

A LAISSEZ-FAIRE FABLE OF THE CZECH REPUBLIC

by Josef Sima and Dan Stastny^{*}

The worst thing that can happen to a good cause is, not to be skillfully attacked, but to be ineptly defended.

— *Frédéric Bastiat*

For decades, there has been a thorough worldwide discussion whether intellectuals are enemies of liberty. A central position in this discussion belongs to Hayek's classic article "Intellectuals and Socialism."¹ There is no doubt that the majority of intellectuals are strongly attracted to the sphere of politics, where they can make use of their fluent knowledge of diverse topics and become successful "second-hand dealers in ideas." In every step of their political career, they work hard at their ultimate good-doer image, contemplating everyone's problems, spending other people's money, helping the poor, old, disabled, sick, young, etc., wasting money in subsidizing theater, public TV and radio, alternative cultures, coal mining, internet connections, fat-free food, and so forth.

The current intellectual climate resulting from the development in academia is probably responsible for the fact that not many who see these thousands of kinds of governmental interference with the lives of millions consider them to be bad or immoral. However tragic and dangerous this situation is, it is simply the current state of affairs, and people are accustomed to it. This development is possible because of the softer methods of state regulations that politicians use, a great deal of sophisticatedly spread camouflage, and the intellectual appeal which these political intervention-

^{*}Josef Sima and Dan Stastny are research fellows at the Liberální Institut in Prague, Czech Republic.

¹F.A. Hayek, "Intellectuals and Socialism," *University of Chicago Law Review* 16, no. 3 (Spring 1949).

ist measures have for so many people. This sort of creeping socialism is accepted by the majority because the attack is not directly targeted at their lives and liberties, and does not yet go as far as many experienced under the communists, when nearly all were fed up with omnipresent governmental terror. And if not accepted outright, it is, at the very least, simply taken as a given.

If one then sees a politician who does not spend a minute talking about welfare programs, subsidies, or guaranteed standards of quality, but raises issues such as the meaning of liberty and free markets, de-etatization and privatization, one is truly astonished and stands still staring at him as if he is from another planet. This is exactly the situation that occurred in the Czech Republic at the beginning of the 1990s.

After several decades of politics performed by Moscow-educated politicians mostly in their late 60s or 70s, we got a charismatic and fairly young politician capable of speaking numerous foreign languages and, more importantly, continually quoting Mises, Hayek, Friedman, Buchanan and the like,² and talking about free markets all the time.

Of course, we are talking about Václav Klaus.

It is the task of this paper, therefore, to describe what can happen to “a good cause” when it is “ineptly defended,” and to address the problem of the relationship between a verbal free-market support and advocacy in general on one hand, and practical political statements and policy measures adopted by these rhetorically free-market politicians on the other. All this will be grounded in the experience of the people of the Czech Republic after the *annus mirabilis* of 1989, so the real examples from the development since 1990 will provide the analysis with some empirical evidence.

VÁCLAV KLAUS: A MASTER OF RHETORIC *HEY PEOPLE, I KNOW THE RIGHT WAY!*

The model for our analysis, Václav Klaus, emerged on the political scene right after the collapse of communism in 1989. He took a post as a Minister of Finance in the first non-communist government in December 1989, where he gradually became recognized

²At that time, the majority of Czechs—including the authors of this paper—had no idea who these people were.

as the foremost creator of the economic transition program. After the 1992 elections, which he won with flying colors as a leader of the winning Civic Democratic party, he became Prime Minister. He remained in this position until December 1997. After the most recent Czech elections, in June 1999, his party struck a deal with the Social Democrats, trading his support of the socialist government for the post of Chairman of the Chamber of Deputies.

He had a tremendous influence in shaping governmental policies the entire period. His imprints can be traced back to the beginning of the post-communist times. Sounding more like a quotation from Adam Smith than an excerpt from a government document, Klaus declared "Only the market system is capable of safeguarding economic rationality. By following his own interests, the individual can most contribute to the welfare of other individuals."³

Klaus was a new personality not connected to any previous political *nomenklatura*. Under the communists, Klaus was generally not allowed to pursue his academic career. However, he was allowed to spend a semester or two studying in the United States, which was very unusual. In the 1960s, he could work more publicly, even being allowed to translate parts of the famous socialist calculation debate. Then, after the Russian invasion, it all ended.

A bit later, he started his "private seminars" on economic and social problems. (It seems that his inspiration by Ludwig von Mises was almost total.) Many government members and other officials of the transformation era were connected to these circles, sometimes unofficially referred to as "Klaus's group." Some of them would call themselves Austrians, and one of them (not Klaus, who for once correctly opposed it) later urged and succeeded in creating a Czech version of the American Securities and Exchange Commission, and called for severe regulation of this field.

At the beginning of the 1990s, Klaus came back in full parade. He became the first East European member of the Mont Pelerin Society. He succeeded in putting through a decisive privatization program, substantially deregulated prices by the stroke of a pen and, most importantly, explained repeatedly how markets worked. It was he who most forcibly introduced free-market theorists such

³Václav Klaus, *A Road to Market Economy* (Prague: Top Agency, 1991), p. 10.

as Hayek and Friedman to the general public. And it was precisely Klaus's emphasis on the free market that may have attracted many young students to the study of economics.

