

Privatization Czech-Style

Under communism, state-owned companies and cooperatives accounted for 97% of Czech national product. But in 1991 the country began a program to return these businesses to private hands. Over the following three years shares in more than 1,600 businesses with a book value of \$14 billion were privatized through a method that was subsequently copied by many Eastern bloc countries.

The plan worked as follows. Shares in each of these businesses were auctioned to the public, but instead of paying cash, would-be investors bid for shares with vouchers. Every adult was entitled to buy a book of these vouchers for about \$35. Thus the plan aimed to create in a short time a shareholder democracy, in which all citizens had an equal right to ownership of the privatized companies.

But it was not all plain sailing. One problem was that the government allowed citizens to resell their vouchers to Investment Privatization Funds (IPFs), that could then amass significant stakes in the privatized firms and force the restructuring that many firms badly needed. Most citizens did resell their vouchers, but the IPFs did little to improve the operations of the companies that they invested in and were frequently corrupt.