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Eastern Europe wrestling with 'too much history'

Facing up to price of new freedoms

In a rainy Prague: Pieter le Roux, the tour guide, Elsie and Billy Nair, Rolf Freier (Naumann Foundation), John de Gruchy, Wiseman Nkuhlu, George Schleicher (former east German ambassador to Zimbabwe), Alex Boraine and Sarah Pienaar.

Former socialist countries of eastern Europe are learning the hard way that shifting to a market economy does not guarantee democracy. CHARLENE SMITH reports on a recent fact-finding visit to Germany, Czechoslovakia and Hungary hosted by Idasa.

Alexis de Tocqueville, the French philosopher, wrote more than a 100 years ago that "the passions which a revolution has roused do not disappear at its close". He spoke of a sense of instability remaining in the midst of the re-established order. "Desires still remain extremely enlarged, while the means of satisfying them are diminished day by day."

The Iron Curtain has been cut, the Berlin Wall still stands only in a few places – mainly for the benefit of tourists. Chips of the wall that people died escaping over are now on sale in small plastic boxes at the Brandenburg Gate. A short walk away, Hitler's bunker is an unmarked hump in the land that has now been demarcated for development by a Japanese automanufacturer and a German multinational. Further on is the site of Goering's Luftwaffe headquarters.

A street market in Prague's town centre.

Within a mile in the no-man's land that splits east and west Berlin stands testimonies to two iueologies that repressed and killed millions of people. This part of Europe, "has produced more history than it can bear", says Martin Butora, assistant to President Vaclav Havel of Czechoslovakia.

In October 1989, the Iron Curtain was breached and on November 9 the wall fell. But the instability De Tocqueville warned of lingers. While the Western media trumpeted that socialism fell in the face of demands for democracy and free enterprise, the reality is less apparent, a group of South Africans learnt when they visited the three east European countries for two weeks in April.

The 12-member group included academics, trade unionists and representatives of political parties. They attended seminars in each centre and held discussions with a range of political and social leaders.

It is clear that the full consequences of democracy and free enterprise were not understood and that people reacted against a system that had become profoundly unworkable and unjust.

Vladimir Benacek of the Centre for Economic Research and Graduate Education at Charles University in Prague says capitalism cannot be imported from the outside, nor built on the ruins of the old system. "It cannot be copied according to some blueprint outlined in America, Japan, Sweden or Germany. It must be reborn and reinstalled subject to a wide consensus of will." He says the economies of the former Eastern Bloc resemble those devastated by war.

Benacek, and other economists in former east Germany, Czechoslavakia and Hungary

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Price of new freedoms

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Prof Sarah Pienaar and Prof John de Gruchy in front of the Brandenburg Gate.

interviewed by the group, have a common refrain: "Full scale privatisation" and finality about "property rights" must be prioritised. Individual freedom has come to the east, but with it comes a high economic cost that threatens the fledgling democracies.

While east Germany is fortunate in having a wealthy twin that is pumping in DM200-billion a year to upgrade the country, it is also angry at the perceived arrogance of the "Wessies" towards the "Ossies" and the difficulties of learning a completely new economic and political culture. Unemployment, previously unheard of, is now climbing.

Dr Gunter Rexdrodt of the Treuhandanstalt which is restructuring the east German economy, and in particular selling, closing down or renovating existing factories, says that industry in the former GDR is so run down and outdated that 99 percent of the factories should have been closed the day after reunification.

'Unclear ownership conditions are leading to a lack of foreign investment'

Instead, they are desperately trying to regenerate industry in east Germany and retraining the workers to operate in an environment where personal ability and competition are barometers of success. It is an enormous task. One problem is the lack of managers – managers from the west, including pensioners, are being paid double to work in the east – but demand outstrips supply.

The redistribution of land is a problem for all former Eastern Bloc countries as an essential base for market economies. There are two million land claims in east Germany alone, which require authorities to search through 15km of property records. Claims are not expected to be processed before 1995.

East Germany allows land claims to go back further than Czechoslovakia or Hungary – to 1929 – to include the claims of Jews who had property removed by Hitler. However, that land was in turn bought by non-Jews who in turn had the land removed by communists – who in their turn rented the land. Whose claim is paramount? Certainly the needs of those who were unable to buy land under communism and who may have occupied property for decades cannot be ignored either.

