1. The Ideological Determinants of Post-Communist Economic Reform

When the new democratic leaders of Russia and Eastern Europe initiated the capitalist transformation of their command economies, many expected the transfer of public property to the private sector to be one of the more popular measures to implement. Indeed, when the movement to privatize state-owned industries through widespread distribution gained momentum in Great Britain in the 1980s, it was as much a populist measure to build support for Margaret Thatcher's government as a means to revitalize sluggish industries under state control.[1] More important, considering the pain associated with other early transition programs in post-Communist Europe—such as price deregulation, reducing industrial subsidies, imposing wage caps, or increasing the retirement age—privatization seemed to offer the greatest potential for building rather than diminishing public support for the government's promarket agenda. In this vein, the proponents of liberal economic reform championed the ability of large-scale privatization to produce a broad base of capitalists overnight who, given their vested interests, could serve as reliable defenders of the new capitalist order.

Rather than providing a dependable source of legitimacy and support, however, privatization has served as a focal point for the public's frustration with the corruption and economic disappointments of the post-Communist period. Though supported in the early phase of transformation, both the program and its promoters were later demonized at home, breathing new life into the nineteenth-century French socialist idea that ownership is theft. In many contexts, post-Communist privatization became synonymous with collusion, corruption, and material deprivation.

Some of the frustration with privatization in the region revolved around the pain of economic transition in general: the disappearance of life savings due to inflation, the decline in the standard of living of large sectors of the population, and the general feeling of material uncertainty.[2] There was also considerable anger, however, with the way that privatization programs were designed and with the consequences of property distribution. First, privatization did not bring about the revitalization of most economies in the region, at least not as quickly as many were led to expect. Second, the new incentive structure did not lead to broad-based enterprise restructuring in the short run and instead left many enterprises vulnerable to asset stripping. Third, while the results vary across countries, formal mass privatization programs—also known as voucher privatization programs[3]—did not generate an equitable distribution of property ownership among the citizenry. Rather, it exacerbated the general trend of *nomenklatura* enrichment that had been intensifying during the Gorbachev period by providing a legal means to transfer the title of state assets to the well-connected few. Mass privatization is also maligned for bolstering popular expectations of personal material gains, only to disappoint them when companies failed, investment funds folded, and small shareholder rights were violated. Even many of those who were initially committed to the logic of mass privatization were critical in retrospect of the decision to distribute property at low prices or for free, since it forfeited an opportunity to raise revenue for social safety nets and gain new technologies and investment for domestic firms.

The critical light in which post-Communist privatization is often now viewed[4] is curious when one recalls the breadth of support for mass privatization during the early years of transition among the general population, local government officials, and foreign advisers across numerous states.[5] The early momentum behind mass privatization in the 1990s and its popularity among government officials are especially surprising given the lack of historical precedent for privatization on an economy-wide scale. That is, leaders energetically embarked upon mass privatization without any real precedent to guide policy design or to reassure them that this novel course of property rights reform would be feasible and effective. The European and North American privatization experiences of the preceding decade concerned the transfer of individual enterprises, or perhaps industries, but not the privatization of an economy. East European policy makers faced the daunting task of designing from scratch programs to transfer nearly the entire wealth of the state to private hands. With few exceptions, the officials appointed to this task concluded that standard privatization methods relying upon piecemeal sales of enterprises to private investors would be too slow and unwieldy. In many post-Communist states, a mounting economic crisis discouraged a more gradual reform process and justified the use of ambitious unprecedented approaches. Consequently, officials chose to rely significantly on the free and popular distribution of property, followed with or supplemented by conventional techniques like the sale of strategic blocs or residual shares in leading enterprises.

Even though there was no historical precedent, East European officials could take comfort in knowing that there was near universal consensus in the international policy and lending community in support of mass privatization. Shortly after Czechoslovakia initiated the first voucher privatization program, the international community uniformly and enthusiastically embraced the notion of the rapid and widespread distribution of national wealth to private hands. Legions of Western advisers and lenders visited the region, advocating mass privatization, among other liberal policy prescriptions.

