

Was the Grass Really Greener on the Other Side? The Impact of the First Wave of Transition
(1989-1996) on the Czech “Working Class”

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Historiography

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Despite the substantial pain endured during the initial years of transition, all things considered, “working class” Czechs actually benefitted both politically and economically from the first wave of transition from socialism to a free market economy (1989-1996). Evidence for this can be seen in greater returns on human capital relative to the socialist period, increased market liberalization allowing for greater private ownership and entrepreneurship, a general increase in public health levels, and greater general socio-political freedom relative to the socialist period. All of this, of course, is working on the contestable assumption that greater levels of all of the aforementioned is a net positive for the “working class” and not a net negative. It is also important to note that, in this context, the term “working class” simply refers to Czech citizens who were neither political or economic elites nor members of an extremely disadvantaged ethnic minority group, such as the Roma, during the period discussed (1989-1996).

When communism fell in 1989, the Czech reformers were faced with a daunting task, privatising a command economy that had been in place for over four decades. In addition to this, they had to privatise in at least a somewhat equitable fashion to avoid social unrest which could have very well cost them their jobs in the newly democratic system, the domination of the newly freed market by a small number of oligopolies resulting in high prices and poor quality for the average consumer, and an economically destructive level of wealth inequality. The reformers, after an initial period of reprivatisation in 1990, ultimately opted for the voucher system as their primary, but not sole, approach to privatisation.¹ The first wave of privatisation (January 20, 1992 to June 16, 1992) was set into motion by the Large-Scale Privatisation Law which required the managements of approximately 70 percent of Czechoslovakia’s 4,800 state-owned enterprises to prepare privatisation plans to be submitted to the supervising government ministry

¹ Jan Mladek, “Privatizing the Czech Republic,” *World Policy Journal* 12, no. 3 (1995): 125.

for approval.² This first wave, and the subsequent second wave that followed it, were largely successful in their goal, that is the privatisation of large state-owned and operated conglomerates into smaller, more efficient and competitive private enterprises. By June of 1993, the private sector accounted for approximately 50 percent of GDP (Gross Domestic Product).³ By March of 1995, the private sector accounted for approximately 70-80 percent of GDP (Gross Domestic Product).⁴ This increase in privatisation led to greater numbers of Czechs engaging in entrepreneurial activities, “controlling their own destinies” if you will.

Czech workers saw an increase in returns on education during the first phase of transition. Under socialism, Czech workers did see positive returns on education, especially on highly specialised technical training or education, but these returns were generally marginal at best.⁵ In the socialist system, managers, assigned by the state a production target, a fixed wage bill, and a varied distribution of labour, could reward better educated workers positions associated with higher earnings given that said education led to higher productivity clearly identifiable by management.⁶ Managers could not, however, go beyond or below the wage ceilings and floors set by the central planners in their allocation of their wage resources.⁷ Workers also saw positive returns on highly specialised technical training and education when it was required for positions deemed strategically important by central planners.⁸ This was due to the central planners setting higher wage scales for workers in those industries in an attempt to ensure adequate labour supplies.⁹ During the transition, workers saw greater returns on education

² Bruce Mann, “Privatization in the Czech Republic,” *The Business Lawyer* 48, no. 3 (1993): 964-966.

³ Jan Mladek, “Privatizing the Czech Republic,” 125.

⁴ Ibid.

