

# Policy Analysis

## Cato Institute Policy Analysis No. 255: Red Phoenix Rising? Dealing with the Communist Resurgence in Eastern Europe

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Roger Fontaine

Roger W. Fontaine, a Washington-based writer, was a senior staff officer with the National Security Council during the Reagan administration.

### Executive Summary

The communist specter is making a reappearance in Central and Eastern Europe. In some cases, as in Belarus, the old communist establishment never left power. In other Soviet bloc nations, such as Lithuania, Hungary, Bulgaria, Slovakia, and Poland, the communists have returned to power. Most important is the Russian Federation, where a regrouped Communist Party under new leadership made dramatic gains in the December 1995 parliamentary elections and is positioned to make a strong showing in the upcoming presidential elections. Only in the Czech Republic, Latvia, and Estonia have communists, former communists, and statist-minded bureaucrats been eclipsed.

The explanation of the communist renaissance and its implications for the West are neither simple nor one-dimensional. Despite alarm in some quarters, we are not returning to 1917 or 1945. But the earlier hopes for a smooth transition from Marxist police state to democratic capitalism have proved premature, indeed, naive.

Three important lessons need to be absorbed. First, the nations, such as the Czech Republic and Estonia, that have pursued the most rapid and radical economic reform programs have been the least vulnerable to a neocommunist backlash. Timidity and gradualism in other countries have proven counterproductive. Second, most of the resurgent "communist" parties have little desire or ability to restore dictatorships or seek a confrontation with the West. There is, therefore, no need for Washington to panic and institute a Cold War-style containment policy. Finally, although America cannot dictate political and economic outcomes in Central and Eastern Europe, it ought to encourage reform and discourage retrograde trends by refusing to bail out anti-reform regimes with foreign aid.

### *Introduction*

A specter is haunting Europe--the specter of Communism.

-- *Karl Marx and Friedrich Engels*, The Communist Manifesto

There is a certain irony that the youthful Marx and Engels, writing at the flood tide of liberal revolution in Europe, were so far off the mark. But fast-forward a century and a half and we see that the specter is making a reappearance. That is an unpleasant surprise to U.S. policymakers.

When the Berlin Wall fell in 1989, the communist system it was designed to protect in the German Democratic Republic was already in an advanced stage of decomposition. Communism's appeal had long faded except in Third

World and academic backwaters. The nomenklatura--the apparatus of party, police, and government bureaucracies--had for the most part reached the cynical conclusion that communism as the future of the human race was a fairy tale.

Regimes whose legitimacy was based on the communist myth crumbled--some quickly, as did that of the GDR; some slowly, as did that of Poland. Nineteen eighty-nine was the turning point for Eastern and Central Europe, however. Within one year, communist governments in Berlin, Prague, Budapest, Warsaw, Sofia, and Tirana collapsed with remarkably little violence. Only in Romania did serious bloodshed occur.

The decay did not end at the Soviet border. The Baltic states, for example, had never accepted their forceful inclusion in the Soviet Union in 1940, and they sought the restoration of their independence. Within Russia itself, the collapse of the Communist Party came in August 1991 after a failed putsch of party hard-liners, which precipitated the formal dissolution of the Soviet Union four and a half months later.

The sudden collapse of communism in Eastern and Central Europe gave rise to a euphoric belief that, with the aid of Western governments and international financial institutions, the struggling new democracies would soon merge the Second World with the First. The path to prosperity seemed clear. First, a unified Germany would revive the area occupied by the old GDR through a massive transfer of wealth and the inclusion of the former East Germany under the legal system of the prosperous and well-governed German Federal Republic. Czechoslovakia, the most advanced republic in Eastern Europe even before World War II, would come next, followed by Poland and Hungary, which had begun the reform process in the 1970s. Romania, Bulgaria, and Albania would, according to that scenario, follow in time.

Meanwhile, Latvia, Lithuania, and Estonia (the most advanced of the 15 "republics" that had composed the old Soviet Union) would receive large amounts of foreign aid, particularly from the Scandinavian countries. Several other Soviet republics, including Russia, Ukraine, and Belarus, possessed massive natural resources that would hasten their transition to capitalism. The republics of the Caucasus--Georgia, Armenia, and Azerbaijan--presented bigger problems, but they, too, seemed to have sufficient human talent and natural resources to achieve success in time. The Central Asian nations would take longer, but with secular, democratic Turkey as a model, they could also be expected to eventually join the community of free-market democracies.

That was the hope. The reality has been considerably more complex and, on balance, disappointing. The transition to democratic capitalist societies has proven more difficult and erratic than most Western experts anticipated in the immediate post-Cold War period. An assortment of communist, reformed communist, and neocommunist parties has exploited the problems of the economic and political transition

throughout Central and Eastern Europe to gain power or at least to mount serious challenges to noncommunist reform factions.

## **Early Signs of Trouble**

The eastward progress of Western-style democracy hit its first major stumbling block in Yugoslavia, where the union of the South Slavs began to unravel quickly and bloodily. Relatively sophisticated Slovenia was caught up in a scrap with federal forces only briefly. But Croatia, Bosnia, and Serbia soon entangled themselves in a disastrous three-sided war that has now drawn NATO into its vortex. The southernmost republic, Macedonia, remains a concern to all its neighbors, particularly Greece but Albania and Bulgaria as well.

The Yugoslav debacle was only the first apparent reversal of the West's good fortune. Five years later, the ancien régime remains largely in place in the old Soviet Union's five Central Asian republics--Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan--as well as in the three Caucasus republics. In those nations, as well as in Belarus, Moldova, Romania, Ukraine, and all six former Yugoslav republics (including Slovenia), the communists never really relinquished control.

In Bulgaria, Hungary, Lithuania, Poland, and Slovakia, electorates returned communists or former communists to power after a brief respite. Only the Czech Republic, Latvia, and Estonia have thus far kept firmly on the path to democracy and economic reform.

That mixed picture should not be oversimplified. Some former communists are more "former" than others. Romania, for example, after a slow start, is beginning to pick up the pace of privatization under President Ion Iliescu and his National Salvation Front. Hungarian prime minister Gyula Horn (a foreign minister under the last communist government), on the other hand, is treading water after a promising start. And in Russia, the most complicated and most important of the former communist countries, former communist Boris Yeltsin presides over a process of on-again, off-again reform and faces a Duma (parliament) dominated by communists and ultranationalists. [\[1\]](#)

Russia's fate will undoubtedly have a profound impact on the possibility of a rising red phoenix.

To make sense of the red phoenix phenomenon, this study will focus first on developments in Russia, then examine the situation in several European republics of the former Soviet Union (the three Baltic republics, Belarus, and Ukraine) and Moscow's former Warsaw Pact allies. Developments in the former Yugoslavia, Moldova, the Transcaucasus, and the Central Asian republics of the former USSR, while important, lie beyond the scope of this study.

## Russian Communism Redux

The Communist Party of the Soviet Union (CPSU) appeared moribund at the end of 1991. Indeed, by the 1980s it had evolved into a listless mass of aging members--its youth arm, the Komsomol, had virtually collapsed. [\[2\]](#) Even the relatively vigorous Mikhail Gorbachev, the CPSU's last general secretary, was unable to revitalize the system. His vaunted perestroika lacked the economic content to revive the system and instead opened a Pandora's box of dissent. Once released, that dissent could not be effectively suppressed, as communist hard-liners discovered when they attempted a palace coup in Gorbachev's absence. The putsch failed ignominiously.

Boris Yeltsin, the elected president of the Russian Republic and the hero of the resistance to the failed coup, ended up in charge virtually by default. Yeltsin proved tough and decisive in putting the old CPSU out of business. The party's assets were seized, and its organs of power, such as the old KGB, were dissolved. All that remained was a score of small, squabbling communist factions that seemed inconsequential.

## The Party's Meteoric Rise

Yet, five years later, the Russian Federation Communist Party (KPRF), led by Gennady Zyuganov, has emerged as Russia's largest and best-organized political party. The KPRF dominates the Duma, and Zyuganov is making a strong bid for the presidency in the June elections. [\[3\]](#) The rapid political advance of the KPRF is the most remarkable of any communist party in the former Soviet bloc. It is unsettling that virtually every U.S. analyst--in and out of government--underestimated the strength of Russia's communists, just as Western experts prematurely wrote off the appeal of such ultranationalists as Vladimir Zhirinovsky.

After a temporary suspension in October 1993, the KPRF placed fifth in the first Russian elections for the Duma in December 1993, winning 12.4 percent of the vote and 45 seats. In the 1995 Duma elections, the KPRF ran first, capturing 22.3 percent of the vote and 157 seats, a more than threefold increase.

Under the Russian electoral system, members of the Duma are divided equally between those on party lists elected by proportional representation and the remainder, who are chosen in single-member constituencies on a first-past-the-post basis. The communists did well under both systems, gaining 99 list seats and 58 district seats. By comparison, the pro-Yeltsin party, Our Home Is Russia, gained 45 list seats and 10 district seats, while Zhirinovsky's misnamed Liberal Democrats won 50 list seats and 1 district seat.

Moreover, of the 76 so-called independent candidates, 63 turned out to be pro-communist, leaving the communists only four seats shy of a majority. Counting the seats of their ideological allies in the Agrarian Party (35 seats) and Power to the People (37 seats), the communists have a working majority in the Duma. [\[4\]](#)

Such a quick ascent within a political system still in its infancy has few parallels. One very disturbing parallel,

however, is the meteoric electoral ascent of Germany's Nazi Party in the early 1930s.

Like that which led to the Nazi electoral success, the massive turnout for Zyuganov's communists in 1995 may well have been partly a protest vote. There is little question that it reflected Russians' worries over the economy, pensioners' anger over their miserable standard of living, and provincial resentment about the relative prosperity of Moscow and St. Petersburg. Russia's loss of standing in the world and concern about NATO's expansion probably also played some role.

## Discipline and Duplicity

Nevertheless, resentment and desperation are only the raw materials of political victory. Zyuganov's forces deployed two other crucial weapons in the December elections: organization and message. Unlike the other Russian parties, the KPRF has retained the bolshevik practice of having disciplined, dues-paying members who belong to local branches, but the party is administered from the center, Moscow. The KPRF has at least a half million members--Zyuganov's own claim is 780,000--grouped in 20,000 regional, district, and local units. The party's media empire includes 120 newspapers, magazines, and journals, an apparatus that exceeds those of all other Russian parties combined. [\[5\]](#) Zyuganov has also proved to be a clever campaigner, tailoring his appeals to different audiences, foreign and domestic. That duplicity has worked especially well because the party largely has avoided mass advertising in which blatant contradictions would stand out, preferring instead the old-fashioned approach of localized speeches and rallies.

The party's overall message has been quite effective. As an alternative to Yeltsin's policies, Zyuganov offers an updated communism. He and his colleagues have been unsparing in their criticism of Russia's present, painful transition to capitalism. Rising prices; the debauched ruble, which has inflicted heavy punishment on those with fixed incomes; widespread lawlessness; growing class distinctions; and the perception of Russia's humiliation in the world arena all are staples of contemporary neocommunist propaganda. [\[6\]](#)

## The Repackaged Communist Message

The KPRF seems to have buried the parts of Leninist ideology that are transparently unworkable. Party spokesmen no longer praise the old Soviet Gosplan command economy with its monopoly on property, power, and information. Nor does Zyuganov promise the bright future of a communist utopia or espouse atheism in a profoundly religious country.

Zyuganov may not want to restore Soviet state monopolies--which he has argued contributed to the Soviet Union's collapse--but he is no friend of free markets. He advocates government control of major industries, limiting private agricultural holdings, and rebuilding the Soviet defense establishment. He also favors a halt to privatization. In addition, although Zyuganov has said that foreign investment would remain welcome (and promises in the bargain to crack down on organized crime), the terms on which outside capital would be allowed to operate remain ambiguous. [\[7\]](#)

Other aspects of the communist program are problematic as well. Government expenditures (and hence inflation) would probably skyrocket under a communist government because of the additional spending that would be necessary to satisfy key constituencies, especially pensioners. Consequently, communist fiscal and monetary policies are a black hole of uncertainty. [\[8\]](#)

Zyuganov's commitment to constitutional, representative democracy and the competitive party system is also highly questionable; he has evaded direct questions on such matters. The KPRF's official party program theses released by the Central Executive Committee Plenum on March 15, 1994, however, include provisions to create a new constitution and to rewrite electoral law.

Zyuganov's calls to restore Russia's international status by reviving the old Soviet Union are also troubling. Although he has emphasized that patching together Lenin's creation would be "voluntary," and therefore presumably peaceful, the communist goal seems unlikely to be achieved on that basis, owing to a conspicuous lack of volunteers. Other than Belarus, few, if any, of the old republics have shown much interest in a revived Soviet Union under Moscow's rule. Indeed, the very suggestion has created a sense of alarm in the three Baltic states and among Ukrainian nationalists.

They fear that even if a Russian communist foreign policy for the "near abroad" did not use military force, it might employ other forms of coercion, especially economic sanctions.

## The KPRF's Leninist Nostalgia

A longing for the old Soviet Union is apparent throughout the party's March 1994 theses. The USSR's demise was brought about by Gorbachev's "new-thinking" reforms, which were a "deviation from socialism," according to the theses. Moreover, the document finds nothing wrong with the October revolution or Lenin's dictatorship. To show its tolerance of a mixed economy, the KPRF holds up Lenin's New Economic Program as a model for a future Russia. Although the NEP was certainly better than the War Communism that preceded it or the Stalinist nightmare that followed, a new NEP would be a major step back from a market economy in today's Russia.

At the February 1996 party conference that nominated Zyuganov for the presidency, the delegates reaffirmed many of the March 1994 theses. Privatization would be halted and its results carefully scrutinized; state ownership of energy, transport, and other "basic" industries would be restored; private property for commercial purposes would be banned; and the Soviet-style welfare system would be revived--and the media would be purged of all ideas unacceptable to the communists. [\[9\]](#)

## A Red-Brown Alliance?

Regardless of whether Zyuganov wins the presidency this summer, the domination of the legislative branch by the KPRF and its statist ideological allies makes the communists a significant political force. Moreover, the anti-liberal forces also include Zhirinovsky's mislabeled Liberal Democrats. Although the Liberal Democrats suffered losses from their previous high in the 1993 balloting, Zhirinovsky and his followers remain important players in Russian politics.

Some fears about a red-brown (communist-ultranationalist) alliance appear exaggerated--Zhirinovsky has shown no interest in aligning himself formally with the communists--but the anti-liberal forces can block anything that smacks of cooperation with the West (especially the United States). One likely casualty is ratification of the START II treaty, which would reduce the number of nuclear warheads and eliminate Russia's MIRVed land-based missiles.

