

## Czech crisis shows idiocy of the Mont Pelerin model

by Lothar Komp

Every year, some 500 elite members of the ultra-free-market Mont Pelerin Society meet behind closed doors, discussing how to gouge more loot out of the world economy by unrestrained financial speculation and Chilean-style fascist austerity measures. This year's gathering of ghouls took place in Vienna, Austria, on Sept. 8-13, and elected Ed Feulner, the head of the Washington, D.C.-based Heritage Foundation, as the group's international president for the next two years. According to a leading Mont Pelerin source, the group intends to focus its activity on the United States during the immediate months ahead.

The secretive Mont Pelerin Society, with members from around the world, was founded in 1947 by Austrian free-market lunatic Friedrich von Hayek, to implement a global feudal order. It has emerged as the premier think-tank of the Conservative Revolution today. (See *EIR*, Feb. 17, 1995, "Phil Gramm's 'Conservative Revolution in America.'")

Yet at this year's meeting, as several of the Mont Pelerinites complained, they were accorded quite a "frosty reception" in Vienna. Neither mayor nor chancellor, vice chancellor nor President, bothered to put in an appearance. Never had the group been welcomed at such a low diplomatic level. There were other indications, too, that the Mont Pelerinites were having some difficulties. Various speeches noted the "decline of values" resulting from the functioning of a free-market economic system. It became all too clear, as Gerhard Schwarz, correspondent of the Swiss financial daily *Neue Zürcher Zeitung* pointed out, that free-market liberalism provides no answer to the question of how to develop the character of the citizen, since its advocates are "totally open-minded" toward any form of behavior whatsoever.

### Klaus and the Czech model

The most devastating refutation of the Mont Pelerin free-market model, came with breaking developments in the Czech Republic, even as the conference in Vienna was under way.

In Vienna, the prime minister of the Czech Republic, Vaclav Klaus, could still be presented as a leading light of the Mont Pelerin Society. In his speech, he sang the praises of the "successes" of his neo-liberal experiments. The Czech Republic now has a free-market economy, and puts itself forward as an example to all other countries seeking economic reform. During a visit to Malaysia early in September, for example, Klaus said that his country could play the role of a bridge between Malaysian businessmen and Europe, adding that "the Czech Republic is also developing free-trade zones, which could benefit Malaysia and other export-oriented countries."

Klaus has long been the darling of the Mont Pelerin Society. Dr. Ljubo Sirc, director of the Center for Research into Communist Economies, headquartered in London at the Mont Pelerin Society's Institute for Economic Affairs, told a U.S. researcher earlier this year that Klaus is one of those whom they groomed in eastern Europe, to take over after the fall of communism. Klaus and others who attended the Mont Pelerin seminars in Hungary and elsewhere in the late 1980s "all became important persons in their own countries"—they became the "reform" governments, said Sirc. "It was all semi-planned, in a way," he boasted.

### Financial shock waves

But Klaus's reputation as the darling of the British liberals (otherwise known as neo-conservatives) began to run into trouble just a couple of days after the Mont Pelerin Society

meeting ended. As the French daily *Le Monde* reported, "shock waves" hit "the political class in Prague," and the Czech financial system went to the brink. Worse still: There are more and more signs that Klaus's group has itself become embroiled in the fraudulent machinations of Czech financial jugglers, now that the financial sector has been freed, to a significant extent, from the burdensome chains of state regulation.

Already in August of this year, the crisis of Czech banking began to escalate. The Kreditni Banka Pilsen, the 11th-largest bank, out of 60 total in the country, went bankrupt. Behind the Kreditni Banka stands the largest Czech insurance company, Ceska Poistovna, in which innumerable Czech private households have invested their money. Panic was barely averted. It turned out that the losses of the Kreditni Bank exceeded \$474 million, particularly resulting from its investments in a mysterious financial group, the Motoinvest Investment Fund. Last year, Motoinvest bought up, in hostile takeovers, several Czech businesses and investment funds. This means that Motoinvest had bought up Czech industrial enterprises to the tune of \$3.4 billion. Yet nobody seems to know who the partners of Motoinvest are, and where they got the money for all these acquisitions.

