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Jam tomorrow

A savage recession and the complexity of reform are slowing the transition to a market economy. But Eastern Europe needs faster, not slower, change. That means rapid privatisation, argues David Manasian, our business editor

TELEVISION crews, journalists and assorted Polish dignitaries recently gathered in Mlawa, a small town north of Warsaw, to witness what would have been a routine event in the West: the opening of a factory employing 250 people. For Poland the opening was something of a milestone. Established by an American company called Curtis International, to assemble Japanese-made televisions and video recorders, the Mlawa factory was one of the first in Poland to be built from scratch by a western investor.

The scene encapsulated many of the confusing currents now swirling through Eastern Europe. Among the honoured guests were Father Henryk Jankowski, who became famous as a staunch ally of Lech Walesa during the 1981 strikes in the Gdansk shipyards, and Tadeusz Fiszbach, an old foe of Solidarity as former head of the Communist party in Gdansk, who is currently deputy speaker of the Polish parliament. Both Catholic priest and communist *apparatchik* are now keen to be seen as backers of capitalism.

Judging from the questions of Polish journalists, suspicion of capitalism also remains strong. They devoted an hour-long press conference to interrogating Zbigniew Niemczycki, the Polish emigré who is Curtis's president, about how well his firm would treat the factory's workers and whether a trade union would be allowed. This was a strange topic to pursue in an area with 40% unemployment. Nobody bothered to ask who owned Curtis or why the company was investing in the factory when it already successfully imported televisions. And nobody was much interested in the one piece of hard information that Mr Niemczycki was eager to reveal, namely that he was pleading with the government to raise customs duties on imported televisions to make it easier for the Mlawa factory to succeed. Incredibly, this avatar of Poland's move to a free-market economy was already demanding government help against competitors.

Equally bewildering scenes are being repeated throughout Eastern Europe. Since the Mlawa ceremony, Poland has been rocked by a series of banking and corporate scandals that have fuelled the growing disillusionment among ordinary Poles. Opinion polls indicate that a majority now consider corruption the biggest problem facing their country. The government, the boldest reformer in Eastern Europe, is in disarray. Poland's first fully free parliamentary election, on October 27th, is unlikely to give power to any single party, making it even more difficult for the next government to take bold action. Poland's sense of drift is shared by the other four countries liberated by the revolutions of 1989—Czechoslovakia, Hungary, Bulgaria and Romania. Hopes for a quick transition to the market have faded. Disappointment and bitterness are growing.

The plight of these countries should be a warn-



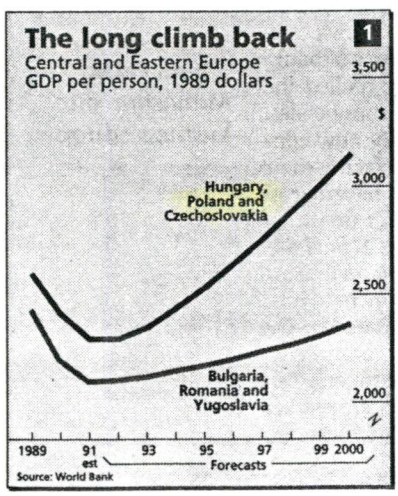
ing to reformers in the Soviet Union that defeating the inept plotters of a *coup d'état* is child's play compared with the long and difficult task of building a market economy from the wreckage of central planning. Perhaps most discouraging is the fact that the Soviet Union's neighbours began their reforms so bravely and with so much popular support. The changes of the past two years have been startling. All five governments have embraced free markets and political pluralism—at least in word if not, in the case of Bulgaria and Romania, yet in deed. The three leading reformers, Poland, Czechoslovakia and Hungary, have freed most prices, made their currencies convertible for most businesses, flung open the doors to foreign investors and lowered trade barriers.

The results are visible on the streets of Warsaw, Prague and Budapest. Shops are full of western goods. Where grim-faced policemen once stared down pedestrians, steet vendors now hawk their wares. The Communist Party's former headquarters in Warsaw houses Poland's infant stock exchange. Prague's Wenceslas Square is festooned with colourful advertisements. Hundreds of thousands of local entrepreneurs have started small businesses. Scores of western law firms, consultants and accountants are setting up offices. From all appearances, business is booming.

Or is it? By most measures, Eastern Europe is in the grip of a prolonged and savage recession. After declining by 8% or so last year, the five countries' GDPs are expected to drop another 8% this year. Industrial output has declined even faster, by 17% last year and probably 11% this year. Like all statistics about Eastern Europe, these figures are endlessly disputed and have to be taken with a large pinch of salt. They may paint too grim a picture because they underestimate the growth of private businesses. Yet these countries are clearly in economic trauma.

In all five, inflation is still destructively high, while unemployment is rising rapidly. East European economies have been clobbered by the virtual collapse of trade with the Soviet Union and the former East Germany, as well as by an abrupt rise in energy costs as the Soviet Union began demanding world prices for its oil.

Economic reform has also taken a toll. Contrary to the relentless optimism of the consultants and investment bankers trying to promote deals, many western businessmen have returned from visits to Eastern Europe shaking their heads at its demoralised workers and decrepit factories. The World Bank predicts that output per head in Eastern Europe may not recover to 1989's level until 1996 or later (see chart 1).



Both optimism and pessimism have some justification on their side. At least in the three most developed countries—Poland, Czechoslovakia and Hungary—governments have bravely introduced essential changes for the move to a market economy, despite a series of blows that could easily have derailed less committed reformers. Aspiring entrepreneurs have responded by starting small businesses. Western companies are hunting for opportunities to invest. But foreign investment, though increasing, is still smaller than once expected. And the dismantling of the public sector, the biggest and most damaging economic legacy of communism, has barely begun.



During the communist years, small groups of economists throughout Eastern Europe had always quietly studied western economics under their desks. Confronted each day with the absurdities of a command economy, most became ardent fans of free markets. When suddenly handed the reins, they rejected any "third way" between socialism and capitalism. They also scorned suggestions of a gradual transition to the market: that looked like the most direct route to the kind of chaos provoked in the Soviet Union by Mikhail Gorbachev's *perestroika*. They did not want to fix the system, but to sweep it away. And yet, like most western economists, few anticipated how complex would be the task of turning socialism into capitalism.

To function efficiently, modern market economies rely on institutions and rules established over a century or more: property and contract laws and the courts to enforce them; accounting and bankruptcy rules; tax codes; pension and unemployment systems; labour laws; the supervision of banks and financial markets. Governments in Eastern Europe have only just begun to think about most of these issues.

At least there are established models to copy in setting up the legal and institutional framework of a market economy. But there are no models at all for transforming a centrally planned one, with almost everything owned by the state, to one dominated by private ownership. Lessons from 40 years of economic development in the third world, gathered by the World Bank and others, are not immediately relevant. These indicate that a strategy of restricting government intervention, opening the economy to trade, maintaining prudent and predictable government budgets and investing in education, health and basic infrastructure leads to the

Snapshots 2

	Poland			Czechoslovakia			Romania			Hungary			Bulgaria		
	1989	1990	1991*	1989	1990	1991*	1989	1990	1991*	1989	1990	1991*	1989	1990	1991*
Real GDP % change over previous year	-0.2	-12.0	-3.7	1.4	-3.1	-9.8	-9.9	-10.2	-10.0	-0.2	-3.5	-6.0	-0.4	-11.8	-19.8
Industrial output, % change over previous year	-2.5	-28.8	-5.7	1.0	-3.7	-4.5	-2.1	-22.0	-20.0	-1.0	-10.0	-12.0	1.1	-10.7	-12.0
Exports, $bn	15.6	18.6	18.6	14.3	13.5	13.7	6.1	3.5	3.2	10.9	10.8	11.4	7.9	6.4	6.1
Imports, $bn	17.4	14.7	18.8	17.1	19.0	16.5	3.8	5.2	3.9	12.4	12.6	11.3	10.0	8.9	6.5
Inflation rates, %	251	684	80	1.4	15.0	40.0	1.1	27.0	130.0	17.5	28.2	36.0	6.4	26.3	200.0
Unemployment rates, %	0.3	6.1	7.3	0.0	1.0	2.8	0.0	0.0	3.6	0.5	1.6	2.9	0.0	1.6	2.7
Trade balance, $bn	-1.8	3.9	-0.2	-2.8	-5.5	-2.8	2.3	-1.7	0.7	-1.5	-1.8	-0.1	-2.1	-2.5	-0.4
Exchange rate per $	1,439	9,500	11,392†	15.0	18.2	29.0†	14.5	34.7	60.0†	59.1	63.2	75.0†	0.86	2.15	18.0†

*Forecast †August, 1991. Sources: PlanEcon; OECD



fastest growth. Unfortunately, applying this recipe to Eastern Europe is impossible.

Unlike most developing countries, Eastern Europe is already highly industrialised—and nearly all the inefficient factories dotting its polluted landscape are owned by the government. Every day millions of people trudge to the wrong job in the wrong place to produce the wrong goods. The dilemma facing reformers is that, to create an economy free to respond to orthodox strategies for growth, they first have to intervene on a gigantic scale to privatise factories, farms and shops.

Officials throughout the region agree that, without owners, the market will never function properly and the economies will not grow. And yet there are no precedents for such vast privatisations. Western economists have leapt at this new problem with relish, pouring out a continuous stream of often-conflicting advice. They have produced many useful ideas, but they have also confirmed that there is no single route to privatising on such a large scale.

Understandably daunted, East European governments have hesitated. While still paying lip service to rapid privatisation, many officials have quietly begun to advocate a more gradualist approach. Most have been horrified by the collapse of industry in the former East Germany, once considered the most industrially advanced country in Eastern Europe. Others naturally worry about how much more upheaval an already moody and dispirited populace can tolerate. Though quickly rejecting the communists, voters have not yet given any East European government a clear mandate. All are, in some sense, divided.

As it has dawned on many people that, even on the most optimistic assumptions, it could take two decades or more to catch up with the European Community (EC), the wholesale disposal or liquidation of thousands of state enterprises has begun to seem less urgent. Selling even a handful of the best enterprises to foreigners has taken much longer, and proved to be much more difficult, than expected. For most state-owned businesses there are no buyers. Others will remain in state hands for years to come even if the most ambitious privatisation targets are met. So, runs the argument, the government has no choice but to start picking winners, and funnelling money to them. After all, plenty of western governments do precisely the same thing.

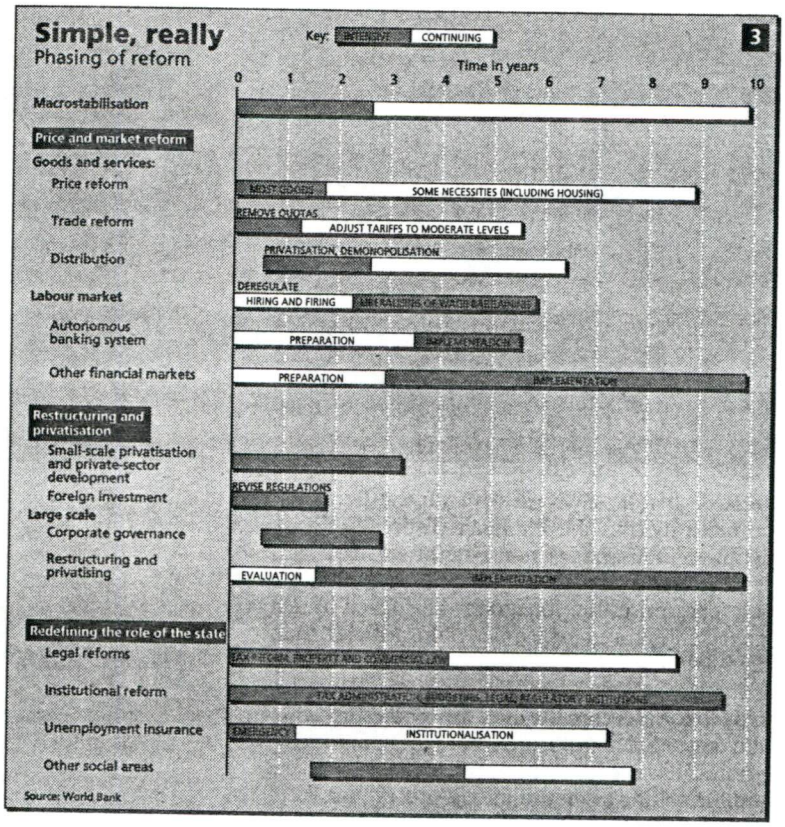
It sounds plausible. But this survey will argue that the growing acceptance of such gradualism is the greatest peril now facing the countries of Eastern Europe. Governments will, indeed, be forced to take some action to stave off the collapse of state-owned companies. Thousands of these firms are now drifting in the limbo between a command economy without commands and a market economy still lacking the spur of private ownership.

This makes rapid privatisation more, not less, urgent. Without it the danger is not a return to communism, but economic stagnation and political instability as various interest groups compete for state-controlled resources. The nascent private sector, starved of capital and customers, will be stunted. Continued state ownership of the bulk of enterprises is also politically dangerous. It invites a return of authoritarian (if non-communist) government to impose the discipline to keep enterprises functioning. Eastern Europe has embarked on a difficult journey towards liberal democracy and a market economy. The faster it goes for that goal, the better its chances of getting there.

Catch-22

Reformers face a series of chicken-and-egg dilemmas

MUCH of the debate among economists, both in Eastern Europe and the West, about how to manage the transition to a market economy concerns the "sequencing" of reforms. The World Bank thinks it has a plan that reflects the greatest consensus among experts about when to do what (see chart 3 on next page). The chances of any government being able to follow this game-plan are nil. In fact, all the chart means is: do everything at once and do not be surprised if it takes ten years to complete the changes. This is undoubtedly good advice. Because all the required reforms are so interlinked, trying to identify the best sequence was always a phoney goal. No single measure can bring much benefit without at least some progress towards the other reforms. Nevertheless, it is worth





briefly reviewing the debates about sequencing to understand the difficult choices facing reformers.

• Should **prices** be freed and inflation brought under control before, or after, state enterprises are privatised or restructured? Before, say those who argue that judging which enterprises are worth saving and which are doomed is impossible without real prices, set by supply and demand. And without bringing inflation under control through strict control of government spending, the future remains too uncertain to attract the investment needed to privatise or restructure. After, say those who argue that freeing prices while most enterprises remain state monopolies guarantees excessive profits, rewards existing inefficiencies and makes it difficult to impose restraints on wasteful spending by the enterprises or government. All East European governments have believed the first argument.

• Should **trade barriers** be lowered before, or after, enterprises have been restructured? Before, say those who argue that the sudden introduction of freer trade offers domestic monopolies competition from abroad and introduces world prices, helping to correct the price distortions inherited from central planning. After, say those who argue that the introduction of foreign competition, though necessary, can be too sudden to allow lumbering domestic enterprises to adjust, threatening a general collapse of output and employment like that seen in East Germany. Poland lowered barriers quickly and now has one of the lowest tariff regimes in the world. Czechoslovakia and Hungary have eliminated most import quotas, though they have retained high tariffs on some products.

• Should the **privatisation** of large enterprises be rapid, even if this requires rough-and-ready methods, low prices or even giving them away? Yes, say those who argue that private owners will revive ailing industries faster and more efficiently than any government can do. Rapid privatisation is also supposed to cut the ground from bureaucrats, workers and managers with an interest in opposing further reforms. Those opposing hasty privatisation argue that its inevitable unfairness will undermine public support for economic reforms and deprive governments of much-needed revenues. All five East European governments have promised rapid privatisation. Various mass-privatisation schemes, examined later in this survey, are being prepared in Poland and Czechoslovakia to accomplish this. And yet the view that slower privatisation may be more prudent is gaining support.

• Should reform of the **financial system** precede, or accompany, the privatisation and restructuring of other enterprises? This could be the most intractable issue of all. Those who argue that financial reform must come first rightly point out that only a smoothly functioning financial system—efficient banks or stockmarkets or both—can allocate capital to the right enterprises as a great reshuffling of businesses takes place, whether through privatisation or state-directed restructuring. After all, investing in the wrong businesses is one of the most visible failures of central planning. But opponents rightly point out that creating an efficient banking industry is impossible as long as the existing banks hold so many dud loans. Identifying which loans are the duds is impossible because nobody can be sure which enterprises are genuinely profitable or will survive privatisation. Creating a competitive banking industry, goes this argument, can only be done gradually as enterprises themselves are privatised, restructured or closed.

Poland, Czechoslovakia and Hungary have all created state-owned commercial banks from the single national bank that once allocated credits to enterprises, as well as permitting private banks. These are moves in the right direction. But the bulk of lending is still done by the new state-owned banks, not the tiny private ones. By western standards the state-owned commercial banks themselves are bankrupt. No country has yet found the answer to the chicken-and-egg puzzle posed by bankrupt companies' indebtedness to bankrupt banks. This survey will return to that issue too.

Not so friendly neighbours

In practice, East European reformers have not worried much about the sequence of reforms; they have improvised as circumstances have dictated, often tackling the easiest problems first. All five countries have turned abruptly westward and are relying on developed countries to help them make the difficult transition to a market economy. Unlike the Soviet Union, all belong to the International Monetary Fund (IMF), World Bank and General Agreement on Tariffs and Trade (GATT).

These and other international institutions have been generous with technical help, and also provided some money. But the EC has failed miserably to lend a hand on trade. Worried about its own producers and still struggling to agree on cuts in its own huge farm subsidies, the EC has refused to relax restrictions on imports of food, textiles and steel, the three industries in which East Europeans

are convinced they are most competitive.

"This is absurd," says Leszek Balcerowicz, Poland's embattled finance minister and the architect of its economic reforms. "Through exports we can help ourselves. We believe in free trade and that is why we have opened our market. But here at home our own farmers, even foreign investors, are pushing in the direction of protectionism and import substitution. The EC is providing a terrible example." Half of Poland's exports to the EC confront some kind of restraint. "And this is at a time when we are urged to go in the direction of the market. We need the EC to lower barriers now, not in four or five years' time," he adds. Mr Balcerowicz's complaints are echoed throughout Eastern Europe.

The scorecard

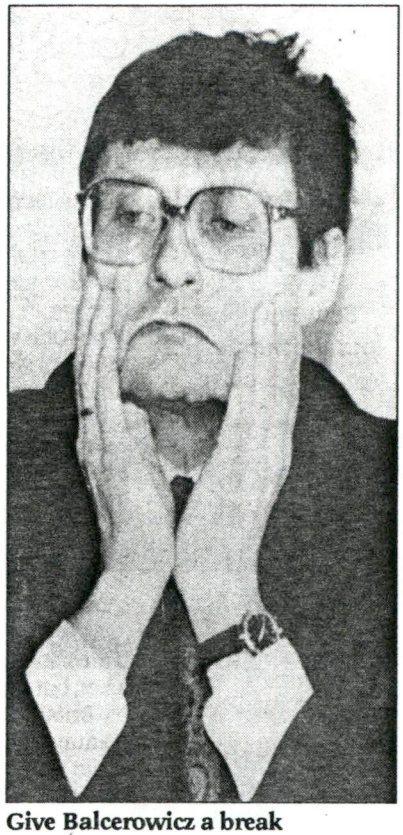
A summary of progress so far:

Poland has attracted the most attention with its "big bang" of January 1990. When the country's first Solidarity government took over in September 1989, it inherited an economy crippled by hyperinflation, shortages, a large trade deficit, nearly depleted foreign-exchange reserves and heavy debts to the West. Mr Balcerowicz's strategy was to eliminate most price controls, make the currency almost fully convertible, and lower trade barriers.

This year the private sector, its growth helped by the sale or lease of some 60,000 state shops, may contribute as much as 40% of GDP. Nearly two-thirds of private businesses are in retailing, distribution and transport. Most restrictions on foreign investment have been abolished. Warsaw's stock exchange began weekly trading in April and now has seven companies listed. Privatisation is being pursued through liquidations, management buyouts, joint ventures and sales to foreigners, but is going more slowly than expected. To speed it up, a mass-privatisation scheme has been announced.

In April western governments agreed to a gradual write-off of 50% of Poland's $33 billion of government-to-government debt. The same month the IMF agreed to provide a $1.7 billion adjustment loan, though Poland will fail to fulfil many of the conditions attached to the loan and is asking the IMF to relax them. Despite continuing inflation, expected to be 80% this year to December instead of the hoped-for 36%, the government has been under intense domestic pressure to ease monetary restrictions and allow bigger wage rises in state-owned companies. Strikes have been common. The government's budget deficit is out of control, and critics regularly charge it with leading the country towards a general economic collapse. Mr Balcerowicz may well not be a member of the government formed after next month's election. At the end of August the prime minister, Jan Krzysztof Bielecki, another liberal economist, threatened to resign in a tussle for power with a recalcitrant parliament still dominated by communists. Amid corruption scandals and mounting economic problems, reform has ground to a halt.

Czechoslovakia raised administered prices last year, partially compensating consumers with higher wages. About 85% of prices were freed in January 1991 and more have been freed since then. At the same time the Czech currency was made convertible for businesses, though individuals' access to hard currency remains restricted. Private businesses still account for less than 2% of GDP. About 6,000 state shops have been sold at auction, with 11,000 more to be sold soon. Privatisations of large firms and sales of stakes to foreign investors have moved slowly. Plans for a stockmarket have yet to be agreed. A mass-privatisation scheme using vouchers is planned for early next year. Trade barriers have been lowered, though relatively high tariffs still exist on many imports that compete directly with local goods.



Give Balcerowicz a break

Hungary, always the leading reformer under the communists, already had private businesses, a rudimentary stock exchange, state-owned commercial banks and a large number of small, private businesses by the time the communists fell in 1989. The private sector contributes roughly one-third of GDP. Most prices have been freed. Hungary has attracted more direct investment (about $1 billion so far) than any other country in Eastern Europe. But it is also the most heavily indebted. The currency is convertible for most business uses, but not for individuals (though regulations are only loosely enforced). Trade barriers have been lowered, but tariffs remain higher on certain imports that compete with domestic products. The privatisation of shops and big firms is going slowly and the government is divided about how to proceed.



Romania began its economic reforms late last year. Rents and the prices of energy and many essential goods remain fixed. The currency is not convertible and trade controls still exist. Farm workers have been given small plots of land. An ambitious privatisation law was passed in August, but so far no companies have been sold. Over 50,000 private businesses have been registered, mostly one-or-two man operations in service industries. The country has no problems with external debt because Nicolae Ceausescu's government foolishly reduced the country to penury to repay most of it.

Bulgaria launched a "baby bang" in February of this year: prices of most goods were freed, the exceptions being 13 essential food items and public transport; the exchange rate was unified and allowed to float, though convertability is still limited; state-owned commercial banks have been established. The number of registered private businesses has risen from 20,000 at the end of last year to well over 100,000, but most are tiny. Restrictions on imports and foreign investment have been relaxed, though tariffs remain high. Privatisation is planned, but legislation has yet to be passed. The government's biggest problem is reducing its own budget deficit, a colossal 13% of GDP last year. Its target for this year is a still-high 3.5% of GDP. If it does not reach it, hyperinflation looms.



Between the plan and the market lies oblivion

Owners are the only answer

IT IS hardly suprising that East European governments have concentrated first on freeing prices and then on trying to rein back the resulting inflation. Not only are these essential steps, encouraged by the IMF and the World Bank; they are also in many ways the easiest. The control of government budgets and inflation is well understood, if not always achieved, in both the developing and developed world. There are precedents galore.

Precedents for privatising state-owned companies also exist, but as Eastern Europe has discovered over the past two years, they are not always relevant or encouraging. This is because no country has ever tried to privatise on such a scale. In the mid-1980s state-owned companies in Eastern Europe accounted for more than 80% of total value-added, a measure of an economy's wealth creation, compared with 17% or less in the EC and America (see table 4). The growth of the private sector in Poland and Hungary has reduced this figure somewhat, but the state is still huge.

Britain's much-heralded privatisation programme under Margaret Thatcher involved only about 20 firms, accounting for a mere 5% of value-added; and this was in an already existing market economy boasting one of the world's most sophisticated stockmarkets. The biggest privatisation effort in history has been Chile's disposal of 470 enterprises, producing 24% of the country's value-added and employing 5% of its workers, between 1973 and 1989. Even this was accomplished only because many of the firms were simply handed back to previous owners, who had lost them when Salvador Allende's socialist regime nationalised many companies. Between 1980 and 1987, a period when the vogue for privatisation reached its peak, fewer than 1,000 firms were privatised throughout the world, according to the World Bank.

By comparison, Hungary has about 2,300 state-owned firms, Poland 7,500, Czechoslovakia 4,800, Bulgaria 5,000 and Romania 40,000. The last two countries are still struggling to formulate a privatisation plan, but the three leading reforming countries aim to privatise about half of their state-owned assets by 1994. If successful, this would be a gigantic achievement. At their current pace, they will be lucky to reach that goal in 30 years, never mind three. In practice, selling state-owned firms has proved time-consuming, fustrating and expensive.

So why set such ambitious targets? To understand why rapid privatisation has been stressed in all five countries, consider the behaviour of state-owned enterprises. Under state ownership, both managers and workers have strong incentives to "decapitalise" the enterprises which employ them—in other words, extract as much wealth as they can for themselves. They have little or no incentive to increase the value of the firm through making wise investments, increasing productivity or restraining wages and employment, because they have little chance of sharing in the firm's future prosperity. The same is true in the West, where many nationalised industries are notorious for low productivity and feather bedding. But in market economies there are market-clearing prices and plenty of private firms with which to compare both the products and performance of state enterprises. Losses can be identified, if not always curbed.

Under communist regimes, opportunities for workers to extract value were restricted, though not eliminated, by central planners who set wages, output targets and investments. On the other hand, central planners also destroyed any incentive for managers to increase efficiency, or even their ability to measure it, by arbitrarily setting the volume of a firm's output, the prices of its products, its costs (ie, the prices of a supplier's products), and frequently its debts and "profit margin" as well. Taxes were levied haphazardly as a means of confiscating any surpluses generated by the more efficient firms to subsidise the least efficient—one of many good reasons to be inefficient. Loans and subsidies were handed out freely, or even forced on firms. In return, the state guaranteed everyone's job so long as a firm came anywhere near its output targets, whatever the quality of its goods.

