

**Seminar**

## **LESSONS AND CHALLENGES IN TRANSITION**

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### **"Ten Lessons from the Ten Years of the Czech Way"**

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#### **Introduction**

My paper is based on an broader study /Mlčoch,L:"Restructuring of Property Rights: An Institutional View" /In: Machonin,P., Mlčoch,L., Sojka M.:"Economic and Social Changes in Czech Society after 1989: an Alternative View", Karolinum, Prague, 2000/. It allows me to be brief and refer to this source. The paper can be found "non-standard" in the scientific sense, but his destination is also not fully standard. Hence, I decided to risk a possible criticism.

I realise, that an attempt to draw lessons from the Czech Way of Transition after ten years of seeking, groping and learning faces an eventual response of "after the battle everybody can be a general". Nevertheless, I am able to refer to the fact that my alternative view and criticism to the Czech strategy of transition can be dated to the very beginning of this unprecedented process. References to my previous papers and studies are given in the extensive bibliography to the study mentioned above.

During 1970's and 1980's I worked for 18 years in state enterprises, 15 out of this in one Prague's industrial enterprise producing electric bulbs /TESLA Holešovice/. This very long and very special "sabbatical" resulted in my "scientific conversion" from the main stream microeconomy to institutional economics and behavioral theory of the firm. Not only my descriptions "from inside" of really existing socialism but also research of the Czech economic transition are based on this methodology . At the very beginning I decided to combine lectures and research on formal, legal institutions as well as informal ones, including the role of morality in economics. That the experiment from an evolutionary process of the Czech transition fully justified my methodological approach, I am convinced. Now, it is clear that market economy does not work without firm and enforceable rules and without a moral basis.

## **Lesson 1: The Underestimation of Institutions is Very Costly**

Amitai Etzioni pointed out in 1991 that the transition of post-Communist countries was a giant laboratory experiment raising the question of how applicable mainstream economic theory is to the transition process. The results of the Czech experience is that, in this huge test of applicability, the experiments of mainstream monetarists failed. The underestimation of institutions- both formal and informal ones, including business ethics- was the key weakness of this way of thinking. The first Washington consensus has been subjected to a thorough analysis and received criticism even from the renowned economists of the World Bank /Stiglitz 1999/. As to the set of principles of this doctrine, the Czech experience raises the doubts and hesitations especially about

- conviction that economic reform is more important than the cultivation of legal order and of social capital
- belief that a fast privatisation is better than a gradualist approach
- proposition that privatisation is prior to the solution of the problems of employment and of new workplaces stemming from emphasising economic stabilization over economic growth.

As a result of the underestimation of institutions the Czech economy suffers with unefficient enforcement of laws and substandard business ethics. Leaky regulations or their absence hindered the emergence of standard capital market institutions. Steep increase in the number of lawsuits in business courts, amounting to hundreds of thousands of court cases per year, makes visually impossible to resolve business conflicts within a feasible time. Mutual indebtedness of enterprises skyrocketed during the period of so-called "pre-privatization agony" and the portion of bad credits in the portfolio's of the Czech banking sector is still about 29% of total. Social capital has been damaged due to the application of wrong concepts of vulgar liberalism. It is difficult even to judge the magnitude of losses caused by the underestimation of institutions during the Czech transition experiment with transition, but it is perhaps not an exaggeration to say that it was in the order of hundreds of billions of Czech crowns.

## **Lesson 2: The Instability of "Working Rules" has its Source in the "Spirit of Revolt"**

In pure economic theory, questions of ownership are not addressed; they are assumed not to exist as private ownership is taken for granted. This has led many "pure economists" to

undervalue the significance of institutional economics. The economics relegates the analysis of a complex social fabric to law, sociology /theory of values/ and political science. However, new trends in economic thinking, i.e. constitutional political economy, the public choice school, and especially the new institutional economics, support an old statement of the Czech inter-war Christian sociologist Bedřich Vašek who wrote in the middle of the Great Depression: "The question of ownership is the most central, the most difficult ethical-economic question of our time. When the right standpoint is found a great number of problems are solved by themselves; when this shunt is set incorrectly then the whole ethical-economic system rolls on incorrect rails" /Vašek 1931/. As the consequence of the Czech way of transition the shunt of ownership was set incorrectly and a part of the Czech economy still rolls on incorrect rails.