⁵ Robert Chase, “Markets for Communist Human Capital: Returns to Education and Experience in the Czech Republic and Slovakia,” *Industrial and Labor Relations Review* 51, no. 3 (1998): 403.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

as restrictive ceilings and supportive floors were abolished by the state. From 1984 to 1993, returns on education in general rose from 10.76 to 11.25 with returns on tertiary education rising from 0.075 to 0.090 and returns on post-graduate education rising from 0.005 to 0.015.¹⁰

Workers with secondary academic educations saw high wage increases relative to those with secondary technical educations as the former were more flexible in the labour market and the general shift from an industrial to a service economy benefitted the former more so than it did the latter.¹¹

One of the most common fears in transitioning from a state socialist redistributive economy to a market-oriented economy is the emergence of irrational wealth divergence, that is a level of wealth inequality that does not serve the collective interest of society. While capitalism, as a theoretical approach to managing an economy, does, indubitably, produce wealth disparities, this is not always a socioeconomic problem. On the contrary, it can be seen as a positive force in society as it creates incentives for innovation, allows for more efficient allocation of resources through the privatisation of capital, and allows for more equitable distribution of power in society by eliminating state monopolies on the redistribution of resources in favor of “transactive exchanges”.¹² In the Czech case, the stratification created by the shift to a market system was neither socially nor economically disruptive. Even the most disadvantaged group in the transition, the cadres (Party officials in charge of allocating/distributing resources under the socialist system), were able to overcome harsh lustration laws (laws which banned them from holding office in the newly democratised political system) by utilising their social capital to succeed, somewhat ironically, in the newly created free

¹⁰ Ibid., 407-408.

¹¹ Ibid., 412-415.

¹² Petr Mateju and Nelson Lim, “Who Has Gotten Ahead After the Fall of Communism? The Case of the Czech Republic,” *Czech Sociological Review* 3, no. 2 (1995): 119.

markets.¹³ If anything, it could be argued that the seemingly disadvantaged “old guard” largely retained their positions at, or near, the top of the post-transition hierarchy in a sort of “reproduction of status”.¹⁴ This helped ensure a more stable transition to democracy as the “old guard” was not so oppressed as to seek a return to power through political violence or socialist revolution.

During the transition, workers saw general improvements in the quality of their public health services. Under socialism, public health was overseen by the Czech and Slovak Ministries of Health (note that the Czech Republic was formally a part of Czechoslovakia until 1993) alongside parallel public health institutions for the armed forces, railway personnel, Interior Ministry employees, and high-ranking public officials.¹⁵ Corruption and inequity were rampant in the socialist system due to the “parallel provision” and the wide-spread use of bribes in the main system to secure prompt and effective treatment.¹⁶ Public health was not given a high level of priority by central planners who instead prioritized heavy industry and defense, allocating to the latter greater levels of both physical and human resources.¹⁷ This can, at least partially, be attributed to Marxist-Leninist political economy and ideology which places public health in the “unproductive labour” category, giving it a “non-key” sector status.¹⁸ In practice, this theoretical approach to public health resulted in relatively low wages for public health professionals and administrators, a predominantly female labour force, chronic to acute excesses in demand for goods and services (leading to planners emphasising quantity over quality in production goals and suppliers being insensitive to consumers’ wishes), the neglect of mental health and disability

¹³ Ibid., 119-120.

¹⁴ Ibid., 131-133.

¹⁵ Colin Lawson and Juraj Nemec, “The Political Economy of Slovak and Czech Health Policy: 1989-2000,” *International Political Science Review* 24, no. 2 (2003): 222-223.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

facilities, and patients not having the right to choose their primary care providers, opticians, and dentists.¹⁹ This, of course, resulted in relatively poor public health institutions and results for “working class” Czechs, note that the elites and those in favoured industries received much better care from their “parallel provisions”. Even after the Velvet Revolution (1989), public health remained neglected by policy makers, resulting in the “old system” remaining in place largely un-reformed until the Velvet Divorce of 1993. After the split, the Czech government acted quickly to privatise the health care sector and encourage competition and experimentation within the sector, it also acted to increase public funding of the sector.²⁰ By 1992 health insurance companies were legally operating within the Czech Republic, by 1995 not-for-profit providers supplied 29 percent of beds with for-profit providers supplying an additional 6 percent, and by 1996 the privatisation process was “almost complete”.²¹ Alongside privatisation efforts, public funding for the health care sector rose substantially from 1992-1996 with spending rising from 5.4 percent in 1992 to 7.1 percent in 1996 as a percentage of GDP (Gross Domestic Product).²² While systemic problems persisted at the end of the first phase of transition, such as rampant corruption leading to unequal access to constitutionally guaranteed care (approximately one-third of Czechs claim that they have had to give bribes to ensure proper care), a lack of Patients’ Charters (creating an insensitive and unresponsive public health bureaucracy), and insufficient resources being devoted to preventative care, overall public health quality and public health itself improved substantially.²³ Evidence for this can be seen in Czech male life expectancy rising from 67.1 years in 1989 to 70.4 years in 1996 and female life expectancy rising from 75.4 years to 77.3 years in the same time period. Further evidence can be seen in the

