

Concession and Secession: Constitutional Bargaining Failure in Post-Communist Czechoslovakia

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Abstract: *This article explains the dissolution of Czechoslovak federation. It shows that the breakdown in bargaining between Slovakia and the federal center in Prague resulted from the federal institutional framework, differences in fiscal policy preferences and elite patronage incentives to monopolize the spoils of state property sell-offs. Relatively less developed minority regions often seek greater autonomy in order to redress their economic backwardness through interventionist economic and social policies. Due to its veto powers, Slovakia was able to block central legislation, setting the stage for the divorce. At the same time, the federal government in the center was committed to a laissez-faire strategy of governance, which precluded any significant accommodation of the periphery. (Mostly) Czech politicians understood that yielding to Slovak claims would threaten to undercut their pro-market strategy and diminish Prague's exclusive access to the spoils of market reforms. In terms of the bargaining model, the center was not dependent on the periphery, which possessed a credible exit option. In fact, the periphery was perceived as a hindrance to the center's ability to pursue its fiscal goals and a fast economic transition, and as limiting Prague's exclusive access to a nascent revolving door between the upper echelons in politics and business.*

KEYWORDS: secession, federal institutions, veto, decentralization, autonomy, economic reforms, transition, clientelism, Czechoslovakia

The fall of communism in 1989 reopened Czechoslovakia's national question, dormant since the 1968 federal reforms. After the initial euphoria caused by the regime's implosion eroded, Slovak leaders began advocating institutional reforms that would have placed the relations between the two constituent nations on more equal footing. Over the next two years, Slovak representatives demanded the entrenchment of their republic's political and fiscal autonomy. Control over fiscal policy was especially pressing due to the economic contraction and losses associated with the transition to market economy after decades of communism. Radically laissez-faire economic reforms, initiated in the federal capital, Prague, impacted the two federal units differently and were less than sensitive to the specific needs of the Slovak economy that depended on heavy industry – one of the first victims of market liberalization.¹

The central government proved hostile to the idea of extensive autonomy, and refused to accommodate demands for more concessions and considerations of the specific needs of

¹On the eventual success of Slovak market liberalization in the late 1990s, see O'Dwyer and Kovalčík (2007). Paradoxically, Slovak market reformers, especially during Dzurinda government, embraced economic liberalism with a greater enthusiasm and success than Czech reformers (Gould 2011).

the Slovak economy. Federal political and economic elites, and their counterparts in the Czech part of the federation, believed that satisfying Slovak demands would compromise the *laissez-faire* model of governance to which they were committed. Such accommodation would also have reduced the spoils of privatization accruing to the Czech elites. The confederal institutional framework inherited from the communist period, however, prevented the federal government from scaling back the powers that the Slovak Republic already possessed. Legislative representatives of each republic wielded veto power over central government legislation. As a result, the preferences of the federal government could not be actualized to the extent that the federal leaders might have desired. In fact, Slovakia achieved a level of autonomy that a number of Czech observers believed was excessive (Filipov et al. 2004). The confederal co-dependence of the constituent parts of Czechoslovakia, combined with the incompatible political and economic goals of the Czech and Slovak elites, contributed to the federal government's unwillingness to grant further concessions, resulting in a bargaining failure.

The Czechoslovak case provides an empirical demonstration of bargaining failure as specified in the constitutional bargaining model used to analyze the Swiss case in Siroky et al. (2016).² The model suggests that the center's willingness to accommodate peripheral demands depends on two parameters – dependence and exit options. The centre's dependence on the periphery provides incentives for the accommodation of peripheral demands for autonomy. Lack of dependence translates into lack of incentive to concede. However, in order for the dependence to become politically operational, the periphery needs to wield a credible exit threat. Absent a credible exit option, even a dependent center will not concede. Where the centre is not dependent, yet the periphery has a credible exit option, the expected outcome is bargaining failure and secession. The Czechoslovak case fully conforms with the model's expectation.

The article begins with an outline of the bargaining model specified in this issue's opening contribution. It then proceeds with a brief historical background about the national question in Czechoslovakia, followed by a sketch of the political economy context in which the bargaining between the central and Slovak elites over the nature of the state occurred. We include a discussion of both the economic inequality between the two federal units and the central government strategy that shaped the implications of that inequality. The third section outlines the pattern of (non-)accommodation of the Slovak demands for greater autonomy. The final section explains this outcome in light of the model.

The Bargaining Model Summarized

We use the case of Czechoslovakia in order to point to directions in which the model might be usefully refined. In the Swiss case (Siroky et al. 2016) the *dependence* of the Bernese center on the Jura Bernois periphery is based on bilingualism, which entails more political power for Bern, whereas in Czechoslovakia, the dependence should instead be understood in political economy terms. Specifically, the federal government, together with the government of the Czech Republic, was able to see a viable economic path forward *without* Slovakia. According to some key elite figures, Slovakia was even viewed as a burden. Thus, the extrication of Slovakia from the federation was expected to unleash the economic potential of the Czech lands without the encumbrance of the Slovak part of the

²For broader implications of the model see: Clark, Golder and Golder (2017), Gehlbach (2006) and Hirschman (1970).

federation. Furthermore, the Czech political and economic elites, which controlled the federal level, were not eager to share the spoils of privatization with the Slovaks. As a result, the dependence of the center on the periphery was minimal, and many Czech representatives were happy to see the Slovaks go their own way.

The model's second parameter – a credible exit option – suggests that Prague might have had to accommodate Bratislava, since the Slovak federal unit possessed a credible exit option ($E > 0$). The concurrent wars in Yugoslavia offered a clear and proximate case of exit from a federal arrangement (cf. Zdeb 2016), and one that proved very costly for the center, which presumably Prague preferred to avoid, but the lack of dependence of the center on the periphery ($L < I$) meant that no concessions were offered and exit (secession) was deemed acceptable to the center (Scenario 1 in the Model). Not only did the federal elites perceive the Czech lands as not being dependent on Slovakia, but the interests of Klaus and Mečiar were aligned, since separation allowed Mečiar to pursue a more gradualist strategy, while Klaus favored more radical market reforms. The result was that the periphery (Slovakia) exited, and received a payoff of $E - c$, and the center kept whatever concessions it might have had to offer, which in the model is equal to I .