Moreover, some of these students went so far as to familiarize themselves with Austrian economics, a few of whom studied theorists all the way to Murray Rothbard. After all, what Klaus was saying made so much sense. Klaus was truly a part of an endangered species—a top politician publicly advocating free markets in the Austrian fashion. That was one of the reasons why many American (and other) libertarians liked him, and still like him so much.⁴

This is a small sample of what Klaus said or wrote elsewhere. (Remember that it was at the beginning of the 1990s.)

The only practical and realistic way to the improvement of the living standard will be to abolish totally the institutions of central planning, to dismantle control over prices, wages, the exchange rate, and foreign trade, and to radically transform the existing system of property rights.⁵

Or,

Thanks to these [Austrian-school] insights we have in the Czech Republic never toyed with hybrid systems and “Third Ways” of various designs.⁶

Or,

The third way is the fastest way to get into the Third World.⁷

Or,

Our choice is a market economy without any complicating and obfuscating adjective added to the word market.⁸

⁴We believe that the more that Americans and others learn about Klaus, the less they will be impressed with him.

⁵Klaus, *A Road to Market Economy*, p. 41.

⁶Václav Klaus, “The Austrian School: Its Significance for the Transformation Process,” in Hardy Bouillon, ed., *Libertarians and Liberalism: Essays in Honour of Gerard Radnitzky* (Aldershot, England: Avesbury, 1996), p. 256.

⁷Klaus, *A Road to Market Economy*, p. 18.

⁸Klaus, *A Road to Market Economy*, p. 12.

Or consider Klaus's statement, which Roger Douglas later picked as a motto for his book *Unfinished Business*:

We need an unconstrained, unrestricted, full-fledged, unspoiled market economy, and we need it now. . . .
The basic economic laws are valid across continents, economic systems, as well as ideological beliefs.⁹

That was a revolution in thinking. No one had ever heard that before from any politician, and many people had *never* thought that way. When we later found Mises's works, such as his essay "Middle-of-the-Road Policy Leads to Socialism," it was nothing new for us. We did not need to read Mises; it was all in *Klaus*. (Here we would like to warn readers not to get too excited since, unfortunately, once one looks at the implementation of Klaus's statements, e.g., at the fashion his "market economy without any adjectives" was put into practice, every sign of excitement must necessarily disappear altogether.)

Klaus was excellent at formulating clear political visions using fetching vocabulary, common-sense examples, and logic. Another of his theoretical insights—which must have surely played an extremely important role especially when the government, under his premiership, nationalized private property of "mere" individuals—is an admirable one:

I have grasped that there is no such thing as a "public" interest.¹⁰

It sounded so *sonnenklar*—no special tasks and functions for state bureaucrats. In addition to the fact that the coercion they exercised is bad and immoral *per se*, we were told that they would not perform their allegedly appropriate tasks anyway, since they act in accordance with their own private interests. One does not need to be familiar with any other sophisticated theory of government if one only grasped this insight: there are only private interests, articulated by acting people, living independent lives, owning their private property, and pursuing their respective goals. There is nothing above them; there is no other authority that can justly claim

⁹Roger Douglas, *Unfinished Business* (New Zealand: Random House, 1993), p. 1.

¹⁰Petr Junglich, Tomáš Koudela, and Petr Zantovsky, *Tak pravil Václav Klaus* (Praha: Votobia, 1998), p. 138.

that its interests are paramount. Again, unfortunately, the opportunity to spread this idea among the masses was eventually missed.

In citing other Klaus statements, we would like to show that he quite honestly followed (or, at least, he seemed to follow) this reasoning, and applied it to a number of particular problems. Even his less general views are perfectly compatible with the picture of society based on private property, that is, on individuals responsible for their own good without any state official in the position to take over this responsibility. Thus, Klaus claims:

One argument [against industrial policy] is the theoretical one, that the government cannot do it, that the government does not have the motivation to do it. But I have an additional argument. Being in the government for five years, I have been forced to do something like industrial policy every day, and I can say . . . that I know that industrial policy is impossible. Not only [is it] incorrect or irrational or not optimal. I know how hopeless it is to sit down in my office and to try to decide anything about any industry. It is a hopeless task, a debate which has no structure, no meaning, no substance, it is wrong *a priori*. I am very much against all forms of industrial policy.¹¹

By and large, as judged by Klaus's verbal statements and rhetorical skills, he was great—clear, concise, consistent, and, most importantly, *right*. He was one of the few people who seemed to have a clear idea of how society works and what the economic rationale behind the free market is. When he talked about his visit to an American university some years ago, he claimed:

From the very beginning, I belonged to the extreme right, for our experience was so evident that I have always refused any flirting with the socialists of different stripes.¹²

He was just about to become a libertarian star. Libertarians all around the world started quoting him. The Foundation for Economic Education had him endorse Bastiat's *The Law*. His books and articles, and interviews with him, got published in the United States. The Cato Institute published Klaus's book *Renaissance: The*

¹¹From a panel discussion with Gary Becker in Ján Pavlík, ed., *Gary Becker in Prague* (Prague: Liberální Institut, 1995), p. 44.

¹²Junglich et al., *Tak pravil Václav Klaus*, p. 10.

