TITLE: Thatcherism, Czech Style:
Organized Labor and the Transition to Capitalism in the Czech Republic

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INTRODUCTION

The Czech Republic is emerging as the most successful of the East European countries attempting the transition from socialism to capitalism. Yet East Europe's most radical experiment with a rapid transition to the market has been ushered in with barely a murmur of social discontent. How is one to explain the Czechs' relative success? Cultural, economic and political variables all come into play.

Prime Minister Vaclav Klaus is widely acknowledged as the architect of the most orthodox Thatcherite solution to the challenge of transition. Yet Klaus's neoliberalist program owes considerably more to Czech political culture than his critics and supporters usually recognize. Despite a carefully cultivated public image of monetarist zeal, in reality Vaclav Klaus is much more a pragmatist than an ideologist. Klaus is happy to use the rhetoric of neoliberalism, while in reality pursuing a more nuanced economic policy that preserves social harmony.

The paper consists of three parts. The first section outlines those elements of Czech political culture which were conducive to the emergence of a political consensus over the economic reform program - even among some of the social groups, such as industrial workers, who stood to lose most in the short term. The second section summarizes the main stages in the reform program. The third section proceeds to examine the role played by trade unions in the transition process.

ROOTS

Vaclav Klaus's pragmatism is rooted in a commonsensical view that markets work better than central planning, that a stable currency is better than hyperinflation, and that the Czech lands' future lies in rapid integration with Western Europe. These views, which resonate with Czech public opinion, have more to do with Czech history and traditions than with any off-the-shelf reform program imported from Bolivia via Poland.

It is terribly important to bear in mind the simple historical and geographic facts of life. The Czechs have lived for centuries in a region ruled from Vienna, and surrounded on three sides by Germans and Austrians. The country's compactness and continuity of inhabitation means that provincial social networks are very strong, surviving (and perhaps even prospering) under 40 years of communism. For Czechs, the slogan 'back to Europe' which carried Civic Forum to electoral victory in 1990 was regarded not as a theoretical abstraction, but a physical reality and a reflection of their historical experience at the heart of Europe.

The fact that the Czechs were ruled by foreigners since the 17th century, and their apparent resignation in the face of foreign conquest (in 1938, 1948, 1968) led many commentators to portray Czech nationalism as a weak and fragile force. In fact, it is alive and well, and its very self-effacing nature testifies to its inner self-confidence.

Historical accident also plays a role. The suppression of the Prague Spring in 1968 led to the reimposition of Stalinism just as the country's neighbors were opening their economies to the West and searching for market socialism. These reform efforts failed, and left a legacy of social turmoil and foreign indebtedness. The Czechs, paradoxically, were in better shape to undertake the transition to a market economy in 1989 precisely because they had not significantly deviated from the Stalinist model in the 1970s and 1980s.

THE POLITICAL CONSOLIDATION OF THE MARKET REFORMERS

The new Civic Forum government which emerged in the wake of the 'velvet revolution' of November 1989 was united on the need to dismantle the communist monopoly of political power, but divided over how fast to introduce market reforms. Finance Minister Vaclav Klaus argued that unless drastic steps were taken, such as cuts in subsidies, price liberalization and mass privatization, the momentum of reform would be lost and the political consensus for change would never be regained.

Civic Forum was divided over the question of economic reform. While many social democrats in its national leadership adhered to the Komarek line, most of its provincial organizations swung behind Klaus's pro-market stance, and elected him Chairman of Civic Forum on October 13 1990. Civic Forum split into rival political parties, and Klaus's Civic Democratic Party became the majority party in the Czech Republic in the June 1992 elections, winning 30% of the votes and forming a ruling coalition with three other center-right parties.

Opinion polls showed the public were divided over the wisdom of rapid market reform. However, Klaus offered strong leadership while his opponents equivocated. Paradoxically, he was helped by the very popularity of the Communist Party (the only one in Europe not to change its name), which attracted 15% of the votes in the 1992 election. The strength of the communists squeezed out more moderate social democrats, and fed popular fears of a possible return to communist rule. (What is now known as the 'Lithuanian syndrome.')

In Slovakia, in contrast, no coalition for reform emerged. On the contrary, the weakeness of the Slovak economy (and its greater dependence on the Soviet market) meant that unemployment shot up to 13% in Slovakia, while staying at 3% in the Czech lands. The June 1992 elections produced very different results in the two republics, with nationalist parties victorious in Slovakia. The two sides moved quickly to implement a 'velvet divorce' in January 1993 - which is having a serious disruptive impact on both countries' economies.

THE ECONOMIC REFORM PROGRAM

The second section of the paper summarizes in some detail the main steps in the Czech reform program, including data up to March 1993.

Budgetary stabilization and price liberalization On January 1, 1991 price controls were abolished for 85% of retail goods. Prices leapt by 54% in 1991, but since then have only grown at 12-14% per annum. Most subsidies to manufacturing industry were eliminated, and tight fiscal policy has kept budget deficits down to 2-4% of GDP, 1990-92. The crown was made partially convertible - but under-valued, to discourage imports. It has held its value against major currencies ($1=28 crowns). The main challenge facing stabilization policy has been the persistence of enterprise debts, which rose to 300 billion crowns by the end of 1992.

Economic performance This fiscal and monetary stabilization came against a backdrop of steady economic decline. GDP fell 16% in 1991 and 8% in 1992. The crucial factor triggering the fall was the 40% drop in exports to the Soviet Union. The one bright spot was the strong growth in exports to the European Community (which rose 31%), coming primarily from state firms. Indeed, so successful were they in shipping steel to Germany that the European Community slapped on import quotas in November 1992.

The emergence of the private sector Unlike Poland and Hungary, Czechoslovakia had a minuscule private sector prior to 1989. However, since the revolution it has experienced explosive growth, rising to 8.3% of GNP in 1991. A restitution program has returned 100,000 property units to their former owners. A law on 'small privatization' was passed in October 1990, mandating the sale of stores and workshops through public auction. By January 1993 22,004 units had been sold, raising 29 billion crowns. 45% of retailing is now in private hands. The previous legal prohibitions on private economic activity were lifted, and by May 1992 there were 1,123,582 registered individual entrepreneurs (9% of the adult population). Full-time employment in the private and cooperative sectors made up 29% of the country's 7.2 million workforce. The paper includes an analysis of a hitherto unpublished Federal Statistical Office survey of 5,000 new entrepreneurs.

The privatization of large-scale industry From 1990 on state enterprises were converted into joint-stock companies, and plan targets were abolished. A Bankruptcy Law was introduced in October 1991, but not a single large state firm has been liquidated, and the right of creditors to force closure only comes into effect in April 1993.

The managers of the 4,500 state firms were responsible for drawing up their own firms' privatization plans. (This is in contrast to the more centralized procedure attempted in Poland.) Klaus realized that state assets would have to be distributed free of charge, given the lack of domestic capital and the paucity of foreign buyers. Each adult was entitled to buy a book of coupons for a nominal sum, and use them to bid for shares in companies put up for privatization (with no special privileges for managers or workers).

Political considerations were also important in the adoption of the coupon method. Klaus realized that the coupon method could create a constituency of 2-4 million voters with a vested interest in the success of the privatization program - and of his party, which was the main guarantor of its success. As Finance Minister, Klaus saw to it that his own signature appeared on every coupon book.

The coupon method was a novelty: nobody was sure how it would work - or if it would work at all. Responding to criticisms that the scheme would create excessive dispersal of ownership, the government allowed private investment funds to bid for coupons. 72% of the coupons were invested in the private funds. The first wave of bidding began on May 18 1992 - just three weeks before the June elections. By the end of the round, in January 1993, 1,320 firms with 343 billion crowns of assets had been privatized, of which 65% of the assets sold for coupons.

THE ROLE OF LABOR UNIONS IN THE TRANSITION TO THE MARKET

During the 1989 revolution independent strike committees coordinated the November 29 general strike which brought down the communist government. Over the following months the old official union organization, ROH, was quickly dismantled and replaced by a new Czech and Slovak Confederation of Trade Unions (CSKOS). New leaders were elected to the unions on a democratic basis, but the unions were still seen by the public as a holdover from the old regime, and were largely shut out of decision making by the new Civic Forum government. Unlike the Communist Party, the unions were allowed to keep their considerable property holdings - office buildings, hotels, sanataria, and bank accounts.

The CSKOS unions now cover perhaps 75% of the labor force. Workers continue to pay their dues not out of enthusiasm for the role the unions are playing as defenders of their collective interests, but because of the considerable individual benefits membership can bring (cheap holidays, help in individual disputes with management, etc). Likewise, the main goal of the leaders seems to have been organizational self-preservation. There is little incentive for the leaders to adopt a confrontational stance, so long as the government continues to allow them to function.

