

**Economic
Thinking
on Its Road
out of
Serfdom**

by

Robert Holman

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Anyone studying economic thought in any post-communist country may come to conclusion that people in a particular country are influenced more by the economic system in which they live than by economic education or historical tradition, a view strikingly different from that of people living in market system.

Pre-communist Czechoslovakia was an example of a democracy with a prosperous market economy. The skills of our workers and craftsmen were known and recognized abroad. We had great economists, professor Karel Engliš being the greatest of them. With communists coming to power our tradition of economic thought was broken, suppressed by tyranny of marxism, and the long-lasting decline of economic education began. Marxist political economy had hardly any influence on the economic thinking of students and people in general. Becoming a part of communist ideology was considered as "teology" by common people. It was becoming more and more hated by students as they could observe its emptiness, and the contradiction between marxist doctrine and real life, as well as hypocrisy of its teachers, teaching something they evidently could not believe themselves. But the economic thinking of each man has been shaped by real life - life in the socialist system, that deprived him of possibility and right to take care of himself. Instead, society, represented by communist rulers and their bureaucrats, took care of him, choosing and deciding what is good and what is bad for him. A man was deprived of his freedom in exchange for society's care. It must have had serious impacts on his economic thinking and economic behaviour.

Command economy had two main negative economic consequences: misallocation of resources and suppressed individual efforts on the supply side. It could not avoid misallocation of resources because it lacked relative prices, which would reflect both relative scarcities of resources and relative consumer preferences. Even perfect plans and their fulfilment (which were far from being possible to achieve in reality) could not avoid the misallocation problem, as planners simply could not know, without market prices, what was efficient and what was not. Ludwig von Mises predicted this development of socialist economies towards inefficiency and their limping behind more efficient market economies, though it took decades until his prediction came true. Why? The main reason was heavy capital

accumulation, started in every socialist country immediately after revolution. Communist leaders and planners were not able to make rational allocative decisions, and in fact they were not even interested in anything like this. They did not care for consumers satisfaction very much. They intuitively felt that industrialization, especially expansion of capital-intensive industries, was the way out of backwardness, and they were able to carry out rapid industrialization by transferring resources from agriculture and consumer goods industries to capital goods industries. Command economies could do this more rapidly than markets. Rapid industrialization of the former backward agricultural countries excited admiration and gave rise to illusion that socialism is capable of more rapid and stable economic growth than market economies. It took decades to see that this "growth" only meant construction of monstrous and inefficient plants eating up more value than they could produce. Socialist economies were captured into a vicious circle of production for production instead of production for consumption. They had to mine more coal to produce more steel to produce more machines for mining more coal and producing more steel. All the socialist countries developed in this way, Czechoslovakia being no exception. Our tragedy was that we were no backward agricultural country before the communist takeover, but a comparatively developed industrial country. We were forced to change the structure of our economy in favour of capital-intensive industries like steelworks and heavy engineering, consuming a lot of imported raw materials. We now face the problem of having too much of our resources invested in heavy industries while consumer goods industries and services are underdeveloped. But one cannot substitute steel for bread. This kind of resources allocation was one of the causes of shortage on consumer goods markets which had serious impact on consumer's behaviour and people's way of life. Standing long and patiently in lines for goods was something that most people considered as normal part of their life. I will return to this problem after describing another cause of this phenomenon.

The second consequence of command economy was the decline of individual motivations - hard work, entrepreneurship and thriftiness, which are the ultimate source of the wealth of a nation. Non-existence of private ownership - a society in which

everything belonged to everybody which in fact meant that it belonged to nobody - finally led to the situation that nobody took care of buildings, plants, soil, forests etc. Capital stock and natural resources were continuously being eaten up. Of course it was not only because of national property, there were other causes of decline in supply side motivations.

First, command economy gave rise to redistribution processes called "Robin Hood redistributions". While capital markets in market economies transfer funds from the hands of those who failed to those who are profitable, socialist bureaucrats made it quite the other way around. It is easy to understand how harmful it was for initiative of enterprises: why should they make any effort if they knew that they would make profits, that even their replacement funds would be taken away from them, and that they would get funds from the state budget?

