

The Road from Serfdom: Prospects for Freedom in Eastern Europe

by Rafal H. Krawczyk

The dramatic changes that have been taking place in Eastern Europe are a signal not only of political liberalization. They indicate that the nations of the region, completely disillusioned with socialist ideology, are in the process of filling their post-socialist ideological vacuum with values similar to values of American conservatism or European liberalism: a strong belief in individual rights, a governing system composed of checks and balances, and an economy shaped not by state planning but by the “invisible hand” of the free market. Numerous reports indicate that these ideas will soon dominate not only in Poland and Hungary, but also in other East European states.

Thus arises the important question, how can the West, and above all, the United States, aid the Communist countries in this transformation? As it is, the rapid pace of change requires that the West react quickly and wisely, not merely await results. The problem, however, is that in the face of these changes, the West is no longer so politically homogeneous and is divided in its policy towards the East. The latest controversy within NATO is only the first symptom of this problem. I will deal with this subject in the second part of my lecture.

The title of my lecture, *The Road From Serfdom*, is a direct reference to the title of Friedrich Hayek's book, published in 1944. The book was Hayek's intellectual reaction to the two totalitarian phenomena of the times: Russian Stalinism and German fascism. In 1976, the new edition of Hayek's book (by this time he was a Nobel Prize laureate) was published by the University of Chicago Press with the subtitle: *A classic warning of the danger to freedom involved in social planning*. Today, we can celebrate Hayek's newest book *The Fatal Conceit: The Errors of Socialism*, which to some degree may be accepted as an intellectual *finis* of the discussion on socialism and ultimate summary of its failures.

Poland's Importance. I would like to present the problem using Poland as an example. This is for two reasons: first, because Poland was the first in Eastern Europe to begin on its “road from serfdom” in August 1980; second, because events in Poland, because of the country's geopolitical location, are more important to the Eastern bloc states than events in any other country, except for the Soviet Union itself.

May 3rd is an important date for the Polish people, as it is the anniversary of the May 3rd Constitution of 1791 – the symbol of Polish liberalism and the Polish road to modern democracy. It is also a sad reminder of Poland's place on the continent and the limitations on its aspirations. For May 3, 1791, was only a symbolic triumph of democratic ideals over despotism, since Poland was, in the end, partitioned between Russia and Prussia, erasing the country from the maps of Europe for 123 long years.

Rafal H. Krawczyk is a Bradley Resident Scholar at The Heritage Foundation, on leave from the Catholic University in Lublin, Poland.

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Importance of Symbols. May 3, 1989, is also important — thanks to news of the dismantling of the Iron Curtain along the Austro-Hungarian border. Considering the rapid pace of change in Hungary, this fact is of more symbolic than practical importance, but it should not be disregarded, as symbols are of particular importance in Communist countries. There, symbols have a life of their own.

Acknowledging the drive to democracy in Poland and Hungary, one must however realize that — taking into account Hayek's analysis — these countries have not yet passed the point of no return, and are not yet part of democratic, free-market Europe. The heart of the matter is not merely political changes, but economic changes. The possibility of economic change is still, both in Hungary and in Poland, more a subject of speculation and free exchange of opinions than actual accomplishment. The elites of both these states, with decades of experience stressing the priority of political matters over the economic, still seem to believe that political liberalization will automatically bring economic assistance from the West and economic expansion. Plans for irreversible systemic changes in these countries is still considered only by a minority.

The course of events in Eastern Europe and the intensification of the region's economic crisis in spite of all the efforts of the Communist authorities gives full support to Hayek's opinion that the key to the political system of Communism is state ownership of the economy. The point of no return in the process of transforming a Communist society into a democratic one will be the moment when central planning, based on the so-called state sector of the economy, will be abolished and replaced with a market economy based on the principle of the autonomy of the individual. If this transformation is not accomplished, then it will be possible to turn back the clock of political change, and worse still, the cause of the protracted economic crisis of Eastern Europe will not be removed. Without having abolished the cause of the crisis, establishing a democratic system in these countries is impossible.

