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Class of 2014

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Abstract
Vladimir Mečiar, the first Prime Minister of independent Slovakia, is often criticized for his suppression of free media, political repression, and the widespread corruption of his government from 1993-1998. Mečiar has also been attacked for his economic policies, which critics suggest slowed down privatization and left Slovakia in a huge debt crisis. A closer look at macroeconomic data, however, demonstrates an impressive economic record for Mečiar, who oversaw several years of strong GDP growth, and relatively low levels of unemployment and inflation. By slowing down the privatization process, retaining control of key industries, and maintaining the social safety net, Mečiar was able to soften the blow of economic transition in Slovakia and prepare the groundwork politically for later market reform. Quick “shock therapy” in 1993 would have been politically disastrous in the nascent state, and it was only as a result of Mečiar’s slow-go policies that Slovakia is seen today as one of the great successes of post-Communist economic transition.

Keywords
Slovakia, Eastern Europe, Communism, Transition, Economics

This article is available in The Gettysburg Historical Journal: https://cupola.gettysburg.edu/ghj/vol12/iss1/7
By David Wemer

When the iron curtain collapsed across the center of Europe and the Soviet Union imploded in the early years of the 1990s, economists and policymakers throughout Europe were confronted with a new and difficult challenge: how to revitalize the former Communist economies of Central and Eastern Europe into capitalistic economies ready to compete in the modern world. Western economists quickly began preaching the theory of “shock therapy,” which mandated the quick and comprehensive dismantling of communist economic structures and the introduction of market forces as soon as possible. Economic success was soon judged by the extent to which these countries privatized their economies, and leading countries such as Poland, Hungary, the Czech Republic, and the Baltic States embraced “shock therapy” within the first few years of independence. One country, however, approached “shock therapy” with more caution and, in almost direct defiance of the Western economists, enjoyed considerable macroeconomic success.

Slovakia, under the leadership of Prime Minister Vladimir Mečiar, transitioned to capitalism slowly, maintaining government control of key industries and banks, and using substantial government spending to boost the economy and maintain social entitlement programs at their communist-era levels.¹ Instead of sliding into stagnation or collapsing under the weight of market forces as Western economists predicted, Slovakia, from the years of 1993 to 1998, “registered one of the best macroeconomic performances in Central Europe,” meeting or even surpassing some of its neighbors on

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¹ The official name of Slovakia is “the Slovak Republic”, but for conciseness I will only refer to the country by its common short form “Slovakia.”
economic indicators such as Gross Domestic Product (GDP), unemployment, and inflation.\(^2\) Despite this macroeconomic success, historians and economists largely view the Mečiar period in Slovakia as one of economic mismanagement in which the Slovaksians dangerously threatened their economy by delaying true privatization and failing to completely transition their economy. The question begs to be asked: which is true? The data or the interpretation? Given the economic disadvantages of Slovakia following the break-up of Czechoslovakia, the continued GDP growth of the Slovakian economy, and the stabilization of inflation and unemployment, the economic actions of the Mečiar government must be viewed as a success. These policies gave Slovakia the stability it needed to consolidate nationally, modernize its economy, and prepare its population for the pains of complete privatization.

Vladimir Mečiar is not a man who normally receives praise outside Slovakia. While he was, and remains to this day, the most popular politician in Slovakia, his populist and sometimes heavy-handed political style did not gain him many friends during his almost six years as Prime Minister of Slovakia. Mečiar governed from June 1992 to October 1998, except for a nine month period in 1994 when opposition parties were able to form a temporary government under Jozef Moravčík. Mečiar's term was described by historian Padraic Kenney as “the most disheartening story of the region,” due to the controversial and border-line repressive actions of Mečiar and his political allies.\(^3\) Mečiar was heavily criticized by the United States and the European Union, and even labeled an authoritarian for his suppression of the media, manipulation of the Parliament, and use of political murder and kidnapping to intimidate his political

opponents. The most notable case of Mečiar’s ruthlessness was the 1995 kidnapping of the son of then-Slovak President and Mečiar rival, Michal Kováč, in Austria by the Slovakian secret service and the car bombing of an intelligence officer who leaked information about the plot.4

