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IVAN MIKLOŠ

REWRITING THE RULES

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THE RULES

An interview on Slovakia's economic reform

Interview performed
by Štefan Hríb and Robert Žitňanský

Translated from the Slovak by Daniel Borský

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Ivan Mikloš: Rewriting the Rules
An interview on Slovakia's economic reform
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INTRODUCTION

Many disenchanted people from central Europe are not entirely convinced today that the fall of Communism nearly 12 years ago was indeed a liberation. They are frustrated and disappointed, many have lost hope. They still haven't adjusted to the fact that they have to work harder to earn their livings, they seem weary of stiffening market competition, and unsettled by the discovery that freedom is above all about responsibility. To make matters worse, they see corruption and clientelism flourishing all around them.

With the fall of "the evil empire," as Ronald Reagan dubbed communist Russia, many people bade farewell to their meager but comfortable existences as socialist citizens. The cage of Communism was opened triumphantly, and the grayness of socialism was replaced by the colorful panoply of capitalism. However, once outside the cage, central Europeans found only an enormous void, and often unbearable uncertainty. In search of shelter and comfort, they

opened the Pandora's box of nationalism, which soon remedied people's lack of faith in themselves by giving them something else to believe in: national myths. Unfortunately, instead of calming and soothing their insecure souls, nationalism brought only hatred, blood, and poverty.

So much have we accomplished during 11 years of freedom. Was November 1989 a true liberation, or was it merely the sudden exposure of a catastrophe the communists had tried to conceal from the rest of the world behind the iron curtain? Of course, it was both.

For more than a decade, people here have been able to think freely, read at their pleasure, write at will, debate issues openly, and travel without hindrance. Illusions are long gone, and unvarnished reality is four-square in front of us. Yes, it's painful at times, but at least it's reality and not a communist lie. We have repeatedly discovered that our situation is precarious, sometimes more precarious than we would ever have conceded during Communism, but on the other hand, these disclosures have been the very first steps out of our own misery and towards eventual change.

When the first free and fair elections came after decades of political repression, our society was not ready for them. Immediately after the fall of the one-party system, there arose an urgent need to establish and build a pluralist political system, standard political parties, and functioning parliamentary democracy. This process normally takes decades, but in

central Europe the first free elections were held merely several months after the fall of the Berlin Wall. Naturally, this could lead to nowhere but trouble.

But the change for which our society was perhaps least prepared was the move from a centrally-planned economy towards a market-oriented economy. Slovakia in particular badly lacked economists who had not been corrupted by the communist regime. Whereas in Prague, dozens of future reformers had exhaustively debated the disadvantages of the communist central planning system long before 1989, Slovakia was inhabited by isolated, furtive individuals who secretly hoped to lay their hands on reliable economic literature, yet another scarce commodity. One of them was a young university assistant named Ivan Mikloš.

It was one of the miracles of our transformation that this 30 year-old economist with no political experience was appointed Privatization Minister merely one and a half years after Communism collapsed, in 1991. From the viewpoint of a society that had been unprepared for freedom, it was entirely logical that Mikloš be shown out the door of cabinet after only one year in office, on the grounds that he was an advocate of excessively radical economic reform. Václav Klaus, meanwhile, recorded an emphatic election victory with the very same reforms in the Czech Republic.

What followed is history: the split of Czechoslovakia, six years of the authoritarian regime of Prime Minister Vladimír Mečiar, leader of the Movement

for a Democratic Slovakia party [HZDS], who eventually managed to disqualify Slovakia from the first wave of NATO enlargement, and finally the parliamentary elections of 1998 that returned the country to the path toward European integration. During these years, Ivan Mikloš traveled, wrote, and learned a lot.

It is symbolic that the 1998 elections returned him to a cabinet seat to resume the reform work which was so rudely interrupted by the 1992 elections. The main difference between now and then is that he has been promoted within the cabinet ranks and appointed to the post of Deputy Prime Minister for Economy. He has the thankless task of reforming the Mečiar-ravaged national economy.

From the Washington Consensus, a reform policy for transition economies emphasizing macro-economic stability and price liberalization, he has gradually drifted toward the new institutional economics, which puts more emphasis on the particular situation in each country. He has also recently begun to evolve from a radical reformer into a pragmatic political leader, as shown by his decision to join Prime Minister Mikuláš Dzurinda's Slovak Democratic and Christian Union [SDKÚ] party in April 2001.

He is more popular than he was at the beginning of his political career; he smiles more often and speaks more clearly. He has less venomous opponents than before, but also fewer devoted supporters. To him goes a great deal of the credit for the

country's substantially improved macro-economic indicators; on the other hand, even he has been unable to handle Slovakia's 20% unemployment rate, currently the highest in Europe.

He admires Ronald Reagan and Margaret Thatcher, and his pet saying is that "America is the best anyway". His story has been that of a free market economist struggling with a gamut of socialist deformations. And sometimes, his story has also been typical of central European politicians, namely that of an emerging pragmatist wrestling with his original reformist ideals.

May, 2001, Bratislava

Štefan Hrib

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PRE SILNEJŠIU STREDNÚ VRSTVU, PRE MODERNÉ SLOVENSKO
(27.3.2010)

The Early Days

In 1991, as the new Minister of Privatization, you were the youngest member of any Slovak cabinet from 1989 to the present. How old were you?

I was 30 and a couple of months.

You became minister at a time when the communist economy began to be transformed into a market-oriented economy. What shape was our national economy in 10 years ago?

By the end of the 1980s, evidence was mounting that communist-type economies were falling behind. This led to pressure [from the communist leadership] to perform some kind of restructuring and other cosmetic facelifts. At that time, I was lecturing in macro-economic analysis, long-term planning, and forecasting at the Economic University [in Bratislava]. You might say that for seven years since 1983, I had devoted myself to doing things that mostly made no sense, just like the [communist economic] literature available then. We didn't have access to the literature available across the democratic world; on the other hand, democratic economists did not have at their dis-

posal a truly integral, in-depth analysis of how a centrally-planned economy functioned.

Why did they lack such analyses?

Part of the reason was that these systems were rather closed, so studies performed from the outside were quite superficial. It's perhaps inevitable that the deepest analysis of how centrally-planned economies functioned was drawn up in Hungary by János Kornai. The depth came from the fact that Kornai analyzed it from the inside, in Hungary.

Today he lectures in the States, if we are not mistaken...

That's right, he now shuttles between two jobs: he spends half a year as a researcher at the Academy of Sciences in Budapest, and the other half as a visiting professor at Harvard University. It was precisely the Hungarian 'goulash-style' communism, which was relatively liberal by our standards, that enabled economic researchers to analyze the centrally-planned economy, although only to a certain extent. Kornai's most famous work, *The Theory of Scarce Economy*, was written at the beginning of the 1980s, and has since been published virtually around the world. It became very famous for pointing out the deficiencies of this economic system in a relatively open way, although it did not come right out and say that the true reason for the inefficiency of the system was political. Kornai's theory also did not conclude that the real problem of communist-type economies was the

absence of private ownership, the absence of both economic and political competition, and the political monopoly [of the Communist Party]. I began to ponder these issues myself in my own studies.

How did you come by Kornai's works?

I once happened to find his *Theory of Scarce Economy* in our economic library.

Was this really a coincidence?

It was. I had known about Kornai before, but I definitely hadn't expected to find this kind of book in a communist library. It was quite a shock to discover that this book, which had won worldwide recognition by that time, was published by our Academy of Sciences as well, although only for study purposes.

For whom?

For scientists, for the internal purposes of the Academy of Sciences. It was the only valuable book I managed to track down in all the book catalogues that existed. The rest were official Russian books and similar rubbish. But this was a brochure which apparently had seldom left the racks in that library.

Although it hadn't been widely read, would you say that the leading Slovak economists at that time were at least aware of it?

The book was well-known among the leading Czech economists, but I doubt it was well-known among Slovak economists. Czech economists at that

time were far more advanced than their Slovak colleagues. In the Czech Republic there was a strong group of economists around [future Czech Prime Minister Václav] Klaus, [Tomáš] Ježek and others, who held meetings and taught themselves; also, during the 1968 to 1969 period, most of them had paid study visits to foreign countries. They had mastered languages and continued to improve their professional talents. Slovakia, on the other hand, lacked that kind of community, and the general level of economic sciences was considerably lower.

How did you arrive at the belief, 11 years ago, that the communist economic model could not work?

I gradually came to the conclusion that the real reasons the communist-type economy was dysfunctional lay in the system itself, including the politics that supported it. However, discussing these political aspects was taboo at that time, for Kornai as well; Kornai thus did not analyze fundamental deficiencies such as the absence of private ownership, and avoided any criticism of the totalitarian one-party system of government. Nevertheless, he was relatively outspoken in identifying ordinary economic problems, and his analysis at the time was simply brilliant. It wasn't until after 1992 that he published another work called *The Socialist System: The Political Economy of Communism*, in which he was absolutely forthright and unreserved in his criticism. Until the present day, this book remains the most sophisticated treatment of how centrally-planned economies functioned, or rather malfunctioned.

You were reading Kornai and lecturing at the Economic University in Bratislava during a period in which American President Ronald Reagan was calling the Soviet Union “an evil empire.” For people who never experienced Communism, it’s difficult to imagine what life must have been like for a university lecturer in a satellite country of the ‘evil empire’. What could such a person possibly lecture on?

It varied greatly. People who studied physical sciences or medicine had to know the basics of Marxism-Leninism, but other than that their education was factual and concrete. Social sciences, on the other hand, were naturally more deformed [by communist propaganda]. ‘Scientific Communism’ [a university-taught subject which tried to give Communism a logical basis] was absolute nonsense. Economics was also nonsensical to a great degree, although certain things that were taught did not lack justification. The degree of freedom one enjoyed as a lecturer depended on what subject one taught, as well as each lecturer’s situation. I was lucky enough to be a young assistant to one of the youngest professors in Czechoslovakia, a man who was quite liberal although also a top communist. He basically didn’t care what I lectured on. During lectures he taught whatever he thought was important, and during seminars I taught what I deemed necessary. For instance, between 1986 and 1989 I gave lectures based on Kornai’s work without running into any problems.

The Communist Legacy

At various times in the 20th century, western democracies believed that socialism worked quite well. Had this illusion among western intellectuals dissipated by the time you began to be interested in economics?

Yes, definitely. The development of the global economy in the 20th century could be divided in two periods. The industrial phase ended at the end of the 1960s and the beginning of the 1970s. It was characterized by mass large-scale production, which was very resource- and energy-intensive, and above all environmentally burdensome. It was both an extensive development and a mass mobilization.

Both in the East and in the West?

Yes, we are speaking about the global economy here. In these conditions, even centrally-planned economies were largely able to keep pace. A classic example of this was Slovakia's industrialization, which was characterized by the construction of new steelworks, engineering works and factories, as well as by intensive mining. When I was studying geography at the Economic University in the 1970s, the most important [criterion of economic performance] was how much of each raw material a given country was able to extract, and who the world leader was in steel and cement production.

The communist economy was able to mobilize resources; however, it often invested funds into the construction of new factories without regard for how

efficiently these resources were being allocated. People employed in the agricultural sector moved on a massive scale into industry; housewives sought job opportunities. There was widespread pressure to increase employment, to provide better for one's family, which led to a permanent demand for new jobs. Therefore, during the 1950s and 1960s it looked as if centrally-planned economies were really keeping up with market economies as far as production and growth in national incomes was concerned. While problems accumulated slowly through the entire period, they didn't really become apparent until the 1970s, which were a turning point. The oil crises of 1973 and 1979 spelled disaster for market economies, but they responded by vigorously pushing research into science and technology, by reducing the scale on which everything was done, by reducing consumption, and by developing new technologies and economic models that made more efficient use of raw materials and were easier on the environment. The supply shock caused after oil prices increased exorbitantly drew a flexible response from market economies. Communism, however, failed utterly to adapt to the new situation.

Why?

Because of the complete absence of competition. Other factors which prevented the communist economy from adapting included the means by which we imported oil from Russia. The prices of imported oil were set according to a 'five-year sliding average',

meaning the price of oil was calculated as an average of world prices over the past five years. In 1973, when global oil prices jumped, it was a shock for the West because it was felt immediately. Many cars were taken off the roads, a number of companies went under. On the other hand, in the communist bloc the price shock was staggered over a longer period of time. This meant that as late as 1974, we were still importing oil for world prices from the 1969 to 1973 period.

Did this price mechanism mean that communist countries did not experience an oil shock?

Not exactly. Its impact was merely cushioned and postponed by five years. By the way, while sliding prices initially allowed us to import oil for prices way below world prices, later on, after world prices had begun to decline, we were paying more for oil more than the rest of the world. So, in the long run, we ended up paying world prices for oil anyway.

But perhaps an even more important reason why we didn't experience a severe oil shock was what economists call 'soft budgetary restrictions'. We had no bankruptcies, no competition, no measurable economic environment. All companies were guaranteed of survival, regardless of whether they made a profit or a loss. This is a crucial fact. Soft budgetary restrictions involve four factors: first, soft taxes – while some corporations didn't pay any taxes, others were taxed at 90%; second, soft loans – generally, loans in this system were provided by the state and were not given out on the basis of commercial viability and econom-

ic return; third, soft subsidies – they were allocated from the political center, without any set of criteria; finally, soft prices – these were not determined by the mutual interaction of demand and supply, but were stipulated by a price authority. Another important factor was also the impossibility of declaring bankruptcy.

What share of communist Czechoslovakia's total foreign trade was with market-oriented economies?

About 60 to 70% of the country's foreign trade was oriented at other members of the communist bloc, while only about 20% was left for market economies.

What then was the actual impact of the oil crises and subsequent global economic developments on communist countries?

Even before the first oil shock occurred, the Rome Club was established and published a well-known report titled *Limits to Growth*. The report sounded an alarm, warning that if current patterns in mass industrial development continued, mankind would soon run out of resources, and catastrophe would follow. Although the report was well received, real change had to wait for economic conditions to shift. In our country, however, we were insulated from economic reality. Consequently, the fundamental difference between market-oriented and centrally-planned economies was that while oil shocks for the former triggered a move from an industrial to a post-industrial phase of economic development, for the latter nothing changed.

This post-industrial phase was connected with increasing miniaturization, new technologies, automation, electronic data processing, and new materials. Research and development played a vital role. On the other hand, centrally-planned economies didn't react to the new situation at all, but instead continued their resource- and energy-intensive, environmentally harmful forms of mass industry.

How did the communist system manage to survive another 16 years after the first oil crisis, and even then not know excessive poverty?

A very simple explanation is that we were living on our capital, and at the expense of our own futures. We had some capital accumulated, but we didn't build highways, infrastructure and other important things. And during the last 10 to 15 years of the communist regime, that backwardness became increasingly apparent.

You said we were living on our capital. To what extent was that capital built up during the market democracy of Tomas Masaryk's pre-communist Czechoslovakia?

Today we can only speculate. But the fact remains that during the First Czechoslovak Republic [1918 to 1939], Czechoslovakia ranked 10th to 12th in the world according to GDP per capita. We belonged among the most developed nations in the world, although there was a significant difference between the Czech

Republic and Slovakia. Slovakia was traditionally a backward country with a rural economy. Nevertheless, it's not unlikely that if Czechoslovakia had been given a chance to continue to develop as a market economy, rather than under a communist dictatorship, today it would still be one of the most developed countries in the world. It's also fair to assume that the gap between Slovakia and the Czech Republic would have continued to narrow.

Our leftist politicians often suggest that Communism was good for Slovakia because it industrialized the country. What do you think of that argument?

In my opinion it's absolute nonsense. While industrialization did bring enormous investments, the inefficiency of their allocation meant that when the system collapsed and economic reform was launched, unemployment in Slovakia immediately jumped to double-digit figures, while in the Czech Republic it was only 3%. Most of Slovakia's current economy was built by central planners who totally ignored market allocation mechanisms. While most of our economic base was created irrationally, the greater part of the Czech economy was built under market economy conditions. Thus, even in this respect, the communist regime can be seen as wholly negative. Although it accumulated and mobilized resources and built basic infrastructure, it basically produced poor quality goods in an inefficient manner and at an extremely high price. We continue to pay that price even now.

In the 1960s and even later, some western European intellectuals continued to sympathize with the communist system. How could such a monstrous illusion survive for so long?

As we have said, Czechoslovakia was already a developed country before the communist period. Well into the 1960s, the standards of living in Austria and Czechoslovakia, as well as the exchange rate between the Austrian schilling and the Czechoslovak crown, remained virtually neck and neck. Furthermore, everyone had a job in Czechoslovakia, which was another reason this system was so treacherous: its nature could be disguised and camouflaged for a long time. The negatives, which opened the eyes of many people, did not become clear until later. It's interesting that today, due partly to globalization, any deformation of or disregard for fundamental economic laws is punished promptly and severely by a loss of competitiveness.

