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Author(s): Dušan Triska

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DUŠAN TRISKA

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Perhaps I should start by stressing what was openly declared by the congress of the Civic Forum on January 12, 1991: that the official program of Czechoslovakia and its political force, the Civic Forum, is to return to capitalism. For the first time, it was publicly spelled out that Czechoslovakia has no other alternative; the market economy and the democratic society generally associated with capitalism are the only option for our country. Therefore the process of privatization received the full support of all the most important political forces including our president, Vaclav Havel, whose reputation is beyond any doubt. However, what we want in postcommunist Czechoslovakia has, I am afraid, been delayed for a certain period of time; but, of course, that is what we are calling transformation. Now, both in parliament and in the political structure, I think it is completely understood that we want capitalism, and that capitalism cannot work without capitalists. The only problem that remains is "how to create capitalists in Czechoslovakia."

Privatization provides the method. Privatization, of course, can be understood in two senses: privatization from the bottom up, meaning creating new private enterprises from scratch; or, in the narrow sense of the word, privatization from the top down, the transformation of state-owned enterprises into private businesses. I will concentrate on the latter; that is, top-down privatization. In

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order to transform state enterprises into private business entities, what you need is the necessary climate, that is, full political and economic liberalization. Politically this means that you need a political structure that is entirely distinct from the previous regime. You need a government that demonstrates very clearly that it has absolutely nothing in common with the previous communist government. It is absolutely impossible for any government to pretend it wants any sensible process of privatization if it does not demonstrate this. So this is one aspect of our political climate, consisting in the political liberalization of society. Then there is another necessary condition of the process. This is economic liberalization, meaning that you need economic stability. You need a macroeconomic stabilizing policy—a budgetary and a monetary restrictive policy—and, at the same time, you have to liberalize prices. We started with the macroeconomic restrictive policy last year. The first act of the new government was to refuse the former budget prepared by the communist government. We introduced a new state budget that was much more restrictive than the former one, and we ended up with a decent surplus last year amounting to about 1 percent of the overall amount of the state budget. The prices in Czechoslovakia were liberalized one month ago on January 1. We believe that this creates the necessary environment for the privatization process.

Of course, the next thing you need is the legal framework. The legal framework we inherited was designed for entirely different purposes. It was a legal framework designed to support and strengthen the position of the Communist Party and of the totalitarian political regime. It was designed to oppress the private sector and to expand the process of collectivization and all other kinds of confiscation of private property.

Therefore it is certainly impossible to privatize within such a legal framework. You have to introduce—as was decided in Czechoslovakia—a legal process of creating a new legal framework with five basic laws. I will spell out the titles of the laws: the law on small restitution; the law on small privatization; the law on large restitution; the law on large privatization; and the

law on land. These five laws are to be the five fundamental transformation laws according to which we are to return to a market economy and a sensible organization of society.

Most of these programs, of course, are intellectually incredibly complicated, and the tasks to be resolved politically are still more complicated. Perhaps I should say a few words about the relationship between privatization and restitution because, unlike in Poland and in Hungary, we have not succeeded in our first attempt to forget about restitution, to draw a red line, and to declare the communist revolution to be a natural disaster against which no one was insured and therefore no compensation should be paid. This proved to be politically absolutely unfeasible.

Therefore we had to start thinking about the restitution concept. Fortunately, the forces pushing for restitution in Czechoslovakia are the same forces that support the process of privatization. Their objectives are basically aimed not at compensation but at privatization. What they stress is that restitution should be viewed as one of the most efficient means of privatizing the economy. Of course, it is now necessary to create the proper relationship between two types of laws: the law on privatization and the law on restitution, which is a tremendously complicated task.

