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**"THE FAX SHALL MAKE YOU FREE"<sup>1</sup>**

Address at President Havel's "Peaceful Road to Democracy" Conference  
Prague, July 4-6, 1990

\* "Ye shall know the truth and the truth shall make you free." Dissidents in communist empires have given this ancient promise a new secular meaning. "Living in truth", to use Vaclav Havel's phrase, has been hazardous in societies whose Ministries of Truth spread variations of Big Brother's slogans -- Freedom is Slavery. War is Peace. Ignorance is Strength. But the dissidents have used the explosive growth in western information technology to end the isolation which had made resistance seem hopeless. Information technology has moved in a direction opposite to that feared by Orwell in his mercilessly honest dystopia, 1984. It has surprised even the bureaucracies of the information giants like IBM and AT&T, with their past emphasis on massive impersonally shared mainframe computers and centralized, hierarchical communications networks.

Personal computers. Laptops. Modems. Fax machines. Copiers. Satellites. Flexible "packet" networks enabling individuals to skip the bottleneck of central control to talk with each other. These have dispersed rather than concentrated information. They've been decentralizing. In the West, they are now the most powerful engine driving innovation and economic growth, creating world markets and reducing the costs and uncertainties of innumerable widely separated voluntary transactions. In the East, the same technologies have helped dissidents escape Big Brother's clutches. Even the Anarchist Party in the Soviet Union uses word processors. The Center for Democracy in the USSR, as one of its early acts, sent laptops and modems to put dissidents in touch with each other and with the world outside. Its conveners have good reason to use this conference for distributing copiers and fax machines to the leaders of the movements towards independence and democracy.

\* It is the dissidents who have spread the unsparing truth at great peril. They've made increasingly visible the contrast between free, individual, political and economic choice and prosperity in the West and the political and economic disasters of state ownership and central planning. And the resulting brittleness of communist power. Western media and Western leaders aren't nearly as clear as they might be that it's the dissidents who deserve our principal thanks. Not the communist leaders who tolerated the telling of the truth only when they could not suppress it, and when they glimpsed the catastrophe involved in continuing on the course they had been following.

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<sup>1</sup>. Copyright: Albert Wohlstetter, 1990. [Address to conference in Prague sponsored by Pres. Havel, July 4-6, 1990, on "The Peaceful Road to Democracy."]

• European and American leaders have helped. But, to understate the matter, they've been rather less brave than the dissidents. Western pressure at Helsinki in 1975 was critical for opening channels of communication. Even more, the democracies, by spreading information through such agencies as Radio Free Europe, Radio Liberty and the B.B.C., have played an essential role in the process of opening the closed socialist societies and ending the isolation of their subjects. RFE has been a forum for dissidents talking to each other. Mr. Havel has said it was RFE that made Charter 77 and his own name known to Czechs and Slovaks. For the hard journey from communism to free individual political and economic choice, RFE and Radio Liberty should continue to provide a vital forum. To see how important this can be, one need only look at China today, whose dissidents have had to make themselves heard and known without nearly as much help from Western governments. "Tell the Truth" was their most elementary demand in Tiananmen Square. The Chinese old guard can't survive that truth. So far its spread has had to rely on satellite images sent by CNN and the ingenuity of students talking with each other through modems and fax machines in Cambridge, Palo Alto, Hong Kong and Beijing.

The truth that surfaced in Tiananmen Square hasn't -- yet -- had its ultimate effect in China. But it helped end the isolation and fortify hope in Central and Eastern Europe. Tiananmen Square was reflected a few months later in the satellite images of Czech students in Wenceslas Square who wore headbands with Chinese characters about their Goddess of Liberty.]

