

INTRODUCTION

The World Setting

During the past several years of unprecedented changes throughout the formerly communist world, many vivid images have impressed and sensitized citizens elsewhere of the uniqueness and immense importance of these events. The March 1989 destruction of the Berlin wall has symbolized the crumbling of an entire way of life which purported to be rationally superior to market-based democracies. The finality of the dissolution of the Soviet Union into a confederation of independent states based on individuals' rights was strengthened by the news photos of grandmothers blocking and berating tank crews during the failed coup attempt in August 1991. The frailty of the new social contracts and the tremendous responsibilities accompanying the new freedoms are now, in mid-1992, in full view of the world in the irrational, insane suicide of an entire society and economy in the former Yugoslavia.

The Velvet Revolution in Czechoslovakia

In dramatic contrast to these experiences, Czechoslovakia has followed a more moderate and lower profile path in a largely peaceful transition from a centrally planned, dictatorially controlled economy to one driven by normal market-clearing forces. Czechoslovakia's "Velvet Revolution" occurred almost overnight on November 17, 1989, as peaceful demonstrators commemorated a slain medical student, Jan Opletal, murdered by the Fascists in 1939. That night near the National Theater, riot troopers wielding truncheons had little impact on the will of a people who were determined to adopt democratic and market freedoms. The old and tired Communist leaders evaluated the situation as hopeless without the continued economic and military support of the Soviet Union.

The old social contract between Czechoslovaks who agreed to be docile and the party bosses who agreed to maintain a high consumer-based living standard was gone. The old regime simply stepped aside with the parting attitude to the would-be reformers, "See if you can do any better!"

Czechoslovak Advantages

In the unprecedented efforts to recreate viable market structures in a society which had last seen such conventions more than 40 years previously, the political leaders, headed by elected President Vaclav Havel, have some advantages not enjoyed by other former communist economies. During the interwar period, Czechoslovakia had ranked among the top ten developed industrial economies of the world, with a standard of living comparable to that of Western European nations. Czechoslovak reputation for design, engineering, and manufacturing was a tradition that continued throughout the devolving Communist years. The Czechoslovaks, along with the East Germans, were one of the main drivers of technological advance in the Soviet Bloc. Thus, the Czechoslovaks have a modest resource base of educated workers and not obsolete equipment to produce goods for the world market.

In addition to these physical assets, Czechoslovakia has two other advantages as she begins her unprecedented transformation process. First, she has a positive financial position internationally. The Communist leaders had not taken advantage of the deluge of Western credits made easily available in the 1980's to Poland and Hungary. In those days, some in the international community had criticized Czechoslovakia for this seemingly irrational isolationist behavior as typical of the traditional Soviet trading model. Moreover, there had not been the level of joint ventures and

other business connections made, for example, by Hungarian firms. Therefore, as she begins the transition to a market economy, Czechoslovakia is burdened neither by extensive debt service payments nor by prior agreements with multinational corporations made with outdated communist goals. Second, Czechoslovakia has an advantageous geographical location in the center of Europe, if her goal is to promote trade along economic-market lines. Historically, she has been the crossroads for not only commerce, but also intellectual activity in education, philosophy and the arts.

The Transition Path

By 1992 the success of many of the fast-paced reforms engineered by Vaclav Klaus, influenced by the Chicago School's Milton Friedman, has come at a price to Czechoslovaks. Fiscal and monetary policies have been tight in order to control inflation and restore credibility in the Czechoslovak crown, but at the expense of high unemployment and lower living standards. Unfortunately, the burden has fallen more heav-

ily on the Slovak Republic than the Czech Republic. This, combined with rising Slovak nationalism, will lead to the dissolution of the 70-year-old country by early 1993.

However, even this cloud over the model transformation Czechoslovakia is now undergoing has a silver lining. The Slovaks, who have never known true political independence in their entire history, will have their opportunity for self-government. In contrast with the bloody struggle in Yugoslavia, it is to the Czechoslovaks' credit that they have planned the division entirely peacefully, albeit with some uncertainty about the process. It is entirely likely that whatever market forces link the two regions will continue to develop and that the friendly divorced partners may some day have a voluntary political reunion.

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