But the 20th century, and especially the period immediately following the great crisis of the 1930s, ushered in a wave of moral relativism, statism, nationalization, and the idea of a strong social state. Back then, because of the tempting and apparently easy solutions it offered, socialism looked like a sensible path to many intellectuals. Some analysts maintain that we are currently witnessing a second wave of globalization, the first having taken place in the second half of the 19th century, when there were no passports, the work force could move freely, and the world opened up due to the industrial revolution, which pro-

duced steep economic growth. It was during the 1930s that this first 'revolution' was halted by a growth in statism, paternalism, closed economies, isolation and also true socialism.

Why did the ideas generated during the 1930s have such a powerful impact on the entire world?

Quite paradoxically, it was because of an increase in the standard of living which had occurred due to the industrial revolution and the related growth in production; it was also due to people's increasing sophistication and awareness of social differences. An important role in this process was played by the media, which disseminated the ideas of various revolutionaries and theoreticians like Marx and Engels. Labor movements then began to be organized, Communism found a foothold on one sixth of the world's surface, and the revolution continued to be artificially exported.

To what extent was the popularity of these theories supported by people's natural inclination toward living in groups?

A number of studies discuss people's inclination toward collectivism. Economic theorist F. A. Hayek, for example, maintains that for 99% of human history, mankind has lived in tribes, clans, communities, or in some other kind of collective. Values such as individual liberty and individual responsibility have only gained ground during the past 150 years. Hayek argues that people's fear of individual responsibility and their preference for collective ideas are thus rooted in history.

Is this some kind of inborn instinct?

Perhaps it's an instinct acquired through hundreds of consecutive generations.

What role did Keynes play in strengthening the statist tradition? Would the state now be less dominant without his theories?

Keynes is often wrongly labeled as the ideological father of statism, collectivism, sometimes even almost Communism. This is not quite the case. As far as the great crisis of the 1930s is concerned, numerous studies suggest that errors made by the American Federal Reserve and the American administration's economic policy makers were also to blame. These analyses argue quite reasonably that during certain phases of economic development, the government may be justified in stimulating aggregate demand. The main problem was that Keynes's proposals and economic recipes were gradually transformed into something far beyond what he had suggested.

Keynesianism was perhaps a logical response to the great crisis of the 1930s, and to some economists' lack of faith that the system could correct itself and function independently. I still believe that it can do so, but I agree that we have to learn from the mistakes made in economic policy. We often see that theory is the outcome of a process of simplification, and that in practice economies work in far more complex ways. But at that time, Keynesianism was perhaps a logical answer.

Perhaps one of several possible answers.

The cyclical nature of market economies is absolutely natural, especially in their early stages. A sensible economic policy can soften the peaks of these cycles to a certain extent. The problem then was that the situation we have discussed eventually led to social engineering and statism.

Some analysts reason that Communism collapsed because it was not able to compete in the arms race with Reagan's United States. Others claim that Communism would eventually have collapsed anyway because it was bound to burn out economically. Which of these two opinions do you subscribe to?

I think that Communism was bound to burn out; however, the manner and timing of its collapse always depended on the policies of the Western democracies. I believe that Reagan's policy, or rather the policy of the conservatives, was far more reasonable than the socialist policy of 'building bridges' between East and West. Nevertheless, the system would certainly have eventually been driven to collapse by economic forces and people's increasing awareness.

In many communist countries, people were destitute but the totalitarian regime crushed resistance or defiance.

Do you think that one of the reasons why communist regimes in central Europe were bound to collapse was the relative moderation of their leaders?

In this context we have to pay attention to cultural differences. Asian nations, for example Northern Koreans, are culturally different, and show a much stronger tendency to submit to collectivism willingly.

Even if it implies poverty and slavery?

Here it becomes a bit complicated. Having lived under Communism ourselves, we know that it was almost impossible to resist the system. In the case of central Europe, it definitely helped that the region shared a different tradition, culture and history, and that our nations had had at least some experience of parliamentary democracy and market economy.

Can we say that despite four decades under communist rule, Czechoslovakia managed to preserve at least some cultural heritage, which finally helped to topple the regime?

Certainly. Forty years is not a terribly long period in the history of a nation. On the other hand, central Europe has not been traumatized by Communism alone. When I explain in America why the transformation process has been so troubled and lengthy, I like to use the following example: over the past 90 years, the territory of modern-day Slovakia has been ruled by seven states according to five different regimes. The regimes ranged from liberal democracy to non-liberal democracy and non-liberal autocracy, in other words dictatorship. Official values and doctrines changed so frequently, and the various authoritarian regimes twisted common values for so long,

that their impact on our society was perhaps even more fatal than it was on our economy, technology or labor productivity.

Did you sense that your nation had had a brief experience with democracy even though you were born during Communism?

I wouldn't say I sensed it. But I perceived it when I compared Slovakia to other countries which had never had this experience, for example Russia. In Russia, for instance, people had experience of only communal land ownership until February 1917. Then the government embarked on agrarian reform and introduced private ownership of land, but this process was brought to a halt by the October Revolution of 1917, and subsequent collectivization and mass exterminations. The Russians have not the slightest experience of democracy, private ownership or a market economy. That's the fundamental difference between Russia and Slovakia.

One of the main premises of the new institutional economy is that it stresses the importance of the past. In other words, the informal values and rules followed in the present are largely determined by historical developments.

What are the basic differences between the informal values shared by the Slovaks and the Russians?

The difference is seen mostly in the importance which people attribute to democratic and classical liberal values, as well as in the extent to which they are

able to overcome temporary economic and social problems without abandoning these values.

Do you believe that our people preserved these values during Communism?

Absolutely.

1989 and After

What was the most important thing to do after Communism collapsed?

Launching transformation was immensely difficult from the technical point of view. It had never been tried anywhere by anybody. Communism collapsed in all countries at the same time.

The essence of Czechoslovakia's reform program was drawn up by a group of Czech economists. This was a terrific piece of luck for Slovakia, because at that time Slovakia had no economists who were up to the task. It's my belief that had Slovakia been left a decade ago to launch economic reforms with Slovak economists alone, it would have staggered the same way Bulgaria or Romania did. We would have done nothing, or taken only insufficient, partial measures.

What was the essence of Czechoslovakia's economic reform?

The most important part was freeing prices and the country's foreign trade. The latter naturally required that the currency be convertible, which led to

its devaluation from 11 crowns to 28 crowns per American dollar. Then came an austere monetary and fiscal policy, which in other words meant budget cuts. Last came privatization. This approach has stood the test of time. Contemporary analyses show that gradual reforms, which stagger reform measures over a longer period, cost incomparably more.

Which countries carried out gradual economic reforms?

Hungary, for instance, although Hungarians are a rather special example because they had a great head start on us from the 1970s and 1980s. Perhaps a better example would be Bulgaria or Romania.

Czechoslovak reform was also dubbed 'shock therapy'. In Slovakia, this therapy was completely rejected by society.

That was largely understandable.

But most Czechs, for instance, seemed to accept 'shock therapy', and even facetiously called it 'Klaus' medicine'.

I would like to point out here that the copyright for this concept of economic reform does not belong to Czech economists, but rather to Polish economist Leszek Balcerowicz. But you're right, the Czech public did have a generally different reaction to shock treatment. People – not only the economic elite but also journalists – were generally unprepared for reforms in Slovakia. This country had virtually no busi-

ness journalists who understood why the centrally-planned economy had been bound to collapse, and why it simply could not be efficient. Consequently, people were not ready for reform of this system, a fact which was successfully played on by the political opposition, especially the Communist Party.

The main problem in getting people to accept reform was the unavoidable first phase of post-communist transformation – a drop in production, an increase in unemployment, a growth in prices, a general decline in the population's standard living – all of which is known as 'transformation recession'. Under these circumstances, people's ignorance as to why economic reform was unavoidable led to grand illusions and unreal expectations. Slogans such as "in three years the Slovak crown will equal the Deutsche mark," in combination with the overall economic recession, rising inflation, unemployment and criminality, led to disenchantment. Naturally, this sense of disillusion was more perceptible in that part of the country whose elite had been less prepared.

How many top Slovak economists endorsed shock therapy immediately after the fall of Communism?

That's quite difficult to assess. Most of the people who endorsed it were grouped around Jozef Kučerák, who was then Slovak Deputy Premier for Economy. I was his advisor at that time. In any case, there were not many of us.

Was there at least something like a reform group?

Fortunately, the Slovak cabinet and parliament were both dominated by political parties which were in basic agreement with the policies of the Czechoslovak government. They agreed on the basics, and despite all the difficulties the Slovak government managed to stay in power until the next scheduled elections in 1992.

Does this mean that the first government elected after the fall of Communism was mentally far ahead of the citizens who elected it?

Yes. Politicians often have access to more information and sometimes even knowledge than ordinary people. Ordinary people often think that the government can do anything, which is definitely not true. Economic laws hold as true during transformation as at any other time, and especially in a country scarred by decades of Communism, the government's options are very clearly defined. This applies even more to a small country which is an integral part of the global economy, and which has to listen to international institutions.

By the way, the way in which shock therapy was adopted was very interesting. The first free elections took place in June 1990, and the economic reform scheme was approved in September 1990 by an absolute majority because very few people realized its implications. Later, many of those who had voted in favor of the scheme couldn't bear any mention of it. But that disillusion didn't occur until long after the

main battle over the final version of the reform. That battle was fought during the first half of 1990 between two influential groups of economists, headed by forecaster Waltr Komárek and the economist Václav Klaus. Komárek was a famous and very influential economist who advocated a gradual, easy, step-by-step reform scheme.

Was he a member of the generation which in 1968 had wanted to reform socialism in a similar way?

Exactly, in 1968 he was a well-known economist and protagonist of the so-called Prague Spring. He even worked as an advisor to Fidel Castro for some time.

And the other group?

The people around Klaus promoted radical shock therapy. It's interesting that in the beginning, Komárek was politically much more influential and popular than Klaus, who was a virtually unknown figure. Nevertheless, it was Klaus who eventually pushed his ideas through, mostly because Komárek couldn't come up with any unified policy which he could support with convincing arguments.

Klaus, on the other hand, had a clear vision. Again, it was not exclusively his vision. The year before, an economic reform based on the 'Washington Consensus' – that is, on the principles forwarded by the World Bank and the International Monetary Fund – had been launched in Poland. Klaus' main achievement was to convince the Czechs that this reform was the right

thing for them as well. To help him, a group of influential young economic journalists emerged to create a pro-reform atmosphere in the media.

Shock therapy was quite risky. The Slovak media often wrote that it would lead to catastrophe and impoverishment. Were you convinced of the correctness of the reforms you advocated, or were you uncertain of their consequences, and taking a bit of a risk?

We believed 100% in what we were doing.

Didn't you feel any fear?

I always feel a certain apprehension.

Weren't you afraid that the reform could go wrong, and that the doomsayers might be proven right?

We knew that reform had to be far-ranging; we knew that if we passed one measure and at the same time refused to adopt a related one, it could bury us. An example of what we were facing is the correlation between freeing regulated prices and following a tight monetary and fiscal policy. In 'scarce' economies, such as we had under Communism, demand exceeds supply; therefore, when prices are liberalized, they have to skyrocket because this is the way that supply is brought into equilibrium with demand. However, if you follow a tight monetary and fiscal policy and do not increase the aggregate supply of money in circulation, the growth in prices soon reaches a ceiling and becomes stabilized. Had we only liberalized prices without following a restric-

tive monetary and fiscal policy, we would have merely deepened economic imbalances and gotten into an inflationary spiral.

The Birth of Slovakia

What made Slovaks so impatient that they could not endure temporary difficulties and wait for stabilization?

Let's return to the situation as it was 10 years ago. In the Czech Republic, the unemployment rate is 3%, in Slovakia it is 11%. In the Czech Republic, the drop in production is far less grave than in Slovakia. In the Czech Republic, even ordinary people seem to be prepared for hardship, whereas in Slovakia not even the elite is able to understand the depth and meaning of what is to come.

Then the media in Slovakia largely join the doom-sayers, which pits public opinion against the reforms. It seems logical: unemployment is growing, production is dropping, prices are increasing, and the standard of living is declining. Therefore, reform is bad. And people perceive it that way. Furthermore, that typical Slovak trait of "blame somebody else" has surfaced again. The easiest argument is that the reform was conceived in Prague, and that while it may fit the bill in the Czech Republic, it doesn't suit Slovakia. Back then, this feeling was very strong among Slovaks, even though it made absolutely no sense because the problems with the system were the same in

both parts of the former federation. Perhaps if we had pursued a more astute policy, or if we had explained reform better to people, we could have drummed up stronger support, but I don't believe we would have been able to gain more than a few percent of the population. The differences between the Czech Republic and Slovakia on these issues clearly showed that preserving Czechoslovakia made no sense, although I was against the split myself.

Did it make no sense for economic reasons?

It was partly due to accumulated economic problems, but perhaps even more to the way that people's knowledge and professed values had become deformed. It's just a guess, but I believe that had Czechoslovakia been allowed to develop since 1918 as a democratic country with a market economy, it might have had a chance to continue as a single country after 1992 and become a kind of second Belgium. But unfortunately, decades of Communism perverted and deformed so many things, created so many unresolved conflicts and frustrations, that after the collapse of the regime and the ensuing 'transformation recession' Slovakia became a prolific breeding ground for demagogues of all kinds. The most successful form of demagoguery was the nationalist and social variety, which prevailed in the end.

Despite the opposition of the majority, you continued with your politically suicidal implementation of economic reforms until the 1992 parliamentary elec-

tions. Perhaps this was responsible behavior, but at the same time it cost you an election victory and a chance to continue the reforms. It also permitted Vladimír Mečiar to reverse reforms, isolate the country and eliminate it from integration processes. If you look back, do you ever wish you had been more pragmatic during those years?

What could we have done differently? Of course, it was absurd that the party I was vice-chairman of at that time had a majority in the cabinet but only 3-4% voter support. But we had to continue what we had begun, because we had no means of matching the wave of criticism from communist and nationalist demagogues, even on a theoretical level.

At the same time, I disagree that the reform trend was reversed after 1992. On the contrary, the work we had done over those first two years made the main reforms very difficult to reverse. This is shown by the fact that Slovakia was definitively knocked off the map of the civilized world only after Mečiar returned for a second time. After his first election victory in 1992, he changed virtually nothing in the country's economic policy. He only slowed down the privatization process and brought to a halt many partial reforms. Naturally, this gradually caused other problems because structural reforms are at least as important as macro-economic stabilization. Mečiar neglected reform of the Bankruptcy Law, the financial sector, institutional regulators and so on. But after he came to power in 1992, he didn't steer the economy much away from the course we had set, which was

interesting because of his previously fierce criticism of our reforms.

Why do you think they didn't change anything?

As we have said, governments have a very narrow range of options.

But they can widen them...

What should they do, print money? That would backlash on them immediately. It should be pointed out here that an extremely important role was played by the National Bank of Slovakia. Because it was relatively independent and steered by wise people, it managed to influence the Mečiar administration's monetary policy in a positive way and prevent such excesses as printing money.

But it did not prevent Slovakia from being eliminated from integration processes...

That was because Slovakia had one specific problem compared to other countries in transition. For instance, in Poland a conservative government would come to power, pursue a reformist policy, become unpopular and lose the next elections to a socialist government. The socialist government would then survive for four years on the previous government's reforms, not being too eager to continue with them, and finally fall anyway. Governments would keep changing between the two parties in this way. As far as reforms were concerned, they would continue now at a faster pace, then at a slower pace, but going for-

ward permanently. At the same time, both governments would be in basic agreement on their country's integration priorities. In Slovakia it wasn't so. Slovakia was plundered by a bunch of fortune hunters who messed up everything they could. Besides other negative things, they deliberately excluded the country from EU and NATO integration.

Why did Mečiar wait to change the country's course until after the early parliamentary elections of 1994?

He obviously concluded that the main reason for his removal in spring 1994 had been that his government had been too soft and too democratic.

Do you think it was at this point that they stopped caring whether Slovakia became part of western structures?

That's difficult to judge because no one can see into their heads.

What's your opinion?

I am a fierce enemy of all conspiracy theories. However, the fact remains that if the superpower to the east of us had had any interest in Slovakia's being eliminated from the western integration process, the only way of attaining that goal would have been to have Slovakia itself pursue policies that would disqualify it from the process. It's difficult to say whether the Mečiar administration pursued these policies on its own initiative, or whether there was any bilateral agreement regarding this.

Do you believe that the Mečiar administration tried to pull Slovakia into Russia's field of influence?

It's possible, but we have to remember that in Slovakia, all power was truly concentrated in the hands of one man whose mental processes are very difficult to read. Therefore, it's impossible to answer that question.

