Identity Politics and Economic Reform: Examining Industry-State Relations in the Czech and Slovak Republics

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Over the past decade the capitalist and democratic transformations in Eastern Europe have enabled certain countries to integrate successfully in Western institutions and organisations. In contrast to Slovakia, three Central European states, Hungary, Poland and the Czech Republic have already become members of NATO and expect to join the European Union before long. Curiously, a rapprochement between the West and Slovakia has been much slower. The diverging paths of Slovakia and the Czech Republic are quite surprising given their identical starting point in 1989. Analysing this divergence may offer insights into understanding the trajectories of other post-communist states vis-à-vis the West.

An area of divergence of particular interest between the Czech Republic and Slovakia involves the process of transforming the command economy to a market economy, and specifically the politics that facilitated or obstructed liberalising economic reforms. In the transformation of former communist economies more generally, success in advancing liberal economic reforms can be seen to depend upon the ability of state actors to mediate, and even suppress, the demands of pivotal social and industrial actors. Most post-communist governments recognised the importance of the managers of medium and large enterprises as a key group that could facilitate or hinder the process of capitalist reform. While governments varied in their choice of whether to appease, co-opt, disempower or ally with managers, no government undertaking structural economic reforms could choose to ignore them—as the managerial elite (also known as the former industrial nomenklatura) constituted one of the most powerful interest groups at the end of the communist period. Indeed, after the collapse of the former regime, managers in many post-communist states continued to enjoy widespread powers and privileges. Through their links to technocrats in the branch ministries and through their paternalistic relationships with the labour force, managers were well poised to obstruct or redirect the government’s approach to reforming the economy.

In this article we explore the relationship between management and the state in economic transition in order to understand why certain economic actors are better able to shape policy making in some contexts than others. We consider two examples of post-communist economic reform—the Czech and Slovak cases—and analyse the extent to which managers shaped the privatisation process and altered the direction of
industrial and fiscal policy. In discussing the influence of managers, we are referring to a particular set of actors, namely the top managers of medium and large enterprises which qualified for large-scale privatisation and who pressured the government, either individually or in groups, to alter economic reforms.

Managers in the Czech and Slovak cases are well-suited for comparison owing to similar starting conditions. At the outset of the post-communist transition, managers in both cases held equal positions in the industrial and societal hierarchy and faced equivalent policy starting points within a common federal state. However, after Slovakia and the Czech Republic separated, a striking discrepancy emerged in the ability of Czech and Slovak managers to shape both the reform process and economic outcomes. While we are concerned with the political process of transformation, the divergence between the two cases has consequences for the structural development of each economy and the relations that evolve between them and other economies.

After considering several alternative hypotheses, we contend that the reason for the substantial difference in the influence of Czech and Slovak managers on economic reform can be found in the interplay between identity politics and elite political strategies. We argue that Slovak managers found a useful resource in the prevailing discourse on national identity to help reinsert themselves into the political decision-making process. In contrast, efforts by Czech managers to gain greater control over policy making were thwarted by Czech government leaders whose aggressive use of anti-communist, pro-European rhetoric dominated discussions on post-communist identity and kept managers on the political defensive both before and after the division of Czechoslovakia.

Equivalent starting points

The significant divergence in Czech and Slovak managerial influence between 1990 and 1998 is remarkable given the similarity of their starting points. In both the Czech lands and Slovakia, managers initially controlled almost identical material and institutional resources. They inherited a highly constraining system of centralised planning in which the concentration of power in the Czechoslovak Communist Party limited regional and managerial control over enterprises, even relative to neighbouring communist countries. While the 1968 Federal Constitution formally split the state administration into two republic-level administrations and devolved some power to the regions, control over industrial policy was re-concentrated in the centre in the early 1970s. Hence, from the mid-1970s to the late communist era, it was the federal ministries located in Prague that directed industrial policy under the guidance of the Czechoslovak party hierarchy. Furthermore, the Czech and Slovak Republics shared industrial structural similarities resulting from ‘catch-up’ policies imposed on Slovakia under the communist state. Careful studies of the structural conditions of the Czech and Slovak economies circa 1989 demonstrate that images of an inferior and less productive Slovak industrial ‘rustbelt’ were, in most cases, false or at the very least, greatly exaggerated. Moreover, all legislation in the late communist period governing the relations between industry and the state was applied equally across
Czechoslovakia, leaving Czech and Slovak industry in an equivalent legal and structural position.\(^3\)

**Managerial influence**

Despite important structural similarities and equivalent starting points, Slovak managers were increasingly more influential than their Czech counterparts as the post-communist period progressed. The differences became marked after the dissolution of the Czechoslovak state, since during the earliest years of reform Czech and Slovak managers were both remarkably weak. For example, during the first wave of voucher privatisation (implemented largely before the split), Czech and Slovak managers failed to make any substantial impact on the design of the privatisation process. Although labour and managerial groups did organise small strikes to assert their preference for particularist benefits in privatisation (such as discounted share prices or special credits to buy shares), overall they mounted only a feeble resistance.\(^4\) They failed in particular to make the government reserve a block of shares for employees in privatising state-owned enterprises. Thus, even though the initial blueprint for economic change—the Scenario for Economic Reform—called for some employee ownership within privatisation,\(^5\) in February 1991 the government limited the percentage of shares for employees to 10% in the large-scale privatisation law, and soon after amended that figure to 5% in the new Commercial Code.\(^6\)

Despite the government's refusal to reserve a significant block of shares for managerial employees or to offer preferential terms for obtaining shares, managers did enjoy certain advantages in the submission of privatisation projects. For example, it is often noted that in Czechoslovak privatisation the projects submitted by top managers were chosen much more frequently than those submitted by mid-level managers or outside private investors.\(^7\)

While it is true that managerial projects were chosen more often than competing projects, the significance of this is easily exaggerated since top managers faced strong pressures to design projects the administration found acceptable—that is, projects proposing voucher privatisation. Not only did the Finance Ministry favour those projects submitted by managers that allocated large percentages of shares to the voucher privatisation programme, the ministry also led managers who may have had other preferences to believe that the voucher programme was unavoidable.\(^8\)

