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Rebirth of a Nation: The Difficulties of Transition in Eastern and Central Europe

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Rebirth of a Nation: The Difficulties of Transition in Eastern and Central Europe

*J. French Hill**

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I. INTRODUCTION

It is a thrill for me to address this distinguished group gathered on the campus of my *alma mater*. It was here at Vanderbilt that I developed my abiding interest in foreign policy and economics. Needless to say, our assemblage today to discuss Eastern Europe and the Soviet Union is an indication of the rapidly changing syllabus for the undergraduate comparative economics course probably underway just a few yards away. My remarks will deal with the economic transition of Europe's emerging economies, but the lessons are equally applicable to reform efforts in the Soviet Union. These observations are based upon my travel throughout

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the region over the last few months.

The 1980s will go down in history as the Decade of Democracy. Latin America, Europe, and even parts of Africa saw remarkable gains in political pluralism and individual freedoms, but nowhere was this more pronounced than in central and eastern Europe and the Balkans.

As Timothy Garton Ash chronicled in his inspiring essays, *The Magic Lantern,* the movements of a people from totalitarianism to freedom were remarkably peaceful. Once started, the speed was breathtaking. This dash toward freedom is epitomized in Ash's quip made famous by playwright, turned President, Vaclav Havel: "In Poland it took ten years, in Hungary ten months, in East Germany ten weeks: perhaps in Czechoslovakia it will take ten days!"[1] It actually took twenty-four days from meetings in the smoke-filled basement of the Magic Lantern Theater (which served as the Civic Forum's headquarters) to the Presidency.

The decade of democracy began with a Polish Pope making his first visit to Poland in June 1979, which inspired the courage necessary to form Solidarity in 1980. The decade ended with people poking their heads out from beneath the weight of the Iron Curtain. From the Baltic to the Adriatic, once again people breathed the air of freedom—the freedoms we take for granted: of association, thought, prayer, and to own private property.

Today, I would like to reflect on the first year or two of freedom for the emerging economies of east central Europe and the Balkans, and specifically highlight the important role of the financial sector for their future success.

II. REBIRTH OF A NATION

Like our forbearers in the coffeehouses of Boston or Philadelphia, the Poles in the Lenin Shipyard, those gathered in Heroes Square in Budapest, the journalists, artisans, and actors in The Magic Lantern all began with a political debate about self-determination.[2] The formation of political parties and the drafting of resolutions and platforms all came first and in a fury. Interestingly, each of these movements cautiously projected a gradual transition to actual democratic power—to the running of a government chosen by the people and responsible for an economic program. Once started, however, an avalanche thundered downhill. Solidarity was first with its overwhelming Parliamentary victory on June 4,

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1. T. ASH, THE MAGIC LANTERN 78 (1990).

2. I have not dealt with East Germany as a result of her reunification with West Germany on October 3, 1990, which occurred less than one year after the first breach of the Berlin Wall.

1989—sadly, the same day that another vibrant group of democrats were crushed on the other side of the globe—the Tiananmen Square Massacre. On the thirty-third anniversary of the 1956 Revolution, Hungarians adopted a slate of anti-communist amendments and moved rapidly toward national elections in March 1990. And so it went: Romania in May 1990, followed by Czechoslovakia and Bulgaria in June 1990.

These first months of freedom and self-government have been exhilarating and frustrating as these countries continue the exorcism that started with their peaceful revolutions. Many Eastern Europeans describe themselves as Cain and Abel—Jekyll and Hyde, both as a people and individually. The new democrats pass private property statutes, declare and construct independent judiciaries, move to end central planning and price controls; but the old *nomenklatura* ask, "who sells the property, decides the cases, plans the production and sets the prices, if not a ministry?" In short, many would argue that the Eastern and central Europeans are attempting to "plan" their market economy. Czechoslovakian Finance Minister Vaclav Klaus described his personal rejection of this philosophy June 1990:

> We want a market economy without any adjectives. Any compromise will only fuzzy up the problems we have. To pursue a so-called third way is foolish. We had our experience with this in the 1960s when we looked for socialism with a human face. It did not work, and we must be explicit when we say that we are not aiming for a more efficient version of a system that has failed. The market is indivisible; it cannot be an instrument in the hands of central planners.[3]

Another seeming contradiction is a rejection of all things "central." This manifests itself often in mindlessly moving authority to state and local officials. What will be the authority of the central government and what will be reserved for state and local governments? This debate is especially pronounced when old duchies, kingdoms, and ethnic populations have spoken up for the first time since World War II, especially in Czechoslovakia, Yugoslavia, and, of course, in the Soviet Union.

Doesn't this debate sound more than familiar? After two hundred years in the United States, we still have vigorous and useful debates over federalism. As Eastern European union members, authors, and actors turned-politicians have learned, democracy is hard work. They are often quick to reject "central" government solutions. Approaches to national

3. Acker, *Poisoning of the Soul, New Leaders of Russia and Central Europe Talk about the Evil Empire*, 55 POL'Y REV. 60, 63-64 (1991) (quoting Vaclav Klaus, finance minister of Czechoslovakia).

debts, fiscal and monetary policy, and other "national" problems are mired in as many solutions as there are states or republics or ethnic groups. Our forbearers struggled through seven long years of confederation before we had our endearing and timeless Constitution. We fought a Civil War—more costly in American lives than all combined wars before and since—to make the notion of one country a permanent fixture of our national character. As Shelby Foote noted in the Public Broadcasting Service television series on the Civil War, only after the War was our country referred to as "The" United States, rather than "These" United States.

But, in today's world of interdependence, including the International Monetary Fund (IMF) and World Bank-supported reform programs, and with an eye toward future membership in the economic powerhouse, the European Community, none of these countries want to do too much fighting or experimenting. Thus, they are trying to become democracies and free market economies simultaneously and as quickly as possible.

In my view, we must practice patience. The rebirth of a nation is as difficult, if not more so, than our own birth as a nation. Forty years of communism and propaganda and fear is bad; forty years of "you will do as you are told" combined with a driving desire to escape centralized direction and "do it our way" in Slovenia, Slovakia, Croatia, or Lithuanian make for difficult transitions. As Alexander Hamilton wrote to a friend in 1782, "Quit your sword, my friend; put on the toga. Come to congress, we have fought side-by-side to make America free; let us hand-in-hand struggle to make her happy."[4] That's where each of these countries are today.

To make their people happy, following the assurance of the basic rights of property, self-determination, freedom of association, speech, and religion, one must have an economy that prospers. This is proving to be even more complex than the aforementioned political reforms. Here the challenges of maintaining international creditworthiness, freeing the market of state controls, and raising living standards come together in a din of conflicting economic exigencies and prescriptions.

Let me cite a few colorful examples of government officials' propensity to become "Hyde" and seek to "plan" their market economy.

> Despite no doubt countless hours of reading or studying comparable economics, one Finance Ministry official requested a meeting with the appropriate U.S. official responsible for the setting of commodity prices.

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4. ALEXANDER HAMILTON AND THE FOUNDING OF THE NATION (R. Morris ed. 1957).

Another official asked which U.S. government agency determined credit quality for corporate bonds to be issued.

One group was disturbed about a large number of "stock exchanges" spontaneously starting outside the capital city and not waiting for a central exchange to be established.

Yet another official voiced concern about shares being sold in a state enterprise before a securities law was enacted.

While there are many anecdotes about the transition, the point is that these great countries with their rich heritage are attempting to skip over decades of economic and financial development. Unfortunately, while often beautifully educated, much of the business and entrepreneurial talent in these states possess little or no practical knowledge about business or market economies. Thus, what is desperately needed on the part of business and government leaders are the basics. Let me use the financial sector to illustrate some needs and to offer some possible ways to satisfy them.