Vague, Socialist Idea. The April 1989 political agreement between the Communist government and the so-called constructive opposition in Poland, though of historic importance, supplies further evidence to support the above notion. The agreement does not challenge the fundamental principles of the system, including state ownership of the means of production. It does not include a demand for right of ownership guarantees, which would resemble free-market property rights. All it contains is a vague desire to more effectively implement the ideal of societal ownership of the means of production. It is a purely socialist idea, and does not indicate a desire to accept the rules of the free market.

A similar situation can be found in Hungary, where in spite of the decision to hold free elections in 1990, no traces can be found of an attempt to change the role played by the state in economy. Observers of the Hungarian scene believe that — as in Poland — the political duel there is limited to that between the present elite, socialist, and social-democratic opposition.

The Polish situation is characterized by the fact that there is a growing division between the socialist and the social-democratic opposition on the one hand, and the opposition oriented on Christian-democratic, liberal, national, and conservative ideologies on the other. The split is centered on the question of the economy, or to be more precise, on the concept of "marketizing" the Polish economy, and the assessment of the results of such a maneuver. The division is underscored by the fact that the socialist and social-democratic option was represented at the roundtable negotiations, and will probably gain a majority of the seats in both houses of the legislature designated for the opposition, while the

market-oriented option was not represented, and its participation in the upcoming elections in Poland will probably be marginal.

Thus, the Polish political geography appears to be more colorful, as the parliamentary opposition will probably support in the Sejm and in the Senate those bills that have a socialist character, while the market-oriented opposition will be forced to act as an out-of-parliament body, and will thus be more radical, more critical, and more ready to take to the streets in place of a parliamentary debate. Such a deployment of forces is well known in history; Poland saw it in 1926, after Marshal Pilsudski's coup, and after the 1935 Sejm elections.

Four More Years of Crisis. The situation in which the pro-market and the anti-market forces will find themselves may cause the period between the June elections and the first fully democratic elections planned for 1993 to be the period of intense planning and consolidation of the forces left out of the Sejm as a result of the June 1989 elections. From a political point of view the situation appears somewhat favorable, as it gives organizing time to the forces which at this moment are too fresh and too inexperienced. One may well ask if four more years of an intensifying economic crisis is long enough for the Polish people's patience. Lacking radical reforms, an economic structure inherited from over forty years of central planning will remain. And this very structure is the fundamental and ultimate reason for the protracted economic crisis. The crisis will thus become the price which Polish society will have to pay for the luxury of having the new political structure of the country grow freely. The out-of-parliament position of the market-oriented opposition will mean that its influence over the legislation prepared for the Sejm and the Senate will be small.

In the pro-market orientation of the opposition forces in Poland, four main ideas may clearly be delineated:

- 1) Transferring the ownership of the means of production into the hands of society through the sale of stocks in state-owned companies, as has been done in Great Britain by Margaret Thatcher's government.

- 2) The concept of an increase in participation of the work force in the management of companies through a system of employee stock, tied to the place of employment and financed through bank credit. The idea is known throughout the world under the name of ESOP (Employee Stock Ownership Plan).

- 3) The concept of giving away stock in state-owned enterprises, in equal share to all adult members of the Polish society — that is to about 28 million Poles.

- 4) The idea of increasing involvement of the employees by transferring to them about 60 percent of the stock, but without the obligation of a continuing employment in the present place of work. This mechanism is designed to attract the support of important sectors of society without impeding the development of an internal capital market, and widening stock ownership to other groups of society besides employees of state-owned companies.

Radical Solution Needed. Jacek Kuron, a leading leftist opposition figure, during his recent stay in Washington, D.C., appraised the political chances of what he called the Polish right as very narrow, stating that they can present no alternative program to the propositions resulting from the roundtable agreement. This is an over-simplified assessment. Poland's current crisis is far more complicated than a debate over wages-to-prices indexation or a place for the Central Bureau of Statistics between the

government and the legislature. A solution to Poland's crisis must be of radical scope, requiring a grand effort and a sizeable amount of further study. It would require the creation — with the help and advice of Western experts — of an elemental cadre of specialists knowledgeable in matters of the market, who at present are few and far between in Poland. Such a program cannot be created in a day.