The Czech unions have had a minimal impact on the political process since 1989: there have been virtually no strikes or other forms of labor unrest. All this is in sharp contrast to the situation in Poland and Hungary, where one sees aggressive new unions, keen to defend their members interests, alongside rejuvenated official unions also playing an active role. No political parties were willing to associate themselves with the unions - except the Communists, whom the unions did not want as an ally. Thus the unions did not endorse either parties or individual candidates in the 1990 and 1992 parliamentary elections.

Despite the fact that the unions were politically neutralized, one can see the emergence of a corporatist quid pro quo between the government and organized labor. In return for accepting price liberalization and privatization, the government allowed the unions to keep their property and continue in operation. Union members accepted wage ceilings in state enterprises (which caused a 26% drop in real wages in 1991). In return the government has tried to keep unemployment to a minimum (3%). The main policy instruments deployed to maintain reasonably full employment have been rapid privatization, encouragement of foreign investment and an under-valued currency. The unions seem to have grudgingly accepted this Thatcherite logic - cognisant of their own political isolation, and fearful of another wave of anti-communism which could lead to the seizure of their property.

Some corporatist institutions for managing labor relations along German/Austrian lines have also appeared. In late 1990 a Council of Social and Economic Accord was created to facilitate tripartite negotiations at national level, and a new Labor Code and Law on Collective Bargaining guaranteed basic workers' rights, and provided for legally binding labor contracts.

In the two years since these corporatist institutions were created economic reform has accelerated and Klaus has managed to consolidate his political power base. The unions have grown increasingly restive, arguing that the government has violated some of the agreements reached (by allowing real wages to fall further than agreed). The corporatist structure is still weakly developed, and while it exists on paper there is little real bargaining between employers and labor. Binding agreements are forged at the national level between monopolistic and non-transparent institutions, which are then imposed on lower actors.

This section of the paper proceeds to examine four areas of union activity in more detail: wages policy; income maintenance programs, including the raising of the minimum wage; unemployment policy; and the privatization process.

CONCLUSION

In the Czech Republic a clear and stable system of parliamentary democracy has emerged, with a government committed to implementing rapid market reform. In no small measure these achievements are due to the government's ability to neutralise organized labor, thanks largely to fortuitous political circumstances.

However, the separation of the Czechoslovak federation raises a cloud of doubt over the Czech model. Although the split with Slovakia would probably have occurred whatever the economic strategy adopted in Prague, this cannot be proven, so critics can argue that the cost of Klaus's transition package was the break-up of the federal state.

THATCHERISM, CZECH-STYLE:
ORGANIZED LABOR AND THE TRANSITION TO CAPITALISM
IN THE CZECH REPUBLIC[1]

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INTRODUCTION

On November 11 1992, 5,000 coalminers from northern Bohemia and Ostrava crowded into the Old Town Square in Prague to protest government plans to stop the mining of brown coal and to close loss-making black coal pits.[2] The miners listened to a speech by Vladimir Dlouhy, Minister of Economics and a leading member of the Civic Democratic Alliance, a libertarian party to the right of Vaclav Klaus's Civic Democratic Party. Dlouhy explained that the brown coal mines had to be closed on environmental grounds, and promised further government help to create new jobs. The miners politely applauded, and then dispersed for an hour's shopping in the new K Mart and other downtown Prague stores before returning to their buses for the trip home.

This encounter typifies the character of economic policy in the post-socialist Czech Republic. The most radical experiment in Eastern Europe with a free-market transition from socialism to capitalism has been ushered in with barely a murmur of social discontent. Prime Minister Vaclav Klaus is widely acknowledged as the architect of the most orthodox Thatcherite solution to the challenge of transition. Yet Klaus's neoliberalist program owes considerably more to Czech political culture than his critics and supporters usually recognize. Despite a carefully cultivated public image of monetarist zeal, in reality Vaclav Klaus is much more a pragmatist than an ideologist. Klaus is happy to use the rhetoric of neoliberalism, while in reality pursuing a more nuanced economic policy that preserves social harmony.

This paper consists of three parts. The first section outlines those elements of Czech political culture which were conducive to the emergence of a political consensus over the economic reform program - even among some of the social groups, such as industrial workers, who stood to lose most in the short term. The second section summarizes the main stages in the reform program. The third section proceeds to examine the role played by trade unions in the transition process.

The discussion is confined to developments in the Czech Republic. The political culture and the impact of the economic reforms in Slovakia are sufficiently different to merit separate treatment. However, it is worth remarking that despite the break-up of the Czechoslovak federation, the two republics in fact had more similarities than differences in their economic policies between 1990 and 1992. Both implemented liberalization and privatization, although because of the structural differences between their respective economies inherited from the socialist period Slovak unemployment rose more sharply than in the Czech lands. Despite these differences, the Slovak labor unions were only slightly more integrated into the political process than their Czech counterparts. The Slovaks who were pushing for separation were motivated more by questions of identity and pride than by worries about the economic program per se. On the other hand, those Czech politicians (such as Klaus) who pressed for a clean-break <u>were</u> largely motivated by economic considerations.

ROOTS

Vaclav Klaus's pragmatism is rooted in a commonsensical view that markets work better than central planning, that a stable currency is better than hyperinflation, and that the Czech lands' future lies in rapid integration with Western Europe. These views, which resonate with Czech public opinion, have more to do with Czech history and traditions than with any off-the-shelf reform program imported from Bolivia via Poland. Klaus in fact makes quite a play of scorning $1000-a-day experts from the IMF and World Bank, who throng the halls of the hotels Atrium and Diplomat, offering, as Klaus puts it, 'soft advice for hard currency'.

While Klaus may have studied for half a year at the University of Chicago in the 1980s, before that he spent a dozen years working as a functionary in the State Bank. Banking, curious though it may seem, is a central element in Czech national identity. In the late 19th century, when Czechs were barred from political power, their bourgeoisie's efforts were channelled into commerce. The legacy of this period lives on in the form of the majestic and ornate banks which were built in central Prague at that time, many of them decorated with the motifs of the Czech National Revival. Czechs also proudly remind visitors that their country was the only one in the region to avoid falling into hyperinflation after World War One. (In East European political discourse, World War One was only yesterday.)

It is terribly important to bear in mind the simple historical and geographic facts of life. The Czech lands comprise Bohemia, Moravia and Silesia, whose inhabitants have distinct customs and dialects. Regional identities are strong even within Bohemia itself, but no place in the Czech lands is more than three hour's drive from Prague - thanks largely to the pre-World War Two road system. (The few highways the communists built run to the east.) Most of the 10 million Czechs live in medium-sized towns: Prague itself only has a population of 1.2 million (one third the size of Budapest). Families have typically lived in the same region for generations. This compactness and continuity of habitation means that provincial social networks are very strong, surviving (and perhaps even prospering) under 40 years of communism.

The Czechs have lived for centuries in a region ruled from Vienna, and surrounded on three sides by Germans and Austrians. Most villages and towns have been there for 500 years, as the buildings on their central squares still testify. The country has 2,000 castles, and the portraits staring down from their walls remind the visitor that since 1620 the lords were all Germans.

Medieval history was an acceptable object of study during the communist period. Indeed, the government tried to revive the heritage of the 15th century Hussites, portraying them as anti-German populists. These efforts did not serve to bolster the regime's legitimacy, however. On the contrary, a whole sub-culture emerged among Czech youth who spent their weekends following the heritage trails which criss-cross the countryside linking historical monuments. Interestingly, in the 1970s and 1980s these hiking clubs typically dressed themselves from head to foot in US Army surplus gear (or home-made versions thereof).

Thus for Czechs, the slogan 'back to Europe' which carried Civic Forum to electoral victory in 1990 was regarded not as a theoretical abstraction, but a physical reality and a reflection of their historical experience at the heart of Europe.[3] Of course, at one level the

Czechs will never forgive the Germans for what happened during World War Two, and at another level they envy their wealth and self-confidence. But thanks to the expulsion of two and a half million Sudentendeutsch in 1945, for the first time in centuries the Germans no longer threaten the territorial identity of the Czechs.

As for the Russians, they have suddenly become irrelevant (culturally and politically, but not economically). Historically, Russian influence on Bohemia had been minimal prior to 1945.[4] Geographically, the Czechs have gone from being a neighbor of the USSR to being separated from Russia by a handful of independent countries. However, the Czechs remain dependent on Russia for their oil and gas supplies - although work will shortly begin on the Ingolstadt pipeline, linking Bohemia to the German oil distribution system.

The fact that the Czechs were ruled by foreigners since the 17th century, and their apparent resignation in the face of foreign conquest (in 1938, 1948, 1968) led many commentators to portray Czech nationalism as a weak and fragile force. In fact, it is alive and well, and its very self-effacing nature testifies to its inner self-confidence.

