The Heritage Foundation Backgrounder

No. 759 | The Heritage Foundation 214 Massachusetts Avenue N.E. Washington, D.C. 20002-4999 (202) 546-4400

March 13, 1990

FOR EASTERN EUROPE, AN AGENDA FOR ECONOMIC GROWTH

INTRODUCTION

The revolutions sweeping Eastern Europe and the Soviet Union are a result of the broad, popular demand for democratic government, personal freedom, and better living conditions. So far, enormous victories have been won for democracy and freedom, at least in most parts of Eastern Europe. On the economic front, by contrast, the situation continues to deteriorate and could collapse completely.

Policy makers in the United States and Western Europe understandably want to help these East European countries make the transition toward democracy and free markets. So do the reformers in Eastern Europe. The trouble is that they have no blueprint for dismantling their Stalinist economic systems. Further, they are uncertain about exactly what sort of systems they should build. Reformed socialist systems? Swedish-style welfare states? American-style free market economies with modest state regulation? Or the completely free and open market of Hong Kong?

Complex System. The free market economic system offers the only means by which citizens of failed socialist systems can climb out of poverty to rising levels of material prosperity. To recognize this, however, is not the same as knowing how to achieve it. Eastern Europe's reformers must understand that the market consists of a complex and highly integrated system of mutually supporting economic, legal, and social norms, rules, and arrangements. The system only works if all of its components work. Privatization of government-owned industry, for example, will not work if the government still dictates wages and prices.

Reforming Rapidly. This means that rather than reforming piecemeal over a long period of time, reformers should introduce major initiatives quickly and as a package. This will create incentives and opportunities for productive, entrepreneurial activity. Immediate economic benefits, such as a greater availability of many goods and services currently in short supply, plus employment opportunities for entrepreneurs, will offset some of the costs of adjusting to a new system, such as job losses in the government and higher initial costs for some products.

Key and simultaneous components in the transition to a free market system include:

♦ ♦The right of individuals to own property, including businesses, factories, farms and other means of production;

♦ ♦The end to government monopolies on all forms of economic activity and ensuring the right of individuals to establish private firms or to shut them down if they prove unprofitable;

♦ ♦The creation of a legal system, commercial code, and independent judiciary to protect property rights and contracts;

♦ ♦The setting of prices and wages through voluntary agreements between buyers and sellers, employees and employers, instead of by state order or regulation;

♦ ♦The limiting to a minimum of government regulations, business licensing requirements, and taxes;

♦ ♦The abolition of state central economic planning agencies;

♦ ♦The introduction of a stable, convertible currency;

♦ ♦The sale of state-owned enterprises to the people, with stock shares sold to workers in newly privatized companies;

♦ ♦The removal of trade and investment barriers.

East European reformers are lucky in an important respect. They can learn from the experience of American and international efforts to help less developed countries grow economically. When financial aid was provided without the donors insisting on sweeping, market-oriented economic reforms, little was achieved; often matters were made worse. Example: The billions of dollars in assistance given to Argentina and Brazil over the past decade have allowed these countries to waste huge sums on state-owned money-losing enterprises. Example: Billions of dollars in U.S. food assistance to less developed countries has depressed prices for local farmers, removing incentives for production.

To avoid repeating such mistakes, American and Western assistance to Eastern Europe and the Soviet Union should be guided by sound free market principles. Westerners should:

1) **Avoid measuring Western assistance to by how much money is given.** It is instructive that Czechoslovak President Vaclav Havel told George Bush that he wants no aid from the U.S., and that Polish Solidarity leader Lech Walesa has asked primarily for Western capital investment, not government-to-government foreign aid.

2) **Offer technical advice on how to establish a market economy.** The West should be teaching these countries how to privatize state-owned enterprises, how to write a commercial code, how to create a stable currency, and how to craft a tax system, among other things.