One may wonder why the state did not leave enterprises alone to invest their profits as they wished. But this is something that socialist bureaucrats would never allow. Somebody who has unlimited power, wants to rule. Free market economy is based on individual freedom, on free consumer choice of what to consume and free producer's choice of what to produce, with only prices affecting their decisions. So much freedom is something that cannot be tolerated by a totalitarian system. Communist party chiefs wanted to control enterprises, they wanted them to be dependent, which was probably more important than their efficiency. That's why central planning had to replace free markets and that's why central planning had to replace free markets and that's why a new class - the economic bureaucracy - came into existence. Economic bureaucrats, sitting at ministries and general managements, wanted to decide who would get funds and how they would be used. These decisions were extremely important for them to make because they justified their existence and importance.

Besides, the state simply could not let inefficient enterprises go bankrupt, because this would show that socialism does not flourish as much as communist propaganda tried to persuade. The cause of "Robin Hood redistributions" was communist leaders' fear of unemployment of workers. Such a thing was totally unacceptable in "a state of workers and farmers".

This system made managers not bother very much about the working discipline of their employees and about the efficiency of their enterprises. All knew that there was no danger of their losing their jobs. Sure, enterprises had to fulfil plans to be allowed to pay out extra money as premiums to employees, but this could be achieved more easily by lowering quality of output than by economizing on inputs. Any premium systems never induced efforts so much as market competition and threat of losing one's job.

It was not the Central Planning Bureau that elaborated plans but managements of enterprises themselves, as nobody but they knew the real situation in enterprises, their possibilities and reserves. But it was in their interest to set plans that they could fulfil easily. "Soft planning", described by well-known Czech economist Ota Šik, was a result of this. It led to a situation in which enterprises kept considerable "hidden reserves", and it was in their interest that nobody else knew about them. Lack of competition between enterprises as well as between workers resulted in lack of efforts.

One of the main causes of lack of efforts were the so-called "soft budgets" of enterprises, analyzed by Hungarian economist Janos Kornai. They caused one of the most striking phenomena of socialist economies: depressed inflation, which had serious negative impact on supply side motivations, perhaps the most serious of all, and which had a long-run impact on people's economic behaviour, strikingly different from that in market economies. Kornai considers soft budget restraints of state enterprises as opposed to hard budget restraints of private firms to be the main cause of general shortage in socialist countries. This is a special kind, of shortage, which does not mean that people live on their subsistence. It means long lines in front of shops people in which are used to standing. It means much time spent by going from one shop to another or even from one town to another to get the required goods or services. It means that people are so accustomed to it that they begin to consider it a normal and necessary part of their lives.

In searching to explain the main reason of this kind of shortage you may point to low efficiency of the economy. But this conclusion is false. For example, underdeveloped countries of the

Third World are efficient countries but they are not economies of shortage in the above sense. Can you observe long lines of keen buyers and strong sellers' markets there? Perhaps it would be more accurate to speak of suppressed inflation rather than shortage. People have money to buy and are keen to buy but they cannot find goods enough to spend their money on. As prices are generally administered they cannot clear the markets and remove shortage.

Let us examine why this occurs. Soft budget restraints of state enterprises mean that they have easy access to financial funds either from the state budget or from the state credit system. This contrasts the situation of a privately owned firm that can spend only what it earns. Of course it can borrow, too, but it is not easy to get a loan because potential lenders, private banks, firms or households, are under hard budget restraint as well. Indeed, they don't print money like the state. That's why private firms spend and invest much more carefully, they must be sure that their investment projects will pay off and bring at least as much profit as necessary to cover interest payments. Once they borrow they rush to pay it back as soon as possible because time is expensive for them.

State enterprises are in a different position. Something like a paternalist relationship develops between them and the state, with enterprises being like children under the saving wings of their father - the state. They know fairly well that the state will not let them go bankrupt, reduce production and dismiss their workers. The state cannot give them materials and workers directly -- though some strategic raw materials were centrally rationed -- but it can give them money. And state enterprises are insatiable in asking for further financial funds. After all, each of them knows very well that if it does not ask and receive them, the others will. Thus they request further funds, ask and are very inventive in justifying their requirements, much more inventive than in saving material and human resources and resisting wage increases requested by their employees. State authorities are seldom successful in resisting these demands because they are afraid that enterprises, lacking financial funds, would not be able to fulfil their plans or would even have to reduce production and dismiss their plans workers. And there is nothing communist rulers are more frightened of than

unemployed workers. That is why the state is so generous to enterprises and provides financial funds for them, either from the budget or from state credit system. Why not, after all, the state prints the money.