After 1968 Hungary, and then in the early 1980s Poland, tried to reform this system by letting managers, rather than central planners, make more decisions. The Hungarians are proud of their early reforms, claiming that they gave Hungarian managers more experience of markets than others in Eastern Europe. This is partially true. But the economic benefits of such reforms were largely illusory. By one estimate, even under Hungary's reformed socialism only about a fifth of the investment decisions affecting firms were made by managers. And the decentralisation of control, accelerated everwhere after the toppling of communist regimes in 1989, meant the state effectively abrogated its role as the owner of state-owned companies. Enterprises in Eastern Europe are now controlled jointly by their workers and managers, who through various methods are chosen or approved by the workers themselves.

This has had perverse effects. With no central planners looking over their shoulders, managers and workers in self-managed firms have even more opportunity to take value out of their firms through high wages, excess employment or outright theft. Unfortunately this is true even though prices have been freed and arbitrary confiscation of profits has been replaced by regular tax regimes. Workers find that denying themselves today to help their firm prosper tomorrow, for example by restraining wages or cutting jobs to boost investment, is risky for them. They may not be working for the firm when the investment pays off, or share in the returns it generates even if they are still around. Paying their own household bills understandably seems more urgent than sacrificing for a corporate future that may never arrive.

The extreme example of managers appropriating value for themselves was the series of "spontaneous" privatisations soon after the communist regimes fell in 1989. Encouraged by laws giving them

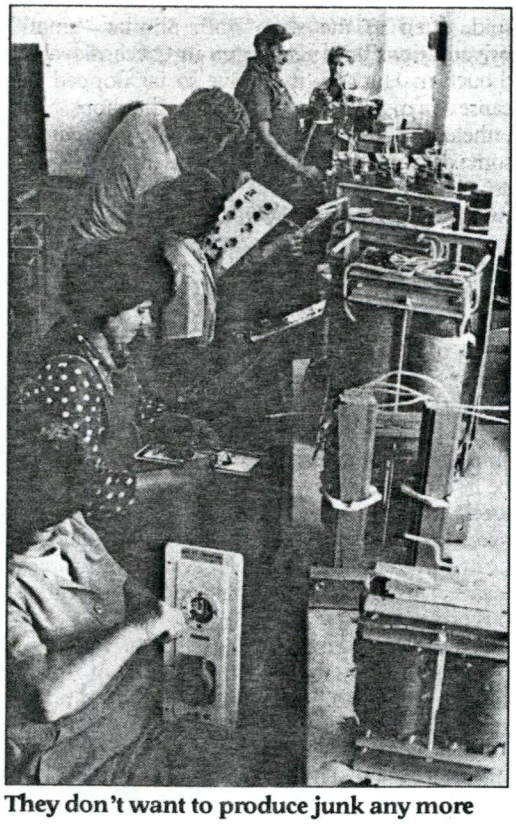
Stately 4

State-owned sector as share of value-added in mid-1980s	
Czechoslovakia	97
East Germany	97
Soviet Union	96
Yugoslavia	87
Hungary	86
Poland	82
France	17
Italy	14
West Germany	11
Britain	11
Denmark	6
United States	1

Source: Branco Milanovic, "Liberalisation and Entrepreneurship; Dynamics of Reforms in Socialism and Capitalism". New York, 1989

new powers to strike deals, managers literally stole the firms from the state. They sold or leased their assets to shell-companies owned by friends, or to joint ventures set up with foreign partners, in which they had some kind of stake or guarantee of employment. Spontaneous privatisation took off fastest in Hungary but, to some extent, happened everywhere. The spectacle of managers, mostly former members of the Communist Party, enriching themselves at the state's expense provoked an outcry. Governments moved quickly to stop the process, though many officials are being forced to recognise that the best they can hope to do is to control it in the interests of fairness. Some even claim it may be the only route to rapid privatisation. In any case, the theft of state assets through joint ventures and other deals continues, albeit at a much slower pace.

Under these conditions, managers of enterprises still firmly in state hands are tempted to borrow as much as they can, for as long as they can. Poland, Czechoslovakia and Hungary have restrained enterprise borrowings by rationing new credits through their state-owned banking systems, which are also charging a high real interest rate. Many enterprises have been prevented from borrowing new money. Enterprises first responded by extending credit to each other, sometimes in cash but usually by continuing to ship goods to customers when they had not been paid for earlier deliveries. Inter-firm credit soared last year. Officials in Poland and Hungary now claim that enterprises have stopped extending credit to each other because they realise that bankruptcy is a real possibility. That may be true, but nobody knows for sure. The very existence of large inter-firm debts also makes it difficult for the government to impose the discipline of possible bankruptcy on large firms, because if one firm goes under it could provoke a cascade of bankruptcies.



They don't want to produce junk any more



Ironically, the threat of bankruptcy, considered a crucial financial discipline after decades of corporate profligacy, has increased the incentive for East European managers and workers to grab what they can today. Most managers do not want to alienate the workers who elected them by cutting their firm's bloated payrolls. In Poland a punitive tax on wage rises that are more than 60% of the inflation rate, called the *popiwek*, has lowered real wages considerably. Elsewhere in Eastern Europe workers themselves have restrained their wage demands or agreed to work part-time as money has dried up. But such moderation is only stretching out a firm's losses, not making it more competitive. Investing for the future is risky at the best of times. In the middle of a recession, when the government says it plans to make many firms bankrupt and privatise others, it takes a heroic manager to deny his own workforce in order to make a long-term investment.

Operating under these conditions, many state-owned firms in Poland and Hungary have performed small miracles in redirecting exports away from the collapsing Soviet market towards the West. Hungary's exports to OECD countries rose by 26% last year, and Poland's by 44%. Many firms reported a profit, boosting government tax revenues. Although encouraging, this export boom was temporary. Some exports came from selling inventories swollen by earlier hoarding under the communists, and were offered at bargain prices. Even where exports represented real production, firms were almost certainly running down their stock of equipment without calculating full replacement costs.

This is a recipe for gradual liquidation. Eventually such firms will either stop producing altogether or require massive new investment. "While showing substantial profits, many state enterprises are really making losses," argues Marton Tardos, one of Hungary's leading economists and a spokesman for the Free Democrats, the country's largest opposition party. "They are continually eroding state assets. The state budget is getting revenues from taxing profits, and so is also benefiting from this erosion. Investment is collapsing."

Many East European firms are also "value subtractors"—that is, at world prices the value of the resources they consume is worth more than what they produce. Nurtured on cheap Soviet oil and gas, they sold their products to captive customers either at home or in other East European countries. Now both cheap energy and captive customers are gone. Such firms can never make a real profit, no matter how much they cut wages or the size of their workforce. Most are probably doomed. According to one recent study,* 20-25% of manufacturing industries in Poland, Czechoslovakia and Hungary could be value subtractors. The study's authors think Czechoslovakia's food industry, as well as its tobacco and leather companies, belong in this category. So, they say, do Hungary's iron and steel industry as well as Poland's basic chemical, cement and non-ferrous metallurgy industries. But the lack

* Paul Hare and Gordon Huges, Centre for Economic Policy Research, London; discussion paper 543



of real accounting means that no one, least of all the managers or bureaucrats who run these companies, knows for certain which firms add or subtract value.

Floundering between state ownership and management-worker control, many firms are slowly disintegrating. One example is the Warsaw-based Polamp. It was once the head of a national cartel that made all of Poland's light bulbs (and many out-of-date components, such as vacuum tubes used in the old black and white TVs in most Polish homes). The company lost its biggest export market in the Soviet Union last year. After Poland opened its borders to imports in January 1990, it also lost the domestic market for vacuum tubes overnight as Poles either preferred to buy modern televisions from abroad or stopped spending. Soviet factories, desperate to stay in business themselves, are selling poor-quality fluorescent bulbs in Poland at half of what it costs Polamp to make them. The company still has a domestic monopoly on mercury bulbs, but these too will eventually attract competition from imports. Polamp's 1,700 workers are getting 60% of their normal wage-rate and working half-time. Even so, much of the factory's drastically reduced output cannot find buyers and is going straight into the warehouse.

Jerzy Kedzierski, the firm's general manager, has struggled to come up with a strategy to save the company. Last year he established a handful of small affiliates, owned jointly by himself, the workforce and Polamp, to make or service some of Polamp's products. Most of these are now being wound up, either because they failed or because the Ministry of Industry declared the firms illegal in an attempt to stop Mr Kedzierski and his workers from plundering Polamp's assets. Earlier this year an American charitable foundation paid for Mr Kedzierski to attend a five-week management course at Wharton, one of America's top business schools. Exhilirated by the chance to rub shoulders with managers from around the world, Mr Kedzierski returned with a plan to slash Polamp's costs, sell its workers' holiday homes and other peripheral assets and turn its 6.8-acre site in central Warsaw into a technology park and duty-free processing zone for other companies. The plan also involved the loss of 700 jobs. Two days after Mr Kedzierski submitted his plan to officials at the industry ministry in late June, Polamp's workers' council, appalled at the prospect of so many job losses, sacked him. He is now working out his four-months' notice period, confident that he will be able to find another job with a foreign firm.

Too many firms, too few buyers

Even where there is a will to privatise, finding a way to do it is difficult

THE chaos at Polamp is all too characteristic of what is going on everywhere in Eastern Europe. To function properly, firms need an "advocate for capital", an economic agent determined to get as high a return as possible for the money invested in the business—in other words, someone who will care about its efficiency, profitability and long-term health. The obvious candidate is a single owner, that bogeyman of communist demonology known as a capitalist. Large numbers of private shareholders can also act as "advocates of capital", as they do in the West. Theoretically, there is no reason why the state itself could not act as agent, but for 40 years it failed miserably to do so.

The longer that companies stay in state hands, the greater the state's eventual liabilities for their losses. To cover such losses, the government will either print money, or stand by as the economy collapses. The former option leads to the mayhem of hyperinflation, as it is currently doing in the Soviet Union and has done in the past in Yugoslavia and Poland. No government could survive the latter option.

Acutely aware that even the strictest anti-inflation programme will unravel in an economy dominated by state ownership, reformers immediately set out to encourage the growth of private businesses, with remarkable success. According to Poland's tax authorities, the country has 1.2m officially registered private businesses, employing 2.7m people. About 70% of retail trade is now in private hands, with 60,000 state shops either leased or sold, often to the shop staff. Similar "small" privatisations have also begun in Czechoslovakia, though in Hungary they have so far flopped because of a dispute about who owns the shops. Nevertheless thousands of new private companies, some of them manufacturers or assemblers as well as service companies, have sprung up in Hungary, where they have been allowed since the early 1980s.

Joint ventures 5

	Poland	Czechoslovakia	Romania	Hungary	Bulgaria
1989	867	22	5	180	30
1990	2,799	1,550	1,502	4,400	140
1991*	4,000	1,318	2,665	2,420	366

Source: PlanEcon *First quarter

Privacy respected

Thousands of joint ventures with foreign partners have also been established (see table 5), though many of these are tiny or exist only on paper. Some progress has been made in selling small and medium-sized businesses. Jacek Bukovsky, in charge of this programme at Poland's Ministry of Ownership Changes (the privatisation ministry), claims to be liquidating or privatising 20 such enterprises a week, mostly through management buyouts first agreed by local authorities or ministries and supported in many cases by five-seven year, low-cost leases. This amounts to state-approved spontaneous privatisation.

According to some estimates, the private sector may now account for as much as 25-30% of Hungary's economy and up to 40% of Poland's. And yet even if such optimistic guesses are correct, a lively private sector of small service firms cannot offset the dead weight of thousands of big manufacturing companies remaining in state hands. Most large

companies have yet to look for a buyer. Estimates vary, but 75-90% of industrial output remains in state ownership in Poland, Czechoslovakia and Hungary. There are no buyers for most firms. For example, it has been estimated that Poland's stock of personal savings is equivalent to only 10-15% of the book value (the value of fixed assets stated in the official accounts) of Polish industry. Even at rock-bottom prices, Poles do not have enough money to buy their own industry back from the government. The same is true in Czechoslovakia and Hungary.

That leaves foreign buyers, who are sought for their technology and managerial expertise as well as their money. The number of firms in each country in which a controlling stake has been sold to foreign investors is still in single figures. Undoubtedly sales to foreigners will continue. But many of the most promising firms, those with a recognised brand name such as Skoda, the Czech car maker sold to Volkswagen, have already been snapped up. Even wild optimists expect only 15-20 firms a year to be sold to foreign investors.

If you can point to it, flog it

To sell a state-owned company, the government first has to seize control back from its managers and workers, who own it in all but legal name. This amounts to the renationalisation of thousands of companies, a task beyond the ability of Eastern Europe's already over-burdened governments. As they have come to realise this, most reformers have had to moderate their distaste for giving a substantial stake to the workforce, a form of ownership that has rarely worked in the West and has been a disaster in Yugoslavia. But without the co-operation of managers and workers, selling most companies will take decades. By then there may be little left to sell. Privatisation efforts everywhere now rely heavily on existing managers to formulate a plan.

Even with the co-operation of managers, just identifying a company's assets is proving difficult. "You never know when the enterprise or the government begins or stops," complains Eva Klvacova, a senior official in the Ministry of Privatisation of the Czech Republic, the half of Czechoslovakia with most of the country's industry. Property rights have been blurred for so long that many companies cannot be clearly distinguished from the morass of suppliers, local-government services and enterprise-supplied amenities in which they operate. Central planning has also left many enterprises irrationally organised: too vertically integrated to be economically viable; too reliant on a single, monopoly supplier for most components or raw materials; or so concentrated in one spot that any factory closure will devastate the local economy.

Many East European companies have only just begun identifying assets, drawing up business-like balance sheets, reorganising into units with some chance of surviving on their own, and assuming the legal structure of a joint-stock company, a process known as "corporatisation" or "commercialisation". As it proceeds, this is likely to increase dramatically the number of companies to be privatised. For example, the managers of CKD, Czechoslovakia's giant machinery-maker, have recently divided their company into 18 units. Each one may be privatised separately, and some of them are already having their own talks with foreign partners about the sale of a stake.



One day all this could be his



Overseeing this process is a government bureaucracy already stretched to the limit by so many changes. Final approval for thousands of privatisations rests with agencies created from scratch. Poland's Ministry for Ownership Changes has only 200 employees, Hungary's State Property Agency 120 and the Czech Republic's Ministry of Privatisation a mere 60. The most such agencies can hope to do is veto egregious examples of fraud or collusion between managers and government officials. Under these conditions, many bureaucrats have found that approving any deal can be politically fraught. "I cleared one joint venture and then found everyone—workers, members of parliament, journalists—demanding that I justify the decision," recalls one Czech official. "I thought the deal made sense, but I couldn't defend it."

Western-style valuations of East European businesses, even where there is a determined western buyer willing to pay the fees of international accounting firms, are largely guesswork. With no real asset valuations, cash-flow analysis or marketing plan, nobody has a clue as to what individual businesses are worth. Proper audits can take up to six months and cost $100,000 or more. Western-style stockmarket flotations are only practical for a handful of firms. For example, the flotation of Swarzedzkie, a furniture maker, on Warsaw's stockmarket in May, though an excellent model for future flotations, was only possible after advisers from the International Finance Corporation (IFC), an affiliate of the World Bank, led a team of western experts who spent eight months restructuring the company from top to bottom.

Hungary's approach to privatisation shows many of the difficulties of selling companies one-by-one. Because Hungary has the biggest external debt per head in Eastern Europe, the government is determined to get as much as it can from such sales, though it wants to privatise quickly. Achieving both goals looks impossible. Lajos Csepi, managing director of the State Property Agency, admits to being disappointed with progress so far. His agency has the task of privatising 2,180 companies, half of them by the end of 1994. It has approved 360 trans-



actions worth a total of 300 billion forints ($400m). This sounds impressive, but only two companies have been completely sold; about 90 are still wholly owned by the government and have merely been corporatised. The rest now have some private shareholders, usually foreign investors, though the government still controls many of them. Every deal must be approved by an 11-strong panel including representatives of all political parties in parliament.

Especially discouraging has been the agency's plan to sell 20 of the country's biggest and most successful companies. Last September western investment banks were invited to tender for the job of privatising these firms. More than 50 bid for the work. It took the agency until the end of December to select the winners. Then more months passed as investment bankers and accountants struggled to untangle the financial and legal structures of the firms. "We never thought it would take them so long to learn Hungarian conditions," says Mr Csepi. The first company, a plastics manufacturer called Pannonplast, was floated on the Budapest stock exchange in July. Two more companies are expected to be sold this autumn. Even if that happens, 17 of the 20 will still be wallflowers.

Mr Csepi is now hoping to accelerate this process by inviting outsiders to bid for companies over the heads of the existing management, and by allowing some 800 firms with 300 employees or fewer to make their own deals as long as they are cleared by an approved western accounting-firm. But there may be no way to privatise companies one-by-one any more quickly. Joint ventures and flotations have taken just as long in Poland.

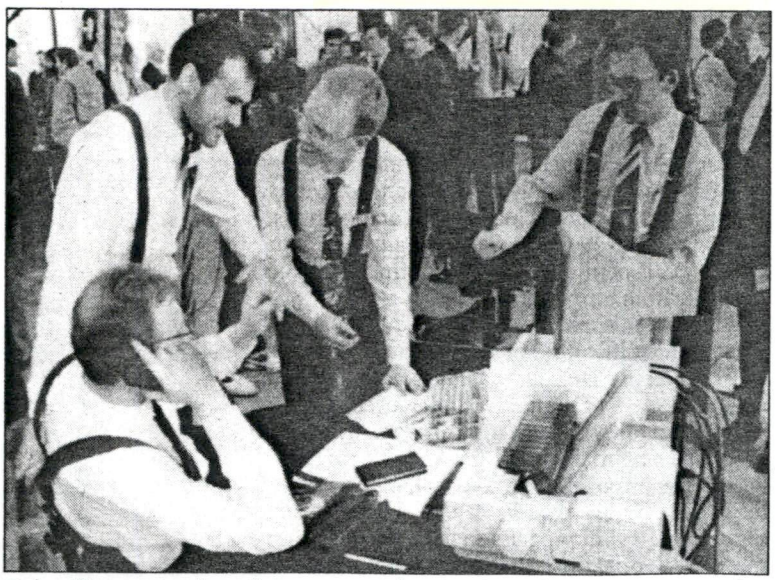
The State Property Agency's slow progress has touched off a noisy political debate in Hungary, and the government is deeply divided about how to proceed. Calls are growing for the government itself to become more active in restructuring, closing down the worst loss makers and investing money in firms with a chance of surviving. At the other end of the spectrum, the finance minister, Mihaly Kupa, has made a bid to take control of privatisation out of the agency's hands with a vague plan to relax restrictions on spontaneous privatisations and have them supervised by his own ministry. No one in Hungary's government is yet willing to consider one of the solutions proposed by the opposition Free Democrats and now being pursued in both Poland and Czechoslovakia: giving companies away to the public.

Voucher power

Giving companies away is better than keeping them in state hands

A MASS give-away of state-owned companies has always attracted the most radical reformers in Eastern Europe. Such schemes have gone from being an esoteric hobby-horse of academics to a political priority as the inequities of spontaneous privatisation and the painfully slow pace of one-off sales have become more apparent. After all, goes the reasoning, citizens themselves are the notional owners of state enterprises; giving them shares in these enterprises seems fair. More important, it looks like the only sure way to sever the gordian knot entwining industry and the government.

In practice, even giving away companies is a huge gamble. Designing such schemes has been a most entertaining thought-experiment for the growing army of economists, aid specialists, consultants and investment bankers advising governments in Eastern Europe. The permutations are endless, the policy trade-offs a delight for armchair theorists. But one thing is certain: with so little consensus on what is to be achieved, no scheme can be perfect. And for the countries of Eastern Europe, free distributions are a desperate act to solve a desperate problem.



Poland's new stock exchange: more braces than shares

After nearly a year of intense debate, Poland and Czechoslovakia are on the brink of launching mass privatisation plans that are diametrically opposed in both mechanics and intent.Poland has adopted the approach which commands the widest support among experts in the West: the free distribution to all adults of shares in large investment funds, which in turn are given ownership in hundreds of state-owned companies. There are many possible variations on this model, but essentially the funds are meant to mimic the institutional investors in developed market economies. To overhaul Eastern Europe's ailing companies, the funds are also meant to exercise their ownership rights actively, not only trading shares with each other but restructuring, merging, expanding or closing companies. Individuals should impose a market discipline on the funds themselves by trading their shares. Citizens become the ultimate owners of the companies through the funds.

The Polish scheme follows this general outline. Between five and 20 funds will be created. Though officially controlled by boards of Polish directors, they will be managed by western fund-managers. Roughly 400 large companies, representing about

25% of Poland's industrial output and about 12% of its industrial employment, will be given to the funds early next year. A third of each company's shares will be allocated to a single investment fund, giving that fund effective control, another 27% will be distributed equally among the other investment groups, and 10% will be given free to employees. The remaining 30% will be kept by the government, which will remain a strictly passive shareholder until its stake can be handed over to a national pension fund. Every adult Pole will receive an equal number of shares in all the investment groups, but will not be able to trade shares in the funds until the summer of 1993. By then, it is hoped, there will be enough information about the performance of the funds to make trading their shares rational.

"We are privatising privatisation," explains Janusz Lewandowski, the Minister of Privatisation. "We are under great pressure to prove that something is happening. At the same time, I want to be prudent, to smoothe the way towards greater western engagement in this economy, both in terms of capital and expertise." Funds will have the freedom to borrow money, issue new shares and make new investments in Poland. Anyone, including foreigners, will be able to buy the shares. Mr Lewandowski hopes that the funds will accelerate, not delay, sales of companies to foreign investors, who should find it easier to deal with western fund-managers than with Polish bureaucrats.

Sharing out the shares

There are many details yet to be settled and the devil is in these details. Success or failure depends crucially on whether Poland's privatisation ministry can recruit enough western investment banks or fund-management companies to run the funds. This is by no means certain. Management contracts will have to last for many years. Few western fund managers know anything about Poland. Running a fund successfully will require a range of skills—venture capital, asset management, investment banking, management consulting, to name a few—that are beyond the abilities of most western firms, which tend to specialise. And nobody is certain that Poles will tolerate the transfer of so much power to foreigners, even if western fund-managers try to train large numbers of Poles to help them (as they are supposed to do). Collusion between fund-managers and other western investors at the expense of individual Polish shareholders is a real possibility.

How foreign fund-mangers will be compensated has yet to be thrashed out. Polish officials accept that they will have to pay a flat sum to cover managers' costs, but they want most of the foreigners' fee to be related to their success in increasing the value of the fund. Concocting such a formula will be difficult, because determining the starting value of the fund is almost impossible. The chosen formula will also determine the behaviour of funds. If paid an annual percentage of the fund's estimated initial value, managers are most likely to act like passive asset-managers and the funds will become similar to western unit trusts (mutual funds). If paid in shares of the fund itself, they are more likely to behave like risk-taking venture capitalists.

The biggest question hanging over the scheme is the ultimate fate of the funds. Mr Lewandowski prefers forcing them to liquidate themselves after five-seven years, perhaps through a final distribution of company shares to the funds' own shareholders. But this point has not yet been decided. If the funds are self-liquidating, Poland loses an opportunity to establish large financial institutions similar to those in the West. But liquidation could help to avoid a great danger: that the funds become immensely powerful holding companies, with a vested interest in growing as large as possible. Employing so many industrial workers, the funds could bully the government into rescuing them if they run into trouble. They could also become vehicles for political patronage and perpetual government meddling, like Italy's giant, inefficient state-owned industrial-holding companies.



Czechoslovakia's plan avoids these perils, but at first glance looks even riskier. Big companies are supposed to be privatised in two waves. By the end of October the 1,776 companies chosen for the first wave have to submit a privatisation plan. It is assumed that most will not find a western buyer or be able to raise the money for a management buyout. Most companies will join, either voluntarily or on the orders of the government, a give-away scheme based on investment vouchers. These will go on sale in October to all adult citizens for the nominal sum of 1,000 koruna ($32), about one week's salary.

Surveys indicate that about 2m people will buy vouchers at that price. Shares of all the companies in the scheme, perhaps 1,000-1,500 firms, will be sold for the vouchers in a single giant auction next January. Voucher holders, who will all begin with the same number of vouchers, will use them to bid for as many shares of any company they want to buy. Those firms attracting too many, or too few, bids will have their price in terms of vouchers adjusted and sold in subsequent auctions until all the shares are gone. Late next year the process will be repeated for another 1,118 firms. Private investment funds approved by the government will also be able to solicit vouchers, which they will then use to bid for shares on behalf of their own newly acquired shareholders, though such funds are unlikely to play much of a role at first. As soon as voucher holders receive their shares, they will be able to trade them.

Dusan Triska, the Ministry of Finance official in charge of the voucher scheme and its most enthusiastic proponent in the Czech government, reports that the computers, advertising campaign and voucher booklets are all ready to go. But there are legions of sceptics. Many people in the government itself think the voucher scheme either will not work or is unwise.

They have a number of objections. The scheme introduces no new capital or expertise into troubled companies. Many firms could quickly go bust, discrediting the idea of shareholding and private ownership. If bankruptcies are on a big enough scale, the government may have to re-acquire hundreds of companies to save jobs. With such wide dispersal of shares, company managers will not be answerable to responsible owners, making firms vulnerable to the kind of looting and fraud associated with the spontaneous privatisation of state-owned companies. With so little information avail-



able about most companies, insider trading will be rife. In fact, trading at all will be difficult, because plans for a stock exchange are bogged down and there are no rules for trading shares. Setting up a stock exchange, as Poland and Hungary have done, is complicated and time consuming.

Mr Triska, an articulate and engaging economist, has answers to all these points. Privatisation is not about raising capital, he argues, but about changing ownership. It is up to the new owners of enterprises to find the money and expertise needed to make their businesses thrive. The government will not step in to save companies. If large numbers of companies go bust, that is because they were bankrupt under state ownership as well. At least their land, buildings and equipment will then be auctioned off to entrepreneurs who can make better use of them. Voucher holders will be warned from the beginning that they will be paying their small fee to play in a risky game, not receiving a share in the family silver, as they are being led to believe in Poland.

Mr Triska is also unconcerned about the lack of a stock exchange or the dangers of insider trading and fraud. "It will be wild west," he admits. "It happened in America in the 1920s. Why shouldn't it happen here?" Market institutions, audits, a business press and a regulatory framework will all develop rapidly because there will be demand for them from millions of shareholders.

