce). Ačkoliv jsou některé z těchto kroků v rozporu s thatcherovskou rétorikou vlády, vytvářejí základnu pro podporu veřejnosti vládě.

Dále se popisuje program privatizace, jeho zdařilé provedení vládou a jeho přispění k popularitě vlády. V souvislosti s českou transformací se diskutují sociologické důsledky těchto politických kroků. Autor avádí hlavní rysy postoje veřejnosti, popisuje, jak byla veřejnost připravena přijímat kompromisy, čímž ukazuje stupeň důvěry ve vládu.

Na závěr se dochází k poznání, že politická kultura a ekonomická stabilita představují integrální součást složité reformy. Její úspěch autor připisuje sociální přijatelnosti pro voliče a schopnosti vlády v jejím provození.

The Czech Republic is emerging as a vast exception to the post-socialist political development of Eastern and Central Europe. Among the Višegrad group of countries (Poland, the Czech Republic, Slovakia, and Hungary) that represent the vanguard of 'Europeanization' in the region, the Czech Republic is the only country where neo-liberal economic reform has been politically successful since 1989. Poland, after a series of neo-liberal-dominated 'Solidarity' governments from 1989-1993, elected the former communist social democrats to rule in coalition with the former national front Peasant Party. These results expressed, at least in part, a disenchantment with neo-liberal economic reforms. Hungary has also returned to the former communist party for leadership in the May 1994 elections. Slovakia never had a strong neo-liberal party and its politics have been dominated by a nationalist/leftist party since independence in 1992.

The Czech Republic may well be the only country in the region where a neo-liberal party engaged in a program of radical socio-economic transformation maintains popularity over the long term. If Václav Klaus and his Civic Democratic Party continue this success, the implications are significant not only for East-Central Europe, but for all new democracies engaged in economic reform. For one, the Czech Republic disproves the thesis that radical market-oriented reforms can only be implemented under conditions of political authoritarianism, as in Chile or Bolivia. The Czech Republic has implemented radical reforms in a parliamentary system, without violent suppression of dissent, and without subverting the electoral process. Quite the opposite, the government has maintained overwhelming approval ratings throughout.

The Czech Republic also provides a counter-factual to Adam Przeworski's thesis that economic reform in new democracies will inevitably follow a start-stop-start cycle. While this appears to have been true for Poland and Russia, the Czech Republic has, till now, avoided this pattern. Przeworski, in Democracy and the market, argued that a start-stop-start cycle will occur because market-oriented economic reforms will inevitably cause an adverse popular reaction, since they require several years to improve peoples' living conditions. When society reacts against painful reforms, the citizens of a democracy will elect parties that promise to slow down the reforms and restore social protection. When these policies too fail to improve standards of living for the majority, voters may again be tempted by promises of radical change and opt for a new round of reforms.¹

¹ Adam Przeworski, Democracy and the market, Cambridge: Cambridge University Press, 1991.

How has the Czech Republic avoided the start-stop-start cycle that was predicted by Przeworski and that seems to be reflected in recent Polish and Hungarian experience? The answer lies in the fact that the Czech Republic has pursued a relatively comprehensive set of social-democratic policies during the transformation that were designed to keep unemployment low, to prevent bankruptcies of large state-owned enterprises, and to construct a strong, functional, though basic social safety net for the population, so that no one would lose a minimum standard of living. Czech social and economic policies implicitly reflected a certain view of social citizenship and participation that was viewed as compatible with the transition to a market economy.

These policies, to some extent, extended the state paternalism of the socialist regime, but also had a social democratic component and served to convince the Czech people of the general fairness and good intentions of the government reform program. The programs and policies of the Czech transformation will be evaluated to consider whether they are applicable to other new democracies in the process of economic reform.

No doubt, there are many specific conditions to the Czech 'miracle'. In the East European context, the Czech Republic is generally considered exceptional for a variety of structural reasons that range from economic to historical to political cultural. The Czech Republic was historically the most advanced industrial region in Eastern Europe. It is located in between Germany and Austria, two highly-developed economies that offer the Czechs good opportunities for trade and employment. The Czech Republic began the transformation with a lower per-capita debt than either Hungary or Poland. Prague has become a major European center of tourism, bringing in millions of dollars worth of hard currency yearly. The Czech Republic lost its indigenous nobility in the 1620s, leading to a more democratic development and political culture. The Czechs are seen as a disciplined, well-ordered, and industrious nation well-suited to economic survival in market capitalism as well as to consensual decision-making in politics. Many of these generalizations about the Czechs are true. Nonetheless, we would like to see how these structural explanations and stereotypes are operationalized through particular policies and institutions and whether these policies and institutions provide examples useful to other new democracies.

Five types of policies have enabled the Czech governments to maintain popular allegiance to the economic reform. Broadly speaking, these policies are: 1) unemployment control policies; 2) corporatist labor market policies; 3) social safety net policies; 4) reasonably fair and equitable privatization policies; 5) ideology and attitudinal shaping. It is difficult to say which of these has

been more important. A good case can be made, however, that unemployment control is necessary to maintaining public support of any economic program in a democracy. Furthermore, the unemployment rate in the Czech Republic, at less than 4%, or 142,000 out of a total labor force of 5 million, is exceptional not only in the region, but is the lowest in all of Europe. Therefore we begin with unemployment control. Nonetheless, all the policies, including the difficult-to-specify ideological programs, have been vital.

Unemployment Control Policies in the Czech Republic

In an extremely persuasive article based on public opinion results from Poland, Adam Przeworski argues that low unemployment is necessary to maintain support for economic transformation. The evidence and arguments are too detailed to be described in full here, but the general conclusion is that people are willing to sacrifice much for the success of economic reform, but they draw the line when their work and future are threatened by unemployment.²

The low unemployment rate in the Czech Republic presents the most striking contrast with its neighbors. Though difficult to prove in any comprehensive way, it almost certainly has contributed to the relative political stability and 'social peace' of the Czech Republic. The question here is not, 'what?', but 'why?' Explanations for low unemployment in the Czech Republic are so many and various that it is difficult to specify any single one as dominant. One prominent group of economists recently suggested the following factors as significant:

- * boom in the private sector
- * dramatic fall in real wages
- * limited willingness of firms to resort to large-scale layoffs
- * limited willingness of the government to close down unprofitable firms during the privatization process
- * active labor market policies
- * change in the unemployment compensation scheme.³

² Czech Statistical Office, May 1994.

³ Adam Przeworski, 'Economic reforms, public opinion, and political institutions: Poland in the Eastern European perspective,' in Luiz Carlos Bresser Pereira, José María Maravall and Adam Przeworski, Economic Reforms in New Democracies: A Social Democratic Approach, Cambridge: Cambridge University Press, 1993.

⁴ John Ham, Jan Svejnar, Katherine Terrell, 'Explaining Unemployment Dynamics in the Czech and Slovak Republics,' Center for Economic Research and Graduate Education Discussion Paper No. 23, Prague, November 1993.

A mixture of structural factors and government policies are responsible for the low rate of unemployment in the Czech Republic. Most new employment in the Czech Republic is being created in the new private sector. Analysis shows that these new jobs are replacing lost jobs in state enterprises.⁵ Therefore it is fair to conclude that the boom in the private sector is a significant factor in the low unemployment rate in the Czech Republic. Proximity to Germany also appears to be a significant advantage for the Czech Republic. Many Czechs work in Germany both legally and illegally, and Germans shop for cheaper goods across the Czech border.

Nonetheless, government initiatives have also contributed greatly to the low level of unemployment. In the absence of good data, it is impossible to determine exactly how many jobs were saved or created by certain policies or structural factors. We shall demonstrate, however, that the unemployment rate in the Czech Republic would be at least twice as high in the absence of government unemployment control policies.

For a supposedly neo-liberal government, the range and depth of policies designed to combat unemployment during the transformation in the Czech Republic are extraordinary. The Czech unemployment control policies can be divided into four groups: 1) policies designed to prevent the bankruptcy of large state-owned enterprises during their privatization and transformation; 2) wage control policies designed to keep the marginal labor force employed; 3) active labor market policies designed to retrain workers and get them quickly back into employment; 4) employment guarantees elicited during privatization.

