



Celebrating Freedom

His Excellency Václav Klaus



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CELEBRATING FREEDOM

*His Excellency Václav Klaus,
President of the Czech Republic,
speaks to Canadians and Americans
in November 2004*



The Fraser Institute
Vancouver, Calgary, Toronto
Canada

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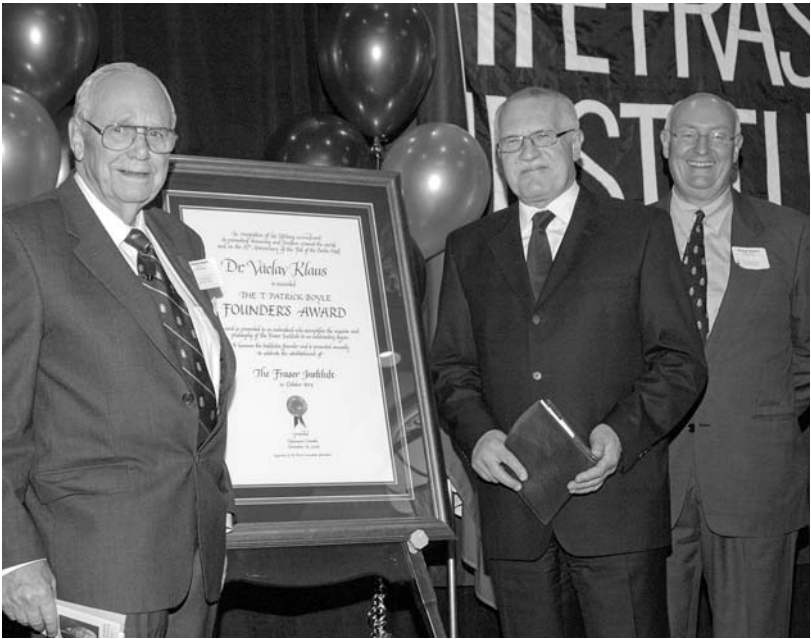
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Fraser Institute founder T. Patrick Boyle (left) and Institute Executive Director Michael Walker (right) present His Excellency Vaclav Klaus with the Founder's Award at a Fraser Institute luncheon in Vancouver on November 10, 2004.

Introduction

Václav Klaus became Federal Minister of Finance in December 1989. In October 1991, he was also appointed Deputy Prime Minister of the Czecho-Slovak Federation. In April of that year, he co-founded the Civic Democratic Party, and was its Chairman from the outset until December 2002. He won the parliamentary elections with this party in 1992 and became Prime Minister of the Czech Republic. It was in this position that he took part in the peaceful division of Czechoslovakia and the foundation of an independent Czech Republic. On February 28, 2003, Václav Klaus was elected President of the Czech Republic.

Václav Klaus was born in the Vinohrady district of Prague on June 19, 1941. He studied at the Prague School of Economics (majoring in the Economics of Foreign Trade and graduating in 1963), and economics became his lifelong specialty. He took advantage of the relative thaw in Czechoslovak public life at that time to study in Italy (1966) and the USA (1969). As a research worker at the Institute of Economics of the Czech Academy of Sciences, he completed a PhD in Economics in 1968.

In 1970, he was forced to abandon his research career for political reasons and went to work for many years at the Czechoslovak State Bank. While there, his communist supervisors gave him the task of studying and becoming familiar with the errors of the great capitalist writers; in the process, Dr. Klaus became a convert to their ideas and worked tirelessly to spread the views of Hayek and Friedman, among others, throughout his country. He returned to an academic post at the Forecasting Institute of the Czech Academy of Sciences in late 1987. In December 1989, he began his political career.

President Klaus came to Canada at the invitation of The Fraser Institute to accept the TP Boyle Founder's Award for his lifelong commitment to promoting democracy and freedom around the world. While here, he spoke to audiences in Vancouver, Calgary, and Toronto.

Celebrating Freedom

The Fraser Institute has become, in the first 30 years of its existence, one of the leading advocates of freedom, liberty, and free and competitive markets in the whole world.* We all have learned a lot from its activity. I am, therefore, pleased and honoured to be able to speak at this Fraser Institute round table luncheon, and by doing it implicitly contribute to promoting its endeavors.

We are here today, as the title suggests, “celebrating freedom,” but some of us are afraid of celebrating because we see other tendencies as well. We see many symptoms of the creeping undermining of freedom in the world around us. To be fair, I have to say that I see it more sharply in Europe than here and I see it with the eyes of someone who spent most of his life in the communist regime and, therefore, in this respect is oversensitive. As a result of it, we should not only celebrate. We should also be concerned about the lack of freedom and democracy, especially as regards the state of affairs in the European Union. The same is undoubtedly true in other parts of the world but as president and a citizen of a new EU member-country, I am deeply involved in the current European problems.

I know that to raise the issue of the lack of freedom now means “blowing against the wind” and asks for being labelled nationalistic, reactionary, short-sighted, sceptical, and most of all, politically incorrect. I am, however, convinced that we should not capitulate to the political and intellectual trends of the time and I do insist that we should make such topics legitimate and respectable. Ideas have consequences and we should, therefore, study their evolution, their direction, their inner dynamics, their impacts.