Furthermore, Zyuganov and Zhirinovsky have made clear their unshakable opposition to NATO's expansion and reject any notion that Russia become a "junior partner of the United States." They also combined forces in passing a resolution that called for the restoration of the Soviet Union--a move clearly intended to win votes in the June election. [\[10\]](#)

The bitterness that divides the reform-minded parties (which, in any case, make up barely one-third of the Duma) does not help matters. No one has been more critical of President Yeltsin and Prime Minister Victor Chernomyrdin, for example, than reformers such as Grigory Yavlinsky and Yegor Gaidar--when they are not ripping each other apart. [\[11\]](#) (Gaidar has now, belatedly and reluctantly, endorsed Yeltsin's bid for reelection.)

But even if the reformers were to cooperate, the anti-liberal coalition could prove highly troublesome. While it is true that the Duma is weak compared to the federation president, the communists and xenophobes can block any reform legislation, leaving Yeltsin to act by decree. Such a strategy would undercut the legitimacy of pro-market reform--above all, the securing of property rights.

## Yeltsin's Ideological Retreat

So far the communists have adopted a relatively subtle approach that has kept the liberals from uniting and leaves Yeltsin without an excuse to postpone the presidential elections. [\[12\]](#) But the KPRF's political surge has already damaged prospects for the consolidation of democracy and market reforms. In a bid for survival, Russia's president has made several distressing changes in personnel and policy, including

- replacing pro-Western Foreign Minister Andrei Kozyrev with Yevgeny Primakov, a long-time Communist Party official and recent chief of the Federal Security Service, Russia's foreign intelligence agency, who, in addition, had a long-standing relationship with the service's predecessor, the KGB;

- removing his liberal chief of staff, Sergei Filatov, and replacing him with Nikolai Yegorov, an anti-Western hard-liner who has given vocal support to the military intervention in Chechnya;
- firing reform-minded Deputy Prime Minister Anatoly Chubais and replacing him and his economic portfolio with Vladimir Kadannikov, an engineer who for years supervised Russia's largest, but hugely inefficient, automobile plant, Avtovaz; and
- forcing the resignation of Human Rights Commissioner Sergei Kovalhov, after Kovalhov sent an open letter to Yeltsin accusing him of collaborating with the communists and ultranationalists. [\[13\]](#)

Finally, in a harsh speech to the Duma in late February, Yeltsin threatened to sack the entire government, including Prime Minister Chernomyrdin, if the Russian standard of living was not improved before election day. [\[14\]](#) Yeltsin set the new mood by ordering the firing of "saboteurs"--recalling Stalinist language of the 1930s--found within the economic and finance ministries. [\[15\]](#) Personnel are policy, and that is why those changes are more than symbolic.

It is not at all clear that Yeltsin's strategy will work, however. In his last year in office Gorbachev also dumped liberal-minded aides in an effort to appease the hard-liners; his appeasement merely encouraged the hard-liners to attempt their August putsch. [\[16\]](#)

The Yeltsin strategy poses another danger to continued reform. By appearing to steal the communists' clothes, Yeltsin is legitimizing their agenda, and voters who are attracted to such ideas may choose a communist program over an ersatz version. [\[17\]](#)

### Probable Implications for the West

Whatever the outcome of the struggle between Yeltsin and the KPRF, the damage to Russia's future and its relations with the West is already considerable, although U.S. officials have consistently downplayed the reverses in Russia's reform efforts. And whether Zyuganov captures the presidency or not, communist influence in the Duma and the bureaucracy can be expected to greatly increase domestic problems by stalling or even reversing market reforms as well as complicating relations with the West.

The domestic fallout of a communist return to power in Russia is relatively clear. The impact of a communist Russia on the rest of the world is murkier but no less disturbing. A full-blown return to the Cold War can be discounted at least in the short term primarily because a communist Russian government would not mean a rapid restoration of Soviet military power. Indeed, if Zyuganov were to carry out his announced program, the Russian economy would face more, not fewer, problems. Inefficient state-owned industries, a crippled private sector, and a sudden end to foreign assistance would mean fewer, not greater, resources for the Kremlin.

Nevertheless, even a weakened Russia in the wrong hands can create a good deal of mischief internationally. Russian troublemaking would probably initially be directed at the near abroad. Zyuganov's vow to return the former Soviet republics to Moscow's fold has already prompted the Baltic states and Ukraine to seek assurances of protection from the United States and its NATO allies. Other East and Central European states, especially those that were formerly members of the Warsaw Pact, are looking for similar guarantees, increasing East-West tensions to their tautest point in a decade.

U.S. officials could also expect little in the way of cooperation on such issues as Bosnia, but that is a relatively minor matter compared with the potential for serious trouble on much larger fronts. Nuclear arms reduction, for example--specifically, the prompt ratification of the START II agreement--could prove highly difficult, if not impossible, with a red Kremlin. U.S. relations with North Korea--itself suspected of fostering a nuclear weapons program--could become even more tense. Washington's relations with China would also become more complex and unpredictable if a communist-run Russia were to turn diplomatically to the East to an even greater extent than the Yeltsin government has already done with the "constructive partnership" between Russia and China announced at the April 1996 summit meeting between Yeltsin and Chinese president Jiang Zemin. [\[18\]](#) Russia could create further trouble if it were to begin assisting old allies such as Cuba, even if the aid levels never reached those of a decade ago. A commitment to complete the nuclear power plants at Cienfuegos, for example, which many U.S. experts consider structurally unsafe,

could resurrect a problem that once appeared resolved.

The United States cannot predict what is going to happen in Russia--and the more ominous scenarios may not come to pass--but Washington should abandon the illusion that Russia will be a stable, Western-style democracy any time soon. Even if the communists do not win the presidency in the upcoming balloting, their influence will remain considerable for the foreseeable future.

U.S. policymakers must remain modest about their influence over the course of events in the Russian Federation. When and if Moscow pursues interests antithetical to American interests, there should be less wringing of hands and more sober assessment of how to limit and if necessary respond to egregious behavior. But there is no need for panic or even the adoption of a long-term containment policy. The KPRF has no economic program that will work. The inevitable failure of a neocommunist economic strategy will virtually guarantee the KPRF a relatively brief term in office, unless its leaders are prepared to rule by force alone--a step that even latter-day Leninists claim they are not prepared to take.

### *The Near Abroad: The Baltics*

On the surface, the revival of communist movements seems unlikely in Latvia, Lithuania, and Estonia, whose independence was snuffed out in 1940 and whose populations paid a tremendous price in mass arrests and deportations. As a result, anti-communism in the Baltic republics has a strong tinge of anti-Russian nationalism (which is also the case in neighboring Poland). Even in the Baltics, however, there are significant nuances. [\[19\]](#)

#### **Estonia**

Despite its ties to Finland and the economic support of the other Nordic countries, Estonia remains haunted by the past. The market-liberal-oriented government elected in September 1992 pushed hard at economic reform and succeeded in creating a stable currency, attracting foreign investment, and setting the stage for modest rates of economic growth (5 percent in 1995 and a probable 4 percent in 1996) through extensive privatization of state-owned industries and adoption of free-trade policies. [\[20\]](#)

But in March 1995 Estonians went to the polls and shifted from a market-liberal to a more social democratic government largely because of heavy support for leftist candidates among pensioners and peasants, who have not generally shared in the prosperity generated by capitalism. The new prime minister, Tiit Vahi, leader of the Coalition Party and a former Soviet-style factory manager, formed a coalition with the Rural People's Union and slowed down the pace of reform, especially in the agricultural sector. Still, Vahi consistently rejected the "former communist" label and, upon assuming office, insisted, "Estonia needs right-wing economic policies." [\[21\]](#)

Vahi's first government lasted only seven months. It was undermined by a wiretapping scandal involving one of his coalition partners, the Center Party. (Although wiretapping is still common in the former Soviet bloc, Estonians, in particular, find the old habits offensive.) [\[22\]](#) Vahi then formed a coalition with the market-oriented Reform Party and a bloc of parties that represent rural and pensioner interests that have, in the past, acted as a drag on reform. Not surprisingly, that somewhat unlikely coalition disagreed on the pace of reform. In early 1996, however, it succeeded in forging an agreement on privatization, which provides for the sale of four state giants--energy, gas, telecommunications, and ports--by the end of this year. [\[23\]](#) Despite some unsettling developments, there seems to be little danger of a communist return to power in Estonia.

#### **Latvia**

A peculiar mix of forces has kept neighboring Latvia from fully embracing the market and establishing a stable democracy. Despite its small population (2.7 million), Latvia has a fractured political system in which nine parties won seats in last October's parliamentary elections; six form the present government. The top three parties have a nearly equal number of seats, and each was given a chance to form a cabinet. After two failed efforts, parliament finally agreed on a prime minister last December, but Latvian politics is so fractious that the man chosen, Andris Skele, [\[24\]](#)

belongs to no political party and is not even an elected member of the Seimas (parliament).

Skele is an entrepreneur whose priorities are reducing a growing budget deficit and accelerating privatization (which, so far, has been slow and piecemeal) to attract much-needed foreign investment. The new ruling coalition, however, includes the left-wing Democrats who may not share those objectives. And, without a party, Prime Minister Skele has no reliable following in the parliament. Focusing on the economy may also be difficult because many Latvians and Latvian parties, such as the newly formed Movement for Latvia (which, with 15 percent of the vote, was one of the most popular parties in the last election), prefer Moscow bashing to a serious approach to reform. [\[25\]](#)

## Lithuania

Latvia's sluggish pace of reform seems no worse, though, than that of Lithuania, the largest of the Baltic states. Lithuania faces many of the same problems as do Latvia and Estonia, but Lithuania was the first former European Soviet republic or satellite to turn out a noncommunist government in favor of a restyled communist party, the Lithuanian Democratic Labor Party (LDLP).

Although disturbing, the Lithuanian reverse--little more than a year after Vilnius declared its independence from Moscow in September 1991--was in some ways understandable. Lithuania's independence movement, Sajudis, headed by Vytautas Landsbergis, managed to secede from the Soviet Union, though not without bloodshed. But like Poland's Solidarity, Sajudis was more a movement than a party, and the leaders of its quarreling factions had little taste for the nuts and bolts of economic reform. Lithuania's economy took the familiar nosedive in the first years of postcommunist rule as the excesses and economic distortions of the communist era finally had to be confronted, and Landsbergis, unfamiliar with economic questions, had Lithuania move far slower than either Estonia or Latvia in its transition to the market. In addition, agricultural reform was badly botched.

Meanwhile, the old Lithuanian Communist Party had preserved some credibility by distancing itself from Moscow (in contrast to its Latvian counterpart), which enabled the newly minted LDLP to win a double victory at the polls. In parliamentary elections in the fall of 1992, the LDLP took nearly 45 percent of the vote, compared to Sajudis's anemic 20 percent, giving it a clear majority in the Seimas (73 of 141 seats). In the February 1993 presidential elections, former communist Algirdis Brazauskas won 60 percent of the vote. [\[26\]](#)

Once in office, Brazauskas said there would be no return to the past but that the march to the market would be slow and deliberate. To his credit, inflation has dropped, thanks to tighter fiscal and monetary policies; agriculture has revived somewhat; and foreign investment has begun to trickle in. Even the pace of privatization has picked up, albeit with mixed results. Lithuania also enjoyed a 5 percent growth rate in GDP last year. [\[27\]](#)

It has not all been clear political sailing for the neocommunists, however. The government was severely embarrassed by the collapse of the country's two largest commercial banks at the end of 1995, insolvencies made worse by the revelation that Prime Minister Adolfas Slezevicius had the good fortune to remove his deposits from the Innovation Bank two days before its failure. That bit of communist insiderism was minuscule by Russian standards, but in Lithuania it caused an uproar, thanks to the country's rambunctiously free press, and 80 percent of Lithuanians wanted Slezevicius dismissed. [\[28\]](#)

Slezevicius's replacement is another reformed communist, Mindaugas Stankevicius, who has pledged to continue economic reforms. [\[29\]](#) President Brazauskas has managed so far to limit the political damage done to himself, but the LDLP may not escape so easily. The LDLP is currently trailing the private-sector-oriented Christian Democrats and Landsbergis's Conservatives in public opinion polls. Parliamentary elections, due no later than next October, may initiate a new pattern: the defeat of the neocommunists at the polls.

## *The Near Abroad: Belarus and Ukraine*

Belarus and Ukraine have had a more difficult time shedding their communist past than have their neighbors. Even now, each has greater economic problems and more poverty than does Russia--no minor feat.

## Belarus

Belarus is a nation by accident. Although there is a distinct Belarusian language and culture, because of two centuries of russification, only 3 million of the country's population of 10 million speak the language. It should come as no surprise, then, that in May 1995 more than 80 percent of the voters approved by referendum the re-adoption of Russian as the country's official language as well as economic union with Russia, a policy that the current Minsk government has pursued with Moscow's blessing. [\[30\]](#)

The weakness of Belarus's separate national identity and the scant enthusiasm for independence have left a large part of the population unwilling to repudiate the Soviet past, including its politics and economic policies. Thus, post-Soviet Belarusian parliaments (still called the Supreme Soviet) have been dominated by ancien régime communists who hold 87 percent of the seats and who have changed little in either ideology or practice.

Consequently, Belarus's economy is in terrible shape. Fewer than 10 percent of the country's enterprises have been privatized, and almost nothing has been accomplished since the July 1994 election of "independent" Alexander Lukashenko to the presidency. [\[31\]](#) Lukashenko, a former collective farm manager and Supreme Soviet deputy, ran on a platform promising to eliminate corruption and to restore the country's economic health by joining Russia in a new federation. [\[32\]](#)

In fact, few old-line apparatchik were fired. Faced with growing economic problems and an inability to secure assistance from the international financial institutions, the Belarusian president appointed a cabinet laced with reform-minded ministers, but they were given little or no authority to proceed with real change. Instead, Lukashenko became increasingly autocratic as well as erratic, commanding and then countermanding by decree. In general, the Belarusian president has preferred price controls and subsidies for Soviet-era factories to real market reform. He recently moved to renationalize the country's major banks. As for agriculture, his notion of private property is pretty much confined to kitchen gardens. [\[33\]](#)

Lukashenko has also ended press freedoms and has repeatedly defied the Constitutional Court. In November and December 1995 he urged voters to stay home, because Belarus's election law requires the participation of more than 50 percent of the electorate in each of the 260 constituencies in order for a valid election to take place. Without that quorum, he would have been able to rule indefinitely by decree. [\[34\]](#)

Belarusans, despite a virtual blackout by the state-run media, ignored their leader and went to the polls in sufficient numbers to put the legislature back in business. [\[35\]](#) The successful elections ended Belarus's dubious distinction as the only nation in Eastern and Central Europe without a functioning parliament. But the dominant factions in the Supreme Soviet are the Belarusian Communist Party and its ally the Agrarian Party, which together hold some 80 seats. Although that does not constitute a majority, the legislature also contains more than 100 "independents" who, in fact, are part of the old communist aparat. Together, they can challenge the independent president--who has already announced his plans to seek reelection in 1999--but they show no interest in either market reform or national independence. Reform elements are a small minority, and the Popular Front, which champions a distinct Belarusian identity, has so far failed to elect a single deputy to the Supreme Soviet. [\[36\]](#) Belarusian political and economic prospects are among the bleakest in the region.