While in 1992 Mečiar recorded a sweeping victory in Slovakia thanks to his criticism of economic reform, in the Czech Republic the reformer Klaus celebrated an equally comfortable victory. However, over the next four years Klaus neglected the same structural reforms as Mečiar did, meaning that both countries suffered from similar problems. Was the situation in the two countries after the split comparable?

The Czech Republic is an interesting phenomenon. Klaus was the only politician in all formerly communist countries in transition whose party launched economic reform and managed to remain in power after the next elections. Naturally, this was largely because Klaus did it very efficiently, and because he was not only a knowledgeable economist but also an astute politician. Today he has become rather the latter. As far as developments after the split go, the world likes to stick simplistic labels on countries. While the Czech Republic received a nicer sticker than it actually deserved, Slovakia got an uglier one. I believe that over recent years these labels have become more realistic. After all, the dissimilarities between our realities have never been as glaring as the difference between our images. Simply put, we have had the ter-

rible misfortune that for far too long, Slovakia's image was determined by politicians who were much worse than their country.

The first time you were appointed to a cabinet seat was after 40 years of Communism. In 1998, you became a member of the cabinet again, this time after six years of Mečiar's rule. Which of these heritages was more difficult to cope with?

There are two basic problems when it comes to implementing reforms: technical and political. Immediately after the fall of Communism, reform was more a technical problem, because everybody endorsed reforms at the very beginning. After they were launched, it gradually ceased to be a technical problem and grew increasingly political, because people began to voice disapproval for continuing the reforms.

In 1998 reform wasn't really a technical problem, because after nearly 10 years of experience in other countries, it was clear what needed to be done in virtually every field. That said, even today there are certain fields in which carrying out reforms is also a technical problem – for instance in the health sector – because even western countries have not yet come up with widely accepted and time-tested models. But implementing reforms today is more a political problem, because carrying out true reform often implies enacting unpopular measures. In the short-term, these measures mean only costs and sacrifices. The positive effects they create come only after a certain time, which is politically very irksome.

What stage of economic reform is Slovakia currently in?

One Slovak adage says that ‘everything bad is good for something’ – rather like the English ‘every cloud has a silver lining’. The former government discredited itself so badly that despite the unpopular measures the current ruling coalition has had to adopt, there is a fair chance that it will remain in the driving seat even after the next elections, although perhaps in a slightly different make-up.

Would you say that the Slovak public now accepts economic reforms more positively than at the beginning of the 1990s?

Yes, definitely.

Why so?

Over the past 10 years, Slovak society has made huge progress in overcoming the historical heritage we have already discussed. General public awareness and knowledge has improved, while people have a more accurate self-image and have gotten rid of the false hopes they used to entertain that some miraculous and easy solution would be found.

Many people have also learned from their own mistakes. For instance, today there are dozens of young journalists who criticize the government – not for carrying out reforms, as before, but for not carrying them out quickly enough. That’s a qualitative change in the situation, which is great. Furthermore, Slovakia has a strong non-governmental sector involv-

ing many young and ambitious people, and finally there are signs that the generations are changing. Another good example of the immense shift in public perception is people's attitude towards foreign investment. Ten years ago, 90% of citizens opposed the idea of selling Slovak corporations to foreign investors. A year ago, during a trade union protest rally in front of the Slovak Government Office, many of the protesters were holding banners which read: "Bring foreign investors into our factories."

During the 1992 election campaign, billboards featuring your face were often vandalized. Today you occupy a hot seat in the cabinet again. Have you once again become a scapegoat for people's anger?

On occasion, but certainly less often than nine years ago. The other day, as I was getting out of my car, I got a twinge in my back muscles and maybe appeared somewhat clumsy. A pensioner who was passing by stopped and asked me if I didn't want to borrow his crutches. Jokingly, I replied that I could really use them. He began calling me terrible names.

But reformist politicians these days have it easier than they used to, don't they?

Certainly. The difference is enormous. Slovakia's ongoing western integration process has also had a big impact. Ten years ago, European integration wasn't even an issue; today, over 70% of Slovaks want to join the EU. If we want to belong, we have to obey certain rules of the game, and our people seem to re-

spect that. This country's integration into the EU has become of great importance in helping to put reforms into practice. Some reforms, as well as things like keeping the fiscal deficit within reasonable limits, would be much more difficult to explain to people if they didn't represent important integration criteria.

What is the significance of the fact that Slovaks want to join the EU?

It means they see the EU as a community of developed nations. Even countries that were poorer than Slovakia at the time of their accession to the EU experienced accelerated economic growth and improved standards of living after joining, and this fact is generally understood, even by Slovaks who don't keep up with current events. It's very simple: they want to live better lives.

At the beginning of the 1990s people also wanted to live better lives, and understood that democracy played an essential role in achieving that goal. Yet many of them still voted for Mečiar...

Back then, many believed there were other ways of achieving it. They were convinced that the country's problems were being caused by a stupid, incompetent government that was incapable of carrying out the necessary reforms. So, when Mečiar promised the impossible, they were ready to believe him. But after trying his way, they gradually came back to earth. I say gradually, because Mečiar's policies were insidious: not only did he follow the communist strate-

gy of living off the capital we had accumulated at the expense of our common future, he also aggravated the effects of this by increasing the country's internal, external, and hidden indebtedness.

While people may expect a better life under the EU, do they also understand that this will only happen if they increase their current level of labor productivity?

I still believe that our people don't have a problem with working harder as long as they earn more. Certainly, many thought at the beginning that capitalism would simply happen, that their standard of living would suddenly rise to equal that of the Austrians, in effect that they could continue to work as they did during Communism but enjoy the fruits of capitalism. I think many of these people have already awoken from that illusion.

Current Politics

At the outset of the 1990s, Slovakia had a reformist government which, because it pushed through some unpopular reforms, lost both power and the chance to continue its reform program. Today, Slovakia has a more or less reformist government again. Like before, the politicians criticizing these are among the most popular, such as Robert Fico, the head of the non-parliamentary Smer ['Direction'] party. Could history repeat itself?

It's a risk that can't be avoided, and one that will always exist.

Is that risk at least smaller than before?

I believe it is, especially because the room for maneuver that any type of government has is extremely small. Slovakia is a tiny country which has totally exhausted its reserves; those not spent during Communism were dissipated under Mečiar. The country simply can't afford to live at the expense of its own future any more. If anybody tried to follow in Mečiar's footsteps, and managed to get the country disqualified from integration processes, severe social and economic consequences would follow almost immediately, at most within half a year.

Why?

Interest rates would skyrocket almost immediately, meaning the cost of borrowing funds from abroad would jump. Being dropped from integration would also have other instant economic and social implications, because at the moment the country is very open, vulnerable, and dependent on foreign investments as well as on its external credibility and ratings. Today it doesn't matter quite so much what kind of politician is in power, because if any leader entered government unaware of his economic limitations, he would discover them very soon. The only conceivable motive for such a politician might be seizing power for half a year and squeezing whatever financial profit he could out of it, even at the cost of totally discrediting himself.

Thus, the situation is similar to that in 1992, but differs in some basic ways. All politicians, and the majority of the population, understand that Slovakia is tied to integration, and that dropping out of integration processes or delaying them could have fatal consequences, both for the country and the politicians that brought these things about.

Back then, this wasn't the case. Today Mečiar is seen very clearly as a threat by the West, while then he wasn't – both in 1992, and even as late as 1995, he was generally accepted.

Today the dissatisfaction is also more structured. In both the media and the wider public, we get criticism not just from people who don't want reforms, but also from people who don't think we're reforming fast enough. For this second group, there is no alternative to voting for us.

So the dissatisfaction is of a different order than before, as are the relationships between voters and parties. Back then, it was easy for politicians to profit from easy populism, they could promise that “when we get into power, we will solve everything” and people would believe them. Today few people put any stock in such social demagoguery, such sorcery, because they have learned their lessons since 1989. People's relationship to foreign investors has also changed – today no one rejects them.

There is a certain analogy now with the past, but society has matured and moved up a level.

Do you believe that the current government will remain in power after the next elections in 2002?

My guess is that unless something unexpected happens, the current ruling coalition will remain in power with basically the same make-up.

Will it pursue the same reformist policies?

Its policies will be similar to that of the current government, mostly because the content and tempo of reforms are largely set by our integration priorities, which no one will dare to question.

Having been born in Slovakia's 'far east' and attended high school in Vranov nad Topľou, how does it make you feel going back there when the reforms which you have pushed through have made the east such a poor cousin of Bratislava?

The differences between parts of the country are really growing, that's true. Bratislava's standard of living, as measured by gross domestic product per capita, is now just about at the European Union average, while the Slovak average is 49% of the EU, and the east somewhere around 35%. That's quite a difference.

People often have the feeling that if a top government representative comes from a certain part of the country, it should have a positive effect on that region. Today, almost all top state representatives are from the east – including the Prime Minister, the Speaker of Parliament, the President, even the Governor of the National Bank – but that obviously hasn't helped the east.

It doesn't make me happy, of course, and I can feel the expectation that because I am from the east it should have an effect. I try to explain to people this is a long-term process including reform of public administration.

Given the fact that 'reform' has already occupied 10 years of people's lives without bringing the effects they expected, how do they react when you tell them to be patient a bit longer?

That's another tough question. Ordinary people, and a lot of journalists too, often ask "how much longer are we expected to wait?" The main problem is that reforms were begun from 1990 to 1992 and then stopped. After four decades of Communism, we went through another four years in the 1990s when the Mečiar government deeply indebted the country and left the cupboard bare, so to speak. All this is very difficult to explain to people's satisfaction, which is another cause behind voter disappointment, behind the government's unpopularity.

It also evokes great skepticism, after 10 years and no improvement, that another decade will bring real change. It's a shame, because I believe that had we done the job properly in the early 1990s, we would be seeing the real fruits of it around now.

I often make reference to a rather interesting prognosis. We're today at 49% of the EU's GDP-per-capita average. According to a very simple calculation, if we had 4% GDP growth per year from 2002 to 2010, which is not out of the question, along with an infla-

tion rate that is twice the EU level and a stable nominal exchange rate between the Slovak crown and the euro, by 2010 we would be at 75% of the EU level, which would be great. It would basically take us back to where we stood in 1989 in relation to the EU standard of living. All we need is to feel the effects of integration, foreign investment. We just have to hold on.

Your government attracted many young voters in 1998, and then lost some of them to new populist parties. Has part of the problem been that the reforms you promote make it even more difficult for young people – your voters – to start lives, buy houses, cars – in a word, to go from being asset-poor to being asset-rich?

It's a bit more complicated than that. Today's government parties have widely varying levels of voter stability. Those people and parties which have been saying the same thing for a long time and following the same policies have lost less support in the last three years than parties which have based themselves on voter dissatisfaction or on some chimeric vision of the future without an ideological or value base – just look at the Party for Civic Understanding [SOP]. I think this will continue to be the case in the future – parties like Smer, if they are ever forced to take responsibility for running the country, will find it far more difficult to retain their voter support.

At the same time, it could be linked to what you said – that the government hasn't assured that its own voters have been able to gain economically.

You always said you were more of an economist than a politician. Will that change now that you have decided to join Prime Minister Dzurinda's ruling SDKÚ party?

Yes and no. Yes, the political aspect will have to be stepped up, but to a far lesser extent than if I had become a chairman of a party. The chairman of a party has to take care of its entire political agenda, while the vice-chair for economy, say, can afford to pay much more attention to economic matters.

You don't yet have a formal function within the party, although Dzurinda has mentioned you might be the head of its conservative platform. What will your job be? And why is the party talking about opening platforms when the whole point of the SDKÚ was to leave behind the squabbling between the five platforms with the Slovak Democratic Coalition [SDK]?*

I don't see any problem in the existence of a platform. Every large party has to begin by declaring itself 'center-right', or whatever, and then open platforms to accommodate the various broad political ideologies it represents.

Whatever my role turns out to be will be determined by the position and influence I command, both within the SDKÚ and with voters. It really doesn't matter whether or not I have a nominal function such as vice-chairman. The next scheduled SDKÚ Con-

* The party at whose head Mikuláš Dzurinda won 1998 elections, and which preceded the SDKÚ.

gress, where the chairman and vice-chairmen are chosen, is set for after 2002 elections, so they would have to call an extraordinary congress to elect a new vice-chairman. Dzurinda has already told me this isn't out of the question. But it really doesn't matter to me.

The SDKÚ at one time last year had 16% voter support, but has recently fallen to just over 10%. What will happen within the party if its voter preferences continue to fall?

For one thing, I think the flaws in polls of public opinion are well known, and while the most recent poll did indicate the lowest figure yet, I don't think it's an accurate reflection of reality. For another thing, I think that the economic effects of reforms could bring about an improvement, such as an increase in GDP growth, an increase in real wages, economic revival in general.

You said that one of the lessons of the first reform period in Slovakia from 1990 to 1992 was that the leadership 'elite' had been "ahead" of the voters, that it had understood what reform involved and why it was needed, while these things remained a mystery to the average citizen. You also said that this gap could have been narrowed by better communication from the elite on the topic of reform. And yet, while we have had another reform period from 1998 to the present, the common folk seem no better informed as to the need for reform or what impact it will have on their lives. If you were smart enough to realise your

mistakes from 1990 to 1992, why have you apparently repeated the same errors from 1998 to 2001?

There's a difference, though, because now you have two main groups of critics. The first, you're right, still may not understand the need for reform, and maybe we haven't explained things clearly enough to them. But when people feel a drain on their wallets and find themselves in a worse situation, it's often difficult to give them a rational explanation that will satisfy them. That's the same anywhere in the world.

And then there is that second group of critics, who hasn't misunderstood reform, but rather the opposite, understand them very well, and have simply not grasped that the process cannot be finished overnight, that true reform demands changes in the informal rules followed by society, which often requires a change in generations.

This doesn't mean that we have explained everything perfectly. However I think the problem is not that we need more graphs and charts and rational arguments, but that we ourselves are not very trustworthy because the government is not united on the need for reform. When we have to do something unpopular and we have part of the ruling coalition telling the population it is needless, of course people are going to start to doubt what the rest of the coalition is saying about the inevitability of these steps. These tactics cause the most damage to the people who employ them – just look at the Democratic Left Party [SDL], who use this tactic almost continually. Because

voters naturally ask, “Well, if what the government is doing is so bad, why are you taking part in it?”

Still, some campaign on state media to get everyone onside might have been effective, say at the beginning of 1999. You’ve said that Winston Churchill is one of your icons from history – couldn’t you or the Prime Minister have done a series of national radio addresses, like Churchill did in World War II?

But we did [some kind of PR campaign]. My office prepared a 10-page booklet with arguments for reform in it, the simplest questions and answers – why is it needed, what will it mean, what are the alternatives. I distributed it to members of cabinet so they would know what arguments to use.

But at that time it wasn’t such a problem. The media, both pro-reform media and journalists who see things and think in what I would call a more ‘normal’ way, were behind us. Now, many of these people think we could have been 10 times further ahead than we are, that there’s no need to make compromises, and other such nonsense.

It’s not just nonsense, surely? What of the gap that seems to be opening up between the government’s foreign policy successes and its domestic record?

This gap exists in how things are seen at home, where people look at the progress we have made with the Organization for Economic Cooperation and Development [OECD], NATO, attracting foreign investment and so on, but say that nothing has worked out

on the domestic agenda. That's just not so. If we hadn't made progress at home by stabilising the economy and fixing the greatest deformations from the past, we wouldn't have been able to make the progress we have abroad.

It's another case of that "stupid mood" gripping Slovakia*. The majority of intellectuals and the media don't realise how complicated the process is, and had expectations that were too high, and thus criticise the situation and paint it as far blacker than it really is.

Sometimes I get the feeling that there is a sport among these people who have an influence on public opinion, in which whoever kicks the government the hardest is the biggest hero. I don't say the government from time to time doesn't deserve even a good kick, nor do I say that everything is just fine. Many things aren't going the way they should. But from the economic point of view, every indicator tells the same clear story. This is the way the West sees it, which is why we were accepted into the OECD. They evaluate us from a purely technical point of view, while people at home see us through the lens of their thinning pocketbooks. This is abused by the opposition, which is natural in politics, but it saddens me that the same feelings are often held by people who don't seem to realise that they are threatening the very thing they

*A phrase first used by Czech President Václav Havel to describe the pessimistic mood that periodically gripped the Czech and Slovak Republics even though there appeared to be no objective basis for such pessimism.

are after – progress on reforms and integration as soon as possible.

The basic problem is that some belief has arisen, particularly affecting me, that while I was at one time radical and ground-roots, now I am a compromiser and so on. I will quote my former colleague in the Democratic Party, chairman Ján Langoš, who told me “reforms aren’t going quickly enough because you make too many compromises.” This sentence epitomises the main misunderstanding of many intellectuals. Yes, I make compromises, but that’s what politics is about, especially in a coalition as broad as the one we have in Slovakia. It’s precisely because I make compromises that reform is going as quickly as it is. Without compromise, everything would be far slower. I know, because I started out with the kind of approach in which I said what I thought and stuck by it – and found that I couldn’t put together any deals.