This is one of the sub-game perfect equilibria in the model (Scenario 1, Figure 1, see introductory article in this special issue), but it is not the equilibrium that was reached in the Swiss Jura case in which the center was dependent on the periphery and the post-1979 periphery lacked a fully credible exit option. In both cases, accommodation was minimal, but for different reasons; in the Swiss case because the periphery lacked a fully credible exit option and in the Czechoslovak case because the center did not perceive itself to be dependent on the periphery. The model predicts accommodation only when the center is dependent on the periphery and the periphery possesses a fully credible exit.

The National Question in Czechoslovakia

Czechoslovakia was established in 1918 in the immediate aftermath of World War I. While great powers played a vital role in its birth, Czech and Slovak populations also shared a number of significant cultural and linguistic traits that provided at least some symbolic basis for unification.³ Furthermore, by the end of the war there was considerable agreement among Czech and Slovak political activists about the desirability of the common state.⁴ Despite these similarities and parallel political ambitions, at this time, Czech and Slovak lands experienced separate political histories, which facilitated the construction of diverging national narratives and identities (Evans 1979: chs. 6 & 7; Taylor 1976).

The lack of an obvious precedent for the new state, and the absence of mass mobilization in favour of it, increased the importance of skilled diplomacy. In order to win the Allied powers' support, advocates of Czechoslovak statehood argued that such a state would represent the continuation of Bohemian statehood that, as they claimed, was never relinquished (Bakke 2011: 249-250). For the same tactical reason, the state-makers exaggerated the political and cultural closeness of Czechs and Slovaks, playing up the

³In addition, as Krejčí (1996: 5-6) observes, Czechs and Slovaks were not divided by religion. He also notes the obvious differences in socio-economic development between the regions inhabited by the two nations. From the historical perspective, however, the Czech lands, especially Bohemia, had been more secularized than Slovakia.

⁴Szporluk (1981: 20) argued that Masaryk's ethnic background (he was half-Slovak and half-German/Moravian, and became a Czech by choice) made him more receptive to the notion of Czechoslovak unity.

rhetoric of Czechoslovak nationhood (Krajčovičová 2011: 142). Such moves contributed to the assimilatory (or, at a minimum, neglectful) tendencies among the Czech political elites.

The new state offered political advantages for both the Czechs and the Slovaks. Czechs did not constitute a credible titular majority in the Czech lands, given the large presence of ethnic Germans and German-speakers, such as Jews. The creation of Czechoslovakia strengthened their hand in the demographic struggle with the large German minority, resentful of its inferior status in a majority Slavic state (Leff 1987: 35).⁵ The Slovaks finally managed to escape subjugation under the assimilationist Hungarian government. Yet, the very act of state-creation already planted the seeds of future discord. There was no meeting of legitimate representatives of Czech and Slovak peoples in which positions regarding the future state (and nation) were clearly and explicitly outlined.⁶ The Czech elites were not particularly interested in Slovak grievances, nor did they view them as pressing. Their neglect of the Slovak question can be explained in light of their immediate concern with the German 'problem' (Křen 1990). Czech politicians for the most part assumed that Slovaks were simply a branch of the same nation, be it Czech or Czechoslovak (Bakke 1999: ch. 9). Among Slovaks, there was less agreement, with some accepting the existence of a Czechoslovak nation, and others insisting on separate nationhood and political autonomy (Krejčí 1996: 10). The new state was a unitary polity, affording little recognition to the Slovaks as a separate national entity (Heimann 2001: ch. 3). Most members of the (ruling) Czech political establishment were ill-disposed toward the idea of Slovak autonomy, fearing it would set the country on a path of dissolution by leading to similar demands by other ethno-national groups, particularly the Germans (Leff 1988: 136).

The interwar republic (1918-1938) was thus riled with tensions between the Czech and Slovaks.⁷ The electoral system favored the Czech lands. While one mandate in the parliament represented 43,463 voters in the Czech lands, the Slovak mandate had a weight of 49,073 votes. The disproportionality was even higher in the Senate: one seat represented 76.7% of the voters in the Czech lands but only 23.2% of voters in Slovakia and Subcarpathian Ruthenia (Toth 2012). Other tensions were related to issues of language laws, regulations of Slovak grammar, role of religiosity in the public domain and aversion against increased presence of Czechs in the Slovak public administration (Toth 2012).

The preferences of Slovak nationalist politicians were rarely translated into policy. One result was that the already inferior socio-economic position of Slovaks worsened during the inter-war period. Losing the traditional export markets in Hungary had negative consequences for Slovakia's large agricultural sector (El Mallakh 1979: 24-25). Similarly, the nascent Slovak industry, previously protected behind the high wall of Hungarian tariffs, now faced competition from more efficient Czech companies (Teichova 1988: 35-36). Finally, Czechs assumed most public service positions in Slovakia even after a generation of educated Slovaks could have taken over from them (El Mallakh 1979: 42).

Mutual resentment intensified as Slovak nationalist politicians exploited Hitler's pressures on Czechoslovakia to secure autonomy in the aftermath of the Munich

⁵By 1930, there were more Germans than Slovaks in Czechoslovakia. Czechs comprised just over 50% of the population, Germans 22% and Slovaks under 16% (Krejčí 1996: 12).

⁶This despite wartime meetings of émigré groups, held by unrepresentative elites behind closed doors, that produced documents such as the Cleveland Agreement, which explicitly outlined the program for the unification of the two lands and two equal nations (!), within a federal state (Bakke 1999: 182).

⁷On the re-emergence of cleavages that relate to modernization and secularization in the Czech and Slovak politics after 1989 see: Brokl and Mansfeldová 1998, Deegan-Krause 2013, Kitschelt et al. 1999, Mansfeldová 2013.

