

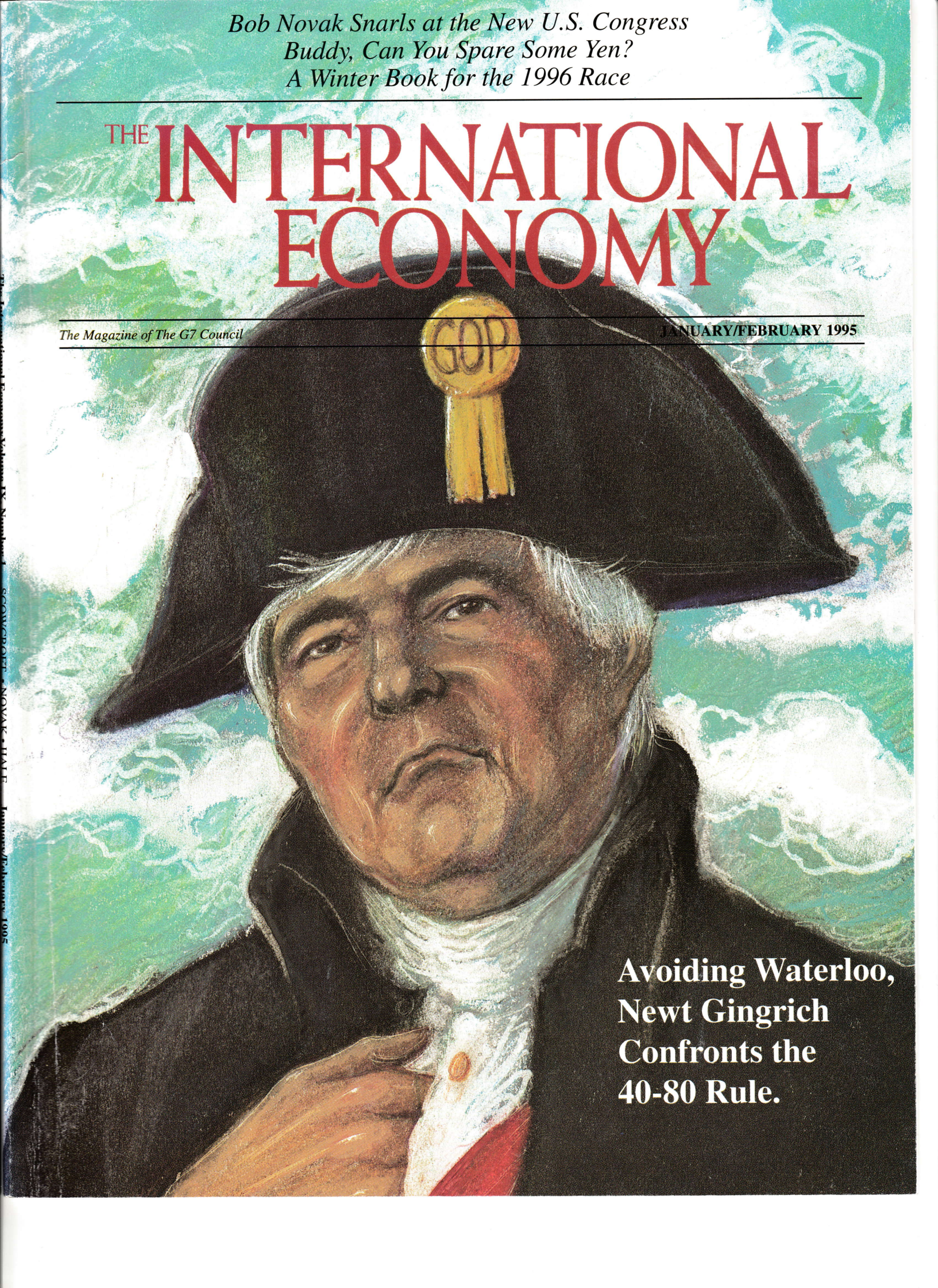
*Bob Novak Snarls at the New U.S. Congress
Buddy, Can You Spare Some Yen?
A Winter Book for the 1996 Race*

THE INTERNATIONAL ECONOMY

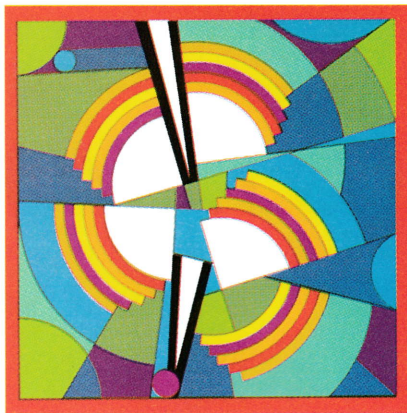
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**Avoiding Waterloo,
Newt Gingrich
Confronts the
40-80 Rule.**



THE PASSING OF AN OLD FRIEND

by Klaus Engelen



Horst Schulmann

*"A big heart for America
but a convinced European."*

Former German Chancellor Helmut Schmidt called him "his friend and close advisor." Hans Tietmeyer, President of the Bundesbank, talked about Germany "having lost one of its brightest economic minds." Horst Schulmann, who died in early December at the age of 61, had many friends and admirers — not only in his home country, but also in what he called his "second home town," Washington, D.C.

There are many on both sides of the Atlantic who feel a deep void at the news of his early death.

He was a brilliant international economist with down-to-earth political instincts. His judgments were concise and practical. A financial journalist like this observer could be very happy to have him around as a friend and reference on complicated issues. Many in the international financial community listened to what Schulmann had to say. He had the intellectual capacity and the political grasp to be very close to the core of issues and trends.

