

**TESTIMONY OF J. BRIAN ATWOOD  
PRESIDENT  
NATIONAL DEMOCRATIC INSTITUTE  
FOR INTERNATIONAL AFFAIRS  
SENATE FOREIGN RELATIONS COMMITTEE  
"TRANSFORMING EAST EUROPEAN ECONOMIES"  
APRIL 24, 1991**

The National Democratic Institute (NDI) has worked in Eastern and Central Europe since the beginning of the democratic transition in 1989. Over the past two years, the Institute has sponsored 46 seminars and workshops, and eight international election observer delegations in the region. These activities have included training programs for emerging political parties, advice to governments in the drafting of new election laws, assessments of the fairness of elections, and seminars on parliamentary procedure, local government, the application of human rights standards, public opinion survey methods, mediation techniques and governance in multi-ethnic states. Much of this work was accomplished with grants received from the Support for Eastern European Democracy (SEED) legislation authored by this Committee and administered by AID through the National Endowment for Democracy.

You are appropriately concentrating today on the prospects for economic change in Eastern Europe. The need for economic reform was, in large part, the catalyst for political change. Economic issues continue to dominate the political debate in each of the nations of this region. The central point of my testimony today, Mr. Chairman, is



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that political development work must continue on an urgent basis if economic reform is to be realized. These difficult economic changes will not go forward without political stability; without democratic institutions that can contain, channel and inform debate.

These distinct and independent countries share one common challenge: transforming their economic systems while simultaneously democratizing their governmental systems. We in the West often talk glibly of this challenge. But I wonder whether we understand fully the extreme pressures brought to bear on new and fragile political systems.

These governments want to qualify for full European Economic Community membership within the next decade. That is a difficult goal, realistic for some and not for others.

Only Poland, Hungary and Czechoslovakia have begun seriously to tackle economic reform programs. The parliaments of these countries are heavily populated by the veterans of underground or protest movements -- intellectuals, teachers, scientists, farmers, union leaders. Many are former political prisoners. They are struggling to create and then regulate a private enterprise system. To do this they must devise an entire legal and bureaucratic regime-- commercial codes, taxation schemes, agencies to dispense public property, banking systems, labor laws, accounting systems, guidelines for the valuation of state-owned enterprises and for setting prices in the absence of normal market forces.

To understand the enormity of the tasks that lie ahead, one might view this legislative agenda in the American context. What these new parliaments must achieve

is equivalent to revising the U.S. tax and criminal codes, passing sweeping gun control and civil rights legislation, amending the constitution, ratifying an arms control treaty and completing all other routine business in the space of half a congressional session. And perhaps even that doesn't tell the whole story. Imagine doing all this without professional staff, research facilities and with freshman legislators having less than two years of seniority.

Political debate over the real and potential consequences of these reforms rages. The elimination of subsidies means higher prices and tighter financial credits. Privatizing enterprises and making them profitable means higher unemployment. Selling off state property means that some valuable enterprises may be undersold or sold to unscrupulous buyers, former *nomenklatura* or Western raiders. Reducing government's role to what it can afford to pay means eliminating a whole variety of welfare and subsidy programs. These actions are greeted by vocal complaints from voters, complaints that are exploited by opposition politicians.

Under this pressure, serious divisions are occurring among the democrats. Poland now has more than 70 political parties. The Civic Forum of Czechoslovakia has split, though its pieces maintain a fragile government coalition. Hungarian parties, as well developed as any in the region, are feeling the tensions. Debate has grown more acerbic as new parliamentary rules and procedures are tested daily.

These programs for economic transformation are profoundly political. As is increasingly being understood today in the Soviet Union, it is impossible to move forward on the economic front in the absence of legitimately elected governments,

reasonably strong and stable democratic institutions and a minimal acceptance of democratic culture and pluralism.

