INSTITUTE OF CURRENT WORLD AFFAIRS

One Year Later: A Stronger Slovakia?

by Chandler Rosenberger

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Dear Peter,

Jana Orholova (not her real name) opened one of the first private coffee houses in Bratislava after the 1989 revolution. She rented a state-owned building in the Old Town and quickly established one of a new breed of restaurants. Drinks were placed promptly on fresh pink tablecloths by a polite staff. The stone tile patio was hosed down each night. Ashtrays were emptied. If a snack, like a cheese toast, was on the menu, it was also in the kitchen.

Jana's opportunity to secure her business came with the "restitution law," a bill the first post-communist government of Czechoslovakia passed allowing families to reclaim property seized by the Communist Party in 1948. The building Jana had rented, it turned out, had once belonged to a family of Slovak Jews who had resettled to England. Thinking she could get her business free of city hall bureaucrats if the family saw for themselves what she had done to make the property a money-spinner, Jana contacted the family and encouraged them to reclaim the building.

A thirty-five-year-old artist, grandson of the building's original owners, flew in to meet Jana and see her restaurant. Jana turned on the charm; she showed the Englishman the works of her husband, also an artist, and of her son, a free-lance photographer in Prague. She told him about a second cafe she had recently opened in one of the city's art museums.

But it was all to no avail. The Englishman had been shaken by another, unscheduled, meeting. A stranger had approached him on the street and struck up a conversation about the property. Yes, the stranger had said, Mrs. Orholova had

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done remarkable things with the building. But it was a pity she didn't have the connections necessary to get the property out of state hands. If the English family really wanted to get the property back, the stranger said, a small sum, say, one million Slovak crowns, would smooth the way.

The Englishman apologized to Jana. He wasn't used to doing business in a city where strangers knew the intimate details of his affairs and demanded bribes to "get things done." He didn't think his family was interested in the property after all.

Since Jana cannot claim ownership of the property herself, she now faces eviction by city officials. The restitution law, as administered by Slovakia's first post-communist government, had given her a chance. But in the hands of the new regime, it had turned out to be a catalyst of corruption.

Jana's predicament is common in the newly-independent republic. Between 1989 and 1992, Slovak officials cooperated with federal authorities to implement broad economic and political reforms like the restitution and business laws that gave Jana her start. All the while, however, the reformers were plagued by "The Movement for a Democratic Slovakia," an alliance of factory managers and state apparaticiks led by a charismatic ex-Communist, Vladimir Meciar. Meciar railed at the post-1989 government for kowtowing to Prague and destroying the republic. Slovakia needed more of a say at the federal level to tailor reform to suit its "special circumstances."


Slovak PM Vladimir Meciar

Meciar won the June 1992 elections promising a stronger Slovakia. But a year on, Slovakia is weaker than it was in the old federation. On July 9, the government finally gave in to the International Monetary Fund and devalued the country's currency, the Slovak crown, by 10 percent. Privatization has ground to a halt and the decline in Slovak production has not yet bottomed out. Ironically, Meciar's schemes to strengthen Slovakia by strengthening its government has weakened the country.

That's not to say that everyone in the country is weak. Black Mercedes 600s with tinted windows cruise slowly up Venturska Street in the old town center, sometimes stopping to allow burly men sitting at the sidewalk cafes to climb in. Slovaks have woken up a year after voting for a stronger Slovakia to discover that only the bureaucracy and its affiliated mafias are strong.

Czechmated

The weakness of Meciar's Slovakia has been most clearly seen in negotiations with the people whom he promised to stand up to -- the Czechs. Czech politicians, whom Meciar attempted to blackmail with the threat of dissolving the federation, have outwitted him at every turn. A year ago Meciar's right-wing rival, Czech Premier Vaclav Klaus, called the Slovak bluff and agreed to let the smaller and poorer republic go its own way. Since then, the Czechs have hammered through the division of the former Czechoslovakia with such dizzying speed and ferocity that they have left Meciar whining in the wings.

Meciar still complains today that the Czechs violated the terms of the split, taking over the old Czechoslovak flag and dumping the common currency six weeks, rather than six months, after the republics separated on Jan. 1 1993. The Czechs ruthless handling of Meciar has left him holding a list of grievances, such as that the Slovak republic should be compensated for villages transferred to Poland after World War Two, while Prague has rescued its rapid reform program. While Klaus has worried about how to create new wealth, Meciar has worried about how divide old wealth.