Rebirth of Liberty in the Heart of Europe. In the preface, Cato president Tom Palmer celebrated Klaus with little proof in the real facts:

Without a doubt, the most successful leader of a post-communist nation in Europe, . . . [whose] leadership and vision have transformed [the state] . . . into the most bustling, vibrant and open society in the region, in some ways surpassing even the long-established Western democracies neighboring it.¹³

French libertarians keep referring to Klaus as the “auteur du miracle tchèque.”¹⁴ One of his essays is a part of *Libertarians and Liberalism: Essays in Honour of Gerard Radnitzky*, and bears the title “The Austrian School: Its Significance for the Transformation Process.” Klaus is mentioned here side by side with people such as Hans-Hermann Hoppe, Walter Block, Arthur Seldon, and Lord Harris. Klaus’s free-market camouflage and his “creative semantics” were so monstrous and so well done that even Rothbard states that:

Except for the Czech Republic, where feisty free-market economist and Prime Minister Václav Klaus was able to drive through rapid change to a genuine free market, . . . the reformers were too nice, too eager for “reconciliation,” too slow and cautious. The result was quasi-disastrous.¹⁵

Klaus’s seemingly fundamental views were (along with his often terribly arrogant behavior) the reason why he attracted so much resentment, not only among other intellectuals, but even among fellow economists. One story serves to illustrate this. In 1990, various Czech economists (mostly Keynesians) who had fled the country under communism came back to teach the government what to do. It is rumored that Klaus would often call these economists (quite correctly) socialists, and would refuse to take them seriously. Of course, that infuriated them, and they have hated him ever since. Moreover, he did the same to IMF specialists, reput-

¹³Tom Palmer, “Preface,” to Václav Klaus, *Renaissance: The Rebirth of Liberty in the Heart of Europe* (Washington, D.C.: Cato Institute, 1997), p. xi.

¹⁴e.g., la nouvelle lettre, No. 552/1998, p. 3.

¹⁵Murray N. Rothbard, *Making Economic Sense* (Auburn, Alabama: Ludwig von Mises Institute, 1996), p. 396.

edly telling them, "We don't need any of your soft advice for hard currency."

Different sorts of people ceased supporting Klaus as they were turned down while seeking government funding. He informed the members in the Academia of Science that they should forget about the taxpayers' money for research. He kicked out the big business bosses when they asked for a "clearly defined" industrial policy and even larger subsidies than they were already receiving.

One has to remember this "extreme" image, which Klaus adopted and which was soon attributed to him by many journalists as well as the public in general. Such a perception of Klaus created a tremendous obstacle for other free-market supporters who dared not disagree with, let alone outright criticize, him, because there was no longer a place for someone more free-market oriented.

VÁCLAV KLAUS: THE AUSTRIAN SCHOOL'S SAVIOR? WHO ELSE IF NOT ME?

Klaus was the man who brought the Austrian School to the evening news, so to speak.¹⁶ He had read Menger, Böhm-Bawerk, Mises, Hayek, and other Austrian economists, he lectured and wrote articles about them, and he did it well. He was happy to be associated with these celebrated economists, even though their list would regularly shrink to only Friedman and Hayek. He publicly admitted that he was proud to be called a Friedmanite or a Thatcherite, and, from time to time, journalists would even dub him "Milton Klaus." Klaus himself, however, acknowledges that he was primarily inspired by the Austrians. He claims:

Hayek as an economist, ideologist, philosopher and methodologist was a source of thinking of all those who refuse in today's Czechoslovakia not only socialism, but also constructivism based on the ambitions of technocrats and left-wing intellectuals and leading toward a new dictatorship of state over the individual.¹⁷

¹⁶Actually, it was not only the Austrian School, but also the Chicago School, the Public Choice School, and, interestingly enough, Paul Samuelson's *Economics*. This will be addressed later.

¹⁷Klaus's speech at *The 1997 Annual Hayek Memorial Lecture* at the Institute of Economic Affairs in London, June 17, 1997.

No matter how great his admiration of Hayek, his true eye-opener, Klaus confessed, was the great Ludwig von Mises:

Hayek had a great influence on me. However, I think that I learned the most from Mises's *Human Action*, and that has been true up to now.¹⁸

How many world politicians can say that they were influenced by Mises, and that even now they are indebted to him for their intellectual inspiration? How many politicians even know his name, let alone studying him? Incredibly enough, Klaus went so far as to claim, in this "humble" fashion so peculiar to him, that:

if the Austrian School is about to die out in Austria, we in Prague will keep it alive!¹⁹

We wish it were true that he kept the Austrian School alive, but, as will be shown shortly, that is not what really happened.

Speaking of Mises, we can now shock you with some of Klaus's other comments which are no less amazing, particularly when one realizes they came from the mouth of a prime minister:

We believe more in "human action" rather than in "human design."²⁰

Or:

There is a clear and growing understanding that the market is not an instrument in the experienced hands of the central planners, and that the unconstrained invisible hand of the market is more efficient in allocating scarce resources than the visible hand of the central planners.²¹

We could hardly believe that there could be a politician capable of saying "unconstrained invisible hand of the market." Mises's central idea—unhampered free market—was here supported by an influential politician. Moreover, the people of the Czech Republic were, at the beginning of the reform period, ready for just about anything. They would agree to whatever would take

¹⁸Junglich et al., *Tak pravil Václav Klaus*, p. 133.

¹⁹Klaus's speech at *The 1997 Annual Hayek Memorial Lecture*.