Criticism of Mečiar has spread into the economic realm as well. Despite the multitude of positive economic indicators during the Mečiar period, Western analysts have heavily criticized Mečiar’s handling of the Slovakian economy. Historian Karen Henderson argues that “the Slovak economy in the 1990s was plagued by some exceptionally bad decision-making,” which, although producing some economic growth, made the economic situation in Slovakia “unsustainable.”5 Western economists attacked Mečiar for his reluctance to privatize heavy industries and banks, his failure to attract foreign investment, the persistence of long term unemployment, and the growth of the deficit due to government spending and the maintenance of large social entitlement programs. When Mečiar was defeated in 1998, Western analysts depicted Slovakia as an economy driven into the ground with a vital need for substantial economic reforms and financial austerity. Indeed, even the macroeconomic successes of GDP, unemployment, and inflation were not the result of Mečiar’s slow-go policies, but could be credited to the reforms of the Moravčík government, the economic upturn in Western Europe, and new technology in Slovakia.6


This narrative of the Mečiar government, however, fails to address the context of the Slovakian economy in the early 1990s, the true macroeconomic successes of Mečiar’s policies, and the political atmosphere within which Mečiar was working. Analysts frequently compare Slovakia’s progress in privatization and economic growth with its Visegrád neighbors, despite the fact that these countries’ economic situations were vastly different from Slovakia’s. Slovakia had been underdeveloped economically since World War One and did not properly industrialize until the 1960s. This industrialization took place under the watch of the Czechoslovak communists who had “the most rigid of the communist planned economies.” The communists developed Slovakia with large heavy industries including chemicals, smelting, and most importantly, weaponry, which could be manufactured safely for East Germany and away from the borders of NATO countries. When the communists fell in Czechoslovakia, the Slovak economy was almost entirely dependent on this heavy industry and a small amount of agriculture in the rural regions. On top of that, the primary markets for Slovakian chemicals and weapons, East Germany and the Soviet Union, were either wiped off the map or were in no position to continue to purchase Slovakian weapons.

The outdated and largely defunct Slovakian heavy industries were an easy target for the early privatization schemes of the new Czechoslovak government in 1991 and 1992. Additionally, many Czech ex-dissidents were repulsed by the idea of Slovakia

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7 The Visegrád group was formed in 1991 and consists of Poland, Hungary, the Czech Republic, and Slovakia. The group was formed to promote free trade liberalization and to present those countries as a “Central Europe” distinct from the other post-communist states. For more information on the Visegrád group, see Iver B. Neumann, “Regionalization and Democratic Consolidation,” in Democratic Consolidation in Eastern Europe: Volume Two International and Transnational Factors, eds. Jan Zielonka and Alex Pravda (Oxford: Oxford University Press, 2001), 66.


9 Ibid., 19, 27.
exporting arms and called for the weapons factories to be closed. Slovak politicians fought hard to keep many of the industries open, but even the small amount of privatizations had a devastating effect on the Slovakian economy. In 1991, around 100,000 Slovaks were out of work and, after the free market reforms, this number rose to 319,000 in 1992. The Slovak unemployment rate hit twelve percent nationally in 1992, more than three times the rate in Czech lands. Adding to the crisis, which saw unemployment reach twenty percent in some places and food prices spike, was the lack of assistance Slovakia seemed to be getting from the Czechoslovak government and Western investors. Of the 3,000 Western joint-ventures started in Czechoslovakia in 1991, only 600 opened in Slovakia.¹⁰