Past experiences with economic liberalization in this region -- most notably in Yugoslavia over many years, and in Hungary in the mid-seventies and mid-eighties -- proved largely unsuccessful. These countries learned that a functioning market economy requires many of the things we usually associate with political freedom: the free flow of information; open international borders; dispersed, autonomous decision-making; experimentation; disagreement; and, most importantly, accountable government. A self-sustaining market-driven economy requires a political system in which the government is held accountable to the public for all its actions, particularly its taxing and spending policies.

Each of the nations of this region constitutes a unique democratization challenge. They are linked by geography and an old alliance, but their historical experiences with democracy differs. Their ethnic composition presents different challenges. The nature of their break with totalitarianism differs, too, a factor that has affected greatly their psychological outlook. The degree to which they have created the all-important intermediary organizations that define the scope of their pluralism differs. And the extent to which they possess a democratic ethos or civic culture varies greatly.

These differences relate directly to a nation's ability to enact economic reforms through a legislative process. Those countries that have reformed their political systems and have made the biggest break with the past can much more confidently attack the economic challenges. Those that look to the future with one foot planted firmly in the

past, seek change through increasingly anachronistic, authoritarian means. They lack the vital support of the people. Such governments have thus far failed to recognize that, above all else, an economic market consists of people -- consumers, entrepreneurs, workers -- and that in a market system ordinary people must trust the system and its leaders.

These failed attitudes persist in the so-called southern tier -- in Albania, Bulgaria, Romania and large parts of Yugoslavia. In these countries we have concentrated our efforts on civic education, especially in the rural areas where Communist Party control and fear continues to dominate. In Yugoslavia, for obvious reasons, we have conducted programs emphasizing democratic governance in multi-ethnic states, stressing mediation techniques, the politics of inclusion and representative institutions.

In Central Europe, our work focusses on the development of democratic institutions -- political parties, parliaments, executive structures and local governments. These institutions shoulder the burden of public discontent over price increases, unemployment and the other negative short-term manifestations of economic reform.

An aspect of democratization that is often underestimated in this region is the need for decentralization -- in particular, the empowerment of local governments. Most citizens, particularly in rural areas, make their judgments about democracy by what they see happening to them in their own towns. National governments are remote to many people, easy to criticize or to ignore.

Many of these countries have yet to enact local government laws. Some have elected local governments but have yet to enact legislation that defines the powers and

relationships of these governments to national structures. Still others are struggling to educate newly-elected local officials to manage cities and towns in ways previously unknown to highly-centralized societies.

Local government is where the roots of democracy can and must be extended in the short term. Thus far, we have conducted local government programs in Bulgaria, Hungary and the Soviet Union, where we have made a significant commitment. Poland has already begun an ambitious local government training program under the energetic leadership of Senator Jerzy Regulski, former Under Secretary of State for Local Government Reform. Senator Regulski participated in our 1990 program in Moscow and we and the Soviets learned a great deal from him.

Another important aspect of democratic development in this region is integration. Together these nations are involved in a great experiment and they can learn from each other's failures and successes. Their economic and political futures are linked and they can ill-afford to ignore what their neighbors are doing.

Each of these countries experiences some degree of ethnic conflict. Some share the challenges of strong independence movements. Fortunately, all of these national and sub-national entities seem to want to be a part of a greater Europe. This aspiration, if it is viewed as realistically attainable, can help mitigate ethnic conflict by rendering it less important in the larger context of a cooperative, multi-national Europe.

We will soon begin a regional program of political training for ideologically compatible parties. In conceiving this program, we have taken a chapter from the European Parliament. When that Parliament was created, a conscious effort was made

to de-emphasize the more insidious aspects of nationalism by forcing its members to organize as multi-national ideological groupings. Beginning in June, we will hold party-building seminars in conjunction with the European Studies Center in Prague and Western European counterparts of the Liberal, Christian Democratic and Social Democratic persuasions. In addition to transferring important party-building information we hope to encourage new ties between East and West and among parties with common philosophies in Eastern and Central Europe.