²⁰Klaus, *A Road to Market Economy*, p. 10.

²¹Klaus, *A Road to Market Economy*, p. 14.

them as far from socialism as possible. As an “Austrian reformer,” one cannot wish for more. It looked so promising.

Of course, it was naive to expect that it could all be true. Already, then, we should have anticipated a disaster in the making. For if someone truly believes in the “unconstrained invisible hand of the market,” he must be either a decent man—which effectively means committing political suicide—or simply a liar.

It later turned out that all of these free-market quotations from Klaus’s speeches and writings present different sorts of camouflage which made us forget the basic Misesian insight that:

a liberal government is a *contradictio in adjecto*. Government must be forced into adopting liberalism by the . . . people; that they could voluntarily become liberal is not to be expected.²²

Or the Rothbardian insight that the State—the government—is:

the supreme, the eternal, the best organized aggressor against the persons and property of the mass of the public. All states everywhere, whether democratic, dictatorial, or monarchical, whether red, white, blue, or brown.²³

**A PRAGMATIC, NON-IDEOLOGICAL POLICY
FORGET ABOUT THE AUSTRIAN SCHOOL;
HARD WORK FOR THE SAKE OF THE STATE IS NEEDED**

It is now time to stop this so far rather glorifying description. In the course of time, we heard more and more often that the government had a special role to play in bringing the free market back to the core of society and the economy. That may be perfectly true, but the *conditio sine qua non* is that one must keep working toward the free-market ideal, and quickly. At the beginning, it went reasonably well: the majority of prices were deregulated overnight, the exchange control was relieved to a certain extent, the ambitious mass-privatization scheme was launched and became a blueprint for other formerly communist states, property restitution took

²²Ludwig von Mises, *Liberalism* (San Francisco: Cobden Press, 1985), p. 68.

²³Murray N. Rothbard, *For a New Liberty* (San Francisco: Fox & Wilkes, 1978), revised edition.

place, and the stolen property went back to the hands of its original owners. Though it was not a one-day plan, as was suggested elsewhere,²⁴ the important thing was that it was at least aimed at the desirable end. However, it is necessary to point out that a “special role for government in the transformation period” brings about a substantial danger for the success of the whole de-socialization process. And, unfortunately, that is exactly what happened in the Czech Republic. Despite the fact that, rhetorically, Klaus was still mostly pro-free market, more and more often one heard such statements as:

[these] “katheder”, textbook so-called-right-wingers . . . don’t understand that real politics is something else than screaming out loud the elementary textbook truths, that it is trivial to say deregulation, privatization, and liberalization.²⁵

We pause at this point to make an important note. It is not the purpose of our paper to tell you how poorly the transformation of the Czech economy from the morass of communism toward the free-market economy was executed. Rather, we want to show that the Austrian methodological approach to it and the rhetoric employed did not correspond to what was done in reality, i.e., that this “Austrian rhetoric” was never put into practice. In doing so, one soon encounters the question of what is and is not “Austrian.” Unfortunately, there were numerous instances when some Austrians—led particularly by Hayek—suffered from this or that degree of inconsistency. For example, when Hayek claims that:

A conviction that an open market is *per se* the most desirable condition is of course far from an assertion that the immediate abolition of rent control as things are is the most effective method of achieving it,²⁶

²⁴Murray N. Rothbard, “How and How Not to de-socialize,” *The Logic of Action* (Cheltenham, U.K.: Edward Elgar, 1997), vol. 2, pp. 200–17; Hans-Hermann Hoppe, “On the Law and Economics of Socialism and De-socialization,” *Cultural Dynamism* 8, no. 8 (November 1996).

²⁵Junglich, et al., *Tak pravil Václav Klaus*, p. 24. In fact, to this day, Klaus routinely delivers excellent free-market oriented speeches.

²⁶F.A. Hayek, “The Repercussions of Rent Restrictions,” in Walter Block, ed., *Rent Control: Myth and Realities* (Vancouver, B.C.: Fraser Institute, 1981), p. 183.

and when he talks about undesirable consequences such as “disorganized market” and “grotesque level of rents,” which allegedly imply the need of price ceilings, we wonder whether the current state of rent control in the Czech Republic (ten years after communism ended) may not be justified by this peculiar kind of “Austrian logic.” In that case, our labor unions, tenants unions, social democrats, and others must all be Austrian School libertarians, since their arguments exactly echo Hayek.

Once a principle is compromised, once a “third way” is chosen, then the difference between free-market supporters and modern social democrats might boil down only to the question of whether two months, two years, or twenty years of “transitory” rent control is a period long enough to let the economy adjust. However, this is not a clear-cut distinction between contradictory schools of thought or opposing methodological approaches.²⁷

With this in mind, we can claim that Klaus’s statements about “katheder” right-wingers and the complexity of politics are signs of creeping “practical considerations” or social democratic-technocratic-etatist elements on the road to the free-market economy. It is not necessary to follow every single political measure day after day that has brought us from the very promising start-up to the present state which might be termed “the welfare state without a grain of welfare.” To see the true results of the so-called “shock therapy,” it is enough to describe the current state of affairs. Of course, our arguments have nothing whatsoever to do with the traditional critique of this period based on popular statistics such as

²⁷There are many other concessions to “practical considerations” or inconsistencies in Hayek. Despite his popularity as an Austrian scholar, when one takes into account his meddling with the concept of the minimum guaranteed income, minimum wage law, state social insurance and health-care system, state limits of working hours, and anti-trust legislation, one must recognize that these state-interventionist measures are strictly opposed to the essence of Austrian economics. As such, while talking about and making comparison to the Austrian view, we will stick to Austrianism with a consistent, radical *laissez-faire* flavor. On Hayek, see Walter Block, “Hayek’s Road to Serfdom,” *Journal of Libertarian Studies* 12, no. 2 (Fall 1996); and Hans-Hermann Hoppe, “F.A. Hayek on Government and Social Evolution: a Critique,” *Review of Austrian Economics* 7, no. 7 (1994).

