

# GLOBAL GOLD TALKS TO MR. VÁCLAV KLAUS



Mr. Václav Klaus is a renowned academic and economist, but his worldwide reputation comes from his strong advocacy of liberalism and free market economics, as well as his leading role in the peaceful split of Czechoslovakia and the formation of the independent Czech Republic in 1993.

Mr. Klaus remained focused on his academic career in Prague until he ventured into politics in 1989 when he became Federal Minister of Finance of the Czechoslovak federation. It is worth mentioning that Mr. Klaus never joined a political party until he became chairman of the then strongest political entity, the Civic Forum, in 1990. Soon later he co-founded the Civic Democratic Party and remained its chairman until 2002. During that time, he won the 1992 parliamentary elections and became Prime Minister of the Czech Republic. In this capacity, he led the historic peaceful separation of the Czechoslovak federation.

In 2003 he was elected President of the Czech Republic, a position he held until March 2013. He then focused on building the [Václav Klaus Institute](#) a liberal-conservative think tank. Mr. Klaus has many publications and received numerous international awards and honorary doctorates in recognition of his historic role in the peaceful split of the Czechoslovak federation and his advocacy of liberalism.

## INTERVIEW WITH MR. VÁCLAV KLAUS, FEBRUARY 2015

**Claudio Grass,  
Global Gold:**

**Mr. Klaus, it's a great honor and pleasure to be here and have this opportunity to interview one of the key shapers of the Czech Republic as it is today. The first time I actually saw you speak in person was at the "Gottfried von Haberler-Conference" last year, where you rightfully criticized a Canadian politician or diplomat after his speech due to his strong pro-government position, which you disproved using classical liberal arguments. Can you tell us how you came in contact with classic liberalism and when you became a proponent of the free market and the Austrian School of Economics, especially as you were living under communism? I expect that literature was not widely available. Could you please elaborate on that?**

**Mr. Klaus:**

The reason why I started following the concept of the free market was, I would say, communism. The system was irrational and based on something else, on the opposite of free markets, freedom and pluralistic democracy. So, it was relatively easy to see that attempts to mastermind the economy from above were basically wrong. I was helped by very carefully studying economic science. The Austrian School of Economics, the Chicago School of Economics and public choice school gave me more arguments than other schools of economic thought. I had the chance in the 1960s to work in the Czechoslovakian Academy of Science, in the Institution of Economics, where I was supposed to study and criticize non-Marxist economic theories because that was the objective at the time. So I used the time to study non-Marxist economics but didn't criticize it. On the contrary, I accepted it fully.

**Global Gold:** I would like to dive into some aspects of the recent history of the Czech Republic, from which I think there is a lot to learn. Czechoslovakia was dissolved in 1993. Do you think it can be seen as an example of how states can be dissolved in a peaceful manner and new smaller units of government can be created? Can you give us your insight into why the dissolution happened and why it was so peaceful?

**Mr. Klaus:** I was born in Czechoslovakia and I took the country – with its defined borders – for granted. It never came to my mind that the country would be dissolved. Communism, of course, prohibited all serious discussions, including the issues of nations, nationality, federation, nation-states and so on. Such a debate did not exist. After the fall of communism everything was suddenly possible. We, the Czechs, discovered that Slovakia did not just want the end of communism, which was our aim; they also wanted their own sovereign nation-state. We were surprised by it and I must say it took us two years to understand how it went and how it can move forward. I had one special position. I spent all my holidays in Slovakia because my wife is a Slovak. I knew Slovakia better than most of the Czechs and I understood that Slovakia wanted to be alone. After the parliamentary election in 1992, we started to negotiate with the Slovaks either to stay in a common state or to separate. They accepted the second solution. And my task as prime minister at the time was to make the separation as friendly, as smoothly and as rapidly as possible. In more or less six months, we were able to sign 25 intergovernmental treaties between the Czech Republic and Slovakia and we divided everything peacefully and friendly. On the 1st of January 1993 the country was divided. But this is only a short summary.

**Global Gold:** An interesting aspect is the transition of the currency system. Do you think that we can learn something from the currency transition that Czechoslovakia went through for countries such as Greece and their potential exit from the Eurozone?