Agreement. Relations worsened further when Slovak leaders accepted independent statehood, which Hitler offered them after the invasion of the Czechoslovakia in 1939. World War II had profound consequences for national relations in Czechoslovakia. Most notably, it provided Slovaks with its first experience of self-government, reinforcing their sense of separate national identity (Leff 1988: 90). Moreover, at the end of the war, the Czechoslovak government forcibly expelled almost the entire German population from the country. This simplified Czechoslovakia's demographics and brought the Czech-Slovak conflict into full view (Frommer 2005).

From the end of World War II to the regime opening of the late 1960s, Czechoslovakia was a highly centralized state, especially after the communist seizure of power in 1948. Slovakia's autonomy was reduced to the administrative dimension (Taborsky 1954), though Slovaks did secure formal institutional recognition of nationhood (Leff 1988: 102-103). The Prague Spring would change this institutional framework, with far-reaching consequences for the bargaining that would take place after the fall of communism (Skilling 1976). The institutional reforms of 1968 resulted in a federal system with two constituent units: the Czech and Slovak socialist republics. The federal government retained the right to legislate in economic matters, which was an area of particular disagreement between the two sides, but the Slovak proposals for a quasi-confederal organization of the central government were adopted. The federal legislature was organized on a bi-cameral principle, with both chambers receiving equal status. Republics were granted effective veto power over most legislation by virtue of their participation in the upper chamber (Skilling 1976: 869). Nevertheless, real political power remained centralized with the Czechoslovak Communist Party (CCP). The confederal features of the central government of Czechoslovakia would become politically salient only with the fall of communism and the destruction of CCP's monopoly on power.

Political Economy of Accommodation

Relative Economic Positions

The political differences between the Czech and Slovak republic had their equivalent in the economic sphere. The Czech lands industrialized significantly earlier and more extensively than the Slovak-inhabited areas (Berend 1974: 112). By the onset of World War I, most of the manufacturing capacity of the Austrian Monarchy was located in the Bohemian Crown Lands (Good 1984). These historically rooted differences were reflected in the per capita GDP figures for the two regions, so that by 1910 Slovakia's per capita GDP was only around 63% of the Czech figure (Good 1994: 879). The creation of the Czechoslovak state in 1918 therefore united two regions at distinct stages of economic development. Emergent Slovak industry had to compete with superior Czech companies (Pryor 1973: 211). Though some branches of Slovak industry prospered, and Slovaks became better educated and more prosperous, significant socio-economic differences between the western and eastern parts of the country remained (ibid.: 214).

While inter-war Czechoslovak governments paid little attention to regional inequalities, their communist successors were much more sensitive to the territorial dimension of economic development. Per capita industrial and social investments were consistently higher in Slovakia than in the Czech Republic. This investment policy was driven by two goals. The first was to 'solve' the Slovak national question by addressing the economic disparities between the two halves of the country, and between the two nations (Pavlínek

1995). These investment patterns implied a high degree of redistribution from the Czech lands to Slovakia (Capek & Sazama 1993: 216).⁸ The second goal was to locate strategically important industries, including armaments factories, as far away as possible from the border with NATO states (Pavlínek 1995: 355). This, however, turned out to be a liability for the Slovaks after 1989, when the arms industry became the first target of economic restructuring and Czechoslovakia made a political decision to vacate the arms market. This velvet gesture was met with enthusiasm among both Western and Eastern firms who happily increased their market share in arms sales. Slovaks, however, wondered whose interests were being represented in Prague.

Slovakia's industrialization was accompanied by gradual convergence in income levels and productivity relative to the Czech lands. Between 1948 and 1989, Slovakia's share in national income increased from 19.2 to 30.4%, its per capita income reaching approximately 88% of levels prevalent in the Czech Republic (Capek and Sazama 1993: 215-216). Thus, due to economic accommodation, the Slovaks viewed the socialist period in a more positive light than the inter-war experience (Capek & Sazama 1993: 217). However dysfunctional the socialist model might have been in theory, it brought an unprecedented level of development and prosperity to Slovakia in practice. For the Czechs, the lesson of state socialism was quite different. Between the wars, Czech industries were among the world's most advanced. By the late 1980s, however, the Czech economy converged with the other sclerotic communist economies.⁹

Structural features of the Slovak economy, primarily its reliance on subsidies from the centre (and from the USSR), along with its orientation toward military production and production for the Soviet Bloc markets, made it less competitive in comparison to the Czech economy after 1989. Furthermore, Slovak industries were characterized by lower export competitiveness, a structural feature not easily corrected in the short run (Capek and Sazama 1993: 226).¹⁰ Consequently, the shock of the economic transition hit Slovakia much harder than it did the Czech Republic. Slovak levels of per capita GDP dropped from 88% of Czech levels in 1989 to 74% of the Czech figure in 1992 (Basta 2012: 368, Table 2). Whereas the Czech economy shed fairly few jobs and retained a remarkably low rate of unemployment, the Slovak labor market underwent a profound and rapid transformation. By mid-1992, around the time of Czechoslovakia's second general election, the unemployment rate was 11.3% in Slovakia, whereas it was a mere 2.6% in the Czech Republic (Wolchik 1994: 165). The following section examines the policies that contributed to this contraction and divergence.

Czechoslovakia's Free Market Radicalism

Much like in the case of pre-1979 Jura (versus Berne) in Switzerland, differences in regional levels of development in Czechoslovakia corresponded to some fundamental differences in perceptions of the appropriate role of the state in the economy, with the attendant implications for political behavior (Siroky et al. 2015). While Slovakia owed its development

⁸The transfers amounted to about 15% of Slovakia's income in the 1950s and between 5% and 7% of the same during the 1980s (ibid.).

⁹During the inter-war period, the economy of Czechoslovakia was equal to Belgium and Austria. By 1989, the per capita income in the Czech Republic was less than half of the European capitalist economies (Brada 1991: 172).

¹⁰While Czech companies were also expected to improve their export competitiveness, they were nevertheless performing better than their Slovak counterparts.

and modernization to socialist economic policies, those same policies were responsible for the economic backsliding of the Czech Republic. As a result, ideas about post-communist economic policy circulating among the Czech and Slovak elites were quite disparate.