Bankruptcy Prevention

The Czech policy of preventing the bankruptcy of large state-owned enterprises during privatization was pursued through delaying the effect of the bankruptcy act, through loan consolidation efforts of the Konsolidační Banka, and through the creative use of privatization receipts to subsidize banks and privatizing enterprises.

The most obvious measure used to prevent bankruptcies has been the postponement of bankruptcy legislation approved by parliament in 1991. The enactment of this law was delayed twice by the government out of fear of touching off a chain of bankruptcies. In the end, bankruptcy legislation came

⁵ Karel Janáček, 'Unemployment and Labour Market in Czechoslovakia (Czech Republic) 1990-1992,' Czech National Bank Institute of Economics, Prague, 1993.

into effect in the Czech Republic only in April 1993.⁶ Furthermore, the bankruptcy act explicitly disallowed the bankruptcy of state-owned enterprises during the process of privatization.⁷ This provision allowed firms in distress to continue operation and to maintain employment throughout the period of their so-called 'privatization agony'.

Secondly, the Czechoslovak government used a centralized loan-consolidation program to reduce the financial burden on enterprises in the process of privatization, with the aim of keeping them running. The Czechoslovak government founded the Konsolidační Banka (KOB) in February 1991 to relieve the commercial banks and enterprises of the legacy of the former system of enterprise finance. During the 1970s, even operating expenses of companies were nationalized and these were controlled through revolving credit facilities of the Central Bank. The interest rates for these 'permanently revolving credits' ranged from about four to ten percent and Komerční Banka and Investiční Banka were the main providers. After 1989, interest rates increased substantially and these cheap revolving credits began to threaten bank profitability. Rapid cancellation of these credits would send more than one Czechoslovak enterprise into immediate bankruptcy; thus, banks were stuck. To solve this problem, the Czechoslovak banks sold 110 billion crowns (\$3.8 billion) worth of these revolving credits to the KOB in 1991. In addition, the KOB purchased 15 billion crowns (\$0.5 billion) worth of bad loans from Czechoslovak banks for 80% of their nominal value. Money to purchase both types of loans came from the State Bank of Czechoslovakia and other Czech and Slovak banks at favorable interest rates.⁸ The 125 billion crowns paid by the KOB represented 25% of total domestic credit liabilities in 1991.⁹

⁶ *Czech Business Update*, February 19, 1993, p. 329. *Czechoslovak Business Update*, September 28, 1992, p. 230, explains that, 'The Czech government wants to delay the start of bankruptcies until the political divorce from Slovakia is resolved, coupon privatization completed, and the State Bank has finalized a plan to divert CR National Property Fund assets to indemnify some creditors and banks' debts when insolvent firms are liquidated.' Also see, 'Czech Bankruptcy Law,' *Eastern Europe Reporter*, May 10, 1993, p. 368.

⁷ Act on Bankruptcy and Composition (No. 328/1992).

⁸ Milena Horčicová, 'Angažovanost státu při řešení bankovních problémů,' *Národní hospodářství*, 12, 1993, p. 4.

⁹ Domestic credit liabilities were 495.4 billion crowns in 1991, according to the *Statistical Bulletin*, Czech Statistical Office, October 1993, p. 9. The figure for second quarter 1993 is 631.8 billion crowns.

KOB is the fifth largest bank in terms of capital and assets in the Czech Republic,¹⁰ and it injected capital into the banking system at a critical moment, freeing the banks from a potentially deadly legacy of poorly-performing loans. It helped to prevent a string of bankruptcies by creating a manageable solution to the old debt problem for banks and firms alike. It should be noted that the KOB now collects loan payments from over 6000 firms. This represents the majority of all privatizing and privatized firms in the two republics.

The activity of the KOB represents a significant and widespread finance-based industrial policy aimed at reducing firms' debt burden and maintaining employment levels. The KOB plans to use its role as a major creditor to most medium and large Czech firms to support the restructuring of Czech companies in the future. This is true despite the fact that Tomáš Ježek, president of the National Property Fund, and others, have worried that the KOB could become a sort of state planning commission acting in the context of bankruptcy proceedings.¹¹

A third means by which the Czech government has prevented enterprise bankruptcies and thereby maintained employment, is through channeling privatization receipts to privatizing enterprises. Tomáš Ježek stated in the National Property Fund's 1992 annual report that, "The greatest financial operation of the Fund [in 1992] was the emission of obligations for indebted firms... so that the joint stock companies privatized through vouchers would live through the relatively long period before the real owners took charge."¹² From its founding in August 1991 until the end of 1993, the Czech National Property Fund estimates its total receipts from privatization at 54 billion crowns. These receipts come from property sold to foreign and domestic investors through public auctions, competitive bidding, direct sale, and the sale of stock in privatizing joint-stock companies. Almost one-half of total receipts, 23.7 billion crowns, have been spent to pay off the debts of privatizing state enterprises. This debt payoff represents the largest single item on the NPF budget and approximately 3% of 1992 gross domestic product.¹³ The government plans to use an additional 32 billion crowns worth of National

¹⁰ *Central European Economic Review*, Vol. 1, No. 2, Autumn 1993, p. 29.

¹¹ *Hospodářské noviny*, 1 June 1993, p.1.

¹² *Výroční Zpráva*, Fond Národního Majetku České Republiky, Prague, 1992.

¹³ The gross domestic product of the Czech Republic was 771.3 billion crowns in 1992 current prices, according to the *Statistical Bulletin*, Czech Statistical Office, October 1993, p. 7.

Property Fund receipts to refinance debts of Czech companies incurred before 1 January 1991 to finance foreign trade deals that were never paid.¹⁴

Using privatization receipts to pay off enterprise debt has been controversial. It was justified in order to help companies survive the year-long privatization process, but the program may also express a willingness of the government to continue to subsidize large companies in trouble. The NPF insisted that it would pay off the debts only of viable enterprises, but many observers believe that large, and sometimes unviable, enterprises used their political muscle to gain a large share of the program's benefits. In addition to this general program of debt payoffs, the government has tapped 3 billion crowns of NPF funds in 1993 to provide emergency financing for Skoda Plzen and Aero.¹⁵ Funds from large privatization projects have also been used to recapitalize the large commercial banks.

This group of anti-bankruptcy programs has been very effective. No enterprises have gone under during privatization in the Czech Republic. They have been turned over to private owners as running concerns and few have failed in the short time since the first wave of privatization was completed in May 1993. It is difficult to calculate the total number of jobs saved through these operations. The anti-bankruptcy policies have probably been especially useful in reducing unemployment in regions dominated by a single large enterprise, where its failure would have ripple effects throughout the local economy. The total number of jobs saved is almost certainly in the tens, if not hundreds, of thousands.

Wage Policy and Unemployment Control

In November 1993, Václav Klaus stated his belief that wage control and the undervalued Czech crown were the 'two cushions' of the economic reform. 'Real wages and the real exchange rate in this phase must be relatively low to create the two cushions allowing a spanning of the not insignificant period of privatization and restructuring.'¹⁶ Klaus explains that the wage restraint allows marginal workers to remain employed, while a low crown allows marginal exporters to continue their trade.

¹⁴ *Hospodářské noviny*, 27 September 1993, p. 2.

¹⁵ *Hospodářské noviny*, 7 October 1993, p. 1.

¹⁶ *Ekonom* 50/1993, p. 23.

Wage restraint has been pursued rather effectively in the Czech Republic because it was negotiated in the context of the Czech tripartite council, a body composed of representatives from government, the main trade union confederation, and various peak associations of employers. While wage restraint in itself is not exceptional (most post-socialist countries have used similar measures), what is exceptional is the popular and trade union acceptance of this method of reducing inflation and unemployment. In Poland, the *popiwiek* has been a major cause of strife between the trade unions and successive governments. In the Czech Republic, wage restraint was received quietly, if not supported, by workers and employers. The Czech wage restraint has, perhaps as a result, been more effective than in Poland or Hungary. One calculation shows that wages in Poland were 10% higher and wages in Hungary 40% higher than in the Czech Republic in 1993,¹⁷ although it should be noted that opinions differ among economists on this issue.