* President Klaus gave this speech in Calgary on November 9, 2004 and in Toronto on November 12, 2004 to mark the fifteenth anniversary of the fall of the Berlin Wall. An earlier version of this talk was delivered at Brunel University in London, England, on October 20, 2004.

I agree with Friedrich von Hayek that “freedom cannot endure unless every generation restates and reemphasizes its value.” Similarly, Ronald Reagan said in a speech in November 1977: “Freedom is something that cannot be passed on genetically. It is never more than one generation away from extinction. Every generation has to learn how to protect and defend it.” I like these two quotations.

However, I would like to extend this argument. Reaffirming our commitment to freedom should be done now by those of us who had lived for decades in a non-free, communist world. I say this because I think that we were not only impoverished. By living in such a regime we were, paradoxically, also enriched. Due to it we do not take freedom for granted. We are sensitive to all kinds of creeping and what for other people are almost invisible changes, which signal to us the future possibility of the weakening (and potential loss) of freedom in the nominally free (because it was a formally non-totalitarian) world. We may be biased because we lived in a communist society, we may underestimate some important things, but we have a unique experience which should not be forgotten. As a result of this, some of us see symptoms of freedom-weakening attitudes, initiatives, and activities, and are convinced they should be taken seriously, especially in Europe.

Where are the problems?

After decades spent in a collectivistic society, people like me believe more than those who were privileged not to go through this experience in the primacy of the individual. We are, therefore, frustrated by a growing pressure to place individual rights and responsibilities below and behind group rights and entitlements. The latter is considered to be modern, progressive, and politically correct, even if it directly endangers both individual freedom and human liberty.

We believe in democracy, but we do not agree with the proponents of Third Ways who, as Anthony Giddens says, fight for “the democratization of democracy,” which is a radically different concept and project. Redefining the basic terms of classical liberalism is unnecessary because the original concepts of freedom, liberty, democracy, and capitalism are quite sufficient.

The currently fashionable ideology of human rights (not to speak about radical “human-rightism”) does not represent a neutral and innocent concept. What I see in it is an alternative with far-reaching consequences. There is a similar problem with attempts to reinterpret the meaning and logic of markets. I believe in free markets, not in fair markets; I believe in markets, not in *regulated* markets, not in the dreams about the possibility of the convergence of economic systems.

Slogans like “Earth First,” or the misleading concept of sustainable development support neither nature nor the quality of environment, but immodest constructivist ambitions of those who want to gain control of, and over, us. They use nature and the environment as their “hostages.”

Discrimination is wrong, but the currently popular principle of non-discrimination is worse. It is—as history teaches us—the opposite to freedom. People are “natural equals” and we know that formal equality of opportunity is far better than substantive equality of results. The idea of absolute equality, which is in many circles heralded as a new era of social progressiveness, is connected with the premise that government is a benevolent force, able to guarantee equal outcomes by redistributing benefits and privileges between individuals and groups. The Czech people know that such attempts led to an enormous degree of inequality.

We see the importance of morals and morality for the functioning of human society, but the rhetoric of moral righteousness on the side of various immodest public intellectuals is not part of it. Such rhetoric reveals their strong authoritarian tendencies. They want to impose their values on others and are convinced that they know better than the rest of us what we need, what we want, and what is good for us. They want to protect us from ourselves.

Another danger comes from judicial activism, which leads to an usurpation by judges of powers rightly belonging, in a democracy, to the political branches of government. Judicial activism, when it undermines parliamentary intent, is necessarily anti-democratic. It leads to the rule of lawyers instead of the rule of law.

We are witnessing the crowding out of standard democratic methods by alternative political procedures based on communitarism, NGOism, corporativism. As a result of this, political power moves into the hands of rent-seeking coalitions, various pressure groups, and institutions with vested interests.

Another freedom-weakening activity lies in attempts to suppress the role of nation-states and to internationalize public issues and public choice. It leads to the undermining of the democratic accountability that exists in nation-states. To decide at what level to organize public goods and where to make “public choices” has brought about—and will bring about—a permanent dispute in free societies. The much-heralded but empty EU doctrine of subsidiarity gives us no advice in this respect. For many decisions, the nation-state is too big and, therefore, we have municipalities, regions, provinces. For many decisions, the nation-state is too small and, as a result, we have international organizations or international treaties at regional, continental, and global levels. But one thing cannot be disputed: for democracy, the nation-state is just it, just right, just appropriate. Attempts to suppress the nation-state bring us to the brave new world of post-democracy, to the absence of democratic accountability, to the distortion of existing and “proved” checks and balances, to the substitution of technical and administrative thinking for politics. The old ways and mechanisms have passed the test of time and were the result of selective evolution. The new ones were created due to social engineering, due to vain constructivism. Their advocacy is based on what I call “the ideology of Europeanism,” which has been creeping in without our explicit acceptance of it.

Why is it so?

I see three groups of causes: ideas, interests, and fears.