The weakness of managers in this process is further demonstrated by their loss of the exclusive right to submit privatisation projects to the Czech and Slovak Ministries of Privatisation. Initially the government programme allowed only the top management to submit project proposals outlining how their enterprise would be privatised. Members of the federal Finance Ministry pushed this single proposal approach but, after much controversy, capitulated to the Czech Privatisation Ministry's preference for compelling managers to provide the public with information about their firms in order to allow any interested party to submit a competing proposal.\(^9\) Although informally managers could distort information in a way that disadvantaged their competitors, for the most part the creation of a competitive process was considered a blow to top-level management. After all, the result was that any domestic or foreign investor could use the procedures of the mass privatisation programme to submit a
competing project potentially enabling them to obtain control over the most profitable enterprises (with very few exceptions).\textsuperscript{10}

Despite the weakness of managers, the government nevertheless could not ignore their preferences altogether. In fact, Václav Klaus, who was then federal Finance Minister, and his deputy, Dušan Tříska, actively sought to reassure managers that the voucher privatisation programme would not undermine managerial control over enterprises.\textsuperscript{11} The Czech (and early Slovak) concept of large-scale privatisation relied heavily on distributing shares equally to participating adult citizens regardless of their position or place of employment. Klaus and Tříska stressed to managers that the ownership of industrial shares would be widely dispersed among small shareholders. According to their arguments, voucher methods—in contrast to more conventional and seemingly manager-friendly forms of privatisation based on direct sales—would actually allow managers to continue to maintain \textit{de facto} operational control over their firms.\textsuperscript{12}

Without speculating on the sincerity of these leaders’ predictions about the future concentration of ownership, by 1993 it was clear that the voucher method had not simply resulted in dispersed ownership but instead had led to highly concentrated control rights for shares through investment privatisation funds. After the first wave of privatisation in the Czech Republic, the top thirteen privatisation companies gained control of 55\% of vouchers. This eventually enabled these funds to control an estimated 75\% of the board seats in privatised Czech firms.\textsuperscript{13} Similarly, in Slovakia, the top fifteen Slovak companies received 40\% of first wave voucher points—indicating significant although slightly less concentration than in the Czech lands.\textsuperscript{14}

In many cases these large investment funds were under-staffed and over-committed and thus could not intervene in the workings of enterprise management.\textsuperscript{15} Nevertheless, the large-scale privatisation programme created structures that rendered enterprise managers highly vulnerable to the preferences of the new owners. Given this vulnerability, it is surprising that Czech managers were unable or unwilling to take bold steps to halt or reshape the government’s privatisation programme for the second wave, as was the case in Slovakia. Following the first wave of privatisation, Slovak managers, both individually and through managerial associations, succeeded in lobbying the government to delay and then cancel the second wave of voucher privatisation, eventually reorienting the entire concept of Slovak privatisation to serve their interests more directly. Thus, while the lack of ownership privileges initially jeopardised both the Czech and Slovak managers’ control over their enterprises during and after large-scale privatisation, Czech managers continued to be subject to the government’s approach to property reform after the split. That is, they remained relatively quiescent through the end of the second wave of large-scale privatisation in 1994—well after the division of the state.

As with the privatisation policy, the government designed and implemented fiscal policies with minimal interference from Czech and, initially, Slovak managerial groups. In formal petitions to the parliament, industrial associations made explicit their opposition to the government’s fiscal and trade policies, arguing that the existing government position would cripple former state industries.\textsuperscript{16} Nevertheless, the managers of large enterprises found themselves highly constrained by a restrictive fiscal
policy that limited their subsidies and saddled them with an increase in taxes owing to a government policy of over-valuing inventories. In addition, the government perversely continued to tax enterprises on non-performing assets such as accounts receivable—even when the debtors showed little likelihood of being able to meet their obligations. Nor did creditor firms have access to a functioning, creditor-based bankruptcy initiation procedure.

Although Slovak managers also had to contend with burdensome tax issues, after Vladimír Mečiar returned to office in 1994, managers as a group successfully lobbied the government to engage in massive fiscal spending on infrastructure development projects. Some also benefited from the government's policy of transferring 'strategic' companies back to ministerial control, where they would retain greater and more direct access to state resources. The Czech government, by contrast, resisted costly infrastructural spending to avoid a budget deficit.

Why was the federal government's restrictive fiscal policy and its privatisation approach maintained in the Czech lands after the split? While the answer to this question can point to several factors, a compelling response would have to take into account the personnel continuity between the former federal economic ministries (such as the Ministry of Finance and the Ministry of the Economy) and the new ministries of the independent, sovereign Czech Republic. The Czechoslovak federal reform team had been staffed almost entirely with Czech economists and politicians. Therefore, after the division of the government, top federal officials transferred into the new Czech republic-level ministries. Not surprisingly, they brought with them the approach of the federal economic programme.

While Slovak managers suffered largely the same fate as Czech managers under the federal Czechoslovak state, after independence they were able to play a much more substantial role in the design and operation of the privatisation programme and related areas of economic management. Like their Czech counterparts, Slovak enterprise directors initially had little influence on the design of large-scale privatisation institutions. Also similar to the Czech managers, after the first wave of privatisation, Slovak managers faced competition for operational control and ownership of their firms from investment privatisation funds.

This situation was reversed after independence during the second wave of Slovak privatisation. For reasons discussed in the final section, managers were able to ride back into influence and power with the political founders of the independent Slovak state. Through direct lobbying by the Association of Employers' Unions (AZZZ)—a peak organisation aggregating large and medium industrial interests—and through indirect control of the Slovak Ministry of the Economy, managers expanded their realm of influence. The AZZZ exercised influence through a number of mechanisms. Informally, every minister of the economy from the June 1992 elections through October 1999 was a member of AZZZ. This includes not only Vladimir Mečiar's ministers but also those appointed by the opposition, Peter Magyari (March–December 1994) and Ľudovít Černák (June 1992–March 1993; October 1998–October 1999). Formally, under Mečiar's third government, the AZZZ chairman met regularly with officials at the Ministry of the Economy. AZZZ officials also consulted directly with the government and parliament on social issues and the state budget, foreign trade privatisation and other areas. Until the tripartite meetings were abandoned by
the Mečiar government, AZZZ represented employers’ interests with the government and the peak labour organisation, KOZ. 22

