Privatisation in Central and Eastern Europe: What Made the Czech Republic So Distinctive?

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Abstract

Privatisation was described as one of the cornerstones of economic transformation in Central and Eastern Europe (CEE). As a result of this perceived importance it was extensively covered throughout the literature on transition in CEE. In the earlier works, simplistic assumptions underlying the initial approaches to privatisation proved to be inadequate as experiences of the reform began to reveal their complexities. As a consequence, an increasingly vigorous debate developed about many aspects of the process, appropriate methods, the institutional systems for organising and controlling it and a variety of accompanying policies and issues. However, much of this debate focused on purely technical, economic considerations. Rarely were questions raised about factors such as whether different political and social interests might be in favour of different forms of privatisation policy or indeed whether some interests might be opposed to privatisation in any form. An important contribution of work of this type was the introduction to the debate of issues such as group interests, political concerns and the social consequences of economic reforms. Taking factors such as these into consideration, along with the different approaches to privatisation that could be employed, it is clear that privatisation was a far from uniform process and that the experiences of each CEE country were distinctive. This argument then leads to the question, why were experiences so distinctive and different?

The primary aims of this paper is to focus on the distinctive path of reform followed in the Czech Republic and explore how such distinctions could be explained. Could it be the case as western media sources widely suggested, that they were very much tied up with the political situation? How far were such differences connected with the programmes and policies of different political parties or leading politicians in the country? On the other hand, was it the case that the distinctive course of reform could be better explained by differences between the social barriers to privatisation and market reform, which could be reflected in the formation of distinct interest groups and cultural attitudes? Alternatively, were the distinctions rooted in regional and national specificities of the Czech territory, reflecting distinctions in its geography, history and social structure?

1. Introduction

This paper is based upon a PhD thesis entitled ‘Privatisation and Transformation in the Czech Republic 1989-1997’ (McMaster, 2000). The study considered the course and direction of changing property relations in Central and Eastern Europe in the period after 1989. In particular, the research focused on the distinctive path of privatisation followed in the Czech Republic and explored how such distinctions could be explained. The research methodology involved three main elements: a review of the relevant academic literature; use of secondary source material, e.g. government reports and policy documents, local media reports; and semi-structured elite interviews with representatives of political parties and government, trade unions, business associations and academics (see Appendix 1).

This brief introduction to the varied experiences of privatisation across CEE is followed by a second section which provides a more detailed account of the Czech privatisation programme. The nature of privatisation and the range of factors which could influence its course are considered in section three. The paper then discusses how inherited conditions, more contemporary events and various actors shaped the course of reform in the Czech Republic. Finally, a number of conclusions are drawn about the ways in which privatisation was resourced and constrained by specific configurations of domestic economic, social and political institutions and actors in the Czech Republic.

This introductory section considers experiences of privatisation in the Slovak Republic, Poland and Hungary, as well as in the Czech Republic. In 1989, the dramatic fall of communist governments throughout CEE led to the emergence of new democratic governments committed to radical programmes of reform. They inherited ailing economies dominated by state ownership and administration of the means of production, which they sought to replace with market led economies based upon private ownership. As a consequence, privatisation, the transfer of property from state to private ownership, became a common feature of economic transformations in CEE, yet experience demonstrated that privatisation strategies, processes and results varied (Frydman, Rapaczynski and Earle, 1993).

In the early 1990s, the Czech Republic was widely considered to be one of the reform leaders in CEE, especially in terms of its progress with privatisation. Economic reform, and privatisation in particular, were priorities for the Czech post-communist governments. They undertook a programme of apparently rapid and radical privatisation of state-owned property. The underlying principle of the programme was to divest the state of assets as quickly as possible. The programme involved a range of methods of privatisation, as was the case in most CEE countries. Small-scale enterprises were sold through auctions. Some property was returned to its original owners. It was also possible for foreign buyers to participate in some sales. However, the Czech programme was dominated by an innovative scheme of voucher privatisation. This was a system of mass, almost free, distribution of property rights to domestic participants.

Although the Czech privatisation scheme had a few critics in its early stages, it became most noted for its successes and popularity. The high levels of popular participation in the scheme, the electoral successes of the programme’s main proponents (especially Czech Prime Minister, 1992-1997, Václav Klaus), and the lack of social tensions or discord during the reform period all contributed to the scheme's status. They also enabled a relatively smooth and uninterrupted course of privatisation. It was only after the political leadership claimed that the bulk of the programme was 'complete' that questions and criticisms of the privatisation programme came to the fore. The political leadership was accused of neglecting, or ignoring, important issues connected to privatisation and the success of the programme was questioned. Eventually, the problems and scandals associated with privatisation were such that they were instrumental in the collapse of the government led by Václav Klaus, in 1997.

The emphasis on voucher privatisation and the mass transfer of state property to the public along with the relatively smooth implementation of a programme of privatisation contrasted with the experience of other CEE countries. The privatisation programmes of Slovak Republic, Poland and Hungary are discussed in the following paragraphs and their experiences are contrasted with those of the Czech Republic. Particular differences relate to the starting points, method, speed and popularity of privatisation in each country.

The *Slovak Republic* and Czech Republic, which until 1993 made up Czechoslovakia, initially shared the same privatisation programme. The government claimed that privatisation should strengthen the Federation (*Lidové noviny*, 13 December 1991). However, long standing political, economic and social divisions between the Czech and Slovak Republics increased during the early reform period. Economic policy was a particular source of division between Czech and Slovak political leaderships. The Slovak leadership expressed concerns that the Czechoslovak privatisation programme did not take sufficient account of the needs of the Slovak economy.[1] The Slovak Republic was more heavily dependent upon large-scale heavy industry than the Czech Republic and also had higher national and regional unemployment levels.[2] The Slovak National Council's economic programme, adopted on 15 July 1992, stressed the need to "take into consideration the uniqueness of sector economies; the specific features of concrete regions" (*East European Reporter*, 1992, 5:5, pp.7-8). It advocated measures to "dampen the negative side effects" of privatisation. The programme also proposed support for the sale of firms to experienced management and staff. All of these statements were at odds with what the Czech leadership advocated (Mertlík, 1995). Federal Minister of the Economy, Vladimír Dlouhý, asserted he would prefer the break-up of the federation to the slowing of the pace of reform (*RFE/RL*, 1 May 1992). Different policy agendas established two different political spectrums in the two Republics. Eventually, differences between the two became so pronounced that their political leaders agreed to split up the Czechoslovak Federation in January 1993 (Leff, 1997).

The split left the Slovak government, headed by Vladimír Mečiar, in a position where it could attempt to carry out its election promises of a 'gentler' pace of reform

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[1] 1 Ján Čarnogourský speaking on 1 March 1994 at the seminar "Peaceful Divorce and the New World Order, After Czechoslovakia" organised by the Unit for the Study of Government in Scotland, Edinburgh and the Centre for the Study of Nationalism, CEU, Prague.

[2] By the end of 1990, some districts in Slovakia reported unemployment rates exceeding 19 percent (*Lidové noviny*, 19 December 1991).

(Olsson, 1995). The perceived need for a distinctive course of reform was also shaped by the vested interests of very powerful groups in Slovakia, such as the managers of the large state-owned companies which dominated the economy (Szomolanyi, 1999). Immediately after the Czech-Slovak split, the Slovak government allowed voucher privatisation to stagnate. The government also failed to deliver a well-developed and consistent alternative. Prolonged political instability in the country compounded the problem. Various governments lost and regained power and numerous changes in the course of privatisation accompanied each change in power. Eventually, voucher privatisation was completely abandoned and direct sales became the centrepiece of the Slovak privatisation programme.

The distinctiveness of the Czech privatisation programme can also be illustrated by examining the process in *Poland*. In Poland the basis for the reform of property relations was laid down in 1990 (Myant, 1993). Like Slovakia, the course of reform was far from smooth and uninterrupted. The initial strategy of rapid privatisation of state-owned enterprises came up against a number of obstacles. Privatisation reforms repeatedly stalled and were caught up in disputes between political parties, factions and interest groups. Meanwhile, the high social costs of the course of economic reform, e.g. high inflation and unemployment, meant the programme lost popular support. Worker organisations and managers mobilised against reforms. As a consequence, the government was forced to make concessions and modifications to their privatisation programme. In contrast with the Czech Republic, trade unions and employees were offered a much more influential role in the privatisation process in Poland. For instance, employees were awarded favourable conditions for their participation in future privatisation schemes, whereas any preferential treatment for enterprise employees in the privatisation process was completely rejected by the Czech government. However, Polish privatisation did not rely entirely upon employee-share ownership schemes: a scheme of voucher privatisation was also implemented. Its progress lagged significantly behind that of the Czech Republic though. At the time Poland embarked upon its scheme, Václav Klaus was already proclaiming the programme of mass privatisation to be over in the Czech Republic.

The speed with which the Czech leadership claimed to have completed its programme of mass privatisation was not due to any ‘head start’ with reform or to the fact that there were fewer enterprises to be privatised. Indeed, the opposite was the case. The Czech economy had the highest level of state ownership in CEE. In addition, the hard-line communist regime in Czechoslovakia had not undertaken any major reforms of property relations before 1989. In *Hungary* the situation was quite different (Voszka, 1995). A more reform oriented communist regime began to implement major economic reforms before 1989 (Batt, 1988, Tokes, 1996). A level of decentralisation had already given managers and workers a greater say in enterprise management, leading to so-called ‘spontaneous privatisations’ as enterprises became independent from the state (Hanley, 2000). As a result, enterprise managements gained influence and ownership rights, a trend which the post-communist Hungarian government of 1990 sought to halt. The privatisation process was re-centralised, the pace of privatisation was slowed and the emphasis was placed on a case-by-case approach, rather than the rapid, mass sales undertaken in the Czech Republic. Instead of swift change, the Hungarian approach aimed at an orderly retreat of state ownership.

The Hungarian government made a particular effort to connect privatisation to the restructuring of the enterprise by finding long-term owners who would invest. Direct sales to strategic owners were favoured, especially to foreign buyers as they generally had greater access to capital and resources. Direct sales to foreign buyers also generated revenue which the state could use to manage its substantial foreign debt. This was one of the reasons why foreign ownership was not specifically encouraged in the Czech case: the Czech Republic had not borrowed extensively in the past. It was also the case that extensive foreign ownership was not universally popular. Even in Hungary, the predominance of foreign ownership and the perceived opportunity for foreign buyers to gain from privatisation at the expense of potential domestic owners and employees caused criticism of the privatisation scheme. As a result of these and other criticisms, the privatisation programme was modified to favour smaller domestic investors, especially employees.

As the above discussion has outlined, the Czech Republic, even in comparison with its nearest CEE neighbours, had a distinctive experience of privatisation. The programme was developed and implemented at a pace which outstripped the progress of other CEE countries. As this paper will show, the political elite dominated policy development and implementation. They were relatively unhindered by social discord, political opposition, or group interests. As a consequence, the programme was followed through and remained largely unchanged. Damaging criticisms only emerged towards the end of the scheme.