As for ideas, the main impact is the growing belief in the inevitability of market failures, accompanied by the presumption that the politically organized correction for market failures works perfectly. All kinds of socialists repeat this again and again. Market failures are set against idealized politics, which is an incorrect comparison. The romantic mythology of the state and of the motivations and capabilities of politicians and their bureaucrats has not been rejected. The public is probably more critical of politics and politi-

cians, more cynical about the motivation of political action, and less naive in thinking that politicians have solutions to all problems than half a century ago, but the old dreams are still there.

Some people are personally motivated to favour statism because they hope they will gain from it. They know that in such a world there will be a demand for their activities. Centrally organized, regulated, and controlled society offers an enormous opportunity for some people to give ideas, advice, and recommendations. By doing so, they can reconstruct the world according to their own ideas and at the same time be paid for it. This is well-understood and true for many societies and historical periods, but the current most visible example is the European Union. Its formation and expansion is accompanied by a huge demand for ideas, advice, defence, and justification (of its existence).

Finally, there is a fear. Fear of those who don't believe in themselves, who are afraid of openness, of freedom, of markets, of competition, who hope that someone else will help them, will take care of them, will be responsible for them. I don't speak about those who are really weak, ill, old, and handicapped (they do need our help), but about those who are willing to substitute freedom and responsibility for the paternalistic state. Without people afraid of freedom, the success of statist would be impossible.

It is our task to understand and explain the impact of this special coalition of ideas, interests, and fears, and to come up with a clear, straightforward, and feasible alternative. That alternative must be based on the return to classical liberalism.

The Czech Republic and the EU: A Marriage of Convenience, Not of Love

When I was here in San Francisco last, six years ago, my country was still in the first decade of its post-communist era.* We were still deeply involved in our so-called transformation process. It is, therefore, not surprising that the title of the speech I delivered here on that occasion was “The Political Economy of Transition: The Czech Lesson.” I discussed the basic structure of this unique historical manoeuvre—of the move from communism to a free society. I tried to describe the crucial pillars of the whole process—liberalization and deregulation of the administered economy; privatization of a fully state-owned economy; restrictive macroeconomic policies (after decades of repressed inflation); building democracy and a market-friendly institutional infrastructure; as well as our attempts to organize this manoeuvre in a way that would minimize the inevitable transformation costs connected to such a deep and radical systemic change. I also stressed that the transition was done in the real world, not in a laboratory controlled by an omnipotent philosopher-king, by an enlightened president or prime minister.

I tried to explain that, “I do not believe in the possibility of a smooth and stable transition path in politically and socially difficult, but highly democratic, pluralistic and open societies (and economies) of Central and Eastern Europe. We are not in a brave new world of perfect markets and of perfect government.” I do not see any need now to put it differently, even if there are permanent dreams about organizing the transition as a controlled experiment in applied economics.

The transition is over.

* Václav Klaus prepared this speech for the Commonwealth Club of California and World Affairs Council of Northern California, San Francisco, November 8, 2004.

The Czech Republic has become, structurally, a standard, normal, European country. As a result of this, it has typical European problems. Those problems cannot be solved by means of another revolution, because we are already in the middle of the process of a spontaneous evolution. This evolutionary era is less radical, less dramatic, less headline-creating, but—paradoxically—more controversial and even more ideological. This era is also connected with the ongoing European integration process and with our entry into the EU on May 1, 2004. Let me say a few words about it.

Our entry into the EU has been planned and prepared for a long time. Even as far back as November 1989 hundreds of thousands of us—almost subconsciously and thus completely spontaneously—came out with the slogan “Back to Europe” that in its simplicity became one of the most important symbols of that historic occasion and of our further development. By saying “Back to Europe,” we wanted to indicate that we intended:

- to overcome the isolation of our country that lasted almost half a century;
- to overcome our unnatural and one-sided orientation towards the East;
- to end our disrespect for the basic values of the political, economic, and social systems functioning successfully west of us,
- to end our non-involvement in the activities of those European institutions that had been founded during our absence from the democratic developments of the free part of the European continent between February 1948 and November 1989 and that shaped the face of today’s Europe.

I can assure you that this powerful slogan did not suggest any kind of anti-Americanism, as it could be interpreted now. We just wanted to be a normal, free, functioning, prosperous country. “Back to Europe” is, of course, a different slogan than “Forward to the European Union.” Whereas the first slogan can promise benefits, the second one has both costs and benefits. The first journey was straightforward, the second one is more complicated.

On the other hand, problems are natural. As is usual in the lives of individuals as well as in society as a whole, we have gained something by becoming an EU member, but at the same time, we have lost something. One never gets anything for free. As the well-known saying goes, there are no free lunches. It is our obligation to do everything to make sure the proportion of gains and losses is favourable, which certainly is not and will not be automatic. We must learn how to remain ourselves, not only as individuals, but as a Czech nation, which is more than the sum of individuals and of individual interests. These wider interests do exist and they should not be labelled as nationalism. We are obliged to our predecessors to preserve Czech statehood. You Americans understand patriotism well, much more than contemporary Europeans who consider it as something politically incorrect.