The strength of Czech nationalism has been overlooked by Western authors, who have typically concentrated on the country's robust civil society and strong democratic traditions. While this legacy is certainly important, and serves to differentiate the Czechs from most of their East European neighbors, it did not exist in a vacuum. As Czech civil society blossomed during the 19th century it was located within a revived sense of nationhood. Anglo-American liberals are always reluctant to concede that nationalism and democracy are two sides of the same coin: that democracy presupposes the definition and symbolic invocation of the demos.

It is thus inaccurate to take Hasek's Good Soldier Schweik as typifying Czech national character. Schweik's sly skepticism and feigned ignorance is only part of the story. On the other side, one saw the huge network of sports clubs (Sokol) which culminated in the mass gymnastic displays of the Spartakiade in the 1920s (subsequently emulated in Germany and Russia).

These cultural factors also affected the impact of communism on Czech society. Alone among the East Europeans, their society opted for socialism in a more-or-less peaceful manner (the communists won a plurality with 38% of the votes in the semi-free elections of

1946), and the regime continued to enjoy a solid basis of working class support up into the 1980s. The suppression of the 1968 Prague Spring led to the 'normalization' process which kept the centralized socialist system intact just as the country's neighbors were opening their economies to the West and searching for market socialism. These reform efforts failed, and left a legacy of social turmoil and foreign indebtedness. The Czechs, paradoxically, were in better shape to undertake the transition to a market economy in 1989 precisely because they had not significantly deviated from the Stalinist model in the 1970s and 1980s.

Such historical and geographical factors tend to be drowned out by all the chatter about transition programs, policy sequencing and privatization models. In what sense could Czech or Hungarian experience be a 'model' for Russia, with 15 times the population, 200 times the territory, and a totally different historical experience?

The upshot of this capsule description of Czech culture is that the Czechs know who they are, they know where they belong, and most of them seem to know each other. Personal networks, often regionally based, have been just as important as political ideology in welding together the various elements of the new post-socialist political and economic elite. Many if not most of this new elite have come from the second ranks of the old elite. (Where else were they to come from? One could not staff the entire government and managerial class from emigres and dissidents.)

It is difficult to explain why Vaclav Klaus was able to distinguish himself from the other, more well-known Civic Forum leaders and appropriate the 'road to Europe' and to capitalism as his own. Accident plays a large part: Klaus was not a political genius, just the right man, in the right place, at the right time. He does possess a certain charisma - yet one must always remember that when Max Weber used this term, he had in mind not the personal qualities of the leader, but the public's willingnes to project their hopes and fears on whichever suitable-looking leader happened to be available.

Paradoxically, Klaus's relative obscurity might have worked in his favor. The more well-known dissident figures, such as Petr Pithart and Jiri Dienstbier, were associated with the tribulations of the past, while Klaus was a new face who talked only of the future. Respect for the dissidents' suffering under the normalization regime was counter-balanced by lingering public doubts about the viability of the reform communist model which they had tried to implement in 1968. Although the liberals and social democrats in Civic Forum also favored market reform and integration with Europe, the public was very alert to signs that their commitment was less secure than that of the right-wing leaders. For example, Foreign Minister Dienstbier clearly prefered to stay out of Nato, and devoted considerable effort to trying to persuade the US to launch a rescue package for Russia, buying the needed food and consumer goods in East Europe. Such efforts smacked of a search for a 'third way' in foreign affairs, for which there was apparently little public sympathy.

The political consolidation of the market reformers

The new Civic Forum government which emerged in the wake of the 'velvet revolution' of November 1989 was united on the need to dismantle the communist monopoly of political power. The old regime was dismantled within a matter of weeks, and power was handed over to a new group of leaders, mostly former dissidents of 1968 vintage.

However, despite their consensus on the need for a clean break with the political past, the new leaders in Civic Forum were sharply divided over the wisdom of a rapid move towards a market economy. Deputy Prime Minister Valtr Komarek warned that 'if a market economy were to start immediately, economic agony and chaos would result'.[5] However, Finance Minister Vaclav Klaus argued that the move towards the market was inevitable, and that it was <u>delay</u> in introducing reform which threatened catastrophe. Although Komarek said that he was in favor of a market economy in principle, Klaus suggested that unless drastic steps were taken, such as cuts in subsidies, price liberalization and mass privatization, the momentum of reform would be lost and the political consensus for change would never be regained. (Ironically, Klaus had sat out the normalization period as a researcher in Komarek's Institute of Forecasting.) Klaus persuaded the government that plans for economic reform had to be drawn up as soon as possible - even before the first free parliamentary elections, scheduled for June 1990. Komarek lost the argument, and was removed from office. An outline of the reform package was agreed on May 15 1990 - just in time for the first free parliamentary elections.

In the June 1990 elections the Civic Forum alliance won 49.5% of the vote in the Czech lands and, together with its Slovak sister organization, Public Against Violence, won

170 of the 300 seats in the federal parliament. This gave the new government a firm mandate for change.

The situation was not quite so rosy in the provinces, however, where there were complaints that the communists were using their power to block economic reform or turn it to their own personal advantage. President Vaclav Havel had previously warned against a witchunt of communists, but in response to complaints from Civic Forum branches in Moravia he shifted his position, and in a speech on August 19 he came down firmly in favor of a 'second revolution' to bring about a market economy.

Amid fierce debate, parliament adopted a Scenario on Economic Reform on September 17 1990. The program proposed the removal of price controls; the establishment of currency convertibility by January 1991; and the privatization of small and large-scale industry. A broad Transformation Act laying out plans to change the ownership structure of large-scale state industry was introduced on November 1st, and was passed .

In local elections held in November 1990, Civic Forum held on with 35% of the vote, although the Communist Party polled a surprising 17%, drawing support mainly from pensioners and agricultural workers.[6] The public were unsure as to the wisdom of rapid reform. A poll carried out in November 1990 showed 43% of the public supported the economic reform program, 23% expressed no opinion, 10% expressed concern, and 23% voiced opposition.[7] 41% of Czechs and 61% of Slovaks expressed a willingness to use strike action if price increases were excessive.

Civic Forum itself continued to be deeply divided over the pace of economic reform. While many social democrats in Civic Forum's national leadership adhered to the Komarek line, most of its provincial organizations swung behind Klaus's pro-market stance, and elected him Chairman of Civic Forum on October 13 1990.[8] A Civic Forum conference in Olomouc on December 8-9 reaffirmed the commitment to rapid marketization, and declared that there was no 'third way' between capitalism and Soviet-style socialism.[9] Rival groups of Civic Forum parliamentary deputies formed left and right-wing clubs, and on January 13 its General Council voted to turn Civic Forum into a political party committed to democracy and capitalism.[10] On February 23 the organization split into Klaus's right-leaning Civic Democratic Party and the smaller liberal Civic Movement, led by Foreign Minister Jiri

Dienstbier. From that point on Klaus was able to persuade the government, and the parliament, to pursue the reform strategy which he laid down.

Despite the ambivalence about reform revealed in opinion polls, popular opposition to reform was much weaker than in Poland or Hungary - and the pro-market leaders were more determined. However, Klaus stressed that he would proceed carefully, and try to learn from the errors of Czechoslovakia's neighbors. Klaus saw now need for the over-zealous 'shock therapy' administered in Poland, and wanted to avoid the wave of uncontrolled 'spontaneous privatizations' in Hungary (which saw the selling of valuable assets to foreigners and former communist officials at bargain prices).

Budgetary stabilization and price liberalization.

At the beginning of 1990 Poland and Yugoslavia were facing inflation of 50% per month, and administered radical 'shock therapy', choking off the money supply and plunging into full currency convertibility. Czechoslovakia was in a better position, in that it did not face a heavy foreign debt, and the authorities had not allowed monetary emissions to get out of control.[11] In 1990 retail prices rose a modest 14%, while wages rose 3%.[12] However, as in all the socialist economies, the Czechs inherited a distorted price structure and a money overhang of K300 billion (K=crowns) in consumer savings - K18,000 per capita, equivalent to 17 months' average income.

On March 28 Klaus persuaded parliament to adopt a new austere budget for 1990, with a projected deficit of only K5 billion. Klaus kept a tight grip on government spending, and 1990 ended with a K5 billion surplus. The 1991 budget involved further cutbacks in spending, particularly in subsidies to industry and agriculture, which were eating up 15% of spending.

In order to curtail these subsidies, prices would have to be freed. On July 9 1990 subsidies on a wide range of food produce were eliminated, leading to a 26% jump in food prices. On January 1 1991 price controls were abolished for 85% of retail products. Retail prices leapt by 59% in 1991, but since then have only grown at 12-14% per annum. Czechs seem confident that inflation will be kept under control, and have not rushed to spend their savings. (Thus the money overhang has not proved a significant problem.)