2. Privatisation Policies in the Czech Republic

The above comparisons between the courses of privatisation in the Czech Republic and neighbouring CEE countries reveal a wide range of differences in the courses and approaches to privatisation. This section goes on to provide a more detailed account of the privatisation of state-owned enterprises in the Czech Republic. It considers major legislation, explains the formal processes which made up the privatisation programme and highlights some of the main policy outcomes and characteristics of the scheme. In this account, statistics for the period between 1990 and 1995 are in particular referred to, since this period incorporated the bulk of the privatisation schemes and included the two main waves of voucher privatisation.

The use of quantitative data gives a good general idea of the progress made with the implementation of the government's privatisation programme. However, for more detailed analysis the available data can be unreliable. Figures on the value of property and the number of enterprises in private hands can be ambiguous. For instance, what was termed a 'privatised' enterprise could, at the time, potentially be 20 percent state-owned, 40 percent owned by investment funds (which are controlled by state-owned banks), and only 20 percent owned by private shareholders. Thus, what exactly was considered to be 'privatisation' in the compilation of official statistics and whether an enterprise was really 'privatised' could be unclear. Further, the term 'privatisation' was also used in relation to a wide range of ownership transfers. For instance, straightforward transfers of assets to local authorities were included in 'privatisation' statistics.

Other important factors to note before considering the official statistics concern the number of units involved in sales, the amount of property sold and by which method. For instance, the amount of property sold through direct sales was initially relatively small. However, the proportion was much larger when expressed in terms of the number of units, due to factors such as the predominance of direct sales of smaller-scale enterprises. In addition, the privatisation of the property of one enterprise often involved more than one privatisation method, thus boosting some figures on the number of privatisation deals. Also, monthly and annual figures on the dominant methods of privatisation fluctuated in relation to the progress of the whole privatisation programme. For instance, early figures would change dramatically after a wave of voucher privatisation. Taking these factors into account, the aim of this section is to achieve a general picture of what happened rather than to produce a statistically detailed account. All the figures used in this account are from the Ministry for the Administration of National Property and its Privatisation (Ministry for Privatisation), unless otherwise stated.

The privatisation policies used in the Czech Republic can be split into three groups: i) large-scale privatisation, ii) small-scale privatisation and iii) restitution, which are examined in the following sections.

Large-Scale Privatisation

The term large-scale, in this instance, refers to the size of the property involved. The first sales of large-scale enterprises occurred before the implementation of major legislation concerning large-scale privatisation. These early cases most commonly involved the purchase of an ownership share in an enterprise by a foreign investor, as was the case in Volkswagen's deal with the car manufacturer Škoda.

The large-scale privatisation act, officially known as the Act on the Conditions of Transfer of State-Owned Property to Other Persons, no. 92/1992, covered subsequent privatisations. The enterprises to be sold were put forward for privatisation in two waves. Enterprises involved in the first wave of privatisation submitted basic privatisation projects to the relevant founder ministry by 31 October 1991. Projects were then submitted to the Ministry for Privatisation by 20 January 1992. The second main round of privatisations began in April 1994. The privatisation process of each enterprise began with a competition between privatisation projects. 'Basic' projects were prepared by enterprise managements which included a recommendation on the privatisation method to be used: either,

- public tenders;
- public auctions;
- direct sales;
- unpaid transfers; or
- voucher privatisation.

Basic projects were passed on to the institutions responsible for the management of enterprises, known as 'founders', (e.g. municipalities, district or local authorities or government ministries). They then had the opportunity to consider the project.

It was also possible for 'competing' projects to be put forward. Any individual or group within or outside the enterprise could submit a competing project. In order to promote fair competition, efforts were made to ensure equal access to relevant company data. A Ministry of Finance official explained that:

> "According to the privatisation act, there was certain information that had to be provided to anybody who showed an interest. You simply had to write a letter and ask for the information, or if the managers were hesitant to release this information, ... it was available in the basic privatisation project. All the information on any of the companies was accessible to all the people who were interested." (Interview October 1997).

Completed projects were submitted to the Ministry of Privatisation. The final approval of the 'best' privatisation project for each enterprise was ultimately the responsibility of the Ministry. However, input from the enterprise founders and the government was included at various stages.

Once a project was accepted it was then implemented by the National Property Fund (FNM). The FNM's remit was to administer state property and implement the privatisation of this property according to the approved privatisation projects.[3]

A former chairman of the supervisory council of the FNM stated:

> "It was thought that the National Property Fund would just be the organisation through which the property would flow." (Interview, November 1997)

However, he went on to admit that the flow of property was not necessarily as "quick as we hoped". As a consequence, "the Fund has had to behave as if the owner". Hence, the other major role of the FNM was to administer non-privatised enterprises. Further, it was not the intention of the government to immediately sell all state-owned enterprises. Strategic enterprises in iron, steel and petrochemical industries, electricity production and telecommunications were all held back. In these cases, shares were kept in the FNM's portfolio permanently, temporarily, or only sold in part with the state maintaining a majority share. The sales of these concerns involved different approaches, time-scales and issues to those involved in the main privatisation scheme. As consequence, they are not dealt with in this paper.

Voucher Privatisation

The centrepiece of large-scale privatisation was voucher privatisation. The scheme was one of the most widely used and novel aspects of Czech privatisation. The voucher privatisation scheme was divided into two waves which were further subdivided into rounds. For a fixed fee any citizen over eighteen could purchase a voucher booklet for 35 Czechoslovak crowns (Kčs). They could then register it for a nominal fee of 1,000 Kčs, which entitled the voucher holder to 1,000 investment points. These could be invested directly in a maximum of ten firms or through Investment Privatisation Funds (IPF), acting as intermediaries.

[3] Exceptions were cases which involved voucher privatisation. The organisation of voucher sales was the responsibility of the Ministry of Finance.

Before bidding started, basic information about the firms to be privatised was made publicly available. For instance, daily newspapers printed a list of the enterprises involved, data on the share of stock offered for sale and balance sheet information. Bidding for shares involved rounds of bids and price updating of shares. Voucher holders could spend their investment points in one round or gradually over a number of rounds, or delegate points to Investment Privatisation Funds in an initial ‘zero’ round.

IPFs developed outside of the government’s original plans for voucher privatisation. The state did not directly organise intermediaries. IPFs were supposed to be a purely private enterprise activity, but it was possible for state-owned joint-stock companies to establish them and large banks, in particular, took advantage of this opportunity. Funds founded by large financial institutions became some of the largest property holders in the Czech Republic. Since these banks were not fully privatised, an immediate linkage arose between privatised companies, investment funds, banks and the state. The IPFs developed a role in which they invested on behalf of voucher holders who had entrusted their investment points to their fund. In return, the fund would issue IPF shares to the voucher holders they represented. The company shares purchased by the fund were then used to increase the registered capital of the IPF.

Orders for shares were placed at local registration sites. The orders were entered into a computer network and processed centrally at the Ministry of Finance’s Centre for Voucher Privatisation. The Centre was solely responsible for organising the distribution and registration of voucher booklets to the participating citizens. A committee of Finance Ministry officials then oversaw the bidding process. They set the initial share prices, processed bidding information, adjusted share prices, decided on successful bids and published the results (Frydman, Rapaczynski and Earle, 1993).

Vouchers were available for purchase from 10 October 1991 but only 2 million voucher booklets were sold in Czechoslovakia by 10 January 1992. Subsequently, popular participation grew mainly through the involvement of IPFs. In all, around 436 funds took part in the first wave of privatisation in Czechoslovakia. Seventy-two percent of all voucher booklets were put in the hands of the financial intermediaries. In the first wave of privatisation, shares in 946 enterprises were sold via voucher privatisation. The value of the property involved was estimated at around 200 billion Kčs.

The second wave of voucher privatisation eventually began in April 1994. Public participation was still high, though slightly lower than the first wave. 7.86 million participated, which was 74 percent of the adult population (EIU Country Report, 1st quarter, 1995). Investment funds again became the country’s largest shareholders. Sixty-four percent of investors chose to act as ‘passive investors’, i.e. they entrusted their investment points to funds.

The voucher privatisation sales were basically complete by the end of 1994 (Ekonom, 51/1994). As Tables 1 and 2 illustrate, the majority of approved projects involved standard (non-voucher) approaches to privatisation. However voucher sales did involve a considerable proportion of large and valuable enterprises.

Table 1. Approved Privatisation Projects in the Czech Republic (Dec. 1994)

Approved Method of Privatisation	No. of Business Units	Total Value bil. Kč
Public Auction	2,000	9.1
Public Tender	1,117	29.6
Direct Sale	10,024	94.9
Commercialisation into joint-stock company, or privatisation of already existing state-owned joint-stock co.	1,870	74.5
Unpaid Transfer to Municipalities, Pension Funds or Banks	4,380	59.0
Total (total number of projects - 6,737 for 3,278 companies)	19,391	937.1

Source: Ministry for Privatisation, Privatisation Newsletter of the Czech Republic and Slovakia 29, 1994.

Table 2. Approved Methods of Privatisation for Joint-Stock Companies 1993

Approved Method of Privatisation	Nominal value of stock bil. Kč	% of nominal stock value bil. Kč
Secondary Market	8.4	1.2
Voucher Privatisation	300.4	45.4
Direct Sale	27.3	4.1
Unpaid Transfer	42.4	6.4
Restitution	21.5	3.3
Stocks held by FNM (long-term)	115.1	17.4
Stocks held by FNM (temporarily)	146.9	22.2
Total	662.0	100.0

Source: Ministry for Privatisation, Privatisation Newsletter of the Czech Republic and Slovakia 29, 1994.

The end of the voucher privatisation scheme did not mean that the privatisation process in the Czech Republic was complete. 2,270 enterprises were still classified as state-owned in 1995. In addition, the FNM still retained shares in some partly privatised enterprises. These enterprises were to be disposed of, either fully or in part, mainly by direct sales. The privatisation process therefore entered a "period of standard, rather than mass, privatisation" (interview with Ministry of Finance official, October 1997).

Small-Scale Privatisation

The law on small-scale privatisation, Law No. 427/1990, mainly concerned operational units existing in services, trade and non-agricultural production. Small-scale privatisation was administered by district-level privatisation commissions. These were appointed by the Ministry of Privatisation, and were responsible for the preparation of auctions, which were the universal method of small-scale privatisation.

Anyone could put forward a business for privatisation, but the local commission made the final selection of enterprises for auction. The commissions then collected and made available the relevant company data. Complete units were sold, or leased, at public auction to the highest bidder. In the first round of sales only Czechoslovak citizens could participate. Unsold units were re-auctioned in a later round in which foreign bidders could also participate. Persons wanting to buy a property or lease paid a deposit in advance which was returned if the bid was unsuccessful. For the successful bidder, the deposit was effectively an instalment of the purchase price.