The wide dispersal of shares will not be such a problem either, claims Mr Triska. He expects many managers and workers to bid all their vouchers for shares in their own firm, especially if they believe it has a chance of surviving. This will result in a kind of workers' buyout of many firms; not the best form of ownership, but infinitely better than leaving firms in state hands. Most other companies may have about 4,000 shareholders. If the majority of these are passive, then even small groups of shareholders will have the power to exercise oversight or even control through elected boards. In any case, companies will be subject to market disciplines as soon as they try to borrow money or issue new shares.

The advantage of the Czech scheme is that it is fast and does not rely heavily on foreigners. The advantage of the Polish scheme is that it is based more closely on the pattern of corporate ownership that already works in the West. The risks of both schemes are high and they could yet be stopped by domestic political opposition to such radical measures. Meanwhile Poland and Czechoslovakia will also continue to pursue case-by-case privatisations and sales to foreigners.

But advocates of mass privatisation are correct. Relying solely on traditional sales methods will take decades. At that rate, privatisation will fail and a properly functioning market economy remain an elusive goal. The gamble of giving away thousands of firms is worth taking, even if initially it looks chaotic. "Our government is in too much disarray to manage so many deals," says Mr Triska. "Our economy will never recover if most companies stay in state hands. The only things governments can produce are bottlenecks."

The end of the lending merry-go-round

Debt write-offs are the only solution to Eastern Europe's banking mess

EVEN if the Polish and Czech mass-privatisation schemes are wildly successful, they will not create a genuine market-economy on their own. The missing element will be an efficient financial industry, the heart of modern capitalism. This is no mere technicality. Without proper financial institutions, new businesses will be stillborn or stunted. Even existing companies capable of thriving after privatisation will be starved of capital, while failing companies may be expensively propped up by bankers with little incentive to cut off credit to old friends. Stock exchanges are still tiny in Warsaw and Budapest, and likely to remain so for many years. They do not exist at all elsewhere in Eastern Europe. So the job of marshalling domestic savings and then allocating capital to the right businesses will rest largely with the banks. Unfortunately Eastern Europe's state-owned banks labour under an even greater burden from the past than do their clients.



Here are your savings, madam

Clearing up the banking mess left over from 40 years of communism is one of the most intractable problems facing reformers. Understandably, perhaps, they have taken an *ad hoc* approach. Over the past few years they have carved state-owned commercial banks out of the single bank that once allocated credit to state enterprises according to plans drawn up by the central bureaucracy.

There are now 13 of these banks in Czechoslovakia, 11 in Poland and 20 in Hungary. Many of the Hungarian banks have private shareholders though the banks themselves remain state-controlled. With the help of the IFC, the World Bank's affiliate, Poland is "twinning" many of its banks with western ones which it hopes will take minority stakes along with Polish investors. All three countries have also allowed the establishment of private banks—13 in Hungary, 36 in Poland and eight in Czechoslovakia. But the private banks are still small. Ironically, most will lend only to state-owned enterprises, viewing the many small new companies in Eastern Europe as too risky. The bulk of deposits and lending remains with the state-controlled banks.

Setting up the infrastructure of a modern banking network—laws, telecommunications systems, accepted accounting rules—will be a challenge. Skills are in short supply. Even in developed countries regulating banks is difficult, as is illustrated by America's thrifts saga, the massive international fraud at the Bank of Credit and Commerce Interna-

tional and Japan's recent banking scandals. Eastern Europe's governments have barely begun organising the supervisory machinery needed for a modern banking business. In August the head of Poland's central bank was sacked and his deputy and five other bankers were arrested, because of their alleged role in a suspected fraud worth an estimated $130m. The affair involves unsecured loans by Poland's biggest savings bank, the state-owned PKO BP, to a private Polish company established in 1989. The scandal has shaken people's faith in both the government and economic reform. It may slow Poland's stuttering efforts to set up a commercial-banking business.

Despite the risks of more such frauds, the only way to introduce commercial incentives into banking is to privatise the banks, just as it is for other industries. All three countries are planning step-by-step bank privatisations later this year. So far the plans do not address the unique problem facing Eastern Europe's banks: what to do with the huge number of bad loans to state-owned enterprises on their books.

Privatising the banks without cleaning up their portfolios is almost certain to fail. In the past loans were made at the direction of central planners, not on any commercial basis. Money followed the plan. Banks were not required, or allowed, to decide which borrowers could pay back a loan, or what interest rate reflected the degree of risk. Loans were not secured. Many will now never be repaid. Others involve such low interest rates or such long terms that they are losing the banks money even when the borrower can service the debt. Even if bankers are able to make new loans to credit-worthy borrowers, they will have to charge them inordinately high interest to cover the losses on their portfolio of old loans. This will be subsidising loss-making clients at the expense of profitable ones—just the opposite of what Eastern Europe needs. As the extent of the losses in banking portfolios becomes clearer, governments will have to bail the banks out. Managers at the banks will know this from the beginning, which will cancel the benefits of privatising them in the first place.

Privatising companies with their existing debts, which is what officials throughout Eastern Europe prefer, will also cause damage. Because of the arbitrary nature of past borrowing and fixed prices under central planning, there is little correlation between insolvency and inefficiency. Many of the companies with the heaviest debts could also be among those best able to survive in a free market, and vice versa. Left to sink or swim under the weight of the past, many of the wrong firms will sink. By contrast, many privatised companies with little chance of long-term survival but lucky enough to be privatised with few debts will float, until submerged by new losses.

The ideal solution would be to wipe the slate clean. To do this, the government would have to write off all the existing loans made by state-owned banks to state-owned enterprises and then privatise both banks and enterprises at once. Nobody in Eastern Europe is yet willing to consider such a radical move. They have good reason to hesitate. Many reformers are convinced that a general write-off of debt would send the wrong signal to managers of



Crying all the way to the bank

state firms even before they are privatised, encouraging them to believe that all credit is guaranteed by government. Writing off debts would also magnify the inherent unfairness of worker buyouts or government-approved spontaneous privatisations. It would not only reward some citizens lucky enough to be working in valuable enterprises at the expense of millions who do not, but give them the assets debt-free as well.



What would happen to the banks themselves? Wiping their old portfolios clean would leave them with no income to pay interest on deposits, and no assets to repay depositors who withdrew their money. Governments, already struggling to contain budget deficits, would have to repay depositors themselves. The only way to do this would be to raise taxes steeply, taking with one hand what the government was repaying with another and deflating the economy even further in the middle of a deep recession. An equally unpalatable alternative would be to print the money needed to repay deposits, which would lead quickly to hyperinflation.

There is no painless way out of this dilemma. Reformers have generally chosen to place limits on new bank lending and leave it to the state-controlled banks to recover past loans as best they can. In practice this means debts are written-off as companies are privatised, either formally or by liquidating the state-owned firm and selling the assets—an increasingly common method in Poland. In deals with foreign buyers, where debts remain on the balance sheets of state companies being sold, the sales price necessarily reflects this. In effect, the government is forced to reduce the price by the value of the company's debts. This may seem more convenient than writing off the debt, but it amounts to the same thing.

Too much prudence could be dangerous

Leaving the banks to sort through their loans case by case looks the most prudent course. For one thing, they may be able to recover more of them than pessimists believe. But this could be a dangerous delusion. Privatised companies will need to borrow new money immediately. Few East European bankers have much experience in assessing credit risk. And even the most experienced western



banker would not be able to make skilled credit judgments amid the tangle of Eastern Europe. If privatisation accelerates, the number of bad loans will soar. In fact, managers of recently privatised but heavily indebted firms will have a strong incentive to perform a manoeuvre similar to earlier spontaneous privatisations, shifting assets to newly registered companies and letting their original firms go bust to escape old obligations.

Governments might do better to bite the bullet and write off all debts incurred under the old regime. Assessing the risk on new loans to companies would still be difficult, but the task would be greatly simplified for Eastern Europe's neophyte bankers. One formula for writing off old loans would be to replace them in the banks' portfolios by 20-year government bonds. The interest on the bonds would give the banks the income needed to pay interest to their depositors. The value of the bonds would balance the deposits themselves. Instead of being written off, old loans could also be transferred to a new fund, which would then have the responsibility of recovering as much money as it could from borrowers, in the manner of a "workout" team in a western bank. This is the strategy adopted in the former East Germany. But as the Germans are discovering, this is much the same as writing off loans. And it sacrifices some of the benefits of allowing companies to start with a clean balance sheet.

Moreover, the inflationary impact of a debt write-off may be exaggerated. The deposits in state-owned banks are clearly government obligations, especially those held by individuals or private companies. But in the crazy logic of communism, the debts incurred by companies through bank borrowing are also government obligations. The companies were, after all, state-owned. Since these government obligations already exist, a write-off of old enterprise-debts to state banks is merely recognising them, not increasing them. The only new money created, and so the only cause of inflation, would be the interest paid on the government bonds given to the banks to replace old debts. Though this would be inflationary, it may be a price worth paying: the government would be free, once and for all, from assuming the burden of new losses made by inefficient companies still in state hands.

Catalysts, not saviours

The role of foreign investors is important, but it is being exaggerated

WHEN foreign businessmen first arrived by the planeload in newly liberated Eastern Europe, the opportunities they found seemed intoxicating. Before them lay a market of tens of millions of long-deprived consumers, with the aspirations and appetites of West Europeans. Everything needed fixing. Competition was feeble, the scope for improvement vast; western companies had the skills required. Capitalists were about to remake Eastern Europe from the rubble of communism. Who could fail to make money?

They have now sobered up. A number of big companies have bought stakes in state firms and promised to invest large sums in them (see table 6 on next page). Foreign investment has increased in each of the past two years. New deals are announced almost daily. But the flow of investment from abroad has been more of a steady trickle than the expected flood. Western investors have found doing business in Eastern Europe bureaucratic and time-consuming. Confusion over new laws and questions of ownership has hampered many negotiations. Faced with these uncertainties, businessmen are now hesitating.

Despite their hesitation, many of Eastern Europe's managers are still counting on a foreign partner to save their companies. One explanation for the surprising export success last year of some Polish and Hungarian enterprises was the desire of their managers to gain hard currency to pay for trips to Europe and America to look for a saviour—or for a job for themselves. They are being encouraged to do this by government officials desperate to privatise state-owned companies by selling them to foreign buyers. Attracting western investors has become something of an obsession. Governments have moved quickly to relax or abolish controls on foreign investment and the repatriation of profits, especially in Poland and Hungary. But many East Europeans will be disappointed. Foreign investment can play a useful role in resurrecting the region's economies, but it cannot be their salvation.

To catch up with average incomes in the EC in the next ten years, the six countries of Eastern Europe (including Yugoslavia) would require $420 billion a year of investment, some two-thirds of their current output, according to one recent study.* To achieve annual growth rates of 7%, the pace attained by South Korea and Taiwan over the past 20 years, would require almost as much. Such calculations can only be rough guesses, as the study's authors admit. But other economists have come to similar conclusions, and these estimates do at least indicate the scale of the investment required.

Don't call us

It won't come from abroad. Even on the most optimistic assumptions, Eastern Europe will attract only $7 billion a year of direct investment by 1995, and a total of $21 billion in loans from both aid agencies and private banks (see table 7 on next page). It could be much less. This year direct investment is expected to reach only $1 billion and lending from both official and private banks just $13 billion.

In fact, the bulk of investment in Eastern Europe will be financed by domestic savings, as it is in other countries. A study by the World Bank of 14 developing countries indicated that, on average, inflows of foreign capital were equivalent to less than 10% of domestic savings. Even industrialised coun-

* Susan Colins and Dani Rodrik. "Eastern Europe and the Soviet Union in the World Economy". Institute for International Economics, Washington DC, May 1991, pp76-80

Big deals 6

Investor	Partner	Industry	Amount committed $m
Volkswagen (Germany)	ŠKODA, BAZ Czechoslovakia	cars	6,630
CBS France	Tourinvest Czechoslovakia	hotels	175
GE US	Tungsram Hungary	lighting	150
GM US	Raba Hungary	engines cars	150
Pilkington Britain	HSO Sandomierz Poland	glass	140
Guardian US	Hungarian Glass Hungary	glass	120
Suzuki Japan (partnership with C. Itoh and Int. Finance Corp.)	Autokonzern Hungary	cars	110
Linde Germany	Technoplyn Czechoslovakia	gases	106
Electrolux Sweden	Lehel Hungary	appliances	83
Hamburger Austria	Dunapack Hungary	packaging	82
Ford US	New plant Hungary	car components	80
Sanofi France	Chinoin Hungary	pharmaceuticals	80
Oberoi India	Hungarhotels Hungary	hotels	80
US West US (partnership with Bell Atlantic)	Government Czechoslovakia	telephones, switches	80
Sara Lee US	Compack Hungary	food processing	60
ABB Switzerland	Zamech Poland	turbines	50
Siemens Germany	Electromagnetica and Rom Post Telecom Romania	telecommunications	35
Ilwa Italy	Salgotarjau Iron Hungary	steel	25
Siemens Germany	Tesla Karin Czechoslovakia	telecommunications	15
Bau Holding Austria	Nyiregyhaza Hungary	construction	11
Watmoughs Britain	Reval Printing Hungary	publishing house	7

Source: Business International

tries with easy access to international capital markets and a long history of direct foreign investment rely on domestic savings to finance the bulk of investment. Economic growth requires the efficient transfer of domestic savings into productive investment. That underlines how vital it is to reform the banking system and establish other financial intermediaries, such as insurance firms and stockmarkets.

Come soon, come often

Nevertheless, Eastern Europe's obsession with foreign investors is not entirely mistaken. They can act as a catalyst, accelerating development by transferring business skills or new technology and boosting trade. For foreign companies, Eastern Europe's attractions can also be considerable. Using the area as a gateway to the potentially gigantic Soviet market was one of the first reasons given by many western companies to explain their interest. This now looks less appealing, as turmoil in the Soviet Union has grown and trade with its former allies has collapsed. But countries in Eastern Europe also have more permanent lures: their own domestic markets and extremely low wages.

The first has attracted most of the foreign investment so far. Together, the five countries of Eastern Europe covered in this survey have a population of almost 100m. For relatively small amounts of money, producers of basic commodities—soap, processed food, glass, cars—can upgrade existing East European factories and quickly capture a large chunk of the local market. Recent examples of this strategy are Proctor & Gamble's and Unilever's almost simultaneous acquisitions of Czech and Polish detergent companies in June.

Although Eastern Europe's wages are low enough to compete with many developing countries (see table 8 on next page), few companies have yet made substantial investments to exploit this advantage. At first this looks puzzling. Eastern Europe's low wages should make it an ideal site for supplying the lucrative market next door in the EC. The snag is that its productivity is abysmal. Labour costs represent only about one-fifth of the total costs of most manufactured products. And many investors find it hard to believe that wages in Eastern Europe will remain so far below those in the EC beyond the next five years. They point to eastern Germany, where wages have soared 60% since unification, despite unemployment rising to 30% (when short-time workers are counted).

This comparison is wrong. The other East Europeans will have no choice but to temper their expectations. Unlike the East Germans, they cannot migrate in large numbers to the EC and they have no compatriots next door willing to rescue their economies with massive infusions of cash (transfers from the western half of Germany are estimated to have been $30 billion so far this year). Eastern Europe's wages will remain low for a decade or more.

Exploiting this advantage is not always easy. After acquiring control of Tungsram, the Hungarian light-bulb maker, in 1989, General Electric has had to overhaul the company. It has reduced the workforce by 4,000 workers to 14,000, halfway to its goal of 10,000. Layers of management between the shopfloor and the top have been reduced from nine to three. George Varga, a GE executive who now heads Tungsram, praises many of the production workers but has little good to say about the managers he found running the company.

The fact that Mr Varga himself is a Hungarian who fled his country in 1956 and returned as a successful manager has undoubtedly made it easier for



Moneybags 7

Long-term financing prospects ($bn)* under rapid reforms	1991	1992	1993	1994	1995	distribution in 1995 of medium and long-term financing %
Long-term debt financing	12.6	11.0	12.6	14.7	17.4	87.8
Multilateral	8.9	5.4	5.3	5.9	6.8	34.1
Bilateral	2.0	3.1	4.1	4.8	5.7	28.9
Private	1.7	2.5	3.2	4.1	4.9	24.7
Equity financing	0.9	1.6	1.9	2.2	2.4	12.2
Total	**13.5**	**12.5**	**14.5**	**16.9**	**19.8**	**100.0**

*For Poland, Czechoslovakia, Hungary, Bulgaria, Romania and Yugoslavia
Source: Financing Eastern Europe, Richard Debs, Harvey Shapiro, Charles Taylor; Group of Thirty, Washington, DC, June 1991



him to get employees to accept painful changes. But he still has not worked out what to do with the company's vast array of social services, including kindergartens, schools, holiday homes and even three professional sports teams. Despite an increase in output of 25%, the company is not profitable. Nevertheless the acquisition probably makes long-term sense for GE. Tungsram, one of the few East European firms with a brand name and market share in the EC, presented the American company with a rare opportunity to establish itself in the European lighting market.

Few foreign firms will be able to spare the resources or expertise that GE can lavish on Tungsram. Other early investors, like Schwinn, an American bicycle-maker, have found it even tougher to turn former state companies around. Peter Vadasz, the founder of Microsystem, one of Hungary's most successful private companies, says he has no interest in acquiring a state-owned firm. "I know how they work. I would rather recruit my own people," he says.

Another stumbling block for foreign investors is the still-rudimentary legal framework securing private property and enabling firms to recover claims from other businesses. This will take some time to complete. But one thing governments could do quickly is clear up the growing mess created by disputes about how to compensate or give back property confiscated by the communists to former owners. New governments have been keen to correct past wrongs and to prove their commitment to property rights. Instead the attempts at restitution have dangerously blurred those rights. Some countries, such as Poland and Czechoslovakia, seem closer to resolving the restitution issue than others, such as Hungary. The sooner, the better.

The central issue for foreign investors will be the speed of transition to a market economy. About $700m of investment funds earmarked for Hungary alone is sitting idle in western banks because suitable opportunities cannot be found. If governments can stabilise prices, exchange rates and their own finances, they will remove the uncertainties which are the biggest barriers for foreigners. If governments can accelerate privatisation, they will create opportunities to invest in existing businesses and, by forcing loss-makers into bankruptcy, free land, buildings and workers for investors in new businesses.

Privatisation will also open the door to newcomers by eliminating (or at least reducing) the possibility of government support for existing monopolies and dominant firms. As the market grows, it will gradually begin to rule, and Eastern Europe's true comparative advantages will emerge.

Cheapest in Warsaw 8

Hourly pay in manufacturing, (1990 US=100)

United States	100
Germany	138
France	98
Japan	82
Spain	72
Portugal	20
Korea	24
Taiwan	24
Singapore	19
Mexico	12
Poland	6

Source: Reform in Eastern Europe, Blanchard, Dornbusch et al

Be deaf, be determined

Make it simple, do it fast

A PARADOX confronts Eastern Europe's economic reformers: to reduce the role of the state, they must take unprecedented state action. Not only must they build from scratch a reasonable facsimile of the market economies that have evolved over decades in the West, but they have to do it while tearing down an equally complex centrally planned economy. A series of external shocks and slow growth in the world economy have made their job harder.

Given the intricacies of their task, reformers are repeatedly forced to choose between making changes quickly and making them prudently. They began correctly by choosing speed over prudence, knowing that mistakes in building a new economic system could be more easily rectified later. But their original preference for speed has run up against another paradox: the need for bold action certain to disrupt the lives of millions of citizens coincides with the birth of a boisterous democracy, the biggest obstacle to such boldness.

As various groups within these troubled societies find their voice, the euphoric consensus that supported a dash to the free market is fading. Most people still accept that the transition will be painful, but want someone else to suffer most of the pain. The mood everywhere in Eastern Europe is confused and depressed. Opinion polls gyrate wildly. The most trusted institutions in Poland, according to recent polls, are the army and the police, a disturbing result in a country ruled by martial law only eight years ago. Voter turnouts at elections have plummeted. Only a quarter of voters have bothered to cast a vote at some recent parliamentary by-elections in Hungary.

"After 18 months of change, this country is so tired, especially because the light at the end of the tunnel is not that visible," says Mr Bielecki, Poland's prime minister. "This is why you have to be very honest. You have to explain that a miracle cannot happen." A professional economist, Mr Bielecki knows the transition could take a decade. He also knows this is an unpalatable message for any politician offer to voters. Impatience is growing throughout Eastern Europe. So is fear, as unemployment rises. For many workers and managers in doomed companies, painful reforms designed to create a market economy which they have never seen can look uncomfortably similar to the discredited social engineering of totalitarian governments, with which they are all too familiar.

Calls for a slowere transition to the market are growing, both within governments and among opposition parties. Advocates of a dash to the free market are being denigrated as ideologues. Gradualists are presenting themselves as moderates. The growth of a visible and lively private sector is cited as proof that rapid reforms are unnecessary. Certainly the sudden appearance of thousands of retailers, traders and small manufacturers is a hopeful sign. But it is not enough. Developing countries are full of street traders and small factories. They are also poor.

Maybe it is too much to expect democratically elected politicians not to listen to such opposition. But Eastern Europe's only hope of achieving the prosperity and stability of the industrialised world depends on how deaf, and determined, the region's

reformers will be over the next year or two.

Changes have to be fast enough and fundamental enough to create a constituency whose interest in the new system is bigger than that favouring the old ways. If reform falters now, Eastern Europe's most likely course is that of many developing countries—intrusive government repeatedly hijacked by groups determined to grab as big a slice of the economic pie as possible. Down that road lie inflation, corruption and political instability, as Latin America has shown.

For countries with such huge state-owned industrial sectors, gradualism holds other dangers as well. With the state the ultimate employer of so many workers, it is in a distressingly weak position to resist wage demands, which will inevitably explode as inflation remains high, fuelling still more inflation. Politicians are already finding it difficult to shut companies making the biggest losses or cut jobs in those worth saving. In late July Mr Bielecki was horrified to discover, on a visit to the giant Ursus tractor factory in Warsaw, that the firm had no money to pay its 22,000 workers and was about to collapse. Within days he sacked the industry minister and 12 other top officials and spoke angrily of sabotage. Shutting the firm, the biggest tractor producer in Europe, makes the most economic sense. But even Poland's prime minister finds it difficult to do that. About 100,000 workers at 300 supplier factories could also be affected.

Fix it later

The decisions will only get tougher. As time passes, the government will face a simple choice: once again impose strict controls on state firms, or watch them slowly crumble as spontaneous privatisation revives. The first course would be a step back to the central planning of the past. The second would be almost as costly, leaving ownership confused and resources wasted.

What should help reformers maintain or even accelerate the pace of changes is the knowledge that Eastern Europe has significant advantages over many equally poor countries elsewhere. The attention of the West is on Eastern Europe. With the EC just next door, this will not change as long as economic reform continues, despite fears that a reforming Soviet Union could prove distracting. International institutions such as the World Bank, IMF and the new European Bank for Reconstruction and Development are stumbling over each other to offer technical help, as well as some kinds of financial aid. Western governments are willing to pay for training. Hundreds of consultants and business schools are competing to provide it. Because workers and managers in Eastern Europe are already well educated, this mass transfer of skills promises to bring results faster than anywhere else, but only if the right incentives are in place—which means, above all, private ownership of most companies.

If reformers are to move rapidly enough, they have to resist the temptation to search for a painless route to the market or for once-and-for-all solutions. They do not exist. Market economies in developed countries are far from perfect. Laws are often revised. Debates about economic policy are fierce. East European countries will also have plenty of time to revise laws and institutions once their economies begin to recover. For now they should opt for simplicity and speed, even if the result is rough justice for many citizens. And they should concentrate first and foremost on one task: cutting the state's ties to the economy. Every swing of the knife will be risky. Because the alternative is so bleak, the risks are worth taking.



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The summit of 2001

FROM OUR SPECIAL CORRESPONDENT IN PRAGUE

New technology has enabled Eurobuzz to do a random search of future issues of The Economist. It reveals this report from ten years ahead

THE first ever Prague summit this week celebrated the arrival of Poland, Hungary and Czechoslovakia into the European Union. The event opened with a stroll across Prague's historic Charles Bridge. The crowds showed more interest in the stately lady in royal blue than in the 19 heads of government. As was customary, the president of the Eurofed (Europe's central bank) had come from Bonn to present her annual report on the monetary union.

The main business of the summit was to look ahead to next year's negotiation on constitutional reform, the third in ten years. Pressure is mounting for a further expansion of the Union. Malta and Cyprus are already negotiating entry; Bulgaria, Romania and Slovenia have just applied; and the three Baltic states plus Croatia plan to do so soon. All nine are no longer content to remain affiliates, living by some bits of the rulebook, but with no say in making the rules. Long-suffering Turkey says it will re-apply for full membership: third time lucky, it hopes.

The union's leaders accepted that there will have to be far fewer exemptions from majority voting, if decision-making is not to come to a halt. But they could agree on little else. Jacques Delors, the president of France, called for governments to wrest the leadership of the Union back from the European Commission. The commission's recent ruling that Nissan should be free to buy Peugeot-Renault, despite the French government's attempt to block the deal, was, he said, contrary to the principle of subsidiarity.

President Delors argued that a permanent council of deputy prime ministers should take over the commission's main tasks. Felipe Gonzalez, the commission's president (puffing his habitual cigar, despite the pan-European ban on smoking in public buildings), countered that the Union would lose momentum if the commission were squeezed out. "Without a vigorous commission, would the Union have created the Eurofed in 1997 or agreed to phase out the common agricultural policy in 1998?" he asked.

What the three Central European newcomers wanted most was membership of the Western European Union, the defence wing of the European Union (only Ireland, Finland and the three new members do not belong). The East Europeans worry about the revival of Russian power and want the extra security the WEU could provide. They had the support of the French president, on the ground that the sooner the Union and the WEU had the same members, the sooner they could merge. But Chris Patten, Britain's newly elected Christian Democratic prime minister, fears that a merger could leave the Atlantic alliance without a role. He was backed by Germany's chancellor, Volker Rühe. As so often, the combination of Britain and Germany carried the day.



The newcomers liked the decisions on next year's budget better. Regional aid will rise to 60% of the total, of which a large chunk will be earmarked for them. One new item appears in the budget: the Union Frontier Police (UFP), which is already replacing national customs and immigration officers.