GDP, balance of payment deficits and its various fractions, or unemployment. Instead, our criticism is directed at the assaults led by Klaus's government on the very substance of the capitalist system—private property.

We do not claim that all socialist measures adopted by the Klaus-led Czech governments must necessarily be attributed to and blamed on him. First, however, the general public usually draws the association that actions taken by Klaus's government are of his doing—hence, the popular notion that any step that Klaus's government took was strictly in accordance with the now-hated liberalism (libertarianism). Second, he never appeared before the public and declared that any particular action contradicted his beliefs and principles, or that only because of his political rivals had such-and-such regulation, tax, or other measure been adopted. And though Klaus now claims that his basic mistake was that he was too loyal to the government he served in, one of Mises's deep insights comes to mind in this respect.

Nothing can serve as a substitute for an ideology that enhances human life by fostering social cooperation—least of all lies, whether they be called “tactics,” “diplomacy,” or “compromise.”²⁸

Now, let us add some real-life experience to illustrate what the great Klaus actually did as a Prime Minister and can thus be held responsible. (We list only the most striking cases.)

Rent Control

As ownership of apartment houses was returned to the original landlords, the Czech “Austrians” led by Klaus were quick to “properly secure” the property rights of the owners by imposing severe rent control over previously inhabited apartments. Such tenants were given a “right to an apartment” that could be extended to any family member in the future who simply claimed that he/she lived in that place. This pseudo-right could expire only by its voluntary surrender by the tenant (an extremely stupid tenant) or his/her death provided, that the apartment had not been transferred previously to another family member.

²⁸Mises, *Liberalism*, p. 156.

Owners of such control-stricken property have nevertheless been compelled by law to keep their property in shape (no matter how much it costs), so that the tenants' "rights" cannot be jeopardized. Thus, there is little wonder that there has been pressure upon the government, not only by the "katheder" right-wing economists, to deregulate this field.

When chided by Gary Becker for still having a rent control in place, Klaus replied:

You [had] the rent controls [in New York City for] fifty years, we have [had] them five years, . . . so we still have 45 years to be faster than you.²⁹

Klaus later rebutted Becker's criticism of the rent control by saying that:

Well, I am ready to admit that Gary Becker is a stronger opponent of residual rent control than me, but I can assure you that I am a stronger opponent of industrial policy than anyone,³⁰

thus making Becker look like a GDP-growth maniac.

Rent ceilings are raised annually to catch up with inflation. However, even now, they are no more than a third of what they are on the unregulated market. In Prague, the rents on the unregulated market are several times higher than the rent ceilings, which suggests heavy compulsory transfers from certain landlords to certain tenants.³¹

Draft

Klaus trumpeted all over the world how much he cared about liberty. He often attacked social democrats' planks, pointing out that they do not cherish individual freedom, and that they would like to foist different kinds of coercion upon the citizenry. However, one week after one such exposé of his, he publicly endorsed the military draft.

²⁹Pavlik, *Gary Becker in Prague*, p. 44.

³⁰Pavlik, *Gary Becker in Prague*, p. 46.

³¹We have been repeatedly assured that a faster deregulation scheme was prepared and endorsed by different government members, and that it was always Klaus who stopped it.

I do consider the compulsory military draft a basic duty of every young man that he is supposed to do for his country. I frown upon all those who tend to avoid this military service.³²

While Klaus sometimes portrays himself as one of the greatest libertarians ever, we see here, with Klaus sounding like a communist newsboard from the cold-war era, that he shows few symptoms of even being infected with anything close to libertarianism.

Telecom Monopoly

The telecommunication industry is still, after more than ten years, heavily monopolized—the provision of phone services has been and still is reserved almost exclusively to a single company.³³ Once, when asked what he thought about the Telecom monopoly—whether it should be abolished or not—Klaus shrugged his shoulders and uttered:

I simply don't know anything about Telecom. Now it seems to me that everyone in this country is an expert on Telecom. . . . For me, it belongs to the sphere of the industrial policy. . . . It is not a real issue to privatize or not privatize [it]. . . . To de-monopolize it or not is a partial issue which can increase social welfare by one percent to the better or one percent to the worse. . . . [Privatization of Telecom] is a special case, it is definitely a post-transformation task. It is not a part of the systemic change from communism into a free society and market economy. It can be done at any moment at any time. . . . It has no connection whatsoever with the general functioning of this country.³⁴

Václav Klaus, our great Austrian, is even trying to measure the percentage changes in “social welfare.” Further, he admits that the people could actually be better off with the Telecom monopolized, i.e., when they are forbidden to choose. He claims not to know whether the government should or should not confer an exclusive right to provide certain services to a single company, and prohibit

³²*MF Dnes* (April 4, 1998), Q&A Section, p. 4.