No concept of regional integration in this area would be complete without considering the significance of the Soviet Union and its 15 republics. We should not forget that it was the Soviet economy that dominated this region until its recent collapse. The COMECON system was a modern-day version of mercantilism; it was inherently unfair to the occupied satellites of Eastern and Central Europe. But paternalistic bartering arrangements, particularly in the energy field, created a degree of dependency and the disruption of these relationships has added to the economic burden in Eastern Europe.

The deterioration of the Soviet state is a major preoccupation in the region. On the economic front, it is increasingly difficult to negotiate new trade relationships with the Soviet government. The countries of Central Europe that have converted their currencies are reluctant to agree to unrealistic ruble rates. Trade, now mostly conducted on hard currency terms, is increasingly out of balance as the Soviet Union cannot afford to purchase Central European goods.

The recent price increases in the Soviet Union and the elimination of some subsidies was viewed with fascination in Poland, Hungary and Czechoslovakia. These countries now know that taking such a step -- in essence, suppressing consumer demand -- without moving to create production incentives by privatizing and creating market conditions can only lead to further stagnation and political turmoil. This in turn could result in increased emigration and regional instability.

Emigration patterns in the region clearly reflect economic disparities: Romanians go to Hungary; Hungarians to Austria; Russians go to Poland; Poles to Germany. These patterns -- and particularly the growing disparities between north and south and between the Soviet republics and their former satellites to the west -- strongly suggest a holistic approach to economic reform and integration. The inaugural of the European Bank for Reconstruction and Development (EBRD) is part of the solution, but Western Europe and the U.S. through the EC, the CSCE and other institutions need to do more to devise integrated economic and political reform strategies. If urgent action is not taken, the emigration problem will become a refugee problem. Democratization could be delayed for another generation.

Meanwhile, Mr. Chairman, on the political development front, the need continues for a renewal of the SEED legislation you authored. For relatively small sums of money -- compared, for example, to the contributions needed to support the EBRD -- the United States can continue to lead the way in the field of democratic development in this region. I would hope that the SEED legislation could be expanded to include democratization assistance for the Soviet Union. Both Western and Eastern European

countries have developed multi-level relationships with the Soviet Union -- people-to-people, organization-to-organization, state-to-republic and state-to-state. We need the resources and the will to do the same.

In the Soviet Union, NDI has chosen to focus on the local level where many of the democratic experiments are taking place -- led by many of the leading democratic reformers. We have used our limited funding to sponsor training programs for newly elected local government officials in municipal governance. We would like to do more. The new Soviet political parties should be included in our regional training seminars. Soviet republic representatives should have the opportunity to join their Eastern and Central European colleagues who have had experience in "roundtable" negotiations and peaceful transitions of power. The experiences of governing multi-ethnic states can also be shared.

Political development and stability cannot be expected to emerge quickly in nations that have no historical experience with democracy. New ideas, shared experiences and training are needed to strengthen the democratic forces in the Soviet Union and to provide them with alternatives to street demonstrations and boycotts; possibly to avoid civil war. Expanding the SEED legislation to include technical assistance for the Soviet Union would certainly enhance the prospects for a transition to political pluralism.

Unfortunately, the past debate on this issue has missed the mark. It has been framed as a U.S. aid program for the Soviet Union rather than as technical assistance to help promote the democratization process.



Mr. Chairman, the walls of oppression have come down in Eastern and Central Europe, but not all of what we see is positive. Democracy can be a home to fear as well as to hope, to prejudice as well as to mutual respect, and to demagoguery as well as to constructive debate. Institutions, laws and new social norms must be created anew if these societies are to contain the potential excesses and reap the benefits of democracy. These political and social objectives are as much the goals of the committed democrats of this region as is their desire to transform their economic systems. They are also the objectives of the Support for Eastern European Democracy Act -- and of our Institute.

SEED was a vitally important initiative, Mr. Chairman. I urge you to extend and expand the scope of that authority, both financially and geographically. In doing so, you will enhance prospects for democratic change and help transform these East European economies.