Looking at the European integration process from not only the Czech, but from a broader perspective, the year 2004 will be remembered for two important events in Europe: for the biggest EU enlargement thus far, and for the birth of the EU constitution, which represents a radical step on the way to a unified Europe—at least nominally—and to the gradual disappearance of national-states on the European continent.

Speaking of enlargement, there is no doubt that the new members, Central and Eastern European countries, gained an important political recognition, that their membership in the EU means an end to the post-communist transformation, as well as an end to the Cold War division of Europe. This is very important. These effects are, however, more symbolic than real.

The real problem is different. The new member countries—economically less developed countries—need catching up. They need *real* convergence. The question is whether the *nominal* convergence, the acceptance of EU legislation, standards, rules, and policies, will accelerate the expected real convergence, or will block it? The historical evidence is in this respect, at least, mixed. The results depend very much on the existence or non-existence of huge financial transfers because without them, the nominal convergence creates costs that are higher than the benefits. This problem should be taken seriously because, otherwise, we will be confronted with a huge disappointment from citizens in the new member countries. The case of East Germany is well known, as is the case of Mezzogiorno in Southern Italy.

Enlargement means a bigger EU and, as a result of it, the transaction costs of EU functioning will go up. On the one hand, governing in a bigger and more diversified entity will be more complicated. I refer to the costs of collecting, using, and evaluating the necessary information, the costs of making decisions in a multidimensional, very complicated structure, the costs of implementing and controlling decisions, etc. When we increase the number of countries and keep the scope of policies constant, governing will be either more costly, or less efficient, and/or less democratic. To escape such unpleasant arithmetic is not possible. At the same time, there will be non-zero costs for individual EU countries connected with their obligatory application of uniform EU decisions and standards.

All of this is amplified by the appearance of the EU constitution, which is a radical document with huge implications for efficiency, democracy, and national sovereignty. It aims to eliminate the legal autonomy of individual European countries; it introduces the EU as a legal personality, and, in terms of international law, it transforms the EU into a state.

The EU constitution can bring about some increase in the operational efficiency of governing, but at the price of

- strengthening the democratic deficit;
- shifting decision-making procedures to be less of a democratic type and more of a hierarchical type;
- more majority voting than unanimity;
- the further depersonification of the EU and growth of anonymity in decision-making;
- the growing loss of national sovereignty;
- the increasing power of the EU “core”, etc.

These unpleasant phenomena cannot be changed by the hypothetically good intentions of EU politicians and bureaucrats. It is a systemic issue.

We should not rely on the god-like characteristics of EU politicians and bureaucrats. We should take a different route. We should not Europeanize issues, but fight for the preservation of basic civil, political, and economic lib-

erties, as well as for a minimal state. We need the institutional framework to make it possible. We need unregulated markets. We need states to guarantee and safeguard the rule of law. We should know that the alternative is a non-state, post-democracy, and administered society.

We need a New Europe—Europe without Europeanism. We need a Europe of economic freedom, a Europe of small and non-expanding government, a Europe without state paternalism, a Europe without pseudomoralizing political correctness, a Europe without intellectual snobbism and elitism, a Europe without supranational, all-continental ambitions. If someone across the ocean labels this kind of Europe a “New Europe,” it would be nothing but good. However, I must emphasize that we are very far from this ideal.

The Czech Republic's Transition, European Problems, and The Fraser Institute

I am really honored to be celebrating, together with the Fraser Institute, its 30th anniversary and to receive the Founders Award.* I say that not as a conventional courtesy—it reflects my actual feelings.

I am well aware of the role The Fraser Institute plays in your country, and I can assure you that we know your institute and its activity quite well in a small, very distant country in the heart of Europe, in the Czech Republic. Reading *Fraser Forum* is something I have done for many years, starting approximately in 1990, when I—for the first time—met Michael Walker and many other collaborators and friends of the Institute.

I was here in 1991, 1992, 1999, and now again in 2004. I was here in all my public roles—as Minister of Finance, as Prime Minister, as Chairman of the Parliament, and now I am here as President of the country. I do not know in what capacity I will come here next time. I hope, nevertheless, I am still the same person who came here 13 years ago, and I can assure you that I still do believe in the same set of ideas as they are spread and so eloquently defended by The Fraser Institute.

In 1991, I tried to explain the strategy of the transition from communism to a free society and warned against attempts to mastermind the transition from above—by always-prepared and always-available social engineers who wanted to lead us and who did not want to let us make the transition ourselves. I tried—in Hayekian terms—to avoid the well-known pitfalls of human design because I trusted human action. I remember I found an open-minded and friendly audience here.

* Václav Klaus gave the TP Boyle Lecture to The Fraser Institute at the Fairmont Hotel in Vancouver on November 10, 2004.

In 1992, I discussed the relative roles of domestic and external factors in a systemic change. I stressed that “democracy, freedom, and a market economy can not be transplanted to an unprepared soil by decree, by lecturing, or by giving well-intentioned and good advice” and that “reform begins and ends at home.” I am convinced that the experience of the last decade in my country and elsewhere, not to mention some recent very problematic efforts to export liberty, freedom, and democracy, confirms my original views.