• Gorbachev deserves some credit. However, he is not the Man of the Decade. Still less, as Robert McNamara suggests with characteristic excess: Man of the Half-Century. Solzhenitsyn, Sakharov, Bukovsky, Hayrlkyan, Djilas, Walesa, Havel, Fang Li Zhi and many others are much more plausible candidates for that title. Gorbachev sensed that the Soviet Empire was coming apart and, more than his communist predecessors, he should get credit for letting some of his subjects tell the truth more freely. But the Western media and many Western leaders have gone overboard about him. They sometimes seem only a little less vaguely enthusiastic than the co-ed who greeted him at Stanford University, gushing "Gorby, Gorby, he's a real stud." Even the Iron Lady seems to have succumbed to the smile of the man Gromyko described as having Iron Teeth. Vaclav Havel notes that Mrs. Thatcher was "enchanted with the charm of Mr. Gorbachev" and that the entire civilized world is "fascinated by the fact that Mr. G. drinks whiskey and plays golf -- thanks to which mankind is not utterly bereft of all hope of survival".

We can't thank Gorby for telling the truth unsparingly himself. He doesn't. On Lithuania, he squirts ink like a cuttlefish leaving Congressmen, who asked recently whether he could throw a little light on the matter of Baltic independence, swimming in nearly total darkness. In September 1989, after more than 5 years of Glasnost, Gorbachev was still saying with a straight face that the USSR had swallowed Lithuania in 1940 legitimately. (After the Red Army's tanks rolled in to help explain things, Stalin's experts on democratic voting counted 99.19% of voters as favoring a government that asked to be swallowed up.)

A reasonable man, Gorbachev has said that all he wants is to negotiate not to coerce. (While Red Army tanks and armored personnel carriers rumble through the streets of Vilnius in the middle of the night.) All he asks is that the Lithuanians -- and the Estonians, and the Latvians, and the Azeris, Ukrainians, et al -- recognize the Rule of Law that binds everyone in the Soviet Union including himself. But he uses the word "law" like Humpty Dumpty in Through the Looking Glass who took the view that when he used a word it meant exactly what he chose it to mean, no more, no less. "The question", Humpty Dumpty explained to Alice, "is, who is to be master, that's all." Gorbachev rushed through new laws defining rules for secession and vastly increasing emergency Presidential power to replace governments opting for secession. After the Lithuanians had declared their independence. These laws set so many traps that they can make independence under Soviet law unreachable.

The United States, the Council of Europe, and many independent bodies have held that the Soviet occupation of the Baltic Republics in 1940 created no legal basis for Soviet rights against the countries invaded. Oddly enough, in December 1989 Gorbachev and his advisor, Alexander Yakovlev, in official statements, agreed. Three months after and three months before saying the opposite. Late news has him swinging again. Stay tuned.

\* Gorbachev's oscillations on Lithuania and other nationalities suggest that he is divided. He may mean it when he says, as he has several times, that he wants to see the Soviet Union make a transition to a loose federation like that of the British Commonwealth. The purpose of the Commonwealth has been "to give expression to a continuing sense of affinity and to foster cooperation with states presently or formerly owing allegiance to the British Crown". It has included several dozen sovereign nations, each with its own foreign and economic policies, some of which -- like India and Pakistan -- have gone to war with each other. It has been described as the least structured of any of the major international organizations. Its secretariat wasn't established until some 35 years after its inception.

It's conceivable that Gorbachev intends his federation, like the Commonwealth, merely to serve as a framework for a peaceful process of nearly total decolonization. However, he continues also to say the opposite -- that he has no intention of allowing the republics to separate. He has stirred up old ethnic antagonisms between Georgian Christians and Muslim Meshketians, <sup>Armenians</sup> Armenians and Azeris, Uzbeks and Khirgizians, and he has tried to mobilize Great Russian minorities against majorities in Lithuania, Latvia and Estonia. Gorbachev's Ministry of Truth is working on the theory that Ignorance is Strength. Though voters in a democratic election endorsed Sajudis overwhelmingly and the party that supported Gorbachev got only 4 out of 141 seats in the Lithuanian Supreme Soviet, he has denounced the Sajudis as coup d'etatists, sneaks and adventurers. He's tried to divide and to continue to rule nationalities that want to be free. He has not had much success in mobilizing Great Russians. Present leaders of the Russian Federal Republic would like independence themselves and are much more friendly to the idea of independence for the other republics.