³³Ironically, the Telecom monopoly will be abolished in 2001, largely under the pressure of the European Union.

³⁴Pavlik, *Gary Becker in Prague*, p. 50.

doing so to everyone else. It is of no importance to him; it probably depends!

Samuelson's Economics

Incredible as it may sound, after the glorification of Klaus in the first part of this paper, it was Klaus who brought Paul Samuelson's famous public-lighthouses-and-successes-of-the-Soviet-block-preaching textbook (which, incidentally, lists Hayek under Chicago School rubric)³⁵ to virtually all Czech universities, colleges, and even high schools. He wrote an acknowledgment to it in which he maintained that the only thing missing from that "great" textbook was a chapter on the economic transformation. One can only wonder why, in 1990, when there was no economic textbook that did not start and end with Marxism, and when Czech academics, with Klaus having the upper hand among them, were searching for a "market-economy" text, they picked Samuelson's *Economics* out of all the books available. Why didn't Klaus put through *Human Action* if he liked it so much?

To emphasize how unexpected his choice was, let us briefly summarize all economists (or economic schools) that Klaus, besides being an Austrian, of course, endorses. As mentioned above, he acknowledged that Mises had contributed most to his way of thinking. On another occasion, he confessed that he had always been proud when people had pigeonholed him as a Friedmanite. Every once in a while, he would also laudably mention the Public Choicers. Putting together the Austrian, Chicago, and Virginia Schools makes some sense. But then libertarian Klaus says:

We have been looking forward to this moment [publishing Samuelson's *Economics*] for many decades. . . . I believe that studying it will become an inception of the renaissance of economics in our country. . . .

It is a smart as well as precise book, it is readable as well as making one think, it wants to be read and contemplated. . . .

³⁵For criticism of Samuelson's *Economics* see Mark Skousen, "The Perseverance of Paul Samuelson's *Economics*," *Journal of Economic Perspectives* 11, no. 2 (Spring 1997): 137–52; also Rothbard, "Paul Samuelson's *Economics*, Ninth Edition," in *Logic of Action*, vol. 2.

I wish the book pleased and taught every reader, every beginning student, every advanced economist, really everyone who takes it into his hands, as much as it did [please and teach me]. I found it necessary to get back to this book (its newest edition) at least once in a decade. Even though I often used to think that I was already supposed to know everything, I always learned a lot of new stuff. I believe that this book will become a breakthrough in our university economic education.³⁶

One can only wonder what that is supposed to mean. It should be clear that endorsing all of the above schools (starting with the Austrians) and Samuelson's hard-core mainstream is, for anyone who is at least roughly familiar with economic theory, rather a sign of schizophrenia, or, at least, of utter inconsistency.

If one takes into account Klaus's sympathy for such a textbook, then one should not be surprised by what Klaus was doing in reality. Still, Samuelson's *Economics* suffices in teaching the students that rent control is "bad" (of course, Samuelson is *wertfrei* and says it is somehow "inefficient" rather than bad). Klaus must have accidentally skipped these chapters.

EU and NATO

Klaus adopted the completely un-libertarian approach, which is basically indistinguishable from a hard-core statist view of fellow European politicians, of favoring supra-national bodies, namely the EU and NATO. Despite the fact that these organizations epitomize welfare-warfare states, and despite his frequent criticism of the most striking examples of EU absurdities (e.g., a common agricultural policy), he has always maintained that Czech membership in both is indispensable for our safe and successful future. It soon became a goal not to be doubted. Klaus was thus one of the people who effectively brought the whole nation to the doors of these interventionist structures (NATO, in particular; not so much the EU, whose own enormous red-tape machinery will hopefully prevent the Czech Republic from joining it).

³⁶Václav Klaus, "Forward" to Paul Samuelson and William Nordhaus, *Ekonomie* (Prague: Svoboda, 1991), pp. iii, iv.

Endorsing Injustice

Klaus's political "prudence" has brought him to implicitly endorse the communist solution to the problem of a population unwilling to accept the rules of its ruler. At the end of World War II, there was a near-total expropriation of the property of Sudetengermans, accompanied by their expulsion from Czechoslovakia. None of the stolen property was given back to the original owners, who were not even allowed to buy their own (or any other) immovable in their former country after 1989, since no foreigners were allowed to do so without state permission.

Klaus's notion of a solid line in history to separate property titles that can be scrutinized from those that cannot—a line drawn at February 25, 1948, the day the communists took power—really came in handy. It proved to be a convenient tool to avoid dealing not only with the above-mentioned case of Sudetengermans, but also with numerous cases of pre-1948 nationalization, particularly in the 1945–1948 period. The government nationalized even private property that belonged to Czechs, starting with certain types of business (mines, banks, etc.), and, later, most companies with more than 150 employees. None of this has become subject to a restitution scheme. Such injustice cannot simply be undone by virtue of the fact that it falls into a "different category," and apologetically insisting that a line must be drawn "somewhere."

Foreign Bank Accounts

Even now, almost a decade after the fall of communism, citizens of the Czech Republic are not allowed to own (without state permission) a bank account abroad, allegedly to protect local banks (which are, incidentally, mostly state owned—an infant industry case, indeed). There is nothing more to say about this absurd regulation, except to tell the story that swept Klaus from his post as Prime Minister.