III. Analysis of the Financial Sector

A. *Fiscal Policy*

All of these emerging economies are seeking to adopt a Value Added Tax (VAT) like their EC neighbors. Each desires a tax system that encourages capital formation, savings, and investment. Most currently have tax contribution systems whereby the most profitable state or socially-owned enterprises turn over most of their income to the government. These funds are funnelled into the state to subsidize the industrial, public, and defense sectors, and to local authorities for housing, education, and the like. Incentives to encourage efficiency, productivity, and entrepreneurship are non-existent. Indeed, the incentive structure is such that it tends to encourage waste, inefficiency, and stagnation. The countries are not moving rapidly enough to adopt necessary tax reform measures. Unraveling the Byzantine web of confiscatory taxes and subsidies is a complex and politically difficult task, but it is critical to the restoration of a credible government. As Hamilton said, in 1791, "Power without revenue, in a political society, is a name."[5]

The design of a tax system must carefully balance revenue needs, resulting economic incentives, fairness, and the overall burden of its administration. Revenues should be geared toward fundamental needs and ideally should be as low as possible. This is especially challenging in a transition from a bloated, subsidy budget to a market economy. But, it is

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5. *Id.* at 84.

important that a slim, balanced budget be crafted so as not to exacerbate inflationary pressures.

These economies are in critical need of savings and investment. As significant revenue could be collected from efficient, consumption-orientedtaxes like a VAT, the tax burden on entrepreneurial effort, and savings and investment should be light. For example, in my view, these countries should adopt a low flat rate tax—no more than fifteen percent—with no taxes on capital gains, interest, nor dividend income. This likely would be a powerful inducement for savings and capital formation. Likewise, taxes should not burden the export sector of the economy that brings in badly needed foreign exchange.

This brief outline of a tax policy may strike the reader as "unfair" in its simple, regressive structure. However, one only need study the economic record of the developing states that have adopted low tax, pro-growth policies compared with those developing nations that have endorsed a strategy of high taxes with the resulting stagnation.

Hong Kong is a good example. The colony's low, flat rate tax structure has generated unprecedented economic growth. Economic growth produces increasing standards of living for all citizens and allows for necessary expansion of the public sector. High tax, redistribution strategies have resulted in stagnating economic growth, a reduced standard of living and negative growth in public services. The per capita income in Hong Kong in 1990 was 10,916 dollars compared with 340 dollars in India and 315 dollars in the People's Republic of China. The last time Hong Kong had a per capita income level near 300 dollars was in 1960.

Opponents of the growth model assert that one cannot duplicate a "Hong Kong" in Europe because of different cultural backgrounds. I disagree. Why is it that Chinese living just a few miles away produce barely three percent per capita of their Hong Kong neighbors, or that Indians in business outside of India are some of the world's most industrious and successful business people. The answer lies in proper economic policies, not in people's heritage. When a proponent of welfare statism queried pro-growth economist Melvyn B. Krauss, "But, how many Hong Kongs can the world have?," Dr. Krauss replied, "As many as the world will allow itself."[6]

The large state indebtedness accrued over the past forty years of inefficient and counterproductive action should be shifted from the bankrupt enterprise sector to the new national governments. Subsidies should be phased out and assets should be transferred to private hands. A credible

6. M. KRAUSS, DEVELOPMENT WITHOUT AID: GROWTH, POVERTY, AND GOVERNMENT ix (1983).

fiscal policy will foster confidence, economic growth, and eventual discharge of accumulated national debts.

B. *Monetary Policy*

The critical long-term success of the Eastern and Central European economies depends on having money that is a true store of value, that serves effectively as a medium of exchange, and that acts as a meaningful unit of account. For example, Poland's action to give the zloty these three functions has been rewarded with availability of ample goods, few shortages, no lines, and the zloty's new found convertibility.

By contrast, Yugoslavia, rich with advantages in a skilled labor force, foreign exchange reserves, and a much greater decentralization of the enterprise sector, is utterly debilitated by an overvalued dinar and a complete lack of an enforceable monetary policy. While inflation appears lower (annual rates of one hundred forty percent in 1990 versus two hundred sixty-five percent in 1989) and banks are complaining that credit is tight, nothing could be further from the truth.