3) **Offer financial aid primarily to cover the transition costs to a free market.** Such costs could include temporary higher unemployment, inflation, and shortages of foreign currency to cover outstanding debts. The West should not addict Eastern Europe, as it has much of Africa, to international welfare programs by holding out the prospect that difficult reforms can be avoided by relying on foreign aid.

4) **Establish foreign aid goals in an Index of Economic Freedom and use it to gauge the success of such assistance:** This Index, which is part of the Support for East European Democracy (SEED) Act of 1990, would create a set of benchmarks by which to measure the progress of these countries toward creating free market economies. Examples: secure private property rights and the right to establish wages and prices by mutual consent rather than government dictate.

5) **Encourage exchange programs between such non-governmental U.S. and Eastern Europe institutions as universities and trade unions, and internships in private businesses, for business and managerial training.**

CENTRAL PLANNING'S FAILURE

The economic system that throttles economic growth in Eastern Europe originated with the 1917 Bolshevik coup in Russia and the imposition a decade later of Stalin's totalitarian dictatorship that sought to control every aspect of life and society. Under Soviet-style communism, private enterprise and ownership are severely restricted. Natural resources, factories, transportation, utilities, retail outlets, and farms – all productive assets and many personal goods – are owned by the state. Usurping the market in allocating resources, goods, and services is the Central Plan and Central Planners. There is little connection between an individual's work and his rewards because jobs are allocated by state-controlled quotas and salaries set by the government, not the market.

Parallel to the state ministries that execute policy is a Communist Party with agencies covering every aspect of economic, political, and social activity.

Party officials are stationed in every enterprise to assure that Communist Party policy is carried out.

The result of this system is now as well known inside communist countries as outside: low productivity, shortages of such basic goods as food and soap, enormous waste, low quality goods, obsolescent industries, inflexible and stifling bureaucracies, and huge budget deficits.

SHOULD SOCIALISM BE REFORMED OR ABANDONED?

Some policy makers in East and West still debate whether Eastern Europe should reject socialism altogether or reform it. Among the questions asked are: Should the state remain in control of the broad economy but allow marginal freedoms for small enterprises? Should the government levy high taxes on profits to provide welfare assistance to the poor? Should the Swedish welfare state be the economic model for Eastern Europe?

The historical evidence indicates that half-way reform measures or attempts to save socialism will fail. Example: For nearly twenty years both Hungary and Yugoslavia have attempted to "reform" socialism. Yet their economies continue to worsen. *Perestroika* (the Russian word that has, under Soviet leader Mikhail Gorbachev, come to mean economic "restructuring") in the Soviet Union so far has consisted of minor attempts at liberalization in some sectors of the economy, leaving most economic activity controlled by central planners. As a result, the Soviet economy continues to deteriorate.

It is questionable, moreover, whether Western European socialist-welfare state systems are a valid option for Eastern Europe. The fact is, most West European countries are attempting to privatize their state-owned enterprises and to loosen needlessly restrictive economic regulations. Sweden, the archetypal welfare state, has seen its glitter dim by a relatively poor economic performance record in the past decade. Sweden's gross domestic product grew at an annual rate of only 1.8 percent from 1980 to 1987, well below the 2.6 percent average of major industrialized countries. Consequently, the Swedish government recently cut the top marginal rates on income taxes as a means to stimulate economic growth.

Creating Wealth. Even if a redistributionist welfare state like Sweden's was chosen as a model, East European countries have little wealth to redistribute. Indeed, the first task of these countries must be to encourage their own people to create wealth, not redistribute what little wealth they have. This means they must give their people greater incentives to increase productivity.

The lesson from the evidence seems clear: the essence of the socialist system must be abandoned. The nations of Eastern Europe must give up state ownership of the means of production, central economic planning, prohibitions on private property and enterprise, and government-dictated wages and prices.

TOWARD A PEOPLE'S FREE MARKET SYSTEM

To achieve their economic goals, the East European countries must increase their productivity and economic output. Under socialism, manpower and productive assets are underutilized or used in an inefficient manner. The erratic supply network forces many state-owned enterprises to amass large inventories of raw materials and spare parts to forestall interruptions in production. To correct this, reformers must understand that the primary economic actor and agent is the individual. The best way to increase economic output is to empower individuals with freedom and with incentives to engage in economic activities.