Environmental Protection Officers (EPOs), formerly known as small farmers, won a 10% rise in the fee they are paid for looking after land and not cultivating it. That pleased Mr Delors, but when he called for a new fund to subsidise food exports to the poorest parts of the third world he got short shrift from Mr Patten and Mr Rühe, who accused him of trying to revive the CAP through the back door.

The Anglo-German alliance appeared in fine fettle. When Mr Rühe proposed that a Union budget ceiling of 4% of GDP be written into the treaties (it has risen from 1% to 3% over the past ten years), Mr Patten agreed. Mr Rühe in turn backed his demand—prompted by pressure from the Scottish and North England assemblies—that regional observers should be allowed to speak in the Council of Ministers.

When attention turned to the monetary union, Italy's prime minister, Mario Segni, looked glum. Mr Segni is one of those who rues the day in 1997 that Margaret Thatcher was appointed Eurofed president. But when Karl-Otto Pöhl chose to stay on Wall Street, Germany had insisted that no one else would be tougher on inflation or better able to resist political pressure.

Mrs Thatcher recommended that, with a budget deficit running at 9% of GDP, Italy should not be allowed to join the single currency. France and Spain wanted Italy in, hoping this would soften slightly the Eurofed's monetary policy. But the northern block of Germany, Britain, Holland, Austria and their Nordic allies outvoted the southerners. Italy was told to try harder.

The summiteers decided that German would become the Union's third official language, alongside English and French. Jose Maria Aznar, Spain's prime minister, had argued that Spanish should have equality with German. But he withdrew his veto when Mr Gonzalez promised another 1 billion ecus ($3 billion) for the regional funds assigned to Spain. Mr Delors asked for Arabic to be made one of the Union's "recognised" languages for treaties and legal texts. But while appreciating Mr Delors's domestic problems—the Maghrebian Front had threatened to quit France's Socialist-led coalition—the other leaders turned him down.

Mr Delors then suggested that Algeria, Tunisia and Morocco should be encouraged to become affiliate members of the Union. The northern countries demurred, but agreed to make the Maghreb eligible for regional funds. The summiteers hoped that in the long run such aid would help to limit the numbers of North African boat people. As for the thousands who try to cross the Mediterranean each week, they ordered the WEU to step up naval patrols off North Africa.

For the first time, the proceedings were carried live on EuroSat television. The experiment was judged a success by the politicians, but not by the advertisers: surveys showed that only 5% of European households bothered to tune in.

Eastern Europe and the world

How will the transformation in Eastern Europe affect the global economy?

ECONOMICS FOCUS

IF THERE had ever been doubt about the difficulty of transforming socialist economies into market economies, Poland and its fellow reformers have removed it. The scale of the task and the costs of the transition have become painfully clear. But a different aspect of the revolution has been neglected: how will the collapse of communism affect the rest of the world economy?

Learned papers have started to trickle forth. The most detailed study so far has come from the Institute for International Economics (IIE) in Washington, DC*. A paper sponsored by Britain's Centre for Economic Policy Research has also ventured some predictions†. At a conference organised by the Kiel Institute of World Economics on June 26th-28th, Richard Blackhurst, director of economic research at the GATT, surveyed the literature to see where economists currently stand‡.

TABLE 1. Eastern Europe and the tigers

	Czechoslovakia, Hungary and Poland	Hong Kong, South Korea, Singapore and Taiwan		
	1988	1970	1980	1990
Population (m)	64.7	52.5	63.2	71.2
Share in world:				
Exports*	1.4	2.0	3.8	7.7
Imports*	1.2	2.7	4.2	7.4

Source: Adapted from R. Blackhurst *merchandise trade

The changes in Eastern Europe will spread their economic effects through four main channels:

• **Trade.** If reform succeeds, the countries of Eastern Europe will become largish partners in trade with the West. This may cause friction. The more Eastern Europe succeeds as an exporter, the more likely it is to encounter protectionism.

Mr Blackhurst takes the point, but offers encouragement. He draws a parallel between the region's three leading reformers (Poland, Hungary and Czechoslovakia) taken together, and the "tigers" of East Asia (Hong Kong, South Korea, Singapore and Taiwan). The two groups, roughly the same in population, also look similar with respect to trade—except, that is, for a 20-year gap. In 1970 the share of the tigers in world merchandise exports was rather larger than the share of the three East Europeans in 1988. Over the next 20 years the tigers increased their share nearly fourfold (see table 1).

The world economy coped all right with the tigers, so why should it not cope equally well with Eastern Europe? True, the task of adjustment will be more demanding if the Soviet Union, or many of its republics, also become bold economic reformers. Market-friendly economics is catching on in the third world, too. But trade expansion in the third and ex-communist worlds is likely to be slower than it was in East Asia, allowing plenty of time for the West to adjust. Also, remember that rapid export growth goes hand-in-hand with rapid import growth (as in East Asia); trade expansion, in other words, need not be at your partners' expense.

• **Capital flows.** On this, the IIE study is the most thorough. It first asks how much foreign capital would be needed to raise the amount of productive capital per worker in Eastern Europe and the Soviet Union to that of the West within ten years. The answer is a lot—about $1½ trillion a year. The study then asks how much the region can expect to receive.

The authors look at the various sources (governments, the IMF, the World Bank, commercial lenders, direct investors and so on) and make guesses based on past behaviour and many assumptions. Combining all the pessimistic assumptions, the study comes up with a flow of $30 billion a year; on the most favourable assumptions, the figure is $90 billion; the "best guess" is $55 billion. Such sums are tiny in relation to the gap that will eventually need to be filled. Moreover, the lion's share of the money will go to eastern Germany. According to the most pessimistic scenario, the flow to the Soviet Union is actually negative (see table 2).

The new flow of capital to Eastern Europe must mean either a diminished flow to the third world or an increase in global interest rates—assuming that the balance of supply and demand for capital in the industrial countries stays the same. The authors reckon that real interest rates will rise by between one and three percentage points if flows to the third world are unchanged. If, instead, flows to the developing countries shrink to the full extent (leaving interest rates unchanged), developing-country investment will fall by between 0.8% and 2.3% of GDP.

In all this, the biggest single uncertainty concerns the supply of savings in the industrial countries. As Mr Blackhurst points out, an increase of one percentage point in America's savings rate would increase the supply of global savings by roughly $55 billion—just enough to finance the best-guess flow to Eastern Europe and the Soviet Union.

• **Migration.** With lower living standards than in the West for many years, citizens of the reforming countries will have a powerful incentive to migrate. Different studies have found that the quality of Eastern Europe's "human capital" is high—on a par with that of countries such as Spain and Greece, better than that of Portugal and Turkey. Many East Europeans could raise their incomes many times over by emigrating.

Often economic commentators simply take it for granted that immigration is a threat. Mr Blackhurst thinks the matter is not so clearcut. He points out that, between 1840 and 1920, immigrants arrived in the United States at annual rates ranging from 5.3 per thousand of the host population to 10.4 per thousand. (Most of these immigrants went to the cities; by and large, they were not filling up America's vast empty spaces.) America's experience was a great success—yet those figures, scaled to Western Europe's present population, are equivalent to between 1.9m and 3.7m immigrants a year. Amid the present uncertainties, it would be rash to advocate large-scale immigration as deliberate policy—and Mr Blackhurst certainly does not do so. But history suggests that Western Europe's fears may be exaggerated.

TABLE 2. Capital flows to:

Eastern Europe and the Soviet Union ($ billions, annually)	Scenario (a)	(b)	(c)
Eastern Europe*	12	18	24
Soviet Union	-4	2	6
Eastern Germany	22	35	60
Total	**30**	**55**	**90**

*Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Yugoslavia
Note: Scenario (a) combines the authors' most pessimistic assumptions, scenario (c) their most optimistic. Scenario (b) is their best estimate. Source: Adapted from Collins and Rodrik.

• **Ideas.** This could be the most important channel of all—impossible though it will be to measure the effects. Many third-world governments opted for socialist planning in the 1950s and after. The Ghanas and Indias of the world attest to the cost in human and economic terms. Their model now stands discredited and repudiated. The lesson is sure to sink in. Throughout the third world, the prospects for market-friendly reforms are much improved. For this, give thanks.

*Eastern Europe and the Soviet Union in the World Economy. By S. Collins and D. Rodrik. †Monitoring European Integration: the Impact of Eastern Europe. By D. Begg and others. ‡Implications of the Changes in Eastern Europe for the World Economy. To be published later this year by the Kiel Institute of World Economics.



Tasty but subsidised

the CAP more obvious, which is a good thing, but they will also further shift the burden of support from rigged prices to the EC budget. Because most people are far less aware of the budget than they are of the cost of food, this could diminish the demand for reform. More seriously, the price cuts will not have much effect on the EC's over-production (despite farmers' obligation to set land aside) because the new guaranteed prices will probably remain higher than the marginal cost of production for the most efficient farmers. The plan will also be so complicated to administer that fraud (already a $10-billion-a-year problem) stands to become even worse.

Sweden, by contrast, has pledged to establish a free market within its borders. By 1995 there will be no price supports and no government money to mop up oversupply. Prices of beef, pork and milk are already set freely by the market (they have fallen by about 20% since the beginning of July and will fall further). Price supports for cereals will be phased out over the next five years. The one source of protection (and it is a massive one because Sweden's costs are high compared with other countries') will be the variable levies that block imports. According to Sture Astrom from the ministry of agriculture, these will be lowered to keep pace with falling domestic prices.

Like their EC rivals, Swedish farmers will get direct payments to compensate them for the change, but these will be smaller than the EC's and—if the government has the nerve to keep its word—they will last for only three years. Farmers can also gain a far larger one-off payment for shifting to non-food crops, already an unexpectedly popular choice. A total of SKr13.6 billion ($2.1 billion) is available, after which payments stop. In this way, the money finds its way into farmers' pockets rather than inflating land values. Cheaper land should, according to Mr Astrom, both discourage intensive farming and also help to promote the restructuring of farm holdings.

Of the 25,000 full-time farmers who produce 80% of the country's food, the least efficient 40% should have left the business by 2000 if the Swedish plans work, according to Hans-Erik Uhlin of Uppsala University. Highly subsidised grain farms will revert to being traditional dairy farms.

Alas, this admirable effort at farm reform is threatened by Sweden's application to join the EC. Swedish farmers may be tempted to weather the hard years in the belief that the CAP will come to their rescue in the late 1990s. If this happens, it would be an expensive disappointment. A much better outcome would be for the Community's politicians to learn how to reform agriculture the Swedish way.

Argentina's privatisation plans

On the rails

SO MUCH bad news has been heard about Argentina's economy that it may be understandable if the one bit of good news has been ignored. Despite hyperinflation, budget deficits and comically frequent currency reforms, Argentina has somehow managed to keep its privatisation programme going, partly because the government has been uncharacteristically innovative. Its latest piece of ingenuity is designed to sell ten-year concessions to run Buenos Aires's underground and suburban overground railways, even though they will probably always make a loss.

To lure investors from aboard, the government has linked the railway concessions to the right to develop 50 hectares of prime land, now mostly occupied by rusty railway lines, disused goods yards and long grass. The land is not only adjacent to three fine old (British-built) railway terminals, but is also cheek-by-jowl with the capital's long-distance bus terminal, the city bus terminal, an underground station, the docks and the Avenida Libertador, one of the city's main arteries. Profits on the development of this land should be more than enough to cover the railways' losses and still produce a healthy profit. By October, hopes the government, investors will be convinced enough to submit bids.

Argentina comes third among the privatisers of Latin America after Chile and Mexico, which have almost run through their lists of companies to be sold. Argentina has already sold its telephone company, state airline, two TV stations, oil and gas concessions, 6,200 miles of road-maintenance concessions and the railway that takes grain to the port of Bahia Blanca. It has raised around $8.5 billion and hopes to raise another $1.7 billion by next June 1992.

The government is now studying offers for one of its shipyards, the capital's racetrack, more oil rights and state-owned grain silos. Next on the block will be a steel mill and the capital's electricity company and waterworks, to be followed by natural gas, petro-chemicals, the mint, a shipping line and some banks.

So far, so good. But Argentina's privatisation express will screech to a halt if inflation becomes hyper again. For the moment, at least, inflation is declining: the monthly rate was down to 2.6% in July. The International Monetary Fund has approved a $1.04 billion standby loan, unlocking a further $325m from the World Bank. More good news.

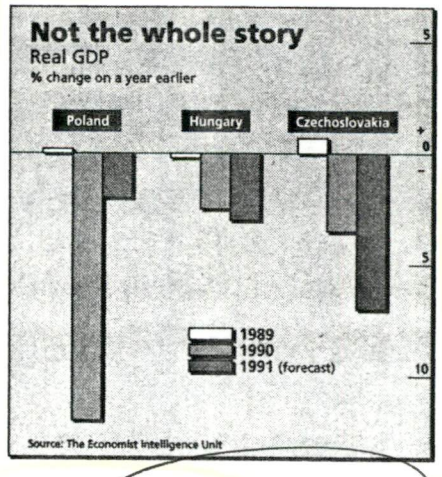
East European statistics

Looking for clues

WARSAW, PRAGUE AND BUDAPEST

NOT SO long ago, the production figures gushing out of the central-planning bureaucracies of Eastern Europe were uniformly optimistic and uniformly unreliable. These days, the same figures are uniformly pessimistic, but not necessarily more accurate than those in the old five-year plans. This is because statisticians are not yet measuring the growth of Eastern Europe's fast-growing private sector. The gloom painted by official statistics (see chart) is undoubtedly real. The region is in a fearful recession. But it may not be quite as black as it looks.

Consider some unofficial statistics gathered by *The Economist* in strolls down the equivalent of Fifth Avenue in Warsaw, Prague and Budapest. On Warsaw's Nowy Swiat are 82 retail shops; 73% are private, 18% are state-owned, and 8% are undergoing renovation. Foreigners are still a baffling novelty, however, and only 2% take credit cards. On the pedestrian bit of Vaci Utca in Budapest there are 57 retail shops, of which 57% are private, 42% are state-owned, and a big 35% take credit cards; not only is Buda-



pest full of foreign tourists, but Hungarians can also have Visa cards these days. On Wenceslas Square in Prague, by contrast, little has changed. There are 66 retail shops, of which a mere 15% are private, 84% are state-owned and 10% take credit cards. There is still a long way to go, even if things are better than two years ago.

Despite Prague's relatively poor showing, western businessmen are not ignoring Czechoslovakia. Office rents in Prague start at $80 per square metre in the centre of town, compared with $50 in Warsaw and $45 in Budapest, though this may have as much to do with Prague's inelastic supply of office space as with rising demand. Occupancy rates show that hotels catering to businessmen in all three cities are still doing well. The Prague Palace's occupancy rate is running at 75%, Warsaw's Marriott at 70% and Budapest's Forum a healthy 84%.

Business conditions still vary a lot. Getting a second telephone-line installed in Warsaw takes a month, even with the help of a $400 bribe. Without a bribe it takes between six months and forever. In Budapest, where business culture is more firmly rooted, it takes a month (for companies only) and an official payment of $1,250. In Prague the official cost is $66, the bribe is up to $600, and the time is two months. Once you have your second telephone, it will take 20 minutes to call London from Warsaw, or four hours to call New York. Calling London from Prague requires a wait of between only five and 30 minutes and calling New York only ten minutes. Calling London from Budapest takes a mere five minutes and New York only two.

The cost of living in the three countries does not seem to vary greatly, though purchasing power may be lowest in Czechoslovakia, the country the furthest behind in economic reform. The same basket of food—one loaf of bread, one packet of butter, one litre of milk, 150 grammes of ham, one imported Swiss chocolate bar and four bottles of domestic beer—costs $4.15 in Hungary, $5.40 in Poland and $4.46 in Czechoslovakia. The average wage is $150 a month in Hungary, $145 in Poland and $110 in Czechoslovakia.



The market at work

Foreigners, whose living costs are higher because they have to pay market rents, can no longer save much by changing money on the black market. There is no gap between official and unofficial exchange rates in Poland, although there remains a 7.5% gap in Hungary and a 3% gap in Czechoslovakia. Real, and relatively stable, exchange rates: now, there's a piece of good news.

From someone whom loves you

KANSAS CITY

MID-WAY between Father's Day (June 16th) and Halloween (October 31st), this is the worst of times for American publishers of greeting cards. Despite their success in speckling the calendar with "occasions" (Mother-in-law's Day is October 27th), people send fewer cards now than at any other time of the year. Hallmark Cards, the leader with a 44% share of a market worth almost $5 billion a year, is striving to change that by reviving an old habit.

Just as illiterate people in some poor countries still pay scribes to write letters for them, Hallmark is trying to persuade today's too-busy-to-write Americans to let it express their sentiments for them. That is how this private company, based in Kansas City with 15,000 employees, is getting people to send cards even on days when there is no "occasion". This latest marketing ploy is designed to boost sales in a maturing market that threatens to stop growing for the first time since 1945.

Some industry insiders trace the birth of Hallmark's so-called "non-occasion" cards to a death-of-a-pet card the firm's 700-strong creative staff produced in 1984. Examples of non-occasion cards include a new line of adult-to-child cards, called "To Kids With Love", which Hallmark introduced in January 1989. The number of cards in this series has grown to 125. They are supposed to help children aged 7 to 14 (and their parents) cope with growing up. Such cards include "Would a hug help?"; "Divorce won't change a thing between us"; "Sorry I made you feel bad"; and "You're perfectly wonderful—it's your room that's a mess."

The chatty style of the sentiments is carefully calculated. Researchers have informed the creative staff of Hallmark and its rivals that correct grammar makes cards harder to sell. Americans find conversational language "more meaningful". For instance, most of them say they always prefer the word "who" to the word "whom" in greeting cards even when it is ungrammatical.



Hallmark is so encouraged by the success of these cards that it has produced a series of 520 non-occasion cards for adults. Some seek to deepen friendships ("You're more than a friend, you're just like family") or simply to keep in touch ("Do you realise we've been friends for more than half our lives"). Others address almost every conceivable calamity, from loss of a job to alcoholism ("This is hard to say, but I think you're a much neater person when you're not drinking") or mental illness.

There is even a card to send to a prospective lover for those worried about contracting AIDS. "It isn't easy for me to bring this up, but I think we need to talk about our past relationships. It used to be that the past wasn't very important. But in today's world it really matters ... So let's talk before we go any further."

Hallmark's two biggest competitors—American Greetings with 30% of the market and Gibson Greetings with 8%—have followed Hallmark's lead. Non-occasion cards now account for more than 10% of the 7.3 billion greeting cards sold in America each year. Nobody knows how big non-occasion cards can become. But they too will eventually reach saturation. Perhaps the industry's next marketing frontier will be to get consumers to send cards to themselves.

II Who is HAVEL
Political Essays

OPEN LETTERS

Selected Writings 1965–1990

by

Václav Havel

Selected and Edited by Paul Wilson



ALFRED A. KNOPF *New York* 1991

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Preface

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Preface

I am unwilling to believe that this whole civilization is no more than a blind alley of history and a fatal error of the human spirit. More probably it represents a necessary phase that man and humanity must go through, one that man—if he survives—will ultimately, and on some higher level (unthinkable of course without the present phase), transcend.
—Václav Havel, "Thriller"

THE IDEA of putting together a selection of Václav Havel's nondramatic writing seemed at first like a simple enough proposition. The purpose was, and remains, for this to be a companion volume to *Letters to Olga, Disturbing the Peace,* and his plays. *Open Letters* will round out the picture these other works give us of Václav Havel as dramatist, writer, thinker, and future statesman.

The problem, however, was that many of Havel's major essays and articles had already been translated and published, and some, like "The Power of the Powerless"—Havel's most penetrating analysis of the totalitarian system and how people resist it—had been widely reprinted. It still made sense to bring these essays together in a single volume, but the risk was that such a volume might not have given readers who had been following Havel's work much that was new.

Thinking about this problem, I realized that the distinction between major and minor works in what I was trying to do was misleading. Havel's lesser-known pieces—his speeches, letters, newspaper articles, his *samizdat* reports meant mainly for friends, the profiles of people he admired, the conversations and interviews—provide us with the humus of his thinking and give us glimpses of the man that are sometimes

missing from his more substantial works. Therefore, they belong in a book that intends to present the reader with Havel the man, not just Havel the dissident thinker.

The twenty-five items assembled here cover Václav Havel's nondramatic writing from 1965—when he was a young playwright with the Theatre on the Balustrade in Prague—to his New Year's Address to Czechoslovakia on January 1, 1990, shortly after he had become the country's president. The chronological arrangement (with the exception of the first item, "Second Wind") comes naturally out of the book's purpose. Havel is, in the best sense of the word, an occasional writer; he responds, in his writing, to events, experiences, insights, arguments, states of mind. When his pieces are assembled in the order in which he wrote them, they become a chronicle both of his intellectual life, and, implicitly, of his times as well.

Many of Havel's essays were, in fact, agents of history. I don't know whether his private letter to Alexander Dubček in 1969 influenced the agonizing decision Dubček had to make at the time, but I remember clearly the deep transformation in the mood in Prague brought about by "Dear Dr. Husák," Havel's widely circulated open letter to the Czechoslovak president in 1975. This essay raised the hope that Husák's regime would one day end, made that end seem inevitable, and thus brought it closer. But the best testimony to the power of Havel's prose comes from the Polish politician and former Solidarity activist Zbygniew Bujak. In the late 1970s, when Bujak was a young activist trying to organize resistance to the communist bosses in the Ursus factory near Warsaw, he became discouraged at the lack of response and began to doubt the meaning of what he was doing. Then he came across a copy of "The Power of the Powerless," by Havel. "Its ideas," he told me, "strengthened us and persuaded us that what we were doing would not evaporate without a trace, that this was the source of our power, and that one day this power would manifest itself. . . .When I look at the victories of Solidarity and of Charter 77, I see in them an astonishing fulfillment of the prophecies contained in Havel's essay."

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FOR READERS as yet unfamiliar with Havel's other work, it may be worth reviewing, briefly, the phases of his life encompassed in this volume. In the earliest stage, up to the Soviet-led invasion of Czechoslovakia in August 1968 and its immediate aftermath, Havel was known mainly as a playwright, and only occasionally an essayist. When he became active in public life, in the mid-1960s, he spoke chiefly as a member of the editorial board of *Tvář* magazine and a member of the Union of Czechoslovak Writers. His chief target was not so much communism as it was the ideology of reform communism, that "peculiar dialectical dance of truth and lies" which suggested that with certain minor adjustments, the beast that Marx conceived, Lenin unleashed, and Stalin goaded into a fury could be tamed and domesticated. In an early speech to the Writers' Union ("On Evasive Thinking") Havel talks, with remarkable prescience, about the destruction and tragedy that result when language and ideology turn away from reality, when thought becomes disengaged from the world, when writers avoid problems by putting them in false contexts. Later, his quarrel with the reformers becomes more specific. "On the Theme of an Opposition," written during the Prague Spring of 1968, is his most openly political clash with that viewpoint.

In the 1970s, along with many of his old reform communist adversaries, Havel became an outcast and later an active dissenter. As a dramatist without a stage, he continued to write plays (some of his best, in fact, come from this period), but his impact as a playwright was now almost exclusively abroad. Inside Czechoslovakia his influence now came through his power as an essayist. He dissected aspects of the new repression, examining its effect on culture and everyday life ("Dear Dr. Husák"), on the way laws were applied ("The Trial," "Article 202," and "Article 303"), and on the growth of an "anti-political politics" in which dissidents of all hues harnessed the power of truth ("The Power of the Powerless"). He was a founding member and spokesman of the human rights "initia-

tive" Charter 77 and the Committee to Defend the Unjustly Prosecuted, and he published his own *samizdat* series of books called *Edice Expedice.* These activities, as well as his essays, landed him in prison in 1979 where, in a remarkable series of letters to his wife Olga, he was compelled by circumstances and the prison censor to dig deeply into his own personality and beliefs and explore their broader, more philosophical implications.

The essays Havel wrote on his return from prison in 1983 reflect this deeper view of things. In "Politics and Conscience," for instance, he returns to his old themes, but in a broader context this time, arguing that the problems the world faces are rooted in "the irrational momentum of anonymous, impersonal and inhuman power," and that while the crisis is deepest and most acute in communist countries, it is a worldwide phenomenon. In the meantime, Havel had become an international cause célèbre, which meant that he spent a good deal of his time talking to journalists, intellectuals, and activists from the West. This gave him the opportunity to reflect, as he does in "Anatomy of a Reticence," upon why there were such deep misunderstandings between people on either side of the Iron Curtain, when they should find themselves natural allies. Finally, when Mikhail Gorbachev, about whom Havel was initially skeptical, becomes head of the Soviet Union, a period begins in which Havel can see the end of communism, or at least its gradual transformation into something more tolerable. All his writing from the mid-eighties on is strongly colored by this conviction. In one of the last pieces in this book, "A Word About Words," he returns to an early theme: the destructive power of language, this time to examine the words that have contained the hopes and the horrors of this century. By now he has the experience of the dissident movement behind him, and he writes as someone who knows, at first hand, about "the mysterious power of words in human history."

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Preface

I HAVE excluded far more of Havel's prose than I have included. The most painful omissions were two of Havel's youthful essays, "The Anatomy of a Gag" and "On Dialectical Metaphysics," because they were too long and too abstract, and two of his later essays on theatre, because Havel had said much the same things elsewhere, more forcefully. I have included none of Havel's introductions to *samizdat* books or anthologies, and only one of his many profiles of friends and colleagues ("Thinking About František K.," which is more than just a reminiscence). Havel drafted countless declarations, protests, and brief public speeches, most of which are too occasional and too slight to use. Nor have I included any of the several statements he made in his own defense in court, mostly because the texts we have are not necessarily from Havel's own hand, but rather based on clandestinely procured transcriptions. As he became better known, Havel was asked for, and granted, many interviews. Some of these provide excellent surveys of his thought, but precisely for that reason they are repetitive; thus, with two exceptions, they too were excluded. Finally, in the year and a half before the "revolution" of 1989, Havel was a regular contributor to the underground (now legal) newspaper *Lidové noviny*. As interesting as these articles are historically, I felt they were too closely tied to specific events.