With Mečiar’s re-election and consolidation of power in 1994, the industrial lobby succeeded in its efforts to persuade the government to replace the second round of voucher privatisation with a series of non-transparent direct sales to its most politically-connected members. 23 It also profited in 1996 from the Ministry of Finance’s efforts to limit the ability of investment privatisation funds to exercise ownership rights and to curtail the transparency of market transactions and the rights of minority shareholders. 24 In addition, the engineering sector of the industrial lobby used government ministries and state-owned enterprises to rebuild a network of former defence manufacturing firms under an umbrella holding company (DMD FIN a.s.). Its members gained significant government support for implementing a sectoral industrial policy to boost the motor industry. 25 Furthermore, managers profited enormously from the massive infrastructure development programme—a programme Slovakia’s fiscal resources could not sustain. The result was increasing levels of foreign and domestic public debt, higher interest rates and growing insolvency among domestic enterprises. 26

In sum, while both Czech and Slovak managers were weak during the early economic reform period, only the Slovak managers later assumed a significant role in the redesign and implementation of economic policies.

Alternative explanations for variation between cases

While no direct comparative study (known to the authors) has attempted to explain the variance in industrial managerial influence across the Czech and Slovak Republics over the past decade, two immediate hypotheses are suggested by other studies on the political economy of transition. One focuses on government strategies, while the other looks at economic conditions.

Government strategies

The first approach emphasizes the strategies adopted by governments. For example, Orenstein demonstrates how federal-level compromises in the early reform period first offered managers a seat in tripartite negotiations with labour and government, and second, promised managers an insider’s edge in the dispersed patterns of shareholding that would follow voucher privatisation. 27 The implication of this research is that managers in the Czech lands did not obstruct reform since they received important side benefits from the government. They thus had little reason to seek to increase their influence in the process. According to this interpretation, the government anticipated managerial interests; that is, instead of struggling against managers, the government co-opted them.

Without denying that the managers benefited in some respects from Klaus’ package of structural reforms, we assert that the government did not simply buy off managers as a group by conceding to some set of pre-existing interests. First of all, this explanation cannot account for the clear difference in the level of managerial influence that evolves between the two cases. After all, most early economic reforms

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were federal initiatives and hence implemented in both the Czech and Slovak Republics. Even in those programmes, such as the first wave of privatisation, in which authority was devolved to the republic-level ministries, the basic administrative procedures were virtually identical. Czech and Slovak managers were treated in similar ways and thus, according to this hypothesis, should have been more or less equally co-opted or satisfied. Therefore, there is little reason to expect Slovak managers to be more disgruntled than Czech managers. In brief, an explanation that relies upon the government’s anticipation and satisfaction of managerial interests begs the question of why managers were more successful in both demanding and gaining control over economic policy in Slovakia than in the Czech lands.

In addition, this approach suggests that there existed objective managerial interests that enterprise directors sought to satisfy and that these interests were clearly discernible to all parties involved. Although we return to this problem in the following section, it is necessary to make clear that, during the early days of post-communist reform, most actors were uncertain and confused about the consequences of structural reforms and therefore often could not—in particular, not in a consistent way—determine how their interests were best served and lobby for them in an organised coherent fashion.

Economic conditions

A second hypothesis accounting for varying levels of managerial influence in the course of reform emphasises the difference in objective economic conditions across the Czech lands and Slovakia. According to this argument, the Slovak economy suffered sharper declines in output and much higher levels of unemployment following the introduction of economic reforms. Following this logic, the greater economic decline legitimated Slovak managerial demands for influence in the decision-making process in a way that was not possible in the Czech lands.

There is certainly some merit to this argument. On the eve of the 1992 elections, Slovak unemployment reached 10.4% while in the Czech lands it remained at 2.7%. Clearly the Slovak public’s anxiety about unemployment was a resource for Slovak managers to use in lobbying the government. Yet, without denying the importance of the difference in unemployment rates, levels of public anxiety about potential unemployment may not have varied significantly across the two regions. According to polls taken in January 1992, 55.5% of Slovaks and 53.6% of Czechs reported that they were expecting and fearing unemployment in the near future. Similarly, 18.5% of Slovaks versus 13.8% of Czechs saw unemployment as their biggest problem.

Also significant from a managerial viewpoint is the fact that while Slovak levels of unemployment overall were higher, both Czech and Slovak industry similarly underwent significant reductions in jobs from 1989 to 1992 (Table 1). Granted, the unemployment data prior to 1993 must be cautiously evaluated; however, it appears that from 1990 to 1993 both countries reported significant cuts in their industrial workforces and, by most measures, the Czechs continued to lose as many industrial jobs as the Slovaks. Depending on the accuracy of 1990–92 industrial data, the Czechs may even have lost more primary industrial jobs (Table 1). This suggests that the higher total levels of Slovak unemployment stemmed from the country’s relative
TABLE 1

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<td>595.2</td>
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<tr>
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<td>% change</td>
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<td>-11.8</td>
<td>-6.2</td>
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Note: The statistical offices of the Czech and Slovak Republics offer two sets of employment data: one that includes both primary and secondary job holders and another that includes only primary job holders. In this table we include the data that relate only to primary job holders. The average numbers of employees with primary jobs in industry in 1989-91 are for enterprises with 100+ employees; in 1992-94, 25+ employees.


Inability to create jobs in other sectors (particularly in services and tourism) and not from a more severely devastated industry—which would arguably be of ultimate concern to managers of large enterprises in traditional industrial sectors.

Furthermore, while it is correct that Slovakia suffered much greater rates of increase in unemployment between 1990 and 1992, both countries suffered substantial declines in GDP (Table 2) and losses in real wages (Table 3). If Slovak losses were great enough to legitimate Slovak managers’ demands for policy influence, why would substantial losses in output in Czech industry not also legitimate demands by their managerial counterparts? After all, industry-level data show that both republics suffered dramatic declines in industrial output that arguably would have been severe enough to produce managerial dissent in both countries in 1992 and 1993 (Table 4).