The first auctions took place on 26 January 1991 and involved only eight shops. However, over 14,000 businesses were auctioned by the end of 1991. The last auctions took place at the end of 1993. By that time, 24,359 units had been privatised (see Table 3).

Table 3. Small-Scale Privatisation (1991-1993)

	1991	**1992**	**1993**
Enterprises approved for privatisation	24,523	32,289	33,359
Enterprises privatised:	14,155	22,487	24,359
- at auction	12,429	20,182	21,093
- sold to lease holder	1,521	2,090	3,306
- returned to original owner	142	472	582

Source: Statistical Yearbook of the Czech Republic 1994, Czech Statistical Office, Prague, 1994.

Restitution

Restitution involved the return of private property to original owners, or their heirs. It also could imply some form of compensation in respect of property previously taken over by the state without compensation. The law on small-scale restitution (no. 403/1990) initially only covered small establishments nationalised after 1955. The later, large-scale restitution law (no. 87/1991) covered the return of property nationalised after February 1948. However, only Czechoslovak citizens living permanently in the country were eligible to make claims on large-scale properties.

The Ministry of Privatisation took decisions on the validity of claims for restitution and compensation based on the valuation of the property. The Ministry of Finance dealt with claims involving larger enterprises. The number of enterprises involved in restitution claims was small in relation to the total involved in the privatisation programme as a whole. Yet all privatisation projects had to provide confirmation of the settlement of restitution claims, or otherwise provide means of settling such claims. In order to allow for restitution demands, three percent of the value of every firm undergoing privatisation was set aside in a national restitution fund.

In the case of small-scale restitution the Ministry for Privatisation estimated that more than 70,000 apartments and commercial retail properties were potentially subject to restitution claims. The extended restitution programme for large-scale properties made possible the return of a further 30,000 industrial and administrative buildings. By December 1992, 10,500 restitutional claims by approximately 50,000 entitled claimants were registered with the Ministry of Privatisation. By mid-1996, more than 30,000 businesses had been involved in restitution deals. In addition, according to a special act, property was also returned to municipalities, to be owned and administered by them.

Policy Outcomes and Characteristics of the Czech Privatisation

The following discussion moves on from the above account of the technical aspects of the privatisation programme to consider the main characteristics of the programme as a whole and how it was viewed. As has already been illustrated, the privatisation of Czech state-owned enterprises was the result of a range of legislation, involved a number of different privatisation methods and, in a short period of time, covered a large number of enterprises. In addition to the speed and innovative nature of the Czech privatisation programme, other key characteristics were its early popularity, the strong involvement of the country's political elite and ultimately its apparent lack of positive results, and loss of popularity.

The goal of the Czech government was to "privatise quickly and with determination" (Tříska, quoted in Turek, 1993, p.266). The radical, rapid, innovative programme of voucher privatisation dominated the government's programme. As Dušan Tříska, an author of the privatisation scheme, explained the amount of property to be sold meant,

> "if standard privatisation methods are implemented the process will last decades, maybe even centuries" (quoted in Turek, 1993, p.266).

The state made no attempt at enterprise restructuring, other than to divide some enterprises into several parts. Václav Klaus wrote: "Transformation concerns the whole system, not the financial stabilisation of individual firms, because all these are post-transformation tasks" (Klaus, 1994, p.122). He explained: "The state does not know how to find effective ownership structures nor owners. Privatisation is therefore no more than a first step to finding an effective ownership structure and certainly not the last step" (*Ekonom*, 19/1997). The role of the state was supposed to be limited to setting an institutional framework for a private economy and the rest was to rely on market forces. Consequently, the initial aim for privatisation was that it should rapidly find a 'first private owner' rather than the 'ideal private owner' of an enterprise. This meant that rather than delaying privatisation in order to carefully construct institutions and regulatory systems for the market, the Czech strategy was to "plunge ahead to change the ownership structure as quickly as possible" (Frydman, Rapaczynski and Earle 1993, p.71). The importance of speed was a theme repeatedly referred to in the interviews which were conducted as part of this study. Respondents' opinions on the desirability of rapid privatisation varied. Views also varied on whether the government succeeded in implementing privatisation fast enough, especially in the later stages of privatisation. However, the fact that rapidity was a key aim for the government's programme was not questioned.

Jan Vrba, the first post-communist Minister for Industry, warned that "from privatisation we expect a lot, but also a lot of difficulties" (*Lidové noviny*, 18 March 1992). Yet the programme was noted for its early successes. The public, both foreign and domestic, "bought this success story", according to Mládek (Mládek and Svejnar, 1997, p.92). In particular, the voucher privatisation programme was highly acclaimed. Large-scale participation in the scheme testified to its popularity, or at least its acceptance. The electoral successes of its main proponents gave a similar impression. The Czech experience also defied conventional wisdom that radical economic transformations, such as privatisation, were impossible in a new democracy without severe tension and discord (Orenstein, 1996). Privatisation in the Czech Republic was described as "fast and efficient" and voucher privatisation was referred to as "ingenious" in *The Economist* (22 October 1994). Svejnar and Singer (1994) opened their account of privatisation in the Czech Republic with the statement that privatisation in the country "has been widely heralded as one of the most impressive accomplishments in the economic transformation of the formerly communist countries" (p.23). The Czech Republic appeared to have conducted this part of its "march to a free market system with panache" (*The Economist*, 19 April 1997).

Czech Prime Minister, Václav Klaus, both contributed to and capitalised upon this perception. Klaus may not have been the creator of voucher privatisation but it was he who was most closely associated with the programme. As Finance Minister and then Prime Minister, he was instrumental in the development and implementation of the scheme. He referred to the scheme as a "small miracle". Privatisation contributed to a "very quick, very successful, relatively painless and non-confrontational transition from a communist society to a free and open society and market economy", Klaus claimed (*Lidové noviny*, 18 June 1994). He took the position that the privatisation scheme was correct, successful and required no modification (*Hospodářské noviny*, 20 October 1991). By 1995, only ten percent of all large and medium-sized enterprises were still counted as entirely state-owned in the Czech Republic. Twenty-two percent were state-owned in Hungary and in Poland, the figure was as high as 54 percent (World Bank, 1995). The Czech government of the day felt able to announce that privatisation was successful and almost complete.

Despite the early positive assessments of privatisation and the confident pronouncements of reform leaders, the achievements of the privatisation scheme came into question (Smith and Pickles, 1998) After the 'completion' of the mass privatisation, state monopolies continued to exist, large numbers of enterprise shares were still held by the FNM and ownership structures were ambiguous. Newly 'privatised' companies lacked investment and largely failed to restructure (Myant, 1999). The broadly accepted conclusion was that the rapid shedding of state-owned assets was achieved "at the expense of ownership and governance quality" (EBRD, 1994, p.49). Questions were raised concerning how 'real' the change in property relations had been. To what extent had a transformation from state ownership to private ownership actually taken place?

The major source of concern was that large industrial enterprises, and the majority of medium-sized industrial enterprises, were controlled by investment funds. Some sources considered the investment funds to be inefficient and not capable of promoting restructuring. Others viewed them as simply corrupt. A fundamental problem was that the biggest investment funds were predominantly owned and dominated by large domestic banks or insurance companies. The FNM (ie. the state) controlled a number of the banks through its packages of shares. This structure of ownership involved serious conflicts of interest. For instance, banks' ownership of funds, and the funds' ownership of enterprise shares, meant banks faced a conflict between the need for enterprise restructuring and their own need to avoid bankruptcies. Enterprises commonly carried debts owed to the banks and, at the same time desperately needed investment. This stalemate was one of the major causes of a lack of enterprise restructuring in the Czech economy (*Hospodářské noviny*, 14 April 1995). Lack of restructuring was also contributed to by the dispersal of representation on company boards. Voucher privatisation, in particular, created diffused share ownership, e.g. shares could be held by numerous individuals and a number of investment funds. This led to a situation where no strong owner was established and enterprise managements were not forced to implement change. In addition, the fact that investment funds were able to hold limited numbers of shares in several diverse companies contributed to a situation where major share owners lacked experience and interest in the specific concerns of particular enterprises.

The ownership of enterprises by investment funds, and their linkages with the banks and the state, were identified as the outstanding problems with the privatisation scheme. The investment funds were most closely associated with the voucher privatisation system, so opinion of the scheme suffered as a result. Mertlík (1994, 1995a), amongst others, concluded that the most common result of the privatisation programme, and voucher privatisation in particular, was a pyramid ownership in which the state, the core investor in the economy, was still at the top. Lubomir Mlčoch (1997) even raised the question, "Did Privatisation Really Take Place?". He suggested that what had taken place was merely "pseudo privatisation", which resulted in "pseudo-private ownership". The Czech Republic Newsletter (published by KPMG) also concluded that privatisation had frequently only resulted in "theoretical transfers of ownership" (KPMG, 1997). This complex structure of ownership in the Czech Republic involved what Stark (1995) called "recombinant property". Recombinant property combined both public and private property relations, which instead of being separate institutions were deeply interwoven and boundaries between them were unclear. According to Stark, the outcome of privatisation was in essence a complex reconfiguration of institutions rather than their immediate removal and replacement. This condition contributed toward problems like the limited restructuring of enterprises.

Every aspect of the privatisation programme was not branded a complete failure. For instance, favourable views of direct sales, especially to foreign owners, were expressed by interviewees. Good opinion of directs sales were probably heightened by an awareness of the failures of the voucher scheme. However, a number of direct sales were poorly judged or suspect. The case of Poldi Steel was frequently referred to as disastrous as it led to the company's financial mismanagement and collapse. The enterprise's new private owner bankrupted the formerly profitable company. Cases of corruption on the part of buyers and members of the institutions involved in the privatisation process also repeatedly came to the media's attention. Thus, the reputation of the privatisation scheme again suffered. Government ministers, and supporters of Klaus spoke of errors, oversights and isolated cases, which were inevitable with such a vast number of sales. Meanwhile, those opposed to the government's approach variously accused the leadership of critical misjudgements, criminal negligence or supporting institutionalised corruption. Interviewees varied in their interpretations of the problems. Yet, all acknowledged that either opinion of the scheme had become much less favourable in light of these events, or their fears and suspicions had been confirmed.

A Cabinet report, produced in February 1999, described the country's economy as "sick but not beyond hope" (*RFE/RL News Line*, 2 February 1999). The "failed attempt" at privatisation was listed as one of the major reasons behind the country's poor condition (*Lidové noviny*, 1 February 1999). This assertion was in stark contrast to the accepted view of privatisation during the early to mid 1990s. Even Václav Klaus was forced to acknowledge some limitations of the privatisation scheme, e.g. the position and role of investment funds (*Ekonom*, 19, 1997). Yet he defiantly added that, "at the same time it is also true that it (privatisation) could not have been done any other way". Throughout the course of the privatisation programme, the successes and failures of the scheme were closely connected to the fortunes of the political leaders and parties who were responsible for the programme's development, promotion and implementation. Initially, association with scheme was a huge political advantage for the country's political leadership, and Klaus in particular. However, in 1997, problems and scandals associated with privatisation were instrumental in the collapse of the Klaus-led government. Dealing with the legacies of privatisation became the task of a different political leadership.