The disadvantages for Slovakia did not end once Czechoslovakia split in 1993. Unlike its Czech neighbor, Slovakia lacked many of the state institutions and administrations needed to efficiently manage the economy. Slovakia was thrust into statehood in the middle of an economic crisis without any of the structures necessary to perform such vital tasks as taxation, trade, and economic regulation. Starved of tax dollars and trade revenues, the Slovak government initially had to choke off funds from vital health and education programs. In the first months of independence, Slovakia appeared to foreign governments and investors as an unstable state with a collapsing economy and little prospect for growth, which only added to Slovakia’s problems. Of the $8.98 billion in aid given to Visegrád countries from 1991 to 1994, Slovakia received only $366 million or four percent of the total. From the years of 1989 to 1997, Slovakia only received 1.8% of the total foreign investment to post-communist states while the

Czechs received 12.2% and the Hungarians 25.2%. For every one dollar of foreign investment in Slovakia, the Czech Republic received nine dollars in foreign investments. Western investors simply did not feel confident investing in a state with the possibility of instability and whose economy was dependent on outdated heavy industries.¹¹

Even with its reliance on communist-era heavy industry, administrative problems, and lack of foreign investment, Slovakia enjoyed remarkable macroeconomic success from 1993 to 1998, even when compared to its neighbors who lacked some of Slovakia's structural problems. Perhaps the most striking economic indicator during the Mečiar period was the change in Slovakia's GDP. During the Czechoslovak years, the Slovakian economy GDP fell a devastating -14.6% in 1991 and -6.5% in 1992, and trouble during the transition caused GDP to slide further in 1993 by -3.7%. In the subsequent four years, however, GDP grew at a spectacular rate, with a growth rate of 4.9% in 1994, 6.8% in 1995, 6.9% in 1996, and 6.5% in 1997. The GDP growth rates in 1994 and 1995 were higher than the neighboring Czechs' and in 1996 Slovakia's GDP growth was the highest of any Central or Eastern European transition economy.¹²

On top of the growth in GDP, two other important indicators, unemployment and inflation, stabilized or even decreased during this period. Unemployment continued to climb following the dissolution of Czechoslovakia throughout 1993 and, partly as a result of the privatizations of the Moravčík government, reached as high as fifteen percent in 1994. By 1996, however, unemployment actually fell to between twelve and thirteen and stayed at those levels until the end of the Mečiar administration. The stabilization of the unemployment rate was due in large part to Mečiar's slowing of the

¹² Ibid., 400-401; Goldman, Slovakia Since Independence, 110-112.
privatization process, which allowed the government to retain control of “strategic” industries such as chemicals, weapons, and energy so that these industries were not shut down and workers laid off. Given the structural problems of the Slovakian economy, the stabilization and modest decline of unemployment from 1994-1997 is striking. While the unemployment rate was much higher than in the Czech Republic (the rate there never reached higher than four percent), Slovakia’s rate was lower than Poland’s (fifteen percent in 1995) and even those of some Southern European countries such as Portugal and Greece.\(^{13}\)

Mečiar also orchestrated tight control over Slovakian banks which led to a steep decline in inflation over his term. The inflation rate fell sharply from 23% in 1993, to 12% in 1994, and 6.2% in 1995, giving Slovakia the lowest inflation rate in the region. In addition to controlling inflation, Mečiar used control of key industries to enact wage increases to keep Slovaks’ savings intact. Average wages in Slovakia rose constantly after 1993, growing by seven percent in both 1996 and 1997 at a rate higher than both Hungary and Poland. These policies led Slovakia to have one of the most stable levels of income inequality of any of the transition economies. As the Organization for Economic Cooperation and Development (OECD) wrote in 1999, “the combination of high GDP growth rates and relatively low, stable inflation has ranked Slovakia amongst the most successful transition countries as regards macroeconomic stabilization.”\(^{14}\)

The Mečiar government even achieved economic success in areas which most critics attack, such as privatization, budget deficits, and industrial investment. The most common of these criticisms was the charge that Mečiar was holding back the process of

\(^{13}\) Ibid., 105-106, 111-112; Kolodko, *From Shock to Therapy*, 374, 394, 400.