The German government is using a complicated 1930's formula to work out property taxes. People who opt for the money rather than the land get 130 percent of the 1930 value. Those who get property back pay a levy of a third of the property's market value.

However, according to Wolfgang Stock, a *Frankfurter Allgemeine Zeitung* journalist who specialises in the difficulties of reunification, many people do not want the property back because it is in such poor condition. "Seventy percent of east German houses have no central heating, they have stoves in each room which use brown coal – a seri
pollutant."

There has been scant maintenance of m
buildings and many would be more valu
demolished, but reunified Germany is ke
to stop speculative land deals. Rentals ha
soared in eastern Germany: "It is easier a
cheaper to rent office space in Munich th
in Leipzig," Stock says.

In Hungary and Czechoslovakia own
ship is even more confused. Stephen Ma
of the Friederich Naumannn Foundatio
Budapest illustrated the confusion: "T
house we rent initially belonged to t
owner of a Hungarian brewery. It was exp
priated after the war by the communists a
became the premises of the Society of So
Hungarian Friendship.

"It now belongs to the state. But wh
the state – national or local government? N
one knows. A society has been formed to
the house. It is administered by the form
president of the Society of Soviet Hungar
Friendship. Unclear ownership conditi
are leading to a lack of foreign investment."

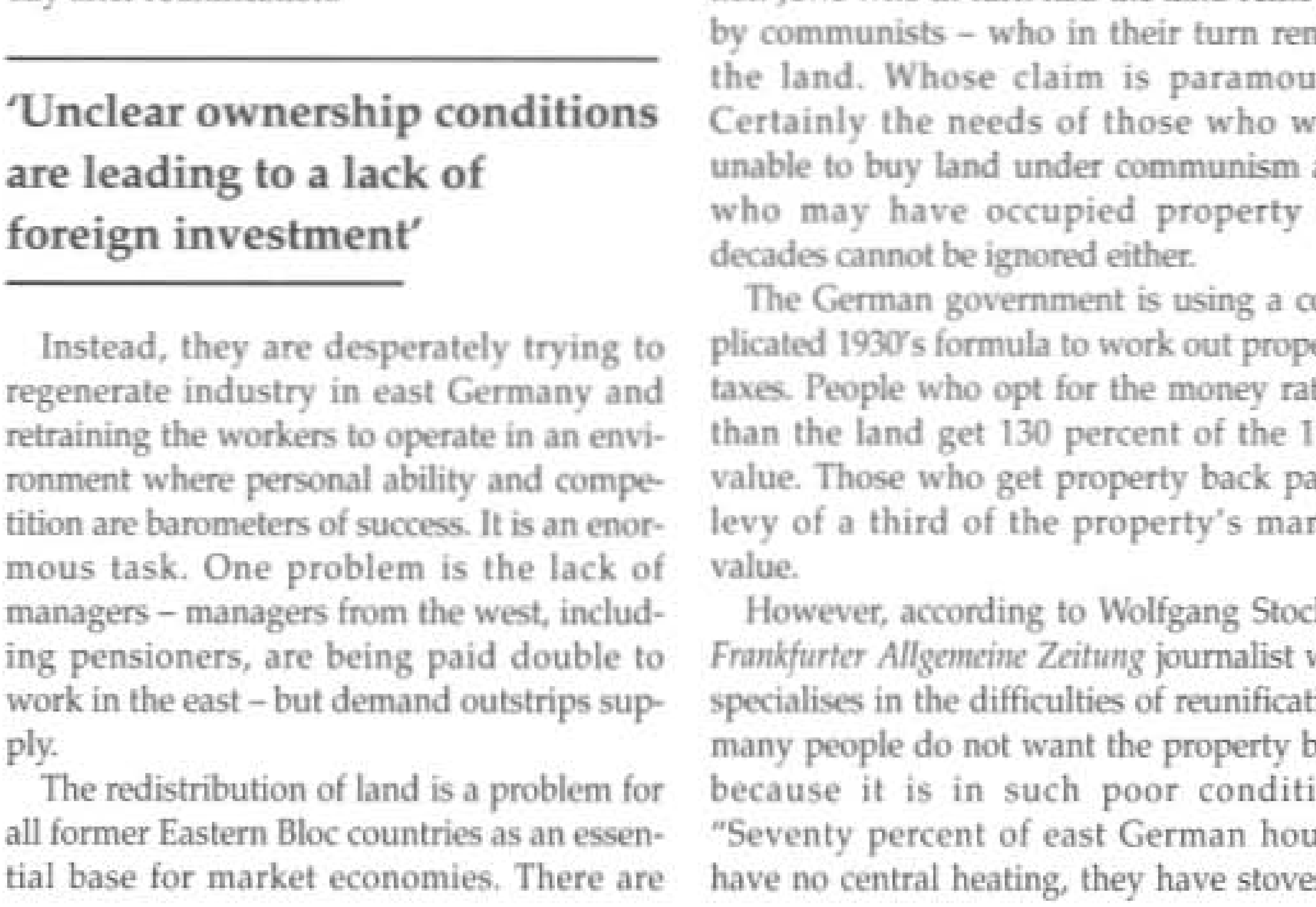
Hungary and Czechoslovakia have issu
coupons to enable citizens, under pre
conditions, to buy or sell property a
shares. But the debate on property resti
tion or compensation is far from resolved.