When Meciar has attempted to strike back, he has stumbled. A veiled threat to cut off Czech oil supplies from Ukraine piped through Slovakia was dismissed with contempt. The Czechs will have completed a new pipeline from Bavaria by the end of the decade and have little reason to worry about Slovakia's threats in the meantime. Meciar announced in June that his government would raise import duties by 20 percent to protect Slovak producers, but the move is unlikely to hurt Czechs anymore than the division already has. Trade between the two countries has fallen by 40 percent since January. Slovakia's import tariffs may hurt Czech farmers briefly but will ultimately serve Prague's aim of turning its goods towards Western standards and markets.

On the question of borders, Meciar has temporarily succeeded in tripping up the Czechs on their way west. On July 1, Germany introduced a stricter asylum law that would give its border guards the right to judge for themselves whether an East European was a political or economic refugee. Unlike under the old law, German border guards may now return the latter to the country through which they had passed without an official examination of their circumstances. The Czech Republic has therefore pressed for a similar agreement with the Slovaks.

The Czechs would like to keep their borders with Bavaria and Saxony relatively open; its politicians need to be able to convince Germany that economic refugees are stopped at the Czech-Slovak border.

Czech president Vaclav Havel and Slovak president Michal Kovac agreed on July 1 to press their parliaments for a border agreement by July 20. The agreement, while allowing Czechs and Slovaks to cross the border without difficulty, would subject citizens of third countries to the rigors of a standard border.

The danger to Slovakia is clear but perhaps unavoidable. Refugees are likely to come across two of the republic's borders in droves; Ukrainians fleeing hyperinflation in the east across their homeland's narrow common border with Slovakia and Bosnians crossing Hungary on their way through Slovakia and the Czech Lands to Germany. The Ukrainians are reluctant to tighten their border with the more stable Slovakia, which they see as a transit route for their goods; the Hungarians, displeased by Meciar's rhetorical assaults on the Magyars, are unlikely to be compliant in arranging a scheme that would leave them with Yugoslav refugees on their hands.

Caught in this trap, Meciar struck back with strong words. In a radio broadcast on July 2, he again accused the Czechs of breaking a pre-split agreement, this time one guaranteeing that no strong border would appear between the two republics. He also accused the republics' presidents of colluding behind his back. "If the presidents of both countries continue to negotiate . . . with the aim of putting pressure on the government," he said, "we must realize that the government is a collective body and I personally am not going to give this my support."

But, again, it is not clear that Meciar is in a position to back up his words with actions. Czech Interior Minister Jan Ruml confirmed shortly before Germany's new law went into effect that his ministry would train 300 soldiers to defend the Czech-Slovak border. The Czechs have put their agreement with Germany on hold for the moment, but can now point to Slovak, not Czech, intransigence as the reason for their unilateral strengthening of the new border. The Germans, eager for an agreement and as influential in Bratislava as they are in Prague, have already begun to press Meciar back into line.

A parliament of patronage

If his opponents abroad have outsmarted him, events on the domestic scene have swept him by. The same politician who promised to revive Slovakia's arms industry has had concede that the factories cannot support itself. While Meciar the candidate promised secure unemployment benefits, Meciar the prime minister, under pressure from the International Monetary Fund, has agreed to slash social spending in exchange for a loan of merely $90 million. Privatization, warped beyond recognition by Meciar's ambition to shape the new market economy, has ground to a halt.

The disintegration of the economic and political order in Slovakia has its roots in the very rhetoric Meciar used to win the 1992 elections. Meciar promised in his campaign to strengthen the say of Slovak producers in the federal government. His words struck a chord among Slovaks, who have always insisted that Prague had an obligation to allow the state to manage the industrialization of Slovakia. In 1968, Slovakia's reformed Communists, Meciar among them, insisted that Prague build more factories in the largely rural republic. Rather than push, as reformed Communists in Prague were, merely for a more democratic form of socialism, the Slovaks campaigned for a larger share of socialist spending.

Much to their eventual regret, they got it. Hardline Communists reasserted their control over the country after the 1968 Soviet invasion both by purging reformers and buying off the Slovaks. The Communist regime gave Slovakia its status as a republic within a federal constitution. It built massive arms factories in Martin, a town in Central Slovakia, and spent billions of crowns on public works projects, such as a futuristic bridge that slashed through what had been Bratislava's picturesque old town.

But midnight came quickly for Slovakia's Faustian bargain. The federation's first post-Communist government sought to break free of the Comecon, the Soviet trading bloc, by signing trade agreements with the west instead. Suddenly, Slovakia's Stalinist factories showed their age and inefficiency. The sharp decline in production across the federation after reforms were introduced in 1990 continued to hit Slovakia badly in the run-up to the 1992 elections. While the manufacturing sector (including agriculture, textiles, machinery and other industries) produced 330,008 million Slovak crowns worth of goods in 1991, total production had fallen to 278,537 million in 1992 -- a drop of 15.6 percent.