The dominant features of the privatisation scheme were initially its rapidity, radical and innovative nature and popularity. While the programme of privatisation was criticised, it was more commonly viewed as a triumph and a model of a successful privatisation programme, at least initially. However, overtime, the scheme became criticised for its lack of positive results. As the above discussion has implied, the outcomes of privatisation had wide ranging impacts beyond the economic realm. The process was highly politicised and closely associated with the political fortunes of particular leaders. Thus, in order to contextualise the distinctive course of Czech privatisation, it is necessary, in the next section, to develop a deeper understanding of the nature and implications of privatisation in the wider CEE context.

3. The Nature of Privatisation in Central and Eastern Europe

In order to put the distinctive course of Czech privatisation into context, it is also necessary to develop a deeper understanding of the nature and implications of privatisation in the wider CEE context. Insights into such connections can be gained from the extensive literature on privatisation, which is discussed in this section. Understanding the scale, aims, implications of privatisation in CEE and the range of interests and influences involved provides a basis for this paper's analysis of the distinctive path of privatisation in the Czech Republic. It suggests that the course and direction of privatisation could be influenced by a wide range of factors rooted in the past or by more contemporary events.

In the early 1990s, the dominant approach to understanding privatisation in CEE focused on the decisions of policy makers and the development of the 'best' programme. These early accounts of privatisation in the region implied that it would involve the imposition of economically rational strategies by policy makers. This approach came under increasing challenge from a second approach which stressed instead the political and social character of privatisation and presented policy makers and their actions as only one set of interests among many in a contested field of privatisation. This approach argues that policy makers' decisions and the course of privatisation were shaped by the political, social and historical context in which they occurred and the influence of human agency on the part of key political and economic elites. These approaches will be considered in turn following a brief discussion of the background to privatisation in CEE and possible definitions of it.

Locating and Defining Privatisation

State ownership was one of the core institutions of the centralised command economic systems which were in place in CEE in 1989. Private ownership of productive wealth was so severely restricted that it was virtually non-existent, or confined to the second or 'shadow' economy, the extent and legality of which varied at different times and in different countries (Cox and Mason, 1999). The second economy most commonly involved activities such as individual part-time work (e.g. private tuition and repair work) illegal moonlighting from state jobs, or the use of state-owned equipment and resources for private activities.

Post-1989, privatisation in CEE was to break down the discredited institutions of state ownership and, at the same time, promote private ownership. Precise definitions of privatisation vary in some specific details but put simply it is a process of transferring ownership rights from the public to the private sector, resulting in effective private control of the business (Blommestein, Geiger and Hare, 1993). However, experience of privatisation in CEE has shown that the outcome of a privatisation policy may not necessarily be effective structures of private ownership. The goal of a policy may be to transfer ownership. Whether or not private ownership was the result is more open to question.

An agreed definition or framework for privatisation and clear criteria for identifying when a piece of property or an enterprise could be considered 'privatised' were largely absent from the thinking behind the privatisation programmes of CEE governments, as Major observed (1993). What were considered to be 'privatisation policies' have often led to complex and confused structures of ownership rather than clearly defined structures of private ownership. For example, Stark and Bruszt (1998) identified cases where the controlling shares of 'private' enterprises were still held by state-owned companies or their managers. In addition, the continued involvement of the state in the ownership of enterprises was also found to be perpetuated by the fact that state controlled banks owned shares in large numbers of enterprises. For instance, in the Czech Republic, 80 percent of all shares were owned by nine investment companies, seven of which were, in 1997, still owned by state banks (McDermott, 1997). Thus in a number of cases, what emerged as an immediate outcome of privatisation schemes were complex patterns of cross ownership where the new owners were other state enterprises and organisations.

The volume of literature on the subject of privatisation is substantial but given the unique circumstances of CEE, traditional ideas and methods (based on western experience) were not directly applicable in the region (Major, 1993, Frydman and Rapaczynski, 1994). Václav Klaus observed that privatisation in CEE differed from similar undertakings in developed and developing countries in two main aspects - the short timespan for its realisation and the overwhelming quantity of state property to be privatised (Klaus, 1992).[4] The very structure of a market economy had to be introduced through the process of privatisation itself. As Frydman and Rapaczynski stated:

> "The first thing to understand about the privatisation process in Eastern Europe is that, in contrast to other countries, privatisation, in the environment of transitional economies, is not a simple transfer of ownership from the state to private individuals. It is rather a process by which the very institutions of property, in the sense in which lawyers and economists employ the term, is reintroduced to East European societies."(1994, p.10).

The unprecedented nature of this type of undertaking meant a more specialist literature emerged and with it came distinctive views on privatisation. The aim of the following discussion is to explore various approaches concerning the more generally understood nature of privatisation and its meaning in the context of CEE and in particular, the Czech Republic.

'Economistic' Views of Privatisation

The assumption that privatisation was vital to market reform was rarely questioned either by academics or political leaderships. Privatisation was the "essential step for the transformation of the formerly centrally planned system" (Zecchini, 1993, p.71). Its perceived importance was reinforced by the fact that privatisation was not merely considered a means to create private ownership, but also policy through which numerous economic aims and objectives could be pursued. For instance, privatisation was expected to: generate a large number of private firms; deepen market forces and competition; contribute to the creation of a well functioning market economy; cut down on state intervention; establish new management structures; raise the efficiency of enterprises; reduce the burden of public enterprises on the state budget; attract foreign investment; and raise revenue, thereby balancing state budgets (Lieberman, 1995 and Blommestein, Geiger and Hare, 1993).

Immediately after 1989, attention focused on which different types of privatisation plan were 'best' for CEE, rather than on restructuring. A useful categorisation of these is offered by Blommestein, Geiger and Hare (1993):

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[4] In the Czech case, approximately 98 per cent of the means of production were state-owned. The government's aim was to privatise almost all of the state-owned units of production. Further, in 1989, capital markets did not yet exist in the CEE.

- public offering of shares;
- sale of shares to a private buyer or a group of buyers (nationals or foreigners);
- free distribution of shares to the work force;
- free distribution of shares to the population/sale of shares for nominal price;
- free distribution of shares to other institutions;
- restitution to former owners; and
- management buyout or other form of self privatisation.

Distinctions were also made between ‘small’ and ‘large-scale’ privatisations, referring to size of enterprise involved. It was also possible for a privatisation programme to cover the entire economy or be confined to a certain sector or type of enterprise.

The conflicting goals and the contrasting merits of each approach produced a range of dilemmas and contradictions. For example, decision makers had to consider the need to: (a) generate public revenues through sale of enterprises to the highest bidder or to consider the lack of personal savings in the country; (b) seek foreign direct investment or maintain national sovereignty; (c) put enterprises into the hands of capable managers or consider equal opportunity for all and (d) offer insider buy-outs or allow sales open to all (Hausner, Jessop and Nielson, 1995). Within each of these categories were numerous arguments for and against each type of privatisation. Many were variations around a theme and continuations of other debates, such as the pace of privatisation.

Proponents of a rapid, neo-liberal style approach to economic reform supported large-scale distribution of ownership rights ‘at once’ (Lipton and Sachs, 1990, and Blanchard et al., 1991). These theorists argued that the state should be deprived of its property rights over a considerable majority of the national assets and that property rights should be transferred to genuine private owners within a very short period. The logic was that inefficient systems would either not survive or should not be allowed to be further entrenched. Rapid sales also meant that new, market-oriented owners would tackle necessary restructuring of enterprises after the property rights were transferred. Those supporting a slower pace suggested that privatisation should be pursued as ‘fast a possible’ but believed that in practice it would not be possible to proceed quickly (Roland, 1994 and Kornai, 1990). For instance, Kornai maintained that a great deal of restructuring was an essential prerequisite for successful privatisation. He argued that it was necessary to eliminate the most entrenched monopoly positions of state-owned enterprises before they were sold, in order to promote competition between privatised firms.

A common element of the views expressed was that privatisation was a purely economic process following a prescribed plan and based on economic rationality. The implementation of prescribed reform policies was seen as a key to a ‘transition’ from the state socialist command economy to a capitalist market economy. It was implied that a process of direct and uniform change from state socialism to market capitalism was possible in the aftermath of a ‘collapse’ of the socialist systems throughout CEE.

This type of assertion suggests that: a single process of transition in the CEE was possible; there was a single point of departure (the command economy) and a single outcome (market capitalism); and that state socialist institutions had completely broken down. Consequently, reformers were thought to be faced with a blank, uniform surface upon which a course of market reform could be imposed.[5] The idea of a blank slate underestimated the complexity of events and circumstances in CEE after 1989. It is a limited and problematic view, as the following discussion will reveal.

Privatisation as an Aspect of Political and Social Transformation

Frydman and Rapaczynski observed, "when privatisation became the word of the day in CEE, most policy makers and external observers made a number of rather simplistic assumptions which have since become increasingly hard to maintain", particularly as "the experience of privatisation began to reveal its bewildering complexity." (1994, p.168, 169). Stark amongst others, expressed a similar view. He questioned the assumption that that there was a 'blank slate' upon which a single transition could be imposed. He rejected what he termed the "myth of starting from scratch" and "capitalism by design" (Stark, 1992, p.20). In doing so, he provided several further insights into the nature privatisation in CEE.

For Stark and other critics of the early policy debate, the application of 'capitalism by design' was not considered possible for a number of reasons. CEE, despite a common communist past, was not a uniform surface upon which to implement prescribed reforms. There were spatial contrasts and variations between countries, e.g. in terms of natural resource distribution, the level and type of economic development, industrial structures and external linkages. Additionally, all of these economic differences existed alongside social and cultural variations and differences in national politics. It was necessary to consider the actual contexts within which reform strategies and policies were developed and implemented.

These types of arguments led authors, like Cox and Mason (1999), to argue that rather than undergoing 'transition', countries in the region experienced 'transformations'. Transformations occurred differently in different places and within different political, social and economic domains. Transformation processes, such as privatisation, were not regarded as simply the result of an imposed design. Instead, there were processes in which the introduction of new elements affect, and were affected by, economic, social and political legacies and specific events within individual countries. These processes were variable, complex, and contested. Across CEE, each country experienced distinct transformation processes and variable outcomes. This conclusion also called into question the validity of the assumption that there was a 'correct' form or 'design' for privatisation for CEE as a whole. The distinct contexts in which privatisation was developed and implemented, as well as the range of available privatisation methods, meant privatisation was potentially a highly variable process. Further, within these distinct contexts it was not only economic variables which

[5] The perception of CEE as a region comprised of politically, economically, and to some extent even culturally undifferentiated countries was one that has been widely prevalent in writing on the region, as Holy (1996) observed.

determined the form privatisation took, but also political and social institutions, actors and elements.