Captive nations in the Soviet empire are not likely to bet the farm on Gorbachev's desire for peaceful decolonization. Neither should Western governments. They should encourage him in that desire in the way the U.S. encouraged its closest ally, Great Britain. For, peaceful movements towards independence in the Soviet Republics -- more than anything else, including arms agreements -- can redraw the political map of all Eurasia. The moves towards democracy in the center of Europe reduced the threat to Western interests there. The moves in the Soviet Republics can reduce the threats to Western interests not only in the center of Europe but also in the Persian Gulf and Indian Ocean area.

\* Gorbachev's economic gyrations have been just as extreme. His party job, before he assumed the chairmanship over five years ago, gave him a glimpse of the grim economic disorder shrouded by the statistics of the central planners. But his actions since have swung from an attempt to strengthen and accelerate the central plan by moral exhortation -- a kind of Stakhanovism without the compensations Stakhanov drew from vodka -- to announcements of moves towards decentralized markets that show little understanding of what makes markets work. Each of his improvisations has aimed at incompatible ends: Market-clearing prices that change to balance supply and demand vs. prices fixed or regulated by planners: Securing the benefits of venture capital while maintaining the state's monopoly of most productive assets and of the right to employ the human capital needed to operate them. His defense of socialism doesn't differ much from that of his archrival, Ligachev, who recently called for "planned markets." Gorbachev's programs ignore the results of several decades of experiments with Reform or Market Socialism.

The idea of a Market Socialism which Gorbachev clings to even while his advisors increasingly tell him to forget it, have inspired attempts to reform for over thirty years. On the results of these many experiments, Janos Kornai, a splendid economist who, as a young staff member at the Hungarian Academy of Sciences in the summer of 1956, made his first proposal for reforming Hungarian socialism, tells the unsparing truth. Under the Market Socialism which guided the reform process in Hungary and several other socialist countries, he says, the idea was that state-owned firms should remain in state ownership, but

"should be made to act as if they were part of a market. . .

I wish to use strong words here, without any adornment: the basic idea of market socialism simply fizzled out. Yugoslavia, Hungary, China, the Soviet Union, and Poland bear witness to its flasco. The time has come to look this fact in the face and abandon the principle of market socialism. . . "

Moving from the disasters of state ownership and central planning to free markets and institutions of individual ownership that encourage risk taking and growth is a hard job. It will take decisive, mutually reinforcing actions on several closely connected matters: among other things on monetary and fiscal reform, making currencies convertible for foreign trade, freeing prices and wages while assuring a safety net -- a floor to income but no ceiling. Above all, it will call for shifts from state-owned enterprises to private ownership and institutions which define property rights coupling rewards and responsibilities. That is much harder than confiscating property and moving from capitalism to bureaucratic central control. The joke that socialism is the hardest path from capitalism to capitalism is a bitter truth.

• A reformed robber is not one species of robber. Reform Socialism, unluckily, is a form of socialism. A reformed robber, having given up a life of crime, isn't a robber at all. But Reform Socialism -- "Market Socialism" -- haplessly tries to save socialist state ownership rather than to face the need to abandon it. Kornai and many other economists who lived through these experiments have a lot to say, not only to Gorbachev, but to the many Western economists who have mismeasured and overestimated socialist performance and so have led to Western leaders being astonished by events. They could have something to say also about some domestic economic policies in the West, which have been less ruinous than those in the East, only because the choices have been narrower and their defects have not been writ as large.