Many of these past advocates of mass privatization are much less sanguine in their support today, given the poor economic performance of most of the post-Communist region during the 1990s. As one senior economist from the World Bank, Harry Broadman, explains, "In the earlier years of Russia's (and other countries') transition, there was a sense in the policy community that ownership change from public to private—however it comes about—is necessarily welfare improving, even in the short-run. We know better today."[6] In a similar vein, John Nellis, Broadman's colleague at the bank, writes, "The international financial institutions must bear some of the responsibility for the poor outcomes, since they so often insisted on the primacy of economic policy (or uncritically followed the lead of intensely committed reformers). That is, they requested and required transition governments to privatize rapidly and extensively."[7] More dramatically, David Ellerman from the World Bank writes, "The Western advisers were marketing themselves as the intellectual saviors of the benighted East by putting the scientific prestige of neoclassical economics behind one of the most cockamamie social engineering schemes (voucher privatization) of the twentieth century." Ellerman contends, "Only the mixture of American triumphalism and the academic arrogance of neoclassical economics could produce such a lethal dose of gall."[8]

Accounting for Privatization's Early Popularity

Serious criticism of the policy choices within post-Communist privatization began to appear often in the late 1990s and beyond—that is, once mass privatization had run its course in most countries. Only then did members from prominent institutions, like the World Bank or USAID, begin to reflect seriously upon the wholehearted embrace of mass privatization and the formidable momentum behind this common prescription for property reform.[9] Reconsidering this overwhelming support for post-Communist privatization, officials like Nellis at the World Bank began to ask the question of why privatization "swept the field and won the day" and (quoting others) moved "from novelty to global orthodoxy in the space of two decades."[10] After all, there was little theoretical or empirical evidence for rapid and extensive property transfers and yet large-scale privatization took the region by storm.

No one answered this question more forcefully or with greater controversy than the maverick former vice president and chief economist of the World Bank, Joseph Stiglitz. Economics professor, Nobel laureate, and former economic adviser to President Clinton, Stiglitz unequivocally argued that the widespread adoption of post-Communist privatization, and of shock therapy more generally, was driven by "free market ideology," "market fundamentalism," and special interests.[11] In his controversial 1999 World Bank address "Whither Reform?" he refers to the advisers in Washington as "market Bolsheviks" who were possessed by a "moral fervor and triumphalism left over from the Cold War."[12]

According to Stiglitz's perspective, the wide-scale adoption of neoliberal reforms in post-Communist states can be explained largely by recognizing that a free-market ideology dominated the international community, and this ideology was aggressively pushed on post-Communist governments. To some extent this is true, but as this book will show, the role of ideology is much more nuanced than that, and the beliefs and preferences of actors on the ground deserve much more recognition than Stiglitz allows for.

In seeking to uncover the complex role of ideology in post-Communist economic policy making, this volume explores in detail the determinants of large-scale privatization in the Czech Republic and Russia, among other East European countries. The specific task of this study is to show that ideology accounts for the choice of *how* to privatize in these states—rather than to explain the choice of *whether* to privatize more generally. The book begins by investigating the role of the West in the international spread of a particular privatization paradigm in Eastern Europe. It argues that ideological factors drove the privatization process in Eastern Europe in ways much more complex and profound than the West's promotion of a neoliberal privatization agenda. The book also demonstrates how ideology shaped the perception of individual and group interests within the privatization process, created expectations regarding the efficacy of various approaches, informed leaders' attitudes toward building public support for a new ownership regime, and affected the realization of a leader's privatization approach.[13]

How Ideology Drove Privatization

There are three main channels in the domestic sphere through which ideological variables determine the design, revision, and implementation of new ownership arrangements. First, the beliefs of policy makers and the ideological foundations of the theories they espouse determine the initial design of new property rights reforms. Second, the beliefs of actors in society (non–policy makers) shape the definition of interests and the distribution of power among groups in society. This in turn shapes the nature and potency of interest group demands within the property rights reform and determines the version of reforms that leaders can ultimately pursue. Third, the beliefs of policy makers influence the implementation process—namely, they shape how policy makers attempt to build compliance to a new property rights arrangement. These first three channels together generate a final mechanism of ideological influence on domestic policy making. Namely, the compatibility between the ideological foundations of privatization policies and the beliefs of societal actors affect the ease of implementation and the distortion of privatization programs over time.