## Ukraine

The first few years of Ukrainian independence were strikingly similar to the Belarusian experience. The old apparat remained in charge and grew rich through corruption--one prime minister was forced to flee the country after being accused of stealing \$25 million--while ordinary Ukrainians suffered the perils of escalating inflation, dwindling income, and shrinking prospects for a better standard of living. Reforms were partial and hesitant and came nowhere near demolishing the old command economy. Overall, the economy remained in state hands--corrupt and incompetent ones at that--and Russian "prosperity" was viewed with envy.

Failure of liberalization in Ukraine would have a far greater geopolitical impact than its failure in Belarus. Ukraine is

larger and better endowed with natural resources than France, with only a slightly smaller population. More to the point, without Ukraine, Soviet power could never be restored no matter what course Russia took in the coming decades. The emergence of a democratic, market-oriented Ukraine, therefore, is not only desirable but important.

By early 1994 Ukraine had reached the point of collapse. Inflation exceeded 10,000 percent in 1993, and the budget deficit that year had ballooned to 30 percent of GDP--an almost unheard of ratio even in the Third World. Ukrainians were strangled by low wages and high taxes--90 percent at the margin on even modest incomes. Foreign trade was stymied by a complex set of quotas and licenses. Prices for most commodities were still set by the government and bore no resemblance to the real world. Subsidies were still being doled out to even the most inefficient of state-owned industries, preserving jobs but little else.

Ukraine's president, Leonid Kravchuk, was decidedly of the old school, a top official in charge of ideology in the Soviet-era Communist Party. Kravchuk won the December 1991 presidential election, and parliamentary elections in March 1994 returned a majority for the Ukraine Communist Party (KPU) and its allies in the Socialist and Peasant Parties. The ministries, meanwhile, remained firmly in the hands of the old school, as did industry and collectivized agriculture. [\[37\]](#)

**Old Guard Blamed.** The early communist domination proved to be a blessing in disguise. As Anders Aslund, an expert on political and economic trends in the former USSR, points out, the economic failures reinforced Ukrainian faith in the market. Because of hyperinflation, production and the standard of living fell more than in Russia, but in Ukraine the decline could not be blamed on radical reform, because there had been none. The experience with hyperinflation in 1993 taught Ukrainians to hate inflation. [\[38\]](#) As had Germans, Bolivians, and Argentines, Ukrainians developed a passionate hatred of leaping price increases and were willing to accept the harsh discipline of fiscal and, especially, monetary policy designed to karate chop hyperinflation.

But Ukraine's march out of the economic grave involved more than a popular rejection of state-imposed gradualism. The government's refusal to embrace a radical reform agenda led to economic chaos that, in effect, demolished central authority. With Kiev no longer able to hand out subsidies, Ukrainian industry had to rely on its own resources. Although not privatized technically, factories had either to close down or be restructured to cater to market demand rather than state-imposed production quotas. [\[39\]](#)

Another factor was the dilution of neocommunist power in the Rada (parliament), also known as the Supreme Council. As does Belarusian law, Ukrainian election law says that the 450-seat parliament can be filled only if more than 50 percent of the electorate turns out in each electoral district. The March 1994 elections filled only 338 seats, leaving the remaining 112 to be filled by a series of by-elections. That helped weaken the grip of the communists and their allies, who now control only slightly more than one-third of the Rada. Nearly another third clearly belong to the reform-minded nationalists, and the remainder are indecisive centrists searching for leadership. Fortunately, they have found leadership in their current president, Leonid Kuchma, who defeated Kravchuk in the country's first post-Soviet presidential election in July 1994. [\[40\]](#)

**Ukraine's Belated Reform Surge.** In October 1994 President Kuchma revealed his reform plans to a suspicious parliament and predicted that, if they were not adopted,

Ukraine's independence would be threatened by civil war. He called for freeing all prices, eliminating the red tape strangling foreign trade, ending state subsidies, slashing the budget deficit, reducing taxes, privatizing 8,000 large-and medium-sized firms by the end of 1996, and transferring agricultural lands from collective to individual ownership. [\[41\]](#)

To the surprise of some, the Rada did not summarily reject Kuchma's program. The red reactionaries had no program of their own, and equally important, Kuchma displayed a willingness to work with the Supreme Council instead of dictating to or ignoring it altogether. The parliament was thus drawn into the web of change, albeit reluctantly. [\[42\]](#)

As a result, President Kuchma has apparently won the battle of public opinion. In a Gallup poll published in March 1995, large majorities favored privatization of land, small businesses, and small enterprises. However, Ukrainians are

reluctant to switch large industrial enterprises and health facilities to the private sector, fearing (probably rightly) that they would be snapped up by the entrenched state managers and their criminal allies. [\[43\]](#)

Even with such limitations, the reforms so far have stabilized a once out-of-control economy. Inflation this year is running less than 100 percent, and the budget deficit dropped from 30 percent of GDP in 1993 to 20 percent in 1994 to 7.3 percent by mid-1995. Prices, including sensitive energy prices, have been freed, which means that liberalization has gone beyond Russia's efforts on that front. Remaining subsidies have been sharply reduced. Trade controls have been scrapped and exchange rates unified, stabilizing the Ukrainian currency. Exports were up by 31.7 percent, imports were up by 38 percent, and the rate of industrial production decline decreased from 27 percent in 1994 to 11 percent in 1995. The last quarter of 1994 marked the beginning of real economic growth--perhaps 5 percent. [\[44\]](#)

That turnaround does not mean that all is well in Ukraine. Inflation remains too high and has recently been rising again. The agricultural sector remains in disastrous shape. The tax regime remains a largely confiscatory shambles that leaves investors angry and confused. Massive privatizations have yet to occur and are hindered by the resistance of state managers and the lack of prospective buyers willing to pay the high asking prices for Ukraine's worn-out physical plants. [\[45\]](#) Moreover, President Kuchma's decree powers--which have helped to expedite reforms--end in June unless parliament extends them. Finally, Ukraine's economic stability still rests on its politics, as President Kuchma's recent firing of Prime Minister Evhen Marchuk demonstrates. Optimists initially portrayed that as a presidential move to spur reform, but Marchuk's replacement, Pavlo Lazaarenko, a former collective farm manager, is noted more for his loyalty to Kuchma than for his fervor for free markets. [\[46\]](#)

Not everyone is content with the present program (as the recent strike of a half million coal miners in the Donetsk basin suggests), but Ukrainians are more confident about the future and more supportive of market reforms than they were initially. Anti-reform elements in the parliament and bureaucracy remain on the defensive, and the socialist and populist parties in the Supreme Council will probably incur severe losses in the next election. [\[47\]](#) Finally,

Ukrainian-Russian tensions have lessened. The old fears that Ukraine would be torn apart or that the Russian minority would turn to Russia as a protector and benefactor have faded dramatically.

### *The Odd Couple I: Poland and Hungary*

Although prospects for market-driven democratic change in Poland and Hungary seemed excellent in 1990, within three years both governments were largely in the hands of restyled communist parties. Market reforms were stalling and political stability was imperiled, especially in Poland, and the non- and anti-communist opposition was more fractious than ever, pursuing fringe, often xenophobic, issues.

But the picture is more complicated than elsewhere in the region. Cruel and inept as communism was in Poland and Hungary, it was never as brutal as in the rest of the Warsaw Pact nations. Some reforms had already taken place in Hungary in the 1970s, although nothing bold enough to earn it the kind of Soviet repression experienced by the Czechs in 1968. As for Poland, Stalin once sniffed that communism could be imposed on Poland, but that it was a bit like saddling a cow. Poland was too Catholic; had too many land-holding peasants; and above all, remained too big and robustly Polish to be a quiescent satellite aglow with enthusiasm for the bright future of communism under Soviet guidance.

#### **Poland**

Poland's importance should not be underestimated. Without controlling Poland or Ukraine, Moscow remains, even in a worst-case scenario, a much diminished threat to the West. Poland's physical size--it is bigger than the United Kingdom--population of 38 million, the largest in the old Eastern Europe; and strategic location attest to that salient fact of geopolitics.

The collapse of Gen. Wojciech Jaruzelski's government in 1990--largely because of hyperinflation--was peaceful in contrast to his crackdown on Solidarity--the communist world's first free trade union--nearly a decade earlier. When Solidarity's leader, Lech Walesa, became Poland's first freely elected president in December 1990, Poland already had

a functioning Solidarity cabinet thanks to its huge win in the semifree 1989 elections. Solidarity's reform program, which became known as the "big bang," slashed the budget, made the currency convertible, initiated the wholesale privatization of state-owned industries, liberalized trade, and began Poland's reorientation to the Western market.

That shock therapy worked; the private sector flourished and goods appeared in (now private) shops. Inflation was dramatically reduced. Even Poland's currency, the zloty, stopped being a national and international joke.

**The Neocommunist Renaissance.** Not everyone benefited, however. Older and rural Poles fell further behind and their disappointment was reflected at the polls. Consequently, Poland's parliamentary elections in September 1993 produced a majority coalition of neocommunists in the Democratic Left Alliance (SLD) and their anti-market agrarian allies in the Polish Peasant Party (PSL). The PSL, even though a junior partner, managed to have one of its own, Waldemar Pawlak, chosen as prime minister. Pawlak, though relatively young at 36, proved very much rooted in the past. [\[48\]](#)

Walesa finally succeeded in dismissing Pawlak after 18 months in office. Pawlak's replacement, Joseph Olesky, was a cheerful 48-year-old economist who once had been a member of the old communist United Labor Party's Central Committee. Olesky restarted the privatization process, reinvited foreign investment, and restored a relatively tight-fisted approach to fiscal and monetary policies, thus helping reduce inflation further. [\[49\]](#)

Fortunately, the Polish economy as a whole had clearly benefited from the shock therapy of the first Solidarity government. The economy hit bottom in 1990, with negative growth of 12 percent, and turned positive in 1992. Inflation has continued to fall, from 55 percent per annum in 1991 to 23 percent at the end of 1995; a rate of 17 percent is expected in 1996. Meanwhile, industrial production stopped plummeting, and beginning in 1993 exports shot up as productivity rose--14 percent in 1994 alone. One result has been a net increase in job creation, with 65 percent of employed Poles working in the private sector by 1995 and a current unemployment rate of 12 percent--no worse than in France and far better than in Spain. GNP jumped 4 percent in 1994 and 6.5 percent in 1995. [\[50\]](#)

**Problems of Turmoil and Corruption.** But political turmoil has continued. Olesky was accused of working for the KGB, a charge that he denied and was later dropped but that prompted his resignation. Also crucial was SLD presidential candidate Alexander Kwasniewski's narrow win over Walesa in the 1995 presidential election. Kwasniewski managed to distance himself from Olesky and replaced him with another youngish technocrat, Wladzimierz Cimoszewicz, Poland's eighth premier in six years. [\[51\]](#)

Foreign investors have poured \$2 billion into Poland since Cimoszewicz's appointment. That confidence is a reflection of Kwasniewski's decision to continue privatization. He plans to sell \$720 million worth of state-owned industries, including minority interests in Poland's rich copper mines, telecommunications, banks, breweries, and department stores, this year. [\[52\]](#)

Nevertheless, Poland is dominated by the neocommunists and their allies in both the Sejm (parliament) and the presidency--a situation nearly unthinkable only a few years ago. Although many in the SLD appear resigned to capitalism, their junior partners in the PSL are not likely to change or lose their influence as long as 17 percent of the population live on farms and 40 percent live in impoverished rural areas--fertile ground for the reactionary PSL. [\[53\]](#)

The character of President Kwasniewski is a source of continuing concern. To his credit, he has apologized to the nation for the suffering caused by the communists. Since winning the presidency, he has resigned from the SLD and vows to be a nonpartisan chief executive. But there are concerns about his integrity. Kwasniewski lied about earning a degree in economics from the University of Gdansk. During his tenure in the Sejm he did not list his wife's earnings from shares in an insurance company on financial disclosure forms required of members of the parliament. [\[54\]](#)

Corruption also remains a problem. Insider dealing is widely practiced within the old nomenklatura circles that support the SLD; among other things, legislation is written to give communist managers and their friends the inside track to benefits arising from privatization. According to Marek Matraszek, a Polish advocate of market reform,

The past two years of communist government have seen an increasing push to quasi-state cartels to exert even more power over the economy, obtaining privileged access to cheap credits, tax breaks, and government tenders. The most inefficient elements of the economy, heavy industry and peasant agriculture, remain heavily subsidized and protected. The increasing hybridization of economics and politics is not only undermining prospects for future growth but has led to open corruption and decision making guided by party criteria. [\[55\]](#)

The political strength of the neocommunist in Poland is hardly cause for celebration among those who value a limited state and a market economy. At the same time, there has been a tendency to overreact in some Western circles. The SLD may be annoyingly statist in its orientation, but that is equally true of most social democratic parties throughout Western Europe. There is no credible evidence that the SLD seeks to restore the Cold War era dictatorship, much less become subservient to Moscow; nor is there any clear indication that it will pose a threat to long-term economic reform. At worst, the party may continue to act as a brake on the pace of reform and attempt to maintain an excessively large role for the state in the economy. Poles will then experience a slower rate of economic growth and a lower standard of living than they would otherwise enjoy--a regrettable development, to be sure, but one that poses no danger to Western Europe or the United States.

## Hungary

Hungary is in some ways a smaller version of Poland. Magyar Slavophobia, for example, is the equal of Polish Russophobia. Hungarian attempts at reform, long before the collapse of Soviet communism, paralleled Poland's unwillingness to carry out a thorough collectivization of agriculture even during the Stalin years. More recently, the Hungarian electorate, like Poland's, returned "reform communists" to power after a few years of noncommunist rule. And like Poland's SLD, Hungary's Socialist Party vows that there will be no return to the bad old days of single-party rule or a command economy, much less a military alliance with Russia.

But the Hungarian experience is not a carbon copy of Poland's. Hungary's problems are even more daunting, especially when it comes to public opinion. Hungary is not likely to return to the past, but how quickly and firmly it will embrace the future as a market economy remains to be seen.

Thanks to a partial relaxation beginning in the late 1960s, Hungary appeared to be the very model of reform communism, acceptable to both Washington and Moscow. Hungarians had long flirted with the West in nonideological areas, and it was Budapest that allowed visiting East Germans to flank East Berlin's reverse Maginot Line and continue on to Austria in 1989--an action that led to the GDR's fateful decision to open the Berlin Wall. [\[56\]](#) The Hungarian communist Workers Party's willingness to voluntarily discard the one-party state in favor of social democracy in 1990 vastly inflated Hungary's reputation as a leader of the new *Mitteleuropa*.