During the last three generations in Czechoslovakia a great number of changes and reversals in ownership relations took place, including violent interventions into property rights, took place. The instability of all institutions and ownership institutions in particular have been one of the most important economic features in our country. V.Klusoň /1999/ describes these changes and refers back several centuries in the Czech national history to the Hussite Wars in 15<sup>th</sup> century and the expropriation of the Czech nobility's property after the battle on the White Mountain in 1620. But even limiting ourselves to the 20<sup>th</sup> century the number of shifts in property rights, that is, property transactions that escape from normal business ethics standards, is depressive. Only in a sketch: the first inter-war Land Reform with the expropriation of large landlords, the robbery of Jewish and also Czech possessions during the Nazi Protectorate, the post-war confiscation of property of "war traitors and collaborators" and forceful transfer of the German population of about 3 million inhabitants, the "National Trusteeship", the border regions settlement of so called "gold diggers", and finally the most drastic socially organized robbery - communist Nationalization after 1948 ...

After forty years the socialist system collapsed and privatization, the reconstruction to private property rights become an imperative. Unfortunately, the "spirit of revolt" that the philosopher Hannah Arendt discovered in the thinking of "rebels" Marx, Nietzsche and Kirkegaard /Arendt 1961/, was still present in this country.

**Lesson 3: A Correct Understanding of the Point of Departure to the Transition is Important - It was an Irregular Monopolistic Market Economy based on Quasi-Ownership Entitlements rather than a Command Economy**

The dispute about the interpretation of the concept of property in socialism continues even after the demise of socialism. Such a perspective is helpful when the goal is to establish a free market system. It is impossible to understand the Czech way of transition in the 1990's without a deep analysis of the system which resulted from the repression of the Prague Spring in 1968 and from the Czech response to Brezhnev "normalization" in the 1970's and 1980's. Here I rely on my descriptive studies "from the inside".

There was paradox in comparative economics as used to be practiced in the West /Mlčoch 1994/. Comparative economics has conclusively demonstrated the impossibility of rational calculation in an economic system without the existence of private property /L.von Mises, F.A.Hayek/. When facing up to the practical attempt to realize the Communist Utopian project, Western comparative economics had given up its own evidence and accepted arguments of the official Communist ideology, according to which the state is charged with executing property rights on behalf of the society as a whole. Warren Nutter's essay /1968/ "Markets Without Property- A Great Illusion" was typical in that it did not concern itself with the world of Real Socialism but instead with the more than thirty years old pure theory of Oscar Lange. Nutter's argument can be summarized in the following way: the existence of separate private owners is the market condition, i.e., the market cannot exist in a system of common property. But he does not deal with the fact that, in Real Socialism, goods were being bought and sold, profits were made and redistributed...

According to this thinking, socialism was the complete antinomy of a Walrasian competitive market with zero specificity of assets, with almost zero market transaction cost, and with prohibitive cost for internal organization within firms. But both these abstract models, i.e. the utopian model of Communist super-organization and the Walrasian model are inappropriate for analysis of Real Socialism. The new institutional school of transaction costs offers superior concepts and instruments... Such analysis provides an interpretation of that system - fully consistent with my personal experience- in the sense of the special case of a market economy based on quasi-property structures and working under the formal facade of hierarchical planning games. Thus, in Real Socialism the prevailing coordination role was still played by a market forces, albeit deformed, distorted and with monopoly discrimination.

In this light one's whole meaning of privatization and the understanding of the economic transition changes substantially. The transformation seen as a road from a command economy towards a market economy was misleading, too simplified, and too ideological. It was not necessary to discover the market, as if it had not existed so far. Actually, the transition was not even a completely new creation of property structures. The aim of

transformation was to substitute less formal entitlements with a legal system of property rights and make existing markets / so far inefficient and inflexible, non-competitive, monopolizing and discriminating/ - more open, competitive and efficient. Surely, the initial situation at the start of the economic transition was significantly influenced by the existing allocation of entitlements. J.Stiglitz /1999/ shows that the Czech reformers were not alone in this mistake of using textbook type definitions of clearly defined private property rights from the 19<sup>th</sup> century to privatize giant post-socialist corporations and in advocating private property, they used the pre- Berle and Means world as a norm.