¹⁹ Ibid.

²⁰ Ibid., 229-231.

²¹ Ibid., 231.

²² Ibid.

²³ Ibid., 231-233.

overall infant mortality rate falling from 10.0 in 1989 to 6.0 in 1996.²⁴ Though some of these health benefits indubitably sprang from the closing and shrinking of some of the country's worst industrial polluters due to a fall in demand in the early transitional period, the increase in public spending on public health from 1993-1996 and the structural reforms initiated from 1992-1994 have had the greatest impact on these health improvements.²⁵ The general improvements in the health care system made during the transition are nicely summed up by Prague hospital director Na Homolce's reflections, "Back in 1990, only people aged under sixty could get kidney dialysis. Now it's available to everyone. And we do six times as many heart bypass operations as we did back then."²⁶

Again working on very much contestable underlying assumptions, "working class" Czechs benefitted from the transition by gaining increased levels of socio-political freedom. Under Communism, the state actively worked to suppress and ultimately eradicate religion from the society at large. The Communist Party of Czechoslovakia (KSC) atheistically reinterpreted religion as a mere "anachronism".²⁷ They also imprisoned and executed a large number of priests, abolished several church orders, confiscated church property, and placed all remaining religious organisations under strict state surveillance.²⁸ All of this led to religion being pushed out of the public sphere into the private sphere of individuals and illegal structures.²⁹ As of January of 1993, when the Constitution of the Czech Republic took effect, Czech citizens have

²⁴ Ibid., 230.

²⁵ Ibid., 230-231.

²⁶ Na Homolce, "on Czech health care reform in transition," quoted in Colin Lawson and Juraj Nemec, "The Political Economy of Slovak and Czech Health Policy: 1989-2000," *International Political Science Review* 24, no. 2 (2003): 231.

²⁷ Dusan Luzny and Jolana Navratilova, "Religion and Secularisation in the Czech Republic," *Czech Sociological Review* 9, no. 1 (2001): 85.

²⁸ Ibid.

²⁹ Ibid.

had the right to openly practice religion according to Article 2 Section 4 of the Constitution.³⁰

This right was further guaranteed by the adoption of the Charter of Fundamental Rights and Freedoms in 1993 which states in Article 1, “All people are free and equal in their dignity and rights. Their fundamental rights and freedoms are inherent, inalienable, non-prescriptible, and irrepealable” in Article 2 Section 1, “Democratic values constitute the foundation of the state, so that it may not be bound either to an exclusive ideology or to a particular religious faith” in Article 15 Section 1, “The freedom of thought, conscience, and religious conviction is guaranteed. Everyone has the right to change her religion or faith or to have no religious conviction” in Article 16 Section 1, “Everyone has the right freely to manifest her religion or faith, either alone or in community with others, in private or public, through worship, teaching, practice, or observance” and in Article 16 Section 2, “Churches and religious societies govern their own affairs; in particular, they establish their own bodies and appoint their clergy, as well as found religious orders and other church institutions, independently of state authorities”.³¹

Czechs also benefitted from the collapse of the one party “dictatorship” of the Communist era, the so-called “Dictatorship of the Proletariat”. With the transition and its accompanying democratisation, Czechs gained the right to elect their own political representatives, run for and ultimately hold public office, form independent, democratic political parties, and join pre-existing political parties according to Article 20 Section 2, Article 20 Section 4, Article 21 Section 1, Article 21 Section 3, and Article 21 Section 4 of the Charter of Fundamental Rights and Freedoms, respectively.³² They also gained the freedom of expression, the right to information, freedom from censorship, the right to petition, and the right to peacefully assemble according to Article 17 Section 1, Article 17 Section 2, Article 17 Section 3, Article 17 Section

³⁰ Czech Republic, “The Constitution of the Czech Republic,” 1993.