privatization and severely threatening the future of the Slovakian economy. While it is true that Mečiar slowed down the rate of privatization in order to cushion the blow of unemployment, Mečiar and his ministers still supported free market reform and privatization continued to occur from 1993-1998. At the beginning of 1994, only five percent of Slovakia’s state-run enterprises were privatized, but by the end of 1995 74% of Slovakian enterprises were private, a larger share than both Poland (55%) and Slovenia (54%). In 1995 private enterprises made up 60% of GDP and, following a rapid sale of manufacturing firms, this share increased to 79% by the end of 1996. Mečiar also restructured many of the outdated heavy industries in order to make them more attractive to foreign and domestic buyers. The World Bank reported in 1999 that Slovakia had the highest ratio of gross and net profits to GDP of any transition economy and the OECD observed that “by most indicators, a substantial amount of restructuring has taken place [in Slovakia] since the beginning of the transition.”

Although maintaining control of a few key strategic industries and still lagging behind his Czech neighbors in terms of complete privatization, Mečiar was not, as some critics characterize him, an enemy of privatization or a danger to the Slovakian economy. Despite the outdated state of Slovakia’s heavy industry, domestic instability, and a lack of foreign investment, Mečiar could boast that by 1997 only three percent of Slovakian enterprises remained in public hands.

Critics also attack Mečiar for leaving Slovakia with an enormous deficit which forced Mečiar’s successor, Mikulas Dzurinda, to pass several painful austerity measures. These critics point to Mečiar’s continued control of costly heavy industries and the

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16 Ibid., 88.
maintenance of social safety net programs as the main culprits. Economic data from 1997 and 1998 demonstrate, however, that the deficit problem in Slovakia was not as severe as Mečiar’s critics assert, and was largely caused by outside factors, instead of simple government overspending. Writing on the economic situation in Slovakia in 1998, the World Bank argued that “the Slovak Republic’s external debt to GDP ratios do not look excessive by international comparison.”\(^{17}\) In 1997, Slovakia’s current account balance as a percentage of GDP was -7.9%, only slightly higher than the neighboring Czech Republic at -6.1%. Slovakia was also not an outlier when it came to government expenditures.\(^{18}\)

Although increasing spending on health, social, and employment insurance, Slovakia benefitted from having fewer problems with their public pension program, which made up only 8.3% of GDP in 1996, as compared with 8.4% in the Czech Republic and 14.4% in Poland. Total government expenditure as of 1996 only made up 47% of GDP, which placed Slovakia somewhere between Switzerland and Canada and was less than both Germany and France. The OECD even wrote in 1996 that “recent developments in the state budget indicate that Slovakia has been pursuing a restrained, prudent fiscal policy.”\(^{19}\) While deficits did emerge in the last years of the Mečiar government, these were not primarily a result of his economic policies, but as the World Bank pointed out “due to cyclical factors” such as an economic slowdown in the European Union and the disruption of trade with the Czech Republic as that country looked primarily westward.\(^{20}\)

\(^{17}\) World Bank, *Slovak Republic*, x.
\(^{18}\) Kolodko, *From Shock to Therapy*, 92.
The lack of foreign investment in Slovakia during the 1990s is also largely attributed to Mečiar because of his public support for domestic as opposed to foreign investment. Mečiar and his economic advisers made it publically known that they wished to include domestic buyers in the privatization process so that Slovakia was not tied down with too much foreign money. Several critics such as Minton Goldman describe this policy as “a specious argument at best,” given the high level of poverty in Slovakia, but it seems that the focus on domestic investment did produce positive effects in the 1990s. More than 70% of Slovaks took advantage of a voucher privatization program in 1991 and 1992, launched by Czechoslovakia to invest in privatization funds, which helped to increase domestic demand and household consumption in 1993-1995. The OECD even attributed the economic growth of Slovakia during the European Union slowdown of 1996-1998 to the high levels of domestic consumption in Slovakia and government investment. While Slovakia in 1998 still had to lower their deficits and complete privatization, the economy was, as the OECD argues, “not an emerging economy on the verge of crisis,” like some of Mečiar’s critics argue.21