In fact, the National Bank of Yugoslavia continues to guarantee bank domestic and foreign exchange liabilities. This, combined with socially-owned enterprises not collecting their receivables nor paying their payables, allows the country to avert economic reality and generate huge underground inflation by running what some have termed one of the "largest check kiting scheme in the world." This manifests itself in an official rate of 10.4 dinars per dollar compared with a street or black market rate thirty percent greater, a hoarding of consumer durables, and a drop in the country's large foreign exchange reserves.

In formulating monetary policy, the parallel goals of political reform and economic reform can be in conflict. It takes courage to create a truly independent central bank that can achieve monetary policy objectives in the face of resulting unemployment and fear of the unknown. The benefits—price stability, ample goods, and a credible currency—are not to be feared, but, rather welcomed.

C. *Banking System*

Unfortunately, the most ignored link in the reform chain is the banking system. It has never functioned in any of these states as an efficient allocator of credit to worthy investment projects. Instead, it operated as an arm of the central bank, which simply printed money to support state-owned businesses and collectivized agriculture and the overhead of military and Communist Party technocrats. In several countries where efforts have been made over the years to separate commercial banks from

the central bank (by the creation of a so-called "two-tiered" banking system), one is left with "banks" that were often created and managed by their largest borrowers. The borrowers then received subsidies in the form of "loans" guaranteed by the state and further loans to pay the interest. Thus, the lack of independent credit analysis and improper corporate governance have littered the landscape with financial dinosaurs. These dinosaur banks effectively have no capital, no credibility, no expertise, and are tightly linked with failing state-owned enterprises.

It is fundamental that each of these governments adopt strict, enforceable prudential standards for capital adequacy, incentives for responsible management, and market-based lending standards. Private banks started by local residents, by foreigners, or by joint ventures, should not be delayed. These banks should be allowed—even encouraged—to become full service depository institutions. There are few branches, no credit cards, no checking accounts (in Poland and Hungary), no automated tellers, and customer service is a "thing of the future." Nonetheless, in each country there are a few brave souls attempting to computerize, introduce new products, and begin marketing.

The countries of Eastern and Central Europe will see their political reforms significantly weakened without access to capital. Without a thriving, private enterprise sector, there will be no alternative employment for the millions of displaced workers. The small entrepreneur needs capital to expand, to finance a shop or store, to purchase a privatized state asset, and to start anew. Coherent investment decisions will not be made until projects are evaluated on the basis of financial merit rather than political connections. In my view, this will simply not happen with the existing state banks. New banks and foreign banks must be rapidly integrated into these economies, to foster competition and provide debt and equity finance.

What about the dinosaur state banks? They cannot be considered in isolation from the privatization of the enterprise sector. This is where the World Bank can be helpful. Structural and financial sector adjustment loans can be used to restructure state enterprises, thus improving a bank's prospect for repayment. World Bank loans can also facilitate the restructuring of bank balance sheets. Also, these loans can be used to help modernize bank data processing and record keeping systems, and to support fundamental workforce training.

D. *Privatization Efforts*

Because state-controlled banks inextricably are linked to other state-controlled enterprises, it is necessary to make some observations about plans for privatization.

First, the emerging governments appear too obsessed with the privatization of the large, state monopolies. Assessing their potential, valuing the assets, and attempting to privatize by way of a public offering like the British model is made immensely cumbersome and complex by lack of skilled management; few accounting standards or trained accounting professionals; the absence of an operating market economy with a convertible currency within which one might even try to judge future performance; a bureaucracy trying to plan a capital market with ambiguous notions of a "fair" distribution; and, the simple fact that most of these entities are hopelessly bankrupt and effectively "owned" by the state banks—which, in turn, have negative net worth.