The government policy of restricting wage growth through a tax on 'excess wages' was begun in 1991. Wage growth had always been centrally-controlled under communism. Each job was listed according to a certain category and the wages for each category were administratively determined each year. This system still continues for state workers, whose wages are set by a special yearly law on state employment. It continued in operation for all workers during 1990, too. In 1991, along with price liberalization, the government took the first, guarded steps towards wage liberalization and the creation of a labor market. However, the government's obsession with preventing inflation dictated that it would retain a strong role in limiting wage growth. Price liberalization in 1991 was expected to create a substantial expansion in the consumer price index. In order to prevent these one-off price increases from causing a wage-price spiral of inflationary expectations, the government sought to limit wage growth to below the inflation rate. In the short run, this would cause a drop in real wages. In the long run, real wages were expected to grow gradually to catch up.

So in 1991, the Czech government used the decree powers of central planning to implement a tough wages policy. Decree 15/1991 forced every enterprise, state or private, except for small private ones, not to exceed a wage growth limit set by the government without incurring a tax penalty. This wage restraint was negotiated and agreed in the context of the tripartite, leading one observer

¹⁷ Martin Potůček, 'Can Dying State Paternalism Give Birth to Social Citizenship?', unpublished manuscript, Institute of Sociological Studies, Faculty of Social Sciences, Charles University, Prague, 1994.

to remark that 'anti-inflationary wage regulation accompanied by a significant fall of real wages for 1991 was the only tangible outcome of the Czechoslovak tripartite system.'¹⁸

The 1991 wage restraint worked extremely well; too well, in fact, from the trade union perspective. Inflation in 1991 reached 60% while nominal wages remained almost stagnant. Real wages thus dropped precipitously, by approximately 26%.¹⁹ Trade unions, under pressure from their membership, demanded an end to wage regulation in 1992. However, the government managed to pass through parliament in January 1992 the Wages Act 1/1992, which while extending the range of unions' collective bargaining powers, also gave the government the power to set excess wages tax by decree. These decrees must, in principle, be negotiated and agreed in the tripartite council, the highest organ of collective bargaining. The final decision, however, rests with the government.

Nonetheless, the principle that government wage tax decrees must be agreed in the tripartite has given the council some power over government policy in this area. The experiences of 1992 demonstrate exactly how much. Disputes over the system of wage regulation through an excess wage tax continued through the first quarter of 1992 and delayed the signing of the General Agreement for 1992. The General Agreement is the yearly pact signed by the tripartite to set out the conditions of 'social peace' in terms of wages and social policy. At the end of March, the trade unions threatened not to sign the General Agreement until the wage regulation issue was resolved.²⁰ It was not resolved until April 22, 1992, when the tripartite agreed to a wage tax based not only on inflation, as previously, but rather linked to enterprise profits as well. In addition, the new wage regulation exempted most private firms and joint ventures with more than 30% foreign ownership.²¹ The General Agreements in 1993 and 1994 provided for real wage growth, but wage limits were kept in place, and even

¹⁸ Vladislav Flek et. al., 'The Unions of Employers in the Czech Republic,' unpublished manuscript, March 1993 p. 11.

¹⁹ Vladislav Flek and Alena Buchtíková, 'Income Policy and Wage Development in the Czech Republic,' Czech National Bank Institute of Economics, Prague, 1994.

²⁰ *Svobodné Slovo*, 30 March 1992.

²¹ For a very clear and more detailed discussion of the evolution of wage policy and the other major areas of Czech economic policy from 1989-1993, see Jan Adam, 'Transformation to a Market Economy in the Former Czechoslovakia,' *Europe-Asia Studies*, Vol. 45, No. 4, 1993, pp. 627-645.

strengthened. They were re-extended to cover all private enterprises with more than 24 employees.²² Even if the Czech government decides to remove regulation at some point in the future, it retains its power under the Act on Wages to re-impose wage policies by decree whenever it judges necessary.

Despite trade union opposition to wage restraint since 1992, it was accepted by the trade unions in the context of the tripartite council. The Czech trade unions never attempted to mobilize around this issue or to force the government to abandon its wages policy. Wage restraint has almost certainly added to the low unemployment rate in the Czech Republic, as Premier Klaus expected. Perhaps more importantly for the political success of the Czech neo-liberals, wage restraint has been conducted in an atmosphere of social peace.

Active Labor Market Policies

Active labor market policies have also been implemented more successfully in the Czech Republic than in other post-socialist countries. Active labor market policies include retraining programs, jobs programs, and other forms of government intervention in the labor market designed to increase its efficiency and to reduce unemployment.

In February 1991, the Czech Republic enacted legislation that created a number of programs to be administrated by a new network of district labor offices that had been founded already in 1990. District labor offices were mandated to provide 'socially purposeful jobs' (long-term), 'publicly useful jobs' (short-term), jobs for new graduates, and retraining from a budget provided by the Ministry of Labor and Social Affairs. Socially purposeful jobs include assistance to new entrepreneurs and new job creation with existing employers. Employers who create and maintain socially purposeful jobs for one to two years receive a subsidy from the district labor office. Publicly useful jobs, of up to six months, normally involve some type of community service work, from street cleaning to small building projects. The labor offices had almost complete discretion in allocating these funds to particular programs.

In 1992-93, at any given time the number of people employed through the various jobs programs ranged from 100,000 and 140,000, making up about 2% of total employment. The Czech government spent 1.7 billion crowns (\$58

²² Government Decree No. 334 of December 22, 1993 on Regulatory and Sanction Measure in the Wage Area.

million) on active labor market policies in 1992.²³ The district labor office system in the Czech Republic is widely recognized as among the most efficient in the region. It should also be mentioned that active labor policies were an important element of the 1991 General Agreement in the Czechoslovak tripartite council and in subsequent agreements at the republic level. These policies were explicitly designed to gain the support of the trade unions for the program of economic reform.

Unemployment Control Overview

The wide-ranging package of unemployment control policies described above demonstrate the willingness of the Czech government to intervene in the economy in a variety of ways to secure high employment levels during the period of privatization and enterprise transformation. The government, the National Property Fund, and the Czech National Bank have all dispensed billions of crowns for these purposes. Unemployment reduction was not the only goal of all of these policies; inflation control, bank solvency, enterprise restructuring, and various political objectives were all at play. Yet low unemployment, if not the primary objective, was at least an important secondary goal, and has certainly been an effect of these policies.

It is difficult to say exactly how many jobs were saved through bankruptcy prevention and wages policy. Wage restraint, especially, is a macro-economic policy that should increase employment, but exact measures are elusive. The employment stimulus of a wage policy depends in part on the method used.²⁴ Taxing the total wage bill has no employment-saving effect, since a firm could fire half the employees and pay the other half twice as much, while retaining the same total wage bill. The Czech method of taxing the average wage of an enterprise encourages greater employment rather than higher pay, but again the exact number of jobs saved is difficult to prove.

The only clear number is the number of jobs created through active employment policies in the Czech Republic. Here, the number is almost as large as the unemployment figure: 113,000 compared to 142,000 in May 1993. Therefore,

²³ This description is based on John Ham, Jan Svejnar, Katherine Terrell, 'Explaining Unemployment Dynamics in the Czech and Slovak Republics,' Center for Economic Research and Graduate Education Discussion Paper No. 23, Prague, November 1993.

²⁴ Fabrizio Coricelli and Ana Revenga, eds., Wage Policy during the Transition to a Market Economy: Poland 1990-91, World Bank Discussion Papers No. 158, Washington, 1992.

without the active employment policies alone, the unemployment rate in the Czech Republic would have been 80% higher in May 1993. Although the evidence presented here cannot support a strong conclusion, it is likely that the unemployment rate in the Czech Republic would have been two to three times higher without the policies described above. The boom in the private sector has contributed greatly to the low rate of unemployment in the Czech Republic, as has proximity to Germany, especially in the border regions. However, Klaus's unemployment control policies have also had a major effect.