**Hungary's Disappointing Performance.** That reputation was not entirely earned, which led to an unfortunate complacency in the West about Budapest's prospects. That complacency was understandable when the Magyar republic was attracting half of all Western investment pouring into the old Eastern Europe in the early 1990s. But the prodigy of 1990 looked by mid-decade like a child star fallen on the hard times of an unappealing adolescence. While Poland's economy grew by 6.5 percent last year, Hungary's expanded at a mere 2.5 percent after years of either decline or stagnation. Most analysts do not believe that Hungary will match Poland's growth any time soon. [\[57\]](#)

There has been no big bang in Budapest, and Hungarian politicians, even reformers, have never really explained to ordinary Hungarians what needs to be done. Moreover, the first noncommunist government, which took power in 1990, was soon sidetracked by nationalist concerns, chief of which was the Magyar diaspora of some 3.5 million Hungarians living in Budapest's near abroad: Romania, Slovakia, Ukraine, and former Yugoslavia. Furthermore, the first noncommunist government was not entirely free of its own brand of old-fashioned authoritarianism, especially when it came to the media.

The coalition government of Prime Minister Jozsef Antall initiated some reforms, but the pace was slow and Antall's death in 1993 did not help matters. In addition, the attempt to preserve Hungary's extensive and expensive social safety net has had severe economic consequences that have compounded the economic hardships associated with the

transition from a command to a market economy. The government's half measures led to a politically lethal mix of yawning budget deficits (8 percent of GDP in 1994), 20 percent inflation, 13 percent unemployed, and growth rates barely above zero, after a 20 percent drop in the previous four years. [\[58\]](#)

**The Socialist Surge.** The result was a sea change in voter preferences that dwarfed any in the rest of the region. In 1990 parties of the center and the right, including the Democratic Forum and the Christian Democrats, held 88 percent of the seats in the National Assembly. The former communist Hungarian Socialists had less than 10 percent of the seats, and there were no parties to the left of the Socialists in parliament. In 1994, however, the Socialists captured 54 percent of the seats and did so in competition with five other major parties--an astonishing comeback. Meanwhile, the noncommunist reform parties won less than 30 percent of the National Assembly. Only the Alliance of Free Democrats managed to survive, more or less intact, with 70 seats. The Alliance of Free Democrats then took the risk of allying itself in a coalition with the Socialists, which enabled the new government to dominate parliament with 72 percent of the seats. [\[59\]](#)

So far, that unlikely pairing has produced better results than the previous government. The Free Democrats have consistently favored market reform, a critical factor since the Hungarian Socialists, like their Polish counterparts, are a mÃ©lange of pro- and anti-market factions led by Prime Minister Gyula Horn, who has no fixed ideas on economics other than an understanding that command economies do not work. Some of the Socialists, however, are overtly resistant to reform. [\[60\]](#)

**The Socialists Continue Reform.** In the 18 months since Horn took office, Budapest has made some efforts to pare the budget deficit to manageable proportions. Nevertheless, inflation remains at just under 30 percent. Hungary has also gone ahead with the privatization of major sectors of the economy, including another slice of its telecommunications sector and oil, energy, and gas distribution companies. [\[61\]](#) Deregulation of foreign trade and the elimination of surcharges on exports have fueled a recent boom in exports. In 1995 a 21.5 percent increase in exports helped spur a 2 percent positive growth rate in GDP, the best performance of postcommunist Hungary (although the actual figure may be higher, since one estimate has the underground economy forming 30 percent of GDP). [\[62\]](#)

Hungary's political and economic future remains problematic despite such progress. The pace and scope of economic reform trail those of both Poland and the Czech Republic. The overriding concern at present is, not the pace of privatization, but the regime's unwillingness to cut Hungary's high marginal tax rates--which rival only those of Sweden in their onerousness. The government must tackle reform of social welfare--which costs 29 percent of GDP--before it can lift the tax burden. Cutting the social safety net is politically difficult anywhere, but it is especially so in Hungary. Hungary's pension and welfare funds are managed by separate and semiautonomous agencies. Furthermore, surveys of public opinion show relatively low public support for market (including welfare) reform measures. In a November 1995 poll, only 16 percent of respondents identified tax cuts as an urgent priority--in contrast to 31 percent who, in effect, wanted more spending on social welfare programs. [\[63\]](#)

Elections are not required until the spring of 1998, which allows a little time for the government to bite the bullet--if Prime Minister Horn can summon the political courage to do so. But for Hungary, more than perhaps any other Central European nation, the question remains, quo vadis?

### *The Odd Couple II: The Czech Republic and Slovakia*

Czechs and Slovaks, though never enemies, were also never friends. After the so-called Velvet Revolution ended communist rule in November 1989, the Velvet divorce peacefully dissolved the old federation in January 1993.

#### **The Czech Republic**

The Czech Republic, whose population (10.5 million) nearly matches Hungary's, has emerged as the showcase of Central and Eastern Europe. Its per capita income equals that of Portugal; future membership in the European Union is so assured that Prime Minister VÃ¡clav Klaus has the luxury of criticizing Brussels and its penchant for regulation.

**The Czech Success Story.** The Czechs deserve praise for managing a relatively quick transition from a command economy to capitalism with a minimum of trauma while maintaining the most stable government in the region. Consequently, the communists, former and otherwise, have not returned to power and are not a major factor in the Czech political system or the economy, a point confirmed by the June 1996 parliamentary elections.

Indeed, the overall state of the economy is impressive. GDP growth last year was 4.5 percent and is currently running at a 6 percent clip. Industrial production for two years in a row has been rising at a rate of more than 9 percent while inflation has been running, really walking, at less than 10 percent per annum. Unemployment is the lowest in all of Europe at 3.5 percent. The budget is running a surplus, and while there is a trade deficit (which the prime minister and others consider normal), that gap is matched by heavy flows of foreign capital into the country. In fact, capital flows, especially of a speculative nature, are so heavy that the government recently adopted measures to discourage them in order to ease inflationary pressures, but it did so without tightening currency controls. [\[64\]](#)

Prague's crown jewel, however, is privatization. As much as 80 percent of the economy has been privatized, leaving only a small number of state-owned enterprises, such as utilities, to be sold off. [\[65\]](#)

**Reasons for Success.** There are numerous reasons for the Czech Republic's comparative success. First, the new regime did not inherit a total basket case. Czechoslovakia was the most industrialized part of the old Austro-Hungarian Empire, and before its absorption into the greater German Reich, it was in every sense--political and economic--West European. Even the Czech communists, despite their many sins, did not borrow heavily and carelessly abroad or carry out hyperinflationary fiscal and monetary policies as did their Polish and Hungarian counterparts. [\[66\]](#)

In direct contrast to Poland's first Solidarity government, the first Czech noncommunist government under Klaus had a year to reflect on its strategy. When reform began in January 1991, it was decisive. Prices were liberalized and the koruna became convertible. The mass privatization of 2,500 state enterprises through a system of vouchers made available to every adult Czech was announced and proceeded in two rounds, the first in May 1992 and the second in January 1994. [\[67\]](#)

The well-known voucher system is only one part of the Czech Republic's sprint to the private sector. Small- and medium-sized businesses, for example, have been returned to their former owners or sold off directly to anyone with ready cash, foreign or local. Entirely new businesses have been started--some of them flourishing in an emerging gray market that may account for 12 percent of national income. [\[68\]](#)

Klaus's determination to expand the private sector, which in 1990 made up only 2 percent of the economy, is testimony to the importance of good political leadership. Klaus is a trained economist who had long experience in finance under the former regime. Unlike many of his East European colleagues, he is neither a reformed communist nor a romantic nationalist or dissident, and his party, the Civic Democratic Party, remains in a strong position. Klaus's political skills are also obvious; the time he has spent explaining reform to ordinary Czechs has bolstered both the reforms and his personal popularity. [\[69\]](#)

**The Left Remains in Check.** Czech economic reform has also benefited from the comparative lack of distracting side issues, such as nationalism and irredentism. Nevertheless, even the relatively well ordered Czech Republic faces at least some political and economic uncertainty. The June elections left Klaus's coalition two seats short of a majority in parliament as the opposition Social Democrats more than doubled their strength. The latter have made it clear that they favor market reform but want increased spending on education and health services. If the parliament's focus shifts to those issues from already delayed decisions about restructuring the archaic railroad system and mining sector as well as the privatization of banks, the pace of reform will slow. [\[70\]](#)

The Czech communists, however, have not recovered from the humiliation of November 1989. They remain divided and politically impotent. Their constituency is older and rural voters, but not in the large numbers that their Polish and Hungarian counterparts enjoy. The Communist Party of Moravia and Bohemia (KSCM), the largest of the communist parties, consistently registers support at about 10 percent, its share of the vote in the recent elections. Little growth potential is evident, and the party is split into three factions. The KSCM's lack of pretense of being reformed or social

democratic in character (those of that inclination were unceremoniously purged from the ranks) further reduces the appeal of Czech communism. [\[71\]](#) There is less likelihood of a communist resurgence in the Czech Republic than in virtually any other country in Central or Eastern Europe.

## Slovakia

Slovakia has not matched the success of the Czech Republic. Slovaks have always been viewed as the Czechs' poor country cousins, and Slovakia is indeed poorer and smaller, with half the population and fewer resources. Moreover, the Slovak economy at the time of separation was dominated by a Moscow-imposed aging arms industry, which lost its eastern markets after 1990. After the break with the Czechs and the subsequent loss of subsidies from Prague, expectations were understandably low. [\[72\]](#)

Surprisingly, the worst has not yet happened. GDP growth rates, 6.6 percent last year, match those in the Czech Republic. Inflation, 7.5 percent in 1995, is running lower than the Czech rate. Exports are far better than expected. The budget, while not balanced, is running at a tolerable deficit of 3 percent of GDP. [\[73\]](#)

That relatively cheerful picture is due, in part, to the fact that the Slovak economy remained in the hands of the Prague reformers until the end of 1992. And, with some rather large exceptions, Slovakia's three governments since independence have not yet followed absolutely ruinous policies. However, unemployment remains stuck at 13 percent, suggesting a lack of real job creation, and foreign investment flows into Slovakia are a comparative trickle--less than \$500 million since independence. [\[74\]](#)

Slovakia's economic future is tied to its comparatively tumultuous politics. Bratislava lacks the equivalent of Klaus's Civic Democratic Party with its clear program for change. Nor is there a Václav Klaus. Slovak parties are a mélange of communists, former communists, and ultranationalists wholly lacking in coherence. The single dominant figure, Prime Minister Vladimir Meciar, is unimpressive. A former boxer and an ex-communist, Meciar led Slovakia into independence as the country's best known nationalist and populist and has retained that stance ever since.

After a brief period in opposition, Meciar returned to power in September 1994 with 35 percent of the vote in the parliamentary elections, which permitted him and his colleagues, the xenophobic Slovak nationalists and the unreconstructed socialist Association of Workers of Slovakia, to dominate the Narodni Rada with 82 of the 150 seats.

The exercise of power has not been particularly orderly. Since resuming office, Meciar has feuded with President Michal Kovak, a former party colleague, in an apparent effort to maneuver himself into the presidency. But Kovak has turned the tables on Meciar at every opportunity, insisting that he will finish his term, which ends in 1998. [\[75\]](#)

Meciar is among the most erratic and authoritarian of the region's rulers, rivaling only Belarus's Lukashenko on that score. Meciar has cracked down on the media, intimidated opponents, and sacked government workers who did not share his views and replaced them with his own friends. [\[76\]](#) His economic policies have followed an erratic course. After independence, Meciar put an end to privatization, leaving the state in outright control of perhaps 40 percent of the economy. Communist era managers remain in place in the public sector, and much of the private sector is in the hands of Meciar's political allies. [\[77\]](#) To date, none of that has cost Meciar any popular support. He remains the most popular politician in Slovakia, and his party led the opposition Christian Democratic Movement by more than 20 points in the latest poll. [\[78\]](#)

Slovakia's Hungarian minority (560,000 people) is a particularly nettlesome problem for Meciar, a Slovak nationalist who has not hesitated in the past to enhance his popularity with Slovaks at the expense of the Magyar community. Nevertheless, Hungary and the European Union pressed him to sign with Hungary and then implement a treaty that provides protection for minorities in each country. However, the ultranationalists in Meciar's coalition were reluctant to accept the agreement. When they finally did last March, after a year of haggling, they did so unwillingly. And problems remain. At the insistence of the ultranationalists, the parliament in Bratislava approved a parallel resolution that appears to restrict self-government in areas in which the Hungarians are concentrated. Even more important, a separate anti-subversion law was passed that restricts free speech and demonstrations that the authorities deem "anti-

constitutional." [\[79\]](#)

### *The Laggards: Romania and Bulgaria*

Both Bulgaria and Romania are commonly dismissed as belonging to the second tier of former communist states in old East Europe. The two countries are generally viewed as having made decidedly less progress toward the market and genuine democracy than have Poland, Hungary, or the Czech Republic. Although there is some truth to that characterization, it is not entirely accurate.

#### **Romania**

Former communists dominate the government of President Ion Iliescu; privatization until now has been slow; and politics is too often tinged by xenophobia and anti-Semitism. But the context is often omitted. Until the downfall of Nicolae Ceausescu in December 1989, Romania was the most politically backward nation in the entire communist world, with the exceptions of Albania and North Korea. The Ceausescu era was not touched with the slightest attempt at reform. The autarkic Ceausescu left his nation in terrible economic condition as he impoverished his people to pay off Romania's foreign debt and to pay for his own extravagances at home.

Romania, in short, entered the 1990s in the worst economic and political shape of all the European socialist states (except Albania). Despite its abundant potential, Romania began the post-Cold War era poor, far poorer than its more developed East European neighbors. [\[80\]](#) The misery included an inflation rate that once soared into triple digits and a GNP that fell 25 percent in two years, 1991 and 1992. Like Hungary and Slovakia, Romania has been plagued by ultranationalist forces that have helped divert it from market reform. [\[81\]](#)

Recently, there has been a surge of growth--especially in the agricultural sector--but industry remains flat. Foreign investment, while picking up in the last two years, lags far behind that in the first-tier nations, Poland, Hungary, and the Czech Republic. [\[82\]](#)

**Political Obstacles.** Romanian officials, of course, have contributed their own share of mistakes. The first attempt at privatization is generally considered to have been a failure because relatively few state-owned industries were sold, thanks to the unattractiveness of the terms imposed by a left-wing parliamentary majority after the 1992 elections. The second round, begun last year, has already led to much criticism of its complexity and inflexibility. [\[83\]](#) In addition, a fractious parliament has held up legislation that would provide a legal order to secure the rights of citizens. Romania still needs, for example, legislation outlawing government-sanctioned private monopolies. Romania created a stock market years after other East and Central European states had opened theirs. [\[84\]](#) The political system, critics charge, is partially to blame. It features a strong presidential system with a weak parliament and a slow-moving bureaucracy still heavily laden with the former regime's apparatchiks and Social Democratic Party of Romania loyalists, often one and the same.

President Iliescu and his immediate advisers have also been a problem. Unlike Walesa or Havel, Iliescu was a high-ranking communist. Although he split with Ceausescu in 1971, Iliescu is of the old school and has allied himself with members of Ceausescu's secret police, the Securitate, in order to remain in power. The objective of Iliescu's communist associates is not so much to restore communism as to reap the benefits of office through insider arrangements that ensure huge fortunes. In Romania communists are not about to return to power because they never lost it in the first place.