Instead, the focus should be on prompt development of "private enterprise" in the following manner. First, small shops and stores—viable without state subsidies—should simply be given to their current managers and employees. (It should be noted that some countries are attempting to give pre-World War II owners a chance to "claim" their prior possessions). Forcing these businesses to have new owners by way of an auction is bureaucratic and counterproductive. Nor does it in any way improve a small shop's potential success. It is better to have happy, motivated new "owners," producing revenues, paying taxes, and feeding, housing, and clothing their families.

Next, the innate entrepreneurship of the Eastern and Central Europeans should not be discouraged by imposing heavy taxes, excessive regulations, permits, and redtape. I was shocked when Soviet President Gorbachev condemned the so-called "black marketeers" in the Soviet Union. These entrepreneurs are his private sector, and are the only ones who can distribute goods effectively and employ the growing number of displaced workers.

Third, while some of the large-scale state enterprises will be competitive in the global marketplace, most should simply be dissolved. It is important to let market forces work. Take the case of the State Crop Dusting Company in Hungary: it has two hundred sixty employees—twelve pilots, ten co-pilots, six mechanics, four ground crew, and two hundred twenty-eight administrative people, including four economists.[7] Can you imagine almost ninety percent of your employees as non-productive overhead—and four economists in a crop dusting business! This kind of gross overstaffing is common throughout Eastern and Central Europe. In my view, if a pilot and a mechanic want to leave and

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7. Conversation with Mr. Peter Rona, a member of the board directors of the First Hungary Fund, and former president and chief executive officer of IBJ Schroder Bank and Trust Company.

start their own business, just let them go and give them a chance to purchase or lease a plane. In other words, one should be flexible and not attempt to program a sale of an entire company if it has no hope for a successful future as an ongoing entity.

For those state companies with some hope of building successful domestic and export businesses, one should encourage access to foreign capital and technology. Foreign expertise and ownership should not be burdened with so many hurdles that no one dare jump. Flexible structures should be developed to accomplish long-term goals: in my view, the state, as "seller," should be willing to receive non-voting equity shares (or, some kind of deferred instrument) instead of demanding all cash. The cash is desperately needed by these companies and their managements, whether foreign, domestic or joint, to improve production and workforce training. The state is far better off having productive companies employing people, exporting products, paying taxes, and thereby improving the standard of living of its citizens. Capping foreign ownership and taking all of the working capital will not produce a long-term success nor attract badly needed foreign capital and expertise.

Certain sectors, such as airline, railway, steel, and oil industries inevitably may obtain more sustained state support. However, each government should carefully re-evaluate the reasons for such continued state assistance. The companies should be restructured and commercialized, possibly with financial assistance from the World Bank and their restructuring should be coordinated with an effort to privatize the state banks. Of course, truly unproductive operations should be put into bankruptcy.

E. *Capital Markets*

Every one of these emerging states is out to reclaim a page from its past—its stock exchange. To the citizens, the stock exchange stands as a symbol that capitalism has returned. However, exchanges should serve a role greater than mere symbolism.

While each state is in a whirlwind to form a regulatory commission, trading rules, clearing houses, purchase electronic trading computers, and reclaim their pre-war building, it is important to remember the basics: that stock markets help companies raise capital, secondary trading affords liquidity and attractive opportunities for savers, and these markets perform the role of efficient allocator of resources. Before these functions can come into play, however, one must have private companies to have stock listings, and one must have capital for there to be investment.

While stock exchanges can be conduits for foreign and domestic capital and serve the important liquidity and asset valuing function of mar-

kets, I caution that they are not essential to a privatization program, nor are they the perfect device to impose an "equal" or "fair" distribution of state assets. In fact, to the contrary, illiquid markets dominated by new issues of dubious quality and no track record can "backfire" to the political detriment of the economic reforms. Instead, one should initially encourage domestic and foreign capital to support both private enterprise and privatization through a transparent and efficient investment and tax system. Further, each government should develop and implement prudential accounting standards and work to minimize unnecessary regulation or other legacies from the past.