Critics of the Mečiar government often exclusively focus on the many political crimes and failures of the Prime Minister and his advisers in the years of 1993-1998. When commenting on the economic actions of Mečiar, however, they fail to understand the political context under which these policies were enacted and the many political benefits they brought about. Slovakia was not the ideal location to experiment with free market reforms. One of the side effects of Slovakia’s late industrialization under the communists was that the corresponding rise in standard of living, which most countries

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21 Goldman, Slovakia Since Independence, 97, 104; OECD, Slovak Republic 1996, 5-7; OECD, Slovak Republic, 10-11, 23, 25.
undergo after industrialization, was thought to be a direct result of communist policies. Slovakians, even today, equate the communist years with economic success, industrialization, and modernization. When communist Czechoslovakia collapsed, Slovak politicians and their constituents were cautious about abandoning the socialist system which had benefitted them so much.\textsuperscript{22}

The Slovaks’ concern over free market reforms only worsened under the newly democratic Czechoslovakia. As described earlier, free market reforms devastated the Slovakian economy, causing massive rises in unemployment and food prices. Justifiably, many Slovaks fiercely opposed the reforms, believing that they were both targeting Slovakia unjustly and threatening the social safety net which Slovakians relied on for assistance. Only five percent of Slovakians supported the economic reform package of 1990-1991 and the issue was soon pushed to the forefront of the fight over dissolution in 1993. The leader of the Slovakian nationalists was, incidentally, Mečiar himself. He and his allies campaigned against the economic reform package and the perceived inequalities of the Czechoslovak system. While a majority of the Slovakian people did not support independence outright, the victory of Mečiar and his Czech counterpart Vaclav Klaus in June of 1992 set in motion the dissolution of Czechoslovakia, known as the “Velvet Divorce,” which was completed without a popular referendum. Mečiar was aware that independence was not especially popular in Slovakia and leaned on economic reasons for the split, making the “major reason for Slovak independence…the freedom to move very slowly if at all toward the free market, with its unpredictability and unreliability.”\textsuperscript{23} Mečiar therefore put himself in a bind. If he did not lessen the pace and

\textsuperscript{22} Henderson,\textit{ Slovakia}, 113-114, 116.
\textsuperscript{23} Toma,\textit{ Slovakia: From Samo to Dzurinda}, 262-263; 275; Goldman,\textit{ Slovakia Since Independence}, 39, 103; Kenney,\textit{ The Burdens of Freedom}, 72.
impact of free market reform and instead simply followed the Czechs into “shock therapy,” why did he allow Czechoslovakia to break apart?

As mentioned earlier, Mečiar had reasons to fear what market reforms would bring to Slovakia in terms of unemployment and inflation. The heavy industries of Slovakia were so outdated and cash-guzzling that privatization of these factories would have meant massive layoffs at best and widespread closures at the worst. Inflation too had to be avoided so that the savings of the population were not wiped out and their standard of living destroyed. Mečiar in 1993 and 1994 was leading a state whose people feared capitalism and barely supported the country’s right to exist. He knew he could not afford either a massive unemployment spike or a standard of living drop, and did everything to stop both. Mečiar retained control of the heavy industries, keeping their doors open and workers paid. In 1994, he pushed through legislation which mandated government majority ownership in “strategic industries” (chemicals, weapons, energy) in order to make sure new investors did not shut down plants or lay off workers. When these industries continued to lose money, he spent nearly 70 billion Slovak crowns in an “enterprise revitalization” law. Meanwhile his central banks fought back inflation, and Mečiar ensured that whenever inflation did rise he passed wage increase laws, making sure that the Slovakian standard of living did not diminish. He continued and even bolstered the social safety net, expanding health insurance and allowing the thousands of out of work Slovaks to receive hefty compensation from the Slovakian government. All of this was done to ensure that the effects of free market reforms did not fall on Slovakia until the nation could absorb it.24