**Mr. Klaus:** Definitely. This experience was very useful in many respects. The people in Catalonia, Scotland, Quebec, and Flanders have been coming to me in the last twenty years, asking me what to do. I didn't want to be the proponent of separatism. That was not my position. I have not been traveling all over the world recommending the split of countries. I only understood that a division of a country is useful when the old arrangements could not function efficiently. On the other hand, I am absolutely sure that our experience is a good example that a friendly split is possible, that it's not a tragedy, that it's not a disaster and that it does not create big economic losses. In our case, the economic losses were practically impossible to measure because we were also in the first years after the fall of communism. The split was not a controlled experiment. To quantitatively measure how much we lost was impossible. As an economist and former econometrician I know that it is a useless exercise to try to give quantitative data to that. Nevertheless, we understood one important thing which is also relevant for the current Euro: that it's very easy to divide the currency. For the Czechs and Slovaks, it was practically a non-issue. When the currency was divided, life went on without any problem. There really was no drama. To say that the exit of countries like Greece from the Eurozone would be a disaster is complete nonsense. It is wishful thinking, or even propaganda. I have to laugh when some Europeans keep telling me "look how deeply the Greek and European economies are intertwined". The Greek economy represents around 2% of Europe's GDP. Meanwhile, the Slovak economy was 1/3 of the Czechoslovak economy and the interconnections were much deeper and bigger.

**Global Gold:** Going back to the topic of currencies, you are a strong opponent of the Euro. Similarly to Switzerland, the Czech central bank recently introduced a price limit on the Euro, effectively tying the Czech Crown to the Euro. What are your thoughts on the actions of the central bank? Is this a creeping introduction of the Euro in the Czech Republic?

**Mr. Klaus:**

I don't consider the intervention of the Czech National Bank (CNB) in November 2013 as paving the way for the introduction of the Euro. The CNB tried to intervene because of their feeling that the Czech economy is going down and that the small inflation could become deflation soon. It was a standard macroeconomic argument. But I disagree with it totally.

**Global Gold:**

**We have another question concerning the Czech Republic. You oversaw the privatization process where state assets were sold after the collapse of the communist system. Can you give us an insight into how the process worked and how you judge its success? The main question I am asking myself is: if a company is operating under communism, how do I fairly value such companies to be sold to the public?**

**Mr. Klaus:**

That's exactly the issue. All Western advisors who came here, including some Nobel Prize winners, were very much against our privatization methods. They were telling us "you should make standard privatizations, using all the textbooks of the theory of finance". You are almost the first to raise this question: how to value the price of those companies? In reality, we tried to avoid this issue as much as possible. That was our trick. We used several privatization methods in parallel. We also used standard privatization which involved selling the firm to a foreign owner; in some cases it was a Czech owner. But the specificity of our privatization process was the so-called "voucher privatization". We didn't know economically meaningful values of enterprises. In addition to it, we had to privatize in a situation where the Czech economic agents (the Czech citizens) didn't have any capital prepared for privatization. So, we created a very unique and very special privatization method, which was called "**voucher privatization**", or "**coupon privatization**".

We wanted to give a chance to the citizens of the country to buy the privatized firms. It was not applied to the whole economy, just one fourth of it. We transformed the state-owned companies into joint-stock companies. The Czech citizens were offered to buy the so-called vouchers (which became the investment money). We issued voucher booklets and sold those vouchers to the people of the country (over 18 years old). We sold them and did not give them away. That would be wrong. It was done in countries like Russia, where the vouchers were given to the public. We sold the vouchers, but not at the price of the correctly or incorrectly estimated values of those enterprises. We chose a price equivalent to an average week's salary in the country, which meant that it was not for free. But at the same time it was not something unacceptable to the majority of the people. Then we started a very sophisticated buying and selling process of shares for vouchers, which was fully computerized. It was one of the biggest computerized games in the history of mankind. 8 million people participated. In the first round of buying we discovered excess demand for some shares, and an excess supply for some others. Then came the second round where we changed the prices. It took four rounds to find an equilibrium. It was done twice in a total time frame of three years.

