



# The Long Road to Democracy and Free Markets

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The central theme of the “Peaceful Road to Democracy” conference, sponsored in Prague by Resistance International and the American Foreign Policy Council, addressed the difficult task of transition: How do we build a free-market economy and a democratic society “from under the rubble” (in Solzhenitsyn’s phrase)? “Mr. Gorbachev is turning the Soviet Union into one giant Beirut,” said Vladimir Bukovsky in his opening remarks at the conference. “State structures remain the greatest obstacle to human freedom, and...socialism cannot be restructured or reformed: it can only be eliminated.”

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Dozens of participants from all over the Soviet Empire reached a surprisingly strong consensus on this point: the collapse of the Soviet Empire could not be reversed, so the real question was, how can we build free institutions?

The answers are not easy. It took the United States hundreds of years of legal, political, and cultural experience to forge the framework for free markets and free political institutions. Consider: In our society, the most important ingredient in the conduct of our economy is the handshake; unlike many other economies, including those in democratic countries, we give real value to this most basic form of verbal contract. The handshake constitutes an institution bound up in traditions which reach far beyond mere laws. How can this experience be translated into the setting of a country emerging from the ruin of Communist rule?

In an address that crystallized the substance of hundreds of conversations at the conference, Sir Alan Walters gave a refreshingly encouraging answer. You cannot buy an open-market economy off the rack, he explained, especially if it will be run by former socialist bureaucrats. He gave many specific guidelines for achieving success – from the immediate privatizing of small enterprises and a “death sentence” (with a 5-year window) for nationalized industries, to the abolition of price controls and the removal of the nomenklatura from the enterprises.

Sir Alan has no peer when it comes to de-nationalizing industries, but even the once socialized.

Britain had legal institutions and traditions that could sustain such changes. In the Soviet bloc, on the other hand, lawyers and accountants have been cynical, ideological caricatures of the legal and financial professions. Throughout the Communist bloc, from East Germany to Nicaragua, the question has arisen, “What should happen to the property seized by the state in the revolution?” And no answers emerge from the legal and political fabric of the post-revolutionary society. Former owners and present tenants, “worker-owners,” and governments at all levels have no basis on which to proceed. Critical functions – the registering of deeds, the insuring of titles, the guarantee of contracts, and the like – have had no place in these systems for decades.

Clearly, the experience of the West will have to be put at the disposal of the emerging free societies of the East, with the understanding that legal and economic institutions must be based on traditions which have a genuine place in a given society. The growth of free institutions will have to go forward at a delicate pace, and Western advisors should take pains to become conversant with the traditions and cultures of the societies desiring to initiate free-market economies. Clearly, if indispensable market mechanisms are initiated by legal fiat, without appeal to the tradition or experience of the society in question, they will not be sustained, and might even be the cause for an eventual rejection of the entire free-market idea as an unworkable mechanism “foreign to the culture” of the emerging society. It is a great challenge.