On the campaign trail, Meciar offered an updated version of Slovak grievances. Just as the nation had demanded more state industrialization in 1968, it ought now to push for more state aid to soften the blows of restructuring the factories that it had asked be built. The federal privatization schemes were "annihilating" Slovak industry, Meciar argued. He insisted that "experienced Slovak managers" take the place of the young and naive Slovak dissidents now representing Slovakia in Prague.

The electoral pay-off for the rhetoric of victimization was, predictably, stunning. Meciar's movement emerged from the June 1992 elections in control of 74 of the Slovak parliament's 150 seats. He quickly formed an informal alliance with the former Communists, now the "Party of the Democratic Left," who had won 24 seats, and the Slovak National Party, whose own list of complaints had earned them 15 seats. Had the federation survived, Meciar's forces could easily have teamed up with left-leaning parties in the Czech Lands to slow reform.

Unfortunately for Slovakia, the right-wing parties in the Czech Republic saw that only too clearly. When Meciar presented his list of demands -- for example, that the federation's coupon privatization scheme be modified to leave the "experienced management" in control of its factories -- the Czechs simply cut the Slovaks off.

As the federation dissolved before their eyes, Slovakia's victorious parties found themselves obligated to make good on their public and private promises from Bratislava's own scant resources. Meciar's informal coalition agreement with the Slovak National Party had given him 89 votes; in exchange, the president of the Slovak National Party, Ludovit Cernak, got the Ministry of the Economy. But, allied though they had been in demanding more from Prague for a "stronger Slovakia," the two parties quickly descended into the squalid fight for patronage that has dominated Slovakia's first six months of independence.

The independent state's first Privatization Minister, Lubomir Dolgos, quickly scrapped the "coupon" privatization scheme. Under that plan, Czechs and Slovaks had been able to purchase vouchers in state industry which they were then allowed either to turn over to a mutual fund or convert into shares in an industry of their choice. The plan had three advantages. First, it allowed for rapid privatization; any factory which could not be sold directly to an investor could be converted into a joint-stock company. Second, it made the privatiation process relatively transparent, since no one investor could easily get ahold of all the shares in an industry by bribing public officials. Finally, it took control of factories away from the "experienced management," who would suddenly be answerable to investment companies who would demand evidence of the usefulness of their "experience," preferably in the form of profits. The coupon scheme had allowed the Slovak minister of privatization of the post-1989 government, Ivan Miklos, to unload 680 companies in one year without a hint of corruption.

At a conference on "Investment in Independent Slovakia" held in February 1993, Dolgos explained why he had scrapped the plan. Selling factories directly to foreign and domestic investors allowed for speedy entrance to the market, while the coupon scheme required complicated administration. But Dolgos did not tell the investors gathered that all "direct sales" required the approval of the entire sitting government. Given that the government had been taken over by parties loyal to the "experienced management," direct sales were difficult to get through the gauntlet of competing interests. In his first eight months, Dolgos only managed to sell 58 companies. Those he did manage to sell to foreign investors often found themselves trapped in a web of connections between management and government. The foreign partners investing in one of Slovakia's largest joint ventures has found their restructuring schemes thwarted from within the company by managers with good connections to the Ministry of Economy and, by extension, to the parent company, which remains in state hands.

Battles over patronage have fragmented the Slovak government much more quickly than any differeence over policy could have. The Slovak National Party withdrew from Meciar's government on March 15, arguing that Meciar had not given its leaders enough say in the coalition. Reduced to 74 votes in parliament, Meciar tried at first to govern in the minority, making deals with parties on an *ad hoc* basis to get legislation through. By the end of June, however, Meciar had asked the Slovak National Party to return to government. The perilous state of the economy made the offer unattractive. Meciar's personal popularity had fallen to just 17 percent; no party wanted to dance with him now. Meciar coupled his offer with a series of public threats to reveal "corruption that has been going on at the highest levels." Cernak eventually agreed to return to government, admitting that he was reluctant and was being forced. The two parties that had pushed for a "stronger Slovakia" will soon be in alliance again, but this time in an uneasy balance of threats and patronage that will likely weaken the country more.

A parliament of protectionism

Both parties remain committed to one common goal -- protection of Slovak producers. But pride and a faith in the micro-management of the economy have forced them to adopt a combination of half measures that promise only to make doing business in Slovakia more bureaucratic.