Another point is that we were not interested in getting a lot of money for the government from the privatization process, as opposed to standard privatizations all over the world. We wanted something else. We wanted to find private owners. That was our aim, which was misunderstood by all the sophisticated experts coming from business schools in America and elsewhere. They were suggesting we should maximize the amount of money coming from privatization; that was not our aim. Our aim was to privatize the whole economy, not just to get more money for a company X or company Y. This process is better described in the book: "The Great Rebirth: Lessons from the History of Capitalism over Communism", where I wrote a chapter titled "The Spirit and the Main Contours of Czech (or Czechoslovak) Post-Communist Transformation".\*

\* "The Great Rebirth: Lessons from the History of Capitalism over Communism", Peterson Institute for International Economics, Washington, D.C., November 2014.

**Global Gold:**

**How do you think EU membership has negatively impacted the Czech Republic, for example in terms of economic performance? You have previously suggested the creation of an "Organization of European States". What would differentiate it from the EU?**

**Mr. Klaus:** The European integration process which started as an attempt to build a friendly and cooperating community of nations has been transformed to a totally different construct, to the European Union. This shift is, for me, the main problem. Europe needed liberalization, deregulation and elimination of all kinds of barriers among its member states to do business, to trade and carry out investments. I am for integration, but I am very much against unification. That is the substance of my criticism. The crucial point when it was twisted, was the Maastricht Treaty in 1992, which changed the name, as well as the acronyms. To move from the community of nations to the unity of people is, for me, the main problem.

**Global Gold:** **While we were corresponding prior to this interview you mentioned that you had just come back from Geneva and you explained how socialist the university professors there are. I totally agree with this view. When I am in Western Europe and talk to people, I really have the feeling that they are socialist. The more educated they are, the more dependent they are on the state and so the more socialist they become. Do you see “hotspots” of socialism in Europe? Do you think that Eastern Europeans might be more free market-oriented than the rest of Europe taking into consideration they just recently came out of communism?**

**Mr. Klaus:** I must make a correction. When you speak about Central and Eastern Europe, it's not true that we “just came out of communism”. We came out of communism 25 years ago. This is the longest, uninterrupted peaceful period in the history of our modern statehood. There are generations which really do not understand communism anymore in our part of the world. But you make a good argument. My generation learned a lot from living in communism. It was a lost time in many respects, but it was a time where you could learn a lot. I always argue that my eyes were “sharpened” by living in communism.

**Global Gold:** **And what parallels do you see between Western Europe and the communism you lived under?**

**Mr. Klaus:** I don't want to look for easy analogies. In our part of the world it is very difficult to say that Brussels is similar to the former communist Moscow. But when I look at the political, economic and social system in the European Union I see many similarities. I would have never expected that there will be so much regulation and so much state power as there is now. I would have never expected that the people would believe so much in the state and not in the market. I would have never believed that after the fall of communism, government failure would be so underestimated vis-à-vis the market failure. We enjoy much more freedom in comparison to our past, but at the same time, when I compare my expectations to the current reality, I see what I call the expectation-reality gap. In other words, I expected that I would be living in a much freer society than I do now.

**Global Gold:** **We believe there is a massive power shift underway from the West to the East, whether economically, militarily, etc.. Do you see this power shift as well? We get the feeling that most of the West is unaware or blind towards the fact that this paradigm shift is underway; they are still concentrated on the West. What is your opinion on that?**

**Mr. Klaus:** Definitely. I think that many people, especially in Europe still live in a nirvana of self-satisfaction and do not consider that the European economy has been stagnating for a very long time, whereas the rest of the world has been moving upward. We tragically underestimate this fact. I am absolutely shocked that the European politicians, business people, and intellectuals don't take this issue seriously.

**Global Gold:** This brings us to the “Charlie Hebdo” attack in France. What do you believe is the root cause of what happened? Do you think that this tragedy will be misused by the political elites to further circumvent the individual liberty in Europe using more control and every possible excuse for security reasons to watch every step of the citizens?