Analysts have said the political costs of launching the SDKÚ have so far outweighed the profits. The reason, they say, is because Slovakia’s many small parties are a reflection of the country’s social reality – a diverse electorate with many interests they want to see represented. Are you guilty of doing in politics what you would never do in economics – dictating to the market, trying to give voters what serves you rather than what serves them?

Whether the SDKÚ should have been formed or not is debatable. I used to be of the opinion, and still

am, that if Mikuláš Dzurinda had run for the leadership of the Christian Democrat Party [KDH] right after elections – and I think that at that time he could have won – that might have been a better solution, since he would have had political backing.

He didn't do it, and thus lost political backing as the head of the government. It was at the same time very difficult to agree on a common strategy between the five parties [of the SDK]. Today, if you want to lay blame, I think that all sides had their share in it, most of all the SDK itself, which was such a ragbag of parties – right, left, greens, what have you. Given the situation that arose, I think he [Dzurinda] had no choice but to do what he did.

Whether or not the SDKÚ helps to stabilise the political scene – I think it could help. Experience indicates that voters will more and more fear voting for small parties because they could waste their votes.*

Slovak intellectuals and politicians from the early 1990s say Slovakia needs its small parties, and that Dzurinda has done great damage to the Slovak political scene by forming the SDKÚ. What are they referring to, in your opinion?

Smaller parties can be ideologically more precise, and can promote particular ideas and principles in

* If a party does not score the 5% minimum voter support needed to secure representation in parliament, that party's votes are distributed between those parties which did secure seats.

a more aggressive and clear way. The problem arises when, because of their lack of influence, they are unable to make an impact in political life. In that situation these parties are less parties than discussion clubs for the politicians involved.

Maybe it's natural – if a party wants to be politically influential, it can't afford to be ideologically so narrowly defined. Only a very small group of people have narrowly defined political ideals.

There have been surveys done by [political scientist] Vladimír Krivý and others showing that the values promoted by the Democratic Party appeal to four to six percent of people. For 10 years I believed that the party's influence could be increased. I also believed it was possible to change the form of doing politics, and to make the 'package' we enclosed our policies in more attractive to voters. In the end, this was what caused my departure from the Democratic Party last year – I saw that most of the influential people in the Democratic Party leadership were not prepared to change anything, not even in the packaging. They weren't even prepared to discuss it.

Sending to voters the message "we don't care whether you buy this or not"?

Yes. Yes, yes.

So the SDKÚ was both an operational and existential necessity in Slovakia?

When I speak of our party's programme I'm not talking about something written in some brochure that

is covered in dust in some library, I'm talking about what is really being pushed through by the government. I sit in this government with ministers representing the SDKÚ, and with Prime Minister Dzurinda, and I really respect what he's doing and how he's doing it. Few people can imagine what a pain in the neck it is leading such a wide coalition government, finding consensus on questions that are sensitive and involve question of power – public administration reform, the Constitution... I can openly say that I am neither able nor willing to do his job. I think he does it as well as it can be done... Many people I meet, especially in the media, say "our weak Prime Minister doesn't know how to thump the table and put the cabinet in order." That's such a naive idea – what could be easier than to bang your fist on a table and shout strong words? You can be absolutely sure that such an approach would get you nowhere.

Why has the SDK's pre-election promise to put privatisers in jail proven so hard to keep?

I too thought we would have more success in criminal prosecutions of those who did what they did. I'm disappointed with the way it has been carried out, and I don't think we did everything we could. I also think this is one of the most important reasons that voters are so dissatisfied.

Again, why hasn't it been done better? Some people have said it's because so much money is involved that justice has been perverted.

There are both subjective and objective reasons. They [former privatizers] control huge sums of money, the cases are complicated, they have the best lawyers, economists and experts, while the civil service, prosecutors and the courts are much worse off in this respect. It also certainly has to do with corruption among the police, prosecutors and the courts. But still, I think these cases haven't been managed well, which is the subjective reason I was talking about.

Corruption and the Rules of the Game

Would you say that Slovakia belongs to the West or would you place it more on the boundary between the West and the East?

I believe that Slovakia is a western country, although compared to neighboring countries it is more plagued by distortions caused by eastern influences, which is of course due to history. The border between the influence of western Catholicism and eastern Byzantine traditions runs somewhere through Slovakia. From the political angle, I think we're very lucky that 10% of all eligible voters in Slovakia are members of the Hungarian ethnic minority. They tend to vote for the Hungarian Coalition Party [SMK], led by Béla Bugár, which since 1998 has been the most stable member of the ruling coalition. Ethnic Hungarians have always been pro-reform and pro-western, and if this segment of the electorate didn't exist, events in Slo-

vakia often might have taken different twists and turns than they actually did. Despite everything, I believe that Slovakia belongs to the West and that it still has a chance to join western integration groupings at about the same time as other post-communist countries.

An important factor in the successful implementation of reform is the general perception of corruption. Many supporters of reforms feel that although a reformist government is at the helm, corruption has not decreased. Consequently, these citizens are losing faith in reformist politicians, not because of their reforms, but because of the corruption that goes with them.

In this context, feelings are very important to me. I'm personally convinced that corruption is less widespread today than it was between 1994 and 1998; at the same time, though, I have no illusions that it is not still a daily occurrence. The fact is that corruption is excessive in all transforming countries, which is largely the price we pay for decades of Communism. Institutions that took the West decades to build are just now being created here. Furthermore, there are enormous distortions in the 'informal' values people hold and the institutions that enforce the 'formal' values that the law is based on. All this creates a prolific breeding ground for corruption. The main difference between Slovakia on the one hand and, say, the Czech Republic, Poland or Hungary on the other, is that between 1994 and 1998 corruption in Slovakia was literally institutionalized and generated from top governmental posts. The best example of that is privatiza-

tion. Whereas the current government privatizes all mid-sized and large enterprises through standard international tenders, the previous administration simply took national property worth 110 billion crowns [almost \$2.5 billion] and handed it out to political cronies; through privatization, then, we see that there is an essential difference in the level of corruption under each administration.

We have to remember that fighting corruption is a long and arduous process. I can't escape the feeling that people's perception that corruption is widespread today, and their resultant disappointment, is a consequence of their unrealistic expectations. People who expected that corruption would be weeded out overnight are quite naturally frustrated. It's true that corruption is everywhere, but it's also very important how you look at the issue. For instance, one paper recently published the results of a survey measuring how satisfied people were with their country's health care services. Slovakia ranked behind countries like Albania, which was in turn interpreted to mean that the quality of health care is worse in Slovakia than in Albania. Of course, that's nonsense – the survey showed only that Slovaks are less satisfied with their country's health care. The most efficient way of tackling corruption is gradually to restrict the scope for corrupt conduct, especially by using standard measures for privatization and enforcing the law. Again, the sensitivity people show towards this issue is also very important, because politicians can only do what citizens allow them to do.

People in Poland, Hungary, and the Czech Republic also say that the main problem in their countries is corruption and clientelism. What is it about this region? Do people here have some particular aptitude for theft?

I'll use an example from the school system. I recently read an interview with an American teacher who had taught in the United States for 20 years before coming to teach in Czechoslovakia in 1990. He spent two years teaching our kids at various high schools. When the reporter asked him about his experiences and about how he had felt over these two years, he said: "I was very pleasantly surprised by the quick wit, intelligence, and creativeness of the local young people. On the other hand, I was shocked by the prevalence of petty cheating and trickery, things like copying from each other during exams, plagiarism and lying to the teacher." He said that during 20 years of teaching in America, he had only occasionally encountered such practices, while here it occurred every day. In America, students don't cheat because they don't think it's right, not because they are afraid of the consequences.

Perhaps they also know they would only be hurting themselves?

Exactly, competitiveness has been deeply inculcated in them. Whoever achieves better results wins better opportunities; the other students are thus competitors. In other words, if I have spent the entire night buried in my books and my classmate has spent it

boozing at a bar, why should I now give him the results of my hard work?

But they generally don't cheat like our people do.

That's not just because of competition, it's deeply implanted in the formal and informal rules of American society. I believe that this is the core problem in our transformation process. A society usually adopts its formal rules – laws, regulations, guidelines – on the basis of time-tested principles and values. But formal rules which declare what must be obeyed and set the punishment for disobedience can only work if the principles which underlie these rules are shared willingly by a majority of citizens. In other words, even if these formal rules weren't in place, most citizens would still act according to the informal principles that support them. Consequently, formal laws serve only to punish the minority of people in society who don't share the majority's informal principles and values.

Unfortunately, in societies where most people don't subscribe to the informal values the laws are based on, these laws will never function properly. This is even more true of countries in which law-enforcement institutions – the police, public prosecutors, the courts, etc. – do not function properly due to four decades of dictatorship, which is the situation in Slovakia. I'm afraid we still haven't fully plumbed the extent to which our society's informal rules have been deformed.

Nevertheless, it seems that people's desire to see the rules obeyed increased during Mečiar's rule,

which is one reason democratic forces won the 1998 elections. Would you agree?

Yes, and that's extremely important. As I've mentioned, over the past 90 years we've seen seven different states and five different regimes hold sway over Slovak territory. Some of these regimes introduced very distorted formal rules, which often forced citizens to act contrary to the values of western Christian civilization. These distorted formal rules, introduced especially by authoritarian regimes, wrought enormous changes in informal rules that have since been inherited and reproduced.

During Communism people used to say: "He who doesn't steal, steals from his own family." While some people took it as a joke, others truly followed this principle. The communist regime forbade people to challenge official political and ideological priorities, but on the other hand turned a blind eye to petty theft by the populace. People often stole things from their place of work, or moonlighted on top of their official jobs without reporting it, etc. It will take generations for these distorted informal rules to change. In America, on the other hand, people have lived for 200 years under the same constitution, which is based on values that are important if the economy and competition are to function effectively.

There was once a Czech army officer who had just returned from a study visit to West Point in the States. Upon his arrival back home, he was asked what was the most important thing he had learned there. He

was expected to start talking about military strategy or equipment, but he said instead: "The most important thing I learned was that a man should not tell lies." We often like to think that we live in a non-materialistic culture that places a greater emphasis on ethics than do western consumer cultures, but this example shows that it's quite the opposite, doesn't it?

It's nonsense to think that our culture is non-materialistic and hence more ethical. Forty years of Communism introduced some new deformations, but otherwise only deepened and enhanced the numerous deformations that had been inherited from the relatively rich corruption and clientelist traditions of the Austro-Hungarian empire.

To go back to economic criteria, corruption has a crucial and adverse impact on a country's economic performance because it increases transaction costs and thus constitutes a competitive disadvantage for the economy. It's also reflected in values and principles, as well as in the degree of economic freedom, where there are truly significant differences between the United States and the European Union. The primary motivation of many people who emigrated to the United States was their repugnance for these deformations; that's why they established a different kind of society there.

Most importantly, they adopted a different constitution.

Yes, a different constitution, and more generally a different system of relations which seeks to correct

or at least lessen the impact of the deformations we have discussed.

Western investors who come to Slovakia are often shocked by the prevalence of corruption and by the fact that almost every government official or clerk expects or even demands 'a little something' from them. What can be done about this besides adopting formal laws? Whose business should it be?

It's everybody's business, of course, and everybody should take some responsibility – the government, the third sector, the media, even international institutions. The various initiatives taken by the OECD, the International Monetary Fund [IMF], and the World Bank to fight corruption and promote transparency are proof that the importance of this issue is steadily rising. As far as western investors in Slovakia go, I have to say that some tend to exaggerate the problem. For instance, our negotiations with Pittsburgh firm U.S. Steel on their investment into Slovak steel maker VSŽ Košice took one and a half years. Later, John Goodish, who became president of U.S. Steel Košice, said that during the entire negotiation period they had not encountered a single attempt to involve them in corruption at any level.

Have you developed any strategy for tackling corruption in Slovakia?

It's very important to continue reducing the situations in which corruption is even theoretically possi-

ble. Among the greatest breeding grounds for corruption have always been and will always be large state corporations. The most efficient way of eliminating corruption here is by privatizing these state-owned firms. Another hotbed for corruption is state offices where bureaucrats give out licenses, permits, and certificates. In this field, we need to enhance the general level of freedom in the economy by reducing the presence of the state in the business environment, and by cutting state subsidies and the amount of public finances redistributed by the state. It is highly desirable that the ratio of public expenditures to the country's GDP be reduced. Of course, we also need to adopt sound and enforceable rules of the game, and to change the informal values that underlie these laws.

How can a society's informal rules be changed?

This can be done in various ways. The most natural, although also the slowest way, is through generational change. The process can also be catalyzed by pressure from international institutions, the media, the third sector, and the wider elite. Last but not least, it's also important that the existing rules be enforced, meaning that if somebody is caught in the act or convicted of a crime, then that's it and he's simply out of the game. One important qualitative change from the previous administration is that some members of the current Slovak cabinet have already had to resign. This has also helped to increase people's sensitivity to the issue.

In Slovakia, the greatest sources of corruption are those fields that are still under government control: health care, education, state-run enterprises...

I disagree. The greatest source of corruption is scarcity. That's why the economic scarcity under Communism generated such enormous corruption. Similarly, one of the main reasons that corruption flourishes at universities today is scarcity. For instance, the total number of applicants who want to study at Slovak law schools is 10 times higher than the number of students who can be admitted. When demand is 10 times greater than supply, and when formal and informal rules are as deformed as they are, then even the best laid plans, such as anonymous testing, cannot improve the situation significantly.

The solution to this problem lies in reforming the educational system, increasing its capacity by introducing a partial tuition system, and encouraging private education and the establishment of private schools and universities. This should enable us to bring supply and demand into some kind of parity. Health care is another story. Health care by law is free in Slovakia. Officially, the salaries of doctors and other medical staff are low, but everybody knows that a lot of money flows into the system through bribes which increases these incomes significantly, sometimes even exponentially. Generally speaking, the country's health service draws much more money than is recorded by official data. Thus, the most logical way of weeding out corruption in the health care system is by 'legalizing' all the money that flows

into it – by creating official channels for extra payments. A similar situation exists with bureaucrats working at land registry or commercial registry offices. Again, it's no secret that these administrative formalities can be 'arranged' and officially-set waiting periods shortened significantly by bribing the bureaucrats. So why not introduce some kind of surcharge for 'express service', money that would not end up in a clerk's pocket but in the budget of each state office, which could in turn hire new people and increase its capacity?

Last year, the outpatients' departments of private facilities were allowed to collect fees from citizens for certain minor services. Curiously, a number of private doctors disapproved of the change. This implies that doctors are actually pretty satisfied with the current state of affairs, and that the high rate of corruption itself may eventually become the greatest obstacle to reform.

In many respects this is true. By the way, the Danish have the healthiest teeth in the world, and at the same time spend the least on dentists. The reason is that they are the only nation in Europe which pays for dental care in cash; they don't even have dental insurance. No doubt, the most efficient solution in Slovakia would be to apply market relations to health care, because the health care system is one of market services and not public services. The same goes for education, although in this case I believe the government should support the educational system because

it is an 'external' factor that can affect the economy in a positive way.

But not all things that appeal to reason are to be found in practice. For instance, virtually all economists agree that the higher the minimum wage, the higher the unemployment rate among young people, and the worse the impact on the economy. Nevertheless, the minimum wage remains too high in most European countries. So these problems are not merely technical in nature but also political. Stereotypes, myths and ignorance inherited from the past also play a role.

Interest groups always seem to find a way to benefit from unfinished or partial reforms. In transitional economies these groups happen to be rather influential, and include owners of large corporations, doctors, and others. How strong is their influence in Slovakia? Do they pose a threat to the reform of various sectors of the economy?

Naturally, certain lobby groups may be interested in slowing down reforms or in ensuring they are not completed. A concrete example of this is progress on liberalizing and restructuring Slovakia's energy sector, which is not as quick as it should be. Progress is clearly being hampered by interest groups which profit from the current state of affairs. It is consumers who are hurt the most by delayed reforms; although they constitute the majority, they are poorly organized. Lobby groups, on the other hand, while few are much better organized than the vast majority of the popula-

tion. Lobbying in itself is a very interesting issue. Unfortunately, Slovakia has no legislation to regulate lobbying, nor do lobby groups in Slovakia have the same kind of equilibrium that they do in the United States. There, for instance, the influence of a strong tobacco lobby is balanced by the influence of an equally strong anti-smoking lobby.

However, to get back to your question, I wouldn't say that interest groups are the main reason that our reforms are tardy. A much more serious problem is the lack of bureaucrats at the various ministries who have the skills needed to organize and manage the entire reform process.