**Lesson 4: The Transition from "Socialism to Market" was hindered by Ideological Thinking. Radical Liberalism Shielded Compact Interest Groups of "Old Structures" and camouflaged nationalism. "Pure economic theory" provided backing for dubious practices.**

Because of intrinsic reasons, privatization in post-Communist countries cannot be an institutional change symmetrical to original nationalization. The new institutional framework of planned public economy in the Czechoslovakia was fundamentally established within five years, from 1948-1953. Though called a "transition from market to socialism", it was actually a special form of "shock therapy". It caused the break-up of the fabric of institutions that had developed through history. The Communist revolution uprooted settled socio-economic values. It was a case of sharp discontinuity in the evolution of the institutional framework.

It is symptomatic, that the architects of the Czech transformation took once again only five years to declare, at the end of 1994, that privatization was almost completed. Václav Klaus' espousal of "capitalism without adjectives", the ideology of radical liberalism of the Czech type was seen by commentators as "Marxism reverse out" /Prof.Tomáš Halík/ or "Marxist vulgarization of Friedrich Hayek" /Prof.Miloslav Petrušek/. Because of hasty privatization and or even worse, because of the vested interests of compact interests groups, the architects of the Czech way did not succeed in implementing the legal framework well tested in Western market economies. One reason is superficial reading of liberal doctrine, another one was the abuse of ideology by knit interest groups that are still in privatization games. Due to their active lobbying and due to the wedding of political a old-new economic powers the principle of the standard xerox copy of capitalism has been fully forsaken. As a result, "the 'standard market economy' framework failed" /Bárta,V., Benáček,V. on May 30, 1997/.

Paradoxically, the ideology of radical liberalism served to the interests of the old Party nomenclature structures, and nationally neutral liberal doctrine has been used for supporting a

backing the principle that "Family silver should remain in the Czech hands". As in the cylindrical chess-board, the former proponents of marxism emerged in a costume of right-wing oriented anarchists. In a few other cases the fundamentalist neoclassical economists rejected any reasons for adopting economic theory to a completely different institutional framework such as Real Socialism and the transition economy. Their theoretical blindness and immense political ambitions were well consistent with these above mentioned vested interests. But the reconstruction of the institutional framework of any economy does not involve ideologically formulated postulates of private property. It requires educating new owners to have faith in order and its rules, in civic virtues, and in accepting the rules of business ethics.

### **Lesson 5: The Instrumental Rationality is not enough- no Economic System can be based only on Self-interest.**

The idol of instrumental rationality, the conviction that economic behavior is motivated exclusively by intentional causality and consequentialism, shaped the Czech strategy of privatization. But a concrete form of market order cannot emerge without an accompanying development of belief structures of market participants, which is shaped by the process of learning by doing /Shaun Hargreaves Heap, 1989/. A model simulation of the market using instruments of repeated games /supergames/ shows that

- **the initial conditions** are always important, they are coded as the information in the memory of players, which influences the process of further learning by players during the game /agency of history/. The assumption of the instrumental rationality of players alone does not provide the basis from which more detailed features of the spontaneous creation of institutions might be deduced. Surely, also the primary distribution of property rights does influence the maximalization of wealth in a particular time horizon.
- **sufficiently long time horizon** for the game is important because it is only in believing that the game is endless that the players aim at cooperative forms of behavior. Even a low chance of immortality is enough and it does need not to be theological transcendence, but rather it could simply be a need for continuation of the game / such as the passing down of genes to children and grandchildren/. On the contrary, an absence of the expectation of an endless game - as it is in the highly secularised Czech society- leads the players to uncooperative behavior and prisoner's dilemma prevails.

- **Categorical moral imperative of the Kantian type and deontology** in the behavior of market players make easier the emergence of cooperative behavior, in favor of common good. Utilitarianism and self-interest are undoubtedly important in the every day life, but there are not sufficient. Only a 'few righteous' would be needed, but, if, unfortunately even the few righteous are lacking, the behavior of free riders dominates the the market.

Our negative Czech experience stemmed from the neglect of this was the reason that led me to call our Czech liberalism a "vulgar liberalism", a new materialistic way of thinking about the market and society. I conclude that the moral grounds of institutions are of a more general character, that they are irreducible to only the rational calculus of mainstream neoclassical theory. A lack of understanding for this "idealistic" or "religious" aspects of economic behavior was, unfortunately typical for the Czech representative bodies /but a few exceptions which confirme the rule/.