Klaus and his party allegedly held foreign bank accounts in Switzerland. We could speculate at length about the purposes for which these accounts were set up, but the more important thing is that their very existence was illegal and punishable as a criminal activity—according to the laws that Klaus himself, at least tacitly, endorsed.

Miscellaneous

In addition to the previous examples, there were numerous other instances in which Klaus said something amusing. One time, he accused foreign retail chains of predatory pricing, and warned that unless “something was done about it,” the Czech stores would be driven out of business.

Another time, he publicly denounced and stigmatized the banking sector for being interested only in their marble palaces and for not doing enough for Czech industry. Of course, he may well have been correct, since most banks are government-owned, granting loans mostly to state or government-subsidized enterprises. On top of this, in 1998, Klaus declared that not privatizing the banking sector was not “a mistake” he would regret, but a part of the transformation strategy. The reason behind it was the danger that banks, if privatized, would care about their own profits only, and would not serve the needs of the transforming economy sufficiently.³⁷

Klaus also got involved in “leveling the playing field” in the beer business. His government granted special “easy” tax rates to minor breweries in order, we gather, to keep the market competitive. One might argue that he did so in order to create new “loop-holes” and thereby begin eradicating the whole redistributive system, but such an argument seems pretty far-fetched. In any case, the problem with this is not a smaller state budget (which would be fine with us), but the fact that people understood it as an effort to help the “small and weak” in their battle against the “big and mighty,” and as a part of *laissez-faire* policy.

In a critique of Hayek, Hoppe claims that one difference between Hayek and modern social democrats boils down to the question of whether to privatize the postal service, to which Hayek would likely say yes.³⁸ In the Czech Republic, there has not been a

³⁷Perhaps this was another sophisticated transformation maneuver which will nicely fit to Samuelson’s blank chapter on turning planned economies into genuine free-market ones. We don’t doubt that Klaus would “humbly” volunteer to write that chapter for Samuelson.

³⁸Hans-Hermann Hoppe, “F.A. Hayek on Government and Social Evolution: A Critique,” *Review of Austrian Economics* 7, no. 1 (1994): 67–93.

single word issued about de-monopolization and deregulation of such businesses within the whole ten years.³⁹

In 1997, on the day Milton Friedman spoke at the Annual Lecture of the Liberální Institut, talking about dismantling regulations and protectionism, Klaus announced the government's determination to fight the balance-of-trade deficit by instituting compulsory import deposits. We doubt Friedman would slap Klaus's back, saying that, under certain circumstances, this kind of a substitute for outright protectionism can be justified on liberal grounds as he—Friedman—in some different instances, claims.⁴⁰

We will only mention briefly some of the other grave flaws in Klaus's "radical reform." His party advocated heavy taxicab regulation in Prague, and justified it on the grounds of information asymmetry and "a special kind of entrepreneurial activity" which serves a broadly defined public interest. On another account, it recently joined forces with social democrats to put through a ban on all lotteries, including marketing ones (the "send-a-coupon-and-we'll-send-you-a-T-shirt" kind), conducted by foreign companies. Education is still completely state-controlled (there is not a single private university in the whole country), and public TV and radio are still financed by compulsory contributions which have to be paid even when one has a PC sound-card and never uses it for listening to the radio. Klaus nurtured the most powerful unions imaginable—the railway unions rule over the whole state-owned dinosaur. Omnipresent licensing and "quality control" hampers the free market and imposes an enormous burden on entrepreneurs.

CONCLUSION

Contrary to what many foreign observers believe, Václav Klaus is not the right example of the politician, whose approach:

³⁹It is too bad that Klaus was not at least a Hayekian, as he had claimed.

⁴⁰Consider, for instance, one of Friedman's particularly amusing rationalizations: "The appropriate free market arrangement is volunteer military forces, i.e., hiring men to serve. . . . Present arrangements . . . seriously interfere with the freedom of young men. . . . (Universal military training to provide a reserve for war time *is a different problem and may be justified on liberal grounds.*)" (Italics added). Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1982), p. 36.

Sima and Stastny—A *Laissez-Faire* Fable

should provide inspiration for citizens in contemporary welfare states . . . about how to begin to undo the disaster of welfare statism.⁴¹

The “remarkable success” or “normal society” to which Klaus brought the Czechs, as Palmer mentions in the text, is not the one based on “private property,” “freedom of exchange, individual rights, and the rule of law,”⁴² but is a “regular” private-property-attacking, freedom-of-exchange-restricting, individual-rights-violating and legislation-stock-piling, EU-style welfare state. (Of course, being a welfare state at this point will prevent the Czechs from achieving the EU standard of living!)

We do not claim that Václav Klaus is any worse than any other politician. We are not saying that he is more socialistic than Bill or Hillary Clinton. But, and this is important, they, at least, do not claim to be libertarians with an Austrian flavor. It is Klaus who should be held responsible for the total denouncement of libertarianism (or, in the traditional meaning, liberalism) in our country. It is patently his or his fellows’ fault that most people in the Czech Republic now hold that we have tried *laissez-faire* and it didn’t work, and that we now have to find some kind of a “third way.” “We thought we could let the market deal with everything, but that is preposterous. . . ” is the popular notion among the people after eight years of Klaus’s presence in government (1990–1998). That is why the Social Democrats are now riding high and have the chance to make things ten times worse.