The "Informal Sector." The people of Eastern Europe and the Soviet Union actually have considerable experience with the free market. Their countries have extensive "informal sectors" or "black markets" for goods and services that the people want but that the system does not provide. Repairmen and cab drivers employed by the state often work on their own time or even company time to earn extra cash from consumers willing to pay higher prices and wanting to avoid long waits for official services. Scarce goods are often stolen by employees of state stores and sold at prices reflecting their real market value. Much of the housing in the Soviet Union, for example, is built with materials stolen from state construction industry, because supplies are virtually unavailable from other sources. Goods unobtainable through the state are often smuggled into the country and sold by entrepreneurs. VCRs are produced in only very limited quantities in the Soviet Union, for example, which has created a lucrative market for foreign VCRs brought into the country.

Black markets emerge when a system does not meet consumer demands and where legal avenues for enterprising individuals are closed. In all of these cases, individuals respond to market incentives, acting for their own profit to provide goods and services in response to people's demands. The existence of the informal sector proves that most East Europeans are hard-working and enterprising, and will take advantage of opportunities or incentives to better their own condition. What East European reformers need to do is change the economic system to liberate the entrepreneurial activity currently criminalized in the black market.

THE GERMAN MIRACLE vs. THE MARSHALL PLAN

Reformers in Eastern Europe and the Soviet Union would do well to study the example of West Germany after World War II. Under the Allies' military government, goods were rationed, prices controlled, and nearly all forms of economic activity were regulated. The Allies planned to rebuild West Germany's shattered economy along the lines of the emerging American welfare state or British socialism. The result in Germany was shortages of essential goods, high unemployment, and economic stagnation.

German Miracle. All of that changed on June 20, 1948, when Ludwig Erhard, a member of the German provisional governing council, established a new currency. Ignoring objections from the Allies, including the U.S., he removed price controls and rationing and lifted most restrictions on businesses. The results were dramatic. Within one week goods appeared on empty shelves. Business activity increased. Workers found job opportunities. Under the free market policies of Erhard, as Finance Minister from 1949 to 1963 and Chancellor from 1963 to 1965, West Germany began what has come to be known as the German Economic Miracle. It has made West Germany the strongest economy in Europe.

Although U.S. assistance under the Marshall Plan assisted West Germany's economic recovery, it was not sufficient to produce the dramatic results of Erhard's reforms. Britain and France also received large amounts of reconstruction aid but did not achieve such a rapid economic recovery. Because Britain rapidly converted its system to a highly regulated and state-controlled economy, outside funds could not stave off economic decline. The French economy, which suffered less war damage than its neighbors, stagnated because of continued attempts to manage the economy through massive state intervention. France adopted trade protectionism, in contrast to Germany's free trade policies. One country, Belgium, did not require Marshall Plan assistance: Immediately after the war it adopted free market policies.

THE ELEMENTS OF A FREE MARKET ECONOMY

Reformers in Eastern Europe, confronted by economic crisis, are faced with the need for quick action. The success of democracy depends largely on economic growth. Yet the need for speedy results could lead to even worse economic consequences when hasty and ill-conceived reforms make their economic situation worse. Reformers must learn the elements of a market economy and the functions they perform. These include:

Private Property Rights

The core of the free market system, from which absolutely all other principles derive, is the right of individuals to own private property. This means that the owner can use and dispose of his possessions exclusively, as he sees fit, without the permission or interference of other individuals or the government. All exchanges of property between individuals are based on mutual consent. This creates a realm of personal freedom in which individuals can control their own lives. Simple ownership is not sufficient, however; there must be freedom from excessive government regulation. In Poland, for example, most farmers held their land as personal property throughout most of the communist period, but they did not enjoy full economic freedom since the state controlled the prices and distribution of their produce.

Private property serves a number of important economic functions.