The authorities at first seemed to have little interest in getting to the bottom of these financial scandals. But then, most likely, certain well-known figures of the international world of speculation put in an appearance. After President Vaclav Havel had requested the help of foreign experts in looking into the situation, the government finally proceeded to take action. On Sept. 13, Czech police arrested five leading figures of the collapsed Kreditni Banka, of whom two were also members of the management of Motoinvest. When the arrests occurred, more than \$114 million in illegal remittances of Motoinvest were discovered in secret bank accounts. On Sept. 16, Motoinvest Chairman Pavel Tykac, who had left the country, made it known that Czech politicians and central bank employees were embroiled in a banking scandal, and that he feared for his life.

Immediately after the arrests were announced, the Czech financial world recalled the fact that Motoinvest was very closely linked, not only with Kreditni Banka, but also with the biggest entirely privatized bank in the Czech Republic, the Agrobanka in Prague. Arrested Motoinvest manager David Knop-Kosta is also a member of the supervisory board of Agrobanka, while the fugitive Pavel Tykac is a member of Agrobanka's board of directors. Logically enough, the other Czech banks thought it advisable to break off business relations with Agrobanka. Agrobanka was refused the usual loans in interbank business, which led rapidly to an acute liquidity crisis.

But on the night of Sept. 17, members of government had to meet with central bank officials in crisis negotiations. In order to prevent a run on Agrobanka's deposits, the bank was placed under "temporary receivership." Agrobanka is the fifth

largest Czech bank, and had dealt particularly in the administration of state funds for health care and agriculture. The sudden collapse of the bank could have far-reaching consequences, not only for the financial system, but for the entire political system of the country.

### **Klaus's group under fire**

It seems that some protégés of Vaclav Klaus have gotten deeply into the "economy of the criminals," as U.S. economist Isaac Ehrlich called it in his presentation at the meeting of the Mont Pelerin Society in Vienna. This means a strict "market model" of criminality, he said, in which the criminals' profit expectations are balanced against the societal demand for illegal goods and services—because these goods and services cannot be obtained any other way. This "market model" allows for a mass of criminal activity, which society tolerates, in order to maintain a "market balance" among the competing interests of the criminals, their victims, and the state.

But Klaus's much-touted "successes" are now falling into ill repute, or, as the Social Democratic Party head Milos Zeman put it, they have shown themselves to be a "Potemkin Village." Zeman is demanding the convening of a parliamentary commission of investigation, to finally find out "who here is stealing the taxpayers' money."

President Vaclav Havel himself stated that, because of the lax banking oversight, "tumors have grown" in the Czech banking system. Financial expert Michael Gregor warned in the Prague newspaper *Lidove Noviny*, that a catastrophic banking crisis threatens the foundations of democracy in the Czech Republic, which were built with such difficulty. Contrary to the soothing pronouncements of the central bank, the losses in the banking sector have reached "several hundred billion kronen," he said (100 billion kronen is about \$4 billion). "All of us" will have to bear this, he said. On Sept. 18, Zeman stressed that the crisis casts "a glare of light onto the jungle, which goes by the name of the market economy."

Shortly thereafter, the parliamentary opposition called for an investigation of Klaus's personal role in the development of the entire current crisis. The Social Democrats also called for either the instant dismissal, or resignation, of Finance Minister Ivan Kocarnik, because of his failure to act upon recent warning signals that a bigger systemic banking crisis was coming. The call for Kocarnik's replacement gained a certain degree of support among the Christian Democrats, the coalition partner of Prime Minister Klaus in the government. The chairman of their party, Josef Lux, said in Prague on Sept. 20 that they were not interested in keeping Kocarnik in place "at all costs."

Coming under heavy pressure, therefore, Kocarnik adopted a flight-forward attitude, putting all the blame on the Czech National Bank, for not having controlled the situation at the ailing banks, and for having reacted too late.