Ideology and Policy Design

Given the multiple uses of the word "ideology," it is necessary to make explicit how it is understood in this study. As a rule, the term "ideology" seems to invite controversy irrespective of the definition; and for this reason many scholars (Stiglitz aside) avoid the term entirely. As a case in point, Nobel laureate Douglass North noted in an address to the American Political Science Association that he prefers the term "belief system" to "ideology," since the latter word is not worth the trouble.[14] Several political scientists studying the impact of economic theoretical constructs (like developmentalism, Keynesianism, and economic liberalism) on policy making choose to study the influence of "ideas" rather than "ideology."[15] Within this literature, the choice to study ideas rather than ideology can be a stylistic or a substantive choice, depending on the particular analysis. However, the intention of such enterprises is similar to this one: to uncover the role of nonmaterial, ideational phenomena in the policy-making process.

The definition of "ideology" in this book is borrowed from one student of ideology, Malcolm Hamilton. After identifying more than twenty-seven conceptual elements or "definitional criteria," Hamilton isolates the essential core around which all definitions are built. He defines ideology as "a system of collectively held normative and reputedly factual ideas and beliefs and attitudes advocating a particular pattern of social relationships and arrangements, and/or aimed at justifying a particular pattern of conduct, which its proponents seek to promote, realize, pursue or maintain."[16]

Hamilton's definition is useful for several reasons. First, this definition makes explicit that ideologies are first and foremost mental constructs espoused by individuals, rather than discursive constraints or patterns of behavior. Second, Hamilton's definition stresses that ideologies provide an interpretation of the world both as it is (a weltanschauung) and *as it should be.*[17] That is, ideologies prescribe an ideal and thereby advocate a particular formula for change. Hamilton notes that ideologies "seek to persuade. . . . they make claims, present an argument, state reasons, for or against some plan, programme, behavior, action, conduct, value, attitude, preference, view and so on."[18] Given that the goal of this book is to identify the mechanisms through which ideologies recommend and shape privatization strategies, the term "ideology" has advantages over the more limited term "ideas," which may or may not be interpreted as advocating certain approaches or responses to political problems.[19]

Moreover, in referring to the term "ideology," this book adopts a Hayekian notion of ideology, in that it is a neutral term. That is, "ideology" here does not imply a Marxian false consciousness—it simply is a belief system with nothing pejorative intended in its usage.[20] Furthermore, references to both ideology and ideas do not imply the idiosyncratic beliefs of individual leaders, but instead a set of beliefs held by the individual but *shared by many*—such as economic liberalism, nationalism, anti-Communism, or pro-Westernism. As this list suggests, negative ideologies (that is, belief systems based on the rejection of a set of principles or constructs) is a subset of the broader category of shared ideologies. Thus, anti-Communism is as much an ideology as Communism.

Finally, and most important, Hamilton's definition highlights the multiple constitutive elements within an ideology, referring to ideas, beliefs, and attitudes individually. This brings us to a central issue in the growing "literature on ideas," as this strand of research can be called. Many contributors to this literature have been criticized either for studying a vast array of nonmaterial variables, all of which get called "ideas" (norms, paradigms, values, beliefs, identities, etc.), or for lumping together different types of politically relevant actors (such as policy makers, organizations, and members in social groups) who subscribe to various ideologies and ideas.[21]

There are different ways of coping with this difficulty. One is to take a small subset of ideational phenomena—like norms—and limit the study to this piece of the puzzle. This approach would capture only part of the nonmaterial forces informing the consideration of privatization options or the perception and formation of interests. While this might avoid one of the pitfalls attributed the literature on ideas, this narrow approach would lead to the same fundamental flaw of most material studies: Namely, for the sake of parsimony, it would exogenize key components of the process of preference formation at the expense of explanatory power.

Since analyzing one narrow type of ideational phenomena would exclude many interesting and important determinants of privatization policy making, this book takes a different tack. Avoiding the conceptual confusion associated with exploring various levels or types of ideological factors under the general rubric of "ideology" or "ideas," this book analyzes by chapter the different functions and levels on which ideological variables operate. That is, each chapter addresses one piece of the puzzle, analyzing one path by which an ideological variable influences the development of a new property rights regime. Moreover, the book distinguishes the types of ideas and beliefs that circulate in society and are espoused by members of societal groups from those of political elites in positions of policy-making authority.