Eastern Europe is hampered not only
low productivity and poor merchandise
by an ancient telecommunications sys
that seriously hampers development.

More than 50 percent of the teleph
switching system in east Germany at reun
cation was pre-1930. The city of Dresden
still using the first automatic switchbo
installed in Germany in 1923.

Last year Germany's Telecom upgra
the existing 300 lines connecting east a
west to 40 000 lines – within the next th
years east Germany will have the most m
ern telephone system in the world.

The importance of this to develop
industries is illustrated by Stock who sa
young friend began a desktop publish



A Gypsy leader with members of a Hungarian commission on ethnic minorities. Listening to his address are delegation members Sipho Radebe (left) and Elsie Nair.

firm in Leipzig soon after unification – but had to wait 15 months for a telephone. A young journalist in the east Berlin bureau of a Dresden daily newspaper said he only received two copies of his newspaper each week. "They post the newspaper to me, but the postal service is still very poor. We have no typewriters, no telex, no fax machines, so we dictate our stories to Dresden, but the phones are very poor too."

Professor Gerhard Wittich, formerly of the School for Economics in east Berlin said the GDR used to be considered the most "solid and best economy in the former Comecon (communist) countries, but compared with west Germany, the delay in economic and technological development and the level of productivity was 20 years". He says this was deliberately masked by official propaganda and manipulation of economic statistics by its former rulers.

The Treuhandanstalt began its task – as did Hungary and Czechoslovakia – by privatising the service sector. This gave ordinary people a chance to enter the new market economy. New shops with neon signs, bright awnings and shelves full of goods are opening all over the east – certainly Budapest makes shopping in Johannesburg drab by comparison.

However, industry is a disaster. A cement factory in Dessau – one of the largest in the world – has already cut its workforce by a third to 1 000, and by next year will have halved it again.

About 70 percent of the construction sector has been privatised and due to reconstruction is booming. However, the entire electronics industry was so backward that it had to be shut down. The traditional tool industry will be retained, but east Germany's hi-tech tool industry is so low-tech and backward that it also faces closure.

In the chemical industry factories are to be upgraded and made safe. Pollution is an extremely serious issue throughout eastern Europe where buildings are blackened, some forests are devastated by acid rain and, in Prague, nights are often spoiled by the stench in the air.

The textile and clothing industry is so backward and overstaffed that Dr Gunter Rexrodt, a member of the board of the Treuhandalstalt, says that if they can keep 10 percent of the 480 000 workforce after cutbacks, they "will be happy".

Rexrodt said they had liquidated "only 900 companies. If we try to save the companies to save the jobs, then we have uncompetitive companies and worse unemployment. It costs more money in the end".