In the years leading up to the fall of communism in 1989, most critics of the regime agreed that some version of market economy would have to take its place (Eyal 2003: 89). By the time socialist regimes started collapsing in Central and Eastern Europe in 1989, market liberal capitalism had assumed a near hegemonic status among policy makers in a number of important states, in key international financial institutions, as well as among many economists (Biersteker 1990; Roy et al. 2000; Wade 2002). Notable Czechoslovak reformers, mostly Prague-based, were proponents of such ideas, having been exposed to neoclassical economics well before the fall of the communist regimes (Aligičá & Evans 2009: ch. 2). Their tendencies were buttressed and legitimized by the ideological ascendance of neoliberalism, and reinforced by the efforts of international organizations such as the World Bank and the IMF to provide economic expertise to countries where knowledge of market mechanisms was in short supply.

The most prominent figure behind the implementation of Czechoslovakia's *laissez-faire* strategy of governance was its then minister of finance, Václav Klaus. Klaus favored a 'market economy without adjectives' (Klaus 1991: 149). He was primarily concerned with controlling inflation, and was committed to a restrictive fiscal and monetary policy, which included cutting government subsidies to firms and individuals (*ibid.*: 153, 160). These ideas exerted a defining influence over the policies of his governments. Both the interim post-communist government, and the government elected in June 1991 were committed to the creation of a market economy (Dyba & Svejnar 1994: 98). Initial disagreements over the nature and pace of reforms resulted in a policy package that would prove moderate compared to what would follow. Klaus's 1990 budget included deep cuts to government spending, but the first round of expenditure reductions was limited to defence and security, while health spending and investment subsidies were maintained (Myant 1993: 173).

When the combined measures failed to yield macroeconomic stability, political pressure mounted for more drastic policy steps (*ibid.*). A more radical program of reforms was adopted on September 17, 1990, emphasizing macroeconomic stability through tight fiscal and monetary policies, liberalization of foreign trade, and 'improvement' of social policy (Aghevli 1992: 8; Martin 1990: 5-6). It made clear that "major macroeconomic goals, such as economic growth, full employment, and balanced payments will all be subject to the inflationary process" (Martin 1990: 6). The 1991 budget aimed for a surplus, primarily through reducing subsidies for enterprises and 'other state expenditures'. Budgetary subsidies were slated to drop from 16% to about 7% of GDP (Aghevli 1992: 8). Overall public spending was to be reduced from 60% of GDP to 47.4% within one year (*ibid.*: 4). Less severe cuts were applied to social programs, which were revised in order to garner public support for such radical change.¹¹ Other elements of the program addressed the transformation of property rights through a two-step privatization process, as well as through price liberalization and currency convertibility (Martin 1990).

The privatization process was plagued with far-reaching corruption, state capture and political clientelism, but these issues became politically salient only later, when the weak rule of law and lack of market oversight undermined competitiveness and the overall performance

¹¹Orenstein's thesis (2001: 73) is that Czechoslovak reforms were not as radical as is usually suggested, but he himself notes the bare minimum of support that such programs provided. These qualifications notwithstanding, the shift to a *laissez-faire* capitalist model was palpable.

of the economy (Grzymala-Busse 2002, 2006; O'Dwyer 2006). The privatization process also opened possibilities for shadow party financing, since political parties controlled the legislative regulatory process (or a lack thereof) associated with market restructuring (Kopecky and Spirova 2011). Parties in power and parties with privileged access to information were at an advantage. This disproportionately benefited federal level Czech political parties who monitored large-scale sales of big, strategic, state enterprises and regulatory environment in Prague. In other words, it was more difficult for the Slovak political parties to 'get their cut' by watching the process unfold from Bratislava. The process of 'stealing the state' was conducted at different levels of governance, but the big prizes to be seized were not at the periphery. Slovak political parties, starved for financing like most new post-communist parties, were playing the second fiddle and faced the prospect of getting only the crumbs from the upcoming massive redistribution and reconfiguration of strategic assets that was being masterminded in Prague.

The radical liberal reforms of the early 1990s decisively cut the umbilical cord from the socialist economy. Both in terms of public pronouncements and policies, Czechoslovakia's federal government demonstrated a fairly consistent commitment to reducing the state's role in the economy. This had profound consequences with respect to the political demands emanating from the Slovak Republic, and with regard to the ability and willingness of the federal government to accommodate those demands, outlined in greater detail in the next section.

Assessing Accommodation in Post-Communist Czechoslovakia

Although the process of bargaining between the Slovak and central/Czech leaders was cut short by the dissolution of the state, it exhibited a definitive trend away from accommodating Slovak claims. Whereas Slovaks demanded either a loose federation or confederation, the Czechs, both those in the federal government and at the republic level, advocated a more tightly integrated federal framework. This section demonstrates the pattern of bargaining negotiations that unfolded between the transition to democracy and the country's breakup.

The bargaining process over the shape of the state unfolded in an institutional context established by the 1968 Constitutional Law of Federation, which equipped Czechoslovakia's republics with extensive institutional influence and political autonomy. At the central level, both republics had *de facto* veto power over federal legislation. Passage of laws required the assent of both legislative chambers (Czechoslovakia 1987: 67). While the lower house held a greater number of representatives from the more populous Czech Republic, the upper house, the Chamber of Nations, contained an equal number of representatives from each constituent unit (*ibid.*: 68). Republics held veto power over most of the important federal legislation. According to Article 42, legislative proposals necessitated the endorsement of a majority of Czech *and* Slovak representatives in the upper house of Parliament, voting separately. This rule applied in spheres of economic management, federal budget, tax policy, foreign economic relations, and confidence votes (*ibid.*: 72-73). Constitutional amendments were also subject to Slovak (and Czech) veto, since they required assent by three-fifths of the deputies from each republic. Under communism, these confederal institutional rules were politically inconsequential, since real decision-making power rested with the centralized CCP. The rise of competitive party politics gave new life to the previously moribund constitutional rules (Leff 1996: 132-33).