If there is one class of items I regret not being able to include, it is Havel's polemical articles. Havel never shied away from a good debate, not even when he ran the risk of alienating a colleague or disturbing the solidarity of the Charter 77 community. One important exchange was with Milan Kundera in late 1968 over the meaning of the popular resistance to the Soviet invasion—and more broadly, over how the Czechs and Slovaks view their own history. Another, in the late 1970s, was a debate with Ludvík Vaculík and Petr Pithart over the kinds of activities that were worth risking jail sentences for. In both cases, I felt it would have been unfair to publish Havel's side of the polemic without also including the texts he was responding to.

Preface

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As I WRITE this preface, more than a year has elapsed since the miraculous and sudden collapse of communism in Central Europe. The euphoric hopes of a year ago seem dampened, though not extinguished, by the stark economic difficulties faced by the new democracies, by the resurgence of old, hard-line habits of rule in the Soviet Union, and by the war in the Middle East and its aftermath. It is a tribute to the vitality and depth of Václav Havel's writing that, though these essays were written in a different world and a different time, they still illuminate the present. For did not Havel warn that the damage to individuals and societies left behind by totalitarianism would be worse than even its victims could imagine, and take a long time to repair? Did he not point out that the root cause of war does not lie in the weaponry that each side deploys against the other, but in the political realities of a divided world, and that the greatest danger—one that should be clearly foreseeable—comes from willful indifference to regimes that humiliate and oppress and silence their own citizens in the name of some expediency, or grand, utopian scheme? And does he not remind us, both in his words and by his example, that the starting point for change must be the human conscience at work in the "hidden sphere" of society, and that not to believe in its power, despite all the forces arrayed against it, is at the very least a matter of bad faith?

PAUL WILSON
Toronto, March 1991

Acknow

DURING my work on thi
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what we were doing. Shouldn't we be coming up with other methods, other ways?

"Then came the essay by Havel. Reading it gave us the theoretical underpinnings for our activity. It maintained our spirits; we did not give up, and a year later—in August 1980—it became clear that the party apparatus and the factory management were afraid of us. We mattered. And the rank and file saw us as leaders of the movement. When I look at the victories of Solidarity, and of Charter 77, I see in them an astonishing fulfillment of the prophecies and knowledge contained in Havel's essay."

Translated by Paul Wilson, "The Power of the Powerless" has appeared several times in English, foremost in *The Power of the Powerless: Citizens Against the State in Central-Eastern Europe,* edited by John Keane, with an Introduction by Steven Lukes (London: Hutchinson, 1985). That volume includes a selection of nine other essays from the original Czech and Slovak collection.

I

A SPECTER is haunting Eastern Europe: the specter of what in the West is called "dissent." This specter has not appeared out of thin air. It is a natural and inevitable consequence of the present historical phase of the system it is haunting. It was born at a time when this system, for a thousand reasons, can no longer base itself on the unadulterated, brutal, and arbitrary application of power, eliminating all expressions of nonconformity. What is more, the system has become so ossified politically that there is practically no way for such nonconformity to be implemented within its official structures.

Who are these so-called dissidents? Where does their point of view come from, and what importance does it have? What is the significance of the "independent initiatives" in which "dissidents" collaborate, and what real chances do such initiatives have of success? Is it appropriate to refer to "dissidents" as an opposition? If so, what exactly is such an opposition within the framework of this system? What does it do? What role does it play in society? What are its hopes and on what are they based? Is it within the power of the "dissidents"—as a category of subcitizen outside the power establishment—to have any influence at all on society and the social system? Can they actually change anything?

I think that an examination of these questions—an examination of the potential of the "powerless"—can only begin with an examination of the nature of power in the circumstances in which these powerless people operate.

II

OUR SYSTEM is most frequently characterized as a dictatorship or, more precisely, as the dictatorship of a political bureaucracy over a society which has undergone economic and social leveling. I am afraid that the term "dictatorship," regardless of how intelligible it may otherwise be, tends to

obscure rather than clarify the real nature of power in this system. We usually associate the term with the notion of a small group of people who take over the government of a given country by force; their power is wielded openly, using the direct instruments of power at their disposal, and they are easily distinguished socially from the majority over whom they rule. One of the essential aspects of this traditional or classical notion of dictatorship is the assumption that it is temporary, ephemeral, lacking historical roots. Its existence seems to be bound up with the lives of those who established it. It is usually local in extent and significance, and regardless of the ideology it utilizes to grant itself legitimacy, its power derives ultimately from the numbers and the armed might of its soldiers and police. The principal threat to its existence is felt to be the possibility that someone better equipped in this sense might appear and overthrow it.

Even this very superficial overview should make it clear that the system in which we live has very little in common with a classical dictatorship. In the first place, our system is not limited in a local, geographical sense; rather, it holds sway over a huge power bloc controlled by one of the two superpowers. And although it quite naturally exhibits a number of local and historical variations, the range of these variations is fundamentally circumscribed by a single, unifying framework throughout the power bloc. Not only is the dictatorship everywhere based on the same principles and structured in the same way (that is, in the way evolved by the ruling superpower), but each country has been completely penetrated by a network of manipulatory instruments controlled by the superpower center and totally subordinated to its interests. In the stalemated world of nuclear parity, of course, that circumstance endows the system with an unprecedented degree of external stability compared with classical dictatorships. Many local crises which, in an isolated state, would lead to a change in the system, can be resolved through direct intervention by the armed forces of the rest of the bloc.

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their lack of historical roots (frequently they appear to be no more than historical freaks, the fortuitous consequence of fortuitous social processes or of human and mob tendencies), the same cannot be said so facilely about our system. For even though our dictatorship has long since alienated itself completely from the social movements that give birth to it, the authenticity of these movements (and I am thinking of the proletarian and socialist movements of the nineteenth century) gives it undeniable historicity. These origins provided a solid foundation of sorts on which it could build until it became the utterly new social and political reality it is today, which has become so inextricably a part of the structure of the modern world. A feature of those historical origins was the "correct" understanding of social conflicts in the period from which those original movements emerged. The fact that at the very core of this "correct" understanding there was a genetic disposition toward the monstrous alienation characteristic of its subsequent development is not essential here. And in any case, this element also grew organically from the climate of that time and therefore can be said to have its origin there as well.

One legacy of that original "correct" understanding is a third peculiarity that makes our systems different from other modern dictatorships: it commands an incomparably more precise, logically structured, generally comprehensible and, in essence, extremely flexible ideology that, in its elaborateness and completeness, is almost a secularized religion. It offers a ready answer to any question whatsoever; it can scarcely be accepted only in part, and accepting it has profound implications for human life. In an era when metaphysical and existential certainties are in a state of crisis, when people are being uprooted and alienated and are losing their sense of what this world means, this ideology inevitably has a certain hypnotic charm. To wandering humankind it offers an immediately available home: all one has to do is accept it, and suddenly everything becomes clear once more, life takes on new meaning, and all mysteries, unanswered questions, anxi-

ety, and loneliness vanish. Of course, one pays dearly for this low-rent home: the price is abdication of one's own reason, conscience, and responsibility, for an essential aspect of this ideology is the consignment of reason and conscience to a higher authority. The principle involved here is that the center of power is identical with the center of truth. (In our case, the connection with Byzantine theocracy is direct: the highest secular authority is identical with the highest spiritual authority.) It is true of course that, all this aside, ideology no longer has any great influence on people, at least within our bloc (with the possible exception of Russia, where the serf mentality, with its blind, fatalistic respect for rulers and its automatic acceptance of all their claims, is still dominant and combined with a superpower patriotism which traditionally places the interests of empire higher than the interests of humanity). But this is not important, because ideology plays its role in our system very well (an issue to which I will return) precisely because it is what it is.

Fourth, the technique of exercising power in traditional dictatorships contains a necessary element of improvisation. The mechanisms for wielding power are for the most part not established firmly, and there is considerable room for accident and for the arbitrary and unregulated application of power. Socially, psychologically, and physically, conditions still exist for the expression of some form of opposition. In short, there are many seams on the surface which can split apart before the entire power structure has managed to stabilize. Our system, on the other hand, has been developing in the Soviet Union for over sixty years, and for approximately thirty years in Eastern Europe; moreover, several of its long-established structural features are derived from Czarist absolutism. In terms of the physical aspects of power, this has led to the creation of such intricate and well-developed mechanisms for the direct and indirect manipulation of the entire population that, as a physical power base, it represents something radically new. At the same time, let us not forget that the system is made significantly more effective by state own-

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Finally, if an atmosphere of revolutionary excitement, heroism, dedication, and boisterous violence on all sides characterizes classical dictatorships, then the last traces of such an atmosphere have vanished from the Soviet bloc. For some time now this bloc has ceased to be a kind of enclave, isolated from the rest of the developed world and immune to processes occurring in it. To the contrary, the Soviet bloc is an integral part of that larger world, and it shares and shapes the world's destiny. This means in concrete terms that the hierarchy of values existing in the developed countries of the West has, in essence, appeared in our society (the long period of co-existence with the West has only hastened this process). In other words, what we have here is simply another form of the consumer and industrial society, with all its concomitant social, intellectual, and psychological consequences. It is impossible to understand the nature of power in our system properly without taking this into account.

The profound difference between our system—in terms of the nature of power—and what we traditionally understand by dictatorship, a difference I hope is clear even from this quite superficial comparison, has caused me to search for some term appropriate for our system, purely for the purposes of this essay. If I refer to it henceforth as a "post-totalitarian" system, I am fully aware that this is perhaps not the most precise term, but I am unable to think of a better one. I do not wish to imply by the prefix "post-" that the system is no longer totalitarian; on the contrary, I mean that it is totalitarian in a way fundamentally different from classical dictatorships, different from totalitarianism as we usually understand it.

The circumstances I have mentioned, however, form only

a circle of conditional factors and a kind of phenomenal framework for the actual composition of power in the post-totalitarian system, several aspects of which I shall now attempt to identify.

III

THE MANAGER of a fruit-and-vegetable shop places in his window, among the onions and carrots, the slogan: "Workers of the world, unite!" Why does he do it? What is he trying to communicate to the world? Is he genuinely enthusiastic about the idea of unity among the workers of the world? Is his enthusiasm so great that he feels an irrepressible impulse to acquaint the public with his ideals? Has he really given more than a moment's thought to how such a unification might occur and what it would mean?

I think it can safely be assumed that the overwhelming majority of shopkeepers never think about the slogans they put in their windows, nor do they use them to express their real opinions. That poster was delivered to our greengrocer from the enterprise headquarters along with the onions and carrots. He put them all into the window simply because it has been done that way for years, because everyone does it, and because that is the way it has to be. If he were to refuse, there could be trouble. He could be reproached for not having the proper decoration in his window; someone might even accuse him of disloyalty. He does it because these things must be done if one is to get along in life. It is one of the thousands of details that guarantee him a relatively tranquil life "in harmony with society," as they say.

Obviously the greengrocer is indifferent to the semantic content of the slogan on exhibit; he does not put the slogan in his window from any personal desire to acquaint the public with the ideal it expresses. This, of course, does not mean that his action has no motive or significance at all, or that the slogan communicates nothing to anyone. The slogan is really a sign, and as such it contains a subliminal but very definite

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message. Verbally, it might be expressed this way: "I, the greengrocer XY, live here and I know what I must do. I behave in the manner expected of me. I can be depended upon and am beyond reproach. I am obedient and therefore I have the right to be left in peace." This message, of course, has an addressee: it is directed above, to the greengrocer's superior, and at the same time it is a shield that protects the greengrocer from potential informers. The slogan's real meaning, therefore, is rooted firmly in the greengrocer's existence. It reflects his vital interests. But what are those vital interests?

Let us take note: if the greengrocer had been instructed to display the slogan "I am afraid and therefore unquestioningly obedient," he would not be nearly as indifferent to its semantics, even though the statement would reflect the truth. The greengrocer would be embarrassed and ashamed to put such an unequivocal statement of his own degradation in the shop window, and quite naturally so, for he is a human being and thus has a sense of his own dignity. To overcome this complication, his expression of loyalty must take the form of a sign which, at least on its textual surface, indicates a level of disinterested conviction. It must allow the greengrocer to say, "What's wrong with the workers of the world uniting?" Thus the sign helps the greengrocer to conceal from himself the low foundations of his obedience, at the same time concealing the low foundations of power. It hides them behind the facade of something high. And that something is ideology.

Ideology is a specious way of relating to the world. It offers human beings the illusion of an identity, of dignity, and of morality while making it easier for them to part with them. As the repository of something suprapersonal and objective, it enables people to deceive their conscience and conceal their true position and their inglorious *modus vivendi*, both from the world and from themselves. It is a very pragmatic but, at the same time, an apparently dignified way of legitimizing what is above, below, and on either side. It is directed toward people and toward God. It is a veil behind which human beings can hide their own fallen existence, their trivialization,

and their adaptation to the status quo. It is an excuse that everyone can use, from the greengrocer, who conceals his fear of losing his job behind an alleged interest in the unification of the workers of the world, to the highest functionary, whose interest in staying in power can be cloaked in phrases about service to the working class. The primary excusatory function of ideology, therefore, is to provide people, both as victims and pillars of the post-totalitarian system, with the illusion that the system is in harmony with the human order and the order of the universe.

The smaller a dictatorship and the less stratified by modernization the society under it, the more directly the will of the dictator can be exercised. In other words, the dictator can employ more or less naked discipline, avoiding the complex processes of relating to the world and of self-justification which ideology involves. But the more complex the mechanisms of power become, the larger and more stratified the society they embrace, and the longer they have operated historically, the more individuals must be connected to them from outside, and the greater the importance attached to the ideological excuse. It acts as a kind of bridge between the regime and the people, across which the regime approaches the people and the people approach the regime. This explains why ideology plays such an important role in the post-totalitarian system: that complex machinery of units, hierarchies, transmission belts, and indirect instruments of manipulation which ensure in countless ways the integrity of the regime, leaving nothing to chance, would be quite simply unthinkable without ideology acting as its all-embracing excuse and as the excuse for each of its parts.

IV

BETWEEN the aims of the post-totalitarian system and the aims of life there is a yawning abyss: while life, in its essence, moves toward plurality, diversity, independent self-constitution, and self-organization, in short, toward the fulfillment of its own

freedom, the post-totalitarian system demands conformity, uniformity, and discipline. While life ever strives to create new and improbable structures, the post-totalitarian system contrives to force life into its most probable states. The aims of the system reveal its most essential characteristic to be introversion, a movement toward being ever more completely and unreservedly itself, which means that the radius of its influence is continually widening as well. This system serves people only to the extent necessary to ensure that people will serve it. Anything beyond this, that is to say, anything which leads people to overstep their predetermined roles is regarded by the system as an attack upon itself. And in this respect it is correct: every instance of such transgression is a genuine denial of the system. It can be said, therefore, that the inner aim of the post-totalitarian system is not mere preservation of power in the hands of a ruling clique, as appears to be the case at first sight. Rather, the social phenomenon of self-preservation is subordinated to something higher, to a kind of blind automatism which drives the system. No matter what position individuals hold in the hierarchy of power, they are not considered by the system to be worth anything in themselves, but only as things intended to fuel and serve this automatism. For this reason, an individual's desire for power is admissible only in so far as its direction coincides with the direction of the automatism of the system.

Ideology, in creating a bridge of excuses between the system and the individual, spans the abyss between the aims of the system and the aims of life. It pretends that the requirements of the system derive from the requirements of life. It is a world of appearances trying to pass for reality.

The post-totalitarian system touches people at every step, but it does so with its ideological gloves on. This is why life in the system is so thoroughly permeated with hypocrisy and lies: government by bureaucracy is called popular government; the working class is enslaved in the name of the working class; the complete degradation of the individual is presented as his ultimate liberation; depriving people of in-

formation is called making it available; the use of power to manipulate is called the public control of power, and the arbitrary abuse of power is called observing the legal code; the repression of culture is called its development; the expansion of imperial influence is presented as support for the oppressed; the lack of free expression becomes the highest form of freedom; farcical elections become the highest form of democracy; banning independent thought becomes the most scientific of world views; military occupation becomes fraternal assistance. Because the regime is captive to its own lies, it must falsify everything. It falsifies the past. It falsifies the present, and it falsifies the future. It falsifies statistics. It pretends not to possess an omnipotent and unprincipled police apparatus. It pretends to respect human rights. It pretends to persecute no one. It pretends to fear nothing. It pretends to pretend nothing.

Individuals need not believe all these mystifications, but they must behave as though they did, or they must at least tolerate them in silence, or get along well with those who work with them. For this reason, however, they must live within a lie. They need not accept the lie. It is enough for them to have accepted their life with it and in it. For by this very fact, individuals confirm the system, fulfill the system, make the system, *are* the system.

V

WE HAVE seen that the real meaning of the greengrocer's slogan has nothing to do with what the text of the slogan actually says. Even so, this real meaning is quite clear and generally comprehensible because the code is so familiar: the greengrocer declares his loyalty (and he can do no other if his declaration is to be accepted) in the only way the regime is capable of hearing; that is, by accepting the prescribed ritual, by accepting appearances as reality, by accepting the given rules of the game. In doing so, however, he has himself become a player in the game, thus making it possible for the game to go on, for it to exist in the first place.

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If ideology was originally a bridge between the system and the individual as an individual, then the moment he steps on to this bridge it becomes at the same time a bridge between the system and the individual as a component of the system. That is, if ideology originally facilitated (by acting outwardly) the constitution of power by serving as a psychological excuse, then from the moment that excuse is accepted, it constitutes power inwardly, becoming an active component of that power. It begins to function as the principal instrument of ritual communication *within* the system of power.

The whole power structure (and we have already discussed its physical articulation) could not exist at all if there were not a certain metaphysical order binding all its components together, interconnecting them and subordinating them to a uniform method of accountability, supplying the combined operation of all these components with rules of the game, that is, with certain regulations, limitations, and legalities. This metaphysical order is fundamental to, and standard throughout, the entire power structure; it integrates its communication system and makes possible the internal exchange and transfer of information and instructions. It is rather like a collection of traffic signals and directional signs, giving the process shape and structure. This metaphysical order guarantees the inner coherence of the totalitarian power structure. It is the glue holding it together, its binding principle, the instrument of its discipline. Without this glue the structure as a totalitarian structure would vanish; it would disintegrate into individual atoms chaotically colliding with one another in their unregulated particular interests and inclinations. The entire pyramid of totalitarian power, deprived of the element that binds it together, would collapse in upon itself, as it were, in a kind of material implosion.

As the interpretation of reality by the power structure, ideology is always subordinated ultimately to the interests of the structure. Therefore, it has a natural tendency to disengage itself from reality, to create a world of appearances, to become ritual. In societies where there is public competition for power and therefore public control of that power, there

also exists quite naturally public control of the way that power legitimates itself ideologically. Consequently, in such conditions there are always certain correctives that effectively prevent ideology from abandoning reality altogether. Under totalitarianism, however, these correctives disappear, and thus there is nothing to prevent ideology from becoming more and more removed from reality, gradually turning into what it has already become in the post-totalitarian system: a world of appearances, a mere ritual, a formalized language deprived of semantic contact with reality and transformed into a system of ritual signs that replace reality with pseudo-reality.

Yet, as we have seen, ideology becomes at the same time an increasingly important component of power, a pillar providing it with both excusatory legitimacy and an inner coherence. As this aspect grows in importance, and as it gradually loses touch with reality, it acquires a peculiar but very real strength. It becomes reality itself, albeit a reality altogether self-contained, one that on certain levels (chiefly inside the power structure) may have even greater weight than reality as such. Increasingly, the virtuosity of the ritual becomes more important than the reality hidden behind it. The significance of phenomena no longer derives from the phenomena themselves, but from their locus as concepts in the ideological context. Reality does not shape theory, but rather the reverse. Thus power gradually draws closer to ideology than it does to reality; it draws its strength from theory and becomes entirely dependent on it. This inevitably leads, of course, to a paradoxical result: rather than theory, or rather ideology, serving power, power begins to serve ideology. It is as though ideology had appropriated power from power, as though it had become dictator itself. It then appears that theory itself, ritual itself, ideology itself, makes decisions that affect people, and not the other way around.

If ideology is the principal guarantee of the inner consistency of power, it becomes at the same time an increasingly important guarantee of its continuity. Whereas succession to power in classical dictatorship is always a rather complicated

affair (the pretenders having nothing to give their claims reasonable legitimacy, thereby forcing them always to resort to confrontations of naked power), in the post-totalitarian system power is passed on from person to person, from clique to clique, and from generation to generation in an essentially more regular fashion. In the selection of pretenders, a new "king-maker" takes part: it is ritual legitimation, the ability to rely on ritual, to fulfill it and use it, to allow oneself, as it were, to be borne aloft by it. Naturally, power struggles exist in the post-totalitarian system as well, and most of them are far more brutal than in an open society, for the struggle is not open, regulated by democratic rules, and subject to public control, but hidden behind the scenes. (It is difficult to recall a single instance in which the First Secretary of a ruling Communist Party has been replaced without the various military and security forces being placed at least on alert.) This struggle, however, can never (as it can in classical dictatorships) threaten the very essence of the system and its continuity. At most it will shake up the power structure, which will recover quickly precisely because the binding substance—ideology—remains undisturbed. No matter who is replaced by whom, succession is only possible against the backdrop and within the framework of a common ritual. It can never take place by denying that ritual.

Because of this dictatorship of the ritual, however, power becomes clearly anonymous. Individuals are almost dissolved in the ritual. They allow themselves to be swept along by it and frequently it seems as though ritual alone carries people from obscurity into the light of power. Is it not characteristic of the post-totalitarian system that, on all levels of the power hierarchy, individuals are increasingly being pushed aside by faceless people, puppets, those uniformed flunkeys of the rituals and routines of power?

The automatic operation of a power structure thus dehumanized and made anonymous is a feature of the fundamental automatism of this system. It would seem that it is precisely the *diktat*s of this automatism which select people lacking in-

dividual will for the power structure, that it is precisely the *diktat* of the empty phrase which summons to power people who use empty phrases as the best guarantee that the automatism of the post-totalitarian system will continue.

Western Sovietologists often exaggerate the role of individuals in the post-totalitarian system and overlook the fact that the ruling figures, despite the immense power they possess through the centralized structure of power, are often no more than blind executors of the system's own internal laws—laws they themselves never can, and never do, reflect upon. In any case, experience has taught us again and again that this automatism is far more powerful than the will of any individual; and should someone possess a more independent will, he must conceal it behind a ritually anonymous mask in order to have an opportunity to enter the power hierarchy at all. And when the individual finally gains a place there and tries to make his will felt within it, that automatism, with its enormous inertia, will triumph sooner or later, and either the individual will be ejected by the power structure like a foreign organism, or he will be compelled to resign his individuality gradually, once again blending with the automatism and becoming its servant, almost indistinguishable from those who preceded him and those who will follow. (Let us recall, for instance, the development of Husák or Gomułka.) The necessity of continually hiding behind and relating to ritual means that even the more enlightened members of the power structure are often obsessed with ideology. They are never able to plunge straight to the bottom of naked reality, and they always confuse it, in the final analysis, with ideological pseudoreality. (In my opinion, one of the reasons the Dubček leadership lost control of the situation in 1968 was precisely because, in extreme situations and in final questions, its members were never capable of extricating themselves completely from the world of appearances.)

It can be said, therefore, that ideology, as that instrument of internal communication which assures the power structure of inner cohesion is, in the post-totalitarian system, some-

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thing that transcends the physical aspects of power, something that dominates it to a considerable degree and, therefore, tends to assure its continuity as well. It is one of the pillars of the system's external stability. This pillar, however, is built on a very unstable foundation. It is built on lies. It works only as long as people are willing to live within the lie.

VI

WHY IN FACT did our greengrocer have to put his loyalty on display in the shop window? Had he not already displayed it sufficiently in various internal or semipublic ways? At trade union meetings, after all, he had always voted as he should. He had always taken part in various competitions. He voted in elections like a good citizen. He had even signed the "anti-Charter." Why, on top of all that, should he have to declare his loyalty publicly? After all, the people who walk past his window will certainly not stop to read that, in the greengrocer's opinion, the workers of the world ought to unite. The fact of the matter is, they don't read the slogan at all, and it can be fairly assumed they don't even see it. If you were to ask a woman who had stopped in front of his shop what she saw in the window, she could certainly tell whether or not they had tomatoes today, but it is highly unlikely that she noticed the slogan at all, let alone what it said.

It seems senseless to require the greengrocer to declare his loyalty publicly. But it makes sense nevertheless. People ignore his slogan, but they do so because such slogans are also found in other shop windows, on lampposts, bulletin boards, in apartment windows, and on buildings; they are everywhere, in fact. They form part of the panorama of everyday life. Of course, while they ignore the details, people are very aware of that panorama as a whole. And what else is the greengrocer's slogan but a small component in that huge backdrop to daily life?

The greengrocer had to put the slogan in his window, there-

fore, not in the hope that someone might read it or be persuaded by it, but to contribute, along with thousands of other slogans, to the panorama that everyone is very much aware of. This panorama, of course, has a subliminal meaning as well: it reminds people where they are living and what is expected of them. It tells them what everyone else is doing, and indicates to them what they must do as well, if they don't want to be excluded, to fall into isolation, alienate themselves from society, break the rules of the game, and risk the loss of their peace and tranquility and security.

The woman who ignored the greengrocer's slogan may well have hung a similar slogan just an hour before in the corridor of the office where she works. She did it more or less without thinking, just as our greengrocer did, and she could do so precisely because she was doing it against the background of the general panorama and with some awareness of it, that is, against the background of the panorama of which the greengrocer's shop window forms a part. When the greengrocer visits her office, he will not notice her slogan either, just as she failed to notice his. Nevertheless, their slogans are mutually dependent: both were displayed with some awareness of the general panorama and, we might say, under its *diktat.* Both, however, assist in the creation of that panorama, and therefore they assist in the creation of that *diktat* as well. The greengrocer and the office worker have both adapted to the conditions in which they live, but in doing so, they help to create those conditions. They do what is done, what is to be done, what must be done, but at the same time—by that very token—they confirm that it must be done in fact. They conform to a particular requirement and in so doing they themselves perpetuate that requirement. Metaphysically speaking, without the greengrocer's slogan the office worker's slogan could not exist, and vice versa. Each proposes to the other that something be repeated and each accepts the other's proposal. Their mutual indifference to each other's slogans is only an illusion: in reality, by exhibiting their slogans, each compels the other to accept the rules of the game and to

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confirm thereby the power that requires the slogans in the first place. Quite simply, each helps the other to be obedient. Both are objects in a system of control, but at the same time they are its subjects as well. They are both victims of the system and its instruments.