First, profits or losses from the efficient or inefficient use of property accrue solely to the owners of a business or enterprise. This gives the owner a direct and strong incentive to put assets to the most effective use. In the Soviet Bloc, theft of materials and goods by employees from state-owned enterprises is rampant, in large part because no specific individual owner suffers directly from such loses.

Second, because all economic activity involves risk, the results of economic misjudgments by businessmen will be limited to the owners of an enterprise. In a centrally planned economy, the mistake of one bureaucrat can bring misery on the entire country. The Soviet press reports that the country's severe soap shortage has been exacerbated by the economic planners' decision to stop importing soap long before a new soap factory was completed.

Third, determinations of what goods or services will best meet public demands and make profits are usually best made by individual local entrepreneurs who are free to risk their own property, to act quickly, and to apply their knowledge.

Private property rights help a society deal with what economists call "negative externalities" – the direct material effects on one person's property by another's action. Example: Environmental pollution, an extremely serious problem in Eastern Europe, often goes unchecked because all property is owned by the state. By contrast, when property is owned by individuals, pollution often is a case of one individual or business harming the property of another. If an individual dumps waste into a stream or lake or water table, and if the pollutants flow into another individual's property, that property owner can sue the polluter in a court of law for damages to his property. Polluting industries in socialist countries are owned by the state, which means that a citizen damaged by pollution would have to sue the state and its vast bureaucracy.

Market Prices

In a market system prices are determined by the countless voluntary exchanges between buyers and seller. There is no "correct" or "just" price for any good, service or labor. The price is simply what a buyer and seller agree to when goods, labor, or services are exchanged for money.

A market price conveys information to the entrepreneur concerning the actual supply and demand for any given good or service and its relation to other commodities in the market. The price reflects both the cost of the materials, labor, tools, and other factors necessary to produce the good, and the relative public demand for the good. The price also creates an incentive for entrepreneurs to supply what the public demands. If the cost to produce a good is one dollar, for example, but the public is willing to pay two dollars for the good because it is in short supply, entrepreneurs eagerly will seek the profit to be made from producing the good. No government planning is necessary.

Consumers in a market economy determine, through their purchases, what is produced, in what quantities, and at what prices. Prices transmit information about the relative social value of a good, service, or labor from consumers to producers.

Freedom to Compete

The essence of a market economy is the freedom of individuals to enter or leave the market as they wish. Entrepreneurs risk their wealth to make a profit by providing goods and services to the consumers. The existence of numerous entrepreneurs gives strong incentive for each to work as efficiently as possible and provide the best goods and services. Those who are relatively inefficient will lose customers and be forced out of business. An increase in the efficiency with which goods and services are produced translates into a rise in society's standard of living. Further, the services of those entrepreneurs who do not succeed in a given business are not wasted. The market allows such persons, as well as resources such as capital and land, to be utilized elsewhere in an economy. In the U.S., for example, approximately 8 percent of all jobs and businesses are eliminated each year. Yet America's unemployment rate of 5.2 percent is lower than any major European country. This is because the elimination of unneeded businesses frees up resources of capital and labor that are used more productively in other sectors of the economy.

The market is like a great economic laboratory. Businesses experiment by offering goods and services to the public, hoping to discover a way to make a profit. Consumers experiment by purchasing different goods and services, hoping to discover new and better ways to satisfy their needs.

AN AGENDA FOR ECONOMIC GROWTH

Each East European country suffers from different degrees of economic decay. Each therefore needs an economic reconstruction program tailored to its particular requirements. Nevertheless, there are universal principles for transforming stagnant socialist economies into growing free markets. Governments that want to promote free market reforms should:

1) Establish the right of individuals to own property, including businesses, factories, farms, and other means of production.

The right of individuals to own property is the foundation of a market economy, providing individuals with a realm of freedom and control over their own lives and incentives to put their productive assets to efficient use. This right initially could be established by an article in a country's constitution stating that the government may not infringe upon the right of individuals to own, use, and dispose of their property as they see fit. This would provide the legal protection of private property necessary for the emergence of free markets.