He had a big heart for America but was also a convinced European. His deep resolve to modernize and preserve the values and vitality of the Old World's "social market economy" became apparent in international discussions. There, the SPD veteran could be a tough defender of the "German consensus model."

Only two years ago, he had returned from Washington where he had been managing director of the Institute of International Finance to his native Frankfurt to become President of the Landeszentralbank Hessen. As the Bundesbank's Tietmeyer recalled at the funeral ceremony before representatives of Germany's political and financial establishment, "There had rarely been such broad acclaim for the election of an LZB president as in Schulmann's case."

MY RESPONSE TO VACLAV KLAUS

To the Editor:

Vaclav Klaus, Prime Minister of the Czech Republic, wrote in an article entitled "The Ten Commandments Revisited" (*TIE* September/October 1993) the following:

"To expect a change in economic agents' behavior without privatization is unwarranted and never happens. The perestroika style of economic thinking — reaching its most sophisticated form in Janos Kornai's pamphlets — suggests wrong and misleading policy implications. The shift from a soft budget constraint to a hard one cannot be achieved by macroeconomic measures only."

"Wrong and misleading" are strong words indeed. The trouble is that I did not make any of the assertions mentioned by Vaclav Klaus. In one single paragraph there are three gross distortions of my views.

1. It is not true that I ignore the necessity and desirability of privatization. Although Klaus does not give references, I assume he meant the book of mine, *The Road to a Free Economy*, that appeared in Hungarian in 1989. The first chapter of the book underscores, as a key question in the post-socialist transition, the requirement that private ownership should become the dominant form of ownership in the economy. Certainly the book rejects the idea of free distribution of state assets, which later became one of the main constituents of Czechoslovak economic policy. It remains still controversial to what extent the Czech voucher method has proved successful. That, however, is one question. It is quite another to decide who supports and who opposes the market economy based on private ownership. Unacceptable to my mind, is the intellectual and political intolerance displayed by Vaclav Klaus in branding as opponents of privatization all who envisage the most serviceable way of implementing it differently from his own.

2. Klaus describes me as a sophisticated advocate of the idea of perestroika. What is the reality of the matter? Ever since the "market socialist" Hungarian reform-process started in 1968, I have been a critical analyst of reform to be carried out within the socialist, political and economic system. I expounded the criticism of perestroika-type reforms in several writings emphasizing time and again the inconsistencies and inner

contradictions of the reform. I demonstrated in great detail that the inefficiencies and troubles are systemic and the socialist system is ultimately not reformable.

My attitude to perestroika-type reforms certainly differs sharply from the one Klaus is wont to display in his writings and speeches that have led at once to favorable and unfavorable or even detrimental consequences. I would prefer to shed light on the limitations of the reformers' ideas and point out where they gained power, their half-way measures and half-way results which regularly include only pejorative epithets and ex-

Trouble is, I never said those things.

pressions of political and intellectual scorn for the socialist reformer. I would like to refrain from bias. However, sharp criticism and dissociation is compatible with respect. Without perestroika reforms the Berlin Wall would still be standing, Havel would still be in prison, and Klaus would still be in a research institute. I concede that my position, briefly outlined here, is more "sophisticated" than to reject this movement of world-historical importance with a dismissive wave of the hand.

3. The concept of softness and hardness of the budget constraint and the economic ideas that rest upon it were introduced by me. In all presentations, it is clear that I envisage the hardness or softness of the budget constraint as an institutional category. The relationship between the state and the firm determines whether a firm can expect the state to rescue it in times of financial trouble. The more strongly a firm can count on a governmental bail-out, the softer the budget constraint. The soft budget constraint syndrome is already the subject of a wide body of empirical and theoretical literature. No one so far has ever misinterpreted it to mean that the degree of hardness of the budget constraint is determined by the macroeconomic policy. Klaus's lecture is the first to distort my ideas in this fashion.

Klaus's article contains many interesting ideas. Some I read with agreement, while others I would gladly critically address. But my purpose here is merely to offer a protest against a distortion of my ideas. A pecu-

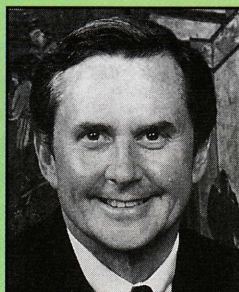
liar, sensitive relationship subsists between politics and science, especially in the sphere of research in social sciences, which aspires to exert a direct effect on the practical world. This relationship is soured, and scientific debate debased to a level of false accusations, when a high-ranking politician, with the great weight that his position attaches to his words, misrepresents the ideas of an academic researcher. No high public office of any kind can provide exemption from the rules of accurate, objective quotation and intellectual fair play.

JÁNOS KORNAI

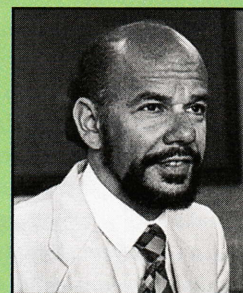
Allie S. Freed Professor of Economics, Harvard University
and Permanent Fellow, Institute for Advanced Study,
Collegium, Budapest.

CORRECTION

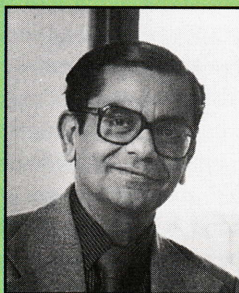
The following photographs, because of a typesetting software malfunction, were misidentified in an article in the November/December issue entitled "Grading the Clinton Japan/Trade Policy." Our apologies to the authors.*



James B. Robinson
Clinton Trade Grade: B+



Melvyn Krauss
Clinton Trade Grade: Z
(F too high)



Jagdish Bhagwati
Clinton Trade Grade: B

**Although Professor Krauss has informed TIE he enjoyed being identified temporarily as having a full head of hair.*