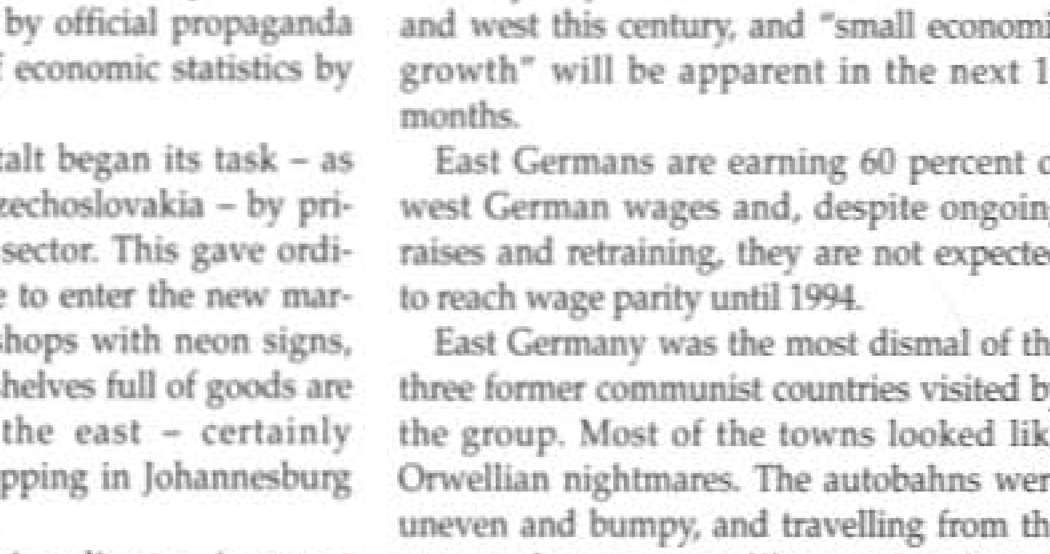
'In east Germany we have no economy, no land rights, the money is Western and not ours'

However, they are confident that economic parity will be created between east and west this century, and "small economic growth" will be apparent in the next 18 months.

East Germans are earning 60 percent of west German wages and, despite ongoing raises and retraining, they are not expected to reach wage parity until 1994.

East Germany was the most dismal of the three former communist countries visited by the group. Most of the towns looked like Orwellian nightmares. The autobahns were uneven and bumpy, and travelling from the east to the west was like moving from a black and white film into technicolour. There is also none of the enthusiasm and determination to succeed felt in Hungary or Czechoslovakia.

Friederich Heilmann, an east German representative of the Green Party, said he felt like an Australian aborigine. "We have a situation like colonialism. We are like aborigines who live on the fringes of society. They get a lot of money from the government but no real economic power. In east Germany we have no economy, no land rights, the money is Western and not ours. A market economy and democracy is not necessarily congruent."



Leaders of the Young Democrats, a party with membership confined to the under-35s, address the Idasa delegation at their Hungarian headquarters.

Hungary, unlike the GDR and Czechoslovakia, changed when its leadership realised the inevitable and initiated the changes. However, Stephan Musto warned that "stable political change requires a working economic system". He said the economy in Hungary had declined over the past two years.

"To change from a centrally administered economy to a free market economy will take five to 10 years – the extent of the challenge can best be understood when you consider it took 400 to 500 years for a market system to establish itself in England and Germany."

Hungary is the strongest country economically – and probably politically – of the three nations visited. It receives 60 percent of the Western aid being invested in the former socialist countries, according to Istvan Major, undersecretary of state in the Ministry of International Economic Relations. Last year it received $1,6bn in new investment money. Since 1989 $4bn in new investments have found their way to Hungary. Sixty percent of that money has gone into the productive sector and 40 percent to the service sector. However, only about four percent of all economic activity is from foreign investors – compared to 28 percent before the second world war.

Both Czechoslovakia and Hungary have charismatic leaders who enjoy wide popular support and are seen as unifiers – necessary prerequisites for the rollercoaster ride ahead.

Whoever leads the countries of eastern Europe will do well to remember the words of Martin Butora who wrote: "Democracy is not built for the principles themselves, for some Hegelian-like fulfillment of an abstract thesis. It is built for the people. To minimize the possible negative impact of any well intended democratic ideas and procedures means, at least once in a while, to remember with humility who politics and laws should serve."

The group, led by Idasa executive director Alex Boraine, included Prof John de Gruchy (UCT), Prof Gerhard Erasmus (Stellenbosch), Mr Ivor Jenkins (Idasa), Prof Pieter le Roux (UWC), Mr Neo Moikangoa (ANC), Mr Billy Nair (trade unionist and ANC national executive member), Prof Wiseman Nkuhlu (Unitra), Prof Sarah Pienaar (Unisa), Mr Sipho Radebe (National Union of Public Service Workers) and Mr Jasper Walsh (DP).

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