For former state enterprises, these will result in new private joint stock companies owned in some combination by the state, (either directly or through convertible instruments such as shares, warrants, or options), direct foreign capital, foreign banks (resulting from debt-for-equity swaps), and employees. Then, as a company develops a track record under new management and in the hard reality of a market economy, the government can register its shares and sell them pro rata to the owners or to management and the employees. These will result in more successful and more frequent public offerings. Disclosure and accounting standards will have been in practice and understood. Only then can the benefits of liquidity and capital-raising functions of public markets really be fulfilled.

IV. Role of the United States

The United States government has a clear objective: To help the people in these emerging economies help themselves. At the end of World War II, the United States created the Marshall Plan in Europe and sent General McArthur to Japan. The goal in the states of both the vanquished and the victorious was to rebuild from the vast rubble that remained, and in the case of Germany and Japan, to foster the permanent institutions of democracy. These objectives were carried out by the one nation rich enough to shoulder the task, the United States.

Today, our world is distinctly different. The end of the Cold War calls for a "Marshall Plan of Ideas," not of construction. We are not rebuilding in Europe the physical destruction of a hot war, but the psychological destruction of a cold one. As President Havel said in his 1990 New Year's address, "We are living in a decayed moral environment. We have become morally ill, because we have become accustomed to saying one thing and thinking another."[8]

8. Acker, *supra* note 3, at 62.

Today, this burden does not fall solely to the United States as the lone wealthy nation. Instead, the European Community, and others in the Group of twenty-four industrial countries (G-24), join the United States in this effort. The G-24 has already mobilized approximately twenty billion dollars in grants, credits, guarantees, and technical assistance for the region.[9] These resources, combined with those of the World Bank and International Monetary Fund and the private sector, are many times greater than those available for reconstruction efforts in the immediate post-World War II period.

In every conceivable area—customs, environment, civil aviation, law, agriculture, infrastructure, and the financial sector—the United States Government is providing professional advice and counsel to newly elected and appointed government officials in these aspiring market economies. In fiscal year 1990, Congress appropriated 418 million dollars to assist Poland and Hungary. In fiscal year 1991, Congress authorized 369 million dollars for Poland, Hungary, Czechoslovakia, Bulgaria, Romanian, and Yugoslavia. Additionally, seventy million dollars was approved for United States initial capital subscription to the new European Bank for Reconstruction and Development (EBRD) to be headquartered in London. The Bush Administration's budget for fiscal 1992 calls for an additional four hundred million dollars to be made available for assistance to the region.

Using United States assistance to the financial sector as an example, I will highlight both the efforts of the United States public and private sectors.

A. *Fiscal Policy*

To assist these governments in designing and implementing new tax policies, the United States Treasury (Treasury) is forming a regional tax policy advisory team. With legal, accounting, and economic expertise, this team will be available to offer policy and technical expertise to finance ministries and legislative committees. Likewise, the United States has Treasury professionals from the Internal Revenue Service (IRS) and the Financial Management Service to assist in the improvement and design of tax collection systems and the design and issuance of public debt, respectively.

9. ECONOMIC REPORT OF THE PRESIDENT 229 (1991).

B. *Long-Term Financial Advisors*

To provide direct aid to key financial institutions, the Treasury is engaging experienced financial advisors who will live in the Eastern European capitals as policy advisors to the ministries of finance, central banks, and commercial banks. At the invitation of the governments, these long-term advisors will help guide policy direction, provide common sense approach to market economics, and will provide advice in the critical area of policy execution.

Additionally, the Treasury is considering engaging bank restructuring specialists to work full-time with the World Bank and a state's finance ministry and central bank to facilitate more expeditiously private capital being invested in the banking sector. This will include advice on resolving the largest bankrupt state banks, updating technology and accounting systems, and breaking up the incestuous links between borrowers and bank management.

C. *Financial Workforce Training*

The United States is supporting critically needed workforce-training of all types for the tens of thousands of bank employees in these countries. This training includes short-term courses in specialty areas like company valuation and support for newly created private institutes of banking and finance to be located in Katowice (Poland), Budapest, Prague, and Belgrade.