In the 1920s and 30s "Market Socialists", including the Polish Keynesian Oskar Lange and the President of the American Economic Association, Fred Taylor, debated the Austrian free market economists Hayek and Mises. The market socialists held that managers of state-owned enterprises and their superiors who managed whole industries, and their superiors, the bureaucrats in the Central Planning Bureaus, could act as if they were capitalists. They would choose prices, inputs and outputs so as to maximize expected profits without actually getting the rewards or suffering the risk of failure and personal losses that, for private entrepreneurs, vary greatly with skill and luck. They would receive only the theoretically chaste rewards of socialist bureaucrats. But such Socialist imitation markets don't provide the essential motivation to managers or to labor to act efficiently and innovatively. They provide very large incentives for lying about the numbers -- not least about the sensitive numbers relevant to the actual distribution of rewards under Socialism. And they don't provide the context for the natural selection -- out of a multiplicity of chancy competing inventions and innovations -- of those surviving inventions and innovations that drive economic evolution. Central planning in a complex economy requires an enormous amount of accurate information in the hands of the planners about the uncertain supply and demand at various prices of millions of dispersed individual commodities and services. Not even the most massive number-crunching supercomputers of the future can solve the problems of central planning. Hayek, Mises and others understood its infeasibility. It's no wonder that Western measurements of Soviet economic performance have been so far off the mark. The numbers aren't there to be

crunched. And the critical problem, neglected by Taylor and Lange, of command economies have to do with motivation, rewards and personal responsibilities.

The critical deficiency of socialist state property, Janos Kornai observes, consists in "the impersonalization of ownership: state property belongs to everyone and to no one." Vaclav Havel says that in a command economy "the company allegedly belongs to everyone, but in reality it belongs to no one." This common sense observation goes back in time long before Hayek to Aristotle's critique of Plato's egalitarian utopia where all property was to be owned in common. Aristotle noted as one of many drawbacks to common ownership that "the greater the number of owners, the less respect for the property. People are more careful of their own possessions." The Russian economist, Vassily Selyunin, observes that "because the state's property belongs to everyone and therefore to no one, it is considered perfectly normal to make off with the company dump truck to take the family to the countryside." Many other economists in the Soviet Union and Eastern Europe use other examples, but almost the same words. Oddly enough, Gorbachev has used almost the same words about state property belonging to no one but thinks that's just an attitude that needs changing, not the institution.

A remarkable number of able Western economists have agreed that the Hayek-Mises arguments had "no force", and that Lange had won the debate about a command economy's ability to work very well. And that the actual Socialist economies were catching up with the West and might even, as Khrushchev said, bury us. From 1963 to 1973 the Soviet Union and China were generally supposed to be growing much faster than the 22 advanced economies of the organization for Economic Cooperation and Development. China, during this period that included the chaos of the Cultural Revolution, was supposed to be growing at 10% a year. A World Bank study in 1979 estimated the annual rate of growth in Romania at nearly 10% for the 25 year period ending in 1975. The 1989 Handbook of Economic Statistics, published by the CIA, shows East Germany's per capita income as 87.5% of West Germany's in 1988. The estimate for 1985 in the 1990 Statistical Abstract of the United States shows it as slightly more than that of West Germany's. One wonders why traffic between the two Germany's has moved West rather than East. As recently as 1988, a Brookings study expressed the establishment view that "Soviet leaders have good reason to be proud of Soviet economic growth" and claimed that Soviet income distribution is "far more equal than . . . in the U.S." Why in the world do Soviet citizens or their leaders want any sort of economic restructuring?

As for the real ability of the Politburos to make command economies work or to meld dissident nationalities into one happy homogeneous Socialist Man, Western establishments -- except for a few steady clear-eyed men -- seem to have been looking the other way.

\* Realpolitikers in the West tend to have a very tenuous grasp on reality. Those that place their bets today on a Socialist dictator's ability to suppress the movements for democracy and independence aren't realists. Not really. They're quixotic. Cynical dream-

ers. Fifteen years ago, the State Department Counsellor advised the Poles to give up their romantic notions about independence and face reality. Sooner or later, they were going to be part of the Soviet Union, and it was better not to wait before seeking a more "organic" relationship with it. That was shortly before Lech Walesa and Solidarity exploded on the scene.