In addition to wielding influence at the centre, both constituent republics controlled their own legislative and executive institutions, along with autonomous bureaucracies (Leff 1996: 64; Skilling 1976: ch. 19). The prior existence of these autonomous institutional spheres was affirmed in December of 1990. The so-called power-sharing law also established the right of each republic to self-determination up to and including separation, and the sovereignty of both the constituent units *and* the common state (Stein 1997: 73). Slovak political autonomy was further reinforced by the separation between the Czech and Slovak party systems, such that no major Slovak party was institutionally subordinate to a higher-level, state-wide party (Leff 1996: 134).

The 1990 power-sharing law passed amid considerable acrimony. The original Slovak proposal would have made the federation fiscally dependent on the republics, but it was defeated (Innes 2001: 165). The Slovak leadership threatened it would declare the supremacy of republican over federal laws if their other proposals were radically reshaped in the federal assembly (Innes 2001: 120-25; Pehe 1990; Stein 1997: 60-78). The upshot was that, during the first year of transition, the republics increased their power and autonomy relative to the federal centre. Republic governments more than doubled their revenue base, from 28 to 63% of all tax revenue, while increasing their share of public spending from 46.5 to 59.4% between 1989 and 1991 (Shen 1993: 104). On the other hand, the same law limited republican fiscal autonomy by stipulating conditions under which republican governments could raise revenues, including the overall levels of taxation. The federal government retained authority over defence, foreign policy, foreign trade, monetary policy, taxation, customs, and prices along “its own budget through direct federal taxation in both republics [with] the republics [having] their own taxation systems and budgets” (Pehe 1990: 7). Thus, despite a degree of decentralization, the federal government retained significant influence over economic policy.

The constitutional negotiations that followed the power-sharing agreement of 1990 represented a shift in attitudes of federal and Czech officials regarding Slovak demands. From this point onward, Slovak claims met with more resolute resistance from the federal and Czech governments. Slovak representatives insisted that the new constitution should be a product of an inter-state treaty between Slovakia and the Czech Republic. This treaty would then be legally binding in the Federal Assembly, which would pass it as a constitutional document; and would subsequently return it to the National Assemblies of the two republics for ratification (Innes 2001: ch. 4; Stein 1997: chs. 6-9). Although the Czech response varied over time and by party, most of the relevant federal and Czech actors resisted these demands, recognizing in them confederal, rather than federal, elements. Key Czech political figures, such as Czechoslovakia’s president Václav Klaus, and (less so) the Premier of the Czech Republic, Petr Pithart, dismissed Slovak demands. They believed that their fulfillment would mean Czechoslovakia would derive its sovereignty and legitimacy from the two constituent units rather than from the entire population of the country (Innes 2001: 126; Stein 1997: 105, 108).

Each time the negotiations resulted in a proposal with a strong confederal flavour, the Czech side would scuttle the agreement. The Slovaks, in turn, would veto proposals that threatened to result in a more centralized federation. The Czech side offered compromises, for example, that the treaty should not be binding, or that it would have the authority of domestic law. In November of 1991, the Czechs again rejected the legally binding nature of the inter-republican treaty, but assented to one-off ratification of the constitution by the constituent units (Stein 1997: 134-35). Another important Slovak demand concerned the preservation of veto power over day-to-day legislation in the federal assembly, which only a minority of federal and Czech officials were ready to accept (*ibid.*).

Beyond the initial 'power-sharing agreement' of 1990, Slovak claims regarding the division of competencies between levels of government were rebuffed. On a number of occasions, Slovak political representatives insisted that most economic instruments be placed in the hands of republican governments (*ibid.*: 128). Federal and Czech republican leaders insisted on federal control of prices, social policies, and wages. These demands were rejected by both the nationalist Slovak National Party and the Movement for Democratic Slovakia (HZDS), headed by the Slovak Prime Minister Vladimír Mečiar (Innes 2001: 131).¹² The last round of negotiations, prior to the June 1992 elections produced a draft of the constitutional treaty that endowed the federal government with extensive competencies, including internal security, customs, and central banking. Not surprisingly, the Presidium of the Slovak National Council rejected the proposal (Stein 1997: 173).

All parties agreed to postpone further negotiations until after the elections in the hope that the elections would produce a clearer mandate for both the Czech and Slovak negotiators. In the event, the elections brought to power political parties and leaders with almost diametrically opposite programs. Václav Klaus emerged as the most popular Czech politician. His Civic Democratic Party (ODS) won greatest support on both the federal and republican levels among the Czech electorate. Vladimír Mečiar similarly dominated among the Slovaks. Klaus was less conciliatory than some of the other Czech leaders participating in the negotiations up to that point and wanted a more centralized federation. Mečiar was, at this point, openly advocating a confederal Czecho-Slovakia. The result was a negotiated breakup – a Velvet divorce, as it was later called. The following section explains this pattern of negotiations and the breakdown of bargaining in light of the theoretical framework (Siroky et al. 2016).

Explaining the Breakdown in Bargaining

The unwillingness of the Czech elites, at both the federal and republic levels, to accommodate Slovak demands was closely tied to the political economy of the early 1990s Czechoslovakia. The federal government's liberal economic policies were far costlier to the less developed Slovakia than to the wealthier Czech Republic, and Slovak leaders demanded autonomy in part in order to mitigate the effects of these policies in their republic. The Slovak leadership also understood that the central government would likely continue to exert pressure on Slovak autonomy for as long as the federal government's strategy of governance entailed minimal state involvement in the economy. The leadership at the federal level, as well as that of the Czech Republic, understood that satisfying Slovak claims would have compromised the central government's strategy of governance and would undercut the economic competitiveness of Czechoslovakia. In terms of the bargaining model in this special issue, the periphery was dependent on the center, but the center (especially Bohemia) was autonomous. Voice resulted in no accommodation and eventual exit.

Typically, analysts have portrayed the Czechoslovak breakup as a result of elite political gamesmanship, noting that the majority of Czechs and Slovaks had been opposed to the breakup of the state and had desired a compromise solution.¹³ In Slovakia, support for independence never exceeded 17% among respondents. By March of 1992, however, 32%

¹²Mečiar was Slovakia's Prime Minister from 1990 to 1991, and again from 1992.