As was already mentioned, I came here directly from parliament. Parliament is now discussing the details of the restitution law so that the two laws can be approved together next week or the week after. Restitution itself has various forms because in Czechoslovakia, as in Germany, there were several dates when nationalization and confiscation were executed. A political debate is now in progress as to whether we should include the nationalization processes started in 1944–45, whether we should start from the year 1948, or whether we should exclude all nationalization acts from the restitution processes and include only the acts of the various types of property confiscation, because the previous regime confiscated the property of citizens on a massive scale, in various areas, and for various reasons—and not only according to the nationalization laws. You can imagine how interesting and complicated the debate is. What we want to ensure is that we will

not destroy the process of privatization. As is the case in other countries, there are two types of privatization: small privatization and large privatization. Small privatization means that the business units, however big or small, will be auctioned off and will be offered to domestic citizens in the first round of auctions. If the property is not sold in the first round to nationals, it will be offered to any other interested party.

This is the first point that I should stress: in the privatization process, the Czechoslovak government would like to give preferential treatment to its own citizens, i.e., if business units are to be auctioned off in Czechoslovakia, Czechoslovak citizens will be invited first; only then will foreigners be able to come and join the auctions. Individuals who emigrated from Czechoslovakia after 1948 are included among the Czechoslovak citizens, which is a signal given to the outside world that we would like to cooperate with all the, roughly speaking, 400,000 people who emigrated from Czechoslovakia after 1948. We would like to invite them to return to Czechoslovakia. Not only they themselves but perhaps also their savings could help Czechoslovakia's economy.

Maybe it would be interesting to tell you that the small privatization law was debated under unprecedented conditions. There was a special joint session of the three governments—the federal government, the Czech government, and the Slovak government—and the president in the town of Kroměříž, which is halfway between Prague and Bratislava. It was televised and it received enormous publicity. Thus the small privatization process is supported by absolutely everybody, and anybody in Czechoslovakia who would try to complain would be considered to be a public enemy.

To return to the first auctions: the law was drafted and then was passed in November 1990. After this, two more laws were needed for the Czech and the Slovak republics since the first was a federal law. The organization of the auctions began. The necessary framework was prepared, and the first auctions took place two weeks ago. They were a tremendous success. Although only twenty business units were sold out of the 100,000 designated to be sold this year, the event was highly publicized and it received

strong support. We believe that the whole process will be very successful. The proceeds were tremendously high, proving that foreign capitalism was involved. Most Czech citizens have no chance whatever of acquiring a business unit, at least in those cases where the property offered is in Prague. But the government declared that it did not matter and that it wanted to invite foreign investors in whatever form.

My last few comments should perhaps concentrate on the problem of large privatization associated with large restitution. Large privatization can be a nightmare. What is special to our country is that we would somehow like to offer the chance to participate in the privatization process to the people in our country, and the concept of the investment vouchers was created on the basis of this idea. To our amazement, the idea immediately received very strong support in Slovakia when we started to discuss this topic around March or April last year. Generally, the Slovaks oppose the federal government in every possible respect; but for some reason that I do not understand, they came to love this idea and supported it strongly. I think it is now supported by everybody in Czechoslovakia.

Therefore I believe that we shall implement the investment voucher privatization scheme. It is included in the draft law that will, hopefully, be approved next week or the week after. The law states that once it goes into effect, the government will be obliged to prepare the privatization program with vouchers within three months. The vouchers have many advantages. One of them is that if you want to exercise this method, you need around 2,000 enterprises. You cannot privatize merely ten or twenty enterprises with these vouchers. There must be at least 1,000. At that point, all records in privatization will be broken! The details of the voucher scheme are tremendously interesting. The process has to be prepared from a technological point of view so that it is capable of serving some 4 million voucher holders. That is not a simple proposition in a country that is not as computerized as California, so to speak.

My concluding remarks will be on the problem of the political environment. We cannot import managers from Western Czecho-

slovakia, because there is no Western Czechoslovakia, unlike West Germany. We will have to make do with the managers we have now, most of whom are former *nomenklatura* from the Communist Party. The most bitter pill that our nation will have to swallow is to see who will be the winners and who will be the losers in the process of transformation and privatization. The winners certainly will be the old winners and the losers will be those who were also the losers under the previous regime.