If an entire district town is plastered with slogans that no one reads, it is on the one hand a message from the district secretary to the regional secretary, but it is also something more: a small example of the principle of social auto-totality at work. Part of the essence of the post-totalitarian system is that it draws everyone into its sphere of power, not so they may realize themselves as human beings, but so they may surrender their human identity in favor of the identity of the system, that is, so they may become agents of the system's general automatism and servants of its self-determined goals, so they may participate in the common responsibility for it, so they may be pulled into and ensnared by it, like Faust by Mephistopheles. More than this: so they may create through their involvement a general norm and, thus, bring pressure to bear on their fellow citizens. And further: so they may learn to be comfortable with their involvement, to identify with it as though it were something natural and inevitable and, ultimately, so they may—with no external urging—come to treat any non-involvement as an abnormality, as arrogance, as an attack on themselves, as a form of dropping out of society. By pulling everyone into its power structure, the post-totalitarian system makes everyone an instrument of a mutual totality, the auto-totality of society.

Everyone, however, is in fact involved and enslaved, not only the greengrocers but also the prime ministers. Differing positions in the hierarchy merely establish differing degrees of involvement: the greengrocer is involved only to a minor extent, but he also has very little power. The prime minister, naturally, has greater power, but in return he is far more deeply involved. Both, however, are unfree, each merely in a somewhat different way. The real accomplice in this involvement, therefore, is not another person, but the system itself.

Position in the power hierarchy determines the degree of responsibility and guilt, but it gives no one unlimited responsibility and guilt, nor does it completely absolve anyone. Thus the conflict between the aims of life and the aims of the system is not a conflict between two socially defined and separate communities; and only a very generalized view (and even that only approximative) permits us to divide society into the rulers and the ruled. Here, by the way, is one of the most important differences between the post-totalitarian system and classical dictatorships, in which this line of conflict can still be drawn according to social class. In the post-totalitarian system, this line runs *de facto* through each person, for everyone in his own way is both a victim and a supporter of the system. What we understand by the system is not, therefore, a social order imposed by one group upon another, but rather something which permeates the entire society and is a factor in shaping it, something which may seem impossible to grasp or define (for it is in the nature of a mere principle), but which is expressed by the entire society as an important feature of its life.

The fact that human beings have created, and daily create, this self-directed system through which they divest themselves of their innermost identity is not therefore the result of some incomprehensible misunderstanding of history, nor is it history somehow gone off its rails. Neither is it the product of some diabolical higher will which has decided, for reasons unknown, to torment a portion of humanity in this way. It can happen and did happen only because there is obviously in modern humanity a certain tendency toward the creation, or at least the toleration, of such a system. There is obviously something in human beings which responds to this system, something they reflect and accommodate, something within them which paralyzes every effort of their better selves to revolt. Human beings are compelled to live within a lie, but they can be compelled to do so only because they are in fact capable of living in this way. Therefore not only does the system alienate humanity, but at the same time alienated hu-

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The essential aims of life are present naturally in every person. In everyone there is some longing for humanity's rightful dignity, for moral integrity, for free expression of being and a sense of transcendence over the world of existence. Yet, at the same time, each person is capable, to a greater or lesser degree, of coming to terms with living within the lie. Each person somehow succumbs to a profane trivialization of his inherent humanity, and to utilitarianism. In everyone there is some willingness to merge with the anonymous crowd and to flow comfortably along with it down the river of pseudo-life. This is much more than a simple conflict between two identities. It is something far worse: it is a challenge to the very notion of identity itself.

In highly simplified terms, it could be said that the post-totalitarian system has been built on foundations laid by the historical encounter between dictatorship and the consumer society. Is it not true that the far-reaching adaptability to living a lie and the effortless spread of social auto-totality have some connection with the general unwillingness of consumption-oriented people to sacrifice some material certainties for the sake of their own spiritual and moral integrity? With their willingness to surrender higher values when faced with the trivializing temptations of modern civilization? With their vulnerability to the attractions of mass indifference? And in the end, is not the grayness and the emptiness of life in the post-totalitarian system only an inflated caricature of modern life in general? And do we not in fact stand (although in the external measures of civilization, we are far behind) as a kind of warning to the West, revealing to its own latent tendencies?

VII

Let us now imagine that one day something in our greengrocer snaps and he stops putting up the slogans merely to ingratiate himself. He stops voting in elections he knows are a farce. He begins to say what he really thinks at political meetings. And he even finds the strength in himself to express solidarity with those whom his conscience commands him to support. In this revolt the greengrocer steps out of living within the lie. He rejects the ritual and breaks the rules of the game. He discovers once more his suppressed identity and dignity. He gives his freedom a concrete significance. His revolt is an attempt to live within the truth.

The bill is not long in coming. He will be relieved of his post as manager of the shop and transferred to the warehouse. His pay will be reduced. His hopes for a holiday in Bulgaria will evaporate. His children's access to higher education will be threatened. His superiors will harass him and his fellow workers will wonder about him. Most of those who apply these sanctions, however, will not do so from any authentic inner conviction but simply under pressure from conditions, the same conditions that once pressured the greengrocer to display the official slogans. They will persecute the greengrocer either because it is expected of them, or to demonstrate their loyalty, or simply as part of the general panorama, to which belongs an awareness that this is how situations of this sort are dealt with, that this, in fact, is how things are always done, particularly if one is not to become suspect oneself. The executors, therefore, behave essentially like everyone else, to a greater or lesser degree: as components of the post-totalitarian system, as agents of its automatism, as petty instruments of the social auto-totality.

Thus the power structure, through the agency of those who carry out the sanctions, those anonymous components of the system, will spew the greengrocer from its mouth. The system, through its alienating presence in people, will punish him for his rebellion. It must do so because the logic of its automa-

tism and self-defense dictate it. The greengrocer has not committed a simple, individual offense, isolated in its own uniqueness, but something incomparably more serious. By breaking the rules of the game, he has disrupted the game as such. He has exposed it as a mere game. He has shattered the world of appearances, the fundamental pillar of the system. He has upset the power structure by tearing apart what holds it together. He has demonstrated that living a lie is living a lie. He has broken through the exalted facade of the system and exposed the real, base foundations of power. He has said that the emperor is naked. And because the emperor is in fact naked, something extremely dangerous has happened: by his action, the greengrocer has addressed the world. He has enabled everyone to peer behind the curtain. He has shown everyone that it *is* possible to live within the truth. Living within the lie can constitute the system only if it is universal. The principle must embrace and permeate everything. There are no terms whatsoever on which it can co-exist with living within the truth, and therefore everyone who steps out of line denies it in principle and threatens it in its entirety.

This is understandable: as long as appearance is not confronted with reality, it does not seem to be appearance. As long as living a lie is not confronted with living the truth, the perspective needed to expose its mendacity is lacking. As soon as the alternative appears, however, it threatens the very existence of appearance and living a lie in terms of what they are, both their essence and their all-inclusiveness. And at the same time, it is utterly unimportant how large a space this alternative occupies: its power does not consist in its physical attributes but in the light it casts on those pillars of the system and on its unstable foundations. After all, the greengrocer was a threat to the system not because of any physical or actual power he had, but because his action went beyond itself, because it illuminated its surroundings and, of course, because of the incalculable consequences of that illumination. In the post-totalitarian system, therefore, living within the truth has more than a mere existential dimension (return-

ing humanity to its inherent nature), or a noetic dimension (revealing reality as it is), or a moral dimension (setting an example for others). It also has an unambiguous political dimension. If the main pillar of the system is living a lie, then it is not surprising that the fundamental threat to it is living the truth. This is why it must be suppressed more severely than anything else.

In the post-totalitarian system, truth in the widest sense of the word has a very special import, one unknown in other contexts. In this system, truth plays a far greater (and, above all, a far different) role as a factor of power, or as an outright political force. How does the power of truth operate? How does truth as a factor of power work? How can its power—as power—be realized?

VIII

INDIVIDUALS can be alienated from themselves only because there is something in them to alienate. The terrain of this violation is their authentic existence. Living the truth is thus woven directly into the texture of living a lie. It is the repressed alternative, the authentic aim to which living a lie is an inauthentic response. Only against this background does living a lie make any sense: it exists *because* of that background. In its excusatory, chimerical rootedness in the human order, it is a response to nothing other than the human predisposition to truth. Under the orderly surface of the life of lies, therefore, there slumbers the hidden sphere of life in its real aims, of its hidden openness to truth.

The singular, explosive, incalculable political power of living within the truth resides in the fact that living openly within the truth has an ally, invisible to be sure, but omnipresent: this hidden sphere. It is from this sphere that life lived openly in the truth grows; it is to this sphere that it speaks, and in it that it finds understanding. This is where the potential for communication exists. But this place is hidden and therefore, from the perspective of power, very dan-

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gerous. The complex ferment that takes place within it goes on in semidarkness, and by the time it finally surfaces into the light of day as an assortment of shocking surprises to the system, it is usually too late to cover them up in the usual fashion. Thus they create a situation in which the regime is confounded, invariably causing panic and driving it to react in inappropriate ways.

It seems that the primary breeding ground for what might, in the widest possible sense of the word, be understood as an opposition in the post-totalitarian system is living within the truth. The confrontation between these opposition forces and the powers that be, of course, will obviously take a form essentially different from that typical of an open society or a classical dictatorship. Initially, this confrontation does not take place on the level of real, institutionalized, quantifiable power which relies on the various instruments of power, but on a different level altogether: the level of human consciousness and conscience, the existential level. The effective range of this special power cannot be measured in terms of disciples, voters, or soldiers, because it lies spread out in the fifth column of social consciousness, in the hidden aims of life, in human beings' repressed longing for dignity and fundamental rights, for the realization of their real social and political interests. Its power, therefore, does not reside in the strength of definable political or social groups, but chiefly in the strength of a potential, which is hidden throughout the whole of society, including the official power structures of that society. Therefore this power does not rely on soldiers of its own, but on the soldiers of the enemy as it were—that is to say, on everyone who is living within the lie and who may be struck at any moment (in theory, at least) by the force of truth (or who, out of an instinctive desire to protect their position, may at least adapt to that force). It is a bacteriological weapon, so to speak, utilized when conditions are ripe by a single civilian to disarm an entire division. This power does not participate in any direct struggle for power; rather, it makes its influence felt in the obscure arena of being itself. The hidden

movements it gives rise to there, however, can issue forth (when, where, under what circumstances, and to what extent are difficult to predict) in something visible: a real political act or event, a social movement, a sudden explosion of civil unrest, a sharp conflict inside an apparently monolithic power structure, or simply an irrepressible transformation in the social and intellectual climate. And since all genuine problems and matters of critical importance are hidden beneath a thick crust of lies, it is never quite clear when the proverbial last straw will fall, or what that straw will be. This, too, is why the regime prosecutes, almost as a reflex action preventively, even the most modest attempts to live within the truth.

Why was Solzhenitsyn driven out of his own country? Certainly not because he represented a unit of real power, that is, not because any of the regime's representatives felt he might unseat them and take their place in government. Solzhenitsyn's expulsion was something else: a desperate attempt to plug up the dreadful wellspring of truth, a truth which might cause incalculable transformations in social consciousness, which in turn might one day produce political debacles unpredictable in their consequences. And so the post-totalitarian system behaved in a characteristic way: it defended the integrity of the world of appearances in order to defend itself. For the crust presented by the life of lies is made of strange stuff. As long as it seals off hermetically the entire society, it appears to be made of stone. But the moment someone breaks through in one place, when one person cries out, "The emperor is naked!"—when a single person breaks the rules of the game, thus exposing it as a game—everything suddenly appears in another light and the whole crust seems then to be made of a tissue on the point of tearing and disintegrating uncontrollably.

When I speak of living within the truth, I naturally do not have in mind only products of conceptual thought, such as a protest or a letter written by a group of intellectuals. It can be any means by which a person or a group revolts against manipulation: anything from a letter by intellectuals to a

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workers' strike, from a rock concert to a student demonstration, from refusing to vote in the farcical elections to making an open speech at some official congress, or even a hunger strike, for instance. If the suppression of the aims of life is a complex process, and if it is based on the multifaceted manipulation of all expressions of life, then, by the same token, every free expression of life indirectly threatens the post-totalitarian system politically, including forms of expression to which, in other social systems, no one would attribute any potential political significance, not to mention explosive power.

The Prague Spring is usually understood as a clash between two groups on the level of real power: those who wanted to maintain the system as it was and those who wanted to reform it. It is frequently forgotten, however, that this encounter was merely the final act and the inevitable consequence of a long drama originally played out chiefly in the theatre of the spirit and the conscience of society. And that somewhere at the beginning of this drama, there were individuals who were willing to live within the truth, even when things were at their worst. These people had no access to real power, nor did they aspire to it. The sphere in which they were living the truth was not necessarily even that of political thought. They could equally have been poets, painters, musicians, or simply ordinary citizens who were able to maintain their human dignity. Today it is naturally difficult to pinpoint when and through which hidden, winding channel a certain action or attitude influenced a given milieu, and to trace the virus of truth as it slowly spread through the tissue of the life of lies, gradually causing it to disintegrate. One thing, however, seems clear: the attempt at political reform was not the cause of society's reawakening, but rather the final outcome of that reawakening.

I think the present also can be better understood in the light of this experience. The confrontation between a thousand Chartists and the post-totalitarian system would appear to be politically hopeless. This is true, of course, if we look at

it through the traditional lens of the open political system, in which, quite naturally, every political force is measured chiefly in terms of the positions it holds on the level of real power. Given that perspective, a mini-party like the Charter would certainly not stand a chance. If, however, this confrontation is seen against the background of what we know about power in the post-totalitarian system, it appears in a fundamentally different light. For the time being, it is impossible to say with any precision what impact the appearance of Charter 77, its existence, and its work has had in the hidden sphere, and how the Charter's attempt to rekindle civic self-awareness and confidence is regarded there. Whether, when, and how this investment will eventually produce dividends in the form of specific political changes is even less possible to predict. But that, of course, is all part of living within the truth. As an existential solution, it takes individuals back to the solid ground of their own identity; as politics, it throws them into a game of chance where the stakes are all or nothing. For this reason it is undertaken only by those for whom the former is worth risking the latter, or who have come to the conclusion that there is no other way to conduct real politics in Czechoslovakia today. Which, by the way, is the same thing: this conclusion can be reached only by someone who is unwilling to sacrifice his own human identity to politics, or rather, who does not believe in a politics that requires such a sacrifice.

The more thoroughly the post-totalitarian system frustrates any rival alternative on the level of real power, as well as any form of politics independent of the laws of its own automatism, the more definitively the center of gravity of any potential political threat shifts to the area of the existential and the pre-political: usually without any conscious effort, living within the truth becomes the one natural point of departure for all activities that work against the automatism of the system. And even if such activities ultimately grow beyond the area of living within the truth (which means they are transformed into various parallel structures, movements, institutions, they begin to be regarded as political activity, they bring

real pressure to bear on the official structures and begin in fact to have a certain influence on the level of real power), they always carry with them the specific hallmark of their origins. Therefore it seems to me that not even the so-called dissident movements can be properly understood without constantly bearing in mind this special background from which they emerge.

IX

THE PROFOUND crisis of human identity brought on by living within a lie, a crisis which in turn makes such a life possible, certainly possesses a moral dimension as well; it appears, among other things, as a deep moral crisis in society. A person who has been seduced by the consumer value system, whose identity is dissolved in an amalgam of the accouterments of mass civilization, and who has no roots in the order of being, no sense of responsibility for anything higher than his own personal survival, is a demoralized person. The system depends on this demoralization, deepens it, is in fact a projection of it into society.

Living within the truth, as humanity's revolt against an enforced position, is, on the contrary, an attempt to regain control over one's own sense of responsibility. In other words, it is clearly a moral act, not only because one must pay so dearly for it, but principally because it is not self-serving: the risk may bring rewards in the form of a general amelioration in the situation, or it may not. In this regard, as I stated previously, it is an all-or-nothing gamble, and it is difficult to imagine a reasonable person embarking on such a course merely because he reckons that sacrifice today will bring rewards tomorrow, be it only in the form of general gratitude. (By the way, the representatives of power invariably come to terms with those who live within the truth by persistently ascribing utilitarian motivations to them—a lust for power or fame or wealth—and thus they try, at least, to implicate them in their own world, the world of general demoralization.)

If living within the truth in the post-totalitarian system becomes the chief breeding ground for independent, alternative political ideas, then all considerations about the nature and future prospects of these ideas must necessarily reflect this moral dimension as a political phenomenon. (And if the revolutionary Marxist belief about morality as a product of the "superstructure" inhibits any of our friends from realizing the full significance of this dimension and, in one way or another, from including it in their view of the world, it is to their own detriment: an anxious fidelity to the postulates of that world view prevents them from properly understanding the mechanisms of their own political influence, thus paradoxically making them precisely what they, as Marxists, so often suspect others of being—victims of "false consciousness.") The very special political significance of morality in the post-totalitarian system is a phenomenon that is at the very least unusual in modern political history, a phenomenon that might well have—as I shall soon attempt to show—far-reaching consequences.

X

UNDENIABLY, the most important political event in Czechoslovakia after the advent of the Husák leadership in 1969 was the appearance of Charter 77. The spiritual and intellectual climate surrounding its appearance, however, was not the product of any immediate political event. That climate was created by the trial of some young musicians associated with a rock group called "The Plastic People of the Universe." Their trial was not a confrontation of two differing political forces or conceptions, but two differing conceptions of life. On the one hand, there was the sterile puritanism of the post-totalitarian establishment and, on the other hand, unknown young people who wanted no more than to be able to live within the truth, to play the music they enjoyed, to sing songs that were relevant to their lives, and to live freely in dignity and partnership. These people had no past history of political

activity. They were not highly motivated members of the opposition with political ambitions, nor were they former politicians expelled from the power structures. They had been given every opportunity to adapt to the status quo, to accept the principles of living within a lie and thus to enjoy life undisturbed by the authorities. Yet they decided on a different course. Despite this, or perhaps precisely because of it, their case had a very special impact on everyone who had not yet given up hope. Moreover, when the trial took place, a new mood had begun to surface after the years of waiting, of apathy and of skepticism toward various forms of resistance. People were "tired of being tired"; they were fed up with the stagnation, the inactivity, barely hanging on in the hope that things might improve after all. In some ways the trial was the final straw. Many groups of differing tendencies which until then had remained isolated from each other, reluctant to cooperate, or which were committed to forms of action that made cooperation difficult, were suddenly struck with the powerful realization that freedom is indivisible. Everyone understood that an attack on the Czech musical underground was an attack on a most elementary and important thing, something that in fact bound everyone together: it was an attack on the very notion of living within the truth, on the real aims of life. The freedom to play rock music was understood as a human freedom and thus as essentially the same as the freedom to engage in philosophical and political reflection, the freedom to write, the freedom to express and defend the various social and political interests of society. People were inspired to feel a genuine sense of solidarity with the young musicians and they came to realize that not standing up for the freedom of others, regardless of how remote their means of creativity or their attitude to life, meant surrendering one's own freedom. (There is no freedom without equality before the law, and there is no equality before the law without freedom; Charter 77 has given this ancient notion a new and characteristic dimension, which has immensely important implications for modern Czech history. What Sláde-

ček, the author of the book *Sixty-eight,* in a brilliant analysis, calls the "principle of exclusion," lies at the root of all our present-day moral and political misery. This principle was born at the end of the Second World War in that strange collusion of democrats and communists and was subsequently developed further and further, right to the bitter end. For the first time in decades this principle has been overcome, by Charter 77: all those united in the Charter have, for the first time, become equal partners. Charter 77 is not merely a coalition of communists and noncommunists—that would be nothing historically new and, from the moral and political point of view, nothing revolutionary—but it is a community that is *a priori* open to anyone, and no one in it is *a priori* assigned an inferior position.) This was the climate, then, in which Charter 77 was created. Who could have foreseen that the prosecution of one or two obscure rock groups would have such far-reaching consequences?

I think that the origins of Charter 77 illustrate very well what I have already suggested above: that in the post-totalitarian system, the real background to the movements that gradually assume political significance does not usually consist of overtly political events or confrontations between different forces or concepts that are openly political. These movements for the most part originate elsewhere, in the far broader area of the "pre-political," where living within a lie confronts living within the truth, that is, where the demands of the post-totalitarian system conflict with the real aims of life. These real aims can naturally assume a great many forms. Sometimes they appear as the basic material or social interests of a group or an individual; at other times, they may appear as certain intellectual and spiritual interests; at still other times, they may be the most fundamental of existential demands, such as the simple longing of people to live their own lives in dignity. Such a conflict acquires a political character, then, not because of the elementary political nature of the aims demanding to be heard but simply because, given the complex system of manipulation on which the post-

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totalitarian system is founded and on which it is also dependent, every free human act or expression, every attempt to live within the truth, must necessarily appear as a threat to the system and, thus, as something which is political *par excellence.* Any eventual political articulation of the movements that grow out of this "pre-political" hinterland is secondary. It develops and matures as a result of a subsequent confrontation with the system, and not because it started off as a political program, project, or impulse.

Once again, the events of 1968 confirm this. The communist politicians who were trying to reform the system came forward with their program not because they had suddenly experienced a mystical enlightenment, but because they were led to do so by continued and increasing pressure from areas of life that had nothing to do with politics in the traditional sense of the word. In fact, they were trying in political ways to solve the social conflicts (which in fact were confrontations between the aims of the system and the aims of life) that almost every level of society had been experiencing daily, and had been thinking about with increasing openness for years. Backed by this living resonance throughout society, scholars and artists had defined the problem in a wide variety of ways and students were demanding solutions.

The genesis of Charter 77 also illustrates the special political significance of the moral aspect of things that I have mentioned. Charter 77 would have been unimaginable without that powerful sense of solidarity among widely differing groups, and without the sudden realization that it was impossible to go on waiting any longer, and that the truth had to be spoken loudly and collectively, regardless of the virtual certainty of sanctions and the uncertainty of any tangible results in the immediate future. "There are some things worth suffering for," Jan Patočka wrote shortly before his death. I think that Chartists understand this not only as Patočka's legacy, but also as the best explanation of why they do what they do.

Seen from the outside, and chiefly from the vantage point

of the system and its power structure, Charter 77 came as a surprise, as a bolt out of the blue. It was not a bolt out of the blue, of course, but that impression is understandable, since the ferment that led to it took place in the "hidden sphere," in that semidarkness where things are difficult to chart or analyze. The chances of predicting the appearance of the Charter were just as slight as the chances are now of predicting where it will lead. Once again, it was that shock, so typical of moments when something from the hidden sphere suddenly bursts through the moribund surface of living within a lie. The more one is trapped in the world of appearances, the more surprising it is when something like that happens.

XI

In societies under the post-totalitarian system, all political life in the traditional sense has been eliminated. People have no opportunity to express themselves politically in public, let alone to organize politically. The gap that results is filled by ideological ritual. In such a situation, people's interest in political matters naturally dwindles and independent political thought, insofar as it exists at all, is seen by the majority as unrealistic, farfetched, a kind of self-indulgent game, hopelessly distant from their everyday concerns; something admirable, perhaps, but quite pointless, because it is on the one hand entirely utopian and on the other hand extraordinarily dangerous, in view of the unusual vigor with which any move in that direction is persecuted by the regime.

Yet even in such societies, individuals and groups of people exist who do not abandon politics as a vocation and who, in one way or another, strive to think independently, to express themselves and in some cases even to organize politically, because that is a part of their attempt to live within the truth.

The fact that these people exist and work is in itself immensely important and worthwhile. Even in the worst of times, they maintain the continuity of political thought. If some genuine political impulse emerges from this or that "pre-

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political" confrontation and is properly articulated early enough, thus increasing its chances of relative success, then this is frequently due to these isolated generals without an army who, because they have maintained the continuity of political thought in the face of enormous difficulties, can at the right moment enrich the new impulse with the fruits of their own political thinking. Once again, there is ample evidence for this process in Czechoslovakia. Almost all those who were political prisoners in the early 1970s, who had apparently been made to suffer in vain because of their quixotic efforts to work politically among an utterly apathetic and demoralized society, belong today—inevitably—among the most active Chartists. In Charter 77, the moral legacy of their earlier sacrifices is valued, and they have enriched this movement with their experience and that element of political thinking.

And yet it seems to me that the thought and activity of those friends who have never given up direct political work and who are always ready to assume direct political responsibility very often suffer from one chronic fault: an insufficient understanding of the historical uniqueness of the post-totalitarian system as a social and political reality. They have little understanding of the specific nature of power that is typical for this system and therefore they overestimate the importance of direct political work in the traditional sense. Moreover, they fail to appreciate the political significance of those "pre-political" events and processes that provide the living humus from which genuine political change usually springs. As political actors—or, rather, as people with political ambitions—they frequently try to pick up where natural political life left off. They maintain models of behavior that may have been appropriate in more normal political circumstances and thus, without really being aware of it, they bring an outmoded way of thinking, old habits, conceptions, categories, and notions to bear on circumstances that are quite new and radically different, without first giving adequate thought to the meaning and substance of such things in the

new circumstances, to what politics as such means now, to what sort of thing can have political impact and potential, and in what way. Because such people have been excluded from the structures of power and are no longer able to influence those structures directly (and because they remain faithful to traditional notions of politics established in more or less democratic societies or in classical dictatorships) they frequently, in a sense, lose touch with reality. Why make compromises with reality, they say, when none of our proposals will ever be accepted anyway? Thus they find themselves in a world of genuinely utopian thinking.

As I have already tried to indicate, however, genuinely far-reaching political events do not emerge from the same sources and in the same way in the post-totalitarian system as they do in a democracy. And if a large portion of the public is indifferent to, even skeptical of, alternative political models and programs and the private establishment of opposition political parties, this is not merely because there is a general feeling of apathy toward public affairs and a loss of that sense of higher responsibility; in other words, it is not just a consequence of the general demoralization. There is also a bit of healthy social instinct at work in this attitude. It is as if people sensed intuitively that "nothing is what it seems any longer," as the saying goes, and that from now on, therefore, things must be done entirely differently as well.