¹³For an overview of arguments see, Bútorá, M. and Z. Bútorová (1993); Crawford (1996); Gál (1993); Musil (1995); Perreault (2000); Rychlík (2002); Stein (2000); Šanderová (1992); Tuček (1991).

of Slovaks, a plurality, were in favour of a confederation, with those favouring the continuation of the federal state comprising 24% of the sample, a precipitous drop from the 63% of people who supported such an option in June of 1990 (Leff 1996: 138). Yet, even if we assume that most Slovaks and nearly all Czechs wished for Czechoslovakia to survive, the polls strongly suggest that the two populations (and their respective elites) harboured drastically different ideas about the preferred future state, which is crucial to understanding the dynamics of accommodation.

The reason for this divergence in attitudes toward the common state stemmed at least in some measure from distinct political economies and preferences over economic policy, which had their roots in dissimilar attitudes toward the communist period. Since Slovakia industrialized during socialism, Slovak apprehension about economic interventionism was nowhere near as intense as that of their Czech counterparts, who saw communism as having deprived the Czech Republic of its lofty position in the economic hierarchy of European states/regions (Capek & Sazama 1993: 217; Kotrba & Kriz 1992: 3-4). As early as March 1990, Slovaks displayed a consistent preference for greater government intervention in the economy than the Czechs (Leff 1996: 186, Table 6.2), differences that were exacerbated with the implementation of *laissez-faire* reforms in January of 1991. By mid-1991, as many as 58% of Slovaks preferred a government-controlled economy, in contrast to only 35% of Czechs (Olson 1993: 306, Table 1). Nationalist Slovak politicians, such as Vladimír Mečiar and Ján Čarnogurský, were, depending on one's perception of politics, either articulating serious popular concerns, or playing them up for an already fearful electorate.

Nationalist disagreements between Czech and Slovak politicians first emerged publicly in the symbolic arena, and subsequently polarized the debates surrounding the economic reform and constitutional negotiations. In January of 1990, the so-called 'hyphen war' broke out when the Slovak MPs proposed that the name of the state should be changed from 'Czechoslovakia' to 'Czecho-Slovak Republic,' which was believed to represent a symbolic break with assimilationist 'Czechoslovakism' of the past (Stein 1997: 57-60). While the hyphen war carried little policy significance, it pointed to the existence of strong mutual resentments among the political elites of the two republics, and set the tone for the negotiations over more substantive issues.

Issues of institutional and economic reform soon took over as the most contentious aspects of Czechoslovakia's democratic politics. Discussions about economic reform were from the start driven by economic radicals in the federal government (Innes 2001: 148). For the Minister of Finance, Václav Klaus, as for many other Czechs, economic reform was a matter of 'rejoining Europe' as much as it was a tool of economic (and political) rationality (Myant 1993: ch. 8; Orenstein 2001: ch. 3). At the same time, Slovak political elites, and many among the Slovak public, believed that a 'Prague-centric federal government' had implemented policies that disproportionately hurt the Slovaks and argued in favour of alternative strategies at the centre (Innes 2001: 154). Ján Čarnogurský's Christian Democrats, for instance, supported a social market economy based on the early post-war German model (Innes 1997: 407, 409). The Slovak Prime Minister Vladimír Mečiar was a critic of the federal economic policy while he was still a member of the PAV, and even more so after establishing his own party, the Movement for Democratic Slovakia (HZDS) (Innes 1997: 409).

Mečiar linked Slovakia's autonomy to the regionally disproportionate impact of the transition as early as the aftermath of the 1990 elections, pointing out that the problems of transition were much more significant in his republic than in the Czech lands (Foreign Broadcast Information Service (FBIS 1990a: 18). While Mečiar and other Slovak

politicians initially accepted the need for a reform, they also emphasized the economically disadvantageous position of Slovakia, and euphemistically called for the federal government's greater sensitivity to 'special features' or 'regional specifics' of the Slovak economy (FBIS 1990b: 23; FBIS 1990c: 20). Mečiar acknowledged the need to address the economic inefficiencies of his republic, but he criticized federal economic policy in the following terms: "what I object to, as far as the reform is concerned, is the lack of its social sensitivity, its excessive emphasis on systemic measures as a panacea, and its disregard for the settlement of practical relations, as though this were no longer needed."¹⁴ Similar concerns were expressed by Ján Čarnogurský in mid-1991, who had taken Mečiar's place as Slovakia's Prime Minister. Čarnogurský paid lip service to the general goals of economic reform, but then stated that he would want some exceptions to it 'in some regions', or selective financial aid to particularly jeopardized enterprises, urging the federal government to extend aid here as well (FBIS 1991c: 13).

The initial decentralization, including the substantial devolution of fiscal resources to the republics outlined in the previous section, was in large part a consequence of the consensus between the Czech and Slovak governing elites about the need for a decisive move away from socialism (Innes 2001: 120). Slovak political influence in federal institutions, where Slovak representatives held veto power over federal policy, contributed to this outcome as well (Pehe 1990: 6; Stein 1997: 68-69). Nonetheless, there was a definite limit to the accommodation of Slovak demands for greater autonomy. For instance, in April of 1990, the Prime Ministers of Slovakia and the Czech Republic agreed on a proposal that the federal government would receive its revenues from the republics, rather than having the direct power of taxation. Federal officials rejected this agreement. The central government retained its fiscal leverage through direct taxation, and preserved some control over the constituent republics, including the authority to set limits on republic-level taxation (Innes 2001: 165; Obrman & Pehe 1990: 7).

Resistance to Slovak demands would continue over the next two years. In early 1991, the Civic Forum split, paving the way to the establishment of Václav Klaus' Civic Democratic Party in February, 1991. This development freed Klaus' hands in promoting his pro-market agenda. He and other federal political figures made it clear that their opposition to loose federalism/confederalism advocated by their Slovak counterparts was rooted in their concern about the fate of the economic reform.¹⁵ Their sentiment was articulated most explicitly by the federal Minister for Strategic Planning, Pavel Hoffmann:

I believe that we cannot have two different reforms in a single economy. [...] [Applying divergent policies for different regions is] fraught with considerable danger. This danger resides in the fact that, even with changed budget rules, the consequences of disparate basic methods can pass over from one part of our economy to the other. This means that, with a single currency, a different budget policy in Slovakia, for example, can bring about a different rate of inflation there, the negative concomitant effects of which can then be transferred to the other part of the state as well (FBIS 1991b: 9).