Although subsidies to manufacturing industry were virtually eliminated, some sectors continued to receive subventions from the state budget - most notably the railways and farms. (The latter have been losing about K20 billion a year.) Apart from budgetary subsidies, the government also had to tackle the problem of bad loans and mushrooming inter-enterprise debt (which stood at K70 billion at the beginning of 1991). These bad debts were taken from the commercial banks and placed into a Consolidation Bank, specially created in May 1991. This cleaned up the balance sheets of state owned enterprises (SOEs) and the banks, enabling them to participate in the privatization process without being weighed down by old debt. Nevertheless, by the end of 1992 SOE debts had crept up to K300 billion. In general, banks are charging their lenders real, positive interest rates. While there are several glaring examples of government bail-outs for ailing enterprises through back-door refinancing, such steps seem the exception rather than the norm.

A series of devaluations in 1990 moved the crown steadily towards convertibility.[13] The crown was devalued to 28/$ in December 1990, and has maintained that rate since. The crown is pegged to a basket of five Western currencies, and is fully convertible for business purposes. Imports were discouraged by the imposition of a 20% tariff in February 1991. Klaus deliberately under-valued the crown in order to deter imports and make Czechoslovakia more attractive for foreign investors - hourly wages are 50% below those in Poland or Hungary, although labor productivity is higher.[14]

This fiscal and monetary stabilization came against a backdrop of steady economic decline. The crucial factor triggering the fall in GDP was the 40% drop in exports to the Soviet Union. The one bright spot was the strong growth in exports to the European Community, coming primarily from state firms. Indeed, so successful were they in shipping steel to Germany that the European Community slapped on import quotas in November 1992.

CZECHOSLOVAK ECONOMIC PERFORMANCE[15]

	1989	1990	1991	1992 (est)
% change on previous year:				
GDP	1.4	-0.4	-15.9	-8
consumer prices	1.5	18.4	53.6	14
real industrial wage	0.9	-5.7	-26.7	3
as % of GDP:				
budget balance	-2.4	0.1	-2.0	-4
govt spending	64.5	60.1	52.9	53
unemployment	0.0	1.0	6.6	5
% annual change in:				
<u>exports to</u>				
market economies	8.4	7.9	31.2	2
ex CMEA	-18.2	-30.7	-49.5	-8
<u>imports from</u>				
market economies	-3.3	9.3	7.7	3
ex CMEA	-4.2	-23.6	-41.8	-4

The emergence of the private sector[16]

Unlike Poland and Hungary, Czechoslovakia had a minuscule private sector prior to 1989. However, since the revolution it has experienced explosive growth, rising to 8.3% of GNP in 1991.

Restitution laws were passed in October 1990 and February 1991 (after fierce parliamentary confrontations), returning 100,000 property units to their former owners. 1948 was established as the cut-off date for restitution to avoid arguments over the legitimacy of the seizure of property belonging to the 2 million Sudeten Germans, expelled from the country in 1945. Restitution only really affects housing and small businesses: by 1948 the non-communist Benes government had already nationalized 86% of industrial assets.

Separate laws were passed in 1991 covering the restitution of **land**. Transformation Councils were also set up in each state and collective farm to supervise the return of land to individuals and the restructuring of farms into smaller cooperatives. However, 70% of state and cooperative farms are making losses, and given the glut of agricultural products there is little enthusiasm among farmers to establish independent private farms. (Only 4,000 have taken up the opportunity so far.) Thus the farm sector has been left largely unchanged by the privatization campaign, and continues to rely on state subsidies (as in most other European countries).

A law on **'small privatization'** was passed on October 25 1990, mandating the sale of shops, cafes and workshops through public auction. (Units were not sold outright, but were leased for three, and later five, years.) The first auctions took place on January 26 1991, and by January 1993 22,004 units had been sold of the 32,000 designated, raising K29 billion.[17] (8,820 were sold in Slovakia, raising K12 billion.) Restitution and privatization auctions have allowed new private entrepreneurs to gain access to premises at low cost, and 45% of retailing is now in private hands.[18]

A series of laws approved in April 1990 abolished the previous legal prohibitions on **private economic activity**. The private sector expanded from 75,000 persons at the end of 1989 to 294,000 a year later. By May 1992 there were 1,123,582 registered individual entrepreneurs in the Czech Republic and 360,442 in Slovakia (although 70% of them continued to hold full-time jobs in the state sector).[19] These figures mean that no less than 9% of the adult population in the Czech Republic and 4% in Slovakia were registered as entrepreneurs.[20] In addition, the 4,614 private firms in operation by September 1991 employed a further 32,858 workers.[21]

Full-time employment in the private and cooperative sectors together rose from 1.3 million in 1990 to 2 million in 1991, equal to 29% of the country's 7.2 million workforce. Of this, 16.4% were in the private sector and 12.0% in cooperatives.[22] According to official estimates the private sector in Czechoslovakia generated K79 billion or 8.1% of GDP in 1991, up from 4.1% in 1989 and 5.3% in 1990.[23] This is concentrated in retailing, services and construction, however: as of May 1992 state enterprises still accounted for 90.8% of industrial output.[24]

A massive sample survey of entrepreneurs in 1992 found that they were drawn from a broad cross-section of society: 46% were skilled workers without secondary education, 34% high school graduates and only 14% were university graduates.[25] 32% reported having an entrepreneur in their family at some point in the past. Fear of unemployment was cited as the major factor stimulating individuals to start up a business.

This explosion of entrepreneurial activity testifies to the pro-market orientation of large segments of Czech society. It also suggests that Czechs have internalized market values. They seem prepared to take individual responsibility for dealing with the impact of economic change, and will thus be less inclined to take collective action to ease the costs of transition. A Sociology Institute survey carried out in July 1992 found that Czech society can be divided into two broad groups: the 'paternalist' type (43% of all adults), who still look to the state as the main guarantor of their standard of living, and the 'liberal' type (57%) who are prepared to wager on the market.[26]

At present, however, the booming private sector is more important as a sociological than an economic phenomenon. These entrepreneurs mostly run single-family operations, and have done little to reverse the downward slide in GDP since 1989. Nevertheless, this phenomenon shows many Czechs taking individual responsibility for their economic well-being, rather than turning to collective action to halt the erosion in their living standards. Most of the political influence of the new private sector has been channelled through Klaus's own political party. While an Entrepreneurs' Association and even an Entrepreneurs' Party have been formed, these entrepreneurs are focussing on their personal prosperity and show only a limited interest in political activism.

The privatization of large-scale industry

A group of laws passed in April 1990 laid the legal foundation for converting SOEs into joint-stock companies. In the first six months of 1990 the 100 large trusts which dominated the economy of the Czech Republic were broken up into 330 independent enterprises. The vast majority of the communist-appointed top directors were dismissed and replaced by their more technically-qualified deputies. In July 1990 the State Planning Commission was abolished, and SOEs no longer had to meet production targets. A

Bankruptcy Law was introduced in October 1991, but not a single sizeable SOE has been liquidated, and the right of creditors to force closure only comes into effect in April 1993.

On 26 February 1991 a law was passed committing the government to the privatization of the bulk of Czechoslovakia's 4,500 state enterprises, and in June the government published the regulations governing the large scale privatization program.[27] The government's goal was to bring about a mass privatization of state industry as quickly as possible. Klaus recognized that radical measures would have to be adopted to make significant inroads into the gargantuan state sector before the economy slid into total collapse. His strategy for mass privatization consisted of two elements.

First, to speed up the process he made managers themselves responsible for drawing up their own firms' privatization plans. This is in contrast to the more centralized procedure initially attempted in Poland, where special teams in each ministry were to prepare the projects for firms in their sector. It also differs from the second Polish approach (now emulated by the Hungarians), where privatization is contracted out to teams of outside consultants. To date, in neither Poland nor Hungary have significant numbers of state enterprises been privatized.

Second, Klaus was prepared to gamble on a leap into popular capitalism. He realized that if state assets were to be divested they would have to be distributed free of charge, given the lack of domestic capital and the paucity of foreign buyers. For reasons of equity and efficiency it was thought that shares should be given to citizens at large, and not to the managers or workers of individual plants. Dusan Triska, one of Klaus's advisers, came up with the idea of the coupon method as the vehicle for mass privatization. Each resident adult citizen was entitled to buy a book of coupons for K1000 ($35), and use them to bid for shares in companies put up for privatization. There were to be no special privileges for managers or workers in the distribution of coupons.

Political considerations were also very important in the adoption of the coupon method. Fresh parliamentary elections had been set for June 1992, but party identification among Czech citizens was still very weak. Observing Thatcher's experience in the UK, Klaus realized that the coupon method could create a constituency of 2-4 million voters with a vested interest in the success of the privatization program - and of his party, which was the main guarantor of its success. As Finance Minister, Klaus saw to it that his own signature appeared on every coupon book.