If some of the most important political impulses in Soviet bloc countries in recent years have come initially—that is, before being felt on the level of actual power—from mathematicians, philosophers, physicians, writers, historians, ordinary workers, and so on, more frequently than from politicians, and if the driving force behind the various dissident movements comes from so many people in nonpolitical professions, this is not because these people are more clever than those who see themselves primarily as politicians. It is because those who are not politicians are also not so bound by traditional political thinking and political habits and therefore, paradoxically, they are more aware of genuine

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There is no way around it: no matter how beautiful an alternative political model can be, it can no longer speak to the "hidden sphere," inspire people and society, call for real political ferment. The real sphere of potential politics in the post-totalitarian system is elsewhere: in the continuing and cruel tension between the complex demands of that system and the aims of life, that is, the elementary need of human beings to live, to a certain extent at least, in harmony with themselves, that is, to live in a bearable way, not to be humiliated by their superiors and officials, not to be continually watched by the police, to be able to express themselves freely, to find an outlet for their creativity, to enjoy legal security, and so on. Anything that touches this field concretely, anything that relates to this fundamental, omnipresent, and living tension, will inevitably speak to people. Abstract projects for an ideal political or economic order do not interest them to anything like the same extent—and rightly so—not only because everyone knows how little chance they have of succeeding, but also because today people feel that the less political policies are derived from a concrete and human here and now and the more they fix their sights on an abstract "someday," the more easily they can degenerate into new forms of human enslavement. People who live in the post-totalitarian system know only too well that the question of whether one or several political parties are in power, and how these parties define and label themselves, is of far less importance than the question of whether or not it is possible to live like a human being.

To shed the burden of traditional political categories and habits and open oneself up fully to the world of human existence and then to draw political conclusions only after having analyzed it: this is not only politically more realistic but at the same time, from the point of view of an "ideal state of affairs," politically more promising as well. A genuine, profound, and lasting change for the better—as I shall attempt

to show—can no longer result from the victory (were such a victory possible) of any particular traditional political conception, which can ultimately be only external, that is, a structural or systemic conception. More than ever before, such a change will have to derive from human existence, from the fundamental reconstitution of the position of people in the world, their relationships to themselves and to each other, and to the universe. If a better economic and political model is to be created, then perhaps more than ever before it must derive from profound existential and moral changes in society. This is not something that can be designed and introduced like a new car. If it is to be more than just a new variation of the old degeneration, it must above all be an expression of life in the process of transforming itself. A better system will not automatically ensure a better life. In fact, the opposite is true: only by creating a better life can a better system be developed.

Once more I repeat that I am not underestimating the importance of political thought and conceptual political work. On the contrary, I think that genuine political thought and genuinely political work is precisely what we continually fail to achieve. If I say "genuine," however, I have in mind the kind of thought and conceptual work that has freed itself of all the traditional political schemata that have been imported into our circumstances from a world that will never return (and whose return, even were it possible, would provide no permanent solution to the most important problems).

The Second and Fourth Internationals, like many other political powers and organizations, may naturally provide significant political support for various efforts of ours, but neither of them can solve our problems for us. They operate in a different world and are a product of different circumstances. Their theoretical concepts can be interesting and instructive to us, but one thing is certain: we cannot solve our problems simply by identifying with these organizations. And the attempt in our country to place what we do in the context of some of the discussions that dominate political life in dem-

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release October 22, 1991

REMARKS BY THE PRESIDENT
AND PRESIDENT VACLAV HAVEL OF CZECHOSLOVAKIA
UPON ARRIVAL

The South Grounds

10:12 A.M. EDT

THE PRESIDENT: Today we welcome a man whose moral authority makes him a hero not simply in his own land, but everywhere that people cherish freedom: President Vaclav Havel. (Applause.)

I suspect the life of Vaclav Havel, President, would tax even the imagination of Vaclav Havel, playwright. Yet your life inspires us precisely because it shows that greatness begins with small acts of conscience and personal decency -- acts that each one of us can perform.

Confronted with a wall of lies, you summoned the courage to "live in truth:" to shun the silence that allows the lie to live -- to speak out and risk the consequences. That courage sustained you through five long years in prison, as an outcast in your own country -- to the chill autumn night two years ago when the people of Czechoslovakia came to Wenceslas Square. At first, a few candles flickered in the night sky. In time, the square was ablaze with light -- the Velvet Revolution had begun.

Long before that night, you had written about "the power of the powerless." In the Revolution of '89, the world saw the Czech and Slovak people break their chains -- the world witnessed once more the awesome power of the democratic idea.

Today, the electricity of revolution has given way to the sober business of democracy building. Your federal republic faces the challenge of three revolutions: First, an economic revolution, to replace the failed command system with the free market. Second, a political revolution, to replace the totalitarian travesty with democratic government and the tyranny of men with the rule of law, so that Czechs and Slovaks, working together, can build a secure future. And third and most important, you face a moral revolution -- the need to build public trust and tolerance, to trade the cynicism that helped people survive the old regime for the idealism that will help you build a new one.

For 40 years, the ruling regime fed your people nothing but lies: a steady diet of quotas fulfilled, record harvests, unanimous votes and unending progress -- an elaborate fantasy that fooled no one. Today, Mr. President, you lead a people who know that being free means facing the truth -- preferring fact to fiction, no matter how hash the truth may be.

Your struggle is far from over. Everywhere across your country you feel the strains, the dislocations and depressed standard of living. And I know the transition has hit particularly hard in Slovakia.

Yet your country has made impressive progress. You've taken decisive steps to privatize state enterprises, to liberalize trade and investment, to lift restrictions on private enterprise.

Each barrier you sweep away unleashes the energies of free enterprise -- liberates the Czech and Slovak people to pursue their ideas and ideals.

America stands with you in this effort. Our Trade Enhancement Initiative aims at opening American markets to your products. We seek through a special review to expand your benefits under our Generalized System of Preferences. Our Enterprise Fund will channel capital to Czech and Slovak entrepreneurs ready to put it to work. OPIC -- the U.S. government's Overseas Private Investment Corporation -- has just completed a mission to Czechoslovakia, the largest mission OPIC has ever led to any country.

During your visit, our governments will sign the new Bilateral Investment Treaty -- assuring an attractive investment climate for American firms that do business in your country.

A few days ago, I signed a document exempting the Czech and Slovak Federal Republic from the requirement of an annual Jackson-Vanik review. I hope for early congressional action to grant your country permanent Most Favored Nation status. And to aid Czechoslovakia in its efforts to join the global economy, I call on the World Bank and the European Bank for Reconstruction and Development to provide assistance to pipeline projects already under consideration.

As your Federal Republic transforms itself within, it also has claimed its place in the councils of Europe. Mr. President, as a founder of Charter 77, you lived through the days when the secret police ransacked homes for papers related to the Helsinki Accords. You must marvel that Prague now serves as home to the permanent Secretariat of the CSCE.

Nearly one year ago when I addressed your Federal Assembly, sir, I spoke of America's enduring role in Europe and of our vision of a new commonwealth of freedom. I know you share that vision and I value your strong conviction that the U.S. should remain in Europe as a guarantor of security.

Together, on both sides of the Atlantic, we can work as partners in a growing community of free nations to extend the values of democracy, free enterprise, and the rule of law.

Your country knows better than most the harsh lessons of history -- what happens when aggression goes unchecked. When Iraq invaded Kuwait, the Czech and Slovak people stepped forward to take their place in the coalition against the aggressor. Even as it struggled to secure its own fragile independence, your country came to the defense of a nation in need.

You led the way in showing a new Europe that the security of one state is inseparable from the security of all. I welcome the opportunity to reaffirm today my country's commitment to your success -- to the promise of democracy and independence.

Once again, Mr. President, welcome to the White House. And may God bless the Czech and Slovak people. (Applause.)

PRESIDENT HAVEL: Mr. President, ladies and gentlemen. Let me, on behalf of the whole Czechoslovak delegation, thank you for your warm welcome. I have a good feeling that we are coming to friends with whom we share the same attitude toward the principal values of life, and who, therefore, understand our problems and needs.

Our friendship has deep roots and has gone through a difficult test of time. In the hearts and minds of our people, it survived the adversity of the long decades of the totalitarian era to be given a new dimension by the freedom reborn in my country two years ago. The legacy of the fathers of Czechoslovak-American cooperation -- the founder of our state, Tomas Garrigue Mazaryk, and President Woodrow Wilson -- has thus been fulfilled.

It makes me happy to feel that I can regard you, Mr. President, as a friend of Czechoslovakia and as my personal friend. This is not the first time when I have an opportunity to step on the soil of your country. I shall never forget the reception accorded to me during my last year's visit when I came here for the first time in the capacity of head of state. Today, I am starting my first official state visit to your country, and I am looking forward to seeing it unfold no less successfully.

It will certainly be a breakthrough in our relations as significant documents are to be signed on this occasion. A permanent place among them will be held by the declaration on the relations between our countries in which we shall express our resolve to work together for the advancement of our cooperation. In so doing, we shall make a contribution, even if a limited one, to the strengthening of the traditional partnership between the United States and Europe.

We do see in this partnership a guarantee of our own stability and security. It is my conviction that our visit to your country, for which we prepared with utmost care, will achieve its purpose and confirm what I have said with much pleasure a number of times already -- namely, that relations between Czechoslovakia and the United States have never been as good as they are now.

Thank you. (Applause.)

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Remarks Following Discussions With President Vaclav Havel of Czechoslovakia

February 20, 1990

President Bush. Well, welcome to everybody. And it's been my great pleasure to welcome to the White House a man of tremendous moral courage, one of the heroes of the Revolution of '89, the President of Czechoslovakia, Vaclav Havel.

Mr. President, your life has been one of miraculous transformations from the world of drama to the world of dissent, from the life of the artist to the life of the activist, and of course in the space of just 1 short year, the most miraculous journey of all, from prison to the Presidency. And of course it's possible to measure profound change in more personal terms. For years, as a dissident subject to arrest and imprisonment at any time, you could never go out without your toothbrush in your pocket. But now, as President, you can never go out without one of these neckties. [*Laughter*]

And many years ago you made a choice. You chose to live your life in keeping with your conscience not for others but for yourself. But others drew strength from the life you lead, and your life was a tribute to the difference one man can make, powerful proof of the democratic idea. On the one side stood the state with its prisons and secret police; and on the other, Vaclav Havel, one man alone but with the strength of his convictions, always free with the freedom that comes from living in truth. First one man, and now millions.

President Havel never stopped believing in what he called this unbelievable thought: that any one of us can shake the Earth. Shake the Earth, Mr. President, and part the Iron Curtain. Shake the Earth and knock down the Berlin Wall. Shake the Earth and set in motion a process of change from Budapest to Bucharest, from Warsaw to Wenceslas Square.

And that was the Revolution of '89, and our task now in the 1990's is to move forward from revolution to renaissance, towards a new Europe in which each nation and every culture can flourish and breathe free, a Europe whole and free.

President Havel, Czechoslovakia has turned to you to lead the way, and is it not fitting for a nation that each day writes a new page in its history to have elected a playwright as its President?

And I am pleased that we've had this opportunity to meet, to speak together about the changes that are taking place from Prague to Moscow, and about Czechoslovakia's place in the heartland of the new Europe now emerging. We know there is no room for illusions. Difficult work lies ahead. The damage of four decades of fear and repression cannot be repaired in a day. But we know something more: We know that the people of Czechoslovakia have waited long enough and they know it's time to move forward to freedom.

Czechoslovakia and Europe are at the threshold of a new era. And I know I can speak for all Western leaders when I say that the Atlantic alliance will continue to play a vital role in assuring stability and security in Europe at this great and historic moment. And America will continue to play its part, including a strong military presence for our security and for Europe's.

Mr. President, you've not asked for American economic aid, and you made it clear that democratic Czechoslovakia wants the opportunity to do business on an equal footing. And in that regard, I am pleased to announce that I signed today letters notifying our Congress that I am waiving the Jackson-Vanik amendment for Czechoslovakia. Today our trade representatives began negotiating a trade agreement. Pending passage by your Parliament of new liberal emigration legislation, these measures will permit us to extend the most-favored-nation status to Czechoslovakia without the requirement of an annual waiver, granting

your country the most liberal access to the American market possible under United States law.

Mr. President, you've also explained the enormous tasks that you face in rebuilding a democracy on the ruins of the one-party state that you inherited. And you've identified several areas where help is needed, and we are ready to respond. Let me just mention two specifics. First, in response to your request, I am asking Peace Corps Director Paul Coverdell to take the initial steps to bring the Peace Corps to Czechoslovakia by this fall. And second, I am delighted that we will soon reopen our consulate in Bratislava, as well as new cultural centers there and in Prague.

Mr. President, I assure you the United States will be part of your nation's democratic rebirth. Everything I've seen this past year tells me that Czechoslovakia can meet the challenges ahead. And as you've said in your first address as President on New Year's Day, so many times we've heard politics defined as the art of the possible; and this year has taught us something new, something more: It taught us, as you put it, that politics can be the art of the impossible.

Mr. President, before you leave us today, I would like to present you with a lithograph of your illustrious predecessor, Czechoslovakia's first President and author of your nation's Declaration of Independence, Thomas Masaryk. This portrait was done in Prague Castle and kept by President Masaryk until his death, when he gave it to his successor at Charles University's department of philosophy, President Jan Kozak.

In 1939, at the time of the Nazi invasion, Professor Kozak had 2 hours to pack his belongings and to flee Czechoslovakia. Among the items he took with him, this portrait of his friend. Professor Kozak settled in Ohio at Oberlin College, and so did this portrait until today. And now, with freedom returning to Czechoslovakia, so, too, should this portrait of President Masaryk, Czechoslovakia's first President and champion of freedom.

Once again, Mr. President, it has been my privilege to welcome you to Washington and to the White House. And God bless you, and may God bless the people of Czechoslovakia. We are pleased to have you here.

President Havel. Mr. President, I am very moved by your speech. I thank you very much for this drawing. I promise you it will be very soon back in our castle.

We had with Mr. Bush very important negotiations. We had very warm, very open, very friendly discussions. I am very glad that I had the opportunity to be here to explain what happened in Czechoslovakia, to explain our viewpoint, our policy. And thank you very much that we could be here. Thank you for the invitation. And of course I invite you to us in Prague, in Czechoslovakia. And you will see this nice drawing in my office on Prague Castle.

President Bush. Thank you, sir. Godspeed.

Note: President Bush spoke at 1:35 p.m. at the South Portico of the White House. Prior to their remarks, the two Presidents met privately in the Oval Office and with U.S. and Czechoslovak officials in the Cabinet Room, and then attended a luncheon in the Old Family Dining Room.

Executive Order 12702—Waiver Under the Trade Act of 1974 With Respect to Czechoslovakia

February 20, 1990

By the authority vested in me as President by the Constitution and laws of the United States of America, including section 402(c)(2) of the Trade Act of 1974 (19 U.S.C. 2432(c)), which continues to apply to Czechoslovakia pursuant to section 402(d), and having made the report to the Congress required by section 402(c)(2), I hereby waive the application of subsections (a) and (b) of section 402 of said Act with respect to Czechoslovakia.

George Bush

The White House,
February 20, 1990.

[*Filed with the Office of the Federal Register, 4:47 p.m., February 20, 1990*]

Memorandum on T Czechoslovakia

February 20, 1990

Presidential Determinat

Memorandum for the

Subject: Determinati 402(c)(2)(A) of the Tr Czechoslovakia

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Message to the Cor Czechoslovakia

February 20, 1990

To the Congress of th

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The White House,
February 20, 1990.

Memorandum on Trade With Czechoslovakia

February 20, 1990

Presidential Determination No. 90–10

Memorandum for the Secretary of State

Subject: Determination under Section 402(c)(2)(A) of the Trade Act of 1974—Czechoslovakia

Pursuant to section 402(c)(2)(A) of the Trade Act of 1974 (the "Act") (19 U.S.C. 2432(c)(2)(A)) I determine that a waiver of the application of subsections (a) and (b) of section 402 of the Act with respect to Czechoslovakia will substantially promote the objectives of section 402.

You are authorized and directed to publish this determination in the *Federal Register.*

George Bush

Message to the Congress on Trade With Czechoslovakia

February 20, 1990

To the Congress of the United States:

Pursuant to subsection 402(c)(2) of the Trade Act of 1974 (the Act) (19 U.S.C. 2432(c)(2)), I have determined that a waiver of the application of subsections (a) and (b) of Section 402 with respect to Czechoslovakia will substantially promote the objectives of section 402. A copy of that determination is enclosed. I have also received the assurances with respect to the emigration practices of Czechoslovakia required by section 402(c)(2)(B) of the Act.

Pursuant to section 402(c)(2), I shall issue an Executive Order waiving the application of subsections (a) and (b) of section 402 of the Act with respect to Czechoslovakia.

George Bush

The White House,
February 20, 1990.

Letter to the Chairmen of the Senate Finance Committee and the House Ways and Means Committee Transmitting a Report on the Canada-United States Free-Trade Agreement

February 20, 1990

Dear Mr. Chairman:

Pursuant to section 103 of the United States-Canada Free-Trade Agreement Implementation Act of 1988 (Public Law 100–499), I am pleased to submit the attached report and related documents pertaining to a proposed action to accelerate elimination of duties on designated products under the United States-Canada Free-Trade Agreement.

Sincerely,

George Bush

Note: Identical letters were sent to Lloyd Bentsen, chairman of the Senate Finance Committee, and Dan Rostenkowski, chairman of the House Ways and Means Committee.

Nomination of E.U. Curtis Bohlen To Be an Assistant Secretary of State

February 20, 1990

The President today announced his intention to nominate E.U. Curtis Bohlen to be Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs. He would succeed Frederick M. Bernthal.

Since 1981 Mr. Bohlen has served as senior vice president of World Wildlife Fund in Washington, DC. He served as a consultant to World Wildlife Fund and vice president of Eastern Environmental Controls, Inc., in Chestertown, MD, 1979–1981, and as a consultant on the Committee on Merchant Marine and Fisheries at the House of Representatives in Washington, DC, 1977–1978. In addition he served in several positions at the Department of the Interior from 1969 to 1977 in Washington, DC, including Assistant to Secretary Cecil D. Andrus, Chairman of the Alaska Planning Group, Acting Assistant Secretary for

Statement by Press Secretary Fitzwater on President Bush's Meeting With President Vaclav Havel of Czechoslovakia

February 21, 1990

The President and President Vaclav Havel of Czechoslovakia met for approximately 45 minutes today in the Oval Office. This was a continuation of their discussions yesterday. They talked at some length about the future of Europe and agreed to stay in close touch at this time of rapid change. Both expressed their support for President Gorbachev's reforms and his encouragement of peaceful change in Eastern Europe, and both agreed that the presence of American troops is a factor for stability and security in Europe. Although it was anticipated that economic issues would be discussed, most of the conversation focused on political and East-West issues.

Nomination of Nelson C. Ledsky for the Rank of Ambassador While Serving as Special Cyprus Coordinator

February 21, 1990

The President today announced his intention to nominate Nelson C. Ledsky, of Maryland, a career member of the Senior Foreign Service, Class of Minister-Counselor, for the rank of Ambassador during his tenure of service as Special Cyprus Coordinator.

Since 1989 Mr. Ledsky has served as Special Cyprus Coordinator at the Department of State. He served as Deputy Senior Director and then Senior Director for the National Security Council, 1987–1989. In addition, he served in various capacities at the Department of State, including Deputy Director of the Policy Planning Staff, 1985–1987; U.S. Minister in Berlin, Germany, 1981–1985; Director of the State Department's Olympic Boycott Office, 1980–1981; Deputy Assistant Secretary of Congressional Relations, 1978–1980; Director of the Office of Southern Europe, 1976–1978; Deputy Director of the Office of Southern Europe, 1974–1976; Deputy Director of the Office of Central Europe, 1972–1974; Berlin desk officer, 1970–1972; senior watch officer, 1969–1970; second secretary at the U.S. Embassy in Bonn, 1964–1969; consul at the U.S. consulate in Enugu, Nigeria, 1962–1964; African language training program, 1961–1962; vice consul at the U.S. consulate in Georgetown, Guyana, 1957–1961; and an analyst at the Bureau of Intelligence and Research, 1957–1959.

Mr. Ledsky graduated from Western Reserve University (B.A., 1951) and Columbia University (M.A., 1953). He was born September 30, 1929, in Cleveland, OH. Mr. Ledsky is married, has three children, and resides in Bethesda, MD.

Nomination of LeGree Sylvia Daniels To Be a Member of the Board of Governors of the United States Postal Service

February 21, 1990

The President today announced his intention to nominate LeGree Sylvia Daniels to be a Governor of the United States Postal Service for the term expiring December 8, 1998. She would succeed John Lathrop Ryan.

Since 1987 Mrs. Daniels has served as Assistant Secretary for Civil Rights at the Department of Education in Washington, DC. Prior to this, she served as a staff assistant to former Senate minority leader Hugh Scott; chairman of the Pennsylvania State Tax Equalization Board; commissioner of the Pennsylvania Bureau of Elections; and deputy secretary of the Commonwealth of Pennsylvania.

Mrs. Daniels attended Temple University and Central Pennsylvania Business School. She was born February 29, 1920, in Denmark, SC. Mrs. Daniels is married, has three children, and resides in Harrisburg, PA.

Statement by Press Secretary Fitzwater on the President's Meetings With National Leaders in Prague, Czechoslovakia

November 17, 1990

President Bush and President Havel met at 10 o'clock this morning at Hradcany Castle in the first meeting of the visit. President Havel welcomed President Bush on this historic occasion, the first-year anniversary of the revolution. The two leaders discussed the economic development of Czechoslovakia, including the need to get U.S. investment. President Bush said the United States is concerned about the international oil situation. President Bush said there is a disruption in supply, but it is the speculation about the Persian Gulf that has driven up prices. President Havel said their economy depends on an uninterrupted flow of oil from the Soviet Union, and that has been a problem in the current situation.

The two leaders discussed the CSCE [Conference on Security and Cooperation in Europe] and the prospects for locating a new Secretariat in Prague. Both leaders stressed the interest in seeing a successful CSCE meeting, particularly on issues of arms control and human rights.

Federal Leaders

President Bush met at approximately 10:40 with Federal leaders to discuss economic conditions. The President said the talks with the IMF [International Monetary Fund] and World Bank are progressing well. They also discussed oil supplies and their impact on this country. They emphasized the important role of private investment in improving the economy of Czechoslovakia.

Czech Leaders

President Bush met with Czech leaders at approximately 11 a.m. They emphasized that they wanted to help themselves economically as much as they can. One of the leaders quoted Mark Twain by saying "a helping hand is usually found at the end of your arm." President Bush spoke of the strength of the U.S. system in which 50 States have strong views, but cooperate comfortably with the Federal Government. President Bush also spoke of the need for stability in Czechoslovakia as they deal with private investors from the United States. President Bush also raised the matter of the environment, saying that pollution is a high cost that we must be concerned about.

Slovak Leaders

President Bush met at approximately 11:30 with Slovak leaders. He wished them success and emphasized the need for stability. The Slovak leaders commented on the United States as a melting pot that has accepted nationalities from all over the world. They pointed out they are working hard to get private investment and asked if more of their people could come to the United States for training in various production skills.

President Bush said "our vision is a Europe whole and free." President Bush remarked on the warm welcome of the crowds that lined the streets on the way into Prague from the airport.

Dubček

At approximately 12:15 President Bush called on Alexander Dubček, President of the Federal Assembly, and greeted him warmly, acknowledging his historic role in the move towards freedom in Czechoslovakia. President Dubček recalled his visit to the United States and said that President Bush's visit constitutes a most prominent day for U.S.-Czechoslovak relations. President Bush and President Dubček discussed the role of the Federal Assembly and its important role in the building of democracy. President Bush concluded the meeting by signing a large, brown leather guest book, giving the signing pen to President Dubček. President Bush signed: "With great happiness and warm best wishes, George Bush, November 17, 1990."

Note: In the morning, President Bush arrived at Ruzyne Airport, where he was accorded a formal welcome with full military honors.

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Remarks to the Federal Assembly in Prague, Czechoslovakia

November 17, 1990

President Havel, thank you, sir, for greeting us with such warmth today. And to Chairman Dubček, thank you, sir, for that really warm and generous introduction. May I salute the Prime Ministers of the Czech and Slovak Republics; the Members of the Assembly; and most of all, the people of Czechoslovakia. It is an honor for me, the first American President ever to visit your country, to bring you the greetings of the American people on this, the first anniversary of Czechoslovakia's return to freedom.

One year ago today, in the streets and squares of this city, the people of Prague gathered, first by twos and threes, and then by thousands—in the night air, an autumn chill; in their minds, memories of a spring 20 years past. The Velvet Revolution had begun.

That revolution succeeded without a single shot. Your weapons proved far superior to any in the state's arsenal. In the face of force, you deployed the power of principle. Against a wall of lies, you advanced the truth. Out of a thousand acts of courage, Czech and Slovak, emerged a single voice. Its message: The time had come to bring freedom home to Czechoslovakia.

Your revolution was also a renewal: a renewal of the deeply held principles that bind my country, the United States of America, to yours; principles enshrined in your Declaration of Independence, issued in the United States in 1918 by Tomáš Masaryk, your first President, and Milan Stafanik, proud Slovak patriot; principles inspired by the ringing words of our own Thomas Jefferson more than two centuries ago.

In my homeland, those principles were put into practice when we adopted our Constitution and its Bill of Rights. And last night, I carried copies of those documents as we flew from Washington to Prague, copies that I guess were passed out to you as you came in today. And during this historic time, as you consider the adoption of your own federal system and bill of rights, I offer them to you in friendship, for the common principles and common bonds our peoples have long shared.

Generations of Americans, Czechs, and Slovaks sustained these common bonds. In the battle to defeat Nazi tyranny, America stood with the courageous Czech and Slovak partisans fighting for freedom. Through the long dark decades after 1948, we, like you, refused to accept Europe's division. Through Radio Free Europe and the Voice of America, we held aloft the ideal of truth, and we spoke a common language of hope.

At long last, the grip of the dictators weakened; Czechoslovakia seized its chance to rise up, to reclaim your rights as a free people and as a sovereign nation.

Today, as fellow citizens of free governments, we share the fruits of our common resolve. Europe, East and West, stands at the threshold of a new era: an era of peace, prosperity, and security unparalleled in the long history of this continent. Today Europe's long division is ending. Today, once more, Czechoslovakia is free.