The relationships between privatisation, politics and society have been the subject of studies in their own right. These highlighted the political/social motivations and nature of privatisation. They suggested that the economic aspects of the process are inseparable from broader goals. For instance, Batt (1994) and Major (1993) considered privatisation to be a means to promote the diffusion of sources of power throughout society and part of moves to redefine the state on the basis of liberal democratic principles. Batt explained:

> "The essence of the task of systemic transformation is to unravel this totalitarian fusion of economics and politics, and to refashion the relationship between the state and society, allowing a 'civil society' to emerge independent of the state, and to which the state must become accountable. The re-establishment of private ownership of the means of production is central to this project. Privatisation is not just a question of improving economic efficiency, but of diffusing the sources of power throughout society." (1994, p.83).

In a similar vein, Zecchini (1993) and Bornstein (1992) highlighted the political importance of privatisation as a method of curtailing the possibility of state intervention and interference. Privatisation constituted the transfer of valuable resources away from the control by the state to others. By redistributing ownership rights and power, it weakened the old power structures and any former communist elites which might remain in state government agencies, supervising ministries and enterprises. One of the primary effects of this transfer was to enfranchise new owners. Hence, in theory, privatisation could be used as a tool with which to eliminate the perpetuation of the old command-type economic and political system.

The potential for 'diffusion of power' via privatisation led Appel (1995) to consider certain privatisation schemes as sources of "corrective justice". For instance, restitution schemes and programmes of mass, free distribution of shares could be used to make some form of redress for past injustices, such as the state's prior expropriation of private property without proper compensation. Brabant (1995) singled out restitution as having been justified on moral or ethical grounds with the re-commitment to democratic values and respect for the rule of law arguing in its favour. Simultaneously, mass privatisation could be viewed as an approach which could reduce inequality in the distribution of wealth and income by the redistribution of some state property among all citizens more equally.

Favourable popular perceptions of privatisation and its outcomes offered resources to political leaders who could use them to build 'constituencies of support' for a course of privatisation (Roland, 1993). Therefore, privatisation was also capable of being used as a political tool to enhance the political feasibility and sustainability of reform processes and the political legitimacy of governments and their policies. The image of privatisation promoted by pro-reform politicians was naturally a favourable one. However, privatisation was simultaneously a highly contentious issue not necessarily associated with improvements and gains. Societies faced potential upheavals, disruptions and problems which were associated, or at least apparently associated, with privatisation, e.g. increased unemployment and a differentiation in wages and wealth.

The fall of communist political regimes did not wipe away social expectations and patterns of conduct rooted in the previous system. Despite the widespread hostility toward the communist regime, fundamental elements of communist policy, such as employment protection and subsided services and prices, permeated society's expectations of what the state should provide. Meanwhile, the change of political regime was effected over a relatively short period. Dahrendorf (1990) wrote of the 'incompatible' timescales of political and economic transformations. The economic upheaval and social dislocations, which resulted from processes of economic transformation, were predicted to make extraordinary demands on the political leaderships responsible for the implementation of economic policy. They may even threaten to derail economic and political transformation as electorates faced with the adverse effects of economic transformation rejected reformist governments. As a consequence, a course of privatisation could also conceivably fall victim to a reversal of popular support in its mid or later stages as negative effects of economic transformation became apparent.

Another key to understanding the political nature of privatisation is to consider its varied potential forms. The variety of forms of privatisation and the numerous arguments for and against each type became major sources of political debate. The eventual form privatisation took was the subject of, and shaped by, struggles and debates between political parties and political actors. The eventual form privatisation took could be constrained by which political group was in power, its strength and its policy preferences. Thus, politics and political considerations had potentially major impacts on privatisation and visa versa (Balcerowicz, 1997).

Debates existed within and between political parties, but they also existed between social groups. Differences of opinions about the economic merits of particular types of privatisation were partially at the root of some debates and disagreements. However, group and even personal gain were also important motivations. Different forms of privatisation had potentially variable impacts upon different actors and groups. It was a process of redistributing power and valuable resources. Some groups and actors would win whilst others lost out. It followed that social actors had interests to try and protect either through supporting or obstructing a course of privatisation. Recognition of the strong vested interests which were involved in privatisation led Hausner, Jessop and Nielson (1993) to suggest that choice of strategies must be related to the existing structure of interests, behaviour and norms in CEE societies. Cox (1994) identified the principal types of privatisation defined in terms of the social group to whose interest it apparently conforms:

- 'nomenklatura' or 'spontaneous' privatisation, promoted by the old economic elite, especially directors of state enterprises and economic officials in Party and government bureaucracies;

- state-regulated privatisation, promoted by the new governing elites that has emerged from the competitive elections following the fall of the old regime;

- purchase of foreign capital, serving the interests of international capitalist interests as well as emerging domestic 'client' business interests;

- formation of new native businesses, either newly formed or growing on the basis of former second economy concerns, serving the interests of the new entrepreneurs;

- worker share-ownership schemes to provide workers with a stake in the newly privatised companies for which they work; and

- the general distribution or sale at a low price of shares in former state enterprises to the general public.[6]

Vickers and Yarrow (1991) and Olsson (1995) also suggested that governmental actors were not neutral, imposing only policies that were economically sound, or neutral in a distributional sense. Privatisation was a government-led activity and it was a policy with significant political implications. For instance, the popularity of the government's approach would boost or lose support for the government. The government in order to gain powerful allies could use a policy favourable to a particular group. Consequently, the government itself should be analysed as one of the strongest interest groups in society.

Another widely expressed view was that the role of political leaders in the establishment of policy was particularly significant in CEE. Further, the power and influence of political leaderships were often considered to be held at the expense of the influence of various interest groups. The role of political leaders was seen as particularly crucial in the CEE context for the following reasons. First, decades of communist, totalitarian rule had tended to condition populations to see themselves as the object of politics rather than as independent participants in political affairs. This conditioning led to the popular expectation of a clear, directive line from the political leadership. Second, the new elite operated within a framework of institutions weakened by the fall of the communist political regime. The direct influence of political leaderships was enhanced in conditions where institutions and the system of regulation and formal opposition were either new, and not yet strong, or old and weakened.

These types of conditions also mean that the even individual skills and qualities of a powerful actor, or group of actors, could be important factors shaping the course of reform. This may contribute towards positive outcomes such as a smooth unconstrained course of reform. Alternatively, Steen (1997)[7] suggested that many politicians and officials lacked sufficient regulation and constraints especially in relation to privatisation. Lack of regulation opened the potential for corruption and for politicians and officials to enter the private sector, where they capitalised on information and political influence (Reed, 1999). Thus, the self-interest, well-being

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[6] It has been widely assumed that interested groups and actors would attempt to act in their own interests. However, the tight economic and social relationships among actors presented a problem in predicting exactly how to interpret group interests since the resulting interdependencies conflated the definition of actor's self-interests in an highly uncertain environment (McDermott, 1995, p.75). The assumed sovereignty and definition of self-interest of enterprise managers, for instance, were found to be constrained and intertwined with the concerns of fellow firms, plants, workers and local officials.

[7] Steen's work concerns a detailed study of elites in the Baltic states but given the nature of this aspect of state socialism in the region, the same points can be made more generally.

and personal prestige of the ruling elite could remained the dynamic forces they were in the previous political system.

The possible influence of strategic actors and groups suggest that privatisation was conditioned as much if not more by domestic politics and interests as by economic arguments. At the same time, privatisation could have a political, social, even cultural mission. It could be used to effect changes in power relationships and accepted norms. As such, it is impossible to make sense of privatisation by economic logic alone. Additionally, it is impossible to make sense of a particular course of reform without examining the specific environment and conditions in which it was developed and implemented.

4. Resources and Constraints to Privatisation in the Czech Republic

As the preceding sections have suggested, the course and direction of privatisation in CEE countries could be influenced by a wide range of factors rooted in the past or by more contemporary events. As part of this study, detailed analyses were undertaken of the relationships between the course of privatisation and inherited conditions and between privatisation and contemporary political and social institutions and actors in the Czech Republic. This part of the paper presents a summary of some of the main findings of the first of these analyses. It begins by considering some key aspects of the influence of past events and legacies and then moves on to look at the direct impacts of contemporary political and social events and actors.

Historical Legacies

Developments during the pre-communist period are obviously in the relatively distant past for the Czech Republic post-1989. Further, monumental change took place in the intervening period. Yet the pre-communist period of development set contexts which persisted and influenced the course of post-communist transformation in the country.

The interwar period was considered a golden-era in Czech history. Crucially, during this period, the country was prosperous, market capitalist and had strong ties with the West. The country's inter-war prosperity provided reference points and a repertoire of arguments which were used to justify and smooth the path of post-communist reform (Slobodová, 1997). Market reform was portrayed as a way to restore the Czech Republic to its 'natural' position as a western, market democratic state. The market was portrayed a symbol of the civilisation to which Czech society now again aspired and was part of the country's 'return' to Europe (Holy, 1997). Václav Klaus stated:

> "As a slogan of our 'gentle revolution' we chose 'the return to Europe' including the adoption of an economic system which is characteristic of the civilised world and which shows that, in spite of all its shortcomings, no better arrangement of economic relations exists." (*Lidové noviny*, 10 March 1990).

The sense that the Czech Republic always belonged to Western Europe and that the communist period was merely an enforced interruption to a natural, capitalist path of development was widely referred to. For example the political programme of one of the main political parties stated: "We perceive the isolation of Czech society from its natural home in the period 1948-1990 as a deviation from tradition, a break in the historical continuity of Czech society" (The Political Programme of the Civic Democratic Party, 1995, p.4 and p.6).

The natural conclusion from this argument was that privatisation and private ownership was logical and necessary. A Ministry of Privatisation Report stated: "Privatisation as the main pillar of economic reform, represented a victory for reason" (Ministry of Privatisation Report on the Privatisation Process for the Years 1989 to 1992, 1993). Further, the implication was that ownership rights were not to be laboriously constructed from scratch. They were to be *reconstructed* and *redeveloped*. Voucher privatisation, and rapid privatisation, more generally, presented the opportunity of "*renewing* the people's ability to look after their own assets" (Ministry of Privatisation Report on the Privatisation Process for the Years 1989 to 1992, 1993). The government's policies could be presented to the public as a logical and necessary step. In addition, the past was a reference point which reformers used to present their ideas as merely a return to a natural state rather the imposition of a totally new and unknown order. Thus, the path of privatisation could appear to be easier and more natural in the Czech Republic.