Since its first meetings with Meciar's government in late February, the International Monetary Fund has insisted that an independent Slovakia had neither the hard currency reserves nor the inherent industrial strength to keep the Slovak crown at the same level of exchange -- roughly 30 crowns to the dollar -- that the old federation had been able to maintain. The IMF would only loan Slovakia money, it said privately, if the government devalued the currency, preferably by 30 percent.

Slovak Minister of Finance, Julius Toth, refused. The IMF figures on Slovak industrial strength were faulty federal numbers, he said, which did not reveal the country's real strength. While hard currency reserves were admittedly low, he said, a three-month delay on all transfers of hard currency abroad would help prop up the Slovak crown. At the same time, the Slovak government said it was committed to protecting Slovak producers.

What could be better way of protecting Slovak producers, critics asked, than devaluation? In addition to ensuring an IMF loan, devaluation would have automatically made foreign goods on the domestic market more expensive than Slovak ones. At the same time, it would have made Slovak exports cheaper.

When presented with such criticisms, Slovak National Bank vice-governor Marian Tkac would reach into his wallet and pull out a few bills of the Ukraine's increasingly worthless currency, the "coupon." The Slovak government had an obligation, he would say, not to give Slovaks a useless crown. Instead, the government announced in June 1993, all imported consumer goods would be subjected to a 20 percent rise in import tariffs.

By the end of June, however, the government had not agreed which goods would be affected by the tariffs. And on July 9, it announced that the Slovak crown would indeed by devalued by 10 percent. Suddenly, a Slovak visiting Prague will find everything 10 percent more expensive. Czech goods available at home will will also be more expensive, thanks to a combination of import taxes and the effect of devaluation. But which goods will be affected by the tariffs, which by devaluation alone? That's up to the parliament. Don't expect a clear-cut or definitive answer.

Bullying backfires

Bamboozled by the Czechs and faced with an eroding coalition, Meciar resorted to bullying easy targets, such as the press and Slovakia's first non-Communist university. But his actions attracted such a hostile reaction from abroad that his bullying backfired and divided not only his coalition but his party as well.

Two months after his appointment, Meciar's minister of education, Matus Kucera, announced that the government would be closing Trnava University. The university had been established by the post-1989 government as a Catholic alternative to the humanities departments at Slovakia's other major universities, most of which were dominated by Marxist academics. Kucera himself had taught Marxist history at Bratislava's Commenius university.

Three days after Slovakia became independent, Meciar's government forced the editors of a state-owned but highly-critical newspaper, *Smena*, to resign. The move attracted the attention of international journalists who have come to cover independence celebrations in Bratislava. Although the most flagrant, the dismissal of *Smena's* editors was merely one in a series of attempts to muzzle independent voices. By then, Meciar had already cancelled a licence for an independent television station, replaced the board of state television with yes-men and cut off funding for all cultural journals staffed by former dissidents.

Both the attack on Trnava University and *Smena* tarnished Slovakia's name abroad, as the republic's first foreign minister, Milan Knazko, quickly realized. As a parliamentarian, Knazko voted against the closure of Trnava. Angered by this and other signs of Knazko's independence, Meciar removed him as foreign minister at the turn of the year.

But Knazko had his revenge. At the second annual congress of Meciar's political party, the "Movement for a Democratic Slovakia," Knazko challenged Meciar for the leadership of the party. When he failed to unseat Meciar, Knazko delivered a stinging speech, in which he accused Meciar of inflicting political supression of a severity Slovakia had not seen since the Stalinist 1950s.

"I would like to speak about the liquidation of *Smena*," Knazko said. "If someone had wanted to design a series of steps that would insure that Slovakia's name was ruined abroad, he could not have come up with a better plan than what Mr. Meciar has done." Meciar's authoritarianism, Knazko said, had made the party "neither a force for stability in Slovakia, nor in Europe."

In the end, Meciar's strongman tactics at home had done little to strengthen him and much to weaken him. Knazko resigned, taking seven of Meciar's deputies in parliament to a new party and leaving Meciar with only 66 of 150 deputies. And the Slovak press, to whom Meciar owed great thanks for their support during the 1992 elections, turned on him in a fury.

Waiting in the wings: the former Communists

With Meciar's coalition shaky and his own party disintegrating, the former Communist Party of Slovakia, now the "Party of the Democratic Left," are playing a patient waiting game.

The Communists have a great deal of power but no natural allies. With 24 of the Slovak parliament's 150 deputies, they form the single largest block besides

Meciar's movement. But none of Slovakia's other three parliamentary parties -- the Slovaks Nationalists, the Christian Democrats or the party of the Hungarian minority, Eguyteles, will work with them.