**A Mixed Economic Record.** The true picture, however, is complex. The race to the market may be run at a trot, not a gallop, but progress is being made and the tempo seems to be increasing. Romania continues to carry the lightest foreign debt burden in Eastern Europe, and last year the economy grew by 4 percent, slightly better than the 3.4 percent posted in 1994, spurred by a 26 percent increase in exports. Inflation is half of what it was in 1994, currently running at less than 30 percent compared to a 300 percent jump in 1993. Unemployment is improving as well.

Forty percent of the economy is already in the private sector, although that is only half the Czech level. Some 1,200

small- and medium-sized enterprises have been sold off to Romanians and foreigners alike, and another 2,500 large enterprises are now on the block. Equity in a score of companies has already been auctioned off, among them enterprises associated with construction, tourism, and the wood products industry. Meanwhile, a private sector is rapidly emerging from the ground zero of 1989. [\[85\]](#)

All of that has helped to stimulate foreign investors' renewed interest in Romania and its 23-million-person market. As a result, foreign investment has more than doubled since 1990 and now amounts to \$1.4 billion, with South Korean and American investors leading the way. [\[86\]](#)

There should be no excessive optimism, however. Many of the unsold state-owned industries are giants, albeit worn-out ones. Those firms often have 5,000 or more employees who have resisted restructuring--that is, downsizing--and thus the firms remain unattractive purchases. [\[87\]](#)

**Slow and Partial Democratization.** On the political front, Romania seems on firmer democratic ground than it was a few years ago. Although Iliescu wields enormous power, he is not as authoritarian or erratic as Slovakia's Meciar. Despite numerous temptations to crack down--one newspaper has accused him of being an agent for the KGB--the media in Bucharest remain relatively free of official censorship, certainly much more so than in Bratislava. Equally encouraging is Iliescu's decision to drop the xenophobic Hungarian-baiting Greater Romania Party from the governing coalition in parliament, although there is still too much preoccupation with the Hungarian population in Transylvania. [\[88\]](#)

Romania still has a relatively lively opposition in the Social Democratic Union of former prime minister Petre Roman and the Democratic Convention, led by Emil Constantinescu. Both support market reform and democratic governance. Another presidential election will be held in October 1996, and all three political leaders will be candidates--although once again Iliescu and his Party of Social Democracy are expected to win. That may not be a major advance for democracy, but it lends some stability. [\[89\]](#)

Much of the old apparat remains in power. No one knows how many people are ideologically devoted to socialism, but the number probably is not great. Corruption, however, has taken hold with a vengeance. Most Romanians are still not sharing in the growing wealth, and the example of the apparatchik does nothing to instill a work ethic or respect for the emerging new order. The flip side, however, is that ex-communists are making too much money under the new system ever to go back to the old.

A return to communism is also unlikely because there is little or no public nostalgia for the old system in Romania. One survey suggested that only 9 percent of Romanians believe Romania will become a communist country, and it is not clear whether even that percentage believes it would be desirable. Meanwhile, despite continued tough times, a surprising number of Romanians remain relatively optimistic about the future. [\[90\]](#)

Romania, in brief, is not where liberal democrats would like it to be, but it is further along the path to political and economic liberty than might have been expected only a few years ago. Most important, the likelihood of a reversion to stifling statism and dictatorship is increasingly remote.

## Bulgaria

Romania's neighbor, Bulgaria, is another matter entirely. Communism's end came late in the game in Bulgaria, although the transition was relatively peaceful. But many Bulgarians were not quite sure what to make of the new postcommunist world that a significant percentage apparently had not even wanted. It is not surprising, then, that the repackaged Bulgarian communists, now the Bulgarian Socialist Party (BSP), returned to power in 1990 and then again in 1994 after two years in opposition.

**Political Struggles.** Politics in post-Cold War Sofia has been highly volatile. In the seven years since the fall of communist dictator Todor Zhivkov, Bulgaria has had six prime ministers. But the turbulence in the National Assembly does not necessarily reflect turmoil in the country itself. Moreover, political upheaval has lessened somewhat since the

BSP won a solid majority in the National Assembly in the December 1994 elections. Bulgarian stability has, however, been strained by the ongoing struggle between the socialist prime minister Zhan Videnov and President Zhelyu Zhelev, who was elected as a member of the opposition Union of Democratic Forces (SDS). [\[91\]](#) That tension is not likely to subside, since Zhelev lost his bid for the SDS's nomination in a first-ever presidential primary to a relative political newcomer, Peter Stoyanov, who is younger (44) and even more of a market reformer. [\[92\]](#)

The political uncertainty has had its deleterious effect on the perpetually shaky Bulgarian economy. In fact, the transition in Bulgaria from a command to a market economy has been among the slowest and most painful in the region--slower even than the transition of Russia and Ukraine.

Now, however, the pace may be picking up under Videnov, who at 37, although a former communist, was never part of the senior apparat. Indeed, the top leadership of the BSP was in such disgrace after the collapse of the Soviet Union that few, if any, senior figures made an effort to remain in charge of the party as a much younger generation moved up and took over. But even the younger socialists are not the self-declared social democrats that their Polish and Hungarian counterparts are, and the BSP still contains an old guard that remains communist to the core. [\[93\]](#)

**Slow and Painful Reform.** In his first year in office, Videnov submitted a tight budget, reduced inflation to 30 percent, and stabilized the currency. GDP actually grew in 1994 (1.4 percent) and expanded another 2.5 percent in 1995, while unemployment dropped from 16.5 percent at the beginning of 1994 to 10.5 percent at the end of 1995, according to one estimate. [\[94\]](#)

The slow approach to reform, however, has inflicted much suffering on the majority of Bulgarians. Per capita income is now about \$600 a year, half that of Romania. GDP has declined 50 percent since the end of the communist dictatorship, while annual rates of inflation in the worst years, 1991 and 1994, hit 475 percent and 120 percent, respectively. Of 3,000 state-owned enterprises, representing 80 percent of the entire economy, fewer than two score have been privatized though a few have been snapped up by cash-rich foreigners. Outside investors have injected only \$680 million into Bulgaria over the last five years. [\[95\]](#)

At best, progress will continue to be slow. Since the worst turmoil occurred under noncommunist governments, Bulgarians blame the present opposition rather than the socialists or the old regime (the opposite of the situation in such countries as Ukraine). Voters have turned to the BSP to make good on its promises of a better future. Meanwhile, the opposition SDS, for example, shows little sign of revival. In the October 1995 municipal elections, the BSP won 42 percent of the vote while the opposition registered only 24 percent. The SDS remains a loose coalition of more than a dozen squabbling factions that sprang up after the demise of Soviet power. Internecine political warfare has driven a good number of the SDS's best leaders from politics. [\[96\]](#)

That leaves Videnov and a younger generation of socialists to push on. Plans have been announced for a four-year restructuring of the Bulgarian economy, which includes placing two-thirds of the economy in private hands by 1998. Foreigners will be invited to make cash purchases or establish investment funds in the country. But foreign investment may depend on what Bulgaria does about corruption, which is more pervasive than in any other former communist country and is uniquely nasty. [\[97\]](#) Without transparency, it is likely that any privatization will be manipulated to benefit the Bulgarian version of the mafia. [\[98\]](#)

How much time does Bulgaria have left? Apparently not much, judging from this spring's economic crisis. Thanks to the inefficient state-owned industrial sector, Bulgarian banks began running up huge losses that the central bank could no longer cover. That, in turn, inspired a run on the national currency, which lost one-third of its value in the first four months of 1996. The response: a huge increase in interest rates from 67 percent to 108 percent--a tripling of the rate since January 1996--and a government promise to sell off 64 of the largest loss-making companies. The World Bank--provided the government follows through--will supply a \$90 million safety net loan to cushion the shock of the loss of an estimated 25,000 jobs. All that, however, has the look of hasty, piecemeal reform that may staunch the immediate financial hemorrhage but is not likely in itself to build much confidence in the Bulgarian economy. [\[99\]](#)

## *Conclusion*

The ends of empires hardly ever come cleanly or swiftly. Indeed, the death agony can last for some time. In the case of imperia that are based solely on force and fraud, as the Lenin-Stalin empire surely was, that ought to have been doubly the case. And yet, it was not. Although the decline of bolshevism as an idea had been long in the making, the actual sinews of Soviet power did not begin to snap until the 1970s, as an ambitious Moscow aspired to world empire with satrapies on all continents; client regimes came to power in countries as diverse as Nicaragua, Ethiopia, and Laos. The demise of communism in Central and Eastern Europe came with relatively little looking back and even less violence. But transforming the Second World of political dictatorships and command economies to democracies with stable market economies has proven more difficult.

## **Overcoming the Leninist Legacy**

The Second World's legacy was sheer bankruptcy. Not only were the economies not offering goods and services desired by ordinary human beings, after the fall they were bereft of modern institutions and practices, everything from banks and stock markets to standardized accounting principles. No wonder, then, that transferring property from public to private hands has proven so difficult. Those economies had left the mainstream of modern economic culture for between 50 and 75 years, so the transition could not have been otherwise. Jumping from Model T to supercomputer technologies is not a baby's step but a giant's leap.

Starting late with a meager inheritance has not been the only handicap of Central and Eastern Europe's peoples. For one thing, the transformation to democratic capitalism was not an entirely fresh start. Ruling elites may have been displaced at the top, at least in some cases, but the communist managerial class largely remains in place in government bureaucracies and state-owned enterprises. (Ninety percent of bankers in Poland, for example, are left over from pre-1989 days.) [\[100\]](#) Even when reform took place, those elites often were in the best position to take advantage of the transition to the market--leaving ordinary citizens in the cold. In addition, the communists created a culture in which the link between work and reward was broken, private property was considered evil, and entrepreneurial talent was looked upon with envy or hatred, never with admiration.

And since communist regimes were relatively efficient as police states, opposition movements were restricted in size--if they existed at all. Dissidents were rarely given the opportunity to learn modern economic or legal skills. For the most part, they were poets, not certified public accountants or business managers. In other cases, postcommunist parties were simply revivals of premodern groups that often had little use for liberal democracy but were anxious to pursue their vendettas against domestic minorities or the former foreign occupier. Much time has been wasted on such issues.

## **The Communist Resurgence and Its Limits**

As a result, change has not come as quickly or as painlessly as initially expected. When the new, noncommunist governments in Lithuania and Bulgaria could not deliver on their promises, they were turned out of office, and the neo- and, in some cases, not-so-neo-communists took their place. In all-important Russia, the communists, many of them not even pretending to be reformists, dominate the parliament and expect to capture the presidency.

In each case, their comeback has occurred because of a certain political adroitness, divisions within the opposition, and the support of those left out of their societies' modernization: the poor, the retired, and rural residents. Those sectors of the population constitute interest groups for more government benefits, but they do not necessarily have a longing for the return of communism. Where such groups form large blocs of voters, as in Russia and Bulgaria and to a certain extent in Poland, socialist and neocommunist parties remain influential because they are exploiting those groups' grievances. [\[101\]](#) Elsewhere, as in Estonia and Latvia, the picture is more encouraging despite some deviations from the straight line to democratic capitalism.

Only the Czech Republic, however, has been consistent in pursuing a free-market, democratic course. The Czech communists remain divided, have the support of only a small fraction of the electorate, and have almost no chance of returning to power. The reasons for the Czech Republic's success are numerous, but two factors are especially relevant for its neighbors. First, the Czechs have had the good fortune of having intelligent political leadership, particularly

Prime Minister Klaus, who has spent much time explaining the why and wherefore of reforms, in sharp contrast to the dirigiste style still favored by other East European leaders. Second, the reforms have been rapid, not gradual, and those countries that have chosen the big bang--or something close to it--have minimized, not extended, the agony. Hungary and Ukraine, at least until 1995, and Poland in recent years provide examples of the negative consequences of gradualism.

## Reasons for Cautious Optimism

There are reasons for hope even in those countries. The pace of reform has once again picked up in Poland even though the Sejm and the presidency belong to the restyled communists and their allies. In Hungary the former communists are facing hard choices on privatization and restructuring the expensive and inefficient welfare state. In Ukraine the communists are clearly on the defensive because most Ukrainians hold them (rightly) responsible for the economic misery their status quo policies inflicted in the first years of independence.

There are other substantial reasons to cheer market liberals, particularly in the long run. First, so many in the region have taken to the market with all its opportunities (and attendant risks) that a real reversal is nearly inconceivable. Moreover, the younger generations have proven, not surprisingly, the most flexible and adaptable.

Second, there is no alternative to market reform, although strict democratic practice does not necessarily follow. Very few people, even most orthodox communists, believe in central planning anymore. Moreover, as Prime Minister Klaus stresses, there is no "third way." Wealth creation comes about through market economies that unleash the energy and talent of individual human beings. Period. The Swedish-style welfare state is certainly not appropriate for the ex-communist nations whose economies are threadbare after decades of no real growth. (It is not even appropriate for Sweden; witness that country's economic woes.)

Third, there is evidence that many in Central and Eastern Europe are not as disillusioned with democratic capitalism as press reports or some election returns would seem to suggest. In a recent survey conducted by the Paul Lazarsfeld Society, based in Vienna, responses from all the former communist countries in Eastern Europe showed that a majority, often a large majority, did not want the old regime back. Even better, the percentages favoring a capitalist future over a collectivist past have steadily risen over the last five years, not declined as some have alleged on the basis of anecdote and impression alone. Journalists who have a penchant for interviewing babushkas who yearn for the good old days prove little except that they are dealing with grumpy old ladies. [\[102\]](#)

Other opinion surveys, taken earlier, suggested that much voter discontent was based on the view that reforms had not been carried out fast enough, rather than too rapidly, which negates the conclusion that because people do not feel they are better off--which is often the case--they prefer a return to collectivism. For the most part, that is decidedly not the case. Few people, particularly those under 50, want to return to communism, and time remains the enemy of the neostatists. [\[103\]](#)

## Justifiable Concerns about Russia

The farther east one travels, the more problematic are prospects for positive transition. Russia remains deeply troublesome. Its economic and political institutions are still weak, wobbly, and subject to change after this summer's presidential election. That should come as no surprise. There is little in Russia's past that suggests an easy success. Although blessed with huge resources, Russia has had little experience with either democracy or capitalism; three-quarters of a century of bolshevism, of course, did not help matters. The centuries have produced a popular culture that has a difficult time understanding the basis of wealth creation and distribution. There is likewise little patience with the give and take of democratic politics. A strong leader, a vlad, is still a pervasive temptation, regardless of his ideological guise.

Moreover, Russia's intelligentsia has always been split between Westernizers and those preferring some form of anti-Western Slavophilia. There are elements of the latter attitude in Zyuganov's rhetoric, in which communism mixes with a belief that Russia's future is in Asia, not Europe. Like other East European peoples, the Russians have more than a few ethnic disputes that distract their leaders from the central tasks of reform; the war in Chechnya is merely one

extreme example.