In 1999, I spoke here about “The Third Way and Its Fatal Conceits.” I repeated my often-quoted phrase: “The Third Way is the fastest way to the Third World” and I criticized such an approach by saying that “The Third Way of the 1990s is just a new attempt to save socialism, social-democratism, and the welfare state.” And I also said that “the bureaucratic, non-genuine, non-evolutionary, and therefore artificial unification of Europe” is an example of Third Ways in international politics.

This final quotation brings me to today’s topic, Europe and the European Union, its recent evolution, its so-called deepening and widening, and its currently prevailing ideology that I call “Europeanism.”

When discussing Europe now, at the beginning of the twenty-first century, I must confess that I am becoming more and more nervous, both because of what the discussion contains and makes explicit, and because of what it is missing, what is implicitly hidden. It has become more or less accepted in Europe that all the fundamental questions of our times have been solved at one time or another in the past, and that by fixing European relations and structures *history is over*. Almost all participants in the discussion pay what is to me exaggerated attention to the less relevant issues. In the contemporary brave new world of on-line reporting and of the predominance of SMS-[short message service] length news, everyone behaves as if the real European issue is to invite (or possibly not to invite) three more states to join the EU, to have a rotating or permanent EU presidency, to have more or fewer commissioners in Brussels, to have one system of majority voting or another.

I am afraid that such topics are of second-rate importance, that they do not address the main European problems and—what is even worse—that those who formulate them succeed in crowding out all other topics. It is not acceptable. *We should not capitulate to the intellectual trends of the time*. We should

raise other topics. The European intellectual space should not be occupied by topics relevant for EU politicians and bureaucrats only, for a group of people someone recently aptly called *priviligentia*.

There is no need to have extraordinarily sharp eyes to see in recent developments in Europe evident, undeniable, and undoubtedly unfavourable trends and tendencies. They include:

- a long-term economic slowdown (both in relative and absolute terms);
- the growing successes of various radical political parties and of nationalistically- or populistically-oriented movements;
- the loss of cultural dynamism coinciding with the victory of multiculturalism and with the belief in the possibility of preserving traditional European values, while abolishing the original institution that made them possible;
- the loss of self-confidence, of positive work ethics and habits, and of personal motivation;
- the breakdown of the understanding of the inevitable performance-reward nexus;
- the growing shortsightedness connected with the unconscious and unstructured fear of the future;
- the loss of leadership, the depersonification of decision-making in the public sphere, the shift to collective (ir)responsibility;
- a growing disbelief in politics and politicians at a time when the increasing range of human actions is becoming subject to collective, public choice procedures;
- the undermining of national identities, and because the search for identity has been caricatured as an obsolete, long-defeated nationalism, the emergence of symptoms of a new nationalism.

These phenomena do not have any direct connection with either the recent enlargement of the EU or with the birth of EU constitution. To my great regret, the new EU members from Central, Eastern and Southern Europe have not and will not bring about an important change because most of them have

been—between the collapse of communism and their entry into the EU—already infected by the same virus. The countries from more remote regions could bring some fresh air, but if such a threat arises, they would not be allowed to enter.

The recent enlargement of the EU will have a different impact. Because everything will be bigger and more complicated, the inherent failings of the current EU system will increase and will be more visible. Specifically,

- both the democratic deficit and the lack of democratic accountability of EU institutions will be more apparent than before;
- the composition of decision-making procedures will further shift from a democratic type to a hierarchical one;
- the power of the EU “core” will be strengthened;
- majority voting instead of unanimity will dominate decision-making in more and more fields;
- attempts to get rid of existing deviations from the “norm” will lead to more intervention from above;
- the distance of citizens from the centre of power, from Brussels, will grow;
- the anonymity in decision-making will increase.

All of that is—given the prevailing integrationist project of ever-closer union—unavoidable. The unpleasant trade-off between the number of participating countries and the democracy and efficiency of decision-making (all other things being equal, *ceteris paribus*) will be felt more and more. The costs of decision-making in a bigger union will be either paid for (resulting in loss of efficiency) or suppressed and hidden (resulting in loss of democracy). Both are negative signs.

The recently-signed European constitution (or perhaps constitutional treaty) will increase both types of costs. In its current form, it is a radical document with far-reaching consequences for freedom and the welfare of individual citizens and for the future of nation-states. Somebody may argue that it sounds too alarmist and that we are not yet that far. This is true. All that is required, however, is one more treaty. This is my forecast, not my wish.

The new constitution does nothing to resolve the real problems of Europe; rather, it tries to side-step them instead. I dare say that the lack of resolution of the problems was caused either by an intellectual defect or by a purposefully and skilfully planned intention.

Whatever the reason, the authors of the constitution started with the following, very dubious assumptions:

- Europe existed in the past as a collective identity and should, therefore, exist again as a collective identity in the future;
- Europe has a common history which can be—as with national history—implanted into human minds by means of fairy tales, textbooks, preaching, and political speeches;
- the gains from homogenization of the whole continent, from elimination of differences, from harmonization and standardization of the rules of human behaviour, are indisputable;
- competition is not the most powerful mechanism for achieving freedom, democracy, and efficiency, but an unfair and unproductive form of dumping which endangers specific protected groups and, eventually, whole societies;
- big is beautiful and centralization, bureaucratization and masterminding of the whole continent will make us stronger;
- intrusive regulations, rulings, and interventions from above is necessary because market failure is more dangerous than government failure, because markets need the visible hand of omnipresent administrators to be efficient, and because bigger markets require more regulation;
- regulators at the EU level are better, more efficient, less inclined to listen to special interests than their colleagues at the national level, or to put it differently, the more remote (from individual citizens) the government is, and the bigger the territory it governs, the better the government is.