Slovakia is a small country, which doesn't augur well for anyone who harbors ambitions of becoming a famous reformer. However, the size of the country has its good points too, as it's easier to carry out reforms in a small country than in a large one. For instance, Roger Douglas of New Zealand is a famous reformer today. Central Europe has also produced well-known reformers such as Leszek Balcerowicz of Poland and Lajos Bokros of Hungary. Is there anything preventing you from becoming a famous reformer as well?

Well, the barriers can be seen pretty clearly at the World Economic Forum in Davos, which is a prestigious annual congress of the world's economic and political elite. In the first half of the 1990s, the transformation of post-communist countries was the top issue at Davos. Reformers from these countries were first-

class stars who enjoyed more media attention than anybody else. But during the past two years, when I was there representing Slovakia, our region slipped out of the limelight and priority was given to other issues.

Two years ago, when the Forum discussed Russia, the congress hall was bursting at the seams and some participants didn't even make it inside. When we discussed the same issue last year, there were only about 15 of us in attendance. As I said, the times when the transformation of post-communist countries was the top issue are long gone. Today there are more important issues, such as electronic business, the Internet, information technologies, and globalization. It's a great disadvantage and handicap for Slovakia that when the images of countries in this region were being formed in the first part of the past decade, we got a bad one. Today, when the country is heading in a better direction, this region is no longer such an interesting topic of discussion.

The current Slovak government, and likely the next one, consists of a broad coalition, which is needed because of Mečiar, but a handicap when it comes to decision-making. How much does this hinder you in carrying out reforms?

From a technical viewpoint it is a great hindrance, as these reforms could be carried out far more swiftly and vigorously than they are. However, it's difficult to predict what the political implications would have been if we had really had a chance to carry out reforms more radically.

Take a look at Poland. Their current government is considered the most pro-reform government in the country's post-communist history, one which has pushed through a lot of hard changes. But on the other hand, it's the least popular Polish government in the past 10 years, and will probably suffer a crushing defeat in the next elections. If we look at it from a purely technical viewpoint, they are carrying out brilliant reforms. But you have to ask whether it makes sense to change everything radically in four years, and thereby stand a great chance of being voted out and replaced by others who might not only stop the reforms that have been launched, but even destroy what has been done. Isn't it better after all to carry out reforms over a longer period of time? It's true that with such a politically diverse government as we have in Slovakia one is bound to make compromises all the time. It's not true, however, that in making compromises we have brought our reforms to a halt. On the contrary, without compromise many of the reforms we have passed would have gone at an even slower pace.

It seems that Slovakia will have to wait to get a standard government, be it a liberal-conservative or a social-democratic one. Why is this? In America, one Republican administration follows a Democratic one, while in western Europe the right and the left regularly change places. Why isn't this possible in Slovakia?

What country in this region does have a standard political scene?

Poland and Hungary, for instance.

Poland is perhaps the best example of right-wing governments carrying out reforms, and then left-wing governments living off the benefits. But Slovakia's problem is mainly that non-standard political parties have a stronger foothold and enjoy greater public support here than their equivalents do in neighboring countries.

What is the life span of non-standard political parties in Slovakia?

I'm an optimist. Non-standard political parties, by which we mean those that do not follow a clearly identifiable platform, which practice policies that are inconsistent with democracy, or which are focused on the charisma of a single person, exist virtually everywhere. After all, the Czech Communist Party is not exactly a marginal power, and Hungary has József Torgyán and István Csurka. But I believe that their influence is bound to decline. Franjo Tudjman's party in Croatia is evidence that such parties often rise and fall with the charisma of a single person, and that after this person leaves, their influence decreases.

In Slovakia, the existence of these parties was largely due to a specific historical fact during the post-communist period: the popularity of Mečiar. After his first removal as premier in the spring of 1991, Mečiar enjoyed over 90% voter support, an absolutely crazy figure that may not have a parallel in the history of the democratic world. Of course, this was an emotional phenomenon, as Mečiar's voters are drawn to his per-

sonality above anything else. Nevertheless, the Mečiar phenomenon is fading away gradually. I also see reason for optimism in the fact that Slovakia's integration to western structures has been acknowledged on a relatively wide scale as inevitable, and people seem to understand that non-standard parties could pose a serious threat to the country's integration ambitions.

The European Union and NATO

It seems that Slovakia currently has no better alternative than joining the European Union. You are among those economists who profess free market values, and who criticize the EU for being too socialist, for excessive government meddling, and for an excess of market regulations and restrictions. Do you believe that EU integration is Slovakia's only choice?

I'm a convinced advocate of Anglo-Saxon market economy principles, and I think economic practice has also shown that these principles lead to success. That the gap is widening between the competitiveness of the American and Western European economies is shown by the development of the exchange rate between the U.S. dollar and the euro over the past two years. It's also interesting that 20 years ago, almost all economic forecasts predicted that in terms of economic development, Japan would be far ahead of the United States by 2000. Today we see that it isn't, mostly because free market economy values and

principles that encourage innovation and competition have proven to be crucial. The entire world, including continental Europe, is slowly moving in this direction.

To return to your question, the facts I have just mentioned are why I am adamant that EU integration is Slovakia's only chance. If we place these Anglo-Saxon free market ideals – manifest, if you like, in the U.S. economy – at point 'A' on an imaginary map, and the EU at point 'B', some distance to the left of point 'A', Slovakia would logically have to be placed at point 'C', light years to the left of both 'A' and 'B'. Obviously, the shortest path from 'C' to 'A' leads through 'B', which, by the way, is itself steadily moving towards 'A'. Most economists concede that the increasing disparity in competitiveness between the American economy and those of continental Western Europe is partly related to deformations in free market economy principles. We're talking mostly here about Europe's higher degree of government meddling in the economy, higher state subsidies, higher tax rates, less flexible markets, less productive labor markets, its different system of corporate governance, the different role played by the capital market in the economy, the weaker connections and stimuli supplied by universities for scientific and technological research, and the different role played by trade unions in the economy. In all these aspects, Western Europe's economic environment suffers from certain deformations, many of which have historical origins.

What are the roots of these deformations?

Most importantly, I think it's the collectivist mentality that is typical of Europe, and which is underpinned by certain differences between the classic European Catholic tradition and the protestant tradition which prevails in the United States as well as in Great Britain. On the other hand, many European countries have begun to move in a new direction. Perhaps the best example of this is the concept of a 'third way' that is currently promoted by Britain's Tony Blair and Germany's Gerhard Schroeder. While these politicians chair hitherto 'leftist' parties, we can see their new concept as a clear leaning towards free market economy principles. In other words, the 'right wing' economic program is gaining the upper hand because it has proven to be more efficient than the 'left wing' program. We see this in the shift in Europe's understanding of the concepts of openness and liberalization, private ownership relations, and the privatization of important state industries and monopolies that are considered of strategic economic importance.

What has been the most important shift in the European Union's understanding of free market principles?

It was definitely the shift in the policies of leftist political parties, and their change of heart towards the privatization of utilities governing telecom services, waterworks and sewage systems, energy, and natural gas. Before Margaret Thatcher took power in

Britain, the Labour Party had promoted nationalization and rejected privatization outright. After Thatcher's tenure, the most influential European countries witnessed a reinvigoration of their conservative parties. Socialist parties, meanwhile, used their time in opposition to revise their political programs, which was the main factor behind their subsequent success. Wherever they stuck to old socialist doctrines, they proved unable to gain public support. Thus, European leftist parties are witnessing a shift in their values, and I believe that the integration of new member states will push that shift even further.

How will admitting new countries have any impact in this respect?

Candidate countries are already having an impact. EU representatives admit themselves that unless certain internal reforms are carried out, the Union will not be able to accept new members. Perhaps the best example is reform of the EU's Common Agricultural Policy. The EU spends over 50% of its budget on agricultural subsidies; of this money, as much as 37% goes up in smoke without helping anybody. As far as new applicants for membership go, Poland is a huge country with such significance for agricultural production that the Union couldn't accept it without changing its policy. Poland is also a regional power, which will certainly accelerate progress on agricultural reform.

What do you think of Blair and Schroeder's 'third way' theory? Is it just a pretence on the part of so-

cial-democratic politicians, or does it mean they really believe that a free market economy is good for their countries?

That's a very difficult question, one which I could only answer if I could see into other people's heads.

The age-old dispute between the right and the left on the nature of 'social justice' is extremely interesting and cannot be settled unequivocally, because it's a conflict between values. While the right wing understands social justice as equality of opportunity, the left wing perceives it instead as equality in living conditions. Basically, socialists maintain that it is legitimate to level out differences between people's standards of living, often citing John Stuart Mill's theory that when we take some property from a rich person and give it to a poor person, the detriment to the former is less than the benefit to the latter. However, the problem is that if we redistribute wealth too often and too much, we immediately restrain competition, discourage initiative, and thereby reduce everyone's standard of living.

It's impossible to prove to everyone's satisfaction which principle is correct: equality of opportunities or equality of living conditions. However, from the long-term viewpoint, it can be argued that the former principle leads to greater prosperity for the entire society, although it does also cause greater social disparities. Perhaps that's why the most widely accepted definition of social justice is currently one coined by John Rawls, who claims that a socially just system is one which creates the best conditions for a growth in the

standard of living of its poorest members, not through the redistribution of wealth but through the long-term effects of the way the system works.

A textbook example of what Rawls was talking about is the situation in the United States over the past several decades. Over the past 18 years, the country has continually recorded a positive rate of economic growth. True, the disparity between rich and poor has widened over this time; on the other hand, the standard of living of the poorest members of U.S. society has grown relatively quickly. The principles that govern the American economy, especially equal opportunity, have meant that the country has created millions of new jobs over this period. In Western Europe, conversely, few new jobs have been created, and any growth in employment has been largely within the public sector. In a nutshell, while Europe boasts of its socially-oriented market economy, the ultimate impact of this system is antisocial, as it neither increases competitiveness nor creates new jobs.

So the right-wing concept has more or less won the day?

As far as economic policy is concerned, absolutely. The superiority of right-wing arguments has been clearly proven by developments over the past 20 years. Today, even socialist governments pursue policies which would have been labeled as right-wing 20 years ago. The dispute between the right wing and the left wing has taken on a new shape over time. The American presidential campaign between Al Gore and

George W. Bush indicated that the dispute has become one over the extent to which wealth will be redistributed. Although the U.S. has the lowest rate of wealth redistribution among developed economies, it's always possible to move up or down the scale, and that's what the main debate was about.

But history shows that whenever a government begins to curb economic freedom even over minor issues, it often ends up going too far. Can a limit be established, beyond which restrictions on economic freedom are unsustainable?

I think that economists, both rightist and leftist, seem increasingly united on the need to privatize, to create efficient institutions, and to limit the extent of wealth redistribution. On the other hand, you run into a political problem here, because everybody has different values and priorities. People also have very different expectations as to what a government should do or provide. For instance, in Slovakia few people seem to realize the correlation between how much they pay in taxes and how much they receive from the state. Most of them want their taxes cut as much as possible, but at the same time expect the government to provide more. It's a constant process of learning, persuasion, and political debate, because there will always be political parties looking to profit from populist arguments that appeal to people's darker sides, to their laziness, and which encourage them to rely on the state to take care of everything.

What do you think of the introduction of a single European currency?

I believe it's a sound project. It's clear that introducing a single currency and thereby lowering the transaction costs of exchanging money from one currency into another is a good idea. However, a single currency implies a single monetary policy, and a single monetary policy requires the close coordination of related policies.

It will be extremely important whether or not Europeans have sufficient confidence in the euro. The fiasco of the common Czechoslovak currency after the split of the former federation in 1993 may serve as a lesson. While the differences between the economic policies of the two countries were negligible, and while the difference between their economic performance was no greater than current differences between EU member states, Czech and Slovak citizens and business people simply didn't believe that the common currency could long survive the split. That was the main reason the common currency survived only six weeks. It's absolutely crucial that people trust the new currency, that the monetary policies of EU member states be well coordinated, and that member states share a strong political desire to go in the same direction. But I believe the euro will survive.

World economists are now discussing what the final shape of the European Union should be. Do you think it should be a single state, a federation, or a

confederation? Do you think that adoption of the single currency will affect the debate?

Not necessarily. From the economic viewpoint, a single currency means that member states will have to coordinate and gradually unite their economic policies. Globalization generally increases the intensity of competition, and failure to obey certain economic principles has implications that are more immediate and severe than they used to be. This should in itself lead to greater coordination and observance of free market economy principles.

As far as the future shape of Europe goes, there are many possibilities. Europe is extremely diverse in terms of language, and has many ghosts from the past resulting from its tumultuous history. But I can see it functioning as an integrated whole like, for instance, the Benelux countries [Belgium, Holland and Luxembourg]. These countries have different governments but are becoming increasingly interconnected, so much so that their citizens don't feel there is much difference between them. If the EU manages to introduce a single currency that is used by all member states, then the entire Union may start to function in a way that is similar to the Benelux countries, maybe even more so.

Can economic unity between EU member states improve the overall economic performance of the Union to such an extent that it will be able to compete with America or Asia?

Definitely, although certain differences within the EU will always remain. Look at Italy, for instance: there are large disparities between its southern and northern provinces, even though it's a single country. Although comparative advantages in the allocation of investments will accelerate the economic growth of poorer regions in the EU, differences will continue to exist because the Union's richer regions will continue to develop as well.

Should the EU strive to create a strong central government and parliament or should it preserve strong national governments?

Whatever is proven to be rational will likely carry the day. It's certainly rational to eliminate economic barriers because this will bring about a shift in the institutional sphere as well. Today, the United States is generally perceived as a single country, but in fact it's a federation of 50 states, each of which has considerable powers. But the system works because it was created from the bottom up, and not on the desk of some government bureaucrat. That's extremely important. Creating such a system at the center and imposing it from above is certainly not rational. Personally, I would leave it up to the natural course of events, in which the principal driving force should be economic integration.

So the most important thing in your opinion is to remove economic barriers?

Absolutely. My opinion is that national governments will gradually disappear. In fact, they are fad-

ing out already in two senses: on the one hand, they are surrendering some powers to international institutions because many problems have a global nature and cannot be tackled efficiently on the national level; on the other hand, they are being stripped of a different set of powers by local and regional governments, which are more efficient in solving specific local problems. Many public resources have a naturally local or regional nature, but for reasons of history have been administered at a national level, which rarely produces optimal solutions.

Another difference between the United States and the European Union is in shared values. The United States was established gradually by merging states that had been built on more or less identical values; this clearly does not apply to European countries. Might the absence of common values within the EU become an insuperable obstacle to bringing European countries closer together, eliminating economic barriers and everything else?

That's why I maintain that it's counterproductive to try to define the future shape of the EU in advance. The future will take shape through natural developments. It could be fatal to construct something artificially and then say that "this is our goal, this is what we intend to do". The best solution will come into being by itself through economic liberalization, which should be the motor behind integration.

Do you think that one day we'll see a 'United States of Europe'?

I wouldn't rule it out. Twenty years ago everybody assumed that Japan would be economically the strongest nation at the turn of the century. A recently published CIA forecast which tried to predict the shape of the world in 2015 said that America would remain the strongest economic force, although the current gap between America and Europe would close somewhat. It's always difficult to predict these things. If Europe neglects to remedy at least its most glaring deformations in the near future, the gap will continue to widen. On the other hand, Europe has an outstanding opportunity to improve its economic performance through enlargement, integration, and allowing central and eastern European countries to stimulate competition in the western part of the Union.

If we suppose that the economic policies of EU member states will continue to converge, and that governments will have steadily less freedom to adopt 'peculiar' economic decisions, given the speed with which the global market punishes bad economic thinking, what role will politics play? Will it make any difference whether a socialist or conservative government is at the helm?

Certainly. Economic reform is one thing, but reform of the social sphere is a completely different matter. Here I mean especially reforms in the field of education, health care, social security, culture, and the role of sub-national governments. Furthermore, pub-

lic debates continue on issues such as abortion, the role of the church, euthanasia, minority rights, homosexuals – basically, on people's values. These are eternal issues that will remain for politicians to discuss. Politicians will also debate matters like biotechnology, ethical issues such as genetically treated foodstuffs, as well as security threats like criminality and terrorism. There will always be plenty of issues left over for politics, and the more politicians are relieved of the need to discuss topics like privatization vs. nationalization, the more they will be able to focus on these other issues.

Classic economic axioms, on which there is a general agreement today, say that the government is responsible for creating the overall 'rules of the game', for enforcing these rules, for influencing and shaping the informal rules governing society, and for taking care of 'external' factors that have an impact on the economy. Through proper allocation of public funds, the government can also improve the level of education, competition, and the link between universities and scientific research.

Another important integration goal for Slovakia is NATO, which it is supposed will be a guarantee of the country's security and political stability. Will Slovakia's NATO integration have an economic impact as well?