In sum, unemployment was an important factor, but it would be a mistake to reduce the divergence between Czech and Slovak managerial influence to unemployment differences alone. Given the similar declines in other economic areas, a strictly material explanation should expect similar levels of political pressure from managers stemming from managerial fears about industrial job losses, declining output and unfavourable fiscal policies. Indeed, an explanation relying only on unemployment to

TABLE 2

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<th>Year</th>
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<tr>
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</tr>
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TABLE 3
AVERAGE MONTHLY WAGE (US$)

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<tr>
<th></th>
<th>Slovakia</th>
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explain the difference in lobbying pressure and in influence may be selectively highlighting which 'objective economic conditions' generate political pressure.

We agree that unemployment may have strengthened Slovak managerial lobbying pressure, but we assert that Czech managers could also have used worsening economic conditions as a resource to lobby the government in an equivalent legitimate fashion. In other words, there were multiple outcomes possible given a variety of differences and similarities in objective economic conditions between the two cases. Thus, the reason that one particular difference—levels of unemployment—became a source of political legitimacy is not preordained and requires explanation. Rather it is more elucidating to examine critically the different ways in which economic decline was interpreted and used as a political symbol in each country. The climate of nationalist competition and identity politics in each republic influenced the ability of government actors and economic groups alike to transform the economic pain of the transition into significant political resources and strengthen their position within the economic reform debates.

**Political strategies and national identity**

One central aspect of transformation that is often overlooked but offers real purchase on understanding the power of interest groups vis-à-vis government actors is identity politics. We argue that the politics of identity privileged certain interest groups over others and resulted in a unique distribution of power and legitimacy in each case. Anti-communist sentiment initially kept Czech and Slovak (and after independence, Czech) managers on the defensive in the policy-making arena. Since Czech managers

TABLE 4
CHANGE IN INDUSTRIAL PRODUCTION LEVELS, 1990–1996

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<tr>
<td>Slovak Republic</td>
<td>-4.0</td>
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were under threat in post-communist society, they lacked sufficient political resources to seize control of the policy design process.33

By contrast, Slovak managers were well served by a conflict over Slovak identity among political entrepreneurs. This conflict emerged from a decades-long struggle for greater Slovak autonomy within, or independence from, the greater Czechoslovak state. As Slovak politicians began to compete along national lines following the Velvet Revolution, the Prague-centric nature of both the federal institutional framework and the prevailing conception of economic reform came under fire from a wide spectrum of Slovak political and social leaders. Former Slovak communist managers used the space opened by this political debate to re-insert themselves into the political process. It also served as a resource for politicians from Mečiar’s Movement for a Democratic Slovakia (HZDS) to form an alliance with Slovakia’s peak organisation representing industry, AZZZ. Consequently, Slovak managers eventually benefited much more from the design and implementation of economic reform policy than their Czech counterparts: the former gained greater control over privatisation by lobbying the government to cancel the second wave of voucher privatisation and transfer enterprises to well connected enterprise managers. Moreover, it convinced the government to loosen fiscal policy and undertake massive infrastructure building projects.

The distinct divergence in managers’ fortunes is all the more remarkable since, for the first two years of the transition, industrial managers in both regions seemed destined to share the same fate. The following sections trace the divergent trajectories of managers in the two regions with attention paid to identity politics.

Czechoslovakia/Czech Republic

Czech and Slovak managers occupied a precarious position in the post-Velvet Revolution environment. They were closely associated with the past communist system. After 1989 this became a distinct liability.

The vulnerability of Czech managers in particular was closely related to broader Czech perceptions of the communist legacy. The Czech Republic had entered the communist era as one of Central Europe’s most industrialised nations, with a standard of living on a par with many of the advanced regions of the so-called bourgeois West. Under communist central planning—with its inefficiencies, bottlenecks and emphasis on heavy industry—the Czechs slowly watched their relative standard of living decline in comparison with the West, and especially with neighbouring West Germany and Austria. By 1989 there was strong sentiment in favour of breaking with the communist past and ‘returning’ to the Czech Republic’s ‘legitimate’ niche among prosperous Western capitalist democracies.34

This provided Czech anti-communist politicians with a vital resource in their domestic political battles with industrial opponents. Managers who resisted liberal policy reforms could be easily portrayed as blocking the Czech lands’ ‘return to Europe’. As the author of the mass privatisation programme, Dušan Tríška, explained, ‘managers were taken by every possible group as potential criminals, and everyone took them as representatives of the old regime’.35 Such sentiment reflected the widely-held belief that top managers attained their positions and their rapid career

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success owing to purely political factors. In both the Czech and Slovak Republics, this enabled government officials to adopt several early post-revolutionary measures to force out top *nomenklatura* appointees.

Many managers were dismissed by employee vote during a short period when employees temporarily had the right to approve and reject top management through enterprise committees. These committees had been organised by the revolutionary movements that took power in each republic following the communist abdication.\(^{36}\) Also instrumental in bringing about the sudden resignation and early retirement of senior managers was the ‘lustration’ (meaning ‘purification’) law that was adopted in the Czechoslovak Federal Parliament in October 1991 and extended (only) in the Czech Republic in October 1995.\(^{37}\) The lustration law was an anti-communist screening measure that required the bureaucratic and industrial elite to resign from certain top posts for past acts of political collaboration, in particular with the St.B., the communist secret police. Combined, lustration and employee-initiated dismissals led to significant turnover in Czech and Slovak management in both state enterprises and the government bureaucracy.\(^{38}\)

In addition, many managers who had been appointed in the early 1970s during the initial period of ‘normalisation’ were approaching retirement age anyway and chose this time to retire. Younger top managers migrated to the newly emerging private sector where many became rich through preferential and often parasitic ties to their former enterprises.\(^{39}\)

As a result of both institutionalised (lustration) and spontaneous employee manifestations of anti-communism, middle-level managers assumed vacated senior posts in state-owned enterprises. Not surprisingly, these new managers—as well as those who survived the dismissals—took great pains to avoid being seen as resisting reforms, lest they also be discredited or even dismissed for being communist holdovers.\(^{40}\)