³¹ Czech Republic, “Charter of Fundamental Rights and Freedoms,” 1993.

³² Ibid.

5, Article 18 Section 1, Article 19 Section 1, Article 20 Section 1, and Article 20 Section 2 of the Charter of Fundamental Rights and Freedoms, respectively.³³

As mentioned above, the transition, however necessary and beneficial in the long term, was by no means “painless”. Several important macro-economic indicators took massive hits during the first wave of transition, especially in the earliest parts of it. GDP (in current US\$) fell from 39.131 billion in 1990 to 28.6884 billion in 1991.³⁴ By 1991 (approximately 2 years into the transition), the annual GDP growth rate (in current US\$) was at an abysmal -12%.³⁵ The GDP per capita (in current US\$) was at 3,787 in 1990, 2,783 in 1991, and 3,241 in 1992.³⁶ The external balance on goods and services (as a % of GDP) was at 3% in 1990, 1% in 1992, and all the way down to -5% in 1996.³⁷ The amount of rail lines (as a total route in km) fell from 9,441 in 1993 to 9,413 in 1994.³⁸ Also, the unemployment rate for those with a primary education (as a % of total employment) rose from 29% in 1993 all the way to 34% in 1995.³⁹ Given all of this, it is not entirely surprising that former Czechoslovakian President (1989-1993) and Czech Republic President (1993-2003) Václav Havel said the following in his famous *A Call for Sacrifice* (1994), “It is not even clear whether the very people who four years ago so astonishingly roused themselves from their torpor and overthrew Communism do not actually miss that system today”.⁴⁰ However, most of these indicators eventually rose to overtake pre-transitional and early transitional levels by the end of the century. For example, GDP (in current

³³ Ibid.

³⁴ World Bank, “Public Data,” 2014. <http://databank.worldbank.org/data/views/reports/chart.aspx#>.

³⁵ Ibid.

³⁶ Ibid.

³⁷ Ibid.

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ Václav Havel, “A Call for Sacrifice,” *Council on Foreign Relations*, March/April 1994. <http://www.foreignaffairs.com/articles/49678/vaclav-havel/a-call-for-sacrifice>.

US\$) was up to 64.894 billion by 1996, far surpassing the pre-transitional levels.⁴¹ The annual GDP growth rate (in current US\$) rose from the previously mentioned -12% in 1991 all the way up to 6% by 1995.⁴² Also, public spending on education (as a % of GDP) actually rose from 4% in 1992 to 5% in 1994.⁴³

Overall, as is clear from the evidence and analysis presented above, “working class” Czechs benefitted, even in the most painful period (1989-1996), from the transition to a market-oriented system. This can be seen in a greater number of Czechs owning private SME’s (small to medium sized enterprises), workers receiving greater returns on their human and social capital, the emergence of a rather harmless level of wealth inequality as a result of the relatively fair voucher system approach taken by the central government in their privatisation reforms, the general increase in health levels due to greater competition and innovation brought by free market competition and government reprioritisation of the sector, and the general increase in socio-political freedom brought by democratisation and Europeanisation more broadly. While the transition was far from painless, with important macro-economic indicators falling drastically from 1989-1992, it was necessary and ultimately brought about a generally higher standard of living in the Czech Republic.

⁴¹ World Bank, “Public Data,” 2014.

⁴² Ibid.

⁴³ Ibid.

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