In addition, in contrast to the relatively cheerful Central and East Europeans, the Russians are in a dour mood. From the December 1995 Duma elections, it appears that one-third of the electorate prefers a communist authoritarian regime. Opinion surveys suggest that another 12 percent want military rule--a Pinochet--and 10 percent would like a tsar on the throne. That means that more than half of the Russian population wants a vlad to take care of them. [\[104\]](#)

But more than strong leadership is desired. Fully a quarter of the population--the highest proportion in all the former European communist lands--wants to return to a planned economy. That is more than nostalgia at work, since 90 percent of Russians asked believed that they were worse off in 1995 than they had been a year before. There is no evidence that the population has begun to feel more cheerful since. [\[105\]](#)

Such attitudes strengthen the possibility that the communists may capture the presidency. That, in turn, would set back the prospects for Russian reform and lead to heightened tensions in U.S.-Russian relations. Nevertheless, it is clear that Zyuganov and his allies have no program that will pull Russia out of its economic doldrums. Indeed, their platform, if carried out, would bring about even greater misery and might provide an opportunity for Russia's liberal reformers to regroup and return to power. At best, political and economic reform will be fitful, but a red phoenix will not achieve immortality; its final demise is only a matter of time.

### **Implications for U.S. Foreign Policy**

That "matter of time," however, remains a central concern of U.S. foreign policy. Although time is most probably on our side, it does not mean that the red phoenix phenomenon does not pose problems for us, even setting Russia aside. To be sure, optimism is warranted regarding much of the region. The most encouraging sign, and also the clearest, in Eastern and Central Europe remains the fact that few people--very few--want to return to the status quo ante. Even most of the hard-line communists are ambivalent.

The United States, and the West in general, has an important stake in the ongoing struggle between reformers and the neocommunists. What lies before us is the restoration of the relatively peaceful order that was beginning to emerge in 1914 but was shattered by the Great War that helped spawn both fascism and communism, that is, modern totalitarianism with its war-oriented command economies. To foster the reemergence of a world where democratic and constitutional regimes are wedded to economic freedom is clearly in America's interest.

Nurturing that reemergence, particularly in the old Second World, requires neither indiscriminate interventionism nor isolationism. It does require a steady and sustained interest in fostering market economies in the former communist countries.

A nuanced, multidimensional policy is needed, since each regime in transition has characteristics that are strikingly different. To be sure, nations like the Czech Republic need to be sought out as models of what we would like the others to be. With that in mind, the United States should encourage the European Union to put Prague on the fast track to full membership, creating the incentive for others, like Hungary, to accelerate rather than slow their reforms. In addition to encouraging the European Union to promptly admit market-oriented Central and East European candidates, the United States should urge West European governments to make their own badly needed market reforms. It will do little good if the Eastern and Central European states merely ape the high-tax and welfare policies of such countries as Sweden, Spain, and France, which for years have contributed to slow growth and high unemployment.

Washington should also continue to point out to the International Monetary Fund that its usual prescription of macroeconomic policies (austerity programs with a large dollop of tax hikes) is hardly the recipe for economic reform and progress. Among badly needed reforms in much of Central and Eastern Europe is a transparency requirement for the privatization process to prevent the kind of wholesale corruption that has taken place in some countries where the old nomenklatura have largely or uniquely benefited.

Western caution is especially warranted in dealing with those governments still largely run by former communists who now profess to be social democrats. Social democratic politicians who stall or undercut market reform are of little

value to their people or to us. The West's reaction to the former communists who endorse real reform, however reluctantly, because of the prospect of EU membership and investment from Western European and American entrepreneurs, should be to let bygones be bygones. But those who refuse to proceed on the path to reform should not be bailed out by bilateral or multilateral aid programs, including IMF loans.

In the end, reform is likely to succeed because there is no self-sustaining alternative. The history of bolshevism demonstrates the bankruptcy of central planning, along with all its collectivist variants. The problem before us is not a restoration of communism so much as it is a possibility that much of Eastern Europe, including Russia, will merely move from command economies to the kind of quasi-statist systems that proliferated in Latin America circa 1980. America cannot, of course, dictate the outcome of complex and diverse reform processes in more than a dozen countries. The European Union, given its proximity and economic ties, can have a greater influence, but ultimately the nations of Central and Eastern Europe will largely determine their own destinies. Washington's most constructive contribution can be made by setting a good example of commitment to the values of limited government and a market economy and by encouraging the Central and East Europeans to emulate that example. That policy will require both patience and vigilance.

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### ***Footnotes***

[1] For another attempt to examine the divisions within the old Second World, see Charles Gatti's three-part system of "leaders, losers, and laggards" cited in Stephen S. Rosenfeld, "Russia's Vote: Bad for Democracy," Washington Post, December 22, 1995, p. A19.

[2] A clear portrait of the latter-day malaise of the Soviet elite is painted by Luba Brezhneva, the niece of Leonid Brezhnev, in *The World I Left Behind: Pieces of a Past* (New York: Random House, 1995).

[3] Zyuganov's career after the collapse of the Soviet Union took a few twists before he became head of the KPRF in December 1992. According to *The Economist*, Zyuganov "flirted with a variety of extreme nationalist groups, serving for a year on the editorial board of Dem (The Day), a newspaper known for its anti-Semitic and fascist flavor, until it was banned in 1993." "Russian Communists, Endangered Species," *The Economist*, May 6, 1995, p. 51.

[4] Alessandra Stanley, "As Russians Bicker, Communists Take the High Road," *New York Times*, January 19, 1996, p. A6; and "Russia: A Reddish Duma," *The Economist*, February 3, 1996, p. 42.

[5] John Thornhill, "Communists Boost Kremlin Campaign," *Financial Times*, March 5, 1996, p. 4; and Lee Hockstader, "Communist's Patient Path to Power," *Washington Post*, December 25, 1995, p. A24. To that might be added the energy of the KPRF's leadership. Compared with the gerontocrats who dominated the old CPSU, the 51-year-old Zyuganov and his immediate colleagues are still full of energy, if not charisma. In the 1995 parliamentary campaign Zyuganov visited 48 cities in virtually every part of Russia. That was remarkable compared with most Russian politicians, especially in the liberal parties, who seldom left their strongholds in Moscow and St. Petersburg. *Ibid.* See also Lee Hockstader, "Chernomyrdin Vows Not to Change Course," *Washington Post*, December 20, 1995, p. A28.

[6] Examples of such themes are apparent in an interview with Gennady Zyuganov in *El Mundo* (Madrid), December 21, 1995, pp. 4-5, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, December 22, 1995, p. 19.

[7] See, for example, Zyuganov's interview with *La Stampa* (Turin), December 21, 1995, p. 9, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, December 22, 1995, p. 20. See also Neela Banerjee, "Russian Politician Disavows Old Policies," *Wall Street Journal*, October 16, 1995, p. A11.

[8] In an appearance before the American Chamber of Commerce, Zyuganov called for a more liberal foreign investment climate but ducked direct questions about renationalization of companies already privatized. "Communist Party Leader Fails to Reassure Card-Carrying Capitalists," *Financial Times*, October 19, 1995, p. 2.

[9] Sovietskaya Rossiya (Moscow), February 17, 1996, p. 2, Foreign Broadcast Information Service, Central Eurasia Daily Report, February 20, 1996, pp. 36-38. For details of the 20-page economic campaign program published three weeks before the presidential election, see David Hoffman, "Communists Detail Economic Rollback," Washington Post, May 28, 1996, p. A15; and Alessandra Stanley, "Communists in Russia Unveil Plan for Economy," New York Times, May 29, 1996,

p. A6,

[10] Zhirinovsky has supported the government's budgets and strongly backs the Chechen operation, two issues that separate him from the KPRF. As a reward, he has been given more air time on government-controlled Russian television. Martin Sieff, "Yeltsin Risks Deal with Nationalist 'Devil,'" Washington Times, January 28, 1996, p. A1. On the fate of START II, see David Hoffman, "Russian Says Arms Treaty Vote Should Follow Election," Washington Post, February 1, 1996, p. A17. See also Gennady Zyuganov, "The Right to One's Own Path," Die Zeit (Hamburg), February 9, 1996, Foreign Broadcast Information Service, Central Eurasia Daily Report, February 9, 1996, pp. 30-31. On the Duma vote on reconstituting the old Soviet empire, see Michael Specter, "Russian Parliament Denounces Soviet Union's Breakup," New York Times, March 16, 1996, p. A3. The vote was 250 to 98 in favor. According to the Russian Constitutional Court, the resolution has no legal effect--at least for now. On that point, see Dave Carpenter, "Russia's Parliament Sees Red Again," Washington Times, March 16, 1996, p. A1.

[11] That is an old weakness of Russian liberalism. Despite a growing Bolshevik threat in 1917, the democratic parties did not cooperate in securing a post-tsarist democracy. Richard Pipes, *The Russian Revolution* (New York: Alfred A. Knopf, 1990), pp. 272-337.

[12] Nevertheless, behind the KPRF's conciliatory facade is the stubborn fact that most of the communist Duma deputies are apparatchiks from the old regime. Furthermore, the KPRF's directorate is dominated by doctrinaire leftovers including Yuri Maslyukov, the last Soviet director of Gosplan, the old central planning agency. Stanley, "As Russians Bicker, Communists Take the High Road"; Andrei Zhukov, "A New Balance of Forces in the Russian Parliament: Red Flag over the State Duma," Prism, February 23, 1996, pp. 12-13; David Hoffman, "Russia's Communists: How Far Can They Go?" Washington Post, February 26, 1996, p. A12; Cord Meyer, "Pity the Plight of Russia's Voters," Washington Times, February 16, 1996, p. A21; and Moscow ITAR-TASS dispatch, January 17, 1996, Foreign Broadcast Information Service, Central Eurasia Daily Report, January 18, 1996, pp. 44-45.

[13] Zbigniew Brzezinski, "Running Out of Illusions," Washington Times, February 4, 1996, p. B1. The former national security adviser to President Carter points out that Kovalnov was the only Russian official of any standing within the Yeltsin administration who had a genuinely dissident background.

[14] Chrystia Freeland, "Yeltsin Threatens to Sack Government before Poll," Financial Times, February 24-25, 1996, p. 1; and David Hoffman, "Russians Tired, Says Yeltsin, Faulting Others," Washington Post, February 23, 1995, p. A22. Yeltsin has taken one pro-market step, however. Recently, the Russian president issued an edict that would allow the sale and purchase of rural land for the first time since the 1917 Bolshevik coup. The communists and their agrarian allies are strongly opposed to the measure. To be sure, Yeltsin's action--aimed at winning over the rural poor, one of the KPRF's major constituencies--is tied more to the election than to a well-conceived program of economic reform, but it is, potentially at least, a major break from Russia's dark past. See Michael Specter, "With Land Sale Edict, Yeltsin Opens Way to Longed-for Era," New York Times, March 17, 1996, p. A1.

[15] Chrystia Freeland, "Fire 'Saboteurs,' Says Yeltsin," Financial Times, December 29, 1995, p. 1. For a portrait of one of Yeltsin's remaining close advisers, Oleg Soskovets, who remains, in Khrushchev's description, a "metal-eater" from the old Soviet school, see Steve Liesman, "Yeltsin's Buddy Has a Lock on Policy," Wall Street Journal, February 22, 1996, p. A11.

[16] Lee Hockstader, "Yeltsin Retools His Image: Russian Leader Courts Support of Hard-Liners," Washington Post, January 21, 1996, pp. A1, A24.

[17] For discussions of Yeltsin's retreat from reform, see Alessandra Stanley, "Yeltsin at Bay," *New York Times*, January 24, 1996, p. A6; and Anders Aslund, "Almost Anyone Is Better Than Yeltsin," *New York Times*, February 3, 1996,

p. A21.

[18] Steven Mufson, "China, Russia Swap Support, Sign Array of Agreements," *Washington Post*, April 26, 1996, p. A27.

[19] A complicating political factor is the ethnic fissures in the Baltics. In Estonia the principal split is between the 61.5 percent of the population that is ethnically Estonian and the 30 percent that is ethnically Russian (the remainder is principally a mixture of Ukrainian, Belarusian, and Finnish). Latvia is barely Latvian at all (51.8 percent); ethnic Russians form the largest minority (33.8 percent); and the rest are chiefly Ukrainian, Belarusian, and Polish. In Lithuania, Lithuanians do predominate (80.1 percent), while Russians form a small minority of 8.6 percent, and Poles and Belarusans largely account for the rest. See Central Intelligence Agency, *The World Factbook, 1995-1996* (Washington: Brassey's, 1995), pp. 124, 226, 236.

[20] Matthew Kaminski, "Attractions and Drawbacks of the Baltics," *Financial Times*, February 12, 1996, p. 25.

[21] "Estonia's Government Is Ousted in Vote Signaling Slower Reform," *New York Times*, March 7, 1995, p. A10; and "Estonia: Success Punished," *The Economist*, March 11, 1995, p. 51.

[22] Chrystia Freeland, "Bugging Scandal Brings Down Estonia Cabinet," *Financial Times*, October 12, 1995, p. 2.

[23] Kaminski, "Attractions and Drawbacks of the Baltics," p. 25. See also Tallinn Radio Tallinn Network, December 29, 1995, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 3, 1996, pp. 54-55; Interfax (Moscow), November 3, 1995, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, November 6, 1995, p. 84; and Eesti Paevaleht (Tallinn), November 7, 1995, p. 4, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 5, 1996, pp. 72-75.

[24] "Latvia Ends Deadlock on PM," *Financial Times*, December 22, 1995, p. 3; and Diena (Riga), December 22, 1995, p. 7, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 26, 1996, pp. 102-7.

[25] Nevertheless, the prime minister will not relent. In his recent state of the nation address, he warned parliament that unless changes are made, "there will be few countries in the world so poor as to be compared with our wretched nation." Riga Radio Riga Network, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, February 23, 1996, p. 58. Indeed, the economic news is gloomy. Gross domestic product dropped by 2 percent last year, stagnation is expected this year, and the budget deficit goes beyond the International Monetary Fund's target. ITAR-TASS dispatch (Moscow), January 31, 1996, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, February 2, 1996, p. 56. See also Riga Radio Riga Network, December 21, 1995, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, December 28, 1995, p. 38; Riga Radio Riga Network, January 8, 1996, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 11, 1996,

pp. 72-73; and "Latvia: By Jingo," *The Economist*, October 7, 1995, pp. 61-62.

[26] Barry Newman, "Communists Find New Life in Lithuania," *Wall Street Journal*, April 15, 1993, p. A10.

[27] Interview with Prime Minister Adolfas Slezevicius, Vilnius Radio Vilnius Network, December 27, 1995, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, December 28, 1995, p. 41; "... Rich Man, Poor Man, Beggar Man . . .," *The Economist*, February 3, 1996, p. 43. The prime minister's patience with privatization's pace snapped in July 1995 when he fired the economics minister for failure to draft legislation that would set the stage for selling off large- and medium-sized state-owned enterprises. John Thornhill, "Row over Pace of Lithuania's Sell-Offs," *Financial Times*, July 6, 1995, p. 3.