At the outset, when the economy is still functioning efficiently, the state redistributes resources and funds to inefficient enterprises from efficient ones. But the proportion of inefficient enterprises increases and the state suddenly sees that there are not enough financial funds to redistribute in order to save inefficient enterprises. Thus it has to print additional money for them so that they can continue paying for material and workers' salaries.

"Cheap investment money" from the viewpoint of enterprises urge them to invest, which soon leads to overinvestment of the economy. There is excessive demand on the part of enterprises. Their investment activity is enormous, but investment projects are only started, not finished, because investors soon find out that it will be very difficult to find various raw materials, spare parts or the required skilled labour on the market, as they all are in short supply. The state can print money, but not real resources. With controlled prices, strong sellers' markets soon prevail. The consequences are alarming: buyers must spend much time looking for suppliers and waiting for their orders to be executed. Costs in terms of time are enormous. Sellers stop being concerned about the quality of their products and services, and buyers lose the courage to complain of poor quality and long delivery times. Corruption is everywhere and a strange kind of "underground economy" appears, with buyers offering their outputs in exchange for required inputs instead of money, because it is goods, not money, which are scarce and valuable. A Barter economy spreads over the monetary economy.

Managers are more involved in searching for necessary inputs than in developing innovations and quality of output. Strong sellers' markets produce little incentives, if any, for producers to improve and innovate. Why should they make such efforts if they are sure they will sell anything, and that revenues from their sales are not the only, and probably not the most important, source of their financial funds? That is the reason why an economy of shortage becomes inefficient. Now you can see that inefficiency is not the cause but the consequence of

shortage.

The situation has a serious impact on the behaviour of managers. Their success is derived not from the ability to improve organization, innovate products or find new possibilities for sale, but from the ability to secure inputs. They tend to keep an excessive stock of inputs which further worsens the misallocation problem, as well as the shortage of them on the market.

The transition to a market system will remove the suppressed inflation accompanied with sellers' markets and the shortage problems, but instead sales problems will occur. How will our managers cope with this new situation? It will require a considerable change in their behaviour and way of thinking, and will probably force old managers to go, and new, younger and flexible people to come to their places.

Suppressed inflation has its impact on working efforts and consumer habits. In an overinvested economy, a shortage of labour soon appears with its negative impact on working discipline and thereby on labour productivity. On the other hand, enterprises, competing for labour, do not hesitate to overpay workers -- why not, after all, it is financed by the state --, thus allowing wages to rise more rapidly than labour productivity. This results in a shortage on consumer goods markets. True, this mechanism was never so vivid in Czechoslovakia as in the shortage on capital goods markets. The problem of "cheap consumer money" was never so serious as that of "cheap investment money". Nevertheless, it has lasted long enough to influence people's way of thinking and their behaviour. It is not only that they were humiliated by every shop-assistant and that bribes became a normal part of shopping. Shopping required enormous time costs and people -- especially employed women -- could hardly bear them.

That is why it became normal to do shopping during working hours wherever there was possibility to do so. Shortage made people self-supplying and self-sufficient, housewives pickling cucumbers and preserving jams, and men practicing plumbing, brick laying and carpentry instead of devoting themselves to their professions. It was no hobby, it was necessity. Lack of possibilities for tourism and a shortage of tourist services together with the accumulation of forced savings made people build weekend-houses in the country, springing like mushrooms in

the last few decades, where only you could observe how hard-working our people are in reality when working on their own property.

Shortage affects decision-making. While consumers in market economies make careful decisions about what to buy and how to use their incomes, consumers in socialist economies simply buy what they see, surmising that tomorrow it may not be available at all. A theory of rational consumer's behaviour simply does not hold here, there is nothing rational in consumers buying anything that just appears on shelves of shops, and saving not because they want to save but because they do not find enough goods on which to spend their incomes. A great deal of households' savings are not voluntary but forced, not only because their incomes are comparatively high relative to what they really can buy with them, but also because there is little incentive to save in an economy without opportunities for private investments, and with no danger of losing one's job.

