



Leaders to Follow

Wake-up Call: Economic Developments in Central & Eastern Europe



Narodni dum, Prague, courtesy
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Since 1989, the rapid rise of market economies and political democracy in Central and Eastern Europe has amazed the world with the resilience, creativity and determination of the citizens of the former communist

bloc countries to change their systems from the ground up.

In spite of recent ups-and-downs in economic development, unproductive political maneuvering and posturing, and uneven progress in business growth, the new market economies are, for the most part, serious about their commitment to democracy and economic freedom from government controls.

In fact, these volatile political and economic developments in Central and Eastern Europe seem strangely familiar to Americans, who recognize what is called by the media “economic instability” and “partisan politics” overseas is actually similar to what periodically happens in the American economic

and political systems. Perhaps free markets and open political systems always seem volatile, when in fact the changes are a natural outcome of growth, not a cause for alarm.

Wake-up Call

When such economic and political crises are followed by real reform, the result will be a stronger system, able to better withstand future shocks and blows. A case in point is the Czech Republic, a member (along with Poland and Hungary) of the “big three” group of influential and successful former communist countries in Central Europe.

When the Czech communist government handed the country to dissident playwright Vaclav Havel in 1989, the world was charmed. Here was *velvet revolution*—very little violence, no reprisals, no government purges, no show trials or attempts to punish past communist leaders—only a mild “lustrace” action, publishing names of people with supposed ties to the communist regime.

Instead of being bogged down in revenge and accusations, the Czechs followed the leadership of Prime Minister Vaclav Klaus, economist and free market champion. Klaus was honored in Ponte Vedra Beach, FL in December 1995 for his contributions to the development of capitalist policies. At that event, Prime Minister Klaus received an award from the Institute for World Capitalism. In his acceptance speech, Klaus noted that the Czech economic transition was complete. His government would not accept additional foreign aid, as it was on a path of free-market economic growth. *To p. 2*

ILI Fall '97 European Visit

*The Institute's September 1997 European visit includes the Czech Republic, Slovakia and Germany. ILI president Jarda Tusek will meet with firms interested in business activities with American companies, and with candidates for **Business Leadership Forum: USA** programs, created for executives seeking professional business opportunities and introductions to colleagues in their fields. These programs match American and Central European companies that are interested in joint ventures, investment opportunities, company acquisition and establishment of new firms.*



Hiking in Devils' Millhopper, near Gainesville: Mike Niedzwiecke, Kerim Galal, Jarda Tusek, Jessica Czervionke, Radim Dvorak and Carolin Rockelein

AEIIP Update

The students who took part in the **American English Language Immersion Programs in the United States** this summer (from the Czech Republic, Germany and Switzerland) had a multitude of talents and interests: music, law, pharmacy, language and art.

In addition to Jacksonville-area sightseeing, they visited *Cumberland Island, GA; Cape Canaveral and the Kennedy Space Center, FL; Great Smoky Mountains National Park, North Carolina; DeSoto Canyon, Alabama; Cloudland Canyon, Lookout Mountain, GA, and the Tennessee Aquarium in Chattanooga.*

Thank you to the host families:

Leo, Jeannie, Eric, Jessica & Margaret Czervionke; Mike, Patty, Jeffrey, Jim & Jenna Dykstra; Kit & Boyd Fink; Ken, Darlene, James & Emily Saurman; Tom, Pam, Kelsey & Carlie Timbie; Steve, Dawn & Matt Lazar; Jill, Danielle & Patrick Coleman; Bill, Linda & Lisa Gibson; Lois & Quinn Bridenback; Bill, Donna & Kristie Brandon; Leo, Terry, Mike, Stephen, Daniel & Geoffrey Niedzwiecke.

Thank you, also, to the *University of Florida, St. Luke's Hospital/Mayo Clinic, the law firm of Levin and Tannenbaum, Bateh Drugs, the University of North Florida, First Tennessee Bank, and all the companies and families that hosted students in the summer 1997 "American English Language Immersion Programs in the United States."*

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That is, until early 1997, when economic trends began an alarming reversal. Trade deficits appeared in the Czech economy; the balanced budget and stability of the koruna (Czech crown) started to show stress fractures.

Wage growth, after a remarkable tenfold growth in 8 years, was not being matched by growth in productivity. Majority ownership of key companies was (and is) still in the hands of Czech banks and investment firms; the banks themselves are not yet fully privatized and retained majority government ownership. Investment funds and banks shared ownership in companies whose managers had arranged "executive buy-outs," meaning that top management is, in large part, in the hands of the same party members who ran the firms under the communist command economy and know little about marketing, matching production to demand, or earning a profit.

Inefficiency and overstaffing are chronic problems; Czech unemployment hovers around 3%, which sounds great but actually reflects excess staff who are not adding to the profitability of their firms.

In spite of these problems, the Czech economy was expanding and finding new capital through foreign investment

and joint ventures, until May 1997, when the koruna took a big tumble, as did the Russian ruble and other Central and East European currencies. The exchange rate went from 26 kc per US dollar to 34.5, and has remained near that point since then.

Real Reform

Now is the time for the serious work of reform, which means taking personal responsibility for the economic performance of the country. Rather than blame Prime Minister Klaus for the downturn (accusing him of bringing about too much change, too fast), this is the time to develop a strong individual work ethic that will build a strong national economy.

Mutual trust, support of those less fortunate, maximum effort by each person in every part of life—these beliefs and practices are built the American economy, which, with all its faults and shortcomings, is the largest in the world. Though cynical analysts may argue that this ethic has been badly abused in America, it has produced a standard of economic development and wealth of opportunities that cannot be easily matched.

For Central and Eastern Europe, this is a tremendous time in history. Free for the first time in decades (or for the first

time ever, in some cases), these nations can take their destiny into their own hands and make their dreams into reality.

The current "wake-up call" or slight stumble on the path to economic prosperity can have a very beneficial effect on our case in point, the Czechs. Poland and Hungary had similar wake-up calls a few years ago and have rebounded successfully. The new austerity measure taken by the Czech government are a hopeful sign that real reform is underway, removing the unproductive thinking and habits lingering from the communist regime.

In just a little more than 200 years, the U.S. has experienced several severe economic downturns (including the Great Depression, just 60 years ago). The wisdom gained from these hard times shaped economic and government policies—but even more, it encouraged the ordinary citizen to work hard, invest in the future and continually expand his or her skills and capabilities.

In other words, the "American economic dream" is still alive and well. For Central and Eastern Europe, this dream can work, if people heed the wake-up call.