While these measures affected managers in both republics, anti-communism was particularly disabling for managers in the Czech lands in that it remained a government strategy several years into the reform era. For years, managers failed to organise and act collectively in strong opposition to the government. In tripartite meetings with government and labour, for example, Czech managers were in disarray, spoke with a divided, inconsistent voice, and, according to some estimations, represented the weakest party in the triad.\(^{41}\) Not only was the lustration programme extended in the Czech lands, as noted above, but managers failed to secure any significant role in the design of large-scale privatisation. While the privatisation programme did provide managers with a few notable advantages (such as the responsibility for submitting a base privatisation project against which other competing projects would be evaluated), by and large Klaus and his team never felt that it was necessary to cater to managerial interests in the design of the programme.\(^{42}\)

Anti-communism remained a powerful resource long after the implementation of reforms and the break-up of Czechoslovakia. Rooted in widespread Czech disdain for the past regime, anti-communist politics proved useful not only because it weakened the position of compromised groups to lobby the government to take their demands into account, but also because it lent legitimacy to Klaus (who had never been a party member) and enabled him to gain the sympathies of the population by assuming the role of the quintessential liberal, anti-communist reformer. As the most important
Czech post-communist politician and the primary architect of economic reforms, Klaus and others effectively employed this tool against interest groups and political opponents alike. Klaus, in particular, sought to weaken those who challenged his vision of economic reform by subtly (and often not so subtly) associating them with the far left or the communist past. Klaus relied on pro-European and anti-communist tactics from his earliest participation in Civic Forum in late 1989 until as recently as the 1998 parliamentary elections.43

Klaus' use of anti-communism was by no means consistent; he remained pragmatic. His flexibility was limited, at times, by more radical anti-communist elements within his own political movement, the Civic Democratic Party (ODS). Indeed, on a number of occasions, Klaus appeared trapped by his own rhetoric.

One of the more notable examples of the direct political force of anti-communist rhetoric is found in the negotiations over the privatisation of the Kaučík and Kralupy oil refineries between 1993 and 1995. These negotiations put a group of Czech industrialists with murky ties to the past communist regime in competition with a consortium of Western oil companies (IOC). In late 1993 and 1994 many Czech managers nationally called for a 'Czech way' (Česká cesta) to transform enterprises. As an alternative to voucher privatization and to the sale of controlling shares to foreign concerns, they demanded that the state reserve a potentially controlling block of shares, with large stakes going to Czech managers. The necessary financial support would come from Czech industrial earnings and Czech banks. These nationalist appeals won some support among government ministries; most notably, from the Minister of Industry and Trade.

In May 1994 the Czech government's Economic Council expressed a preference for favouring Czech managers over the Western oil companies of the IOC. Within weeks, however, rumours emerged that somehow the decision against IOC was linked to KGB influence and to officials with ties to the former communist secret police.44 In June the Minister of the Interior, Jan Rumil, then a leading member of Klaus' party (ODS), authorised press releases claiming that certain top managers of the petrochemical holding company Chemapol Group—which was expected to be the primary beneficiary of 'the Czech way' in the refineries case—had been in a section of the former communist secret police under direct KGB influence. The release added that Chemapol, as an oil trading company, had ties to the Russian mafia and might be a means for Russia to prevent the Czech Republic from completing an associated project to build a pipeline to the refineries from Ingolstadt, Germany.45 Rumil also hinted that Vladimír Dlouhý, the Minister of Industry and Trade, might have been serving as an agent of Chemapol or even Russia.46

Rumil's actions can be viewed as an abuse of his position since there was no screening law in effect restricting the choice of top managers of a private company like Chemapol.47 But it succeeded in quickly serving as a test of the cabinet's anti-communist zeal. Klaus initially ignored the charges and then subsequently stated that he would refuse to look at the documentation, as did a number of other ministers.48 Meanwhile, Chemapol's management received the backing of the Communist Party of Bohemia and Moravia—which essentially was the kiss of death.49

Amid the furore Klaus called for a rethinking of the 'Czech way' of restructuring
the petrochemical industries. The Minister of Industry and Trade similarly followed suit. In September 1994 the government reopened talks with the IOC, effectively squeezing out Chemapol. In late 1995 the IOC received a 49% stake in the refineries, with 51% going to a newly created petrochemical holding company called Unipetrol. Chemapol quietly assumed an 8% share in Unipetrol.50

The Chemapol example is complex in that Klaus and other leaders were initially agnostic as to which path of privatisation was most appropriate for the oil refineries. Without second-guessing the reasons for the government parties’ shifting preferences, it is safe to assert that anti-communist tactics allowed leading right-wing politicians to undermine attempts by Czech managers to gain control over the refineries.

For many Czech politicians privatisation was both a means of transforming the economy and the polity and also a way of breaking with the communist past and asserting the nation’s place in the Western community.51 The commitment to bring the country’s economic structures in line with those of Europe and the West informed privatisation policies, competition policies and fiscal policies. Although Klaus at times showed a willingness to compromise these principles where politically expedient, and retained close patronage and personal ties with a number of leading Czech managers (including Václav Junek, the Director of Chemapol rumoured to have spied for the communist-era secret police), he kept the goals of joining the West and breaking with the communist past pre-eminent. With an eye to future membership in the European Union, Klaus and other economic reformers from the centre-right government coalition maintained a monologue that emphasised the creation of a Western-style capitalist system as part and parcel of cementing a post-communist, European identity.52

The politics of identity helps explain the distribution of power and authority among domestic political and economic actors in the Czech Republic. As the Chemapol scandal highlights, Klaus was only one of several Czech politicians to emphasise the goal of re-establishing the country’s place in Europe following the fall of the communist system. But Klaus was unique in his success in (i) exploiting a genuine desire among a significant portion of politically active Czechs to break with the communist past and (ii) linking this to the desire to be seen as part of Europe, for the sake of advancing a particular vision of economic reform. In sum, the manipulation of identity politics enabled the Czech Republic’s post-communist political elite to adopt reform programmes with less resistance from managers and other actors who could be (often incorrectly) associated with the communist past or easily portrayed as an obstruction on the nation’s path back to the community of European states.

Slovakia

While a ‘return to Europe’ and anti-communism had some resonance in Slovakia, the overwhelming concern among the Slovak elite following the 1989 Velvet Revolution involved Slovak national identity and potential future autonomy. Slovak managers were at first equally challenged by Klaus’ campaign of anti-communism. However, identity politics soon provided them with a useful resource in their efforts to gain access to the design and operation of the Slovak policy-making process.

