

A Peek Behind the Old “Iron Curtain”

by Bettina Bien Greaves

In September–October 1994, FEE’s President, Dr. Hans F. Sennholz, sent me to Eastern Europe on behalf of FEE, to meet people who were interested in the freedom philosophy, economics, and the government. Through me, FEE offered them *The Freeman* and FEE’s other publications as aids in explaining the concepts of individual rights, savings, investment, and entrepreneurship to their fellow citizens.

For 45 years, the people in the countries I visited had lived behind the “Iron Curtain.” They had had little or no experience with free markets and have little understanding of what it means to be individually responsible. They have become accustomed to having government make decisions for them about housing, jobs, and medical care. Since the collapse of Communism in 1989, however, they have been forced to face reality; they have come to realize that food, clothing, and shelter are not free goods, that they must be produced, earned, and competed for in world markets. As a result, the people are trying to transform their old command economies into private property orders and to integrate their activities into the world market. My trip was short; I spent very little time in any one country so I do not pretend to be an authority. Thus this report is based on limited observations and on my conversations with the people I met.

Mrs. Greaves is resident scholar at the Foundation for Economic Education.

Poland

A professor of philosophy in Poland told me he had spent nine months in a mental hospital under the pre-1989 Communist regime. Those months had been far more difficult for his family, he said, than for him. He had not been medicated or tortured, but had had time for meditation and speculation. By observing his fellow inmates and their actions, he had come to realize that the drive to cooperate and trade with others is inherent in human nature and could never be completely suppressed. This natural drive on the part of individuals to cooperate and trade offered hope to the formerly Communist nations that they could in time develop economically and re-enter the world of civilized nations.

In Poland, the Communists had confiscated property and suppressed the people through controls, regulations, and censorship. But the Communists never fully succeeded in subjugating the Church and farming. Agriculture was not completely collectivized as it was in the U.S.S.R., Romania, and Hungary. Most farms in Poland are small, lack capital, and so are unable to take advantage of modern technology, but because they are privately owned and operated, the farmers have an incentive to do their best.

One of the first forms of private enterprise to appear in the wake of the 1989 Communist pullout was the small retail shop. Many

private shops and stalls now line the streets and pedestrian underpasses of Warsaw. I saw in Wroclaw what is in effect a modern department store, a conglomerate each department of which is operated by an independent private entrepreneur. I stayed in a small privately operated hotel, ate at a privately owned restaurant run by Vietnamese refugees, and saw a private brewery.

In expectation of the prospects for economic improvement, foreigners are beginning to invest in Poland. I talked with a Finn whose firm was producing machinery in Poland for energy production. The names of foreign companies, even of U.S. manufacturers of pet-food, appear on billboards everywhere. And I was amazed to see shops selling expensive imported perfumes. The drive to produce goods to export to pay for imports, such as the satellite TV dishes that are seen on many apartment house roofs and balconies, is forcing workers to face the discipline of the world market.

Russia

Mikhail Gorbachev's *Glasnost* (openness) permitted the peoples in the old "Iron Curtain" countries to talk more openly than before. His proposal for *Perestroika* failed to fulfill its promise of bringing about radical economic reform, but it opened the door a crack to private initiative. Alert and energetic individuals began to cooperate and trade openly with one another.

As it takes relatively little capital to start selling to consumers at the retail level, individual entrepreneurs began to bring wares to Moscow from far-off places by bus, train, and plane. At first they sold from carts on the street, then later out of small kiosks or shops. More fresh produce, much of it from far away, appeared in food markets. One fruit vendor in Moscow told me his home was more than 1,000 miles away. Small retail shops, not all strictly legal, now line Moscow's streets and pedestrian underpasses, offering everything from liquor to electronic appliances, candy, and flowers to leather jackets and running shoes. Craftsmen, some of whom try to avoid taxes,

are also appearing, producing such items as wooden bed frames, chairs, and souvenirs. To avoid being completely smothered by the heritage of the old Communist government—oppressive regulations, taxes, and inflation—some of these small private enterprises are operating in the uncertain underground economy. Yet their efforts could prove to be the vanguard in the movement toward teaching individual responsibility and re-establishing free markets. In the meantime, some goods and services are more readily available, making life a little easier for city people.