Yes, because Slovakia's membership in NATO will serve as a guarantee for investors that the country complies with NATO's criteria for political stability.

There are some NATO members, for instance Turkey, whose membership in the Alliance is justified mostly by its strategic position. But for central European countries, NATO membership will be treated as a proof of political stability. NATO territory is a safe haven, not only in terms of military security but also in terms of investments, because if a country wants to be admitted into NATO it has to comply with relatively strict security, political, and economic criteria. It also has to subscribe to certain values and take on certain obligations, which further enhances investors' security. A concrete example of this is the recent inflow of foreign direct investments into the Czech Republic, Poland, and Hungary.

You mean after they joined NATO?

Yes. Remember, during 1997 and 1998, the Asian and later the Russian economic crises led to a marked decline in investor interest in eastern Europe. The only exceptions to this rule were these three countries, where investor interest did not decrease but intensified, especially after they joined NATO in 1999.

NATO is expected to decide on whether or not to invite Slovakia to join in spring 2002. How important will this decision be for Slovakia?

Absolutely crucial. While I'm primarily an economist, I'm also a citizen of this country and a politician. Although the importance of NATO membership can't compare with that of EU membership, I consider Slovakia's admission to NATO a priority in the

short term, mostly because EU integration will involve a multitude of technical problems and will require many further reforms.

Both NATO and the OECD showcase the different values held by America and Western Europe. NATO without its American presence would not be perceived as such a force, which was seen clearly during the Balkan conflicts of the 1990s. Still, the strongest EU member states, especially France, speak out against the extent of American influence over NATO decision-making in Europe. Is this controversy important to you when assessing the pros and cons of membership in NATO and the EU?

It's impossible to give precedence to one integration goal over the other. I said that from the time viewpoint, NATO is Slovakia's priority number one; however, this does not interfere with our ambitions to join the EU. On the contrary, Slovakia's membership in NATO would only enhance our chances to be admitted to the EU at the same time as our neighbors. The only difference between the two integration goals is the extent to which Slovak people endorse these two institutions. While membership in the EU enjoys strong popular support, NATO membership currently splits the country almost equally, although its supporters are slowly gaining the upper hand.

Do you endorse the presence of America in Europe?

Yes.

Why?

Because I deem it important that Europe continue to move towards the values on which America is built. This is in Europe's own interest. The fact also remains that America is a superpower and will remain so for many decades to come.

You are a member of a Slovak cabinet which in 1998 declared NATO membership its primary foreign policy goal. If NATO invited Slovakia to join in spring 2002, would you consider it your greatest political accomplishment?

It would be Slovakia's greatest accomplishment in its history.

What would it mean for Slovakia?

It would be definitive confirmation that Slovakia belongs to western civilization.

Is that more important than what the country has achieved economically?

These two things can't be compared, but the truth is that belonging to the West is a prerequisite for this country's future economic and other achievements. Slovakia's membership in NATO is important mostly because it's about sharing the same values. However, it's also important because NATO continues to be the world's only effective security structure. Although we currently don't face any imminent threats, history teaches us that people almost never perceive these threats, and still they arise.

Globalization

You mentioned that globalization actually began in the previous century, long before anti-globalization protests started. What is globalization, after all?

There are many definitions. I understand it as at once a shrinking and an opening up of the world, as a shortening of distances and an improvement in mobility; as increasing liberalization, growing interconnection, and stiffening competition.

Some people say they support globalization, others say they are against it. Is it possible to be for or against globalization?

It's similar to being for or against the weather, or the change in the four seasons. Globalization is here whether people like it or not. It's a process that can't be stopped. It matters a great deal, though, whether countries and individuals are willing and able to react to this new reality, to get the best out of it.

What are the main risks of globalization? Its opponents often protest the impoverishment of developing countries. Does globalization hurt poorer countries?

It might, but these countries are usually responsible for most of their problems themselves, and shouldn't blame globalization. All globalization does is to intensify competition and punish disregard for economic laws, mistakes in economic policy, and poorly functioning institutions more swiftly and severely.

Should countries in equatorial Africa be held responsible for their own problems?

Here it becomes more complicated. There are two types of poorer countries: ones like Slovakia that can profit from globalization, provided they pursue sound economic policies; and those for whom it is fundamentally much more difficult to respond to the opportunities brought by globalization. This second group includes countries in sub-Saharan Africa, for example, which face serious problems with education, infrastructure, climatic conditions, indebtedness, and the absence of both formal and informal institutions. While globalization brings enormous challenges and opportunities, global disparities will probably continue to increase.

To the detriment of the poor, of course.

I wouldn't say to the detriment of the poor. There's nothing wrong with discussing globalization, and I certainly wouldn't want to lump all opponents of globalization together. They include anarchists, ecological terrorists, criminal gangs, Marxists, trade unionists, environmentalists, as well as people who come up with rational proposals. As an example, I would cite the Jubilee 2000 campaign which proposed that the poorest and most indebted third world countries be freed of their debts, and that the origin of their debts be distinguished. The promoters of the initiative demanded that independent global economic institutions take a careful look at how these countries' debts were amassed. They argued that a country in

which a dictator borrowed huge funds from abroad, stole them and left the country with an enormous debt should be treated differently from a country which became indebted under democratic conditions and should therefore pay off its debt by pursuing sound economic policies. Similarly, we should distinguish between proposals which are totally destructive, negative and don't offer solutions and those which criticize the current state of affairs but at the same time strive to come up with positive solutions.

Opponents of globalization often reason that the entire process has been designed to fit those who are already rich. They maintain that the rich will grow even richer on the back of the cheap labor and natural resources of poorer countries, while the latter will remain poor or become even poorer.

I disagree with this argument. Over the past few decades, some countries which used to be poor have managed to become wealthy – the most famous example being the Asian 'tiger' economies. I believe that thanks to globalization, the chances of poverty-stricken countries to become more affluent will improve due to the stiffer competition which is part and parcel of globalization.

What is the competitive advantage of these poor countries?

Cheap labor, for instance. Of course, these countries must create certain preconditions in order to capitalize on this asset. Their governments must pursue

a sensible economic policy which acknowledges the importance of educated, skilled, and cheap labor allied with stable political and economic conditions, enforceable laws, and functioning institutions. If a country is able to meet all these conditions and offer all these competitive advantages, it's only a matter of time until entrepreneurs begin to move their production there: initially, this will be factories that capitalize mostly on the cheap labor, but later it might involve sophisticated production as well. Until the 1950s or 1960s, poor countries exported only raw materials and their natural wealth while importing finished products. However, beginning in the 1960s or 1970s, companies from wealthier countries moved their production facilities there, producing mostly textiles, clothing, shoes, and toys.

In the end, globalization might even prove more advantageous for poor countries than for rich ones, because they have cheap labor to offer. Could it be that opponents of globalization from rich countries protest because they feel threatened by this?

I don't think they protest because of that. I think most of them protest because they have muddled heads.

But American trade unions also protest against globalization...

As I said, it's very difficult to discuss the motives of globalization opponents because they constitute varied groups with often conflicting ideas and interests.

How about this example: a German or American entrepreneur moves his company's production from his home country to Slovakia. Is that move advantageous for Slovakia and disadvantageous for the entrepreneur's home country?

No, it's advantageous for everybody involved.

Why is it also advantageous for the entrepreneur's home country?

Because if the corporation hadn't moved its production, it would probably have had to close down, which means that the production wouldn't have continued in the country anyway. On the other hand, if a company decides to move its production to another country, it never shifts everything but always keeps the more sophisticated components at home. In shifting part of its production outside the home country, the company also produces profit which it can bring back home and use there.

But that's exactly the problem cited by globalization opponents, who say that while developed countries retain white-collar jobs and sophisticated production, they give poorer countries jobs that require mostly physical labor...

There will always be certain disparities; that should be made clear, and everybody should be aware of it.

Won't these disparities become greater over time?

There will always be disparities, but it's more important that countries which capitalize on their as-

sets and opportunities and simultaneously eliminate the risks of globalization will be in position to catch up faster to developed countries. Thirty years ago, per-capita GDP in Singapore, Hong-Kong, and Taiwan was 25% of that in developed countries. Today, their per-capita GDP matches or even exceeds that level. At the same time, almost all countries which are wealthy today were also rich 50 years ago, while few countries which used to be affluent are today poor. Unfortunately, one of these rare exceptions is Czechoslovakia, due to the communist regime. Naturally, one can't expect that standards of living in different countries will be leveled out immediately. Rather, it will be a lengthy process during which some countries will grow faster while others grow slower. But it's crucial that the disparities are not leveled artificially. That's the road to hell.

One of the leading opponents of globalization, Ralph Nader, often uses the following argument, which has proven quite popular: "It's true that if a wealthy country shifts part of its production to a poorer country, the poor country does benefit from it for some period of time. However, since it is not allowed to acquire the related technology and know-how, the country runs the risk that if the owner decides to move his production elsewhere, it will be left in the same poverty as it knew before." Do you agree with that argument?

It's nonsense. The degree of risk depends entirely on the economic policy pursued by any given coun-

try. Ireland is a classic example that the risk can be avoided. If a country pursues a sensible economic policy, if it invests into education, infrastructure, and institutions, this can never happen.

At one conference in Poland, the general manager of a large Polish bank that had recently been bought out by a German investor grumbled that although he was not against foreign capital, he regretted that German managers would now be in charge, and that Polish managers would have no say in a Polish bank. But Robert Zoelick, currently an advisor to President George W. Bush, responded that the bank would this way create even more managerial positions for Poles. Will that be the case also with privatized Slovak banks and corporations?

Our banks are in terrible shape, and we need to improve their condition. A key prerequisite is a change in ownership, which is expected to secure extra funds through capital increases, to introduce qualified management, to enhance the institution's credibility, and to guarantee its access to foreign markets. If you require would-be investors to comply with these criteria, domestic investors are simply knocked out of the privatization of any mid-sized or large bank.

In every country where political leaders ignored these criteria – and they did so in both the Czech Republic and in Slovakia – they only produced enormous losses. Eventually, they had to follow these rules anyway, but only after they had suffered a huge financial and economic loss. It's crucial to ensure that

the foreign investor truly brings what he is supposed to bring, and that he restructures the bank. But to answer your question about the managers issue, I can give you one example: recently, the state phone company Slovak Telecom was bought by Deutsche Telekom, whose strategy is that German managers have a majority on the company's board of directors, but that the top executive is Slovak.

Both Mečiar in Slovakia and Klaus in the Czech Republic repeatedly declared that the most important corporations and banks must remain in domestic hands...

...and how did that turn out?

It turned out pretty bad, but it testifies to the existence of one phenomenon closely related to globalization. In most transforming countries, a significant share of citizens and politicians believe that globalization damages, perhaps even destroys, their 'Czechness', 'Polishness', or 'Slovakness'.

Those feelings are merely myths and complexes. Of all Visegrád Four countries, Hungary has the greatest volume of foreign investments, partly because from the very beginning of transformation, there was almost no political opposition to foreign investors. On the other hand, citizens of other countries initially felt almost a repugnance for foreign investors, and politicians, either consciously or subconsciously, listened to public opinion. In the Czech Republic, they also preferred domestic buyers in the privatization process,

but unlike Slovakia they wanted it to be transparent and politically acceptable. Hence the effort to hold some form of public tenders. Naturally, the most important criterion was price. But since hard budget restraints were then not in place, law enforcement was weak, and banks had not yet been privatized, Czech privatizers agreed to offer exorbitant prices, knowing that they wouldn't be able to – or have to – pay back their loans.

In Slovakia, 'our' way of privatization in most cases led to 'tunneling' or asset-stripping of the companies privatized.

That's logical. Look, if I had wanted to be successful and privatize a certain company within the law, I would have drawn up a trustworthy and realistic business plan, and after adding up all my costs including paying back my bank loan and making the necessary investments, I would have given up because I would have seen it didn't stand a chance. But there were other bidders whose business plans were neither trustworthy nor realistic, and who offered a totally unrealistic price because they were after a short-term profit. This is known as rent-seeking behavior, which means methods designed to increase an individual's income, not the profit of the company. Under such conditions, respectable entrepreneurs had no competitive advantage or any chance to privatize anything.

What are the basic differences between American and European investors?

Every generalization is problematic, but the CIA report I mentioned before said that American corporations around the world lose billions of dollars each year due to America's anti-corruption laws. These laws are far stricter than in other parts of the world, and American corporations must observe them regardless of where they invest. On the other hand, until very recently it was possible in some Western European countries to include a bribe into costs and deduct it from one's tax base.

When the Slovak government is about to privatize some large bank or a monopoly, our economists often say "hopefully they'll give it to an American investor. If they give it to some German or French corporation, corruption will surely be involved."

That's too much of a simplification. You can't lump all investors together.

But it reflects people's expectations...

It has been proven that the higher the rate of corruption, the greater the barriers for economic development, growth, productivity, and competitiveness. As far as firms and corporations are concerned, corruption may not necessarily hurt them in the short term, but in the long term the higher the transaction costs, the worse off the privatizer is. If a firm buys a company for a certain price but pays double that amount in bribes, the final price distorts the system

by warping the fundamental principle of economic development, namely free and fair competition. Corruption is gradually declining around the world, partly because developed countries have a stake in its decline, and partly because in the long term, it will be better for firms and corporations if they can operate in a fair environment. It's in the best interest of even the most impoverished countries, because the more widespread corruption is, the fewer their chances to grow and become wealthier.

Recently, Slovakia has been introduced to another aspect of globalization: huge supermarkets. People grumble about them, but everyone shops there. Slovak suppliers, for their part, complain that these huge malls with incredible sales impose unacceptable conditions on them, for instance not paying for supplies until six months after delivery. To what extent does this concentration of retail chains conform to free market economy principles?

I think it's in total conformity. I've already staved off three attempts to adopt legislation to regulate retail chains. It's true that there are some teething problems which might be characterized as abuse of dominant market position or predatory behavior, if you will. However, every solution to the problem that has been proposed would have failed. If we gave official stamps and the power to award fines to some body of inspectors, we would only increase the likelihood of corruption and abuse of power.

That applies to large-scale retailers. What about producers?

Naturally, competition is growing for suppliers as well. To a certain extent, these 'hypermarkets' do dictate conditions because they can afford to buy only the best and cheapest goods and thus satisfy their high standards in terms of quality, technical parameters, and price. But the backlash from producers and small retailers is a classic example of the ability of small but well-organized lobby groups to stir up public opinion, and to propose measures which seek to protect them from greater competition. If we adopted the measures they are proposing, at the end of the day we would hurt consumers. Of course, I totally agree that problems such as unfair competition or abuse of dominant market position must be tackled.

How should these problems be tackled?

By enforcing the law on economic competition through the Commercial Code. The Commercial Code defines unfair competition as abusing one's market position by forcing business partners to accept unusual payment conditions. On the other hand, retail chains also represent an incredible opportunity for their Slovak suppliers. If a Slovak entrepreneur plays his cards right and becomes a stable supplier for the local hypermarket, not only can he increase his domestic production, he can even win recognition on foreign markets because most of these retail chains are international corporations which have stores in

various countries. If the Slovak supplier is really good, he can make his fortune this way.

Some people say they regret that the small shops where they knew the shopkeeper by name will soon be gone...

I disagree that all retail sales will ever be concentrated in shopping malls. If you take a stroll through Washington, you can also find smaller shops which usually combine groceries with cosmetics. On the other hand, I admit that the overall number of small shops will decline, especially in certain segments of the retail business. Grocery stores in particular will likely continue to grow in size, while foodstuffs producers will increasingly focus their production on supermarkets. At the same time, small shops will become more specialized.

This development is complex and has many dimensions. The world is heading towards having maybe seven really large car producers; on the other hand, in some fields such as fashion, clothing, or art, prospects are opening up for small producers, craftsmen, and retailers who will satisfy an extremely differentiated and diverse demand. For the retail business this means that there will be an increasing number of large superstores, but it doesn't necessarily imply the end of small shops, provided they sell specialized goods.

Some experts see the concentration of capital as a serious problem. Financier George Soros often writes that strong capitalist groups and multi-national cor-

porations are becoming more powerful than governments. While governments are elected, these corporations are not, even though some of them are strong enough to influence the decisions of elected governments. Consequently, critics conclude, non-elected but wealthy interest groups might begin to dictate what elected governments do. Do you see this as a risk?

I perceive it as a risk especially in societies that don't have sufficiently strong self-defense mechanisms in terms of informal rules and values. Countries which are more developed in this respect also face a certain risk, but not one that could endanger them. The best example of this is Microsoft, which lost a court case against American anti-monopoly authorities, even though it's the richest corporation in the world. However, especially in transforming countries, many influential interest groups use their economic power just to increase their profits, which doesn't always help the country's economic growth and prosperity.