I do not share these views. I do not believe in this conglomerate of ideas characterized by extreme eclecticism and lack of consistency and purity. I call this conglomerate of ideas—until I find a better term—Europeanism.

Its incoherent structure makes it possible to see Europeanism as a proof of the end of ideology, of the victory of pragmatism as well as of administrative and technical reasoning, of the importance of genuine and friendly interest-free—which means altruistic—cooperation, of the possibility of win-win solutions (which is a term overcoming all terminological inventions of George Orwell), etc.

Our task is different. *We should not Europeanize issues*, but fight for the preservation of basic civil, political, and economic liberties.

We need the institutional framework that makes them possible. We need unregulated markets; we need states to guarantee and safeguard the rule of law. The alternative is a non-state, post-democracy, and an administered society.

We need a New Europe, a Europe without Europeanism. Let us move to a Europe of economic freedom, to a Europe of small and non-expanding government, to a Europe without state paternalism, to a Europe without pseudomoralizing political correctness, to a Europe without intellectual snobbism and elitism, to a Europe without supranational, all-continental ambitions. If somebody across the ocean labels this kind of Europe the “New Europe,” it would be nothing but good. However, I must emphasize that we are still very far from this ideal.

Moving to a Market Economy and the Difficulties of Such a Transition

I try to be consistent in my views. I looked, therefore, at the speech I gave here in Toronto on the occasion of getting an honorary doctorate degree in February 1997.*

Reading my speech after 7 years, I was pleased to find out that I tried then to make several important points that are worth repeating now.

The communist system collapsed, it was not defeated. It collapsed because it was in an advanced stage of decomposition already, because it gradually lost its two strongest constitutive elements: *fear*, on the one hand, and *faith*, on the other. In its final days, the communist system became both soft and unconvincing, and such a state of affairs was not sufficient for safeguarding its further continuation. It is an irony of history that communism sort of melted away.

It has often been stated that the collapse of communism created a very strange vacuum. At the time I was not sure. At first glance this seems plausible, but it was not true. We do not live in the black and white world of textbooks.

What remained was not a vacuum. We—the citizens of the country—were alive and there was air to breathe. What kind of air? We inherited weak and therefore inefficient markets and, similarly, a weak and not fully efficient democracy. Both the economic and political mechanisms were shallow, and the political and economic agents (players of the game) were not properly defined and established. Some of the agents were new, all of them were weak and fragile, and the outcomes of their interplay were less efficient than in full-grown free societies (as you know it) that have never experienced communism.

* Václav Klaus gave the following speech to a Fraser Institute Student Seminar at the Sheraton Centre Toronto on November 13, 2004.

Another point is that it was not possible to overcome such a state of affairs by introducing a ready-made, imported system delivered from outside. We had to undergo a difficult transformation process. No master-minding of the evolution of a free society by means of social engineering was possible. What we had to go through was a complicated mixture of deliberately introduced measures and of unconstrained, spontaneous activities of millions of suddenly free citizens.

At the same time, we understood very rapidly that it was not possible to wait for ideal textbook conditions, to wait for a sufficient degree of market efficiency before liberalizing markets. The quick abolition of old institutions was a *sine qua non* for success because it was the only way to minimize the high transition costs. We had to privatize, to liberalize, and to deregulate as fast as possible.

When I say “we,” it brings me to another point. What about the people? Were they ready for such a rapid change? Does free society presuppose, in addition to the creation of its basic institutions, some set of values or moral standards that would properly anchor the society? Do the people need an interim period of “schooling”? Is such schooling realizable? Are there teachers for such a procedure? Are the people willing to be educated? And so on. My answers to these and similar questions were simple. *The people are always ready and they do not need a special education.* What they need is a free space for their voluntary activities and the elimination of unnecessary controls and prohibitions of all kinds.

After the collapse of “hard” communism, we succeeded in rejecting reformed communism, and we succeeded in avoiding romantic nationalism (with its very negative systemic consequences). We also succeeded in overcoming utopian and, therefore, dangerous attempts to forget everything and to start building a brave new world based on aprioristic moralistic and elitist ambitions (of those who are better than the rest of us), but we have lost with statist, interventionist, paternalistic social-democratism, which is something we see in many free societies west of us. I stressed that it was our permanent task and duty to attack the expanding state. This was—and still is—an overwhelming tendency of the twentieth century, of the century of socialisms with the whole variety of confusing adjectives. We in the Czech Republic wanted to demonstrate that to make a return to a free social order is possible.

This is what I said 7 years ago. I was right in describing the process of transition, but I was wrong—I was overly optimistic—regarding the possibility of winning with social democratism.