In Russia, individuals are permitted to lease for 99 years small pieces of land, perhaps about one-fourth of an acre outside the city. Moscow is almost deserted weekends, as city dwellers escape their crowded apartments in the city's high-rise buildings to visit their small cottages or dachas, in the surrounding countryside and cultivate with tender loving care their little gardens. They take pride in the fruits, vegetables, and berries they grow, harvest, and preserve for winter consumption. Farming such small plots and canning the produce in tiny apartment kitchens may not be the most efficient way to feed the people in Russia's urban centers, but it has helped tremendously to alleviate transportation bottlenecks and food shortages, which still plague Russia because of 75 years of Communist rule.

Romania

Romania's tyrannical Nicolae Ceausescu suppressed the people without mercy; any criticism of his regime was strictly censored; attendance at periodic political rallies was compulsory. Ceausescu tore down the buildings in a vast area of Bucharest, the capital city, to construct a huge plaza for military parades and a gigantic palace for his personal self-aggrandizement. He razed some 7,000 villages and forcibly resettled the inhabitants into hastily constructed urban communities.

Revolutionaries ousted and executed Ceausescu in December 1989. But pro-Communists, who claimed to be anti-

Ceausescu revolutionaries, managed to maintain control. When in the spring of 1990, students organized a sit-in on University Square, in the hope of attaining real political reform and an independent television station, they were ruthlessly suppressed by the police. A new election is scheduled, but that is more than a year away.

The people of Bucharest, say there are more goods in the markets than under Ceausescu's regime, and that life is a little easier. The names and products of foreign companies are beginning to appear on the streets and in the shops. Yet Romania still suffers under more controls and regulations than the other countries I visited in Eastern Europe. Although some agricultural land has been turned over to farmers to operate privately, the rest, about half, remains under state control. A complicated "denationalization" scheme gave Romanians the chance to buy vouchers entitling them to buy into national industries, but little was accomplished; the voucher-owners could not choose the companies whose shares they want to buy and if they bought they could not sell. The employees of some government-operated companies were given shares in the companies in which they worked but their control was strictly limited; and again they have no right to sell, so they do not really own the company.

Bucharest, more than the other Eastern European capitals I visited, reveals the ravages wrecked by decades of Communist control. Romanians still face constant irritations, signs of neglect and misrule. Bucharest's streets are in disrepair and littered; trash collections are erratic; and the water is turned off without warning for several hours each day. If the survivors of Ceausescu's regime are to be ousted and real political reform instituted, the voters must be willing to reject the old system of government-defined security and controls.

One indication of Romania's dismal economic situation and its inhospitability to private enterprise is that it was the last country in Eastern Europe to be blessed with McDonald's "golden arches." In June 1995 the firm finally opened a new restaurant in Bucharest.

Hungary

Thousands were killed and several hundred thousand fled Hungary during its 1956 anti-Communist revolution. The U.S.S.R., out of fear of another revolution, refrained in Hungary from strictly enforcing its controls and regulations. This opened up opportunities to those who dared risk trying to go into business. Although hampered by the Communist regime until the 1989 pullout, the people had a slight, if rather uncertain, headstart toward recovery. Today its capital city, Budapest, appears quite prosperous.

However, Hungarians have been seriously burned at least twice by "runaway inflations"—in the wake of World War I and in 1956 after World War II; they no longer trust government money or banks. In a desperate effort to conserve their savings, they are fleeing paper money and looking for ways to invest in real goods. A do-it-yourself building boom has developed as individuals renovate, add on to existing homes, or construct new ones, even if they have no immediate prospects of living in them. Perhaps their children will live there some day; in the meantime their money is invested in something real.

Czech Republic

Of the cities I visited in Eastern Europe, Prague, capital of the Czech Republic, appears the most "Western." It has made considerable progress toward removing the old Communist restraints. Further economic development became easier when its eastern section, Slovakia, gained independence. Slovakia had been more nationalistic and leftist, also less developed economically than the Czech Republic. Without Slovakia to consider, the Czech Republic could proceed toward economic reform.

The Czech Republic has taken a major step toward privatizing nationalized industries. The people were permitted to buy vouchers, entitling them to buy shares in specific nationalized companies which could then be offered on the market. In this way, 50 percent of the formerly nationalized companies privatized in the first phase of



BETTINA BIEN GREAVES

Private kiosks on a street in Moscow.

denationalization, another 30 percent during a second phase, so that 80 percent of the industries that had been government-operated are now privately owned. Still the free-market-minded Czechs with whom I spoke complain that the actions of their government officials do not match their rhetoric. The government, for political reasons, continues to hamper economic development by failing to liquidate bankrupt firms and by maintaining controls, for instance, on rents and wages, with a high minimum wage rate.

