

Still Halfway

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Many publicists lately find the cause of our current economic crisis in the application of a liberal economic policy by our post-November governments. They also consider liberalization processes in the world economy, that is, the removing of trade barriers, growing competition, short-run transfers of big financial assets, etc, to be the cause of the so-called global crisis. Consequently it is concluded that our current economic crisis and the so-called global crisis are the expressions of a liberal crisis.

Classical liberalism is an ideology that stresses personal responsibility and thus individual rights. It assumes that all human action is voluntary, the untouchability of private property, and the unreplaceable role of contract and a judicial system, which enables its enforcement in the case of breach of contract by either one of the contracting sides. The key role in the liberal concept of economics is played by the self-regulating market, which by means of free trade most effectively allocates scarce resources at the society's disposal. This kind of a social system, of course, does not require a big government supported by an expansive bureaucracy for the execution of its programs and goals. That is why liberals demand a small, but effective government which uses state power very rarely, only in areas where it seems necessary, for example in military protection, inner protection, basic healthcare, basic education and few others.

Where was the mistake

The project of economic transformation began losing its unified political support within the government coalition. Because of this, the process of reform lost its dynamism, which is an essential factor for the achievement of reform goals, in other words, the basic measure of success. The danger of losing the dynamism was aptly expressed by Roger Douglas, former minister of finance in New Zealand and the author of a magnificent economic reform: “The shooting of opponents is significantly less accurate, if one has to shoot at quickly moving targets.” Interest groups thus took the directing of Czech reform in their own hands, and began influencing development to such a degree, that they were able to change the original script. So the reform found itself halfway. In particular, privatization, price liberalization, reform of the tax system, education, healthcare, retirement system, etc. It would be unfair to say that nothing happened in these areas. We even have to admit that certain market powers had an effect in these areas of human action. Practice showed, however, that their application was not thorough:

- Partial privatization (still existing joint stock companies with a large amount of state shares, or under tough regulations, which is almost the same thing) discredited the process of transformation (for example, Telecom, ČEZ, coal mining companies, banks, etc.) In our situation, that is, where there is low effectiveness of law enforcement and lacking moral relationship to private property, mixed property became a dangerous factor which discredited the idea and effectiveness of private property. The proof of the above said is the low level of so-called corporate governance, that is, firm management or division of labor companies.
- The uncompleted price liberalization (respectively the process of price corrections after 40 years of rigid prices) along with resisted regulation of economic sectors (such as

telecommunications, transfer and distribution of electrical power, gas, heat and other products, railroad transportation, etc.) did not lead to expected positive effects for the consumers. The reason was a slow, gradual and compromising deregulation with asymmetrical effects on individual sectors, and therefore on interest groups. Quick and general structural reform affects interest groups symmetrically, which makes its acceptance easier. Their losses from losing special benefits are compensated by the acquisition of benefits generated by the deregulated sectors. Reform is not implemented for the good of the producers, but for the consumers, and it must lead to benefits in terms of lower prices and better quality of offered goods and services.

Most people consider the badly functioning judicial system to be the major cause of our current economic problems. And they blame it on liberalism, which they confuse with anarchy, thanks to the famous bonmot of Tomáš Ježek during his discussion of how economists need to succeed in the race with lawyers. Did liberalism really fail with its emphasis on spontaneous order, voluntary contract and rule of law? It did not fail, but the official government interpretation at the time did. Why?

- 1) Because we do not live in the era of protestant ethics, during the birth and rise of capitalism, when people believed in absolutes and in God, and acted appropriately. The Czech Republic today is a largely atheistic, secularized society.
- 2) We inherited from communism a morally (for example, in its relationship to private property) and ideologically bankrupt society.
- 3) The main characteristic of our society is a mass culture, and therefore our actions are anonymous. Faith in non-repeatability leads to behavior in conflict with market morality.

