

**Markets and People: The Czech Reform Experience in  
a Comparative Perspective**

*Jiri Vecernik*

Avebury, Aldershot 1996

**Institutional Design in Post-Communist Societies:**

**Rebuilding the Ship at Sea**

*Jon Elster, Claus Offe, Ulrich K. Preuss, Frank Boenker, Ulrike*

*Goetting & Friedbert W. Rueb*

Cambridge University Press, Cambridge 1998

The collapse of the Soviet Empire ruined the careers of quite a number of academics. Some Sovietologists managed to adapt their skills and become experts on Russian affairs. But Kremlinologists, academic experts on deducing the Soviet power hierarchy from the position of leaders on Lenin's tomb during May Day celebrations, disappeared. Still, new academic specializations emerged after 1989. Chief among them is "Transition Studies," the study of the transformation of postcommunist countries from political totalitarianism and command economy to free market democracy. Many transitologists are economists.

Former Czech Prime Minister Vaclav Klaus used to compare the reformers and entrepreneurs in the postcommunist world to the first white settlers of America. "The settlers came first and the law second." But when the first white men came to America they faced an embarrassing surprise: though they assumed that they were going to the eastern part of India, they discovered they were actually in an unknown new continent. When economists came to transform the command economies of postcommunist countries they also had to face an embarrassing surprise: the assumptions of classical economics fail in the postcommunist context because economic transitions take place within structured societies.

People do not behave in the real world as abstract economic agents of economic theory who attempt just to maximize their profit in a market. Economic behavior is affected by the social contexts in which economic agents are embedded, by their affiliations with a social network, for example, their membership in the old nomenclature. The existence, integrity and independence of institutions such as the police and the judiciary determine whether the rule of law and property rights that are the foundations of any liberal economic system will be enforced. For example, if there are no regulations to prevent embezzlement and theft by

company managers; or if the existing regulations are not enforced against criminals with political networks, the assumption of classical economics that wealth is created only by enterprise, labor and free exchange becomes irrelevant. Finally, traditions and habits keep influencing economic behavior irrespective of political changes. For example, the behaviors of the monopolies that dominate the Czech economy and the government bureaucracies that are supposed to control them continue their pre-1989 habits and norms.

The rules of economics are not like the laws of physics: they do not hold everywhere, but only when some social-institutional conditions are satisfied. As anybody who read Hayek knows, a free market without the rule of law, without the institution of private property and an active honest police and judiciary is impossible. A postcommunist economy where these social conditions are not reformed becomes a Valhalla of the *nomenklatura*.

The recent books by the transition expert Jiri Vecernik and the American-German research team headed by Elster, Offe and Preuss examine the neglected social aspects of postcommunist transitions. Vecernik, probably the best Czech social scientist, applies sociological criticisms of the assumptions of classical economics to offer a better social understanding of the Czech economic transition. Elster et al. compare the institutional changes after the fall of communism in Bulgaria, the Czech Republic, Hungary and Slovakia.

Vecernik examines the process of transition in the Czech Republic from the perspective of the Czech household: how did the changes since 1990 affect Czech families, their incomes, employment, survival strategies, poverty, welfare, and political approaches, in comparison with other postcommunist countries. Vecernik examines an impressive and massive array of statistical and survey data to draw from his sociological conclusions. The strength of the book is in combining economic with sociological data to understand the peculiarities of the Czech transition.

For example, Vecernik uses sociological theory to explain why the Czech "privatization" process resulted in a continuity in real ownership from the Communist period. Before 1989 the state was the nominal owner and the managerial *nomenklatura* exercised actual property rights. Czech "privatization" privileged the *nomenklatura* whose strong social networks insured they had the capital, inside information, and *de facto* government subsidies to go on controlling the businesses. Only the social

structure of Czech society, the unity of the nomenklature and the passivity of society can explain the economic fact that at the end of the process of pseudo-privatization the state still is the nominal owner through the national property fund that owns the banks that own the investment funds that own the "privatized" firms. The incompetent *nomenklatura* management continues its pre-1989 traditions by exercising actual property rights that lead to "tunneling," of company assets out of the country and consequently to loss making. Then the bank managers continue in their communist habit of subsidizing firms through of bank loans. Large privatization was a case of transition from "real socialism" to socialism without adjectives.

In the last chapter, Vecernik attempts to connect his conclusions about the socio-economic situation with political developments. He sees a trend of consolidation of party loyalty according to class interests. The last elections vindicated his thesis. Workers tended to vote for Czech Social Democratic Party (CSSD) and entrepreneurs tended to vote for the former ruling Civic Democratic Party of ODS of former prime-minister Klaus. Still, Vecernik missed noticing what is missing: civic society. In older democracies, interest groups, lobbies and professional associations mediate and connect the population with the political parties. This does not exist here. Therefore the parties find it very easy to disregard the interests of their electorate and act in their own interest as was exemplified again after the last elections when the leaders of the "right" and "left" agreed to form a coalition to eliminate the Czech political center and weaken the power of president Havel by changing the constitution.

Elster et al. examined comparatively the transition of institutions in postcommunist societies. They measured the transitions by the separation of economic, legal and other institutions from the political and by the establishment of clear, recognized and enforced constitutional rules. When the authors finished their book in 1996, the Czech Republic seemed to them to be doing better than Hungary, Slovakia and Bulgaria. Though they well understood the situation in other postcommunist countries, they failed properly to understand the nature of Czech pseudo-privatization. In fact, the Czech transition is quite similar to the Slovak transition. In both countries the economic and political elites are closely intermeshed and the judiciary and the police are too corrupt or timid to enforce the rule of law on the politico-economic elite. The difference is in style and public relations. In Slovakia the politicians gave

state firms to their cronies, interfered crudely in the operation of the police and the judiciary, and changed the constitution to serve political goals. Czech politicians did the same but sought to hide it.

Unfortunately, public relations cannot maintain economic growth. The lack of restructuring of the Czech economy and institutions led to low productivity and loss of competitiveness that generated the current course of slow economic decline. Reversing the economic decline will require restructuring Czech institutions such as the police, the judiciary, the state bureaucracies, and the education systems. It will require separating the economic and judicial institutions from the state, and the consolidation of a constitution that will protect property rights.

The first post-1989 Czech political elite comprised dissidents, intellectuals and philosophers. The second elite was of economists. Both shared a cynical approach to institutions. The dissidents valued personal decency and "life in truth" and perceived all institutions as inherently corrupt. The economists regarded institutions as natural obstacles to the success of entrepreneurs and politicians. Both were proven wrong. Without decent institutions, individual decency is under serious threat; without enforcement of the rules of the free market competition and property rights there are no incentives for economic growth.

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### **Revolution from the Middle**

*Samuel Francis*

Middle American Press, 1997

This book is a selection of articles by columnist Samuel Francis that appeared between 1989 and 1996. The result is that instead of understanding his thought in fragments, we are able to grasp it as a whole. Even those who have read his work over the years will benefit from this volume.

Francis's is one of the more uncompromising voices of American cultural conservatism. As such, he is widely read by those express concern at what they perceive as a rapid erosion of the social, demographic and political foundations of the traditional American way of life, but who see little comprehension of or desire to repel that erosion within either the elite or the population in general. At the same time, the "radicalism" he calls for is not that of the "right-wing militias," since "as

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