2) Create a legal system, commercial code, and independent judiciary to protect private property rights and contracts.

Proclaiming the rights of individuals to private property and freedom of contract is relatively easy. The real test is guaranteeing these rights, especially against government abuse. To do so, a country needs a commercial code defining, among many other things, what constitutes a contract, what are the obligations and liabilities of each party involved, and when a breach of contract has occurred. In most East European countries, foreign businesses and their own citizens are at the mercy of the whims of bureaucrats concerning contractual obligations. If a country expects to attract foreign investment, it must establish simple, basic definitions of contracts and stick to them. It is not necessary to create a commercial code from scratch; several successful codes can serve as models. Hungary, for example, is using the West German commercial code. A country must have an independent and reliable legal system to adjudicate contract disputes and to give individuals and businesses recourse in case of breech of contract or government abuses of power. This requires a judicial system with powers independent of the country's executive branch.

3) End government monopolies on all economic activity, allowing private firms to enter and leave the market freely.

This principle is the right to employ one's property as one sees fit. This right could be established initially by a constitutional article prohibiting the state from restricting production, voluntary economic transactions and trade. Most enterprises, such as factories and large wholesale distribution networks, at first would remain in government hands until they could be privatized. But allowing competition from the private sector would help ensure that the delivery of essential goods and services is not disrupted during the economic transition period because the private sector would produce goods and services the state sector no longer did.

4) Allow prices and wages to be set by voluntary agreement between buyers and sellers, employers and employees.

To enable the market to set wages and prices, the government must allow free transactions between individuals based on the mutual consent of all parties involved. A price is the terms by which the owner voluntarily parts with his property and the buyer acquires it. A wage is the price at which skills or services are sold. Communist countries prohibit individuals from freely entering into contracts with others to perform services. In the Soviet Union, for example, until very recently it was illegal for any individual to hire another. This denies the worker the opportunity and incentive to benefit from his own efforts and lowers the productive output of the country by blocking economic activities.

5) Minimize government regulations, business licensing requirements, and taxes.

To encourage maximum economic activity, only the barest skeleton of regulations should be imposed on businesses; these include basic health and safety standards. Beyond this, governments should not use licensing and other regulatory powers to dictate how an enterprise is run or to certify the "qualifications" of a businessman. Consumers and entrepreneurs in the market should make these decisions. Entrenched government bureaucrats often frustrate economic reforms. For example, bureaucrats in Hungary have delayed issuing business licenses to new enterprises because they wish to retain control over the economy. Licenses should be granted automatically by the government within a specified, short period, such as two weeks. The government should be able to reject a license application only for a specific and limited number of reasons, such as criminal activity. To deny such an application, the burden of proof should be on the government.

6) Establish a low, flat tax rate.

To encourage business activity, corporate or business taxes should be kept as low as possible. Best for economic productivity would be no corporate or business taxes. Since all taxes ultimately are paid by individuals, taxes on businesses will be passed on to consumers in the form of higher prices. If a government should find that a personal tax is necessary, it should be kept low. It is especially important that the government establish a low marginal tax rate. For income taxes, the ideal policy would be a flat tax rate for all incomes. Higher tax brackets for higher wage earners penalizes workers for working longer hours and making higher pay. Weakening the productive efforts of workers in this manner will lower economic output of the country.

7) Abolish government control and planning agencies.

The easiest way to assure that entrenched bureaucrats do not block reform is to take away their power and shut down their agencies. If these officials retain their power, they are likely to frustrate economic reforms to keep their privileges and positions. Shutting these agencies also saves government funds for more urgent needs, such as repairing roads, bridges, and other elements of the country's infrastructure.

8) Introduce a stable, convertible currency.