Corporatist Labor Relations

When discussing the relationship between low unemployment and political stability in the Czech Republic, the negotiated nature of many of these policies appears to be significant. Wage restraint, active labor market policies, and the development of unemployment in general have all been discussed, and to some extent negotiated in the context of the Czech tripartite council, a quasi-official body that brings together representatives of trade unions, employers associations and government for monthly discussion and negotiation of employment and social issues. Consultations and negotiations within the framework of the tripartite has allowed some controversial policies to be implemented in an atmosphere of social peace. The Czech tripartite has also provided a forum for consultation on matters of social policy, another policy area where the Czech government has pursued an active program designed to enhance public acceptance of market reforms.

Consensual decision-making in the framework of a corporatist tripartite council is not the type of policy one would normally expect from a neo-liberal government. The workings of the tripartite demonstrate just how far Klaus's pragmatism goes. The tripartite council was founded in October 1990²⁵ under the first democratically-elected government of Czechoslovakia, in which Klaus was Finance Minister, but was not initially the dominant figure. Though the trade unions were weak, this first Czechoslovak government was concerned to carve out a significant role for labor in the new society. They created a strong and relatively pro-labor framework for collective bargaining and also gave the trade unions a voice in government policy through the tripartite. Although Klaus, at the time, was apparently less than enthusiastic about the trade unions playing a consultative role in government policy, he gradually became convinced of the usefulness of the tripartite in neutralizing labor opposition.

²⁵ Council of Economic and Social Agreement of the Czech Republic, 'Council of Economic and Social Agreement of the Czech Republic,' Prague: August 1993.

Klaus has not, therefore, sought to destroy the trade unions or to challenge their role in collective bargaining at the enterprise level as Reagan and Thatcher did in their respective countries. While Klaus has opposed trade union power at the level of industrial branches and at the level of the national tripartite, his policy towards labor is marked more by pragmatism than by neo-liberal ideology.²⁶

Social Safety Net Policies

In addition to maintaining low levels of unemployment and bargaining with the trade unions in the context of the tripartite, the Czech Republic also managed to create an effective social safety net by 1992. Developments in Czech social policy have been outlined and discussed elsewhere.²⁷ Here it will suffice to point to several unusual features of the Czech development that distinguish it from its neighbors. Perhaps the major achievement of Czech social policy since 1989 has been the effective construction and administration of a 'living minimum.'

The living minimum is, in effect, a sort of minimum social wage that every individual and family is due if they have no other means of support. It is set at a level slightly lower than the minimum wage for individuals. Families receive a living minimum allowance that depends on the age and number of their children. The law on the living minimum came into effect in November 1991 and set what was, in effect, a poverty line for the Czech Republic. In 1991-92, the number of people living below the minimum was between three hundred and four hundred thousand, approximately three to four percent of the Czech population.²⁸ In 1993, this number dropped to 2.8%.²⁹ These people are eligible for a cash payment from the state to bring them up to the poverty line.

²⁶ Peter Rutland, 'Thatcherism, Czech Style: Transition to Capitalism in the Czech Republic,' *Telos* 94, Winter 1992-93, includes an excellent description of Klaus's pragmatic policy towards labor unions. Klaus's own major policy statement on labor relations was delivered in his address to the April 1994 congress of the Czech and Moravian Chamber of Trade Unions, *Práce*, April 9, 1994, p. 4.

²⁷ Martin Potůček, 'Current Social Policy Developments in the Czech and Slovak Republics,' *Journal of European Social Policy*, Vol. 3, No. 3, 1993, pp. 209-226.

²⁸ Ladislav Průša, 'Zivotní minimum - základní prvek záchranné sociální sítě,' *Národní hospodářství*, No. 4, 1993, pp. 33 - 38.

²⁹ *Prague Post*, May 18-24, 1994, p. 1.

The living minimum, pension payments, and the minimum wage have all been raised several times since 1991 in response to cost of living increases. The trade unions have complained that the real value of the living minimum declined by 20% since 1991.³⁰ This drop reflects the starting point chosen by the trade unions for comparison. In fact, the living minimum level has been relatively stable and was increased twice between late 1991 and mid-1993. The same trade union report shows that the basic pension has never fallen below 90% of the 1989 level in real terms. In increasing social transfer payments, the government has acted in general good faith and in accordance with the relevant laws.

A second vital area where state social support has visibly helped people cope with the effects of economic reform is in housing policy. While the majority of the Czech housing stock is privately-owned, the old state-dominated system of rent control has been maintained even for private dwellings. In addition, about one-third of housing in the Czech Republic is owned by municipalities, and 18% is cooperative housing. Housing is one significant area where there has been no quick progress towards the construction of a market. Only for foreigners and for newly-constructed flats are rents liberalized in the Czech Republic.

Social policy in the Czech Republic has been relatively comprehensive. It has been aimed at creating basic minimum standards in a number of areas and of supporting the worst-off in society. It has achieved this goal relatively well, allowing the former Minister of Labor and Social Affairs to conclude that, 'The fact that social peace has lasted despite a marked drop in the standard of living demonstrates that the functioning of the social network is so far successful.'³¹ The administration of these reforms has been relatively strong, so that while other countries of the region have enshrined the legal concept of a living minimum, the Czech Republic is the only country to have implemented it. A functioning safety net has done much to build trust in the neo-liberal economic reforms. For people know that if they fail, they cannot fall below a certain level and their need for shelter, food, and basic clothing will be satisfied. Confidence in the government and acceptance of economic reforms has also been promoted by popular programs in the area of privatization.

³⁰ 'Stanovisko CMKOS k návrhu nařízení vlády, kterým se zvyšují částky životního minima,' Appendix to the minutes of the 54th plenary meeting of the Council of Economic and Social Agreement of the Czech Republic, January 20, 1994.

³¹ Petr Miller a kolektiv, *Práce, Mzdy a Sociální Vči*, Prague, Consus, 1993.

Popular Privatization

Privatization is probably the most far-reaching and controversial of the post-socialist economic reforms. A massive transformation in the distribution of property carries enormous political risk. Privatization determines, more or less, who will be rich and powerful for the next several decades, and who will lose out. The room for corruption is almost boundless. On the other hand, a democratic society demands that property distribution meet certain standards of fairness and equity. Whatever happens, the consequences of the program are long-term. As Frydman and Rapaczynski put it, 'Privatization must be socially acceptable.'³² The Czech Republic's exceptional success in planning and implementing a popular mass privatization program contributed greatly to public acceptance of the reform program and to confidence in government. The Czech Republic's success in making property reform popular can be compared to Poland, where privatization has been divisive and mired in controversy. In a November 1992 poll, 55% of Poles thought that 'swindlers' and 'dodgers' profited from privatization, while only 4% thought the average citizen did.³³ Partly as a result, very little privatization has actually occurred in Poland; most private enterprises are newly-founded, rather than privatized. In Hungary, popular mistrust of privatization is also widespread and justified. The process is not transparent and favors entrenched managers who wish to transform themselves into capitalists.

The Czech success in popularizing privatization is a result of several factors: 1) the Czech Republic avoided 'spontaneous' or 'wild' privatization, i.e., the appropriation of state assets by communist officials or enterprise managers; 2) the Czech-designed mass privatization program appeared fair and equitable to the vast majority of the population, who were entitled to significant awards of state property; 3) the Czech government resolved the issues of foreign and domestic capital participation in privatization well in relation to the mass privatization program; 4) implementation of the mass privatization program was highly effective.

³² Roman Frydman and Andrzej Rapaczynski, *Privatization in Eastern Europe: Is the State Withering Away?*, London, Central European University Press, 1994, p. 14. The authors consider social acceptability one of the 'four main requirements that must be satisfied by any privatization plan that has a chance to work.'