¹⁴Ibid. Indeed, Mečiar blamed the split in the ruling PAV on diverging understandings of both the Slovak national program (his opponents not being 'Slovak' enough) and of the economic reform, which he believed had to be tailored more closely to the socio-economic conditions prevailing in Slovakia (FBIS 1991a: 22-23).

¹⁵Confederalism and loose federalism were far too costly because they threatened to undermine the speed and depth of market reforms. See Innes (2001: 424); Leff (1996: 135-36); Orenstein (2001: 84); Stein (1997: chs. 4, 9); Young (1994: 14-15).

In short, greater fiscal autonomy for the minority-inhabited region would have undermined the central government's ability to govern because an autonomous Slovak government would have pursued an expansionist fiscal policy, compromising Czechoslovakia's macroeconomic stability. When Slovak demands intensified to include requests for a separate fiscal and even monetary policy, the writing was on the wall for the federal political elites. Czech politicians at the state level, initially well pre-disposed toward some Slovak demands (as they themselves had much to gain from their implementation), became increasingly hostile to them, a situation which contributed to the constitutional deadlock during 1991 and early 1992 (Stein 1997: 134-36).

In sum, federal and Czech leaders were increasingly averse to accommodating Slovak demands because they felt that such a move would compromise the federal government's ability to implement the *laissez-faire* strategy of governance. Less developed regions and minorities typically prefer more statist solutions to their developmental problems, as the comparison of Jura and Berne illustrates (Siroky et al. 2015; Siroky et al. 2016). Minority leaders understand that free market solutions tend to exacerbate economic differences, favoring the already wealthy majority-inhabited regions. Political autonomy in these circumstances is at least in part an instrument by means of which the minority group believes it can foster its own economic development. The limited concessions that the Slovaks received indicate that the Czech side of the bargaining table increasingly realized that the benefits of letting them go exceeded the costs of accommodation, which resulted in a situation that is well characterized by Scenario 1 (with a sub-game perfect Nash equilibrium of no concessions and exit).

The creation of a separate Czech and Slovak political system also contributed to the breakup (Vodička 2003).¹⁶ The Czech political-economic elite and Czech political parties disproportionately benefited from centralized decision-making over market reforms at the federal level. Klaus acknowledged that Czechs lacked sensitivity to Slovakia's (political) needs. He also noted that Slovaks took economic transfers from the Czech lands for granted and viewed them as a "bribe" to stay together (Klaus 2003, 1). The prospects of personal and party-level rewards associated with weak regulatory oversight were tempting for both nationalities. The Slovak elite suddenly had an opportunity to "colonize" their own state (Gould 2011, Grzymala-Busse 2007, O'Dwyer 2006, cf. Appel and Orenstein 2016 and Appel 2011.) This resulted in two *de facto* parallel political systems, each with its own strategy of state capture. The Czech strategy was initially federal and the Slovak, by default, was local. Naturally, they were at odds.

Tríska (2003) notes that early negotiations (1990) about the privatization strategy was one of the first major ideological conflicts between the federal-level proponents of fast liberalization (represented mostly by the Czech economic elite) and an alliance of Slovaks and Czech advocates of a less radical "third way" involving a more statist approach (Tríska 2003). As one of the Czech economists put it: "in the federal state with massive pressure from Slovakia to increase national competences at the expense of federal competences, it would not have been possible to proceed in a reasonable way: the way of the (ideological) right" (Kinkor 2003: 3).

While the Czech elite could capture the spoils from the federal-level market liberalization, after the split, the Slovak elites divided state property of the Slovak republic

¹⁶In Slovakia, the division of the electorate according to ethnic affiliation led to the further bifurcation of the Slovak political system, which led in the following years to the formation of two parallel party systems, one Slovak and one Hungarian (Malová 1995).

among their political clients. State property was often privatized in line with personal and political connections to the ruling party (HZDS) and its coalition partners (Sopóci 2001: 174). Political connections facilitated easy access of politically connected actors to undervalued privatization assets (Mikloš 1997: 129) and to several thousand high-level positions in the Slovak public administration (Vodička 1993: 110).

Access to decision-making over the sale of large strategic assets, and control of the legislative process that maintained weak protection of small share-holders and allowed for the exploitation of legal loopholes during the process of privatization, initially disproportionately benefited Czech political parties with headquarters in Prague. Federal level politicians in charge of economic policy were the first ones to be rewarded with positions on the boards of banks and large enterprises for the favours extended during the process of market restructuring (Frič et al. 1999; Klíma 2015). For example, economist Václav Dlouhý, a former minister (1989-1992), played a strategic role during the privatization of Karlovary Porcelain. Later he became a consultant for Goldman Sachs, served on boards and advised prominent private firms. Economist Karel Dyba served as a minister between 1990-1992 and 1992-1996. He later became a board member of a large bank and Czech Telecommunications. Václav Klaus's wife, herself an economist, Livia, served on the supervisory boards of a large financial institution (Česká spořitelna) and on the board of a large state owned energy conglomerate ČEZ. These were well-compensated positions that rewarded Prague insiders. Giving access to Slovaks and Slovak political patronage networks would have diluted the benefits that were to be reaped from the lack of regulatory oversight in Prague. It is thus not surprising that Czech political-economic elites were comfortable with the Slovak exit.