Probably one kind of economic decision was important: whether to spend his time with one's family or to stand in queues for goods. Shortage was to be observed everywhere. There is a joke that if communists came to power in the Sahara Desert, there would be shortage of sand.

Rationing goods in such an economy is different from doing so in a market economy. Joan Robinson called it "rationing by queues" as opposed to the "rationing by purse" prevailing in market economies. It means that not those who earn much money but those who have time enough to stand in lines for goods get them. Those who are lazy and incapable at work but patient in queuing and inventive in establishing good contacts with shop-assistants are better off than those who are hard-working and devoted to their professions. Such a situation must have had a negative impact on people's incentives to work, and on their efforts to earn money. It weakened motivation on the supply side. It looks like a strange agreement between people and the state: people didn't have much to spend their money on, but in exchange, they didn't have to work very hard. Sometimes it is expressed with bitter sarcasm: you pretend that you pay us and we pretend that we work.

Suppressed inflation was not so high in Czechoslovakia as in other socialist countries, because our monetary authorities were

always, by tradition, more cautious in speeding monetary growth than those in, for instance, Hungary, The Soviet Union or Yugoslavia - having open inflation - although it influenced our habits and way of life and it will take some time to change. It showed one important thing: stimulation of aggregate demand will suppress aggregate supply, because shortage suppresses motivations.

The above description of the economic situation in a post-communist country like Czechoslovakia may seem very pessimistic. But we should view it in more an optimistic light, too. There are great hidden reserves in those exhausted economies. Efforts are suppressed, but hidden in people. As soon as the economic system starts to change towards a free market economy, as soon as suppressed inflation disappears, doors are opened to foreign goods, and enterprises are privatized -- split from state budget and placed under hard budget restraint --, then sellers' markets will change into buyers' markets, a reasonable rate of unemployment will become a normal part of the system, supply side efforts will, no doubt, show themselves, and aggregate supply and potential the GNP will grow. It is not because those efforts are absent but because they were suppressed by the previous non-market system, that these economies are poor. This is the case in Czechoslovakia, considering that country has a long industrial tradition, and skilled and educated people.

But at the same time, economic education is in a poor state. For a long time there was no interest in economic theories describing and analyzing market systems. Managers showed little interest, if any, in management and marketing theories, in a system where these were of no use. Students did not understand why should they learn how markets function, if there were no markets in their country, or why they should study theories of unemployment and inflation, when these phenomena could not be observed here. It is only now that their interest in these theories rises.

Economic thinking and behaviour has been influenced by decades of communist rule. One of most serious damages Czechoslovak communists made to our economy was the complete liquidation of small-scale private shops and services that were much more pervasive here than in any other socialist country, with the exception of the Soviet Union. Nationalization of shops

and services influenced the behaviour of shop-assistants and service-makers, who lost interest in the quality of their services and the reputation of something that was not their private property. Customers had to get used to the behaviour of shop-assistants, waiters, plumbers, barbers and others who were making use of shortages and who changed shops, workshops and restaurants into special centres of private services for friends or those who were prepared to pay twice - first against the bill and second to the pocket of a service-makers. Will privatizing of shops and services bring back politeness, care and respect for a consumer? It certainly will, but to change the habits will certainly take some time.

To understand economic thinking in Czechoslovakia we should look back to recent history. Twenty years after the communist takeover in 1948 people revolted against dogmatic communism - the Prague Spring of 1968 began and brought new hopes that freedom and democracy would be restored. This revolt was from its beginning led by a progressive Wing in the Communist party, which meant that it was not a revolt against communists and socialism but the revolt of reform communist, supported by the people, against dogmatic communists. Political leaders of the Prague Spring movement, namely Alexander Dubček and Josef Smrkovský, didn't want to desintegrate socialism but to reform it into a more humane and democratic form - the so called "socialism with a human face", which was a popular slogan at that time. Leading economic reformer Ota Šik, himself a marxist, was an admirer of the market, but not of private property. He suggested the "third way" between capitalism and socialism for Czechoslovakia: the substitution of market socialism for dogmatic centrally planned socialism -- a system without planning but also without private property, based on collective property of enterprises, and resembling the Yugoslav system of workers' self-management. People invited these ideas with enthusiasm. The invasion of Soviet troops in August 1968 broke off economic reform before it could even start and stopped any reform attempts for next two decades. Dogmatic communists who came back to power and started to "normalize" the society, which meant to restore the status quo before the Prague Spring, had only one interest - to wipe out any reform ideas and reform attempts that could resemble the Prague Spring of 1968. This unfortunate state of affairs prevented

Czechoslovakia, from starting even a slow and cautious market-oriented reform process such as that in Kádár's Hungary.