³³ Results of the poll, conducted by the Centrum Badania Opinii Społecznej (COBOS), were reported in Witold Gadomski, 'Poland: A Confused Public, A Divided Parliament,' *Economic Reform Today*, Spring 1993.

In Poland and Hungary, privatization had already gained a bad name by 1990, because of the widespread occurrence of 'wild' or 'spontaneous' privatization. Communist officials and enterprise managers took advantage of their positions and of various legal loopholes associated with the economic transformation to appropriate state assets for themselves. In this way, the political elite of the old regime was able to become the economic elite of the new regime, a process that Jadwiga Staniszkis has called 'political capitalism.'

The main reason the Czech Republic avoided this self-aggrandizement is that central planning and central control of enterprises was maintained intact through 1989. Whereas enterprise control in Poland and Hungary had become more decentralized during the socialist economic reforms of the 1980s, the Czech Republic remained a model of central control until the Velvet Revolution. The Czech state acted swiftly in 1990 to assert sole ownership over all the productive assets in the country. Foreign investors who had been negotiating with individual enterprises were informed that they would henceforth have to speak directly to the Ministry of Privatization. All privatization decisions were centralized in the Czech Republic before significant spontaneous privatization could occur. This gave the government the ability to structure privatization in a politically-acceptable fashion. In Poland and Hungary, where enterprises were made legally semi-autonomous during the 1980s, the government was not able or willing to assert effective control during the early stages of privatization. In fact, privatization in both countries was begun under the last communist governments. The party thereby created for its members opportunities to transform themselves into the new capitalist ruling class. The new democratic governments in Poland and Hungary both cracked down on the practice of spontaneous privatization in 1990 after several damaging scandals involving communist managers and foreign investors. Hungary founded the State Property Agency to control the process; Poland brought privatization under the Ministry of Ownership Transformation. The reputation of privatization, however, was severely damaged. And the central authorities in Hungary and Poland never gained the same level of centralized control over the privatization process that existed from the start in the Czech Republic. Managers in Hungary and employees' councils in Poland still have far greater power in the privatization process than do their counterparts in the Czech Republic.

The ability of the Czech government to control the privatization process allowed it to use privatization to enhance the popularity of the economic reform program as a whole. Privatization was touted by the Czech government as the key element of economic reform. It was probably the most visible program beside price liberalization, currency convertibility, and the opening to Western

imports. The Czech voucher privatization scheme was a brilliant tool that served to privatize state enterprises quickly, while at the same time enriching individual citizens and giving the impression that privatization was being achieved fairly and equitably.

Mass privatization gave every adult citizen a voucher booklet for 1000 crowns (\$35). Individuals could either invest their vouchers with an investment privatization fund or use them to bid for shares in state enterprises that were offered for mass privatization. Although the real value of the shares was uncertain at the time of bidding, the average value of one booklet in the first wave of mass privatization was approximately 30 to 40,000 crowns in May 1994 (\$1000-\$1350). This represents a significant amount of money, especially in comparison with the average monthly wage of about \$200. Of course, not all participants achieved this rate of return. Some received only \$60 or \$350 and some received \$4000. However, regardless of how well an individual invested, he or she was generally satisfied to receive some benefit from privatization and believed that the process was fair to some extent. People who did better had simply invested better. The participation rate in the second wave of voucher privatization demonstrates that the majority of the population considered mass privatization economically worthwhile.

Mass privatization was not the only means of privatization used in the Czech Republic. Out of total assets to be privatized in both waves of Czech privatization, mass privatization will account for approximately 35%. However, enough assets were included in this program to give millions of participants a significant amount of money.

In addition, the Czech government solved the problem of foreign and domestic capital participation in privatization in a politically-acceptable way. In Poland, the issue of foreign participation in privatization has been contentious and has delayed the privatization process. There, the government plans to hire foreign investment companies to operate and privatize groups of Polish companies, gaining up to 15% of the property as a management fee.³⁴ This has raised understandable concerns among the population that privatization means a sell-out of Polish firms to rich Western capitalists. In contrast, the Czech privatization program involved foreign capital in a much more acceptable way.

³⁴ Roman Frydman, Andrzej Rapaczynski, John S. Earle et al., *The Privatization Process in Central Europe*, London, Central European University Press, p. 197. This volume remains the best account of privatization in the region. The reports from the annual conference of the Central and Eastern European Privatization Network are also very useful basic texts.

In companies with foreign capital investment, some shares were also included in mass privatization, giving the population the ability to cash in on the success of the joint venture. Also, foreign investors had to pay 'market' prices, often in public tenders; for Czech companies, whereas in Poland the foreign management companies will gain ownership just for managing the privatization process, which many Poles feel should be the job of the Ministry of Ownership Transformation in the first place. In large part, the Czech mass privatization involved Czech citizens and Czech investment funds buying Czech companies with Czech government vouchers. Though not pitched in a nationalistic way, Czech mass privatization was popular partly because of its domestic orientation.

The Czech privatization was designed to be politically successful. It was also effectively implemented. These two factors are inextricably linked. Probably the main cause for the success of neo-liberal politics in the Czech Republic is the extraordinary ability of the neo-liberal reformers to design politically-popular programs and to deliver them effectively.

Privatization is an enormous administrative task. The Czech government managed to complete through a judicious mix of centralized and de-centralized elements. The government, first, made an inventory of state enterprises and made lists of firms to be privatized in the first wave, the second wave, and those to remain in state ownership. Each state enterprise was then required to submit a privatization plan. Other parties could submit competing privatization plans. This relieved the government of the responsibility of planning the privatization of every single enterprise. The Ministry of Privatization had to review the various privatization plans, approve one, and pass it on to the National Property Fund to administer. Some corruption occurred at each stage, but in general the government control process eliminated more influence-peddling than it created. The voucher bidding process for shares in state-owned enterprises was computerized and worked very effectively. Six million bids were collected and processed through five bidding rounds in the first wave of mass privatization. Share-ownership was registered in a computer system at the Czech Securities Center. All these computer systems and procedures functioned well. The efficiency of the Czech privatization means that by 1995, most Czech companies will be at least partially privatized. This is an achievement that few countries in the region are likely to match.

The effective implementation of a popular mass privatization program has been vital to the success of neo-liberal politics in the Czech Republic. Privatization is one of the fundamental neo-liberal reforms. In virtually every other country in the region it has been achieved only partially, with a great deal of corruption and opacity, and has stimulated vast suspicions and political controversies that

are, in most cases, completely justified. The sufficient fairness of the Czech mass privatization, rather than turning the population against economic reform, served to bolster its support. Václav Klaus's signature as Finance Minister appeared on every single privatization voucher. The program was clearly associated with him personally and with his party, the Civic Democratic Party. It did much to mark him as the father of an economic reform program that was at once relatively fair, popular, and effective.

Ideology of Reform & Expectations

Attitudes about privatization and other elements of the economic reform have played a great role in the success of neo-liberal politics in the Czech Republic. While it is relatively easy to define what attitudes added to the acceptance of the reform project in the Czech Republic, it is more difficult to compare attitudes across countries. It is perhaps impossible to determine what shapes particular attitudinal differences: political culture, the real economic situation, or current politically-induced expectations.

Three sorts of attitudes appear to be important in determining public acceptance of an economic reform program: 1) optimism about the eventual success of reforms and future increases in living standards; 2) expectations about how long the period of sacrifices will last, how great the sacrifices will be, and how quickly the benefits will come; 3) perceptions of fairness.

Czech citizens have exhibited an unusual optimism about the success of the economic reforms. This is partly a result of the better economic situation overall in the country. They have believed that there will be a relatively short period of sacrifice, and have showed a willingness to live through this. This willingness is definitely affected by several factors. First, the Czech government has always stressed that sacrifice is necessary, thereby preparing people for it. Since the unemployment level is low, an effective social safety net has been constructed, and housing and other necessities are relatively cheap, the level of sacrifice has been lower than in Poland. Therefore the period of sacrifice before the expected increase in living standards has been more bearable.