We therefore agree with Ludwig Mises that rules are created from below, but they are established on the basis of teleological reasoning. These rules must respect property relationships and the resulting behavior of economic subjects. However, if property relationships are not clearly determined and thoroughly respected (as in our case), and established examples of behavior and action are not enforced, then someone must spontaneously affect the developing system toward a particular purpose and goal. The goal is capitalism and that someone is the state. In transitional society it plays an irreplaceable role in the determination and enforcement of rules and laws, and the creation of institutions.

Liberalism follows long-run goals

Liberals emphasize a social order in harmony with a spontaneous order based on the respect for private property. This order develops best under conditions of enforced rules and laws. Voluntary exchange grows in such an environment, free trade flourishes and voluntarily signed contracts are fulfilled.

Keynesians, and politicians who act in accordance with their doctrine (our social democrats, for example) follow short-run goals. John Maynard Keynes expressed it quite clearly: “In the long-run we are all dead.” That is why all Keynesians prefer short-run goals, and that is why they recommend to governments to interfere in the economy whenever they think it is necessary.

One of the goals of a liberal system is to create good conditions for investment in human capital, scientific development, education and healthcare. The accepted rules must lead individuals to action, not make them the passive victims of state welfare or non-conceptuality, which reigns in these areas. Again, problems in the presented areas of human action were not caused by the “invisible hand of the market”, which did not have a chance to show its benefits in perversely regulated sectors; the government conceptions were the ones that failed. The market is very easily blamed for the failures of state officials, because the market is impersonal and cannot defend itself. State bureaucracy, on the other hand, to whom the powerful mediocracy gives a lot of space, consciously deceives the public.

Liberal ideas and solutions

The nature of a long-run solution of our problems, most of which are caused or strengthened by the incomplete transformation, is a change in the voting system in the House of representatives of the Czech Parliament. The following arguments speak on the behalf of a majority voting system:

- a) The extent and depth of systematic changes during the transformation period requires a greater, time-limited participation of the government in economic life of society, than is needed in standard market economies.
- b) The success of government interventions depends on their consistency, thoroughness and speed, which excludes searching for and accepting of compromises, which is so popular today.
- c) This objective can only be achieved by an government capable of action, with unrenegable, time-limited parliament support.

Change from proportional to a majority voting system is not an attack on democracy, but an effort to find the most effective form of applying the democratic government in our current, that is, transforming state. This solution must not be considered unlimited in time, and therefore a return to a proportional system after a certain amount of time cannot be dismissed. The opposition contract between social democrats and the ODS therefore represents only a halfway solution.

After the following conditions are fulfilled, there will exist a groundwork for a quick completion of the transformation:

- Completion of privatization (in some sectors state ownership cannot be excluded temporarily)
- Deregulation of economic sectors and price liberalization (includes de-etatization, consequent opening of sectors to competition, elimination of price regulations and privatization; in most of the sectors regulation is unnecessary, because sectors are cultivated by competition)
- Implementation of tax reform (the basis of which should be a significant simplification and decrease in taxes; for example in New Zealand exist only two tax rates, one on physical persons based on income, and a second one on corporations, which is in accord with the lower rate on physical persons; taxes should be significantly lower than in EU states, otherwise it will be very difficult to reach the level of their economic productivity and the living standards of their citizens)

- Improvement and simplification of the judicial system and enforcement of law
- Conception of scientific development, education and healthcare based on personal responsibility of each individual and motivations for private investment in human capital

The side product of such a transformation will be minimal, but an effective state, which is the guarantor of growing freedom and responsibility of its citizens. Of course, the success of transformation depends on outside factors. This is especially relevant for small, open economies, whose influence over the formation of outside environment cannot overcome the limits given their economic strength. Growing integration of the economy also entails growing dangers implicit in the decision making of international bureaucratic structures, such as the IMF, World Bank and many other institutions in the European Union, from which the state should protect its citizens. That is probably the only reason for the expansion of its activities.

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