The coupon method was a novelty: it was used only once before, to sell off the telephone company in British Columbia. It had never been used to privatize a large number of enterprises simultaneously. Nobody had any clear idea about how the coupon method would work - or if it would work at all. Responding to criticisms that the scheme would create excessive dispersal of ownership and would not ensure effective control by the new owners, the government allowed individuals or firms to set up Investment Privatization Funds (IPFs), which would be entitled to bid for citizens' coupons.

Each firm had to draw up its own privatization project, and submit it for approval first to its current owner (usually the Ministry of Industry) and then to the Ministry of Privatization in its republic. Firms could propose direct sale to a domestic or foreign buyer; sale through auction or tender; or conversion into a joint stock company, with or without participation in the coupon scheme. Any group of citizens, or a foreign company, had the right to submit a rival project proposing an alternative way of privatizing a given firm. The average Czech firm in the first wave had 3.8 projects submitted - but only a small number of rival projects were eventually selected. 1,491 firms were chosen to take part in the first wave, and had to submit their projects by October 31 1991. Their assets had a book value of K299 billion ($9.5 billion) - about 25% of Czechoslovak industry. This meant each K1,000 coupon was backed by about K35,000 of assets.

For several weeks in January 1992 the 100 staff of the Czech Ministry of Privatization closeted themselves in the Lnare castle in southern Bohemia, and sifted through the thousands of projects. They were helped by the Multinational Strategies group, a team of 20 American advisors (mostly ex-Wall Street bankers), paid for by the US Agency for International Development. Once a project was approved, the equity passed from the former owner to the Fund of National Property, which will reduce its holdings within three years through the coupon method or through sale of shares.

The public showed little interest in buying coupons when they went on sale in October 1991. The government expected 2-4 million of the 11.5 million eligible citizens to buy coupons, but only half a million were sold in the first three months. The scheme was too complicated for the average citizen to understand, and the government TV advertising campaign, featuring young men and women leaping out of BMWs and waving their coupon books, did not succeed in conveying to people what the scheme was all about. The situation changed dramatically in January, with aggressive advertising by some of the IPFs, most notably Harvard Capital and Consulting. HC&C was founded by Viktor Kozeny, a 27 year old Harvard graduate, and it ran TV ads promising a cash payment of K10,350 in one year's time to anyone who invested their K1,000 coupon with HC&C - a guaranteed 1,000 percent return on their investment. HC&C also employed 22,000 agents to work the lines at registration points, persuading people to sign over their coupons. Many of the other 437 IPFs followed suit, with some promising a K15,000 return.

The antics of the investment funds generated huge political controversy, and gave much ammunition to Klaus's critics. However, the funds' appeal to greed paid off - and saved Klaus's program. People realized that there was a chance to make real money through the coupons. As the deadline of January 31 1992 approached, lines began to form outside post offices, with people waiting six hours in heavy snow to register their coupons. The government ran out of coupon books (8 million of which had been printed in Germany), and had to postpone the deadline. By February 29, 8,565,642 coupons had been sold, 5,977,466 in the Czech republic and 2,588,176 in Slovakia. 72% of the coupons were subsequently registered with IPFs. The six largest funds (including HC&C) controlled about 20% of the total number of coupons.

After several further delays the first wave of coupon bidding began on May 18 1992, just three weeks before the June 5 elections, in which Klaus was victorious.[28] The first wave consisted of four successive rounds, in which the prices of shares (in coupons) were adjusted to balance supply and demand. If demand exceeded supply by more than 25%, the shares of that firm were withdrawn, and entered into the next round at a higher price (in coupon points). The firms most popular with coupon bidders were banks, hotels, trading companies, and those with foreign partners. In some cases the coupon price of shares in such firms was increased by more than 2,000% in subsequent waves of bidding, while the price of unpopular shares, such as utility companies, were heavily discounted.

By January 1993, after five rounds of computerized bidding, 93% of the 299 million shares on offer had been sold, and 99% of coupons had been 'spent'.[29] All told, 1,320 firms had been privatized by one of the various methods, with K343 billion of assets, of which 65% had been sold for coupons. Foreign buyers bought into 70 firms, with a mere 3% of total assets (worth K10 billion). Thus claims that mass privatization would facilitate 'cherry picking' by foreign investors seem unfounded. A second privatization wave, involving another 500 firms, will begin in the Czech Republic in late 1993.

Initial fears that the coupon method would lead to an excessive dispersal of share ownership have not been realized, thanks to the concentration of coupons in the IPFs. No single fund can hold more than 20% of the shares of a given firm, but holdings of say 10% should guarantee the fund a seat on the firm's board of directors. Taken together, the funds will probably have a controlling packet of shares in many if not most Czech firms. Kozeny's HC&C, for example, emerged with sizeable holdings in a number of leading companies, including two major banks - Komercni and Ceska Sporitelna.[30]

Thus the pattern of ownership emerging in the Czech Republic will probably be a variety of state capitalism akin to that in Germany or Japan. Power will rest with an 'iron triangle' of industrial managers, government ministries and banks, all closely inter-related. Such a configuration is illustrated, for example, by the manouverings around the privatization of the engineering giant Skoda Plzen. Siemens was selected as the favored buyer, but withdrew last October because they could not persuade the government to take over Skoda's outstanding debts. The Industry Ministry then approved a leveraged buy-out proposal put together by Skoda's former director, Lubomir Soudek. The cash is to come from the Czech banks to whom Skoda Plzen already owed K4.4 billion. The new deal is only possible because of the government's willingess to help/persuade the banks by continue carrying Skoda's debts.

The velvet divorce

Klaus emerged from the June 1992 elections with a working majority in the Czech arliament, given his alliance with the Civic Democratic Alliance and Christian Democrats.

	Federal Assembly		Czech parliament	
	votes	seats	votes	seats
Civic Democratic Party	34%	85	30%	76
Left Bloc (Communists)	14	19	15	35
Social Democracy	7	16	7	16
Republican Party[1]	6	14	6	14
Christian Democrats	6	13	7	15
Liberal Social Union	6	12	6	16
Civic Democratic Alliance	-	-	6	14
Moravia/Silesia Association	-	-	6	14

The picture in Slovakia was very different, however. There. none of the Czech parties won any seats, while Vladimir Meciar's Movement for a Democratic Slovakia polled 34%, the ex-communist Party of the Democratic Left 14% and the Slovak National Party 10%. This meant that the Federal Assembly was split evenly between the communists, Klaus and Meciar. The latter two statesmen quickly agreed that the federal parliament was an unworkable body, and that division of the republic was unavoidable.

Separation negotiations went surprisingly quickly and smoothly - this despite the fact that there was no referendum on the issue, and polls showed that only 16% of citizens wanted the split in June 1992. Even as late as November, only 50% of Czechs and 40% of Slovaks approved of the split. It was widely believed that Meciar was merely using the threat of separation to get a better deal for Slovakia within a renewed confederation. However, Klaus ruled out a middle way: it was to be either a unitary federation, or two separate states. As Meciar started to waver, Klaus made it clear that there would be no federal budget for 1993, agreement or no agreement. After three attempts, the federal parliament reluctantly accepted the deal hammered out by Meciar and Klaus, and voted itself out of existence.

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[1] The Republican Party is a neo-fascist organization led by Dr. Rudolf Sladek, who campaigned hard in the industrial towns of North Bohemia, which are heavily polluted and have large Romany minorities.

The Czech public remains highly skeptical about their political leaders, showing little trust in the political parties and the parliament. Nevertheless, an AISA poll in February 1993 showed 58% of the public feeling that the economic situation was improving, and 64% expressing broad approval for the government's policies.[31]

THE ROLE OF UNIONS IN THE TRANSITION TO THE MARKET[32]

The restructuring of the labor unions

Within a week of the student demonstration of November 17 1989 which launched the 'velvet revolution', strike committees appeared in many plants around the country. Communist attempts to mobilize workers against the students backfired. On November 23 Czech television showed the humiliation of the Prague Communist Party chief addressing a crowd at the CKD Locomotive plant, where he was shouted down by workers chanting 'we are not children'.

The strike committees coordinated the November 29 general strike which brought down the communist government. Trade unions in the police and television also played a significant role in the days following the November 17 demonstration, organizing petitions and putting pressure on leaders to reform.[33]

Under the leadership of the newly-formed national Association of Strike Committees, the old official union organization, ROH, was quickly dismantled. ROH's 17 industrial unions, which had covered 98% of the labor force, were broken up into 50 new unions (also structured on an industry-wide basis). New leaders were elected to these unions on a democratic basis and according to some estimates roughly 80% of the leadership was replaced by new faces. Within ROH the real power had resided in the regional councils, which coordinated the work of unions in each province. In January and February 1990 these councils were dissolved, and their considerable property holdings (clubs, hotels, etc.) were split up between the unions in proportion to their membership.