Standard Determinants of Privatization

Characterizing privatization as ideologically driven, à la Stiglitz, is exceptional (and even then focuses narrowly on the advising community). The mainstream empirical literature on post-Communist privatization more commonly focuses on the material interests of key actors in order to account for the design and development of these reforms. In short, standard explanations for post-Communist privatization typically revolve around economic and political "stakeholders" who sought to impose their material preferences on the policy makers responsible for designing institutional reforms. Analyzing the special benefits for groups such as managers, labor, and entrepreneurs, among others, empirical studies have tended to emphasize the economic interests and the political resistance of groups and actors in the evolution of privatization programs. Notable examples of this line of argument can be found in the numerous works of Åslund; Boycko, Shleifer and Vishny; Nelson and Kuzes; and others.[22] For example, Shleifer and Vishny contend that privatization in general develops "in response to political pressure on the government."[23] In their analysis of the Russian case, they argue that when privatization officials tried to advance a particular program of mass privatization the demands of powerful actors in society constrained government officials and altered the course of liberal economic reform. At the time, Boycko, Shleifer, and Vishny explained, "the workers and particularly the managers are extremely influential, but the local governments and the branch ministries also play a role. . . . Unless the[se] stakeholders are appeased, bribed or disenfranchised, privatization cannot proceed."[24] According to this formulation, the distribution of power in society accounts for the ability of various groups or "stakeholders" to acquire special ownership benefits within a privatization program. Åslund similarly looks to the power of various groups to account for the distribution of benefits within Russian privatization. He explains the extensive privileges for managerial elites in Russian privatization by arguing that the Russian *nomenklatura* elite was "bigger, richer, more powerful . . . and far more prepared to fight" than in other country cases.[25] Studies of East European privatization similarly account for the design of privatization programs by emphasizing the strategies of government officials to use economic policy as a way to co-opt groups in society.[26] This common tendency in the post-Communist literature replicates trends in earlier research on privatization in Europe and North America in the 1980s, which similarly emphasizes power struggles and material interests over nonmaterial factors.[27]

Theories of Property Rights Change

The standard empirical findings of post-Communist privatization are consistent with the trends in property rights theory. That is, the theoretical literature on property rights change, which is not specific to the post-

Communist context, similarly looks to either power or economic interests to account for new ownership arrangements.[28] For example, by linking the insights of interest group theory to the formulation of property rights, Gary Libecap asserts that property rights are, first and foremost, the products of political bargaining among competing interests groups.[29] Like many interest group approaches, Libecap does not attribute any interests to the state per se. Serving the neutral role of arbiter, the state acts primarily as mediator between the competing claims that are brought forth by various societal groups.[30] Margaret Levi also looks at the formation of property rights systems as a product of bargaining between the state and societal actors, each constrained by resource endowments and other factors.[31]

Taking a wholly state-centered approach, Douglass North shows that since the premodern period the state or the sovereign constructs a system of property rights according to its own economic interests. North's emphasis on the calculation of economic interests by the agent specifying property rights builds upon the earlier interest-based work of Harold Demsetz and others.[32] Demsetz's work posits that private and exclusive property rights emerge when actors' calculations reveal that new property arrangements will yield material gains that exceed the costs of transformation.[33] However, North's work differs from earlier work because the previous studies rely exclusively on the rational calculation of known interests—the perception of which is unproblematic—as the determinant of property rights arrangements. Instead, North shows that the specification of property rights according to economic or material interests has historically been contentious for state actors (or the sovereign) since they are faced with different paths of reaching their objectives.[34] North's general theory of property rights captures much of the complexity in designing a new system of property rights by problematizing the state's pursuit of its economic interests, a complexity that is crucial to understanding post-Communist property regime change for reasons explained below. However, in stressing the state's dilemma between creating an efficient system of property rights and drawing immediate rents (predation), North does not address how state actors decide which property arrangements are efficient. Of equal concern is that North provides little analysis of power, considering state power as no more than a means to material extraction.[35]

More recently, political-economists have sought to widen the focus of interest-based property rights analysis by identifying the accumulation of political power as an end in and of itself. For example, Riker and Weimer argue that when governments seek to create an efficient ownership arrangement, it is not efficiency per se that may interest the rulers, but rather the political benefits that an efficient economic system accrues to the leaders.[36] In other words, the rulers of the state create an efficient property rights system such that it maximizes their personal *political* fortunes.[37]

Rethinking Theories of Property Rights and Privatization

Both the empirical and the theoretical literature stress the importance of powerful agents calculating their material self-interest in analyzing property rights development and change. Returning to the role of ideological factors in privatization, the crucial shortcoming of standard materialist and power-based analyses in both empirical and theoretical literatures is *the inadequate attention to the forces (1) shaping how the preferences of state and societal actors form and (2) determining how the distribution of power is perceived.* Instead, the interests and power of various groups are assumed from the outcomes.