Slovakia was recently visited by German Chancellor Gerhard Schroeder, who at his meetings with Slovak officials openly advertised the interest of German investors in buying SPP, a gas transport and storage utility with a monopoly on the Slovak market. Wasn't the German Chancellor advocating the interests of influential German economic groups, and trying to convince Mikuláš Dzurinda to obey their dictates?

No. All elected representatives of all wealthy countries support domestic private enterprise. I think sup-

port of the type “We would really appreciate it if you chose a German investor” is absolutely legitimate. In international tenders it is essential that there is sufficient competition, that the process is transparent and has clearly stipulated rules. I could of course imagine a purely theoretical situation in which the cabinet was evaluating two identical bids and was at a loss as to which to choose. In that scenario it might take into consideration an appeal by some foreign government official, even though this shouldn’t happen.

But it seems to happen constantly...

Well, there’s no point in trying to fool anybody. I think everybody is aware that strong investors from politically influential countries are also important from the political point of view. It’s absolutely logical.

What is the gist of the ‘political aspect’, and why is it logical?

It’s absolutely logical because it’s a safe bet that a politically influential country will use its influence to enhance political and economic stability in those places where its wealthiest and most influential corporations have made significant investments. This might even improve a country’s chances of being admitted to NATO and the EU, although naturally it wouldn’t be the most important criterion.

You were one of the government’s chief negotiators in U.S. Steel’s investment into Slovakia. In the course of negotiations, were you conscious that if the

Americans invested into Slovakia's Košice steel mill, it might have a positive impact on Slovakia's ambitions to join NATO?

Maybe not directly, but I definitely realized that it might eventually become one of the many factors that could help forward the country's integration ambitions. But I also realized that if we could attract U.S. Steel to Košice and Slovakia, we would make the country even more visible on the investment map. If a strong investor from a wealthy country makes an investment somewhere, it's the same as sticking a flag on this territory for many potential small and mid-sized investors from the large investor's country, who may say to themselves: "If U.S. Steel went there, perhaps it makes sense to invest and run a business there for us as well."

What do you think of a world in which politicians make official visits surrounded by private entrepreneurs, whom they help in establishing business contacts?

I don't have a problem with it, it's simply reality.

It's reality indeed. But is it right?

I believe it's right, because it's extremely important to establish these contacts and connect with the right people. There will always be state orders, and public investments will always play an important role.

What do you think of the preferential treatment our government offers to foreign investors, such as tax holidays and similar stimuli?

From a strictly theoretical viewpoint it makes no sense. But from a practical viewpoint it makes a lot of sense, because we live in a region where all our neighbors offer similar stimuli to foreign investors. In order to put the Slovak economy on its feet again, we need to attract as many foreign investors as possible. Simply put, if we didn't offer such stimuli, we would soon be out of the game.

Speaking of globalization, what is the basic competitive advantage Slovakia and other countries from this region have over those wealthy countries which are the prime movers of globalization?

It definitely lies in our cheap, skilled, and flexible labor. We still have a lot of homework to do in order to be able to provide a stable political, economic, and legal environment. In this respect, EU integration can be an extremely efficient vehicle. Recently I read that when Spain was at the same phase we are now, and was preparing for full EU membership, only 27% of its inhabitants had completed a higher level of education than primary school. In Slovakia, about 90% of the workforce has completed a higher level than primary education, meaning that we have a more educated workforce and lower labor costs than they had back in 1985.

Another important fact is that an absolute majority of investors who have invested in Slovakia say they want to expand despite the problems that exist. That's the most convincing proof we have that their investments have paid off. Besides, one of the great advan-

tages of people from these countries is their acquired ability to accept and absorb unpopular reforms. In Western Europe, whenever a government adopts a slightly unpopular measure, immediately there are strikes and protesters in the streets. Here, people have had to get used to the fact that many unpopular and harsh reforms simply have to be carried out, and they have learned to see them as part of life. My guess is that the future will bring a lot of changes and turmoil in developed countries as well, and that since our people have been trained over the past 11 years to accept such things, it could turn out to be a great competitive advantage.

Let's take the example of a person who has got used to leading a rather tranquil life. Suddenly he realizes that due to globalization he is under permanent stress, that he continuously has to be on alert, to cope every day with competition. Might that not be frustrating?

To address that, I'd like to say three things. First, during the many times I have spent longer periods of time abroad, I have come to realize that the people who live in countries that are said to be the most competitive often lead much more tranquil lives than our people do. Perhaps this is because we've had to carry out an immense number of changes over a very short time. In other words, we are catching up and making up for the past at once. Consequently, the pressure and strain are perhaps greater for us, the atmosphere is tense and people are stressed out. Those who want

to accomplish something extra generally face a much tougher road than they would in a developed country. Last but not least, there is the phenomenon of uncertainty regarding the future, which here can cause great stress.

Furthermore, competition definitely does not mean stress and nerves for everybody. People are different. Some people become agitated or depressed when they are not under pressure. It's very individual. Finally, the West is beginning to encounter a very interesting phenomenon which people call 'voluntary modesty'. It's some kind of asceticism that people choose to adopt, and according to which they lead far more modest lives than in reality they could afford – they simply don't consider material possessions important. Some people do this due to a high level of environmental awareness; others deem it more important to support charity organizations; yet others willingly reduce their consumption because they don't want to spend their lives in pursuit of a large income. It's not a mass phenomenon yet, but it's certainly on the rise.

As Deputy Prime Minister, you have to take care of many things that politicians in other countries don't have to worry about. How does stress affect you?

Well, as I've said, it's very individual. During Communism I worked at a university. I gave five lectures per week, and the rest of the time I studied when I wanted to, I exercised when I felt like it, and lazed around when I didn't feel like doing anything. Since the fall of Communism, I've been stretched to capac-

ity from dawn till dusk. But I don't grumble about being so busy, quite the opposite – when I'm without a task for some time I tend to get antsy and I have to find something to keep me busy. I think it's important for all people to extend their opportunities for self-fulfillment, and I don't mean just at work. I'm very glad that people's opportunities for entertainment, relaxing, and traveling are generally increasing.

When the borders were closed during Communism, the Czechoslovak ice hockey league was able to keep all of its best players at home, except those who fled to Canada or the United States like the Šťastný brothers. The league was simply great: Peter Bondra on one team, Jaromír Jágr on another, 10,000 people in the stands. Now, all the best Czech and Slovak hockey players are in the NHL, and the quality of our leagues is much worse. The true talents leave at the age of 18, like Marian Gáborík to Minnesota last year. Could this be taken as an example of how globalization can suck a country dry?

It's more an example of how treacherous the communist system was.

This isn't about Communism. Sweden, Finland, and Germany are also losing their best players to the NHL.

But the quality of hockey leagues in these countries is higher than in Slovakia. Look, Czechoslovakia was a traditional hockey superpower. Had we had a chance to develop beyond the grip of communist rule, then our country would have been much wealth-

ier and could have afforded to pay those great talents. So, they would have stayed here and the standards of our league would have been higher. It's just like crime. During Communism, there was less crime in Slovakia because it was a police state. Today it is on the rise because we are a free country. The number of hockey stars also is on the decline because we are a free country. But the decline is even more due to the fact that we used to have Communism here.

The power of American capital is indisputable, it's a powerful magnet for all kinds of talent, which brings us to the 'brain drain'. What are we going to do about our level of science and technology if our best people continue to leave?

What am I going to do about the rain if I continue to get wet? It's a logical consequence of competition, and it simply can't be any other way. I remember hearing Hvezdoň Kočtuch, a now-deceased politician and economist with Mečiar's HZDS party, grumbling repeatedly about how crazy a country America had to be if it paid some Tyson guy \$10 million to punch somebody out for 30 seconds. He couldn't get his mind around the concept, but it's really very easy – Tyson is simply the best in the world, which makes him unique. Furthermore, he happens to be unique in a field that attracts a lot of interest, and the incredible demand in turn draws a lot of advertisers and sponsors.

So, many of our people are leaving because they get better paid abroad. But your role as a member of

cabinet was to bring about a change in your four year term. Wouldn't it be good for you if these people, especially young and talented economists, stayed in Slovakia and supported you in your efforts?

In the short term it's almost impossible to do anything about it, but we can do something in the long run. In this respect, it's absolutely crucial that we ensure that young, talented professionals see good prospects in this country, which in turn prevent them from leaving. We can also try to bring back those who have left. Ireland has been a success story in this regard. When the Irish government began to pursue a sensible economic policy, it bet on several of the right 'horses', one of which was education. At the beginning of the 1980s, Ireland established a new type of school that specialized in information technology. I read somewhere that in 1984, the entire first graduating class of information science students left for America – to a man, the entire class. It made the investment look futile. A year or two later, many of the school's graduates were still leaving, but there were also a few who stayed. This trend slowly gathered speed, and with each new class there were a few more graduates who decided to stay in Ireland, mostly because the first results of the government's sound economic policy had begun to be reflected in people's standard of living. Today, only a few people are leaving the country, while those who left during the 1980s are beginning to come back. They often bring back the money they have earned there, and even more importantly, they bring new contacts and investors.

So, the lesson is that young people cannot be and should not be barred from leaving. Three things are important, however: first, that they don't begin to leave on a massive scale; second, that they don't leave because they are forced to leave; and third, that even if they have left, they intend to come back some day. For young people, it's very important that their country be based on principles such as free competition, because then they feel they have a chance to win recognition.

Many people associate globalization with information technologies. It's no secret that these technologies have been the driving force behind America's astounding economic growth. How much have they changed the world?

They have changed it immensely, not only economically. For instance, at the turn of the century a one-minute telephone call from New York to London cost \$300. Today it's virtually free because you can make phone calls through the Internet. The world has become so interconnected that if you send money to somebody on the opposite side of the planet, it reaches him in four seconds. From this viewpoint, scientific progress in general and information technologies in particular have played an immensely positive role. Moreover, the money invested into the development of information technologies was an important stimulus of economic growth, production, and an increase in the standard of living. I can see how information technologies and the fall of Communism have changed

the world just by looking at myself. Just 15 years ago, the only source of information for economists in the Eastern bloc was official publications that were censored by the regime. Nowadays, access to information of all kinds is virtually unlimited, and, even more importantly, virtually independent of where a person lives.

Well, we live in central Europe, and we would like to ask what we can offer, how we can compete with others?

You have creators of innovations, such as the United States, Germany, and Finland for instance, and then you have users, who can attract the interest of the innovators and produce the technologies they have developed. Slovakia should strive to belong to one of these two groups.

Can central Europe create innovations as well?

I'm positive it can. Nevertheless, geographic criteria do not apply any more. It's very difficult to speak of national corporations or national research. Today, you have software and information technology firms which have headquarters in the United States and branches throughout the entire world – one in, say, central Europe, another somewhere in Russia, the next one in India and yet another in the Far East. These branches work on the same projects or products simultaneously and continuously. Regardless of whether it's day or night, the research continues and the project makes permanent progress.

One of our friends has been in Silicon Valley for two years already. Is he a lost case for Slovakia?

He may not be. The thing with information technologies and the increasingly interconnected world is also that people will increasingly be able to participate in scientific research regardless of where they physically are. This development brings very interesting changes even to such down-to-earth issues like public transportation. In the old days, everybody used to go to work at exactly the same morning hour. But the amount of work that can be done at home on the computer has increased immensely, and continues to grow steadily. Consequently, the normal rush hours are changing, and the general trend is to stagger them more evenly throughout the entire day.

The only thing we know for sure today is that we have no idea what the world will look like in, say, 20 years. If anyone fancies that he does have an idea, I would advise him to go through the back issues of newspapers and take a look at what scientists and forecasters predicted 40, 30, or even 20 years ago. Technological development has never matched what was forecast, and in some ways has surpassed even the boldest predictions. Take a look at the Internet – who would have imagined 30 years ago what it would become by the turn of the century?

Perhaps the two most pressing universal problems are the environment and the disparity between the North and South. Do you think that globalization will

help to solve them, or on the contrary, that it will aggravate them?

I'm an optimist, regarding both the environmental issue and the natural resources issue. The CIA forecast predicted that by 2015, 95% of the world's natural gas resources and 80% of its crude oil resources would remain to be extracted. At the same time, environmental indicators show that for the first time in a number of years, global pollution has seen an overall improvement. Although opinions on this issue naturally differ and will continue to, I believe that technological development is progressing swiftly to the benefit of the environment, not to its detriment. It's interesting that the reasons for this are mostly economic, as environmental pollution is economically very costly. The main problem in the past was that while some people used to benefit from it, others had to suffer the consequences. That's an example of a 'negative externality', which is why it's the role of governments to transfer the costs of environmental pollution back to those who cause it, and to increase the general pressure to lower these costs. Again, I believe that technological progress plays a significant role in this respect.

But under the pretext of tackling negative externalities, governments often introduce regulations that eventually turn out to be harmful, even for the environment itself. Wouldn't it be better if governments did not interfere at all and left it up to the market, which has discovered for itself that long-term envi-

ronmental pollution is really not economically efficient?

On issues like this I'm not sure whether the market holds a cure. Perhaps it does in developed countries where public opinion is a major factor. But in countries where people don't care, leaving it exclusively up to the market may lead to a catastrophe. In this sense, I'm not a radical libertarian. Or take the example of education, which is a positive externality. Education benefits not only those individuals who actually study, but also the country as a whole. I consider it very important that the government organize and fully sponsor compulsory attendance at primary schools. If the government didn't organize this, many children might not acquire primary education, and wouldn't be able to erase that handicap later.

Does this mean that you believe there are fields in which the government's involvement is desirable?

Look at Finland, for instance. It has developed over time to become one of the leaders in innovation. It has built an enormous reputation in science and research, in technological development and education, mostly because the Finnish government invests considerable public funds into the educational system and scientific research.

And what about the North-South problem?

It appears that this problem will take a long time to correct. It's crucial for the North to recognize the following wisdom: "Give a man a fish and he'll eat

for a day; teach him how to fish and he'll live forever." It's essential to teach those countries how to improve their systems and conditions themselves.

What should be the role of organizations such as the World Bank or the International Monetary Fund in solving these conflicts?

It's very important they be involved, especially in promoting the importance of macro-economic stability.

Over the past 10 years you have closely followed the role the IMF has played in Slovakia. How would you evaluate this role?

Both institutions, that means the World Bank and the IMF, have played a very positive role especially in our recent work in scripting a Bankruptcy Law and restructuring the banking sector. These institutions have a lot of practical experience with similar reforms in other countries, and their technical assistance in obtaining soft long-term loans was instrumental.

When looking at the general performance of these institutions during the whole decade, however, they could be rightfully reproached for endorsing something which in economics is called 'moral gambling'. Every time a serious financial crisis occurred, they tried to ward it off by pumping enormous loans into the country in crisis. Many private investors took this as a sign and invested into these countries despite their considerable economic deformations, which always backfired eventually. In these instances, both institu-

tions slightly over-rated the Washington Consensus and under-rated the importance of structural and institutional reforms. They over-estimated the role of macro-economic stabilization and under-estimated issues such as transparency, law enforcement, the independence of the judiciary, and the separation of political and economic power.

In an attempt to eliminate its handicap in the field of information technologies, Germany recently approved a relatively lavish immigration quota for information scientists from developing countries. Should a country like Slovakia, which is not exactly the poorest in Europe, adopt a similar measure to attract gifted brains from poorer countries?

Yes, we could consider it. In this context let me say that the entire debate on temporarily suspending the right to the free movement of labor for new EU member states, as proposed by Germany's Gerhard Schroeder, is pointless because it is based on groundless prejudices. Equally groundless are the prejudices of candidate countries from central and eastern Europe, which are demanding a similar temporary period in which westerners will not be able to purchase real estate on their territories. Both restrictions are nonsensical. If a country fulfils all the criteria to become a full-fledged EU member, I don't see any rational argument for further limitations from either side. Experience with the accession of Greece, Spain, and Portugal shows that the fears of original member states that they might be flooded by job appli-

cants from poorer new member states are totally unfounded.

Economic Theory in the Shaping

During the 1980s, you lived in communist Czechoslovakia, and Kornai's works represented the most 'dissident' economic theories you read. How did it happen that this isolated society, isolated university, and isolated book produced an economist who is such a strong free market advocate?

First of all, I have to say that I didn't receive a formal western-style economic education, and I perceive this as a great handicap. Although I later studied for one semester at the London School of Economics and then in Prague at Charles University for a while, and was able to fill in some of the missing pieces, the truth is that I don't have a standard economic education. Consequently, I have had to catch up with everything on the run and learn continuously.

A positive aspect of this has been that I arrived at a number of economic theorems spontaneously, intuitively, and on the basis of my own experience. Believe me, seeing these theorems work in practice was a much deeper experience for me than studying economic textbooks. I saw all the deformations, defects, and failures of the centrally-planned economic system with my own eyes, which made it all the more repugnant to me and perhaps steered my economic

beliefs towards free market economies. My personal experience with Communism gives me an intellectual background that differs from the backgrounds of many western intellectuals, who are traditionally left-oriented. By the way, this shows up at western universities as well; most universities in Western Europe and America are rather left-oriented.