The notion is growing in Poland that without solving old problems and without moving the system in the direction of a market economy, the economic crisis will not end, and the political situation will not normalize. Thus, one can predict that the market option of the Polish opposition will acquire a rapidly increasing importance, both in an intellectual and in a political sense. There are reasons for optimism, as the pro-market ideas and the country's readiness to accept them are an indisputable fact. The watershed and point of no return are still ahead, but the country is well along its road from serfdom.



If the events in Poland are not influenced by any outside factors, one may be confident that the pro-market orientation has the best chances for winning the 1993 elections. It has shed the old, anti-democratic ballast of the traditional right and has clearly evolved in the liberal, not the nationalist, direction. In the present situation the market orientation groups are in a good starting position, because of several factors.

First, there will be no reason to blame them for the further prolongation of the economic crisis since they will not be in control of the legislature.

Second, they consist primarily of the younger generation of Poles, and are in no hurry to grab a share of the political power "at any price." The situation is politically comfortable, and allows them to await the moment when it will be absolutely evident that a pro-market economic plan offers the best chance for escaping the economic crisis.

Third, four years between the two parliamentary elections is time enough to prepare a good plan of national economic recovery, based on the work of free-market specialists. If — as seems very probable — the Polish people no longer keep their distance from political and economic affairs as a result of the continuing crisis, the political climate will be much more favorable to radical economic changes.

In this "optimistic scenario," the pro-market orientation will see a fairly easy electoral victory in 1993, to be followed by a chain of radical reforms leading to a road of rapid economic growth and industrial modernization for Poland.

A less optimistic scenario might however become a reality if Polish authorities lean on Western industrial circles which wish to do business with Poland. Contrary to general skepticism, Poland is becoming a more attractive object of economic penetration, due to the growth of free-market ideas and understanding for the need of creating an investment market. Clearly, the German businessmen are best prepared, best organized, and best equipped for the task. The Americans show a growing interest too, followed by other Western European states.

Allying with the U.S. This fact has additional, ideological meaning to the Poles. Polish socialists and social-democrats look up to German and Swedish social-democrats. They have personal contacts there. The pro-market forces, on the other hand, look up to American conservatives. If current trends in international affairs continue and Europe is once more Europe, with a reunified Germany, it is probable that pro-market Poles will

want to ally with the U.S. and even Russia against Germany. This possibility is not as unlikely as people may think.

Evidently, the greatest interest of Western industrial circles lies not in joint-venture projects or cooperation with major Polish state enterprises. Their interests are directed rather at exploring the possibility of a so-called debt-equity swap, or in other words, buying out Polish production assets through a secondary debt market. Polish debt certificates could be bought for less than half their nominal value. Should it become possible to reinvest such cheaply bought Polish zlotys in buying out Polish production assets, it would become the simplest way for Poland to reduce its debt. The temptation is so great that one may expect Polish authorities to succumb.

Changing debt into co-ownership has additional benefits for the Polish economy; it would bring about a flow of modern technology and increase the export capacity of the country without new foreign loans.

The situation also has its dangerous side, however. Western financial markets are interested in Polish production plants because their market value, regardless of the way it is calculated, is lower than their potential production output in a changed systemic environment. In other words, Polish production plants on sale may prove — from the point of view of Western financial circles — twice cheap. They may be interested in buying out a major share of the Polish economy as so-called undervalued assets.

Risky Project. The risk involved in such a project is that the sale of Polish assets will — lacking a home investment market — remain in the hands of the central bureaucracy. A free investment market would have set a price on Polish production assets at their true value. Selling it all through the centralized bureaucracy creates a major opportunity for the fraudulent selling-off of national assets at discount prices, accompanied, as usual, by vast corruption and a propaganda effort directed at presenting the process as in accordance with national interests. Needless to say, this will encounter social resistance and increase political tension. The first instance of such thoughtless behavior on the part of the administration is the scandalous and irresponsible program of importing dangerous industrial waste from the West.

The problem is that such deals, contrary to the national interest of Poland, may be in the interest of foreign capital, and the profits placed in the state coffers may be presented as an economic achievement and used to purchase attractive consumer goods and pacify public opinion. It is easy to understand the damage this could do to the Polish national economy.

All the more so, it is a task of great importance to reconstruct the internal, Polish investment market before one opens up the country to foreign investment. That is the only reasonable way out of the decade of stagnation.