The process by which the old communist-led unions were dismantled and replaced by new activists was remarkably smooth. Bargaining over the formation of the 50 new unions out of the 17 old ones was reportedly tough, but went ahead without incident. Alexander Pilar, one of the secretaries of the new Czech and Slovak Confederation of Trade Unions

(CSKOS), attributed this to the 'unbelievable stupidity' of the old communist government in trying up to the very last minute to stop labor activism and shore up the old regime.[34] These efforts served to completely discredit the old union leadership. This is in contrast to the situation in Poland, where the new official unions (OPZZ), formed in 1984, had some success in portraying themselves as the defenders of workers' interests.

On March 3 1990 a congress of the new unions decided to abolish ROH and create a new Confederation of Czech and Slovak Trade Unions (CSKOS), with a General Council consisting of the 50 heads of the new unions. A separate Chamber of Trade Unions was formed at republic level in each of the Czech and Slovak republics, and there appears to have been little coordination between unions in the two republics. CKSOS elected as chairman Igor Pleskot, a former academic who was dismissed from his position in 1968 and became a metalworker. In September 1990 he was replaced by Roman Kovacs, head of the Metalworkers' Union (KOVO), which is the largest union, with 1.2 million members. In June 1990 CKSOS became a full member of the International Confederation of Free Trade Unions - the second East European union organization after Solidarity to be granted membership. With the break-up of the Czechoslovak state, in December 1992 CSKOS itself was abolished, leaving the Bohemian and Moravian Chamber of Trade Unions in the Czech Republic.

Unlike Poland and Hungary, no new independent unions have been created outside CSKOS, apart from the unions of cultural workers and some small independent labor organizations, such as the 'Labor and Freedom' organization, with 2,000 members. The CSKOS unions cover perhaps 75% of the labor force (reliable figures are hard to come by). Workers continue to pay their dues not out of enthusiasm for the role the unions are playing as defenders of their collective interests, but because of the considerable individual benefits membership can bring (access to rest homes and cheap holidays, help in individual disputes with management, etc). Likewise, the main goal of the leaders seems to have been the preservation of their organizations. There is little incentive for the leaders to adopt a confrontational stance, so long as the government continues to allow them to function.

In marked contrast to the role of Solidarity in Poland, the Czech unions have had a minimal impact on the political process since 1989. There have been virtually no strikes or other forms of labor unrest. Even the Hungarian unions, largely staffed by the old communist-period personnel, have played a more prominent political role than their Czech counterparts. The main reason is that the Czech unions were seen, and to a degree saw themselves, as a discredited holdover from the communist regime. The unions are indeed one of the few quasi-political organizations of the old regime to have survived the transition more or less intact. One must also remember the important role played by unions in the 1948 coup: while apparently mere defenders of workers' interests, they in fact served as a front for the Communist Party's seizure of power.[35]

The immediate task facing union leaders after 1989 was simply organizational survival, in the face of threats from right-wing deputies in parliament to close them down and confiscate their property. Paradoxically, therefore, it is the very strength of the Communist Party in Czechoslovakia (both before and after 1989) which accounts for the political exclusion of organized labor, and the sharp contrast with Poland and Hungary.

Thus the unions were largely shut out from the decision-making process at governmental level as the economic reform program gathered pace. CKSOS was either unwilling or unable to persuade parliamentary deputies to articulate their interests. Many parliamentarians feared that publicly associating themselves with the old left's worker constituency would be 'political suicide'. The union leaders themselves recognized the force of this argument: they declined to endorse either parties or individual candidates in the 1990 and 1992 parliamentary elections.

Of course, the communist deputies were willing to voice the workers' interests, but CSKOS did <u>not</u> want to publicly align themselves with the Communist Party, since this would merely seem to confirm the right's accusations that the unions were tools of the communists. This left the unions with few political options, since the other forces on the parliamentary left (such as the Social Democrats) were still very weak. Another factor encouraging union quiescence was the tendency of the unions to still see themselves as quasi-official structures, with a responsibility to carry out governmental policy. The idea that their role could be to aggresively defend workers' interests was still relatively novel, and they lacked confidence in advancing such a role.

One might expect such apparently self-serving behavior by union leaders to be met with challenges from the shop-floor. However, while polls indicate a high level of distrust among workers about their unions, this discontent has not yet translated into grass-roots activism.

Towards a corporatist consensus ?

Despite the fact that the unions were politically neutralized, in the autumn of 1990 they were able to make several significant gains which laid the groundwork for what appeared to be a corporatist framework for managing labor relations along German/Austrian lines. The Czech corporatism is distinguished by the fact that the government holds all the cards and both the unions and employers are very passive participants in the game.

However, some clearly corporatist institutions have been created, and one can see the outlines of a corporatist quid pro quo between the government and organized labor. In return for accepting price liberalization and privatization, the government will allow the unions to keep their property and continue in operation. Union members have taken a sharp cut in real wages, and in return the government has implicitly accepted the importance of trying to keep unemployment to a minimum. The main policy instruments the government have deployed to maintain reasonably full employment have been rapid privatization, encouragement of foreign investment and an under-valued currency. This is all very different from the original British Thatcherism, which shunned corporatist intermediation and relied on high unemployment to bring labor into line and limit wage inflation.

In September, 1990 a Council of Social and Economic Accord was created to provide a framework for tripartite negotiations at national level, consisting of 10 representatives of CSKOS, 7 from the employers and 7 from the government. Somewhat ironically, it was only at the urging of the government and the unions that the employers moved to set up their own organization. (Similar councils were set up in both republics.)

Secondly, a new Labor Code and Law on Collective Bargaining was adopted in December 1990. This legislation guaranteed basic workers' rights, and laid down the framework for legally binding labor contracts, including compulsory arbitration if the two sides fail to agree, and compulsory strike ballots.[36] Employers cannot hire replacement workers during a strike, and if no contract is concluded they have the right to a lock-out - in which case the workers are entitled to half-pay.

The unions had objected to parts of the draft code, which for example removed the right of workers to participate in the selection of managers. The original draft of the new enterprise law, introduced on March 23, had included provisions expanding the role of workers' councils but the government, led by Economics Minister Vladimir Dlouhy, had insisted on removing these clauses. The Metalworkers' Union was able to gather 600,000 signatures in four days on a petition protesting the new code.[37] In several respects the new code fell below the minimum provisions for the protection of worker interests recommended by the International Labor Organization. Letters from the ICFTU and L. Kirkland of the AFL-CIO helped to persuade the government to modify the code. Although the final version ruled out worker participation in management (thus falling short of the German Mitbestimmung), the provisions on redundancy, sick pay and so forth are fairly generous and conform to ILO standards.

Why did the Czechoslovak government embrace these corporatist institutions while simultaneously laying the groundwork for a Thatcherite leap into a market economy? After all, traditional Thatcherism consisted in no small measure of a direct attack on labor unions' rights. The Czech government's acceptance of corporatism can be attributed to the underlying consensual nature of Czech political culture, a willingess to replicate the labor institutions of neighbouring Austria and Germany, and Klaus's own preference for avoiding direct confrontations. Tactical considerations also played a part. The neoliberals only had a precarious majority in the parliament which was elected in June 1990, and chose to concentrate their efforts on putting into place the key planks of the reform program - price liberalization and privatization. Also, in the government labor and social issues were largely in the hands of politicians from the social democratic wing of Civic Forum.

The new labor legislation was introduced with remarkably little political controversy. It was not so much that the right struck a deal with the unions: labor guarantees in return for market reform. It was a more indirect process. Perhaps it was indeed the case that each side implicitly recognized the claims of the other. But it seems more likely that the neoliberals were simply too busy, and too uncertain of the extent of their own support in the country, to risk causing a political showdown with the unions. Also, perhaps the government slowly came to accept that CSKOS was not a stooge of old nomenklatura officials, and was to a degree representative of its members. Regional differences also played an important role. While the Prague workers had backed the communists in 1948, in 1989-90 they swung solidly behind market reform.

In the two years since these corporatist institutions were created economic reform has accelerated and Klaus has managed to consolidate his political power. The unions have grown increasingly restive, arguing that the government continue to marginalize their role, and has even violated some of the agreements reached. The corporatist structure is still weakly developed, and while it exists on paper there is little real bargaining between employers and labor. Binding agreements are forged at national level between monopolistic and non-transparent institutions, which are then imposed on lower actors who have little bargaining independence or input. This amounts to what one Czech author has termed 'social pseudo-partnership'.[38]

1) Wages policy. The tripartite council agreed to introduce a new system of binding collective contracts, with pay-related strikes only allowed during the contract negotiation period. The three sides agreed to limit wage increases to 5% for 1991 (subject to quarterly adjustments for retail price inflation), with punitive taxation of employers who violated the guidelines.[39] These limits only applied to SOEs: private firms and joint ventures (SOEs with at least 33% foreign participation) could set whatever wages they liked (although they also had to pay a hefty 50% wage tax). In fact, falling demand and the termination of subsidies meant that most SOEs found themselves unable to pay out substantial wage increases, and most firms failed to reach the government-imposed ceilings.