[28] Interfax (Moscow), January 29, 1996, Foreign Broadcast Information Service, *Central Eurasia Daily Report*,

January 29, 1996, p. 69; John Thornhill and Matthew Kaminski, "Party Rallies around Lithuanian PM," Financial Times, January 15, 1996, p. 2; Chrystia Freeland, "IMF Praises Lithuania for Bank Action," Financial Times, December 12-13, 1995, p. 2; Interfax (Moscow), February 3, 1996, Foreign Broadcast Information Service, Central Eurasia Daily Report, February 5, 1996, p. 80; and ". . . Rich Man, Poor Man, Beggar Man

. . .," p. 43. Compare Slezevicius's misdeemeanor with the outrightly corrupt behavior of the managers of Russia's Gazprom, the supposedly privatized natural gas monopoly, which enjoys special tax favors, employs an opaque management style, has access to annual revenues of \$20 billion, and is not subject to independent accounting. Claudia Rosett, "Big Gas Firm Proves a Liability for Yeltsin," Wall Street Journal, March 5, 1996, p. A11.

[29] John Thornhill, "Lithuanian PM Voted Out," Financial Times, February 9, 1996, p. 2; and Matthew Kaminski, "Lithuanians Endorse PM," Financial Times, February 16, 1996,

p. 2.

[30] Matthew Kaminski, "Belarussians Seek the Future in the Past," Financial Times, May 17, 1995, p. 3. Recently, Belarus president Alexander Lukashenko signed an economic agreement with Yeltsin that both sides say is the opening round of further talks leading to more cooperation and eventually re-federation. Chrystia Freeland and Matthew Kaminski, "Belarus Succumbs to Yeltsin Embrace," Financial Times, February 28, 1996, p. 3; and Martin Sieff, "Belarus Heads toward Reunion with Russia," Washington Times, March 1, 1996, p. A13.

[31] For a taste of "new" thinking among today's Belarusan communists, see the interview with People's Deputy Syarhey Ivanovich Kalyakin, who describes himself as a "Soviet man from the Sovietskiy district," in Narodnaya Gazeta (Minsk), February 15, 1996, p. 2, Foreign Broadcast Information Service, Central Eurasia Daily Report, February 26, 1996, pp. 45-48.

[32] Fred Hiatt, "Russia Rejects Monetary Union with Lagging Neighbor, Belarus," Washington Post, September 10, 1994,

p. A16; Michael Specter, "Discontent of Belarus Voters Fueled Landslide for Outsider," New York Times, July 12, 1994, p. A6; and Freeland and Kaminski, "Belarus Succumbs to Yeltsin Embrace," p. 3.

[33] Consider, for example, Lukashenko's comment, "Land which produces bread, vegetables, and fruit must be the property of the state." Interview on Moscow Programma Radio Odin Network, February 2, 1996, Foreign Broadcast Information Service, Central Eurasia Daily Report, February 5, 1996, p. 66. See also James Rupert, "Belarus Ruler Leaning to Dictatorial, Say Critics," Washington Post, December 27, 1995, p. A16; Chris Pala, "New Belarus President's Actions Have West Breathing Sigh of Relief," Washington Times, July 27, 1994, p. A14; and Chrystia Freeland, "Belarus Banks Face Takeover," Financial Times, February 28, 1996, p. 3.

[34] Lately, Lukashenko's ham-fisted tactics, as well as his rapprochement with Russia, have attracted opposition. As many as 50,000 people took part in a series of demonstrations in Minsk, which resulted in arrests and beatings at the hands of the police. Nevertheless, in recent polls Lukashenko still has an approval rating of over 50 percent. James Rupert, "Russia Pact Polarizes Belarus," Washington Post, May 21, 1996, p. A13; Chrystia Freeland, "Collective Farmer with Tsarist Ambitions," Financial Times, May 12, 1996, p. 3; and Valyantsin Zhdanko, "All of Us Trust You So Much, Comrad Lukashenka--Perhaps Even More Than We Trust Ourselves," Belorusskaya Delovaya (Minsk), April 19, 1996, p. 5, Foreign Broadcast Information Service, Central Eurasia Daily Report, April 24, 1996, pp. 67-68.

[35] Yuras Karmanov, "President Lukashenko Had It Out with the Press," Nezavisimaya Gazeta (Minsk), January 25, 1996, p. 3, Foreign Broadcast Information Service, Central Eurasia Daily Report, February 12, 1996, p. 87; James Rupert, "Belarus Voters' Turnout Blocks President's Plan to Rule Alone," Washington Post, December 1, 1995, p. A30; and James Rupert, "Strong Turnout in Belarusan Election Is Defeat for Authoritarian President, Washington Post, December 11, 1995,

p. A18.

[36] Matthew Kaminski, "Belarus Finally Elects Its First Parliament," *Financial Times*, December 12, 1995, p. 4. The Belarusan communists have already made clear their intention to pursue confederation with Russia. See *Belorusskaya Delovaya Gazeta* (Minsk), December 21, 1996 [sic], p. 3, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 5, 1996, pp. 61-62. On Lukashenko's future political plans, see *Interfax* (Moscow), January 23, 1996, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 24, 1996, p. 59.

[37] "Ukraine Election Outcome Hints at Deadlock," *New York Times*, April 13, 1994, p. A14; and John Lloyd and Jill Barshay, "Ukrainian Vote Brings Reform No Closer," *Financial Times*, April 12, 1994, p. 2.

[38] Anders Aslund, "Eurasia Letter: Ukraine's Turnaround," *Foreign Policy*, no. 100 (Fall 1995): 129.

[39] *Ibid.*

[40] Like Belarus's president, Kravchuk did his best to discourage voter participation in follow-up elections--and like Lukashenko, he failed in the attempt. *Ibid.*, pp. 130-31.

[41] For discussions, see Aslund, "Eurasian Letter," p. 135; Anna Reid, "Ukrainian Leader Outlines Broad Free-Market Reform Plan," *Washington Post*, October 12, 1994, p. A29; and James Rupert, "Ukraine Starts Selling State-Owned Firms," *Washington Post*, February 2, 1995, p. A24. For the text of Kuchma's speech, see Council of Advisors to the Parliament of Ukraine, "Along the Road of Radical Economic Reform," October 11, 1994. Until the sell-offs began, some 95 percent of commercial and industrial enterprises had been state owned.

[42] The majority in parliament still sometimes seeks to politicize the economy. For example, Kuchma rejected a communist-backed piece of legislation that would have given a 51 percent stake in the nation's recently privatized food industry to collective farm managers. Matthew Kaminski, "Ukraine's Sell-Off Plan Vetoed," *Financial Times*, February 22, 1996, p. 2.

[43] That defensiveness was clear in a recent article by the KPU's first secretary Petro Symonenko, "Ukraine's Communists for Social Justice and Power to the People," *Holos Ukrayny* (Kiev), February 15, 1996, pp. 6-7, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, February 22, 1996, pp. 55-57. A public opinion survey showed differences in support for privatizing various sectors of the economy. Of respondents, 62.8, 73.5, 57.8, and 57.3 percent favored privatization of land, housing, small industrial plants, and small businesses, respectively; 15.8, 8.2, 15.2, and 16.9 percent were opposed. In contrast, support for privatizing large industrial enterprises was only 27.3 percent against a 33.8 percent opposition. Privatizing health care was favored by 21.5 percent but opposed by 48.7 percent (the rest responded "don't know" and "hard to say"). *Uryadovyy Kuryer* (Kiev), March 11, 1995, p. 7, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, March 30, 1995,

p. 49. Meanwhile, Kuchma, in effect, has neutralized his most powerful institutional enemy, Supreme Council chairman Oleksandr Moroz, an intractable Stalinist. In a poll published in February 1995, President Kuchma's overall favorable rating was 69 percent compared to Moroz's 32 percent. *Uryadovyy Kuryer* (Kiev), February 18, 1995, p. 6, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, March 17, 1995, p. 32. See also James Rupert, "Ukrainians Asked to Settle 'Paralyzing Political Crisis' with National Ballot," *Washington Post*, June 1, 1995, p. A24; James Rupert, "Ukraine Votes Austerity Spending Bill," *Washington Post*, April 7, 1995, p. A31; and Rupert, "Ukraine Starts Selling State-Owned Firms," p. A24.

[44] Aslund, "Eurasia Letter," p. 138; and Chrystia Freeland and Matthew Kaminski, "Signs of Life in 'Last Preserve of Communist Stagnation,'" *Financial Times*, May 16, 1995, p. 4. For recent trade figures, see *Intelnews* (Kiev), January 29, 1996, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 29, 1996, p. 48. For industrial production figures, see *Interfax* (Moscow), January 4, 1996, Foreign Broadcast Information Service, *Central Eurasia Daily Report*, January 5, 1996, p. 59; Adrian Karatnycky, "Watch, as the Ukraine Leans Westward," *Washington Times*, February 21, 1996, p. A21; and Matthew Kaminski, "Ukraine Pit Strike Suspended," *Financial Times*, February 17-18, 1996, p. 2.

[45] Jane Perlez, "Ukraine Sells Its Companies, but Buyers Are Few," *New York Times*, November 2, 1995, p. A1; and Matthew Kaminski, "Ukraine's Premier Faces Western Skeptics," *Financial Times*, September 27, 1995, p. 3. See also

Rupert, "Ukraine Starts Selling State-Owned Firms," p. A24. For the president's unhappiness with the pace of privatization, see his comments in Uradovyy Kuryer (Kiev), January 27, 1996, pp. 3-4, Foreign Broadcast Information Service, Central Eurasia Daily Report, February 1, 1996, pp. 55-60. For a report on the agricultural sector, see Yuri Kulikov, "Ukraine's President Says Farm Reforms Are the Answer," Washington Times, January 2, 1996, p. A8.

[46] Cord Meyer, "Kuchma's Survival Strategy," Washington Times, March 1, 1996, p. A17; Matthew Kaminski, "Red Dictator' to Govern Ukraine," Financial Times, May 29, 1996,

p. 3; and James Rupert, "Ukrainian Premier Dismissed," Washington Post, May 28, 1996, p. A13.

[47] David Hoffman, "1 Million Miners Go on Strike in Russia, Ukraine," Washington Post, February 2, 1996, p. A21.

[48] Anthony Robinson and Christopher Bobinski, "A Chance to Catch Up on Lost Time," in Financial Times Survey: Poland, Financial Times, March 28, 1995, p. i; Anthony Robinson and Christopher Bobinski, "Poland's Politics Cast a Shadow over Recovery," Financial Times, March 3, 1995, p. 4; and John Pomfret, "Walesa Accepts Ex-Communist as Poland's Next Prime Minister," Washington Post, February 9, 1995, p. A26.

[49] Under Olesky the assets of 413 state-owned companies were placed in 15 National Investment Funds managed by 14 fund management companies. Anthony Robinson, "Polish Privatization Gets Under Way," Financial Times, July 14, 1995, p. 2.

[50] For inflation figures, see Anthony Robinson, "Shock Therapy Works a Miracle," in Financial Times Survey: Poland, p. ii. See also Anthony Robinson and Christopher Bobinski, "Warsaw Markets Nonchalant," Financial Times, January 26, 1996, p. 3; Anthony Robinson and Christopher Bobinski, "Anti-Communism May Hit Economy," Financial Times, January 25, 1996, p. 2; "Polish Growth at 5.5-6.5%," Financial Times, June 6, 1995, p. 2; and Anthony Robinson, "Poland's Politics Cast a Shadow over Recovery," p. 4.

[51] "Poland: Tinker, Tailor, Soldier, Party Leader," The Economist, February 3, 1996, pp. 42-43; Jane Perlez, "Polish Premier, Accused of Spying, Resigns," New York Times, January 25, 1996, p. A3; and Christopher Bobinski, "Olesky Cleared on Spying Charges," Financial Times, April 23, 1996, p. 2.

[52] Christopher Bobinski, "Polish Privatization Plan Survives Cabinet Changes," Financial Times, February 8, 1996, p. 3; Nicholas Denton and Christopher Bobinski, "Banks to Be Picked for Plum Polish Sell-Off," Financial Times, February 12, 1993, p. 21; and Christopher Bobinski and Anthony Robinson, "Poland to Sell 49% of State Telecom Group," Financial Times, February 2, 1996, p. 3.

[53] Caroline Southey and Anthony Robinson, "Living Museum on the Land," Financial Times Survey: Poland, p. v.

[54] Anthony Robinson, Lionel Barber, and Christopher Bobinski, "Soviet Shadow Is Cast over Poland," Financial Times, January 22, 1996, p. 2; and "New Leader in Poland Quits Party," Washington Post, November 26, 1996,

p. A33. See also Kwasniewski's interview in The European (London), November 9-15, 1995, p. 4, Foreign Broadcast Information Service, East Europe Daily Report, November 9, 1995, p. 38; Jane Perlez, "Poland's President-Elect, under a Cloud, Pledges to Be Impartial," New York Times, November 26, 1995, p. A6; Piotr Wysocki, "'KAC,' 'AAA': The Red Web Continued," Zycie Warszawy (Warsaw), October 31-November 1, 1995, pp. 1-2, Foreign Broadcast Information Service, East Europe Daily Report, November 1, 1995, p. 52; and "Into the Trough," The Economist, July 15, 1995, p. 38.

[55] Marek Matraszek, "Changing Shape of Polish Politics," Wall Street Journal, November 21, 1995, p. A16.

[56] Hungary's foreign minister who approved the opening of the border with Austria was current Prime Minister Gyula Horn. He did so, however, after checking with Moscow. David B. Ottaway, "Hungary's New Premier a Reformed Communist," Washington Post, June 5, 1994, p. A29.

[57] Virginia Marsh, "Hungary Knocks Harder on EU Door," Financial Times, July 19, 1995, p. 2.

[58] David B. Ottaway, "Hungarian Socialists, Allies Question Free-Market Vows," Washington Post, June 30, 1994, p. A22; Virginia Marsh, "A Four-Year Revolution," Financial Times Survey: Hungary, Financial Times, November 11, 1994, p. 29; and Nicholas Denton and Virginia Marsh, "The Hare Becomes a Tortoise," *ibid.*, p. 27.

[59] Virginia Marsh, "Old Order in a New Guise," *ibid.*,

p. 28.

[60] In October 1995 a group of 40 left-wing Socialists met in Hajos, Hungary, to protest cuts in government spending on welfare. They have since become known as the Hajos group. Budapest Kossuth Radio Network, October 14, 1995, Foreign Broadcast Information Service, East Europe Daily Report, October 16, 1995, p. 27.

