

David Warsh

The disciple

WHEN VACLAV KLAUS WAS in Boston some years ago, I went down to see him at the Meridien hotel because I had heard interesting (and conflicting) things about him as an economist involved behind-the-scenes in the liberalization of post-communist Czechoslovakia. In 1989, after "the velvet revolution," he had become finance minister.

This was before he became prime minister, before he negotiated the breakup of the Czech Republic with Slovakia, and he had some interesting things to say. Chiefly, he compared disagreements about approaches to privatization to arguments over the fine points of skiing (he was a former ski instructor).

"They amount to very little compared to the basic techniques of getting downhill."

At the end of our talk, I explained I was a columnist, not a reporter, and that I didn't envisage writing anything about his talk right away. He said, "So, you have been wasting my time?" He turned on his heel and was gone.

I was reminded of the incident on Saturday, when Klaus stepped down as prime minister. He was forced out by a scandal over secret donations to his political party that were kept in a Swiss bank account. Among Czechs, there was apparently a nearly universal feeling that Klaus's arrogance and boundless self-certainty had something to do with it.

A currency devaluation last spring drove home to the Czechs their difficulties. The state-owned banking system is a mess, loss-making industries owned by the banks linger on, and fraud is rife. How is it that the country that was once in the vanguard of Eastern European nations as they charted their way from communist central planning to market capitalism is now bringing up the rear?

The answer may be that Klaus was too certain he knew the answers.

It was the University of Chicago that gave him shelter briefly on the eve of his ascension to power, and the myth followed him for years that he had somehow been a Chicago mole, like Chilean economists who had restructured the economy of their country, from top to bottom in accordance with what they had learned as graduate students in Chicago.

It was true, Klaus said, that he had felt a secret kinship with Milton Friedman, George Stigler, and Gary Becker ever since learning about their work during at sabbatical year at Cornell University in 1969.

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That link — plus smuggled-in copies of Friedrich von Hayek — sustained him during the dark years of 1971 to 1986, when he was assigned to low-level positions in the state bank, after being forced out of the Academy of Sciences for political reasons.

But it was Margaret Thatcher, prime minister of the United Kingdom, who provided his ultimate inspiration, Klaus liked to say. It was she who first "attacked the expanding power of the state with visible success."

It is essential to note that over the years, Klaus attacked with special warmth the work of the prominent Hungarian economist Janos Kornai, who has a joint appointment in Budapest and at Harvard University. The two in some sense had led parallel lives. Just as Klaus had been profoundly affected by the Soviet invasion of Prague in 1968, so Kornai has seen his path as an economist foreclosed by the bitter repression of Hungary in 1956.

But where Klaus accentuated his allegiance to the new classical economists of the West, Kornai continued to work in the planning tradition. He painfully worked out a criticism of Western economics that nevertheless remained true to the spirit of its increasing mathematization. His "Anti-Equilibrium," published in 1971, is still read in the West.

After 1989, Kornai became a proponent of gradual deregulation — in diametric opposition to the "Big-Bang" style of privatization through widely distributed vouchers preferred by the Czechs. "Gradual deregulation is a sin," Klaus wrote, in reviewing one of Kornai's books. "If committed, it should be justified in a different — noneconomic — way."

Yet today Hungary leads the Czech Republic in privatization. The famously stubborn Polish economy boasts more entrepreneurial activity. Klaus's speeches have been translated into English and published by the libertarian Cato Institute; they contain much penetrating analysis of the rigid and unjust system that was communism.

But it is Hungary that is forging ahead.

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