The agreement more or less held, although the unions complained that the government was breaking the terms of the agreement by failing to compensate for the fall in real wages. The cost of living rose 9.9% in 1990 and 53.8% in 1991, while nominal wages only rose 16%.[40] Thus real wages fell 24%, although according to the agreement the fall should not have exceeded 12%. Despite union anger, there were no wage-related work stoppages. In 1991 wages fell or stayed the same in 23% of firms, rose by less than 10% in 6% of firms, rose 10-20% in 65%, and rose more than 30% in 9%.[41] By the end of 1991 polls were showing two thirds of Czechs expressing dissatisfaction with living standards and the social safety net.[42] Negotiations over the 1992 wage agreement were far more acrimonious, and failed to produce agreement.[43] The government simply imposed an 8% wage ceiling without formal approval from the tripartite council.[44] In 1992 Czech industrial wages rose by 18% in nominal terms to reach K4,523 ($160) per month.

The unions went along with the government's actions partly because of their political impotence, and partly because they accepted the logic of the Phillips Curve, and traded-off low wages for full employment.

2) Income maintenance. The unions were able to win agreement on an income maintenance program which guaranteed a minimum income in February 1991 of K1,500 a month ($53), and a minimum wage of K2,000 ($68).[45] The unions were worried that with the price of necessities increasing rapidly, workers on low incomes would be in dire poverty. However, the new minimum wage also served to compress wage differentials, to the annoyance of skilled workers - the average wage was only K2,900 in early 1991. According to Petr Miller, Federal Minister of Labor and Social Affairs, 150,000 families with 600,000 persons were below the K1,200 per head poverty line in mid 1991.[46] In July 1991 the CSKOS withdrew from the tripartite negotiations in a bid to force a 10% increase in the minimum wage. For 1992 the minimum wage was raised to K2,200 and the poverty line to K1,700. In September 1992 the unions again withdrew from negotiations, claiming that the promised cost-of-living adjustment had not been implemented.

Most of the 8% of workers who were earning below the K2,000 floor were concentrated in the textile industry, where average pay was K1,800, with many young girls earning only K1,400. The introduction of the minimum wage immediately caused cash flow problems for textile mills, and in March 1991 the measure was suspended for the textile industry. The textile mills nevertheless expected to lose 80,000 jobs - 40% of their workforce.[47] The financial weakness of the textile industry is indicative of the fact that for decades past heavy industry was privileged in terms of the level of wages and investment provided from the state budget.

Although the freeing of prices in January 1991 hit the poor hard, the government has stopped short of liberalizing the cost of housing and utilities in municipal-owned apartments (where some 40% of the population live). Rent accounts for a mere 2.7% of household spending and covers only 24% of housing operating costs, meaning an annual subsidy of K4.8bn is required.[48] Even after Klaus's victory in the 1992 elections, calls from the libertarian Civic Democratic Alliance to radically raise rents have been blocked in parliament.

3) Unemployment CKSOS accepted the fact that unemployment would appear in Czech society. At first few sackings occurred, because the old labor legislation which was still in force mandated prior union approval before any workers could be fired. By December 1990 there were 60,000 registered unemployed (less than 1% of the labor force), but as subsidies to SOEs were slashed unemployment rose, peaking at 231,000 (4.4%) in the Czech Republic in January 1992 (and 12.7% in Slovakia). For example, 3,500 out of 20,000 workers were fired at the Poldi steel mill in Kladno, while in Prague CKD shed 10,000 of its 28,000 workers, and the aircraft plant Let Kunovice fired 900 of 4000 employees - all without any significant protests. Under the new legislation, sacked workers receive 2-5 months severance pay, and unemployed workers who register for work receive benefits for one year (60 percent of their former wage, falling to 50% after six months).

The only serious challenge to these redundancies seems to have come from the miners - and even their response has been fairly muted. The unions' willingness to accept redundancies in feminized sectors such as textiles is indicative of the gender bias which is pervasive in Czech society. Several interviewees volunteered comments along the lines that 'A lot of these girls were not really productive workers anyway.'.

The labor force in both republics combined fell by 800,000 in 1991 - considerably more than the 450,000 who registered as unemployed. 65,000 of the remainder were workers who took jobs abroad. The remainder were women and pensioners who dropped out of the labor market, indicating the phenomenon of over-full employment in the socialist economy.[49] In addition, some 154,000 workers in 224 enterprises were on short-time work in 1991, with subsidies from the Ministry of Labor.[50]

By the end of 1992, thanks to the contraction in the labor force and the rising private sector the rate of registered unemployed had fallen to 2.5% in the Czech Republic - among the lowest in Europe.[51] Unemployment fell slightly in Slovakia too, but still stood at 10.4%. This apparent failure to extend the implicit social contract of near-full employment to

Slovakia was of course one of the key factors in triggering the break-up of the federal state.

4) Privatization The unions accepted that the privatization process was inevitable, and recognized that their members were broadly supportive of the move towards a market economy. Indeed, some union leaders welcomed the privatization process, hoping that once new owners were in place the unions could bargain for improved conditions and break free from the government's wage controls.

Nationally, the goal of CSKOS was to gain legitimacy in the eyes of the government, and try to win a say in the way that the process is implemented. Unions have no formal role (eg. right of approval) in the drawing up of privatization projects now under way in state enterprises, but in practice they seemed to be involved on an informal basis. At republic level, unions were given some seats on the panels reviewing privatization projects in the Ministry of Industry.

The rapidly-expanding small private sector remains completely unorganized, with many of the new firms simply refusing to allow their workers to join unions.

Labor unrest: all quiet

Late 1990 saw the first flurry of strike activity, coinciding with the unions' attempts to influence the passage of the new Labor Code, discussed above. On December 11 workers in the Budvar brewery went on strike demanding independence from the South Bohemia Breweries trust, which did not want to lose control over its profitable subsidiary.[52] The ministry overruled the trusts' objections and gave the plant its independence. In North Bohemia, the government dropped a plan to split the region's mines into 13 independent trusts in the face of strike threats from miners who feared pit closures.[53]

October 1991 saw another wave of strike threats. On October 1st 4,000 railway drivers staged a one hour strike, calling for the dismissal of the federal transport minister, in protest at the absence of clear plans for the restructuring of the sector. On October 12th miners in the Ostrava region walked out to block government plans to abolish the special miners' pension privileges inherited from the old regime. The Federal Minister of Labor and Social Affairs yielded to the miners four hours into the strike, guaranteeing their special pensions until the year 2016.[54]

The privatization process per se has sparked virtually no labor unrest in the Czech Republic. Take, for example, the purchase of the Skoda factory in Mlada Boleslav by Volkswagen, who promised $6 billion in new investment, making the transaction the largest cross-national deal in world history. The Czech unions cooperated closely with Volkswagen unions in creating a collective bargaining structure for the Skoda works, and threatened to strike when they heard that their managers were trying to block the planned take-over by Volkswagen.[55] The take-over went through in April 1991 - and immediately thereafter most of the old Czech managers who had negotiated the deal were fired.

On October 24 1991 the agricultural union organized a rally of 20,000 farmers on Wenceslas Square. They demanded more subsidies and a tax holiday for private farmers. The government backed off from a confrontation with the farmers (and the rural electorate), and kept the subsidies flowing. In August 1991 local unions issued a strike threat which succeeded in halting plans to auction six dams in east Bohemia to private bidders. The Plzen Brewery trade union entered a strike alert on May 5 1992 to protest plans to merge the world-famous brewery into a joint venture with the Dutch brewers De Groen/Interbeer.[56] The union proposed a rival privatization project (47% of shares to coupons, 15% to managers), which included a marketing agreement with Heineken.

There has been considerable unrest among workers in state organizations who saw their budgets squeezed and salaries eroded by inflation. On April 27 1992 2000 teachers demonstrated in Prague, an action which Czech Education Minister Petr Vopenka blamed on 'red trade unions'.[57] The next day medical doctors also demonstrated in front of the parliament.

Slovak unions have been more active, with the metalworkers' union holding a one hour warning strike in November 1991 to demand a lifting of the wage limits, more subsidies, price controls and a reduction in the payroll tax.[58] The Czech metalworkers' union did not however join in the token stoppage.

Conclusion

The Czech Republic is widely regarded as one of the few success stories in the transition from socialism to capitalism. The transition process has progressed in a peaceful manner, with little social disruption. A clear system of parliamentary parties has emerged, with a government committed to following through the standard stages of an orthodox IMF program: stabilization, liberalization and privatization.