In more practical terms, the country's pre-communist industrial experience also meant it was not entirely dependent upon a state socialist version of industrialisation. Therefore, the region was slightly less reliant upon the large-scale heavy industrial enterprises which were favoured by the communist regimes. Past market economic experience and a skilled labour force meant that the Czech Republic maintained a larger concentration of light, 'higher tech' industries, relative to other CEECs. These and traditional industries, like glass production and brewing, were generally more flexible and more easily adapted to market conditions than large heavy industrial combines which predominated in the regions industrialised under communist rule. It also meant that within the Czech Republic there was a section of society which had owned businesses and property. Consequently, restitution of property to its original owners, or their descendants, was an issue the post-communist regime had to consider.

Clearly, experiences of communist rule also left profound legacies which were highly influential in shaping elements of the course of privatisation and policy makers' approaches to privatisation. This was especially the case, as collapse of the communist political regime in November 1989 did not automatically bring about an equal degree of change in economic and social structures and institutions. After forty years of the command economy and a lack of any meaningful market oriented reform, state socialist economic structures and institutions were firmly entrenched and inflexible. Further, the relatively unexpected and very rapid change of political regime in November 1989 meant that very little time had been available for shifts and adaptations to be made.

The failings of the command economic system are well documented, such as poor labour morale, the failure of prices to reflect the costs of production, poor management, lack of material incentives for workers and managers to produce quality goods and sporadic shortages of basic commodities. In addition, illegal and informal practices were developed as coping mechanisms under communist rule. Hence, semi-legal activities were well-established economic behaviours. Tackling these unfavourable economic legacies was the core consideration driving privatisation.

However, as subsequent difficulties with economic mismanagement lack of restructuring and corruption suggest, these economic legacies were not easily overcome.

However, some legacies did appear to assist the course of reform. The limited impacts of reform under communist rule meant that interest groups with their roots in the command economy, e.g. trade unions and the nomenklatura, had not begun to make adaptations to the market or established any control over property rights. Further, the passivity and inward orientation of Czech society and the maintenance of a hard-line communist regime limited the mobilisation of groups who may have sought to influence the course of reform in their favour. These conditions facilitated the strong and dominant post-communist leadership, which was a key element of privatisation in the Czech Republic. Thus, state dominance and statist development were trends which continued into the post-communist period. Even if the early post-communist government had undertaken a process of consultation, participation and input would have been limited. A representative of the Czech Association of Trade explained: "There was nobody to discuss it (economic reform) with, there was only the government. All the laws were made by parliament and government." (Interview, October 1997).

At the same time, social justice, egalitarian values and generous welfare provision emphasised by communist leaderships and accepted by the population had to be considered by post-communist political leaderships. Fundamental elements of communist ideology permeated society's expectations, norms and values and remained to influence post-communist events (*Lidové noviny*, 11 February 1992). Ideas of what was normal, what was expected and what could be relied upon were not yet fully compatible with the realities of economic transformation. Unemployment, wage differentiation, social inequality and cuts in welfare provision all ran contrary to what the population had learned to expect. A popular backlash against reform in response to the social costs of reform posed a threat to privatisation and the reform leadership. Yet, this did not occur in the Czech Republic. Relatively favourable economic conditions prevailed until the mid-late 1990s, i.e. inflation rates and unemployment rates remained low. In addition, accommodations were made to protect the privatisation programme from popular dissatisfaction. For instance, radical welfare reform was not tackled at the same time as economic reform. The government, despite its neo-liberal rhetoric, maintained a social safety net as 'cushion' to soften the impact of reform (Klaus, 1995). Thus, the lack of any major backlash against reform was due, in part, to the fact that the political leadership recognised the limitations and constraints inherited from the communist past.

Conditions post-1989

The fall of the communist political regime in November 1989, created the critical juncture where it was possible to undertake transformation programmes such as privatisation. The old regime's influences were largely removed from the government. However, as the series of points raised in the preceding section demonstrates, inherited conditions and past experience meant that the new political regime was not operating within a vacuum. A changed structure of opportunities, post November 1989, had restructured the capacity for political actors to take action and purse their goals. However, ideas about how to tackle reform were resourced and constrained by inherited conditions and the contemporary context.

The proposals put forward on how best to tackle privatisation were developed with the particular economic, social and political situation of the Czech Republic in mind. Debate centred upon two main approaches, both of which came from a "relatively narrow group of economists at the centre of the government" (*Hospodárske noviny*, 16 July 1990). Václav Klaus and his allies saw an opportunity for rapid and radical change. It was a "unique opportunity to create a free society and a free market economy". Klaus expressed the belief that "we cannot afford to miss the chance to do it, because such an opportunity comes once in a century" (Klaus, 1995).

Klaus suggested that privatisation in post-communist countries differed from similar undertakings in developed and developing countries in two main aspects - the short time span for its realisation and the overwhelming quantity of state property that must be privatised. It was argued that massive change was required. Policies should not merely aim at achieving a more efficient version of the inherited system as it had quite clearly failed. Further, it was anticipated that without radical change in ownership structures the most efficient personnel were likely to leave state-owned industries for the private sectors or spontaneous privatisations and an unregulated nomenklatura would be a problem.

Possible corruption was a fear which, initially, added weight to arguments for a rapid, state controlled course of privatisation. For instance, the government believed that early reform processes had not yet resulted in the total removal of state socialist institutional arrangements. Government was worried that financial transactions would come through unreformed, potentially corrupt, state bureaucracies. Further, the radical approach also argued that the state was incapable of restructuring enterprises, primarily because it had no experience in such matters and was still riddled with remnants of the previous regime. Thus, in his view, the inherited conditions demanded immediate and radical reform measures.

Meanwhile, the second proposed course of privatisation was a gradualist approach. It was based upon a different interpretation of the available resources and constraints. The gradualist approach was most closely connected to Deputy Prime Minister Valtr Komárek (*Svobodně Slovo*, 7 April 1990, *Hospodáské noviny*, 26 June 1990). Komárek had previously supported the development of an economy combining planning with the market. Working on the assumption that post-communism, the mechanisms of central planning could continue to function alongside an emerging market, he persisted in backing a gradualist approach to transformation as most suitable for Czechoslovakia. Gradual privatisation was to allow a period of time for preparation and spread the social costs of reform (*Lidová Demokracie*, 3 April 1990, *Práce* 21 June 1990). The lack of any market mechanisms and the inability to value enterprises was viewed as a considerable constraint to privatisation. Therefore, a prolonged phase of financial recovery and government led restructuring was planned before shares could be rationally valued (Kopp, 1991). Restructuring would then be followed by a phased, case by case approach to privatising companies (*Rudé právo*, 15 July 1991 and 12 February 1991).

Komárek and other proponents of a gradual approach to privatisation warned if a market were to start immediately "chaos would result" (*Wall Street Journal*, European Edition, 6 March 1990). Komarek believed the Czech population to be undecided and even fearful about privatisation as a result of the negative experiences of other CEE countries like Poland[8] and the previous lack of any major market economic reform in the country's recent past. Further, any popular optimism and acceptance of reform generated during the revolutionary period was not seen as a guaranteed resource. He warned that rapid reform was likely to unduly exploit the optimistic and unrealistic belief that it was possible to make the shift from the command to a market economy (*Zemědelské noviny*, 23 November 1990). He argued that, rapid ill-considered reform could sacrifice the "confidence and the trust of the people" (*Hospodářské noviny*, 5/90). Optimism and support for rapid reform were expected to quickly fade as unrealistic expectations were disappointed, and anticipated loss of popular support could constrain a wide-scale, long-term privatisation programme.

Proponents of the gradualist course of reform called for a specifically Czech variant of reform which respected the county's own political, social and economic reality (Komárek, 1990). The need for an approach rooted in the specific conditions of the Czech Republic was one point of similarity between the two main approaches. However, interpretations of the country's own political, social and economic reality were divergent. Gradualists emphasised the complexities and difficulties of reform, the prolonged nature of privatisation and the necessity of maintaining elements of the communist economic system. The pace and progress of privatisation were viewed as heavily constrained and limited by factors which ranged from popular beliefs and expectations to the structure of industry. Meanwhile, proponents of the radical approach saw a unique opportunity and a need for swift and dramatic change.

Contemporary Political and Social Conditions

The UN's Human Development Report for the Czech Republic stated:

> "Successful transformation of a soviet-type economy requires from the state highly active participation in the transformation process. The efficiency of the government in creating legislative preconditions for the advancement of the market economy, in directing the privatisation process and development of the private sector...is the fundamental prerequisite for positive results." (1997, p 42)

As this quote suggests, privatisation was deeply interconnected with political actors, goals, motivations, outcomes and fortunes. Experiences during the initial stages of the development of the Czech privatisation programme support these assertions. It was a source of political interest and debate, especially as political elites developed, debated and selected the course of privatisation.

Contemporary political events and political leaders played a crucial role, particularly as conditions were in place which offered an opportunity for a strong leader with definite ideas, like Klaus, to dominate the process. The political leadership faced no well-established political opposition. Left-wing and socialist parties were discredited by real, and implied, associations with the state socialist past. Meanwhile, new political movements and parties were still in the process of establishing their agendas

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[8] Early reform efforts in Poland resulted in high inflation rates and high unemployment.

and consolidating their positions. Further, a lack of well-organised civil society meant that specific interest groups with a possible wish to disrupt privatisation either did not exist or were not sufficiently well developed to act. In addition, the fall of the communist regime caused a period of uncertainty and flux which contributed towards an opinion that "it was lot easier for many people to simply put their faith in the first convincing politician who looked and talked the part, rather than to sit down and think about exactly what they wanted their political scene to look like" (Sokol, 1998, pp.6-7).

Political actors and their favoured course of reform not only benefited from the prevailing conditions, they also worked to develop, implement and resource their position and their chosen course of privatisation. Strategic decisions were taken which enhanced their position or at least reduced any problems or constraints. For instance, a key factor shaping the course of privatisation was the ability of Klaus and his allies, as opposed to proponents of the gradualist approach, to exploit, or at least work with, the available resources and limit the potential constraints on their programme of legislation. Popular support was built up e.g. through portraying mass privatisation as a means of promoting social justice. For example, restitution returned property "stolen" by the communists and voucher privatisation gave "the people" a chance to own shares in what had been their "national property" (*Rudé právo*, 27 April 1990). Promotion of the perception that privatisation was carried out in a fair and ethical manner was an important ingredient in the popular acceptance of the government's scheme. It helped maintain social consensus and allowed the rapid, radical approach to privatisation to hold its course for the duration of the mass privatisation scheme. Another element of voucher privatisation's popular appeal was the idea of 'getting something for nothing' and as a means of achieving western living standards. A representative of one of the main political parties in power at the time (the Civic Democratic Alliance) believed the "the greatest impact on the minds and the views of citizens, of average citizens, were not the economic, special arguments and theories, but just the quite selfish vision of getting state property and the enthusiasm for building a capitalist society" (Interview, October 1997).