[61] The turning point came in June 1995 when Prime Minister Horn fired Laszlo Pal, the trade and industry minister who bitterly fought privatization of state-owned industries. Virginia Marsh, "Hungary Minister Sacked over Slow Pace of Sell-Offs," Financial Times, June 23, 1995, p. 3. See also Nathaniel C. Nash, "Privatizing in Hungary: Once More, with Feeling," New York Times, October 17, 1995, p. D1; and Virginia Marsh, "Split over Hungary's Sell-Off Revenues," Financial Times, January 12, 1996, p. 3. The windfall has sparked a typical row within the ruling coalition. The Free Democrats, led by Finance Minister Lajos Bokros, are urging that Hungary's huge foreign debt be repaid in part, but many Socialists want to spend the windfall on "development" projects. Hungary's foreign debt remains one of the heaviest in the world (67 percent of GDP, exactly 21 points higher than Mexico's). Jane Perlez, "Investors Having Second Thoughts on Hungary," New York Times, February 21, 1995, p. D2.

[62] On the underground economy, see Virginia Marsh, "Hungary to Target Black Market," Financial Times, March 7, 1996, p. 2. See also "Hungarian Exports Rise 21.5%," Financial Times, February 3, 1996, p. 2. The other factor boosting exports was a 25 percent devaluation of the forint. Meanwhile, imports increased by 7 percent, which still left a trade deficit of \$2.6 billion, which was down from \$3.9 billion the previous year. *Ibid.*

[63] Magyar Nemzet (Budapest), December 14, 1995, p. 6, Foreign Broadcast Information Service, East Europe Daily Report, December 15, 1995, pp. 15-17. See also Virginia Marsh, "Hungarian Coalition Left Exposed," Financial Times, September 21, 1995, p. 3. In another poll taken in early 1995, 66 percent of Hungarians questioned were opposed to the overhaul of the welfare system and only 4 percent thought the IMF-supported reform package would significantly improve Hungary's financial health. "Hungary: Radical at Last," The Economist, April 1, 1995, p. 45. After much delay, the government appears to be on the cusp of introducing legislation to reform the country's costly welfare system. The key feature would be a so-called three-pillar social security system designed for Hungarians under 40. A minimum government pension plan would continue and would be supplemented by individual contributions and private pension funds. Virginia Marsh, "Hungary Set for Pain of Welfare Reforms," Financial Times, May 13, 1996, p. 2.

[64] Vincent Boland, "Prague Eases Exchange Controls," Financial Times, February 29, 1996, p. 2.

[65] The calculation is a political one. Utility rates would go up sharply in the private sector, and it is clear that the Klaus government was content to wait until after the elections to face that question along with others, including the lifting of rent controls. Vincent Boland, "'Poverty Fatigue' Stalks Czech Politics," Financial Times, October 18, 1995, p. 2. See also Jane Perlez, "The Fist in the Velvet Glove," New York Times Sunday Magazine, July 16, 1995, p. 18. For current economic data, see "Emerging Market Indicators," The Economist, February 17, 1996,

p. 104. See also "Czech Factory Output Climbed 9.2% in 1995 from the Previous Year," Wall Street Journal, February 20, 1996, p. A14.

[66] Czech lands had 70 percent of the industrial plants in the old empire by the turn of the century. "The Czech Republic: The New Bohemians," The Economist, October 22, 1994, pp. 23-27. The Czech Republic has the lowest foreign debt in the region by any measure, a fact that the present leadership has no intention of changing. In his speech to an audience at the Cato Institute on December 4, 1995, Klaus emphasized that point. "Czeching into Capitalism," Cato Policy Report 18, no. 2 (March-April 1996): 6-9.

[67] The price paid was two years of falling industrial production--35 percent--but, as Prime Minister Klaus has pointed out, that drop was by no means merely negative: "I prefer to call [it] transformation shake-out, a shake-out of non-viable economic activities, which could exist only in protected Comecon markets with distorted price structures and with huge subsidies." Interview with Prime Minister Václav Klaus by Kevin Done and Vincent Boland, "Fastest Privatization Process," Financial Times Survey: Czech Republic, Financial Times, November 22, 1995, p. 24. See also "Milestones in Transition," *ibid.*, p. 23.

[68] Many of those enterprises have reduced their work-forces by as much as half, although few have been shut down outright. There are downsides to that approach, of course. While it has kept unemployment rates low overall, padded employee rolls in large industries have led to labor shortages in the Czech Republic's more dynamic private sector. That will begin to limit growth in the near term, if it has not done so already. Joe Cook, "Czech High-Employment Level Belies Soviet-Style Payrolls, Need to Retool," *Wall Street Journal*, February 23, 1996, p. A7; Anthony Robinson, "Towards a State of Grace," *Financial Times Survey: Czech Republic*, *Financial Times*, December 19, 1994, p. i. Not all privatizations have gone well. Recently, the government canceled the sale of Poldi Ocel steel plant to a Czech businessman because of a disagreement over the terms of his ownership. Vincent Boland, "Prague Seeks to Annul Steel Plant Sale," *Financial Times*, February 16, 1996, p. 3. On the gray market, see "The Czech Republic," p. 27.

[69] *Denni Telegraf* (Prague), February 6, 1996, p. 1, Foreign Broadcast Information Service, *East Europe Daily Supplement*, February 6, 1996, p. 10. See also "The Czech Republic," p. 24.

[70] Christine Spolar, "Czech Elections Leave Prime Minister's Once Dominant Position Weakened," *Washington Post*, June 3, 1996, p. A16.

[71] On the fate of the communists, see Barry Newman, "Czech Republic Makes a Smooth Transition to Ways of the West," *Wall Street Journal*, July 6, 1994, p. A1. See also David B. Ottaway, "Czech Republic Resists Trend to Put Ex-Communists Back in Power," *Washington Post*, May 24, 1994, p. A12. In a recent poll, voters were asked to classify themselves politically. Exactly 5 percent designated themselves as on the left and 1 percent on the extreme left. Center, center-right, and right together amounted to 67 percent. *Denni Telegraf* (Prague), January 18, 1996, p. 2, Foreign Broadcast Information Service, *East Europe Daily Report*, January 22, 1996, p. 12.

[72] "The Return of the Hapsburgs: A Survey of Central Europe," *The Economist*, November 18, 1995, p. 19.

[73] For the latest figures, see Daniel Borsky, "Slovaks Debate if Economy Needs a Boost," *Slovak Spectator*, January 30, 1996, p. 1, Foreign Broadcast Information Service, *East Europe Daily Report*, February 22, 1996, pp. 14-15. See also Vincent Boland, "Slovakia Faces Uneasy Future as Reform Slows," *Financial Times*, September 8, 1995, p. 3; and Christine Spolar, "Feuds Test Slovakia's Democracy," *Washington Post*, September 30, 1995, p. A18.

[74] *Ibid.*; and Boland, "Slovakia Faces Uneasy Future,"

p. 3.

[75] Peter Schutz, "The Forlorn Hopes of a Postcommunist Bride," *Respekt* (Prague), February 26-March 3, 1996, p. 3, Foreign Broadcast Information Service, *East Europe Daily Report*, March 1, 1996, pp. 9-10. See also Anthony Robinson, "The FT Interview: Vladmir Meciar," *Financial Times*, May 3, 1995, p. 12; and Vincent Boland, "Bitter Twist in Tale of Slovakian Rivalry," *Financial Times*, September 27, 1995,

p. 3. Nevertheless, Meciar's coalition is eight votes short of the number needed to change the constitution and thus push President Kovac out of office.

[76] "Slovakia: The Visegrad Three . . .," *The Economist*, March 9, 1996, pp. 55-56. See also "Slovakia: Madness," *The Economist*, December 2, 1995, p. 55; and Stephen Kinzer, "West Says Slovakia Falls Short of Democracy," *New York Times*, December 26, 1995, p. A3. The intimidation includes the apparent kidnapping of the president's son. See Jan Krcmar, "President's Son Returns to Slovakia," *Washington Times*, February 24, 1996, p. A9. See also Boland, "Slovakia Faces Uneasy Future," p. 3.

[77] Meanwhile, key industries such as telecommunications and energy remain under state control with little evidence yet of needed restructuring. On the suspension of the privatization scheme, see Neil King Jr., "Meciar Mounts Hostile Bid for Slovakia," *Wall Street Journal*, September 20, 1995,

p. A13.

[78] The poll was taken between February 5 and 15 and the results were published by the Slovak Radio's Methodology Research Department in Sme (Bratislava), February 16, 1996, p. 2, Foreign Broadcast Information Service, *East Europe Daily Report*, February 22, 1996, pp. 13-14. See also Boland, "Slovakia Faces Uneasy Future," p. 3.

[79] Vincent Boland and Virginia Marsh, "Hardline Slovak Law Overshadows Treaty Go-Ahead," *Financial Times*, March 28, 1996, p. 1.

[80] Virginia Marsh, "Romania's Goal Is Clear, Its Ability Less So," *Financial Times*, August 15, 1995, p. 2.

[81] *Ibid.*

[82] *Ibid.*

[83] See, for example, "Romania: A Wasted Chance," *The Economist*, June 1995, p. 69.

[84] *Ibid.*; and Ernest Beck, "Bucharest's Bourse Prepares for Reopening," *Wall Street Journal*, November 6, 1995, p. A19.

[85] Lisa Bransten, "Romania to Receive Credit Rating," *Financial Times*, March 6, 1996, p. 2; Virginia Marsh, "Romanian Sell-Off Gets Back on Track," *Financial Times*, November 10, 1995, p. 3; "Romania Sells Off 20 Firms," *Wall Street Journal*, February 28, 1996, p. A10; and Virginia Marsh, "Attractive Romania Proves a Difficult Match," *Financial Times*, September 13, 1995, p. 3. The 40 percent figure covers up a wide variation by sector. For example, 80 percent of agricultural land is now in private hands, although it is severely undercapitalized. That is important because agriculture accounts for 35 percent of the workforce compared to 6.5 percent in the Czech Republic. Retail trade is nearly 70 percent privatized and construction is 50 percent. Compare that, however, with industrial privatization, which was at the end of 1995 only 12 percent. *Ibid.*

[86] *Ibid.*

[87] "Romanians Strike in Energy Row," *Financial Times*, February 21, 1996, p. 3.

[88] Peter Bate, "Iliescu Dumps Anti-Semitic Coalition Ally," *Washington Times*, October 3, 1995, p. A14.

[89] Evenimentul Zilei (Bucharest), December 28, 1995, p. 3, Foreign Broadcast Information Service, *East Europe Daily Report*, January 3, 1996, pp. 41-42.

[90] *Ibid.*

[91] Stephen Kinzer, "Ex-Communist, 35, Good at Poker, and Bulgaria's New Hope," *New York Times*, March 20, 1995,

p. A5.

[92] Gareth Jones, "Bulgarian President Loses Primary," *Washington Times*, June 3, 1996, p. A11.

[93] *Ibid.* Bulgaria is blessed with 3 million retired people in a population of 8.7 million. Jane Perlez, "Bulgaria's Communists Claim Parliament Election Victory," *New York Times*, December 12, 1994, p. A5. Some within the BSP have warned that unrepentant communists still pose a threat. Among them is the editor in chief of Duma, the old party

newspaper, who said in a commentary in March 1994, "It is already well known that there are some people here and there who propose to restore the party's old name, to declare once again its Leninist origins, to reestablish democratic centralism, and revive the party's revolutionary character." Commentary of Stefan Prodev, "Harsh Thoughts," Duma (Sofia), March 9, 1994, p. 16, Foreign Broadcast Information Service, East Europe Daily Report, March 16, 1994, p. 1.

[94] The estimates of recent inflation and GDP growth are from "Country Commercial Guide: Bulgaria," Country Team, American Embassy, Sofia, 1996, p. 56. Bulgarian officials report that January's monthly inflation rate was 2 percent, the lowest in the postcommunist years, according to Finance Minister Dimitur Kostov in an interview in Standart News (Sofia), March 1, 1996, p. 14, Foreign Broadcast Information Service, East Europe Daily Report, March 6, 1996, p. 3. See also Ernest Beck, "Bulgaria Is Slowing Its Backslide to Chaos," Wall Street Journal, October 4, 1995, p. A10; and Agence France press dispatch (Paris), October 29, 1995, Foreign Broadcast Information Service, East Europe Daily Report, October 30, 1995, p. 2. Unemployment may have been as high as 20 percent. See "Bulgaria: By Popular Demand," The Economist, January 7, 1995, pp. 43-44.

[95] Jane Perlez, "Bulgaria's Communists Claim Parliament Election Victory," New York Times, December 19, 1995, p. A5; Beck, "Bulgaria Is Slowing Its Backslide to Chaos," p. A10; and Ernest Beck, "Bulgaria Tries Old Key to Unlock Future," Wall Street Journal, December 20, 1994, p. A11. No wonder three-quarters of the population are living below the poverty line, a social problem compounded by rising crime rates and corruption, considered the worst in the region.

[96] Ibid.; Anthony Robinson, "Early Vote Called For," in Financial Times Survey: Bulgaria, Financial Times, October 13, 1994, p. 12; and Kontinent (Sofia), February 12, 1996, p. 2, Foreign Broadcast Information Service, East Europe Daily Report, February 21, 1996, p. 6.

[97] Beck, "Bulgaria Is Slowing Its Backslide," p. A10. One of the first enterprises on the block is at least 25 percent of the state-owned telecommunications company. Anthony Robinson, "Bulgaria Plans Telecom Sell-Off," Financial Times, February 10-11, 1996, p. 2.

[98] "Bulgaria," p. 43; and John Pomfret, "Bulgaria Mired by Failure to Push Reforms," Washington Post, May 13, 1994,

p. A36.

[99] Kevin Done, "Bulgaria Lifts Rate to 108% As Currency Value Falls," Financial Times, May 10, 1996, p. 18; Kevin Done, "Bulgaria Forced to Bite Bullet over Reforms," Financial Times, May 14, 1996, p. 2; Theodor Troev and Kevin Done, "Bulgaria's Bank Chiefs Prepare to Weed Out Stragglers," Financial Times, May 17, 1996, p. 2; and Theodor Troev, "Loan Will Help Ease Bulgarian Job Losses," Financial Times, May 26, 1996, p. 2.

[100] "Former Communists: A Phoenix Phenomenon," The Economist, February 25, 1995, pp. 52-55.

[101] "Eastern Europe: Paradox Explained," The Economist, July 22, 1995, p. 52. In fairness to the first generation of noncommunist governments, thanks to the latter-day reckless macroeconomic policies of the communists, their successors had to impose radical austerity measures to break runaway inflation, hardly the stuff that makes already shaky parliamentary majorities more secure in the popular mind. See "Counter-revolution," The Economist, December 3, 1994, pp. 23-27.

[102] Figures and conclusions from "New Democracies, Barometer IV," survey conducted by the Paul Lazarsfeld Society, Vienna, cited in "Eastern Europe: Feeling Perkier," The Economist, March 2, 1996, pp. 48-49.

[103] "Eastern Europe: Paradox Explained," p. 52.

[104] "Eastern Europe: Feeling Perkier," p. 48.

[105] "Eastern Europe: Paradox Explained," p. 52.