The countries of Eastern Europe produce too few goods and too much currency. The result: Great supplies of money chase low supplies of goods. Most of these currencies are practically worthless on world markets because they are unconvertible: The government that issued them will not redeem them, they purchase little within their country of origin, and they can buy nothing at all on the world market. To facilitate economic transactions and investments, these countries should establish stable, non-inflated currencies, convertible internationally at world market rates. This could be done by tying the value of currencies to a commodity such as gold or a basket of commodities such as wheat, petroleum, and silver, which would insure that the currency is not inflated. Inflation would be checked because the government could not print money at will.

9) Sell state-owned enterprises to the people, with stock shares for workers in newly privatized companies.

Privatization of state-owned enterprises can turn money-losing, wasteful white elephants into productive, profit-making enterprises. Government enterprises have been privatized successfully in industrialized countries like Britain and in developing countries like Chile and Jamaica. Selling stock in such companies to the public helps to expand the country's base of property ownership and helps soak up excess currency and reduce inflation. Privatizing an enterprise by setting aside shares for purchase by employees not only alleviates workers' fears of losing their jobs, but gives them a strong incentive to make the company efficient. In Britain, for example, the money-losing National Bus Company was privatized by selling shares to workers and management; within one year, the firm had boosted productivity and was making a profit.

Shares of a privatized company can be sold to foreign investors through a technique known as a debt-for-equity swap or exchange. For example, a government with a large foreign debt "pays off" part of what it owes by turning over shares a state-owned enterprise to its foreign creditor, who "forgives" debt in exchange for this equity. This not only reduces a country's debt but usually leads to greater inflows of new foreign investment. Chile, for example, has retired approximately $7.6 billion of its debt through debt-equity swaps since 1985.

10) Remove barriers to international trade and foreign investment.

To help supply capital and consumer goods for their economies, East European countries must open their systems to foreign investment and imports. Foreign investors not only must be allowed to bring their money into the country, they must be allowed to take out their profits and eventually their principal investment. This gives them greater assurance that their investments are safe against government abuse. This can be done by removing controls on the import and export of capital, removing tariffs and other protectionist measures, and providing legal guarantees against expropriation.

HOW THE WEST CAN HELP

The record of the U.S., other Western countries, the International Monetary Fund (IMF), and the World Bank in solving debt and economic development problems in less-developed countries (LDCs) has been extremely poor. Policies imposed on LDC governments in exchange for IMF loans often have paid little attention to the need for substantial free market-oriented reforms. World Bank funds often bail out wasteful Third World governments and allow them to postpone needed reforms, such as the privatization of state-owned factories, railroads, and public transportation systems.

This has fostered and prolonged stagnant (even deteriorating) economies in the Third World, debt piled on top of debt, and calls by the World Bank and IMF for more money to deal with problems that were in part a result of their own policies. Indeed, Poland's debt of nearly $40 billion is due largely part to the willingness of West European nations, especially West Germany, to provide loan guarantees to private banks.

The West must not do to Eastern Europe what it has done to Argentina, Brazil, and Mexico, which is to bail out their failed economies and reduce pressures for reform. The strategic stakes are too high.

While economic reform ultimately is in the hands of the governments and peoples of Eastern Europe, Western aid providers can spur the necessary reforms by:

1) Not measuring the effectiveness of Western aid by how much money is provided in foreign aid.

History has shown that free market economic reforms, not foreign aid, are critical to economic recovery. There is little correlation between amounts of aid received by less-developed countries and economic success. Tanzania has been receiving one of the highest amounts of aid per person in the world and after two decades remains desperately poor. The U.S. halted economic development assistance to South Korea in the early 1960s, believing its economy to be hopeless. Today, South Korea has a strong, growing economy. U.S. food assistance to many countries has depressed prices for local farmers and led to reduced food production. The West has promised some $10 billion in aid to the Philippines. Most of the $4 billion appropriated sits unspent because of the inefficiencies of the economy and the government. By contrast, with free market policies and no foreign aid, Chile has built South America's healthiest economy and reduced its debt burden. Money is no substitute for sound economic policy.

2) Offering technical advice on how to establish a market economy.