As I have said, the United States considers financial sector reform of fundamental importance to these emerging economies. Working with the World Bank and IMF, the United States is providing experts to assist in the design of bank supervision and examination policies and in training.

D. *Securities and Capital Markets*

The United States government is providing extensive legal and management training to assist in the creation and implementation of stock exchanges in Warsaw, Prague, Bratislava, Budapest, Sofia, Ljubljana, Zagreb, and Belgrade. The Securities and Exchange Commission (SEC) has contributed a great deal of energy in supporting these efforts. For example, in April 1991, the Commission hosted a conference in Washington, D.C. for developing market officials. This training session was accompanied by internship programs in brokerage firms, stock exchanges, and at the SEC.

E. *Contribution by the United States Private Sector*

The United States Treasury, as the coordinator of financial sector assistance, has developed a program in which government expertise makes sense and adds value: tax policy and administration, customs, and basic banking and securities laws and supervisory procedures. But, the United States objective also is to bridge the Atlantic for private United States firms and educators to participate in the economic transformation and development of the former Eastern bloc. Only through sustained, long-term economic relationships in the private sector will market forces take root and produce lasting results.

The long-term financial advisors I described in financial policy, bank credit, accounting, and privatization are all being obtained from the United States private sector. Likewise, the advice and assistance in bank and finance training will be "hands-on" and will be provided by professional bank training experts.

In addition to the engagement of United States private experts in law, accounting, mergers and acquisitions, banking, and corporate finance, I would like to highlight three volunteer organizations that are providing incalculable expertise to the Eastern Europeans.

First is the Financial Services Volunteer Corps (FSVC), which was created by the United States Agency for International Development (US AID). Chaired by former Secretary of State Cyrus Vance, now a senior partner at Simpson, Thacher & Bartlett, and John Whitehead, a former Deputy Secretary of State and partner at Goldman Sachs, the FSVC takes teams of bankers, lawyers, and accounting professionals to foreign states and addresses reform issues in the financial sector. They have had successful trips to Poland, Hungary, Yugoslavia, and Czechoslovakia.

Next, at the direction of Chairman Richard Breeden, the Securities and Exchange Commission established its Emerging Markets Advisory Committee (EMAC). With a particular focus on stock exchange and securities development, this committee of bankers, academics, and accountants has been very active in designing market regulation, underwriting and disclosure standards, and clearance and settlement systems.

Finally, I would like to mention the Citizens Democracy Corps (CDC). Chaired by former Secretary of Transportation and current Union Pacific chief executive, Drew Lewis, the CDC is designed to foster voluntary efforts in improving business management and economics education. Just last month, President Bush hosted a White House conference in business management and economics education, which drew together two hundred university, foundation, and corporate leaders to exchange views on how they could make a difference in central and eastern Europe. The conference set ambitious goals through United States

private sector efforts. They are: exposing at least ten million citizens to television and other media programs explaining the working of a free market economy; training or retraining at least fifty thousand managers, workers and entrepreneurs; educating ten thousand college-age students in the fundamentals of management and economics; and training at least two hundred teachers in management and economics, so that they can become the core faculties of the future.

V. Conclusion

In closing, the challenges are great. Creating democracies and free market economies simultaneously present unique circumstances and difficult choices for legislators and government ministers. To jump in a short span of months from a system of "you pretend to pay me, and I'll pretend to work" to the untidy world of capitalism at work is a shock.

But, with patience and perseverance, these countries can become enterprising members of the greater world market. I am a short-term pessimist and a long-term optimist. With luck, political stamina, and the right policy choices, perhaps one or more of these budding economies could well become a model of free market success, achieving standards of living equal to the finest on earth. It is in the realm of possibility. We may read in ten or twenty years of "the Hungarian Miracle" or "the Polish Miracle" or how these countries have become a European equivalent of the "Asian Tigers." I urge each of you to go and experience the change. You will return filled with admiration for their courage and patriotism. See what freedom can do. You will never take yours for granted again.