If the minority-inhabited Slovakia had been relatively more developed, it may have advocated a more liberal strategy of governance, as the Jura Bernois region has compared to Jura itself. In Czechoslovakia, the confederal institutional vision endorsed by the Slovak political elites clashed openly with Czech ideas about 'functional' federalism during the country's final election in June of 1992. Vladimír Mečiar's Movement for Democratic Slovakia, campaigning on a platform of slower and more socially sensitive economic reform and confederal organization of Czechoslovakia, won the highest number of votes, both at the federal and republic levels. Václav Klaus and his Civic Democratic Party carried a victory of similar magnitude among the Czech electorate, again, at both levels.¹⁷ The result of the 1992 elections portended the country's breakup.¹⁸

This article has built on the game theoretic model used in Siroky et al. (2016) on the Swiss Jura case to help account for the extent of accommodation that the federal and Czech elites were (un)willing to confer to the Slovak part of the country, and to shed light on the 'velvet divorce'. The institutional framework inherited from the socialist regime put Slovak deputies in the upper house of parliament in a position to block federal legislation in most policy areas. Veto power, combined with territorial autonomy, gave Slovak politicians exceptional leverage and a credible exit option. Without Slovak veto power over day-to-day policy matters, Czech politicians could have conceivably reconciled themselves

¹⁷In the federal legislative elections, HZDS and ODS obtained virtually identical results. Each party won approximately 34% of the vote in their respective constituencies, with nearly half of available seats in the lower house, and approximately the same in the House of Nations (Innes 1997: 430). In the respective national councils (republic-level legislatures), the ODS won 30% of the vote, whereas Mečiar's HZDS did significantly better, with 37% of votes and nearly half of all the seats (*ibid.*).

¹⁸For details of the negotiations leading to the breakup, see Innes (2001) and Stein (1997).

to a long constitutional impasse. However, policy veto allows sub-state governments to paralyze the day-to-day workings of the state, an issue of particular importance in the transitional context of the early 1990s. Without the policy veto, Slovak demands would most likely have met with federal refusal. The outcome would likely have been a fairly strongly integrated Czechoslovakia with a large number of dissatisfied Slovaks.

Although Slovakia's institutional power gave Czech politicians (both at the federal and republic levels) an incentive to take constitutional reform seriously, structural factors surrounding the different political economies made Slovak demands incompatible with the strategic policy goals of both the federal government and the government of the Czech republic. Under a more integrated federal system, secession would have been a possible outcome, but only as a consequence of a unilateral Slovak referendum on independence, rather than a divorce of mutual agreement. The existence of veto power over federal policy, combined with different preferences over the nature of reforms to the political and especially the economic system, made it clear to the Czechs that the continuation of the common state would be far too costly, and could delay European integration. For this reason, Václav Klaus and his inner circle opted for the least costly solution for the Czechs – the dissolution of a failed merger: Czechoslovakia. From the center's perspective, this outcome was more compatible with the Czech economy, while also benefiting political patronage networks in Prague that traded anemic oversight of regulatory market institutions for favours.

Conclusion

This article has demonstrated that the breakdown in bargaining between Slovakia and the federal centre was, to a significant extent, the combined result of the political economy of Czechoslovakia and the country's confederal institutional framework.¹⁹ Relatively less developed minority regions²⁰ often seek greater autonomy in order to redress their economic backwardness through interventionist economic and social policies. If the central government simultaneously pursues a robustly *laissez-faire* strategy of governance, durable accommodation with the periphery will be unlikely, since it will undercut the centre's policy. Moreover, if economic policies are accompanied by a weak regulatory oversight during the process of privatization that disproportionately benefits elites with access to sensitive information *at the center*, as was the case in Czechoslovakia, accommodation becomes even less likely. The institutional framework, specifically the influence that the claimant unit has at the centre, should shape the character of the bargaining breakdown. Where the unit in question has no veto over central legislation, the result should be the institutional status quo with minimal accommodation. If, the claimant unit is able to block central legislation, as in the Czechoslovak case, the result should be radical institutional configuration that can take the shape of either unilateral recentralization or state breakup (cf. Anderson and Costa 2016).

Market-based reforms implemented by the Czechoslovak federal government had a disproportionately negative impact on Slovakia's less competitive economy. The rewards

¹⁹Different visions of the state, so characteristic of multinational states (Anderson and Costa 2016; Elkins and Sides 2007), injected additional friction into the negotiations. Nevertheless, the substantive issues of economic policy, redistribution, and patronage were at the centre of elite negotiations. Bargaining failure in Czechoslovakia cannot be understood without addressing them.

²⁰As Jura was before separating from Berne, and as Slovakia was in the Czechoslovak context.

associated with large-scale political corruption were likewise disproportionately located at the center. Slovak leaders, with the support of their constituents, demanded greater autonomy for their republic in part to protect Slovak residents from the most adverse consequences of liberal economic reforms, and in order to ‘seize and divide the state’ by themselves.

The federal and Czech leadership was initially willing to grant greater autonomy to the Slovak government because the transitional momentum made the majority leadership receptive to the weakening of the federal centre. The combination of territorial autonomy and policy veto at the centre gave Slovak representatives an unusual amount of leverage, the kind that minorities normally do not possess in most federal states, and a relatively credible exit option.

Yet, as negotiations about the new constitutional framework continued, federal and Czech leaders were increasingly less willing to accommodate Slovak demands for greater autonomy and influence at the centre. They understood that yielding to Slovak claims would threaten to undercut the pro-market strategy of governance that was being implemented during the vulnerable early years of the transition, and dilute the exclusive access of Prague based networks to the spoils of market reforms. In terms of the bargaining model at the heart of this special issue, the center was not dependent on the periphery. In fact, the periphery was perceived as a hindrance to the center’s ability to pursue its goals of transforming Czechoslovakia into a democratic capitalist country, of joining Euro-Atlantic integrations, and stuffing the party coffers through corruption and lobbying, which created an exclusive revolving door between high level echelons of politics and business in Prague.

In the absence of confederal institutional features, accommodation would likely have been even more limited. An eventual breakup, had it happened at all under such conditions, would have been a consequence of a Slovak referendum on independence, rather than the Czech push toward dissolution. Given Slovakia’s leverage, however, the Czech elites, Václav Klaus foremost among them, understood that the costs of remaining in the same state would have exceeded those of breaking up, and thus Slovak “voice” was met with Czech apathy. As a result, the Slovaks exited and the Czechs bid them farewell in a velvet divorce.

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