Very important in a democratic society is popular perception of the fairness of economic reform. Market reforms introduce inequalities. Some people are more successful at market competition than others, because of intelligence, training, participation in certain social groups, energy, or lack of handicaps. In a country where the majority of the population has the ability to chose political leadership, neo-liberal economic reform must convince the majority of

the population that they will be winners, or at least that the game is fair, so that they could become winners if they worked harder. The Czech government, through a variety of egalitarian measures, has proven to its population the general fairness of the reforms. It built confidence with its provision of minimum standards of living for all. Mass privatization was carried out with popular acceptance and was perceived as a fair method. Economy-wide wage restraint spread the burden of transformation relatively evenly. Income inequality and extreme poverty have been lower in the Czech Republic than in neighboring countries. All this has added to the widespread popularity of the neo-liberal reform program.

CONCLUSIONS

State Control, Effective Policies & Social Citizenship

To explain the political success of neo-liberal socio-economic reform in the Czech Republic, we have looked to particular policies and programs of the Czech government since 1989. Yet the Czech Republic was also the only Central European country to remain democratic from 1918-1938. Many observers argue that the success of the Czech transition is the result of Czech political culture.³⁵ Historically, the Czech Republic has not been so class-divided as neighboring Hungary and Poland. It lost its nobility in 1620. Consensual, non-confrontational decision-making is said naturally to the Czechs. The Czech social partners more easily match their expectations to the possibilities of government and do not take confrontational positions without serious cause. There are many variations on this argument and many of these have some truth to them.

Political culture, however, is not a very good explanation. It can be used as a *post hoc* explanation of a wide variety of general policy trends, but it cannot tell you why the minimum wage was set at a certain level and not another, nor why restituted housing was kept under rent control. Particular policies are not determined by political culture. They are determined by policy-makers in particular situations who are subject to a whole range of political pressures and

³⁵ The best discussion of Czech political culture and the behavior of trade unions is included in Peter Rutland, 'Thatcherism, Czech Style: Transition to Capitalism in the Czech Republic,' *Telos* 94, Winter 1992-93. Rutland argues that, 'The Czech government's acceptance of corporatism can be attributed to the underlying consensual nature of Czech political culture, a willingness to replicate the labor institutions of neighboring Austria and Germany, and Klaus' own style of avoiding direct confrontations.' (p. 122).

practical considerations. Neo-liberal economic reform could easily have been a disaster in the Czech Republic. It was not because of certain conditions and policies. To figure out which ones and why, we need better explanations than just that Czechs are Czechs, whereas Poles are Poles.

Some pre-existing conditions have undoubtedly helped make the Czech transition easier than others. The Czech Republic is richer than the other countries in the region, except for Hungary. It has by far the lowest per capita foreign debt.³⁶ These two factors increased the flexibility of Czech policy-makers and provided the economic basis for fulfilling popular demands on consumption. The unemployment rate in the Czech Republic was reduced by its proximity to Germany. This has reduced the overall unemployment rate by an amount that is not easy to specify, since much of this work is unofficial. Tourism, especially centered in Prague, has boomed since 1989 and brings in millions of dollars yearly to balance the Republic's payments.

These structural economic factors explain, in part, why unemployment has been so low, and why the Czechs have been able to maintain certain levels of consumption. However, they do not explain the entire story. The unemployment level would be almost twice the current rate without the highly-effective active labor market policies. If large Czech firms had been allowed to go bankrupt during privatization, or after, this would almost certainly have increased the unemployment rate again by an unknown amount. Real wages have been kept lower than in Poland or Hungary, which probably also has the effect of securing some jobs.

Furthermore, the political success of neo-liberal reforms has been a result of two factors that are impossible to account for in economic terms: their social acceptability in the eyes of the voting public, and the effectiveness of their implementation. Mass privatization is an excellent example of both. The privatization program in the Czech Republic has been more successfully implemented than any other in the region. It distributed, on average, \$1000 to every participant and was perceived as basically fair. The success of the mass privatization program undoubtedly secured popular support for the economic reform package overall.

³⁶ 'Changes in the Economy, A Comparative Analysis: Czechoslovakia, the Former GDR, Hungary, Poland,' The International Foundation for Capital Market Development and Ownership Changes in Poland – Center for Privatization, Warsaw, 1992, No. 1, pp

Wage policy was also implemented very successfully and, although generally disliked, was applied very broadly. Wage policy and a variety of social programs were imposed in the context of tripartite negotiations between government, business, and labor that attempted to generate an atmosphere of social peace. District labor offices were created and administrated efficiently in comparison with neighboring countries.

What emerges from this analysis is that a major factor in the success of the Czech reforms has been a high level of government control and administrative effectiveness.³⁷ The Czech Republic was the most centralized of the planned economies in 1989. Neighboring socialist countries had gone through a period of de-centralizing reforms in the 1980s. This tended to inhibit government control over the reform process in the 1990s and allowed things like spontaneous privatization to occur, that damaged the reputation of reform. The administrative apparatus in the Czech Republic, as Martin Potůček argues, somehow managed to retain a certain level of skill and, even more surprisingly, popular trust.³⁷ This state administration proved able to implement reform programs with great effectiveness in comparison with other post-socialist countries.

The other striking feature of Czech neo-liberalism is its pragmatic, socially acceptable, and even social-democratic character in some instances. Some question whether Czech neo-liberalism deserves the label at all. The Czech government, from the beginning, tempered neo-liberal economic reforms with social safety nets and social democratic approaches. The trade unions were invited to participate in the reform process through the tripartite council and were given a strong system of collective bargaining in the new society. The mass privatization was constructed, to some degree, on egalitarian principles, although it ended with a concentration of ownership in the largest investment companies.

The Czech reforms demonstrate that the government had an implicit conception of social citizenship accompanied by an acute awareness that economic reforms had to be acceptable to a democratic populus. This concept of social citizenship included the idea that all citizens should be guaranteed a minimum living standard by the government; that all citizens should be eligible to partake of the revenues of privatization of state enterprises, that all citizens should accept

³⁷ Martin Potůček, 'Can Dying State Paternalism Give Birth to Social Citizenship?', unpublished manuscript, Institute of Sociological Studies, Faculty of Social Sciences, Charles University, Prague, 1994.

income sacrifices to make Czech companies competitive on world markets. The nationalist appeal of economic progress also should not be underestimated in the Czech Republic.

The Czech government policies were socially acceptable in another sense, that people trusted that the government was honest in its dedication to economic reform, and was not simply in the business of enriching itself. This was one of the major problems in Hungary with the Democratic Forum government. Its corruption was so thorough and obvious that people quickly lost faith in government and reform. The Czech neo-liberals were relatively honest and have maintained the public perception that they are not mainly interested in personal gain. Václav Klaus sets the tone with his frequent remarks about the smallness of his apartment and the modesty of his Skoda car.

In Poland, the differences lie more in the area of governmental effectiveness. The instability of successive governments in Poland has meant that there is little time to construct and carry out consistent policies. This has hurt in a number of areas. Lech Walesa has played a de-stabilizing role as well, undermining the parliament and government and wreaking havoc with popular expectations by making great campaign promises, but leaving them completely unfulfilled. Poles felt, in 1993, that economic reform was not being carried out with sufficient social protection and therefore elected social democrats who were expected to continue the transformation, but with more sensitivity.

In summary, the success of Czech neo-liberal politics has many dimensions. Primary among them are the high level of centralized state control, administrative efficiency, and the perceived fairness of the program.

Efficiency Trade-Offs

Some argue that the Czech reforms have been too social democratic and too soft, that the Czechs have postponed hard decisions, as on bankruptcy and unemployment. The political success of Czech neo-liberalism may not be matched by economic success. This argument seems doubtful for a number of reasons. Some aspects of the transformation in the Czech Republic have been more radical and far-reaching than in Poland or Hungary, for instance privatization. Although there is some question about whether privatized Czech firms will really function efficiently, the situation in the Czech Republic compares favorably to that in Poland or Hungary, where much more remains in state hands. Some of the hard decisions taken in Poland were also bad decisions, for instance the quick and extensive opening to Western imports and the full convertibility of the zloty. The carefully-guarded low value of the

Czech crown has been a hard decision that worked. Some programs, like privatization, social security, and housing reform, require a long time for completion, and therefore only a relatively stable government can address these issues coherently.