### **Lesson 6: The Neglect of the Moral Dimension was a Fault**

The social task of privatization also has unprecedented features from a moral point of view. The market under normal conditions allocates resources and distributes incomes. In modern economies, taxation and inheritance legislation provide corrections to this initial distribution and generate final wealth allocation. But how - that is, according to which rules or criteria - do we distribute the accumulated post-Communist national capital assets? At the start of this huge social experiment, there was an extensive expropriation of private owners and during the several decades of Real Socialism, market allocations of wealth have been radically distorted. The economic transformation does not mean only privatization which would disregard "cui bono?" /for whose benefit?/, as this problem was sometimes presented in the ideology of radical liberal theorists. The reconstruction of an institutional framework necessary for the proper functioning of the modern market economy concerns a wider context of order, i.e. the legal and moral orders.

We can hardly accept the proposition that new distribution of property rights should result from spontaneous forces and from the "revolutionary social ethics". "Property systems are in general not completely self-enforcing. They depend upon a constellation of legal procedures, both civil and criminal. The course of the law itself cannot be regarded as subject to the price system" /Prof.Arrow/. Similarly, a minimal amount of rule following behavior of market participants is needed.

In summary, the outcome of the Czech way of privatization evaluated from an ethical point of view can be seen as resulting from several different ethical principles weighted by the

power of different interest groups. Unfortunately, the moral of property restitutions and pragmatism and utilitarianism of traditional ways of privatization /direct sales to foreign investors, public tenders, strategic alliances and joint ventures/ - with prevailing positive impacts on emerging markets- have been dominated by voucher privatization, nationalistic privatizations financed using the credits of quasi-private- state banks, and wild forms of privatization with prevailing negative impacts. The aggregate total result of social and political forces in the post-Communist transformation shows, first, an unwillingness to respect business standards of ethics, prevalent in Western countries, and second, the strong path dependency on customs, habits and patterns of behavior inherited from Real Socialism.

The most harmful impact on emerging markets are caused by wild forms of privatization, fraudulent practices of stripping assets and "tunneling" of state, quasi-state and even privatized firms, banks and investment funds. Some would-be reformers, facing the unprecedented task of mass privatization argued in favor of revolutionary social ethics. Within the group of major Czech privatization architects, the conviction prevailed that standard business ethics are "...a kind of icing on the cake" that we cannot afford, at least not at the present. In the light of market economy simulation games mentioned above, there is no room for an ethics of extraordinary situations which omits the need for building institutions of the common good, mutual trust and the spirit of cooperation. Unfortunately, even temporary use of revolutionary ethics causes long-term damage to the social fabric, weakens the spirit of trust, and brings disorder to the whole economy. It is necessary to refuse the statement of Václav Klaus /1999/ about "a trumpety moralizing" as the erroneous understanding of grounds for market economy, it disqualifies the author within the framework of pure economic theory itself.

### **Lesson 7: The Transition itself has to be Subjected to an Order.**

The Minister of Privatization and later President of the Fund of National Property Tomáš Ježek, the disciple of F.A.Hayek and one of the very few from the team of Václav Klaus who was rooted in religious protestant tradition, understood - only after several years- that a form of radical liberalism of his collaborators and the helmsman himself, had nothing in common with his Master Hayek. At that time /1997/ he wrote: "One of the greatest lessons of the privatization in Czechoslovakia is the indispensability of a consistent cooperation between law and economics. For many years, both disciplines have operated in separate spheres in Czechoslovakia, a bad situation that is particularly dangerous for privatization. The privatization process is a major legal transformation with dramatic economic consequences, yet

this separation means that lawyers do not understand economic processes, and economists have little regard for the law".

The misunderstanding of economics from the side of lawyers could be understandable as a kind of bounded rationality due to lacking experience. Little regards for the law from the side of economists reflects also the omnipresent opportunism. This lack of order between law and economics in the Czech case deserves deeper analysis. It seems that for Czech lawyers legal procedures have little common with justice: the terrible heritage of formal "positive" law from Communism has dominated while a sense for natural law - and justice- has been lacking.

"Czech business courts suffer from formalistic mannerism" is a symptomatic evaluation by a Judge on the Czech Constitutional Court. The greatest lesson from Czech privatization can be formulated in the broader scope of an indispensable regard by economists for morality and law, and the need for lawyers to have indispensable regard for justice and natural law.