However, the separation of the Czechoslovak federation raises a cloud of doubt over the Czech model. Although the split with Slovakia would probably have occurred whatever the economic strategy adopted by the government in Prague, this cannot be proven, so critics can argue that the cost of Klaus's transition package was the break-up of the federal state.

On the other hand, the privatization of large-scale industry seems to have proceeded more successfully than even its initiators could have hoped. In the space of a year one quarter of Czech industry has been transferred from state into private ownership. The economy retained its macro-economic balance, while the downward slide of industrial output finally ended in October 1992. On balance, the Czech Republic still looks like the success story of Eastern Europe.

However, Klaus's transplantation of Thatcherite principles to East European soil has more to do with his canny understanding of the political and economic culture of the Czech lands than with his adherence to IMF orthodoxy. Klaus appealed to the Czechs' self-perception as Europeans, and to their willingness to shoulder collective sacrifices if they were likely to produce concrete results. Klaus has put in place a curious form of Thatcherism, however, since it involves corporatist institutions for managing labor relations, and a willingess to steer economic policy to try to maintain near-full employment.

This is not to underestimate the depth of the social divisions unleashed by Klaus's program, or the considerable economic hardship in Czech society, particularly among pensioners. However, there was a strong risk that Klaus's program would be strangled in its cradle by an unholy alliance of communists and Slovak nationalists. In as much as this did not happen, and the program is still on course, it must be judged a success.

As for the labor unions, they face two major challenges in the new Czech Republic. First, they must search out political allies and find themselves a voice in parliament. The relative strength of the Communist Party in the Czech Republic, before and after 1989, explains much of the quiescence of organized labor in the Czech lands in contrast to Poland and Hungary.

Second, the unions must adapt themselves to the newly-emerging market economy. As the economy recovers, one can expect them to move out from their focus on income-maintenance issues - which one suspects was a stratagem for acquiring political legitimacy.

NOTES

1. Some of the research upon which this essay is based was funded by grant 807-24 from the National Council for Soviet and East European Research, as part of the project 'Workers' responses to the post-communist transitions', directed by L. Cook.

2. Employment in coalmines fell from 121,000 in 1989 to 92,000 in 1991. Mlada Fronta Dnes, 5 May 1992. A further 11 pits in Ostrava with 9,500 workers are scheduled for closure. In 1993 the mines will receive K2.8 billion in subsidies.

3. It is symptomatic that the main road from Prague to the airport, formerly Leninska, is now renamed Evropska. For a short time in early 1990 it was named Benesova, until it was decided that post-war President Eduard Benes had been too friendly to the Russians. Likewise, many Czechs spontaneously began displaying bumper stickers showing the European Community flag.

4. Although President Masaryk tried to encourage the ties, to counter-balance Germany.

5. Lidova democracie, July 2 1990.

6. Respekt, 14 November 1990.

7. Poll of the Association for Independent Social Analysis, cited in Mlada Fronta Dnes, 6 December 1990.

8. According to a poll carried out by the Institute for Public Opinion Research, 70% of Czechs thought Klaus's policies would be good for Civic Forum, and 42% approved of his selection as head of the organization (with only 21% opposed). In Slovakia, in contrast, only 10% were in favor, and 32% opposed. Hospodarske noviny, 22 November 1990.

9. Lidove noviny, 12 October 1990.

10. Lidove Noviny, 14 January 1991; Tydenik, 17 January 1991.

11. In 1989 its debt stood at $8 billion, or $500 per capita - compared to $1000 in Poland and $2000 in Hungary. Information in the paper whose source is not specifically noted comes from the CTK news agency daily bulletin, Ecoservice, or from Czech TV.

12. The average wage at the end of 1990 was 3,250 crowns, hereafter K3,250.

13. In January 1990 a 20% devaluation took it to K16/$. On October 12 it was devalued by 55%, to K24/$, and by 17% on December 28, to K28/$. The separate business and tourist rates were abolished.

14. Purchasing power parity calculations suggest that the Czech crown is 60% undervalued compared to the Polish zloty and 160% compared to the Hungarian forint.

15. Ecoservice, 13 November 1992. 1992 figures are estimates based on first 9 months.

16. On this, see P. Rutland, Shaping the Future: International Assistance for Small Business Development in Czechoslovakia, report prepared for the OECD, 30 October 1992.

17. Ecoservice, 6 January 1993. Most of the money has gone into the Fund of National Property, where it is frozen for seven years and thus cannot be used to cover current budget deficits.

18. Ecoservice, 23 July 1992.

19. Lidove noviny, 10 August 1992; Ecoservice, 4 August 1992.

20. Ecoservice, 19 June 1992.

21. Podniky a nezemedelska druzstva s malym poctem pracovniku, Federal Statistical Office, December 1991. This data only covers firms with less than 100 employees.

22. Ecoservice, 10 June 1992.

23. Ecoservice, 3 April 1992.

24. Joint ventures accounted for 3.2%, cooperatives 1.5% and private entrepreneurs only 3%.

25. Entrepreneur-92, a survey of 5,726 entrepreneurs carried out in January-February 1992 by the Public Opinion Institute, part of the Federal Statistical Institute.

26. M. Kudernatsch, 'Jaky bude kapitalismus v Cechach?', Ekonom no. 52, 25 December 1992, pp. 26-9.

27. R. Frydman, A. Rapaczynski, J.S. Earle, The Privatization Process in Central Europe (London: Central European University Press, 1993), pp. 70-92.

28. J. Pehe, 'Czechoslovakia's political balance sheet, 1990-92', RFE/RL Research Report, 19 June 1992, pp. 24-31.

29. J. Burger and M. Mejstrik, 'First wave of vouchers ends successfully.', Privatization Newsletter of Czechoslovakia, no. 11, December 1992, pp. 1-5.

30. A. Robinson, 'Keeping in Czech', Financial Times, 17 February 1993.

31. Czech television news, March 3 1993.

32. Much of this section is based on interviews conducted with leading union officials in CSKOS headquarters in the fall of 1991 and spring of 1992.

33. B. Wheaton and Z. Kavan, The Velvet Revolution. Czechoslovakia, 1988-91 (Westview Press, 1992), pp. 65, 67.

34. Interview with Alexander Pilar, one of the secretaries of the Confederation of Czech and Slovak Trade Unions, 14 April 1991.

35.J. Bloomfield, Passive Revolution: Politics and the Czechoslovak Working Class, 1945-48 (London: Allison and Busby, 1979).

36. Law of 4 December 1990 on Collective Bargaining.

37. Prace, 18 December 1990; Mlada fronta dnes, 19 December 1990.

38. Vladislav Flek, 'Tarifni vyjednavani v obdobi prechodu k trni ekonomice', Politicka ekonomie, 9-10, 1991, pp. 793-809.

39. Wage increases paid out of costs 3-5% above the ceiling were taxed at 200%, above that at 750%. Bonuses paid out of profits were limited to 20% of wage bill, and above that, subject to a 750% tax.

40. In the Czech Republic in 1991 the average wage was K4,068, in Slovakia K3,901. Hospodarske Noviny, 3 March 1992; Statisticke prehledy, no 3, 1992.

41. Lidove noviny, 25 March 1992. The highest wages by sector were in finance (K5,522, 57% rise) and foreign trade (K5,033, 32% rise). The lowest wages were in retailing (K3,296, 10% rise) and municipal services K3,207 12% rise).

42. Institute for Public Opinion Research poll, cited in Ecoservice, 2 December 1991.

43. K. Kriz, 'Karentena', Lidove Noviny, 11 May 1992, p. 1.

44. Firms face no penalties for raises 3% in excess of the ceiling, but must pay a 200% tax on raises of 3-5%, and 750% for raises above 5%.

45. Lidove noviny, 30 January 1991.

46. Prace, 1 September 1991.

47. Prace, 26 August 1991. For example, on August 1st Modeta Jihlava fired 1300 employees - 50% of its workforce.

48. Ecoservice, 8 December 1992.

49. Interview with Labor Minister P. Miller in Hospodarske noviny, 13 May 1992. The labor force contracted by a further 12% in 1992. Further study would be needed to establish what proportion of these people voluntarily left the labor market, and how many left because of lack of job opportunities or the termination of unemployment benefits.

50. Ecoservice, 11 October 1991.

51. Rude pravo 8 December 1992.

52. Lidove noviny, 12 November 1990; Mlada fronta dnes, 12 December 1990; interviews at the plant January 1992.

53. Mlada fronta dnes, 19 December 1990.

54. One week after this strike, the author asked Klaus whether the concessions did not violate his free market principles. Klaus simply denied knowledge of the deal, pointing out that he had been in Thailand when the strike occurred.

55. Mlada fronta dnes, 12 November 1990.

56. A. Kudrnova, 'Kauza Plzenske pivovary', Respekt, 17 April 1992, p. 5.

57. Svobodne slovo, 28 April 1992.

58. Mlada front dnes, 25 November 1991.