Why is this problematic in studying post-Communist privatization? For one, given the high degree of uncertainty following the post-Communist change in governments, state actors may have no clear way of deciding which property structures or transformative mechanisms best advance particular goals or, as in the Northian property rights model, best facilitate material extraction. North's model does not speak to the possibility that comprehending the economic consequences of various property rights arrangements may be an ideologically charged process. In privatizing states, post-Communist leaders had to choose among competing prescriptions for promoting economic efficiency and defer to technical specialists—specialists who disagreed among themselves over ideal strategies. North's efficiency-predation dilemma, while problematizing the perception of economic interest, does not elucidate why one group of technocrats was chosen or why one form of privatization prevailed over another, especially in the case when the prevailing form does not appear to favor revenue extraction or economic efficiency. That is, the standard theories of state predation (material extraction) offer little in the way of explaining state divestiture through the nearly free distribution of property. Some contributors to the literature on property rights, such as Margaret Levi, directly acknowledge the difficulty of employing a predatory approach to analyze leaders who do not seek to maximize revenue. Unfortunately, state predation theorists do not offer any alternative for such cases and have no pretense of doing so for what they consider exceptional cases.[38]

The limitation of theories relying exclusively on the power and material interests of individuals or groups vis-à-vis the state to explain property rights is that they cannot account for the constraints on policy choice sets, the priorities of leaders and societal actors, or the nonmaterial resources of participants in policy debates. While the weakness of interest-based and power-based theories of privatization will be analyzed later in greater detail, consider briefly here the problem of explaining variation based on traditional variables in Russia and the Czech Republic:

An explanation consistent with the mainstream property rights literature would claim that the inclusion of extensive employee ownership privileges in Russian mass privatization, and their absence in Czech mass privatization, could be understood by analyzing the power and interests of managers and labor vis-à-vis the state in each country case. According to this logic, however, we should have expected equivalent privileges and benefits for management and labor in Russia and the Czech Republic. Managers and labor appear to be in equivalent lobbying positions in Russia and the Czech Republic. After all, both states emerged from relatively similar industrial structures and property rights structures (with around 95 percent of GNP stemming from the state sector). In both states, managers and labor should have had, in principle, equivalent material interests and prior claims to property. Yet the patterns of resistance to privatization and the lobbying for benefits vary enormously between cases. In the Czech Republic, enterprise managers and labor received essentially no benefits at all, while in Russia they had the opportunity to become majority owners in over two-thirds of the firms included in the mass privatization program, as discussed below. Without bringing ideology and legitimacy into our analysis, we would only realize the differing bargaining positions of these groups vis-à-vis the government post hoc—namely, with the benefit of knowing subsequently how property was distributed. In such a case, the distribution of property would act as both an independent and dependent variable: it would identify the relative power and interests of groups in society and be a product of that power or interest, thereby resulting in tautology.[39]

While the bargaining between the state and interest groups matters crucially in the formation of property rights systems, it is edifying to focus on the process through which interests and preferences form. It improves our understanding of post-Communist economic reform. It also forces us to pay greater attention to the assumptions that underlie rational choice analysis.[40] In focusing on the perception of interest, however, it is necessary to clarify that the assumption of self-interested behavior among actors in the political-economy literature is not directly at issue here, but rather the inattention to the process of defining those interests in highly unstable environments. More specifically, in a revolutionary context, the formation of interests—even those that are purely materialist in nature—is extremely complex and dynamic. During such a period of great uncertainty and change, judging which policies best advance one's parochial self-interest, or even the greater economic good, is highly challenging for politicians, industrial specialists, and economic advisers, not to mention workers, managers, or anyone else whose welfare is affected by the process. This complexity problematizes a methodological approach that exogenizes preference formation when attributing policy outcomes to the resistance and pressure of stakeholders, especially stakeholders who are simplistically characterized as pursuing objective and self-evident interests.[41] Similarly, it weakens arguments based on the pursuit of material interests when the ability to recognize and pursue those interests is highly precarious.