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This was the true success of the Mečiar economic program: by delaying full privatization of the Slovakian economy, as mandated by “shock therapy,” Slovakia avoided the economic hardship and unrest which would have followed until the country successfully consolidated and accepted capitalism as their economic model of choice. Slovakia was different from its Czech, Polish, and Hungarian neighbors. It did not have a state apparatus or a political history to fall upon; the Czechs took both with them following the breakup. The Slovaks needed to build not only a whole new state administration, but also a reason for their very existence, outside a purely ethnic difference. Additionally, the Slovakian people lacked the terrible economic experiences of their neighbors which made the hardships of “shock therapy” bearable. The Slovaks had largely done well under the communists; why should they go through hardship to change a system they believed benefitted them? To push through potentially painful economic reforms in this atmosphere would have been disastrous. Slovakia needed time to form its state, establish its identity, and adjust to the new world it found itself in.

Mečiar’s economic reforms provided Slovakia with the time it needed. Unemployment was high, but it never reached unbearable levels, and those who were unemployed receive compensation benefits from the government. Slovaks were never forced to buy food at exorbitant prices, nor had their savings wiped out. “Slovak democracy was never destabilized by rampaging street mobs...[and] the population has never been faced with the economic shocks of the kind that were common in most post-communist states.”25 Slovakia was given room to consolidate its government and prepare itself for the free market reforms to come. In 1998, Mečiar was defeated and a

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25 Ibid., 127-128.
government was formed under Mikuláš Dzurinda, who quickly inaugurated a set of reforms which completed Slovakia’s privatization and severely cut government spending. The shocks finally fell on Slovakia, where domestic demand fell, social assistance programs disappeared, and unemployment steadily grew to almost twenty percent by 2001. But the unrest and disapproval which may have followed in 1993 did not occur. In fact, Slovak voters rewarded Dzurinda with re-election, and he stayed in power until 2006. The success of the privatization program was followed by Slovakia’s accession to the European Union (EU) in 2004, a process which, although greatly assisted by Dzurinda’s reforms, actually began under Mečiar. Slovakia’s membership in the EU was “realistic precisely because Slovakia had an underlying stability which enabled it to survive the domestic storms of state-building in the 1990s.”  

The Mečiar government had many faults, among them the suppression of free media, the intimidation of political opponents, and widespread bureaucratic corruption. The economic policies of the Mečiar government, however, should not be viewed through the lens of these political crimes. By ignoring the true political motives and benefits of the Mečiar’s policies, we lose part of the story of Slovakia’s improbable rise. The Dzurinda government deservedly receives much praise for its brave reforming of the Slovakian economy which today is seen as one of the most successful examples of economic transition in Eastern Europe. It must be understood, however, that the economic reforms of the Dzurinda government could not have taken place in 1993. Slovakia’s overreliance on Soviet-era heavy industry, reluctant population, and lack of government infrastructure and institutions required an economic policy which slowly

moved towards privatization while Slovakia consolidated into a modern democracy. It is true that the economic success which Slovakia enjoyed from 1993-1998 was unsustainable, and that serious reform was needed by 1998. But by this time, Slovakia and its people were ready for those reforms. Evidence of this can be found in the election of 1998 itself. Mečiar enjoyed the advantages of positive media coverage, good macroeconomic success, and the image of the working-man’s savior. But he lost. The Slovakians chose democracy over repression, capitalism over socialism. Mečiar’s economic policies may not have helped his political life, but they ultimately gave Slovakia the consolidation time it needed to enter the modern world successfully. The transition of Slovakia from heavily industrial socialism to advanced capitalism was one of the most radical in Eastern Europe, but it only occurred because it was one of the slowest.
Bibliography