Slovak identity has been a crucial and divisive issue for most of the 20th century.
During the inter-war period Slovak elites could be crudely divided into camps of ‘autonomists’ and ‘Czecho-Slovaks’. The latter favoured union with the Czech lands as a means both of ‘catching up’ and of maintaining a distinct and dominant Slavic identity in the face of large, often irredentist Hungarian and German minorities. They were also associated with deprecating views about the level of Slovak political maturity and capacity for self-administration. The former felt that the union threatened their conceptions of Slovak identity and values and they called for greater autonomy to protect both from their liberal challengers. Slovakia’s first experience as an independent state was shaped by constraints from Hitler’s Nazi Germany and led to a failed Slovak uprising against the authority of the Slovak state—an event that remains extraordinarily divisive in Slovak politics even today. During the early 1950s the Czechoslovak Communist Party imprisoned Slovakia’s top communist leadership and suppressed the autonomy of its political organs. Following the Warsaw Pact invasion of August 1968, Slovak political leaders succeeded in transforming Czechoslovakia into a federal republic but were divided over the appropriate response to the presence of occupying troops. Federalising the Czechoslovak state contributed little to resolving the Slovak autonomy issue. In the years that followed, the Czechoslovak Communist Party refused to shift its own organisational structure from political centralism to a corresponding federal principal. Hence the de facto administration of the new state remained centred in Prague. After the Velvet Revolution Slovaks quickly divided along old familiar lines over the appropriate form of governance in the new era.

This division was exacerbated by divergent interpretations of the communist experience within Slovakia. While the old regime had been disliked by many, communism had brought industrialisation and a marked increase in Slovak living standards. In contrast to the Czechs, who had witnessed relative economic decline under communism, the Slovaks progressed from a largely rural agrarian environment to heavily industrialised, semi-urban living. For most Slovaks, the communist period was marked by broad upward mobility associated with an invasive, paternal state.

This combination of paternalist societal attitudes and divisive identity politics made Slovakia an unreceptive place for Prague-initiated liberal economic reforms. With political liberalisation following the Velvet Revolution, Slovak elites quickly split over the appropriate form of relations with the Czech lands. The divide generally served as the sub-text for most other debates—including an ongoing conflict over the appropriate path of economic reform. Conversely, frustrations with economic programmes imposed by an ‘external’ federal government served to fuel the debate over identity.

Within four months of the revolution, Slovak leaders surprised and upset their Czech counterparts in Civic Forum by almost universally calling for a revision of the state form of Czechoslovakia. Slovak Prime Minister Vladimír Mečiar initially took a conservative stand on autonomy. In negotiations with Czech and federal government officials during the autumn of 1990, Mečiar positioned himself in favour of moderation and some form of devolution of federal power to the republics. While Czech leaders in the Civic Forum government often found his demands outrageous, Mečiar faced a hawkish domestic opposition including a minority of virulent nationalists. In the face of this extremist threat, Mečiar sought to create the impression of champi-
onding moderate or so-called reasonable Slovak demands for autonomy. Ironically, Mečiar was able to keep himself and the issue in the limelight by shifting or raising his demands in negotiations with the Czech and federal governments—thus preventing any timely settlement. Throughout, he was a master at generating Czech outrage and exploiting insensitive statements by Czech political leaders in the Czech press for his own domestic advantage.55

Returning to the effect of nationalist politics on interest group power, the Slovak case provides a vivid example of how economic and political actors can use identity issues to substantiate their claims and improve their position in policy making. As mentioned earlier, Slovak managers, in the early stages of reform, faced many of the same challenges and limitations as their Czech counterparts. They were highly vulnerable to lustration or removal by ministerial action or employee vote. Similar to Czech managers, they remained initially cautious and were largely excluded from the early policy-making process. In addition, like Czech managers, Slovak managers were caught unprepared for the reduction or elimination of federal subsidies and encountered difficulties securing commercial credits to compensate. They could not understand how they were to modernise and restructure their operations without improved access to capital.

However, Slovak managers soon began to cite additional complications that pertained specifically to them. Klaus' surprise devaluation in the autumn of 1991 was especially provocative. Slovak industrialists argued that the federal programme of currency devaluation helped Czech exporters at the expense of Slovak importers. Specifically, they argued that the devaluation made Czech exporters more competitive in markets abroad while raising import costs for Slovakia's primary and intermediate producers.56 Slovak managers also resented the ongoing influence of Prague-based trading companies that marketed their products abroad and pocketed the cash without paying the Slovak operations their fair share of the proceeds. In general, they feared that Prague's control of foreign policy meant that the better foreign contacts and the bulk of industrial investment would be directed to the Czech lands.57 Perhaps most importantly, Slovak managers were infuriated by President Havel's stance on weapons exports—claiming that his moral diplomacy made him a stooge of the Western defence interests that stood behind the new world order.58

Slovak managers couched their complaints within the debate over economic policy in the language of national victimisation. This allowed them to argue that the design of economic reforms, whether intended or not, worked against the interests of the Slovak nation. As the interests of the Slovak nation and of Slovak managers came to be conflated, a political space opened up for managers to participate in public debates over the appropriate response to the federal reform challenge. Ultimately this space allowed managers to form the necessary political alliances and later to assume a direct role in influencing the process.

With unemployment mounting and production declining in Slovakia during the winter of 1991, Slovak politicians competed among themselves to portray the federal programme as an inflexible 'Czech invention, created in the Czech environment for Czech conditions, and most importantly, inappropriate for Slovakia'.59 In a formal public statement issued in early spring 1991, the nationalist wing of the junior governing coalition partner, the Christian Democratic Movement, called for a revision
of the dominant concepts of reform. These sentiments were echoed in similar statements from the Democratic Left (SDL), a newly formed association, NEZES (led by Slovak economists-turned-politicians closely associated with Mečiar) and, increasingly, by Mečiar himself. Generally, all advocated similar policies: less price deregulation, easier credits for industry, a revaluation of the crown to favour importers over exporters, and a deceleration of privatisation. NEZES, whose founders soon joined Mečiar in founding his new party, HZDS, demanded that the Slovak parliament ‘immediately declare economic sovereignty’ and called upon Slovak experts to defend citizens ‘against the asocial and irritating federal concept of a transition to a market economy’.