Fundamental Role for Germany. The future situation of Poland is further complicated by the fact that the West is no longer a homogeneous entity — at least in its relations with Eastern Europe — but is slowly evolving into a loose alliance of varied interests. Doubtlessly, the fundamental role in the creation of the new Eastern Europe will fall to Germany, due to its cultural traditions, geographical proximity and economic power.

“The German problem” recently arose in the United States to everyone’s surprise. Americans were shocked to learn of Chancellor Kohl’s opposition to the modernization of American short-range missiles in Germany, without prior negotiations with the Soviet Union on reducing this arsenal. This side of the Atlantic was first furious, then offended,

finally — thoughtful. On April 27, 1989, a meeting of a task group of The Heritage Foundation was a scene of heated debate over the American reaction to the reborn “German problem.” There was a similar scene at a later debate in which Professor Werner Kaltefleiter, director of the Political Science Institute of the University of Kiel, took part. The Americans, fresh back from a visit to the Federal Republic, attempted to argue that the U.S. would pull their troops out of Germany, if the FRG persisted in going against the wishes of the NATO alliance. This possibility is no longer out of the question, in view of the growing independence of Germany in military matters, and of the growing dislike of American voters for costly overseas military ventures. And the American voters are a major political power. The Europeans may well be left to themselves and forced to solve their problems on their own.

At the beginning of May 1989, when the first shock over the West German reaction to the NATO proposal of modernizing the short-range missiles was over, there appeared comments which would indicate a deeper understanding of the complex problems of Europe. A.M. Rosenthal’s article in the May 3, 1989, issue of *The New York Times*, entitled “Nobody Says the Truth,” was particularly revealing. A.M. Rosenthal was an editor and a European correspondent of *The New York Times* after the Second World War. His thesis is that in present-day Europe the question does not pertain to short-range missiles, but the problem of the future role of Germany in Europe. According to his calculations, a united Germany will be the third industrial power of the world, and unquestionably the first in Europe.

Problem for Europe 1992. Most Americans have probably not heard of an important book recently published in France by Alain Minc, a son of Polish immigrants, under the title *La Grande Illusion*. The book refers to the great hopes borne by the idea of a United Europe of 1992. Minc believes that due to the changes in the Soviet Union and the returning political and economic problem of “the German question,” the European Community is in danger. To quote Alain Minc: “The Germans believe that their security depends on good relations with the East, but also military ties with the West. Should one recognize validity of this concept, the vision of United Europe becomes — from Germany’s point of view — an absurd solution.... We will thus be left with a united market, but not with a United Europe in a political and military sense.” And further on: “Europe will exist with Germany in the middle. The fact that the United European Community will not be achieved is of no importance in view of the fact that Europe will again be Europe — from the east to the west.”

Questions about the future political and economic situation in Europe are endless. It is not only the future role of Germany in the new Europe which deserves scrutiny. To present a full picture of the problem, one must pose the same question about the role of the Soviet Union in the reconstructed Europe. And about the role of the United States.

Continuing U.S. Interest. For all their warnings about pulling troops out of Europe, it would seem that the U.S. is more intent on making an impression than actually planning to withdraw into “Fortress America.” The rapid changes in the East are due to the fact that the people in power there finally realized that no state may isolate itself from the rest of the world without paying a stiff price. This goes for the United States as well, even if the U.S. is still the major economic and military power in the world. The internationalization of the American economy in the last 30 years is evident; the share of foreign trade in its GNP rose in the last 30 years by a factor of four, from 5 percent to 20 percent. Foreign trade is no more a marginal matter for the American economy. The Americans, surprised to find their

global leadership questioned, are on the right track to rebuild their competitiveness and power in industry and politics. After all, it is America and the Founding Fathers which launched the first triumph of democracy over despotism. It would thus be unthinkable to expect the Americans to retreat completely from Europe to sit back and contemplate their past prowess. A renewed interest of American business in the Soviet and East European market also runs contrary to such notions. The current American administration has — fortunately — little influence over private business in this country. It would thus seem that Americans will not be left behind at the starting line in this race for the profits to be made in the East. The expectations expressed in view of the planned presidential visit to Poland and Hungary in July are just one sign of America's continuing interest.