Unfortunately, the notion of the law in the sense of former Marx-Lenin-Stalin's instrument of the class interests and class violence is still present here. The voucher privatization provided a very symptomatic example. It has been - in the first plan- based on the egalitarian principles inherited from the ideology of Real Socialism . In the end, voucher scheme resulted in a great concentration of wealth and economic power, also reminiscent of previous caste principles of Real Socialism. The voucher scheme was neither efficient nor fair. Unfair manipulation of minority shareholders, insider dealing and trading, lacking or distorted reporting - all these sub-standard practices caused the omnipresent distrust that blocked the emergence of the capital market. The law has been used and abused to the concentration of property, the "rules of game" only provided an appearance of legality in property rights transactions, essentially unacceptable - or even illegal- in established market economies.

### **Lesson 8: Hasty Privatization without Firm Rules Threatened Emerging Order**

The Czech experience of the first ten years of transition suggests that there are trade-offs between the speed of privatization , on one hand, and emerging business ethics and legal and economic order, on the other hand. Attempts to change formal property institutions too rapidly without an adequate effort to establish legal framework for the working of the market in time- lead to a destabilization society and economy. It endangers civic order, and undermines further moral standards in business already eroded during several decades of Real Socialism. The lack of firm and enforceable rules of the game or a hurried social transformation were a practical consequence of misunderstood and/or abused liberalism in the

Czech Republic. "The speed of all... was regarded as absolutely essential" /Václav Klaus and Dušan Tříška, August 1994/.

The timing of institutional change in transition is very important. I would claim that penalties for exceeding reasonable speed are paid not only in terms of initial congestion but also during the transformation period. Traffic is dangerous without clear and enforceable rules. The same is true about emerging capital markets. For several years, I have to admit, theoretical economists have been concentrating on the social costs of the gradualist approach to transition and have argued by the threats of a slow-down in privatization /Hausner 1992/. It appeared that only slow institutional change had to be paid for. This point of view arose from the illusion held by radical liberals and neoclassical economists, namely that fast institutional change is possible in principle and is absolutely necessary for an effective transformation. In contrast, a proverb from ancient Rome offers an opposing view: "Festina lente!"

An institutional change and restructuring are immense social investments on the way towards a regular market economy. Institutional economics discovered that the foundation for contractual and financial discipline is "private ordering" as a result of the very long evolution on established market economics. Lack of private ordering leads inevitably to an illusive reliance on "legal centralism". The state as the guarantor of justice in economy fails in one of its key functions. The business courts have for years been blocked by the piles of untouched cases and unsolved contract conflicts.

During the period of so-called "pre-privatization agony" which was a term from the vocabulary of Czech government economists, the government completely gave up control of corporate governance. State enterprises have been fully controlled by managers and in the system of liberalized prices and free entrepreneurship, which was also carried up by top managers of former state enterprises, a clear definition of the act known as theft in other legal systems practically disappeared. The door has been opened wide to transfers, without transparency, of assets from the state to private hands. A completely new Czech term called "tunneling" /"tunelování" in Czech/ appeared, which described a whole set of behavioral patterns in stripping enterprises assets, some of them typical inventions and innovations in this shady field. This was a product of learning by doing during the four decades of Real Socialism in which a new proverb prevailed: "He who does not steal from the state is robbing his own family!" After all, theft - if we could use this term- is usually the fastest way to transfer property rights. Eventually, pure instrumental rationality does not have to object to anything!?

Fortunately, there are also positive experiences in the Czech Republic. I have in mind cases of strategic alliances with multinational corporations. When the alliance succeeds, the home industry is saved, human assets from the past are enriched and whole network of home suppliers are able to catch up with the multinationals. Great supranational corporations bring management skills, professional procedures, and ethical standards which help to educate new industrial leaders. Private ordering and evolving market order from below receive a great impulse from the entry of a strategic investor, and a country groping for legal order. The experience of the Czech transition affirms the contention that the post-sovereign state has to reach for help from supranational corporations for institution-building and sanctioning the emerging legal and moral order. And - at last but not least- this way offers only real chance of speedy transition.