Czechoslovakia's revolution is over, but its renaissance has just begun. Your work and ours is far from complete. Your nation, like your neighbors to the north and south, faces the unprecedented task of building a stable, democratic rule and a prosperous market economy on the ruins of totalitarianism. I am here today to say that we will not fail you in this decisive moment. America will stand with you to that end.

America stands ready to help Czechoslovakia realize the progress and prosperity now within reach. Today our two countries will conclude agreements giving Czechoslovakia the fullest access to American markets, American investment, and American technology. To help unleash the creativity and drive of the Czechs and Slovak people, I will urge our Congress to authorize a $60-million Czechoslovak-American Enterprise Fund. In addition, to help build your private sector, the United States will extend prompt economic assistance from the $370 million now committed to central and eastern Europe for the coming year.

We also welcome the active involvement of the American private sector. I am pleased to see that yesterday your government entered into a promising, multimillion-dollar joint venture with Bell Atlantic and U.S. West to modernize your country's

communications network. I am sure this will be the first of many large-scale investments in the future of a free Czechoslovakia.

In response to this region's severe energy problems, we expect the IMF [International Monetary Fund]—at our initiative—to lend up to $5 billion in 1991 to central and eastern Europe, and the World Bank will commit an additional $9 billion over the next 3 years.

In addition to these economic initiatives, we seek to renew the free and open exchange denied our peoples for so many years. I am pleased to announce the reopening of the American consulate in Bratislava in the Republic of Slovakia and, just yesterday, the selection of a site for our new cultural center in Prague. Our newly established International Media Fund promises to contribute expertise and encouragement to your nation's free and independent media. And I am gratified that your government and my country's Institute for East-West Security Studies will soon open a European Studies Center in Stirin, an important partnership of the intellect between European and American scholars.

And let me say once again: Prague should be the home to the permanent Secretariat of the Conference on Security and Cooperation in Europe. In Paris, I am confident that I will find unanimous support for this initiative. It is right that this city, once on the fault line of cold war and conflict, now at the heart of the new and united Europe, play a central role as the CSCE seeks to expand the frontiers of freedom in Europe.

At the Paris summit of the CSCE, the nations of North America and Europe will sign historic documents: a treaty to provide deep reductions in conventional armed forces in Europe, a CSCE summit declaration charting the future role of CSCE in ending Europe's division. The Atlantic alliance, the foundation of European stability, has pledged itself to the same goal.

Working together, we can fulfill the promise of a Europe that reaches its democratic destiny, a Europe that is truly whole and free. But this continent's reconciliation is only part of the larger vision for our world, a vision which I ask you to share.

Let me draw on the life and writings of the gentleman that is sitting over my right shoulder, President Havel—let me draw on those just to make my point. Several years ago, Mr. Havel wrote about the Western visitors who came to see your so-called dissidents, asking how they could help your cause. He wondered about that question, wondered why visitors from the West couldn't see that your cause was their cause, too. Mr. Havel wrote, and I quote: "Are not my dim prospects or my hopes his dim prospects and hopes as well? Is not the destruction of humans in Prague a destruction of all humans? Is not indifference to what is happening here a preparation for the same kind of misery elsewhere?"

Dissident Havel—now President Havel—spoke then of a shared destiny, spoke out of a sure sense that the fate of all mankind is linked. Czechs and Slovaks understand this vision and the challenge. For half a century, your struggle for freedom was cut short not by one but by two of the cruelest tyrannies history has ever known. You know what it means to live under regimes whose vision of world order holds no place for freedom. As heirs of Jan Hus, whose statue stands just a few blocks from us, as countrymen of Comenius, the son of Moravia, whose name graces your great University of Bratislava, you have always looked to the far horizon to take your bearings from principles that are universal. As small nations, whose very existence demands constant vigilance, you have always understood that your future depends not only on your own heroic actions here but on the broader principles that govern the greater world in which you live. We must recognize that no people, no continent, can stand alone, secure unto itself. Our fates, our futures are intertwined.

That, you see, is why Europe's celebration of freedom brings with it a new responsibility. Now that democracy has proven its power, Europe has both the opportunity and the challenge to join us in leadership, to work with us in common cause towards this new commonwealth of freedom.

This commonwealth rests on shared principles, upon four cornerstones that constitute our common values: an unshakable belief in the dignity and rights of man and the conviction that just government derives its power from the people, the belief that

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men and women everywhere must be free to enjoy the fruits of their labor and that the rule of law must govern the conduct of nations.

The United States welcomes the new democracies of central and eastern Europe fully into the commonwealth of freedom, a moral community united in its dedication to free ideals. We wish to encourage the Soviet Union to go forward with their reforms, as difficult as the course may seem. They will find our community ready to welcome them and to help them as they, too, commit themselves to this commonwealth of freedom.

Every new nation that embraces these common values, every new nation that joins the ranks of this commonwealth of freedom, advances us one step closer to a new world order, a world in which the use of force gives way to a shared respect for the rule of law. This new world will be incomplete without a vision that extends beyond the boundaries of Europe alone. Now that unity is within reach in Europe is no time for our vision of change to stop at the edge of this continent.

The principles guiding our two nations, the principles at work in our two revolutions, are not Czech or Slovak or American alone. These principles are universal, rooted in the love of liberty and the rights of man.

Now, after four decades of conflict and cold war, we are entering an era of great promise; and yet our freedom, the freedom of people everywhere, remains under threat from regimes for whom the rights of man and rule of law mean nothing. And that is why our response to the challenge in the Persian Gulf is critical. The current crisis there is a warning to America as well as to Europe that we cannot turn inward, somehow isolate ourselves from global challenges. Iraq's brutal aggression against Kuwait is a rude reminder that none of us can remain secure when aggression remains unchecked.

I have this feeling in my heart that no peoples understand better what is at stake in the Gulf than Czechs and Slovaks. You know from your own bitter experience that the world cannot turn a blind eye to aggression. You know the futility and vain hope that aggressors can be appeased. You know the tragic consequences when nations confronted with aggression choose to tell themselves it is no concern of theirs, just a "quarrel in a faraway country between a people of whom we know nothing."

We Americans, too, have learned. We know the costs, to ourselves and to the whole of Europe, of our isolationism after the First World War. We know that America must resist the temptation to consider our work complete. We must remain committed to the cause of freedom in the world.

And more and more, the Soviet Union is demonstrating its commitment to act as a constructive force for international stability. More and more, the United Nations is functioning as its creators intended it: free from the ideological confrontation that frustrated collective action, rendered impotent the peacekeeping function of that body.

From this first crisis of the post-Cold War era comes an historic opportunity: the opportunity to draw upon the great and growing strength of the commonwealth of freedom and forge for all nations a new world order far more stable and secure than any we have known.

Today I am very proud to join Czechoslovakia as it celebrates a year in freedom. I salute you for your courage and your vision, for all that you have endured, and for all you are destined to achieve. And I challenge you, as you take your rightful place in the center of Europe, to look beyond the confines of this continent to join with your neighbors in Europe and in North America to build a true commonwealth of freedom so that the peace and prosperity you seek—the peace and prosperity we shall share—will be the peace and prosperity of all mankind.

Once again, thank you for this warm welcome, and may God bless the people of Czechoslovakia.

Note: The President spoke at 12:36 p.m. in the Federal Assembly Hall. In his remarks, he referred to Alexander Dubček, Chairman of the Federal Assembly.

Remarks and a Question-and-Answer Session With Reporters Following Discussions With President Václav Havel in Prague, Czechoslovakia
November 17, 1990

President Havel. Dear friends, let me welcome you to this brief meeting with our honored guest, President Bush, and myself. We are ready to answer your questions. But before doing so, perhaps I should briefly explain what President Bush and I have been discussing.

We have touched up on a number of different matters, but we focused primarily on the following subjects. We have presented our information on the present situation in Czechoslovakia, and possibilities of possible assistance or cooperation on the part of the United States have been discussed. Secondly, we have dwelled upon the future of Europe in the light of the forthcoming CSCE [Conference on Security and Cooperation in Europe] summit in Paris and upon the future of the Helsinki process. And on that score, we have found that our views there are very close to each other, if not even identical. And sadly, we have talked at some length about the situation in the Persian Gulf.

You can ask us questions that shall be answered alternately by President Bush and myself, with me being the one to answer the first question.

U.S. Assistance for Czechoslovakia

Q. President Havel, are you satisfied with the assistance you're getting? You seem to not be saying that your views are identical on that subject with the President.

President Havel. President Bush shows a lot of understanding for our problems, and he has already pledged certain forms of assistance in the statement he delivered in the Federal Assembly, which you have suddenly had.

Q. President Bush, even though you did outline some assistance today in your speech, proportionately it's fairly miniscule compared to what Czechoslovakia needs. Are you prepared to consider further direct U.S. assistance?

President Bush. Well, I think we've spelled out what we can do in terms of direct assistance right now. The thing that is of most import to Czechoslovakia is increased support from the IMF [International Monetary Fund] and the World Bank. And I made clear to President Havel that we will be very supportive in that connection.

In addition, the thing that would be of most benefit to Czechoslovakia and to the United States would be increased investment and increased private-sector help. And that we've discussed; and then that, I think we both agree, would be the best answer—certainly long-range answer—for the vitality and growth of Czechoslovakia.

President Havel. I think we should give an opportunity, also, to the Czechoslovak media.

Q. Mr. President Bush, have you spoken to Mr. Havel about American assistance in the science and technology fields and especially in education of the people? Would you be more concrete?

President Bush. We didn't discuss S&T as much. We did talk about educational exchanges, but we did not dwell on the science and technology. Certainly, I would say we would be ready to cooperate in every way in that field, however.

Soviet Union and Eastern Europe

Q. President Havel, can I ask you about the situation in the Soviet Union, as you watch it—the tensions that we see that Mr. Gorbachev is facing? What concerns do you have about the breakup of the Soviet Union and how that would affect central European countries?

President Havel. The fact that the Soviet Union is currently undergoing the most sweeping, the most far-reaching changes in its entire history is more than evident, but it is not yet clear what the future arrangement of the Soviet Union will be. But it is our firm belief that the changes may be accomplished in a rapid and peaceful way without any bloodshed and that they may give the individual Republics and the peoples of the Soviet Union the measure of autonomy which they desire.

Q. President Bush, what's your opinion on the plan of economic help to U.S.S.R. through eastern Europe which was proposed by Minister Dienstbier [Foreign Minister of Czechoslovakia] in his speech at Harvard Univers
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President Bush. I'm sorry, I didn't hear the first part.

We didn't discuss that in great detail, but I am convinced that the United States—and I tried to say this in our speech to the joint session—has an enormous stake. We do not want to see Czechoslovakia, Poland, and Hungary off in some kind of no man's land. Thus, we did discuss future security arrangements. It is my view—and I would let the Czechoslovakian Government speak for itself—that some more active role in the CSCE process will contribute to the stability of Europe and fully include Czechoslovakia in the decisions that lie ahead for Europe.

Persian Gulf Crisis

Q. President Bush, in your speech in Parliament, you said we Czechoslovaks understand better than any other nation the Kuwaiti situation. Suppose that something similar happens in our part of the world. What attitude U.S. would adopt since we have no oil here?

President Bush. I'm glad you raised that, because one thing that is very clear to me is that what Saddam Hussein [President of Iraq] has done in taking over Kuwait is devastating to the economies of eastern Europe, say nothing of the economies of the West and every other part of the world. This naked aggression against Kuwait has clearly had an adverse effect on the economies of every single country because of the disproportionate amount of the GNP that is assigned to energy. So, I am very clear that it is not simply the United States and other countries in the West that are getting hurt by Saddam Hussein's aggression and what that means in terms of higher oil prices but every country as well. Clearly, this is true in Eastern Europe.

Your question, other than that, is too hypothetical for me to say what we might do under some hypothetical situation. But I can guarantee you, we are going to continue to stand against this aggression and do our level-best to see that the United Nations resolutions are fully implemented—hopefully, in a peaceful manner. But Saddam Hussein has got to withdraw from Kuwait without condition, and the legitimate leaders have to be restored, and the hostages—and Czechoslovakia has some, and so does the United States—must be freed. This inhumane treatment of hostages is unacceptable. And then there must be a stable order in the Gulf.

So, these objectives will be fulfilled. And my little few hours I've had here on this visit convinced me that it's everybody that's being hurt by this aggression.

Q. President Havel, do you agree with President Bush's views on the Gulf, and do you believe the United States is acting responsibly in the Gulf?

President Havel. Czechoslovakia has made it very clear on a number of occasions that it is necessary to resist evil, that it is necessary to resist aggression, because our own history has taught us ample lessons about the consequences of appeasement.

Dear friends, unless you want the winds to carry us away, you have to accept the situation that there is room for one more question only. [*Laughter*]

Q. President Havel, do you fear that the Gulf situation is taking too much money away from the kind of problems that it could solve in Eastern Europe?

President Bush. ——talking about oil prices?

President Havel. It is my opinion that all the resources that are expended on resisting aggression anywhere in the world finally turned to the good of all humankind.

President Bush. Thank you very much. You heard our host.

President Havel. Thank you all for your attention.

Q. President Bush, there is some feeling that you are too much in a hurry. What do you think of a moratorium that's being called for, in terms of hostilities in the Gulf, by Mubarak [President of Egypt] and other leaders?

President Bush. Mr. Mubarak and I see eye to eye on this situation in the Gulf.

Note: President Havel spoke at 2:48 p.m. in the Music Room at Hradcany Castle, his residence and the seat of the national government. Following the question-and-answer session, President Bush met with Cardinal Tomasek at the Archbishop's

Palace. A tape was not available for verification of the content of these remarks.

Remarks in Prague, Czechoslovakia, at a Ceremony Commemorating the End of Communist Rule

November 17, 1990

Thank you, Mr. President, and thank you, my Czech and Slovak friends. It is a tremendous honor to me to be the first sitting American President to visit this proud and beautiful country and to be able to join you on the first anniversary of the extraordinary Velvet Revolution. What a powerfully moving sight it is.

There are no leaves on the trees, and yet it is Prague Spring. There are no flowers in bloom, and yet it is Prague Spring. The calendar says November 17th, and yet it is Prague Spring.

Your Declaration of Independence proclaims: "The forces of darkness have served the victory of light. The longed-for age of humanity is dawning." Today the freedom-loving people of the world can bear witness that this age of humanity has now finally and truly dawned on this splendid nation.

Seven decades ago, an unprecedented partnership began between two Presidents: the philosopher, Tomáš Masaryk, and the idealistic scholar, Woodrow Wilson. It was a partnership as well among Czechs and Slovaks to join together in federation. And, yes, it was a long, hard road from their work on your Declaration of Independence to this magnificent celebration today. I am proud to walk these last steps with you as one shared journey ends and another begins.

Our countries share a history. We share a vision. And we share a friendship, a friendship Masaryk described to Czech-American soldiers 70 years ago. He said: "Do not forget that the same ideals, the same principles ever unite us. Do not forget us as we shall never forget you." That is why I'm here today. We have not forgotten.

The world will never forget what happened here in this square where the history of freedom was written—the days of anguish, the days of hope. So many times, you came here bearing candles against the dark night, answering the call of Comenius to follow "the way of light." These brave flames came to symbolize your fiercely burning national pride.

A year ago, the world saw you face down totalitarianism. We saw the peaceful crowds swell day by day in numbers and in resolve. We saw the few candles grow into a blaze. We saw this square become a beacon of hope for an entire nation as it gave birth to your new era of freedom.

This victory owes its heart to two great heroes. Alexander Dubček—22 years ago, he led this nation in its first sweet taste of liberty. His are the will and compassion that are the living Czechoslovakia. And then President Havel, a man of wisdom, a man of tremendous moral courage. In the dark years, on one side stood the state; on the other side, Havel. On one side, tyranny; on the other, this man of vision and truth. Among the first was Havel, and now there are millions.

Today a Europe whole and free is within our reach. We've seen a new world of freedom born amid shouts of joy; born full of hope, barreling with confidence toward a new century; a new world born of a revolution that linked this square with others—Gdansk, Budapest, Berlin—a revolution that joined together people fueled by courage and by humanity's essential quest for freedom.

For four decades, our two nations waited across the divide between East and West, two peoples united in spirit, in vision, and yet separated by conflict. Today the United States and Czechoslovakia stand together, united once more in our devotion to the democratic ideal.

Now, with the division of Europe ending and democracy ascending in the East, the challenge is to move forward. In Czechoslovakia: from revolution to renaissance, across this continent toward a new Europe in which each nation and every culture can flourish and breathe free. On both sides of the Atlantic: toward a commonwealth based on our shared principles and our hopes for the whole world, a commonwealth inspired by the words of your great Comenius written three centuries ago: "Let us have but one end in view: the welfare of humanity."

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A thousand miles to the south, this new commonwealth of freedom now faces a terrible test. Czechoslovakia was one of the first nations to condemn the outrage in the Persian Gulf, one of the first to measure the magnitude of the wrong committed in the name of territorial ambition. It is no coincidence that appeasement's lonely victim half a century ago should be among the first to understand that there is right and there is wrong, there is good and there is evil, and there are sacrifices worth making.

There is no question about what binds our nations, and so many others, in common cause. There is no question that ours is a just cause and that good will prevail. The darkness in the desert sky cannot stand against the way of light. I salute your courageous President when he joins us in saying that Saddam Hussein's [President of Iraq] aggression must not be rewarded.

Earlier today I told your Parliament, we know this is a difficult time for you, but also a time of extraordinary optimism. As you undertake political and economic reform, know one thing: America will not fail you in this decisive moment. America will stand with you. We will continue along the road mapped out by our Presidents more than 70 years ago, a road whose goal was described by Woodrow Wilson: "to bring peace and safety to all nations and make the world itself at last free."

For the past 70 years, your Declaration of Independence has been preserved and cherished in our Library of Congress. I say, it is time for Masaryk's words to come home. And as humanity and liberty return to Czechoslovakia, so, too, will this treasured document.

On behalf of the people of the United States, I am proud to be able to tell the people of Czechoslovakia: 1989 was the year that freedom came home to Czechoslovakia; 1990 will be the year your Declaration of Independence came home to the golden city of Prague. May it be for future generations a reminder of the ties that bind our nations and the principles that bind all humanity.

In 1776, when our Declaration of Independence was first read in public, a bell tolled to proclaim the defiant thrill of that moment. That bell—we call it, at home, the Liberty Bell—has for 200 years symbolized our nation's deepest dedication to freedom—dedication like your own. Inscribed on this bell are the words: "Proclaim liberty throughout all the land." We want to help you proclaim your new liberty throughout all this proud and beautiful land, and so today we give to you our last replica of the Liberty Bell. You know, one of our patriotic songs proclaims, "Sweet land of liberty—from every mountainside, let freedom ring."

And so, when bells ring in Wenceslas Square or in Bratislava or anywhere in this glorious country, think of this bell and know that all bells are tolling for your precious liberty, now and forever. And so, now I am proud to ring this bell three times. Once for your courage, once for your freedom, and once for your children.

[*At this point, the President rang the bell.*]

May God bless Czechoslovakia. Thank you all very much.

Note: The President spoke at 4:13 p.m. in Wenceslas Square. Prior to his remarks, he participated in a wreath-laying ceremony at the St. Wenceslas Memorial. A tape was not available for verification of the content of these remarks.

Statement by Press Secretary Fitzwater on the Czechoslovakia-United States Trade Agreement

November 17, 1990

The United States and Czechoslovakia today exchanged diplomatic notes bringing into force the trade agreement signed by the two Governments last April. The agreement extends most-favored-nation (MFN) tariff treatment to Czechoslovak exports to the United States and U.S. exports to Czechoslovakia. President Bush expressed his hope that the mutual extension of MFN tariff treatment will "provide the impetus for greatly expanded trade between our two countries and the first step toward a normalization of our bilateral trade relations." The exchange follows approval of the agreement on November 16, 1990, by the Czechoslovak Federal Assembly. The

U.S. Congress approved the extension of MFN on October 23.

The agreement, along with its side letters on trade and financial matters, intellectual property, and tourism, contains important guarantees for American businesses, including the right to nondiscrimination in renting office space, paying for local goods, and establishing bank accounts. Through this agreement, the Czechoslovak Government has also committed to upgrade substantially its protection of intellectual property rights, bringing its intellectual property regime to a level on a par with that of other industrialized nations.

The implementation of this agreement coincides with the next phase of Czechoslovakia's concerted efforts at market reform and trade liberalization. The Government of Czechoslovakia has announced plans to activate a number of important reform measures in January 1991, including price liberalization through the delinking of retail and wholesale prices, internal currency convertibility, and the privatization of large state enterprises through the establishment of joint ventures with foreign entities.

President Bush praised Czechoslovakia's reform efforts as "impressive initiatives, heralding a new age in Czechoslovakia's relations with the international trading system." The President also expressed his hope that Czechoslovakia's reforms would continue to move the country towards full trade liberalization.

Combined with the current and planned reforms in Czechoslovakia, the extension of MFN should result in the threefold increase in bilateral trade over the next few years, setting the stage for a strong trade relationship between our two countries.

Radio Address to the People of Czechoslovakia

November 17, 1990

Indeed, it is an honor for me to be here on the first anniversary of your Velvet Revolution. And I'm doubly honored to be the first American President ever to visit Czechoslovakia. And, President Havel, I thank you for inviting me to visit your country. Barbara and I are delighted to be here, and I'm flattered that you invited me to join you in this weekly radio talk.

I spent a marvelous and moving day here in Prague. I met the new leaders of Czechoslovakia, both Federal and Republic. And I spoke before your Federal Assembly, that hall that has now sprung to life in building your new democracy. And on Wenceslas Square, I joined you in celebrating the first anniversary of your Velvet Revolution. And it's really been among the most thrilling days of my life.

The ties between our two countries are unique, going way back to the creation of the Czechoslovak state. And Americans feel a special attachment to your Czech and Slovak federation.

Our peoples were cut off from each other for most of the Communist period, and we've now begun making up for what we missed through those two generations. And I regret that I was unable to visit Slovakia during this brief visit, so let me extend a special word or greeting to the people of Slovakia and say how delighted I am that the United States will soon reopen its consulate there in Bratislava.

And let me say to all the citizens of the Czech and Slovak Federal Republic: We rejoice with you in your liberty, and we pledge that we will not fail you in this decisive moment of your history.

President Havel, once again, sir, my thanks to you for allowing me to join you on the airwaves of free Czechoslovakia. God bless you all.

Note: The address was recorded at 6:40 p.m. on November 17 at Hradcany Castle in Prague, Czechoslovakia, and was broadcast as a part of President Havel's weekly radio program at 2 p.m. on November 18. Following the recording session, President Bush attended a reception at the castle hosted by President Havel. Later, President Bush went to the U.S. Ambassador's residence, where he stayed overnight. A tape was not available for verification of the content of the address.

Exchange With R
Force One

November 18, 19

Chancellor Helmu

The President. – save it all for Gerr Arabia.

Q. Why?

The President. asked——

Q. You called K was that about?

The President. C

Q. In the last few

The President. N

Q. Yesterday?

The President. N

Q. What about ment on Tariffs a was asking Marlin whether or not y that up today.

Mr. Fitzwater. I weeks since you ca

The President. him today. Mark

Soviet Union/Pers

Q. What do you in the Soviet Unior

The President. a chance to talk to of that.

President Václav H

But this visit wa emotional and ve what Havel said noted around the v rations for his own as it related to a East, because this it means to be tal dinner and afterwa the patriots there, conviction that ag I think he answer rectly to one of yo very, very forceful.

Q. Everybody war——

The President.

Q. ——in late Ja

Exchange With Reporters Aboard Air Force One

November 18, 1990

Chancellor Helmut Kohl of Germany

The President. ——here's why. I want to save it all for Germany or France or Saudi Arabia.

Q. Why?

The President. Why? That's what I asked——

Q. You called Kohl this morning? What was that about?

The President. Called him?

Q. In the last few days?

The President. No.

Q. Yesterday?

The President. No.

Q. What about GATT [General Agreement on Tariffs and Trade]? Yesterday I was asking Marlin about GATT and about whether or not you were going to bring that up today.

Mr. Fitzwater. I think it's been a couple weeks since you called Chancellor Kohl.

The President. Yes. I haven't talked to him today. Mark that: Did not call Kohl.

Soviet Union/Persian Gulf Crisis

Q. What do you think about the changes in the Soviet Union?

The President. Very interesting. I'll have a chance to talk to Mr. Gorbachev about all of that.

President Václav Havel of Czechoslovakia

But this visit was very moving and very emotional and very good. And I thought what Havel said yesterday should be well noted around the world, not just on his aspirations for his own country but what he said as it related to aggression in the Middle East, because this country has learned what it means to be taken over. And all during dinner and afterward, talking to the people, the patriots there, why, it just redoubles my conviction that aggression can't stand. And I think he answered that question very directly to one of you all yesterday which was very, very forceful.

Q. Everybody thinks you're going to war——

The President. The United Nations——

Q. ——in late January.

The President. ——resolutions will prevail. I'm convinced of it.

Q. So what about Bennett [former Director of National Drug Control Policy]——

The President. And I was very pleased with the support yesterday that I saw in that—I think it was your poll, wasn't it? ABC? Its strong support for what we're doing—very strong. You can write the story one way; but when you analyze the results of the poll, why, it was very, very positive. I think some were frustrated we haven't moved sooner, and some are frustrated we may be moving too fast. But if we add it all up, there is strong support for what the United States is doing at home, and I think there's strong support for what we're doing around the world. I'm sure of it in Czechoslovakia. I can guarantee you that.

Q. Do you consider that a green light?

The President. I consider it a solid front.

Q. A what?

The President. A solid front. Because I think this: What we learn here today is just one more affirmation that the United Nations is correct in its resolutions.

Q. Are you planning a TV speech when you get back to the States?

The President. Haven't planned it, but there may well be one.

Q. How close are you to getting enough votes in the U.N. to go for a——

The President. We're not discussing that now. We're just doing a little consultation.

William J. Bennett

Q. Did you really pick Bennett to head the——

The President. We're not discussing that now.

Q. ——Republican National Committee?

The President. I don't know—a lot happens when I leave. We've got to wait and do a little—[*laughter*]——

Q. This happened without your knowledge?

The President. Yes. Isn't that amazing?

Q. Shocking.

Arms Reduction Agreements and the Conference on Security and Cooperation in Europe

Q. Are you intending for the Gulf to make everybody forget about CSCE?