However, economic development in Husák's Czechoslovakia proved that a centrally planned and directed economy is not viable. In the fifties the communist terror that kept people in fear still maintained some working discipline. Communist "normalizers" couldn't restore the political methods of the fifties, which meant at the same time that they had no real authority. Working discipline disappeared completely, corruption was to be seen everywhere and the Party could not command a disintegrating system any longer. At the same time it was still fearful of any reform steps that could resemble the Prague Spring of 1968. Even after Gorbachev came to power in 1985, Czechoslovak party leaders only pretended their intention to start economic reform. The Party, now "consolidated", or cleared of any reformers, proved to be unable to reform itself in the way Hungarian communists did. Our communists were becoming more and more nervous and hostile toward dissidents in the Chart-77 movement, led by playwright Václav Havel, in which many exponents of the Prague Spring of 1968 were active. But events around us rushed rapidly. The process of democratization in Hungary, and huge East German demonstrations speeded revolution in Czechoslovakia, sparked by the students' demonstration on November 17. Former dissidents from the Chart-77 movement came to be leading political personalities, with the top representative of this movement, Václav Havel, celebrated by our nations as president.

Now, that about economic thinking in post-communist Czechoslovakia? The enthusiasm of regaining freedom quickly disappeared as people face day-to-day economic reality. They want a market system because they see the prosperity this system secures our capitalist neighbours, but they don't always see clearly enough what this system will require from them. People are used to be taken care of by the state and they don't seem to be prepared to part with this protection, and take care for themselves. Most people seem to feel more uncertainty and fear of unemployment, than they do hope for the new chances the market system brings to them. We have been eating our capital stock and natural resources for several decades, and now we are in a situation like that of a country after war, needing to rebuild

capital stock. But are we, like a country after a war, prepared to accept a low standard of living for some time?

People are afraid of being unemployed, but instead of searching for new and perspective possibilities, they still hope that the state will somehow save them. There is serious danger that workers in inefficient enterprises will strike to force the government to continue subsidizing them so they do not their jobs. Their dependence on the state, experienced for so many years, is deeply rooted in their minds.

Most people seem not to distinguish between democracy and freedom. They believe that free elections, the main slogan of large Prague anti-communist demonstrations, brought them democracy as well as freedom, but they don't see that real freedom means the independence of individuals from state power, however democratic such a power may be. In fact, they are afraid of being so free, because a man who has full freedom must take full responsibility for himself. People still do not quite understand that it is only their own individual initiative and not the wisdom of their ministers that can bring prosperity to them, that it is a free market, and not government action, however well meant, that gives them their chance. If a child is too much and too long protected by his parents, he may not be able to take care of himself when he matures. This is dangerous because it is tempting for the state bureaucracy to try to preserve its powers and continue to interfere with economic life. It is dangerous because it tempts people to exchange their freedom for care from the state.

This is why it is so important for us to jump into a free market system right away, though it may be painful for people for some time.

Is Czechoslovakia able to become an economically stable and prosperous country again? Are we prepared to carry out economic reform radical enough to achieve a free market system? Comperad with our post-communist neighbours Hungary and Poland, our situation is worse in some respects because free market institutions and a legislative framework, as well as free market behaviour in people, are still absent in our country. At the same time our situation is better because we can avoid the mistakes these countries made on their way to a free market, especially their slow and gradual transition to a market system and slow

privatization of state property. To put it simply, we have a great chance to start rapid change of the whole economic system and take all the necessary steps at once or within a very short period. It seems risky because such a thing has never been experienced. Rapid transition to a market system, some economists fear, could destabilize economy. But all the same, the negative experience of our neighbours with slow and gradual reform warns us not to go the same way.