Klaus, in particular, built up the notion that it was government's benevolence towards the population which was to be the source of this windfall. It was his government that 'gave' people this opportunity. For example, voucher booklets, conveniently distributed during the run up to elections, bore Klaus's signature, in his capacity as Czechoslovak Finance Minister. "It is difficult to imagine a better political advertisement than that of 'Santa Klaus' effectively handing out several hundred dollars to each participant" stated Mládek (Mládek and Svejnar, 1997, p.93). Voucher privatisation gave what could be termed a 'feel good factor' to the early days of privatisation.

Klaus's name became synonymous with Czech privatisation and he dominated the political scene (especially with regard to economic policy). The very fact that this was the case demonstrated the power one individual was perceived to have over the path of privatisation in the country. The only other political figure with a comparable standing was Václav Havel, whose role as President gave him little power over matters of economic policy. Klaus, typically, claimed his reform proposals did not need correcting or modifying (*Hospodářské noviny*, 21 October 1991). During his period in power, government Ministers rarely consulted 'outsiders' about the process and progress of privatisation. In large part, lack of consultation was the result of the government's, and in particular Klaus's, stated opposition to consultative policy making. The government's attitude was strengthened by a range of factors: the government firmly believed that it knew best; strong, clear leadership was viewed as an asset during the uncertain transformation period; reform had to be implemented quickly, consultation would have only slowed it down; the experts and groups were not necessarily in place, or organised enough to consult with; the political structures were not in place to facilitate early consultation; and finally, there was no tradition of consultative policy making. Therefore, formal policy proposals and inputs mainly originated from members of the coalition parties.

Yet the need for some compromises, such as the use of more than one form of privatisation, was a sign that despite his public pronouncements Klaus did make strategic concessions to facilitate the goal of private ownership as fast as possible. For instance, strategic interests could be alternately worked with or their influence undermined as the support, or compliance, of key interest groups was recognised as key resources to what appeared to be the smooth and rapid course of privatisation. Though favourable conditions prevailed for privatisation, Klaus, in particular, did not assume an automatic political and social consensus and he stressed the need to "create consensus supporting the reform changes" (Klaus, 1992, p.42). Supporters of radical reform showed an awareness of constraints, as well as the ability to mould or ignore them.

Key interest groups were also capable of acting independently and adapting to changed circumstances. Consequently, it was not only political leaderships that were capable of undertaking strategic interactions and shaping privatisation. Ultimately, socio-economic networks and key groups of actors shaped privatisation's outcomes. Enterprise managers were able to act in what they perceived to be their own interests, to a degree. Access to resources and capital meant these groups were in a key position to influence the course of privatisation in their favour. Thus, these socio-economic actors should not be considered merely as passive resources or constraints to a particular course of privatisation. They too had an active role in shaping the course of privatisation, especially the programme's outcomes. For example, the privatisation programme relied on enterprise managers' submission of privatisation projects proposing methods of sale. Despite the leadership's assertions that a core element of the voucher scheme was to weaken nomenklatura elites, the voucher scheme was a favoured choice for managements of state-owned enterprises. It was believed that the resulting dispersed ownership structures created by voucher privatisation would allow the managers greater independence (*Hospodářské noviny*, 31 January 1991). Thus, management saw something in the scheme to meet their needs and smoothed the course of reform.

The potential for political and social actors to act in their own interests and for conditions to be modified and changed in their favour suggests that resources and constraints to privatisation were not static. Ultimately, just as actors were able to take action to apparently advance the position of privatisation they also contributed towards the problems which became evident in Czech privatisation. For instance, at least in part, it was the government's own ideologies, priorities and failures to recognise the potential problems that allowed the problematic legacies, e.g. lack of a sufficient regulatory framework, nomenklatura networks and corruption, to become significant constraints upon the successful implementation privatisation. For example, the government appeared to adopt an erratic and neglectful stance on regulation and the creation of legal structures of the economy. Thus, apparently ‘corrupt’ practices were not formally illegal and could not, in some cases, be acted upon.

Views of the privatisation programme changed dramatically as these types of problems and weaknesses emerged. The expectations and hope which were so successfully built up were not matched by the reform outcomes. Klaus, his government and the media, had presented the idea of privatisation as an unparalleled success (interview with Petr Adrian VSE, May 1998). Therefore, too much was expected too quickly as a result, according to Karl Hampl of Deloitte Touche in Prague (*Prague Tribune*, September 1997). Expectations were unrealistic and were unrealised as problems emerged in the privatisation scheme and as the true nature of its outcomes became clear.

5. The Path of Privatisation - Inherited Conditions and Strategic Actors

As the preceding section emphasises, privatisation was not developed and implemented in an institutional vacuum. Further, it was not merely the result of an imposed economically rational strategy. Even Václav Klaus, so often referred to as the ‘architect’ of Czech transformation, stated:

> “I do not deny the existence of some elementary rules which should be - if possible - followed. But to claim that there is something more than that, and that there is something like scientific masterminding of transformation measures, is wrong.” (Klaus, 1995).

Instead, there were processes in which the introduction of new elements affected, and were affected by, configurations of economic, social and political institutions and actors within specific domestic contexts. Privatisation in post-communist CEE involved and impacted upon a diverse range of factors and conditions. For instance, it was an aspect of political and social, as well as economic, change. The Czech political leadership claimed that their programme of privatisation would enhance democracy and tackle social injustices. Privatisation also had different implications for different groups of actors. A consequence, it was the subject of varied political debates and of group interests. The nature of privatisation and the distinct contexts in which privatisation was developed and implemented, as well as the range of privatisation methods implied that privatisation was a complex, variable and contested process.

Exploration of the influence of long-term historical legacies revealed how patterns of institutions and social relationships established either in the pre-communist period, or during communist rule had left their impression and shaped the conditions within which policies were developed and implemented in the early-mid 1990s. A range of historical conditions and legacies were revealed to have impacted directly or indirectly upon post-communist privatisation. Inter-war experience of western market capitalism and democracy provided points of reference and residual beliefs which were used in support of the course of post-communist reform. Positive experiences of market capitalism offered political leaders arguments to justify and smooth the course of reform. Emphasis on Czech control of the economy also established Czech nationals who maintained claims to property. Early industrialisation in the region and its links to western markets also provided the more practical resource of a slight cushion against the total domination of the economy by Soviet-style heavy industry. The above connections with the western market capitalism and private ownership were resources that other, previously less developed, countries in the region lacked. For instance, Slovakia lagged far behind the Czech lands in terms of socio-economic development during the inter-war period. The region then went on to become heavily dependent on Soviet-style heavy industry after a period of intensive development during the communist period.

Communist rule had a particularly profound and lasting impact on politics, economies and societies throughout CEE. The Czech Republic's experience of hard-line communist rule for an extended period meant that post-communist reformers faced a number of deeply entrenched constraints to reform. Further, no well-established opposition movement had developed and no course of economic reform was established during the communist period, unlike in Poland and in Hungary respectively. The rigid and largely unreformed structures of the state socialist command economy were the most obvious obstacles to successful market reform. The state socialist economy had remained 'locked-in' to an economic path full of inefficiencies and rigidities, which proved almost impossible to resolve within the state socialist system (Hausner, Jessop and Nielson, 1995). However, these 'locked-in' rigidities were also key areas of inspiration behind a radical course of reform. It was argued that the only way to successfully tackle reform was to break away as far and as fast as possible from the previous systems.

Paradoxically, the limited impact of previous reform efforts also exerted a significant positive influence on the Czech course of privatisation. Unlike other governments in CEE, reformers in the Czech Republic did not have to contend with well-organised, independent groups within civil society. There was no strong opposition group or a reformed communist party as in either Poland or Hungary. Moreover, the lack of any significant economic reform, aimed at decentralising decision making to the enterprise level, and making partial use of the market as a regulator, meant that unlike in Hungary or Poland, neither workers nor managers had developed economic interests in converting state assets into privately owned property during the last years of Communist rule. Therefore, the Czech reformers did not confront already entrenched interest groups with an existing stake in privatisation in the way their Hungarian or Polish counterparts did. Therefore, in devising their privatisation programme they did not have to seek compromises with enterprise insiders, or introduce schemes for employee ownership of the kind that predominated in the Polish privatisation programme. Further, under communist rule, Czech society had developed a tendency towards passivity and acceptance of strong leadership, which proponents of radical reform, like Václav Klaus, were able use to their advantage. By contrast, the persistence of strong social group interests in Poland undermined the unity of whatever party coalition has been in power and was a major obstacle to reform efforts (Cox and Mason, 1999).

However, communist legacies also presented a number of obstacles which undermined and constrained privatisation in the Czech Republic. Conditions were conducive to a relatively smooth passage for new legislation to create the framework for economic transformation. However, the same lack of engagement between the new political elites and old economic elites meant that government had little influence over the implementation of its legislation and on the restructuring of economic relations (Cox and Mason, 1999). The weak and confused ownership structures created through privatisation could allow nomenklatura networks and groups to remain in position and limited enterprise restructuring. In addition, the practices of clientalism, bribery and corruption were well-established elements of communist society which went on to plague post-communist privatisation.

Experiences in the more recent past also resourced and constrained privatisation. The particular path of exit from state socialism was critical to the development of the particular path of privatisation in the Czech Republic. Varied processes of institutional breakdown and formation meant that privatisation programmes were not developed and implemented by policy makers operating in an unconstrained environment, as the 'economistic' approaches implies. The path of exit from communist rule in the Czech Republic left a confused and confusing legacy of mixed institutional elements. Thus, a key analytical category for an understanding of privatisation processes was the initial (inherited) conditions which existed. In order to understand and to explain the course of privatisation, it is illuminating, as Stark suggests, to analyse the resources at the disposal of policy makers for securing support for burdensome measures instead of focusing exclusively on their recipes for change (Stark, 1992, Rona-Tas, 1998). The prevailing economic conditions influenced, to some extent, the choice of economic policies in the first phase of transformation and the effects of the adopted policies. For instance, the Czech government was not constrained by a need to make large debt repayments, unlike in Hungary. Political and social conditions, e.g. lack of political opposition and support for radical change, also affected the choice and the effects of economic policies. As well as inherited conditions, there was also a range of other factors which influence the direction of privatisation. Post November 1989, influences included new organisations, newly empowered actors and policy makers, new expectations and ideas about what was possible, as well as remnants of the past.

The immediate post-communist period represented a 'critical juncture' for the development of new transformation strategies. The opportunities for privatisation opened as the previous system fell and created a conjuncture in which policy choices were possible. This last point suggests that the course of reform was not entirely dependent upon inherited structures and institutions. In reality, there was a complex interplay between historical legacies and structural constraints on the one hand and the influence of key decision makers, the power of ideas and the outcomes of contested politics on the other. The way in which the old regime broke down pre-established the context in which actors made choices about the most appropriate course of privatisation. However, this did not leave reformers in a condition where their path was determined, but rather in a position where past developments constrained events less tightly and where it was possible to make bounded choices to open up new directions and opportunities. For a number of reasons inherited conditions also offered a particular opportunity for the ascendancy of a strong political leader with definite policy ideas, i.e. Václav Klaus.