When free-minded men achieved political power in the Czech Republic, they were supposed to abolish illegitimate state institutions one by one. People were eager to enjoy their freedom, new groups of rent-seekers were not yet established, and the old communist ones could not expect to get much of the tax money. But, as time, passed all this changed, western “experts” came in advising the establishment of institutions to “protect” the free market, and the whole brainwashing machinery started to operate. Free-minded people in the government were transformed into people routinely spending other people’s money. Nothing could be done quickly, allegedly because of social considerations involved in the

⁴¹Palmer, Preface to Klaus, *Renaissance*, p. xiv.

⁴²Palmer, Preface to Klaus, *Renaissance*, p. x.

transformation (keeping “social cohesion” etc.) The de-socialization steps had to be slowed, then postponed, and finally (and therefore) even the majority of people started to believe that liberty was not worth pursuing, that, again, a “third way” had to be found.

Klaus, an intelligent, well-read man, knew well what was supposed to be done, or, at least, what was not to be done. He was the one we should thank for that promising chance—the Czech Republic’s unprecedented opportunity to move quickly toward a *laissez-faire* society. But Klaus is also the one we should blame that such a chance was totally squandered.

The moral of our story, which is now coming to its end, is that anti-free-market and anti-liberal policy measures cannot be implemented in the process of “recreating” a *laissez-faire* society. As Rothbard aptly remarked:

The libertarians should be a person who would push the [Read’s] button, if it existed, for the instantaneous abolition of all invasions of liberty.⁴³

It is not the gradualism principle, but the abolitionism principle, to which a libertarian must necessarily stick, since, as William Lloyd Garrison warned, “Gradualism in theory is perpetuity in practice.”⁴⁴

This story should also give you pause before you get too excited the next time you hear someone talking like Mises introduce himself as a politician.

BIBLIOGRAPHY

- Block, Walter. “Hayek’s Road to Serfdom.” *Journal of Libertarian Studies* 12, no. 2 (Fall 1996).
- Douglas, Roger. *Unfinished Business*. New Zealand: Random House, 1993.

⁴³Murray N. Rothbard, *The Ethics of Liberty* (New York: New York University Press, 1998), p. 259; Leonard Read, *I’d Push the Button* (New York: Joseph D. McGuire, 1946).

⁴⁴Quoted in Rothbard, *The Ethics of Liberty*, p. 260.

Sima and Stastny—A *Laissez-Faire* Fable

- Friedman, Milton. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1982.
- Hayek, F.A. "Intellectuals and Socialism." *University of Chicago Law Review* 16, no. 3 (Spring 1949).
- . "The Repercussions of Rent Restrictions." In *Rent Control: Myth and Realities*, edited by Walter Block. Vancouver, B.C.: Fraser Institute, 1981.
- Hoppe, Hans-Hermann. "F.A. Hayek on Government and Social Evolution: A Critique." *Review of Austrian Economics* 7, no. 1 (1994).
- . "On the Law and Economics of Socialism and De-socialization." *Cultural Dynamism* 8, no. 8 (November 1996).
- Junglich, Petr, Tomáš Koudela, and Petr Zantovsky. *Tak pravil Václav Klaus*. Prague: Votobia, 1998.
- Klaus, Václav. "The Austrian School: Its Significance for the Transformation Process." In *Libertarians and Liberalism: Essays in Honour of Gerard Radnitzky*, edited by Hardy Bouillon. Aldershot, England: Avesbury, 1996.
- . Foreword to Paul Samuelson and William Nordhaus, *Ekonomie*. Prague: Svoboda, 1991.
- . *Renaissance: The Rebirth of Liberty in the Heart of Europe*. Washington, D.C.: Cato Institute, 1997.
- . *A Road to Market Economy*. Prague: Top Agency, 1991.
- . speech at *The 1997 Annual Hayek Memorial Lecture* at the Institute of Economic Affairs in London, June 17, 1997.
- Mises, Ludwig von. *Liberalism*. San Francisco: Cobden Press, 1985.
- Pavlik, Ján, ed. *Gary Becker in Prague*. Prague: Liberální Institut, 1995.
- Palmer, Tom. Preface to *Renaissance: The Rebirth of Liberty in the Heart of Europe*, by Václav Klaus. Washington, D.C.: Cato Institute, 1997.
- Read, Leonard. *I'd Push the Button*. New York: Joseph D. McGuire, 1946.
- Rothbard, Murray N. *The Ethics of Liberty*. New York: New York University Press, 1998.
- . *For a New Liberty*. Rev. ed. San Francisco: Fox & Wilkes, 1978.
- . "How and How Not to De-socialize." In *The Logic of Action* (Cheltenham, U.K.: Edward Elgar, 1997).
- . *Making Economic Sense*. Auburn, Alabama: Ludwig von Mises Institute, 1996.
- . "Paul Samuelson's *Economics*, Ninth Edition." In *Logic of Action*. Vol. 2. Cheltenham, U.K.: Edward Elgar, 1997.

Journal of Libertarian Studies

Samuelson, Paul, and William Nordhaus. *Ekonomie*. Prague: Svoboda, 1991.

Skousen, Mark. "The Perseverance of Paul Samuelson's *Economics*." *Journal of Economic Perspectives* 11, no. 2 (Spring 1997).