I would add several points:

- transition is a process, not a single act;
- transition has to be started by “a critical mass” of deep and radical measures;
- there are important transaction costs associated with shifting from one system to another;
- the sequencing issue is theoretically interesting, but practically almost irrelevant (whenever there is a chance to take any measure, do it!);
- there is a difference between classical privatization and transformation privatization (i.e., privatizing individual firms at the margin of a standard market economy versus privatizing the whole country);
- good legislation, good institutions, and good rules are necessary, but it is impossible to make the markets efficient by means of legislation and to solve economic problems by legislating them out;
- development is not linear. It is inevitable that there will be economic fluctuation in an imperfect, fragile, immature market economy with a vulnerable banking and financial system.

We did not, however, succeed in creating the free market economy The Fraser Institute would prescribe us. We do not have a minimal state; we have a high degree of redistribution, we have paternalism of the state, we have the German version of the “soziale Marktwirtschaft,” not an American, much more free, less regulated, less interventionist system. Part of the problem was homemade, part of it was imported from the EU. But to discuss the EU is an entirely different topic.

A Transformative Visionary: An Interview with Czech President Václav Klaus

On November 6, 2004, I had the opportunity to meet and talk with Dr. Václav Klaus, President of the Czech Republic. I asked the President a few questions about his role in the Czech Republic's transition from a former Communist state to a free market economy. I felt sure readers of our magazine, *Fraser Forum*, would be interested in knowing a bit more about the person behind the Czech Republic's remarkably rapid, yet relatively peaceful transformation.

—*Kristin McCahon, editor, Fraser Forum*

KM: President Klaus, how did living under a Communist system for the formative years of your life help shape your beliefs?

VK: My interpretation may be biased but I do believe that living in a Communist country was not just a loss. We were at the same time, paradoxically, enriched. As a result of it, we do not take freedom for granted and are ultra-sensitive to the slightest symptoms of its weakening or undermining. Our frustration motivated us to look at the world with very sharp eyes and to have strong views. We did not have the luxury of enjoying life in a rich, non-problematic, easy-going, fun-maximizing culture and society.

KM: How did you become interested in the work of “the Austrian school” of economics?

VK: Most of us recognized and understood—without being led by any theory or doctrine—the irrationalities and evils of the Communist era. In addition, some of us started to search for deeper insights into it, for theories, frames of reference, abstract models. The first step was non-Marxism (in social sciences), non-“social-realism” (in literature), non-official culture, etc. It meant the discovery of mainstream

economics (Samuelson), existentialism and personalism in philosophy, beatnik literature and lifestyle (Jack Kerouac's *On the Road*), jazz, and absurdist drama.

The second step was anti-Marxism and anti-socialism. That was the moment of discovering Mises and Hayek, Friedman and Stigler.

KM: As you tried to relay some of their teachings to others in what was then the hostile political environment of Communist Czechoslovakia, were you ever in any physical danger, or in danger of being jailed?

VK: Let's differentiate among time periods. The hostility existed permanently, but the really dangerous times were the fifties, when I was still young. In other decades it was—with non-negligible exceptions—more a danger of being fired from a job, not to be allowed to publish, teach, or travel abroad, than to be jailed.

It was impossible to say “Down with Communism,” but it was possible to say that the centrally-planned economy is—because of its very substance and logic—irrational and inefficient.

I was fired, however, from the Institute of Economics of the Academy of Sciences after the 1968 invasion into Czechoslovakia by the Warsaw Pact armies as a leading anti-Marxist and was only allowed to return to the Academy in late December 1987. Life was definitely not easy.

KM: How did you become interested in politics and decide to run for office?

VK: The Velvet Revolution in the Czech Republic in November 1989 brought me and many others into political life and office almost overnight. We did not hesitate to become politically involved because in doing so we saw a chance to dismantle the old system and to start building a free society.

In the Communist era, almost everyone was interested in politics because politics was everywhere. The Communist system was extremely politicized; the scope for private activities was purposely limited. The autonomy of private life was much less than in a free society.

KM: As the only world leader who is an Austrian-school economist, do you find that in practical reality, free market ideals can be translated into the day-to-day running of a nation? Where are the pitfalls?

VK: There is a difference between a model and real life. The Austrian school of economics is one of my “models,” one of my visions, conceptual frameworks, instructions. It gives me a compass, it gives me a firm basis for my activity. Reality is different from theory, but I insist that there is nothing more practical than good theory. It is the maxim I always follow. It says, of course, nothing about my everyday frustrations about what is happening around me in the real world. But theory gives you a consistency in your views and stances and it is a tremendous help.

KM: Do you feel the reform from former Communist state to free market economy is now complete? What other reforms would you like to see take place?

VK: We don’t use the term “reform.” This term was so often misused in the Communist era that we don’t like it. For us, this term means a partial change inside of an existing system. We had to make, on the contrary, a fundamental change. We speak, therefore, about transformation (or perhaps transition). A systemic change is something other than the change inside of a system.

In this meaning of the terms we can say that transformation is over. From the structural, systemic point of view, the Czech Republic is—in political, economic, and social dimensions—already a standard European country.