Consequently, post-communist political actors exerted a particular influence on how resources and constraints impacted upon the course of privatisation and determined the course of privatisation itself. Their choices involved judgements and opinions on what opportunities were available; what it was possible to achieve; how constraining actors and institutions could be avoided or removed; how an actor was positioned to act upon their interpretations. Václav Klaus and Valtr Komarek interpreted the available resources and constraints quite differently. What one politician considered an opportunity was viewed as a constraint to the other. The failure of the command economy contributed to Klaus's determination to reject and to move away from the past system as rapidly as possible. Radical economic reform was the perceived solution in this case. Klaus showed an awareness of the persistence of constraints to privatisation but concluded, "whenever there is an opportunity to introduce a new measure (of reform), it should be done without the slightest delay" (Klaus, 1995). Komarek's gradual approach saw the realities of the Czechoslovak economic situation as a barrier to radical reform. Similarly, post-communist political leaders in neighbouring states interpreted their policy requirements differently (Cox and Mason, 1999, Stark, 1992 and Hausner Jessop and Nielson, 1995). Slovak Prime Minister Mečiar claimed that economic conditions in Slovakia demanded a gradual pace of reform and sales to strategic owners. Sales to foreign investors in hard currency transactions were to help to reduce the state deficit, in Hungary. The support of workers was a priority for Polish governments.

The decisions of the democratic government in the Czech Republic were strategic choices reflecting to some degree responses to dilemmas associated with the specific social context within which it worked. Within limits, the political leadership had the potential to pioneer new paths for Czech economic development and to build new strategies to shape future possibilities. Hausner, Jessop and Nielson (1995) described it as the opportunity for key strategic actors to be both player and rule-maker, to redesign the board upon which they operated and to reformulate the rules and purpose of the game.

Key configurations of post-communist actors played active roles in shaping the course of reform. In the Czech case, the potential even existed for individuals like Klaus, to create and develop their own opportunities through implementing strategies and by mobilising resources and alliances. The potential for political actors to act in their own interests and for conditions to be modified and changed in their favour suggests that resources and constraints to privatisation were not static, as political leaderships elsewhere in CEE discovered to their cost. Thus, the dynamic interactions of these actors and legacies at a strategic level are crucial to an understanding of the influence of political actors in shaping the course of Czech privatisation. A key factor shaping the perceived successes of privatisation was the ability of Klaus and his allies to exploit the available resources and to limit the potential constraints over extended periods. Latterly, many of the problems of Czech privatisation were partially the result of inherited institutional legacies and practices, such as corruption and the presence of strategically positioned nomenklatura elites. It was nevertheless specific government choices and priorities or their failures to recognise the potential problems that enhanced legacies as significant constraints upon successful privatisation.

Privatisation was deeply interconnected with political actors, goals, motivations, outcomes and fortunes. Political priorities, at some points, even took precedence over economic judgements. The initial format and the pace of privatisation were shaped by political views, attitudes and decisions. However, the decision of a political leader was not enough to establish a privatisation policy. It had to be accepted as law and channelled through state systems during a period of significant institutional and structural upheaval. Consequently, the initial privatisation strategies were also shaped by ongoing political debates and subsequent compromises, though they were not disrupted to the same degree as elsewhere in CEE. Strategies were merely modified in the course of interactions with the relevant political actors and institutions. Thus, the direction and nature of privatisation was not the result of a simple voluntaristic process, rather it was the result of actual strategic choices made in the context of path dependency (Hausner, Jessop and Nielson, 1995).

Privatisation was also interconnected with societal issues, interests and groups. It was used as a means to promote change in social and economic norms and beliefs. At the same time, privatisation was perceived as a threat to existing social and economic systems and interests. Established groups, like trade unions and nomenklatura elites, maintained interests in economic processes and stood to lose or gain substantially from privatisation (Clark and Soulsby, 1999). For example in number of cases, Polish enterprise managers were able to exploit their political ability to acquire state property through the exercise of privileges attached to a position in the bureaucratic hierarchy. Meanwhile, the Czech government sought to reduce the potential for nomenklatura elites to benefit from sales. As Federal Prime Minister Marian Čalfa observed in a parliamentary speech: "The process of economic reform is a process of exceptional conflict. It comes up against firmly entrenched interests, it attacks stereotypes and breaks down illusions. Also part of it are doubts about whether the correct way has been chosen." (*RFE/RL special supplement*, 27 March 1991)

Links between privatisation and social/economic interests meant that non-material and non-political elements influenced the course of privatisation, though not necessarily to the same extent as elsewhere in CEE. Organised groups seeking to protect or promote their interests had the potential to mould or adapt policies. Further, popular support for privatisation was recognised as vital to the sustainability and successes of reform. Support was mediated by various pre-existing institutional arrangements for managing political conflict and by the divergent abilities of the political elites to maintain the support of key groups in society (Bruszt, 1994). In the Czech Republic, there was a determined effort to convince the electorate that there were gains in privatisation. Popular support for the government and their privatisation programme was largely maintained during the critical early stages of the programme. Elsewhere in CEE, governments were removed from power and privatisation programmes were revised throughout the post-communist period. The Czech government used a complex mix of tactics to build, or maintain, constituencies of support for their reform approach.

- Key strategic groups were persuaded, or realised for themselves, that they too would have a share in the benefits of privatisation.

- The government seized the opportunity created by the collapse of the communist political order to rush through as many irreversible reforms as possible before opposition or alternatives could be established.

- The government used populism to enlist broad ranks of the population in support of the reform, e.g. by making them shareholders.

- Support mechanisms to limit the negative consequences of reform were maintained, e.g. a social safety net (Rutland, 1997).

Post-1989, there was a window of opportunity for privatisation where key interest groups and popular opinion constrained less tightly and allowed political leaders, and reforms, more room for manoeuvre. The preceding brief comparisons with conditions elsewhere in CEE suggest that in the Czech Republic's case the opportunity for rapid and radical privatisation was less constrained. However, as the phrase 'window of opportunity' suggests, the favourable social conditions for reform were neither static nor guaranteed. As a consequence, political leaderships came up with strategies to hold back, postpone or work round constraints (something they did with varying degrees of success).

During this early period of systemic and institutional change the transformative capacity of each group was not necessarily clear. Further, the past oppression of civil society also meant that political decision making was centralised and opponents of reform at the political level were marginalised. Policy-makers also attempted to neutralise or marginalise groups who could resist or distort change. A widely held opinion was that lack of change among institutions and leaders (e.g. the nomenklatura) was a hindrance to policy formation and implementation. They had the potential to act as constraints by blocking, subverting or undermining a chosen policy. However, strategic interest groups were also resources as potential allies and supporters of the reformist government and its chosen policies. Thus, socio-economic actors should not be considered merely as passive resources or constraints to a particular course of privatisation. It was also possible for interest groups to adapt to post-communist conditions and exploit aspects of privatisation. They too had a role in shaping the course of privatisation, especially the outcomes of the programme. The designs of transformation were the result of interactions and were themselves transformed, shaped and modified in response to, or even in anticipation of, the actions of subordinate social groups (Stark, 1992).

Actors and inherited conditions were most often considered as two distinct categories. What was increasingly clear from this study of the path of privatisation in the Czech Republic is that the key determinants were the strategic interactions of specific domestic actors and institutions. Privatisation strategies were the outcomes of policy makers' responses to inherited conditions. Outcomes of the course of privatisation were the result of combinations of inherited conditions and the reactions and priorities of political leaderships. Even the smooth path of privatisation was contributed by the skill of key politicians in capitalising on the available resources and avoiding or removing constraints. For instance, Václav Klaus stressed the need to "create consensus supporting the reform changes" (1992, p.46). He and his government used legacies and inherited conditions in their favour. Privatisation was shaped by factors such as the government's use of historical legacies to build support for change and society's enthusiasm for the idea of a 'Return to Europe'. Residual egalitarian values were appealed to when voucher privatisation was conveyed to the public as a source of social justice. Klaus was also skilled at disarming and undermining opposition. He implied that socialist opposition groups were in some way connected to the communist past, an approach also applied to trade unions. At the same time, strategic concessions and inclusionary measures were employed to limit potential sources of opposition.

These aspects of the Czech path of privatisation support the suggestion that the influence of political actors and institutions can rarely be separated and identified as sole determinants. But neither were the decisions of key actors made simply on the basis of technical criteria, of simply selecting the 'best' policy for the circumstances. Their actions were shaped at every turn by a wide set of political and economic constraints. The key to understanding the course of privatisation is an examination of how these elements interacted over extended periods. Institutional legacies alone did not determine every aspect of the course of privatisation, nor did political actors. Institutional legacies, actors and interactions all require to be considered in order to achieve a more balanced account of the privatisation process in the Czech Republic. Further, the inherited conditions, the nature of political and social groups involved and the interactions between these factors were distinctive. The particular configurations and interactions of these resources, constraints and strategic actors in the Czech Republic resulted in a distinct course and experience of privatisation.

Appendix

Research interviews were conducted between September and November 1997 and in November 1999 with the following individuals and organisations/institutions:

Association of Manufacturers and Suppliers of Engineering
Budget Committee of the Czech Parliament
Centre for Voucher Privatisation (Ministry of Finance)
Civic Democratic Alliance (ODA)
Civic Democratic Party (ODS)
Civic Forum (OF)
Confederation of Industry of the Czech Republic
Czech Institute for of Applied Economics
Czech Managers Association
Czech National Bank
Czech Social Democratic Party (CSSD)
Czech Senate
Economist Intelligence Unit (Czech Republic)
'Euro' - Czech Economic weekly
Ministry of the Economy
Ministry of Finance
Ministry of Labour and Social Affairs
Ministry of Trade and Industry
Social and Economics Department of the Czech and Moravian Chamber of Commerce
Supreme Audit Office of the Czech Republic
Supervisory Board of the Fund for National Property
University of Economics (VSE), Prague

Interview data was used in conjunction with evidence from contemporary journals and newspaper articles. A comprehensive review of English language newspapers published in the Czech republic was carried out. These included the *Prague Post*, *Prague Business Journal* and *Prognosis*. Daily news bulletins, produced by the Czech Press Agency (*CTK*), *Central Europe On-line, East European Reporter* and *Radio Free Europe* were also used. Analysis of these articles was accompanied by more in-depth analyses of specific articles from Czech newspapers and Journals. The main Czech sources were: *Lidové noviny, Mladá fronta Dnes, Rudé Pravo, Ekonom* and *Hospodářské noviny*.

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