As the pain associated with Klaus’ radical reform therapy began to build, Mečiar increasingly embraced nationalist arguments. In addition, he took a public stand against lustration and began to forge agreements with members of the former communist nomenklatura. Increasingly, he distanced himself from those in his governing political movement, Public Against Violence (VPN), whose loyalties lay with the federal reform programme. In contrast to Fedor Gáš (VPN chairman) and other VPN intellectuals, Mečiar rarely missed an opportunity to voice sympathy for the plight of industry.

Mečiar split with the governing political movement, Public Against Violence, in April 1991. His own political organisation, HZDS, actively courted industrial support. Over the following months he intensified his tactics and systematically attacked the loyalty of the governing KDH-VPN coalition to ‘true Slovak interests’. KDH and VPN soon found themselves politically wedded to federal reforms and deeply associated with Prague-centrism in voters’ minds. In the 1992 general election the rump of VPN did not even poll the necessary votes to clear the 5% threshold to enter parliament, and KDH suffered badly from the departure of its more nationalist, anti-radical reform faction and from the poor image of its leadership during the campaign itself. Mečiar’s Movement for a Democratic Slovakia emerged from the election as the strongest Slovak political movement in parliament, having benefited tremendously from support from managers.

After the election, economic issues declined in salience as Mečiar no longer had an incentive to highlight the troubled state of the economy. Slovak managers—represented by the AZZZ and its members at the top levels of the Ministry of the Economy—continued to benefit from Mečiar’s use of identity politics. As premier, Mečiar utilised the national issue to attack his opponents—even after independence—in a way that is reminiscent of Klaus’s instrumental use of anti-communism. He attempted to derive legitimacy from his status as ‘founder’ of the independent state, claiming that his opponents had no right to disagree with his conduct of politics if they disagreed with the establishment of the independent Slovak state. He also challenged their loyalty by accusing them of representing anti-Slovak interests, especially international and ethnic Hungarian interests.

Mečiar’s portrayal of himself and his party as representing the only true Slovak national interest provided a cover for managers to pursue a more active role in economic policy making, especially in privatisation. With government assistance, HZDS privatised industrial firms (and later banks) to themselves and their managerial allies at symbolic prices through a politicised and non-transparent administrative
process. In addition, HZDS pushed for steps to eliminate the ownership rights of investment privatisation funds and presided over the intensification of clientalism in the politicised Slovak economy.66

Conclusion

Relations between Slovak managers and the Mečiar government stood in stark contrast to those between Czech managers and the Klaus government. While Mečiar’s party obtained and then secured its place in government until 1998 through alliances with the managers of former state industries, the Klaus government maintained a strong hold on power through late 1997 despite minimal concessions to enterprise managers. Given the similar starting points of Slovak and Czech managers immediately following the Velvet Revolution, it is surprising to observe this clear contrast in their ability to ally with government actors and carve out a place for themselves in the design of post-independence economic policies. Indeed, it is counter-intuitive that one republic government would find it necessary or fruitful to ally closely with management while the other would not. Clearly these governments evaluated the advantages and disadvantages of allowing greater input from industry differently.

Thus, in order to understand why management was much more instrumental in influencing economic reform in Slovakia relative to the Czech Republic, it is essential to determine what accounts for the power of various groups to exert their influence in transformation when initial conditions suggest that no divergence should occur. In this article we have argued that the distribution of power and legitimacy was a product of the manipulation of transformative identities by political elites. A comparison of the Czech and Slovak governments shows how, during transformation, governments use identity as a political tool to empower or disempower the economic groups and political actors that are supportive or destructive to their political and economic agendas.

Playing on pro-autonomy, anti-Czech sentiment prevalent in some circles of Slovak society, the Mečiar government developed an alliance with industrial managers to further its programme of restructuring the Slovak economy and politics to its liking and the liking of managers. In contrast, the Klaus government relied on anti-communist sentiment and the desire among many to join the European Union to weaken resistance to his policies—i.e. resistance not only from his political opponents but also from several economic groups, including management. Hence, even if these leaders exploited the politics of identity to different policy ends, they used similar means to strengthen their own influence over post-communist reform.

Identities are resources that deserve careful consideration when studying regime change. Like material resources, national identity can be tapped to promote one vision of economic reform over another. As the Czech and Slovak cases show, identity politics can be manipulated and exploited by political actors and interest groups alike. In order to study its influence without relegating identity politics to a residual category that can explain what material conditions or economic interests cannot, it is crucial to examine the mechanisms through which identity can be accessed and applied in the struggle over reform. While we have explored the role of identity in determining the influence of one particular group—enterprise managers—the same
approach can be used to study the influence of other groups, such as labour, pensioners and former political leaders, and can elucidate the determinants of economic regime change in a number of social and regional contexts.

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1 In this article we refer to managers, managerial elite, and enterprise directors interchangeably. Managerial set of actors takes government policy individually or through industrial associations. We will specify when we are referring to organised interest group pressure by managers.


3 In the late 1980s a series of measures—including the State Enterprise Act of 1988 (breaking down large enterprises into smaller industrial units) and the Law on External Economic Relations (easing restrictions on enterprises wishing to engage in foreign trade)—extended the powers of management. At the end of 1990 the Federal Assembly passed the Competence Law, further decentralising industrial decision making. Despite limited decentralisation, these changes gave both Czech and Slovak managers equivalent control over the resources at their disposal. OECD Economic Survey: The Czech and Slovak Federal Republic (Paris, OECD, 1994), p. 26.

4 Strikes were more frequent in 1990 during small-scale privatisation. On these strikes see Lidové noviny, 27 September 1990, p. 1. Also see Mladá fronta Dnes, 27 September 1990, CTK, 2 October 1990.


7 For further discussion of the selection of projects, see Joshua Charap & Alena Zemplinerová, 'Management consultancy in the Privatisation Programme of the Czech Republic', Management and Employee Buy-outs in the Context of Privatization (OECD Special Report, 1, 3, 1994).

8 Interview with Eva Klvačová, former economist in the Ministry of Privatisation and editor of EKONOM, Prague, Czech Republic, 2 November 1995. NB. All interviews cited in this article were conducted by Hilary Appel or John Gould in Prague or Bratislava. Although dates are specified, it should be noted that these interviews were for the most part conducted during two overlapping field research visits by the authors, in which they interviewed over 100 participants in the Czech and Slovak economic reform process.