Today it should be obvious. Realpolitikers selling friends or principles are not likely to get hard currency in exchange. Gorbachev is short on both political and economic hard cash. Advocates of large Western loans to save "perestroika" or Gorbachev would be well advised to face up to the reality that Gorbachev has given "perestroika" no coherent sense. Nor has he faced up to the reality that socialism can be abandoned but not reformed. Except of course in the sense of "the Reformed Robber".

\* The information revolution raises credibility problems also for Western governments. It affects their attempts to shroud warnings to dictators in a decent ambiguity just as it offers instant, visible refutations of the dictators' descriptions of events. The images of Soviet leaders vowing that they would not use force in Lithuania and of NATO leaders pretending that they believed them and cautioning them to continue not to use force shared television screens with images of invaded hospitals in Vilnius with blood on the walls. Western political leaders and Western media talked as if the actual Soviet use of coercion and bloody use of force were only a possibility while it was actually happening. And they continue to talk as if the actual were only hypothetical long after the Soviet government has admitted that it had used force to suppress peaceful demonstrations -- as it did in the case of their use of airborne troops and poison gas in Tbilisi, Georgia. When supposed political realists in the West talk of the actual past and present as if they were merely possible, they exercise reality. They are not realists. They do not inspire confidence about their ability to discern the forces at work that will bound future options realistically. And they encourage Communist leaders not to take warnings seriously, to continue on precisely the course they have publicly urged Communist leaders not to follow.

\* A Socialist ruler wanting both dynamic economic growth and to hold colonies captive faces a dilemma today. The ongoing revolution in microelectronics and in optics has brought us high-speed, high density sensors, data processing and communications, increased the number of features of a chip by a factor of 100 every 10 years so that, in the 1989 state-of-the-art, chips the size of a child's little finger nail contained over a million gates and performed many 10's of millions of instructions per second, and have reduced the cost per operation a million-fold in the last 30 years. This revolution has had patent importance for world trade and economic growth. It also has had consequences for political change. And the two are not separable.

It's plain that Gorbachev's economic crisis worsens his nationalities problem, and vice versa. Aside from this obvious unfavorable interaction, the two problems are related, but not in the way usually assumed. Neither these colonies nor the huge size of the Soviet

Union are needed to achieve a rapidly growing per capita GDP. Rapid growers like Taiwan, not to say Singapore and Hong Kong, are smaller than the nine million square mile extent of the Soviet Union, and have many fewer than 280 million people. The star economic performance of the small islands of Japan shows that the natural resources of various republics aren't essential either. The key to rapid economic growth has to do with human capital and the institutions of ownership that encourage people to take large personal risks for big prizes, to compete and to innovate in world markets. An attempt by Russia to hold on to a colony by force imposes an economic burden on both. It insures an instability that discourages foreign investment.

Perhaps most important, isolating and suppressing dissidents is incompatible with using the decentralizing information technologies which power domestic economic growth. And which prospective foreign investors now insist on if they are to do business in the Soviet Union. A vivid example of this key dilemma is the recent failure of Gorbachev to persuade American businessmen during his stop in San Francisco that the Soviet economy offers investment opportunities as good as those available elsewhere. John Sculley, Chairman of Apple Computers, Inc., told reporters,

"Without telephones and fax machines, we can't do business. . . Right now there are a lot safer investments that all of us could make. Many of the people who had been thinking last fall of investing in the Soviet Union are now looking to Hungary, Poland, and Czechoslovakia."

In short, if Communist leaders want domestic economic growth and expanded foreign investment, they will have to accept a vast expansion and spread to millions and even tens of millions of individuals of the decentralizing technologies that put dissidents in touch with each other and the outside world and make it impossible for Big Brother to keep them from learning and telling the truth. Gorbachev wants fax machines, personal computers, modems and the lot. Prospective foreign investors will insist upon it.

But the fax can make you free.