Could the Communists work with Meciar himself? Some of the members of Meciar's party are as left-wing as the former Communists. But the Communists have been careful neither to seem too confrontational, and therefore be open to the charge of being a destructive opposition, nor too easy to work with. When Meciar has offered them membership of a coalition, the former Communists have consciously set the price to high -- the head of the Office of Control. The office has files on which state industries diverted funds into which political campaigns. Meciar, always genuinely eager to avoid the charge of corruption, cannot afford to have his pre-election deals exposed.

Instead, the former Communists are waiting for an economic implosion, such as that which gripped Lithuania in the aftermath of independence, to make them look good compared to what has followed the 1989 democratic revolutions. This is probably a wise tactic, since 40 percent of Slovaks blame their current economic troubles on the policies of the post-89 government rather than on the preceding forty years of Communist rule.

In the meantime, the former Communists are trying to present themselves to the world as a modern socialist party. They are desperate to join the Socialist International. At a party conference in late March, the party's vice president threatened to resign if the party did not endorse Slovakia's admission to NATO.

There is, unfortunately, little modern about the former Communist party. Members still address one another as "sudruc," Slovak for "comrade." The party's economic program endorses a market economy but insists that the state play a large role by, for example, establishing Yugoslav-style workers' collectives and even municipally-owned industries. The rank and file seem to have a problem accepting these concessions to events since 1989. During a coffee break at the party's conference, one delegate came running up to another, party program in hand. "This says that we stand for capitalism!" he cried. "We can't have that!"

Meciar's last stand

Slovaks voted in 1992 for a strong Slovakia, for a republic-level government that would demand more concessions from Prague. Instead, it found itself with an independent state run by former factory managers with few ideas and fewer scruples. While social services and health hit crisis after crisis (there was, for example, no insulin in Slovakia shortly after independence), deputies from the Slovak National Party and Meciar's own "Movement for a Democratic Slovakia" drove an efficient privatization program through a meat-grinder of special interests.

The battles over patronage within a government that had little to hand out seem, for the moment, to have ended. Cernak, head of the Slovak National Party, has agreed to serve again in Meciar's government, in exchange for the post of vice-premier in charge of the economy. And Meciar has removed Dolgos from the Ministry of Privatization and from the party, reportedly under pressure from older Meciar loyalists in industry who were angered by Dolgos' own ambitions to build a power base within the economy and the party. Meciar chose his most loyal ally, Ivan Lexa, to replace Dolgos, thus ensuring that privatization suits the interests that brought him to power.

But there is no reason to believe that such an agreement can last long. Like the centralized economy it was meant to replace, Meciar's coalition is a clumsy alliance of special interests and privilege. Just as no one government could calculate a way to provide every good and service its population demanded, so no one government can keep all the secrets and economic interests of its privileged supporters in balance. Meciar's style of government depends not on

Slovak politicians attempt to rein in the premier in order to allow President Michal Kovac to shoe him. "Kovac" means "smith."

enforcing open rules by which companies compete, but rather on managing a vast array of alliances, information and threats. Even Meciar's legendary memory will not be able to keep all these cards straight forever.

But Slovakia's weakness has not meant that all Slovaks are weak. The man who offered his services to the former owner of Jana Orholova's cafe was just one of thousands to have benefitted from an economy in which party, state and economy are cut of one cloth.

Take, for example, a man I will call Peter Kajsky. According to the files of the former Czechoslovak secret service, Kajsky used contacts in the KGB to purchase red mercury, thought to be a key ingredient in the construction of nuclear weapons, from the former Soviet Union. Kajsky allegedly planned to use his earnings to purchase, with the help of his contacts in Meciar's party, a monopoly on the production of women's clothing. When the federal authorities caught wind of Kajsky's deals, Anna Nagyova, Meciar's personal secretary, allegedly warned him to disguise his transactions.

When talking with business associates, Kajsky referred to himself as an "advisor to the Prime Minister," even as "pomosnik premijera," a Russian expression that means "assistant to the premier. Meciar, the report says, thought of Kajsky as a business associate rather than a good friend. But Kajsky was nonetheless imprtant to Meciar's business. Another source from the former federal government alleges that Kajsky helped to fund Meciar's "Movement for a Democratic Slovakia."

In a state where the ruling party uses its contacts to arrange business deals for known arms smugglers, the Jana Orholova's of this world do not stand a chance. Their only hope is that someday the strain of negotiating the division of fewer and fewer privileges will grow too great and the industrialists that brought Meciar to power will tear themselves apart in its pursuit. Every step the newly-independent Slovakia takes toward deeper economic decline brings that day a little nearer.

Yours,

Chandl

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