Posing similar challenges, property rights theory based on power ignore the degree to which the positions of actors in the existing hierarchy of power turn on dynamic human and material resources as well as highly malleable, subjective perceptions of authority and legitimacy. Power is constantly under negotiation, especially during revolutionary moments. Since perceptions of power determine the kinds of demands interest groups make during privatization and the government's willingness to accommodate those demands, the forces shaping the perception and redistribution of power deserve close consideration.

In revolutionary and postrevolutionary environments, determining one's self-interest and the way to advance that interest for most, if not all, economic actors requires thoughtful analysis.[42] For this reason, we must not start with a theory that explains regime change by beginning with an assumed distribution of interests and power, especially if we want to understand variation across cases. Rather, we should take a step back and explore the ways economic preferences form and how the distribution of power is perceived during economic regime change. To do so, we must bring ideological variables back in to social science analysis and explore the nuances and subtleties of ideological forces in regime change.

Much of this book pursues a direct comparison of the Czech and Russian mass privatization experiences, supplemented by an extensive discussion of other country cases, especially Poland and Slovakia. Despite the obvious differences in size and nature of the economies of the two major cases, the Russian and Czech privatization experiences are well suited for comparison, owing to important political similarities and equivalent policy starting points. In both examples, a small coterie of liberal economists achieved key positions in the government and from there developed similar mechanisms to break with the past Communist system. While both countries underwent privatization relatively early, they did not design their programs independently from each other. Russian officials borrowed from the prior Czech experience in property reform. Aside from the brief period separating the initiation of mass privatization in each country, both Russia and the Czech Republic initiated their programs within a similar international context, with relatively equivalent property rights structures and degrees of state ownership. For example, in 1990 in both Russia and the Czech Republic, approximately 5 percent of the gross domestic product (GDP) constituted private-sector output. In Hungary, private-sector output as a percentage of GDP was nearly four times greater and in Poland nearly five times greater.[43]

The Czech and Russian programs, moreover, were among the earliest mass privatization programs and together shaped the course of public sector reform in the region. They demonstrated to other transition countries that mass privatization could quickly transfer an enormous amount of property without causing an economic shock or political instability in the short-term. Moreover, the *proposed* Russian and Czech programs initially resembled each other closely as well, especially when compared to those of other privatizing states, even among neighboring postsocialist privatizing states.[44] Both Russia and the Czech Republic quickly carried out a mass privatization program that distributed property to the population nearly for free, using vouchers. In contrast to Hungary, Poland, Romania, Bulgaria, Ukraine, and other countries, privatization in Russia and the Czech Republic occurred rapidly, shortly following a change in government, with speed being an overarching priority for privatization officials.

The Ideological Determinants of Post-Communist Privatization

The ideological dimension of privatization that has received attention by scholars relates to the role of the international advising community, as noted above. To what extent did external lenders and advisers push local actors on the ground to adopt a specific approach to property rights reform? Did "market fundamentalists," as Stiglitz calls them, impose a privatization paradigm on unwilling East European officials, or were East Europeans themselves largely responsible for the evolution and dissemination of an economically liberal approach to property rights reform? I contend in chapter 2 that foreign advisers and policy specialists contributed to the evolution of thinking on public sector reform and created conditions that strongly favored the adoption of a liberal economic paradigm in many country cases. However, rather than crudely imposing privatization on unwilling officials, they promoted leaders already predisposed to liberal economic reform and many of the ideas on how to privatize evolved from the exchange of ideas among actors in the region. Using the spread of the post-Communist privatization paradigm can serve as a useful proxy for the spread of economic ideas and help identify the paths by which ideology proliferates across borders.[45]

Chapters 3 and 4 examine property rights reform from the late Communist period through the first decade of the capitalist transformation in each country. Each chapter looks at the rise of a small cohort of previously unknown academic economists and elucidates how they gained access to policy-making arenas and succeeded in advancing a particular vision of the new post-Communist economic order. These two chapters not only affirm that most of the development of mass privatization occurred in country, they also provide the historical background for the subsequent analysis of the role of ideology.