During your professional life, did you go through any internal development in terms of drifting from one economic theory or school towards another?

Yes. It began by groping in the dark, then I moved towards classic economics, neo-liberalism and monetarism, of which the most distinctive representative was Milton Friedman. Later, I gravitated toward the new institutional economics, whose most famous representative is another Nobel Prize winner, Oliver North.

Why the shift?

I gradually came to believe that in economics it was very important to observe the rules of the game. Initially, I was convinced that the most important principle was that man is a rational being, *homo economicus*, who always does only what is economically expedient for himself. Well, it's a bit more complicated than that. For instance, classic economic theory doesn't take into account opportunist behavior, disobedience of the rules of the game, and violations of the law. It also ignores the transaction costs related to opportunist behavior and flawed institutions.

Another drawback of classic economic theory is that it treats the rational behavior of individuals as something that can be economically quantified. But people's motives are not always strictly economic. Somebody may prefer to remain inactive for five hundred crowns per month rather than taking a job for five thousand crowns per month, and yet he is still behaving rationally because he is doing what suits him.

The new institutional economics emphasizes the importance not only of how formal institutions work, but also of shared values. It's a science which is not purely economic, because it also takes into account legal, sociological, and historical aspects as well as linkages with the past. Naturally, many institutional economists are left-oriented and in favor of 'big government'.

I consider myself a free market economist who acknowledges the importance of an institutional perspective on the world. I have come to this definition on the basis of my experiences over the past 10 years. I have simply realized that it's not enough to change the rules of the game and expect that everything will suddenly click. You can't just say: "okay, we have this centrally-planned economy, so we'll introduce a new set of rules and standards, we'll liberalize prices, we'll introduce a free market and private ownership, and we'll just wait until everything begins to work."

Ironically, this was exactly the impression that you and Klaus used to make on people...

Well, what I said above was certainly a simplification, but the truth is that we also viewed the problem too simplistically. A good example of this was voucher privatization, which was based on a very logical and rational idea. All existing property was in the state's hands, and we needed to transfer most of it into private hands as soon as possible. Had we employed standard privatization methods, it would have taken us 30 years. So we looked around for a non-standard method that would be quick enough but at the same time just and transparent. Voucher privatization was a stroke of genius in this respect.

But unfortunately, we put too much emphasis on the form and not enough on the content. We didn't realize that if we wanted private ownership to work properly, it wasn't enough to just de-nationalize property, it was also important to adopt the necessary laws and guarantee they could be enforced. Hundreds and thousands of joint stock companies emerged literally overnight, but we had no functioning capital market, no capital market supervision, no regulations to protect minority shareholders. Since none of these institutions was in place, voucher privatization did not bring the desired effect but, instead, became a generator of corruption.

It's easy to be wise in hindsight. Back then it was a brand new experiment, and no one had the faintest idea of how it would turn out. I now think that even if we had adopted the necessary laws and regulations in

advance, the final outcome wouldn't have been much better. It's not enough to have just formal rules in place; it's equally important to guarantee they are enforced efficiently, that functioning institutions are built, and that informal rules are in place.

In the initial transformation period, world economic institutions over-rated the importance of the 'Washington Consensus', that is, of macro-economic stabilization, price liberalization, fiscal and monetary austerity, privatization, currency convertibility and foreign trade liberalization. Of course, all these objectives were vital, but not sufficient in themselves. It was important at the same time to establish and build institutions and carry out structural reforms. I don't think even that would have been enough, but at least we wouldn't have wasted so much precious time. The Czechoslovak economic transformation for me was a crucial personal experience that brought me closer to the new institutional theory of economics. It showed me the importance of institutions and the enormous relevance of the country's linkage with its past. It destroyed many of my illusions, but on the other hand, it healed many of my frustrations.

People were often frustrated because they believed that everything could have been much better had it not been for the stupid government. Well, I'm not saying we were flawless, but I'll tell you this: I'm convinced that even if Nobel Prize laureates had been appointed to our posts, they wouldn't have made a world of difference.

What position does this new institutional economic school hold in the developed world?

Even in the developed world, the new institutional economic school is gradually gaining ground. Naturally, it hasn't had as good a reception there as here, because institutions in the developed world function more or less properly. Thus, in the West institutional economic criteria have been applied mostly to measuring the differences between how institutions function in America and Western Europe, and to expressing how they subsequently influence the role of governments in the United States and the European Union.

Given your work load, do you find time to follow the world economic debate?

I follow it mostly at the various conferences I attend, such as the bi-annual conferences of the World Bank and the IMF which I attend officially. And each year I attend the Davos Forum, which always holds very interesting debates.

What is currently the focus of dispute?

I wouldn't call them disputes, rather topics of discussion, such as globalization, the role of nation states in European integration, North-South relations, etc.

What do you think of the solutions proposed?

I think they're very realistic and often inspiring. For instance, last year's summit in Davos was also attended by Bill Gates and other representatives of the hi-tech industry. Together with politicians, they

discussed how to help poor countries improve their access to information technologies. The conclusion of the debate was somewhat surprising, because it turned out that the prices of computers and other hardware were becoming increasingly irrelevant as a barrier; the greatest obstacle had become the high price of telecommunications services, which are set by each individual developing country.

Fifty years ago, the principal issue of debate was the government's role in the economy. That issue seems to have faded, but there will always be one main topic. What do you think will become the next big topic for economists?

It will almost certainly be reform of the social state, that is reform of health care, education, and the pension system. Finding solutions in this field is not a technical but mostly a political problem. Also, economists are becoming increasingly fierce over the issue of agriculture.

As early as the 1920s, some economists had clearly identified the implications of the emerging communist regime, although they were far from apparent to the rest of the world. Many of them repeatedly called it the road to hell. Economist Henry Hazlitt, who wrote his essays during the 1940s, added a postscript 30 years later in which he wrote that reality had turned out far worse than he had foreseen. Is there any equally obvious economic truth that is being ignored by economists today?

This is an eternal problem, and the only thing that changes is the extent to which people let myths blind them. Hazlitt used to say that the main problem of economics was that it did not distinguish between short-term and long-term consequences, or between actual and phantom causes. People are generally rather rigid when it comes to changing their convictions, values or the way they perceive the world.

Toward the end of the 1920s, it appeared that free market capitalism had exhausted its possibilities, and that now was the time to pursue interventionist and 'big-government' policies. An important role was also played by the subsequent emergence of socialism and by the two world wars. This interventionist system functioned for a certain period of time, so practice seemed to corroborate and legitimize the theory. Later, economic practice clearly showed that socialism is the road to hell; unfortunately, it did so belatedly, after all the negative impacts had already accumulated. It's interesting that after all those years, various socialist and big-government delusions still manage to find adherents.

But they're on the decline...

Ironically, charitable views of the socialist system seem to be more rigid in developed countries. Here the process is much faster, because our people had personal experience of the actual system. If you consider the kind of delusions that politicians were able to spread with impunity merely 10 years ago, immediately after the fall of Communism, our society has

come a long way. If some politician dared to make a truly communist statement today, the next day he would be ridiculed by dozens of journalists and his career would be finished.

The Life of a Reformer

In 1991, as the Minister of Privatization in a reformist cabinet, you promoted values and measures that are much the same as those you forward today. But back then, society didn't pay much attention, and subsequently ran into troubles which you now have to solve again. Isn't this process frustrating for central European reformists?

It is, but it would be even more frustrating not to have a chance to do something about it. It's important for any reformer to reconcile himself to the truth that implementing his reforms will be a lengthy and arduous process. If he's able to make his peace with this, he'll be cheered by even the slightest progress.

Can an economic reformer be happy in this part of the world?

He can. In certain moments or on certain occasions, he may feel truly genuine pleasure. Perhaps the most joyful and enjoyable moment for me was when Slovakia was admitted to the OECD. Other similar occasions include, for instance, improvements in the country's rating, drops in interest rates or spreads, or praise in evaluation reports. These things make me

happy not only because they represent recognition of my efforts, but more because they have concrete economic benefits for the country. Whether voters appreciate this or not is a completely different story.

Economists who run the national economy are financially much worse off than economists who manage banks or institutions producing economic analyses. Is it the challenge that draws you to try and reform a poorly-functioning economy?

It's certainly a great challenge, and perhaps further evidence that man is not merely *homo economicus* who regards everything through the lens of crowns or dollars. If I was such a person, I would definitely be doing something else. Besides, I have invested 20 years of my life into doing this. So, economically speaking, I would consider these years a wasted investment if I were doing something else today and weren't trying to enact what I believed was right, since I have the necessary experience and authority. At the same time, though, I don't think I'm so old that I won't be able to capitalize on my experience in some financially more rewarding activity in the future.

How would you compare the position of a top political figure in Slovakia and in a developed country?

The basic difference is that in the West, being a member of the cabinet is truly a political function. In the course of his career, a cabinet member may easily cruise through seven or eight different ministerial posts, because no one expects him to be an expert in

the field which he represents in the cabinet. A minister has at his disposal a whole staff of people who manage the ministry, while he is primarily a political representative whose main role is to steer the ministry in a certain direction based on the government's political program.

Take the example of Slovak central bank governor Marián Jusko, who told me the other day that his advisor, who happened to be a former central bank governor in a western country, was very shocked to find that in Slovakia, the governor of the central bank studies various documents, takes care of the everyday routine, and personally deals with the problems of commercial banks. He said that in his country, the governor's main job was to direct central bank policy, to represent the bank, to attend business breakfasts, and to discuss principal political issues with cabinet members.

When a western country embarks on even a minor reform, politicians stagger it over the entire four-year period, then establish teams of experts who prepare and manage it, while they themselves focus on debating the reform's political context and drumming up political support for it. Here that would be impossible, because we have to implement a great number of reforms, solve an enormous number of problems, and ward off an incredible amount of nonsensical proposals the cabinet is lobbied to adopt. Therefore, it is still highly desirable that cabinet members in Slovakia be also experts in their fields. That's why I still like to think of myself as an economist rather than a

politician. I would like to preserve that economic dimension because I deem it important, but on the other hand, I'm looking forward to the time when it won't be important anymore.

Economy is a more exact discipline than politics. The economist-politician combination is a peculiar one which often leads to confusion. The Czech Republic's Klaus, for instance, was an excellent economist, but today as a politician he strikes people as arrogant. The most talented economists in politics, like Poland's Balcerowicz, are usually not the leaders, perhaps because they are too precise and cannot afford to lose touch with reality just to please their voters. As a half-economist and half-politician, how do you cope with this inherent contradiction?

The truth is that there are certain limitations. If an expert in any field from a post-communist country wants to win recognition as a politician, he has to sacrifice his expertise to a certain extent. This is simply because he has to deal with and speak about every issue, even those he doesn't fully understand. For an economist this means he has to stop regarding economic precision as the most important thing. It truly is a choice to some extent. I think that Klaus currently is a very influential and successful politician, but on the other hand, his economic reputation has declined significantly. Perhaps it really isn't possible to serve two masters. I perceive myself more as an economist than a politician, because I believe that a man should do what he wants to do and can do.

In all transforming countries, economic reforms are outlined and scripted by economists, but then have to be approved and implemented by politicians. Do you see this as a problem?

The ideal combination is when a charismatic politician who is able to command the support of a significant part of the population teams up with an economist whom he respects and whose ideas he supports.

Does this mean that in a transforming country, one person who combines the qualities of politician and an economist cannot be successful?

I think he can, but certainly not for too long. In transforming countries it simply works that way: politics is for politicians and economics is for economists. In some isolated cases there may exist a certain interconnection, but really influential political leaders have to be primarily politicians.

Which personalities from world politics do you consider a successful cross between an economist and a politician?

Maybe Roger Douglas in New Zealand, Margaret Thatcher in Great Britain, who wasn't an economist but managed to put through some formidable economic reforms, and Ronald Reagan in the United States.

Were these people so successful because their political agenda was not too broad, and because they showed steadiness and vigor in carrying it out?

That too, but their political careers also coincided with a historical period in which the potential of the left-wing doctrines that formerly ruled the world had been totally exhausted. There was a great demand for change. These things always owe something to both objective and subjective reasons. Besides, all these leaders had one important advantage on their side: they led governments composed solely of their own party members. In such a situation, it's much easier to carry out fundamental reforms than when a government is a broad coalition of various parties with often conflicting programs, and which have to seek compromises.

On a Personal Note

It's perhaps typical of Americans that they regard the role of individuals in shaping history as the most crucial. Others argue that everything is determined by historical trends which subsequently find their influential individuals. What's your opinion?

I favor the latter view, but I concede that influential individuals may significantly catalyze or inhibit historical trends. History has a certain regularity in terms of shared values, in terms of people's general moods, in terms of overall social situations which are shaped by economic and political developments.

What is the history of mankind all about?

The search for recognition, gratification, and satisfaction of people's interests and desires.

Europeans regard the United States mostly as a consumer culture. At the same time, they seem to forget that it's the most religious country in the world. What are your views on religion?

I'm an agnostic. I don't know whether God exists or not. I'm not a believer, but I'm not a non-believer either. At the same time, I must admit that as I grow older and more experienced, I think I am coming to appreciate the meaning of faith, especially in terms of its giving you a certain mental compass, a higher idea, and moral support. In my opinion it makes more sense to believe than not to believe. Basically, I'm a typical product of the communist system, where we were all educated as atheists. But my daughter, who is 12 years old, is a believer, and I'm happy for her.

How did that happen?

I think she came to believe through her grandparents and also through school, where she takes lessons in religious studies.

You mentioned that faith gives one a mental compass. Since you are a non-believer, what mental compass do you use to chart your course in politics?

My inner convictions and values.

Where did they come from?

They have developed spontaneously, thanks mostly to education and partly to my own moral development. And ever since I entered politics, I think I have

had an extra stimulus, which is that if I as a politician strive to encourage a certain type of behavior, I must first demand it from myself.

Is it possible for a politician to promote moral values in a post-communist society whose informal rules are badly distorted?

It's more than possible, it's necessary, even if it's very difficult.

The twentieth century may be remembered as that of the titanic clash between Communism and capitalism. Today, the main clash seems to be between conservatism and liberalism. Which do you subscribe to?

I wouldn't be able to define it. Would you? What do we consider conservatism, and what do we consider liberalism? As far as my economic values are concerned, I would describe myself as a classic liberal who fully endorses free market economic principles. In America, I would certainly belong to the Republicans as far as economic issues go; however, on some other issues, let's call them ethical and moral, I would be attracted instead to the Democrats. In other words, I would support tax cuts, but I would take a more liberal standpoint towards homosexuals. The abortion issue is more complex, I really don't have a clear-cut opinion about it, but I am tempted to say that I am rather conservative. On the other hand, America's infamous prudishness is alien to my nature.

What about positive discrimination, which is currently on the rise?

I don't endorse it.

Jaro Filip, a brilliant Slovak comedian and musician, used to say before he died that America was the best place in the world. He even used to say that by nature he wasn't Slovak but a rancher from some place in Texas. We have accompanied you on a couple of your trips to America, and we always came to the same conclusion about you. Why do so many people who were born so far away from America and raised in a communist society feel so strongly attracted to America?

I'm currently reading *The History of the American Nation* by Paul Johnson, and the part I have read so far may have an answer to your question. People in America believe in good and evil, in what's right and what's wrong. This is mostly because there were two basic types of people who left for America throughout history. There were visionaries and free-minded people who were fleeing from oppression and deformations, due to the lack of freedom. And then there were crooks and outlaws who were fleeing the law. Fortunately, the free-minded people got the upper hand eventually and created a free society which is based on the values that are regarded as important by this kind of people. I think that we belong to the same kind of people, it's just that we happened to be born in Europe. Perhaps if we had been born 200 years ago, we would have left for America as well. I think

we share the same values on which American society is built, and perhaps that's why we consider ourselves 'Americanophiles'.

After you finish your stint in the current Slovak government, you will be at the right age and will have gained sufficient experience to be able to offer something to young Americans. Is it possible that the current Slovak Deputy Prime Minister for Economy will be lecturing at an American university several years from now?

Everything is possible. But I especially want my children to study at an American university.

Even though most of these universities are left-oriented?

My children are not left-oriented, and that's what's important. Speaking of my children, let me tell you that things are looking up. The other day, I called home and asked my daughter Suzie, who is in the sixth grade, 'what's new at school'. She said that she had received a 'B' today. She added that originally, the teacher had mistakenly given her an 'A' because she hadn't spotted several errors. So I asked her whether she had gone up to the teacher herself and told her that she didn't deserve an 'A' but a 'B'. And she replied: "But of course, what did you think?" You see, she considered it absolutely normal and natural, and she was actually thrown off by my question. At that moment I realized that this is indeed a new generation.

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