**Mr. Klaus:** We experienced it in 2001 in America and it had very negative repercussions for us in Europe. I am afraid there will be a new wave of attempts to limit our personal freedom due to the so-called fight against terrorism. I think it is wrong to concentrate on the tragic event in Paris. At the same day of the Paris attacks an estimated 2000 people were killed by terrorists in Nigeria. But Paris, of course, was closer to us. We should look for the reasons behind what happened here and there. I am afraid that the main reason is twofold. One of them is the erroneous idea of multiculturalism which is destroying our societies and the other is a parallel-going concept, the doctrine of universalism. The fall of communism allowed for a sort of ideological vacuum, which was very rapidly filled by the export of democracy and of our concept of human rights from the West to the rest of the world. And this is a totally wrong idea. It created many unsuccessful wars and destabilized countries in the Middle East, Africa, Asia, and elsewhere. The export of Western-style democracy and of new universalism created a reaction. This reaction came with another form of universalism, namely Islamism. Those are twin brothers, I would say. Multiculturalism and the doctrine of universalism are for me in the roots of terrorism.

**Global Gold:** From your answer I think it is fair to say that the “foreign policy” of the West in general has failed, to a great extent. Now, I would like to move to the issue of global warming, which you consider an “irrational ideology”. Could you further explain to our readers what you mean by that, why you stand against this campaign and what impact this campaign has on free market principles in your view?

**Mr. Klaus:** Eight years ago I wrote a book about the nonsense of global warming, titled “Blue Planet in Green Shackles” with the subtitle “What is Endangered: Climate or Freedom?”. My answer was and is: Freedom is endangered! The climate is o.k. The book was surprisingly translated into twenty languages, including Japanese, Arabic, Chinese, Indonesian, for readers are all over the world. I simply don’t believe in the doctrine of global warming. I am not a climatologist but I am an economist who worked as a statistician and econometrician for 15 years. I know something about the computer models used by the climatologists because they are structurally very similar to the econometric models. I know how easy it is to play with the parameters and how easy it is to get the results you want to get. This doctrine is basically not a doctrine from natural sciences about climate, but rather a doctrine about man and society. The greens and environmentalists are introducing the old collectivist ideas to “control and regulate” and un-free society under new banners.

**Global Gold:** Another question, at Global Gold, as I mentioned before, we store gold outside the banking system. For us, gold is not a trading instrument; it’s basically a monetary insurance, a hedge against the central banks and their policy at the moment. So I would like to ask you if you personally hold gold and if so, why do you hold gold?

**Mr. Klaus:** I don’t hold gold. I must say, we are still a young country, in some respect. After four decades of communism we didn’t have any capital, any funds which would be meaningful to invest into different commodities. Plus, as a politician who did all the drastic measures in the country, including privatization, I would never dare to invest my own money. So I simply forgot that issue and I kept all my money in the banking system, without trying to do anything specific, I’d say. But this is specifically connected with my political career.

- Global Gold:** How can we as individuals regain liberty? If there is one key message you would like to convey to our readers, what would it be?
- Mr. Klaus:** We have to fight for liberty permanently, every day, all over the world, in every country. I think it is necessary to have different ways, like your company's publications, to communicate our views. Free press and free speech are fundamental issues. I know that they are restricted in many places in the current world we live in. I am glad that I could have such a fair debate here with you because I know that in some publications in Europe, to criticize the European Union is almost impossible. I see how I'm losing contact with some newspapers, journals and journalists because of my sharp criticism of the situation in the European Union plus now, the situation in Ukraine.
- Global Gold:** That is absurd. We heard that because of your stance on Ukraine that CATO, supposedly a free market think tank has severed its relationship with you after you were named a Distinguished Senior Fellow there two years ago?
- Mr. Klaus:** I think that "supposedly" is a good term. In the past I would say it was a free market think tank. I am not sure now. I'm very angry with the misinterpretation of the situation in Ukraine and with the fact that this is done in a way I did not expect to live through again. This is like the communist propaganda which I experienced for fifty years of my life. That is why I'm very sensitive, maybe over-sensitive to this issue.
- Global Gold:** Thank you very much, Mr. Klaus, for this opportunity to speak with you and to have your insight into so many issues.



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