Elaborating the Theoretical Framework

To understand how ideology determines economic regime change, it is necessary to explore separately the key ideological factors. The first way that an ideology can shape property rights development is when those individuals who subscribe to it gain positions of power and draw from their beliefs to design transformative policies. Chapter 5 argues that in both Russia and the Czech Republic the urgency to privatize was largely motivated by the liberal economic belief of leading policy makers that economic recovery and revitalization could only be achieved through the immediate creation of a private ownership regime.[46] Ideological beliefs determined the choices and set the priorities of key leaders during the early years of reform. Indeed, economic beliefs colored their expectations of the economic efficiency gains that would ultimately flow from a capitalist system of ownership—much as it did decades earlier when Marxist-inspired economic principles recommended public ownership (and "scientifically based," state-led allocation of resources) over private ownership (and "arbitrary" market allocation). Moreover, leaders' ideological beliefs made appealing the development of a speedy, broadly distributional mechanism for industrial privatization. Second, the ideological beliefs of societal actors directly influence how they perceive their interests and their bargaining position within the property rights system. Furthermore, the sum of the ideas held by members in society find expression in the political discourse and in formal institutional mechanisms, thereby creating an ideological context.

Chapter 6 begins with the Czech post–Velvet Revolutionary ideological context in which anti-Communism was pervasive. The ideological context weakened the power of certain industrial groups to lobby the government to revise the legislation on privatization. Specifically, anti-Communism in both institutionalized and spontaneous forms heightened the professional insecurity of the politicians and industrial managers and made them reluctant to pursue changes to the privatization legislation. Due to the Czech lustration law (an anti-Communist screening law)[47] and due to unorganized protest by midlevel managers and the worker collectives to past politically motivated managerial appointments, large numbers of top managers were forced out of their enterprises. While many of those who left found a comfortable home in new private start-ups or foreign ventures, those managers remaining in the traditional domestic industries felt their positions to be too precarious to challenge the new regime. Therefore, midlevel managers who survived the forced exodus from industry considered the protection of their jobs a higher priority than achieving greater benefits within privatization.[48] Similarly, the pervasiveness of anti-Communist sentiment impaired workers in advancing claims to property within privatization. When the legislature debated large-scale privatization, Czech labor groups failed to secure support to revise the privatization program. The impotence of labor is highlighted by the workers' inability in practice to acquire the ownership rights to even the limited amount of property allotted to them by law.

In contrast, post-Soviet Russia did not see equivalent formalized expressions of anti-Communism as in Czechoslovakia following the Velvet Revolution. Russian privatization officials were working within a different ideological context and thus confronted a legislative arena that contrasted sharply with that faced by the Czech leadership. Unlike in most other post-

Communist states in Eastern Europe, there were no new elections called in post-Soviet Russia; and those politicians elected under the previous system were deemed legitimate within the new polity. Similarly, those managers in top posts in Russia (many of whom obtained their positions for political reasons in the past) kept their jobs. Hence, when the Supreme Soviet began to debate privatization, a large proportion of the deputies were Communist.[49] They were ideologically sympathetic toward employee-share ownership and felt compelled (at the very least to appear) to support employee rights.[50] Hence, Russian managers could easily form alliances with members of the federal legislature and pressure the State Property Committee to increase their ownership stakes in privatization under the banner of employee rights. In essence, the *lack* of professional insecurity of parliamentarians elected under the Communist regime or managers appointed under the past system enabled managers to make bold claims for property.

In sum, widely held beliefs in society can determine the distribution of power and shape the perception of material self-interest. Czech anti-Communism discredited the demands of labor, and Czech managers, in contrast to their Russian counterparts, preferred minimizing the risk of losing their jobs to becoming proprietors of their firms. In Russia, anti-Communist sentiment was less prevalent and was not manifested in formal institutions to anywhere near the same extent. As a result, many groups who had benefited under the communist regime saw their legitimacy and thus their power project into the new regime, which in turn affected their ability to advance their claims to property during the reformulation of Russia's ownership regime.

The Ideological Foundations of Compliance

The ideological beliefs of leaders and societal actors not only influence policy design, they also affect the way leaders approach the task of eliciting support for and gaining compliance to newly designed privatization policies. To examine how leaders go about winning acceptance from groups in society, chapter 7 borrows from the work of Amitai Etzioni to identify three mechanisms that can be employed to gain compliance: coercive, remunerative, and ideological.[51] Coercive compliance mechanisms involve the credible threat or the use of force to gain compliance, such as the threat of physical violence or imprisonment. Remunerative compliance mechanisms rely upon economic incentives to garner support, such as special enterprise share-holding privileges, bribes, and monetary transfers.[52] Ideological reinforcing mechanisms use ideational and normative appeals to bring legitimacy to a program in order to achieve the necessary compliance.