Conclusion

The people in the Eastern European countries I visited have many of the same complaints that we do in the United States. They are saddled with high taxes, burdensome controls, costly government pension schemes, and central banks that consider inflation and/or credit expansion the proper way to meet the government's expenses. It has been this country's good fortune that it was not devastated by 40 years of Communist rule. Destructive as our controls, regulations, monetary manipulation, and taxes have been, we in the United States have not endured such suffering as have the inhabitants of Eastern Europe. What the United States has that the Eastern European countries lack is an economic climate that is relatively congenial to private enterprise. People in the United States have felt rela-

tively confident that their property would be protected. Thus, they have been willing to work, save, and invest. Many entrepreneurs have dared to innovate, experiment, and take risks in the hope of profit. As a result, we enjoy the benefit of the savings and investments of countless persons over decades. It is these accumulated savings and investments and the undertakings of many entrepreneurs that have made possible this country's technological and economic development.

The countries of Eastern Europe were devastated for decades and their wealth was confiscated by the Communist regime. Now that they are on their own and beginning to participate in world trade, they have a chance for economic recovery. It is imperative that the people come to recognize the importance of protecting private property and what it means to be individually responsible. Their governments must cut expenses until they can be covered by the taxes they collect and the money they borrow from private lenders. They must protect private property and respect private contracts; they must avoid arbitrary regulations and controls; they must shun government deficits that invite inflation; their taxes must be non-arbitrary and reasonable. In other words, governments must foster an economic climate that will attract investors and leave individuals free to pursue their natural human bent—to cooperate and trade with one another. □



Justice or “Utility”?

The core purposes of government are well expressed in the Preamble to our Constitution: to “establish justice” and to “insure domestic tranquility.”

But there’s a hierarchy of importance here. By seeking justice, you will necessarily promote domestic tranquility. However, if you seek domestic tranquility alone you won’t necessarily promote justice.

How, then, to address crime? Liberals emphasize prevention and rehabilitation. Conservatives, and many free marketers, emphasize deterrence and incapacitation (jail). But all share a *utilitarian* objective: to advance *future* public safety by altering the *future* behavior of the criminal. The problem is that utilitarian objectives can be sought without concern for justice.

For decades, liberals have run our legal system. Renouncing punishment as a proper response to an offender’s past crimes, their prevention-and-rehabilitation approach has tried instead to alter his future conduct, for the eventual betterment of society as a whole.

This anti-punitive strategy has obliterated personal responsibility. The felon endures few negative consequences for the damage he does to others. This has led to dual outrages: the unjust neglect of victims, and excessive leniency toward their victimizers.

Mr. Bidinotto is a long-time contributor to Reader’s Digest and The Freeman, and a lecturer at FEE seminars. Criminal Justice? The Legal System Versus Individual Responsibility, edited by Mr. Bidinotto and published by FEE, is available at \$29.95 in cloth and \$19.95 in paperback.

But under utilitarianism, leniency is not the only option. If public safety is the sole objective, why not try to suppress crime rates by executing—or jailing forever—every criminal we catch, from jaywalkers to serial killers? Instead of inordinate leniency, why not try unbridled punitivity?

Many conservatives and free marketers prefer this alternative. Their deterrence-and-incapacitation approach represents the flip side of the same utilitarian coin. It, too, aims solely to alter an offender’s future conduct, for the eventual betterment of society as a whole. It, too, severs any clear causal connection between the degree of injury suffered by the innocent, and the degree of punishment imposed on the perpetrator.

Utilitarianism thus has led both the Left and Right to *injustice*: to disproportionate punishment in relation to the transgression. After all, once illegal acts are decoupled from a proportionate legal response, the only remaining argument is whether that response should be anemic or draconian.

Utilitarianism also leads both sides to *collectivism*. What counts to utilitarians, Left or Right, is not justice for individuals, but only lower crime *rates* for society in general. No longer gauged by the harm inflicted upon individual victims, punishments are instead based on arbitrary predictions of the criminal’s future dangerousness to “society.” In utilitarian social calculations, there is no place for the anguished human face of an individual crime