We also have an advantage in possessing a larger stock of capital than our neighbours, though it is human capital embodied in peoples' skills and higher level of education, rather than non-human capital, embodied in old fashioned and obsolete plants and equipment. Another advantage is our stronger financial stability and relatively low external debt. It is important to make use of these advantages and start radical, rapid and complex changes of the economic system.

The government screenplay of economic reform, approved by the Parliament, is radical enough and promises that we can succeed in achieving a market system soon enough and without high rates of inflation. But it still leaves much room for conservative economists, and reform socialists to attack it or to slow it down. There are two cornerstones of the reform which at the same time are the two principal questions arousing dispute: the liberalization of prices /including the exchange rate/, and privatization. As far as prices and foreign trade liberalization are concerned, radical economists, represented by federal finance minister Václav Klaus - let's call them liberals - call for immediate action saving only wage regulation in the state sector and restrictive fiscal and monetary policy to prevent high rates of inflation. On the other hand, conservative economists - let's call them gradualists - require that market deregulation should be done cautiously and gradually, because of the dangers of inflation, unemployment and economic instability. They want authorities to take the necessary steps to prepare inefficient enterprises for market shocks, to take administrative steps to break monopolies before prices and foreign trade is liberalized, and to limit the production of coal, steel and some other heavy industries. They are afraid of economic shocks and social and political consequences we could experience if these changes were left to market forces only. That is why they sometimes say that

"material changes" should precede "system changes". It is like trying to change the game without changing the rules of the game.

But this approach implies that state bureaucracy should keep its power to command the economy. There is a danger that should a gradualist conception be applied, economic reform could dissolve in the hands of bureaucrats who are incapable of coping with all the problems economic reform brings and who are at the same time unwilling to do so. Why, it is the market that deprives them of their privileges to decide and their feeling of importance. Why would they not continue to regulate markets indefinitely, saying that the economy is still "not prepared" for "the shocks of the market"?

Privatization is the second cornerstone of our reform. There are three basic approaches: conservative or gradualist approach, that requires slow privatization carried out by state privatizing bureau, deciding if and when an enterprise is prepared for being privatized and which form of privatization is most suitable for it. This approach would mean that the process of privatization would be slow and would leave much room for bureaucratic decision. Slow privatization, some experts say, is the only way to establish true private ownership, because only those who have to pay for property rights with their own money will show interest in the enterprise and will be engaged in its management. But slow privatization would imply that the larger part of our economy would continue to be in hands of state, which means that it would continue to be subsidized by the state budget or state credit. It means in fact, that the state sector would be subsidized by taxpayers' and consumers' incomes and private sector revenues. Inefficiency and misallocation of resources would be preserved for a long time, and this is something our economy could not bear any longer. The main task of privatization is to split our producers from the benevolent state budget and to place them under the pressure of market competition. They believe that state enterprises can behave like private firms in a market economy.

Regarding rapid privatization, there are two main approaches: one of them suggests distributing shares of enterprises among all the people by means of vouchers - a kind of investment money. These would be given to people free of charge or for a small fee, and they could then buy shares of enterprises

for them.

The other approach suggests that shares should be distributed among employees of a respective enterprise so that employees would become owners of it. This kind of workers' ownership and workers' self-management system was in principle proposed by our reform socialist economists, namely by the most well-known of them, reform marxist Ota Šik. In his famous book Humane Economic Democracy - the Third Way, Šik argued that a free market system suffers from contradiction between labour and capital on the microeconomic level, and cannot secure stability on the macroeconomic level either. Reform-socialist ideas are still influential in our country, not only because of a general rehabilitation of the Prague Spring of 1968 reform movement, but also because many reform-socialists, persecuted in the years of "normalization", were active in Chart - 77 dissident movement and took important political and economic positions after the November revolution. Šik himself is one of economic advisers to our president Havel.

Reform-socialist ideas and proposals regarding privatization are rather dangerous because they could retard a market-oriented reform process. There are at least three reasons why we should not accept this approach.

First, it is discriminating and unjust, because there is no reason why a worker who just happens to be employed in a modern and efficient enterprise should be better off than someone else who happens to be employed in an enterprise that is just about to go bankrupt. Their property rights will in no way be related to their diligence and skills and the state of enterprise they are employed with is in no relation to work and initiative of their workers but rather is a result of former arbitrary bureaucratic decisions regarding allocation of investments. That is why this form of privatization could lead to dissatisfaction and tensions within society.