Many reforms are, of course, necessary—in the pension system, in the health care system, in public finance—but such reforms are very similar to the changes you make (or do not make) in Canada today—without the Communist heritage.

KM: As prime minister of the Czech Republic, you helped the former Czechoslovakia divide peacefully into two nations. You must be very proud that the division went so smoothly and without bloodshed (though of course there was to some extent a precedent for such civilized behaviour

with the 1989 Velvet Revolution). What lessons do you have for other countries that may feel they could benefit from a similar mutual parting of the ways?

VK: I was born in Czechoslovakia (as a Czech, but my wife is a Slovak) and I did not want this entity to disappear. The country, which was established in 1918, did not, however, survive the rebirth of freedom and to my regret I had to accept that the Slovaks did not feel (and probably never felt) well in this country of two nations. My role was to manage the split in a peaceful way, which I did. I knew it was necessary to negotiate instead of having aggressive and hostile speeches. I knew it was necessary to physically divide everything formally (before the split). I knew that the right sequence was crucial—to solve all disputes before the formal split, not after. It was that easy.

KM: *The Czech Republic joined the EU in 2004. Are you happy with that decision? What have been your main concerns about European integration and the Czech Republic's role in it?*

VK: The Czech Republic belongs to Europe and does not have the luxury of being Switzerland. We wanted—after the collapse of Communism—to become a normal European country again, which means—these days—to participate in the European integration process.

By entering into the EU we gained something and at the same time we lost something. The cost-benefit analysis of such a step is not simple. For us it was a marriage of convenience, not of love. We did not dance in the streets on May 1, 2004.

Another issue is the problematic “ever-closer Union” paradigm, which I simply do not share. For that reason I did not go to Rome at the end of October 2004 to sign the EU constitution. This is a radical and far-reaching document with which I do not agree. I am for integration, not for unification, harmonization, standardization, homogenization of the European continent. I prefer freedom and liberty to obtrusive interventionism. I do not believe democracy can exist without the nation-state.

KM: *In a mid-1990s speech to the Heritage Foundation, you said, “To be successful, political leaders must formulate and sell to the citizens of the country a positive vision of a future society.” What is your positive vision of the future Czech Republic?*

VK: It is a difficult question. It was easy to have a *negative vision*—to get rid of Communism was an easy message to formulate and to sell. Positive vision is always more complicated. I dare to say—immodestly—that I succeeded in formulating and selling *the transformation vision*—the move from Communism to a democratic and more efficient society based on political pluralism and free elections, on a market economy and private ownership, on openness, to the rest of the world. Even this vision was more or less accepted in the Czech Republic. A rich and powerful Swiss businessman told me at that time: “I am an old-fashioned Social Democrat, but I would vote for you. After you succeed in this historic transformation, I would vote for the Social Democrats again.” The feeling of many Czechs was similar.

We more or less succeeded in the transition and the current conflict of visions is now very dramatic, as elsewhere. As president I try to unify the country but on the basis of broader, less ideological issues. Personally, I want my country to overcome social-democratism and return to classical liberalism. It is not a modest ambition. And, in addition to it, I want to keep the country, the Czech Republic, as an entity. It should not be lost in the brave new world of European structures and of cheap multiculturalism and cosmopolitanism.

KM: *What sort of personal qualities does a person need in order to take a country from a former Communist state to a vibrant, democratic participant in the free market, as you have helped the Czech Republic to do?*

VK: One must have a vision and strong views, plus physical and psychological strength, resistance, endurance, and stubbornness. One must have good compass in the field of ideas, one must read Hayek and *Fraser Forum* often, but I have a special secret for everyone: you must be more diligent and work harder than your rivals. That is more important than anything else.

One needs to have people around himself and must listen to them. One must be with the common people, not with the elites. The elites do not want freedom for everyone and competitive markets, they want freedom and exceptional positions for themselves, and a non-market evaluation of their achievements. On the Czech road from serfdom to freedom they were more dangerous enemies than the defeated Communists and their fellow travelers.

KM: I understand you enjoy many sports—volleyball, tennis, and skiing, particularly. Have you played tennis or any other sports with other world leaders? Were they good at their games?

VK: You mentioned my “non-serious” sports. I played basketball for 10 years in the Czechoslovak Basketball League and even played matches in several European countries. Volleyball, tennis, and skiing represent my post-basketball activities. I played tennis with many Czech tennis stars—Kodeš, Korda, Nováček, Novák, etc.—as well as with several world-famous players—Borg, Orantes, Gottfried, Gomez. I played tennis with the Austrian chancellor, with the Romanian and Finnish prime ministers, with the US Secretary of the Treasury, with Chairman Greenspan, etc. The best player was Larry Summers [Chief Economist at the World Bank, 1991-1993 and Under Secretary and Deputy Secretary of the US Treasury since 1993].

In Vancouver, in 1991 we played doubles with Milton Friedman, Gary Becker, and Michael Walker.

Winning and losing in sports is a precondition for learning to win and lose in politics. Playing sports teaches you the ability to persevere, to go on fighting.

KM: Thank you again for these insights and for agreeing to share your time with Fraser Forum readers.

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