The usefulness of Etzioni's framework in a theoretical discussion on the role of ideology is not simply to assert that post-Communist governments employed ideological legitimization. Although ideological justification is a common practice in politics, this function is intuitive as well as consistent with mainstream theories of property rights and policy making more broadly.[53] Rather, Etzioni's framework is relevant because it can illuminate how leaders' ideological beliefs inform which among the three reinforcing mechanisms they employ. This choice does not merely represent an intellectual exercise by political strategists. Instead, this choice can determine the intensity of political resistance as well as the content of a policy program—especially when remunerative mechanisms are chosen that require the incorporation of material benefits within a program.

While both the Russian and Czech leaders employed remunerative reinforcing mechanisms, such as the free distribution of property through vouchers, Czech leaders *also* relied extensively on anti-Communist and pro-European ideas to develop highly effective ideological reinforcing mechanisms. An effective technique was to insist upon the historical appropriateness of liberal property reform. The voucher program would "return" the country to its rightful historical place as a member of the Western or European community. This pro-European emphasis dovetailed with Klaus's pro-Czech orientation.

In Russia, rather than develop ideological legitimating mechanisms in the Czech tradition, Yeltsin's economic team relied heavily upon material incentives to individuals and groups to implement privatization. Although issues of fairness were certainly addressed, the Russian privatizers paid scant attention to promoting mass privatization on an ideological basis. The writing and public statements of Russian privatization officials reveal their scorn for ideological reinforcement and political slogans and their preference for tangible material incentives. They chose not to employ Russian cultural symbols or historical referents to "sell" the privatization program due to their commitment to their own liberal economic ideas and professional identities.

A lack of compatibility between the ideological basis of a reform program and the ideas of members of the elite and mass groups increases the cost of political reinforcement. And, depending on the will and skill of leaders, this incompatibility can determine the extent to which liberal economic reform is distorted. In this regard, the compatibility between a people and a program relates directly to the political resistance that leaders face when implementing reforms. The less the ideas underpinning a program fit effortlessly with the ideas of different economic and political groups, the greater the cost of developing reinforcing mechanisms. Chapter 8 shows that it was relatively easy for the Czech reformers to portray privatization as anti-Communist (such as with the property restitution laws), pro-European (with the institutionalization of private system of ownership), and thus essentially Czech by emphasizing that the Communist system was imposed and enforced from without and needed to be replaced by a system more appropriate to the Czech context—that is, a European system. Given prevailing cultural and territorial referents, it was rather straightforward for property reformers to make the creation of a new property system part and parcel of the formation of a new Euro-Czech identity.

However, given the difference in ideological contexts and existing territorial referents in Russia, a similar strategy would have been much more challenging for privatization officials. Since the end of the cold war, the rejection of the communist past in favor of a new Western liberal orientation was often interpreted in post-Soviet Russia as a rejection of oneself and demeaning to one's past. And while perceptions of history are subject to distortion and reinterpretation, portraying persuasively the adoption of capitalism (and private property) as a return to a former self would have been exceptionally difficult. Russian politicians could not easily reject Communism as alien or overlook the foreign connotation of a liberal property system. Furthermore, it would have required both the willingness and the skills of Russian liberals to promote such a campaign effectively.

More than a dozen years have passed since the countries of Eastern Europe and the former Soviet Union embarked upon a transition to democracy and capitalism. It is only now that scholars are able to look back at this period and begin to evaluate the paths taken for creating markets in each country. Many questions deserve careful reflection: In retrospect, did these governments have more time to undertake fundamental market reform? Why did the speed of transformation dominate other priorities? Why did domestic officials and foreign advisers place so much emphasis on privatization as the hallmark and the benchmark of capitalist transformation? Could the state have used alternative means to transfer property to private hands that would have avoided intense controversy and public disillusionment? What kind of ideological reinforcement could have brought greater legitimacy to the privatization process? Why was so little attention paid in Eastern Europe to developing the public sector as a credible actor in the restructuring of industry, in the enforcement of contracts, and in the financing and monitoring of capitalist economic activity? In answering these questions, this book argues that choice of strategies in post-Communist privatization cannot be understood either as economic policy optimization or as politics as usual, but instead should be understood as an ideologically driven program of regime change.