Since most East European countries and the Baltic Republics (Estonia, Latvia, and Lithuania) already have announced their intention of moving toward a market economy, it no longer is necessary to convince them of the economic evils of communism and virtues of capitalism. What is necessary is nuts-and-bolts advice on particular aspects of the transition. They should be told, for example, about programs in Britain, Chile, and elsewhere that have privatized state-owned enterprises, using employee stock ownership plans or debt-for-equity exchanges to bring in foreign capital. They should be told how to reform their currency. This requires not so much foreign funds as sound policies. Western governments need not provide advisors for such reforms themselves. There are many private experts who can go to Eastern Europe to offer technical assistance.

3) Offering financial aid primarily to cover the transition costs to a free market, rather than addicting Eastern Europe to international welfare.

If money is sent to Eastern Europe, strings must be attached to help the citizens of those countries gain their individual economic freedom. Aid should be conditioned on progress toward guaranteeing individual property rights, legal commercial codes and an independent judicial system; wages and prices set by individuals in the market; privatization of state-owned enterprises with shares for individual workers; deregulation of the economy; a stable currency; private banking; and free trade.

4) Using an Index of Economic Freedom to establish goals to be advanced by foreign assistance and to gauge the success of such assistance.

A number of members of Congress want to reform the Foreign Assistance Act of 1961, which governs U.S. foreign assistance, by adding an Index of Economic Freedom. This Index would establish as goals for U.S. foreign aid the preservation of private property rights and open markets. The degree to which foreign aid programs meet these goals would be the standard by which to measure the efficiency of such programs. While this Index has yet to become law, Congress could apply it specifically to Eastern Europe to assure that U.S. assistance is put to the best possible use.

5) Helping train East Europeans in business and market economics.

The U.S. can provide the educational help and managerial expertise for the transition to market economies in Eastern Europe. There are already efforts to establish business schools and centers for training mid-level managers in Eastern Europe at universities in Budapest and Warsaw, but these are hampered by a severe lack of qualified instructors. There exists an enormous pool of managerial expertise in the U.S. and Western Europe in the many universities, business schools, and private businesses that specialize in management training. A comprehensive program that combines some government support with participation by universities and private businesses could bring East European students and faculty to the U.S. for instruction in business and market economics, send American business school faculty members to teach in Eastern Europe, and recruit promising individuals in Eastern Europe to work in American businesses as trainees and interns. The U.S. government could play the catalytic role in these exchanges, especially by bringing together applicants from Eastern Europe and interested institutions in the U.S.

CONCLUSION

The year 1989 was a time of political liberation for Eastern Europe, when the old political order was largely swept away and the beginnings of democracy established. This year should be a time in which the economic liberation of Eastern Europe begins and the foundation is laid for a new free market system. Although the various countries differ widely in the severity of the problem they face, they share the common task of dismantling socialism and reviving a free market system after decades of oppression.

Much has been written about the difficulties and pain that will accompany this necessary transformation, and it is understandable that the emerging economic reforms are surrounded by doubts and anxiety. Yet, much of the economic difficulty and poor results of those countries that have attempted some reform is the result of half-measures and flawed policies. The best chance for effective reform lies in a comprehensive program enacted as a whole, one which makes intelligent use of basic principles of the free market accumulated from the experience of two centuries.

Toward Sustained Growth. This program, an Agenda for Economic Growth, rests upon the establishment of secure property rights, the creation of an independent judiciary, the abolition of government monopolies, the removal of wage and price controls, the reduction of government regulation of the economy, the introduction of a convertible currency, the privatization of state-owned enterprises, and the removal of barriers to international trade and foreign investment.

Given their resource base, location, and skilled populations, there is no reason that the countries of Eastern Europe need to continue to subsist with the antiquated and wealth-destroying economies forced upon them by the Soviet Union. The way is open to them to undertake those reforms to launch them into an era of sustained growth and increasing wealth and full participation in the world economy. Having bravely recovered their freedom, they will quickly discover that the responsibility for their future lies entirely in their own hands.

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