### **Lesson 9: Fast Privatization at the State Expenses resulted into "Potemkin's Villages"**

The speed of change can also determine the formal character and superficial nature of the new institutional framework in its recombined form, in which the old dysfunctions of the former regime are reproduced in accordance with the principle of path dependency. Both factors result in a continuation of the social schizophrenia of the past regime, characterized by a sharp discrepancy between declared ideology and actual economic policy. This explains the puzzle that the radical liberalism of the Czech transition helmsmen led our economy to a halt under "banking socialism". Many companies and banks were privatised in the name only. The state remained the core investor in major financial institutions that created the largest privatization investment funds. These funds managed portfolios that involved two to five hundred companies representing often more property than was administered by former Resort ministries. The state remained an indirect shareholder of property in an important sector of the economy which was private from a formally legal point of view. The state as the core investor in terms of the theory of corporate governance cannot avoid its proprietary responsibility. The state has remained the greatest creditor to many large and medium-size enterprises due to privatization credits, unpaid debts to the Fund of National Property, unpaid taxes, social and health insurance... Non-competitive financial structures and unsolved principal - agent problems were the sad heritage from the times of "hurrah privatization". The lack of moral integrity caused this Potemkin's villages of the Czech privatization way: "coulisse" of privatization remained undiscovered even by foreign experts and international institutions, at least for several years. The liquidation of coulisse is now very costly...

**Lesson 10: The Misunderstanding and Abuse of Economic Theory has Damaged and Discredited its Reputation. After the Failure of the Marxist Social 'Science' this Repeated Failure is Very Costly in the 'Social Capital' Terms.**

The Czech way of transition differed from the sample of post-Communist countries by high ambitions of its architects and by their theoretical backing. For some time it looked as the Czech government is the most enlightened "ruler" in the world. Unfortunately, today economic theory is very differentiated, and even relatively high competence in one school of economic thinking provides no guarantee for good understanding to grounds of the market economy. In this sense, even a series of honorary doctorates gives no licence for guiding of transition. And what is worse, no economic theory is sufficiently shielded against a possible ideological abuse...

Václav Klaus and his group of advisers and collaborators belong to the monetarism of the main-stream theory, they confess an "economic imperialism". But some of them were informed also about the existence of the new institutional school /economics of transaction costs/. I will provide one example from this field, although it would be possible /and useful/ to analyse misinterpretations and vulgarization of F.A.Hayek, inadequate applications of Milton Friedman thoughts to the post-socialist reality and so on.

The theorem of Ronald Coase has been used and abused in the Czech Republic as the theoretical justification for the ideology that tolerates the ways and methods of wild privatization. In an imaginary world with zero transaction costs, the original distribution of wealth does not matter. Reading carefully the Nobel prize lecture of Coase, prepared in 1991 when the Czech transformation of property right structures was in progress, one clearly recognizes that the Nobel Laureate offers a challenge to the study of societies with non-zero transaction costs, not to the application of his theorem, which is valid for the ideal world only. The challenge is in the real world where the basic ideal assumptions are absent. Transaction costs in modern societies are too important, if not prohibitive, to take no account of them. Institutional investors in emerging Czech capital market have shown patterns of behavior that run completely contrary to the accepted wisdom of textbooks. Insider trading, distorted information, manipulated or completely lacking reporting, opportunistic behavior and moral hazard were used to justify the expropriation of small shareholders. /I refer to my more detailed description from 1995/. For a long time there was not sufficient political will to establish standard institutions for regulating the Czech capital market. Concentration of

property was seen, from the instrumental rationality point of view, as an inevitable process. Until today small shareholders do not yet have sufficient legal safeguards against discrimination from the core investors as well as from their own institutions. The reasons for the postponement of legal protection are clear. Such protection could cause a slow-down in the process of property rights concentration... hence business ethics or social justice considerations have to be put aside. There is also an alternative explanation of this lacking political will; that is, the vested interests of pirates on capital markets who preferred the jungle and resisted the introduction of firm rules...

The process of natural selection in the Czech economy suffered not only from the the absence of regulation and effective enforcement at the emerging capital market but also from inefficient process of exiting. The inefficient and unenforceable bankruptcy procedures were caused by the same illness at the political markets. Eleven amendments to one bankruptcy law during several years have been passed: poorly competitive political markets make possible to create obstacles and preserve high transaction costs for transfers of company assets. "The market environment lacks appropriate cleansing mechanisms. Companies are often managed or owned by people who do not uphold contracts or even obey the law, or people who are not competent ..." /Dřevíč Appeal, 1999/. Compact interest groups of the original winners of privatization games merged with political power and made their best to put the validity of Ronald Coase theorem into the imaginary world...A seclusion of any "pure economic theory" from the real world is a kind of 'l'art pour l'art'. Any abuse of the 'pure' theory for dirty practices in the real world is much worse. Not only for the world itself, but also for a good reputation of economic theory.

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