It will take several years before we know for certain whether the political success of Czech neo-liberalism will translate into greater economic success or not. Politically, however, the Czech neo-liberals have achieved something remarkable.

References

Jan Adam, 'Transformation to a Market Economy in the Former Czechoslovakia,' *Europe-Asia Studies*, Vol. 45, No. 4, 1993, pp. 627-645.

Changes in the Economy, A Comparative Analysis: Czechoslovakia, the Former GDR, Hungary, Poland, The International Foundation for Capital Market Development and Ownership Changes in Poland, Center for Privatization, Warsaw, 1992, No. 1, pp. 44-45.

Fabrizio Coricelli and Ana Revenga, eds., *Wage Policy during the Transition to a Market Economy: Poland 1990-91*, World Bank Discussion Papers No. 158, Washington, 1992.

'Council of Economic and Social Agreement of the Czech Republic,' Council of Economic and Social Agreement of the Czech Republic, Prague, August 1993.

Vladislav Flek et. al., 'The Unions of Employers in the Czech Republic,' unpublished manuscript, March 1993.

Vladislav Flek and Alena Buchtíková, 'Income Policy and Wage Development in the Czech Republic,' Czech National Bank Institute of Economics, Prague, 1994.

Roman Frydman and Andrzej Rapaczynski, *Privatization in Eastern Europe: Is the State Withering Away?*, London, Central European University Press, 1994.

Roman Frydman, Andrzej Rapaczynski, John S. Earle et al., *The Privatization Process in Central Europe*, London, Central European University Press.

Witold Gadomski, 'Poland: A Confused Public, A Divided Parliament,' *Economic Reform Today*, Spring 1993.

John Ham, Jan Svejnar, Katherine Terrell, 'Explaining Unemployment Dynamics in the Czech and Slovak Republics,' Center for Economic Research and Graduate Education Discussion Paper No. 23, Prague, November 1993.

Milena Horčicová, 'Angažovanost státu při řešení bankovních problémů,' *Národní hospodářství*, 12, 1993, p. 4.

Karel Janáček, 'Unemployment and Labour Market in Czechoslovakia (Czech Republic) 1990-1992,' Czech National Bank Institute of Economics, Prague, 1993.

Petr Miller a kolektiv, *Práce, Mzdy a Sociální Věci*, Prague, Consus, 1993.

Martin Potůček, 'Can Dying State Paternalism Give Birth to Social Citizenship?,' unpublished manuscript, Institute of Sociological Studies, Faculty of Social Sciences, Charles University, Prague, 1994.

Martin Potůček, 'Current Social Policy Developments in the Czech and Slovak Republics,' *Journal of European Social Policy*, Vol. 3, No. 3, 1993, pp. 209-226.

Ladislav Průša, 'Zivotní minimum - základní prvek záchranné sociální sítě,' *Národní hospodářství*, No. 4, 1993, pp. 33 - 38.

Adam Przeworski, *Democracy and the market*, Cambridge: Cambridge University Press, 1991.

Adam Przeworski, 'Economic reforms, public opinion, and political institutions: Poland in the Eastern European perspective,' in Luiz Carlos Bresser Pereira, José María Maravall and Adam Przeworski, *Economic Reforms in New Democracies: A Social Democratic Approach*, Cambridge: Cambridge University Press, 1993.

Peter Rutland, 'Thatcherism, Czech Style: Transition to Capitalism in the Czech Republic,' *Telos* 94, Winter 1992-93.

'Stanovisko CMKOS k návrhu nařízení vlády, kterým se zvyšují částky životního minima,' Appendix to the minutes of the 54th plenary meeting of the Council of Economic and Social Agreement of the Czech Republic, January 20, 1994.

Výroční Zpráva, Fond Národního Majetku České Republiky, Prague, 1992.

Journals:

Central European Economic Review

Czech Business Update

Czechoslovak Business Update

Eastern Europe Reporter

Ekonom

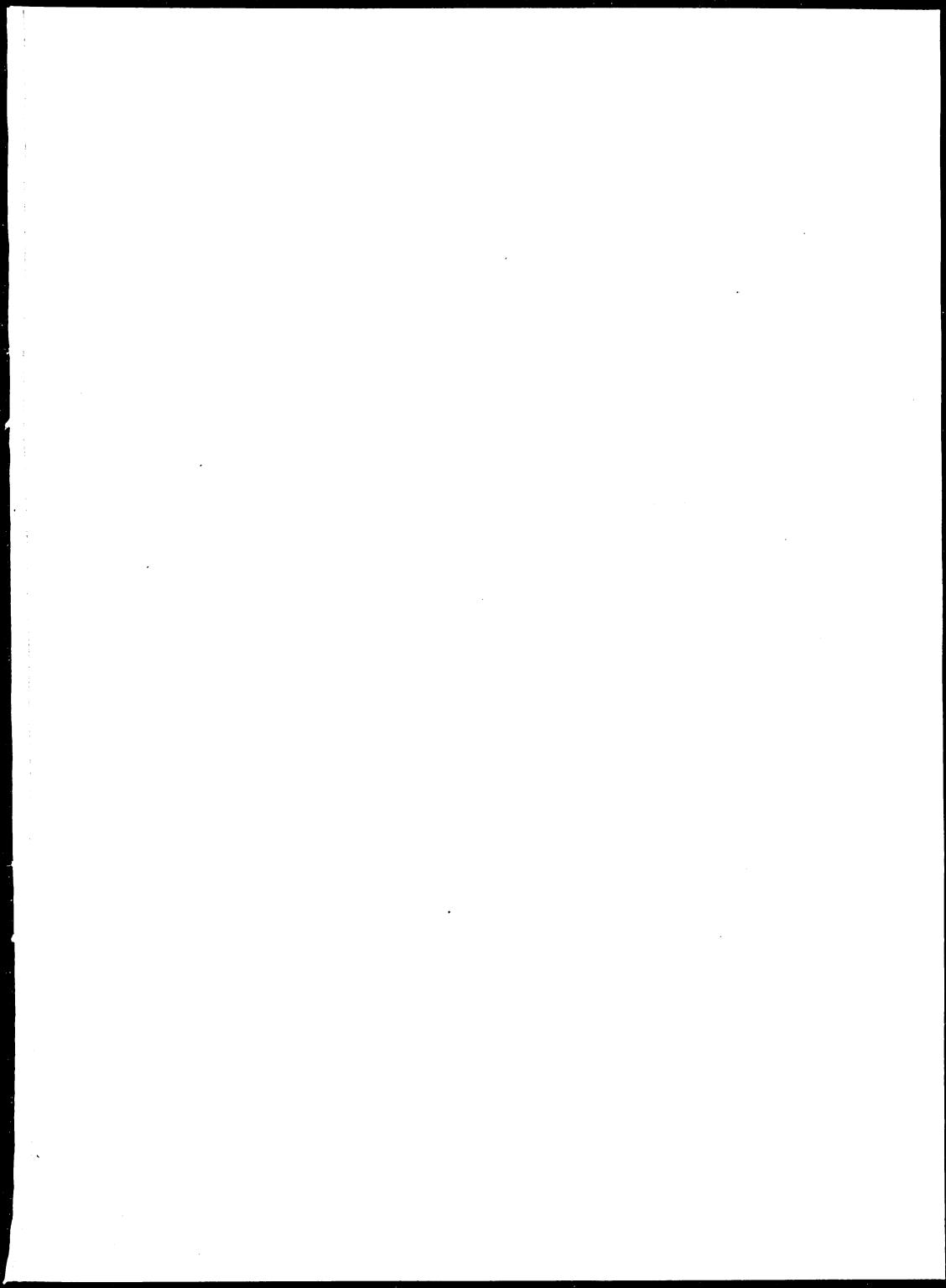
Hospodářské noviny

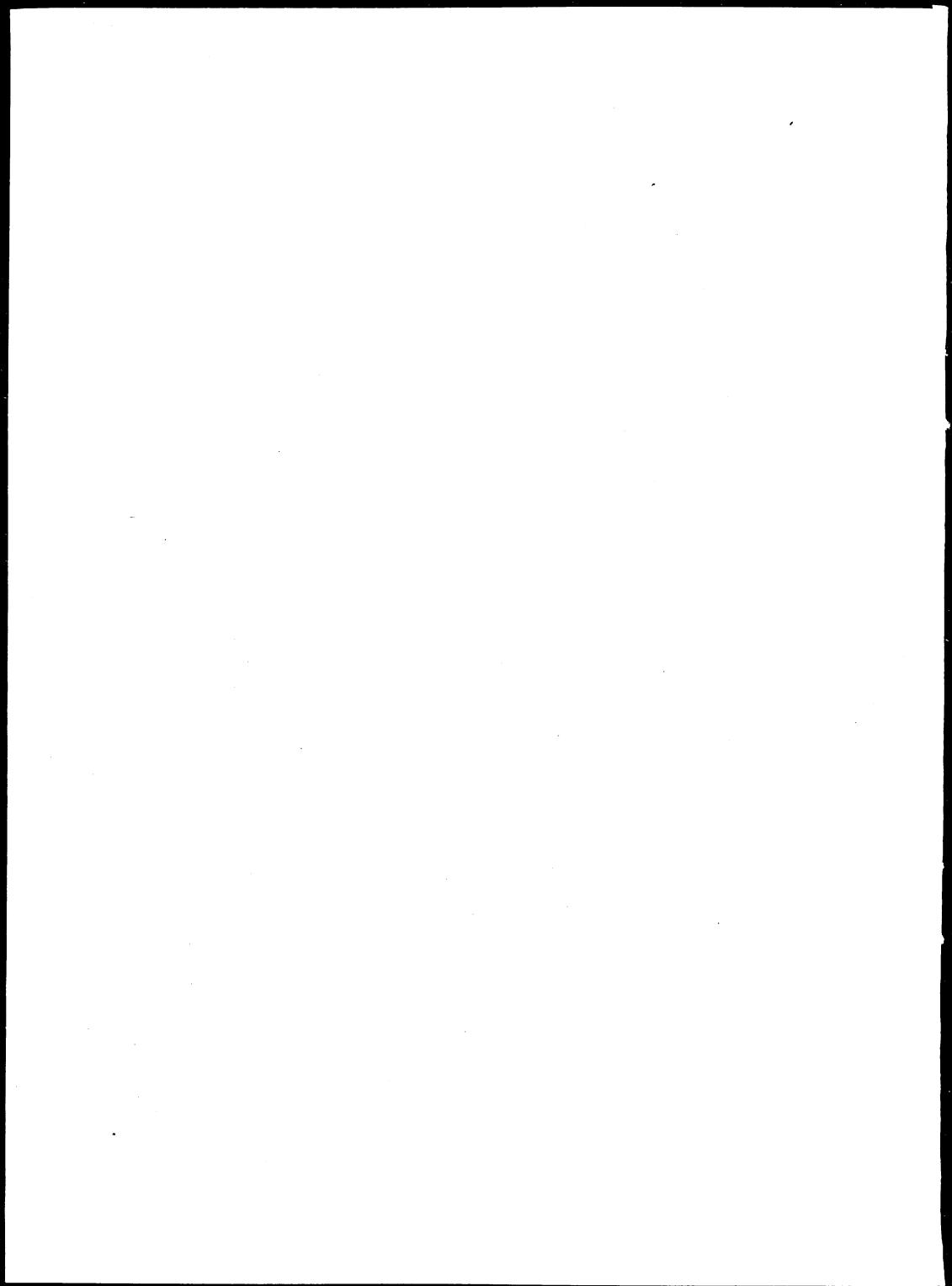
Práce

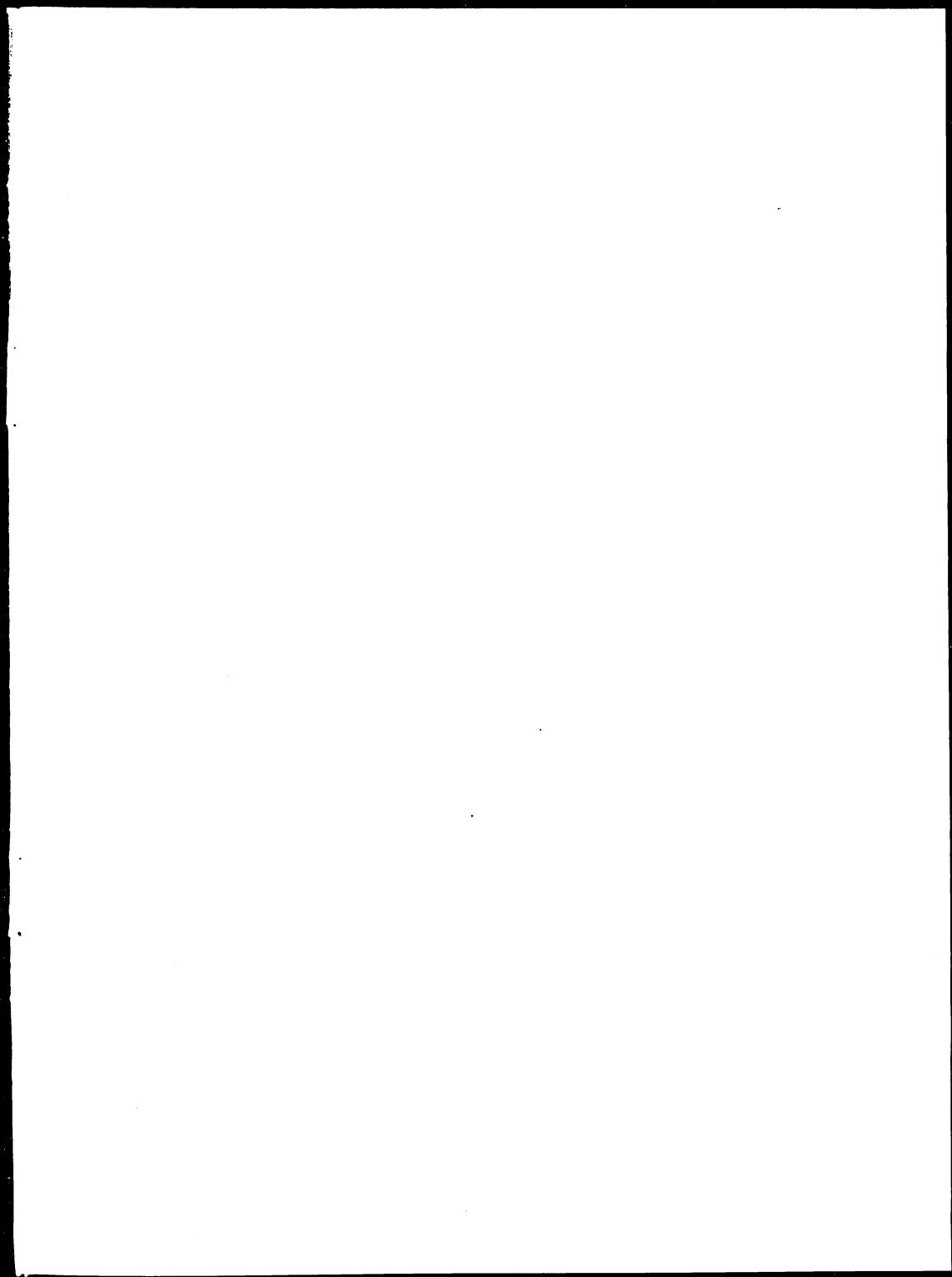
Prague Post

Statistical Bulletin, Czech Statistical Office.

Svobodné Slovo







**POLITICKÝCH VĚZŇŮ 7, 111 21 PRAHA 1
CZECH REPUBLIC**