Secondly, the marxist argument that contradiction between capital and labour interests in a private firm puts limits on motivation and efforts of workers, is difficult to believe. On the contrary, there is a danger that when workers, are owners at the same time, because they have no fear of being dismissed from work when lazy and undisciplined, but do have the power to remove strict and exacting managers, would be even less hard-working and

disciplined than they are now. Beyond this, contradiction between short-run and long-run interests would occur, because workers would force managers to distribute profits instead of accumulating them, which would slow down capital accumulation and economic growth in favour of consumption. The Yugoslavs, who have been practising this system for years, experienced just these problems.

Thirdly, it is not in workers' interest to have their property invested with the same enterprise for which they are employed, because it would mean greater risk for them. If their enterprise went bankrupt they would lose not only their job but also their securities. It would be far better for them to diminish their risk by dividing their property among more enterprises.

The voucher privatization, proposed by our Federal Ministry of Finance, seems to be the best way of distributing national property among people. It is not discriminating, it doesn't exclude those who have not enough money and it gives shares to people free of charge would not make them be interested in what they own and how their enterprises are managed, just as this may be true about small shareholders in capitalist countries. This opinion underestimates the fact that although small shareholders don't care about their enterprises as long as they are profitable and they receive dividends, as soon as they are not, holders will try to sell their securities, and the fall in stock price can cause serious troubles to the respective enterprises. This is the pressure that forces private firms to be efficient and profitable.

It is probable that many people will want to sell their shares either to rich domestic residents or to foreigners, and that a concentration of property and formation of stronger groups of shareholders will gradually follow.

Some economists argue that most people will sell their shares to foreign capitalists and there is no reason why those shares shouldn't be offered to foreigners immediately. Such an argument underestimates the capability of people to plan for their future. If a family realizes that a share it owns can secure them a flow of future income, it will compare this income flow to the benefits of immediate consumption. It is not probable that most people will want to sell, especially if there will be

some risk of unemployment. But even if they do sell, it is their decision and their business. They must be given their chance. The aim of voucher privatization is not to secure equality of property, but equality of chances. It brings market rules of the game and market behaviour to people.

Some oponents of voucher privatization argue that it will not induce capital formation, but rather will increase the danger of inflation, when poorer families begin to sell their shares to richer ones, thus canging the savings of the rich into the consumption of the poor. There is some merit in this objection, but we must keep in mind that the main reason for privatization is to split enterprises from the government budget, thus forcing them to do their best to be more efficient and financially self-sufficient. Privatization will place our enterprises under hard budget restraint. They will resist their workers' pressures to raise wages much more resolutely than state enterprises -- which usually take the line of least resistance, succumbing to demands for wage increases and furthering subventions from the state. Private enterprises will be much more motivated to build up their own financial funds, which means they will be more thrifty than state enterprises. Their increased thriftiness will probably more than make up for the decreased thriftiness of households.

One of the main targets of the reform is to prevent high rates of inflation. That's why restrictive fiscal and monetary policy has been declared by our government. But will the government be strong enough to resist pressures from workers and various groups of special interests? Restrictive policy is not very popular, and its short-run effects are unpleasant, though the long-run effects are beneficial. As soon as market forces start to work, the process of resource reallocation will begin. The rate of unemployment will rise when inefficient enterprises go bankrupt and inefficient industries begin to shrink. It will take time until labour is absorbed into expanding industries and profitable private firms. It is probable that in the meantime trade unions facing high rates of unemployment, and interest groups connected with inefficient industries will try to lobby for abandoning the policy of demand restriction. If the government yields to these pressures, the reallocation process will stop, resources will return to their original inefficient

uses, and the economy will continue to decline in the long-run. There is a danger that the management of inefficient enterprises will try to persuade their workers to strike for gaining new subventions from the state. This danger would be greater if enterprises were owned by their own employees.

The success of our reform depends on our acceptance of market - oriented thinking and behaviour. If we fail to do so, our government will be under permanent pressure to regulate markets and to return to the paternalist habits of the socialist state. Freedom is not only the chance to be independent, it also necessitates self-sufficiency. The idea that society is responsible for an individual is deeply rooted in the minds of people in post-communist countries. This is probably the main obstacle on our road out of serfdom to freedom.

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