9 On the controversy over making the process of submitting privatisation projects competitive, see 'Daňš kolo konfliktu Klau—Ježek', Rudé právo, 16 November 1991, pp. 1, 2. Also see interview with former Czech Privatization Minister Tomáš Ježek in ‘Pochod Údolím Smrtí’, Mladý svět, 28 October 1991, pp. 10, 11.


11 On the Finance Ministry’s interactions with management, the former Minister of Industry and Trade explained that he had ‘started discussions with Fiat and Mercedes about joint ventures [with Tatra Koprivnice] and these discussions lasted about four or five months. And when the discussions were almost concluded [Deputy Minister of Finance, Dušan] Trifika went there and told them [the managers] explicitly that they should submit the whole firm to vouchers because then they would have many unorganised owners and they would be uncontrollable. The result was they took Trifika’s advice and now they are almost bankrupt’. Interview with former Minister of Industry and Trade, Jan Vrba, Prague, Czech Republic, 16 January 1996.
13 Interview with Deputy Minister of Finance Dušan Tříska, Prague, Czech Republic, 29 February 1996.


16 Interview with Jiří Nosál, Patria Finance (Czech investment company), Prague, Czech Republic, 7 November 1995.


17 Fidrmuc & Xie attribute the increase in fiscal spending in 1993 to less fiscal discipline by an inexperienced government. Mikloš, by contrast, attributes it to the one-time costs of setting up an independent state. Whatever the reason, by spring 1993 Slovakia underwent a significant run on the new Slovak crown, forcing the Mečiar government to adopt the fiscal discipline of its federal predecessor. After Mečiar took office a third time in December 1994, however, he engaged in a costly infrastructure building project that required significant domestic and foreign borrowing. See Fidrmuc & Xie, 'New Country, Old Problems'; Ivan Mikloš, 'Economic Transition and the Emergence of Clientelist Structures in Slovakia', in Soňa Zemová & John Gould (eds), *Slovakia: Problems of Democratic Consolidation and the Struggle for the Rules of the Game* (Bratislava, Friedrich Ebert Stiftung/Slovak Political Science Association, 1997), p. 61.


22 As AZZZ President Michal Lach explained, 'the privatisation philosophy assumed by the government has been formulated jointly' (with the employers unions). See *Slovenská Republika*, 21 June 1995, as cited in Mikloš, 'Economic transition', p. 65.

23 Interview with Peter Stanček, Economic Adviser to the Prime Minister, 16 January 1997; public debate between Peter Magvási and Deputy Minister of Finance Peter Stanek, 'Spectrum Live', hosted by The Slovak Spectator, Bratislava, Slovakia, 13 June 1997.


25 In spring 1998 the government borrowed domestically at nominal rates reaching as high as 28%. The government’s domestic borrowing was particularly troublesome because it worsened the credit squeeze on Slovakia’s already strapped enterprises. In 1997 the proportion of liabilities that enterprises outside of the financial sector could no longer meet grew by 25.4% over the previous year and totaled 18.2% of GDP. Non-performing assets grew an additional 2.3% in the first quarter of 1998. M.E.S.A. 10, *Slovak Monthly Report*, May 1998, pp. 1–2; M.E.S.A. 10, *Slovak Monthly Report*, July 1998, p. 2.


Ibid.

Labour Economist Randall Filer explains that Central European labour statistics are notably unreliable prior to 1993 (authors’ electronic correspondence with Randall Filer, Centre for Economic Research and Graduate Education, CERGE, Charles University, Prague, Czech Republic, 17 March 1999). Bearing in mind Filer’s caveat, we include these data here, however, because they are the same data that were available to politicians, policy makers and industrial managers during the period of our study and thus have informed debates on appropriate reform policies.

See note 31.


Interview with former Deputy Finance Minister, Dašan Tříška, Prague, Czech Republic, 13 February 1996.


Interview with Dašan Tříška, Prague, Czech Republic, 13 February 1996.

The desire to join Europe and break with the country’s past in the Eastern bloc is made explicit in Klaus’ policy statements as early as November 1989 when he drafted the ‘Programmatic Principles’. A ‘Return to Europe’ became a highly successful campaign slogan for Civic Forum in the June 1990 elections. Subsequently, we can see the importance Klaus placed on a European identity in major and minor speeches throughout his political career. It featured importantly when he ran for the chairmanship of Civic Forum, when he formed the Inter-parliamentary Group of the Democratic Right Wing (a parliamentary club or a sub-group of Civic Forum) (CTK National News Wire, 31 October 1990), when he co-founded the Civic Democratic Party (ODS) (CTK National News Wire, 1 March 1991) and when he campaigned for the parliamentary elections in 1992, 1996 and 1998—not to mention several times in between.


IDENTITY POLITICS AND ECONOMIC REFORM

52 As one prominent Czech sociologist, Ladislav Holič, writes, ‘the proclaimed goal of the post-communist government is admission to the European Union, and it is doing everything in its power to achieve this. For example it makes sure that all new legislation passed by the Czech parliament is in line with the European Commission’s rules and regulations’. Ladislav Holič, *The Little Czech and the Great Czech Nation* (Cambridge, Cambridge University Press, 1996), p. 202.
57 Hence managers supported Mečiar’s creation of a separate Slovak foreign policy apparatus to represent particular Slovak cultural and economic interests abroad.
62 Indeed, when he ran the Slovak Ministry of the Interior for VPN in early 1990, far from ‘sweeping’ the ministry clean of former apparatchiks and STB collaborators, Mečiar apparently sought their support and loyalty—only to become outraged when his successor from the KDH proved a more zealous reformer. Innes, ‘The Breakup of Czechoslovakia’, p. 409.
66 The government boasted of privatising only to domestic businessmen in order to create a national entrepreneurial class that would be more likely to conduct business in the interests of Slovakia. Most of the beneficiaries of this rhetoric were AŽŽZ members. Interview with Oto Boloh, Press Spokesman, Fund for National Property of the Slovak Republic, Bratislava, Slovakia, 22 April 1998; Mikloš, ‘Privatizácia …’, pp. 405–432.

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